

# TAX AND FINANCIAL SERVICES ADVOCACY PAPER 2022



## ABOUT ECCP

The **European Chamber of Commerce of the Philippines** (ECCP) is a service-oriented organization whose main goal is to foster close economic ties and business relations between the Philippines and Europe. The ECCP does this through offering a wide range of consultancy services and by fostering connections between companies, organizations, and individuals with existing or potential business ties to Europe and the Philippines. It is also at the forefront of pro-business, pro-growth advocacy in the Philippines, representing European business interests for increased market access and trade facilitation, at the highest level of Philippine political discussions.

The ECCP views itself as the stepping stone for Europeans into the Philippine market and for Filipinos into the European market.



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*Positions expressed in the advocacy papers are the result of the activities of the Sector Committees working under the ECCP.*

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We would also like to acknowledge the support of our committee members.

## METHODOLOGY

The 2022 edition of the ECCP Advocacy Papers features issues and recommendations developed after extensive discussions among members of the ECCP sector committees, consultations and meetings with representatives from the Philippine Government, and other stakeholders. Information gathered from organizing events that cover relevant topics, participating in numerous hearings and committee meetings in both chambers of the Philippine Congress, as well as in private sector consultations held by several government agencies were also taken into consideration upon writing.

Further, the recommendations provided in each paper were primarily based on the discussions during the quarterly sector committee meetings. The ECCP Advocacy Team carefully examined each issue and advocacy recommendation in close collaboration with the sector committee leaders and members to make sure they were in line with European business interests and priorities. Once the Advocacy Team had finalized the first draft of each sector paper, it was then disseminated to the Committee members and other important stakeholders for consultation. This allowed for the collection of input that would later be used to create the final draft of the papers.

The assessment of the status of each recommendation included in 2021 Advocacy Papers were examined under the following criteria:

**Completed/Substantial Progress:** Recommended action has either been completed or there has been significant progress towards the realization of the recommendation.

**Some Progress:** Movement towards realizing the recommendation has been made, but substantial work still needs to be done to fully achieve and complete the proposed measure.

**No Progress/Retrogression:** Minimal progress or no movement towards attaining the recommended reforms were done, or the status of the issue has worsened and has evolved to an even bigger bottleneck for European businesses.

## MESSAGE FROM THE ECCP PRESIDENT

I am pleased to present the latest set of the European Chamber of Commerce of the Philippines' (ECCP) Advocacy Papers. This features an overview of the country's current business landscape and industry-specific challenges identified by the Chamber's sector committees. More importantly, the papers put forward constructive policy recommendations for strengthening European-Philippine economic relations and promoting sustainability.

We have witnessed uncertainties and concerns arising from the Russia-Ukraine crisis, inflationary pressures, and disruptions in the global supply chain, among others. Nevertheless, we have seen significant progress such as the easing of COVID-19 restrictions, increased mobility for businesses and consumers, as well as solid headways in boosting business confidence and the country's position as a competitive destination for trade and investments. We are optimistic that we will see positive outcomes from the passage of game-changing economic reforms such as the amendments to the Public Services Act, the Retail Trade Liberalization Act, and the Foreign Investment Act. These will undoubtedly usher in foreign direct investments and create more jobs for Filipinos. Furthermore, for the year 2022, multilateral agencies have expressed optimism for the Philippines with an estimated 6.0% and 6.5% growth rate by the World Bank and the Asian Development Bank, respectively.

The ECCP seeks to continue to maximize the opportunities brought about by these recent socioeconomic developments. This year's set of ECCP Advocacy Papers is our contribution to addressing some of the remaining challenges to realize the potential of the European-Philippine economic ties as well as advance sustainable development. Lastly, I would like to extend my sincerest thanks to our Committee leaders, member companies, and the ECCP team who supported the completion of this publication. The ECCP is committed to working with the European-Philippine stakeholders in navigating this new era of progress, possibilities, and partnerships.

**Mr. Lars Wittig**  
ECCP President



# WHERE ARE WE NOW?

## THE PHILIPPINES

The Philippines prides itself in its dynamic and robust economy, transforming into one of the region's top economic performers and attracting companies to invest and expand their operations. In the last decade, the country was able to sustain an average annual growth of 6.4% between 2010-2019 from an average of 4.5% between 2000-2009.<sup>1</sup> However, the onset of the unprecedented COVID-19 pandemic has resulted in a drastic decline of economic activity around the world. The Philippines has not been spared from the economic effects of the pandemic. The country's growth collapsed, with a negative growth rate of 9.6% in terms of Growth Domestic Product (GDP), in 2020 (Table 1). Among its neighboring countries in the Association of Southeast Asian Nations (ASEAN), the Philippines was ranked 10th in terms of Gross Domestic Product (GDP) growth rate (Table 1). Ranked last, the Philippines appears to be the Southeast Asian economy most affected by the pandemic in 2020.

**Table 1. ASEAN GDP Year-on-Year Growth Rates, 2020 and 2021 (% per year)**

Country	2020	2020 ranking	2021	2021 ranking
Brunei Darussalam	1.1	3rd	-1.5	9th
Cambodia	-3.1	6th	3	5th
Indonesia	-2.1	5th	3.7	3rd
Lao People's Dem. Rep.	-0.5	4th	2.3	7th
Malaysia	-5.6	8th	3.1	4th
Myanmar	3.3	1st	-18.4	10th
<b>Philippines</b>	<b>-9.6</b>	<b>10th</b>	<b>5.6</b>	<b>2nd</b>
Singapore	-5.4	7th	7.6	1st
Thailand	-6.1	9th	1.6	8th
Vietnam	2.9	2nd	2.6	6th

*Asian Development Bank. Asian Development Outlook 2022<sup>2</sup>*

Nonetheless, in 2021, the Philippines ranked second among the ASEAN countries in terms of growth rates. Growth was buoyed by robust private domestic demand, including a dramatic increase in investment in the second quarter of 2021 and a steady rise in household final consumption expenditure<sup>3</sup>.

Furthermore, for the year 2022, multilateral agencies have expressed optimism for the Philippines with an estimated 6.0% and 6.5% growth rate by the World Bank and the Asian Development Bank, respectively. A strong rebound in domestic demand with the easing of COVID-19 mobility restrictions in the country will support robust growth for the Philippine economy in 2022 amidst the Russia-Ukraine conflict, inflationary pressures and disruptions in global supply chains.

The growth projection for 2023 is at 5.8% and 6.3% by the World Bank and ADB, respectively. This is attributed to monetary policy tightening and accelerating inflation affecting domestic demand.

Additionally, the annual preliminary figures show that the country's employment rate rose from 89.7% in 2020 to 92.2% in 2021, with the services sector accounting for 58.1% share, followed by the agriculture sector with 22%, and the industry sector with 19.9%<sup>4</sup>. As of writing, the country's unemployment rate decreased to 5.2 percent in July 2022 from 7.2 percent in the same period last year.<sup>5</sup>

On the other hand, inflationary pressures have been widely felt. As of writing, inflation in the Philippines heated up to 6.9 percent in September 2022 from 6.3 percent in July, according to the Philippine Statistics Authority. This was mainly driven by faster rate of increases in prices of foodstuff as well as electricity and housing.<sup>6</sup>

In terms of the country's Foreign Direct Investments (FDI), the BSP officially recorded USD 10.518 billion net inflows for 2021. Majority of the equity capital placement came from Singapore (USD 526.69 million), Japan (USD 257 million), USA (USD 73.60 million), Germany (USD 29.20 million), and Hong Kong (USD 23.45 million)<sup>7</sup>. In the same year, top European FDI sources include Germany (USD 32.94 million), United Kingdom (USD 15.77 million), Sweden (USD 6.24 million), France (USD 4.43 million) and Spain (USD 4.34 million). More recently, total FDI net inflows from January to June 2022 reached USD 4.64 billion, an increase of 3% over the same period last year. Specifically, the top source country is **Singapore** with USD 526.69, followed by **Japan** (USD 257), **USA** (USD 73.60), **Germany** (USD 29.20), and **Hong Kong** (USD 23.45).



	Jan-June 2022	Jan-June 2021	2021	2020
<b>Globally</b>	USD 4.64 billion (+3.07% year-on-year increase)	USD 4.50 billion	USD 12.41 billion	USD 6.82 billion
<b>Europe (both EU and non-EU states)</b>	USD 62.54 million (+53% year-on-year increase)	USD 40.87 million	USD 48.08 million	USD 326.47 million

<sup>4</sup> Philippines Statistics Authority. Percent distribution of employed persons by major industry group July 2020 and July 2021. Retrieved from <https://psa.gov.ph/statistics/survey/labor-and-employment/labor-force-survey/tab1>

<sup>5</sup> National Economic and Development Authority (September 2022). Ph Records Lowest Unemployment Rate Since Covid-19 Onset—Neda. Retrieved from <https://neda.gov.ph/ph-records-lowest-unemployment-rate-since-covid-19-onset-neda/#:~:text=As%20reported%20by%20the%20Philippine,Labor%20Force%20Survey%20since%202005.>

<sup>6</sup> <https://psa.gov.ph/press-releases/id/168188>

<sup>7</sup> Bangko Sentral ng Pilipinas. Net foreign direct investment flows (BPM6), by country. Retrieved from [https://www.bsp.gov.ph/Statistics/External/tab10\\_fdc.aspx](https://www.bsp.gov.ph/Statistics/External/tab10_fdc.aspx).

The total external trade of the country in terms of goods was recorded at USD 192.532 billion in the year 2021, representing a growth of 24.2% compared to the USD 155.02 billion recorded during 2020, but most importantly an augmentation of 10 billion compared to the 2019, pre-pandemic data. Among the major trading partners are the People's Republic of China, Japan, and the USA<sup>8</sup>. The European Union (EU) followed as the fourth largest trading partner, accounting for 7.9% of the country's total trade in 2021<sup>9</sup>. Meanwhile, as for the Philippines' bilateral trade with the EU member countries, Germany ranked as the top trading partner, with a total of trade of USD 4.985 billion. Likewise, in 2020, Germany ranked as the highest trading partner with a total trade of USD 4.343 billion.<sup>10</sup>

Furthermore, in the 2022 World Competitiveness Ranking compiled by the Institute for Management Development (IMD), the Philippines ranked 48th out of 63 countries, climbing four spots from the previous ranking. Specifically, the report notes that the country moved up in two of the factors: Economic Performance rose 4 places to 53rd; Infrastructure climbed 2 spots to 57<sup>th</sup>. Meanwhile, the Philippines' ranking for government Efficiency slipped three more spots to 48th, and public finance fell six places to 51<sup>st</sup>.

Nevertheless, we have seen significant progress such as the easing of COVID-19 restrictions, increased mobility for businesses and consumers, as well as solid headways in boosting business confidence and the country's position as a competitive destination for trade and investments. We are optimistic that we will see positive outcomes from the passage of game-changing economic reforms such as the amendments to the Public Services Act, the Retail Trade Liberalization Act, and the Foreign Investment Act. These will undoubtedly usher in foreign direct investments and create more jobs for Filipinos.

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<sup>8</sup> Philippines Statistics Authority. Highlights of the 2021 annual final international merchandise trade statistics of the philippines . Retrieved from <https://psa.gov.ph/content/highlights-2021-annual-final-international-merchandise-trade-statistics-philippines>, table 1 and 5.

<sup>9</sup> European commission. Countries and Regions: The Philippines. Retrieved from [https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/philippines\\_en](https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/philippines_en).

<sup>10</sup> Department of trade and Industry of the Philippines. Philippines merchandise total trade, historical trend. Retrieved from <http://www.tradelinephilippines.dti.gov.ph:8080/total-trade>.



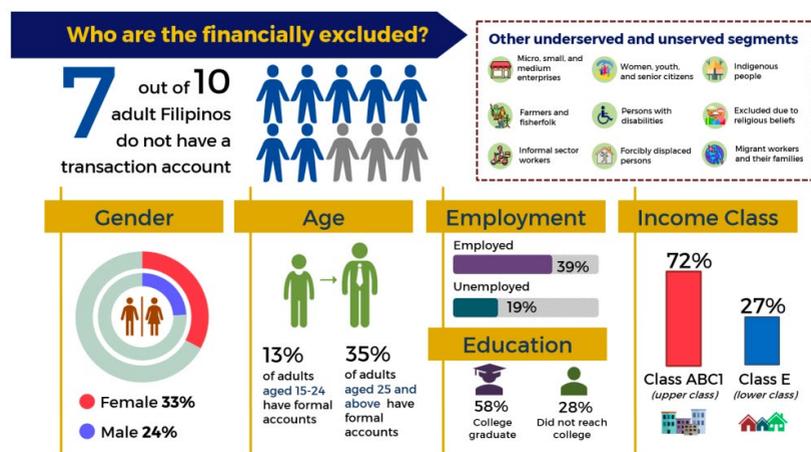
# INTRODUCTION

Against the backdrop of evolving trends, uncertainties, as well as other domestic and international developments, financial markets have continued to adapt to continue to meet the demands of consumers and customers, as well as to manage risks and mitigate shocks that pose significant impact on economies.

It has already been established that the COVID health crisis has accelerated markets' transition to digital transformation, leading to continuous innovations on digital platforms, services, and processes. The banking and financial sectors likewise remain steadfast in assisting consumers as well as beneficiaries of government programs by bridging access to financial resources and support.

In the Philippine context, in terms of promoting access and inclusivity, the Bangko Sentral ng Pilipinas (BSP) stated that the Philippine government aims to onboard at least 70% of Filipino adults to the Philippine financial system.<sup>1</sup> With its various efforts towards advancing accessibility to financial services, including measures to enhance digital infrastructure, the Philippines placed 8<sup>th</sup> worldwide (out of 55 economies) and 2<sup>nd</sup> in Asia in The Economist Intelligence Unit's ranking on financial inclusion promotion.<sup>2</sup>

Zooming in on the country's financial inclusion agenda, the National Strategy for Financial Inclusion 2022-2028 document presented that 7 out of 10 Filipinos still do not have a transaction account, while employed individuals and college graduates are more likely to own an account.<sup>3</sup>



Note: All figures refer to account ownership. 2019 Financial Inclusion Survey (BSP, 2020)

Source: Bangko Sentral ng Pilipinas, 2022

For the Philippine banking sector performance, the latest report of the BSP showed that it grew by 6.8% year-on-year at PhP 20.86 trillion as of May 2022. In terms of shares of the different banking groups, end of first quarter data reported that universal and commercial banks remain to dominate the market with a PhP 19.6 trillion or 94.1% share in total assets. Meanwhile, thrift banks composed of PhP 895.4 billion or 4.3% of the total, and rural and cooperative banks had a share of PhP329 billion or 1.6%.<sup>4</sup>

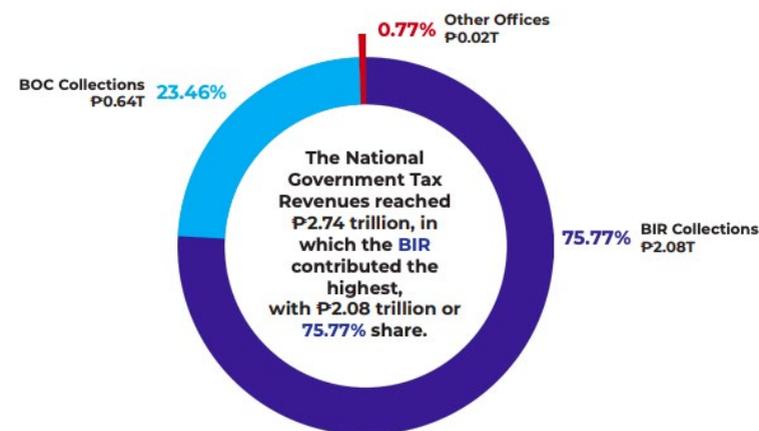
2021 was also the year in which the BSP started approving digital banks for commercial operations in the

Philippines, following its December 2020 release of the guidelines on the establishment and operation of digital banks in the country. A total of 6 digital banks were provided with digital banking licenses until early 2022, however, the central bank capped its approval due to the remaining applicants failing to meet the requirements.<sup>5</sup> The BSP likewise recently stated that regulatory capacity needs to be further enhanced, therefore it may take 3 years for new market players to come in.<sup>6</sup> Nonetheless, the central bank recognised the growing share and utilisation of digital banks in the country, with data showing as of the first half of 2022, there have been a total of 1.4 million e-payments and financial services processed by digital banks, which amounts to PhP 8.45 billion.<sup>7</sup>

On the other hand, the insurance sector recorded an upward trend in 2021, with an 8.4% increase in total assets at PhP 2.1 trillion, from PhP 1.9 trillion in 2020. The sector also collected a total of PhP 347.7 billion premiums, reflecting a 22% growth from PhP 308.3 billion from the previous year.<sup>8</sup> According to the Department of Finance (DOF), the insurance sector was able to effectively promote the use of digital technology especially in the midst of the pandemic with lockdowns and limited mobility for goods and individuals. The Insurance Commission (IC) issued guidelines on the use of online mechanisms in the submission of requirements and other documents by insurance companies, as well as file concerns and complaints from stakeholders.<sup>9</sup>

Nonetheless, the country's insurance regulatory body underscored that there is still as significant room for growth for the said sector particularly in terms of insurance penetration. In a June 2022 statement, IC reported that there is about a 2% GDP penetration rate in the Philippines, which has steadily increased over the past years. The agency likewise noted that microinsurance<sup>10</sup> plays an important role in providing insurance services across various income groups.<sup>11</sup>

In terms of fiscal performance, total revenues grew in 2021 at PhP 3 trillion, a 4.3% from the 2020 revenue of PhP 2.88 trillion. Tax revenues, which take up a significant majority of the total revenues, recorded a 9.5% growth rate, from PhP 2.5 trillion in 2020 to PhP 2.74 trillion in 2021.



National Government Tax Revenues (2021)

Source: Bureau of Internal Revenue, 2022

1 Bangko Sentral ng Pilipinas. (2020). The BSP Digital Payments Transformation Roadmap 2020-2023. Retrieved from [https://www.bsp.gov.ph/Pages/ABOUT%20THE%20BANK/Events/By%20Year/2021/BSPUP%20Professorial%20Chair%20Lecture%20Series/BSP\\_2c\\_iraio\\_discussion.pdf?ID=2314](https://www.bsp.gov.ph/Pages/ABOUT%20THE%20BANK/Events/By%20Year/2021/BSPUP%20Professorial%20Chair%20Lecture%20Series/BSP_2c_iraio_discussion.pdf?ID=2314).

2 The Economist Intelligence Unit. (2020). Global Microscope 2020. Retrieved from [https://content.centerforfinancialinclusion.org/wp-content/uploads/sites/2/2020/11/EIU\\_Microscope\\_2020\\_161120.pdf](https://content.centerforfinancialinclusion.org/wp-content/uploads/sites/2/2020/11/EIU_Microscope_2020_161120.pdf).

3 Bangko Sentral ng Pilipinas. (n.d.). National Strategy for Financial Inclusion 2022-2028. Retrieved from <https://www.bsp.gov.ph/Pages/InclusiveFinance/NSFI-2022-2028.pdf>.

4 Bangko Sentral ng Pilipinas. (May 2022). Report on Recent Trends 2022. Retrieved from [https://www.bsp.gov.ph/Media\\_And\\_Research/Publications/ReportonRecentTrends2022-05.pdf](https://www.bsp.gov.ph/Media_And_Research/Publications/ReportonRecentTrends2022-05.pdf).

5 Ta-asan, K. (22 June 2022). BSP unlikely to OK more digital banks in near term. Retrieved from <https://www.bworldonline.com/top-stories/2022/06/22/456579/bsp-unlikely-to-ok-more-digital-banks-in-near-term/>.

6 Ibid.

7 Villanueva, J. (24 August 2022). BSP: PH now has 6 digital banks. Retrieved from <https://www.pna.gov.ph/articles/1182068>.

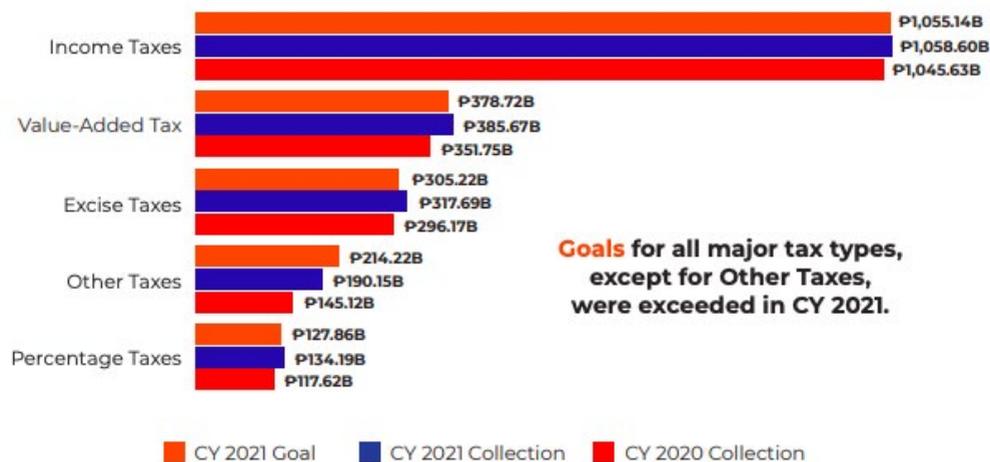
8 Philippine News Agency. (1 April 2022). DOF chief cites insurance industry growth amid pandemic. Retrieved from <https://www.pna.gov.ph/articles/1171237>.

9 Ibid.

10 Microinsurance, as defined in Republic Act No. 10607, is a financial product that meets the risk protection needs of the poor. Retrieved from <https://www.insurance.gov.ph/microinsurance/>.

11 Villanueva, J. (18 June 2022). Execs cite factors that will drive PH insurance sector growth. Retrieved from <https://www.pna.gov.ph/articles/1176986>.

Specifically on the collections by the Bureau of Internal Revenue (BIR), the DOF reported that 2021 collections at Php 2.09 trillion exceeded both the target set by the Development Budget Coordination Committee, as well as the 2020 year-end collection.<sup>12</sup> This translates to a goal attainment of 100.25%, and growth rate of 6.65% from the previous year. Additionally, the BIR stated that tax effort, or the index of the share of tax collections to gross domestic product, for 2021 was at 10.75%.<sup>13</sup> BIR data likewise show that apart from *Other Taxes*, the actual figures for the various tax types have exceeded their targets.<sup>14</sup>



**Goals for all major tax types, except for Other Taxes, were exceeded in CY 2021.**

**Collection by Major Tax Type (2021)**

Source: Bureau of Internal Revenue, 2022

The overall increase in performance was attributed to the improvement in sales and economic activities due to the easing of border and mobility restrictions, excise tax hikes, and world market prices, among others.<sup>15</sup>

Indeed, globalisation and greater regional integration continue to be critical in dealing with the sector's increasingly sophisticated challenges and changes, which are crucial in shaping policies and business operations in the country. This thereby further necessitates a multi-sectoral and -level approach that will look into the developing needs and demands of the public in terms of efficiency, inclusivity, and innovativeness.



12 Philippine News Agency. (17 March 2022). BIR, BOC exceed 2021 collection targets. Retrieved from <https://www.pna.gov.ph/articles/1170025>.  
 13 Bureau of Internal Revenue. (2022). BIR Annual Report 2021. Retrieved from [https://www.bir.gov.ph/images/bir\\_files/annual\\_reports/annual\\_report\\_2021/BIR%20AR%202021.pdf](https://www.bir.gov.ph/images/bir_files/annual_reports/annual_report_2021/BIR%20AR%202021.pdf).  
 14 Ibid.  
 15 Ibid.

## RECENT REFORMS AND INDUSTRY DEVELOPMENTS

### Monetary and Financial

- In the bid to achieve financial inclusion, the Bangko Sentral ng Pilipinas (BSP) released the **National Strategy for Financial Inclusion (NSFI) 2022-2028**<sup>16</sup> in January 2022. The NSFI 2022-2028 serves as a six-year blueprint that aims to achieve the vision of driving financial inclusion toward broad-based growth and financial resilience. Later on, in June 2022, **Memorandum Circular No. 97**<sup>17</sup> was issued to institutionalise whole-of-government support for the NSFI 2022-2028. The memorandum mandates all departments, agencies, and instrumentalities of the government to incorporate relevant priority initiatives under the NSFI in their respective programs, policies, and budgets.
- In light of the accelerated digitalisation in the country, **Memorandum No. 2021-069**<sup>18</sup> reminds all BSP Supervised Financial Institutions (BSFIs) to comply with the provisions of BSP Circular No. 1048 on the Financial Consumer Protection Framework by establishing guidelines that institutionalise consumer protection as an integral component of corporate governance and culture, as well as risk management.
- Further and in accordance with the Digital Payments Transformation Roadmap 2020-2023<sup>19</sup> and the NSFI 2022-2028, **Executive Order No. 170, s. 2022**<sup>20</sup> mandates the adoption of digital payments for government disbursements and collections.
- To foster the stability of the Philippine financial system, **Republic Act (RA) No. 11765**<sup>21</sup> or the **Financial Products and Services Consumer Protection Act** implements measures to protect the interest of consumers of financial products and services under the conditions of transparency, fair, and sound market conduct, and fair, reasonable, and effective handling of financial consumer disputes, which are aligned with global best practices.
- **Circular No. 1147, s. 2022**<sup>22</sup> was issued to amend the guidelines implementing RA No. 11523 or the Financial Institutions Strategic Transfer (FIST) Act. The circular sets a limit of Php 10 million for a BSFIs' investment unit instrument (IUI) transactions issued by a Financial Institutions Strategic Transfer Corporation (FISTC).
- Additionally, **Circular No. 1149 s. 2022**<sup>23</sup> was released in line with the implementation of the Sustainable Finance Framework issues in April 2020. Particularly, this Circular lays out guidelines on the integration of sustainability principles in investment activities of banks.
- Meanwhile, **Circular No. 1153 s. 2022**<sup>24</sup> was issued to insititutionalize a Regulatory Sandbox

16 Bangko Sentral ng Pilipinas. (January 2022). National Strategy for Financial Inclusion 2022-2028. Retrieved from <https://www.bsp.gov.ph/Pages/InclusiveFinance/NSFI-2022-2028.pdf>  
 17 Official Gazette. (June 2022). Memorandum Circular No. 97. Retrieved from <https://www.officialgazette.gov.ph/downloads/2022/06jun/20220623-MC-97-RRD.pdf>  
 18 Bangko Sentral ng Pilipinas. (2021). Memorandum No. M-2021-069. Retrieved from <https://www.bsp.gov.ph/Regulations/Issuances/2021/M-2021-069.pdf>  
 19 Bangko Sentral ng Pilipinas. (2020). BSP Digital Payments Transformation Roadmap 2020-2023. Retrieved from [https://www.bsp.gov.ph/Media\\_And\\_Research/Primers%20Faqs/Digital%20Payments%20Transformation%20Roadmap%20Report.pdf](https://www.bsp.gov.ph/Media_And_Research/Primers%20Faqs/Digital%20Payments%20Transformation%20Roadmap%20Report.pdf)  
 20 Official Gazette. (May 2022). Executive Order No. 170, s. 2022. Retrieved from <https://www.officialgazette.gov.ph/downloads/2022/05may/20220512-EO-170-RRD.pdf>  
 21 Official Gazette. (May 2022). Republic Act No. 11765. Retrieved from <https://www.officialgazette.gov.ph/downloads/2022/05may/20220506-RA-11765-RRD.pdf>  
 22 Bangko Sentral ng Pilipinas. (May 2022). Circular No. 1147. Retrieved from <https://www.bsp.gov.ph/Regulations/Issuances/2022/1147.pdf>  
 23 Bangko Sentral ng Pilipinas. (August 2022). Circular No. 1149. Retrieved from <https://www.bsp.gov.ph/Regulations/Issuances/2022/1149.pdf>.  
 24 Bangko Sentral ng Pilipinas. (September 2022). Circular No. 1153. Retrieved from <https://www.bsp.gov.ph/Regulations/Issuances/2022/1153.pdf>.

Framework, with the aim to support innovation and growth in the digital finance sector.

- The BSP, through **Circular Letter No. 2022-011**<sup>25</sup>, encouraged Philippine banks to explore and consider, where applicable, the strategies, priorities, and principles outlined in the roadmap and guiding principles in developing their approach or actions towards adopting sustainable finance.
- As part of the mandate of the Securities and Exchange Commission to regulate financing companies (FCs) and lending companies (LCs), **Memorandum Circular No. 03 s. 2022** was issued to implement the ceilings on interest rates and other fees charged by FCs, LCs, and other online lending platforms.<sup>26</sup>
- On legislation, several bills have been filed that did not reach approval and the Bicameral Conference Committee in the 18th Congress:
  - In pursuit of the goal to promote digital payments, **Senate Bill (SB) No. 2524**<sup>27</sup> or the Use of Digital Payments Act was filed with the aim to facilitate transactions, arrangements, or exchanges of goods and services by promoting the use of safe, affordable, and efficient digital payments by the government and general public. The bill, which replaced SB No. 1764, is currently pending in second reading. In the 19th Congress, a similar bill was filed recently on 06 July 2022, **SB No. 37**<sup>28</sup>. The bill is pending in the Committee on Banks, Financial Institutions and Currencies and Finance.
  - **House Bill (HB) No. 8991**<sup>29</sup> which seeks to amend the RA No. 1405, otherwise known as the Bank Secrecy Law, proposes to expand the supervisory powers of the BSP to foreign currency deposits in banks operating in the Philippines including off-shore branches of domestic banks. The bill has been in the Period of Sponsorship since March 2021.
  - Likewise at the Upper House, **SB No. 1802**<sup>30</sup> seeks to effectively restore the authority of BSP to examine bank deposits, provided it found reasonable grounds there may be fraud, serious irregularity or unlawful activities. The bill also proposes that the necessity to investigate bank deposits should be used exclusively by the BSP. The other versions of the bill which are pending in the Committee, **SB No. 26**<sup>31</sup>, **SB No. 374**<sup>32</sup>, and **SB No. 539**<sup>33</sup>, also seeks to amend the RA No. 1405 by excluding government officials and employees from the Bank Secrecy Law to promote transparency in governance.
- Meanwhile, under the current Congress, bills such as **SB No. 806**<sup>34</sup> and **HB No. 0004**<sup>35</sup> were filed. These measures are primarily aimed at providing protection to online consumers and merchants, which likewise involve the conduct of online transactions or digital financial services. As of September 2022, the both bills are pending in the respective House and Senate Trade Committees.

25 Bangko Sentral ng Pilipinas. (February 2022). Circular Letter No. 2022-011. Retrieved from <https://www.bsp.gov.ph/Regulations/Issuances/2022/CL-2022-011.pdf>

26 Securities and Exchange Commission. (March 2022). Memorandum Circular No. 03. Retrieved from <https://www.sec.gov.ph/mc-financing-lending-companies/mc-no-03-s-2022/>.

27 Senate of the Philippines. (30 May 2022). Senate Bill No. 2524. Retrieved from <http://legacy.senate.gov.ph/lisdata/3765034101!.pdf>

28 Senate of the Philippines. (06 July 2022). Senate Bill No. 37. Retrieved from <http://legacy.senate.gov.ph/lisdata/3773834180!.pdf>

29 House of Representatives. (2021). Committee Report No. 861. Retrieved from [https://hrep-website.s3.ap-southeast-1.amazonaws.com/legisdocs/first\\_18/CR00861.pdf](https://hrep-website.s3.ap-southeast-1.amazonaws.com/legisdocs/first_18/CR00861.pdf)

30 Senate of the Philippines. (2020). Senate Bill No. 1802. Retrieved from <http://legacy.senate.gov.ph/lisdata/3343330242!.pdf>

31 Senate of the Philippines. (2019). Senate Bill No. 26. Retrieved from <http://legacy.senate.gov.ph/lisdata/3024227071!.pdf>

32 Senate of the Philippines (2019.) Senate Bill No. 374. Retrieved from <http://legacy.senate.gov.ph/lisdata/3066627520!.pdf>

33 Senate of the Philippines. (2019). Senate Bill No. 539. Retrieved from <http://legacy.senate.gov.ph/lisdata/3092227783!.pdf>

34 Senate of the Philippines. (2022). Senate Bill No. 806. Retrieved from <http://legacy.senate.gov.ph/lisdata/3853134985!.pdf>

35 House of Representatives. (2022). House Bill No. 0004. Retrieved from [https://hrep-website.s3.ap-southeast-1.amazonaws.com/legisdocs/basic\\_19/HB00004.pdf](https://hrep-website.s3.ap-southeast-1.amazonaws.com/legisdocs/basic_19/HB00004.pdf)

## Insurance

- **CL 2021-64**<sup>36</sup> issues guidelines on the adoption of a regulatory sandbox framework for innovations in the insurance, health maintenance organisations (HMO), and pre-need industries, while **CL 2021-11**<sup>37</sup> guidelines on the adoption of a regulatory sandbox framework for Financial Technology (FinTech) innovations for HMOs And pre-need companies.
- **CL No. 2022-08**<sup>38</sup> addresses all domestic insurance companies doing business in the Philippines on the guidelines on the implementation of the Financial Institutions Strategic Transfer (FIST) Act.
- **CL No. 2022-34**<sup>39</sup> provides guidelines on the adoption of the revised schedule of minimum catastrophe rates. It shall be observed by all non-life insurance companies and intermediaries and shall apply to all insurance policies covering earthquake and typhoon and flood risks for both new and renewal business, except for risks rated under motor car tariff.

## Fiscal and Taxation

- **Revenue Regulations (RR) No. 22-2021**<sup>40</sup> extends the deadlines for the filing of tax returns and payment of the corresponding taxes due thereon, including submission of required documents, application for tax refund and issuance of Assessment Notices and Warrants of Distraint and Levy for taxpayers within the jurisdiction of BIR Revenue Regional and District Offices that were adversely affected by Typhoon Odette.
- In April 2022, **RR No. 3-2022**<sup>41</sup> was issued to implement the provisions of **RA No. 11635**<sup>42</sup> on the income taxation of proprietary states that educational institutions and hospitals which are non-profit. Under RR No. 3-2022, proprietary educational institutions may benefit from the preferential income tax rates of 1%, from 1 July 2020 to 30 June 2023. The rate shall revert to the preferential Corporate Income Tax rate of 10% after 30 June 2023.
- **RR No. 8-2022**<sup>43</sup> prescribes the policies and guidelines for the implementation of Sections 237 and 237-A of the National Internal Revenue Code (NIRC), as amended by RA No. 10963 (TRAIN Law), through the use of the Electronic Invoicing/Receipting System (EIS).
- **Revenue Memorandum Circular (RMC) No. 28-2022**<sup>44</sup> circularises the new requirement under Section 3, Rule 8 of the Implementing Rules and Regulations (IRR) of the Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act with regard to the submission of the Certificate of Entitlement to Tax Incentives (CETI).
- Further, **Revenue Memorandum Order (RMO) No. 4-2022**<sup>45</sup> was issued to facilitate the proper

36 Insurance Commission. (2021). Circular Letter 2021-64. Retrieved from [https://www.insurance.gov.ph/wp-content/uploads/2022/02/CL2021\\_64.pdf](https://www.insurance.gov.ph/wp-content/uploads/2022/02/CL2021_64.pdf)

37 Insurance Commission. (2021). Circular Letter 2021-11. Retrieved from [https://www.insurance.gov.ph/wp-content/uploads/2022/02/CL2021\\_11.pdf](https://www.insurance.gov.ph/wp-content/uploads/2022/02/CL2021_11.pdf)

38 Insurance Commission. (2022). Circular Letter 2022-08. Retrieved from <https://www.insurance.gov.ph/circular-letter-2022-08-guidelines-on-the-implementation-of-republic-act-no-11523-or-the-financial-institutions-strategic-transfer-fist-act/>

39 Insurance Commission. (2022). Circular Letter 2022-34. Retrieved from <https://www.insurance.gov.ph/circular-letter-2022-34-guidelines-on-the-adoption-of-the-revised-schedule-of-minimum-catastrophe-rates/>

40 Bureau of Internal Revenue. (December 2021). Revenue Regulations No. 22-2021. Retrieved from [https://www.bir.gov.ph/images/bir\\_files/internal\\_communications\\_1/Digest%20RR%202021/RR%2022-2021.pdf](https://www.bir.gov.ph/images/bir_files/internal_communications_1/Digest%20RR%202021/RR%2022-2021.pdf)

41 Bureau of Internal Revenue. (April 2022). Revenue Regulations No. 3-2022. Retrieved from [https://www.bir.gov.ph/images/bir\\_files/internal\\_communications\\_1/Digest%20RR%202022/RR%203-2022.pdf](https://www.bir.gov.ph/images/bir_files/internal_communications_1/Digest%20RR%202022/RR%203-2022.pdf)

42 Official Gazette. (2021). Republic Act No. No. 11635. Retrieved from <https://mirror.officialgazette.gov.ph/downloads/2021/12dec/20211210-RA-11635-RRD.pdf>

43 Bureau of Internal Revenue. (June 2022). Revenue Regulations No. 8-2022. Retrieved from [https://www.bir.gov.ph/images/bir\\_files/internal\\_communications\\_1/Digest%20RR%202022/RR%208-2022.pdf](https://www.bir.gov.ph/images/bir_files/internal_communications_1/Digest%20RR%202022/RR%208-2022.pdf)

44 Bureau of Internal Revenue. (February 2022). Revenue Memorandum Circular No. 28-2022. Retrieved from [https://www.bir.gov.ph/images/bir\\_files/internal\\_communications\\_2/RMCs/2022%20RMCs/RMC%20No.%2028-2022.pdf](https://www.bir.gov.ph/images/bir_files/internal_communications_2/RMCs/2022%20RMCs/RMC%20No.%2028-2022.pdf)

45 Bureau of Internal Revenue. (January 2022). Revenue Memorandum Order No. 4-2022. Retrieved from [https://www.bir.gov.ph/images/bir\\_files/](https://www.bir.gov.ph/images/bir_files/)

identification and monitoring of tax collection from Corporate Income Tax in the following BIR Forms pursuant to the CREATE Act.

- **HB No. 8942<sup>46</sup>** or the Ease of Paying Taxes Act that seeks to ease processes for taxpayers by granting the fulfillment of taxpayer's obligations without the need for physical appearance. The bill was approved in third reading and transmitted to the Senate in September 2021.

## ADVOCACY RECOMMENDATIONS

### 1. Fast-track Senate Concurrence of the Foreign Account Tax Compliance Act (FATCA)

The ECCP has long advocated for the Senate Concurrence of the Foreign Account Tax Compliance or FATCA. FATCA was implemented in March 2010 with the purpose of enhancing compliance with United States tax regulations. This requires all non-US financial institutions or Foreign Financial Institutions (FFIs) to report to the US Internal Revenue Service any relevant information on financial accounts held by US citizens.<sup>47</sup>

Following this development, the Philippines and the United States signed an Inter-Governmental Agreement (IGA) Model 1A on July 13, 2015, which requires Philippine financial institutions (PFIs) to submit relevant information on accounts of US citizens to the BIR.<sup>48</sup>

Former President Duterte ratified the FATCA in December 2016, and it was sent to the Philippine Senate for approval.<sup>49</sup> It has remained pending in the Committee of Foreign Relations at the Philippine Senate since then, according to a June 2019 report.<sup>50</sup> FATCA remains to be fully implemented as the BIR has stated that "FATCA reporting will not occur until the PH-US FATCA IGA has been concurred in by the Philippine Senate and has entered into force."<sup>51</sup>

To this end, the ECCP reiterates its support in the full implementation of FATCA through a Senate concurrence. We strongly believe that this can help strengthen the country's compliance with international tax policies, as well as leverage its position in combating financial crime and promoting a transparent and effective reporting system.

### 2. Lift or Amend the Bank Secrecy Law

In a 2020 Survey, it was reported that one out of two companies have experienced fraud and economic crimes in 2019, with as much as USD 50 million in losses. It was further presented that among the measures that businesses have started and will implement are improvements in security controls, review and enhancement of policies and procedures, and the application of a whistleblowing network.<sup>52</sup>

The same report stated that among the reasons why financial crimes persist is the existence of laws and regulations such as the Bank Secrecy Act.<sup>53</sup> Due to its strict policy on bank secrecy, the Philippine banking system continues to be regarded as one of the most restrictive in the world. The BSP reported that the strict bank secrecy rules of the Philippines and Lebanon have been identified by the International Monetary Fund to hinder anti-money laundering efforts.<sup>54</sup>

International bodies have likewise called for increased efforts from the Philippines in combatting financial crimes, particularly with the Financial Action Task Force including the Philippines in the grey list<sup>55</sup> in 2021.<sup>56</sup>

The BSP reported that it has boosted its efforts to address the said concerns, through various measures such as the implementation of the Anti-Terrorism Act or Republic Act (RA) No. 11479 and Amendments to the Anti-Money Laundering Act or RA No. 11521 amending the AMLA, along with their corresponding Implementing Rules and Regulations.<sup>57</sup> The BSP has likewise made reviews on the enforcement of bank secrecy rules as provided under the Secrecy of Bank Deposits Law or RA No. 1405.<sup>58</sup> At a legislative level, under the previous Congress, lawmakers have proposed the amendments to the Bank Secrecy Law.<sup>59</sup> However, the said proposal did not reach advanced stage in either Houses of Congress.

More recently, BSP mentioned its position on easing bank secrecy regulations,<sup>60</sup> particularly amending the law 'within the confines of BSP's banking supervision and its investigation of closed banks'.<sup>61</sup>

Relative to the aforementioned points and complimenting the steps that have been taken towards promoting security and transparency in the country's banking sector, the ECCP supports the enactment of amendments on the Bank Secrecy Law. We strongly believe that this policy shift will provide a strengthened prudential supervisory role to the BSP, as well as create a policy environment that will enable the said agency to effectively fulfill its mandate of maintaining a stable banking system. The ECCP looks forward to and will monitor the progress in the 19<sup>th</sup> Congress<sup>62</sup> in line with this proposal.

### 3. Further Promotion of Digital Transformation in Tax- and Finance-Related Transactions and Processes

The mobility restrictions due the imposition of COVID-19 pandemic response measures have further elevated the critical role that digital transformation plays in ensuring the continuity of activities and transactions across sectors, as well as the provision of financial support through social amelioration programs. Even so, it has long been established that a digitalization will play a significant role in shaping the future of economies, businesses and even individuals.<sup>63</sup>

internal\_communications\_3/2022/Digest/RMO%20No.%204-2022\_Digest.pdf

46 House of Representatives. (2021). House Bill No. 8942. Retrieved from [https://hrep-website.s3.ap-southeast-1.amazonaws.com/legisdocs/third\\_18/HBT8942.pdf](https://hrep-website.s3.ap-southeast-1.amazonaws.com/legisdocs/third_18/HBT8942.pdf)

47 Bureau of Internal Revenue. (2016). BIR Advisory on FATCA. Retrieved from [https://www.bir.gov.ph/images/bir\\_files/international\\_tax\\_affairs/faq%20\\_0628.pdf](https://www.bir.gov.ph/images/bir_files/international_tax_affairs/faq%20_0628.pdf).

48 US Department of the Treasury. (2015). Agreement between the Government of the United States of America and the Government of the Republic of the Philippines to Improve International Tax Compliance and to Implement FATCA. Retrieved from <https://www.treasury.gov/resourcecenter/tax-policy/treaties/Documents/FATCA-Agreement-Philippines-7-13-2015.pdf>.

49 Bureau of Internal Revenue. (2017). FATCA Advisory 4. Retrieved from: <https://www.bir.gov.ph/index.php/international-tax-matters/fatca.html>.

50 Philippine Senate. (June 2019). Treaties/Agreement Submitted for Concurrence by the Senate. Retrieved from [http://legacy.senate.gov.ph/17th-congress/treaties\\_17thcongress.asp](http://legacy.senate.gov.ph/17th-congress/treaties_17thcongress.asp).

51 Ibid.

52 PricewaterhouseCoopers Consulting Services Philippines Co. Ltd., (2020). Fraud and Economic Crime – Are we prepared enough for a new decade? PwC's Global Economic Crime and Fraud Survey – The Philippine Report. Retrieved from <https://www.pwc.com/ph/en/consulting-pwc->

[ph/assets/2020/pwc-ph\\_2020-gecs-report.pdf](https://www.pwc.com/ph/en/consulting-pwc-ph/assets/2020/pwc-ph_2020-gecs-report.pdf).

53 PricewaterhouseCoopers Consulting Services Philippines Co. Ltd., (2020). Fraud and Economic Crime – Are we prepared enough for a new decade? PwC's Global Economic Crime and Fraud Survey – The Philippine Report. Retrieved from [https://www.pwc.com/ph/en/consulting-pwc-ph/assets/2020/pwc-ph\\_2020-gecs-report.pdf](https://www.pwc.com/ph/en/consulting-pwc-ph/assets/2020/pwc-ph_2020-gecs-report.pdf).

54 BSP. (11 February 2021). House Committee on Banks and Financial Intermediaries Hearing.

55 Refers to "Jurisdictions under Increased Monitoring" or externally, "grey list". Implies that the country has committed to resolving identified strategic deficiencies along with agreed-upon timeline and is subject to enhanced surveillance.

56 Financial Action Task Force. (June 2021). Jurisdictions under Increased Monitoring – June 2021. Retrieved from <https://www.fatf-gafi.org/publications/high-risk-and-other-monitored-jurisdictions/documents/increased-monitoring-june-2021.html>.

57 Agcaoili, L. (24 August 2022). BSP renews push for easing of bank secrecy law. Retrieved from <https://www.philstar.com/business/2022/08/24/2204613/bsp-renews-push-easing-of-bank-secrecy-law->

58 The LawPhil Project. (n.d.). Republic Act No. 1405. Retrieved from [https://lawphil.net/statutes/repacts/ra1955/ra\\_1405\\_1955.html](https://lawphil.net/statutes/repacts/ra1955/ra_1405_1955.html).

59 Several Senate and House Bills have been filed proposing for the amendment of the Bank Secrecy Law – Senate Bill Nos. 26, 374, 539, 634, and 1802; and House Bill Nos. 1498, 3554, 8634, and 8991.

60 Caraballo, M. (3 August 2022). Medalla seeks lifting of bank secrecy law. Retrieved from <https://www.manilatimes.net/2022/08/03/business/top-business/medalla-seeks-lifting-of-bank-secrecy-law/1853191>.

61 De La Cruz, J.M. (31 August 2022). BSP seeks 'limited lifting' of bank secrecy law. Retrieved from <https://businessmirror.com.ph/2022/08/31/bsp-seeks-limited-lifting-of-bank-secrecy-law/>.

62 As of 31 August 2022, there have been bills filed at the Senate and House proposing to amend the Bank Secrecy Law – Senate Bill Nos. 56, 596, 1088; and House Bill Nos. 2406, 4060, and 4313.

63 In the Digital Economy Report 2019 of the United Nations Conference on Trade and Development or UNCTAD, it was mentioned that 'Digitalization

Recent figures from the BSP exhibit the fast-tracked transition to the digital economy, with the heightened share of digital payments to total retail payments volume to 30.3% in 2021 from 20.1% in 2020. Figures in terms of value has likewise posted an upward trajectory, with an increase in share to 44.1% in 2021, from 26.8% in 2020.<sup>64</sup>

Additionally, the BIR has continued to implement measures towards streamlining and maximising the use of technology in its processes and requirements. 2020 data show that out of the total collection of PhP 1.95 trillion, 85% or PhP 1.66 trillion were collected via e-payment channels. Moreover, in early 2022, the DOF reported that among the digital transformation projects that are already being implemented include e-payment mechanisms such as the electronic Filing and Payment System and electronic Fund Transfer Instructions System, as well as the Internal Revenue Integrated System (IRIS) for processing of taxpayer information.<sup>65</sup>

Meanwhile, legislators have likewise put forward proposals that are sought to further develop the country's digital economy, such as the Promotion of Digital Payments bill and Ease of Paying Taxes bill, which under the 18<sup>th</sup> Congress, were both approved at the House of Representatives but did not reach advance stages at the Senate level.

The current scenario as well as policy priorities of both the government and businesses showcase that digitalising tax- and finance-related transactions and processes will continue to be the trend across all sectors. With this, the ECCP recognises that there is an increasing need for mechanisms that will support the growing use of digital transactions. Enacting such measures will further promote efficiency and security in the tax and financial systems, as well as support the country's goal to advance its digital transformation, financial inclusion, and ease of doing business objectives.

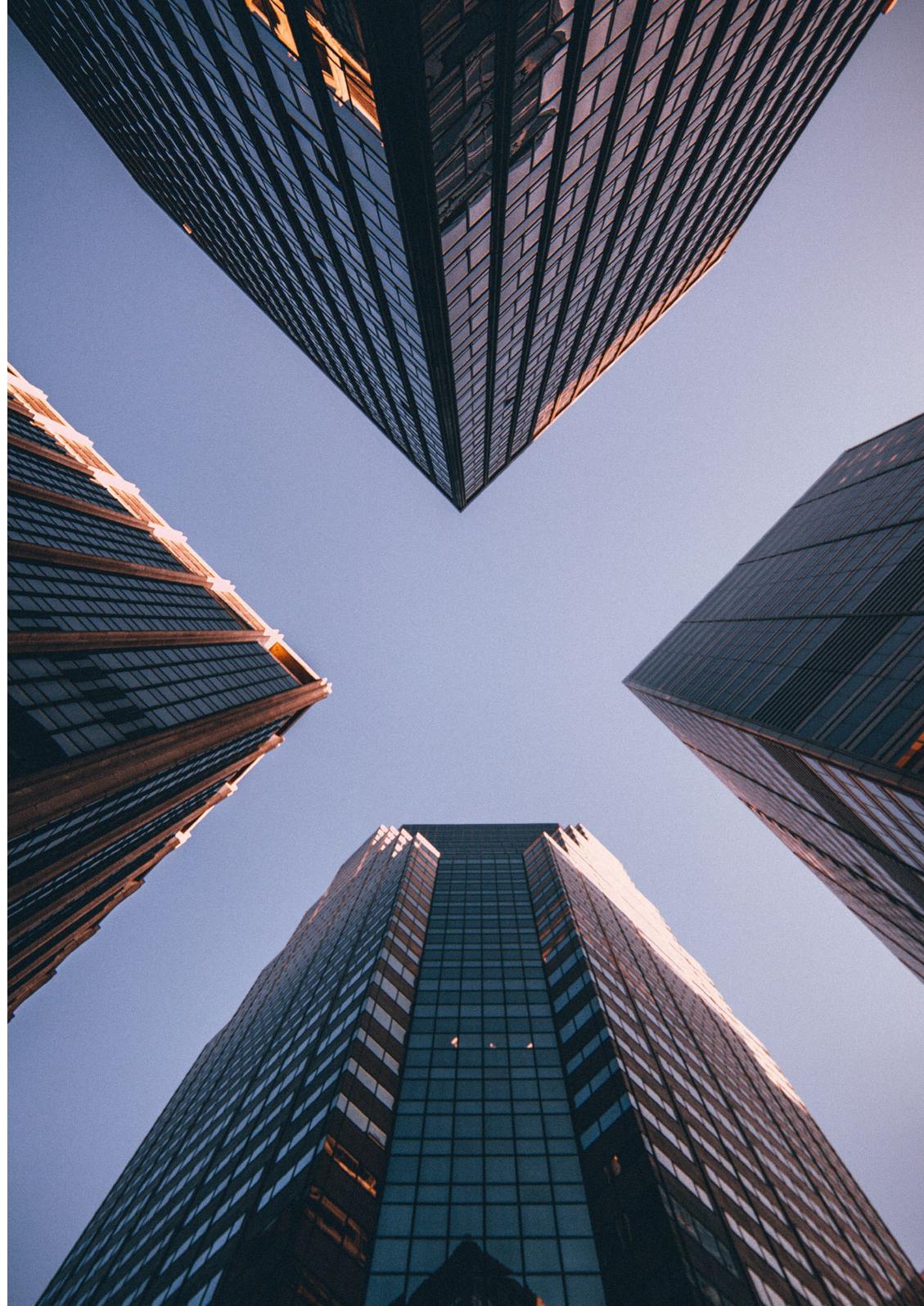
To this end, the ECCP will continue to monitor sector developments as well as engage with policymakers and industry players in policy discussions, to help ensure the enactment of measures that takes into account adaptability and inclusivity for all stakeholders.

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of the broader economy may lead to new efficiencies, and, in the future, to transformative changes in established sectors in developing countries.' Retrieved from [https://unctad.org/system/files/official-document/der2019\\_en.pdf](https://unctad.org/system/files/official-document/der2019_en.pdf).

64 Philippine News Agency. (6 July 2022). Digital payments breach 30% in 2021. Retrieved from <https://www.pna.gov.ph/articles/1178401>.

65 Philippine News Agency. (18 January 2022). BIR's digital transformation projects to benefit taxpayers. Retrieved from <https://www.pna.gov.ph/articles/1165741>.





## ASSESSMENT OF 2021 RECOMMENDATIONS

RECOMMENDATION	COMPLETED / SUBSTANTIAL PROGRESS	SOME PROGRESS	NO PROGRESS / RETROGRESSION
Fast-track Senate Concurrence of the Foreign Account Tax Compliance Act (FATCA)			The FATCA was ratified in December 2016. It remains pending in the Senate Foreign Relations Committee for concurrence, as of June 2019.
Lift or Amend the Bank Secrecy Law			<p>Enactment of the amendments to the Bank Secrecy Law have yet to be implemented.</p> <p>However, several government agencies, especially the Bangko Sentral ng Pilipinas has expressed its support to review the said policy to promote a more transparent and strengthened banking system.</p>
Enact the Tax Amnesty Package	<p>The Tax Amnesty Act was signed into law in February 2019 as Republic Act No. 11213.</p> <p>In addition to this, in June 2021, President Duterte signed Republic Act No. 11569 which is the extension law for the implementation of the Estate Tax Amnesty Program for two more years or until 2023.</p>		
Establish a different tax treatment for metallic and non-metallic minerals			X
Faster reduction of the Corporate Income Tax and retention of incentives	Following the enactment of the Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act in March 2021, the BIR has issued policies on the implementation of the said law, including those providing for the reduced corporate income tax, and as well as the granting of incentives to businesses across various sectors, as aligned under the Strategic Investment Priority Plan.		







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