

# ***ARTICLES OF AGREEMENT***



***The Islamic Financial Services Board***

<b>Contents</b>	<b>Page No.</b>
<b>CHAPTER I. NAME, STATUS AND LOCATION</b>	<b>1</b>
Article 1	1
Article 2	1
Article 3	1
<b>CHAPTER II. OBJECTIVES</b>	<b>2</b>
Article 4	2
<b>CHAPTER III. THE STRUCTURE OF THE IFSB</b>	<b>3</b>
Article 5	3
<b>CHAPTER IV. CATEGORIES OF MEMBERSHIP</b>	<b>3</b>
Article 6	3
<b>CHAPTER V. FULL MEMBERSHIP</b>	<b>3</b>
Article 7	3
Article 8	4
<b>CHAPTER VI. ASSOCIATE MEMBERSHIP</b>	<b>5</b>
Article 9	5
Article 10	5
<b>CHAPTER VII. OBSERVER MEMBERSHIP</b>	<b>6</b>
Article 11	6
Article 12	6
<b>CHAPTER VIII. THE GENERAL ASSEMBLY</b>	<b>6</b>
Article 13	6
Article 14	7
Article 15	7
Article 16	7
Article 17	7
Article 18	8
Article 19	8
<b>CHAPTER IX. THE COUNCIL</b>	<b>8</b>
Article 20	8
Article 21	9
Article 22	10
Article 23	10
Article 24	10

Article 25	11
Article 26	11
Article 27	12
Article 28	12
<b>CHAPTER X. THE TECHNICAL COMMITTEE</b>	<b>12</b>
Article 29	12
Article 30	13
Article 31	13
Article 32	13
Article 33	13
<b>CHAPTER XI. THE SECRETARIAT</b>	<b>14</b>
Article 34	14
Article 35	14
Article 36	14
Article 37	14
<b>CHAPTER XII. TECHNICAL ASSISTANCE</b>	<b>15</b>
Article 38	15
<b>CHAPTER XIII. THE BUDGET</b>	<b>15</b>
Article 39	15
Article 40	16
Article 41	16
<b>CHAPTER XIV. ACCOUNTS</b>	<b>16</b>
Article 42	16
Article 43	16
Article 44	16
Article 45	16
Article 46	16
<b>CHAPTER XV. INTERPRETATION, DISPUTES SETTLEMENT</b>	<b>17</b>
Article 47	17
Article 48	17
Article 49	17
Article 50	17
<b>CHAPTER XVI. ADMISSION TO MEMBERSHIP</b>	<b>17</b>
Article 51	17
<b>CHAPTER XVII. WITHDRAWAL</b>	<b>18</b>
Article 52	18

<b>CHAPTER XVIII. CANCELLATION OF MEMBERSHIP, SANCTIONS, PENALTIES</b>	<b>18</b>
Article 53	18
<b>CHAPTER XIX. AMENDMENTS</b>	<b>18</b>
Article 54	18
Article 55	18
<b>CHAPTER XX. TERMINATION</b>	<b>19</b>
Article 56	19
Article 57	19
Article 58	19
Article 59	19
<b>CHAPTER XXI. MISCELLANEOUS</b>	<b>19</b>
Article 60	19
Article 61	19
Article 62	19
<b>CHAPTER XXII. EFFECTIVE DATE OF THIS AGREEMENT</b>	<b>20</b>
Article 63	20

**IN THE NAME OF ALLAH, THE MERCIFUL, THE GRACIOUS**

**ARTICLES OF AGREEMENT  
OF THE  
ISLAMIC FINANCIAL SERVICES BOARD**

**WHEREAS**

- A. By the Grace of Allah, there has been a worldwide increase in demand for financial services based on Islamic principles.
- B. There is a need for internationally recognized and unified standards for fostering effective regulation and supervision of such services.
- C. The signatories to this Agreement (the "Founding Members"), being national regulators and/or supervisors and/or other interested parties, have come together with the intention of establishing a body to issue such standards.
- D. The Founding Members wish hereby to establish a body for coordinating and giving guidance on good practices in the regulation and supervision of Islamic financial services and hereby set out the rules which shall govern the body.

**Chapter I. NAME, STATUS AND LOCATION**

**Article 1**

The body is hereby established and shall be known as the "Islamic Financial Services Board" (hereinafter, the "IFSB").

**Article 2**

The IFSB shall have separate legal personality.

**Article 3**

The IFSB shall be established and located in Kuala Lumpur, Malaysia which shall host the Secretariat.

The host country of the Secretariat shall ensure that the IFSB and its constituent organs (as set out in Article 5) shall be exempted from all taxes, duties, fees and levies, and shall be granted other immunities and privileges in respect of its assets, properties, incomes and operations.

## **Chapter II. OBJECTIVES**

### **Article 4**

The objectives of the IFSB are:

- (a) To promote the development of a prudent and transparent Islamic financial services industry through introducing new, or adapting existing, international standards consistent with Shariah principles, and recommend these for adoption.
- (b) To provide guidance on the effective supervision and regulation of institutions offering Islamic financial products and to develop for the Islamic financial services industry the criteria for identifying, measuring, managing and disclosing risks, taking into account international standards for valuation, income and expense calculation, and disclosure.
- (c) To liaise and cooperate with relevant organizations currently setting standards for the stability and the soundness of the international monetary and financial systems and those of the member countries.
- (d) To enhance and coordinate initiatives to develop instruments and procedures for efficient operations and risk management.
- (e) To encourage cooperation amongst member countries in developing the Islamic financial services industry.
- (f) To facilitate training and personnel development in skills in areas relevant to the effective regulation of the Islamic financial services industry and related markets.
- (g) To undertake research into, and publish studies and surveys on, the Islamic financial services industry.
- (h) To establish a database of Islamic banks, financial institutions and industry experts.
- (i) Any other objectives which the General Assembly of the IFSB may agree from time to time.

### **Chapter III. THE STRUCTURE OF THE IFSB**

#### **Article 5**

The IFSB shall have a permanent structure comprising the following constituent organs:

- (a) The General Assembly;
- (b) The Council;
- (c) The Technical Committee;
- (d) The Secretariat.

The constituent organs referred to above shall have the powers and duties set out in this Agreement.

The IFSB may make such by-laws for the pursuance of the IFSB's objectives and concerning the operation and procedures of the IFSB and its constituent organs as may be necessary or expedient. Such by-laws shall be prepared by the Secretariat and approved by the Council.

### **Chapter IV. CATEGORIES OF MEMBERSHIP**

#### **Article 6**

There shall be three categories of membership of the IFSB:

- (a) Full Membership;
- (b) Associate Membership;
- (c) Observer Membership.

The categories of membership referred to above shall have the rights and responsibilities set out in this Agreement.

### **Chapter V. FULL MEMBERSHIP**

#### **Article 7**

Full Membership shall be available to –

- (a) the supervisory authority which is responsible for the supervision of the following financial services -

- (i) banking industry;
- (ii) securities industry; or
- (iii) insurance or takaful industry,

of each sovereign country that recognizes Islamic financial services, whether by legislation or regulation or by established practice; and

- (b) inter-governmental international organizations that have an explicit mandate for promoting Islamic finance and markets,

upon application for membership by that authority or organization.

There shall not be more than three Full Members from each sovereign country.

The Founding Members are hereby admitted as Full Members of the IFSB.

### **Article 8**

A Full Member shall have, *inter alia*, the following rights and responsibilities:

- (a) Where the Full Member is the lead supervisory authority of a sovereign country as defined by the by-law or an international organization, the eligibility, subject to Article 20, to be a member of the Council.
- (b) The responsibility to promote in its own country and fully support the standards and guidance issued by the Council. Where a Full Member does not have sufficient legal powers to give effect to the standards and guidance issued by the Council, it shall take all appropriate steps to raise such matters with relevant national authorities and/or its members with a view to recommending the adoption of the same.
- (c) The responsibility to pay promptly the annual full membership fee as determined by the General Assembly from time to time.
- (d) The right to attend, participate in and vote at all meetings of the General Assembly.
- (e) The right to receive Technical Assistance (as referred to in Article 38) upon such terms as the Council shall agree from time to time.

## Chapter VI. ASSOCIATE MEMBERSHIP

### Article 9

Associate Membership shall be available to any central bank, monetary authority or financial supervisory or regulatory organization or international organization involved in setting or promoting standards for the stability and soundness of international and national monetary and financial systems, which does not qualify for Full Member status pursuant to Article 7 (or which does not seek to become a Full Member pursuant to Article 7) upon application for membership by that central bank, authority or organization.

### Article 10

An Associate Member shall have, *inter alia*, the following rights and responsibilities:

- (a) The responsibility to promote in its own country and fully support the standards and guidance issued by the Council, except where there is a Full Member representing its country in the General Assembly and that Full Member has successfully taken all necessary steps to promote and recommend for adoption such standards and guidance. Where an Associate Member does not have sufficient legal powers to adopt the standards and guidance issued by the Council, it shall:
  - (i) where there are Full Members representing the Associate Member's country in the General Assembly, assist those Full Members to the fullest extent possible with their efforts to adopt the standards and guidance issued by the Council.
  - (ii) where there are no Full Members representing the Associate Member's country in the General Assembly, it shall take all appropriate steps to raise such matters with relevant national authorities with a view to promoting and recommending adoption of the same.

The responsibility in this sub-article shall not apply to international organizations although it is expected that they will be fully supportive of the objectives of the IFSB in their discussions with relevant national authorities.

- (b) The responsibility to pay promptly the annual associate membership fee as determined by the General Assembly from time to time.
- (c) The right to be upgraded to a Full Member upon the approval of the Council provided always that the country of that Associate Member is not

already represented by a Full Member in the IFSB who is the supervisory authority for the industry in which the Associate Member is involved.

- (d) The right to attend and participate in (but not vote at) all meetings of the General Assembly.
- (e) The right to receive Technical Assistance (as referred to in Article 38) upon such terms as the Council shall agree from time to time.

## **Chapter VII. OBSERVER MEMBERSHIP**

### **Article 11**

Without prejudice to Article 51, Observer Membership shall be available to any:

- (a) national, regional or international professional or industry association;
- (b) institution that offers Islamic financial services; or
- (c) firm or organization that provides professional services, including accounting, legal, rating, research or training services to any institution in (b) above,

upon application for membership by the entities mentioned in (a), (b) and (c) above. Any institution in (b) above shall secure the approval of its relevant financial supervisory and regulatory authority to be admitted to the membership of the IFSB.

### **Article 12**

An Observer Member shall have, *inter alia*, the following rights and responsibilities:

- (a) The responsibility to pay promptly the annual observer membership fee as determined by the General Assembly from time to time.
- (b) The right to attend and participate in (but not vote at) all meetings of the General Assembly.

## **Chapter VIII. THE GENERAL ASSEMBLY**

### **Article 13**

The General Assembly shall be the representative body of all the members of the IFSB referred to in Article 6.

#### **Article 14**

The General Assembly shall have, *inter alia*, the following duties and responsibilities:

- (a) To review and approve the final audited accounts of the IFSB.
- (b) To approve the appointment of the external auditor of the IFSB.
- (c) To determine membership fees for the various categories of members referred to in Article 6, including any exemptions or reductions for individual members, as determined on a case by case basis.
- (d) To discuss issues relating to the objectives of the IFSB.

#### **Article 15**

The General Assembly shall meet annually at such time and place as the Secretariat (after consultation with the Chairman of the Council) shall determine by not less than 3 months' notice provided that no such notice shall be required in respect of the first meeting of the General Assembly which shall take place promptly after this Agreement shall have come into effect in accordance with Article 63.

#### **Article 16**

In addition to the annual meeting referred to in Article 15, three-quarters of the Full Members of the General Assembly may, by petition to the Secretariat, convene an extraordinary meeting of the General Assembly upon such terms and conditions as the Secretariat shall reasonably determine and communicate to members provided always that:

- (a) there shall be not less than one month's notice of such a meeting;
- (b) all the members of the General Assembly are invited to attend; and
- (c) such a meeting shall be conducted in accordance with Article 17, the by-laws and the procedural rules applied at the previous General Assembly meeting.

#### **Article 17**

At any meeting of the General Assembly, whether pursuant to Article 15 or Article 16, the necessary quorum for such a meeting to make valid and binding decisions shall be two-thirds of all Full Members. Each Full Member shall have

one vote. Resolutions of the General Assembly shall be effective with a simple majority of Full Members present, subject to Articles 53 and 54.

#### **Article 18**

No member of the General Assembly (or representative thereof) may act as a proxy for another member. Any challenge to the rights of a person to represent a member shall be determined by the Chairman of the General Assembly.

#### **Article 19**

All meetings of the General Assembly shall be presided over by a Chairman elected from the Full Members by a simple majority of all Full Members present at the end of the previous meeting of the General Assembly. If the Chairman-elect does not attend the meeting for which he has been elected Chairman, the Chairman of that meeting shall be elected from the Full Members by a simple majority of Full Members present at that meeting. The Chairman of the first meeting of the General Assembly shall be the Chairman of the Council at that time.

### **Chapter IX. THE COUNCIL**

#### **Article 20**

(a) The Council shall be the senior executive and policy making body of the IFSB. The membership of the Council shall consist of up to twenty-one Full Members who shall be the lead supervisory authority in their countries according to the criteria specified in the by-laws or an international organization.

The twenty one members of the Council shall comprise –

- (i) the existing fifteen Full Members as of 1<sup>st</sup> January 2006, who shall be the permanent members of the Council;
- (ii) three Full Members from the member countries of the Organization of Islamic Conference (hereinafter referred as “the OIC”); and
- (iii) three Full Members from countries who are not member countries of the OIC.

(b) The members of the Council in Article 20(a)(ii) and (iii) above shall –

- (i) not be from the fifteen permanent members set out in Article 20(a)(i);

- (ii) be selected by rotation based on the date of admission as Full Member, and if there is a tie where more than one eligible Full Member is admitted on the same date, based on the alphabetical order (in English language); and
  - (iii) be the members of the Council for a period of two years.
- (c) Each member of the Council shall be represented by its most senior executive officer or such other senior person as he shall nominate to represent him from time to time.
- (d) Any member of the Council may invite another Full Member from its country to lead, participate in, or exercise its voting rights as a member of the Council at any session or meeting of the Council on matters which specifically concern the industries under supervision of the invited Full Member.
- (e) Each country represented by a member of the Council shall have only one vote notwithstanding the number of Full Members from that country.

## **Article 21**

The Council shall have, *inter alia*, the following duties and responsibilities:

- (a) To formulate and approve the policies and strategies of the IFSB.
- (b) To approve and make the by-laws of the IFSB.
- (c) To adopt and approve for issuance prudential and supervisory standards and guidance on Islamic financial services on such terms as it deems fit following the advice and recommendations of the Technical Committee.
- (d) To establish one or more Technical Committees and to establish guidelines and procedures to be followed by any Technical Committee (and its working groups) when preparing standards and guidance for approval by the Council.
- (e) To refer technical Islamic financial services issues to the Technical Committee for its review, advice and recommendations.
- (f) To constitute the Technical Committee, appoint its Chairman and Deputy Chairman, and determine its terms of reference (in accordance with Article 29).
- (g) To appoint the Secretary-General of the IFSB and determine his terms of reference (in accordance with Article 34).

- (h) To approve the budget of the IFSB (in accordance with Article 41).
- (i) To set guidelines for the maintenance, management and monitoring of funds as may be established in pursuance of the objectives of the IFSB.
- (j) To assess and approve applications for membership (in accordance with Article 51).

The Council shall also be the competent authority on new issues relevant to the objectives of the IFSB that are not addressed under this Agreement.

### **Article 22**

The Council shall meet at least twice a year, at such time and place as the Secretariat (after consultation with the Chairman of the Council) shall determine, by not less than two months' notice provided that no such notice shall be required in respect of the first meeting of the Council which shall take place promptly after this Agreement shall have come into effect in accordance with Article 63.

### **Article 23**

In addition to the meetings referred to in Article 22, three quarters of the members of the Council may require the Secretariat to convene an extraordinary meeting of the Council upon such terms and conditions as the Secretariat shall reasonably determine and communicate to members of the Council provided always that:

- (a) there shall be not less than one month's notice of such a meeting;
- (b) all the members of the Council are invited to attend; and
- (c) such a meeting shall be conducted in accordance with Article 24, the by-laws and the procedural rules applied at the previous Council meeting.

### **Article 24**

At any meeting of the Council, whether pursuant to Article 22 or 23, the necessary quorum for such a meeting to make valid and binding decisions shall be two-thirds of all the members of the Council.

Where any member of the Council has invited another Full Member from its country to lead, participate in, or exercise its voting rights as a member of the Council under Article 20(e) in its stead, such Full Member shall be deemed to be a member of the Council only for the purposes of that Council meeting.

## **Article 25**

No member of the Council may act as a proxy for another member of the Council. Any challenge to the rights of a person to represent a member of the Council shall be determined by the Chairman of the Council.

## **Article 26**

All meetings of the Council shall be presided over by a Chairman who shall be assisted by a Deputy Chairman. The Chairman and Deputy Chairman of the Council shall hold office for a period of one Gregorian year (1<sup>st</sup> January to 31<sup>st</sup> December).

Until 2010, the Chairman and Deputy Chairman of the Council shall be from the Founding Members and shall assume office on a rotational basis. The first Chairman of the Council shall be the representative of the member of the Council whose country is at the effective date of this Agreement (as determined in accordance with Article 63) first in (English language) alphabetical order. The first Deputy Chairman of the Council shall be the representative of the member of the Council whose country is at that date second in (English language) alphabetical order.

If the first Chairman and Deputy Chairman of the Council assume office before 1<sup>st</sup> January, their terms of office shall be deemed to have commenced on the next such 1<sup>st</sup> January notwithstanding that, by virtue of this rule, their overall period of office may exceed one year.

Upon the expiry of the terms of the first Chairman and Deputy Chairman of the Council, the Deputy Chairman of the Council shall automatically assume the office of Chairman of the Council and the representative of the member whose country is third in (English language) alphabetical order shall assume the office of Deputy Chairman of the Council.

This process shall be repeated every year until 2010 and these offices are fully rotated amongst the Founding Members, whereupon the Chairmanship shall from 2011 be alternated annually between members of the Council elected on a rotational basis from among the non-Founding Members from the OIC member countries (based on the date of admission into the IFSB) and the Founding Members (based on the alphabetical order of the country in the English language). In the year in which the Chairman of the Council is from a Founding Member, the Deputy Chairman of the Council shall be elected on a rotational basis from a non-Founding Member from an OIC member country (based on the date of admission) and in a year in which the Chairman of the Council is from a non-Founding Member from an OIC country, the Deputy Chairman of the Council

shall be from a Founding Member (based on the alphabetical order in the English language).

In the case of non-Founding Members elected from OIC member countries, no Full Member from a country whose Full Member has been Chairman of the Council earlier, shall assume the post until the other non-Founding Members from OIC member countries have all been Chairman of the Council.

#### **Article 27**

Each member of the Council shall have one vote as provided in Article 20(e). Resolutions of the Council shall be effective upon a simple majority of those members of the Council present confirming their approval. In the event of a tie, the Chairman shall cast the deciding vote.

#### **Article 28**

Without prejudice to Article 27, the Chairman shall determine the procedural rules of the meeting in accordance with the by-laws and established practice.

### **Chapter X. THE TECHNICAL COMMITTEE**

#### **Article 29**

The Technical Committee shall be the body responsible for advising the Council on technical issues within its terms of reference (as determined by the Council). It shall consist of up to fifteen persons selected by the Council and shall have a term of office of three years. In selecting the members of the Technical Committee due consideration shall be given to:

- (a) the relevant technical expertise and skills of the candidates;
- (b) ensuring equitable distribution between (i) the specific technical skills required by the Technical Committee and (ii) geographical and industrial sector composition; and
- (c) ensuring continuity of the Committee's work.

At least six members of the Technical Committee shall be representatives of the members of the Council. The other members of the Technical Committee may include persons or representatives of persons who are non-members of the Council. The Council shall designate one person representing a permanent member of the Council to act as Chairman and one person representing a Full Member to act as Deputy Chairman of the Technical Committee.

### **Article 30**

The Technical Committee shall have, *inter alia*, the following duties and functions:

- (a) To present draft prudential and supervisory standards and guidance for Islamic financial services for consideration and formal adoption by the Council.
- (b) To advise and make recommendations to the Council on various specific technical issues referred by the Council.
- (c) To appoint and approve the work plans of specific working groups to consider and report back on technical issues. Such working groups may include persons who are not members.
- (d) To review and discuss the findings of the working groups in accordance with the guidelines and procedures set down by the Council pursuant to Article 21(d).
- (e) To engage the services of an established representative body of Shariah scholars with the knowledge of industry practice approved by the Council to guide their deliberations.
- (f) To assist with such other technical matters as the Council shall request from time to time.

### **Article 31**

The Technical Committee shall meet at such times and in such locations as its Chairman (after consultation with the Secretariat) shall decide.

### **Article 32**

Each member of the Technical Committee shall have one vote. Resolutions of the Technical Committee shall be effective upon a simple majority of those members of the Technical Committee present. In the event of a tie, the Chairman of the Technical Committee shall cast the deciding vote.

### **Article 33**

Without prejudice to Article 32, the Chairman of the Technical Committee shall determine the procedural rules of the meeting in accordance with the by-laws and established practice.

## **Chapter XI. THE SECRETARIAT**

### **Article 34**

The Secretariat shall be the permanent administrative body of the IFSB. It shall be headed by a full-time Secretary-General appointed by the Council on such terms and conditions as the Council shall determine.

### **Article 35**

The Secretary-General shall be accountable to the Council for his actions. The Secretary-General shall at all times act in the best interests of the IFSB in furtherance of the IFSB's objectives.

The Secretary-General shall be assisted by such other administrative and support staff as are necessary for the effective functioning of the Secretariat.

Senior Secretariat staff may either be appointed by the Secretary-General or be seconded by Full Members of the IFSB on such terms and conditions as the Secretary-General shall determine, subject to the approval of the Council.

The Secretary-General shall be entitled to attend and participate in (but not vote at) any meeting of the General Assembly, the Council, the Technical Committee or any working group appointed by the Technical Committee.

### **Article 36**

A proportion of the budget of the IFSB shall be allocated towards acquiring such premises, office facilities, and support staff as are necessary for the effective functioning of the Secretariat (as determined by the Secretary-General and the Council).

### **Article 37**

The Secretariat shall have, *inter alia*, the following duties and responsibilities:

- (a) To manage all administrative work of the IFSB.
- (b) To coordinate the work of the Council and the Technical Committee and related sub-committees or working groups.
- (c) To prepare the documentation needed for meetings of the IFSB.
- (d) To disseminate the standards and directions issued by the Council.
- (e) To prepare draft by-laws of the IFSB.

- (f) To liaise with central banks, monetary authorities, international organizations and other supervisory and regulatory organizations.
- (g) To act as a central information depository holding all records, standards and guidance issued by the IFSB and other relevant organizations.
- (h) To organize and act as secretary of meetings of the General Assembly, the Council and the Technical Committee.
- (i) To act as spokesperson and as representative of the IFSB at international and regional meetings and fora (and to appoint another person to act in his place).
- (j) To deal with administrative issues arising from membership or potential membership of the IFSB.
- (k) To prepare a draft budget for the IFSB in accordance with Articles 39 and 40.
- (l) In accordance with guidelines established by the Council, to manage and maintain such funds as may be established in pursuance of the objectives of the IFSB.
- (m) To undertake such other activities as shall be assigned to it by the Council or the Technical Committee.

## **Chapter XII. TECHNICAL ASSISTANCE**

### **Article 38**

The Council shall, in consultation with the Technical Committee, adopt the necessary policies to govern the equitable provision of technical assistance between Full Members and Associate Members as appropriate from time to time.

## **Chapter XIII. THE BUDGET**

### **Article 39**

The IFSB shall have an annual budget which shall be prepared by the Secretariat and approved by the Council. The budget shall comprise membership fees, grants, contributions, donations and other funds received by the IFSB. When preparing the budget the Secretariat shall take into account the financial position of IFSB.

**Article 40**

The Secretariat shall submit the draft budget to the Council at its meeting prior to the beginning of the financial year of the IFSB.

**Article 41**

The final version of the budget shall be approved by the Council and shall be adhered to by all the bodies of and individual members of the IFSB.

**Chapter XIV. ACCOUNTS****Article 42**

The financial year of the IFSB shall be 1<sup>st</sup> January to 31<sup>st</sup> December.

**Article 43**

The Secretariat shall maintain the books and records and be responsible for the preparation of the accounts of the IFSB.

**Article 44**

In addition to preparing annual financial statements, the Council shall determine what additional accounting information shall be provided by the Secretariat.

**Article 45**

The annual audited financial statements shall be prepared no later than March 31<sup>st</sup> of each year according to International Accounting Standards where relevant Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) standards do not exist.

**Article 46**

The Secretary General shall establish an internal audit function within the Secretariat.

The financial statements shall be audited by an internationally recognized accounting firm selected by the Secretariat and agreed by the Council and approved by the General Assembly.

The General Assembly shall approve the annual audited financial statements of the IFSB.

## **Chapter XV. INTERPRETATION, DISPUTES SETTLEMENT**

### **Article 47**

All issues relating to the interpretation of this Agreement, the by-laws of the IFSB and any disputes between the IFSB and a member or between members in relation to the IFSB shall be referred to the Council.

### **Article 48**

Any dispute which arises should be resolved by consultation based on the principles of Islamic brotherhood and solidarity.

### **Article 49**

Where the parties concerned fail to resolve the dispute in accordance with Article 48, the matter should be referred to a Disputes Settlement Committee established by the Council.

The Disputes Settlement Committee shall be empowered to hear submissions from all the parties to the dispute and others in such manner as the committee shall deem appropriate in all the circumstances. The Disputes Settlement Committee shall then issue its decision in writing and communicate the same to all the relevant parties.

### **Article 50**

The decision of the Disputes Settlement Committee shall be binding on all the parties and there shall be no further right of appeal.

## **Chapter XVI. ADMISSION TO MEMBERSHIP**

### **Article 51**

Applications to join the IFSB shall be submitted to the Secretariat. The Secretariat shall then report on the application to the Council at its next meeting and make its recommendation on whether or not to admit the applicant.

The Council shall determine whether the applicant shall be admitted as a member of the IFSB and the Council may, where it deems fit, admit an applicant which qualifies as a Full Member or an Associate Member as an Observer Member notwithstanding Article 11.

Following the approval of the Council, the applicant shall formally become a member of the IFSB upon its entry into a membership agreement under which the IFSB admits the applicant as a member and the applicant agrees to be bound by and perform its obligations under this Agreement.

Notwithstanding anything to the contrary, the Council may, in such special circumstances as it may determine, admit any applicant as a member in the specific category of membership which the Council deems fit.

## **Chapter XVII. WITHDRAWAL**

### **Article 52**

Any member may resign and withdraw from the IFSB effective upon six months' notice of intention to do so to the Secretariat. The Secretariat, acting upon the direction of the Council, may impose any such reasonable conditions upon the withdrawal as it may determine, provided that no such condition would result in the withdrawing member being required to remain a member of the IFSB for more than six months after giving notice of its intention to withdraw.

## **Chapter XVIII. CANCELLATION OF MEMBERSHIP, SANCTIONS, PENALTIES**

### **Article 53**

A proposal for cancellation of membership or sanction or penalty of any member shall require a petition of two-thirds of the Full Members of the General Assembly. Subsequent to such petition and provided that at least all three-quarters of all Full Members have consented, the General Assembly may (i) cancel the membership of any member or (ii) impose such other sanction or penalty upon any member, each upon such terms and conditions as the General Assembly deems fit.

## **Chapter XIX. AMENDMENTS**

### **Article 54**

This Agreement may be amended with the consent of three-quarters of the Full Members.

### **Article 55**

The parties to this Agreement are deemed to consent to any amendments made pursuant to Article 54 without the need for any further action on their part.

## **Chapter XX. TERMINATION**

### **Article 56**

This Agreement, and therefore (subject to any legal formalities required pursuant to Article 2) the IFSB, may be terminated upon the agreement of three-quarters of all Full Members.

### **Article 57**

Upon an agreement to terminate the IFSB pursuant to Article 56, the General Assembly shall appoint a liquidator to manage the financial and legal formalities of winding-up the IFSB.

### **Article 58**

Upon the appointment of a liquidator pursuant to Article 57, the authority of the General Assembly, the Technical Committee and the Secretariat shall cease. The Council (or such smaller body as it may appoint) shall remain in existence to oversee the liquidation arrangements.

### **Article 59**

Upon settlement of the liabilities of the IFSB, the remaining assets (if any) shall be distributed *pro rata* amongst all members in proportion to the last such membership fees set by the General Assembly.

## **Chapter XXI. MISCELLANEOUS**

### **Article 60**

This Agreement may be executed in any number of counterparts, all of which taken together shall constitute one and the same document.

### **Article 61**

This Agreement shall be governed in accordance with the laws of Malaysia.

### **Article 62**

The official language of the IFSB and this Agreement shall be English.

## **Chapter XXII. EFFECTIVE DATE OF THIS AGREEMENT**

### **Article 63**

This Agreement shall come into effect and (without prejudice to any legal formalities required pursuant to Article 2) the IFSB shall be formally created on the date when no fewer than five Full Members ascribe their duly authorized signatures below.