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RULES AND REGULATIONS GOVERNING THE ISSUANCE, PLACEMENT, SALE SERVICING, REDEMPTION AND RETIREMENT OF BONDS (WITH FULL GUARANTEE OF THE REPUBLIC OF THE PHILIPPINES) ISSUED BY LO...

BSP CIRCULAR NO. 44, s, 1994, August 26, 1994

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Pursuant to Monetary Board Resolution No. 824 dated August 24, 1994, the following rules and regulations to govern issuance, placement, sale, servicing, redemption of bonds floated by local government units (LGUs) are hereby prescribed:

1
Legal Basis

By virtue of Section 299 of Republic Act No. 7160 (otherwise known as Local Government Code of 1991), provinces, cities and municipalities are authorized, subject to the rules and regulations of the Bangko Sentral ng Pilipinas and the Securities and Exchange Commission, "to issue bonds, debentures, securities, collaterals, notes and other obligations to finance self-liquidating, income-producing development or livelihood projects pursuant to the priorities established in the approved local development plan or the public investment program. The Sanggunian concerned shall through an ordinance approved by a majority of all its members, declare and state the terms and conditions of the bonds and the purpose for which the proposed indebtedness is to be incurred."

2
Coverage

This Circular shall cover bonds to be issued by local government units such as provinces, cities and municipalities, which carry the full guarantee of the Republic of the Philippines.

3
Definition of Terms

For purposes of this circular, the following definitions shall apply:

a. Local government units (LGUs) — shall refer to provinces, cities, municipalities and other political subdivisions as may be created by law.

b. Local government bonds — shall refer to bond flotations by local government units bearing the full guarantee of the National Government, the payment of which the full faith and credit of the borrowing local government units are pledged.

c. Full Government Guarantee refers to the commitment of the National Government in the strict sense to service the loans obtained by local government units when such institutions, as principal borrowers, are unable to pay their debts under the covering credit arrangement. The same shall cover the principal, interest and other charges of said borrowings, obtained by local government units.

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4
General Guidelines

4.1 The bond flotation proposal shall be subject to these rules and regulations only when the Secretary of Finance has approved the extension of the full guarantee of the Republic of the Philippines to the proposed bond or security.

4.2 The grant of full government guarantee shall be separately covered by the rules and regulations to be issued by the Department of Finance (DOF).

4.3 Review and evaluation by the Bangko Sentral shall be for the purpose of determining the monetary and other macroeconomic implications and sinking fund requirements of the proposed LGU bond operation and corresponding project implementation.

4.4 Bangko Sentral's involvement in the implementation phase of the approved bond flotation may include securities printing and issuance of certificates to issuer, administration of the bond sinking fund and final retirement of the bonds.

4.5 The market distribution of the bonds and servicing of interest and principal payments to investors shall be the function of the specific LGU which may, if it so decides engage the services of an underwriter, trustee or other agent to undertake such activities.

5
Documentary Requirements

A local government unit's proposal to issue bonds under these rules shall be submitted to the Bangko Sentral accompanied by the following:

5.1 A letter endorsement from the Secretary of Finance addressed to the Bangko Sentral granting full guarantee on the proposed bond flotation.

5.2 An ordinance or resolution approved by the majority of all its sanggunian members declaring and stating the terms and conditions of the bonds, the purpose for which the proposed indebtedness is to be incurred, and that the project to be financed by the proposed flotation is among those in the priority areas of approved local development plan or the public investment program together with details of the development or livelihood project to be financed by the bond flotation particularly with respect to any foreign exchange purchases of raw materials/services intermediate and capital goods.

5.3 Such other documents that may be required.

6
Procedures

6.1 Proposals for bond flotation, together will all the documentary requirements mentioned in paragraph no. 5 above, shall be submitted to the Bangko Sentral for review and evaluation of the monetary and other macroeconomic implications and sinking fund requirements of the proposed LGU bond operation and corresponding project implementation with reference to utilization of proceeds from the bond flotations.

6.2 In case of favorable comments by the Bangko Sentral, the bond proposal shall be submitted to the respective, authority exercising supervision over the proponent LGU concerned as cited under Article One, Chapter 3, Section 25 of the 1991 Local Government Code for final approval.

6.3 Upon approval by the authority referred to in Item 6.2, the LGU concerned shall coordinate with its

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underwriter, trustee or other agent, which may include the Bangko Sentral who shall act as fiscal agent, for the implementation of the approved bond flotation.

7
Miscellaneous

7.1 Loss, Theft, Destruction, Mutilation or Defacement — In case of loss, theft, destruction, mutilation or defacement of the bonds issued by an LGU under this Circular, the formalities and requirements prescribed under R.A. 1533, as amended by Presidential Decree No. 649, as implemented under Circular No. 472 dated June 24, 1975 shall be observed. Applications for replacement of lost, stolen, destroyed, mutilated or defaced bonds shall be filed with the Bangko Sentral.

7.2 Circular No. 28 — The provisions of Circular No. 28, as revised and amended, not inconsistent with this Circular shall have suppletory application to matters not specifically covered by these rules.

8
Effectivity

This Circular shall take effect fifteen (15) days after its publication in two (2) national newspapers of general circulation.

Adopted: 26 Aug. 1994

(SGD.) GABRIEL C. SINGSON
Governor

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