

**Frequently Asked Questions (FAQ) on:**  
**IFSB-17: Core Principles For Islamic Finance Regulation**  
**(Banking Segment) – CPIFR**

**Q1. What are the objectives of this CPIFR standard?**

**Answer:** The standard aims at achieving the following:

- a. Providing a minimum international standard for sound regulatory and supervisory practices for the effective supervision of the IIFS
- b. protecting consumers and other stakeholders by ensuring that the claim to *Sharī'ah* compliance made explicitly or implicitly by any IIFS is soundly based
- c. safeguarding systemic stability by preserving the linkages between the financial sector and the real economic sector<sup>1</sup> which underlie Islamic finance; and
- d. ensuring that IIFS act in accordance with their fiduciary responsibilities in all their operations especially in regard to investment account holders (i.e. investors in profit-sharing investment account (PSIAs))

**Q2. What are the principles stipulated in this CPIFR (banking segment) standard?**

**Answer:** CPIFR consists of 33 core principles are follows:

1. CPIFR 1: Responsibilities, objectives and powers.
2. CPIFR 2: Independence, accountability, resourcing and legal protection for supervisory authorities
3. CPIFR 3: Cooperation and collaboration
4. CPIFR 4: Permissible activities
5. CPIFR 5: Licensing criteria
6. CPIFR 6: Transfer of significant ownership
7. CPIFR 7: Major acquisitions
8. CPIFR 8: Supervisory approach
9. CPIFR 9: Supervisory techniques and tools.
10. CPIFR 10: Supervisory reporting
11. CPIFR 11: Corrective and sanctioning powers of supervisors
12. CPIFR 12: Consolidated supervision
13. CPIFR 13: Home-host relationships
14. CPIFR 14: Treatment of investment account holders (IAH).
15. CPIFR 15: Corporate governance
16. CPIFR 16: *Sharī'ah* governance framework
17. CPIFR 17: Risk management process
18. CPIFR 18: Capital adequacy
19. CPIFR 19: Credit risk

20. CPIFR 20: Problem assets, provisions and reserves
21. CPIFR 21: Concentration risk and large exposure limits
22. CPIFR 22: Transactions with related parties
23. CPIFR 23: Country and transfer risks
24. CPIFR 24: Equity investment risk.
25. CPIFR 25: Market risks.
26. CPIFR 26: Rate of return risk
27. CPIFR 27: Liquidity risk
28. CPIFR 28: Operational risk
29. CPIFR 29: Internal control and audit
30. CPIFR 30: Financial reporting and external audit
31. CPIFR 31: Transparency and market discipline
32. CPIFR 32: Islamic “windows” operations
33. CPIFR 33: Abuse of financial services

**Q3. What are the preconditions that could impact the efficiency and effectiveness of regulations and supervision of IIFS?**

**Answer:** These preconditions are:

- (i) Sound and sustainable macroeconomic policies.
- (ii) A well-established framework for financial stability policy formulation
- (iii) A well-developed public infrastructure;
- (iv) A clear framework for crisis management, recovery and resolution
- (v) An appropriate level of systemic protection (or public safety net);
- (vi) Effective market discipline.

**Q4. What are the considerations that assessors should take into account when conducting an assessment and preparing the assessment report?**

**Answer:** First, when conducting an assessment, the assessor must have free access to a range of information and interested parties. Second, the assessment of compliance with each CPIFR requires the evaluation of a chain of related requirements which, depending on the Principle, may encompass law, prudential regulation, supervisory guidelines, on-site examinations and off-site analysis, supervisory reporting and public disclosures, and evidence of enforcement or non-enforcement. Third, assessments should not focus solely on deficiencies but should also highlight specific achievements. Fourth, there are certain jurisdictions where non-bank IIFS that are not part of a supervised banking group engage in some bank-like activities; these institutions may make up a significant portion of the total financial system and may be largely unsupervised. Fifth, the development of cross-border Islamic financial services leads to increased complications when conducting CPIFR assessments, especially given differences in, for example, interpretations of *Shari`ah*.

**Q5. What is needed to have an effective banking supervision as stipulated in CPIFR supervisory approach (CPIFR 8)?**

**Answer:** An effective system of banking supervision requires the supervisory authority to develop and maintain a forward-looking assessment of the risk profile of individual IIFS and banking groups proportionate to their systemic importance; identify, assess and address risks emanating from IIFS and the banking system as a whole; have a framework in place for early intervention; and have plans in place, in partnership with other relevant authorities, to take action to resolve IIFS in an orderly manner if they become non-viable.

**Q6. What should be reported as stipulated in CPIFR supervisory reporting (CPIFR 10)?**

**Answer:** The supervisory authority collects, reviews and analyses prudential reports and statistical returns from IIFS on both a solo and a consolidated basis, and independently verifies these reports through either on-site examinations or use of external experts.

**Q7. What is the treatment for home-host relationship in relation to supervisory?**

**Answer:** Home and host supervisory authorities of cross-border banking groups share information and cooperate for effective supervision of the group and group entities, and effective handling of crisis situations. Supervisory authorities require the local operations of foreign IIFS to be conducted to the same standards as those required of domestic IIFS.

**Q8. What is required by (CPIFR 15) for the Islamic banking in relation to the corporate governance?**

**Answer:** The supervisory authority determines that IIFS demonstrate they have adequate corporate governance and address the relevant aspects of corporate governance from the perspective of IIFS. The supervisory authority also determines that IIFS and banking groups have robust corporate governance policies and processes covering, for example, strategic direction, group and organisational structure, control environment, responsibilities of the IIFS's BOD and senior management, and compensation. These policies and processes are commensurate with the risk profile and systemic importance of the IIFS

**Q9. What is required by (CPIFR 16) for the Islamic banking in relation to the Sharia Governance Framework?**

Answer: The supervisory authority determines that IIFS have a robust *Sharī'ah* governance system in order to ensure an effective independent oversight of *Sharī'ah* compliance over various structures and processes within the organisational framework. The *Sharī'ah* governance structure adopted by an IIFS is commensurate and proportionate with the size, complexity and nature of its business. The supervisory authority also determines the general approach to *Sharī'ah* governance in its jurisdiction, and lays down key elements of the process.

**Q10. What is required by (CPIFR 17) for the Islamic banking in relation to risk management?**

**Answer:** The supervisory authority determines that IIFS<sup>67</sup> have a comprehensive risk management process (including effective BOD and senior management oversight) to identify, measure, evaluate, monitor, report and control or mitigate<sup>68</sup> all material risks on a timely basis and to assess the adequacy of their capital and liquidity in relation to their risk profile and market and macroeconomic conditions. The process takes into account appropriate steps to comply with *Sharī'ah* rules and principles and to ensure the adequacy of relevant risk reporting to the supervisory authority. This extends to development and review of contingency arrangements (including robust and credible recovery plans where warranted) that take into account the specific circumstances of an IIFS. The risk management process is commensurate with the risk profile and systemic importance of the IIFS.

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