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Philippines

Country Guides: Securities and Banking

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Banks are classified into universal banks, commercial banks, thrift banks (composed of savings and mortgage banks, stock savings, loan associations and private development banks), rural banks, cooperative banks, and Islamic banks. The General Banking Law governs primarily universal and commercial banks, as well as cooperative banks. With regard to other banks, Section 71 of the General Banking Law provides that the organization, ownership, capitalization, and powers of thrift banks, rural banks and Islamic banks, as well as the general conduct of their businesses, are to be governed by the Thrift Banks Act, the Rural Banks Act and the Charter of Al-Amanah Islamic Investment Bank of the Philippines, respectively. The General Banking Law is also applicable to these other banks, however, insofar as it is not in conflict with the provisions of the special laws governing such banks.

Regulators

The operations and activities of banks are subject to the supervision of the Bangko Sentral ng Pilipinas, the Philippine central bank. The BSP also has supervision over quasi-banks and trust entities. The BSP is the central monetary authority in the Philippines. While the BSP is a government-owned corporation, it enjoys fiscal and administrative autonomy. It therefore functions as an independent and accountable body corporate in the discharge of its mandated responsibilities concerning money, banking and credit.

Supervision not only contemplates the promulgation by the BSP of rules of conduct and standards of operations for banks, but also visitorial powers. These powers are the conduct of examination and investigation of the activities of banks with a view to determining their compliance with those rules and standards, and enforcing prompt corrective action. The ultimate aim is to ensure the continued solvency and liquidity of banks, in line with capital adequacy rules based on Basel II and eventually Basel III.

The powers and functions of the BSP is exercised by its monetary board, composed of seven members appointed by the President of the Philippines for a term of six years each. The chairman of the monetary board is the governor of the BSP. Banks are required to insure their deposit liabilities with the Philippine Deposit Insurance Corporation, which is empowered to examine, with monetary board approval, member banks to determine whether they are engaging in unsafe and unsound banking practices.

Securities regulation

The Securities Regulation Code and its implementing rules govern the offering of securities to the public within the Philippines. The overarching policy of the SRC is the protection of the investing public — starting from the registration process and full disclosure of information about the issuer and the securities being offered, the registration of the exchanges and other securities trading markets, the regulation of securities market professionals (such as brokers and dealers, including their salesmen), through to trading regulation and the enforcement provisions of the SRC.

Exempt securities (specified in the SRC) and securities sold in exempt transactions (such as sales to qualified buyers and private placement to not more than 19 non-qualified buyers) are not covered by the registration requirements under the SRC. Mutual funds are registered under the Investment Company Act as well as the SRC. Mutual funds are to be distinguished from unit investment trust funds issued by trust entities licensed by the BSP. UITFs are regulated by the BSP.

Regulator

The Securities and Exchange Commission is the administrator and watchdog of the SRC and the Investment Company Act. It is a collegial body, composed of a chairman and four commissioners who are all appointed by the President of the Philippines for a term of seven years each. The SEC also administers the Investment Houses Law, which governs underwriting of securities. Universal banks engaged in the underwriting of securities are required to register themselves with the SEC. The SEC may exempt other transactions from the requirements of registration under the SRC, if it finds that registration is not necessary in the public interest or for the protection of the investors such as by reason of the small amount involved or the limited character of the public offering.

Exchanges

There are two exchanges registered with the SEC, namely, the Philippine Stock Exchange for equity securities and the Philippine Dealing and Exchange Corp for debt securities. Both the PSE and PDEx are self-regulatory organizations.

Anti-Money Laundering Council

Under the Anti-Money Laundering Law, all institutions supervised by the BSP, SEC and the Insurance Commission are required to report all covered and suspicious transactions to the Anti-Money Laundering Council. The AMLC is composed of the BSP governor as chairman, and the insurance commissioner and the SEC chairman as members.

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