

Case Study 2: Philippines – Proposed Financial Institutions Strategic Transfer Act

The proposed Financial Institutions Strategic Transfer (FIST) Act is a bill currently before the Philippines Congress.⁶ It responds to the growing adverse impact of Covid-19 on the operations of financial institutions from clients facing difficulties in servicing debt obligations due to reduced cash flow from pandemic-induced trading restrictions (Bangko Sentral ng Pilipinas 2020b).

There is a limit to how much risk financial institutions, including microfinance providers, can bear. The FIST Act gives distressed financial institutions a mechanism for strengthening their balance sheet, mainly through selling their non-performing assets (NPAs). In doing so:

- Banks will not have to incur costs related to the management and administration of NPAs – activities that are best left to asset management companies.
- Liquidity within the banking system will increase since it will no longer be tied up in NPAs.
- Bank capital will be freed up, increasing the system's risk-bearing capacity and ability to expand investment and lending activities.

The bill would allow for incentives to be provided to banks and financial institutions to sell NPAs affected by the pandemic to asset management companies or financial institutions strategic transfer corporations (FISTCs) that specialise in the resolution of distressed assets.

The FIST Act aims to encourage the private sector, government financial institutions, and corporations owned or controlled by government, to help in the rehabilitation of distressed businesses and contribute to sustained economic growth.

FISTCs that specialise in the resolution of distressed assets would be incentivised with exemptions from paying documentary stamp tax, capital gains tax, creditable withholding income taxes imposed on the transfer of buildings, and value-added tax.

The act would enable FISTCs to, among other things, invest in or acquire the NPAs of financial institutions, engage third parties to manage NPAs, restructure debt and engage in related activities, buy or transfer shares or issue equity for the purpose of business reorganisation, and borrow money and issue guarantees.

⁶ Note that until the FIST Act has been approved by the Philippines Congress and signed into law that it is subject to change. The draft bill is available here: <http://legacy.senate.gov.ph/lisdata/3302229869!.pdf>