

**NINETEENTH CONGRESS OF THE  
REPUBLIC OF THE PHILIPPINES  
First Regular Session**

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Senate  
Office of the Secretary

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**SENATE**

RECEIVED BY

**S.B. No. 1147**

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**Introduced by SEN. WIN GATCHALIAN**

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

**EXPLANATORY NOTE**

While local government units (LGUs) are empowered under the Local Government Code to create indebtedness, and avail of credit facilities to finance local infrastructure and other socio-economic projects, existing Department of Finance (DOF) Circulars<sup>1</sup> limit its 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.

LGUs are only allowed to transact with private Universal and Commercial Banks (UCBs) if the following circumstances exist: (1) the aforementioned six (6) GFIs and banks cannot provide the required banking products and services; (2) the six (6) GFIs and banks, or their collection

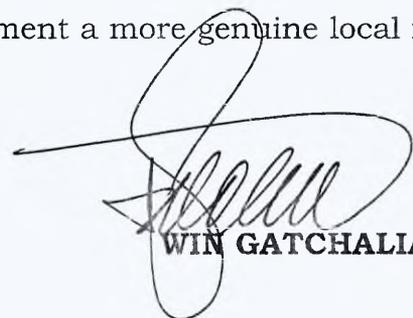
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<sup>1</sup> Department of Finance Circular No. 01, Series of 2017, dated May 11, 2017, amending Department Circular No. 001, Series of 2015, dated June 1, 2015.

facilities, are not accessible within a twenty (20) - kilometer radius; or (3) there are security and safety risks. If any of these circumstances exists, the LGUs must likewise comply with procedural requirements to avail of the exemption to transact with private UCBs. They have to undergo layers of paperwork that are too bureaucratically restrictive and detrimental to innovative practices and causing delay in the delivery of local public services.

More importantly, LGUs are prevented from benefitting from better banking and financial services that can be expected from GFIs if there is competition from private UCBs. Note that 43,618<sup>2</sup> LGUs serve as a captive market for these six (6) GFIs and banks wherein for the first half of 2020 alone, the LGUs' domestic loan applications for approval by the Monetary Board amounted to Php 25.1 Billion.<sup>3</sup> This captive-market paradigm theoretically restricts innovation in products and processes of these GFIs and banks, as against UCBs which compete in an open market. GFIs tend to offer less competitive and innovative products, technology-innovations, and services, to the detriment of their primary client: the LGUs and their constituencies.

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.



**WIN GATCHALIAN**

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<sup>2</sup> <https://www.dbm.gov.ph/index.php/secretary-s-corner/press-releases/list-of-press-releases/1327-fy-2019-internal-revenue-allotment-shares-of-lgus-adjusted-to-include-15-new-barangays>

<sup>3</sup> <https://business.inquirer.net/310259/bsp-oks-more-loans-in-q3-for-governments-pandemic-response>



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BANKS**

*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*  
2 *Authority to Bank Act.*”

3

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

9

10       As part of the government’s efforts to strengthen local autonomy, fiscal  
11 responsibility shall be shared by the national government with the local  
12 government units. Thus, all those currently exercising authority over the  
13 financial affairs, transactions, and operations of the local government units  
shall continue developing innovative programs to strengthen the fiscal

1 autonomy of local government units and further wean them off their  
2 traditional dependence on the national government for fund support.

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

6  
7 **SEC. 3. Definition of Terms.** – For purposes of this Act, the following  
8 terms shall be defined as follows:

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

22 b) “*Commercial Bank*” shall refer to an entity engaged in the lending of  
23 funds obtained in the form of deposits and have, in addition to the  
24 general powers incident to corporations, all such powers as may be  
25 necessary to carry on the business of commercial banking such as  
26 accepting drafts and issuing letters of credit; discounting and  
27 negotiating promissory notes, drafts, bills of exchange, and other  
28 evidences of debt; accepting or creating demand deposits; receiving  
29 other types of deposits and deposit substitutes; buying and selling  
30 foreign exchange and gold or silver bullion; acquiring marketable  
31 bonds and other debt securities; and extending credit, subject to  
32 such rules as the Monetary Board may promulgate. These rules may  
33 include the determination of bonds and other debt securities eligible

1 for investment, the maturities and aggregate amount of such  
2 investment. Commercial Banks, as provided for under the BSP-  
3 MORB, may also exercise or perform any or all of the following: (a)  
4 invest in the equities of allied enterprises as provided in Sections 31  
5 and 32 of R.A. No. 8791; (b) purchase, hold and convey real estate as  
6 specified under Sections 51 and 52 of R.A. No. 8791; (c) receive in  
7 custody funds, documents and valuable objects; (d) act as financial  
8 agent and buy and sell, by order of and for the account of their  
9 customers, shares, evidences of indebtedness and all types of  
10 securities; (e) make collections and payments for the account of  
11 others and perform such other services for their customers as are not  
12 incompatible with banking business; (f) upon prior approval of the  
13 Monetary Board, act as managing agent, adviser, consultant or  
14 administrator of investment management/advisory/consultancy  
15 accounts; (g) rent out safety deposit boxes; and (h) engage in quasi-  
16 banking functions.

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

26  
27 **SEC. 4. Authority of Local Government Units (LGUs) to Engage in**  
28 **Banking Activities and Other Financial Transactions with Preferred**  
29 **Private Universal Commercial Banks or Government Financial**  
30 **Institutions.** – LGUs shall be authorized to engage in banking and other  
31 financial transactions with their preferred banking or financial institution,  
32 whether it is a private Universal and/or Commercial Bank (UCB), or a  
33 qualified Government Financial Institution (GFI); Provided that the private

1 UCB has a high compliance rating as set by the *Bangko Sentral ng Pilipinas*  
2 (BSP).

3  
4 **SEC. 5. Provision of a Regulatory Framework.** – The Department of  
5 Finance (DOF), through the Bureau of Local Government Finance (BLGF), and  
6 the BSP, independently or jointly, shall provide for the regulatory framework  
7 under which LGUs shall be authorized to enter into banking and other  
8 financial transactions with their preferred UCB or GFI, in compliance with the  
9 declared policies of this Act.

10  
11 **SEC. 6. Implementing Rules and Regulations.** – The DOF, assisted  
12 by the BLGF, and the BSP shall issue rules and regulations as may be  
13 necessary to implement the provisions of this Act within ninety (90) days from  
14 its effectivity.

15  
16 **SEC. 7. Separability Clause.** – If any part, section or provision of this  
17 Act is declared invalid or unconstitutional, the other parts thereof not affected  
18 thereby shall remain in full force and effect.

19  
20 **SEC. 8. Repealing Clause.** – All laws, acts, presidential decrees,  
21 executive orders, administrative orders, rules and regulations, or parts  
22 thereof inconsistent with or contrary to the provisions of this Act are hereby  
23 modified, amended, or repealed accordingly.

24  
25 **SEC. 9. Effectivity Clause.** – This Act shall take effect fifteen (15) days  
26 after its publication in the Official Gazette or in a newspaper of general  
27 circulation.

Approved,