

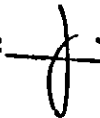
SIXTEENTH CONGRESS OF THE REPUBLIC )  
OF THE PHILIPPINES )  
Third Regular Session )



Senate  
Office of the Secretary

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SENATE  
S.B. No. 3150

RECEIVED BY: 

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

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#### 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.

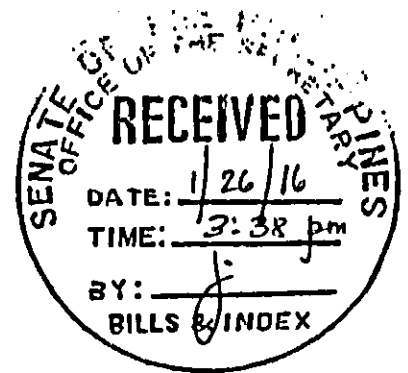
It also seeks to ensure that every Filipino regardless of status, identity, or religion has access to critical services that enable our country men and women to seize economic opportunities and be part of the country's progress.

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, the passage of this measure is earnestly sought.

  
Senator Paolo Benigno "Bam" Aquino IV

SIXTEENTH CONGRESS OF THE REPUBLIC )  
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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

*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 of 2016."

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 that  
6 the consequences in law must also be defined by policy objectives related to property  
7 rights in productive enterprises. Toward this end, the Government has committed itself  
8 to the establishment of Islamic banks, operating within a legal framework, permitting  
9 the investors or participants the rights to equitable or beneficial share in the profits  
10 realized from financing productive activities and other operations.

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

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

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

21           b)       **Investment Account** – the total deposits at the Islamic Banks in respect of  
22 funds placed by a depositor or investor with that Islamic Bank for a fixed period of time  
23 under an agreement to share the profits and losses on the investment of such funds in  
24 accordance with the principles and precepts of Shari'ah, including the sharing of profits  
25 and losses with that Islamic Bank, in relation to Islamic banking business or services;  
26

27           c)       **Islamic Banking Business** – the banking business whose aims and  
28 operations do not involve interest (riba) which is prohibited by the Shari'ah principles

1 and which conducts its business transactions in accordance with the principles of  
2 Shari'ah;

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

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

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

15 g) **Savings Account** – the total deposits at the Islamic bank which normally  
16 require the presentation of passbooks or such other legally acceptable documents in  
17 lieu of passbooks as approved by the BSP for deposit or withdrawal of money, in  
18 relation to Islamic banking business and services; and

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

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

25 **PART I**  
26 **ISLAMIC BANKING SYSTEM AND ITS PURPOSE**

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

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

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

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

1 The Monetary Board may regulate the number of participants in the Islamic  
2 banking system taking into account the requirements of the economy, the preservation  
3 of the stability of the system, and the maintenance of healthy competition.

4 AIB, other Islamic banks, designated Islamic banking units of conventional banks,  
5 and foreign banks that are authorized to conduct business in accordance with the  
6 principles of the Shari'ah, shall henceforth be referred to collectively as "Islamic Banks"  
7 or the "Islamic Banking System".

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

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

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

## 19 PART II

### 20 PROVISIONS GOVERNING THE AL-AMANAH ISLAMIC INVESTMENT BANK

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

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

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

32 Anyone of the existing shareholders may exercise its preemptive right to  
33 consolidate ownership of the outstanding shares as hereinafter increased: *Provided,*  
34 That the common shares of the AIB which have been issued and outstanding shall form  
35 part of the increased capitalization of the AIB, subject to the concurrence of the existing  
36 shareholders of the AIB.

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

39 **SEC. 10. *Board of Directors, Composition, Tenure, Per Diems.*** – Unless otherwise  
40 provided in this Act, the corporate powers of AIB shall be exercised, its business directed  
41 and its properties managed and preserved by a Board of Directors consisting of at least  
42 five (5) but not more than nine (9) members, to be appointed by the President of the  
43 Philippines. The Chairman of the Board and the President of the Bank shall likewise be

1 appointed by the President of the Philippines from among the members of the Board of  
2 Directors: *Provided*, That the position of Chairman of the Board and President of the  
3 Bank shall not be held by the same person. The term of office of the Chairman, President  
4 and Members of the Board of Directors shall be for a period of one year or until such  
5 time as their successors are appointed.

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

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

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

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

17  
18 The Board of Directors shall convene at the principal office at least once every  
19 month upon due notice by the Chairman or, whenever the need arises, upon the  
20 request of three (3) members of the Board of Directors. The Board may convene outside  
21 the AIB's principal office, as the members shall determine in the by-laws of AIB. AIB  
22 shall designate at least two (2) independent directors as required under existing banking  
23 laws and regulations.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



1 The AIB shall then constitute the trustees of an approved scheme, whose  
2 functions with respect to the common shares held by them are regulated by Chapter IX  
3 of the General Banking Law of 2000 and other pertinent laws. The terms of the  
4 approved scheme shall be embodied in a deed of instrument as the Board may require.

5 **SEC. 18. *Terms of Legal Existence.*** – The legal existence of the AIB shall be for a  
6 period of fifty (50) years, from the date of the approval of this Act, renewable upon  
7 resolution of the general shareholders meeting called for said purpose.

8 At the expiration of the AIB's corporate existence or in the event of its  
9 dissolution before this date, the general shareholders meeting shall, upon the request of  
10 the Board of Directors, define the method of dissolution as provided for in its by-laws.

11 **SEC. 19. *Privatization.*** – Nothing in this Act shall be construed to preclude the  
12 AIB from privatizing its ownership. For this purpose, any limitation on the transfer of  
13 shares shall not be applicable with respect to the exiting shareholdings of the  
14 government or any of its instrumentalities.

15 In the event of privatization, the Bank shall be registered with the Securities and  
16 Exchange Commission, and shall be subject to applicable provisions of the Corporation  
17 Code of the Philippines, in addition to the rules and regulations of the BSP and other  
18 government regulatory agencies.

19 **SEC. 20. *Statutory Articles of Incorporation.*** – This Act, upon its effectivity, shall  
20 be deemed accepted for all legal intents and purposes as the Statutory Articles of  
21 Incorporation of the AIB; and that notwithstanding the provisions of any existing law to  
22 the contrary, the AIB shall be deemed registered and duly authorized to do business and  
23 operate as an Islamic Bank as of the date of approval of this Act.

24 **SEC. 21. *By-laws.*** – Within sixty (60) days upon the effectivity of this Act, the by-  
25 laws of the AIB for its organizational, functional, and operational government and  
26 procedure shall be adopted by affirmative vote at the general shareholders meeting  
27 representing a majority of all subscribed capital stock entitled to vote, whether paid or  
28 unpaid, subject to certification by the Monetary Board pursuant to Section 14 of the  
29 General Banking Law of 2000.

30 The by-laws, duly certified by the Monetary Board as aforesaid, shall be signed  
31 by the shareholders voting for them and shall be kept in the principal office of the AIB,  
32 subject to the inspection of the shareholders during office hours, and a copy thereof,  
33 duly certified by a majority of the directors and countersigned by the Corporate  
34 Secretary of the AIB, shall be filed and registered with the SEC.

35 **PART III**  
36 **GENERAL PROVISIONS**

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

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

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

4           Islamic banks may:

5           1)    Perform the following banking services:

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

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

38          3.    To carry out financing and joint investment operations by way of  
39 *mudarabah* partnership, *musharakah* joint venture or by decreasing  
40 participations, *murabahah* purchasing of others on a cost-plus financing  
41 arrangement, lease (*ijara*) arrangements, construction and manufacture  
42 (*istisna'a*) arrangements, and other Shari'ah compliant contracts and structures  
43 and to invest funds directly in various projects or through the use of funds whose  
44 owners desire to invest jointly with other resources available to the Islamic Bank  
45 on a joint *Mudarabah* basis in accordance with the foregoing arrangements,  
46 contracts and structures;

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

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

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

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

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

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

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

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

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

32          The BSP shall specify prudential and conduct standards and regulations to  
33          promote:

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

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

- 39               a)       Capital adequacy;  
40               b)       Liquidity;  
41               c)       Corporate governance;  
42               d)       Risk management;

- 1 e) Related party transactions;
- 2 f) Maintenance of reserve funds;
- 3 g) Prudential reporting;
- 4 h) Investment ceilings and limitations;
- 5 i) Prevention of an institution from being used, intentionally or
- 6 unintentionally, for unlawful activities; and
- 7 j) Consumer protection.

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

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

17 Subject to availability of budgetary support and other funding sources, the  
18 Philippine Deposit Insurance Corporation (PDIC) may extend financial assistance to an  
19 Islamic bank determined to be in danger of closing in order to prevent such closing or  
20 when it is determined by the Monetary Board and the PDIC Board of Directors that the  
21 continued operation of such Islamic bank is essential to maintain financial stability in the  
22 economy.

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

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

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

- 43 1. The provisions of R.A. No. 7653, otherwise known as The New Central
- 44 Bank Act, and R.A. No. 8791, otherwise known as The General Banking Law of
- 45 2000, with particular reference to the determination of bank interest rates, loans
- 46 and discounts, and any interest-bearing instruments or charge: *Provided*, That
- 47 nothing contained herein shall be construed to impair the powers of the BSP to
- 48 supervise and regulate the activities of the Islamic banking system;

1           2.     The provisions of Presidential Decree 1445, otherwise known as "The  
2     General Auditing Act" and any other enactments thereon inconsistent with this  
3     Act; and

4           3.     The provision of R.A. No. 3591, as amended, otherwise known as the  
5     "PDIC Charter" and all laws, regulating insurance companies: *Provided, However,*  
6     that nothing contained herein shall preclude the Islamic Banks from the  
7     establishment of contemporary Islamic *takaful* (solidarity services) free of *riba*,  
8     prelims or interests.

9           **SEC. 33. *Sanctions.*** – Any director, officer, employee, auditor, or agent of an  
10    Islamic Bank who is found guilty of acts or omissions in violation of any provision of this  
11    Act and its implementing rules and regulations shall be punished by a fine not exceeding  
12    One Million Pesos (P1,000,000.00) or by imprisonment of not more than five (5) years,  
13    or both at the discretion of the court, without prejudice to the administrative and  
14    criminal sanctions that may be imposed pursuant to existing banking laws and  
15    regulations.

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

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

22           **SEC. 36. *Repealing Clause.*** – Republic Act No. 6848 is hereby amended. All acts,  
23    executive orders, administrative orders, proclamations, rules and regulations or parts  
24    thereof inconsistent with any of the provisions of this Act are hereby repealed or  
25    modified accordingly.

26           **SEC. 37. *Separability Clause.*** – If any provision of this Act is declared invalid or  
27    unconstitutional, the remaining parts or provisions not affected shall remain valid.

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

30           *Approved,*