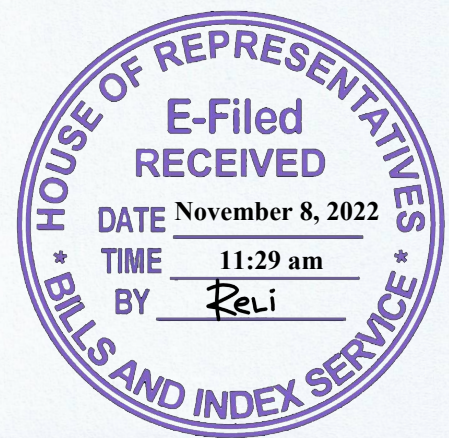


Republic of the Philippines
HOUSE OF REPRESENTATIVES

NINETEENTH CONGRESS
First Regular Session

HOUSE BILL NO. 5915



Introduced by Representative Rex Gatchalian

AN ACT
AUTHORIZING LOCAL GOVERNMENT UNITS TO ENGAGE IN BANKING
ACTIVITIES AND OTHER FINANCIAL TRANSACTIONS WITH PRIVATE
UNIVERSAL AND/OR COMMERCIAL BANKS

EXPLANATORY NOTE

Following the Department of Finance (DOF) Circular No. 01, s. 2017, amending DOF Circular No. 01, s. 2015, The current legal system followed by local government units (LGUs) limit their ability to deposit and maintain government funds with qualified Government Financial Institutions (GFIs) and banks such as the Land Bank of the Philippines, Development Bank of the Philippines, Philippine Postal Savings Bank, Al Amanah Islamic Investment Bank of the Philippines, United Coconut Planters Bank, and the Philippine Veterans Bank. The primary purposes for this stringent rule are better cash management and greater transparency in public financial management, as well as to strengthen the overall fiscal position of the government.

While the intention is noble, this actually prevents LGUs from benefiting from better banking and financial services that can be expected from GFIs if there is competition from private universal and commercial banks. This consequently restricts innovation in products and processes of the GFIs and banks. GFIs tend to offer less competitive and innovative products, to the detriment of the LGUs and their constituents.

Accordingly, this measure primarily seeks to provide the LGUs with authority and power of choice in selecting the banks which offer the best financial products, technology, and services for their constituents. Even with the passage of this

measure, the LGUs, nonetheless, can still be subjected to the existing DOF and BSP rules and regulations in terms of their banking transactions to align with national monetary and fiscal policies. The passage of this bill is thus earnestly sought to implement a more genuine local fiscal autonomy.

In view of the foregoing, the passage of this bill is earnestly sought.



HON. REX GATCHALIAN
Representative
1st District, Valenzuela City

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

1 **SECTION 1.** *Short Title.* – This Act shall be known as the “LGU Authority to
2 *Bank Act.*”

3
4 **SEC. 2.** *Declaration of Policy.* – It is a declared policy of the State to ensure
5 that local government units enjoy genuine and meaningful local autonomy to enable
6 them to attain their fullest development as self-reliant communities and make them
7 more effective partners in the attainment of national development goals.

8 As part of the government’s efforts to strengthen local autonomy, fiscal
9 responsibility shall be shared by the national government with the local government
10 units. Thus, all those currently exercising authority over the financial affairs,
11 transactions, and operations of the local government units shall continue developing
12 innovative programs to strengthen the fiscal autonomy of local government units and
13 further wean them off their traditional dependence on the national government for
14 fund support.

15 Towards this end, the State recognizes the indispensable role of the private
16 banking sector in developing and introducing innovative products and services that
17 LGUs may use to attain their full potential.

18
19 **SEC. 3.** *Definition of Terms.* – For purposes of this Act, the following terms
20 shall be defined as follows:

- 1 a) “*Universal Bank*” shall refer to an entity engaged in the lending of funds
2 obtained in the form of deposits and has the authority to exercise, in
3 addition to the powers authorized for a commercial bank as defined in Sec.
4 3(b) of this Act, the powers of an investment house as provided in existing
5 laws, the power to invest in non-allied enterprises as provided in Republic
6 Act No. 8791 or the General Banking Act of 2000, and under the *Bangko*
7 *Sentral ng Pilipinas* Manual of Regulations of Banks (BSP MORB), the power
8 to own up to one hundred percent (100%) of the equity in a Thrift Bank, a
9 Rural Bank, a financial allied enterprise, or a non-financial allied
10 enterprise, and in case of publicly-listed UBs, the power to own up to 100%
11 of the voting stock of only one (1) other Universal Bank or Commercial
12 Bank.
- 13 b) “*Commercial Bank*” shall refer to an entity engaged in the lending of funds
14 obtained in the form of deposits and have, in addition to the general powers
15 incident to corporations, all such powers as may be necessary to carry on
16 the business of commercial banking such as accepting drafts and issuing
17 letters of credit; discounting and negotiating promissory notes, drafts, bills
18 of exchange, and other evidences of debt; accepting or creating demand
19 deposits; receiving other types of deposits and deposit substitutes; buying
20 and selling foreign exchange and gold or silver bullion; acquiring
21 marketable bonds and other debt securities; and extending credit, subject
22 to such rules as the Monetary Board may promulgate. These rules may
23 include the determination of bonds and other debt securities eligible for
24 investment, the maturities and aggregate amount of such investment.
25 Commercial Banks, as provided for under the BSP-MORB, may also
26 exercise or perform any or all of the following: (a) invest in the equities of
27 allied enterprises as provided in Sections 31 and 32 of R.A. No. 8791; (b)
28 purchase, hold and convey real estate as specified under Sections 51 and
29 52 of R.A. No. 8791; (c) receive in custody funds, documents and valuable
30 objects; (d) act as financial agent and buy and sell, by order of and for the
31 account of their customers, shares, evidences of indebtedness and all types
32 of securities; (e) make collections and payments for the account of others
33 and perform such other services for their customers as are not incompatible
34 with banking business; (f) upon prior approval of the Monetary Board, act
35 as managing agent, adviser, consultant or administrator of investment

management/advisory/consultancy accounts; (g) rent out safety deposit boxes; and (h) engage in quasi-banking functions.

c) “Government Financial Institution” (GFI) shall refer to financial institutions or corporations in which the government directly or indirectly owns majority of the capital stock and which are either: (1) registered with or directly supervised by the *Bangko Sentral ng Pilipinas*; or are (2) collecting or transacting funds or contributions from the public and thereafter placing them in financial instruments or assets such as deposits, loans, bonds and equity, as defined under Section 3(m) of Republic Act no. 10149 or the GOCC Governance Act of 2011.

SEC. 4. *Authority of Local Government Units (LGUs) to Engage in Banking Activities and Other Financial Transactions with Preferred Private Universal Commercial Banks or Government Financial Institutions.* – LGUs shall be authorized to engage in banking and other financial transactions with their preferred banking or financial institution, whether it is a private Universal and/or Commercial Bank (UCB), or a qualified Government Financial Institution (GFI); Provided that the private UCB has a high compliance rating as set by the *Bangko Sentral ng Pilipinas* (BSP).

SEC. 5. *Provision of a Regulatory Framework.* – The Department of Finance (DOF), through the Bureau of Local Government Finance (BLGF), and the BSP, independently or jointly, shall provide for the regulatory framework under which LGUs shall be authorized to enter into banking and other financial transactions with their preferred UCB or GFI, in compliance with the declared policies of this Act.

SEC. 6. *Implementing Rules and Regulations.* – The DOF, assisted by the BLGF, and the BSP shall issue rules and regulations as may be necessary to implement the provisions of this Act within ninety (90) days from its effectivity.

SEC. 7. *Separability Clause.* – If any part, section or provision of this Act is declared invalid or unconstitutional, the other parts thereof not affected thereby shall remain in full force and effect.

SEC. 8. *Repealing Clause.* – All laws, acts, presidential decrees, executive orders, administrative orders, rules and regulations, or parts thereof inconsistent

1 with or contrary to the provisions of this Act are hereby modified, amended, or
2 repealed accordingly.

3
4 **SEC. 9. Effectivity Clause.** – This Act shall take effect fifteen (15) days after its
5 publication in the Official Gazette or in a newspaper of general circulation.

Approved,