

AN ACT TO PROVIDE FOR THE ESTABLISHMENT OF A RESERVE BANK IN THE PHILIPPINES

Commonwealth Act No. 458, June 09, 1939

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Be it enacted by the National Assembly of the Philippines;

CHAPTER I - DEFINITIONS OF TERMS

Sec. 1. (a) The term "Reserve System" shall be held to mean that banking system herein created under which the Reserve Bank of the Philippines and the member banks shall operate to accomplish the purposes of this Act.

(b) The term "Reserve Bank" shall be held to mean the Reserve Bank of the Philippines.

(c) The term "Member Bank" shall be held to mean any bank, banking association, trust company, savings bank, or other banking corporation, or any branch of the same, which is a member of the Reserve System herein established.

(d) The term "Bank" shall be held to mean any bank, banking association, trust company, savings bank, or other banking corporation, or any branch of the same, which is engaged in banking business in the Philippines.

(e) The term "Board" shall be held to mean the Board of Governors of the Reserve Bank.

(f) The term "lawful money of the Philippines" shall include Treasury certificates and silver pesos legally issued under authority of the Government of the Philippines.

(g) The term "lawful money of the United States" shall include gold coins, gold certificates, silver dollars and United States notes.

(h) The term "Government" shall mean the Government of the Philippines.

Chapter II.--ESTABLISHMENT AND FUNCTIONS

NAME, DOMICILE, AND DURATION

Sec. 2. In order to afford means of centralizing the reserves of member banks, to regulate credit and credit facilities, and to coordinate effectively bank resources, there is created a bank to be known as the "Reserve Bank of the Philippines."

Sec. 3. The Reserve Bank shall have its principal place of business in the City of Manila and shall exist for a period of fifty years.

CAPITAL STOCK

Sec. 4. The Reserve Bank shall have a capital stock of five million pesos, divided into five thousand shares having a par value of one thousand pesos each.

Sec. 5. The President of the Philippines, in behalf of the Government, shall subscribe to and pay for two thousand shares of the capital stock of the Reserve Bank; the remainder of the capital shall be subscribed from time to time by the President of the Philippines, in behalf of the Government, in such amounts as he may determine as soon as

sufficient funds may be available for that purpose and the needs of the business of the Reserve Bank should require it.

Sec. 6. There is appropriated from the proceeds of the excise tax on coconut oil the sum of two million pesos for the payment of two thousand shares of stock subscribed by the Government provided in the next preceding section.

CORPORATE POWERS

Sec. 7. The Reserve Bank shall have the following powers:

(a) Upon the indorsement of any member bank, which shall be deemed a waiver of demand, notice and protest by such bank as to its own indorsement exclusively, the Reserve Bank may discount notes, drafts, and bills of exchange arising out of actual commercial transactions; that is, notes, drafts, and bills of exchange issued or drawn for agricultural, industrial, or commercial purposes, or the proceeds of which have been used, or are to be used, for such purposes, the Board of Governors of the Reserve Bank to have the right to determine or define the character of the paper thus eligible for discount, within the meaning of this Act. Notes, drafts, and bills of exchange of factors issued as such making advances exclusively to producer of staple agricultural products in their raw state shall also be eligible for such discount, but notes, drafts, or bills covering merely investments or issued or drawn for the purpose of carrying or trading in stocks, bonds, or other investment securities, except bonds and notes of the Government of the Philippines shall not be eligible for discount. Notes, drafts, and bills admitted to discount under the terms of this paragraph must have a maturity at the time of discount of not more than ninety days.

(b) Upon the indorsement of any member bank, which shall be deemed a waiver of demand, notice, and protest by such bank as to its own indorsement exclusively, the Reserve Bank may, subject to regulations and limitations to be prescribed by the Board of Governors of the Reserve Bank, discount notes, drafts, and bills of exchange issued or drawn for an agricultural purpose, or based upon livestock, and having a maturity, at the time of discount, not exceeding nine months, and such notes, drafts, and bills of exchange may be offered as a collateral security for the issuance of Reserve Bank notes under the provisions of section 22 of this Act: Provided, That notes, drafts, and bills of exchange with maturities in excess of six months shall not be eligible as a basis for the issuance of Reserve Bank notes unless secured by warehouse receipts or other such negotiable documents conveying or securing title to readily marketable staple agricultural products or by chattel mortgage upon livestock which is being fattened for market.

(c) The Reserve Bank may make advances for periods not exceeding fifteen days to member banks on their promissory notes secured by the deposit or pledge of bonds, notes, certificates of indebtedness, or treasury bills of the Government of the Philippines or of the United States, or by the deposit or pledge of debentures or other obligations of the Agricultural and Industrial Bank of the Philippines which are eligible for purchase by the Reserve Bank, and the Reserve Bank may make advances for periods not exceeding ninety days to member banks on their promissory notes secured by such notes, drafts, bills of exchange, or bankers' acceptances as are eligible for rediscount or for purchase by the Reserve Bank. All such advances shall be made at rates to be established by the Board of Governors. If any member bank to which any such advance has been made shall during the life or continuance of such advance, and despite an official warning of the Board of Governors to the contrary, increase its outstanding loans secured by collateral in the form of stocks, bonds, debentures, or other such obligations, or loans made to members of any organized stock exchange, investment house, or dealer in securities, upon any obligation, note, or bill, secured or unsecured, for the purpose of purchasing and/or carrying stocks, bonds, or other investment securities, except obligations of the Government of the Philippines or of the United States, such advance shall be deemed mediately due and payable, and such member bank shall be ineligible as a

borrower at the Reserve Bank under the provisions of this paragraph for such period as the Board of Governors of the Reserve Bank shall determine: Provided, That no temporary carrying or clearance loans made solely for the purpose of facilitating the purchase or delivery of securities offered for public subscription shall be included in the loans referred to in this paragraph.

(d) To buy from and sell to member banks cable transfers, bills of exchange eligible for rediscount and treasury bills having a maturity of not exceeding ninety days.

(e) To buy and sell securities issued or guaranteed both as to principal and interest by the Government of the United States. However, the aggregate of the securities held at any one time by the Reserve Bank with maturities exceeding nine months shall not be more than its paid-up capital and surplus.

(f) To accept money on time deposits or current accounts from the Government, and its political subdivisions and from banks.

(g) To hold the reserves of the member banks.

(h) To issue bank notes.

(i) To maintain accounts with central banks in other countries and to establish agency or correspondent relations with such central banks.

(j) To buy and sell gold and silver, in coin or bullion.

(k) To designate the branches and agencies of the Philippine National Bank in the Philippines as its correspondents, or agents under such terms as may be agreed upon with the Philippine National Bank.

(1) To make, provisional advances to the Government and its political subdivisions for the expenses authorized in their annual appropriations. Said advances shall be payable within three months and shall not, in their aggregate, exceed one-sixth of the estimated income of the borrower for the year. In no event shall the total of such advances exceed the total capital and surplus of the Reserve Bank. In cases of emergency and with the approval of the Secretary of Finance, the maturity of loans granted to the Government may be extended for a period not to exceed one year.

(m) To act as the agent for the Government, in the purchase and sale of gold or silver bullion; in the purchase, sale, transfer and custody of bills of exchange, securities, or shares in any company; in the collection of the proceeds, whether principal, interest or dividends, of any securities or shares and in the remittance of such proceeds, at the risk of the Government, by bills of exchange payable either in the Philippines or elsewhere.

(n) To make by-laws; to adopt and use a corporate seal; to buy, hold, transfer, sell, let, lease, mortgage, encumber and otherwise trade in personal or real properties, shares of stock, securities, or other instruments of credit of any domestic or foreign corporation, as its aims and the transactions of its business may reasonably and necessarily require; to enter into contracts essential to the proper management of its corporate affairs and to carry out its aims and purposes; to appoint and dismiss its officers and employees, unless otherwise provided for by this Act and to fix the amount of compensation for said officers and employees; to sue and be sued; to have the power of succession, and to exercise such powers as may be reasonably necessary to carry on the business for which it has been created or authorized.

MEMBER BANKS

Sec. 8. All banks which have been organized or which may hereafter be organized under the laws of the Philippines, whether by special charter or otherwise (including established banks organized under the laws or Royal Decrees of Spain) shall be members of the Reserve System. Banks organized under the laws of the United

States and having license to do business, in the Philippines, and those which up to July fourth, nineteen hundred and forty-six, shall have secured such license, may likewise by members of the Reserve System of the Philippines, if they apply for membership within ninety days from the date of effectivity of this Act, or in the case of those securing said license after the date of effectivity of this Act, within ninety days from the date of the issuance of the license.

Sec. 9. All reserves of member banks required by existing laws to be maintained shall be deposited with the Reserve Bank.

SEC. 10. In order to prevent injurious credit expansion or contraction, the Board of Governors, subject to the approval of the Secretary of Finance, may from time to time by regulation change the requirements as to the amount of reserves to be maintained against demand or time deposits or both by member banks; but the amount of the reserves required maintained by member banks shall not be less than, nor more than twice the amount of the minimum reserves provided by existing laws.

SEC. 11. Any member bank which, after due demand has failed to deposit in the Reserve Bank the reserves to which the two next preceding sections refer, shall be subject to suspension as a member bank and shall thereby lose all its rights and privileges as such, besides being subject to the penalties provided by law for failure to maintain the required legal reserves.

SEC. 12. A weekly return showing the financial condition made up to the close of business every Saturday, and signed by the Manager and the Accountant of the member bank, or signed by other principal officers of the member bank acting on their behalf for the time being, shall be filed with the Reserve Bank every Monday in such form as may be prescribed by rules and regulations issued by the Board of Governors.

Sec. 13. If the Reserve Bank has any reason to believe that a return of a member bank is incorrect in any material particular, or if any member bank fails to make a return when required to do so either by this Act or by the Reserve Bank acting under the authority of this Act, or if for any reason it is the opinion of the Board of Governors of the Reserve Bank that for the public interest an examination should be made, the Board of Governors shall with the cooperation of the Bank Commissioner examine the books and accounts of that member bank. The expenses of such examinations shall be borne by the member bank examined.

A member bank which fails or defaults in submitting the weekly return required by this Act, shall be administratively fined by the Board in the amount of one hundred pesos for every day during which such failure or default continues.

Sec. 14. Any member bank may accept drafts or bills of exchange drawn upon it having not more than six months sight to run, which grow out of transactions involving the importation or exportation of goods; or which grow out of transactions involving the domestic shipment of goods on condition that shipping documents conveying or securing title be attached at the time of acceptance; or which are secured at the time of acceptance by a warehouse receipt or other such document conveying or securing title covering readily marketable staples. No member bank shall accept, whether in a foreign or domestic transaction, for any one person, company, firm, or corporation, an amount equal at any time in the aggregate to more than fifteen per centum of its paid-up and unimpaired capital stock and surplus, unless the bank is secured either by attached documents or by some other actual security growing out of the same transaction as the acceptance.

AGGREGATE LIABILITIES OF MEMBER BANKS

Sec. 15. No member bank shall at any time be indebted, or in any way liable, to an amount exceeding that of its capital stock at such time actually paid in and remaining undiminished by losses or otherwise, except on account

of demands of the following nature:

- (a) Notes in circulation.
- (b) Moneys deposited with or collected by the member bank, c) Bills of exchange or drafts drawn against money actually on deposit to the credit of the member bank or due mere to.
- (d) liabilities to the stockholders of the member banks for dividends and reserve profits.
- (e) liabilities incurred under the provisions of this Act.
- (f) Liabilities created by the indorsement of accepted bills of exchange payable abroad actually owned by the indorsing member bank and discounted at home or abroad.

DEPOSIT OF CHECKS AT PAR

SEC. 16. The Reserve Bank shall receive on deposit at par from member banks checks and drafts drawn by any depositor in other member banks upon funds to the credit of said depositor in said member banks. Nothing herein contained shall be construed as prohibiting a member bank from charging its actual expense incurred in collecting and remitting funds, or for exchange sold to its patrons. The Board shall, by rule, fix the charges to be collected by the member banks from their patrons whose checks are cleared through the Reserve Bank and the charge which may be imposed for the service of clearing or collection rendered by the Reserve Bank.

OPEN MARKET OPERATIONS

SEC. 17. When, in the opinion of the Board of Governors, an unusual and exigent occasion has arisen making it necessary or expedient that action shall be taken for the purpose of regulating credit in the interest of Philippine trade, commerce, industry and agriculture, the Reserve Bank, may, under rules and regulations prescribed by the Board, purchase and sell in the open market, at home or abroad, either from or to domestic or foreign banks,, firms, corporations, or individuals, cable transfers, bank acceptances and bills of exchange of the kinds and maturities eligible for rediscount or purchase, with or without the endorsement of a member bank.

Sec. 18. During such occasion, the Board shall establish every fourteen days, or oftener if it should deem necessary, rates of discount to be charged for each class of paper, and said rates shall immediately be communicated to all banks doing business in the Philippines.

Sec. 19. In connection with its open market operations, the Reserve Bank shall also have the power:

- (a) To deal in gold coin and bullion, at home or abroad, to make loans thereon, exchange its notes for gold or gold coin, and to contract for loans of gold coin or bullion giving therefor when necessary, acceptable security, including the hypothecation of Philippine and United States Government bonds or other securities which the Reserve Bank is authorized to hold;
- (b) To buy and sell, at home or abroad, bonds of the Government, its political subdivisions and instrumentalities;
- (c) To purchase from member banks and to sell, with or without their indorsement, bills of exchange, promissory notes and negotiable instruments specified in subsections (a), (b) and (d) of section seven.

RELATION OF THE RESERVE BANK WITH THE GOVERNMENT

Sec. 20. In addition to the Philippine National Bank, the Reserve Bank may act as official depository of the Government and its political subdivisions, and any moneys held in the Treasury of the Philippines, except the Treasury Certificate Fund, Exchange Standard Fund, and the fund provided in this Act for the redemption of the notes of the Reserve Bank, may, upon the authority and direction of the President of the Philippines, be deposited in the Reserve Bank.

Sec 21. The Bank Commissioner shall exercise supervisory powers over the Reserve Bank in accordance with the pertinent provisions of Chapter 41-A and Article XIII-A of Chapter Sixty-six of the Administrative Code, as amended.

ISSUE OF NOTES

Sec. 22. The Reserve Bank shall have the right to issue bank notes in the Philippines. The Reserve Bank may make application to the Treasurer of the Philippines for such amount of notes as it may require. After the Reserve Bank shall have issued bank notes in the aggregate amount of its capital and surplus, any further application shall be accompanied with a tender to the Treasurer of the Philippines of collateral security in amount equal to the sum of the notes thus applied for the issued pursuant, to such application. The collateral security thus offered shall be notes, drafts, bills of exchange or other negotiable instruments acquired under the provisions of section seven of this Act, or bills of exchange indorsed by a member bank and purchased under the provisions of section seventeen of this Act, or treasury certificates. In no event shall such collateral security be less than the amount of the notes applied for. All the notes issued or to be issued shall become a first and paramount lien on all assets of the Reserve Bank and shall be exempt from taxation.

Notes of the Reserve Bank shall be prepared and delivered to, and safeguarded, issue, withdrawn, and cancelled or destroyed by the Treasurer of the Philippines in the manner prescribed by law for treasury certificates, and the Treasurer of the Philippines shall deliver to the Reserve Bank only such amount of said notes as applied for in the manner hereinabove provided.

SEC. 23. The notes issued by the Reverse Bank shall be receiveable by the Government in payment of all taxes, dues, or other claims due or owing to said Government shall on demand be reddemed in lawful money by the Reverse Bank at its central office or by the Treasury of the Philippines out of the redemption fund its possession.

Sec. 24. The Treasurer of the Philippines is authorized at any time to exchange new notes for an equivalent amount of mutilated note or notes otherwise unfit for circulation or to exchange notes of one denomination for an equivalent amount of notes of another denomination.

Sec. 25. An equivalent amount of notes shall be redeemed upon the sale of the corresponding securities delivered to the Treasurer of the Philippines, except when such securities are substituted by new ones of equal value. For the purposes of this section, it shall be sufficient for the Reserve Bank to deposit with the Treasurer of the Philippines lawful money in an amount equal to that of the outstanding notes, in substitution for the securities deposited as original guarantee.

SECURITIES FOR LOANS NOT SUBJECT TO ATTACHMENT

Sec. 20. Securities for loans, discount or rediscount deposited with the Reserve Bank shall not be subject to attachment nor can they be included in the property of insolvent persons or institutions, unless all debts and obligations of the debtor to the Reserve Bank have been previously paid, including accrued interest, collection expenses and other charges.

LIMITATION OF LIABILITIES TO THE RESERVE BANK

SEC. 27. The total liabilities to the Reserve Bank of any person, or of any member bank, company, corporation, or firm, for money borrowed, including in the liabilities of the company or firm, the liabilities of the several members thereof, shall at no time exceed fifteen per centum of the unimpaired capital and surplus of the Reserve Bank. But the discount of bills of exchange drawn in good faith against actually existing values, and the discount of commercial or business paper actually owned by the person negotiating the same, shall not be considered as money borrowed; and in addition to the fifteen per centum of the unimpaired capital and surplus of the Reserve Bank herein before provided for, the total liabilities of any borrower may amount to a further fifteen per centum

of the unimpaired capital and surplus of the Reserve Bank if such additional liabilities are secured by shipping documents, warehouse receipts or other similar documents transferring or securing title covering readily marketable, nonperishable staples, when such staples are fully covered by insurance and have a market value equal to at least one hundred and twenty-five per centum of such additional liabilities.

RESERVES OF THE RESERVE BANK

Sec. 28. The Reserve Bank shall maintain a reserve for its deposit liabilities and its notes in actual circulation and for this purpose it shall at all times keep on hand in its vaults, or with the Treasury of the Philippines, or in the form of deposits with Federal Reserve Banks in the United States, in gold coins or bullion at its legal value or in lawful money either of the Philippines or of the United States, a sum sufficient to cover the following requirements:

- (a) Thirty-five per centum against its deposits.
- (b) Forty per centum of its notes in actual circulation.

A portion of this reserve at least equal to fifteen per centum of the notes in actual circulation shall be kept on deposit in the Treasury of the Philippines for the redemption of such.

SEC. 29. Whenever the reserves provided for in the preceeding section shall fall below the required amounts, the Reserve Bank shall not further diminish the amount of such reserves by making any new loans or discounts, or declare any dividends unless and until the total reserves required by law are restored.

SEC. 30. If, from any cause whatsoever, any of the securities specified for the loans provided for in this Act, or accepted by the Reserve Bank as security for loans or discount or rediscount, decline or depreciate in market value as a whole or in part, the said Reserve Bank shall demand additional securities. Upon the failure of the debtor to give such additional securities the Reserve Bank may forthwith declare any such obligation due and payable and demand payment thereof, and upon three days' notice, or without such notice if necessary, sell, assign, transfer, and deliver the whole of said securities or any part thereof, or any addition thereto, or any other securities or property given unto or left in the possession of, or hereafter given unto or left in the possession of the said Reserve Bank, for safekeeping or otherwise, or in any bank or corporation controlled by the Government, or in any of its branches, agencies and instrumentalities, at any broker's board, or at public or private sale, at the option of said Reserve Bank, and at such sale, if public, the said Reserve Bank may itself purchase the whole or any part of the property sold, free from any right of redemption on the part of the obligor.

Sec. 31. In case of sale of securities for any cause and after deducting all costs or expenses of any kind for collection, sale or delivery, the Reserve Bank shall apply the residue of the proceeds of the sale so made, to pay one or more or any or all of the obligations to the said Reserve Bank as the Board of Governors shall deem proper, whether then due or not due, "making proper rebate for interest on liabilities not then due. If the proceeds of the sale do not cover the full amount of the loan, together with the interest and other charges thereon, the Reserve Bank may proceed against the debtor for the difference, but any amount exceeding the full indebtedness to the Bank shall be paid to the debtor.

DIVIDENDS AND DISPOSAL OF PROFITS

SEC. 32. The Reserve Bank shall not, during the time it shall continue its banking operation, withdraw or permit to be withdrawn, either in the form of dividends or otherwise, any portion of its capital. If losses have been sustained by the Reserve Bank equal to or exceeding the undivided profits on hand, no dividend shall be declared; and no dividend shall ever be declared by the Reserve Bank to any amount greater than its net profits on hand, deducting therefrom its losses and bad debts. All debts due to the Reserve Bank, on which interest is past due and unpaid for a period of six months, unless the same are well secured, and in process of collection, shall be

considered bad debts within the meaning of this section.

SEC. 33. After deducting expenses and after making such provisions as the Board thinks proper for bad and doubtful debts, depreciation in assets, retiring allowance for the staff, and all such other deduction as are usually provided for by banks, the net profits resulting from the operation of the Reverse Bank shall be apportioned semi-annually as follows:

(a) Fifty per centum to a surplus fund until the latter shall equal fifty per centum of the capital stock of the Reserve Bank, and thereafter twenty-five per centum of said net profits until said surplus fund shall equal the capital stock.

(b) The remaining net profits may be paid in the form of dividends to the Government of the Philippines as the Board may determine; but dividends shall never be declared or paid out of the surplus fund.

SEC. 34. Whenever the surplus fund shall have been reduced by losses, fifty per centum of the net profits shall be set aside for said fund until the same shall once more equal fifty per centum of the capital stock, and thereafter twenty-five per centum of the net profits until the aforesaid fund shall again equal the capital stock.

HOLDING OF REAL ESTATE

SEC. 35. The Reverse Bank is authorized to purchase and own such real estate as may be necessary for the purpose of carrying on its business. The total investment in such real estate and improvements thereon shall not exceed twenty-five per centum of the paid-up capital stock and surplus of the Reverse Bank.

SEC. 36. The affairs and business of the Reverse Bank shall be directed and its property managed and preserved, unless otherwise provided in this Act, by a Board of Governors consisting of five members appointed by the President of the Philippines with the consent of the Commission on Appointments of the National Assembly. Of the persons thus appointed, one shall be designated by the President of the Philippines as Chairman and one as Vice-Chairman of the Board. The governors shall be appointed and shall hold office for a term of five years, except four of the members of the Board first appointed, who shall hold office for one, two, three, and four years, respectively. The Governors may be removed by the President of the Philippines and the vacancies shall be filled for the unexpired portion of the term in the same manner as in the case of an original appointment. The Governors shall be paid by the Reserve Bank such compensation as may be determined by the President of the Philippines.

Sec. 37. The members of the Board cannot be directors, employees, stockholders or otherwise interested in any bank doing business in the Philippines except the Agricultural and Industrial Bank of the Philippines while holding their office, nor can they be such directors, officers or employees of any such bank except the Agricultural and Industrial Bank for a period of one year after they have vacated their office.

POWERS OF THE BOARD OF GOVERNORS

Sec. 38. The Board shall have, among others, specific authority on the following matters:

- (a) Internal organization of the Reserve Bank;
- (b) Appointment or removal of the officers and employees of the Reserve bank not otherwise provided in this Act;
- (c) Provisions for the general supervision and control of the business of the Reserve Bank;
- (d) Instructions and regulations relative to the clearing functions of the Reserve Bank;
- (e) Eligibility of persons, associations and corporations whose checks, drafts or other negotiable instruments can be accepted for discount, rediscount or advances, and fixing the limits of such discounts or advances;
- (f) Fixing of rates of discounts, rediscounts and interests on advances for each class of papers;

- (g) Purchase and acquisition of real property required for the business of the Reverse Bank.
- (h) Sale, lease, mortgage, pledge and other form of disposition of properties of the Reverse Bank;
- (i) Matters concerning the form, text and denominations of the notes of the Reverse Bank, and the issuance, withdrawal and cancellation of said notes;
- (j) Perform such other acts as may be necessary and convenient to carry out the purposes of this Act.

DUTIES OF THE CHAIRMAN

SEC. 39. The Chairman of the Board shall be the chief executive officer of the Reserve Bank. He shall, on behalf of the Board, have the direction and control of the business of the Reverse Bank, with authority to act in connection with the conduct of the business of the Reverse Bank in all matters which are not by this Act or by the by-laws of the Reserve bank specifically reserved to be done by the Board. In case of absence of the Chairman or in his incapacity to act, the Vice-Chairman shall act in his place.

The Chairman shall have the following duties among others:

- (a) To carry out the orders and resolutions of the Board;
- (b) To report weekly to the Board the main facts concerning the operations of the Reserve Bank during the preceeding week and to suggest changes in rates of discount rediscount, exchange, or of policy which may to him seem best;
- (c) To furnish, upon request, to the President of the Philippines or the Secretary of Finance, any information in his possession regarding the operations of the Reverse Bank.

SEC. 40. There is hereby created an Advisory Council of the Reverse Bank which shall consist of ten members to be selected by the member banks, subject to rules and regulations prescribed by the Board.

SEC. 41. The meetings of the Advisory Council shall be held at Manila at least four times each year, or oftener if called by the Board.

Sec. 42. The Advisory Council shall select its own officers and adopt its own methods of procedure, and a majority of its members shall constitute a quorum for the transaction of business. Vacancies in the Advisory Council shall be filled by the member banks.

Sec. 43. The Advisory Council shall have power by itself, or through its officer:

- (1) To confer directly with the Board on general business conditions;
- (2) To make oral or written representations concerning matters within the jurisdiction of said Board;
- (3) To call for information and to make recommendation with regard to discount rates, rediscount business, note issue, reserve of member banks, the purchase and-sale of gold or securities by the Reserve Bank, open market operations of the Reserve Bank, and the general affairs of the banking system.

AUDITOR

Sec. 44. The Auditor-General shall be ex officio auditor of the Reserve Bank and shall appoint and fix the salary of a representative who shall be the auditor in charge of the auditing of the Reserve Bank. The Auditor-General shall, upon the recommendation of the Auditor of the Reserve Bank, appoint and fix the salaries of or remove the personnel of the auditing department. The operating expenses of the department and the salaries and traveling expenses of the officers and employees thereof shall be payable by the Reserve Bank, and the Board shall make the necessary appropriation therefor.

The Auditor of the Reserve Bank shall make a quarterly report on the condition of affairs of the Reserve Bank to the President of the Philippines, through the Secretary of Finance, to the Speaker of the National Assembly, to the Auditor-General, and to the Board.

OTHER OFFICERS AND EMPLOYEES

SEC. 45. The duties and compensation of all the other officers and employees of the Reserve Bank shall be determined by the Board and they shall be appointed or removed by the said Board on the recommendation of its Chairman.

Sec. 46. The officers and employees of the Reserve Bank shall not be subject to the Civil Service Law.

FIDELITY INSURANCE OF OFFICERS AND EMPLOYEES

SEC. 47.. The officers and employees of the Reserve Bank and its branches and agencies, whose duties require the custody of funds or property for which they are accountable shall be bounded and their fidelity insured in accordance with the provisions of the Public Bonding Law.

LIFE INSURANCE OF OFFICERS AND EMPLOYEES

SEC. 48. The regular and permanent officers and employees of the Reserve Bank and of its branches and agencies in the Philippines shall be regular members of the Government Service Insurance System.

CONFIDENTIAL INFORMATION

SEC. 49. The Auditor-General and the other officers designated by him, or by the President of the Philippines, to inspect or investigate the condition of the Reserve Bank, shall not reveal to any person other than the President of the Philippines, the Secretary of Finance, and the Board or any member thereof or to any person duly authorized by any one of them to receive the same the details of the inspection or investigation, nor shall they give any information or investigation, nor shall they give any information relative to the affairs of the Reserve Bank except by order of a court of competent jurisdiction.

CHAPTER IV. -- Prohibitions and Penalties

SEC. 50. It shall be prohibited for the Reserve Bank:

- (a) To issue notes of a denomination below one peso or over one thousand pesos;
- (b) To engage in trade, or otherwise have a direct interest in any commercial, industrial or agricultural undertaking;
- (c) To own real property except as authorized in this Act; .
- (d) To pay interest on money deposited on current accounts;
- (e) To grant renewals of promissory notes of member banks, matured bills of exchange, promissory notes and other similar documents discounted or rediscounted by the Reserve Bank, provided that under exceptional circumstances, the Board may by resolution, authorize, in accordance with this Act, not more than one renewal of any such bill, promissory notes or documents as aforesaid;
- (f) To make advances to the Government or its political subdivisions, either directly or indirectly, except in the manner and in the amount provided for in this Act;
- (g) To grant loans or advances without security;
- (h) To deal directly with any person, company, firm or corporation except in connection with its open market operations.

Any Governor, officer, or employee of the Reserve Bank who knowingly violates or knowingly permits any of the officers, or employees of the Reserve Bank to violate the provisions of this section shall be punished by a fine of not to exceed five thousand pesos or by imprisonment not to exceed five years or by both such fine and imprisonment.

SEC. 51. Any Governor, officer, agent or employee of the Reserve Bank or its branches, or any member bank, who shall willfully violate any provisions of this Act not specifically punished in this Act, or permits its violation, or shall resort to any device, or receive any fictitious obligation, directly or collaterally, in order to evade the provisions thereof, or who shall certify a check before the amount thereof shall have been regularly deposited in the bank by the drawer, and any person aiding and abetting the commission of any of the said acts, shall be punished by a fine not to exceed five thousand pesos or by an imprisonment for a term not to exceed five years or by both such fine and imprisonment.

SEC. 52. The Secretary of Finance, the Auditor General, and the Governors, officers and employees of the Reserve Bank, shall not either directly or indirectly, for himself or as the representative or agent of others, borrow money from the Reserve Bank, nor shall become a guarantor, indorser, or surety for loans, discounts or rediscounts from the Reserve Bank to member banks or other persons, corporations or associations, or in any manner be an obligor for moneys borrowed of the Reserve Bank or loaned by it. The office of those who violate the provisions of this section shall immediately be declared vacant, and the guilty shall be punished by imprisonment not exceeding five years and by a fine of not more than five thousand pesos.

SEC. 53. No fee, commission, gift, or charge of any kind shall be exacted, demanded or paid for obtaining loans, discount or rediscount from the Reserve Bank, and any officer, employee, or agent of the said Reserve Bank exacting, demanding, or receiving any fee, commission, gift or charge of any kind said services to obtain a loan discount or rediscount, shall be punished by a fine of not more than five thousand pesos or imprisonment for not more than five years, or both, at the direction of the Court.

SEC. 54. Whoever, for the purpose of obtaining any loan from the Reserve Bank, or any extension or renewal therefor, or the acceptance, release, or substitution of security therefor, or for the purpose of including the Reserve Bank to purchase any assets, or for the purpose of obtaining the payment of any deposit or transferred deposit or the allowance, approval, or payment of any claim, or for the purpose of influencing in any way the action of the Reserve Bank, makes any statement, knowing it to be false, or willfully overvalues any security, shall be punished by a fine of not more than five thousand pesos or by imprisonment of not more than years, or both.

SEC. 55. Any Governor who accept a position or employment of any kind in any bank except the Agricultural and Industrial Bank of the Philippines, while holding office or within the one year subsequent to vacating his office, shall be punished by imprisonment of not more than one year or a fine of one thousand pesos.

SEC. 56. Any person who, without lawful justification or excuse, hinders, obstructs, or delays any person authorized by the Reserve Bank to make an inspection of the books and accounts of a member bank for the purpose of ascertaining the correctness in any material particular of, any return submitted by such member bank, or for any other reason which, in the opinion of the Board, is desirable for the public interest, shall be punished by a fine of not more than five thousand pesos or by imprisonment of not more than five years, or both.

EFFECTIVE DATE OF THIS ACT

Sec. 57. This Act shall take effect on January first, nineteen hundred and forty, but the president of the Philippines may advance the date of said effectivity by a proclamation.

Approved, June 9, 1939.

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