

**IMPLEMENTING RULES AND REGULATIONS
REPUBLIC ACT NO. 10744
THE CREDIT SURETY FUND COOPERATIVE ACT OF 2015**

**Bangko Sentral ng Pilipinas
Cooperative Development Authority
Department of Finance**

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**IMPLEMENTING RULES AND REGULATIONS
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Pursuant to Section 22 of Republic Act No. 10744, otherwise known as the Credit Surety Fund Cooperative Act of 2015, the Cooperative Development Authority, the Department of Finance and the Bangko Sentral ng Pilipinas, hereby issue the following rules and regulations implementing the said Act.

RULE 1. TITLE AND DEFINITIONS

SEC 1. Title. This Rules shall be known as "The Rules and Regulations Implementing the Credit Surety Fund Cooperative Act of 2015".

SEC 2. Definition of Terms. – As used in this Rules, the following terms shall mean:

1. Area of Operation – refers to the area where the CSF Cooperative conducts its business and where its members come from as provided for in its Articles of Cooperation and Bylaws;
2. Articles of Cooperation – refers to the Articles of Cooperation registered with the Cooperative Development Authority and includes any registered amendment thereof;
3. BSP – refers to the Bangko Sentral ng Pilipinas with powers and responsibilities as defined under Republic Act No. 7653, otherwise known as the "New Central Bank Act";
4. Board of Directors, Board – refers to the governing body of the CSF Cooperative. It is entrusted with the sound and prudent administration of the CSF Cooperative, pursuant to the CSF Act and its implementing rules and regulations, Articles of Cooperation and Bylaws;
5. Bylaws – refers to the bylaws registered with the CDA including any registered amendment thereof;
6. CDA – refers to the Cooperative Development Authority. It is the lead government agency implementing the CSF Act and which is responsible for the registration, regulation, monitoring and supervision of CSF Cooperatives;
7. Committee – refers to a group of people entrusted with specific functions and responsibilities under the Bylaws and resolution of the General Assembly or the Board of Directors;

8. Cooperative – 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 by accepting a fair share of the risks and benefits of the undertaking in accordance with universally accepted cooperative principles. A cooperative who is a member of the CSF Cooperative as used in the CSF Act, may either be:

- a. Primary – the members of which are natural persons;
- b. Secondary – the members of which are primary cooperatives; or
- c. Tertiary – the members of which are secondary cooperatives.

For purposes of interpretation and applicability of this Rules, all provisions referring to a cooperative may be applied to NGOs except on tax treatment as provided under Section 9 of the CSF Act and provided that the application is relevant and consistent to the real intent of the framers of the CSF Act, the CDA, DOF and the BSP, with proper observance of the equal protection clause guaranteed under the Philippine Constitution;

9. Cooperative Code – refers to Republic Act No. 6938, as amended by Republic Act No. 9520, otherwise known as the “Philippine Cooperative Code of 2008”;
10. Cooperators – refer to the original members of the CSF Cooperative in the Articles of Cooperation who executed and signed as such;
11. Contributions – investments or grants;
12. Consolidation – a union of two or more CSF Cooperatives within the same province to form a new CSF Cooperative under a new name;
13. CSF Act – refers to Republic Act No. 10744, otherwise known as the “Credit Surety Fund Cooperative Act of 2015”;
14. CSF Cooperative – an LGU-partnered cooperative comprised of well-capitalized and well-managed member-cooperatives/NGOs that meet the criteria and qualifications prescribed by the CDA, LGUs, GFIs, IGLF and GAs, all of which shall make contributions to the CSF as defined and prescribed by the CSF Act. A CSF Cooperative shall be established for the primary and exclusive purpose of administering the CSF as provided for in the CSF Act and this Rules;
15. CSF Department – a department within the CDA specifically created and organized to monitor and regulate the CSF Cooperatives as provided under this Rules;

16. Donor – refers to an individual or a private entity that contributes to the CSF Cooperative which shall be treated as grant. Donors shall not be considered as members of the CSF and their contribution shall be booked as Restricted Capital for Surety;
17. Endorsers – refer to cooperatives which are members in good standing of the CSF Cooperative and which attest to the creditworthiness of the endorsed member-borrowers and assure that such are eligible to avail of a loan covered by the CSF Cooperative. The endorsers, thru the issuance of a board resolution, bind themselves jointly and severally liable with the borrower to the bank, or to the CSF Cooperative if it pays the borrower's past due obligation. Endorsers are as follows:
 - a. A cooperative which is a member of the CSF Cooperative endorsing for this purpose its individual MSME member; and
 - b. A secondary or tertiary cooperative which is a member of the CSF Cooperative endorsing for this purpose its primary or secondary cooperatives.
18. Equity or Members' Equity – the excess of cooperative's assets over liabilities. It shall comprise the following accounts:
 - a. Authorized Share Capital – the capitalization of the CSF Cooperative as provided in the Articles of Cooperation and as approved by the CDA;
 - b. Subscribed Share Capital – refers to the capital shares subscribed by the members for the conduct of the operations of the CSF Cooperative. At least twenty-five percent (25%) of the total authorized capital shall be subscribed;
 - c. Paid up share capital – shall be equivalent to one percent (1%) of the investment in the CSF but the total paid up capital of the CSF Cooperative shall be at least twenty-five percent (25%) of the subscribed share capital but not less than Five Thousand Pesos (₱5,000.00);
 - c.1 Common Shares – refer to shares issued to cooperatives/NGOs that are member-cooperatives and to GFIs, IGLF and GAs that opted to treat their CSF contributions as investments. Holders shall be entitled to vote and be voted upon under the principle of one-man-one-vote, and shall receive interest, the rate of which should not exceed the normal rate on investment.

Common share refers to the form of equity ownership of the CSF Cooperative. Holders of common shares shall have the duties, responsibilities as well as rights and privileges provided under this Rules and the Bylaws of the CSF Cooperative. In the event of liquidation, common shareholders have rights to the CSF Cooperative's assets in accordance with the law on preference of credits;

c.2 Preferred Shares – refer to shares issued to the LGUs. Preferred shareholders may enjoy a right of preference in:

- i. The return of share capital, in case of liquidation, as prescribed in the CSF Cooperative Bylaws; and
- ii. Other benefits as may be stated in the Articles of Cooperation and Bylaws.

d. Restricted Capital for Surety – refers to contributions of cooperatives, NGOs, LGUs, GFIs, IGLF, GAs, individuals and private entities which shall form part of the Credit Surety Fund managed by a trustee bank. It shall be solely used to pay contingent liabilities resulting from claims on past due loans;

e. General Reserve Fund. – Ten percent (10%) of net surplus shall be allocated as General Reserve: Provided, That, in the first five (5) years of operation after registration, this amount shall not be less than fifty per centum (50%). The general reserve fund shall be used for the stability of the CSF Cooperative and to meet net losses in its operations. This fund shall not be utilized for investment, other than those allowed in the CSF Act and the Cooperative Code; and

f. Unpaid Subscription – refers to a member's unpaid subscribed share capital which shall be fully paid within two (2) years or as otherwise provided in the Bylaws, except for member-cooperatives/NGOs whose share capital must be fully paid before the launching of the CSF Cooperative.

19. CSF or Surety Fund or Fund – a fund generated from the contributions of well-capitalized and well-managed member-cooperatives/NGOs, LGUs, GFIs, IGLF and other institutions/GAs which shall serve as security for the loans that will be obtained by qualified borrowers from lending banks by way of a surety cover issued by the Board of Directors of the CSF Cooperative;

20. General Assembly – refers to the full membership of the CSF Cooperative duly assembled for the purpose of exercising all the rights and performing all the obligations pertaining to CSF Cooperatives as provided by the CSF Act, its Articles of Cooperation, Bylaws and the Cooperative Code;
21. Other institutions/Government Agencies (GAs) – refer to government institutions/ agencies, including government-owned and controlled corporations, which contribute funds to the CSF Cooperative, either in the form of investment in common shares and Restricted Capital for Surety, or grant, which shall qualify them as members of the CSF Cooperative;
22. Government Financial Institutions (GFIs) – refer to financial institutions in which the government directly or indirectly owns majority of the capital stock and which are registered with or directly supervised by the BSP. For purposes of this Rules, these are, but not limited to, the Development Bank of the Philippines (DBP) and Land Bank of the Philippines (LBP). GFI's contribution shall be in the form of either investment in common shares and Restricted Capital for Surety, or grant, which shall qualify them as members of the CSF Cooperative;
23. Grant – shall mean contributions from LGUs, GFIs, IGLF and GAs which opted their contributions to be treated as such. Grants shall be booked as Restricted Capital for Surety. All grants shall share in the earnings, in the form of imputed income, and losses of the Fund. However, losses, if any, will only be up to the extent of their aggregate contributions to the Fund. Upon dissolution of CSF cooperatives, grants from LGUs, GFIs, IGLF and GAs shall be returned, net of guarantees issued and liquidation expenses;
24. Imputed Income – shall refer to the earnings generated by the contributions of LGUs, GFIs, IGLF and GAs treated as grants as well as the earnings generated by the contributions of an individual or private entity, which shall not be distributed but shall remain in the Restricted Capital for Surety until the dissolution of the CSF Cooperative;
25. Industrial Guarantee and Loan Fund (IGLF) – refers to an entity duly organized and existing under and by virtue of the laws of the Republic of the Philippines created to provide assistance to viable MSME projects. The IGLF may contribute funds to the CSF either in the form of investment in common shares and Restricted Capital for Surety, or grant, which shall qualify them as a member of the CSF Cooperative;
26. Investment – refers to the contributions of the cooperatives/NGOs to the CSF Cooperative, which shall share in the earnings/losses of the CSF in proportion to their contributions. It also includes contributions of the

LGUs, GFIs, IGLF and GAs that were treated as investments. Investments are booked as 1% share capital and 99% Restricted Capital for Surety;

27. Lending bank – any authorized banking institution with a rediscounting line with the BSP or with other banking institutions, that is willing to grant credit accommodation to a qualified borrower of a CSF Cooperative;
28. Local Government Unit (LGU) – refers to the provincial or city government that contributes to the CSF Cooperative established in its locality, either in the form of investment or grant, in an amount of at least equal to the total contribution of the member-cooperatives/NGOs. Provided, that a municipality within the province may also contribute to a CSF which is administered and managed by a provincial CSF Cooperative, which contribution shall be deemed as part of the contribution of the province;
29. Members of the CSF Cooperative – are cooperatives, NGOs, LGUs, GFIs, IGLF and other institutions/GAs that contributed to the CSF and had been admitted by the CSF Cooperative as its members. For purposes of this Rules, the cooperative/NGO shall mean:

A cooperative/NGO which has an adjusted assets of at least ₱1.0 million, a Capital Adequacy Ratio (CAR) of not less than twenty percent (20%) and has invested in common shares and Restricted Capital for Surety a minimum amount of ₱100,000, as provided in this Rules;

Member-cooperatives/NGOs are further classified into two:

- i. Member in Good Standing – refers to a member-cooperative who is entitled to vote and such other privileges as provided in this Rules and in the Bylaws; and
- ii. Member not in Good Standing – refers to a member-cooperative who has past due obligations with the CSF Cooperative, or whose adjusted capital or CAR falls below standards in subsequent years, or other circumstances as may be provided in the Bylaws. The rights of members not in good standing shall be curtailed and limited by the Board as provided in this Rules and in the Bylaws.

Except for LGUs which do not have voting rights, GFIs, IGLF and other institution/GAs have voting rights, regardless of the nature of their contributions;

30. Memorandum of Agreement (MOA) – refers to a contract signed by all contributing stakeholders and the BSP for the purpose of creating a CSF

Cooperative which specifically stipulates their respective amount of contributions.

31. Merger – a union of two or more CSF Cooperatives belonging to the same province whereby the surviving CSF Cooperative absorbs the assets and liabilities of the other CSF Cooperative/s in the province;
32. Net Surplus – refers to the excess payments made by members on services availed of from the CSF cooperative which shall not be construed as profits. It includes other inflow of assets resulting from its other operating activities, which shall be returned to the members as prescribed in the Cooperative Code.
33. Nongovernment organization (NGO) – non-stock, non-profit organizations duly registered with the Securities and Exchange Commission (SEC), focusing on the upliftment of the basic or disadvantaged sectors of society by providing advocacy, training, community organizing, research, access to resources, provision of microfinance programs and services, or other similar activities.
34. Past due loan – refers to the account of the borrower considered as past due based on the definition provided BSP's Manual of Regulations for Banks, i.e., when any principal and/or interest or instalment due, or portions thereof, are not paid at their contractual due date, in which case, the total outstanding balance thereof shall be considered as past due.

However lending banks may provide a cure period on a credit product-specific basis, not to exceed thirty (30) days within which to allow the obligors or borrowers to catch up on their late payment without being considered as past due. For microfinance and other small loans that feature high frequency payments, the cure period allowable by policy shall not exceed ten (10) days.

35. Qualified Borrower – refers to the persons/entities who may borrow money from lending banks, as follows:
 - a. An MSME-member of a cooperative-member of the CSF Cooperative;
 - b. A cooperative that is a member of the CSF Cooperative; or
 - c. An NGO that is a member of the CSF Cooperative.
36. Registration – the operative act of granting juridical personality to a proposed CSF Cooperative and is evidenced by a certificate of registration issued by CDA;
37. Republic Act No. 8791 – the General Banking Law of 2000;

38. Surety Agreement – the agreement executed by the proper parties as defined by the CSF Act and its implementing rules and regulations, in favor of the lending bank, whereby the surety obligates itself to be jointly and severally liable with a qualified borrower in the event that the latter defaults: Provided, That, a surety agreement shall not be deemed to be an insurance contract and the issuance thereof pursuant to the CSF Act, and those previously issued by the Oversight Committees of existing CSFs, shall not be considered as doing an insurance business under Republic Act No. 10607, otherwise known as “The Insurance Code”, or any applicable law.

A Surety Agreement, for purposes of the CSF Act, shall be endorsed by the endorser to the CSF Cooperative. However, in cases where a borrower-cooperative has no endorser, the CSF Cooperative, may solely execute a Surety Agreement in favor of the lending bank as provided in this Rules; and

39. Trustee bank/s – the bank/s designated by the Board of Directors to manage the Fund. Such bank/s must be authorized by the BSP to engage in trust and other fiduciary business under Republic Act No. 8791, otherwise known as the “General Banking Law of 2000”, subject to such other additional eligibility requirements as provided in this Rules.

RULE 2. COOPERATIVE DEVELOPMENT AUTHORITY

- SEC 1. The Cooperative Development Authority (CDA) shall be the government entity in charge of registration, regulation, monitoring and supervision of CSF Cooperatives.

- SEC 2. Registration. – The CDA shall register a CSF Cooperative formed or organized under the CSF Act through the issuance of a certificate of registration under its official seal. All applications for registration shall be finally disposed of by the CDA 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.

No CSF Cooperative shall be registered without the submission of a Memorandum of Agreement (MOA) signed by all stakeholders and the BSP. An existing CSF organized by the BSP before the effectivity of the CSF Act shall be considered eligible to register as a CSF Cooperative.

- SEC 3. Regulation. – The CDA shall formulate policies on the registration of CSF Cooperatives, standards, governance, including the setting of criteria and qualifications for cooperatives and NGOs that are interested to join the CSF Cooperative.

SEC 4. Supervision and monitoring. – The CDA shall enforce and monitor compliance of CSF Cooperatives to the CSF Act, this Rules, and applicable guidelines to promote the stability and sustainability of the CSF and the CSF Cooperative. The CDA shall:

- a. Supervise the activities of the CSF to ensure compliance with the CSF Act and this Rules;
- b. Investigate and impose sanctions, including the suspension of operations of erring CSF Cooperatives, for violation of laws, rules and orders; and
- c. Submit an annual status report of each CSF Cooperative to the Department of Finance and the BSP.

SEC 5. Examination. – The CDA shall formulate a manual of procedures and guidelines in the exercise of its supervision and examination powers, which shall include, but not limited to the following:

- a. The preparation of the manual of examination procedures which shall be initiated by the CDA-CSF Department, with the assistance of the BSP; and
- b. The annual conduct of examination of each CSF Cooperative, or when deemed necessary by the CDA.
- c. Require the annual, semi-annual or quarterly submission, as the case may be, of reports, financial statements, board resolutions and such other documents as may be deemed necessary by CDA to ensure compliance with the CSF Act and this Rules.
- d. Conduct regular examination or inspection of the above documents to validate reports submitted.

RULE 3. THE CREATION OF A CREDIT SURETY FUND DEPARTMENT AND ITS FUNCTIONS

SEC 1. In order to implement the provisions of the CSF Act, the CDA shall create a CSF Department specifically designated to the CSF Cooperatives. It shall regulate, monitor and supervise CSF Cooperatives in the country in order to ensure that appropriate risk and control measures are in place, thereby promoting stability and sustainability of such cooperatives. The CDA's CSF Department shall require periodic reports from a CSF Cooperative, and conduct periodic on-site and/or off-site examinations.

SEC 2. Functions and responsibilities:

- a. Recommend actions to the CDA's Registration Division on the application for registration of a CSF Cooperative;
- b. Monitor the activities of the CSF Cooperative to ensure compliance with the CSF Act and this Rules;

- c. Require the CSF Cooperatives to submit annual, semi-annual, quarterly, or monthly, as the case may be, documents as may be deemed necessary by CDA to ensure compliance with the CSF Act, and this Rules, such as but not limited to:
 - i. Bank's Monthly Report on CSF-covered Loans (BMRCCCL) (includes information related to status of loan filed, approved, released and in process);
 - ii. CSF Monthly Financial Statements (approved by Board);
 - iii. Supporting documents (i.e., Trust Financial Statements, photocopy of CSF's savings passbooks);
 - iv. Minutes of Meetings;
 - v. Board Resolutions; and
 - vi. Others.
- d. Conduct regular examination or inspection of the above documents to validate the reports submitted;
- e. Conduct confirmation of borrower's loans and ocular inspection of projects financed through the CSF;
- f. Set the performance standards for the proper operation of all CSF Cooperatives;
- g. Maintain a public registry of participating cooperatives/NGOs and lending banks;
- h. Investigate and impose sanctions, including the suspension of operations of erring CSF Cooperatives, for violation of laws, rules and orders; and
- i. Perform all other relevant functions and responsibilities as may be determined by the CDA.

SEC 3. CDA's CSF Department shall be headed by a Department Head with rank, designation and qualification equivalent to that of other department heads in the CDA. The CSF Department Head must be a Lawyer or a Certified Public Accountant, and will report directly to the CDA Executive Director.

SEC 4. Personnel assigned at the CDA's CSF Department must meet the qualification requirements on education, training and experience.

SEC 5. The CDA shall coordinate with personnel in their extension offices who shall assist the CSF Department in monitoring the activities of the CSF Cooperatives and liaise between the CSF Department and the CSF Cooperatives.

SEC 6. Budgetary Requirements. The initial operational requirements for the implementation of CSF Department under the CDA shall be charged against Contingent Fund while the Personnel Service components shall be charged against the Miscellaneous Personnel Benefits Fund (MPBF) under the Special Purpose Fund of General Appropriation Act of 2016.

RULE 4. BANGKO SENTRAL NG PILIPINAS

SEC 1. Pursuant to its mandate to provide policy direction in the areas of money, banking and credit under Republic Act No. 7653, otherwise known as the “New Central Bank Act”, and to enhance credit flows to the rural areas and achieve a more inclusive financial system, the BSP shall have the following powers under the CSF Act:

- a. Spearhead the promotion, encouragement, creation and organizational development of CSF Cooperatives all over the country;
- b. Facilitate the acquisition by CSF Cooperatives of technical assistance such as training and seminars in coordination with other public or private stakeholders for purposes of the CSF;
- c. Assist the CDA in setting the criteria and qualifications for CSF Cooperatives and provide such other forms of assistance as may be determined by the Monetary Board of the BSP; and
- d. Extend assistance to the CSF Cooperatives which the CDA and DOF may request for the sustainability of the CSF. This assistance may be implemented by way of a partnership or agreements with CDA and DOF.

SEC 2. The BSP shall craft its own rules and regulations to fulfil its mandate and role under Section 20 of the CSF Act.

SEC 3. The BSP shall prescribe a format of the MOA to be signed by all stakeholders prior to registration of a CSF Cooperative which shall indicate the amount of contributions of all stakeholders to the CSF Cooperatives.

SEC 4. The BSP shall implement a capability enhancement program to improve the internal capacity of the CSF Cooperatives in the areas of credit, financial management, entrepreneurship and risk management, among others.

RULE 5. LOCAL GOVERNMENT UNIT

SEC 1. A Local Government Unit (LGU) is authorized under the CSF Act to contribute to the CSF established by the CSF Cooperative in their locality. No CSF Cooperative shall be established without the LGU commitment to support the CSF Cooperative by contributing to the Fund and providing other assistance for the growth of MSMEs, as provided in the MOA.

SEC 2. The LGU’s Sangguniang Panlalawigan or Sangguniang Panlungsod, as the case may be, shall pass a resolution indicating, among others, its commitment to join the CSF Cooperative, the amount of initial contribution which must be equal to or more than the aggregate contributions of the participating cooperatives/NGOs, and authority for the Local Chief Executive to sign and execute the MOA with other stakeholders.

SEC 3. The contribution of the LGU may be treated as investment or grant, as defined in this Rules. In case of investment, its contribution shall be booked as 1% preferred shares and 99% Restricted Capital for Surety. If grant, it shall be booked as 100% Restricted Capital for Surety. The LGU's contribution shall share in the earnings and losses of the fund. Imputed earnings of the LGU shall not be distributed but shall remain in the Restricted Capital for Surety until the dissolution of the CSF Cooperative.

A municipality, through a separate memorandum of agreement between said municipality and the concerned CSF Cooperative, may also contribute to a CSF which is administered and managed by a provincial CSF Cooperative. Such contribution will not entitle the municipality to a seat in the Board. The share capital certificate shall be in the name of the province to be assigned to the contributing municipality.

SEC 4. The LGU shall be responsible for the immediate release of their contribution to the CSF Cooperative upon receipt of the copy of the MOA and Certificate of Registration of the CSF Cooperative. The check representing the LGU's contribution shall be made payable to the name of the CSF Cooperative which shall be deposited immediately by the CSF Cooperative to its trust account. The CSF Cooperative shall issue an Official Receipt to the LGU for its contribution.

SEC 5. The Provincial Governor or City Mayor, as the Local Chief Executive, shall be the official representative of the LGU to the CSF Cooperative and shall sit as member without voting rights. The Local Chief Executive may also designate one (1) LGU officer as alternate representative to the CSF Cooperative.

SEC 6. The LGU shall support the promotion and sustainability of the CSF Cooperative to its constituents, highlighting the latter's benefits to the MSMEs and cooperatives.

SEC 7. The LGU shall assist the CSF Cooperative by providing support such as but not limited to providing office space, furniture and equipment and staff for the CSF Cooperative, conducting free trainings, and helping the CSF Cooperative establish linkages with national government agencies.

SEC 8. The LGU may exercise its right to inspect the CSF Cooperative's records and financial statements, among others, during reasonable office hours.

SEC 9. The LGU is not qualified as borrower nor endorser of the CSF Cooperative.

RULE 6. GOVERNMENT FINANCIAL INSTITUTIONS

SEC 1. GFIs shall be governed by the following rules:

1. GFIs may contribute to the CSF Cooperative in the form of investment or grant, which may or may not be equal to the total contributions of the member-cooperatives/NGOs.

GFIs' investments shall be booked as 1% common shares and 99% Restricted Capital for Surety while grants shall be booked as Restricted Capital for Surety. The GFIs' contributions shall share in the earnings and losses of the fund. Imputed earnings of the GFIs shall not be distributed but shall remain in the Restricted Capital for Surety until the dissolution of the CSF Cooperative;

2. The head of the contributing GFI shall be the official representative to the CSF Cooperative. However, he may also designate any officer as alternate representative to the CSF Cooperative;
3. The GFI representative shall sit as a member in the Board and shall have voting rights regardless of the nature of its contributions;
4. GFIs may exercise the right to inspect the CSF Cooperative's records and financial statements, among others, during reasonable office hours; and
5. GFIs are not qualified as borrowers or endorsers of the CSF Cooperative.

RULE 7. INDUSTRIAL GUARANTEE AND LOAN FUND

SEC 1. The IGLF may contribute to the CSF Cooperative in the form of investment or grant, which may or may not be equal to the total contributions of the member-cooperatives/ NGOs.

SEC 2. IGLF's investment shall be booked as 1% common shares and 99% Restricted Capital for Surety while grants shall be booked as Restricted Capital for Surety. The IGLF's contribution shall share in the earnings and losses of the fund. Imputed earnings of the IGLF shall not be distributed but shall remain in the Restricted Capital for Surety until the dissolution of the CSF Cooperative.

SEC 3. The head of the IGLF shall be the official representative to the CSF Cooperative. However, he may also designate in writing an alternate representative.

SEC 4. The IGLF representative shall automatically sit as member in the Board and shall have voting rights regardless of the nature of its contributions.

SEC 5. IGLF may exercise its right to inspect the CSF Cooperative's records and financial statements, among others, during reasonable office hours.

SEC 6. IGLF is not qualified as a borrower or endorser of the CSF Cooperative.

SEC 7. The IGLF may issue or adopt its own rules/guidelines governing its contributions in accordance with this IRR and such other laws, rules and regulations governing IGLF operations.

RULE 8. OTHER INSTITUTIONS/GOVERNMENT AGENCIES

SEC 1. Other institutions/GAs may contribute to the CSF Cooperative in the form of investment or grant, which may or may not be equal to the total contributions of the member-cooperatives/ NGOs.

SEC 2. Other institutions/GAs' investment shall be booked as 1% common shares and 99% Restricted Capital for Surety while grants shall be booked as Restricted Capital for Surety. The Other institutions/GAs' contribution shall share in the earnings and losses of the fund. Imputed earnings of the Other institutions/GAs shall not be distributed but shall remain in the Restricted Capital for Surety until the dissolution of the CSF Cooperative.

SEC 3. The head of the contributing institution/GA shall be the official representative to the CSF Cooperative. However, he may also designate any officer whose position is not lower than a Division Chief as alternate representative to the CSF Cooperative.

SEC 4. Subject to Rule 16, the contributing institutions/GA's representative shall sit as member in the Board and shall have voting rights regardless of the nature of its contributions.

SEC 5. Other institutions/GAs may exercise the right to inspect the CSF Cooperative's records and financial statements, among others, only during reasonable office hours.

SEC 6. Other institutions/GAs are not qualified as borrowers or endorsers of the CSF Cooperative.

RULE 9. DONORS

Donors refer to any individual or private entity that contributes to the CSF Cooperative. Donors shall not be considered as members of the CSF Cooperative and their contribution, covered by a Deed of Donation, shall be booked as Restricted Capital for Surety which shall share in the earnings/losses of the CSF Cooperative. Imputed earnings of donors' contributions shall not be distributed but shall remain in the Restricted Capital for Surety until the dissolution of the CSF Cooperative.

While not exclusive, the following entities may be treated as donors:

- a. Individuals;
- b. Private banks and other financial institutions;
- c. Associations of businessmen or entrepreneurs;
- d. Multilateral or bilateral international institutions or agencies;
- e. International grants and aides; and
- f. Any person or entity which the Board may subsequently accept as donors.

RULE 10. ORGANIZATION, CREATION AND REGISTRATION OF CSF COOPERATIVE

SEC 1. Organization of CSF Cooperatives. – A CSF Cooperative may be organized and registered by at least eight (8) members (including IGLF, GFI, LGU and other government agencies).

SEC 2. Organizer. – The BSP shall facilitate the creation and organizational development of the CSF Cooperative through research, promotions and marketing activities, and securing commitments of LGUs, cooperatives/NGOs and partner institutions. It shall also conduct pre-organizational activities and facilitate the ceremonial signing of the MOA, based on formulated rules and procedures.

SEC 3. Purpose. – A CSF Cooperative shall be established for the primary and exclusive purpose of administering the CSF which is used to provide credit enhancement support by way of issuing surety cover to secure loans of qualified MSME and cooperative/NGO borrowers in lieu of hard collaterals.

SEC 4. Term. – A CSF Cooperative shall exist for a period not exceeding fifty (50) years from the date of registration unless sooner cancelled or said period is extended. The term 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 the CSF Act and the Cooperative Code.

SEC 5. Name. – The name of the CSF Cooperative shall always bear the name of the province/city where it is operating and the words “Credit Surety Fund (CSF) Cooperative”.

The CDA will register the CSF Cooperative if its proposed name is not identical or confusingly similar to any existing CSF Cooperative or to any other name already protected by law. The name of the CSF Cooperative may be changed in accordance with the guidelines prescribed by the CDA.

SEC 6. All existing CSFs established prior to the effectivity of the CSF Act are hereby deemed eligible to be registered with the CDA as CSF Cooperatives, subject to this Rules, the CDA guidelines and as provided by the CSF Act.

SEC 7. Requirements for registration – the CSF Cooperative shall register with the CDA and shall submit the following documents:

1. Cooperative Name Reservation Notice (CRNN);
2. Articles of Cooperation and By-laws;
3. Sworn Statement of the Treasurer elected by the subscribers showing at least twenty-five per centum (25%) of the authorized capital share has been subscribed at the time of registration, and least twenty-five per centum (25%) of the total subscription has been paid upon subscription: Provided, That in no case shall the paid-up share capital be less than Five Thousand Pesos (₱5,000.00);
4. Surety Bond of Accountable Officers handling funds properties and securities;
5. Certificate of Contributors Orientation Seminar;
6. Economic survey except for existing CSFs;
7. CSF MOA signed by all stakeholders and the BSP; and
8. Registration Fee.

SEC 8. Registration Jurisdiction.— All applications for registration shall be filed at the CDA Extension Office for endorsement to the Central Office.

SEC 9. Juridical personality. – A CSF Cooperative formed and organized under the CSF Act acquires juridical personality on the date the CDA issues a certificate of registration under its official seal.

RULE 11. POWERS OF A CSF COOPERATIVE

SEC 1. Powers and capacity. – Every CSF Cooperative registered by the CDA under the CSF Act shall have the following powers and capacities:

- a. To the exclusive use of its registered name;
- b. To sue and be sued;
- c. Of succession;
- d. To amend its Articles of Cooperation in accordance with this Rules;
- e. To adopt Bylaws not contrary to law, morals or public policy, and to amend and repeal the same in accordance with this Rules;
- f. To act as surety for loans obtained from lending banks by qualified borrowers, as defined in this Rules;
- g. To acquire, receive, hold, sell, lease, or otherwise deal with such real and personal property as the transaction of the lawful affairs of the CSF Cooperative may reasonably and necessarily require, subject to the limitations prescribed by the law and the Constitution;
- h. To enter into merger or consolidation in accordance with this Rules;
- i. To form/join federations of CSF Cooperatives as provided in the Cooperative Code and its rules;

- j. To accept and receive grants, invest its Restricted Capital for Surety in Trust accounts and administer the CSF or the Fund in accordance with this Rules; and
- k. To exercise such other powers as may be essential or necessary to carry out its purpose or purposes as stated in the Articles of Cooperation.

RULE 12. ARTICLES OF COOPERATION

SEC 1. Filing of Articles of Cooperation. – A CSF Cooperative shall file its Articles of Cooperation and Bylaws for registration, and any amendments of the same, with the CDA.

SEC 2. Contents and Form. – The Articles of Cooperation which shall be signed by all cooperators shall set forth:

- a. The name of the CSF Cooperative;
- b. The purpose of the CSF Cooperative;
- c. The term of existence of the CSF Cooperative;
- d. The area of operation and the postal address of its principal office;
- e. The list of the original cooperatives or member registrants (i.e. cooperatives, NGOs, GFIs etc.) with the corresponding addresses and the names of their authorized or alternate representatives to the CSF Cooperative;
- f. The number of directors;
- g. The names, nationalities and residences of directors who are duly elected and qualified in accordance with this Rules;
- h. The amount of its authorized share capital, the number of shares into which it is divided, and in case the share are par value shares, the par value of each, the names, nationalities and residences of the original subscribers or members, and the amount subscribed and paid by each on his subscription;
- i. The common bond of membership shall be associational;
- j. Such other matters as are not inconsistent with the CSF Act and this Rules which the cooperators may deem necessary and convenient;
- k. Witnesses – Two credible witnesses, neither of whom is privy to the document, shall sign in the spaces provided indicating their printed names to attest the due execution of the articles; and
- l. Acknowledgment – All organizers (cooperators) must affix their signatures on the margin of each and every page thereof except the page where the names and signatures of cooperators are provided and must be acknowledged before a notary public.

SEC 3. Treasurer's Affidavit – a sworn statement of the Treasurer elected by the subscribers, attached to the Articles of Cooperation, showing that at least 25% of the authorized capital share has been subscribed at the time of registration, and at least 25% of the total subscription has been paid upon

subscription. In no case shall the paid-up capital share be less than five thousand pesos (₱5,000.00).

SEC 4. Amendment of Articles of Cooperation. – Unless otherwise prescribed by the CSF Act or by special law, and for legitimate purposes, any provision or matter stated in the Articles of Cooperation and bylaws may be amended by two-thirds ($\frac{2}{3}$) vote of all the members with voting rights.

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

RULE 13. BYLAWS

SEC 1. Adoption. – A CSF Cooperative shall adopt Bylaws together with the Articles of Cooperation consistent with the provisions of the CSF Act and this Rules. The Bylaws shall be kept in the principal office of the cooperative, subject to the inspection of the members during office hours. Two (2) original copies shall be filed with the CDA together with the two (2) original Articles of Cooperation.

SEC 2. Contents. – The Bylaws shall provide the following:

- a. The qualifications for admission to membership and the required contribution 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 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;
- f. The general conduct of the affairs of the CSF Cooperative, including the powers and duties of the general assembly, the board of directors, committees and the officers, and their qualifications and disqualifications;

- g. The manner in which the capital, may be raised and the purposes for which it can be utilized;
- h. The mode of custody and of investment of net surplus;
- i. The accounting and auditing systems;
- j. The manner of endorsing loans through the issuance of surety cover including the limitations thereof;
- k. The penalties for violation of the Bylaws;
- l. The administration of the CSF Cooperative and its fund;
- m. The method of distribution of net surplus;
- n. The manner of adopting, amending, repealing, and abrogating Bylaws;
- o. Settlement of disputes including a conciliation or mediation mechanism for the amicable settlement of disputes among members, directors, officers and committee members of the CSF Cooperative; and
- p. Such other matters as may be necessary for the proper or convenient transaction of its business and affairs.

SEC 3. Amendments to Bylaws. – Any provision or matter stated in the Bylaws may be amended by two-thirds ($\frac{2}{3}$) vote of all the members with voting rights.

RULE 14. MEMBERSHIP IN A CSF COOPERATIVE

Composition and Qualifications

SEC 1. Members of the CSF Cooperative are the following entities that have contributed to the CSF:

- a. Cooperatives;
- b. Nongovernment organizations;
- c. Local government units;
- d. Government financial institutions;
- e. Industrial Guarantee and Loan Fund; and
- f. Government Agencies;

A cooperative may be a member of more than one CSF Cooperative provided that the former operates and has a branch or satellite within the latter's area of operation and as provided in its by-laws.

SEC 2. Qualifications for Membership of Cooperatives. – Only well-capitalized and well-managed cooperatives, with duly approved application for membership, and have contributed a minimum amount of ₱100,000 may participate as member of a CSF Cooperative.

SEC 3. To be considered "well-capitalized", a cooperative/NGO must both satisfy these two minimum criteria:

- a. Adjusted asset must be at least ₱1.0 million, which is computed as Total Asset minus the following:

1. Past due loans and items under litigation (net of allowance for probable losses); and
 2. Past due accounts receivable (net of allowance for probable losses);
- b. Adjusted Capital to Adjusted Assets Ratio (CAR) must be at least twenty percent (20%), which is computed as Adjusted Capital divided by Adjusted Total Assets, which is computed as
- $$\text{Adjusted Total Assets} = \text{Total assets} - (\text{Total equity less Adjusted capital})$$

SEC 4. To be considered "well-managed",

- a. A cooperative must satisfy the following requirements:
 - i. Must be registered with the CDA, as evidenced by a Certificate of Registration and Certificate of Compliance issued by the CDA;
 - ii. Must be registered with the BIR and other relevant government agencies;
 - iii. Must be in existence for at least 1 year;
 - iv. Must be earning based on the latest audited financial statements submitted to CDA or SEC;
 - v. Must have adopted sound lending policies and practices;
 - vi. Must have audited financial statements;
 - vii. Members of the Board and Credit Committee have acquired CDA's mandatory training hours; and
 - viii. Must have no past due obligations with any of its creditors.
 - ix. Must not have any existing leadership dispute or any other cooperative dispute filed with the CDA or any court or tribunal.
- b. An NGO must satisfy the following requirements:
 - i. Must be registered with the SEC, as evidenced by a Certificate of Registration;
 - ii. Must be registered with the BIR and other relevant government agencies;
 - iii. Must be in existence for at least 1 year and earning;
 - iv. Must have adopted sound lending policies and practices;
 - v. Must have audited financial statements; and
 - vi. Must have no past due obligations with any of its creditors.

SEC 5. Additional criteria may be imposed for applicant cooperatives or NGOs to be considered as "well-capitalized" and "well-managed" which shall be incorporated in the CSF Cooperative's Bylaws and duly communicated to the applicant cooperatives/NGOs.

SEC 6. The CSF contribution of a cooperative/NGO shall not be less than ₱100,000. One percent (1.0%) of contributions shall be booked as paid-up share capital while the 99.0% shall be booked as Restricted Capital for Surety covered by

an investment certificate. Contributions of a cooperative/NGO shall be fully paid prior to the signing of the CSF MOA and CDA registration.

SEC 7. Cooperatives/NGOs interested to join the CSF Cooperative shall submit the following minimum requirements:

- a. Approved General Assembly Resolution duly signed by all members of the Board of Directors, authorizing the cooperative/NGO to join or participate in the CSF Cooperative. Said resolution should indicate the amount of initial investment and designation of one representative and one alternate (a board member and/or Manager) who are authorized to sign contracts or agreements with the CSF Cooperative;
- b. Copy of the latest audited financial statements of the cooperative with the accompanying notes/schedules;
- c. Copy of Certificate of Registration with CDA or SEC and BIR;
- d. Certificate of Compliance from CDA;
- e. List of current Board of Directors, Manager and Credit or Loan Officer, together with their curriculum vitae or information sheet; and
- f. Duly accomplished CSF Membership Application Form.

SEC 8. Application for membership shall be acted upon by the Board of Directors within a reasonable time as provided in the Bylaws. The application form for membership shall include an undertaking to uphold the Bylaws, policies, guidelines, rules and regulations promulgated by the Board and the General Assembly.

SEC 9. An applicant cooperative/NGO may only be deemed a member after its application has been approved by the Board and has fully paid the CSF Cooperative its contribution and share capital thereto as may be prescribed in the Bylaws. Once accepted, the CSF Cooperative shall issue Certificate of Membership and Investment.

SEC 10. In case membership is refused or denied by the Board, 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.

Duties and Privileges

SEC 11. Among others, every member cooperative shall have the following duties and responsibilities:

- a. Pay the capital subscription and participate in the capital build-up activities of the CSF Cooperative;

- b. Patronize the CSF Cooperative's business and services;
- c. Participate in the membership education and training programs;
- d. Attend and participate in the deliberation of all matters taken during General Assembly meetings;
- e. Observe and obey all lawful orders, decisions, rules and regulations adopted by the Board of Directors and the General Assembly; and
- f. Promote the purposes and goals of the CSF Cooperative, the success of its business, the welfare of its members and the cooperative movement in general.

SEC 12. Members shall have the following rights and privileges:

a. Cooperatives/NGO

i. Member in good standing

- 1. Designate its authorized representative to vote and be voted upon in an election for a position in the Board of Directors and Committees, subject to the provisions of this Rules and its Bylaws;
- 2. Entitled to vote in any matters affecting the operation of the CSF Cooperative, subject to the provisions of this Rules and its Bylaws;
- 3. Share in the earnings of the CSF Cooperative subject to the Bylaws;
- 4. Endorse loans of its members except NGOs;
- 5. Directly avail of loans from banks, covered by the CSF;
- 6. Inspect and examine the books of accounts, the minutes books, the share register, and other records of the CSF Cooperative during reasonable office hours; and
- 7. Such other rights and privileges as may be provided in the Bylaws, or as granted by the General Assembly provided not in contrary with this Rules.

b. LGUs

- 1. Share in the earnings of the CSF Cooperative, subject to the Bylaws;
- 2. Designate its authorized representative to the Board as Ex-officio member without voting rights;
- 3. Inspect and examine the books of accounts, the minutes books, the share register, and other records of the CSF Cooperative during reasonable office hours; and
- 4. Such other rights and privileges as may be provided in the Bylaws, as granted by the General Assembly provided not in contrary with this Rules.

c. GFIs, IGLF and GAs

GFIs, IGLF and GA's which opted to contribute to the CSF shall enjoy the following rights and privileges:

1. Designate its authorized representative to sit as a member of the Board of Directors, with voting rights, subject to the provisions of this Rules and its Bylaws;
2. Entitled to vote in any matters affecting the operation of the CSF Cooperative;
3. Share in the earnings of the CSF Cooperative, subject to the Bylaws;
4. Inspect and examine the books of accounts, the minutes books, the share register, and other records of the CSF Cooperative during reasonable office hours; and
5. Such other rights and privileges as may be provided in the Bylaws, or as granted by the General Assembly provided that these are not in contrary with this Rules.

Termination

SEC 13. Membership of a cooperative/NGO in the CSF Cooperative may be terminated by a resolution approved by a majority vote of the Board of Directors stating clearly the reasons therefor, and provided that the refund of the contribution shall be subject to the following conditions:

- a. Liquidity of the Fund;
- b. The value of the assets of the CSF Cooperative would be higher than the aggregate amount of its debts and liabilities after payment of the share capital and contribution of the withdrawing cooperative; and
- c. The withdrawing member-cooperative has no outstanding obligation on account of the surety agreements issued.

LGUs, GFIs, IGLF and GAs may only withdraw their contribution upon dissolution of the CSF Cooperative.

SEC 14. Termination of member cooperative/NGO may be automatic, voluntary or involuntary which shall have the effect of extinguishing all rights of membership in the CSF Cooperative, subject to refund of share capital contribution.

- a. Automatic Termination of Membership. – A judicial declaration of bankruptcy or insolvency of a member shall automatically terminate its membership in the CSF Cooperative.

- b. Voluntary Termination. – A member cooperative/NGO may voluntarily withdraw or terminate its membership from the CSF Cooperative by giving a sixty (60) day notice to the Board.
- c. Involuntary Termination. – A member cooperative/NGO may be terminated for any of the following causes:
 - i. Continuous failure to comply with its obligations as provided for in the policies of the cooperative;
 - ii. Blatant and continuous violation of any provision of this Rules and Bylaws; and
 - iii. Commission/omission of any act injurious or prejudicial to the interest or welfare of the CSF Cooperative.

SEC 15. In case of termination of membership, 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 termination of membership within thirty (30) days upon receipt thereof.

RULE 15. GENERAL ASSEMBLY MEMBERSHIP AND MEETINGS

SEC 1. Members of the General Assembly. – The members of the General Assembly shall be composed of authorized representatives of the contributing cooperatives/NGOs, LGUs, GFIs, IGLF and GAs.

SEC 2. Powers of the General Assembly. – The General Assembly shall be the highest policy-making body of the CSF Cooperative and shall exercise such powers as are stated in this Rules, the CSF Act, the Articles of Cooperation and the Bylaws. The General Assembly shall have the following exclusive powers which cannot be delegated:

- a. To determine and approve amendments or adoption of the CSF Cooperative's Articles of Cooperation and Bylaws;
- b. To elect cooperatives/NGOs as members of the Board of Directors, and to remove them for cause;
- c. To approve on division, or merger or consolidation of the CSF Cooperative with another CSF Cooperative/s;
- d. To approve the acquisition, receipt, hold, sale, lease, or otherwise deal with such real and personal property as the transaction of the lawful affairs of the CSF Cooperative may reasonably and necessarily require, subject to the limitations prescribed by the law and the Constitution;
- e. To approve on the voluntary dissolution of the CSF Cooperative; and
- f. To approve Annual Development Plan.

- SEC 3. Meetings. – Meetings of the General Assembly may be regular or special. All proceedings and businesses undertaken at any meeting of the General Assembly, if within the powers or authority of the CSF Cooperative, there being a quorum, shall be valid.
- SEC 4. Regular General Assembly Meeting. – The General Assembly shall hold its annual regular meeting at the principal office of the CSF Cooperative or at any place in the Philippines within one hundred twenty (120) days after the close of its calendar year.
- SEC 5. Special General Assembly Meeting. – The Board of Directors may, by a majority vote of all its members, call a special General Assembly meeting at any time to consider urgent matters provided that a written notice to that effect shall be sent to all the members within one (1) week prior to the scheduled meeting.
- SEC 6. Notice of Meeting. – All notices of meetings shall be in writing and shall include the date, time, place, and agenda thereof stated therein.
- a. Regular General Assembly Meeting. – Notice of the annual regular General Assembly meeting shall be served by the Secretary, personally or his/her duly authorized representative, by registered mail, or by electronic means to all members of record at his/her last known postal address, or by posting or publication, or through other electronic means. It shall be accompanied with an agenda, minutes of meeting of the last General Assembly meeting, consolidated reports of the Board of Directors and Committees, audited financial statements, and other papers which may assist the members to intelligently participate in the proceedings.
 - b. Special General Assembly Meeting. – Notice of any special General Assembly meeting shall be served by the Secretary personally or his/her duly authorized representative, by registered mail, or by electronic means upon each member who is entitled to vote at his/her last known postal address, or by posting or publication, or through other electronic means. It shall state the purpose and, except for related issues, no other business shall be considered during the meeting.
 - c. Waiver of Notice. – Notice of any meeting may be waived, expressly or impliedly, by the member concerned.
- SEC 7. Quorum for General Assembly Meeting. – During regular or special General Assembly meeting, a simple majority which shall mean one half plus one of the total number of members shall constitute a quorum.

The decision of at least a simple majority of the members present at a meeting at which there is a quorum shall be valid.

SEC 8. Voting System. – Each cooperative/NGO, GFI, IGLF, and GA who is entitled to vote, shall have only one (1) vote under the cooperative principle of one-man, one-vote.

SEC 9. Each member of the CSF Cooperative shall designate, by virtue of a board resolution, its authorized representative who shall attend the general and/or special meetings of the CSF Cooperative and will continue to function as such until a new representative is designated by the member concerned.

RULE 16. THE BOARD OF DIRECTORS

SEC 1. Composition. – The direction and administration of the affairs of the CSF Cooperative shall be vested in the Board of Directors. Unless otherwise provided in the Bylaws, it shall be composed of not less than seven (7) and not more than fifteen (15) members.

SEC 2. The members of the Board of Directors are natural persons consisting of the authorized representatives of the member-cooperatives, as elected members; GFIs, IGLF and other institutions/GAs, as appointed members; and LGU as ex-officio member in accordance with the Bylaws of the CSF Cooperative, the CSF Act and this Rule. They are the following:

1. Elected member – refers to member-cooperative/NGO of the CSF Cooperative which has the right to vote and possesses all the qualifications and none of the disqualifications provided in this Rules or Bylaws and shall be eligible for election as member of the Board. The said members of the Board shall be duly elected by the General Assembly. The term of office of the elected members of the Board coming from the authorized representative of the member-cooperatives/NGOs shall be two (2) years and shall hold office until their successors are duly elected and qualified, or until duly removed for cause.
2. Appointed member. – GFIs, IGLF and other institutions/GAs shall become automatic members of the Board. GFIs, IGLF and other institutions/GAs have voting rights regardless of the nature of its contribution. Provided that the number of automatic members from GFIs and GAs shall not exceed two (2) and one (1), respectively. If necessary, GFI's shall separately choose from among themselves who will sit in the Board.
3. Ex-officio member. – Refers to the authorized representative of the LGU who shall become an automatic member of the Board without voting rights.

SEC 3. The Board shall elect from the elected authorized representatives of cooperatives to the Board the Chairperson and Vice-chairperson. It shall also elect or appoint other officers of the CSF Cooperative from outside of the Board in accordance with their Bylaws. All officers 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 CSF Cooperative nor who, in any other manner, has interests in conflict with the CSF Cooperative, shall serve as an appointive officer.

SEC 4. Powers and Responsibilities. – The Board of Directors shall be responsible for the strategic planning, direction-setting and policy-formulation activities of the CSF Cooperatives. The powers and responsibilities of the Board shall include but not limited to the following:

- a. Determine and formulate the general policies and guidelines on the proper administration of the CSF Cooperative pursuant to its Bylaws and this Rules;
- b. Act as Manager of the CSF until such time that a trustee bank is designated or appointed as trust fund manager;
- c. Designate bank/s duly licensed by the BSP to perform trust and other fiduciary functions as trustee bank/s or investment manager/s, which will, among others, manage the investment, reinvestment and disposition of the fund as provided under Republic Act No. 8791, otherwise known as the "General Banking Law of 2000";
- d. Accept contribution of new and existing members to the CSF Cooperative;
- e. Enter into contracts and transactions involving, affecting or relating to the CSF Cooperative including but not limited to the issuance of the Surety Agreement in favor of lending banks;
- f. Sue and be sued in cases involving the CSF Cooperative;
- g. Periodically review the CSFs and be responsible for taking appropriate action on the audit of the financial condition and operations of the CSF Cooperative;
- h. Create committees and appoint officers subject to the qualifications provided by the Board and Bylaws;
- i. Delegate to the Chairperson, Vice-chairperson, or any member of the Board any of its powers whenever deemed necessary for the best interest of the CSF Cooperative and as allowed by law;
- j. Exercise general supervision of all the affairs of the CSF Cooperatives including the issuance of policies, rules and regulations governing the operations of the CSF and be directly accountable to the general membership of the CSF Cooperatives;

- k. Issue the Surety Agreement jointly and severally with the endorsing cooperative-member, in favor of the lending bank to secure the loans of qualified borrowers; and
- l. Perform such acts and exercise such powers and duties as may be necessary and proper in order to achieve the purpose for which the CSF was created or for any purpose which will redound to the benefit of the members of the CSF Cooperatives.

SEC 5. Chairperson. – The Chairperson shall:

- a. Set the agenda for board meetings in coordination with the other members;
- b. Preside over all meetings of the Board and of the General Assembly;
- c. Exercise general supervision as deemed necessary to determine whether the resolutions, orders or directives of the Board and any of its authorized committees have been carried out;
- d. Sign surety agreements, contracts, agreements, certificates and other documents on behalf of the CSF Cooperative; and
- e. Perform such other functions as may be provided under the Bylaws and/or authorized by the Board or by the General Assembly.

SEC 6. Treasurer. – The Treasurer shall:

- a. Ensure that all cash collections are deposited in accordance with the policies set under the Bylaws;
- b. Have custody of all funds, securities, and documentations relating to all assets, liabilities, income and expenditures;
- c. Prepare and issue official receipts for all cash receipts, including contributions to the CSF Cooperative;
- d. Monitor and review the financial management operations of the CSF Cooperative;
- e. Maintain full and complete records of cash transactions; and
- f. Maintain a Petty Cash Fund and Daily Cash Position Report.

SEC 7. Secretary. – The Secretary shall:

- a. Keep an updated and complete registry of all members;
- b. Record, prepare and maintain records of all minutes of all meetings;
- c. Ensure that necessary Board actions and decisions are transmitted to the management for compliance and implementation;
- d. Prepare and issue Certificate of Investment/Contribution;
- e. Serve notice of all meetings called and certify the presence of quorum of all meetings of the Board and the General Assembly; and
- f. Keep copy of the Treasurer's report & other reports.

SEC 8. Meetings of the Board and Quorum Requirement. – Regular meetings of the Board of Directors shall be held at least once a month. Special meetings 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 meeting specifying the agenda thereof shall be given to all members of the Board at least one (1) week before the said meeting or as otherwise provided in the Bylaws.

Unless otherwise provided in the Bylaws, a simple majority of the total number of members during regular or special Board Meeting, shall constitute a quorum. Simple majority as used in this Rules shall mean one half of the total number of members of the Board, plus one.

The decision of at least a simple majority of the members present at a meeting at which there is a quorum shall be valid.

SEC 9. Directors cannot be represented or vote by proxy at board meetings.

SEC 10. Disqualifications. – A member shall be disqualified to be elected as member of the Board or in the committee, or to continue as such, under any of the following circumstances:

- a. Holding any elective position in the government;
- b. Holding any other position that is directly involved in the day-to-day operation and management of the CSF Cooperative;
- c. Having direct or indirect personal interest with the business of the CSF Cooperative;
- d. An official or employee of the CDA, except the representative of their employees' cooperative;
- e. Having been involved or convicted in administrative proceedings or civil/criminal suits involving financial and/or property accountability; and
- f. Other disqualifications as may be provided in the Bylaws and in other laws.

SEC 11. Vacancy in the Board of Directors. – Any vacancy in the Board, 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. Provided, that no such election shall be held if the vacancy occurs less than three (3) months before the expiration of the vacating member's term of office and that a quorum can still be obtained.

Except as otherwise provided in the Bylaws, in the event that the General Assembly failed to muster a quorum to fill the positions vacated by directors whose term have expired and said directors refuse to continue their functions on a hold-over capacity, the remaining members of the Board, together with the members of the Audit Committee shall designate, from the other qualified members of the General Assembly, their replacements who

shall serve temporarily as such until their successors shall have been elected and qualified in a regular or special General Assembly meeting called for the purpose. If a vacancy occurs in any elective committee, it shall be filled by the remaining members of the said committee, if still constituting a quorum, otherwise, the Board, in its discretion, may appoint or hold a special election to fill such vacancy.

SEC 12. Per Diem. – The directors shall not receive any compensation except for reasonable per diems: Provided however, that the directors shall not be entitled to any per diem when, in the preceding calendar year, the CSF Cooperative reported a net loss or had interest on share capital rate less than the official inflation rate for the same year.

Provided, further, that no increase in per diems shall be granted during the first five years of existence of the CSF Cooperative.

SEC 13. Removal. – All complaints for the removal of any elected officer shall be filed with the Board. Such officer shall be given the opportunity to be heard. Majority of the Board 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 members present and constituting a quorum, in a regular or special General Assembly meeting called for the purpose.

RULE 17. COMMITTEES

SEC 1. The Bylaws shall provide for the creation of committees, to help in the achievement of the goals and objectives of a CSF Cooperative, such as but not limited to the following:

- a. Audit Committee;
- b. Election Committee; and
- c. Credit Committee.

SEC 2. Unless the Bylaws provides otherwise, 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.

SEC 3. The provisions of the Cooperative Code and its implementing rules and regulations pertaining to the Audit Committee, Election Committee,

Mediation and Conciliation Committee and Ethics Committee shall be made suppletory to this Rules.

- SEC 4. Each committee shall formulate its own rules and regulations, policies and guidelines in the performance of its functions and initiate programs and activities for the furtherance of the CSF Cooperative's goals and objectives, in accordance with this Rules and the CSF Act. All actions and initiatives made by the committees shall be supported by a simple majority vote and must be approved by the Board and the General Assembly, as the case maybe.
- SEC 5. The Committee Chairperson shall hold office for a term of one (1) year or until their successors shall have been elected/appointed and qualified.
- SEC 6. 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 condition that the person elected or appointed shall serve only for the unexpired portion of the term.
- SEC 7. Credit Committee. – The Board of Directors shall appoint at least three (3) members of the Credit Committee (CRECOM) who shall come from outside the Board to do the following functions:
- a. To evaluate and recommend loan applications with surety cover of the member cooperatives/NGOs for approval of the Board in accordance with this Rules; and
 - b. To act on applications of the members within their discretionary and approving authority as set by the Board of Directors.
- SEC 8. Other Committees. – By a majority vote of all its members, the Board of Directors may form such other committees as may be deemed necessary for the operation of the CSF Cooperative.

RULE 18. MANAGEMENT OF THE CSF COOPERATIVE

- SEC 1. Management. – As the Board determines, the CSF Cooperative shall engage the services of the following management staff, who may either serve on a part-time, full-time or voluntary basis:
1. Manager;
 2. Accountant/Bookkeeper; and
 3. Cashier.

The functions, duties and responsibilities of the aforementioned officers shall be provided under this Rules and the Bylaws of the CSF Cooperative.

SEC 2. Manager. – The Manager shall:

- a. Oversee the overall day-to-day business operations of the CSF Cooperative by providing general direction, supervision, management and administrative control;
- b. Formulate and recommend the Cooperative's Annual and Medium Term Development Plan, programs and projects;
- c. Implement the duly approved plans and programs of the cooperative and any other directive or instruction of the Board;
- d. Provide and submit to the Board monthly reports on the status of the CSF Cooperative's operation vis-à-vis its target and recommend appropriate policy or operational changes, if necessary;
- e. Represent the CSF Cooperative in any agreement, contract, business dealings, and in any other official business transaction; and
- f. Ensure compliance with all administrative and other requirements of regulatory bodies.

SEC 3. Liabilities of Directors, Officers and Committee Members. – Directors, officers and committee members, who wilfully 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 CSF Cooperative or acquire any personal or pecuniary interest in conflict with their duties as directors, officers or committee members, shall be liable jointly and severally for all damages resulting therefrom to the CSF Cooperative, members and other persons. When a director, officer or committee member attempts to acquire, or acquires, in violation of his/her duties, any interest or equity adverse to the Cooperative in respect to any matter which has been reposed in him/her in confidence, he/she shall, as a trustee for the CSF Cooperative, be liable for damages or loss of profits which otherwise would have accrued to the CSF Cooperative.

SEC 4. Technical and Support. – A core technical and support team composed of cashier, bookkeeper, and other positions as may be necessary or as provided for in the Bylaws, shall take charge of the day-to-day operations of the CSF Cooperative. Their functions and responsibilities shall be fixed by the Board of Directors based on the Bylaws.

SEC 5. Compensation. – Subject to the approval of the General Assembly, the Officers may, in addition to per diems for actual attendance to Board and Committee meetings, and reimbursement of actual and necessary expenses while performing functions in behalf of the cooperative, be given regular compensation. Provided, that they shall not be entitled to any *per diem* when, if in the preceding calendar year, the cooperative reported a net loss or had interest on share capital rate less than the official inflation rate for the same year. *Provided further*, that no additional compensation or *per diems* shall be paid during the first five year of existence of the CSF Cooperative. On

the other hand, the compensation of all other employees shall be determined by the Board unless already fixed in the Bylaws.

SEC 6. Bonding of Accountable Officers. – Every director, officer, and employee handling funds, securities or property on behalf of the CSF 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 CSF Cooperative, the bonds of the accountable officers shall be required by the CDA. Such bonds shall be renewed annually and the CDA shall accordingly be informed of such renewal.

RULE 19. CAPITALIZATION OF CSF COOPERATIVES

SEC 1. Authorized, Subscribed and Paid-up Capital of CSF Cooperatives. – At least twenty-five percent (25%) of the authorized capital share as stated in the articles of cooperation must be subscribed at the time of registration, and twenty-five percent (25%) of the total subscription must be paid. In no case shall the paid-up capital share be less than Five Thousand Pesos (₱5,000.00).

SEC 2. For purposes of the CSF Act, the CSF or fund set up by the CSF Cooperative from the contributions of its members and receipt of grants from individuals or private entities, shall not be deemed as part of the authorized capital stock. It shall be recorded in a separate equity account titled as Restricted Capital for Surety.

SEC 3. Par Value. – In a CSF Cooperative, the par value per share may be fixed at any amount not more than One Thousand Pesos (₱1,000.00). Cooperatives are prohibited from issuing multiple types of common shares with different par value per share. It is likewise prohibited for any cooperative to increase/decrease the par value of the share capital by way of amending their Articles of Cooperation and Bylaws.

SEC 4. Source of Capital. – The Cooperative may derive its funds from any or all of the following sources:

- a. Member's share capital contribution;
- b. Revolving capital which consist of the deferred payment of interest on share capital and proceeds of services rendered; and
- c. Other sources of funds as may be authorized by law.

SEC 5. Revolving Capital. – To strengthen the capital structure of the Cooperative, the General Assembly may authorize the Board of Directors to raise a revolving capital by deferring the payment of interest on share capital and authorized deduction of percentage from proceeds of services rendered and

retaining it as Restricted Capital for Surety, or such other schemes as may be legally adopted. To implement this provision, the Board of Directors shall issue a Revolving Capital Certificate with serial number and name, subject to Rule 25 hereof.

- SEC 6. Share Capital Certificate. – The Board of Directors shall issue a Share Capital Certificate only to a member who has fully paid its subscription. The Certificate shall be serially numbered and contain the shareholder's name, the number of shares owned, the par value, and duly signed by the Chairperson and the Secretary, and bearing the official seal of the CSF Cooperative. All certificates issued and/or transferred shall be registered in the cooperative's Share and Transfer Book. The number of paid share required for the issuance of Share Capital Certificate shall be determined by the Board of Directors. The shares may be purchased, owned or held only by entities that are eligible for membership.
- SEC 7. Capital. – The capital of a CSF Cooperative may consist of common share capital and preferred share capital. The share capital contribution of the members shall be considered as equity. Provided, that it shall not be withdrawn and should not be used in offsetting obligations whether past due or current while the membership subsists.
- SEC 8. Preferred Shares. – are shares issued to LGUs as may be allowed in the Bylaws.
- SEC 9. Capital Build-up. – The Bylaws of every CSF Cooperative may provide for a reasonable and realistic member-capital build-up program to allow the continuing growth of the members' investments in their cooperative as their own economic conditions continue to improve.
- SEC 10. Subscription Agreement. – The cooperative shall execute a subscription agreement upon admission of additional members and whenever additional subscription shall be made by existing member/s upon full payment of initial subscription. Unless otherwise provided for in the Bylaws, the cooperative shall issue Share Certificates at least every end of the calendar year based on the number of shares fully paid for the said period.
- SEC 11. A member cooperative/NGO may own more than ten percent (10%) of the total share capital of the CSF Cooperative but not more than fifty percent (50%).
- SEC 12. Penalties. – Fines on Unpaid Subscribed Share Capital. The Bylaws of a cooperative shall prescribe a fine of three percent (3%) on unpaid subscribed share capital.

RULE 20. CSF OPERATIONS

SEC 1. Usage of the Fund. – The contributions pooled from cooperatives/NGOs, LGU, GFIs, IGLF, GAs and individuals/private entities, shall constitute the Restricted Capital for Surety, to be used as surety for the loans of qualified borrowers from lending banks. The Restricted Capital for Surety shall be deposited in trustee bank/s as herein defined, and shall only be invested or placed in government securities.

SEC 2. Maximum Loan Availment. – The amount that may be borrowed by qualified borrowers or endorsed through the CSF shall not exceed ten (10) times the contributions of the member/endorsing cooperative to the Fund at any given time. However, if the borrower-cooperative has no endorser, the maximum loanable amount shall be five (5) times the amount of its contributions.

For purposes of determining the maximum loan availment limit, the contributions shall mean the total of the cooperatives' investment in Restricted Capital for Surety.

SEC 3. The qualified borrower as defined in this Rules shall file application for business loan with surety cover, as follows:

- a. If the borrower is an MSME-member of a contributor-cooperative, the loan application with surety cover together with the documentary requirements shall be filed with the contributor-cooperative.
- b. If the borrower is a cooperative/NGO without a qualified endorser, the loan application with surety cover together with the documentary requirements shall be filed directly with the CSF Cooperative.
- c. If the borrower is a cooperative with a qualified endorser, the loan application with surety cover together with the documentary requirements shall be filed with the contributor-cooperative of which it is a member.

A. Evaluation of Applicants

SEC 4. In evaluating the loan application with surety cover, the endorsing cooperative/NGO shall consider viability of the business, credit worthiness of its member-borrower, and that risks are managed and controlled.

SEC 5. The endorsing cooperative/NGO, after satisfying itself of the merits of the application, shall then issue a board resolution endorsing the said loan application to the CSF Cooperative for an independent evaluation.

SEC 6. The CSF Cooperative shall review every loan application favorably endorsed by the endorsing cooperative/NGO and those filed directly by the borrower-cooperative/NGO with no endorser, and submit to the bank for independent evaluation. Its review shall be confined to compliance by the endorsing cooperative/NGO or by the borrower-cooperative/NGO, with best practices on cooperative governance, credit evaluation, credit investigation and risk management, the terms and conditions of the board approval, and with this Rules.

B. Qualifications for Surety Coverage

SEC 7. An MSME borrower shall be endorsed by a cooperative/NGO which is a member of the CSF Cooperative in order to qualify for the issuance of surety agreement.

SEC 8. In case the end-user borrower is a primary cooperative/NGO and the purpose of the loan is for its own business activity, including relending to its members, the endorsement shall be made by the secondary cooperative/federation, which is a member of the CSF Cooperative. However, the borrowing primary cooperative/NGO, in the absence of any endorser, may apply directly to the CSF Cooperative for issuance of surety cover in favor of the lending bank subject to certain conditions imposed by the Board or as provided in the Bylaws and this Rules.

SEC 9. The purpose of the loan of the end-user borrower must always be productive in nature such as additional working capital for business, acquisition of equipment, purchase of goods, additional inputs for agricultural and commercial projects, lending and other purposes that will generate economic activities.

C. MSME Direct Loans from Banks

SEC 10. The borrower can either be an MSME member of a contributor-cooperative or the cooperative/NGO itself engaged in business. In case the borrower is the contributing-cooperative/NGO, the application for surety cover shall be endorsed by an endorser as defined in this Rules.

SEC 11. In all cases, the Board reserves the right to review the financial capacity of the cooperative/federation endorsing the loan of the borrowing cooperative/NGO or MSME.

SEC 12. The repayment term shall be based on the MSMEs' project cash flow, as may be determined by the lending bank.

D. MSME Loans through Credit Lines of Cooperatives

- SEC 13. A member-cooperative may apply for a credit line with any participating lending bank to be used for relending purposes to its member-borrowers in good standing and engaged in business activities, whose loans are secured by the surety agreement.
- SEC 14. The CSF Cooperative shall issue surety agreement to the loan of the cooperative-borrower.
- SEC 15. All loan proposals and applications for surety cover of sub-borrowers shall be evaluated and endorsed by the member-cooperative and the loans shall be considered as availments from its credit line with the lending bank.
- SEC 16. The surety agreement issued for loan of borrowing member-cooperative shall be executed by the endorsing cooperative and the Board, or just the Board in the absence of an endorser.
- SEC 17. The Bylaws may provide rules on the requirement of submission of business plans and other requirements such as but not limited to the list of loans for relending/rediscouting with attached sub-borrower's profile.
- SEC 18. The Board may designate its Chairperson to approve surety cover for cooperative loan applications that are booked as availments against its credit lines, based on certain conditions and limitations as may be imposed by the Board. Provided that any loan application by a cooperative, which authorized representative is also the Chairperson of the Board, shall be endorsed to the lending bank by the Vice Chairperson of the Board.

E. Approval of Applications for Surety Cover and Bank Loan

- SEC 19. The lending bank evaluating the loan application shall approve or disapprove the loan in accordance with its credit policies and relevant regulations. If the loan application is approved, the lending bank shall notify the Board and shall request issuance of the Surety Agreement. In case of disapproval, the lending bank shall return the loan application to the Board.

F. Role of the Board of Directors of the CSF Cooperative in the Credit Process

- SEC 20. The Board of Directors shall receive the recommended loan applications from the Credit Committee for review and approval/disapproval by simple majority of the members present.
- SEC 21. The Board may approve or disapprove any proposal for issuance of a Surety Agreement. Such decision shall be contained in a resolution stating,

among other things, the terms and conditions of approval or the reasons for disapproval. A copy of said resolution of the Board shall be furnished to the endorsing cooperative and the lending bank.

SEC 22. Once approved by the Board, the authorized representative of the endorsing cooperative and the Chairperson of the Board (or the Vice-chairperson as alternate signatory) shall sign on the Surety Agreement to be issued to the lending bank.

G. Issuance of Surety Agreement and Pertinent Risk Controls

SEC 23. The CSF Cooperative shall issue the Surety Agreement after the borrower (i) has complied with all the terms and conditions of the cooperative/NGO under which such loan was approved for endorsement to the bank, (ii) the bank's notification for its issuance has been received, and (iii) the CSF Cooperative's share in the service fee has been remitted to the Treasurer of the CSF Cooperative.

SEC 24. In case of an approved credit line, the Surety Agreement shall be issued per availment of loan.

SEC 25. The Surety Agreement should coincide with the term of the loan.

SEC 26. The Board shall designate through a resolution, the Chairperson or in his/her absence, any other authorized officer of the Board to sign the Surety Agreement.

SEC 27. In issuing the Surety Agreement, the CSF Cooperative shall implement the following risk management and prudential measures:

- a. The maximum amount of loans that a contributor-cooperative/NGO can endorse or borrow shall not exceed ten (10) times the amount of its contribution to the CSF Cooperative, at any given time;
- b. The aggregate outstanding balance of loans granted by all participating banks shall not exceed three (3) times the CSF Cooperative's Restricted Capital for Surety, at any given time. The 3x leverage shall be subject to annual review for progressive increase as warranted by the CSF Cooperative's performance, but not to exceed five (5) times the CSF Cooperative's Restricted Capital for Surety;
- c. The CSF Cooperative shall maintain at all times a twenty percent (20%) minimum ratio of its liquid assets, investments and time deposits with banks to outstanding contingent liabilities on account of Surety Agreements issued;

- d. The CSF Cooperative shall cease issuing Surety Agreement to an endorsing cooperative/NGO whenever the outstanding past due loans of that endorsing cooperative/NGO reach ten percent (10%) of the total outstanding loans covered by Surety Agreement; and
- e. The CSF Cooperative shall cease issuing Surety Agreement to all member-cooperatives/NGOs whenever the outstanding past due loans in the books of all or any of participating lending banks reach ten percent (10%) of the total outstanding loans covered by Surety Agreement.

H. Administrative and Finance functions

- SEC 28. Immediately after the constitution of the Board of Directors, the Board shall designate a trustee bank and transfer to the same, after completion of the Trust Agreement, the contributions of the member-cooperatives to allow the fund to grow while waiting for the receipt of the LGU's and partners' contributions.
- SEC 29. The operating and administrative expenses of the CSF Cooperative shall be sourced from the interest income on regular bank deposits, service fees and other CSF related activities. Unless otherwise provided under the Bylaws and actions of the Board, net interests and trust fund income earned from trust investments shall be re-invested to the Fund for the latter to grow, subject to the provisions of this Rules on income distribution.
- SEC 30. Interest on loans. – The CSF Cooperative encourages participating banks to charge reasonable interest rates on CSF covered loans granted to qualified borrowers. For this purpose, the CSF Cooperative may disseminate to all participating cooperatives the interest rates of all participating banks.
- SEC 31. The Board may encourage the borrowing cooperative to charge a minimal pass-on rate to its sub-borrowers. Limitations imposed on the pass-on rates by the lending bank, if any, must be strictly complied by the borrowing cooperative.
- SEC 32. Service Fees. – The endorsing cooperatives, or in its absence, the CSF Cooperative itself, shall charge the MSME-borrowers reasonable annual service fees computed based on the amount of the outstanding principal loan granted by the lending bank per transaction. Subject to the maximum rate of five percent (5%) per annum, suggested rates are as follows:
- a. 2% p.a. – for loans or sureties fully secured by real estate mortgage in favor of the lending bank, endorsing cooperative;

- b. 3% p.a. – for loans or sureties fully secured by chattels other than inventories or secured partly by real estate mortgage in favor of the lending bank, endorsing cooperative;
- c. 4% p.a. – for loans or sureties secured by inventories or stock-in-trade; and
- d. 5% p.a. – for unsecured loans or sureties.

Service fee shall be paid to the endorser before issuance of the Surety Agreement. Non-payment of the prescribed service fees shall render the issued surety agreement null and void. Provided that, in cases where the loans secured by the Surety Agreement have terms longer than one year, service fees shall be paid annually, based on the outstanding balance. For loans with terms of less than one year, the service fee shall be paid proportionately.

Wherever applicable, the borrower-cooperative or endorser shall remit to the CSF Cooperative part of the service fee prior to the issuance of the surety agreement.

RULE 21. THE SURETY AGREEMENT

- SEC 1. A surety agreement shall not be deemed to be an insurance contract and the issuance thereof pursuant to the CSF Act, and those previously issued and to be issued by the Board of Directors of existing CSFs, shall not be considered as doing an insurance business under Republic Act No. 10607, or any applicable law.
- SEC 2. A Surety Agreement shall be issued by the CSF Cooperative signed by its Chairperson and the authorized representative of the endorsing cooperative. However, in the absence of an endorser, the CSF Cooperative by itself may solely execute a Surety Agreement in favor of the lending bank, subject to this Rules and its Bylaws.
- SEC 3. The CSF Cooperative shall issue the Surety Agreement after the borrower or endorsing cooperative has met the following requirements:
- a. Complied with all the terms and conditions of the cooperative under which such loan was approved for endorsement to the bank;
 - b. Receipt of the bank's notification for issuance of surety agreement;
 - c. Payment of the service fees due from the borrower or endorsing cooperative; and
 - d. Compliance with all other requirements as may be required by the Board.

- SEC 4. Subject to a resolution of the Board or the Bylaws, the Chairperson, or in his absence, the Vice-chairperson, shall be the authorized officer of the CSF Cooperative to sign the Surety Agreement.
- SEC 5. The CDA, in coordination with the BSP, shall prescribe the form and substance of the surety agreement which is duly acceptable by the accredited lending banks.
- SEC 6. The maximum obligation of the endorsing cooperative and the CSF Cooperative under its Surety Agreement shall be 80% of the outstanding unpaid principal loan balance only.
- SEC 7. The CSF Cooperative and the lending bank shall agree to inform each other from time to time about the business operations and credit performance of the borrower and to set up, for that purpose, a periodic monitoring mechanism to ensure that appropriate risk mitigating measures are installed promptly;
- SEC 8. The Surety Agreement shall not cover any extension, renewal or novation of the loan in the nature of new, separate and additional loans without approval of the CSF Cooperative.
- SEC 9. Provisions of the Civil Code of the Philippines particular on credit transactions, guaranty and surety and other relevant laws and jurisprudence shall apply.

RULE 22. COLLECTION AND DEFAULTS

- SEC 1. The lending bank may file a claim against the CSF Cooperative within 30 days after the loan has been declared in past due status, provided that the following conditions are met:
1. The account has been declared by the lending bank to be in past due status based on the definition of "Past Due Account" under this Rules;
 2. The lending bank submits a report showing, among others, that:
 - a. Despite diligent efforts to collect the past due account remains unpaid;
 - b. All remedial measures and alternative means, including restructuring, were exhausted; and
 - c. No other plain and speedy remedy available to collect the loan.
- SEC 2. The lending bank shall execute a notarized "Deed of Assignment of Credit" in favor of the CSF Cooperative and submit the same to the Board together with all original documents evidencing the loan grant, i.e. promissory notes, subsidiary records, official receipts or other evidences of payment,

statements of account, demand letters/correspondence between the bank and the borrower.

SEC 3. After reviewing the validity of the bank's claim and completeness of required documents, the CSF Cooperative shall pay the bank within a reasonable time as provided in the surety agreement or in the Bylaws.

SEC 4. After paying the lending bank, the CSF Cooperative shall book its claim against the endorsing cooperative or borrower plus interest until fully paid, by virtue of its endorsement or subrogation of the debt. The endorsing cooperative shall be responsible for collecting defaulted loans including principal, interest, penalties, foreclosure, litigation and other incidental expenses.

SEC 5. In any case, the CSF Cooperative, at its option, may:

- a. Collect immediately from the endorsing cooperative the claim paid to the lending bank; or
- b. Allow the cooperative to collect from the defaulted borrower and remit all collections to Board; or
- c. Collect directly from the defaulted borrower through the assistance of the endorsing cooperative.

SEC 6. If the defaulted borrower is the cooperative and has no endorser, the Board shall be responsible in collecting the past due loan.

SEC 7. In recording the collections received, the Board shall first apply the collection to its claim against the endorsing cooperative until fully paid. All collections on CSF's claim, net of collection cost, shall be deposited to the Trustee Bank.

SEC 8. The endorsing cooperative shall remit to the CSF Cooperative all collections on defaulted loans within five (5) days from collection until the CSF Cooperative is able to recover in full the amount its exposure on account of claims paid.

SEC 9. The Bylaws shall provide for a detailed mechanism and rules for collection of past due loans covered by the CSF. It shall include non-litigious and soft approaches and remedial measures in its collection strategies. These are but not limited to rescheduling of loan, restructuring, refinancing and negotiated settlement.

RULE 23. LENDING BANKS

SEC 1. A universal bank, commercial bank, thrift bank, rural bank or cooperative bank which is qualified to rediscount its eligible papers with the BSP, LBP or the DBP may participate as lender.

- SEC 2. The Members of the CSF Cooperative, the Board, or any of the contributors, fund providers or investors shall not interfere with the selection by the MSME among the participating lending banks from which it will obtain a loan.
- SEC 3. Banks can participate in the CSF as an accredited lending bank by submitting a letter of intent to the CSF Cooperative. Once accepted, the CSF Cooperative shall inform such lending bank of its inclusion in the registry of accredited lending banks. All member cooperatives/NGOs shall be furnished this list.
- SEC 4. Interest and Service Charges on Loans. – The CSF Cooperative encourages participating banks to charge reasonable interest rates and service charges on surety-covered loans granted to MSMEs.
- SEC 5. Any limitations or cap imposed on the pass-on rates by the lending bank must be strictly complied by the borrowing cooperative.
- SEC 6. As an accredited lending bank, it shall have the responsibility of communicating to the Board on a monthly basis the status of the loans that are already covered or shall be covered by the CSF Cooperative. The lending bank shall submit monthly, quarterly and annual reports as may be provided in the Bylaws, this Rules and in the agreement with the CSF Cooperative.
- SEC 7. The lending bank shall ensure the expedient and efficient processing of loan applications endorsed by the CSF Cooperative. Processing time of the loan applications by lending banks shall not exceed 45 days from the date of submission of complete requirements from the borrower.
- SEC 8. The lending bank shall also help the CSF Cooperative in the collection of the service fees prior to issuance of surety agreement and release of loan proceeds.

RULE 24. FUND ADMINISTRATION

- SEC 1. Administration of the Fund. – The CSF operation shall be administered by the CSF Cooperatives, which is governed by the Board of Directors. The Board of Directors shall designate a bank, authorized by the BSP to engage in trust and other fiduciary business under Republic Act No. 8791, otherwise known as the “General Banking Law of 2000”, to act as trustee bank (or fund manager) and manage the CSF subject to additional eligibility requirements as may be provided for in this Rules and in the Bylaws of the CSF Cooperative.
- SEC 2. The terms and conditions of any agreement to be entered into by the Board and a trustee bank pursuant to the preceding paragraph shall be embodied in a separate trust agreement.

- SEC 3. The consolidated fund of the CSF Cooperative shall be placed under a Trust Fund in a bank licensed to provide trust services by the BSP. Investment of CSF Cooperative shall preferably be in government securities and twenty percent (20%) time deposits with banks as provided in the Bylaws.
- SEC 4. Patronage Refund. – The sum allocated for patronage refund shall be made available at the same rate to all patrons of the cooperative in proportion to their individual patronage in accordance with Article 86 of the Cooperative Code.
- SEC 5. Investments under a short term time deposits of less than one (1) year may be allowed in accordance with this Rules' provisions on risk management in issuing surety agreement.
- SEC 6. All major financial investments shall be defined in the Bylaws and shall be approved by the Board.
- SEC 7. The trust fund shall be utilized to pay all claims against the surety agreement issued by the CSF Cooperative in accordance with the provisions on the coverage of the surety.

RULE 25. ALLOCATION AND DISTRIBUTION OF NET SURPLUS

- SEC 1. Legal Basis. – The legal basis for the allocation and distribution of net surplus shall be Article 86 of the Cooperative Code.
- SEC 2. Order of Distribution. – The net surplus of the CSF Cooperatives, shall be distributed as follows:
- a. An amount for the General Reserve Fund which shall not be less than fifty percent (50%) of net surplus for the first five years, and not less than ten percent (10%) in the succeeding years;
 - b. An amount for the education and training fund, which shall not be more than ten percent (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 activities geared towards the growth of the cooperative movement as provided in the Cooperative Code;
 - c. 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;

- d. An optional fund, a land and building, and any other necessary fund the total of which shall not exceed seven percent (7%). Being optional, the Bylaws may or may not provide such fund; and
 - e. The remaining net surplus, net of imputed income on LGU contributions and grants, shall be made available to the members in the form of patronage refund and interest on share capital as return of investments to be credited to Restricted Capital for Surety.
- SEC 3. Unless otherwise provided for in the Bylaws, payment of interest on share capital must be made on such date as may be determined by the Board of Directors. The General Assembly, however, upon the recommendation of the Board of Directors, may defer the payment of such interest on share capital in order to raise revolving capital.
- SEC 4. Interest on share capital may be declared but shall be credited to members' respective Restricted Capital for Surety.
- SEC 5. The funds and its income or losses shall be shared or borne by the members of the CSF Cooperative in proportion to their share capital. If the contribution is treated as a grant, income shall be computed which shall remain as Restricted Capital for Surety until the dissolution of the CSF Cooperative.
- SEC 6. Losses from past due loans shall be charged in the following order of priority:
- 1. Share in the Restricted Capital for Surety of the endorsing or borrowing cooperative;
 - 2. General Reserves; and
 - 3. Borne proportionately by all members of the fund as deduction from their share in the Restricted Capital for Surety.

RULE 26. ACCOUNTING SYSTEM, BOOKS AND RECORDS

- SEC 1. Books of Accounts, Records, Reportorial Requirements and Administrative Fees. – The CSF Cooperative shall set and keep accurate and internal financial controls. The reportorial requirements and administrative fees required from CSF Cooperatives, taking into consideration their unique character and purposes, shall be provided in this Rules and in the Bylaws.
- SEC 2. Accounting System. – The CSF Cooperative shall keep, maintain and preserve all its books of accounts and other financial records in accordance with generally accepted accounting principles and practices, applied consistently from year to year, and subject to existing laws, rules and regulations.

- SEC 3. Financial Audit, Performance Audit, and Social Audit. – At least once a year, the Board shall cause, in consultation with the Audit Committee, the audit of the books of accounts of the CSF Cooperative, performance audit and social audit by CDA Accredited Independent Certified Public Accountant, Accredited Social Auditor, and Cooperative Compliance Officer/Audit Committee.
- SEC 4. Every CSF Cooperative shall keep and carefully preserve at its principal office a record of all business transactions and minutes of all meetings of members, or of the board of directors, which shall set forth in detail the time and place of holding the meeting, how authorized, the notice given, whether the meeting was regular or special, if special its object, those present and absent, and every act done or ordered done at the meeting. Upon the demand of any director, or member, the time when any director or member entered or left the meeting must be noted in the minutes; and on a similar demand, the yeas and nays must be taken on any motion or proposition, and a record thereof carefully made. The protest of any director or member on any action or proposed action must be recorded in full on his demand.
- SEC 5. The records of all business transactions of the CSF Cooperative and the minutes of any meetings shall be open to inspection by any director or member of the CSF Cooperative at reasonable hours on business days and he may demand, in writing, for a copy of excerpts from said records or minutes, at his expense.
- SEC 6. Right to Financial Statements. – Within ten (10) days from receipt of a written request of any shareholder or member, the cooperative shall furnish its most recent Financial Statement, which shall include a balance sheet as of the end of the last taxable year and a profit or loss statement for said taxable year, showing in reasonable detail its assets and liabilities and the result of its operations. At the regular meeting, the Board of Directors shall present to such members a financial report of the operations of the CSF Cooperative for the preceding year, which shall include financial statements, duly signed and certified by an independent certified public accountant.

RULE 27. REPORTS REQUIRED FOR CSF COOPERATIVE

- SEC 1. The CDA shall require the annual, semi-annual, quarterly and monthly submission, as the case may be, of reports, financial statements, board resolutions and such other documents as may be deemed by CDA as necessary to ensure compliance with the CSF Act and this Rules. The BSP and DOF shall have the option to access the additional documents that the CDA may require from CSF Cooperatives.
- SEC 2. The pertinent provisions of Art. 53 of the Cooperative Code in so far as the basis for submission of reports of cooperatives is concerned shall apply to CSF Cooperatives.

- SEC 3. Required Reports. – The CSF Cooperative shall submit Cooperative Annual Performance Report, Social Audit Report, Performance Report, and Audited Financial Statements duly stamped "Received". All registered cooperatives shall file with the CDA a copy of the required reports either through personal, registered mail courier, or electronic means, within one hundred twenty (120) days from the end of every year calendar year.
- SEC 4. Sanction for Delayed Submission. – Failure to file the required reports on time shall subject the Accountable Officer to pay fines or penalties as may be prescribed by the CDA. Within thirty (30) calendar days upon receipt of Statement of Accounts, the Accountable Officer may request for Reconsideration of such fine on the grounds of fortuitous event and court litigation/order, which the CDA shall act upon within sixty (60) calendar days otherwise the sanctions, shall be deemed lifted. The decision of the CDA shall become final and executory. Other than the imposition of monetary penalties, the CDA may dissolve/revoke, after due process, the authority of the CSF Cooperative to operate as such.
- SEC 5. If a CSF Cooperative fails to make and file the reports required herein, or fails to include therein any matter required by this Code, the CDA within fifteen (15) days from the expiration of the prescribed period, send such CSF Cooperative a written notice stating its non-compliance and the commensurate fines and penalties that will be imposed until such time that the CSF Cooperative has complied with the requirement.
- SEC 6. The Accountable Officers. – For the purpose of this Rule, accountable officers shall refer to the employees or officers of the CSF Cooperative responsible for the preparation of the required regular reports and its attachments, and in whose fault or negligence the delay may be attributed.

RULE 28. MERGER AND CONSOLIDATION OF CSF COOPERATIVES

- SEC 1. Merger and Consolidation. – Two (2) or more cooperatives may merge into a single cooperative, which shall be either one of the constituent cooperatives or the consolidated cooperatives. No merger or consolidation shall be valid unless approved by three-fourths ($\frac{3}{4}$) vote of all 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 of the Cooperative Code.
- SEC 2. The guidelines and rules and regulations governing merger or consolidation of cooperatives under the implementing rules and regulations of the Cooperative Code shall apply suppletorily to CSF Cooperatives under this

Rules. In any case, the merger and consolidation shall be effective only upon the issuance of the certificate of Merger and Consolidation by the CDA.

- SEC 3. Upon approval by majority vote of each of the board of directors of the constituent cooperatives of the plan of merger or consolidation, the same shall be submitted for approval by the General Assembly of each of such CSF Cooperatives at separate meetings duly called for the purpose. Notice of such meetings shall be given to all members of the respective cooperatives/NGOs at a reasonable time prior to the date of the meeting.

RULE 29. MISCELLANEOUS PROVISIONS

- SEC 1. Penal Provisions. – The pertinent provisions of the Cooperative Code insofar as penalties on prohibited acts or omissions affecting cooperatives in general are concerned, shall be applicable to the CSF Cooperatives:

- a. Item 4 of Article 140 of the Cooperative Code on the liability of public officers shall not be applicable to GFIs, IGLF and other institutions/GAs;
- b. The officers and directors of the members of the CSF Cooperative consisting of the contributing cooperatives, NGOs, GFIs, IGLF and other institutions/GAs may be held jointly and severally liable for the actions of its authorized representatives or appointed delegates elected as directors and officers of the CSF Cooperative for violations committed by the latter as provided under Article 140 of the Cooperative Code.

- SEC 2. The COA shall be allowed to inspect the books of accounts and other financial records available with respect to the contribution of the LGUs, GFIs, IGLF or other institutions/GAs to the CSF Cooperative.

- SEC 3. The participation to the CSF Cooperative does not create a debtor-creditor relationship between the parties, and all monies, funds, assets or securities of the CSF Cooperative are not covered by the Philippine Deposit Insurance Corporation. Losses, if any, which are not due to the Board's and trustee bank's wilful misconduct, gross negligence or fraud or the failure to exercise the skill, care, prudence and diligence required by law, shall be for the sole account and risk of the members concerned.

- SEC 4. Tax Treatment of CSF Cooperatives. – A CSF Cooperative registered with the CDA shall enjoy the tax privileges of cooperatives subject to the conditions set in Sections 60 and 61 of "Cooperative Code of 2008", and relevant joint rules and regulations or revenue issuances on the matter. The members of the CSF Cooperative which are not cooperatives shall be subject to regular taxes as provided under National Internal Revenue Code, as amended, and other tax laws.

SEC 5. Insolvency of CSF Cooperatives. – In case a cooperative/NGO is unable to fulfill its obligations to creditors due to insolvency, such cooperative/NGO may apply for such remedies as it may deem fit under the provisions of Act No. 1956, otherwise known as the "Insolvency Law," as amended by Republic Act No. 10142 or the "Financial Rehabilitation and Insolvency Act (FRIA) of 2010".

SEC 6. Dissolution of CSF Cooperatives. – The salient provisions of the Cooperative Code, including its implementing rules and regulations on the dissolution of cooperatives; the Civil Code, on the Concurrence and Preference of Credit, and the Rules of Court on Voluntary Dissolution of Corporations, shall apply suppletorily to liquidation of CSF Cooperatives.

The dissolution of a CSF Cooperative shall be effected by a majority vote of the members of the Board, and confirmed by at least two-thirds ($\frac{2}{3}$) vote of all the members of the CSF Cooperative. The Board shall thereafter constitute itself as liquidator of the CSF Cooperative and distribute the assets for the benefit of members, creditors and other persons in interest in accordance with law. Provided that in the liquidation of a CSF Cooperative, any distribution of the assets of said CSF Cooperative should be net of the guarantees that it had issued. The debts of the CSF Cooperative shall be paid in accordance with the rules on concurrence and preference of credit as provided under the Civil Code of the Philippines and relevant laws.

RULE 30. COMMON AND FINAL PROVISIONS

SEC 1. The provisions of the CSF Act and this Rules shall primarily govern the organization, establishment, governance and operation of CSF Cooperatives. The pertinent provisions of the Cooperative Code as amended by Republic Act Nos. 9520, 8523, 3844, 7160, as well as all other laws, presidential decrees, rules and regulations, executive orders or parts thereof that are inconsistent with the provisions of this law shall be deemed amended accordingly.

SEC 2. A copy of this Rules shall be among the documents required to be kept ready and accessible for inspection and examination by the members of the cooperative and the CDA in accordance with the Cooperative Code.

SEC 3. Interpretation and Construction. – In case of doubt as to the meaning of any provision of this Rules, the same shall be liberally construed and resolved in favor of the establishment of the CSF Cooperatives and its members. The provisions of this Rules shall be interpreted in agreement with the CSF Act, Cooperative Code and its implementing rules and regulations. The CSF Act amends the Cooperative Code in so far as those inconsistent provisions are concerned but the latter still applies suppletorily to those not inconsistent therewith.

SEC 5. Suppletory Laws and Rules. – Special Rules, Circulars, Orders and other issuances by the CDA, BSP and appropriate government agencies in pursuance of the provisions of the CSF Act, Cooperative Code and this Rules, and not inconsistent thereto, shall have suppletory application to this Rules.

SEC 6. Separability. – If any provision of this Rules is declared null and void or unconstitutional, the other provisions not affected thereby shall continue to be in force and effect.

SEC 7. Amendment. – Any proposed amendment to this Rules shall be approved by the CDA, DOF and BSP.


SEC 8. Effectivity. – This Rules shall take effect fifteen (15) days after publication in the Official Gazette or in a newspaper of general circulation.

APPROVED, this 20th day of June, 2017 in the City of Manila.


By the Bangko Sentral ng Pilipinas:


AMANDO M. TETANGCO, JR.
Governor

By the Cooperative Development Authority:


ORLANDO R. RAVANERA
Chairman

By the Department of Finance:


CARLOS G. DOMINGUEZ III
Secretary