

# **Manual on FSC Governance and By-laws**

## **A. Purposes of FSC**

- Raise equity capital through sale of shares.
- Provide savings facilities to shareholders, initially for safekeeping needs and ultimately for the purpose of maintaining transaction balances.
- Extend loans to eligible shareholders.
- Mobilize other sources of loanable funds at terms most favorable to FSC.
- Provide microinsurance services to shareholders.
- Maintains business partnership with a Link-Bank to mainstream FSC services and for financial self-sustainability in the long run.
- Undertake other economic or social activities that are beneficial not only to shareholders but to the whole community as well.

## **B. Eligibility of Shareholder**

- A local resident of legal age.
- A person of legal age residing outside but originating from the FSC area of operation.
- A person of legal age not originating from the local area but has maintained contacts to through kinship ties with some members of the community.

- A juridical group.
- Holder of at least one share.
- A minimum of 150 holders of FSC shares is required to formally establish the FSC.
- Third party FSC promoters shall initially set the value of FSC share. The authority to fix value share is thereafter bestowed on the FSC General Assembly per recommendation from BOD.
- A shareholder loses his/her eligibility if:
  - Convicted of any criminal and/or civil offense
  - Become financially insolvent with mounting debts with FSC and other creditors.
  - Mentally/physically incapacitated to transact with FSC.

### **C. Share Capital**

- A shareholder can own as many shares of capital as she/he can. There shall be no upper limit in the number of shares.
- FSC can subscribe shares anytime in accordance with the share value pegged during the last General Assembly meeting.

### **D. Shares of Certificate**

- FSC will issue share certificates as proof of ownership. It shall be recorded in the Register of FSC Shares.
- A share certificate shall be negotiable or transferable by sale or deed of gift.

- The FSC Directors, through the Manager, shall be privy to all transactions pertinent to sale or donation of FSC shares.
- The FSC shall immediately replace any lost share certificate.

#### **E. Share Buy-Back**

- The FSC may buy-back, after at least one year, share certificates of shareholders wanting to sell.
- The General Assembly shall determine the price of share.
- Buy-back shall be done within 30 days after the conduct of General Assembly meeting.
- The FSC has the prerogative to deduct from the proceeds of sale of FSC shares the amount equivalent to unpaid liability of the shareholder to the FSC.

## **F. Voting Rights vis-à-vis Shares**

- A shareholder can exercise his/her right to vote on all matters and questions relevant to the affairs of FSC.
- The voting rights shall be based on the following:

<b>Number of Shares</b>	<b>Number of Votes</b>
1 to 5	1
6 - 10	2
11 - 15	3
16 - 20	4
21 - 25	5
26 – 30	5
31 – 35	7
36 – 40	8
41 – 45	9
Over 45	10

- A shareholder may attend the General Assembly in person or by proxy A shareholder has the right to participate, except those exclusive to BOD and Committees, in all activities of FSC.

## **G. Meetings of Shareholders**

- Holds annual assembly meeting at the principal office on any day of October of each year, if a legal holiday, then on the day following.

- Extraordinary meeting of shareholders to be convened by BOD, may be at anytime be called for any purpose or purposes, at the written request by any of the following:
  - One-fifth of 20% of shareholding
  - Members of BOD and 10% of shareholding
  - All members of Audit Committee and 10% of shareholding
- The shareholders representing the majority of the FSC shares may convene the extraordinary meeting if the Chairperson is unable to convene the said meeting within 14 days from receipt of notice.
- Shareholders meeting, whether regular or extraordinary, shall be held in the principal office of FSC or any place designated by BOD in the area where the principal office of FSC is located.
- The Secretary may send notices for regular or extraordinary meetings of shareholders by personal delivery or by mail at least two weeks prior to the date of the meeting to each shareholder at his last known address. The notice shall state the place, date and hour of the meeting, and the purpose or purposes for which the meeting is called.
- Unless otherwise set by the General Assembly, in all the regular and extraordinary meetings of shareholders, a majority or 60% of the total registered number of shares must be present or represented in order to constitute a quorum. If no quorum is constituted, the meeting shall be adjourned until the requisite number of shares must be present.

- The Chairperson shall preside the meetings of shareholders. The Secretary is expected to act as secretary of every meeting, but if not present, the Chairperson shall appoint a secretary of the meeting.

## **H. Manner of Voting**

- At all meetings of shareholders, a shareholder may vote in person or by proxy. The proxy is valid only for the meeting at which it has been presented to the Secretary.
- All proxies should be in before the time of meeting.
- The shareholders may revoke proxies filed with the Secretary in writing prior to scheduled meeting or by their personal presence at the meeting.

## **I. Board of Directors**

- The BOD has the power to:
  - The BOD has the power to make and change rules and regulations inconsistent with these by-laws for the management of FSC's business and affairs.
  - To purchase, receive, and take in the name of FSC properties, rights, or privileges, at terms and conditions deemed proper or convenient by the BOD.
  - To invest funds subject to approval of shareholders.
  - To delegate from time to time any powers of the BOD to standing committees or to officers of FSC as deemed fit.
  - To implement these by-laws and to act on any matter not covered by these by-laws.

- The members of Board of Directors are elected during each regular General Assembly meeting of shareholders and shall hold office for a maximum of two terms (one year per term).
- The shareholders, in a special meeting held for the purpose, shall fill up any vacancy that may arise. The Secretary should communicate the notice of regular or special meeting of BOD, specifying the date and place of meeting, by written message.
- BOD shall meet regularly every month at places called by the Chairperson.
- The Secretary should communicate the notice of regular or special meeting of BOD, specifying the date and place of meeting, by written message.
- A majority of the number of shareholders present shall constitute a quorum for the transaction of business.
- The Chairperson presides BOD meetings, or in his/her absence, by any Director chosen by BOD. The Secretary acts a secretary of the meeting. If not present, the Chairperson appoints the secretary of the meeting.
- No Director shall receive any compensation for his/her attendance at each meeting of BOD.

#### **J. FSC Officers and Staff**

- Immediately after their election, the BOD shall formally organize by selecting the Board Secretary, Treasurer, the members of Credit Committee, Manager/Cashier and Bookkeeper.



- No two or more positions may be held concurrently by the same person, except that one may act as Treasurer and as member of Credit Committee at the same time.

The Chairperson shall be the Chief Executive Officer of FSC and shall exercise the following functions:

- Presides at the meetings of General Assembly and BOD.
- Initiates and develop FSC objectives and policies and formulate (in tandem with the Manager) formulate long-range projects, plans and programs for the approval of BOD, including those for officers and staff training, development and compensation.
- Supervises the business affairs of FSC per directions of BOD.
- Implements administrative and operational policies of FSC.
- Appoints, removes, suspends or discipline staff, prescribe their duties, and determine their salaries.
- Oversees the preparation of budgets and statement of accounts of FSC.
- Represents FSC at all functions and proceedings. The elected Director shall serve only for the unexpired term of his/her predecessor.
- Executes on behalf of FSC all contracts, agreements and other instruments affecting the interests of FSC which require the approval of BOD.
- Make the reports to BOD and shareholders.
- Signs shares of certificate.
- Performs such other duties as are incident to his/her position or are entrusted to him/her by BOD.

- The functions of Secretary are the following:
  - Records the minutes and transactions of all meetings of BOD and shareholders and maintains minute books in the form and manner prescribed by BOD.
  - Keeps record books showing the details of shares of certificates.
  - Gives and serves all FSC notices as required by these by-laws.
  - Certifies FSC documents and make reports or statements as may be required of him/her by government rules and regulation.
  - Determines the number of share certificates and entitled to vote, the shares represented in the meeting, existence of quorum, validity and effect of proxies, and to receive votes and other acts as proper to conduct the election.
  - Performs other duties as may be assigned by BOD or Chairperson.
  
- The Treasurer of FSC performs the following duties:
  - Keeps full and accurate accounts of receipts and disbursements in the books of FSC.
  - Be responsible for all the funds of FSC.
  - Deposits in the name and to the credit of FSC, in such banks designated by BOD, all the moneys, funds and similar valuable effects belonging to FSC.
  - Render annual statements showing the financial condition of FSC.
  - Prepare financial documents as may be required by government.
  - Perform duties as be assigned by the Chairperson or BOD.
  
- The Manager/Cashier and Bookkeeper
  - The shareholders delegate to BOD the authority to appoint the Manager/Cashier and Bookkeeper of FSC. The staff should be preferably women.
  - The Manager initiates and develops (in consultation with

Chairperson) the FSC objectives and policies and formulate long range plans for the approval of BOD.

- The Manager also performs cashiering and/or tellering activities until such time that FSC margins are adequate to cover compensation of full-time Cashier.
- The Bookkeeper, on the other hand, undertakes full and accurate recording of receipts and disbursements of FSC. He/she shall also prepare financial reports, statements, and other documents which the BOD, Chairperson, or Treasurer, may from time to time, require.
- The Manager/Cashier and Bookkeeper shall be accorded with security of tenure and provided with just compensation as may be required by law. The BOD sets the compensation package for the staff.

#### **K. Credit Committee**

- BOD appoints the three members of Credit Committee from among its members. At least one member of Credit Committee is preferably a woman.
- The Chairperson and Secretary are barred as members of Credit Committee or any other organic unit as may be established by General Assembly.
- The Treasurer shall act as chairperson of the credit committee.
- The Credit Committee shall meet every week to appraise and approve/disapprove all loan applications. The sanctioning of emergency loans of up to P500 will be delegated to the Manager/Cashier.
- The Credit Committee shall enforce strictly all FSC credit policies, procedures and approaches as duly approved by BOD.

- The members of Credit Committee should be selected based on geographical representation as may be required in the formation of Village Credit Committees (VCC).

#### **L. Audit Committee**

- The General Assembly shall directly elect the three members of Audit Committee. At least one member shall preferably be a woman.
- The members of the Committee shall be elected based on the accounting background and the inclination to dedicate a good portion of his/her time for establishing the financial integrity of FSC.
- The Audit Committee shall report directly to the General Assembly.
- The members of the Committee shall have no past due loans six months prior to the onset of audit.
- The Audit Committee shall work closely with the Treasurer of FSC.

#### **M. Financial Services**

- In the beginning, FSC focuses on three primary services: (a) Instrument for investment through FSC Shares; (b) Acceptance of savings for safekeeping; and (c) On-lending to shareholders in need of funds either for productive or consumptive purposes.
- The main features of savings facilities of FSC are presented below:
  - All savings are voluntary and withdrawable.

- Initially, FSC shall accept savings of up to 10 times the value of shares owned by the shareholder. There shall be no limit when FSC shall have gained contextual experience and installed an appropriate savings servicing system.
  - In the meantime, all savings shall bear no interest and FSC shall exact a token fee for servicing withdrawals.
  - All savings shall be properly recorded (passbook) and kept in FSC vault. The Manager, Bookkeeper, and BOD shall keep the keys of the vault on rotation basis.
  - In due time, the savings facilities of FSC shall bear competitive interest rates, form part of loanable funds, no upper limit in the savings amount, and other features that approximate typical bank deposits.
- The main features of loan products are the following:
    - Loans are for eligible shareholders only.
    - Interest rates shall be market-oriented or at cost-covering levels.
    - Loans are adequately secured by collateral and/or collateral substitutes.
    - Initially, equity capital shall form the bulk of FSC loanable funds.
    - Loans are largely short-term.
    - Loans are savings-based.
    - FSC shall observe repeat loan concept: small loans first then big loans after successful cycles of repayment and continued savings.

## **N. Allocation of Net Profits and Payment of Dividends**

- The net profit at the end of year shall be allocated to the following:
  - Loan Loss Reserves
  - Capital Reserves
  - Adjustments for subsidies and inflation
  - Accounting for accrued interest and accrued interest expense
- The BOD has authority to declare and pay dividends.
  - Dividends shall be paid out from the unrestricted retained earnings which may be payable in cash or shareholdings on the basis of outstanding share held by the shareholders.
  - The declaration of dividends will be as often and at such times determined by BOD. Dividends could be paid in the form of shares.
  - Dividends shall be determined based on the formula below:

Number of Days Subscribed multiplied by 100 divided by the accounting period = Of Total Dividend to be Paid

## **O. Audit of Books and Fiscal Year**

- At the regular General Assembly meeting, the external auditor of FSC for the ensuing year shall be appointed. The external auditor shall examine, verify and report on the earnings and expenses of FSC.
- The fiscal year of FSC shall begin on the first day of January and end on the last day of December of each year.
- Proper financial records and corresponding receipts and documentation of transactions done by FSC shall be maintained by FSC.

## **P. Legal Personality**

- The FSC shall be registered as a non-stock-for-profit corporation.

## **Q. External Links and Support**

- To address its long-term viability, FSC shall establish linkage with banks, other FSCs, donor agencies, training institutions, insurance companies and other organizations determined by BOD.
- All networking coalition-building measures shall not lead in any way to the loss of identity or financial autonomy of FSC.

## **R. Amendments**

- These by-laws may be amended or repealed by the affirmative vote of at least a majority of shareholders at any meeting called for the purpose. However, the power to amend, modify, repeal or adopt new by-laws may be delegated to BOD by the affirmative vote of shareholders representing not less than two-thirds of the shareholders.

Such delegation of powers to BOD to amend, repeal or adopt new by-laws may be revoked only by the vote of shareholders representing the majority of shareholders at a regular or extraordinary General Assembly meeting.