



Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City, Metro Manila



TWENTIETH CONGRESS
First Regular Session

House Bill No. 802

Introduced by Representative **EDUARDO R. RAMA, JR.**

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

EXPLANATORY NOTE

The 1987 Philippine Constitution enshrines the principle of local autonomy, acknowledging the intrinsic rights of Local Government Units (LGUs) to exercise authority within their respective jurisdictions. This authority extends to fiscal management and is governed by the Local Government Code of 1991, as amended. Nevertheless, the current banking regulations for LGUs constrain their fiscal independence and operational efficiency, limiting them to transactions with government financial institutions (GFIs) alone.

GFIs in the Philippines, such as the Development Bank of the Philippines (DBP) and Land Bank of the Philippines (LBP), are obligated to focus their financial support on designated priority sectors. Consequently, their investment portfolios may not offer the same breadth of options as those of private banking institutions, which cater to a more diverse clientele. A more expansive range of financial options from private banks could potentially offer distinct benefits to LGUs.

This legislative proposal argues for extending the freedom to LGUs to engage with a variety of private banking institutions. This will not only diversify their financial options but also enhance their revenue-generating capabilities and overall efficacy within their jurisdictions. Such an approach stands to benefit not only the LGUs but also the fiscal health of the national government as a whole.

It is worth noting that other countries allow their local governments to deposit public funds in private financial institutions, while implementing adequate safeguards to protect these funds. For example, in the United States, the Federal Reserve System (FRS) collaborates with the Federal Deposit Insurance Corporation (FDIC) to insure local government deposits. Similarly, in the United Kingdom, the Chartered Institute of Public Finance and Accountancy (CIPFA) issues guidelines to promote transparent, accountable, and sound financial management by local government. Accordingly, this bill mandates the Department of Finance (DOF) and the Bangko Sentral ng Pilipinas (BSP) to establish a comparable framework for the safekeeping of public funds in the Philippines.

Given that this bill introduces an innovative approach, the establishment of an Oversight Committee is deemed necessary to ensure its implementation aligns with the intended policy objectives.

Summarily, this legislative measure seeks to empower LGUs with the choice to conduct banking activities with private financial institutions, while instituting adequate safeguards to protect public funds. It also seeks to bolster local economic development and service delivery by widening access to various financial options and encouraging investment.

Thus, support for the enactment of this measure is hereby earnestly solicited.

A stylized handwritten signature in black ink, consisting of a series of loops and a long horizontal stroke.

REP. EDUARDO R. RAMA, JR.
Second District, City of Cebu



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

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

3
4 **SECTION 2. Declaration of Policy.** — It is the policy of the State to uphold
5 and strengthen the local autonomy of local government units (LGUs). The State recognizes the
6 vital role of LGUs as partners of the national government in nation building and national
7 development goals.

8
9 Towards this end, the State also recognizes the role of the private banking sector in
10 aiding the LGUs to enhance its local and fiscal autonomy, and to improve efficiency and
11 innovation in financial management leading to improved service and economic development at
12 the local level.

13
14 **SECTION 3. Definition of Terms.** — For purposes of this Act, the following
15 terms shall be defined as follows:

16
17 a. “*Universal Bank*” shall refer to an entity engaged in the lending of funds obtained
18 in the forms of deposits and has the authority to exercise, in addition to the powers
19 authorized for a commercial banks as defined in Sec. 3(b) of this Act, the powers
20 of an investment house as provided in existing laws, the power to invest in non-
21 allied enterprises as provided in Republic Act No. 8791 or the General Banking
22 Act of 2000, and under the Bangko Sentral ng Pilipinas Manual of Regulations of
23 Banks (BSP MORB), the power to own up to one hundred percent (100%) of the
24 equity in a Thrift Bank, a Rural Bank, a financial allied enterprise, or a non-financial
25 allied enterprise, and in case of publicly-listed universal banks, the power to own
26 up to one hundred percent (100%) of the voting stock of only one (1) other
27 Universal Bank or Commercial Bank.

28
29 b. “*Commercial Bank*” shall refer to an entity engaged in the lending of funds obtained
30 in the form of deposits and have, in addition to the general powers incident to
31 corporations, all such powers as may be necessary to carry on the business of

commercial banking such as accepting drafts and issuing letters of credit; discounting and negotiating promissory notes, drafts, bills of exchanges, and other evidences of debt; accepting or creating demand deposits; receiving other types of deposits and deposit substitute; buying and selling foreign exchange and gold or silver bullion; acquiring marketable bonds and other debt securities; and extending credit, subject to such rules as the Monetary Board may promulgate. These rules may include the determination of bonds and other debt securities eligible for investment, the maturities and aggregate amount of such investment. Commercial Banks, as provided for under the BSP MORB, may also exercise or perform any or all of the following: (a) invest in the equities of allied enterprises as provided in Sections 31 and 32 of Republic Act No. 8791; (b) purchase, hold and convey real estate as specified under Sections 51 and 52 of R.A. 8791; (c) receive in custody funds, documents, and valuable object; (d) act as financial agent and buy and sell, by order of and for the account of their customers, shares, evidences of indebtedness and all types of securities; (e) make collections and payments for the account of other and perform such other services for their customer as are not incompatible with banking business; (f) upon prior approval of the Monetary Board, act 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.

SECTION 4. Authority of Local Government Units to Engage in 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 meets the defined criteria set by the Bangko Sentral ng Pilipinas (BSP) to qualify for the authority to bank with LGUs.

SECTION 5. Selection of Private Universal and/or Commercial Banking Institutions. — The Department of Finance (DOF) and the BSP shall define specific stringent criteria that private banking institutions must comply with to be eligible for consideration. In addition to a high compliance rating as set by the BSP, the selection shall include factors such as the UCB's financial stability, reputation, experience, technological capabilities, customer service, and adherence to regulatory requirements on consumer protection, data privacy, risk management, and cybersecurity.

Based on the predetermined criteria and the operational capacity of the UCBs, the BSP shall create an initial shortlist of private banks that meet the established eligibility requirements. The shortlist of banks authorized to transact with LGUs shall be published on the BSP's official website. The shortlist shall be subject to periodic review and updates as deemed necessary by the BSP.

1 The predetermined criteria mentioned above is a continuing requirement for a UCB
2 to be authorized to transact with an LGU. The BSP shall establish a monitoring and review
3 mechanism to ensure that the UCBs on the shortlist continue to meet the established criteria.
4 Subject to Section 8 hereof, the BSP shall have the authority to remove a UCB from the shortlist
5 once it is found to be non-compliant with the established criteria.
6

7 **SECTION 6. Roles of Private Universal and/or Commercial Banking**
8 **Institutions.** — Private banks, by engaging in transactions with LGUs, hereby undertake to fulfill
9 these roles and responsibilities to ensure transparency, accountability, and prudent financial
10 management. They shall prioritize the protection of LGUs' funds and assets and uphold the
11 highest standards of integrity in their dealings with LGUs.
12

13 UCBs shall implement robust risk management measures to safeguard against
14 unauthorized access, fraud, and cybersecurity threats. Further, they shall maintain accurate records
15 of LGUs' financial transactions and make them available for examination and audit by the
16 appropriate regulatory bodies or oversight committees. Finally, private banking institutions shall
17 cooperate with the oversight committee, regulatory bodies, and LGUs in providing necessary
18 information, reports, and data related to LGUs' transactions, ensuring transparency, and
19 facilitating effective monitoring and evaluation.
20

21 **SECTION 7. Authorized Bank Reporting Requirement.** — Private banking
22 institutions conducting transactions with LGUs shall be mandated to submit regular reports to the
23 BSP. These reports shall include detailed records of transactions, interest rates, fees, and other
24 relevant financial data.
25

26 **SECTION 8. Revocation of Bank Authority; Removal from Shortlist;**
27 **Continuation of Pending Transactions.** — In the event that a private banking institution is
28 removed from the list of authorized banks to engage with LGUs, the removed private banking
29 institution shall promptly notify all affected LGUs of the revocation of its authority to conduct
30 banking transactions. This notification shall include a proposed plan for the completion of any
31 pending transactions within one (1) year from the date of revocation, and the procedures necessary
32 for the transfer of funds and financial records.
33

34 The plan for completion of pending transactions must comply with existing
35 contractual obligations under Philippines law and shall be subject to approval by the BSP. Failure
36 to complete pending transactions within the stipulated one-year period will result in additional
37 actions and/or penalties as prescribed by the BSP.
38

39 For any financial transactions initiated prior to the revocation of banking authority
40 which cannot be completed within the one-year period, the affected LGU shall have the option to
41 select an alternative accredited private banking institution to assume responsibility for these
42 pending transactions. Such a transition shall also be in strict compliance with existing contractual
43 obligations and commercial laws, and with prior notification to the BSP.
44

45 In the event that the affected LGU chooses to transition to an alternative authorized
46 private banking institution, the removed private banking institution is mandated to cooperate fully
47 in transferring all pending transactions, funds, and financial records to the selected alternative
48 institution.

1 Any outstanding balance must be transferred to the alternate authorized private
2 banking institution, following procedures approved by the BSP, within the remaining period of
3 the stipulated one-year timeframe.
4

5 Upon the successful transfer of all responsibilities and outstanding balances to the
6 alternative authorized banking institution, or upon completion of all pending transactions within
7 the one-year period, the removed private banking institution must submit a comprehensive report
8 to the BSP, the Commission on Audit (COA), and the affected LGUs. This report shall detail the
9 status of all pending and completed transactions, any outstanding balances, and the final
10 disposition of funds.
11

12 **SECTION 9. Provision of a Regulatory Framework.** — The Department of
13 Finance (DOF), in coordination with the Bureau of Local Government Finance (BLGF), and the
14 BSP, independently or jointly, shall provide for the regulatory framework under which LGUs shall
15 be authorized to enter into banking and other financial transactions with their preferred UCB or
16 GFI, in compliance with the declared policies of this Act.
17

18 **SECTION 10. Oversight Committee.** — In alignment with existing
19 constitutional and statutory provisions, an Oversight Committee shall be established to ensure the
20 proper implementation, monitoring, and enforcement of the provisions of this Act.
21

22 The Oversight Committee shall be comprised of the following:
23

- 24 a. One (1) representative from the DOF, designated by the Secretary of Finance;
- 25 b. One (1) representative from the BSP, designated by the Governor of the BSP;
- 26 c. One (1) representative from the Department of the Interior and Local
27 Government (DILG), designated by the Secretary of the DILG;
- 28 d. One (1) advisory representative from the COA, designated by the Chairperson of
29 the COA, to provide expertise on best practices for auditing and accountability;
- 30 e. One (1) advisory participant from private banking institutions, nominated by the
31 Bankers Association of the Philippines, to offer industry expertise and insights;
32 and
- 33 f. One (1) advisory participant from a recognized non-governmental organization or
34 advocacy group focusing on financial inclusion and consumer protection,
35 nominated by the DOF, BSP, and DILG, to ensure good governance and
36 transparency.
37

38 The Oversight Committee shall have the following functions and responsibilities:
39

- 40 a. Monitor the compliance of private banking institutions and LGUs with the
41 provisions of this Act and any implementing guidelines or regulations.
- 42 b. Except representatives acting in an advisory capacity, coordinate with the BSP and
43 other involved agencies to conduct regular audits of the authorized private banking
44 institutions and their transactions with LGUs to ensure transparency,
45 accountability, and prudent financial management. Provided, that the audits and
46 monitoring of the Oversight Committee are supplementary to, and not a
47 replacement for, the independent audits conducted by constitutional and
48 regulatory bodies.
- 49 c. Collaborate with relevant government agencies, regulatory bodies, and
50 stakeholders to promote knowledge sharing, capacity building, and the
51 dissemination of best practices in LGUs' engagement with UCBs.

- d. Recommend penalties for non-compliance and provide advisory notices for corrective measures, in line with constitutional and statutory limitations.
- e. Review and suggest amendments to this Act, as necessary, to ensure relevance and effectiveness.
- f. Provide annual reports to the relevant legislative bodies, outlining the performance, challenges, and recommendations related to the implementation of this Act.

SECTION 11. Transparency and Accountability. — The successful implementation of this Act relies on the collective commitment to transparency and accountability by all parties involved, including private banking institutions, LGUs and the relevant government agencies.

LGUs shall ensure transparency and accountability in their financial transactions with private banking institutions. They shall adopt proper financial management practices, maintain accurate records, and submit necessary reports to regulatory bodies or oversight committees, as required.

There shall be regular reporting, disclosure, periodic audits, and dissemination of information shall be encouraged among all parties involved to foster a culture of transparency and accountability in LGUs' banking activities.

SECTION 12. Prohibition on Conflict of Interest. — No private banking institution shall be granted authority to engage in financial transactions with an LGU if any elected official of the relevant LGU is within the fourth civil degree of consanguinity or affinity with any official or major shareholder of the private banking institution. Any private banking institution authorized to transact with LGUs but has subsequently violated this provision shall have its authority revoked.

SECTION 13. Financial Literacy and Capacity-Building. — The DOF, in coordination with the BLGF, shall provide capacity-building programs, training, and technical assistance to LGUs to enhance their financial management skills, and to enable LGUs to make informed decisions, effectively manage their finances and engage in productive partnerships with the qualified private banking institutions.

SECTION 14. Implementing Rules and Regulations. — The DOF, in coordination with the BLGF and the BSP, shall promulgate the rules and regulations to implement this Act within ninety (90) days from the effectivity of this Act.

SECTION 15. Repealing Clause. — All laws, decrees, executive orders, rules and regulations, or parts thereof inconsistent with the provisions of this Act are hereby repealed or modified accordingly.

SECTION 16. Separability Clause. — If, for any reason, any section of this Act shall be deemed unconstitutional or invalid, the other sections or provisions shall not be affected and shall remain in force and in effect.

SECTION 17. Effectivity Clause. — This Act shall take effect after fifteen (15) days from its publication in the Official Gazette or in at least two (2) national newspapers of general circulation, whichever comes earlier.

Approved.