



MANILA, Philippines – The straightforward pronouncement of Finance Secretary Cesar Purisima that that taxation and other rules were bent in the issuance of the PEACe bonds ten years ago to accommodate a favored group like Caucus of Development NGO Networks (Code-NGO) is a resounding affirmation that there were irregularities in the said bond transactions, the Freedom from Debt Coalition said Friday.

In a statement, FDC lauded Secretary Purisima for validating what it has been denouncing for the past ten years as irregularities in the issuance and transaction of the P35-billion PEACe bonds, or Poverty Eradication and Alleviation Certificates.

In 2002, FDC did a study and found that the deal reeked with rent-seeking and other violations – rules were relaxed and Code-NGO walked away with P1.8 billion in windfall profit plus a commission of P140 million tax-free for designing what it called an “innovative fund-generating mechanism.”

Milo Tanchuling, FDC secretary-general, said Secretary Purisima's revelations strongly call for a full-scale and transparent investigation by Malacañang and both Houses of Congress to unravel and go deeper into strong signs of rent-seeking, violations of tax rules, rigged bidding, irregular bank and financial transactions, cronyism, even graft on the part of those in government, the banks like Rizal Commercial Banking Corp. (RCBC) and its sister company, RCBC capital, and Code-NGO and their financial advisers – Red Mayo of Capital Advisors for Private Enterprise Expansion (Capex) Inc, and Bobby Guevarra and Juan Victor Tanjuatco of SEED Capital Ventures, who also benefited from the transactions of the bonds.

"Now with Secretary Purisima's statements out in the open, President Benigno S. Aquino III, House Speaker Feliciano Belmonte and Senate President Juan Ponce Enrile can do no less but to conduct an immediate and thoroughgoing investigation of the PEACe bonds," said Tanchuling.

"Remember, this transaction was made in the name of the poor and made Filipinos P35 billion poorer and deeper in debt," stressed Tanchuling. "It is high time the present leaders sought the truth, made those who may have erred accountable and put closure to an embarrassing stain brought forth by the previous administration."

According to FDC, they look forward to the re-opening of the investigation on the PEACe bonds by the House Committee on Good Government and Public Accountability on November 14 and the reviving of the Senate investigation which has slept for years.

Last Thursday, Secretary Purisima lashed out at critics who have been saying that the Aquino administration changed the rules in the middle of the game regarding the tax treatment on PEACe bonds. "It's Code-NGO who did," he said, stressing that all government-issued debt papers are subject to withholding tax except for the PEACe Bonds. He also said that the Arroyo administration should be the one accountable for the whole controversy.

On October 16, 2001, armed with three BIR rulings exempting the bonds from 20 percent final income tax, Code-NGO, through RCBC, brought the bonds for P10.17 billion, a discounted rate, with interest of 12.75 percent.

However, in 2004, the Bureau of Internal Revenue (BIR) overruled these rulings and imposed a 20 percent withholding tax, amounting to P4.86 billion, to the holders of the 10-year zero coupon bonds.

On October 17, 2011, BIR Commissioner Kim Henares reiterated this ruling and stressed that "RCBC/Code-NGO and all subsequent holders of the bonds has no vested right to invoke the 2001 rulings and is consequently held liable to pay the final tax due on the discount/interest realized from the PEACe bonds."

Earlier, BIR Commissioner Kim Henares said Code-NGO's P1.83 billion profit from the resale of the bonds is also subject to a 30-percent capital gains tax, around P549 million.

Last October 17, eight banks who bought the zero coupon bonds from the secondary market

asked the Supreme Court (SC) to inhibit the government – particularly the Bureau of Treasury and BIR – from imposing the withholding tax, citing violation of non-retroactivity of laws and due process as grounds. These banks are Banco De Oro, Bank of Commerce, China Banking Corporation, Metropolitan Bank and Trust Company, Philippine Bank of Communications, Philippine National Bank, Philippine Veterans Bank and Planters Development Bank.

The next day, the Supreme Court issued a temporary restraining order (TRO) barring the Treasury from withholding from banks the 20 percent final tax on the 10-year PEACe bonds that were due that day. The High Court, instead, ordered the banks to put the money in escrow until the issue is resolved.

However, government officials said the Treasury did not receive SC's TRO on time and already withheld the tax. **-30-**