



# COOPERATIVE DEVELOPMENT AUTHORITY

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**MEMORANDUM CIRCULAR NO. 2022- 31**  
**Series of 2022.**

**TO: ALL CSF COOPERATIVES**

**SUBJECT: ACCOUNTING GUIDELINES FOR CSF COOPERATIVES ORGANIZED BY BANGKO SENTRAL NG PILIPINAS (BSP) PRIOR TO THE EFFECTIVITY OF REPUBLIC ACT 10744 OTHERWISE KNOWN AS THE "CREDIT SURETY FUND ACT OF 2015"**

Pursuant to Section 19 (a) of Republic Act No. 10744, otherwise known as the Credit Surety Fund Cooperative Act of 2015 and Rule 2 of the Implementing Rules and Regulations, the Cooperative Development Authority (CDA) promulgates the following Guidelines.

### Section 1. Coverage

These Guidelines shall cover all Credit Surety Fund Organized by Bangko Sentral ng Pilipinas (BSP) prior to the effectivity of Republic Act 10744 which have already registered as Credit Surety Fund Cooperative and those which will be registered thereafter.

### Section 2. Definition of Terms

- a) Credit Surety Fund (CSF) – a fund generated from the contributions of well-capitalized and well-managed member-cooperatives/NGOs, LGUs, GFIs and other institutions/government agencies. In lieu of hard collaterals, the CSF 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.
- b) Credit Surety Fund Cooperative (CSFC) - 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 and other institutions/government agencies, all of which shall make contributions to the CSF as defined and prescribed by RA 10744.
- c) Surety Cover - the agreement executed by the proper parties as defined by this 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.
- d) Registration - is the process by which a Credit Surety Fund (CSF) organized by Bangko Sentral ng Pilipinas (BSP) files the required documents with the Cooperative Development Authority (CDA) and issued a Certificate of Registration (COR).



### **Section 3. Submission of Audited Financial Statements of Credit Surety Fund**

- 3.1 The members of the former CSF shall conduct a regular or special meeting in accordance with the MOA entered and executed between and among BSP, GFIs, LGU, and the Cooperatives/NGOs.
- 3.2 During the meeting, they shall discuss the transition of Credit Surety Fund to Credit Surety Fund Cooperative and decide on the following;
- a) To engage the services of an External Auditor accredited by the Board of Accountancy (BOA) to audit the operations of the CSF as of the date of registration;
  - b) The transfer of all its assets and liabilities in good faith to the CSF Cooperative as a continuation of its operation; and
  - c) Proper disposition of undivided net income prior to registration.
- 3.3 The complete set of financial statements includes:
- a) statement of financial position (balance sheet) at the end of the period
  - b) statement of profit or loss for the period
  - c) statement of changes in equity for the period
  - d) statement of cash flows for the period
  - e) Notes to Financial Statements.
- 3.4 The notes to financial statements shall:
- a) Consist of a summary of significant accounting policies, other explanatory notes, and comparative information prescribed by applicable financial reporting standards;
  - b) present information about the basis of preparation of the financial statements and the specific accounting policies used;
  - c) disclose any information required by Philippine Financial Reporting Standard that is not presented elsewhere in the financial statements; and
  - d) provide additional information that is not presented elsewhere in the financial statements but is relevant to an understanding of any of them, including:
    - i) contingent liabilities on account of the issued surety cover and unrecognized contractual commitments; and
    - ii) non-financial disclosures, such as the entity's financial risk management objectives and policies relevant to the issuance of surety cover.

### **Section 4. Reclassification of Accounts**

Based on the corresponding Audited Financial Statement (AFS) of Credit Surety Fund as of the date of registration, the Credit Surety Fund Cooperative shall reclassify all accounts in accordance with Standard Chart of Accounts and Philippine Financial Reporting Standard for Cooperatives.

#### 4.1 Assets

- 4.1.1 The Trust fund account shall be reclassified under the "Trust Deposit for Surety" account in the Statement of Financial Position with disclosures in the notes to financial statements.
- 4.1.2 The following disclosures of trust funds shall be made in the notes to financial statement subject to the requirements of relevant regulation, if any:
- i) The nature of the Trust Deposit for Surety Funds;
  - ii) The disaggregation of balances placed under Trust Fund in a bank licensed to provide trust services by BSP; The amount of investment placed preferably in government securities and the Twenty Percent (20%) time deposit with banks as provided in the Bylaws.
  - iii) The Statement of Earnings of Trust Fund.
  - iv) For any cash or cash equivalents belonging to trust funds that have been included as part of the Trustee's cash and cash equivalent balance, the amount of cash and cash equivalents held in trust and the trust funds which own these amounts; and
  - v) Basis of accounting for the trust funds.
- 4.1.3 From its inception, all payments to lending banks in connection to past due accounts covered by Surety Agreement shall likewise be booked under Asset Account as Receivable Assigned - Surety Agreement unless otherwise the CSF Cooperative opted to write-off prior to its registration.

#### 4.2 Liabilities

- 4.2.1 The Credit Surety Fund Cooperative shall book all issuance of surety cover on loan transactions with lending banks equivalent to maximum of 80% based on outstanding principal loan balance.
- 4.2.2 Entry to record all the issuance of Surety Cover;
- |  |     |
|--|-----|
| (Dr.) Unrealized Loss - Surety Agreement   | xxx |
| (Cr.) Financial Guarantee Surety Agreement | xxx |
- 4.2.3 The Financial Guarantee Surety Agreement account shall be presented in the Statement of Financial Condition net of corresponding Unrealized Loss - Surety Agreement.
- 4.2.4 The following disclosures of Financial Guarantee Surety Agreement shall be made in the notes to the financial statements, unless the possibility of any outflow of resources in settlement is remote, a

cooperative shall disclose, for each class of contingent liability at the reporting date, a brief description of the nature of the contingent liability and, when practicable:

- (a) an estimate of its financial effect;
- (b) an indication of the uncertainties relating to the amount or timing of an outflow; and
- (c) the possibility of any reimbursement.

4.2.5 If it is **impracticable** to make one or more of these disclosures, that fact shall be stated.

### 4.3 Members Equity

4.3.1 The Fund contributed by the members and receipt of donations from individuals or private entities to the Credit Surety Fund prior to the enactment of Republic Act 10744 shall be reclassified based on the following:

- i) The contributions of member-cooperative/NGO shall be booked as 99% Restricted Capital for Surety and 1% Paid-Up Share Capital – Common;
- ii) The contribution of LGU shall be booked based on the Memorandum of Agreement creating the Credit Surety Fund. Their contribution may be treated as Grant or Investment;
- iii) The following entries to record the contributions of LGUs/GFIs/NGAs;

If treated as Grant:

(Dr.) Trust Deposit for Surety	xxx	
(Cr.) Restricted Capital for Surety		xxx

If treated as Investment;

(Dr.) Trust Deposit for Surety	xxx	
(Cr)Restricted Capital for Surety		xxx
(Cr)Paid-up Share Capital - Preferred (if LGU)		xxx
(Cr)Paid-up Share Capital - Common (if GFIs/NGAs)		xxx

- iv) All receipt of Cash Donation shall be booked as Restricted Capital for Surety. All other receipt of donation not intended as part of the Credit Surety Fund shall be accounted for in accordance with the provisions stated under SCA and PFRF for Cooperatives.

### **Section 5. Period of Submission**

The CSF Cooperative shall submit the Audited Financial Statements referred to in Section 3 within 90 days after registration. For existing CSF Cooperatives, they shall submit the Audited Financial Statements within 90 days after effectivity of this Circular.

### **Section 6. Sanctions**

Failure or non-compliance with any of the above guidelines may be a ground for the non-issuance of Certificate of Compliance.

### **Section 7. Information Dissemination**

This Memorandum Circular is hereby issued for the information and guidance of all concerned.

All CDA Regional Offices must endeavor to inform and disseminate this Memorandum Circular to all CSF cooperatives within their jurisdiction.

### **Section 8. Separability Clause**

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


### **Section 9. Effectivity.**

This Circular shall take effect in the official gazette and 15 days after its publication with the Office of the National Administrative Register (ONAR).

Approved per BOD Resolution No. 792, S-2022 dated September 19, 2022.

Issued this 28th day of November 2022.

For the Board of Directors:

  
**JOSEPH B. ENCABO**  
Chairman