



ISLAMIC FINANCIAL SERVICES BOARD

## EXPOSURE DRAFT

# REVISED STANDARD ON DISCLOSURES TO PROMOTE TRANSPARENCY AND MARKET DISCIPLINE FOR INSTITUTIONS OFFERING ISLAMIC FINANCIAL SERVICES [IFSB-22]

### SUMMARY OF COMMENTS RECEIVED DURING PUBLIC CONSULTATION AND THE IFSB SECRETARIAT RESPONSES

<b>Release Date of Comments</b>	<b>: December 2018</b>
<b>Public Consultation Period</b>	<b>: 28 March 2018 to 28 May 2018</b>
<b>Release Date of IFSB-22</b>	<b>: December 2018</b>
<b>Web URL of IFSB-22</b>	<b>: <a href="https://www.ifsb.org/download.php?id=4968&amp;lang=English&amp;pg=/index.php">https://www.ifsb.org/download.php?id=4968&amp;lang=English&amp;pg=/index.php</a></b>

## BACKGROUND

1. On 6 December 2018, the Council of the IFSB, in its 33<sup>rd</sup> Meeting, resolved to approve the issuance of the Revised Standard on Disclosures to Promote Transparency and Market Discipline for Institutions Offering Islamic Financial Services (IFSB-22).
2. IFSB-22 updates the IFSB's previous standard on disclosures for the banking segment, IFSB-4 (December 2007), in line with the following publications issued by the Basel Committee on Banking Supervision (BCBS): (i) Pillar 3 disclosure requirements – consolidated and enhanced framework, issued in March 2017; (ii) Revised Pillar 3 disclosure requirements, issued in January 2015; (iii) Consultative document for Pillar 3 disclosure requirements – updated framework, issued in February 2018; and (iv) Consultative Technical Amendment for Pillar 3 disclosure requirements – regulatory treatment of accounting provisions, issued in March 2018. The standard specifies a set of key principles and practices to be followed by Islamic banks in making disclosures and aims to promote consistency and comparability of disclosures by introducing harmonised templates for the disclosure of quantitative information of key areas including capital adequacy, regulatory risk exposures, investment accounts and Shari'ah governance, among others.
3. Prior to the issuance of the IFSB-22, the IFSB issued the corresponding Exposure Draft (ED-22) for public consultation from 28 March to 28 May 2018. The IFSB is now publishing the summary of the feedback received during the public consultation period, along with responses by the Secretariat. The feedback received comprises not only written feedback but also verbal comments shared during a Public Hearing on ED-22 held on 10 April 2018 in Jakarta, Indonesia.
4. The IFSB received a total of 173 comments on ED-22 during the Public Consultation. In line with the recommendations in paragraph 5.11 of the *'Guidelines and Procedures for the Preparation of Standards and Guidance/Technical Notes – December 2018'*, this document is released as a summary of the main feedback to ED-22 received during the Public Consultation process, along with the key actions undertaken by the Secretariat.

**COMMENTS\* ON ED-22**

No.	Name of Institution/Body **	Membership Type
1.	Banque Centrale De Djibouti	Full Member
2.	Central Bank of Jordan	Full Member
3.	Central Bank of Kuwait	Full Member
4.	Bank Negara Malaysia	Full Member
5.	Bank of Mauritius	Full Member
6.	Central Bank of Nigeria	Full Member
7.	Saudi Arabian Monetary Authority	Full Member
8.	Central Bank of Sudan	Full Member
9.	Central Bank of the Republic of Turkey	Full Member
10.	Central Bank of United Arab Emirates	Full Member
11.	International Monetary Fund	Associate Member
12.	Hong Kong Association of Banks	Associate Member
13.	Qatar Financial Centre Regulatory Authority	Associate Member
14.	Malaysia Deposit Insurance Corporation	Associate Member
15.	Labuan Financial Services Authority, Malaysia	Associate Member
16.	Bangko Sentral ng Pilipinas, Philippines	Associate Member
17.	Securities and Commodities Authority, UAE	Associate Member
18.	Da Afghanistan Bank	Observer Member
19.	Bahrain Islamic Bank	Observer Member
20.	Kuwait Turkish Participation Bank Inc, Bahrain Branch	Observer Member
21.	Securities and Futures Commission, Hong Kong	Observer Member
22.	CIMB Group Holding Berhad, Malaysia	Observer Member
23.	International Centre for Education in Islamic Finance, Malaysia	Observer Member
24.	Maybank Islamic Berhad, Malaysia	Observer Member
25.	RHB Islamic Bank Berhad, Malaysia	Observer Member
26.	Masraf al-Rayan, Qatar	Observer Member
27.	General Council for Islamic Banks and Financial Institutions	Non-Member
28.	Global Banking Corporation, Bahrain	Non-Member
29.	Ibdar Bank, Bahrain	Non-Member
30.	International Investment Bank, Bahrain	Non-Member
31.	Investment Dar Bank, Bahrain	Non-Member
32.	Venture Capital Bank, Bahrain	Non-Member
33.	PT. Bank Panin Dubai Syariah, Indonesia	Non-Member
34.	PT. Bank Victoria Syariah, Indonesia	Non-Member

*\*The IFSB conducted public hearings for ED-22 on 10 April 2018 in Jakarta, Indonesia and then on 8 May 2018. The latter was broadcast globally via Webinar from the IFSB HQ in Kuala Lumpur.*

*\*\*In alphabetical order of the country the institution's organisation represents and as per membership type, except international organisations, which are listed first*

## Summary of Main Comments and the IFSB's Responses<sup>1</sup>

### General Comments

No.	Theme	Issues/Comments	IFSB Response
1.	<b>LATEST PUBLICATIONS BY THE BCBS ON DISCLOSURE</b>	To reflect the Consultative Document "Pillar 3 disclosure requirements - updated framework" issued by the Basel Committee on Banking Supervision (BCBS) in February 2018 in the Exposure Draft.	Relevant changes in accordance with the February 2018 Pillar 3 guidelines of the BCBS have been incorporated into ED-22 during the public consultation period between March 28 – May 28 2018, including disclosures on capital distribution constraints, asset encumbrance and operational risk, among others.
2.	<b>DIGITAL FINANCE</b>	As digital finance is gaining traction, the draft could possibly incorporate section on the use of digital technology in the provision of financial services.	The Revised Transparency and Market Discipline Working Group (RTMDWG) is of the view that the scope of the draft be limited to Islamic banks, including restricted investment accounts, and Islamic windows. These entities may, as part of their business strategy, pursue digital finance opportunities. At this stage, the project team does not foresee changes in the disclosure regime resulting from the provision of such services. However, the IFSB will monitor developments resulting from digital finance and financial technology and amend, at the appropriate time, its disclosure requirements should that be deemed necessary.
3.	<b>STRESS TESTING DISCLOSURES</b>	IIFS should be required to make some form of disclosure on stress tests carried out by them.	The RTMDWG is of the view that disclosure of stress testing results is subject to the discretion

<sup>1</sup> Unless stated otherwise, paragraph, section, table and template numbers in the "theme" and "issues/comments" columns refer to the exposure draft (ED-22), while those appearing in the "IFSB response" column refer to the final Standard (IFSB-22).

No.	Theme	Issues/Comments	IFSB Response
		As with conventional banks, Institutions offering Islamic Financial Services (IIFS) should be required to have a website for disclosure of information to the public.	of the relevant Regulatory and Supervisory Authority (RSA). This is highlighted in the standard <i>IFSB-13: Guiding Principles on Stress Testing for IIFS</i> , which recommends for IIFS and supervisory authorities to determine an appropriate regime under which stress-testing related information could be disclosed while keeping in mind issues of sensitivity, reliability and materiality. The IFSB has also developed a technical note on stress testing (TN-2) with accompanying stress testing templates that jurisdictions can use to conduct stress-tests and which would assist in making disclosures, if necessary.
4.	<b>IFRS 9 AND THE EXPECTED CREDIT LOSS (ECL) APPROACH</b>	We suggest that the IFSB looks into additional disclosure requirements regarding the interim treatment of regulatory provisions and transitional arrangements for expected credit loss (ECL) provisioning as ECL is a significant discourse after the issuance of IFRS 9.	Disclosure relevant to the implementation of the expected credit loss (ECL) approach has been included in paragraph 49 and Template 1. The project team has also made further enhancements to Table 13 and Template 16 on credit quality of assets to require further disclosure on the manner IIFS categorise their ECL accounting provisions to specific and general provisions.

**Section 1: General Considerations**

No.	Theme	Issues/Comments	IFSB Response
5.	<b>SCOPE OF APPLICATION</b>	<p>The Standard states that it is not intended to be applied at the consolidated level to a group or Subgroup that consists of entities other than IIFS. However, if capital adequacy requirements are currently not applicable for Islamic window operations of a conventional entity / subgroup / group, would these operations be required to comply to this standard when a lot of the capital disclosures are not applicable?</p> <p>Based on the scope, the following scenarios would be exempted from application:</p> <ol style="list-style-type: none"> <li>1. Financial holding company with a consolidated Islamic Banking window</li> <li>2. Subgroup with a consolidated Islamic Banking window</li> <li>3. Subgroup with an IIFS and entities other IIFS</li> <li>4. Islamic window with no capital adequacy requirements.</li> </ol>	<p>i. Islamic window operations are covered by the scope of applicability of this ED, regardless of whether capital adequacy requirements are applicable. In line with paragraph 43, any instances of non-observance of the components of these disclosure requirements (e.g. where observance is not feasible because the component is not applicable to the IIFS) shall be clearly explained.</p> <p>ii. For scenarios 1-3, the ED would not be applicable at the holding company level. However, it is applicable on individual entity level. For scenario 4, it is applicable (on Profit Sharing Investment Accounts (PSIA), profit smoothing, Shari’ah governance and non-compliance, commingling of funds and liquidity [for a window in a different jurisdiction from its parent]).</p>
6.	<b>STAND-ALONE DISCLOSURE DOCUMENT</b>	<p>The option of providing the disclosure as a stand-alone document or as part of a distinct section of IIFS’ financial reporting could cause confusion to users in assessing the required information. Suggest to standardise a single disclosure platform as stand-alone report.</p>	<p>Agreed. Amended “<u>may be published in a stand-alone document</u>” to “<u>must be published in a stand-alone document</u>” and added the underlined words to the following existing sentence for clarity “<u>this document may also be appended to, or form a distinct section ...etc.</u>”</p>

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7.	<b>DISCLOSURE CHECKLIST</b>	Suggest that the Working Group develop a uniform disclosure checklist to set the minimum expectations of disclosures particularly on transparency and market discipline. The disclosure checklist will guide the IIFS for adequate disclosures in annual reports. In addition, the disclosure checklist will enable the regulators to check the appropriateness and adequacy of the IIFS' disclosure policies.	The exposure draft contains templates that standardise the presentation of required information. Many of the templates are also accompanied by explanatory tables which provide definitions and clarity on each row of the templates. At this stage, the project team feels that the level of detail contained in the templates and explanatory tables provide sufficient guidance for IIFS on the presentation and explanation of information required for disclosure. We are also of the view that a disclosure checklist would have been of significant assistance to IIFS if the draft were purely textual and not containing templates and explanatory tables (i.e. if the draft were similar to some IFRS Standards). Nevertheless, this will be considered in future IFSB disclosure standards in light of further industry feedback and regulatory developments.
8.	<b>MINIMISING HARM</b>	In addition to section 1.7, there should be additional para on disclosure with the principle of minimizing harm. There will be a situation where disclosing more info bring in more harm or more unintended/irrational behaviour from various stakeholders, especially the less savvy customer segment.	There are various users of regulatory disclosure information, including customers, regulators, investors, researchers, academicians etc. While some disclosed information may not be not of relevance to some users, they could be important to others. The project team regards each disclosure item required by this standard to be beneficial to at least some types of users of regulatory data. Section 1.8 addresses harm to IIFS should information required for disclosure be considered confidential by the relevant RSA. It

No.	Theme	Issues/Comments	IFSB Response
			<p>gives RSAs discretion to making such an assessment. In addition, most RSAs offer avenues to IIFS to seek and obtain waivers from their disclosure regulations if any reasons or circumstances were to arise for non-disclosure.</p>
9.	<p><b>PROTECTION OF CONFIDENTIAL INFORMATION VS. MEANINGFUL DISCLOSURE</b></p>	<ul style="list-style-type: none"> <li>- Paragraphs 23 and 24 requires the institution to make “an appropriate balance between protection of proprietary and confidential information and meaningful disclosure.” Such a grey ground will create room for dispute with auditors and regulators and might lead some IIFS to provide more details than others. A clear guideline needs to be established and followed by all institutions.</li> <li>- On paragraph 24: suggest to restate the phrase, “a more general but adequately informative disclosure policy would be appropriate”. This statement is quite vague. It would be better if the statement would focus on the use of good judgement of the IIFS to address how their disclosures should be concise yet adequate.</li> </ul>	<ul style="list-style-type: none"> <li>- Paragraph 28 makes clear that supervisory discretion is needed should a detailed disclosure be replaced with a more general, but adequate, information. While this could hinder comparability of disclosures across jurisdictions, it should not affect comparability within a jurisdiction. The project team recognises that different measures are needed in different regulatory environments, and that it is ultimately up to the discretion of the relevant RSA to apply confidentiality provisions. RSAs, in that regard, are expected to adhere to the principles of fairness and comparability within their jurisdictions when considering to allow IIFS to produce less detailed disclosures due to confidentiality concerns. In practice, RSAs do allow such exemptions after assessing the impact on their regulatory objectives. Most of them have a route for the banks to seek and obtain waivers from regulations which are used in such circumstances.</li> <li>- The following has been added to paragraph 28: <i>“In circumstances where a particular detailed disclosure might significantly</i></li> </ul>



No.	Theme	Issues/Comments	IFSB Response
			<i>jeopardise their position, IIFS <u>should use their good judgement to provide</u> a more general but adequately informative disclosure policy, subject to supervisory discretion.”</i> The project team is of the view that, where this standard is implemented, less than full compliance with its requirements should only be at the discretion of the relevant RSA in order to ensure comparability and fairness in implementation.
10.	<b>DISCLOSURE AND REGULATORY REQUIREMENTS</b>	Suggest to also add the need that disclosure should not contravene regulatory requirements.	The sentence has been amended as suggested in paragraph 27: <i>“This standard adopts the view that an appropriate balance needs to be achieved between the desirability of meaningful disclosure that does not contravene regulatory requirements, and the protection of proprietary and confidential information.”</i>
11.	<b>PRINCIPLES ADDRESSED TO IIFS VS. THOSE ADDRESSED TO RSAS</b>	General Guidance for Disclosure, page 6: The document should segregate the principles that are expected from the IIFS and from the RSA or relevant accounting board in the jurisdictions.	Paragraph 29 has been amended clarifying that the principles are addressed to IIFS. The materiality criteria has also been moved from paragraph 32 to 21, and the last sentence in paragraph 33 on proportionality was moved to a footnote to ensure RSAs are not addressed within the text principles.
12.	<b>THE ROLE OF THE GOVERNANCE COMMITTEE</b>	Paragraph 26 requires the establishment of a governance committee to review the disclosure policy. It is recommended to amend that point to make such a review be conducted through risk and compliance committee or	The establishment of a governance committee is not a requirement by this ED. Its establishment is recommended by the IFSB’s corporate governance standard, and this ED only highlights that such committee could help in enhancing transparency of risk and returns. This ED does

No.	Theme	Issues/Comments	IFSB Response
		audit, risk and compliance committee if combined in one committee.	not require the governance committee to review the disclosure policy.
13.	<b>SIMPLIFIED DISCLOSURES</b>	Suggest to also include graphs, illustrations and diagrams, and summary via bullet points to simplify explanation of complex issues in the disclosure.	Added a sentence to that effect in paragraph 31. "Important messages should be made easy to find and be clearly highlighted, while complex issues should be explained in simple language and <i>illustrative</i> form ( <i>for example, the use of graphs, diagrams, and simple bullet-point summaries, etc.</i> ) with important terms defined.
14.	<b>DISCLOSURES THAT DO NOT PROVIDE USEFUL INFORMATION</b>	Principle 4 requires avoidance of disclosures that do not provide useful information. More clarification is needed in that point in terms of defining the information that the IFSB deemed not to be important. Clear criteria need to be established.	The nature of principles is that they are general and not prescriptive as they could be applied to various scenarios, with such application left to the good judgement of IFS and RSAs.
15.	<b>DETERMINATION OF MATERIALITY BENCHMARK</b>	In paragraph 32, the determination of materiality benchmark needs to be distinct between wholesale and retail institutions.	The ED views materiality as being determined by each IIFS, without prejudice to each RSA setting its own materiality criteria for the local banking system. Whether materiality thresholds are similar or different for wholesale and retail banks would therefore be subject to the RSAs discretion.
16.	<b>DIFFERENCES IN ACCOUNTING STANDARDS</b>	Different accounting standards across jurisdictions make it difficult to standardize the disclosures. For example, the accounting treatment for Tier 1 capital securities in Country X could be treated as "equity" in their standard while it is treated as "liabilities" in Country Y.	IFSB-15 contains criteria which, if met, allows the classification of some instruments as Tier 1 capital. The IFSB recognises that there are different regulatory and accounting standards applicable in different jurisdictions, however this standard assumes the implementation of other

No.	Theme	Issues/Comments	IFSB Response
			IFSB standards in ensuring cross-country comparability of public regulatory reports.

## Section 2: Financial and Risk Disclosure Principles

No.	Theme	Issues/Comments	IFSB Response
17.	<b>DUPLICATION OF DISCLOSURES MADE IN OTHER IIFS DOCUMENTS</b>	Some disclosures proposed in this standard are similar to those made in the Annual Report and the Citizenship Report of the Financial Holding Company. If this Standard is required for IIFS, certain disclosures may need to be replicated and tailored for relevant IIFS.	Section 1.6 on signposting has been added to clarify on duplication of disclosures.
18.	<b>ECL-RELATED DISCLOSURES</b>	More clarification and guidance on computation would be appreciated. For instance, Template 1: “Key Prudential Regulatory Metrics: Quarterly” needs more clarification on fully loaded expected credit loss (ECL) accounting model, fully loaded ECL accounting total capital, fully loaded ECL accounting model common equity tier 1, etc.	A footnote has been added to clarify the items. <u><i>“This is applicable to IIFS in jurisdictions applying a transitional arrangement for the impact of expected credit loss accounting on regulatory capital. In this row, IIFS in such jurisdictions should disclose their CET1 ratios had the transitional arrangement not been applied. Similarly, rows 2a and 3a refer to Tier 1 capital and total capital of the IIFS, respectively, had the transitional arrangement not been applied.”</i></u>

No.	Theme	Issues/Comments	IFSB Response
19.	<b>TIER 1 AND TOTAL CAPITAL (TEMPLATE 1)</b>	<p>Line item (2): What does Tier 1 refer to? Is this Additional Tier 1 or Total Tier 1? Please detail as not clear.</p> <p>Line Item (3): Does total capital mean Common Equity Tier 1 (CET1), Additional Tier 1 (AT1) and Tier 2 (T2)? If so, this should be explained</p>	<p>“Tier 1” is consistent with terminology used by the BCBS (and in the equivalent BCBS template) and throughout IFSB standards (including <i>IFSB-15 Revised Capital Adequacy Standard</i>), where “Tier 1” capital is used to refer to the sum of CET1 and AT1. However, a footnote has been added for clarity. <u>“Tier 1” refers to Tier 1 capital, which is the sum of CET1 capital and AT1 capital.</u>”</p> <p>“Total capital” is also consistent the terminology used by the both the BCBS and the IFSB-15 to describe the sum of Tier 1 and Tier 2 capital. However, a footnote has been included for clarity. <u>“Total capital” refers to the sum of Tier 1 capital and Tier 2 capital.</u>”</p>
20.	<b>RISK WEIGHTED ASSETS (RWAs) DATA (TEMPLATE 2)</b>	<p>Details on RWA are sensitive data and table need to include only total categories with no names of exposures.</p>	<p>The project team is of the view that this template serves as a useful, summarised overview of the composition of RWA of IIFS, and would enable users of regulatory data to capture risk exposure information in an easy to understand, comparable and condensed manner. The disclosure on this area is also in line with the BCBS disclosure requirements and we feel that it should be maintained. Section 1.8 on proprietary and confidential information is applicable at the discretion of the RSA.</p>
21.	<b>CHANGES IN RWA FIGURES</b>	<p>Essentially, the ED requires for quarter on quarter explanation to the changes in RWA numbers observed. Suggest to reword para 48 requirements to, ‘IIFS must provide</p>	<p>Added a sentence to paragraph 51 for clarity. <u>“IIFS must identify and explain the drivers behind changes in RWA figures across reported periods</u></p>

No.	Theme	Issues/Comments	IFSB Response
		explanation to the variance in quarterly RWA reported’.	<u><i>T and T-1, where these differences are significant.</i></u>
22.	<b>RWAS OF MAJOR RISK AREAS (TEMPLATE 2)</b>	Suggest to require IIFS to report RWA of major risk categories i.e. Credit Risk, Market Risk, Operational Risk etc., before zooming into the specific sub-risk categories.	The major risk items are identifiable in the template. The project team is of the view that adding another template only for the three items may not be necessary, while changing the sequence in which categories of risk appear in the template to allow major risk items to appear first might create confusion with the BCBS guidelines followed by conventional banks. We therefore believe that the current presentation of the template is appropriate.
23.	<b>RWA UNDER INTERNAL RATINGS-BASED APPROACH (IRB) (TEMPLATE 2)</b>	Suggest to incorporate credit risk under the IRB approach, where relevant.	The RTMDWG discussed this matter during the development of this exposure draft and it was highlighted that, globally, only a small number of Islamic banks use internal models. Hence, capital requirements for the use of these models were not covered by IFSB-15 <i>Revised Capital Adequacy Standard</i> or any other IFSB standard, and as a result the WG decided not to cover disclosures relevant to the use of internal models in this exposure draft.
24.	<b>MINIMUM CAPITAL RATIO OF 8% (PARAGRAPH 48)</b>	The minimum capital ratio of 8% should be applied across the IIFS for consistency and comparability. The IIFS should then have internal targets which are more stringent i.e.; higher than the minimum.	The 8% ratio is applicable to all IIFS in line with IFSB’s capital adequacy standard. This paragraph comes into effect if, in a jurisdiction, certain adjustments are applicable that would result in column (c) not equalling 8% of column (a).

No.	Theme	Issues/Comments	IFSB Response
25.	<b>IMPLEMENTATION OF MARKET RISK DISCLOSURES</b>	The table requires disclosures assuming IIFS implementing the market risk approach. However, the Basel Committee postponed the implementation date of the revised framework for market risk to 1 January 2022.	The implementation date paragraph (paragraph 16) has been amended by adding an implementation date table to reflect the change to market risk disclosure implementation date, among other changes to the implementation dates of other sections in the standard. “Supervisory authorities are expected to start implementation of this standard in their jurisdictions from end-2020, <u>except for the tables and templates stated in the following list, for which corresponding implementation dates are specified.</u> ”
26.	<b>DIFFERENCES BETWEEN ISLAMIC AND CONVENTIONAL BANKING</b>	A vast majority of IIFS assets are credit risk in nature through murabaha/ijarah and not accurate to say that much of their funding is raised through investment accounts. Suggest this either be significantly re-worded or removed.	The sentence reflects three modes of financing that IIFS use: the first is asset-based, which reflects the contracts of <i>murābahah</i> , <i>ijārah</i> , <i>istisnā`</i> and <i>salam</i> , together with profit and loss sharing ( <i>mushārahah</i> ) and profit sharing and loss bearing ( <i>muḍārahah</i> ). However, the sentence has been reworded for clarity. “(a) its financing arrangements are either asset-based ( <u>using contracts such as murābahah and istisnā`, among others</u> ), profit- and loss-sharing ( <i>mushārahah</i> ) or profit-sharing and loss-bearing ( <i>muḍārahah</i> )”  Also, “much of their funding” has been amended to “ <u>some</u> of their funding.”
27.	<b>ADDITIONAL TIER 1 CAPITAL (TEMPLATE 3)</b>	Line item (62) should say ‘Additional Tier 1’	Line 62 refers to Tier 1 ratio (i.e. the sum of CET1 and AT1 as a percentage of RWA). The word “ <u>capital</u> ” was added after Tier 1 for clarity.

No.	Theme	Issues/Comments	IFSB Response
28.	<b>SENSITIVITY OF REGULATORY CAPITAL DATA</b>	The disclosure of these information as per standard might lead to disclosure of sensitive data on composition of regulatory capital	RSAs implementing this ED (later standard) may refer to the confidentiality paragraph and make appropriate assessments on the level of detail required for disclosure in their jurisdictions. However, this ED is benchmarked against Pillar 3 guidelines of the BCBS, and a comparable level of disclosure on common areas is expected between Islamic and conventional banks.
29.	<b>COUNTERCYCLICAL CAPITAL BUFFER'S ABBREVIATION</b>	Suggest to streamline abbreviations used for Countercyclical Capital Buffer with the BCBS' abbreviations.	Agreed, and abbreviations have been amended accordingly for both capital conservation buffer (as CCB) and countercyclical capital buffer (as CCyB).
30.	<b>USE OF ULTIMATE RISK PRINCIPLE</b>	Recommend to limit geographical allocation to credit exposure, without guarantor.	The requirement is that the geographical location of the exposure should be that of the guarantor (if any) in accordance with the ultimate risk principle as this is more reflective of where the risk ultimately resides and is more relevant to users of disclosed regulatory data. However, if a different method is used by the IIFS to geographically allocate private sector credit exposures, paragraph 63 requires IIFS to then explain such methodologies.



No.	Theme	Issues/Comments	IFSB Response
31.	<b>COMPUTATIONAL DETAILS FOR COUNTERCYCLICAL CAPITAL BUFFER</b>	Guidance is needed on computation of the Countercyclical buffer amount. Also, what is the treatment in case the local regulator doesn't impose any requirements for establishing a CCB?	<p>- Jurisdictions may refer to section 2.3 of the standard <i>IFSB-15 Revised Capital Adequacy Standard</i> which provides computational details for the countercyclical capital buffer. This section is referred to in paragraph 61.</p> <p>- Disclosure on this area is required only for IIFS in jurisdictions that have a countercyclical capital buffer requirement and where that requirement is above zero. Hence, IIFS in jurisdictions where regulators do not impose any countercyclical capital buffer requirement or in jurisdictions that have a countercyclical capital buffer rate of zero are not required to make this disclosure. This is clarified in paragraph 62.</p>

### Section 3: Disclosures for IAH

No.	Theme	Issues/Comments	IFSB Response
32.	<b>DISCLOSURE OF RISKS ASSOCIATED WITH MUḌĀRABAH AND MUSHĀRAKAH INVESTMENT ACCOUNTS</b>	The Exposure Draft (ED) emphasized disclosure on profit allocation and associated risk on Investment Accounts, but was silent on the disclosure in respect of loss bearing investment where applicable.	Included in Table 7 <u><i>“this should include investment objectives, the profit-sharing and loss-bearing nature of muḌārabah contracts, and the profit- and loss-sharing characteristic of mushāraakah contracts, where applicable.”</i></u>
33.	<b>WAKĀLAH ACCOUNTS (PARAGRAPH 56)</b>	Suggest to also include application of this para to investment account based on the wakalah contract.	The Islamic Development Bank Group Sharī'ah Board (IsDBGSB) has revised its view, and now considers only <i>muḌārabah</i> and qualifying <i>mushāraakah</i> contracts as investment contracts



No.	Theme	Issues/Comments	IFSB Response
			suitable for profit-sharing investment accounts (PSIA).
34.	<b>SENSITIVITY OF INFORMATION ON THIRD PARTY MANAGING PSIA, AND CHANGES IN INVESTMENT STRATEGIES</b>	<ul style="list-style-type: none"> <li>- It is very sensitive to disclose particulars of management of any third party to whom the IIFS has outsourced the management of PSIA.</li> <li>- Disclosure of changes in strategies will lead to disclosure of sensitive information which might impact the success of these strategies.</li> </ul>	<ul style="list-style-type: none"> <li>- Disclosure of such information would assist current and potential investment account holders in assessing the capabilities and track record of the ultimate manager (Mudarib) as well as suitability of investment products to their needs by being aware of the parties that are in control of their funds. The project team therefore believes that this requirement is appropriate.</li> <li>- The project team is of the view that Investment Account Holders (IAH) must be made aware of the manner in which IIFS aim to invest their funds. This would enable investors to assess the product's suitability to their needs.</li> </ul>
35.	<b>ADDITIONAL DISCLOSURES FOR IAH</b>	<p>In table 4, page 32:</p> <ul style="list-style-type: none"> <li>(i) The ED should differentiate between documents that should be provided to investors at different stages of investment since the nature of the documents is different.</li> <li>(ii) The information disclosed for each fund must be concise and may include:                             <ul style="list-style-type: none"> <li>- Overview such as fund name, target investors segment, the investment objectives (including investment strategies, and level of risk and reward);</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>i. Paragraph 82 reflects two types of documents:                             <ul style="list-style-type: none"> <li>1- Product information (such as prospectuses and offer documents); and</li> <li>2- Periodic financial reports.</li> </ul> <p>There are various practices across jurisdictions for documents, the project team has therefore included product disclosure sheets, product highlight sheet and key investor information as examples for type 1 alongside prospectuses and offer documents.</p> </li> <li>ii. Some of the suggested disclosures have been included in Table 7.</li> </ul>

No.	Theme	Issues/Comments	IFSB Response
		<ul style="list-style-type: none"> <li>- Statements and warnings such as responsibility of IIFS to manage investments according to Shariah principles, to furnish accurate and consistent information in the document and warnings on principal loss, fluctuation of returns or loss, or specific risks such as foreign exchange risk;</li> <li>-Risk disclosure, particularly the main indicator of risk such as volatility of returns, impairment etc; and key inherent risk such as credit risk, property sector risk etc;</li> <li>- Performance of the fund including the breakdown of assets according to types, sectors and rating, historical returns etc;</li> <li>- Fees and charges, including profit sharing ratio or commission fee, switching fee, annual fee; and</li> <li>- Practical information such as redemption terms, office and website address.</li> </ul>	<ul style="list-style-type: none"> <li>- Item 4 added: <u>“A statement on IIFS’ responsibility to furnish accurate and consistent information covering fluctuations of returns and risks taken by IAH (including possible full or partial loss of principal).”</u></li> <li>- Added a sentence to item 3 <u>“This should include investment objectives, the profit-sharing and loss-bearing nature of mudārabah contracts, and profit- and loss-sharing characteristic of mushārahah contracts, where applicable.</u></li> <li>- Item 5 (now 6) amended: <u>“the calculation, allocation and distribution of profits; types of fees charged to IAH; and...”</u></li> <li>- Disclosure requirements on redemption procedures are covered in item 1 of the table.</li> </ul>
36.	<b>CONCENTRATION LIMITS</b>	To have concentration limit by an underlying contract may be counterproductive as similar contracts may be used for different sectors, segments and purposes.	The concentration limit column has been removed from the templates and added a new template which require disclosure of financing funded by IAH funds by economic sector according to the classifications of the International Standards Industrial Classification (ISIC) and included the concentration limit column in this template.

No.	Theme	Issues/Comments	IFSB Response
37.	<b>ASSETS FINANCED BY IAH AND TYPE OF INFORMATION REQUIRED</b>	Why does the ED require disclosure of assets financed by IAH? Should we disclose by project/company or only by sector?	These assets have implications to capital adequacy calculations as per IFSB-15. IIFS are required to disclose the amounts of assets financed by IAH, in addition to how they were used (the contracts used and economic sectors financed).
38.	<b>RISKS ASSOCIATED WITH UNDERLYING INVESTMENT ASSETS</b>	Suggest to add the requirement to disclose the risks associated with the underlying investment assets.	Inserted suggested disclosure requirements as item 3 in Table 8.
39.	<b>DISCLOSURE OF IAH ASSETS BY CATEGORIES OTHER THAN UNDERLYING CONTRACT</b>	While disclosure by Shariah contract is important, however disclosure by type of asset/asset class, sectors, ratings and other factors (e.g. SRI) are more important to facilitate understanding on the risk and reward profile of the investment account fund.	New templates (templates 12 and 15) have been added, which require disclosure of financing funded by IAH funds by economic sector according to the classifications of ISIC. The project team feels that additional disclosure by asset class/ratings etc would be burdensome for IIFS.
40.	<b>DISCLOSURES IN ACCOUNT OPENING FORMS</b>	In para 62, as per our existing practices, the account opening is done through the system and the account opening form may not be required. We propose to do away with the requirement of this disclosure in the account opening form as we already have the disclosure in the product disclosure sheet.	Amended the sentence as follows: <i>“IIFS should provide simplified disclosures in plain language in the account opening forms, <u>or in product disclosure sheets, product highlight sheets or key investors information documents, and stakeholder reports so...etc</u>”</i>
41.	<b>ADDITIONAL DISCLOSURES FOR RETAIL INVESTORS</b>	i. For disclosure of performance, suggest to clarify minimum number of years (or other relevant criteria e.g. since inception) for historical track-record that needs to be disclosed.	(i) Paragraph 85 refers to tables 7, 8 and 9. Table 8, line 17 requires historical data for three to five years for profits earned and profits paid out. These items address comment (i).

No.	Theme	Issues/Comments	IFSB Response
		ii. ii. To provide a minimum set of measures used for performance reporting to ease investment account holders in reviewing and making comparisons.  iii. To expand for IIFS to disclose information on risk associated with the underlying investment assets including risk factors affecting the performance of underlying assets, risk appetite, risk limit, revisions to these limits and compliance with the limits.	(ii) The project team is of the view that this is covered by paragraph 85.  (iii) Some of the suggested disclosures are required by Table 8 and paragraph 87 h., with the exception of risk appetite, risk limits, and compliance with the limits, which the project team believes to be part of “investment policies” in paragraph 87 a.
42.	<b>INCLUDE DISCLOSURE ON RISKS OF INVESTMENT ACCOUNTS</b>	Suggestion i. To include that IIFS shall provide sufficient emphasis (where applicable) to investment account holders, particularly on the possibilities that investment account holders may not receive expected profit rate or loss of principal investment.  ii. To specify the frequency on what is deemed as “periodically”.	i. Included in paragraph 87 a statement to that effect.” <u><i>In that regard, IIFS shall ensure that IAH are aware of the possibility of full or partial capital impairment and profit-rate fluctuations.</i></u>  ii. Clarified in a footnote that “periodically” refers to quarterly and annual disclosure, in line with other IAH disclosures prescribed in the ED. <u><i>“On quarterly and annual basis in accordance with templates in section 4 of this standard.”</i></u>
43.	<b>USE OF GRAPHS FOR RETAIL INVESTOR-ORIENTED DISCLOSURES</b>	Suggest to emphasize the use of line graphs to reflect current period’s performance information vis-à-vis historical returns for Investment Account Holders (IAH) and also general market returns.	This is described in the first paragraph of this section (paragraph 85), which has now been enhanced with the recommendation of the use of graphs to explain past performance.

### Section 4: Linkages between Financial Statements and Regulatory Risk Exposures

No.	Theme	Issues/Comments	IFSB Response
44.	<b>EXPANSION OF BALANCE SHEET LINES</b>	The ED states in para 69 under step 2 that the IIFS should expand the lines of the balance sheet under the regulatory scope of consolidation from step 1 to show all the components appearing in Template 3 of this Standard. The ED also states in same para that “It is therefore expected that the level of disclosure in this area will be proportionate to the complexity of the balance sheet and capital structure of the IIFS”. However, as each bank may expand lines based on its discretion and provide unnecessary information, it is appreciated to have more specific information on the expansion and the expanded lines in addition to further clarification on the definition of complexity.	The expansion of lines referred to in this paragraph is directly linked with the items appearing in Template 3. The ED suggests that there could be items which appear in Template 3, but do not appear on the balance sheet (because they are only components of other items appearing on the balance sheet). In this case, the relevant lines of the balance sheet will need to be expanded to the extent that allows all items in Template 3 to appear on the expanded balance sheet. The expansion of lines, therefore, would be unique to each IIFS, given that IIFS in different jurisdictions may use different accounting frameworks (i.e. presentation of the balance sheet may be different) and they may be utilising different components of capital. An illustration is provided in Template 7, with goodwill, other intangibles and residential financing servicing rights being the expanded items as they appear on Template 3. IIFS are not expected to expand the balance sheet beyond what is needed to identify items appearing on Template 3; i.e. if the not-expanded balance sheet of an IIFS shows all items from its Template 3, then there need not be any expansion of lines.
45.	<b>DATA SENSITIVITY AND CONFIDENTIALITY</b>	Due to data sensitivity of the circulation of information and the possible damage to the competitive position of IIFS, it is appropriate to prepare a more general disclosure	This is possible under supervisory discretion and in accordance with section 1.8 “proprietary and confidential information.”

No.	Theme	Issues/Comments	IFSB Response
		containing sufficient information at the discretion of the supervisory authority.	

### Section 5: Risk Management, Risk Exposures and Risk Mitigation

No.	Theme	Issues/Comments	IFSB Response
46.	<b>RISKS FACING INVESTMENT ACCOUNTS</b>	Table 7 – No.5 to 10) It is fairly challenging to meet these detailed disclosure requirements. Each investment account may have its own terms of investment, RWA and Financing.	<ul style="list-style-type: none"> <li>- Item 5 refers to the risks facing each restricted account fund held by the IIFS. These risks can be described together in the IIFS reporting.</li> <li>- Items 6 and 7 only refer to the treatment of assets financed by PSIA in the calculation of capital, i.e. whether assets financed by unrestricted and restricted investment accounts have been deducted from RWA and whether alpha is applicable. Such treatment would be the same for all unrestricted investment accounts, and for all restricted account funds.</li> <li>- Items 8 to 10 are general disclosure items, not related to investment accounts.</li> </ul>
47.	<b>COLLATERAL CONCENTRATION</b>	Section (5) concerning the disclosure of risk management and methods of risk mitigation, Paragraph (76) regarding the disclosure of management and methods of risk mitigation for the purchase of shares and bonds for trading or investment can be disclosed to the supervisory authority only because public disclosure may have negative impact on the financial institution, especially the case of the	Disclosure of collateral concentration is required by Template 18 on an aggregate basis for financing and non-equity instruments each. If the relevant RSA feels that disclosure of such information would jeopardise the competitive position of IIFS in their jurisdiction, reference can then be made to section 1.8 “proprietary and confidential information” and can work closely with

No.	Theme	Issues/Comments	IFSB Response
		impairment of market value of these shares and bonds.	relevant IIFS to devise a more general, but adequately informative disclosure policy.
48.	<b>GENERAL PROVISIONS UNDER NEW ACCOUNTING RULES</b>	In table 8 and table 9, the ED refers to the term “general provisions”, which is no longer applicable after the introduction of IFRS9 and AAOIFI FAS 30 standards.	The BCBS published its standard “ <i>regulatory treatment of accounting provisions – interim approach and transitional arrangements</i> ” in March 2017, in which the committee decided to retain, for the interim period, the current treatment of provisions under both the standardised approach (SA) and internal risk-based approach (IRB). This maintains the distinction between general provisions (GP) and specific provisions (SP) under the SA, and jurisdictions following the BCBS guidelines would extend their existing approaches to categorising provisions as GP and SP to provisions calculated under the Expected Credit Loss (ECL) approach of IFRS 9. The IFSB aligns its position with that of the BCBS, and therefore the distinction between GP and SP is, for the interim period, still applicable. The BCBS’ latest technical amendment on Pillar 3 disclosure reflecting regulatory treatment of accounting provisions maintains the distinction between general and specific provisions, with banks required to explain the rationale for categorising accounting provisions into general and specific. The IFSB adopts this disclosure requirement.



No.	Theme	Issues/Comments	IFSB Response
49.	<b>EXPOSURES RELATED TO UNRESTRICTED INVESTMENT ACCOUNTS</b>	In template 12, it is more appropriate to have two similar tables where one table shall be for exposures in the bank’s corporate books and the other for exposures related to unrestricted investment accounts (with the incorporation of the alpha factor).	Template 15 has been amended to distinguish between assets financed by unrestricted PSIA and assets financed through other sources (with the exception of real estate category, as the RTMDWG felt such distinction would be burdensome to IAH given the level of granularity of real-estate disclosure in the template).
50.	<b>HIGHER RISK CATEGORIES</b>	In template 12, the “high risk categories” need further clarification regarding what categories and type of exposures are to be included under each category.	The “higher risk categories” item has been removed in line with the latest BCBS reforms.
51.	<b>PAST DUE FINANCING</b>	In template 12, need further clarification on item 11. Past due financing. Is it solely past due account or bad bank account?	The term has been amended to “defaulted exposures” in line with BCBS Feb 2018 Pillar 3 consultative document.
52.	<b>DEFAULTED FINANCING</b>	Apart from debt securities, does template 14 cover defaulted financing and advances as well?	The template covers both defaulted financing and debt securities. The title of the template, and the first, second and sixth lines provide clarity on this.
53.	<b>TECHNIQUES USED IN VALUATION OF COLLATERAL, AND RISK WEIGHT (RW) OF GUARANTORS</b>	Table 10 page 51: describing the techniques used in valuation of collateral might lead to exposing sensitive information related to transactions. Propose to disclose only the general policy regarding having a collateral and performing a regular valuation of all collateralized assets. In same table point 5, this again represents a deep disclosure of information as the new standard propose to disclose the RW of the guarantor.	If disclosure of certain information could jeopardise the competitive position of IIFS, the relevant RSA may agree with IIFS on a more general, but adequate, disclosure policy on the area. This is provided for in section 1.8 of the draft.



No.	Theme	Issues/Comments	IFSB Response
54.	<b>SHARĪ'AH-COMPLIANT CREDIT DERIVATIVES</b>	Table 10 Credit Risk Mitigation, page 52: Are there Shariah compliant credit derivatives?	The term has been replaced with " <i>Sharī'ah-compliant hedging instruments</i> " throughout the document.
55.	<b>COUNTERPARTY CREDIT RISK</b>	Suggest providing further clarity on the details of the disclosure items.	Three new templates have been added (templates 20, 21 and 22) on counterparty credit risk and relevant explanatory text for clarity.
56.	<b>HYBRID SECURITISATION</b>	Under para 88, table 17 "Securitisation Exposures in the Banking Book: Semi-Annual", the ED is silent about the treatment of hybrid securitization which may depend on more than one contract.	The templates have been amended to include more securitisation types, replaced "assets" with " <i>instruments</i> " for clarity, and included a row for disclosure of hybrid <i>sukūk</i> .
57.	<b>FREQUENCY OF DISCLOSURE FOR SECURITISATION TEMPLATES</b>	Suggest the disclosure to be made on a yearly basis, instead of semi-annually for templates 17 to 20.	The current disclosure frequency for this section is in line with the BCBS requirements at semi-annual. The project team is of the view that this should be maintained to create a level playing field with conventional banks, which would be required to make semi-annual disclosure.
58.	<b>Liquidity Coverage Ratio (LCR) DISCLOSURES AND CALCULATIONS</b>	The general MIS capabilities at IIFS as well as existing regulatory reporting requirement is typically on monthly basis. Furthermore, requiring LCR to be computed based on daily data provides little economic benefit as LCR is a liquidity stress projection for the next 30 days. Suggest to use monthly data.	<u>Frequency of reporting:</u> Monthly reporting should be required by the relevant RSA as recommended by the IFSB's <i>Guidance Note 6: Quantitative Measure for Liquidity Risk Management (April 2015)</i> . However, this is only to relevant RSAs. The most frequent level of public disclosure required by the BCBS and IFSB guidelines is quarterly.  <u>Use of daily observations for calculations:</u> The requirement of calculating LCR as 90-day simple averages of daily data is in line with IFSB and BCBS guidelines. GN-6 requires LCR and other liquidity monitoring tools to be calculated daily, on

No.	Theme	Issues/Comments	IFSB Response
			an ongoing basis, with an exemption given only in the first reporting period of these measures, where calculation of averages based on monthly or weekly figures is allowed.
59.	<b>FREQUENCY OF NET STABLE FUNDING RATIO (NSFR) DISCLOSURE</b>	Disclosure requirements are to be made irrespective of completion of financials audit. Propose to amend this to make the disclosure in connection with audited financials.	This paragraph links disclosure on this area with the publication of financial statements of the IIFS. Therefore, if quarterly or semi-annual financial statements are published after being audited, disclosures on this area should also be audited, and where quarterly, or semi-annual financial statements are published unaudited (which is usually the case), disclosures on this area is not expected to be audited.
60.	<b>MEANS AND TIMING OF PUBLISHING NSFR DISCLOSURES</b>	This need to be re-drafted to provide more clear guidelines on means and timing of publication.	This paragraph has been removed as paragraph 20 provides for means of disclosure and paragraphs 25-26 provide for the timing of disclosure.
61.	<b>QUALITATIVE NSFR DISCLOSURES</b>	This can be provided by different IIFS in different means. A more clear guideline on minimum descriptive disclosures will enable readers to make appropriate performance comparisons.	The language used here is in line with the BCBS guidelines. The nature of qualitative disclosures is that they are flexible and can be provided in different formats by reporting IIFS so long as IIFS disclose the drivers of the NSFR results, reasons for intra-period changes and changes over time, and the composition of IIFS interdependent assets and liabilities and the extent of their interrelatedness.

No.	Theme	Issues/Comments	IFSB Response
62.	<b>CORRELATION AND NON CORRELATION TRADING, AND RESIDUAL RISK ADD-ON</b>	Kindly provide definitions of correlation & non correlation trading, and residual risk add-on.	Added a footnote making reference to the definitions used by the BCBS for correlation trading portfolio, non-correlation trading portfolio and residual risk add-on. It is also noted that not all types of correlation/non-correlation trading portfolios are Sharī'ah-compliant, and IIFS must follow guidelines issued by centralised Sharī'ah boards in their jurisdictions, where available, or obtain approval from their Sharī'ah boards.
63.	<b>DEFINITION OF RATE OF RETURN RISK</b>	Rate of return risk is coterminous with Interest Rate Risk in the Banking Book (IRRBB); it affects the whole balance sheet. The paragraph here focusses on IAH with regards to RRR. RRR is a more general risk that all banks, Islamic and conventional will incur. It is a fundamental risk for any credit institution. Displaced Commercial Risk (DCR) is a specific risk arising from IAH/PSIAs. This should be reworded accordingly in para 115-117.	The paragraph has been updated to reflect the definition of rate of return risk appearing in <i>IFSB-16: Revised Guidance on Key Elements in the Supervisory Review Process for IIFS (March 2014)</i> .
64.	<b>SENSITIVITY OF RATE OF RETURN RISK INFORMATION</b>	This requires disclosure of a lot of core business techniques. We propose to mention that the bank is implementing several, systematic models to measure rate of return risk rather than mention these methodologies in a public document.	It will be up to RSAs implementing this ED (later standard) to refer to the confidentiality paragraph and make appropriate assessments on the level of detail required for disclosure in their jurisdictions. However, as this ED is benchmarked against the latest Pillar 3 guidelines of the BCBS, a comparable level of disclosure on common areas is expected between Islamic and conventional

No.	Theme	Issues/Comments	IFSB Response
			banks, including on rate of return risk/interest rate risk.
65.	<b>REMUNERATION OF BOARDS OF DIRECTORS</b>	Under the sub-heading “Remuneration”, the disclosures required in para 122-124 cover only employees, senior management and Shariah boards; the board of directors’ remuneration is not covered here.	The Financial Stability Board’s Principles for Sound Compensation Practices, upon which the BCBS remuneration disclosure requirements are based, focus on compensation of senior management and material risk takers as one of the factors that contributed to the global financial crisis that began in 2007. As such, the IFSB has also focused on remuneration of senior management and material risk takers, in addition to the remuneration of the Sharī’ah Board.
66.	<b>SENSITIVITY OF DISCLOSURES ON REMUNERATION (TABLE 17)</b>	Disclosures on the way IIFS link performance with remuneration is sensitive.	This disclosure requirement is in line with those of the BCBS and the project team has therefore maintained it to enable regulators and supervisors to have a comparable set of disclosure requirements for conventional banks and IIFS.
67.	<b>MAIN BODY OVERSEEING REMUNERATION AND EXTERNAL CONSULTANT</b>	Suggestion: i. For item 1 sub 1 – To add, information on name, composition and mandate of the main body overseeing remuneration at Board and senior management level. ii. For item 1 sub 2 – To exclude the requirement to disclose external consultant.	i. Amended sentence as suggested; ii. This requirement is line with BCBS guidelines and the RTMDWG broadly supports its inclusion.
68.	<b>MORE GRANULAR DISCLOSURE FOR REMUNERATION</b>	The BCBS requirement is more granular which includes a detailed breakdown of special payment (e.g. sign-on bonus /	Included additional templates (templates 35 and 36) covering bonuses and types of deferred and retained remuneration.

No.	Theme	Issues/Comments	IFSB Response
		awards, severance payments, etc.) and deferred / retained payments.	
69.	<b>PROFIT SMOOTHING AND DCR</b>	Under the heading “Displaced Commercial Risk” in para 130, quantitative disclosures should also include the level of profit smoothing in the past years in order to better assess the earning quality of assets funded by investment accounts.	The RTMDWG is of the view that quantitative DCR disclosures were sufficiently captured in section 4 of the final standard: Disclosures to Investment Account Holders. Quantitative disclosure requirements relevant to profit smoothing were covered in Template 10, Table 8, templates 13 and 14 and Table 9, and hence section 5.12 makes reference to section 4 for quantitative disclosures relevant to DCR.

## Section 6: General Governance and Sharī‘ah Governance Disclosures

No.	Theme	Issues/Comments	IFSB Response
70.	<b>COMPLIANCE WITH INTERNATIONAL CORPORATE GOVERNANCE STANDARDS</b>	Table 19: “General Governance” indicates that IIFS shall disclose whether they comply in full with the IFSB’s Corporate Governance Standard, and if it not, an explanation of any non-compliance should be disclosed. IIFS in many countries follow the national code or guidelines of corporate governance which are observed first and foremost, thus they are not required to follow the IFSB’s corporate governance standards.	Amended the sentence to “ <i>including whether the IIFS complies in full with <u>national or international corporate governance standards including the IFSB’s Corporate Governance Standard, and if there is less than full compliance, an explanation of any non-compliance.</u></i> ”
71.	<b>DUPLICATION OF RELATED-PARTY DISCLOSURES</b>	Table 19” disclosure of all related party transactions” this is already a note in the financials.	Section 1.6 on signposting has been added to clarify on duplication of disclosures.

No.	Theme	Issues/Comments	IFSB Response
72.	<b>DISCLOSURE OF SHARĪ'AH RESOLUTIONS AND PRONOUNCEMENTS</b>	<ul style="list-style-type: none"> <li>- Disclosure of all Sharī'ah pronouncements and resolutions during the year will have a negative impact on business. If there are any material resolutions, they are usually disclosed with its impact on the Sharī'ah report which forms part of financials. We suggest removing template 27.</li> <li>- Disclosure on Table 20 item (6) would be bulky in the accounts in the event that many pronouncements are made during an accounting year. We recommend that such disclosures should be limited to highlights of the pronouncements. Alternatively, it could be provided only on major pronouncements in which there were no past or relevant resolutions.</li> </ul>	<ul style="list-style-type: none"> <li>- The RTMDWG is of the view that full Sharī'ah pronouncement disclosures would play an important role in informing the public on the basis for permissibility of financial products on offer by the IIFS. It would also allow stakeholders to judge whether the corporate governance arrangements of IIFS are reasonable to ensure Shari'ah compliance, for which usual disclosure of material resolutions might not be sufficient. The project team therefore feels that the template should be maintained.</li> <li>- In contrast to the remainder of disclosure requirements in this draft, disclosure of Sharī'ah pronouncements and their rationale is recommended rather than required, and RSAs may allow IIFS in their jurisdictions to make less than the recommended disclosure on this area. However, we do believe that full disclosure of pronouncements would not only raise awareness and facilitate comparability of IIFS among investors and customers on Sharī'ah practices of IIFS, but would also provide valuable insights for industry researchers, students and standard setters on the level of information provided to Sharī'ah Boards and their considerations in issuance of Sharī'ah resolutions. This is in light of different Sharī'ah practices and Islamic banking products among jurisdictions. Furthermore, the disclosure would not appear in the accounts, but in a separate regulatory</li> </ul>

No.	Theme	Issues/Comments	IFSB Response
			disclosure document. If such disclosure is found to be bulky, it may be included in an appendix.
73.	<b>CONTROL MEASURES TO AVOID SHARĪ'AH NON-COMPLIANT EVENTS</b>	On page 79, in Table 20 (row 5), to include after the words 'and how these were resolved', the words 'including control measures to avoid recurrence of such Shari'ah non-compliant activities'	Suggested inclusion has been made after replacing "Sharī'ah non-compliant activities" with <u>"events."</u>
74.	<b>BOARD OF DIRECTORS' RESPONSIBILITY FOR SHARĪ'AH COMPLIANCE AND SHARĪ'AH BOARD'S OPINION ON STATE OF COMPLIANCE WITH SHARĪ'AH RULES AND PRINCIPLES</b>	Suggest: i. To enhance board's disclosure requirements by requiring the board of directors (BOD) to clearly articulate its responsibility and accountability over Shariah governance of the IIFS. ii. To include disclosure on Shariah committee's opinion on the IIFS's state of compliance with Shariah.	i. Included as suggested as item 2, Table 30: <u>"A statement clearly articulating the BOD's responsibility and accountability over the Sharī'ah governance of the IIFS;</u> ii. Added disclosure as suggested <u>"Sharī'ah board's opinion on the IIFS' state of compliance with Sharī'ah rules and principles."</u>
75.	<b>PURIFICATION OF SHARĪ'AH NON-COMPLIANT INCOME</b>	On Page 80, in Table 20 (row 8), to include after the words 'the associated rectification process', the words 'including the purification threshold used' in order to disclose to investors the threshold percentage being used by the bank, to purify shariah non-compliant income.	The project team's understanding is that IIFS are required to purify any income received from Sharī'ah non-compliant events, without the application of any purification threshold.
76.	<b>ZAKĀH</b>	Table (21) on Zakah, item (2):  The phrase 'where relevant' should be added at the end of the statement, under the item no "1", given that not all jurisdictions require IIFS to pay zakah.	The change has been added as suggested.



No.	Theme	Issues/Comments	IFSB Response
77.	<b>INDEPENDENCE OF SHARĪ'AH BOARD MEMBERS</b>	What is the reason behind disclosing the independence of members of the Sharī'ah board? Won't that be duplication to audit function?	It is critical for the integrity of an IIFS to ensure that the Sharī'ah resolutions it receives are independent and free from conflict. This enhances the public's trust in the governance arrangements and Sharī'ah-compliance status of the IIFS. Hence, a statement on the independence of the Sharī'ah board members is regarded as important.

### Section 7: Treatment of Islamic Windows

No.	Theme	Issues/Comments	IFSB Response
78.	<b>SCOPE OF APPLICATION OF THE ED TO ISLAMIC WINDOWS</b>	Footnote 62 Currently the Islamic window of a conventional bank has no capital adequacy requirements. Whilst an Investment Bank has capital adequacy requirements but has conventional and Islamic bank-subsiidiaries. In these 2 scenarios, is this standard applicable?	On a consolidated level, this ED would not be applicable to both scenarios. However, this standard would be applicable to Islamic commercial banks and Islamic windows at an individual level (as stated in paragraph 14), and RSAs can, at their discretion, implement it on other types of IIFS.
79.	<b>REPORTING FREQUENCY FOR ISLAMIC WINDOWS</b>	Reporting frequencies for windows of Islamic Financial Institutions should be changed to semi-annual against the quarterly recommended in the ED. This will address monotony concerns where the operation of the window is large when compared to that of the parent.	The project team is of the view that investment account holders must receive disclosures on the performance of their investment accounts on quarterly basis, regardless of whether those investment accounts are held by an Islamic window or a full-fledged Islamic bank. We are also of the view that windows of larger size must comply with such requirements due to their increased fund base and systemic importance.



No.	Theme	Issues/Comments	IFSB Response
			Other disclosures on Sharī'ah governance and liquidity are at the same frequency as the ED states in relevant sections.
80.	<b>LIQUIDITY DISCLOSURES OF ISLAMIC WINDOWS</b>	Including disclosure around liquidity for Windows poses some issues potentially; does having segregated HQLA then mean that total HQLA cannot be cross-used by the entity?	A footnote has been added to clarify that liquidity disclosures for Islamic windows are only applicable where the (conventional) parent of the window and the window are situated in different jurisdictions in accordance with paragraph 33(d) of <i>GN-6 Guidance Note on Quantitative Measures for Liquidity Risk Management for IIFS (April 2015)</i> .

## Section 8: Consumer Protection

No.	Theme	Issues/Comments	IFSB Response
81.	<b>CONSUMER PROTECTION PRACTICES</b>	The ED was silent on who bears the expenses of deposit insurance premium on Mudaraba Investment Accounts. There is the need to state explicitly who is to bear such expense between the IAH and the IIFS, especially in jurisdictions where such deposits are not exempted from deposit insurance. Disclosing that deposits are insured via conventional deposit insurance would increase Sharī'ah non-compliance and reputational risks.	ED-22 does not aim to provide guidance on operational details of Sharī'ah-compliant deposit insurance, as this falls outside its scope. Therefore, ED-22 does not make any requirements on the maintenance of a Sharī'ah-compliant deposit insurance scheme or otherwise, the responsibilities of parties to a scheme or the rules and principles governing such schemes. ED-22 is focused primarily on disclosure and transparency requirements, and, in this section, requires IIFS to disclose their existing deposit insurance arrangements and terms to consumers. The IFSB is in the midst of preparing a standard jointly with the International Association of Deposit Insurers (IADI) on Core Principles for Islamic

No.	Theme	Issues/Comments	IFSB Response
			<p>Finance Regulation -Effective Islamic Deposit Insurance Systems (CPIDIS). Issues as raised in the comment are expected to be addressed in that standard. Should Sharī'ah-compliant deposits be insured through conventional insurance, then ED-22 requires that IIFS must disclose this to consumers at the appropriate time. The project team recognises that this may reflect Sharī'ah non-compliance for IIFS in jurisdictions where no Sharī'ah-compliant deposit insurance exists. However, we believe that consumers deserve to understand the mechanism through which their funds are returned to them should conditions triggering reimbursement occur, and such practice (use of conventional deposit insurance) may influence consumers' decisions to place deposits with the IIFS.</p>
82.	<p><b>REPHRASING REQUIREMENT TO DISCLOSE (PARAGRAPH 147)</b></p>	<p>Suggest for the following sentence to be amended as follows: "While the specifics of these disclosures may vary from product to product, disclosure shall, at minimum, include the following:"</p>	<p>Agreed and amendment has been made accordingly.</p>
83.	<p><b>RISKS ASSOCIATED WITH INVESTMENT ACCOUNTS</b></p>	<p>To also include all material risks of investing in the product, including potential loss of principal sum invested if the product is not held to maturity.</p>	<p>Disclosure on this area and relevant to investment accounts are covered in paragraph 87, section 4.1 <i>Retail Investor-Oriented Disclosures to IAH</i> where point (f) requires disclosure of "IAH's rights to withdraw funds during the term of the muḍārabah contract, and any penalties, if permissible, such as forfeited shares of profits, that will be incurred by so doing."</p>

No.	Theme	Issues/Comments	IFSB Response
84.	<b>EDUCATIONAL PROGRAMMES</b>	Further clarification needed on types and timing of education programmes, and to be more specific on this requirement and the reason for it to be done on annual basis. To maximise its benefits, the education programmes and information on new products and services must be made available soonest possible.	It is agreed that educational programmes should be organised as quickly as possible for consumer protection purposes, however, such a requirement is beyond the scope of this ED, which focuses only on disclosure rather than conduct of business. The purpose of the disclosure is to indicate that such programmes took place during the year, and it is required on an annual basis to coincide with IIFS financial and annual reports.
85.	<b>TIMING OF DISCLOSURE (TABLE 22)</b>	Propose for the phrase “as soon as practicable” be changed to “within reasonable time”. Item 6 should also include “within reasonable time”.	<ul style="list-style-type: none"> <li data-bbox="1393 596 2103 667">i. Amended to “<u>within reasonable time (before coming into effect)</u>”</li> <li data-bbox="1393 683 2103 788">ii. Amended item 7 to include “changes” and included “within reasonable time (before coming into effect).”</li> </ul>
86.	<b>DISCLOSURE OF PAST PERFORMANCE AND TREATMENT OF DORMANT ACCOUNTS (TABLE 22)</b>	<p>Propose to include the following disclosures:</p> <ul style="list-style-type: none"> <li data-bbox="732 847 1366 1027">a. While the disclosure of past performance of the product/ investment is made upfront, further disclosure on the performance of the product/ investment shall be made available on periodical basis.</li> <li data-bbox="732 1043 1366 1118">b. Disclosure on the treatment of dormant account (point of sale).</li> </ul>	<ul style="list-style-type: none"> <li data-bbox="1393 815 2103 879">i. Added disclosure on periodical performance of deposit products.</li> <li data-bbox="1393 895 2103 970">ii. Added a statement addressing treatment of dormant account into row 2 of Table 32.</li> </ul>

## Section 9: Social, Economic and Environmental Impact Disclosure

No.	Theme	Issues/Comments	IFSB Response
87.	<b>FURTHER DISCLOSURE REQUIREMENTS ON ENVIRONMENTAL, SOCIAL AND ECONOMIC IMPACT ACTIVITIES</b>	<ul style="list-style-type: none"> <li>- Exposure Draft no. 22 may refer to the existing global, national, and market-driven initiatives regarding to the disclosure of social, economic and environmental impact.</li> <li>- ED-22 may offer further details required for disclosure regarding the purpose, policies, processes, people, products and portfolio of environmental and social activities.</li> </ul>	<ul style="list-style-type: none"> <li>- Without any further study, the IFSB does not prefer one initiative over the others (and there may be more than those quoted in the comment). It should be in the own interest of IIFS to indicate which approach they are following, and over time, de-facto standards (for high-quality approaches) may emerge.</li> <li>- The benchmark for ED 22 is Pillar 3 of Basel III. While detailed Environmental, Social and Governance (ESG) disclosures may be desirable, they are not yet covered by Pillar 3, and mandatory ESG disclosures only for IIFS would create an extra burden for Islamic banks. Therefore, banks that consider detailed ESG disclosures important for their profiling in the competition with other banks can make such disclosures on a voluntary basis.</li> </ul>

## Appendix A

No.	Theme	Issues/Comments	IFSB Response
88.	<b>THE IFSB'S STANDARD ON CORPORATE GOVERNANCE AND THE ESTABLISHMENT OF A GOVERNANCE COMMITTEE</b>	<p>In paragraph 15, the relevance of the line 'This latter issue is being addressed in the IFSB's Guiding Principles of Corporate Governance for IIFS, which proposes the establishment of a Governance Committee that (among other things) is expected to represent the interests of IAH'.</p> <p>This line is replicated from the IFSB-4 and as such, has already been implemented in the last decade by various banks. The sentence may altogether be removed from the paragraph.</p>	<p>The project team is of the view that the sentence is still relevant in explaining the necessary institutional arrangements for investor rights and protection, fulfilling the objective of the text in the appendix. The ED also makes reference to the establishment of governance committee in its principles (paragraph 26 of the Exposure Draft). However, a grammatical change has been made in the sentence for clarity.</p> <p><i>This latter issue is being-addressed in the IFSB's Guiding Principles of Corporate Governance for IIFS, which proposes the establishment of a Governance Committee that (among other things) is expected to represent the interests of IAH.</i></p>