

11th Islamic Financial Stability Forum

**Comparative Study on the Implementation of the IFSB
Standards: Cross-country Assessment**

Jakarta, Indonesia

In conjunction with the 26th Meeting of the Council of the IFSB

Organised By:



Hosted By:



BANK INDONESIA

11th IFSF : Speakers & Discussants

Speakers:

- ❖ *Zahid ur Rehman Khokher, Assistant Secretary-General, Islamic Financial Services Board*
- ❖ *Peter Casey, Consultant, Islamic Financial Services Board*

Discussants:

- ❖ *H.E. Saeed Ahmad, Deputy Governor, State Bank of Pakistan*
- ❖ *Khalid Hamad Abdulrahman, Executive Director of Banking Supervision, Central Bank of Bahrain*



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Comparative Study on the Implementation of the IFSB Standards: Cross-country Assessment

Presented at:
11th Islamic Financial Stability Forum
Jakarta, Indonesia | 2 April 2015

Peter Casey

Zahid ur Rehman Khokher

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9TH STABILITY FORUM: STANDARDS IMPLEMENTATION INITIATIVES

9TH STABILITY FORUM: STANDARDS IMPLEMENTATION INITIATIVES (1)



While differences in market size and sophistication, all FSB members are deemed systemically important.



Sole Objective: Promoting safety and soundness.



Rigorous implementation monitoring including peer reviews and self-assessments



Members' commitment to implement the global standards



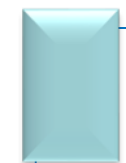
Small but much more rapidly growing sector, with significant variations in market development across members



Promoting safety and soundness along with consistency in treatment across jurisdictions

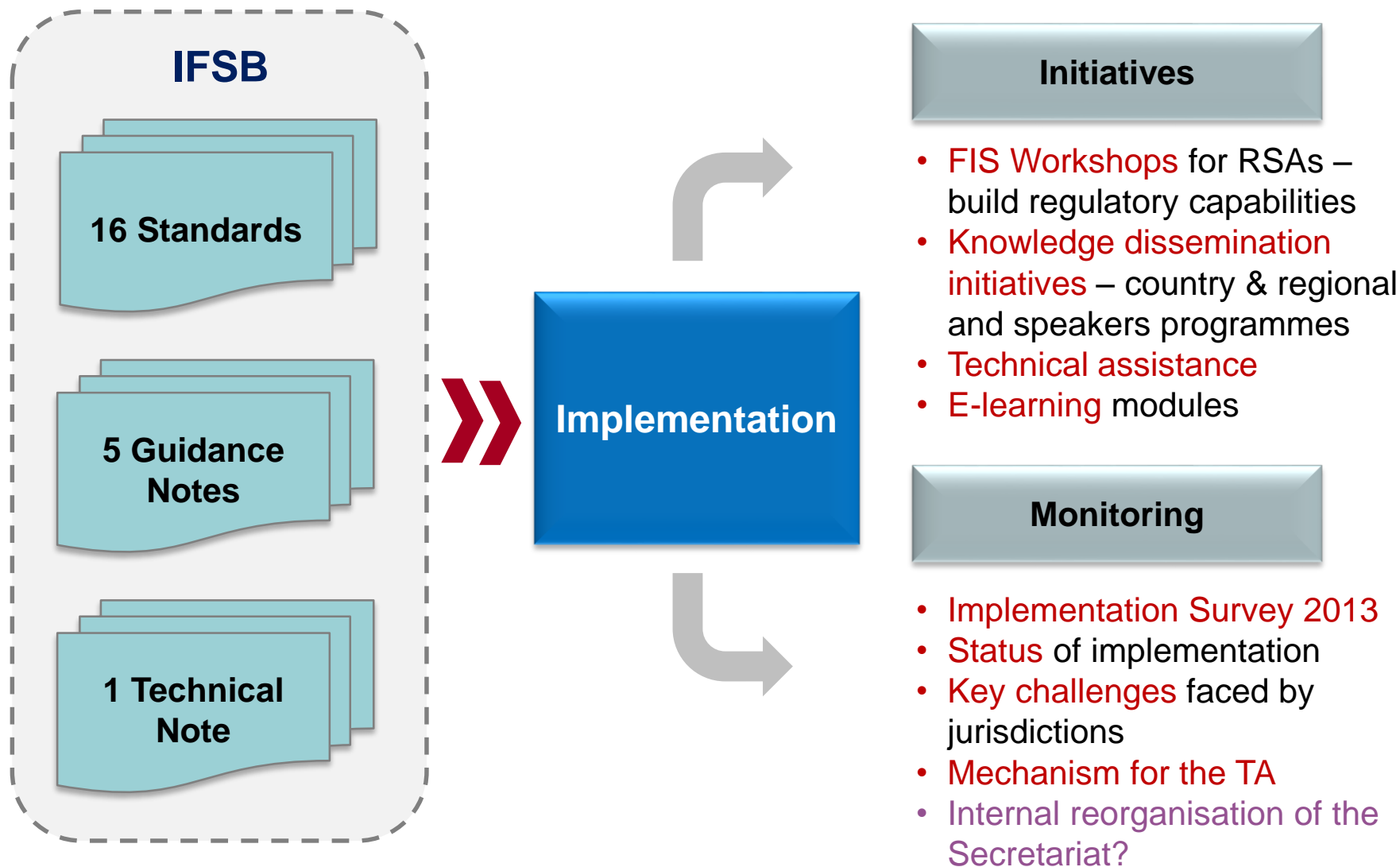


IFSB members face implementation challenges that could be unique to each jurisdiction



Enhance capacity building and identify jurisdictions with large Islamic financial sectors

9TH STABILITY FORUM: STANDARDS IMPLEMENTATION INITIATIVES (2)

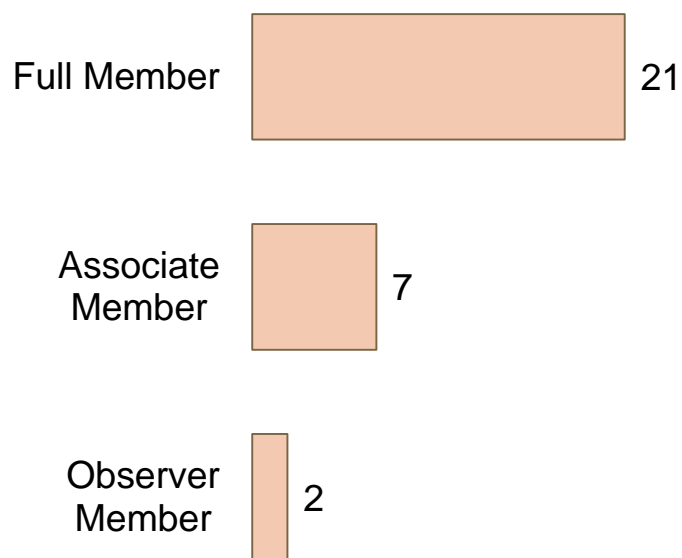


IFSB IMPLEMENTATION SURVEY 2014

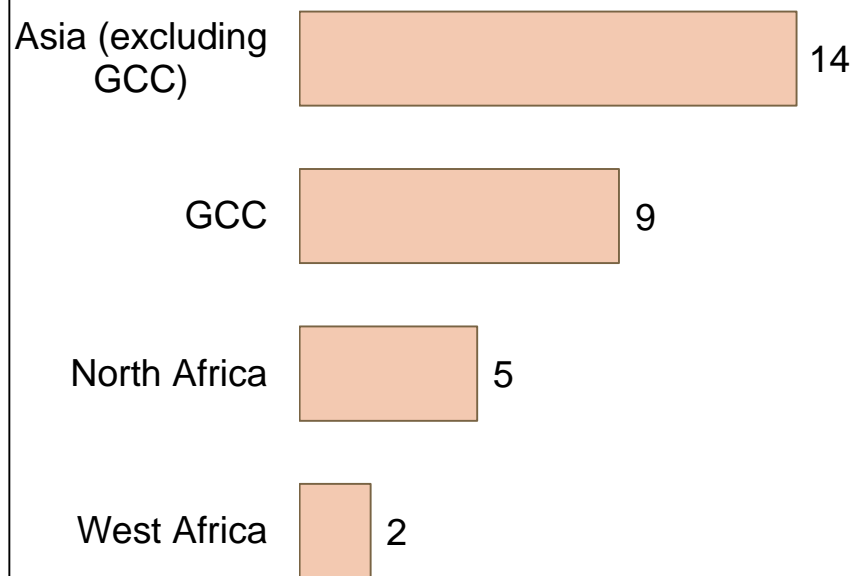
SURVEY RESPONDENTS INCLUDED MAJOR IFSB MEMBER JURISDICTIONS...

- 30 RSAs representing 22 countries.
- RSAs distributed geographically across a number of important regions..

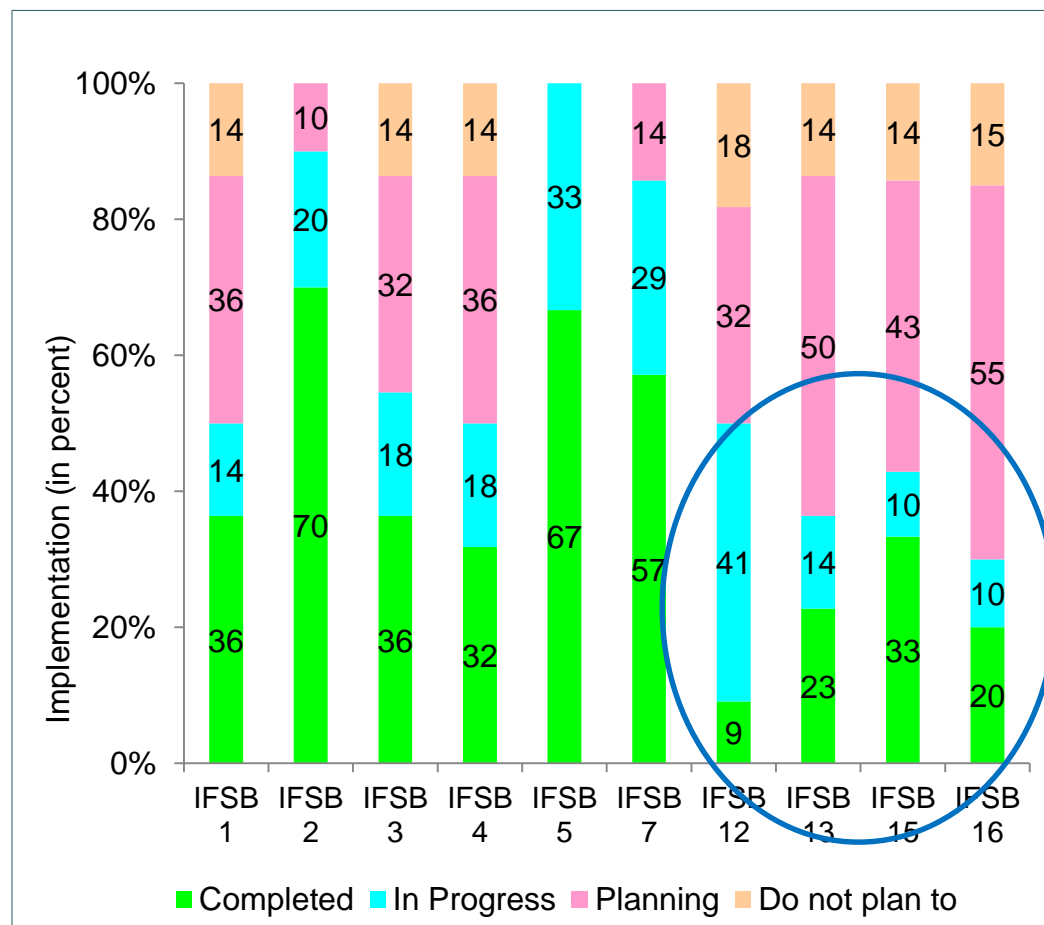
Membership types



Regional breakdown of respondent RSAs



BANKING SECTOR: SIGNIFICANT TAKE UP OF RECENTLY ISSUED STANDARDS



One-third of RSAs implemented IFSB-1, IFSB-3, and IFSB-4.



IFSB-15 was already implemented by one-third (7 out of 21) of RSAs within one year of issuance.



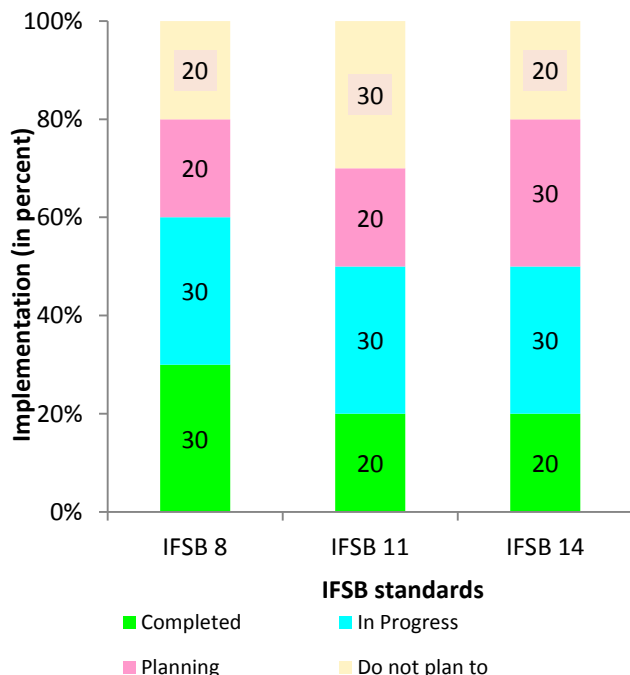
More than one-fifth of RSAs implemented IFSB-13 and IFSB-16 and most of the RSAs were planning to implement those Standards.

Standards	IFSB-1	IFSB-2	IFSB-3	IFSB-4	IFSB-5	IFSB-7	IFSB-12	IFSB-13	IFSB-15	IFSB-16
Base	22	10	22	22	9	7	22	22	21	20

TAKAFUL AND CAPITAL MARKET STANDARDS ARE CATCHING UP

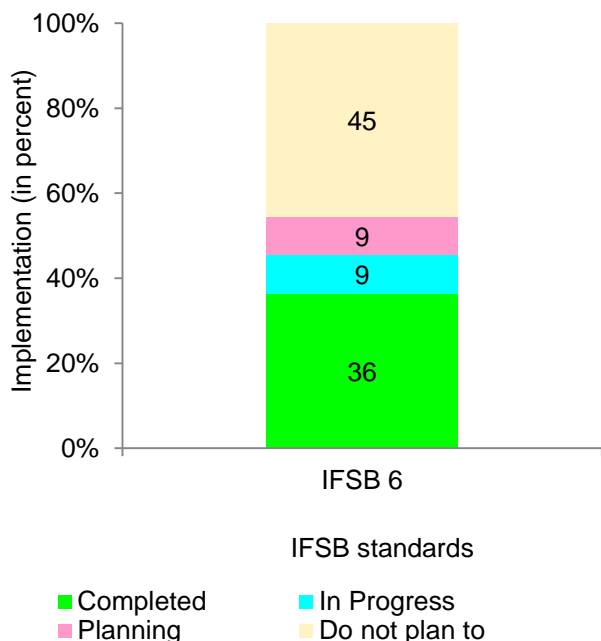
Takāful sector

Implementation status of IFSB standards in the *Takāful* sector (10 RSAs)



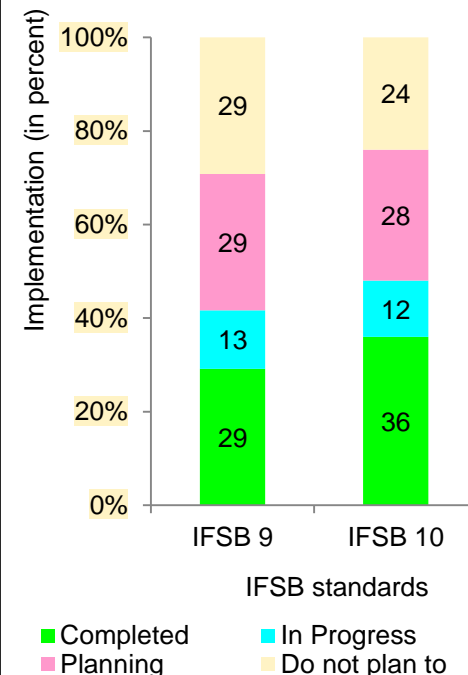
Capital markets

Implementation status of IFSB standards in the capital market sector (11 RSAs)



Cross-sectoral

Implementation status of cross-sectoral IFSB standards



- 20%-30% RSAs implemented Standards in the *Takāful* sector
- 30% RSAs were in progress
- 20-30% RSAs were planning

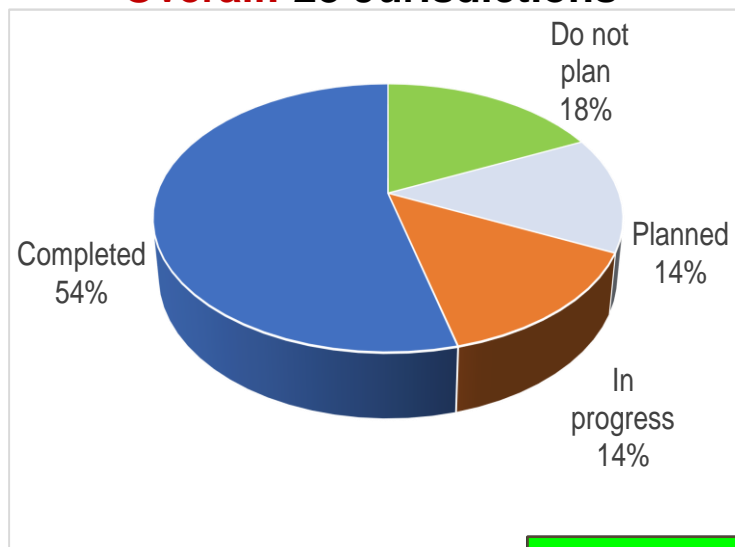
- The Survey found that 36% (four (4) of 11 RSAs) implemented IFSB-6

- Six (6) RSAs fully implemented the cross-sectoral standards, namely IFSB-9 and IFSB-10

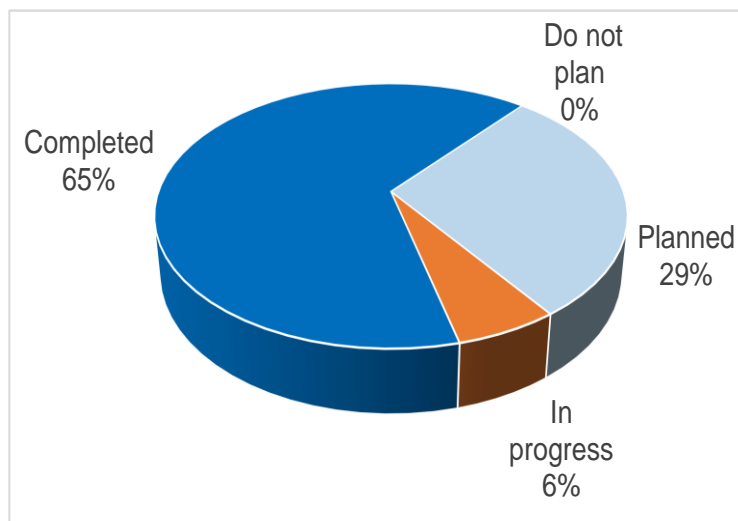
IMPLEMENTATION STATUS IMPROVES SIGNIFICANTLY WITH MARKET SHARE

Standards implementation (minimum 1 IFSBS standard) - Comparison of Overall Results & Jurisdictions with More than 5% Market Share

Overall: 28 Jurisdictions

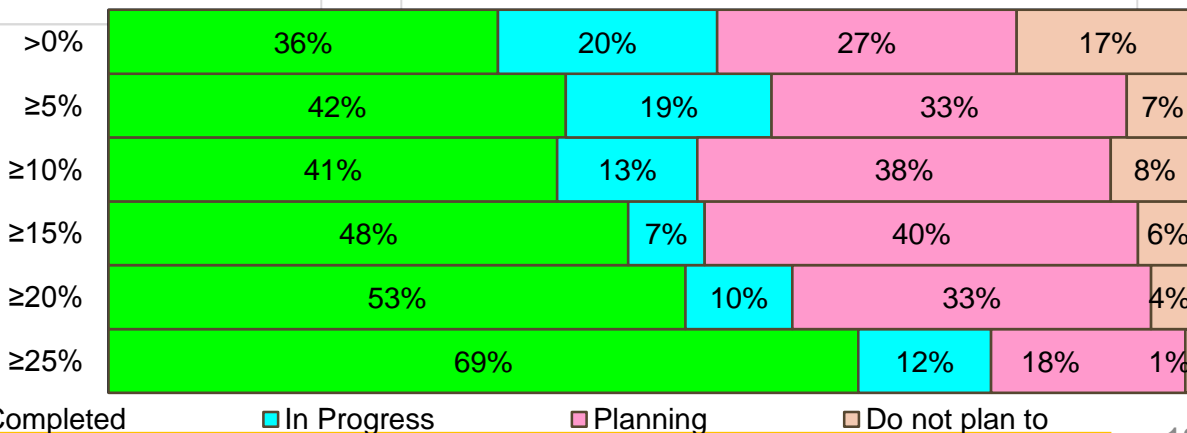


>5% market share: 17 Jurisdictions

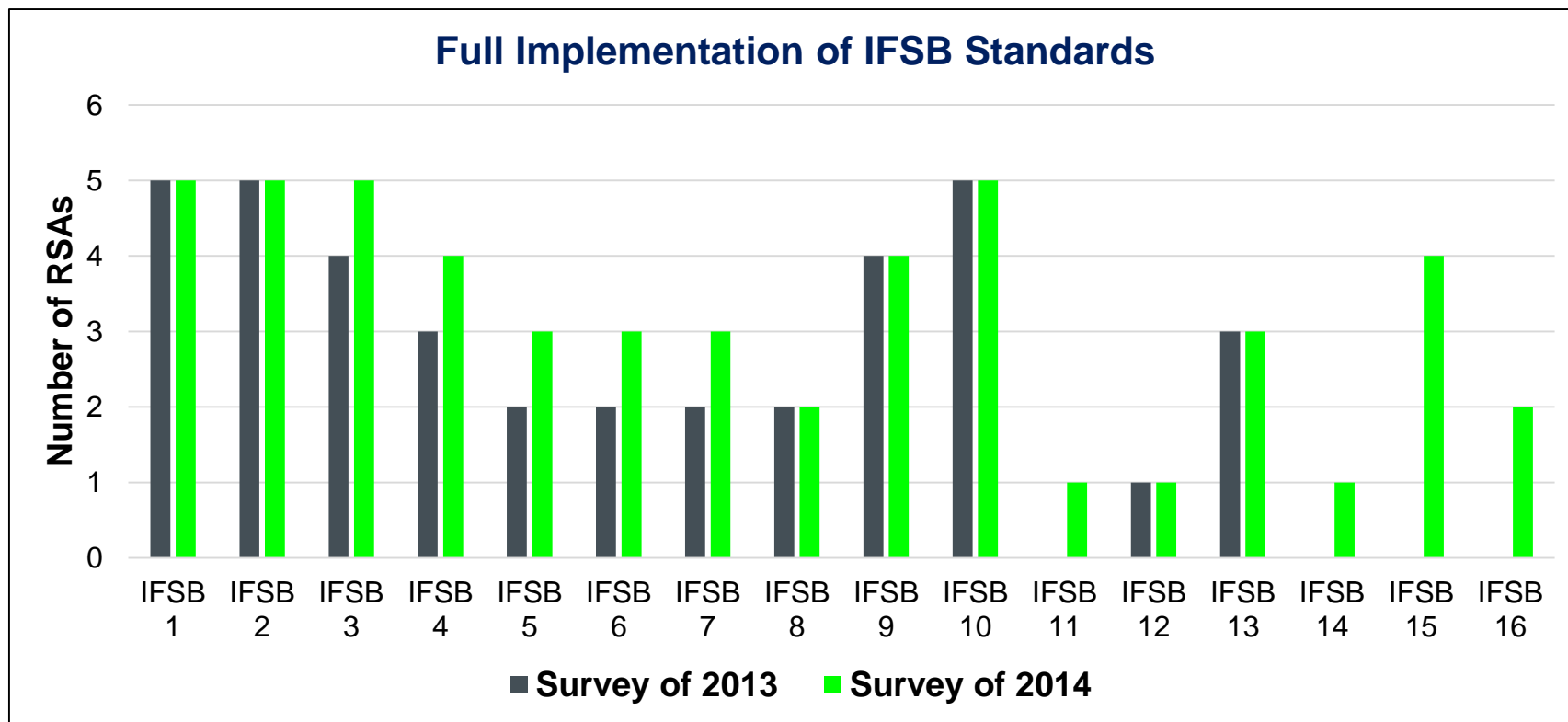


Implementation status with different market share

Market share of Islamic finance



MEASURED PROGRESS IN IMPLEMENTATION OVER THE ONE-YEAR PERIOD



The implementation progress was seen particularly in IFSB-3, IFSB-4, IFSB-5, IFSB-6, IFSB-7 and IFSB-11 where they were each fully implemented by 5, 4, 3, and 3 RSAs in 2014, as compared to 4, 3, 2, and 2 RSAs in 2013

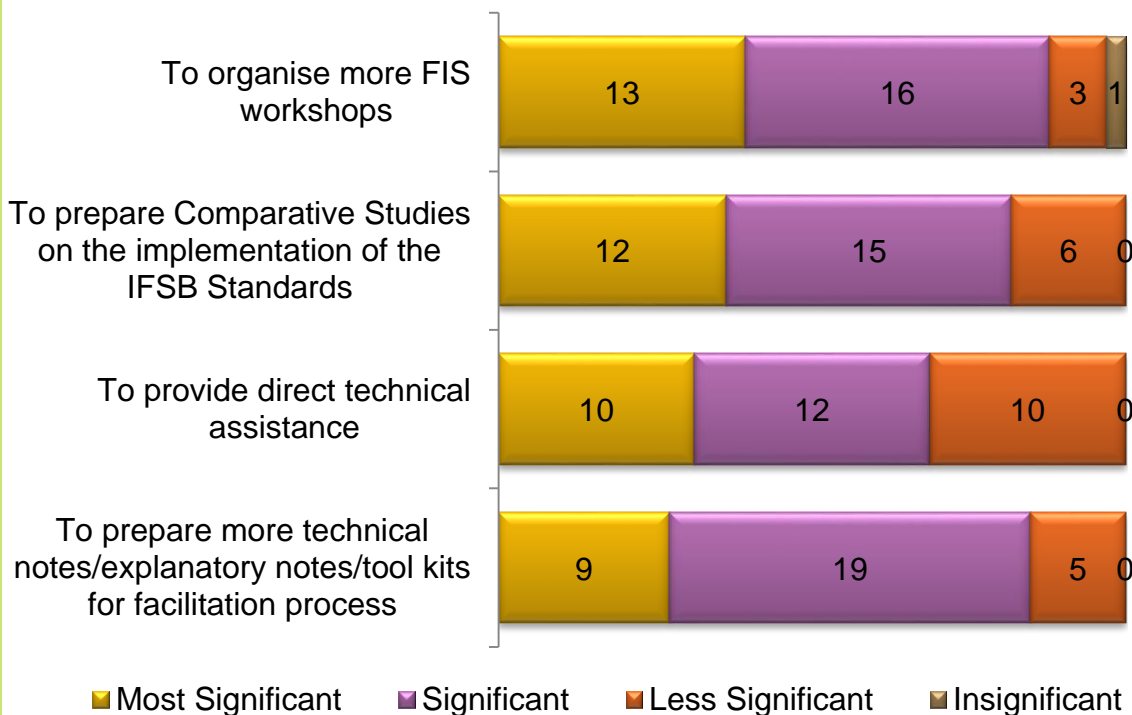
IMPLEMENTING CHALLENGES BROADLY REMAINED CONSISTENT OVER THE YEARS

Challenges	2014 Survey			2013 Survey			2011 Survey		
	Mean	Rank	Base	Mean	Rank	Base	Mean	Rank	Base
Need to change legal framework	2.36	1	28	N/A			N/A		
Need to change regulatory and supervisory framework	2.52	2	28	2.4	1	29	2.7	1	25
Lack of personnel with relevant knowledge/experience/training	2.62	3	29	2.5	2	30	3.0	2	25
Cost of implementation	2.73	4	28	3.38	3	29	3.9	3	25
Lack/poor quality of data to support implementation of the Standards	2.79	5	28	3.6	5	30	4.1	4	25
Institution size and complexity	2.90	6	27	3.45	4	29	4.1	5	25

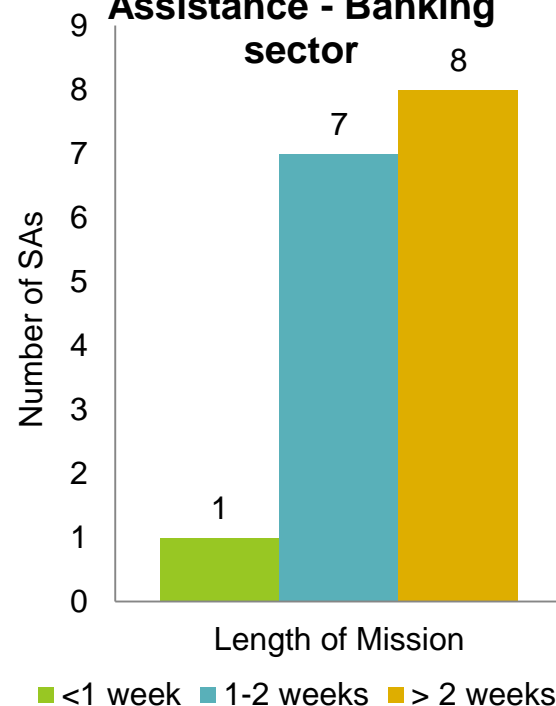
Most significant challenges faced by jurisdictions relate to 'change in legal and regulatory framework' and 'lack of appropriate personnel'.

RESPONDENTS WANT MORE FIS WORKSHOPS, COMPARATIVE STUDIES AND TECHNICAL ASSISTANCE

Technical assistance options for RSAs



Approximate timeframe for the Technical Assistance - Banking sector



- 13 out of 30 (43%) RSAs preferred to organise more FIS workshops by IFSB as the most significant option for implementation of IFSB standards.
- The direct TA was also ranked as most significant option by 10 out of 30 (33%) RSAs.

COMPARATIVE STUDY ON IMPLEMENTATION

COMPARATIVE STUDY ON IMPLEMENTATION OF SELECTED IFSB STANDARDS

OBJECTIVES OF STUDY



To explore **the extent of implementation** of selected IFSB Standards in the IFSB member countries



To identify factors that make for strong or weak patterns of implementation of IFSB standards



To **provide recommendations** to the IFSB members on the areas that they should emphasise in strengthening resilience and stability

THE STUDY: JURISDICTIONS AND STANDARDS

Draws on:

- General evidence on standards implementation
- IFSB's 2014 standards implementation survey
- Discussions and correspondence with selected RSAs in the following jurisdictions:

Possible recipients of ADB TA

Bangladesh

Indonesia

Pakistan

Strong record of implementation of IFSB standards

Bahrain

Jordan

Malaysia

Sudan

Standards applicable to the banking sector were chosen:

- IFSB-2: Capital Adequacy Standard for IIFS
- IFSB 4: Disclosures to Promote Transparency and Market Discipline for IIFS
- IFSB-5: Guidance on key Elements in the Supervisory Review Process of IIFS
- IFSB-10: Guiding Principles on Sharīah Governance Systems for IIFS

Rationale

They are well-established standards → significant practical experience of implementation

Three of them have conventional counterparts (the three pillars of the Basel capital framework); one is unique to Islamic finance → allows for comparison

They are of different types → whether the type of standard is an important influence

EVIDENCE: STUDIES AND SURVEY

EVIDENCE: FSB AND BCG STUDIES

Studies cover standards implementation in emerging markets and developing economies

- Common issues of capacity, independence and powers
- Particular issue around ability to exercise discretion
- May be appropriate to “deconstruct” standards for implementation

EVIDENCE: IFSB IMPLEMENTATION SURVEY

Challenges in implementing IFSB-2, 4, 5 and 10

- For IFSB-10 main issue seems to be fitting Shari’ah governance into frameworks designed around conventional regulation.
- IFSB-2 clearly more difficult than IFSB-4 or IFSB-5.
- Scores highly on both “too detailed and technical” and “too unspecific”
- Technical knowledge of Islamic finance among staff seen as a significant problem at implementation stage

Technical assistance

Priority may be lower, but sought for substantial periods

IFSB vs conventional standards for banking

Banking (base: 21)



EVIDENCE: DISCUSSIONS WITH RSAs

Implementation process	Other issues	
<ul style="list-style-type: none"> • The successful implementers have a working presumption that IFSB standards will be implemented, and their dialogue with industry takes place in that context • Others may have more difficulty gaining consensus on need to implement. • Some also need to convince local Shari'ah boards 	Jurisdictional	Standards
	<ul style="list-style-type: none"> • In dual systems, a single top-level legal framework may be an advantage • Some RSAs have problems of institutional capacity • So does industry in contributing to discussion • Implementation benefits from: <ul style="list-style-type: none"> ○ Identifiable policy resources for Islamic finance ○ Involvement in the standards creation process 	<ul style="list-style-type: none"> • In general, few criticisms of IFSB standards • Some jurisdictions want more complete standards, covering same issues as conventional counterparts • Too long a period between the emergence of a conventional standard and its Islamic counterpart • The standards did not always use language consistently • Possible areas for future work: strategic planning, Islamic windows

MAIN OVERALL CONCLUSIONS

- The factor most conducive to successful implementation is a commitment to implement standards

Commitment

- IFSB needs to create and support a presumption for implementation

Presumption

- As with conventional standards, jurisdictions have different needs: simplicity v completeness

Simplicity vs. completeness

Standards development

Faster, more complete response to conventional standards?

“Implementation ready” standards

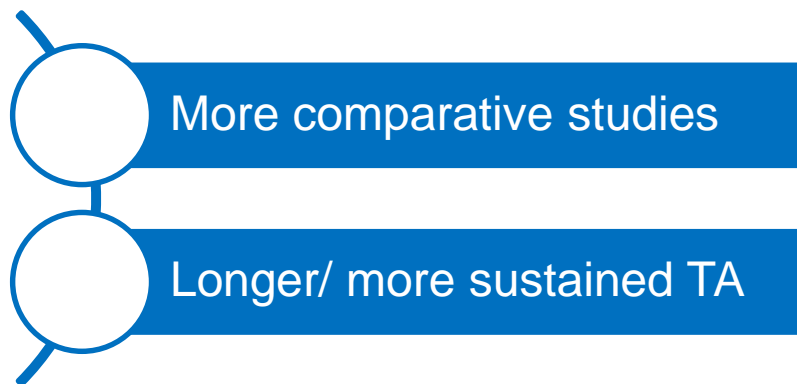
Consistent definitions and terminology

Involvement in the process gives real value

IMPLEMENTATION

- Need to support members with implementation strategy?
- Full implementation standard by standard will not always be right
- Are there advantages to a “deconstruction” approach for more complex standards?
- Core Principles are particularly suited to this; do they offer an alternative approach to implementation strategy, especially for jurisdictions new to Islamic finance
- Communication may need to go beyond technical staff, and beyond the RSA

Members' requests



- But what is envisaged here?
- May involve working with other agencies

MOVING FORWARD

GOING FORWARD: MULTI-PRONGED STRATEGY FOR SUPPORTING IMPLEMENTATION (1)

BROADER CONSIDERATIONS FOR STANDARDS IMPLEMENTATION PROCESS



- Adoption of conventional standards- how frequent?
- Additional aspects: specific Islamic finance issues, building blocks etc.
- More coverage for some areas e.g. windows

The IFSB Standards Agenda

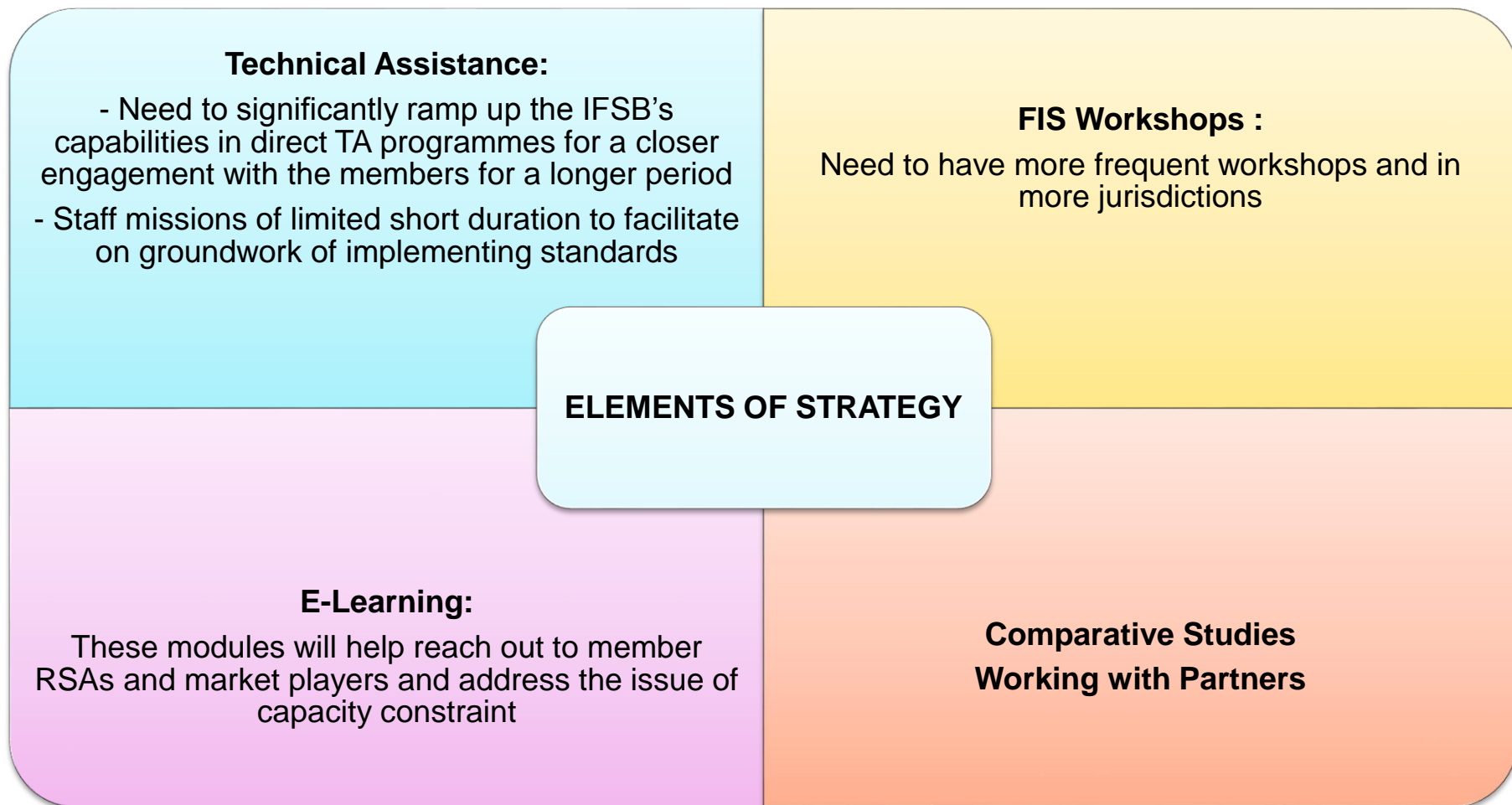
- Faster, more complete response to conventional standards?
- Involvement of RSAs in standards preparation supports implementation
- Consistent definitions and terminology

Standards Development: Process and Content

- IFSB to work with other agencies for greater impact
- “Deconstruction” of standards for implementation
- Implementation approach based on Core Principles
- Communication with local industry as well as RSAs

Implementation Support

GOING FORWARD: MULTI-PRONGED STRATEGY FOR SUPPORTING IMPLEMENTATION (2)



GOING FORWARD: MULTI-PRONGED STRATEGY FOR SUPPORTING IMPLEMENTATION (3)

Issues raised at the 9th Stability Forum in 2014 have been further illuminated...

Staffing

- Additional intellectual resources to address capacity and capability constraints

Financial resources

- Additional financial resources to help support implementation initiatives

Organisational priorities

- Changes in organisational structure of the Secretariat
- Possible significant implications for SPP 2016-2018



The Secretariat will submit a detailed strategy to the Council in December 2015 as a part of new Strategic Performance Plan 2016-2018

**THANK YOU FOR
YOUR ATTENTION**