9th
Islamic Financial Stability Forum

Implementation of the IFSB Standards and Guiding Principles: Overview and Challenges

Brunei Darussalam

In conjunction with the 24th Meeting of the Council of the IFSB

Organised By: Hosted By:
9th IFSF: Speakers & Discussants

Speakers:
- Jaseem Ahmed, Secretary-General, Islamic Financial Services Board
- Zahid ur Rehman Khokher, Assistant Secretary-General, Islamic Financial Services Board

Discussants:
- H.E. Ravi Menon, Managing Director, Monetary Authority of Singapore
- Muhammad Ashraf Khan, Executive Director, State Bank of Pakistan
- Mashair Sabir, Director, Central Bank of Sudan
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9th ISLAMIC FINANCIAL STABILITY FORUM

Implementation of the IFSB Standards and Guiding Principles: Overview and challenges

Speakers:

JASEEM AHMED
Secretary-General
Islamic Financial Services Board

ZAHID UR REHMAN KHOKHER
Assistance Secretary-General
Islamic Financial Services Board
IFSB Standards Implementation: Overview and Challenges

PRESENTED AT:

9th Islamic Financial Stability Forum
Bandar Seri Begawan, Brunei Darussalam | 27 March 2014

Jaseem Ahmed
Secretary General

Zahid ur Rehman Khokher
Assistant Secretary General
Islamic Financial Services Board
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Implementation Initiatives by Global Standard-Setting Bodies
Global Standard-Setting Bodies to Promote Financial Stability

Banking and Insurance Sector
BIS-hosted organisations

FSB
BCBS
IAIS
IADI
FSI

Securities Sector

IOSCO

Islamic Finance Sector

IFSB

Joint Forum:
Issues common to the banking, securities and insurance sectors
Basel Committee on Banking Supervision (BCBS)

**Mandate**

- Primary **global standard-setter** for banks;
- **A forum** for cooperation on banking supervisory matters;
- To strengthen regulation, supervision and practices of banks **for enhancing financial stability**

**Strategies**

- **Monitoring** the adoption of the Basel III standards
- **Assessing** the consistency of local implementation
- **Supporting** implementation **guidance** and provision of **training** (e.g. via the Financial Stability Institute)
- Fostering the timely, consistent and effective implementation of standards and guidelines via the Supervision and Implementation Group
Financial Stability Institute (FSI)

Mandate

✓ Support full implementation of supervisory standards **globally** by assisting supervisors in implementing the standards and practices
✓ Provide supervisors with the latest information on market products, practices and techniques
✓ **Help supervisors develop solutions** to their multiple challenges

Strategies

✓ **Surveys on the implementation of standards**
✓ Conferences, high level meetings, and seminars
✓ Secondment programme
✓ **FSI Connect**, an online learning tool and information resource for financial sector supervisors
✓ Publications, such as occasional papers and a quarterly newsletter
Ensuring Implementation of Standards

“Setting rules without ensuring their implementation is akin to building a lighthouse without ever switching the light on”

- H.E. Stefan Ingves, Chairman, Basel Committee on Banking Supervision
  Governor, Riksbank, 16 November 2011

Key Goals

Ex-ante
Consistency in the understanding of standards

Ex-post
Consistency in implementation at international level

Surveys
Peer Reviews
Self Assessments
Facilitating the Implementation of IFSB Standards
Facilitating the Implementation of Standards

→ Helps regulatory and supervisory authorities and market players to address the specificities of risks in offering Islamic financial services
→ Enhances the soundness and stability of the financial system

• In September 2007, the IFSB introduced the "Facilitating the Implementation of Standards (FIS) Workshop Series" as part of its efforts to facilitate the implementation of IFSB Standards among member countries.

• The Workshop series is aimed at providing participants with the necessary knowledge and skills to understand and implement the IFSB Standards in order to support the operations of institutions offering Islamic financial services (IIFS) to remain robust and sound.

• The Workshops are targeted at personnel from central banks, regulatory and supervisory bodies as well as IIFS.
FIS New Initiatives

Since 2011, several new initiatives have been introduced and implemented to improve the quality and effectiveness of the FIS Workshops in. The main improvements are as follows:

- Organising Regional Workshops
- Customised Workshops Based on Country Needs and Objectives
- Sharing of Country Experiences
- Conversion into E-learning Modules
- FIS Outreach (Speakers) Programme
The FIS Initiatives in Strategic Performance Plan (SPP) 2012-2015

<table>
<thead>
<tr>
<th>No.</th>
<th>Activities</th>
<th>Output-Outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>FIS Workshops Country and Regional Programmes</td>
<td>OP2-OC1</td>
</tr>
<tr>
<td>2</td>
<td>FIS Workshops for Regulatory and Supervisory Authorities (RSAs)</td>
<td>OP2-OC1</td>
</tr>
<tr>
<td>3</td>
<td>FIS Outreach (Speakers) Programmes</td>
<td>OP2-OC1; OP1-OC3; OP1-OC4</td>
</tr>
<tr>
<td>4</td>
<td>IFSB E-Learning Programme</td>
<td>OP2-OC1</td>
</tr>
<tr>
<td>5</td>
<td>Organise capacity building with MOU partners (Executive Forum and Joint Courses)</td>
<td>OP1-OC4</td>
</tr>
</tbody>
</table>

- OP2-OC1: Increase awareness and understanding on the IFSB Standards
- OP1-OC3 and OP1-OC4: Platform for cooperation, knowledge sharing and knowledge transfer with IFSB Members and Non-Members.
## FIS - Enhancements Over the Years

<table>
<thead>
<tr>
<th>Year</th>
<th>Events</th>
</tr>
</thead>
</table>
| 2007 | • FIS Workshops  
      - FIS Workshops Country Programme  
      - FIS Workshops for RSAs  
      • FIS Speaker Programme |
| 2008 | • FIS Workshops  
      - FIS Workshops Country Programme  
      - FIS Workshops for RSAs  
      • FIS Speaker Programme |
| 2009 | • FIS Workshops  
      - FIS Workshops Country Programme  
      - FIS Workshops for RSAs  
      • FIS Speaker Programme |
| 2010 | • FIS Workshops  
      - FIS Workshops Country Programme  
      - FIS Workshops for RSAs  
      • FIS Speaker Programme |
| 2011 | • FIS E-Learning Programme (Development of E-Learning Programme for IFSB-1) |
| 2012 | • Organise Regional FIS Workshops  
      • Invite external speakers for the FIS Workshops in particular from member countries to share countries experiences  
      • Provide customise FIS Workshops that meet the members’ need |
| 2013 | • Organise Regional FIS Workshops  
      • Invite external speakers for the FIS Workshops in particular from member countries to share countries experiences  
      • Provide customise FIS Workshops that meet the members’ need |
| 2014 | • IFSB-INCEIF Executive Forum |

In 2013, the IFSB conducted 13 Workshops (3 RSAs, 7 Regional, and 3 Speakers Programmes)
FIS Workshops: Current Structure

- **Target market**
  - Sectors - Islamic banking, Takaful, Islamic capital market
  - Participants – RSAs, market players, other stakeholders

- **Contents**
  - Presentation materials
  - Case studies
  - Individual and Group Exercises
  - Group discussions
  - Sharing of experiences in standard implementation

- **Costs**
  - An average cost of USD10-12 K per workshop

- **Staffing**
  - IFSB Secretariat - Technical and Research
  - Same staff is involved in standards' preparation, FIS workshops, research and other technical work of the IFSB
## Review of the FIS Workshops 2007-2014

### Figures and Facts of FIS Workshops Country Programme
Based on Number of Countries, Workshops and Participants

<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Countries</strong></td>
<td><strong>Countries</strong></td>
</tr>
<tr>
<td>32</td>
<td>2</td>
</tr>
<tr>
<td><strong>Number of Workshops</strong></td>
<td><strong>Number of Workshops</strong></td>
</tr>
<tr>
<td>149</td>
<td>3</td>
</tr>
<tr>
<td><strong>Number of Participants</strong></td>
<td><strong>Number of Participants</strong></td>
</tr>
<tr>
<td>2,098</td>
<td>133</td>
</tr>
</tbody>
</table>

**Based on Number of Countries, Workshops and Participants**

10th Anniversary 2003 - 2013
Planned Initiatives

Conduct comparative studies of three or four selected IFSB Standards for drawing lessons from their implementation in specific jurisdictions.

Develop IFSB E-Learning Programmes to enhance dissemination of IFSB standards and guiding principles.
Q. Please tell us, on an overall basis how satisfied are you with the quality of awareness programmes, capacity building workshops and meetings organised by IFSB that we have discussed?

Q. For each awareness programme and meeting attended by your organisation (THOSE CODED IN Q.32), please tell us how satisfied you are using the scale below.

Source: IFSB Survey on Members Satisfaction 2013
Strengthening Support for Implementation: Successes and Constraints

Success

- IFSB is meeting its target of FIS programmes in six jurisdictions annually, along with 3 workshops dedicated for RSAs.
- FIS is successful as indicated in the IFSB Membership Satisfaction Survey.
- FIS workshops are deemed as one of the important programmes for assisting members as indicated in IFSB Standards Implementation Survey.
- Growing requests from members and increasing participation in the workshops

Issues/Constraints

- The demand for FIS workshops is much higher than currently conducted
- Capacity and capability constraints
  - Same staff engages in wide set of activities
  - Lack of suitable staff to provide policy level review of issues and provide assistance to the members
- Limited resources (human and financial) to meet growing demand for implementation assistance.
Status of IFSB Standards Implementation
(Based on IFSB Standards Implementation Survey 2013)
Banking Sector: Implementation Status

Findings

- Out of the total 25 RSAs, 11 have more than 5% market share and they are also full members of the IFSB.
- IFSB-1 and IFSB-2 are fully implemented by 45% (5 of 11 RSAs) and 55% (6 of 11 RSAs), respectively.
- About 27% (3 of 11 RSAs) of RSAs fully implemented the remaining banking standards, with the exception of IFSB-12.
Banking Sector: Comparison between 2011 & 2013 Surveys

Findings

• There is an improvement for the banking sector in all dimensions of implementation of standards in 2013 as compared to that in 2011.
• IFSB-1 was implemented by 36% (5 of 14 RSAs) in 2013, while it was 15% (2 of 14) in 2011.
• The progress was also evident for IFSB-7, which was implemented by 21% (3 of 14 RSAs) in 2013 vs. 8% (1 of 14) in 2011.
• Out of 14 RSAs, only a range of 14-21% (2 to 3 RSAs) did not plan to implement the Standards in 2013, vs. 23%-46% (3 to 6 RSAs) in 2011.
Capital Market Sector: Implementation and Comparison

Findings

- In the capital market sector, 33% (2 of 6 RSAs) of the respondent RSAs fully implemented IFSB-6 in 2013.
- 50% (3 RSAs) were in the ‘in progress’ category, followed by 17% of RSAs in the ‘planning’ category.
Cross-sectoral: Implementation and Comparison

Findings

- In total, 8 RSAs out of 33 respondent RSAs have fully implemented the cross-sectoral standards, IFSB-9 and IFSB-10.
- A total of 9 RSAs were in progress and 12 RSAs were planning to implement the Standards.
Implementation status and market Shares…

<table>
<thead>
<tr>
<th>Market share in IIFS</th>
<th>Completed</th>
<th>In Progress</th>
<th>Planning</th>
<th>Do not plan to</th>
</tr>
</thead>
<tbody>
<tr>
<td>&gt;0%</td>
<td>21%</td>
<td>20%</td>
<td>45%</td>
<td>14%</td>
</tr>
<tr>
<td>≥5%</td>
<td>28%</td>
<td>22%</td>
<td>45%</td>
<td>5%</td>
</tr>
<tr>
<td>≥10%</td>
<td>32%</td>
<td>26%</td>
<td>37%</td>
<td>6%</td>
</tr>
<tr>
<td>≥15%</td>
<td>32%</td>
<td>22%</td>
<td>42%</td>
<td>4%</td>
</tr>
<tr>
<td>≥20%</td>
<td>40%</td>
<td>27%</td>
<td>29%</td>
<td>4%</td>
</tr>
<tr>
<td>≥25%</td>
<td>49%</td>
<td>22%</td>
<td>26%</td>
<td>4%</td>
</tr>
</tbody>
</table>

- There is a gradual **upward trend in ‘completed’ status** of RSAs for IFSB standards as the market share of Islamic assets in jurisdictions increases.
- On the other hand, there is a **gradual downward trend in the ‘do not plan to’ category** for IFSB Standards the higher the market share.
- The **correlation between the implementation status and the market share** of the surveyed RSAs are found to be **positive the higher the ratios of assets in IIFS in the jurisdictions**.
Most jurisdictions indicated a shortening of the timeframe within which they planned to implement the IFSB Standards.

On average, 55% of the RSAs planned to implement the Standards between ‘1-3 years’ period, and 12% planned for immediate implementation, that is, ‘within one year’ period.

Overall, 67% of RSAs planned to implement the standards within 3 years.
Insight: IFSB-12 and IFSB-13 were issued in March 2012; however, there is a rapid take up by many jurisdictions for those latest standards.
### Challenges in Implementation: Comparison

#### Rank of challenges in implementing the IFSB standards

<table>
<thead>
<tr>
<th>Challenges</th>
<th>2013 Survey</th>
<th></th>
<th>2011 Survey</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Mean</td>
<td>Rank</td>
<td>Base</td>
<td>Mean</td>
</tr>
<tr>
<td>Need to change regulatory and supervisory framework</td>
<td>2.4</td>
<td>1</td>
<td>29</td>
<td>2.7</td>
</tr>
<tr>
<td>Lack of personnel with relevant knowledge/experience/training</td>
<td>2.5</td>
<td>2</td>
<td>30</td>
<td>3.0</td>
</tr>
<tr>
<td>Cost of implementation</td>
<td>3.38</td>
<td>3</td>
<td>29</td>
<td>3.9</td>
</tr>
<tr>
<td>Institution size and complexity</td>
<td>3.45</td>
<td>4</td>
<td>29</td>
<td>4.1</td>
</tr>
<tr>
<td>Lack/poor quality of data to support implementation of the Standards</td>
<td>3.6</td>
<td>5</td>
<td>30</td>
<td>4.1</td>
</tr>
</tbody>
</table>

Note: The lower the mean value, the higher is the significance level of the challenge.

The low mean scores for 2013 Survey show that from the RSAs’ perspectives, the intensity of the challenges has increased over time.
Options for Supporting Implementation

• 18 out of 32 (56%) RSAs preferred to seek direct technical assistance from IFSB as the most important option for implementation of IFSB standards.
• A continuous and strengthened support from IFSB to RSAs for implementation is viewed as a high priority.
• There is the need to significantly ramp up the IFSB’s capabilities in direct TA programmes for a longer term TA to the member countries, which needs consideration on:
  • Changes in Organisational structure
  • Additional Financial and Human Resources

<table>
<thead>
<tr>
<th>Options</th>
<th>Most important</th>
<th>Least important</th>
</tr>
</thead>
<tbody>
<tr>
<td>To provide direct technical assistance</td>
<td>18</td>
<td>9</td>
</tr>
<tr>
<td>To organise more FIS workshops</td>
<td>10</td>
<td>16</td>
</tr>
<tr>
<td>To prepare more technical notes/explanatory notes/tool kits for facilitation process</td>
<td>5</td>
<td>10</td>
</tr>
<tr>
<td></td>
<td></td>
<td>17</td>
</tr>
</tbody>
</table>
Moving Forward: Options for Supporting Implementation
## Direct Technical Assistance

<table>
<thead>
<tr>
<th>Module</th>
<th>Objective</th>
<th>Duration (week)</th>
<th>Experts required</th>
</tr>
</thead>
</table>
| 1 | Basic training in IFSB Standards  
- To provide an overview of the IFSB Standards and their relation with other Standards.  
- To address RSAs and IIFS dealing with risk management and compliance functions. | 1 | Islamic finance  
Islamic banking supervision  
Risk management |
| 2 | Assessing the baseline institutional arrangements and supervisory systems against Basel Core Principles  
- To identify the legislative and regulatory changes needed to strengthen the effectiveness of supervision.  
- To help implement IFSB Standards for IIFS. | 3 | Islamic finance  
Islamic banking supervision |
| 3 | Assessing the gaps in systems and practices at IIFS and their supervisory implications  
- To assess IIFS’ risk management systems, data availability for risk management and risk reporting, internal controls, and governance, in relation to IFSB/Basel requirements.  
- To develop an action plan based on Modules 2 and 3. | 2 | Islamic finance  
Islamic banking supervision  
Risk management |
| 4 | Strengthening risk management systems in IIFS and the supervisory review of risk management and controls  
- To focus on, among others, appropriate processes for risk identification, measurement, monitoring and control, as well as supervisory guidance and assessment on risk management systems in IIFS. | 3 | Islamic finance  
Risk management  
Islamic banking supervision |
## Moving Forward: Options for Supporting Implementation (2/4)

<table>
<thead>
<tr>
<th>Module</th>
<th>Objective</th>
<th>Duration (week)</th>
<th>Experts required</th>
</tr>
</thead>
</table>
| 5      | Strengthening capital adequacy of IIFS in line with IFSB standards, and the capital adequacy assessment process of supervisors | • To focus on, among others, application of standardised approach to IIFS capital adequacy, credit risk mitigation, external ratings, management of PSIA for risk sharing and its implications for IIFS capital adequacy, capital adequacy assessment process by RSAs. | 2 | • Islamic finance  
|        |           |                 | • Islamic banking supervision  
|        |           |                 | • Rating agency |
| 6      | Strengthening corporate governance of IIFS in line with IFSB standards | • To focus on the current regulatory framework governing IIFS governance, the approach to managing the rights and expectation of investment account holders (IAH), approaches to ensuring compliance with Shari’ah principles, and strengthening internal controls and operational risk management. | 3 | • Islamic finance  
|        |           |                 | • Corporate governance |
| 7      | Strengthening the public disclosure regime for IIFS, in line with IFSB standards for transparency and market discipline | • To complement the corporate governance module, by stressing various measures that would enhance IIFS disclosures to the public.  
• To facilitate market discipline and accountability to stakeholders, particularly the IAH. | 3 | • Islamic finance  
|        |           |                 | • Islamic finance  
|        |           |                 | • Islamic finance accounting |
| 8      | Strengthening supervisory review to facilitate implementation of IFSB standards | • To focus on various general supervisory processes where additional attention would be desirable to facilitate implementation of IFSB Standards. | 3 | • Islamic finance  
|        |           |                 | • Islamic banking supervision |
Moving Forward: Options for Supporting Implementation (3/4)

Changes in Secretariat Structure

- Secretary General
- Assistant Secretaries General
  - Technical and Research
  - Finance and Administration
  - Communication and Awareness Programmes

Segregation of functions:
- Preparation of Standards
- Facilitating the Implementation of Standards
Moving Forward: Options for Supporting Implementation (4/4)

**Additional Human and Financial Resources**

**Current Staffing**
- Additional staff to support the existing team

**or/ and**

**Reorganise internally**
- Establish a dedicated team to support the implementation of Standards
- Recruit new staff for the team

To be configured and addressed in SPP 2016
THANK YOU FOR YOUR ATTENTION
Appendix:
Implementation Initiatives by Other Global Standard-Setting Bodies
International Association of Insurance Supervisors (IAIS)

Mandate

✓ To promote effective and globally consistent regulation and supervision of the insurance industry
✓ To develop and maintain fair, safe and stable insurance markets to contribute to global financial stability

Strategies

✓ Assessment, peer review, development survey
✓ Support application of Insurance Core Principles (ICPs) in inclusive insurance markets
✓ Support cooperation between supervisors through MMoU, repository of Supervisory Colleges etc.
✓ Targeted seminars, training materials, leveraging partners
✓ Implementation Committee as part of the organisational structure
✓ Dedicated Implementation Committee
International Organization of Securities Commissions (IOSCO)

Mandate

- To develop, implement, and promote adherence to internationally recognized standards for securities regulation;
- To work intensively with the G20 and the FSB on the global regulatory reform agenda;

Strategies

- Assisting securities regulators through workshops, seminars, technical assistance, and research etc.
- Monitoring via annual surveys
- Provision of guidance, recommendations and principles
- Joint projects with international organisations
Financial Stability Board (FSB)

**Mandate**

- **To coordinate** with national financial authorities and international standard setting bodies;
- **To develop and promote the implementation** of effective regulatory, supervisory and other financial sector policies

**Strategies**

- **Assess vulnerabilities** affecting the global financial system and identify related actions needed;
- **Monitor and advise** on market developments;
- **Undertake joint strategic reviews** of the policy development work;
- **Collaborate with the IMF** to conduct Early Warning Exercises
Islamic Financial Services Board (IFSB)

Mandate

✓ Global standard – setters of the Islamic financial services industry for banking, capital markets and Takaful sectors
✓ To promote and enhance the soundness and stability of the Islamic financial services industry by issuing the global prudential standards

Strategies

✓ Facilitating the Implementation of Standards (FIS) Workshops
✓ Speakers Programme
✓ MoU Partner Activities
✓ Surveys on Standards Implementation & Membership Satisfaction
✓ Technical Assistance
✓ E-learning Programme
✓ Comparative Studies