

THE COOPERATIVE CODE OF THE PHILIPPINES

Republic Act N/6938 of 1990

Republic of the Philippines

CONGRESS OF THE PHILIPPINES

AN ACT TO ORDAIN A COOPERATIVE CODE OF THE PHILIPPINES

Be it enacted by the Senate and House of Representatives of the Philippines in Congress assembled:

CHAPTER I. GENERAL CONCEPTS AND PRINCIPLES

Section 1. Title. This Act shall be known as the "Cooperative Code of the Philippines."

Section 2. Declaration of Policy. It is the declared policy of the State to foster the creation and growth of cooperatives as a practical vehicle for promoting self-reliance and harnessing people power towards the attainment of economic development and social justice. The State shall encourage the private sector to undertake the actual formation and organization of cooperatives and shall create an atmosphere that is conducive to the growth and development of these cooperatives.

Toward this end, the Government and all its branches, subdivisions, instrumentalities and agencies shall ensure the provision of technical guidance, financial assistance and other services to enable said cooperatives to develop into viable and responsive economic enterprises and thereby bring about a strong cooperative movement that is free from any conditions that might infringe upon the autonomy or organizational integrity of cooperatives.

Further, the State recognizes the principle of subsidiarity under which the cooperative sector will initiate and regulate within its own ranks the promotion and organization, training and research, audit and support services relating to cooperatives with government assistance where necessary.

Section 3. General Concepts. A cooperative is a duly registered association of persons, with a common bond of interest, who have voluntarily joined together to achieve a lawful common social or economic end, making equitable contributions to the capital required and accepting a fair share of the risks and benefits of the undertaking in accordance with universally accepted cooperative principles.

Section 4. Cooperative Principles. Every cooperative shall conduct its affairs in accordance with Filipino culture and experience and the universally accepted principles of cooperation which include the following:

(1) "*Open and Voluntary Membership*": Membership in a cooperative shall be voluntary and available to all individuals regardless of their social, political, racial or religious background or beliefs.

(2) "*Democratic Control*": Cooperatives are democratic organizations. Their affairs shall be administered by persons elected or appointed in a manner agreed upon by the members. Members of primary cooperatives shall have equal voting rights on a one-member-one-vote

principle: *Provided however*, That in the case of secondary and tertiary cooperatives, the provisions of section 37 of this Code shall apply.

(3) “*Limited Interest in Capital*”: Share capital shall receive a strictly limited rate of interest.

(4) “*Division of Net Surplus*”: Net surplus arising out of the operations of a cooperative belongs to its members and shall be equitably distributed for cooperative development common services, indivisible reserve fund, and for limited interest on capital and/or patronage refund in the manner provided in this Code and in the articles of cooperation and by-laws.

(5) “*Cooperative Education*”: All cooperatives shall make provision for the education of their members, officers and employees and of the general public based on the principles of cooperation.

(6) “*Cooperation Among Cooperatives*”: All cooperatives, in order to best serve the interest of their members and communities, shall actively cooperate with other cooperatives at local, national, and international levels.

Section 5. Definition of Terms. The following terms shall mean:

(1) “*Member*” includes a person either natural or juridical who, adhering to the principles set forth in this Code and in the articles of cooperation, has been admitted by the cooperative as member;

(2) “*General Assembly*” shall mean the full membership of the cooperative duly assembled for the purpose of exercising all the rights and performing all the obligations pertaining to cooperatives, as provided by this Code, its articles of cooperation and by-laws;

(3) “*Board of Directors*” shall mean that body entrusted with the management of the affairs of the cooperative under its articles of cooperation and by-laws;

(4) “*Committee*” shall refer to any body entrusted with specific functions and responsibilities under the by-laws or resolution of the general assembly or the board of directors;

(5) “*Articles of Cooperation*” means the articles of cooperation registered under this Code and includes a registered amendment thereof;

(6) “*By-laws*” means the by-laws registered under this Code and includes any registered amendment thereof;

(7) “*Registration*” means the operative act granting juridical personality to a proposed cooperative and is evidenced by a certificate of registration;

(8) “*Cooperative Development Authority*” means the government agency in charge of registration and regulation of cooperatives as such, hereinafter referred to as the Authority; and

(9) “*Universally Accepted Principles*” means that body of cooperative principles adhered to worldwide by cooperatives in other jurisdictions.

CHAPTER II. ORGANIZATION AND REGISTRATION

Section 6. Organization of Cooperatives. A Cooperative may be organized and registered by at least fifteen (15) persons for any or all of the following purposes:

(1) To encourage thrift and savings mobilization among the members;

(2) To generate funds and extend credit to the members for productive and provident purposes;

(3) To encourage among members systematic production and marketing;

(4) To provide goods and services and other requirements to the members;

(5) To develop expertise and skills among its members;

(6) To acquire lands and provide housing benefits for the members;

(7) To insure against losses of the members;

- (8) To promote and advance the economic, social and educational status of the members;
- (9) To establish, own, lease or operate cooperative banks, cooperative wholesale and retail complexes, insurance and agricultural/industrial processing enterprises, and public markets;
- (10) To coordinate and facilitate the activities of cooperatives; and
- (11) To undertake any and all other activities for the effective and efficient implementation of the provisions of this Code.

Section 7. Objectives of Cooperative. The primary objective of every cooperative is to provide goods and services to its members and thus enable them to attain increased income and savings, investments, productivity, and purchasing power and promote among them equitable distribution of net surplus through maximum utilization of economies of scale, cost-sharing and risk-sharing without, however, conducting the affairs of the cooperative for eleemosynary or charitable purposes.

A cooperative shall provide maximum economic benefits to its members, teach them efficient ways of doing things in a cooperative manner, and propagate cooperative practices and new ideas in business and management and allow the lower income groups to increase their ownership in the wealth of this nation.

Section 8. Cooperative Not in Restraint of Trade. No cooperative or method or act hereof which complies with this Code shall be deemed a conspiracy or combination in restraint of trade or an illegal monopoly, or an attempt to lessen competition or fix prices arbitrarily in violation of any of the laws of the Philippines.

Section 9. Cooperative Powers and Capacities. A cooperative registered under this Code shall have the following powers and capacities:

- (1) To sue and be sued in its cooperative name;
- (2) Of succession;
- (3) To amend its articles of cooperation in accordance with the provisions of this code;
- (4) To adopt by-laws not contrary to law, morals or public policy, and to amend and repeal the same in accordance with this Code;
- (5) To purchase, receive, take or grant, hold, convey, sell, lease, pledge, mortgage, and otherwise deal with such real and personal property as the transaction of the lawful affairs of the cooperative may reasonably and necessarily require, subject to the limitations prescribed by law and the Constitution;
- (6) To enter into division, merger or consolidation, as provided in this Code;
- (7) To join federations or unions, as provided in this Code;
- (8) To accept and receive grants, donations and assistance from foreign and domestic sources; and
- (9) To exercise such other powers granted in this Code or necessary to carry out its purpose or purposes as stated in its articles of cooperation.

Section 10. Organizing a Primary Cooperative. Fifteen (15) or more natural persons, who are citizens of the Philippines, having a common bond of interest and are residing or working in the intended area of operation may organize a cooperative under this Code.

Section 11. Economic Survey. Every group of individuals or cooperatives intending to form a cooperative under this Code shall submit to the Cooperative Development Authority a general statement describing the structure, purposes and economic feasibility of the proposed cooperative, indicating therein the area of operation, the size of membership and other pertinent

data.

Section 12. Liability. A cooperative shall be registered under this Code, with limited liability.

Section 13. Term. A cooperative shall exist for a period not exceeding fifty (50) years from the date of registration unless sooner dissolved or unless said period is extended. The cooperative term, as originally stated in the articles of cooperation, may be extended for periods not exceeding fifty (50) years in any single instance by an amendment of the articles of cooperation, in accordance with this Code: *Provided*, That no extension can be made earlier than five (5) years prior to the original or subsequent expiry date/dates unless there are justifiable reasons for an earlier extension as may be determined by the Cooperative Development Authority.

Section 14. Articles of Cooperation. (1) All cooperatives applying for registration shall file with the Cooperative Development Authority the articles of cooperation which shall be signed by each of the organizers and acknowledged by them if natural persons, and by the presidents or secretaries, if juridical persons, before a notary public.

(2) The articles of cooperation shall set forth;

- (a) The name of the cooperative which shall include the word "cooperative";
- (b) The purpose or purposes and scope of business for which the cooperative is to be registered;
- (c) The term of existence of the cooperative;
- (d) The area of operation and the postal address of its principal office;
- (e) The names, nationality, and the postal addresses of the registrants;
- (f) The common bond of membership;
- (g) The list of names of the directors who shall manage the cooperative; and
- (h) The amount of its share capital, the names and residences of its contributors and a statement of whether the cooperative is primary, secondary or tertiary in accordance with Section 23 hereof.

(3) The articles of cooperation may also contain any other provisions not inconsistent with this Code or any related law.

(4) Four (4) copies each of the proposed articles of cooperation, by-laws, and the general statement required under Section 11 of this Code shall be submitted to the Cooperative Development Authority.

(5) No cooperative shall be registered unless the articles of cooperation are accompanied with the bonds of the accountable officers and a sworn statement of the treasurer elected by the subscribers showing that at least twenty-five per cent (25%) of the authorized share capital has been subscribed and at least twenty-five per cent (25%) of the total subscription has been paid: *Provided*, That in no case shall the paid-up share capital shall be less than two thousand pesos (P2'000,00).

Section 15. By-laws. (1) Each cooperative to be registered under this Code shall adopt by-laws not inconsistent with the provisions of this Code. The by-laws shall be filed at the same time as the articles of cooperation.

(2) The by-laws of each cooperative shall provide:

- (a) The qualifications for admission to membership and the payment to be made or interest to be acquired as a condition for the exercise of the right of membership;
- (b) The rights and liabilities of membership;
- (c) The circumstances under which membership is acquired, maintained and lost;

- (d) The procedure to be followed in case of termination of membership;
- (e) The conditions under which the transfer of a share or interest of the members shall be permitted;
- (f) The rules and procedures on the agenda, time, place and manner of calling, convening, conducting meetings, quorum requirements, voting systems, and other matters related to the business affairs of the general assembly, board of directors, and committees;
- (g) The general conduct of the affairs of the cooperative, including the powers and duties of the general assembly, the board of directors, committees and the officers, and their qualifications and disqualifications;
- (h) The manner in which the capital may be raised and the purposes for which it can be utilized;
- (i) The mode of custody and of investment of net surplus;
- (j) The accounting and auditing systems;
- (k) The manner of loaning and borrowing, including limitations thereof;
- (l) The method of distribution of net surplus;
- (m) The manner of adopting, amending, repealing and abrogating by-laws;
- (n) A conciliation or mediation mechanism for the amicable settlement of disputes among members, directors, officers and committee members of the cooperative; and
- (o) Other matters incident to the purposes and activities of the cooperative.

Section 16. *Registration.* A cooperative formed or organized under this Code acquires juridical personality from the date the Cooperative Development Authority issues a certificate of registration under its official seal. All applications for registration shall be finally disposed of by the Cooperative Development Authority within a period of thirty (30) days from the filing thereof, otherwise the application is deemed approved, unless the cause of the delay is attributable to the applicant: *Provided*, That, in case of a denial of the application for registration, an appeal shall lie with the Office of the President within ninety (90) days from receipt of notice of such denial: *Provided further*, That failure of the Office of the President to act on the appeal within ninety (90) days from the filing thereof shall mean approval of said application.

Section 17. *Certificate of Registration.* A certificate of registration issued by the Cooperative Development Authority under its official seal shall be conclusive evidence that the cooperative therein mentioned is duly registered unless it is proved that the registration thereof has been cancelled.

Section 18. *Amendment of Articles of Cooperation and By-laws.* Unless otherwise prescribed by this Code and for legitimate purposes, any provision or matter stated in the articles of cooperation may be amended by two-thirds (2/3) vote of all the member with voting rights, without prejudice to the right of the dissenting members to exercise their right to withdraw their membership under Sections 31 and 32.

The original and amended sections together shall contain all provisions required by law to be set out in the articles of cooperation. Amendments shall be indicated by underscoring or otherwise appropriately indicating the change or changes made and a copy thereof duly certified under oath by the cooperative secretary and a majority of the directors stating the fact that said amendment or amendments have been duly approved by the required vote of the members. All amendments to the articles of cooperation shall be submitted to the Cooperative Development Authority. The amendments shall take effect upon its approval by the Cooperative Development

Authority or within thirty (30) days from the date of filing thereof if not acted upon by the Authority for a cause not attributable to the cooperative.

Section 19. *Contracts Executed Prior to Registration and Effect Thereof.* Contracts executed between private persons and cooperatives prior to the registration of the cooperative shall remain valid and binding between the parties and upon registration of the cooperative. A formal written contract shall be adopted and made in the cooperative's name or on its behalf prior to its registration.

Section 20. *Division of Cooperatives.* Any registered cooperative may, by a resolution approved by a vote of two-thirds (2/3) of the members eligible to vote at a general assembly meeting, resolve to divide itself into two (2) or more cooperatives. The procedure for such division shall be prescribed in the regulations of the Cooperative Development Authority. The new cooperatives shall be come legally established upon registration with the Authority: *Provided*, That all the requirements set forth in this Code have been complied by the new cooperatives: *Provided further*, That no division of a cooperative in fraud of creditors shall be valid.

Section 21. *Merger and Consolidation of Cooperatives.* (1) Two (2) or more cooperatives may merge into a single cooperative which shall be the consolidated cooperative.

(2) No merger or consolidation shall be valid unless approved by two-thirds (2/3) of all the members eligible to vote of each of the constituent cooperatives at separate general assembly meetings. The dissenting members shall have the right to exercise their right to withdraw their membership pursuant to Sections 31 and 32.

(3) The Cooperative Development Authority shall issue the guidelines governing the procedure of merger or consolidation of cooperatives. In any case, the merger or consolidation shall be effective upon the issuance of the certificate of merger or consolidation by the Cooperative Development Authority.

Section 22. *Effects of Merger and Consolidation.* The merger or consolidation of cooperatives shall have the following effects:

(1) The constituent cooperatives shall become a single cooperative which, in case of merger, shall be the surviving cooperative, and, in case of consolidation, shall be the consolidated cooperative;

(2) The separate existence of the constituent cooperatives shall cease, except that of the surviving or the consolidated cooperative;

(3) The surviving or the consolidated cooperative shall possess all the rights, privileges, immunities and powers and shall be subject to all the duties and liabilities of a cooperative organized under this Code;

(4) The surviving or the consolidated cooperative shall possess all the assets, rights, privileges, immunities and franchises of each of the constituent cooperatives; and

(5) The surviving or the consolidated cooperative shall be responsible for all the liabilities and obligations of each of the constituent cooperatives in the same manner as if such surviving or consolidated cooperative had itself incurred such liabilities or obligations. Any claim, action or proceeding pending by or against any such constituent cooperatives may be prosecuted by or against the surviving or consolidated cooperative, as the case may be. Neither the rights of creditors nor any lien upon the property of any of such constituent cooperative shall be impaired by such merger or consolidation.

Section 23. *Types and Categories of Cooperatives.* (1) “*Types of Cooperatives*”: Cooperatives

may fall under any of the following types:

- (a) “*Credit Cooperative*” is one which promotes thrift among its members and creates funds in order to grant loan for productive and provident purposes;
- (b) “*Consumers Cooperative*” is one the primary purpose of which is to procure and distribute commodities to members and non-members;
- (c) “*Producers Cooperative*” is one that undertakes joint product whether agricultural or industrial;
- (d) “*Marketing Cooperative*” is one which engages in the supply of production inputs to members and markets their products;
- (e) “*Service Cooperative*” is one which engages in medical and dental care, hospitalization, transportation, insurance, housing, labour, electric light and power, communication and other services; and
- (f) “*Multipurpose Cooperative*” is one which combines (2) or more of the business activities of these different types of cooperatives.

(2) “*Categories of Cooperatives*”: Cooperatives shall be categorized according to membership and territorial considerations as follows:

- (a) In terms of membership, cooperative shall be categorized into:
 - (i) *Primary*: The members of which are natural persons;
 - (ii) *Secondary*: The members of which are primaries; and
 - (iii) *Tertiary*: The members of which are secondaries upward to one (1) or more apex organizations.

Those cooperative the members of which are cooperatives shall be known as federations or unions, as the case may be; and

(b) In terms of territory, cooperatives shall be categorized according to areas of operations which may or may not coincide with the political subdivisions of the country.

Section 24. Federation of Cooperatives. (1) A federation of cooperatives whose members are primary and/or secondary cooperatives with single line or multipurpose business activities may be registered under this Code for any or all of the following purposes:

- (a) Primary Purpose: To carry on any cooperative enterprise authorized under Section 6;
- (b) Secondary Purpose:
 - (i) To carry on, encourage, and assist educational and advisory work relating to its member cooperatives;
 - (ii) To render services designed to encourage simplicity, efficiency, and economy in the conduct of the business of its member cooperatives and to facilitate the implementation of their book-keeping, accounting, and other system and procedures;
 - (iii) To print, publish, and circulate any newspaper or other publication in the interest of its member cooperatives and enterprises;
 - (iv) To coordinate and facilitate the activities of its member cooperatives;
 - (v) To enter into joint ventures with national or International cooperatives of other countries in the manufacture and sale of products and/or services in the Philippines and abroad; and
 - (vi) To perform such other functions as may be necessary to attain its objectives.

A federation of cooperatives may be registered by carrying out the formalities for registration of a cooperative.

(2) Registered cooperatives may organize a federation at the provincial city, regional, and national levels according to the type of business carried on.

Section 25. Cooperative Unions. Registered cooperatives and federations at the appropriate levels may organize or join cooperative unions to represent the interest and welfare of all types of cooperatives at the provincial, city, regional, and national levels. Cooperative unions may have the following purposes:

- (a) To represent its member organizations;
- (b) To acquire, analyze, and disseminate economic, statistical, and other information relating to its members and to all types of cooperatives within its area of operation;
- (c) To sponsor studies in the economic, legal, financial, social and other phases of cooperation, and publish the results thereof;
- (d) To promote the knowledge of cooperative principles and practices;
- (e) To develop the cooperative movement in their respective jurisdictions;
- (f) To advise the appropriate authorities on all questions relating to cooperatives;
- (g) To raise funds through membership fees, dues and contributions, donations, and subsidies from local and foreign sources whether private or government; and
- (h) To do and perform such other activities as may be necessary to attain the foregoing objectives.

Cooperative unions may assist the national and local governments in the latter's development activities in their respective jurisdictions.

CHAPTER III. MEMBERSHIP

Section 26. Who May Be Members of Cooperatives. Any natural person, who is a citizen of the Philippines, a cooperative, or non-profit organization with juridical personality shall be eligible for membership in a cooperative if the applicant meets the qualifications prescribed in the by-laws: *Provided*, That only natural persons may be admitted as members of a primary cooperative.

Section 27. Kinds of Membership. A cooperative may have two (2) kinds of members, to wit: (1) regular members and (2) associate members. A regular member is one who is entitled to all the rights and privileges of membership. An associate member is one who has no rights to vote nor be voted upon and shall be entitled only to such rights and privileges as the by-laws may provide.

A cooperative organized by minors shall be considered a laboratory cooperative and must be affiliated with a registered cooperative. A laboratory cooperative shall be governed by special guidelines to be promulgated by the Cooperative Development Authority.

Section 28. Government Officers and Employees. (1) Any officer or employee of the Cooperative Development Authority shall be disqualified to be elected or appointed to any position in a cooperative;

(2) Elective officials of the Government, except barangay officials, shall be ineligible to become officers and directors of cooperatives; and

(3) Any government employee may, in the discharge of his duties as member in the cooperative, be allowed by the head of office concerned to use official time for attendance at the general assembly, board and committee meetings of cooperatives as well as cooperative seminars, conferences, workshops, technical meetings, and training courses locally or abroad: *Provided*, That the operations of the office concerned are not adversely affected.

Section 29. Application. An applicant for membership shall be deemed a member after approval of his membership by the board of directors and shall exercise the rights of member after having made such payments to the cooperative in respect to membership or acquired interest in the cooperatives as may be prescribed in the by-laws. In case membership is refused or denied by the

board of directors, an appeal may be made to the general assembly and the latter's decision shall be final.

Section 30. *Liability of Members.* A member shall be liable for the debts of the cooperative to the extent of his contribution to the share capital of the cooperative.

Section 31. *Termination of Membership.* (1) A member of a cooperative may, for any reason, withdraw his membership from the cooperative by giving a sixty (60) day notice to the board of directors. The withdrawing member shall be entitled to a refund of his share capital contribution and all other interests in the cooperative: *Provided*, That such refund shall not be made if upon such payment the value of the assets of the cooperative would be less than the aggregate amount of its debts and liabilities exclusive of his share capital contribution.

(2) The death, insanity, insolvency or dissolution of a member shall be considered an automatic termination of membership.

(3) A member may be terminated by a vote of the majority of all the members of the board of directors for any of the following causes:

(a) When a member has not patronized the services of the cooperative for an unreasonable period of time as may be fixed by the board of directors;

(b) When a member has continuously failed to comply with his obligations;

(c) When a member has acted in violation of the by-laws and the rules of the cooperative; and

(d) For any act or omission injurious or prejudicial to the interest or the welfare of the cooperative.

A member whose membership the board of directors may wish to terminate shall be informed of such intended action in writing and shall be given an opportunity to be heard before the said board makes its decision. The decision of the board shall be in writing and shall be communicated in person or by registered mail to the member and shall be appealable, within thirty (30) days after the decision is promulgated to the general assembly whose decision therein, whether in a general or special session, shall be final. Pending a decision by the general assembly, the membership remains in force.

Section 32. *Refund of Interests.* All sums computed in accordance with the by-laws to be due from a cooperative to a former member shall be paid to him either by the cooperative or by the approved transferee as the case may be, in accordance with Code.

CHAPTER IV. ADMINISTRATION

Section 33. *Composition of the General Assembly.* The general assembly shall be composed of such members who are entitled to vote under the articles of cooperation and by-laws of the cooperative.

Section 34. *Powers of the General Assembly.* The general assembly shall be the highest policy-making body of the cooperative and shall exercise such powers as are stated in this Code, in the articles of cooperation and in the by-laws of the cooperative. The general assembly shall have the following exclusive powers which cannot be delegated:

(1) To determine and approve amendments to the articles of cooperation and by-laws;

(2) To elect or appoint the members of the board of directors, and to remove them for cause;

(3) To approve developmental plans of the cooperative; and

(4) Such other matters requiring a two-thirds (2/3) vote of all members of the general assembly, as provided in this Code.

Section 35. Meetings. (1) A regular meeting shall be held annually by the general assembly on a date fixed in the by-laws, or if not so fixed, on any date within ninety (90) days after the close of each fiscal year: *Provided*, That written notice of regular meetings shall be sent to all members of record at their official addresses at least two (2) weeks prior to the meeting, unless a different period is required in the by-laws.

(2) Whenever necessary, a special meeting of the general assembly may be called at any time by a majority of the board of directors or in the cases specified in the by-laws: *Provided*, That at least one (1) week written notice shall be sent to all members. However, a special meeting shall be called by the board of directors after compliance with the required notice within one (1) month after receipt of a request in writing from at least ten per cent (10%) of the total members to transact specific business covered by the call.

If the board fails to call a regular meeting or a special meeting within the given period, the Cooperative Development Authority, upon petition of ten per cent (10%) of all the members of the cooperative, and for good cause shown, may issue an order to the petitioners directing them to call a meeting of the general assembly by giving proper notice required by this Code or by the by-laws.

(3) In the case of a newly approved cooperative, a special general assembly shall be called within ninety (90) days from such approval;

(4) The Authority may call a special meeting of the cooperative:

(a) For the purpose of reporting to the members the result of any audit, examination, or other investigation of the cooperative affairs ordered or made by him; or

(b) When the cooperative fails to hold an annual general assembly during the period required for the purpose of enabling the members to secure any information regarding the affairs of the cooperative and benefits that they are entitled to receive pursuant to this Code.

(5) Notice of any meeting may be waived, expressly or impliedly, by any member.

Section 36. Quorum. Unless otherwise provided in the by-laws, a quorum shall consist of twenty-five per cent (25%) of all the members entitled to vote.

Section 37. Voting System. (1) Each member of a primary cooperative shall have only one (1) vote. A secondary or tertiary cooperative shall have voting rights as delegate of members-cooperatives, but such cooperatives shall have only five (5) votes. The votes cast by the delegates shall be deemed as votes cast by the members thereof.

(2) No voting agreement or other device to evade the one-member-one-vote provision except as provided under subsection (1) hereof shall be valid.

(3) No member of a primary cooperative shall be permitted to vote by proxy unless provided for specifically in the by-laws of the cooperative. However, the by-laws of a cooperative other than a primary may provide for voting by proxy. Voting by proxy means allowing a delegate of a cooperative to represent or vote in the behalf of another delegate of the same cooperative.

Section 38. Composition of the Board of Directors. The conduct and management of the affairs of the cooperative shall be vested in a board of directors which shall be composed of not less than five (5) nor more than fifteen (15) members elected by the general assembly for a term fixed in

the by-laws but not exceeding a term of two (2) years and shall hold office until their successors are duly elected and qualified, or until duly removed. However, no director shall serve for more than three (3) consecutive terms.

Section 39. Powers of the Board of Directors. The board of directors shall direct and supervise the business, manage the property of the cooperative and may, by resolution, exercise all such powers of the cooperative as are not reserved for the general assembly under this Code and the by-laws.

Section 40. Directors. (1) Any member of a cooperative who, under the by-laws of the cooperative, has the right to vote and who possesses all the qualifications and none of the disqualifications provided in the laws or the by-laws shall be eligible for election as director.

(2) The cooperative may, by resolution of its board of directors, admit as director, or committee member one appointed by any financing institution from which the cooperative received financial assistance solely to provide technical knowledge not available within its membership. Such director or committee member need not be a member of the cooperative and shall have no powers, rights nor responsibilities except to provide technical assistance as required by the cooperative.

Section 41. Meeting of the Board, Quorum. (1) Regular meetings of the board of directors of every cooperative shall be held monthly, unless the by-laws provide otherwise.

(2) Special meetings of the board of directors may be held at any time upon the call of the President or as provided in the by-laws.

(3) A majority of the members of the board shall constitute a quorum for the conduct of business, unless the by-laws provide otherwise.

(4) Directors cannot attend or vote by proxy at board meetings.

Section 42. Vacancy in the Board of Directors. Any vacancy in the board of directors, other than by expiration of term, may be filled by the vote of at least a majority of the remaining directors, if still constituting a quorum, otherwise, the vacancy must be filled by general assembly in a regular or special meeting called for the purpose. A director so elected to fill a vacancy shall be elected only for the unexpired term of his predecessor in office.

Section 43. Officers of the Cooperative. The board of directors shall elect from among themselves only the chairman and vice-chairman, and elect or appoint other officer of the cooperative from outside of the board in accordance with their by-laws. All officers shall serve during good behaviour and shall not be removed except for cause after due hearing. Loss of confidence shall not be a valid ground for removal unless evidenced by acts or omission causing loss of confidence in the honesty and integrity of such officer. No two (2) or more persons with relationships up to the third civil degree of consanguinity or affinity shall serve as elective or appointive officers in the same board.

Section 44. Committee of Cooperatives. (1) The by-laws may create an executive committee to be appointed by the board of directors with such powers and duties as may be delegated to it in the by-laws or by a majority vote of all the members of the board of directors.

(2) The by-laws shall provide for the creation of an audit committee and such other committees as may be necessary for the proper conduct of the affairs of the cooperative.

Unless otherwise provided in the by-laws, the board, in case of vacancy in said committees, may cause an election to fill the vacancy or appoint a person to fill the same subject

to the provision that the person elected or appointed shall serve only for the unexpired portion of the term.

Section 45. *Functions and Responsibilities of Directors, Officers and Committee Members.* The functions and responsibilities of the directors, officers and committee members shall be as prescribed in detail in the by-laws of a cooperative.

Section 46. *Liability of Directors, Officers and Committee Members.* Directors, officers and committee members, who willfully and knowingly vote for or assent to patently unlawful acts or who are guilty of gross negligence or bad faith in directing the affairs of the cooperative or acquire any personal or pecuniary interest in conflict with their duty as such directors, officers or committee member shall be liable jointly and severally for all damages or profits resulting therefrom to the cooperative, members and other persons.

When a director, officer or committee member attempts to acquire or acquires, in violation of his duty, any interest or equity adverse to the cooperative in respect to any matter which has been reposed in him in confidence, he shall, as a trustee for the cooperative, be liable for damages and for double the profits which otherwise would have accrued to the cooperative.

Section 47. *Compensation.* (1) In the absence of any provision in the by-laws fixing their compensation, the directors shall not receive any compensation except for reasonable per diem: *Provided*, That any compensation other than per diems may be granted to directors by a majority vote of the members with voting rights at a regular or special general assembly meeting specifically called for the purpose: *Provided further*, that no additional compensation other than per diems shall be paid during the first year of existence of any cooperative.

(2) The compensation of officers of the cooperative as well as the members of the committees created pursuant to this Code or its by-laws may be fixed in the by-laws.

(3) Unless already fixed in the by-laws, the compensation of all other employees shall be determined by the board of directors.

Section 48. *Dealings of Directors, Officers and Committee Members.* A contract of the cooperative with one (1) or more of its directors, officers, committee members is voidable, at the option of such cooperative, unless all the following conditions are present:

(1) That the presence of such director in the board meeting in which the contract was approved was not necessary to constitute a quorum for such meeting;

(2) That the vote of such director was not necessary for the approval of the contract;

(3) That the contract is fair and reasonable under the circumstances; and

(4) That in the case of an officer or committee member, the contract with the officer or committee member has been previously authorized by the general assembly or by the board of directors.

Where any of the first two conditions set forth in the preceding paragraph is absent in the case of a contract with a director, such contract may be ratified by a two-thirds (2/3) vote of all the members with voting rights in a meeting called for the purpose: *Provided*, That full disclosu.64 0 -0.024 -14.

voting rights. This provision shall be applicable, notwithstanding the fact that the director used his own funds in the venture.

Section 50. *Illegal Use of Confidential Information.* (1) A director or officer, or an associate of a director or officer, who, in connection with a transaction relating to shares of a cooperative or a debt obligation of a cooperative and for his benefit or advantage or that of an associate, makes use of confidential information that, if generally known, might reasonably be expected to affect materially the value of the share or the debt obligation shall be held:

(a) Liable to compensate any person for a direct loss suffered by that person as a result of the transaction, unless the information was known or reasonably should have been known to the person at the time of the transaction; and

(b) Accountable to the cooperative for any direct benefit or advantage received or yet to be received by him or his associate, as a result of the transaction.

(2) The cooperative shall take the necessary steps to enforce the liabilities described in subsection (a).

Section 51. *Removal.* An elective officer, director or committee member may be removed by a vote of two-thirds (2/3) of the voting members present and constituting a quorum, in a regular or special general meeting called for the purpose. The person involved shall be given an opportunity to be heard at said assembly.

CHAPTER V. RESPONSIBILITIES, RIGHTS AND PRIVILEGES OF COOPERATIVES

Section 52. *Address.* Every cooperative shall have an official postal address to which all notices and communications shall be sent. Such address and every change thereof shall be registered with the Cooperative Development Authority.

Section 53. *Books to be Kept Open.* (1) Every cooperative shall have the following open to its members and representatives of the Authority for inspection during reasonable office hours at its official address:

(a) A copy of this Code and all other laws pertaining to cooperative;

(b) A copy of the regulations of the Cooperative Development Authority;

(c) A copy of the articles of cooperation and by-laws of the cooperative;

(d) A register of members;

(e) The books of the minutes of the meetings of the general assembly, board of directors and committees;

(f) Share books, where applicable;

(g) Financial statements; and

(h) Such other documents as may be prescribed by laws or the by-laws.

(2) The chairman of the audit committee of a cooperative shall be responsible for books and records of account of the cooperative in accordance with generally accepted accounting practices. He shall also be responsible for the production of the same at the time of audit or inspection.

(3) Each cooperative shall maintain records of accounts such that the true and correct condition and the results of the operation of the cooperative may be ascertained therefrom at anytime. The financial statements, audited according to generally accepted auditing standards, principles and practices, shall be published annually.

(4) Subject to the pertinent provisions of the National Internal Revenue Code and other

laws, a cooperative may dispose by way of burning or other method of complete destruction any document, record or book pertaining to its financial and nonfinancial operations which are already more than five (5) years old except those relating to transactions which are subject of civil, criminal, and administrative proceedings. An inventory of the audited documents, records, and books to be disposed of shall be drawn up and certified to by the cooperative secretary and the chairman of the audit committee of the cooperative and presented to the board of directors which may be thereupon approve the disposition of said records.

Section 54. *Annual Reports.* (1) Every cooperative shall draw up an annual report of its affairs as of the end of every fiscal year, and publish the same furnishing copies to all its members of record. A copy thereof shall be filed with the Cooperative Development Authority within sixty (60) days from the end of every fiscal year. The form and contents shall be a ground for revocation of authority of the cooperative to operate as such. The fiscal year of every cooperative shall be the calendar year except as may be otherwise provided in by the by-laws.

(2) If any cooperative fails to make, publish and file the report required herein, or fails to include therein any matter required by this Code, the Cooperative Development Authority shall, within fifteen (15) days from the date of expiration of the prescribed period, send such cooperative a registered notice, directed to its official and postal address stating the delinquency and its consequences. If the cooperative fails to make, publish or file a copy of the report within thirty (30) days from receipt of such notice, any member of the cooperative or the Government may petition the court for mandamus to compel the cooperative and its officers to make, publish and file such report, as the case may be, and require the cooperative or the officers at fault to pay all the expenses of the proceeding, including counsel fees when the filing is made by a member.

Section 55. *Register of Members as Prima Facie Evidence.* Any register or list of members or shares kept by any registered cooperative shall be *prima facie* evidence of the following particulars entered therein:

- (1) The date on which the name of any person was entered in such register or list as member; and
- (2) The date on which any such person ceased to be a member.

Section 56. *Probative Value of Certified Copies of Entries.* (1) A copy of any entry in any book, register or list regularly kept in the course of business in the possession of a cooperative shall, if duly certified in accordance with the rules of evidence, be admissible as evidence of the existence of the entry and *prima facie* evidence of the matters and transactions therein recorded.

(2) No person or cooperative in possession of the books of such cooperative shall, in any legal proceedings to which the cooperative is not a party, be compelled to produce any of the books of the cooperative, the contents of which can be proved and the matters, transactions and accounts therein recorded, unless by order of a competent court.

Section 57. *Bonding of Accountable Officers.* Every director, officer and employee handling funds, securities or property on behalf of any cooperative shall execute and deliver adequate bonds for the faithful performance of his duties and obligations. The board of directors shall determine the adequacy of such bonds.

Section 58. *Preference of Claims.* (1) Notwithstanding the provisions of existing laws, rules and regulations to the contrary, but subject to the prior claim of the Cooperative Development Authority, any debt due a cooperative from a member shall be first lien upon any raw materials, production inputs, and products produced; or any land, building, facilities, equipment, goods or

services acquired and held, by such member through the proceeds of the loan or credit granted by the cooperative to him for as long as the same is not fully paid.

(2) No property or interest on property which is subject to a lien under paragraph (1) shall be sold nor conveyed to third parties without prior permission of the cooperative. The lien upon the property or interest shall continue to exist even after the sale or conveyance thereof until such lien has been duly extinguished.

(3) Notwithstanding the provisions of any law to the contrary, any sale or conveyance made in contravention of paragraph (2) hereof shall be void.

Section 59. *Instrument for Salary or Wage Deduction.* (1) A member of a cooperative may, notwithstanding the provisions of existing laws to the contrary, execute an instrument in favor of the cooperative authorizing his employer to deduct from the salary or wages payable to him by the employer and pay to the cooperative such amount as may be specified in satisfaction of any debt or other demand due from the member to the cooperative.

(2) Upon the execution of such instrument and as may be required by the cooperative contained in a written request, the employer shall make the deduction in accordance with the agreement and remit forthwith the amount so deducted to the cooperative. The employer shall make the deduction for as long as such debt or other demand or any part of it remains unpaid by the employee.

(3) The term "*employer*" as used in this article shall include all private firms and the national and local governments and government-owned or controlled corporations who have under their employ a member of a cooperative and have agreed to carry out the terms of the instrument mentioned in paragraphs (1) and (2) of this article.

(4) The provision of this section shall also apply to all such agreements of the nature referred to in paragraph (1) as were in force on the date of the approval of this Code.

Section 60. *Primary Lien.* Notwithstanding the provisions of any law to the contrary, a cooperative shall have a primary lien upon the capital, deposits or interest of a member for any debt due to the cooperative from such a member.

Section 61. *Tax Treatment of Cooperatives.* Duly registered cooperatives under this Code which do not transact any business with non-members or the general public shall not be subject to any government taxes and fees imposed under the Internal Revenue Laws and other tax laws. Cooperatives not falling under this article shall be governed by the succeeding section.

Section 62. *Tax and Other Exemptions.* Cooperatives transacting business with both members and non-members shall not be subject to tax on their transactions to members. Notwithstanding the provisions of the law or regulation to the contrary, such cooperatives dealing with non-members shall enjoy the following tax exemptions:

(1) Cooperatives with accumulated reserves and undivided net savings of not more than Ten million pesos (P10'000'000,00) shall be exempt from all national, city, provincial, municipal or barangay taxes of whatever name and nature. Such cooperatives shall be exempt from customs duties, advance sales or compensating taxes on their importation of machineries, equipment and spare parts used by them and which are not available locally as certified by the Department of Trade and Industry. All tax-free importations shall not be transferred to any person until after five (5) years, otherwise, the cooperative and the transferee or assignee shall be solidarily liable to pay twice the amount of the tax and/or duties thereon.

(2) Cooperatives with accumulated reserves and undivided net savings of more than ten million pesos (P10'000'000,00) shall pay the following taxes at the full rate:

- (a) Income Tax: On the amount allocated for interest on capitals: *Provided*, That the same tax is not consequently imposed on interest individually receive by members;
- (b) Sales Tax: On sales to non members: *Provided, however*, That all cooperatives, regardless of classification, are exempt from the payment of income and sales taxes for a period of ten (10) years.

For cooperatives whose exemptions were removed by Executive Order No. 93, the ten-year period shall be reckoned from the effectivity date of said Executive Order. Cooperatives created after the approval of this Code shall be granted the same exemptions, the period of which shall be reckoned from the date of registration with the Authority: *Provided*, That at least twenty-five per cent (25%) of the net income of the cooperatives is returned to the members in the form of interest and/or patronage refunds;

- (c) All other taxes unless otherwise provided herein; and
- (d) Donations to charitable, research and educational institutions and reinvestment to socio-economic projects within the are of operation of the cooperative may be tax deductible.

(3) All cooperative, regardless of the amount of accumulated reserves and undivided net savings shall be exempt from payment of local taxes and taxes on transactions with banks and insurance companies: *Provided*, That all sales or services rendered for non-members shall be subject to the applicable percentage taxes except sales made by producers, marketing or service cooperatives: *Provided further*, That nothing in this article shall preclude examination of the books of accounts or other accounting records of the cooperative by duly authorized internal revenue officers for internal revenue tax purposes only, after previous authorization by the Authority.

(4) Any judge in his capacity as notary public, *ex officio*, shall render service, free of charge, to any person or group of persons requiring either the administration of oath or acknowledgement of articles of cooperation of a cooperative applicant for registration and instruments of loan from cooperative not exceeding fifty thousand pesos (50'000,00).

(5) Any register of deeds shall accept for registration, free of charge, any instrument relative to a loan made under this Code which does not exceed fifty thousand pesos (50'000,00) or the deeds of title of any property acquired by the cooperative or any paper or document drawn in connection with any action brought by the cooperative or with any court judgment rendered in its favor or any instrument relative to a bond of any accountable officer of a cooperative for the faithful performance of his duties and obligations.

(6) Cooperatives shall be exempt from the payment of all court and sheriff's fees payable to the Philippine Government for and in connection with all actions brought under this Code, or where such actions is brought by the Cooperative Development Authority before the court, to enforce the payment of obligations contracted in favour of the cooperative.

(7) All cooperatives shall be exempt from putting up a bond for bringing an appeal against the decision of an inferior court or seeking to set aside any third party claim: *Provided*, That a certification of the authority showing that the net assets of the cooperative are in excess of the amount of the bond required by the court in similar cases shall be accepted by the court as sufficient bond.

(8) Any security issued by a cooperative, shall be exempt from provisions of the Securities Act provided such security shall not be speculative.

Section 63. Privileges of Cooperatives. Cooperatives registered under this Code shall, notwithstanding the provisions of any law to the contrary, be also accorded the following privileges:

- (1) Cooperatives shall enjoy the privilege of depositing their sealed cash boxes or

containers, documents or any valuables papers in the sale of the municipal or city treasurers and other government offices free of charge, and the custodian of such articles shall issue a receipt acknowledging the articles received duly witnessed by another person;

(2) Cooperatives organized among government employees, notwithstanding any law or regulation to the contrary, shall enjoy the free use of any available space in their agency, whether owned or rented by the Government.

(3) Cooperatives rendering special types of services and facilities such as cold storage, ice plant, electricity, transportation, and similar services and facilities shall secure a franchise therefore, and such cooperatives shall open their membership to all persons qualified in their areas of operation;

(4) In areas where appropriate cooperatives exist, the preferential right to supply government institutions and agencies rice, corn and other grains, fish and other marine products, meat, eggs, milk, vegetables, tobacco and other agricultural commodities produced by their own members shall be granted to the cooperatives concerned;

(5) Preferential treatment in the allocation of fertilizers and in rice distribution shall be granted to cooperatives by the appropriate government agencies;

(6) Preferential and equitable treatment in the allocation or control of bottomries of commercial shipping vessels in connections with the shipment of goods and products of cooperatives;

(7) Cooperatives and their federations, such as market vendor cooperatives, shall have preferential rights in management of public markets and/or lease of public market facilities, stall or spaces;

(8) Credit cooperatives and/or federations shall be entitled to loans, credit liens, rediscounting of their loan notes, and other eligible papers with the Development Bank of the Philippines, the Philippine National Bank, the Land Bank of the Philippines, and other financial institutions except the Central Bank of the Philippines;

(9) Cooperatives transacting business with the Government of the Philippines or any of its political subdivisions or any of its agencies or instrumentalities, including government-owned and controlled corporations shall be exempt from pre-qualification bidding requirements; and

(10) Cooperatives shall enjoy the privilege of being represented by the provincial or city fiscal or the Office of the Solicitor General, free of charge, except when the adverse party is the Republic of the Philippines.

CHAPTER VI. INSOLVENCY OF COOPERATIVES

Section 64. *Proceedings Upon Insolvency.* In case a cooperative is unable to fulfill its obligations to creditors due to insolvency, such cooperative may apply for such remedies as it may deem fit under the provisions of the Insolvency Law (Act No. 1956, as amended).

Nothing in this section, however, precludes creditors from seeking protection from said insolvency law.

CHAPTER VII. DISSOLUTION OF COOPERATIVES

Section 65. *Voluntary Dissolution Where No Creditors Are Affected.* If the dissolution of a cooperative does not prejudice the rights of any creditor having a claim against it, the dissolution may be affected by a majority vote of the board of directors, and by a resolution duly adopted by the affirmative vote of at least two-thirds (2/3) of all the members with voting rights at a meeting to be held upon call of the directors: *Provided*, That notice of time, place and object of the meeting shall be published for three (3) consecutive weeks in a newspaper published in the place

where the principal office of the said cooperative is located, or if no newspaper is published in such place, in a newspaper of general circulation in the Philippines: *Provided further*, That notice of such meeting is sent to each stockholder or member either by registered mail or by personal delivery at least thirty (30) days prior to said meeting. A copy of the resolution authorizing the dissolution shall be certified by a majority of the board of directors and countersigned by the secretary of the cooperative. The Cooperative Development Authority shall thereupon issue the certificate of dissolution.

Section 66. *Voluntary Dissolution Where Creditors Are Affected.* Where the dissolution of a cooperative may prejudice the rights of any creditor, the petition for dissolution shall be filed with the Cooperative Development Authority. The petition shall be signed by a majority of its board of directors or other officers managing its affairs, shall be verified by its president or secretary or one of its directors and shall set forth all claims and demands against it and that its dissolution was resolved upon by the affirmative vote of at least two-thirds (2/3) of all the members with voting rights, at a meeting called for that purpose.

If the petition is sufficient in form and substance, the Cooperative Development Authority shall, by an order reciting the purpose of the petition, fix a date on or before which objections thereto may be filed by any person, which date shall not be less than thirty (30) nor more than sixty (60) days after the entry of the order. Before such date, a copy of the order shall be published at least once a week for three (3) consecutive weeks in a newspaper of general circulation published in the municipality or city where the principal office of the cooperative is situated, or in the absence of such newspaper, then in a newspaper of general circulation in the Philippines, and a similar copy shall be posted for three (3) consecutive weeks in three (3) public places in the municipality or city.

Upon five (5) days notice, given after the date on which the right to file objections as fixed in the order has expired, the Cooperative Development Authority shall proceed to hear the petition and try any issue made by the objections filed; and if no such objection is sufficient, and the material allegations of the petition are true, it shall issue an order dissolving the cooperative and directing such disposition of its assets as justice requires. The order of dissolution shall set forth therein.

- (1) The assets and liabilities of the cooperative;
- (2) The claim of any creditor;
- (3) The number of members; and
- (4) The nature and extent of the interests of the members of the cooperative.

Section 67. *Involuntary Dissolution.* A cooperative may be dissolved by order of a competent court after due hearing on the grounds of:

- (1) violation of any law, regulation or provisions of its by-laws; or
- (2) insolvency.

Section 68. *Dissolution by Order of Authority.* The Authority may suspend or revoke, after due notice and hearing, the certificate of registration of a cooperative on any of the following grounds:

- (1) Having obtained its registration by fraud;
- (2) Existing for an illegal purpose;
- (3) Willful violation, despite notice by the Authority, of the provisions of this Code or its by-laws;
- (4) Willful failure to operate on a cooperative basis; and
- (5) Failure to meet the required minimum number of members in the cooperative.

Section 69. *Dissolution by Failure to Organize and Operate.* If a cooperative has not commenced business and operation within two (2) years after the date shown on its certificate of registration or has not carried on business for two (2) consecutive years, the Authority shall send formal inquiry to the said cooperative as to the status of its operation. Failure of the cooperative to promptly provide justifiable cause for its failure to operate shall warrant the Authority to strike off its name from the register and, for all intents and purposes, the cooperative shall be deemed dissolved.

Section 70. *Cooperative Liquidation.* Every cooperative whose charter expires by its own limitation or whose cooperative existence is terminated by voluntary dissolution or is terminated by appropriate judicial proceedings shall nevertheless be continued as a body cooperative for three (3) years after the time when it would have been so dissolved, for the purpose of prosecuting and defending suits by or against it and enabling it to settle and close its affairs, to dispose of and convey its property and to distribute its assets, but not for the purpose of continuing the business for which it was established.

At anytime during said three (3) years, said cooperative is authorized and empowered to convey all of its property to trustees for the benefit of members, creditors and other persons in interest. From and after any such conveyance by the cooperative of its property in trust for the benefit of its members, creditors and others in interest, all interest which the cooperative had in the property terminates the legal interest vests in the trustees and the beneficial interest vests in the members, creditors or other persons in interest.

Upon the winding up of the cooperative affairs, any asset distributable to any creditor or shareholder or member who is unknown or cannot be found shall be given to the federation, union or association to which the cooperative is affiliated or to the movement.

Except by decrease of share capital and as otherwise allowed in this Code, no cooperative shall distribute any of its assets or property except upon lawful dissolution and after payment of all its debts and liabilities.

Section 71. *Rules and Regulations on Liquidation.* The Authority shall issue the appropriated implementing guidelines for the liquidation of cooperatives.

CHAPTER VIII. CAPITAL, PROPERTY AND FUNDS

Section 72. *Capital.* The capitalization of cooperatives and the accounting therefore shall be governed by the provisions of this Code and the regulations issued hereunder.

Section 73. *Capital Sources.* Cooperatives registered under this Code may derive their capital from any or all of the following sources:

- (1) Member's share capital;
- (2) Loans and borrowings including deposits;
- (3) Revolving capital which consists of the deferred payment of patronage refunds, or interest on share capital; and
- (4) Subsidies, donations, legacies, grants, aids and such other assistance from any local or foreign institution whether public or private.

Section 74. *Limitation on Share Capital Holdings.* No member of a cooperative other than a cooperative shall own or hold more than twenty per cent (20%) of the share capital of the cooperative. Where a member of a cooperative dies, his heir shall be entitled to the shares of the decedent: *Provided*, That the total share holding of the heir does not exceed twenty per cent

(20%) of the share capital of the cooperative: *Provided further*, That the heir qualify and is admitted as member of the cooperative: *Provided finally*, That where the heir fails to qualify as such member or where his total share holding exceeds twenty per cent (20%) of the share capital, the share or shares in excess will revert to the cooperative upon payment to the heir of the value of such shares.

Section 75. *Assignment of Share Capital Contribution or Interest.* Subject to the provisions of this Code, no member shall transfer his shares or interest in the cooperative or any part thereof unless:

- (1) He has held such share contribution or interest for not less than one (1) year;
- (2) The assignment is made to the cooperative or to a member of the cooperative or to a person who falls within the field of membership of the cooperative; and
- (3) The board of directors has approved such assignment.

Section 76. *Interest on Share Capital.* Interest on share capital shall not exceed the normal rate on investments as determined by the Cooperative Development Authority and such interest shall be non-cumulative.

Section 77. *Shares.* The term "share" refers to a unit of capital the par value of which may be fixed at any figure but not less than one peso (P1,00). The share capital of a cooperative is the money paid or required to be paid for to conduct its operations. The method of issuing the share certificates may be prescribed in the by-laws of a cooperative.

Section 78. *Fines.* The by-laws of a cooperative may prescribe a fine on unpaid subscribed share capital subject to the guidelines which the Cooperative Development Authority may issue.

Section 79. *Investment of Capital.* (1) A cooperative may invest its capital in any of the following:

- (a) In shares or debentures or securities of any other cooperative;
- (b) In any reputable bank in the locality, or any cooperative;
- (c) In securities issued or guaranteed by the Government;
- (d) In real estate primarily for the use of the cooperative or its member; or
- (e) In any other manner authorized in the by-laws.

Section 80. *Revolving Capital.* The general assembly of any cooperative may authorize the board of directors to raise a revolving capital to strengthen its capital structure by deferring the payment of patronage refunds and interest on share capital or by the authorized deduction of a percentage from the proceeds of products sold or per unit of product handled. The board of directors shall issue revolving capital certificates with serial number, name, amount, and rate of interest to be paid and shall distinctly set forth that the time of retirement by such certificates and the amounts to be returned are at the discretion of the board of directors.

CHAPTER IX. AUDIT, INQUIRY AND MEMBERS' RIGHT TO EXAMINE

Section 81. *Annual Audit.* Cooperatives under this Code shall be subject to an annual audit by an auditor who satisfies all the following qualifications:

- (1) He is independent of the cooperative being audited and of any subsidiary of the cooperative; and
- (2) He is a member of any recognized professional accounting or cooperative auditor's

association with similar qualifications.

Section 82. *Audit Report.* The auditor shall submit to the audit committee a report of the audit which shall contain a statement of the assets and liabilities of the cooperative, including earnings and expenses, amount of net surplus as well as losses and bad debts, if any.

The audit committee shall forthwith furnish the board of directors a copy of the audit report. Thereafter, the board of directors shall present the complete audit report to the general assembly in its next meeting.

Section 83. *Non-liability for Defamation.* An auditor is not liable to any person in an action for defamation based on any act done, or any statement made by him in good faith in connection with any matter he is authorized or required to do pursuant to this Code.

Section 84. *Right to Examine.* A member shall have the right to examine the records required to be kept by the cooperative under Section 51 of this Code during reasonable hours on business days and he may demand, in writing, for a copy of excerpts from said records without charges except the cost of reproduction.

Any officer of the cooperative who shall refuse to allow any member of the cooperative to examine and copy excerpts from its records shall be liable to such member for damages and shall be guilty of an offense which shall be punishable under Section 106 of this Code: *Provided*, That if such refusal is pursuant to a resolution or order of the board of directors, the liability under this article shall be imposed upon the directors who voted for such refusal: *Provided further*, That it shall be a defense to any action under this section that the member demanding to examine and copy excerpts from the cooperative records has improperly used any information secured through any prior examination of the records of such cooperative or was not acting in good faith or for a legitimate purpose in making his demand.

Section 85. *Safety of Records.* Every cooperative shall, at its principal office, keep and carefully preserve the records required by this Code to be prepared and maintained. It shall take all necessary precaution to prevent its loss, destruction or falsification.

CHAPTER X. ALLOCATION AND DISTRIBUTION OF NET SURPLUS

Section 86. *Net Surplus.* Notwithstanding the provisions of existing laws, the net surplus of cooperatives shall be determined in accordance with its by-laws. Every cooperative shall determine its net surplus at the close of every fiscal year and at such other time as may be prescribed by the by-laws.

The net surplus shall not be construed as profit but as excess of payments made by the members for the loans borrowed, or the goods and services bought by them from the cooperative and which shall be deemed to have been returned to them if the same is distributed as prescribed herein.

Section 87. *Order of Distribution.* The net surplus of every cooperative shall be distributed as follows:

(1) An amount for the reserve fund, which shall be at least ten per cent (10%) of net surplus:

(a) The reserve fund shall be used for the stability of the cooperative and to meet net losses in its operations. The general assembly may decrease the amount allocated to the reserve fund when reserve fund already exceeds the share capital.

Any sum recovered on items previously charged to the reserve fund shall be credited to such fund.

(b) The reserve fund shall not be utilized for investment, other than those allowed in this Code. Such sum of the reserve fund in excess of the share capital may be used at anytime for any project that would expand the operations of the cooperative upon the resolution of the general assembly.

(c) Upon the dissolution of the cooperative, the reserve fund shall not be distributed among the members. The general assembly may resolve:

(i) To establish a usufructuary trust fund for the benefit of any federation or union to which the cooperative is affiliated; and

(ii) To donate, contribute, or otherwise dispose of the amount for the benefit of the community where the cooperative operates. If the members cannot decide upon the disposal of the reserve fund, the same shall go to the federation or union to which the cooperative is affiliated.

(2) An amount for the education and training fund, which shall be not more than ten per cent (10%) of net surplus. The by-laws may provide that certain fees or fines or a portion thereof be credited to such fund.

(a) Half of the amounts transferred to the education and training fund annually under this subsection may be spent by the cooperative for education and training and other purposes; while the other half shall be credited to the cooperative education and training fund of the respective apex organization of which the cooperative is a member. An apex organization may be a federation or union.

(b) Upon the dissolution of the cooperative, the unexpended balance of the education and training fund appertaining to the cooperative shall be credited to the cooperative education and training fund of the above mentioned apex organization.

(3) An optional fund, a land and building, community development, and any other necessary fund the total of which may not exceed ten per cent (10%).

(4) The remaining net surplus shall be made available to the members in the form of interest not to exceed the normal rate of return on investments and patronage refunds.

The sum allocated for patronage refunds shall be made available at the same rate to all patrons of the cooperative in proportion to their individual patronage: *Provided*, That:

(a) In the case of a member patron with paid-up share capital contribution, his proportionate amount of patronage refund shall be paid to him unless he agrees to credit the amount to his account as additional share capital contribution;

(b) In the case of a member patron with unpaid share capital contribution, his proportionate amount of patronage refund shall be credited to his account until his share capital contribution has been fully paid;

(c) In the case of a non-member patron, his proportionate amount of patronage refund shall be set aside in a general fund for such patrons and shall be allocated to individual non-member patrons only upon request and presentation of evidence of the amount of his patronage. The amount so allocated shall be credited to such patron toward payment of the minimum capital contribution for membership. When a sum equal to this amount has accumulated at any time within a period specified in the by laws, such patron shall be deemed and become a member of the cooperative if he so agrees or requests and complies with the provisions of the by-laws for admission to membership;

(d) If within any period of time specified in the by-laws, any subscriber who has not fully paid his subscribed share capital or any non-member patron who has accumulated the sum necessary for membership but who does not request nor agree to become a member or fails to comply with the provisions of the by-laws for admission to membership, the

amount so accumulated credited to their account together with any part of the general fund for non-member patrons shall be credited to the reserve fund or to the education and training fund of the cooperative, at the option of the cooperative.

CHAPTER XI. SPECIAL PROVISIONS RELATING TO AGRARIAN REFORM COOPERATIVES

Section 88. Coverage. The provision of this Chapter shall primarily govern agrarian reform cooperatives: *Provided*, That the provisions of other chapter of this Code shall apply suppletorily except insofar as this Chapter otherwise provides.

Section 89. Definition and Purpose. An agrarian reform cooperatives within the meaning of this Code is one where the majority of the members are agrarian reform beneficiaries and marginal farmers and organized for any or all the following purposes:

(1) To develop an appropriate system of land tenure, land development, land consolidation or land management in areas covered by agrarian reform;

(2) To coordinate and facilitate the dissemination of scientific methods of production, and provide assistance in the storage, transport, and marketing of farm products for agrarian reform beneficiaries and their immediate family, hereinafter referred to as "beneficiaries";

(3) To provide financial facilities to beneficiaries for provident or productive purposes at reasonable costs;

(4) To arrange and facilitate the expeditious transfer of appropriate and suitable technology to beneficiaries and marginal farmers at the lowest possible cost;

(5) To provide social security benefits, health, medical and social insurance benefits and other social and economic benefits that promote the general welfare of the agrarian reform beneficiaries and marginal farmers;

(6) To provide non-formal education, vocational/technical training, and livelihood programs to beneficiaries and marginal farmers;

(7) To act as channels for external assistance and services to the beneficiaries and marginal farmers;

(8) To undertake a comprehensive and integrated development program in agrarian reform and resettlement areas with special concern for the development of agro-based, marine-based, and cottage-based industries;

(9) To represent the beneficiaries on any or all matters that affect their interest; and

(10) To undertake such other economic or social activities as may be necessary or incidental in the pursuit of the foregoing purposes.

Section 90. Cooperative Estates. Landholdings like plantations, estates or haciendas acquired by the State for the benefit of the workers in accordance with the Comprehensive Agrarian Reform Program shall be owned collectively by the workers-beneficiaries who shall form a cooperative at their option.

Section 91. Infrastructure. In agrarian reform and resettlement areas, the Government shall grant to agrarian reform cooperatives preferential treatment, if necessary, the authority to construct, maintain, and manage with government funding roads, bridges, canals, wharves, ports, reservoirs, irrigation systems, waterworks systems, and other infrastructures. For this purpose, government technical assistance, facilities and equipment shall be made available to such agrarian reform cooperatives for their use.

Section 92. *Lease of Public Lands.* The Government may lease public lands to any agrarian reform cooperatives for a period not exceeding twenty-five (25) years, subject to renewal for another twenty-five (25) years only: *Provided*, That the application for renewal shall be made one (1) year before the expiration of the lease: *Provided further*, That such lease shall be for the exclusive use and benefit of the beneficiaries and marginal farmers subject to the provisions of the Comprehensive Agrarian Reform Program.

Section 93. *Preferential Right.* In agrarian reform areas, an agrarian reform cooperative shall have the preferential right in the grant of franchise and certificate of public convenience and necessity for the operation of public utilities and services: *Provided*, That it meets the requirements and conditions imposed by the appropriate government agency granting the franchise or certificate of public convenience and necessity.

Electric service agencies shall, upon request of agrarian reform cooperative, immediately provide electric services to agrarian reform areas. If the electric service agencies concerned fails for any reason to provide the services requested within a period of one (1) year from receipt thereof, the agrarian reform cooperative concerned may provide the electric services in the agrarian reform area directly through its own resources and shall continue to do so until such time that the electric service agency concerned purchases all the investments made by the agrarian reform cooperative in the electrification of the agrarian reform and resettlement areas.

Section 94. *Privileges.* Subject to such reasonable terms and conditions as the Department of Agrarian Reform and the Authority may impose, agrarian reform cooperatives may be given the exclusive right to do any or all of the following economic activities in agrarian reform and resettlement areas:

(1) Supply and distribution of consumer, agricultural, aquacultural, and industrial goods, production inputs, and raw materials and supplies, machinery, equipment facilities and other services and requirements of the beneficiaries and marginal farmers in the agrarian reform areas at reasonable prices;

(2) Marketing of the products and services of the beneficiaries on the local and foreign markets;

(3) Processing of the members products into finished consumer or industrial goods for domestic consumption or for export;

(4) Provision of essential public services at cost such as power, irrigation, potable water, passenger and/or cargo transportation by land, sea, or air, communication services, and public health and medical care services;

(5) Management, conservation, and commercial development of marine, forestry, mineral, water, and other natural resources subject to compliance with the laws and regulations on environmental and ecological controls;

(6) Provision of financial, technological, and other services and facilities required by the beneficiaries in their daily lives and livelihood.

The Government shall provide the necessary financial and technical assistance to agrarian reform cooperatives to enable them to discharge effectively their purposes under this section. The Department of Agrarian Reform, the Cooperative Development Authority and the Central Bank of the Philippines shall draw up a joint program for the organization and financing of the agrarian reform cooperative subject to this Chapter. The joint program shall be geared towards the beneficiaries gradual assumption of full ownership and management control of the agrarian reform cooperatives within ten (10) years from the date of registration of said cooperatives.

Section 95. *Organization and Registration.* Agrarian reform cooperatives may be organized and

registered under this Code only upon prior written verification by the Department of Agrarian Reform to the effect that the same is needed and desired by the beneficiaries; results of a study that has been conducted fairly indicate the economic feasibility of organizing the same and that it will be economically viable in its operations; and that the same may now be organized and registered in accordance with the requirements of this Code.

CHAPTER XII. SPECIAL PROVISIONS ON PUBLIC COOPERATIVES

Section 96. *Definition and Coverage.* A public service cooperative, within the meaning of this Code, is one organized to render public service as authorized under a franchise or certificate of public convenience and necessity duly issued by the appropriate government agency. Such services may include the following:

- (1) Power generation, transmission, and/or distribution;
- (2) Ice plants and cold storage services. Electric cooperatives created under Presidential Decree No. 269 shall be governed by this Chapter if they qualify as cooperative under the provisions of this Code;
- (3) Communications services including telephone, telegraph, and telecommunications;
- (4) Land, sea, and air transportation cooperative for passenger and/or cargo. Transport cooperatives organized under the provisions of Executive Order No. 898, Series of 1983, shall be governed by this Chapter;
- (5) Public markets, slaughterhouses and other similar services; and
- (6) Such other types of public services as may be engaged in by any cooperative. Such cooperative shall be primarily governed by this Chapter and the general provisions of this Code insofar as they may be applicable unless they are inconsistent herewith.

Section 97. *Registration Requirements.* No public service cooperative shall be registered unless it satisfies the following requirements:

- (1) It has the favorable endorsement of the proper government agency authorized to issue the franchise or certificates of public convenience and necessity;
- (2) Its articles of cooperation and by-laws provide for the membership of the users and/or producers of the service of such cooperatives; and
- (3) It satisfies such other requirements as may be imposed by the other pertinent government agencies concerned. In case there are two (2) or more applicants for the same public service franchise or certificate of public convenience and necessity, all things being equal, preference shall be given to a public service cooperative.

Section 98. *Regulation Requirements.* (1) The internal affairs of public service cooperatives such as the rights and privileges of members, the rules and procedures for meetings of the general assembly, board of directors and committees; for the election and qualifications of officers, directors, and committee members, allocation and distribution of surpluses; and all other matters relating to their internal affairs shall be governed by this Code.

(2) All matters relating to the franchise or certificate of public convenience and necessity of public service cooperatives such as capitalization and investment requirements, equipment and facilities, frequencies, rate-fixing, and such other matters affecting their public service operations shall be governed by the proper government agency concerned.

(3) The Cooperative Development Authority and the proper government agency concerned shall jointly issue the necessary rules and regulations to implement this Chapter.

CHAPTER XIII. SPECIAL PROVISIONS RELATING TO COOPERATIVE BANKS

Section 99. *Governing Law.* (1) The provisions of this Chapter shall primarily govern cooperative banks registered under this Code and the other provisions of this Code shall apply to them only insofar as they are not inconsistent with the provisions contained in this Chapter.

(2) Cooperatives duly established and registered under the provisions of this Code may organize among themselves a cooperative bank which shall likewise be considered a cooperative registerable under the provision of this Code subject to the requirements of and requisite authorization from the Central Bank.

Section 100. *Definition, Classification and Functions.* A cooperative bank is one organized by the majority shares of which is owned and controlled by cooperatives primarily to provide financial and credit services to cooperatives. The term "cooperative bank" shall include cooperative rural banks.

A cooperative bank may perform the following functions:

- (1) To carry on banking and credit services for the cooperatives;
- (2) To receive financial aid or loans from the Government and the Central Bank of the Philippines for and in behalf of the cooperative banks and primary cooperatives and their federations engaged in business and to supervise the lending and collection of loans;
- (3) To mobilize savings of its members for the benefit of the cooperative movement;
- (4) To act as a balancing medium for the surplus funds of cooperatives and their federations;
- (5) To discount bills and promissory notes issued and drawn by cooperatives;
- (6) To issue negotiable instruments to facilitate the activities of cooperatives;
- (7) To issue debentures subject to the approval of and under conditions and guarantees to be prescribed by the Government;
- (8) To borrow money from banks and other financial institutions within the limit to be prescribed by the Central Bank; and
- (9) To carry out all other functions as may be prescribed by the Authority: *Provided*, That the performance of any banking function shall be subject to prior approval by the Central Bank of the Philippines.

Section 101. *Registration Requirements.* No entity shall be registered by the Cooperative Development Authority as a cooperative bank unless the articles of cooperation and by-laws thereof as well as its establishment and operation as a cooperative bank have been approved by the Central Bank of the Philippines and it satisfies all requirements for registration as a cooperative.

Section 102. *Membership.* Membership of a cooperative bank shall include only cooperatives and federations of cooperatives.

Section 103. *Board of Directors.* The number, composition, and voting rights of the board of directors shall be defined in the articles of cooperation and by-laws of the cooperative bank, notwithstanding provisions of this Code to the contrary.

Section 104. *Loans.* Cooperatives may obtain loans from a cooperative bank. Loans granted by a cooperative bank shall be reported to the Central Bank of the Philippines.

Section 105. *Supervision.* The cooperative banks registered under this Code shall be under the supervision of the Central Bank. The Central Bank upon consultation with the agency and the

cooperative movement shall formulate guidelines regarding the operations and banking transactions of cooperative bank. These guidelines shall give due recognition to the unique cooperative nature and character of cooperative banks. To this end, cooperative banks may be exempted from Central Bank rules and regulations, applicable to other types of banks, which would impede the cooperative rural bank from performing legitimate financial and banking services to its members.

Section 106. Capitalization. (1) A national cooperative bank shall have a minimum authorized share capital of two hundred million pesos (P200'000'000,00) in relation to Section 14(5). The authorized share capital shall be divided into such number of shares with a minimum par value of One thousand pesos (P1'000,00) per share. For the purpose primarily of determining the permanency of equity, the types of share a cooperative bank may issue, including the terms thereof and the rights appurtenant thereto, shall be subject to such rules and regulations as the Central Bank may prescribe.

(2) A local cooperative bank shall have a minimum authorized share capital of twenty million pesos (P20'000'000,00) divided into such number of shares with a minimum par value of one hundred pesos (P100,00) per share.

Section 107. Distribution of Net Surplus. The provisions of this Code on the allocation and distribution of net surplus shall apply.

Section 108. Privileges. Cooperative banks shall have the following privileges subject to the approval of the Central Bank and compliance with applicable banking laws, rules and regulations:

(1) The cooperative banks registered under this Code shall be given the same privilege granted to the rural banks, private development banks, commercial banks, and all other banks to re-discount notes with the Central Bank, the Land Bank of the Philippines, and other government banks without affecting in any way the provisions of this Code; and

(2) To act as a depository of government funds. For this purpose, all government departments, agencies and units of the national and local governments, including government-owned and controlled corporations are hereby authorized to deposit their funds in any cooperative bank.

Section 109. Assistance to Cooperative Bank. Whenever a cooperative bank organized under this Code is distressed or may need assistance in the rehabilitation of its financial condition or to avoid bankruptcy, the Monetary Board of the Central Bank of the Philippines shall designate an official of the Central Bank or a person of recognized competence in banking or finance as receiver or conservator of the said bank pursuant to the provisions of Section 29 of Republic Act. No. 265, as amended.

CHAPTER XIV. SPECIAL PROVISIONS RELATING TO CREDIT COOPERATIVE

Section 110. Coverage. This Chapter shall apply only to credit cooperatives and the rest of the provisions of this Code shall apply to them insofar as the same are not inconsistent with the provisions of this Chapter.

Section 111. Definition and Objectives. A credit cooperative is a financial organization owned and operated by its members with the following objective:

(1) To encourage savings among its members;

- (2) To create a pool of such savings for which loans for productive or provident purposes may be granted to its members; and
- (3) To provide related services to enable its members to maximize the benefit from such loans.

Section 112. *Organization and Registration.* Credit cooperative shall be organized and registered in accordance with the general provisions of this Code.

Section 113. *Organizational Linkage.* Credit cooperatives may organize chapter or subsidiaries, or join leagues and federations for the purpose of providing commonly needed essential services including but not limited to the following:

- (1) Inter-lending of surplus fund;
- (2) Mutual benefits;
- (3) Deposit guarantee;
- (4) Bonding;
- (5) Education and training;
- (6) Professional and technical assistance;
- (7) Research and development;
- (8) Representation; and
- (9) Other services needed to improve their performance.

Existing support organizations such as federations of credit cooperatives, credit cooperatives at the provincial, regional and national levels may continue as such under this Code.

Section 114. *Prohibition.* The term "credit cooperative" shall be used exclusively by those who are duly registered under this Chapter, and no person or group of persons, or organizations shall use the said term unless duly registered herein.

CHAPTER XV. SPECIAL PROVISIONS RELATING TO COOPERATIVE INSURANCE SOCIETIES

Section 115. *Cooperative Insurance Societies.* Existing cooperatives may organize themselves into a cooperative insurance entity for the purpose of covering the insurance requirements of the cooperative members including their properties and assets.

Section 116. *Types of Insurance Provided.* Under the cooperative insurance program established and formed by virtue of the provisions of this Code, the cooperative insurance societies shall provide its constituting members different types of insurance coverage consisting of, but not limited to, life insurance with special group coverage, loan protection, retirement plans, endowment with health and accident coverage, fire insurance, motor vehicle coverage, bonding, crop and livestock protection and equipment insurance.

Section 117. *Applicability of Insurance Laws.* The provisions of the Insurance Code and all other laws and regulations relative to the organization and operation of an insurance company shall apply to cooperative insurance entities organized under this Code. The requirements on capitalization, investments and reserves of insurance firms may be liberally modified upon consultation with the Cooperative Development Authority and the cooperative sector. But in no case may the requirements be reduced to less than half of those provided for under the Insurance Code and other related laws.

Section 118. *Implementing Rules.* The Insurance Commission, upon consultation with the Cooperative Development Authority and the cooperative sector, shall formulate the rules and regulations implementing these provisions.

CHAPTER XVI. MISCELLANEOUS PROVISIONS

Section 119. *Compliance with Other Laws.* (1) The Labour Code and all other labour laws shall apply to all cooperatives.

(2) The Social Security Act, the Medical Care Act, and all other social legislations shall apply to all cooperatives.

(3) All other laws and executive orders applicable to cooperatives duly registered under this Code.

Section 120. *Register of Cooperatives.* The Cooperative Development Authority shall establish a register which shall contain chronological entry of the name of every cooperative registered or dissolved under this Code together with the basic information required for registration and any information considered useful. The Cooperative Development Authority shall publish every year a list of cooperatives in existence, under dissolution and whose registration is cancelled during the year together with such information on each of them as may be prescribed in the regulations.

Section 121. *Settlement of Disputes.* Disputes among members, officers, directors and committee members, and intra-cooperative disputes shall, as far as practicable, be settled amicably in accordance with the conciliation or mediation mechanisms embodied in the by-laws of the cooperative, and in applicable laws.

Should such a conciliation/mediation proceeding fail, the matter shall be settled in a court of competent jurisdiction.

CHAPTER XVII. FINAL PROVISIONS

Section 122. *Electric Cooperatives.* Electric cooperatives shall be covered by this Code. However, there shall be a transition period of three (3) years within which the Cooperative Development Authority and the National Electrification Administration shall help and assist electric cooperatives to qualify under this Code. The Cooperative Development Authority and the National Electrification Administration shall jointly promulgate rules and regulations to the end that the provisions of this law are harmonized with the provisions of Presidential Decree No. 269.

Section 123. *Regulations.* (1) The Cooperative Development Authority may issue regulations to implement those provisions of this Code which expressly call for the issuance thereof. This paragraph shall not apply to those cases wherein a specific provision of this Code expressly designates particular government agencies which shall issue the regulations called for by any provision of this Code.

(2) Where a provision of this Code does not expressly call for nor authorize the issuance of a regulation, no regulation shall be issued thereon. Any regulation issued in violation of this paragraph shall be null and void *ab initio*.

(3) No regulation shall be issued nor become effective under this Code unless the following requirements are satisfied:

(a) Public announcement on the intention to issue regulations describing the subject to be dealt on with a copy of the proposed regulations attached, inviting the public to make

known their views thereon and submit their positions with respect thereof. The announcement shall be published in a daily newspaper of national general circulation at least once a week for four (4) consecutive weeks prior to the intended date of commencement of the public hearing thereon, specifying the date, time and place of the public hearing;

(b) Public hearings may be conducted separately in Luzon, Visayas and Mindanao by the Authority and the proceedings thereof shall be duly recorded. Minutes of a public hearing shall be made available to the public at cost. The public hearing may be held in several sessions: *Provided*, That no session shall be conducted unless the minutes of all other previous sessions have been published beforehand;

(c) The proposed regulations shall be supported by a memorandum of justification for every provision thereof which shall include citation of the legal bases therefore, the reasons for such provision, and the expected results therefrom; and

(d) The regulations shall be recommended by the Authority and approved by the Office of the President, and the same shall take effect thirty (30) days after publication in the *Official Gazette*.

Section 124. Penal Provisions. The following acts or omissions affecting cooperatives are hereby prohibited:

(1) The use of the word "cooperative" by any person or of persons or organizations, domestic or foreign, unless duly registered as a cooperative under this Code. In case of violation hereof, the individual or individuals concerned, or in the case of an organization, its officers and directors shall, upon conviction, each suffer the penalty of imprisonment for one (1) year and a fine not exceeding one (1) thousand pesos (P1'000,00) or both at the discretion of the court;

(2) Direct or indirect interference or intervention by any public official or employee into the internal affairs of a cooperative of which he is not a member, such as, but not limited to the following:

(a) Influencing the election or appointment of officers, directors, committee members and employees through public or private endorsement or campaign for or against any person or group of persons;

(b) Requiring prior clearance for any policy or decision within the cooperative;

(c) Requesting or demanding for the creation of positions or organizational units, or recommending any person for appointment, transfer, or removal from his position; or

(d) Any other acts inimical or adverse to the autonomy and independence of cooperatives.

In case of violation of any provision of this subsection, the individual or individuals, and in the case of organizations, its officers and directors shall, upon conviction by a court, each suffer a penalty of not less than one (1) year but not more than five (5) years imprisonment or a fine in the amount of not less than five thousand pesos (P5'000,00), or both at the discretion of the court;

(3) A director, officer or committee member who violated the provisions of Section 47 (liability of directors, officers and committee members), Section 50 (disloyalty of a director) and Section 51 (illegal use of confidential information) shall upon conviction suffer a fine of not less than five thousand pesos (P5'000,00), or imprisonment of not less than five (5) years but not more than ten (10) years or both at the court's discretion;

(4) Any violation of any provision of this Code for which no penalty is imposed shall be punished by imprisonment of not less than six (6) months nor more than one (1) year and a fine of not less than one thousand pesos (P1'000,00), or both at the discretion of the court.

Section 125. *Printing and Distribution.* (1) The National Printing Office shall publish this Code in the *Official Gazette* in full within sixty (60) days from the date of approval thereof. Copies of this Code shall be given to every department, agency and instrumentality of the National Government, including regional, provincial offices and local governments including government-owned and controlled corporations.

(2) All duly registered cooperative and their federations, unions and associations, and cooperative corporations shall be given one (1) copy each at cost. Thereafter, every newly registered cooperative or cooperative corporations shall be issued at cost a copy of this Code and the regulations promulgated thereon together with its certificates of registration.

Section 126. *Interpretation and Construction.* In case of doubt as to the meaning of any provision of this Code or the regulations issued in pursuance thereof, the same shall be resolved liberally in favor of the cooperatives and their members.

Section 127. *Repeals.* Except as expressly provided by this Code, Presidential Decree No. 175 and all other laws, or parts thereof, inconsistent with any provision of this Code shall be deemed repealed: *Provided*, however, That nothing in this Code shall be interpreted to mean the amendment or repeal of any provision of Presidential Decree No. 269: *Provided further*, That the electric cooperatives which qualify as such under this Code shall fall under the coverage thereof.

Section 128. *Transitory Provisions.* All cooperatives registered under Presidential Decree Nos. 175 and 775 and Executive Order No. 898, and all other laws shall be deemed registered with the Cooperative Development Authority: *Provided*, however, That they shall submit to the nearest Cooperative Development Authority office the certificate of registration, copies of the articles of cooperation and by-laws and their latest duly audited financial statements within one (1) year from the effectivity of this Act, otherwise their registration shall be cancelled: *Provided further*, That cooperative created under Presidential Decree No. 1645, shall be given three (3) years within which to qualify and register with the Authority: *Provided finally*, That after these cooperatives shall have qualified and registered, the provisions of Sections 3 and 5 of Presidential Decree No. 1645 shall no longer be applicable to said cooperatives.

Section 129. *Separability.* Should any part of this Code be declared unconstitutional, the rest of the provisions shall not be affected thereby.

Section 130. *Effectivity.* This Code shall take effect fifteen (15) days from the publication in a newspaper of general circulation.

Approved,

(SGD.) JOVITO R. SALONGA
President of Senate
Representatives

(SGD.) RAMON MITRA
Speaker of the House of

(SGD.) EDWIN P. ACOBA
Secretary of Senate

(SGD.) QUIRINO D. ABAD SANTOS, JR.
Secretary of the House of Representatives

(SGD.) CORAZON C. AQUINO
President of the Philippines