

LEGAL
ALERT

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Philippine Lower House Approves Substitute Bill on Islamic Finance

The Lower House committee on banks and financial intermediaries passed and approved a bill on 13 August 2018, seeking the regulation and organisation of Islamic banks to promote greater financial inclusion, especially for the underserved Muslim population.

The House panel, chaired by Eastern Samar Representative Ben Evardone, approved the unnumbered bill. This unnumbered bill substituted House Bill No. 3975, intended to be the Philippine Islamic Financing Act of 2017 if enacted into law, and House Bill No. 492, intended to amend the charter of Al Amanah Islamic Investment Bank of the Philippines as well as provide for the organisation and regulation of an expanded Islamic banking system in the Philippines, if enacted into law.

The approval of the substitute bill is a huge step towards the inclusion of the Philippines as one of the countries in the Association of Southeast Asian Nations (“ASEAN”) with Islamic banks. Furthermore, this complements the recently passed Bangsamoro Organic Law in connection with accommodating the financing concerns of the Muslim population in the Philippines.

The bill provides the following primary points:

Definition of Islamic banking business

Islamic banking business is defined as a banking business whereby credit accommodations do not involve charging interest (riba) and whose business objectives, operations and transactions are in line with Shari’ah principles.

Islamic banking unit to be separate from conventional banking

The Monetary Board (“MB”) of the Bangko Sentral ng Pilipinas (“BSP”) may authorize the creation of Islamic banks. It may also authorize the conventional banks to engage in Islamic banking arrangements, including structures and transactions, through a designated Islamic banking unit within the bank, provided that the Islamic banking unit is separate from its conventional banking transactions.

Foreign Islamic banks allowed

The MB may also authorise a foreign Islamic bank to establish banking operations in the Philippines under any of the modes of entry provided under Republic Act No. 7721 or “An Act Liberalizing the Entry and Scope of Operations of Foreign Banks in the Philippines and for Other Purposes,” as amended by Republic Act No. 10641.

BSP as supervisory and regulatory authority

The BSP is mandated to issue the necessary rules and regulations on Islamic banking. In relation to this, the BSP is the regulatory and supervisory government agency that shall oversee the operations of Islamic banks, which shall be licensed and regulated in the same manner as universal banks.





Services allowed

Islamic banks are allowed to perform the following services:

1. accept saving accounts for safekeeping or custody with no participation in profit and loss unless otherwise authorised by the account holders to be invested;
2. act as correspondent of banks and institutions to handle remittances or any fund transfers;
3. accept drafts and issue letters of credit or letters of guarantee, negotiate notes and bills of exchange and other evidence of indebtedness;
4. provide financing with or without collateral by way of leasing, sale and leaseback, cost-plus profit sales arrangements, and other Shari'ah-compliant financing contracts and structures; and
5. other banking services as may be authorized by the MB.

Islamic banks created under the Act shall comply and conform with pertinent laws, rules, and regulations applicable to private corporation engaged in banking, such as the Corporation Code, and the requirements of the relevant regulatory agencies.

Nonetheless, the approval of the bill by the Lower House does not automatically mean the conversion of the bill into law. The concurrence of the Senate is still necessary. After which, the enactment of the bill into law also requires the signature of the President, if approved by him.

If you have any questions or require any additional information, please contact [Felix Sy](#) or [Lorybeth Baldrias-Serrano](#) or the ZICO Law partner you usually deal with.

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