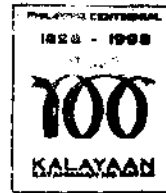




REPUBLIC OF THE PHILIPPINES
DEPARTMENT OF FINANCE
SECURITIES AND EXCHANGE COMMISSION
SEC Building, ÉDSA, Greenhills
City of Mandaluyong, Metro Manila
MONEY MARKET OPERATIONS DEPARTMENT



**RULES AND REGULATIONS TO IMPLEMENT THE PROVISIONS
OF REPUBLIC ACT NO. 8556 (THE FINANCING COMPANY ACT
of 1998)**

To effectively carry out the provisions of Republic Act No. 8556 (The Financing Company Act of 1998), the Securities and Exchange Commission, pursuant to the powers vested in it under said Act, Republic Act No. 1143 and Presidential Decree No. 902-A, as amended, hereby promulgates the following rules and regulations:

SECTION 1. Definition of Terms

The following definition of terms shall apply for purposes of these Rules:

- a) "Financing companies" are corporations, except banks, investment houses, savings and loan associations, insurance companies, cooperatives, and other financial institutions organized or operating under other special laws, which are primarily organized for the purpose of extending credit facilities to consumers and to industrial, commercial, or agricultural enterprises, by direct lending or by discounting or factoring commercial papers or accounts receivable, or by buying and selling contracts, leases, chattel mortgages, or other evidences of indebtedness, or by financial leasing of movable as well as immovable property;
- b) "Commission" shall mean the office of the Securities and Exchange Commission of the Philippines;
- c) "Funds" shall mean total assets inclusive of valuation reserves and deferred income but shall not include investments in real estate, in shares of stock of real estate development corporations or in real estate based projects, leasehold rights and improvements, fixed assets, foreclosed properties and prepayments.
- d) "Credit" shall mean any loan, mortgage, financial lease, deed of trust, advance or discount, any conditional sales contract, contract to sell, or sale or contract of sale of property or service, either for present or future delivery, under which, part of all or the

price is payable subsequent to the making of such sale or contract; any contract, any option, demand, lien or pledge, or to the other claims against, or for the delivery of, property or money, any purchase, or other acquisition of or any credit upon the security of, any obligation or claim arising out of the foregoing, and any transaction or series of transactions having similar purpose or effect;

- e) "Financial leasing" is a mode of extending credit through a non-cancelable lease contract under which the lessor purchases or acquires, at the instance of the lessee, machinery, equipment, motor vehicles, appliances, business and office machines, and other movable or immovable property in consideration of the periodic payment by the lessee of a fixed amount of money sufficient to amortize at least seventy percent (70%) of the purchase price or acquisition cost, including any incidental expenses and a margin of profit over an obligatory period of not less than two (2) years during which the lessee has the right to hold and use the leased property with the right to expense the lease rentals paid to the lessor and bears the cost of repairs, maintenance, insurance and preservation thereof, but with no obligation or option on his part to purchase the leased property from the owner-lessor at the end of the lease contract.
- f) "Purchase discount" is the difference between the value of the receivable purchased or credit assigned, and the net amount paid by the financing company for such purchase or assignment, exclusive of fees, service charges, interest and other charges incident to the extension of credit.
- g) "Lease rentals" shall refer to the periodic payments made by the lessee to the lessor under Section 1(e), above;
- h) "Receivable financing" is a mode of extending credit through the purchase by, or assignment, to, a financing company of evidence of indebtedness or open accounts by discounting or factoring;
- i) "Discounting" is a type of receivables financing whereby evidence of indebtedness of a third party, such as installment contracts, promissory notes, and similar instruments, are purchased by, or assigned to, a financing company in an amount or for a consideration less than their face value.
- j) "Factoring" is a type of receivables financing whereby open accounts, not evidenced by a written promise to pay supported by documents such as but not limited to invoices of manufacturers and suppliers, delivery receipts and similar documents, are purchased by, or assigned to, a financing company in an amount or for a consideration less than the outstanding balance of the open accounts.

- k) "Paid-up capital" refers to the amount paid for the subscription of stock in a corporation including the amount paid in excess of par value.
- l) "Networth" is the excess of assets over liabilities, net of appraisal surplus, unbooked valuation reserves, capital adjustments, overstatement of assets and unrecorded liabilities.

SECTION 2. Form of Organization

Financing companies shall be organized in the form of stock corporation in accordance with the provisions of the Corporation Code of the Philippines, subject to the following:

- a. At least forty percent (40%) of the voting stock of the corporation shall be owned by citizens of the Philippines
- b. A minimum paid-up capital of:
 - (i) P10,000,000 for financing companies located in Metro Manila and Other 1st Class Cities
 - (ii) P5,000,000 for financing companies located in other classes of Cities
 - (iii) P2,500,000 for financing companies located in Municipalities

Financing companies duly existing and in operation before the effectivity of R.A. 8556 shall comply with the minimum capital requirement within one (1) year from the date of the said effectivity.

- c. The corporate name of financing companies shall contain the term "financing company", "finance company", or "finance and investment company" or other title or word(s) descriptive of its operations and activities as a financing company.

SECTION 3. Rights and Powers - Financing companies shall have the following powers:

- a) Engage in quasi-banking and money market operations with the prior approval of the Bangko Sentral ng Pilipinas;
- b) Engage in trust operations subject to the provisions of the General Banking Act upon prior approval by the Bangko Sentral ng Pilipinas;
- c) Issue bonds and other capital instruments subject to pertinent laws, rules and regulations ;
- d) Rediscount their paper with government financial institutions subject to relevant laws, rules and regulation;
- e) Participate in special loan or credit programs sponsored by or made available through government financial institutions;
- f) Provide foreign currency loans and leases to enterprises that earn foreign currency by exports or other means, subject to existing laws and rules and regulations promulgated by the Bangko Sentral ng Pilipinas.

The Commission shall allow the inclusion of the foregoing rights and powers in the Articles of Incorporation of a financing company after submission by the applicant financing company of the appropriate license/authority issued by the government agency involved.

SECTION 4. Requirements for Registration

- a) Registration papers to be submitted to the Commission

Any stock corporation may be registered as a financing company by filing with the Commission five (5) copies of an application to operate as a financing company under R.A. 8556, signed under oath by its President, together with the following documents in the prescribed forms:

1. All documents required for registration as a corporation;

2. Information Sheet of registrant company;
3. Personal Information Sheet of each of the directors, officers with the rank of Vice-President and up or their equivalent or managing partners;
4. Answer to the questionnaire of the Commission;
5. Documents required of each Filipino director, officer to be appointed from the rank of Vice-President and up or their equivalent, such as the following:
 - (i) Police clearance from local police of the city or municipality of which he is a resident;
 - (ii) NBI clearance;
 - (iii) Certificate of good moral character to be executed under oath by at least (2) reputable and disinterested persons in the community; and
 - (iv) Bank credit information to be issued by his depository or creditor bank(s), if any;

In lieu of Items (ii) and (iii), a foreign director or officer shall submit a clearance from the Bureau of Immigration and Deportation and photocopies of passport and Alien Certificate of Registration (ACR).

6. Clearance from the Bangko Sentral ng Pilipinas, if the applicant financing company is a subsidiary or affiliate of a bank and/or non-bank financial institution with quasi-banking license.
7. Such other documents as may be required by the Commission;

b) Publication of Notice and Order

- Upon receipt of the above registration papers of a proposed financing company, the Commission shall cause the Notice and Order to be published by the applicant company at its expense in a newspaper of general circulation in the Philippines once a week for two (2) consecutive weeks.

The Notice and Order shall state, among others, the name of the proposed financing company, the capital structure, and the names and residences of its directors.

c) Opposition to Registration

Any interested party may oppose the registration of a financing company in writing, personally or through counsel, within fifteen (15) days after the last date of the publication of the Notice and Order. If the Commission finds that the requirements of

R.A. 8556, its implementing rules and regulations and other pertinent laws have been complied with and that no valid reason exists for the disapproval of the application, the Commission shall issue a Certificate of Authority to Operate as a Financing Company.

SECTION 5. Issuance of Certificate of Filing of Articles of Incorporation and By-Laws: Certificate of Authority to Operate and Commencement of Operations.

a. The Commission shall register the Articles of Incorporation and issue the Certificate of Authority to Operate as a Financing Company to any proposed financing company if it is satisfied that the establishment of such company will promote public interest and convenience and :

1. All the requirements of R.A. 8556, other existing laws, and applicable rules and regulations to engage in the business for which the applicant is proposed to be incorporated, or organized, have been complied with;
2. The organization, direction and administration of the applicant , as well as the integrity and responsibility of the organizers and administrators, reasonably assure the protection of the interest of the general public; and
3. Proof of the publication of Notice and Order for registration is in accordance with Sec. 4(b) hereof.

b) A corporation that has been duly registered and granted a Certificate of Authority to Operate as a Financing Company in accordance with law and this Rules shall commence operations within one hundred twenty (120) days from date of grant of such certificate. Failure to operate within the one hundred twenty (120)-day-period shall subject the financing company to a fine of not less than Ten Thousand (P10,000.00) Pesos.

c) Notwithstanding failure to operate as aforestated, a financing company may be granted a grace period of another sixty (60) days from the expiry date of the first one hundred twenty (120) days within which to commence operations. Failure to operate within the extended period shall empower the Commission, after notice and hearing, to revoke its Certificate of Authority.

SECTION 6. Branches, Agencies, Extension Offices or Units

- a) Certificate of Authority - No financing company shall establish or operate a branch, agency, extension office or unit without a prior certificate of authority to be issued by the Commission. The application for authority filed under this section shall be accompanied by the following documents:
1. Information sheet of the proposed branch;
 2. Answer to SEC questionnaire;
 3. Police clearance of the manager, cashier, and administrative officer from the local police of the city or municipality where they reside;
 4. NBI clearance of the manager, cashier and administrative officer of the proposed branch;
 5. Copy of the proposed personnel chart;
 6. Such other documents as may be required by the Commission.

The above application shall be published in accordance with the provisions of Sec. 4(b) of these Rules.

- b) Evaluation Guideposts - The number of branches, agencies, extension offices or units to be established shall depend upon the capacity of the company to conduct expanded operations and/or upon the capacity of the area wherein the proposed branch, extension office, agency or unit will be established to absorb new entities engaged in financing, as may be determined by the Commission.
- c) Additional Capital Requirement - A financing company shall be required to put up minimum additional capital for each branch, agency, extension office or unit as follows:

Location of Branch or Agency or Extension Office or Unit	Additional Capital Required
Metro Manila and Other 1 st Class cities	P1,000,000
Other classes of cities	P500,000
Municipalities	P250,000

For a financing company granted with special rights and powers mentioned in Section 3 hereof additional capital required shall be based on letter (c) above or on the capitalization requirement under the rules and regulations promulgated by the appropriate government agency, whichever is higher.

- d) Prescribed Period to Operate - Such branch, agency, extension office or unit shall operate within one hundred twenty (120) days from the issuance of the certificate of authority and failure to operate within such period shall subject said branch, agency, extension office or unit to a fine of not less than Ten Thousand (P10,000.00) Pesos or revocation of the certificate of authority, after due hearing at the discretion of the Commission.
- e) Term of Authority to Operate - The certificate of authority to operate a branch, agency, extension office or unit shall be coterminous with that of the Head Office.

SECTION 7. Applicability of Bangko Sentral ng Pilipinas Regulations

The following financing companies, including their branches, agencies, extension offices or units, shall be subject to applicable rules and regulations of the Bangko Sentral ng Pilipinas (BSP) and must comply with BSP requirements prior to issuance by the Commission of the Certificate of Authority to Operate as a Financing Company:

- (a) Financing companies with quasi banking license;
- (b) Financing companies that are subsidiaries/affiliates of banks;
- (c) Financing companies that are subsidiaries/affiliates of non-bank financial intermediaries with quasi banking license;
- (d) Financing companies with authority to engage in trust operations;

SECTION 8. Licensing Fees

A fee of 1/10 of 1% of the paid-up capital of the financing company shall be charged for the issuance of a Certificate of Authority to Operate as a Financing Company.

A fee of 1/10 of 1% of the capital of the branch, agency, extension office or unit shall likewise be charged for the issuance of original Certificate of Authority to each branch, agency, extension office or unit of a financing company.

An annual fee shall be charged as follows and the same shall be paid not later than forty five (45) days before the anniversary date of the Certificate of Authority to Operate as a Financing Company and for as long as its license to operate is in effect:

LOCATION	HEAD OFFICE	BRANCH
Metro Manila and other 1 st Class cities	P10,000	P1,000
Other classes of cities	P5,000	P500
Municipalities	P2,500	P250

SECTION 9. Loans and Investments

Unless otherwise authorized by the Commission:

- (a) The total investment of a financing company in real estate and in shares of stock in a real estate development corporation and other real estate based projects shall not at any time exceed twenty-five (25%) percent of its networth.
- (b) More than fifty (50%) percent of the funds of a financing company shall be used or invested in financing company activities; Provided, that in the computation of the amount of funds used or invested in financing company activities, investments in government securities with maturity of not more than one (1) year and special savings deposits shall be taken into consideration;
- (c) The total credit that a financing company may extend to its directors, officers, and stockholders shall not exceed fifteen (15%) percent of its networth. For purposes of this Section, loans and other credit extended by a financing company to the following related interests shall be deemed to have been extended to its directors, officers, and stockholders:
 - 1) Spouse or relatives within the first degree of consanguinity or affinity, or relatives by legal adoption, of the officer, director or stockholder of the financing company;
 - 2) Partnerships in which a director or officer or stockholder of the financing company, or their spouse or relatives referred to in (c)(1) of this Section, is a general partner;
 - 3) Corporations where a director or officer or stockholder of the financing company, or their spouse or relatives referred to in (c)(1) of this Section, is also a director or officer of the corporation;

- 4) Corporations where more than twenty (20%) percent of its subscribed capital stock is owned by a director or officer or stockholder of the financing company or their spouse or relatives referred to in (c)(1) of this Section;
- 5) Corporations wholly or majority-owned or controlled by entities mentioned in (c)(2), (c)(3) and (c)(4) of this Section.
- (d) The total credit that a financing company may extend to any person, company, corporation or firm shall not exceed thirty (30%) percent of its networth.
- (e) Unless collected, interest income shall not be recognized on loans and lease receivables that remain outstanding beyond their maturity dates.
- (f) A 100% allowance for probable losses should be set up for the following:
1. Clean loans and advances past due for a period of more than six (6) months;
 2. Past due loans secured by collateral such as inventories, receivables, equipment and other chattels that have declined in value by more than 50%, without the borrower offering additional collateral for the loans;
 3. Past due loans secured by real estate mortgage title to which is subject to an adverse claim rendering settlement through foreclosure doubtful;
 4. When the borrower, and his co-maker or guarantor, is insolvent or where their whereabouts is unknown, or their earning power is permanently impaired;
 5. Accrued interest receivable that remain uncollected after six (6) months from the maturity date of such loans to which it accrues;
 6. Accounts receivable past due for 361 days or more;

SECTION 10. Conveyance of Evidence of Indebtedness and Financed Receivables

- a) The negotiation, sale or assignment by financing companies of evidence of indebtedness shall be in accordance with the rules of the Commission on registration of commercial papers and with the 19-lender limit allowed a financing company without quasi-banking license pursuant to Republic Act No. 337.

- b) Accounts which have been factored or discounted by, the lease receivables of, and other evidence of indebtedness (not covered in item a. above) issued or negotiated to, a financing company shall not be sold, assigned or transferred in any manner except to banks including their trust accounts, trust companies, non-bank financial intermediaries authorized to engage in quasi-banking functions, investment houses including their trust accounts, financing companies, investment companies, non-stock savings and loan associations, insurance companies, government financial institutions, pension and retirement funds approved by the Bureau of Internal Revenue, educational assistance funds established by the National Government; Provided, That the negotiation of evidence of indebtedness to pension funds or educational assistance funds shall be on a recourse basis.

SECTION 11. Required Network for Operating Financing Companies

The company's network shall be maintained at an amount not less than that required under Sections 2(b) and 6(c) hereof.

SECTION 12. Prohibitions

- a. No corporation shall be allowed to include discounting, factoring and leasing as herein defined as one of its secondary purposes.
- b. Unless so authorized under R.A. No. 8556, no person, association, partnership or corporation shall:
 - 1) Engage in the business of a financing company;
 - 2) Hold itself out to be a financing company, either through advertisement in whatever form, whether in its stationery, commercial paper or other document, or through other representations;
 - 3) Make use of trade or firm name containing the words "Financing" or "Leasing" or "Finance and Leasing" or "Finance and Investment" or any other designation that would give the impression that it is engaged in the business of a financing or leasing company;

SECTION 13. Periodic Reports

Every financing company shall file with the Commission the following reports:

- (a) Within forty-five (45) days from the end of each fiscal quarter, a quarterly report which shall include:
 - 1) Statement of Condition as of the end of the most recent fiscal quarter and Statement of Income and Expenses for the period between the end of the preceding fiscal year and the end of the most recent fiscal quarter;
 - 2) Schedule of aging of receivables (indicate the maturity pattern of the receivables classified under [i] due within 1 year, [ii] due over 1 year; Receivables due within one year should further be broken down into current and past due accounts; Past due accounts are to be subdivided further into [i] within 1 year past due, [ii] past due for over 1 year and [iii] accounts under litigation. Provided, however, that respective collateral(s), if any, for accounts over one year past due and accounts under litigation shall be adequately disclosed in the schedule;
 - 3) Schedule of liabilities (identify the creditors and indicate the same maturity pattern required for the Schedule of Aging of Receivables);
 - 4) List of officers, directors, and stockholders.
- (b) Within one hundred twenty (120) days after the end of the fiscal year, five copies of the audited financial statements;
- (c) Any change in the membership or composition of the board of directors, officers from the rank of vice president and up or their equivalent, branch manager, cashier and administrative officer shall be reported to the Commission within seven (7) working days thereafter, and the requirements prescribed under Section 4(a)(3) and (5) and Section 6(a)(3) and (4) hereof shall be submitted within thirty (30) working days from date of the aforesaid change.
- (d) Such other reports as the Commission may require;
- (e) Such other reports as the Bangko Sentral ng Pilipinas may require.

The reports shall be signed under oath by the company's principal executive officer and principal financial officer.

SECTION 14. Administrative Sanctions

If the Commission finds that there is a violation of R.A. 8556, of these Rules and Regulations, of the terms and conditions of the Certificate of Authority to Operate as a Financing Company, of any Commission order, decision or ruling, or the financing company refuses to have its books of accounts audited, or continuously fails to comply with SEC requirements, the Commission shall, in its discretion, impose any or all of the following sanctions.

- a) Suspension or revocation of the Certificate of Authority to Operate as a Financing Company after proper notice and hearing;
- b) A basic fine of not less than Ten Thousand Pesos (P10,000) and P100 for each day of continuing violation, but in no case shall the total fine be more than One Hundred Thousand Pesos (P100,000);
- c) Other sanctions within the power of the Commission.

The imposition of the foregoing administrative sanctions shall not preclude the institution of appropriate action against the officers and directors of the financing company or any person who might have participated therein, directly or indirectly, in violation of R.A. 8556, and this Rules and Regulations.

SECTION 15. Cease and Desist Order

The Commission, after proper investigation or verification, motu proprio, or upon verified complaint by any aggrieved party, may issue a Cease and Desist Order without the necessity of a prior hearing if in its judgment the act or practice, unless restrained, may cause grave or irreparable injury or prejudice to the investing public or may amount to fraud or violation of the requirements of R.A. 8556 and the rules and regulations of the Commission.

The issuance of such Cease and Desist Order automatically suspends the authority to operate as a financing company.

Immediately upon the issuance of such Order, the Commission shall furnish the parties involved with a copy thereof and schedule a hearing not later than fifteen (15) days after service of notice. The Commission shall, within thirty (30) days upon submission of the case for resolution, decide on whether to lift the Cease and Desist Order or to impose the administrative sanctions provided for in Section 14.

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SECTION 16. Repealing Clause

These Rules and Regulations supersede the NEW RULES AND REGULATIONS TO IMPLEMENT THE PROVISIONS OF R.A. 5980 (THE FINANCING COMPANY ACT) AS AMENDED dated October 16, 1991. All other rules, regulations, orders, memorandum circulars of the Commission which are inconsistent herewith are hereby repealed or modified accordingly.

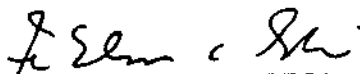
SECTION 17. Transitory Provision

Any corporation/partnership which at the time of the effectivity of these Rules has been registered and licensed by the Commission to operate as a financing company, shall be considered as registered and licensed under the provisions of these Rules and shall be governed by the provisions hereof; Provided, however, that financing companies with existing Certificate of Authority shall surrender the same to the Commission upon payment of the annual fee pursuant to Section 8 hereof to be replaced by a new Certificate of Authority and, Provided, That where such corporation/partnership is affected by the new provisions hereof, said corporation/partnership shall, unless otherwise herein provided, be given a period of not more than one (1) year from the effectivity of these Rules within which to comply with the same.


SECTION 18. Effectivity

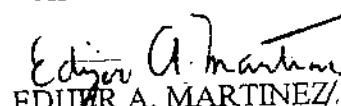
These rules and regulations shall take effect fifteen (15) days after publication in two (2) newspapers of general circulation in the Philippines.


Adopted by the Commission En Banc on May 20, 1999.


FE ELOISA C. GLORIA
Associate Commissioner


DANILO CONCEPCION
Associate Commissioner


ROSALINDA UCASIGURAN
Associate Commissioner


EDIJER A. MARTINEZ
Associate Commissioner


PERFECTO R. YASAY, JR.
Chairman