

SEVENTEENTH CONGRESS OF THE REPUBLIC)
OF THE PHILIPPINES)
First Regular Session)



'16 JUL 20 P3:17

SENATE
S.B. No. 668

RECEIVED BY: _____

Introduced by: Senator Paolo Benigno "Bam" A. Aquino IV

AN ACT
AMENDING REPUBLIC ACT NO. 6848, ALSO KNOWN AS "CHARTER OF AL-AMANAH
ISLAMIC INVESTMENT BANK OF THE PHILIPPINES", AND PROVIDING FOR THE
REGULATION AND ORGANIZATION OF AN EXPANDED ISLAMIC BANKING SYSTEM
IN THE PHILIPPINES

EXPLANATORY NOTE

The lack of effective access to responsive financing is one of the main challenges to the growth and development of micro, small and medium enterprises (MSMEs) in the Philippines. This obstacle is doubly experienced by our Filipino Muslim entrepreneurs in the ARMM/Bangsamoro region and in different parts of the country with the absence of banking and financial services that are compliant with the principles of Shari'ah or Islamic law.

Islamic banking and finance involves the conduct of banking and finance operations consistent with the principles of Shari'ah or Islamic law. In compliance with the Shari'ah, this kind of banking and financing operations is characterized by risk-sharing and equitable distribution of wealth. Undertaking or financing of anti-social and unethical businesses, and the setting of interest or a fixed pre-determined rate of return are prohibited.

Islamic banking and finance in the Philippines is limited by three major challenges:

- 1) Lack of a clear and regulatory framework for Islamic banking and finance, where our existing laws do not provide for the policy infrastructure needed to enable Islamic banks to thrive and current tax laws also subject Islamic financing products to more taxes;
- 2) Lack or scarcity of experts on Islamic banking and finance; and
- 3) Lack or very low investor awareness and acceptance of Islamic banking and finance.

According to the Banko Sentral ng Pilipinas (BSP), Islamic banking is the fastest growing component of the financial services industry worldwide. It continues to grow by 21% despite the challenging global context.

Currently, there are more than 600 Islamic financial institutions operating in more than 75 countries and almost all major multinational banks offer Islamic financial services.

However, there is only one Islamic bank in the country – the Al-Amanah Islamic Investment Bank of the Philippines, established in 1973.

Thus, it is high time to provide an environment where more of our Muslim entrepreneurs can thrive and prosper, and tap their full potential to help develop the ARMM/Bangsamoro region and the whole country as well.

The Philippine Islamic Financing Act of 2016 seeks to help in addressing these challenges and enhancing the legal and policy environment for the development of Islamic financing in the country.

The bill amends the charter of the Al-Amanah Bank, providing for the organization and regulation of an expanded Islamic banking system in the Philippines.

It seeks to strengthen the Al-Amanah Bank to service a broader market, while promoting both the establishment of other Islamic banks and engagement in Islamic banking arrangements by conventional banks under the supervision and regulation of BSP.

The proposed measure further mandates government to provide programs for increased consumer awareness and capacity building required by the expanded Islamic banking system.

Accompanied by other critical inclusive finance reforms and innovations, this bill seeks to ensure the development of MSMEs not only in our major urban centers but also in the poorest and hardest to reach areas.

It also seeks to ensure that every Filipino regardless of status, identity, or religion has access to critical services that enable our countrymen and women to seize economic opportunities and be part of the country's progress.

Our diversity makes us unique. Our openness and support for each and every "kababayan" is what should distinguish us and make us succeed as Filipinos.

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



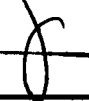
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*Be it enacted by the Senate and House of Representatives of the Philippines in
Congress assembled:*

1 **SECTION 1. Short Title.** – This Act shall be known as "The Philippine Islamic
2 Financing Act."

3 **SEC. 2. Declaration of Policy.** –The State, in Section 20 Article II of the
4 Constitution, encourages private enterprise and provides incentives to needed
5 investments. Under the Constitution, the use of property bears a social function so
6 that the consequences in law must also be defined by policy objectives related to
7 property rights in productive enterprises. Toward this end, the Government has
8 committed itself to the establishment of Islamic banks, operating within a legal
9 framework, permitting the investors or participants the rights to equitable or
10 beneficial share in the profits realized from financing productive activities and other
11 operations.

12 To promote and accelerate the socio-economic development of the nation,
13 other Islamic banks and designated Islamic banking units shall be created to
14 perform banking, financing and investment operations and establish and participate
15 in agricultural, commercial and industrial ventures based on the Islamic concept of
16 banking.

17 **SEC. 3. Definition of Terms.** – For the purposes of this Act, the following
18 terms shall mean:

19 a) **Current Account** – the total deposits at the Islamic Bank which are
20 repayable on demand, in relation to Islamic banking business and services;

21 b) **Investment Account** – the total deposits at the Islamic Banks in

1 respect of funds placed by a depositor or investor with that Islamic Bank for a fixed
2 period of time under an agreement to share the profits and losses on the investment
3 of such funds in accordance with the principles and precepts of Shari'ah, including the
4 sharing of profits and losses with that Islamic Bank, in relation to Islamic banking
5 business or services;

6 c) **Islamic Banking Business** – the banking business whose aims and
7 operations do not involve interest (riba) which is prohibited by the Shari'ah principles
8 and which conducts its business transactions in accordance with the principles of
9 Shari'ah;

10 d) **Islamic Banking Unit** – a division, department, office or branch within
11 the conventional bank that conducts business in accordance with the principles and
12 precepts of the Shari'ah provided that the Bank shall have a system for segregating
13 the transaction of the Islamic banking unit from the conventional banking business;

14 e) **Participation**– any agreement or arrangement under which the mode
15 of joint investments or specific transactions shall not involve the element of interest
16 charge other than as percentage share in profits and losses of business and which is
17 otherwise conducted in accordance with the principles of Shari'ah, in relation to
18 Islamic banking business and commercial operations;

19 f) **Riba** – the receipt and payment of interest in the various types of
20 lending and borrowing and in the exchange of currencies on forward basis in the
21 context of banking activities, in the context of banking activities;

22 g) **Savings Account** – the total deposits at the Islamic bank which
23 normally require the presentation of passbooks or such other legally acceptable
24 documents in lieu of passbooks as approved by the BSP for deposit or withdrawal of
25 money, in relation to Islamic banking business and services; a n d

26 h) **Share** – the share in capital of the Islamic Bank or a corporation and
27 includes a stock, except where a distinction between stock and share is expressed or
28 implied.

29 The Monetary Board may, by regulation, further define or clarify terms used
30 in this Act consistent with the declared state policies above and taking into
31 consideration the peculiar characteristics of Islamic banking.

32
33

PART I
ISLAMIC BANKING SYSTEM AND ITS PURPOSE

34 **SEC. 4. Name, Domicile and Place of Business.** – There is hereby created the
35 Al-Amanah Islamic Investment Bank of the Philippines, which shall be hereinafter
36 called Amanah Islamic Bank (AIB). Its principal domicile and place of business shall
37 be in the Philippines.

1 **SEC. 5. Establishment of other Islamic Banks.** – The Bangko Sentral ng
2 Pilipinas (BSP) may authorize the establishment of other Islamic banks.

3 The BSP may also authorize banks primarily engaged in conventional banking
4 to engage in Islamic banking arrangements, including structures, transactions and
5 practices, through a designated Islamic banking unit within the bank.

6 The Monetary Board, under such rules as it may prescribe, may authorize
7 foreign Islamic banks to establish Islamic banking operations in the Philippines under
8 any one of the modes of entry under R.A. No. 7721, as amended by R.A. No. 10641
9 notwithstanding the limitations under Section 2 thereof.

10 The Monetary Board may regulate the number of participants in the Islamic
11 banking system taking into account the requirements of the economy, the
12 preservation of the stability of the system, and the maintenance of healthy
13 competition.

14 AIB, other Islamic banks, designated Islamic banking units of conventional
15 banks, and foreign banks that are authorized to conduct business in accordance with
16 the principles of the Shari'ah, shall henceforth be referred to collectively as “Islamic
17 Banks” or the “Islamic Banking System”.

18 **SEC 6. Supervision and Regulation by the Bangko Sentral ng Pilipinas.** – The
19 BSP shall have supervision over the operations of and exercise regulatory powers
20 over Islamic banks. The BSP shall issue the implementing rules and regulations on
21 Islamic banking.

22 **SEC. 7. Purpose and Basis.** – The primary purpose of Islamic Banks shall be to
23 promote and accelerate the socio-economic development of the Nation by
24 performing banking, financing and investment operations and by establishing and
25 participating in agricultural, commercial and industrial ventures based on the Islamic
26 concept of banking.

27 All business dealings and activities of an Islamic Bank shall be subject to the
28 basic principles and rulings of Shari'ah within the purview of the aforementioned
29 declared policy.

30 **PART II**
31 **PROVISIONS GOVERNING THE AL-AMANAH ISLAMIC INVESTMENT BANK**

32 **SEC. 8. Authorized Capital Stock.** – The authorized capital stock of the AIB
33 shall be Ten Billion Pesos (P10,000,000,000).

34 The Monetary Board, upon the recommendation of the Secretary of Finance
35 and with the approval of the President of the Philippines, may request to increase
36 the authorized capital stock and total capitalization of AIB up to such amounts as
37 may be necessary to attain the objectives of this Act.

1 **SEC. 9. Classification of Shares and Capital Structure.** – The authorized capital
2 stock of AIB shall be classified as common shares, including all existing paid-up
3 shareholdings at the time of approval of this Act. AIB may be allowed to issue
4 preferred shares as recommended by the Board of Directors and after proper
5 clearance and approval from the Monetary Board.

6 Anyone of the existing shareholders may exercise its preemptive right to
7 consolidate ownership of the outstanding shares as hereinafter increased: *Provided*,
8 That the common shares of the AIB which have been issued and outstanding shall
9 form part of the increased capitalization of the AIB, subject to the concurrence of
10 the existing shareholders of the AIB.

11 The AIB is hereby authorized by this Act to reacquire its common shares that
12 are held privately.

13 **SEC. 10. Board of Directors, Composition, Tenure, Per Diems.** – Unless
14 otherwise provided in this Act, the corporate powers of AIB shall be exercised, its
15 business directed and its properties managed and preserved by a Board of Directors
16 consisting of at least five (5) but not more than nine (9) members, to be appointed by
17 the President of the Philippines. The Chairman of the Board and the President of the
18 Bank shall likewise be appointed by the President of the Philippines from among the
19 members of the Board of Directors: *Provided*, That the position of Chairman of the
20 Board and President of the Bank shall not be held by the same person. The term of
21 office of the Chairman, President and Members of the Board of Directors shall be for
22 a period of one year or until such time as their successors are appointed.

23 The Chairman shall preside at meetings of the Board and of the stockholders.

24 The President of the Bank shall be the Vice-Chairman of the Board, and as
25 such, shall assist the Chairman and act in his stead in case of absence or incapacity. In
26 case of incapacity or absence of both the Chairman and the Vice-Chairman, the Board
27 of Directors shall designate a temporary Chairman from among its members.

28 Appointed members of the Board of Directors shall be subject to the fit and
29 proper rule of the BSP and to other qualification requirements as prescribed by the
30 Good Governance Commission for Government-Owned and Controlled Corporations
31 (GCG) and the Monetary Board.

32 The per diems and other financial remuneration of the Board of Directors of
33 AIB shall be subject to the rules and regulations prescribed by the GCG.

34
35 The Board of Directors shall convene at the principal office at least once
36 every month upon due notice by the Chairman or, whenever the need arises, upon
37 the request of three (3) members of the Board of Directors. The Board may convene
38 outside the AIB's principal office, as the members shall determine in the by-laws of
39 AIB. AIB shall designate at least two (2) independent directors as required under
40 existing banking laws and regulations.

1 **SEC. 11. Powers of the Board.** – The Board of Directors shall have the
2 broadest powers to manage the Islamic Bank, except such matters as are explicitly
3 reserved to be determined at the general shareholders meeting. The Board shall
4 adopt policy guidelines necessary to carry out effectively the provisions of this Act as
5 well as internal rules and regulations necessary for the conduct of its Islamic banking
6 business and all matters related to personnel organization, office functions and
7 salary administration.

8 The Board of Directors shall have the power to appoint managers, authorize
9 agents or legal representatives and shall vest them with signing authority on behalf
10 of the Bank either severally or jointly in accordance with the operational procedures
11 of the Bank.

12 The Board shall cause the preparation of AIB's financial statements according
13 to generally accepted accounting principles established and appropriate for Islamic
14 banking. Copies of the audited financial statements shall be provided to the
15 shareholders before the date of the general meeting.

16 **SEC. 12. President, Chief Executive Officer, Other Officers, Employees and**
17 **Units.** – The President of AIB, who is also its Chief Executive Officer of the Bank, shall
18 be appointed by the President of the Philippines. The President, together with the
19 other Bank Officers, must meet the minimum requirements of the BSP for Bank
20 Officers: *Provided*, That in the event that AIB is privatized with at least fifty-one
21 percent (51%) of its capital or ownership being held privately, the appointment by
22 the President of the Philippines for the President/Chief Executive Officer shall no
23 longer apply.

24 The President shall, among other powers and duties, execute, carry out and
25 administer the policies, measures, orders and resolutions approved by the Board;
26 direct and supervise the operation and administration of the Bank; and exercise such
27 other powers and perform such other functions or duties as may be directed to be
28 assigned to him by law or by the Board from time to time.

29 Particularly, the President of AIB shall have the power and duty:

30 a) To sign and execute all contracts concluded by the Bank and enter
31 into all necessary obligations required or permitted by this Act, upon proper
32 authorization by the Board;

33 b) To exercise the powers of control and supervision over decisions and
34 actions of subordinate officers and all other powers that may be granted by
35 the Board;

36 c) To report to the Board the main facts concerning the operations of
37 the Bank and to recommend changes in policies which he may deem
38 advisable;

1 d) To submit an annual report to the President of the Philippines on the
2 result of the operations of the Bank;

3 e) To recommend to the Board the appointment, promotion or removal
4 of all officers of the Bank, with the rank of at least Vice-President or its
5 equivalent;

6 f) To appoint, promote or remove employees and officers below the
7 rank of Vice President or its equivalent: *Provided*, That promotions, transfers,
8 assignments or reassignments of officers and personnel of the Bank are
9 personnel actions deemed made in the interest of the service and not
10 disciplinary, any provision of the Civil Service Law to contrary
11 notwithstanding;

12 g) As required by circumstances, to delegate any of his powers, duties or
13 functions to any officer of AIB, with the approval of the Board.

14 **SEC. 13. General Shareholders Meeting.** – The general shareholders meeting
15 shall convene annually at the latest within six (6) months following the end of the
16 financial year of AIB at the place, date, and time fixed in the notice for the meeting.
17 The attendance of shareholders representing at least sixty percent (60%) of the
18 capital of the AIB shall constitute a quorum to do business. The purpose, date, place,
19 the manner of giving notice, and other matters relating to the holding of the general
20 shareholders meeting shall be provided for in the by-laws of AIB in conformity with
21 Section 20 of this Act, subject to the applicable provisions of the Corporation Code of
22 the Philippines.

23 **SEC. 14. Purpose of General Meeting.** – The general shareholders meeting
24 shall convene purposely to hear the Board of Directors' report on the activities of the
25 AIB, its financial condition, the auditor's report, to approve the annual financial
26 statements, to determine the portion of dividends to be distributed to the
27 shareholders and the method of distribution, to appoint the auditors, and to elect
28 the members of the Shari'ah Advisory Council.

29 For purposes of this section, "Capital" shall refer to the Total Subscribed
30 Capital, whether paid or unpaid.

31 **SEC. 15. Regular and Special Sessions.** – The general shareholders meeting
32 shall be presided over by the Chairman of the Board of Directors. All resolutions
33 adopted by the general shareholders meeting in ordinary session assembled shall be
34 taken by a vote of the shareholders representing at least a majority of the
35 outstanding shares and in case of votes being equal, the Chairman shall cast his vote
36 to break the tie. The resolutions of the general meeting adopted in accordance
37 therewith shall be binding on all shareholders including those not in attendance or
38 opposing the resolution.

1 A special general shareholders meeting shall be required to pass resolutions
2 related to the increase or decrease of capital of AIB, the extension of its legal
3 existence, or matters affecting amendment of the Charter. Resolutions of the
4 extraordinary general meeting shall be deemed adopted when a majority vote of at
5 least sixty-six and two-thirds plus one percent ($66 \frac{2}{3} + 1\%$) of the capital shares
6 shall have been cast.

7 In no case shall the general meeting resolve to modify the object of the Bank
8 as an Islamic Bank.

9 **SEC. 16. Bank Auditor Reports.** – Notwithstanding the provisions of any
10 existing law to the contrary, AIB is hereby authorized to appoint an external auditor
11 approved at the general shareholders meeting whose qualification and
12 remunerations shall be fixed by the Board of Directors. The external auditor
13 appointed under this section shall assume his functions from the date of his
14 appointment until the date of the next general shareholders meeting. In case a
15 vacancy occurs any time during the year for any reason, the Board of Directors shall
16 immediately appoint a replacement.

17 The auditor shall conduct an audit of the accounts of the Bank and make a
18 report to the Board of Directors.

19 In the exercise of his auditing functions, all Bank books, accounts and
20 documents shall be made available to the auditor for inspection to ascertain the
21 Bank's assets and obligations. Copies of the latest audited financial statements and
22 the auditor's reports shall be forwarded by the AIB, within the prescribed time as
23 may be determined in the implementing rules and regulations, to the BSP.

24 **SEC. 17. Employee Share Schemes.** – Subject to applicable rules and
25 regulations issued by the BSP, the Board of Directors may adopt an employee profit
26 sharing scheme under any of the following ways:

27 1) Any arrangement under which the directors, officers and employees
28 receive, in addition to their salaries and wages a share, fixed beforehand, in
29 the profits realized by the AIB or by affiliate companies of the AIB to which
30 the profit sharing scheme relates; and

31 2) Any arrangement under which AIB facilitates the acquisition by its
32 directors, officers and employees of common shares of stock either as share-
33 incentives, share-bonus options, or any other share-saving schemes as the
34 Board of Directors may determine.

35 No scheme shall be approved by the Board of Directors under this section
36 unless it is satisfied that the participant in the profit sharing scheme is bound by a
37 contract with the AIB by virtue of which an appropriation of shares has been made
38 for the purpose. The shares so purchased or appropriated shall be deposited in
39 escrow with the AIB.

1 **SEC. 22. Shari'ah Advisory Councils.** – It shall be the responsibility of an
2 Islamic Bank to ensure its compliance with Shari'ah principles. For this purpose, it
3 shall constitute its Shari'ah Advisory Council.

4 The functions of the Shari'ah Advisory Council shall be to offer advice and
5 undertake reviews pertaining to the application of the principles and rulings of the
6 Shari'ah but it shall not directly involve itself in the operations of the Islamic Bank.

7 **SEC. 23. Powers of Islamic banks.** – In addition to the general powers
8 incident to corporations, Islamic banks shall all have such powers as shall be
9 necessary and prudent to carry out the business of a bank in accordance with
10 Shari'ah principles.

11 Islamic banks may:

- 12 1) Perform the following banking services:
 - 13 a) Accept or create demand deposits;
 - 14 b) Accept savings accounts for safekeeping or custody with no
15 participation in profit and losses except unless otherwise authorized
16 by the account holders to be invested;
 - 17 c) Accept investment account placements and invest the same
18 for a term with the Islamic Bank's funds in Shari'ah compliant
19 transaction on participation or agency basis;
 - 20 d) Accept foreign currency deposits;
 - 21 e) Act as correspondent of banks and institutions to handle
22 remittances or any fund transfers;
 - 23 f) Accept drafts and issue letters of credit or letters of guarantee,
24 negotiate notes and bills of exchange and other evidence of
25 indebtedness under the universally accepted Shari'ah compliant
26 financial instruments;
 - 27 g) Act as collection agent insofar as the payment orders, bills of
28 exchange or other commercial documents are exclusive of *riba* or
29 interest prohibition;
 - 30 h) Provide financing with or without collateral by way of leasing,
31 sale and leaseback, cost-plus profit sales arrangements, and other
32 Shari'ah compliant financing contracts and structures;
 - 33 i) Handle storage operations for goods or commodity financing
34 secured by warehouse receipts presented to the Islamic Bank;
 - 35 j) Issue shares for the account of institutions and companies
36 assisted by the Islamic Bank in meeting subscription calls or
37 augmenting their capital and/or fund requirements as maybe allowed
38 by law;
 - 39 k) Undertake various investments in all transactions allowed by
40 Shari'ah in such a way that shall not permit the *haram* (forbidden),
41 nor forbid the *halal* (permissible); and
 - 42 l) Such other banking services as may be authorized by the
43 Monetary Board.

1 2. With prior Monetary Board approval, issue investment participation
2 certificates, *sukuk*, and other Shari'ah compliant funding instruments to be
3 used by the Islamic Bank in its operations or capital notes;

4 3. To carry out financing and joint investment operations by way of
5 *mudarabah* partnership, *musharakah* joint venture or by decreasing
6 participations, *murabahah* purchasing of others on a cost-plus financing
7 arrangement, lease (*ijara*) arrangements, construction and manufacture
8 (*istisna'a*) arrangements, and other Shari'ah compliant contracts and
9 structures and to invest funds directly in various projects or through the use
10 of funds whose owners desire to invest jointly with other resources available
11 to the Islamic Bank on a joint *Mudarabah* basis in accordance with the
12 foregoing arrangements, contracts and structures;

13 4. With prior Monetary Board approval, invest in equities of the Shari'ah
14 compliant undertakings that directly support the delivery of Islamic banking
15 and financing services;

16 5. To exercise the general powers of a Universal bank, which are
17 consistent with Shari'ah principles.

18 **SEC. 24. Ownership and Legal Existence.** – Other Islamic Banks to be created
19 under this Act shall comply with the requirements of applicable laws, rules and
20 regulations in the organization of a private corporation engaged in banking, such as
21 under the Corporation Code of the Philippines, and in compliance with the
22 requirements of the respective regulatory agencies.

23 The total capitalization of other Islamic Banks shall be equivalent to the
24 prescribed capitalization of a Universal Bank as prescribed by the BSP. The AIB and
25 other Islamic Banks may take the necessary steps to have shares listed in any duly
26 registered stock exchange.

27 The legal existence of other Islamic Banks created under this Act shall
28 conform to the provisions of the Corporation Code of the Philippines.

29 The enactment and approval of the by-laws of other Islamic Banks shall
30 conform to the provisions of the Corporation Code of the Philippines and the rules
31 and regulations of the BSP and the SEC.

32 **SEC. 25. Transfer and Acquisition of Substantial Shareholdings.** – No person
33 shall acquire shares in an Islamic Bank that will result in ownership or control,
34 directly or indirectly, of more than ten percent (10%) of the voting stock of such
35 Islamic Bank, without obtaining the prior approval of the Monetary Board. Prior to
36 Monetary Board approval, no such transfer or acquisition of shares shall have legal
37 effect nor shall the same be recognized in the stock and transfer books neither of the
38 Islamic Bank nor in the records of any government agency.

1 **SEC. 26. *Fit and Proper Rule.*** – In order to maintain the quality of Islamic bank
2 management and afford better protection to depositors, investors and the public in
3 general, the Monetary Board shall prescribe, pass upon and review the qualifications
4 of persons who are elected or appointed bank directors or officers and disqualify
5 those found unfit. The Monetary Board shall prescribe the qualifications of bank
6 directors and officers for purposes of this Act.

7 **SEC. 27. *Regulatory Standards.*** – Islamic banks shall be licensed and
8 regulated analogous to the treatment accorded to a Universal bank.

9 The BSP shall specify prudential and conduct standards and regulations to
10 promote:

- 11 a) The sound financial position of Islamic banks; and
12 b) Integrity, professionalism and expertise in their conduct of the
13 business, affairs and activities.

14 These standards shall take into consideration international best practices and
15 principles relating to, but not limited to:

- 16 a) Capital adequacy;
17 b) Liquidity;
18 c) Corporate governance;
19 d) Risk management;
20 e) Related party transactions;
21 f) Maintenance of reserve funds;
22 g) Prudential reporting;
23 h) Investment ceilings and limitations;
24 i) Prevention of an institution from being used, intentionally or
25 unintentionally, for unlawful activities; and
26 j) Consumer protection.

27 **SEC. 28. *Current Accounts of Islamic Banks.*** – The BSP is authorized to open
28 current accounts for Islamic banks for settlement and other purposes under such
29 rules and regulations as the Monetary Board may prescribe: *Provided*, That the BSP
30 may charge administrative and other fees for the maintenance of such facilities as
31 may be allowed under Shari'ah principles.

32 **SEC. 29. *Financial Facilities for Islamic Banks.*** – The BSP may, taking into
33 consideration the peculiar characteristics of Islamic banking, formulate rules and
34 regulations for the extension of financial facilities to Islamic banks for purposes
35 provided under Chapter IV, Articles IV and V of R.A. No. 7653.

36 Subject to availability of budgetary support and other funding sources, the
37 Philippine Deposit Insurance Corporation (PDIC) may extend financial assistance to
38 an Islamic bank determined to be in danger of closing in order to prevent such
39 closing or when it is determined by the Monetary Board and the PDIC Board of

1 Directors that the continued operation of such Islamic bank is essential to maintain
2 financial stability in the economy.

3 **SEC. 30. Monetary Stabilization Policy and Tools.** – Pursuant to the authority
4 of the Monetary Board under Section 61 of The New Central Bank Act to constantly
5 assess price developments and outlook and based on its analysis and evaluation of
6 inflationary pressures use its policy instruments to attain and maintain price
7 stability, the BSP, taking into consideration the peculiar characteristics of Islamic
8 banking, may require Islamic banks to maintain reserves against their deposit
9 accounts and funds held in trust or under investment accounts. The Monetary Board
10 may further identify other appropriate instruments and measures necessary to
11 effect its monetary policy, including whenever there are abnormal movements in the
12 price level, provided the peculiar characteristics of Islamic banking are taken into
13 account.

14 **SEC. 31. Tax Neutrality.** – The Government shall endeavour to achieve
15 neutral tax treatment between Islamic banking transactions and equivalent
16 conventional banking transactions. The Bureau of Internal Revenue (BIR), pursuant
17 to its rule-making power, shall issue policies and guidelines to implement tax
18 neutrality conducive to the growth of Islamic banking and finance in the country. To
19 achieve tax neutrality, the BIR may modify applicable taxes on Islamic banking
20 transactions.

21 **SEC. 32. Non-Applicability of Selected Acts.** - In order to achieve the
22 international and domestic objectives of Islamic banking business, the provisions of
23 the following acts and laws shall not apply to the Islamic Banks to the extent as
24 herein rendered inoperative:

25 1. The provisions of R.A. No. 7653, otherwise known as The New Central
26 Bank Act, and R.A. No. 8791, otherwise known as The General Banking Law of
27 2000, with particular reference to the determination of bank interest rates,
28 loans and discounts, and any interest-bearing instruments or charge:
29 *Provided*, That nothing contained herein shall be construed to impair the
30 powers of the BSP to supervise and regulate the activities of the Islamic
31 banking system;

32 2. The provisions of Presidential Decree 1445, otherwise known as “The
33 General Auditing Act” and any other enactments thereon inconsistent with
34 this Act; and

35 3. The provision of R.A. No. 3591, as amended, otherwise known as the
36 “PDIC Charter” and all laws, regulating insurance companies: *Provided*,
37 However, that nothing contained herein shall preclude the Islamic Banks
38 from the establishment of contemporary Islamic *takaful* (solidarity services)
39 free of *riba*, premiums or interests.

40 **SEC. 33. Sanctions.** – Any director, officer, employee, auditor, or agent of an
41 Islamic Bank who is found guilty of acts or omissions in violation of any provision of

1 this Act and its implementing rules and regulations shall be punished by a fine not
2 exceeding One Million Pesos (P1,000,000.00) or by imprisonment of not more than
3 five (5) years, or both at the discretion of the court, without prejudice to the
4 administrative and criminal sanctions that may be imposed pursuant to existing
5 banking laws and regulations.

6 **SEC. 34. *Consumer Protection and Capacity Building Program.*** – The
7 Government shall provide programs for increased consumer awareness and capacity
8 building required by the expanded Islamic banking system.

9 **SEC. 35. *Implementing Rules and Regulations.*** – The BSP, within sixty (60)
10 days from the effectivity of this Act, shall promulgate the necessary rules and
11 regulations for the effective implementation of this Act.

12 **SEC. 36. *Separability Clause.*** – If any provision of this Act is declared invalid
13 or unconstitutional, the remaining parts or provisions not affected shall remain valid.

14 **SEC. 37. *Repealing Clause.*** – Republic Act No. 6848 is hereby amended. All
15 acts, executive orders, administrative orders, proclamations, rules and regulations or
16 parts thereof inconsistent with any of the provisions of this Act are hereby repealed
17 or modified accordingly.

18 **SEC. 38. *Effectivity.*** - This Act shall take effect fifteen (15) days after its
19 publication in the Official Gazette or in two (2) newspapers of general circulation.

20 *Approved,*