



**ISLAMIC FINANCIAL
SERVICES BOARD**

**REVISED STANDARD ON DISCLOSURES TO PROMOTE
TRANSPARENCY AND MARKET DISCIPLINE FOR
INSTITUTIONS OFFERING ISLAMIC FINANCIAL
SERVICES (BANKING SEGMENT)**

Dec 2018

IFSB - 22

ABOUT THE ISLAMIC FINANCIAL SERVICES BOARD (IFSB)

The IFSB is an international standard-setting organisation which was officially inaugurated on 3 November 2002 and started operations on 10 March 2003. The organisation promotes and enhances the soundness and stability of the Islamic financial services industry by issuing global prudential standards and guiding principles for the industry, broadly defined to include the banking, capital markets and insurance sectors. The standards prepared by the IFSB follow a stringent due process as outlined in its Guidelines and Procedures for the Preparation of Standards/Guidelines, which includes holding several Working Group meetings, issuing exposure drafts and organising public hearings/webinars and reviews by the IFBS's Sharī'ah Board and Technical Committee. The IFSB also conducts research and coordinates initiatives on industry-related issues and organises roundtables, seminars and conferences for regulators and industry stakeholders. Towards this end, the IFSB works closely with relevant international, regional and national organisations, research/educational institutions and market players.

For more information about the IFSB, please visit **www.ifsb.org**.

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PROMOTE TRANSPARENCY AND MARKET DISCIPLINE FOR INSTITUTIONS
OFFERING ISLAMIC FINANCIAL SERVICES (BANKING SEGMENT)**

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* In alphabetical order of the country the member's organisation represents, except international organisations, which are listed first.

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Mr. Ateeq Ali (until 8 June 2017)	Member of the Secretariat, Technical and Research

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ABBREVIATIONS

AAOIFI	Accounting and Auditing Organization for Islamic Financial Institutions
ALA	Alternative Liquidity Approaches
AT1	Alternative Tier 1
BCBS	Basel Committee on Banking Supervision
BI	Business Indicator
BIC	Business Indicator Component
BOD	Board of Directors
CAR	Capital Adequacy Ratio
CCB	Capital Conservation Buffer
CCF	Credit conversion factor
CCR	Counterparty credit risk
CCyB	Countercyclical capital buffer
CET1	Common equity tier 1
CRE	Commercial real estate
CRM	Credit risk mitigation
CSR	Corporate social responsibility
CUSIP	Committee on Uniform Securities Identification Procedures
CVA	Credit valuation adjustment
DCR	Displaced commercial risk
D-SIB	Domestic systemically important bank
DTLs	Deferred tax liabilities
ECA	Export credit agency
ECAI	External credit assessment institution
ECL	Expected credit loss
ESG	Environmental, social and governance
EVE	Economic value of equity
FC	Financial component
FSB	Financial Stability Board
GAAP	Generally accepted accounting principles
GFC	Global Financial Crisis
GN-3	Guidance note on the practice of smoothing the profits payout to investment account holders
HQLA	High-quality liquid assets
IAH	Investment account holders

ABBREVIATIONS

IASB	International Accounting Standards Board
ICIS	Islamic collective investment scheme
IDBGSB	Islamic Development Bank Group Sharī'ah Board
IFRS	International Financial Reporting Standards
IFSB	Islamic Financial Services Board
IFSB-15	<i>Revised Capital Adequacy Standard for Institutions offering Islamic Financial Services (Excluding Islamic Insurance [Takāful] and Islamic Collective Investment Schemes)</i>
IFSI	Islamic financial services industry
IIFS	Institution(s) offering Islamic financial services (banking sector)
IMA	Internal models approach
IPCRE	Income-producing commercial real estate
IPRRE	Income-producing residential real estate
IRR	Investment risk reserve
ISIC	International standard industrial classification
ISIN	International securities identification number
LCR	Liquidity coverage ratio
MRT	Material risk takers
NIFS	Net income from financing and <i>sukūk</i>
NSFR	Net stable funding ratio
OECD	Organisation for Economic Co-operation and Development
OTC	Over the counter
PER	Profit equalisation reserve
PSIA	Profit-sharing investment accounts
ROA	Return on assets
ROE	Return on equity
RPSIA	Restricted profit-sharing investment accounts
RRE	Residential real estate
RSAs	Regulatory and supervisory authorities
RW	Risk weight
RWA	Risk-weighted asset
SAGs	Standards and guidelines
SC	Services component
SFT	Securities financing transactions
SMEs	Small and medium-sized enterprises

ABBREVIATIONS

SNCI	Sharī'ah non-compliant income
SPEs	Special purpose entities
SRP	Supervisory review process
TLAC	Total loss-absorbing capacity
UPSIA	Unrestricted profit-sharing investment accounts

SECTION 1 : GENERAL CONSIDERATIONS

1.1 Introduction

1. Market discipline has long been recognised as a key objective of financial sector regulation by the international standard-setting bodies and regulatory and supervisory authorities (RSAs). The provision of meaningful information about key risk metrics to market participants is a fundamental tenet of a sound banking system. It reduces information asymmetry and helps promote comparability of banks' risk profiles and product offerings within and across jurisdictions. Pillar 3 of the Basel framework aims to promote market discipline through regulatory disclosure requirements. These requirements enable market participants to access key information relating to a bank's regulatory capital and risk exposures in order to increase transparency about its exposure to risk and the overall adequacy of its regulatory capital.

2. The need for transparency is, above all, an important consideration for institutions offering Islamic financial services (IIFS), which must comply with Sharī'ah rules and regulations, as any form of concealment, fraud or attempt at misrepresentation violates the principles of justice and fairness in Sharī'ah as mentioned in the Holy Qur'an and Sunnah.

3. In 2007, the Council of the Islamic Financial Services Board (IFSB) approved the adoption of IFSB-4: Disclosures to Promote Transparency and Market Discipline for Institutions offering Islamic Financial Services (Excluding Islamic Insurance [Takāful] Institutions and Islamic Mutual Funds). The purpose of IFSB-4 was to specify a set of key principles and practices complementing the international standards on disclosure requirements to be followed by IIFS in making disclosures, with a view to achieving transparency and promoting market discipline in regard to these institutions. For this purpose, recommendations were developed for a set of disclosures that address different types of stakeholders and focus on the risk profile and financial soundness of IIFS.

4. The principles and practices of IFSB-4 were designed to enable market participants generally, and investment account holders (IAH) in particular, to get key information on: (a) the type, nature and scale of IIFS; (b) the capital structure; (c) the treatment of investment accounts; (d) the risk management process; (e) the indicators of risk sharing with IAH; (f) the key aspects of general and Sharī'ah governance; (g) the scope of consumer-friendly disclosures concerning risks and returns, Sharī'ah compliance and investment account products; and (h) the role of Islamic windows.

5. Since the issuance of IFSB-4 in 2007, wide-ranging changes have taken place in the regulatory landscape of the banking sector due to the Global Financial Crisis (GFC). The financial industry, particularly the banking segment, witnessed several regulatory developments aimed at dealing with the prudential concerns resulting from the GFC. In response to the crisis, the Basel Committee on Banking Supervision (BCBS) issued Basel 2.5 in 2009 and the Basel III framework in 2010. The BCBS has also issued a series of other documents covering disclosure-related amendments, culminating in the issuance of Pillar 3: *Disclosure Requirements – Consolidated and Enhanced Framework* in March 2017.¹

¹ Pillar 3: *Disclosure Requirements – Consolidated and Enhanced Framework*, March 2017: www.bis.org/bcbs/publ/d400.pdf.

6. In the past few years, the IFSB has issued a number of documents designed to complement global regulatory developments in the conventional financial industry, including guiding principles on liquidity risk management and on stress testing (IFSB-12 and IFSB-13, respectively), as well as revised standards on capital adequacy and the supervisory review process (IFSB-15 and IFSB-16, respectively). The issuance of these revised standards effectively complemented Pillars 1 and 2 of the Basel III framework. The IFSB also issued Core Principles for Islamic Finance Regulation for the banking segment (IFSB-17) in 2015, which complements the Basel Revised Core Principles and includes specific principles for disclosure and transparency.

7. Based on the above considerations, and in line with the IFSB's mandate to develop prudential standards and guidelines (SAGs) to promote the soundness and stability of the Islamic financial services industry (IFSI), it was resolved, during the preparation of the IFSB's Strategic Performance Plan 2012–2015, that IFSB-4 would be revised subsequent to the issuance of the revised capital adequacy standards (IFSB-2 and IFSB-7),² as well as the supervisory review process standard (IFSB-5),³ since all these changes would impact the disclosure regime of the Islamic banking industry.

1.2 Purpose and Objectives

8. In addition to aligning the IFSB SAGs with global regulatory standards, this standard aims to specify a set of key principles and practices to be followed by IIFS in the banking sector in making disclosures, with a view to achieving transparency and promoting market discipline in regard to these institutions. It further addresses some additional areas not previously covered by IFSB SAGs related to disclosure, and aims to promote consistency and comparability of disclosures among IIFS by introducing harmonised templates for the disclosure of quantitative information of key risks relevant to IIFS.

9. This standard is addressed to IIFS and to their supervisory authorities and other relevant policymakers. For disclosures to be effective in promoting market discipline, they would need to be complemented by the observance of international standards for good corporate governance of IIFS, and by the availability of a set of other infrastructure components for well-functioning financial markets that serve as the necessary conditions for an effective disclosure regime. These infrastructure components are broadly outlined as necessary conditions in Appendix A of this standard.

10. Issues of information asymmetry and consumer protection have attracted attention from governments and international standard setters in the period since the GFC, particularly as consumers face more sophisticated and complex financial products and markets. Information disclosure, including standardised and prescribed information, supports the decision-making process of financial consumers and allows them to make informed assessments of the financial products and services on offer. Accordingly, this standard considers disclosure aspects relevant to consumer protection and sets key point-of-sale disclosure requirements aimed at supporting the decision-making process of financial consumers.

2 Now IFSB-15: *Revised Capital Adequacy Standard for Institutions offering Islamic Financial Services (Excluding Islamic Insurance [Takāful] and Islamic Collective Investment Schemes)*, December 2013.

3 Now IFSB-16: *Revised Guidance on Key Elements in the Supervisory Review Process of IIFS*, March 2014.

11. The objectives of this standard are to:
- a. facilitate access to relevant, reliable and timely information by market participants generally, and by IAH in particular, thereby enhancing their capacity to monitor and assess the performance of IIFS;
 - b. improve comparability and consistency of all disclosures made by IIFS;
 - c. support financial consumer protection by helping IIFS offer useful information disclosures on Islamic banking products; and
 - d. enable market participants to complement and support, through their actions in the market, the implementation of the IFSB standards.
12. These disclosure principles and practices widen the scope of IFSB-4 and are designed to enable market participants generally, and IAH in particular, to assess key information on: (a) the type of IIFS and the scope of the consolidation method used by members of an Islamic financial group; (b) capital structure and overview of capital adequacy; (c) linkages between accounting and regulatory scopes of consolidation; (d) the treatment of investment accounts, including their risks and returns; (e) the risk management process; (f) asset encumbrance; (g) key aspects of general governance and Shari'ah governance; (h) the treatment of Islamic windows;⁴ (i) consumer protection; and (j) social impact initiatives. Such disclosures, when combined with adequate market and legal infrastructures, can improve consumer protection practices among IIFS and enable market forces to enhance the stability and soundness of Islamic finance and reinforce other IFSB standards.

1.3 Scope of Application

13. This revised standard updates IFSB-4 in line with the following publications issued by the BCBS: (a) *Pillar 3 disclosure requirements – consolidated and enhanced framework*, issued in March 2017; (b) *Revised Pillar 3 disclosure requirements*, issued in January 2015; (c) *Consultative document for Pillar 3 disclosure requirements – updated framework*, issued in February 2018; and (d) *Technical Amendment for Pillar 3 disclosure requirements – regulatory treatment of accounting provisions*, issued in March 2018. The standard applies to Islamic banks, including Islamic funds managed by IIFS in the form of restricted investment accounts and Islamic window operations of conventional banks (with both asset and funding facilities). Individual jurisdictions may choose to apply this standard to other IIFS in their domestic financial sector should it be considered relevant and appropriate.

14. The standard is applied on a fully consolidated basis at the holding company level within a group or subgroup of the institution offering Islamic financial services, or as appropriate on an individual basis subject to the discretion of RSAs. However, the standard is not intended to be applied at the consolidated level to a group or subgroup that consists of entities other than IIFS.

4 See the definition of Islamic window in paragraph 175.

15. The standard complements the minimum risk-based capital requirements and other quantitative requirements as specified in the IFSB's revised standards on capital adequacy (IFSB-15) and on the supervisory review process (IFSB-16), and aims to promote market discipline by providing meaningful, consistent and comparable regulatory information to investors, consumers and other stakeholders. The standard does not render IFSB-4 invalid for jurisdictions that are not implementing Basel III. References in this standard are made to corresponding BCBS frameworks should equivalent underlying capital requirements not be available in IFSB-15 or other IFSB SAGs at the time the standard is published.⁵ Jurisdictions making adaptations from the BCBS frameworks are expected to make such adaptations only where the BCBS frameworks are deemed not to be in conflict with Sharī'ah rules and principles.

1.4 Implementation Date

16. Supervisory authorities are expected to start implementation of this standard in their jurisdictions from end-2020, except for the tables and templates stated in the following list, for which corresponding implementation dates are specified.

Tables and Templates	Implementation Date of Disclosure Requirements
Template 15 Exposures by Asset Classes and Risk Weights	1 January 2022
Template 19 Credit Risk Exposure and Credit Risk Mitigation Effects	1 January 2022
Template 20 Standardised Approach – CCR Exposures by Regulatory Portfolio and Risk	1 January 2022
Template 21 Composition of Collateral for CCR Exposure	
Template 22 Sharī'ah-compliant Hedging Instruments Exposures	
Template 27 Liquidity Coverage Ratio	1 January 2015
Template 28 Net Stable Funding Ratio	1 January 2018
Table 19 Market Risk	1 January 2022
Template 29 Market Risk under Standardised Approach	
Table 20 Operational Risk	1 January 2022
Template 30 Operational Risk Historical Losses	
Template 31 Business Indicator and its Subcomponents	
Template 32 Minimum Required Operational Risk Capital	

17. When an IIFS is under a transitional arrangement permitted by IFSB standards and does not already comply with the fully loaded requirements, the transitional data should be reported. IIFS should clearly state whether reported figures are computed on a transitional or fully loaded basis.

⁵ References, definitions, templates and tables in this standard are subject to change in view of future revisions and updates to IFSB-15.

1.5 Achieving Appropriate Disclosure Levels

18. Information provided by IIFS in compliance with this standard must be, at a minimum, subject to the same level of internal review and internal control processes as the information provided by IIFS for their financial reporting (i.e. the level of assurance must be the same as for information provided within the management discussion and analysis part of the financial report). A formal disclosure policy setting out internal controls and procedures for disclosure of information in this standard must be approved by boards of directors (BODs) of IIFS. Key elements of such policies must be disclosed in the year-end regulatory disclosures document.

19. IIFS are expected to provide narrative commentaries to explain any significant changes occurring in quantitative disclosures between reporting periods. These commentaries may also contain other issues that IIFS deem to be of interest to users and market participants. The presentation of these additional narratives is at the discretion of each institution.

20. Disclosures made to achieve compliance with this standard must be published in a stand-alone document that is readily accessible for users. This document may also be appended to, or form a distinct section of, IIFS' financial reporting provided that it is easily identifiable to users. Archives of disclosures made in line with this standard must be made available by IIFS or RSAs, with an appropriate retention period to be determined by the relevant RSA.

21. IIFS (and Islamic windows) shall disclose information that is material in the sense that its omission or misstatement could influence a user relying on that information for the purpose of making legitimate economic or risk assessments, and/or decisions regarding compliance with Sharī'ah requirements. A qualitative judgment (use test) based on user information needs and Sharī'ah requirements will be an appropriate benchmark of materiality. Determination of materiality benchmarks must be part of the formal disclosure policy of IIFS without prejudice to individual RSAs setting their own materiality thresholds relevant to their domestic banking system.

1.6 Signposting

22. IIFS may disclose in a document separate from their regulatory stand-alone disclosure document required by this standard (such as in an IIFS's annual report) the tables required by this standard where the criteria in the following paragraph are met. In such circumstances, IIFS must signpost clearly, in the stand-alone disclosure document, where the separate disclosure requirements can be accessed. This signposting must include:

- the title and number of the disclosure requirement;
- the full name of the separate document in which the disclosure requirement has been published;
- a web link, where relevant; and
- the page and paragraph number of the separate document where the disclosure requirements can be located.

23. The required templates may be disclosed by IIFS in a separate document other than that required by this standard, provided the document is clearly signposted and all of the following criteria are met:

- the information contained in the signposted document is equivalent in terms of presentation and content to that required in the template and allows users to make meaningful comparisons with information provided by IIFS disclosing the templates;
- the information contained in the signposted document is based on the same scope of consolidation as the one used in the disclosure requirement;
- the disclosure in the signposted document is mandatory; and
- the supervisory authority responsible for ensuring the implementation of the IFSB standards is subject to legal constraints in its ability to require the reporting of duplicative information.

24. IIFS can only make use of signposting to another document if the level of assurance on the reliability of data in the separate document is equivalent to, or greater than, the internal assurance level required for regulatory disclosure document required by this standard.

1.7 Frequency and Timeliness

25. The reporting frequencies are set out separately for each disclosure requirement in the corresponding section of this standard. Reporting frequencies vary between quarterly, semi-annual and annual reporting, depending on the nature of the specific disclosure requirement.

26. Information disclosed in compliance with this standard, excluding point-of-sale and product documentation disclosures, must be published concurrently with the financial report for the corresponding period of the IIFS. If a disclosure requirement as set out by this standard is required to be published for a period when an IIFS does not produce any financial report, the disclosure must then be published as soon as practicable. However, the time lag must not exceed that allowed to the institution for its regular financial reporting period-ends. Latest reporting periods in templates appearing in this standard are designated by (T), while (T-1), (T-2), etc. are used for reporting periods preceding (T).

1.8 Proprietary and Confidential Information

27. Proprietary information encompasses information that is competition sensitive and, if shared, would jeopardise the competitive position of an IIFS. This has an impact on the level of disclosure of an IIFS's customer base, details of internal arrangements or methodologies adopted by IIFS. 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.

28. In circumstances where a particular detailed disclosure might significantly jeopardise their position, IIFS rely on their good judgment to provide a more general but adequately informative disclosure, subject to supervisory discretion. In cases where disclosures of specific quantitative data might lead to impairment of an IIFS's competitive position as referred to above, qualitative disclosures relating to the relevant aspect of an IIFS's operations providing adequate clarity and knowledge to the users should be made.

1.9 General Guidance for Disclosures

29 The guidance provided by this standard builds on the guiding principles adopted by the BCBS and set out in the *Revised Pillar 3 Disclosure Requirements*, January 2015. These disclosure principles, which are addressed to IIFS, aim to achieve transparent, comprehensive, consistent and clear risk disclosures that will enable users to better understand and compare business operations and associated risks in IIFS.

- **Principle 1: IIFS shall have a formal disclosure policy**

30 IIFS shall have a formal disclosure policy that is approved by their boards of directors. The disclosure policy will address the individual IIFS's approach for determining what disclosures it will make and the internal governance process and specific controls over the disclosure process. The establishment of a Governance Committee,⁶ as a body with the responsibility to oversee governance issues relating to IAH, can help to enhance the transparency of returns and risks, and of the underlying factors that affect them.

- **Principle 2: Disclosures should be clear**

31. Disclosures must be presented in an understandable form to key stakeholders and must be communicated through an accessible medium. Important messages should be made easy to find and be clearly highlighted, while complex issues should be explained in simple language and illustrative form (e.g. using graphs, diagrams and simple bullet-point summaries, etc.) with important terms defined. Risk information that is related should be presented together.

- **Principle 3: Disclosures should be comprehensive**

32. Disclosures should describe the main activities of the IIFS, and all significant risks associated with these activities, and be supported by relevant data and information. Significant variations in disclosed risk exposures between reporting periods should be described.

33. Disclosures should provide sufficient quantitative and qualitative information on the IIFS's policies, processes and procedures for identifying, measuring, managing and monitoring disclosed risks. The level of detail of such disclosure should be proportionate to the size and business and organisational complexity of the IIFS.⁷

34. Approaches to disclosure should be sufficiently flexible to reflect how senior management and the BOD internally assess and manage risks and strategy, helping users to better understand the IIFS's risk tolerance/appetite.

35. The scope of disclosure shall be commensurate and consistent with the risk assessment and risk management objectives, policies and practices of the IIFS.⁸

- **Principle 4: Disclosures should be meaningful to users**

⁶ The establishment of a Governance Committee is recommended in the IFSB's *Guiding Principles on Corporate Governance for Institutions offering only Islamic Financial Services (Excluding Islamic Insurance [Takāful] and Islamic Mutual Funds)*.

⁷ Proportionality criteria and approaches are as determined by the relevant RSAs. Guidance on the applicability of disclosure requirements to Islamic windows is provided in Section 8 of this standard.

⁸ The risk assessment practices of an IIFS would reflect its size and nature of operations.

36 Disclosures should highlight an IIFS's most significant current and emerging risks and how those risks are managed, including information that is likely to receive market attention. Where meaningful, linkages must be provided to line items on the financial statements. Disclosures that do not communicate useful information should be avoided. Similarly, information that does not add value to users' understanding or is no longer meaningful or relevant to users should be removed.

- **Principle 5: Disclosures should be consistent over time**

37 Disclosures should be consistent over time to allow stakeholders to identify trends in an IIFS's risk profile across all significant aspects of its business operations. Additions, deletions and other important changes in disclosures from previous reports, regardless of the drivers of such changes, should be highlighted and explained.

- **Principle 6: Disclosures should be comparable across IIFS**

38. The level of detail and the format of presentation of disclosures should enable key stakeholders to perform meaningful comparisons of corporate profiles, business activities, prudential metrics, risk exposures, risk management tools and methodologies, risk controls, investment practices, social, economic and environmental impact initiatives, and consumer protection efforts between IIFS.

39. The IFSB recognises the differences that exist within the disclosure frameworks among countries, and the varying levels of disclosure practices among the IIFS under their jurisdictions. Notwithstanding the obligation of IIFS to comply with their national regulatory framework, this standard is intended to enhance the level of transparency through disclosures based on international accounting and auditing standards⁹ that do not conflict with Shari'ah rules and principles, thus narrowing the gap in disclosure practices and enabling comparisons across jurisdictions. In cases of differences or conflicts between the national regulatory framework and the IFSB standards, the supervisory authorities need to find ways of harmonising such differences or resolving the conflicts without violating Shari'ah rules and principles.

9 Accounting standards applicable in different jurisdictions include, among others, accounting standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), the International Financial Reporting Standards (IFRS) and the Generally Accepted Accounting Principles (GAAP).

SECTION 2 : FINANCIAL AND RISK DISCLOSURE PRINCIPLES

2.1 Focus and Approach of the Standard

40. In a manner consistent with, and complementary to, other IFSB standards (such as those on corporate governance, Sharī'ah governance and risk management), this standard shall focus on financial, risk and governance disclosures to enable market participants to assess the different categories of risks and the overall level of risk in IIFS, the extent of risk sharing and displaced commercial risk (DCR) borne by shareholders, and the practice of allocating investment returns and smoothing of profit payouts on profit-sharing investment accounts (PSIA) where IIFS commingle the funds of unrestricted IAH with their own (shareholders') funds. This standard places particular emphasis on retail investor-oriented disclosures of risks, as well as returns to IAH.

41. Required disclosures are presented below for the scope of inclusion in the disclosures for an individual IIFS, its capital structure, capital adequacy, investment accounts (including specific disclosures on unrestricted investment accounts and restricted investment accounts), linkages between accounting and regulatory scopes of consolidation, regulatory risk exposures by category of risk, general and Sharī'ah governance arrangements, consumer-friendly disclosures for retail IAH, treatment of Islamic windows, consumer protection, and social, economic and environmental impact disclosures. For each category, tables and/or templates are presented showing both qualitative and quantitative disclosures, and highlighting key elements that shall be disclosed. A definition of Islamic windows for the purpose of these principles is given in Section 8, together with a general statement as to how their disclosures shall be treated within the scope of these principles.

42. Given the differences in the practices of IIFS across jurisdictions (such as the availability of investment account products, prevalence of Islamic windows, etc.), some of the contents presented below may not necessarily apply to all jurisdictions and/or IIFS. Tables and templates shall be followed as and when applicable, with appropriate adaptations by the supervisory authorities. Also, in view of the differences among countries and IIFS on the availability of historical data on key items in balance sheets and income statements, some of the requested disclosures of past data would have to be phased in during a transitional period until a record of the required data is built up.

43. In line with the above, the disclosure requirements in the following tables are intended to be applied on a "comply or explain" basis. In other words, instances of non-observance of any of the components of these disclosure requirements (e.g. where observance is not feasible because the component is not applicable to the IIFS or because the necessary data are not available) shall be clearly and adequately explained.

2.2 Scope of Inclusion: Corporate Information

44. A summary of corporate information on the institutions, restrictions on regulatory capital transfers within the group of companies, and quantitative disclosures on interests in *takāful* and insurance are set out in Table 1.

Table 1 Scope of Inclusion: Corporate Information

Qualitative Disclosures: Annual	
1.	The name of the ultimate holding corporate entity (or parent entity) in the group to which this disclosure framework is applied, with an indication of whether it is an IIFS or a conventional financial institution with an Islamic window operation to which the framework is applicable.
2.	A brief description of the entities within the group (a) that are fully consolidated; (b) that are pro-rata consolidated; (c) that are given a deduction treatment; and (d) from which surplus capital is recognised; plus (e) that are neither consolidated nor deducted (e.g. where the investment is risk-weighted). This specifically applies to full-fledged IIFS bank subsidiaries. In the case of Islamic window operations, a separate set of financial statements is to be disclosed in the notes.
3.	The IIFS's policies on intragroup funding transactions, along with any restrictions or other impediments, on the transfer of funds or regulatory capital within the group.
Quantitative Disclosures: Semi-annual	
4.	The aggregate amount of surplus equity (in excess of the minimum regulatory requirements) of any unconsolidated <i>takāful</i> (Islamic insurance) subsidiaries. ¹⁰
5.	The aggregate amount of capital deficiencies (in relation to the regulatory capital) in all subsidiaries not included in the consolidation, ¹¹ and the name(s) of such subsidiaries.
6.	The aggregate current book value of the firm's total interests in insurance entities, whether consolidated or not.

2.3 Capital Structure and Overview of Risk Management, Key Prudential Metrics and Risk-weighted Assets

45. Disclosures of total and tier 1 capital by the top consolidated entity, equity of unrestricted IAH12 and the related prudential reserves of the IAH shall be made. These disclosures are recommended in view of the IAH bearing losses and thereby serving as a form of equity. Quantitative disclosures are set out in Template 1. More detailed disclosures on IAH are presented in Section 4.

10 Non-IIFS subsidiary and insurance entities within a group or subgroup of the IIFS are excluded from this consolidation. However, any equity interests in these subsidiaries must be disclosed. Any surpluses arising from the Shari'ah-compliant activities of these subsidiaries must also be clearly distinguished and reported.

11 The amount of such deficiencies should be deducted in calculating the group regulatory capital.

12 The term "equity of unrestricted investment account holders" does not imply that such amounts are part of the bank's own (shareholders') capital. By virtue of the *muḍārabah* contract, IAH share profits earned on assets financed by their funds with the bank as *muḍārib*, and are exposed as *rabb al-māl* to losses on assets financed by their funds. Thus, they are in principle a type of equity investor, rather than a creditor. However, certain supervisors require or permit IIFS in their jurisdictions to treat unrestricted IAH similarly to conventional depositors, in the sense that the IIFS shall not require unrestricted IAH to bear losses and shall pay them a smoothed return that reflects current market conditions, and such a practice is generally not considered Shari'ah-compliant.

46. Given the level of detail required for disclosure in this standard, IIFS are required to provide an overview of their key prudential regulatory metrics. These metrics are relevant to regulatory capital, leverage ratio¹³ and liquidity. IIFS are required to report these values on a quarterly basis and as at reporting period-end, together with corresponding values of the previous four quarters.

47. IIFS may add rows to the template if they wish to provide additional regulatory or financial metrics. Any additional metrics provided by IIFS must be disclosed consistently and through a disclosure policy approved by the BOD, and must be accompanied by definitions and full explanations on how these metrics are calculated and their scope(s) of consolidation, if applicable. Any additional metrics must be in addition to, and not in replacement of, existing metrics provided in the template.

48. IIFS may provide a commentary supplementing the template to explain significant changes, and drivers of these changes, in the value of each metric across quarters (if any).

49. IIFS applying a transitional arrangement for the implementation of the expected credit loss (ECL) approach to provisioning under applicable accounting frameworks must provide key elements of the transition they use as a supplement to this template.

Template 1 Key Prudential Regulatory Metrics: Quarterly

		T	T-1	T-2	T-3	T-4
	Eligible Capital (Amounts)					
1.	Common equity tier 1 (CET1)					
1a.	Fully loaded expected credit loss (ECL) accounting model CET1 ¹⁴					
2.	Tier 1 ¹⁵					
2a.	Fully loaded ECL accounting model tier 1					
3.	Total capital ¹⁶					
3a.	Fully loaded ECL accounting model total capital					
	Risk-weighted Assets (Amounts)					
4.	Total risk-weighted assets (RWA)					

13 The IFSB shall issue the disclosure requirements for leverage ratio upon the finalisation and issuance of the underlying leverage ratio framework as part of the ongoing revision to IFSB-15.

14 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.

15 "Tier 1" refers to tier 1 capital, which is the sum of CET1 capital and AT1 capital.

16 "Total capital" refers to the sum of tier 1 capital and tier 2 capital.

		T	T-1	T-2	T-3	T-4
	Risk-based Capital Ratios as a Percentage of RWA					
5.	CET1 ratio (%)					
5a.	Fully loaded ECL accounting model CET1 ratio (%)					
6.	Tier 1 ratio (%)					
6a.	Fully loaded ECL accounting model tier 1 ratio (%)					
7.	Total capital ratio (%)					
7a.	Fully loaded ECL accounting model total capital ratio (%)					
	Additional CET1 Buffer Requirements as a Percentage of RWA					
8.	Capital conservation buffer requirement (2.5% from 2019) (%)					
9.	Countercyclical buffer requirement (%)					
10.	IIFS domestic systemically important banks (D-SIBs) additional requirements (%)					
11.	Total of IIFS CET1 specific buffer requirements (%) [8 + 9 + 10]					
12.	CET1 available after meeting the IIFS's minimum capital requirements (%)					
	Leverage Ratio					
13.	Total leverage ratio exposure measure					
14.	Leverage ratio (%) [2/13]					
14a.	Fully loaded ECL accounting model IFSB-15 leverage ratio (%) [2a/13]					
	Liquidity Coverage Ratio					
15.	Total high-quality liquid assets (HQLA)					
16.	Total net cash outflow (30 days)					
17.	Liquidity coverage ratio (LCR) (%)					
	Net Stable Funding Ratio					
18.	Total available stable funding					
19.	Total required stable funding					
20.	Net stable funding ratio (NSFR)					

		T	T-1	T-2	T-3	T-4
	Equity of Investment Account Holders					
21.	Total amount of unrestricted profit-sharing investment accounts (PSIA) funds					
22.	Total amount of restricted PSIA funds					
23.	Balance of profit equalisation reserve (PER) – shareholders' component (both unrestricted and restricted PSIA)					
24.	Balance of PER–IAH component (both unrestricted and restricted PSIA)					
25.	Balance of investment risk reserve (IRR) (both unrestricted and restricted PSIA)					

50. In addition to disclosures required in Template 1, IIFS should provide a summary discussion on their approach to assessing the adequacy of their capital to support current and future activities, and a description of policy on identifying RWAs funded by unrestricted investment accounts (if any). Risk-weighted assets financed by PSIA shall, in principle, be excluded in the calculation of the denominator of the capital ratio, in so far as the commercial risk of these assets does not affect the IIFS's owner's capital. In practice, however, a proportion of these RWAs may be subject to a capital requirement, depending upon the extent of risk not absorbed by unrestricted IAH. Under the capital adequacy framework laid out by IFSB-15, this proportion of RWAs to be included in the denominator of the capital ratio is specified in terms of alpha (α)¹⁷ It is essential to disclose the applicable alpha as well as the process of determination of the assets to which the alpha is applied and the policy concerning the application of alpha to ensure consistency in application.

51. IIFS must provide a breakdown of the total RWA (denominator) of the risk-based regulatory capital requirements on a quarterly basis, as at period-end and corresponding values of the previous quarter. Such disclosure must be made in accordance with Template 2. Table 2 provides explanatory text relevant to the template. IIFS must identify and explain the drivers behind changes in RWA figures across reported periods T and T-1, where these differences are significant.

52. Should values in column (c) not equal 8% of RWA in column (b), IIFS must provide relevant explanations for any adjustments made.

¹⁷ A specified proportion (denoted by "alpha") of the RWA funded by unrestricted IAH (UIAH) is included in the denominator of the capital adequacy ratio (CAR). The rationale behind this is to reflect the amount of risk (known as displaced commercial risk) arising out of the IIFS's management of PSIA. The proportion "alpha" is dependent on the supervisory authority's directive in the jurisdiction in which the IIFS operates. In the case where the practice of smoothing profit payouts to IAH by the IIFS is not confined to unrestricted PSIA (UPSIA) but extends to the restricted PSIA, alpha will have two components, one for UPSIA and the other for restricted PSIA, so that each component reflects the DCR for each category of PSIA.

Template 2 Overview of RWA: Quarterly

		a	b	c
		RWA		Minimum Capital Requirements
		T	T-1	T
1.	Credit risk under the standardised approach (excluding counterparty credit risk and including restricted and unrestricted PSIA)			
2.	Of which: supervisory slotting approach			
3.	Counterparty credit risk (CCR) under the standardised approach			
4.	Credit valuation adjustment			
5.	Equity positions under the simple risk-weight approach (<i>muḍārabah</i> , <i>mushārah</i> and <i>wakālah</i> contracts for private commercial enterprise to undertake a business venture other than trading activities)			
6.	Equity investments in Islamic collective investment schemes (ICIS) – look-through approach			
7.	Equity investments in ICIS – mandate-based approach			
8.	Equity investments in ICIS – fall-back approach			
9.	Settlement risk			
10.	Securitisation exposures in the banking book under the standardised approach			
11.	Market risk (including unrestricted and restricted PSIA) under the standardised approach			
12.	Capital charge due to switch between banking book and trading book			
13.	Operational risk			
14.	Amounts below the thresholds for investments in the capital of banking, financial and <i>takāful</i> entities (as per paragraph 31(i) of IFSB-15)			
15.	Credit risk and market risk for assets funded by PSIA (unrestricted and restricted)			
16.	Credit risk and market risk for assets funded by restricted PSIA			
17.	[Credit risk and market risk for assets funded by unrestricted PSIA x (1-α)]			
18.	[Credit risk and market risk for assets funded by PER and IRR of unrestricted PSIA x (α)]			

		a	b	c
		RWA		Minimum Capital Requirements
		T	T-1	T
19.	Aggregate capital floor applied			
20.	Floor adjustment (before application of transitional cap)			
21.	Floor adjustment (after application of transitional cap)			
22.	Total – standard formula as per paragraph 285(a) of IFSB-15 (1 + 3 + 4 + 5 + 6 + 7 + 8 + 9 + 10 + 11 + 12 + 13 + 14 – 15 + 21)			
23.	Total – supervisory discretion formula as per paragraph 285(b) of IFSB-15 (1 + 3 + 4 + 5 + 6 + 7 + 8 + 9 + 10 + 11 + 12 + 13 + 14 – 16 – 17 – 18 + 21)			

Table 2 Definitions and Instructions for Overview of RWA Template

Row Number	Explanation
1.	<i>Credit risk under the standardised approach (excluding counterparty credit risk and including restricted and unrestricted PSIA):</i> RWA and capital requirements according to section 3.1 of IFSB-15; this excludes all securitisation exposures (which are reported in row 10) and capital requirements relating to a counterparty credit risk charge, which are reported in row 3.
2.	<i>Of which: supervisory slotting approach:</i> RWA and capital requirements according to the supervisory slotting approach.
3.	<i>Counterparty credit risk under the standardised approach:</i> RWA and capital charges according to the counterparty credit risk framework, as reported in section 5.4 of this standard, excluding credit valuation adjustment (CVA) as reported in row 4.
4.	<i>Credit valuation adjustment:</i> RWA and capital charge requirements according to the finalised Basel III framework.
5.	Equity positions under the simple risk-weight approach (muḍārabah, mushārah and wakālah contracts for private commercial enterprise to undertake business venture other than trading activities): the amounts in row 5 correspond to RWA where an IIFS applies the market-based approach (simple risk-weight approach).
6	<i>Equity investments in ICIS – look-through approach:</i> RWA and capital requirements calculated in accordance with paragraphs 80(ii)–(v) of the Basel framework as of 1 January 2017.
7	<i>Equity investments in ICIS – mandate-based approach:</i> RWA and capital requirements calculated in accordance with paragraphs 80(vi)–(vii) of the Basel framework as of 1 January 2017.
8	<i>Equity investments in ICIS – fall-back approach:</i> RWA and capital requirements calculated in accordance with paragraph 80(viii) of the Basel framework as of 1 January 2017.
9.	<i>Settlement risk:</i> the amounts correspond to the requirements in Annex 3, and the third bullet point in paragraph 90, of the Basel III framework.

Row Number	Explanation
10.	<i>Securitisation exposures in the banking book under the standardised approach:</i> the amounts correspond to capital requirements applicable to the securitisation exposures in the banking book (Section 5 of IFSB-15).
11.	<i>Market risk (including unrestricted and restricted PSIA) under the standardised approach:</i> RWA and capital requirements according to the market risk standardised approach (section 3.2 of IFSB-15), including capital requirements for securitisation positions booked in the trading book.
12.	<i>Capital charge for switch between trading book and banking book:</i> outstanding accumulated capital surcharge imposed on the IIFS when the total capital charge (across the banking book and trading book) of an IIFS is reduced as a result of the instruments being switched between the trading book and the banking book at the institution's discretion and after their original designation. The outstanding accumulated capital surcharge takes into account any adjustment due to run-off as the positions mature or expire, in a manner agreed with the supervisor.
13.	<i>Operational risk:</i> the amounts corresponding to the minimum capital requirements for operational risk in the finalised Basel III framework.
14.	<i>Amounts below the thresholds for deduction:</i> the amounts correspond to items subject to credit and market risk frameworks according to paragraph 31(i) of IFSB-15.
15.	<i>Credit risk and market risk for assets funded by PSIA (unrestricted and restricted):</i> RWA and capital requirements for assets that were funded by PSIA according to credit risk and market risk frameworks of IFSB-15. Where funds are commingled, the RWAs are calculated based on their pro-rata share of the relevant assets. PSIA balances include PER and IRR, or equivalent reserves.
16.	<i>Credit risk and market risk for assets funded by restricted PSIA:</i> RWA and capital requirements for assets that were funded by restricted PSIA according to credit risk and market risk frameworks of IFSB-15.
17.	<i>[Credit risk and market risk for assets funded by unrestricted PSIA $\times (1-\alpha)$]:</i> Credit and market risk RWAs funded by unrestricted PSIA, multiplied by $(1 - \alpha)$, representing the proportion for which IAH bear the commercial risk for these assets.
18.	<i>[Credit and market risk for assets funded by PER and IRR of unrestricted PSIA $\times (\alpha)$]:</i> Credit and market risk RWAs funded by PER and IRR of unrestricted PSIA, multiplied by α , representing the proportion for which IIFS bear the commercial risk for these assets.
19.	<i>Aggregate capital floor applied:</i> the aggregate capital floor (expressed as a percentage) applied by the IIFS in its computation of the floor adjustment value in rows 20 and 21.
20.	<i>Floor adjustment (before the application of transitional cap):</i> the impact of the capital floor before the application of the transitional cap, based on the aggregate capital floor applied in row 19, in terms of the increase in RWA.
21.	<i>Floor adjustment (after the application of transitional cap):</i> the impact of the capital floor after the application of the transitional cap, based on the aggregate capital floor applied in row 19, in terms of the increase in RWA. The figure disclosed in this row takes into account the transitional cap (if any) applied by the IIFS's RSA, which will limit the increase in RWA to 25% of the IIFS's RWA before the application of the aggregate capital floor.

2.4 Capital Adequacy

53. A-Capital adequacy determination for IIFS differs from that for conventional financial institutions in that: (a) its financing arrangements are either asset-based (using contracts such as *murābahah* and *istisnā'*, among others), profit- and loss-sharing (*mushārakah*) or profit-sharing and loss-bearing (*muḍārabah*); and (b) some of the funding is raised through unrestricted investment accounts that are, in principle, a form of equity. As such, the underlying assets involved under the Sharī'ah-compliant financing contracts may be exposed to market (price) risk, as well as to credit risk in respect of the amount due from the counterparty. Treatment of assets funded by PSIA (both restricted and unrestricted) for the purposes of capital adequacy calculation must follow Template 2 and the text preceding it.

54. In line with the latest Pillar 3 disclosure requirements of the BCBS, IIFS are required to provide, on a semi-annual basis, a breakdown of the elements forming their regulatory capital according to the scope of regulatory consolidation in accordance with Template 3. Table 3 provides explanatory text relevant to Template 3.

Template 3 Composition of Regulatory Capital: Semi-annual

		a	b
		Amounts	Source Based on Reference Numbers/Letters of the Balance Sheet under the Regulatory Scope of Consolidation
	Composition of Regulatory Capital		
	Common Equity Tier 1 Capital: Instruments and Reserves		
1.	Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus ¹⁸		(g)
2.	Retained earnings		
3.	Accumulated other comprehensive income (and other reserves)		
4.	<i>Directly issued capital subject to phase-out from CET1 (only applicable to non-joint stock companies)</i>		
5.	Common share capital issued by consolidated subsidiaries of IIFS and held by third parties (amount allowed in group CET1)		
6.	Common equity tier 1 capital before regulatory adjustments		

¹⁸ Minority interest arising from the issue of capital instruments by a fully consolidated subsidiary of an IIFS may be treated as CET1 or alternative tier (AT) 1 subject to its meeting the conditions and criteria stated in section 2.1.5 of IFSB-15.

		a	b
		Amounts	Source Based on Reference Numbers/Letters of the Balance Sheet under the Regulatory Scope of Consolidation
	Common Equity Tier 1 Capital: Regulatory Adjustments		
7.	<i>Zakāh</i> obligations (subject to provisions of applicable national laws, regulatory requirements and applicable accounting standards) ¹⁹		
8.	Prudent valuation adjustments		
9.	Goodwill (net of related tax liability)		(a) minus (d)
10.	Other intangibles (net of related tax liability)		(b) minus (e)
11.	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)		
12.	Cash flow hedge reserve		
13.	Securitisation gain on sale		
14.	Gains and losses due to changes in own credit risk on fair valued liabilities		
15.	Pension fund net assets		
16.	Investments in own shares if not already subtracted from paid-in on reported balance sheet		
17.	Reciprocal cross-holdings in the capital of banking, financial and insurance entities		
18.	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the IIFS does not own more than 10% of the issued common shares (amount above 10% threshold)		
19.	Significant investments in common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation (amount above 10% threshold)		
20.	Residential financing servicing rights (amount above 10% threshold)		

¹⁹ *Zakāh* obligations should be adjusted for in this template only if retained earnings were calculated gross of *zakāh*.

		a	b
		Amounts	Source Based on Reference Numbers/Letters of the Balance Sheet under the Regulatory Scope of Consolidation
	Common Equity Tier 1 Capital: Regulatory Adjustments		
21.	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)		
22.	Amount exceeding the 15% threshold		
23.	Of which: significant investment in the common stock of financials		
24.	Of which: residential financing servicing rights		
25.	Of which: deferred tax assets arising from temporary differences		
26.	National specific regulatory adjustments		
27.	Regulatory adjustments applied to CET1 due to insufficient AT1 and AT2 to cover deductions		
28.	Total regulatory adjustments to CET1		
29.	CET1 capital		
	Additional Tier 1 Capital: Instruments		
30.	Directly issued qualifying AT1 instruments plus related stock surplus		(h)
31.	Of which: classified as equity under applicable accounting standards		
32.	Of which: classified as liabilities under applicable accounting standards		
33.	<i>Directly issued capital instruments subject to phase-out from AT1</i>		
34.	AT1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)		
35.	Of which: instruments issued by subsidiaries subject to phase-out		
36.	AT1 capital before regulatory adjustments		

		a	b
		Amounts	Source Based on Reference Numbers/Letters of the Balance Sheet under the Regulatory Scope of Consolidation
	Additional Tier 1 Capital: Regulatory Adjustments		
37.	Investments in own AT1 instruments		
38.	Reciprocal cross-holdings in AT1 instruments		
39.	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the IIFS does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)		
40.	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation		
41.	National specific regulatory adjustments		
42.	Regulatory adjustments applied to AT1 due to insufficient tier 2 to cover deductions		
43.	Total regulatory adjustments to AT1 capital		
44.	AT1 capital (after regulatory adjustments)		
45.	Tier 1 capital (T1 = CET1 + AT1)		
	Tier 2 Capital: Instruments and Provisions		
46.	Directly issued qualifying tier 2 instruments plus related stock surplus		
47.	<i>Directly issued capital instruments subject to phase-out from tier 2</i>		
48.	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 35) issued by subsidiaries and held by third parties (amount allowed in group tier 2)		
49.	Of which: instruments issued by subsidiaries subject to phase-out		
50.	Provisions		
51.	Tier 2 capital; before regulatory adjustments		

		a	b
		Amounts	Source Based on Reference Numbers/Letters of the Balance Sheet under the Regulatory Scope of Consolidation
	Tier 2 Capital: Regulatory Adjustments		
52.	Investments in own tier 2 instruments		
53.	Reciprocal cross-holdings in tier 2 instruments and other total loss-absorbing capacity (TLAC) liabilities		
54.	Investment in capital and other TLAC liabilities of banking, financial and <i>takāful</i> entities that are outside the scope of regulatory consolidation, where an IIFS does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)		
55.	Significant investments in the capital and other TLAC liabilities of banking, financial and <i>takāful</i> entities that are outside the scope of regulatory consolidation (net of eligible short positions)		
56.	National specific regulatory adjustments		
57.	Total regulatory adjustments to tier 2 capital		
58.	Tier 2 capital (T2) (after regulatory adjustments)		
59.	Total regulatory capital (TC = T1 + T2)		
60.	Total RWAs		
	Capital Ratios and Buffers		
61.	CET1 capital ratio (as a percentage of RWAs)		
62.	Tier 1 capital ratio (as a percentage of RWAs)		
63.	Total capital ratio (as a percentage of RWAs)		
64.	Institution-specific buffer requirements (capital conservation buffer plus countercyclical buffer requirements plus D-SIB buffer requirement, expressed as a percentage of RWAs)		
65.	Of which: capital conservation buffer requirement		
66.	Of which: IIFS-specific countercyclical buffer requirement		
67.	Of which: D-SIB buffer requirement		

		a	b
		Amounts	Source Based on Reference Numbers/Letters of the Balance Sheet under the Regulatory Scope of Consolidation
68.	CET1 (as a percentage of RWAs) available after meeting the IIFS's minimum capital requirements		
	National Minimum (if Different from IFSB-15)		
69.	National CET1 minimum ratio (if different from IFSB-15 minimum)		
70.	National tier 1 minimum ratio (if different from IFSB-15 minimum)		
71.	National total capital minimum ratio (if different from IFSB-15 minimum)		
	Amounts below the Thresholds for Deduction (before Risk Weighting)		
72.	Non-significant investments in the capital and other TLAC liabilities of other financial entities		
73.	Significant investments in the common stock of financial entities		
74.	Residential financing servicing rights (net of related tax liability)		
75.	Deferred tax assets arising from temporary differences (net of related tax liability)		
	Applicable Caps on the Inclusion of Provisions in Tier 2		
76.	Provisions eligible for inclusion in tier 2 in respect of exposures subject to standardised approach (prior to application of cap)		
77.	Cap on inclusion of provisions in tier 2 under standardised approach		

		a	b
		Amounts	Source Based on Reference Numbers/Letters of the Balance Sheet under the Regulatory Scope of Consolidation
	Capital Instruments Subject to Phase-Out Arrangements²⁰		
78.	<i>Current cap on CET1 instruments subject to phase-out arrangements</i>		
79.	<i>Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)</i>		
80.	<i>Current cap on AT1 instruments subject to phase-out arrangements</i>		
81.	<i>Amount excluded from AT1 due to cap (excess over cap after redemption and maturities)</i>		
82.	<i>Current cap on T2 instruments subject to phase-out arrangements</i>		
83.	<i>Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)</i>		

Table 3 Definitions and Instructions for Composition of Regulatory Capital Template

Row Number	Explanation
1.	Instruments issued by the parent company of the reporting group that meet all of the CET1 eligibility criteria set out in paragraph 25 of IFSB-15. This should be equal to the sum of common stock (and related surplus only) and other instruments for non-joint stock companies, all of which must meet the common stock criteria. This should be net of treasury stock and other investments in own shares to the extent that these are already derecognised on the balance sheet under the relevant accounting standards. Other paid-in capital elements must be excluded. All minority interests must be excluded.
2.	Retained earnings, prior to all regulatory adjustments. In accordance with paragraph 24(c) of IFSB-15, this row should include interim profit and loss that has met any audit, verification or review procedures that the supervisory authority has put in place. Dividends are to be removed in accordance with the applicable accounting standards; that is, they should be removed from this row when they are removed from the balance sheet of the bank.
3.	Accumulated other comprehensive income and other disclosed reserves, prior to all regulatory adjustments.

20 Subject to any phase-out or transitional arrangements as required by local RSAs.

Row Number	Explanation
4.	Directly issued capital instruments subject to phase-out from CET1 in accordance with the requirements of paragraph 95 of Basel III. This is only applicable to non-joint stock companies. IIFS structured as joint stock companies must report zero in this row.
5.	Common share capital issued by subsidiaries of IIFS and held by third parties. Only the amount that is eligible for inclusion in group CET1 should be reported here, as determined by the application of paragraph 31(a) of IFSB-15.
6.	Sum of rows 1 to 5.
7.	<i>Zakāh</i> obligations shall be assessed when an IIFS as an entity has been in operation for at least 12 months. These requirements are, nevertheless, subject to the provisions of applicable national laws, regulatory requirements and applicable accounting standards.
8.	Prudent valuation adjustments according to the requirements of paragraphs 698–701 of Basel II (comprehensive version, June 2006), taking into account the guidance set out in Supervisory Guidance for Assessing Banks' Financial Instrument Fair Value Practices, April 2009 (in particular, Principle 10).
9.	Goodwill net of related tax liability, as set out in paragraph 31(d) of IFSB-15.
10.	Other intangibles other than residential financing servicing rights (net of related tax liability), as set out in paragraph 31(d) of IFSB-15.
11.	Deferred tax assets that rely on future profitability as set out in paragraph 31(f) of IFSB-15.
12.	The element of the cash flow hedge reserve described in paragraph 31(g) of IFSB-15.
13.	Securitisation gain on sale, as set out in paragraph 31(h) of IFSB-15.
14.	Gains and losses due to changes in own credit risk on fair valued liabilities, as described in paragraph 31(b) of IFSB-15.
15.	Pension fund net assets, the amount to be deducted as set out in paragraph 31(e) of IFSB-15.
16.	Investments in own shares (if not already subtracted from paid-in capital on reported balance sheet), as set out in paragraph 31(c) of IFSB-15.
17.	Reciprocal cross-holdings in common equity, as set out in paragraph 31(j) of IFSB-15.
18.	Investments in the capital of banking, financial and <i>takāful</i> entities that are outside the scope of regulatory consolidation and where the IIFS does not own more than 10% of the issued share capital, net of eligible short positions and amount above 10% threshold. Amount to be deducted from CET1 calculated in accordance with paragraph 31(i) of IFSB-15.
19.	Significant investments in the common stock of banking, financial and <i>takāful</i> entities that are outside the scope of regulatory consolidation, net of eligible short positions and amount above 10% threshold. Amount to be deducted from CET1 calculated in accordance with paragraph 31(i) of IFSB-15.
20.	Residential financing servicing rights (amount above 10% threshold), amount to be deducted from CET1 in accordance with paragraphs 87–88 of Basel III.
21.	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability), amount to be deducted from CET1 in accordance with paragraphs 87–88 of Basel III.

Row Number	Explanation
22.	Total amount by which the three threshold items exceed the 15% threshold, excluding amounts reported in rows 19–21, calculated in accordance with paragraphs 87–88 of Basel III.
23.	The amount reported in row 22 that relates to significant investments in the common stock of financials.
24.	The amount reported in row 22 that relates to residential financing servicing rights.
25.	The amount reported in row 22 that relates to deferred tax assets arising from temporary differences.
26.	Any specific regulatory adjustments that national authorities require to be applied to CET1 in addition to IFSB-15 minimum set of adjustments. Guidance should be sought from national supervisors.
27.	Regulatory adjustments applied to CET1 due to insufficient AT1 capital to cover deductions. If the amount reported in row 43 exceeds the amount reported in row 36, the excess is to be reported here.
28.	Total regulatory adjustments to CET1, to be calculated as the sum of rows 7–22 plus rows 26–27.
29.	CET1, to be calculated as row 6 minus row 28.
30.	Instruments issued by the parent company of the reporting group that meet all of the AT1 entry criteria set out in paragraph 27 of IFSB-15 and any related stock surplus as set out in paragraph 26 of IFSB-15. All instruments issued by subsidiaries of the consolidated group should be excluded from this row. This row may include AT1 issued by a special purpose vehicle (SPV) of the parent company only if it meets the requirements set out in paragraph 31(a) of IFSB-15.
31.	The amount in row 30 classified as equity under applicable accounting standards.
32.	The amount in row 30 classified as liabilities under applicable accounting standards.
33.	Directly issued capital instruments subject to phase-out from AT1 in accordance with the requirements of paragraph 94(g) of Basel III.
34.	AT1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties, the amount allowed in group AT1 in accordance with paragraph 31(a) of IFSB-15.
35.	The amount reported in row 34 that relates to instruments subject to phase-out from AT1 in accordance with the requirements of paragraph 94(g) of Basel III.
36.	The sum of rows 30, 33 and 34.
37.	Investments in own AT1 instruments, amount to be deducted from AT1 in accordance with paragraph 31(c) of IFSB-15.
38.	Reciprocal cross-holdings in AT1 instruments, amount to be deducted from AT1 in accordance with paragraph 31(j) of IFSB-15.
39.	Investments in the capital of banking, financial and <i>takāful</i> entities that are outside the scope of regulatory consolidation and where the bank does not own more than 10% of the issued common share capital of the entity, net of eligible short positions and amount above 10% threshold. Amount to be deducted from AT1 calculated in accordance with paragraph 31(i) of IFSB-15.
40.	Significant investments in the capital of banking, financial and <i>takāful</i> entities that are outside the scope of regulatory consolidation, net of eligible short positions. Amount to be deducted from AT1 in accordance with paragraph 31(i) of IFSB-15.

Row Number	Explanation
41.	Any national specific regulatory adjustments that national authorities require to be applied to AT1 in addition to the minimum set of adjustments specified in IFSB-15. Guidance should be sought from national supervisors.
42.	Regulatory adjustments applied to AT1 due to insufficient tier 2 capital to cover deductions. If the amount reported in row 57 exceeds the amount reported in row 51, the excess is to be reported here.
43.	The sum of rows 37–42.
44.	AT1 capital, to be calculated as row 36 minus row 43.
45.	Tier 1 capital, to be calculated as row 29 plus row 44.
46.	Instruments issued by the parent company of the reporting group that meet all of the tier 2 capital criteria set out in paragraph 28 of IFSB-15 and any related stock surplus as set out in paragraph 28(c) of IFSB-15. All instruments issued by subsidiaries of the consolidated group should be excluded from this row. This row may include tier 2 capital issued by an SPV of the parent company only if it meets the requirements set out in paragraph 31(a) of IFSB-15.
47.	Directly issued capital instruments subject to phase-out from tier 2 capital in accordance with the requirements of paragraph 94(g) of Basel III.
48.	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 32) issued by subsidiaries and held by third parties (amount allowed in group tier 2), in accordance with paragraph 31(a) of IFSB-15.
49.	The amount reported in row 48 that relates to instruments subject to phase-out from tier 2 capital in accordance with the requirements of paragraph 94(g) of Basel III.
50.	Provisions included in tier 2, calculated in accordance with paragraph 28(b) of IFSB-15.
51.	The sum of rows 46–48 and 50.
52.	Investments in own tier 2 instruments, amount to be deducted from tier 2 capital in accordance with paragraph 78 of Basel III.
53.	Reciprocal cross-holdings in tier 2 capital instruments and other TLAC liabilities, amount to be deducted from tier 2 capital in accordance with paragraph 31(j) of IFSB-15.
54.	Investments in the capital instruments and other TLAC liabilities of banking, financial and <i>takāful</i> entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity: amount in excess of the 10% threshold that is to be deducted from tier 2 capital in accordance with paragraphs 80–83 of Basel III (as amended by the TLAC holdings standard). Any amount reported in this row will reflect other TLAC liabilities not covered by the 5% threshold and that cannot be absorbed by the 10% threshold.
55.	Significant investments in the capital and other TLAC liabilities of banking, financial and <i>takāful</i> entities that are outside the scope of regulatory consolidation (net of eligible short positions), amount to be deducted from tier 2 capital in accordance with paragraph 31(i) of IFSB-15.
56.	Any national specific regulatory adjustments that national authorities require to be applied to tier 2 capital in addition to the minimum set of adjustments specified in IFSB-15. Guidance should be sought from national supervisors.
57.	The sum of rows 52–56.

Row Number	Explanation
58.	Tier 2 capital, to be calculated as row 51 minus row 57.
59.	Total capital, to be calculated as row 45 plus row 58.
60.	Total RWAs of the reporting group.
61.	CET1 ratio (as a percentage of RWAs), to be calculated as row 29 divided by row 60 (expressed as a percentage).
62.	Tier 1 ratio (as a percentage of RWAs), to be calculated as row 45 divided by row 60 (expressed as a percentage).
63.	Total capital ratio (as a percentage of RWAs), to be calculated as row 59 divided by row 60 (expressed as a percentage).
64.	Institution-specific buffer requirement (capital conservation buffer plus countercyclical buffer requirements plus higher loss absorbency requirement, expressed as a percentage of RWAs).
65.	The amount in row 64 (expressed as a percentage of RWAs) that relates to the capital conservation buffer – that is, IIFS will report 2.5% here.
66.	The amount in row 64 (expressed as a percentage of RWAs) that relates to the institution-specific countercyclical buffer requirement.
67.	The amount in row 64 (expressed as a percentage of RWAs) that relates to the institution's higher loss absorbency requirement, if applicable.
68.	CET1 (as a percentage of RWAs) available after meeting the institution's minimum capital requirements. To be calculated as the CET1 ratio of the IIFS (row 61) less the ratio of RWA of any common equity used to meet the IIFS's CET1, tier 1 and total minimum capital requirements.
69.	National CET1 minimum ratio (if different from IFSB-15 minimum). Guidance should be sought from national supervisors.
70.	National tier 1 minimum ratio (if different from IFSB-15 minimum). Guidance should be sought from national supervisors.
71.	National total capital minimum ratio (if different from IFSB-15 minimum). Guidance should be sought from national supervisors.
72.	Investments in the capital instruments and other TLAC liabilities of banking, financial and <i>takāful</i> entities that are outside the scope of regulatory consolidation where the bank does not own more than 10% of the issued common share capital of the entity (in accordance with paragraph 31(i) of IFSB-15).
73.	Significant investments in the common stock of financial entities, the total amount of such holdings that are not reported in rows 19 and 23.
74.	Residential financing servicing rights, the total amount of such holdings that are not reported in rows 20 and 24.
75.	Deferred tax assets arising from temporary differences, the total amount of such holdings that are not reported in rows 21 and 25.
76.	Provisions eligible for inclusion in tier 2 capital in respect of exposures subject to standardised approach, calculated in accordance with paragraph 28(b) of IFSB-15, prior to the application of the cap.
77.	Cap on inclusion of provisions in tier 2 capital under the standardised approach, calculated in accordance with paragraph 28(b) of IFSB-15.

Row Number	Explanation
78.	Current cap on CET1 instruments subject to phase-out arrangements; see paragraph 95 of Basel III.
79.	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities); see paragraph 95 of Basel III.
80.	Current cap on AT1 instruments subject to phase-out arrangements; see paragraph 94(g) of Basel III.
81.	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities); see paragraph 94(g) of Basel III.
82.	Current cap on tier 2 capital instruments subject to phase-out arrangements; see paragraph 94(g) of Basel III.
83.	Amount excluded from tier 2 capital due to cap (excess over cap after redemptions and maturities); see paragraph 94(g) of Basel III.

2.5 Main Features of Regulatory Capital Instruments

55. An IIFS must provide a description of the main features of its regulatory capital instruments that are recognised as part of its capital base.

56. Template 4 must be posted on the IIFS's website and updated every time the IIFS issues or repays a capital instrument and whenever there is a redemption, conversion/write-down or other material change in the nature of an existing instrument. In addition, IIFS are required to make available, on their websites, the full terms and conditions of all instruments included in regulatory capital.

57. The minimum frequency for update is annual. IIFS should provide a web link in each regulatory disclosure report (prepared in compliance with this standard) to the issuances made over the previous period.

58. IIFS are required to complete the template for each outstanding regulatory capital instrument. (Insert "NA" if the category is not applicable.) Each instrument, including common shares, must be reported in a separate column of the template, such that the completed template would provide a "main features report" that summarises all of the regulatory capital of the IIFS. The list of main features represents a minimum level of required summary disclosure. In implementing this minimum requirement, each RSA is encouraged to add to this list if there are features that are important to disclose in the context of the IIFS it supervises.

Template 4 Main Features of Regulatory Capital Instruments: Annual²¹

		a
Row Number		Quantitative/ Qualitative Information
1.	Issuer	
2.	Unique identifier (e.g. example CUSIP, ISIN or Bloomberg identifier for private placement)	
3.	Governing law(s) of the instrument	
4.	Transitional IFSB/Basel III rules	
5.	Post-transitional IFSB/Basel III rules	
6.	Eligible at solo/group/group and solo	
7.	Instrument type (types to be specified by each jurisdiction)	
8.	Amount recognised in regulatory capital (currency in millions, as of most recent reporting date)	
9.	Par value of instrument	
10.	Accounting classification	
11.	Original date of issuance	
12.	Perpetual or dated	
13.	Original maturity date	
14.	Issuer call subject to prior supervisory approval	
15.	Optional call date, contingent call dates and redemption amount	
16.	Subsequent call dates, if applicable	
	<i>Profit rate/dividends</i>	
17.	Fixed or floating dividend/profit rate	
18.	Profit rate and any related index	
19.	Existence of a dividend stopper	
20.	Fully discretionary, partially discretionary or mandatory	
21.	Existence of step-up or other incentive to redeem	
22.	Non-cumulative or cumulative	
23.	Convertible or non-convertible	
24.	If convertible, conversion trigger(s)	

21 The IsDB Group Sharī'ah Board is of the opinion that the mechanism of partial or full write-down of any capital instrument is a mechanism that violates Sharī'ah rules and principles. Its presence in this template is for the purpose of disclosing such practices that are not in line with Sharī'ah rules and principles. As for conversion, it must be subjected to parameters that make it Sharī'ah-compliant. This opinion applies to all references to write-down and conversion in this standard.

		a
Row Number		Quantitative/ Qualitative Information
25.	If convertible, fully or partially	
26.	If convertible, conversion rate	
27.	If convertible, mandatory or optional conversion	
28.	If convertible, specify instrument type convertible into	
29.	If convertible, specify issuer of instrument it converts into	
30.	Write-down feature	
31.	If write-down, write-down trigger(s)	
32.	If write-down, full or partial	
33.	If write-down, permanent or temporary	
34.	If temporary write-down, description of write-up mechanism	
34a.	Type of subordination	
35.	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument in the insolvency creditor hierarchy of the legal entity concerned) ²²	
36.	Non-compliant transitioned features	
37.	If yes, specify non-compliant features	

59. Table 4 provides a more detailed explanation of what IIFS are required to report in each of the cells, and, where relevant, the list of options that IIFS should use to fill in each row of Template 4 using the row numbers in the left-hand column of the template.

Table 4 Definitions and Instructions for Main Features of Regulatory Capital Instruments Template

Row Number	Explanation	Format/List of Options (where relevant)
1.	Identifies issuer legal entity.	Free text
2.	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement).	Free text
3.	Specifies the governing law(s) of the instrument.	Free text
4.	Specifies the regulatory capital treatment during the IFSB/Basel III transitional phase (i.e. the component of capital from which the instrument is being phased out).	[Common equity tier 1] [Additional tier 1] [Tier 2]

²² Shari'ah-compliant payment hierarchy is one that gives priority to secured creditors subject to the value of their collaterals and to investment account holders subject to the value of the assets financed by their funds because such funds were given as a trust and are not debts. As for the rest, there is no priority among creditors, with each creditor receiving an amount pro-rata to his or her proportion of the debt. This ruling applies to all references to hierarchy or subordination in this standard.

Row Number	Explanation	Format/List of Options (where relevant)
1.	Identifies issuer legal entity.	Free text
2.	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement).	Free text
3.	Specifies the governing law(s) of the instrument.	Free text
4.	Specifies the regulatory capital treatment during the IFSB/Basel III transitional phase (i.e. the component of capital from which the instrument is being phased out).	[Common equity tier 1] [Additional tier 1] [Tier 2]
5.	Specifies regulatory capital treatment under IFSB/Basel III rules not taking into account transitional treatment.	[Common equity tier 1] [Additional tier 1] [Tier 2] [Ineligible]
6.	Specifies the level(s) within the group at which the instrument is included in capital.	[Solo] [Group] [Solo and group]
7.	Specifies instrument type, varying by jurisdiction. Helps provide more granular understanding of features, particularly during transition.	
8.	Specifies amount recognised in regulatory capital.	Free text
9.	Par value of instrument.	Free text
10.	Specifies accounting classification. Helps to assess loss absorbency.	[Shareholders' equity] [Liability – amortised cost] [Liability – fair value option] [Non-controlling interest in consolidated subsidiary]
11.	Specifies date of issuance.	Free text
12.	Specifies whether dated or perpetual.	[Perpetual] [Dated]
13.	For dated instrument, specifies original maturity date (day, month and year). For perpetual instrument, enter “no maturity”.	Free text
14.	Specifies whether there is an issuer call option.	[Yes] [No]
15.	For instrument with issuer call option, specifies: (i) the first date of call if the instrument has a call option on a specific date (day, month and year); (ii) the instrument has a tax and/or regulatory event call; and (iii) the redemption price.	Free text
16.	Specifies the existence and frequency of subsequent call dates, if applicable.	Free text
17.	Specifies whether the profit rate/dividend is fixed over the life of the instrument, floating over the life of the instrument, currently fixed but will move to a floating rate in the future, currently floating but will move to a fixed rate in the future.	[Fixed], [Floating] [Fixed to floating], [Floating to fixed]
18.	Specifies the profit rate of the instrument and any related index that the profit/dividend rate references.	Free text
19.	Specifies whether the non-payment of profit or dividend on the instrument prohibits the payment of dividends on common shares (i.e. whether there is a dividend stopper).	[Yes] [No]

Row Number	Explanation	Format/List of Options (where relevant)
20.	Specifies whether the issuer has full, partial or no discretion over whether a profit/dividend is paid. If the bank has full discretion to cancel profit/dividend payments under all circumstances, it must select "fully discretionary" (including when there is a dividend stopper that does not have the effect of preventing the bank from cancelling payments on the instrument). If there are conditions that must be met before payment can be cancelled (e.g. capital below a certain threshold), the IIFS must select "partially discretionary". If the IIFS is unable to cancel the payment outside of insolvency, the IIFS must enter "mandatory".	[Fully discretionary] [Partially discretionary] [Mandatory]
21.	Specifies whether there is a step-up or other incentive to redeem.	[Yes] [No]
22.	Specifies whether dividends/profits are cumulative or non-cumulative.	[Non-cumulative] [Cumulative]
23.	Specifies whether instrument is convertible or not.	[Convertible] [Non-convertible]
24.	Specifies the conditions under which the instrument will convert, including point of non-viability. Where one or more authorities have the ability to trigger conversion, the authorities should be listed. For each of the authorities, it should be stated whether the legal basis for the authority to trigger conversion is provided by the terms of the contract of the instrument (a contractual approach) or statutory means (a statutory approach).	Free text
25.	For conversion trigger separately, specifies whether the instrument: (i) will always convert fully; (ii) may convert fully or partially; or (iii) will always convert partially.	Free text referencing one of the options above
26.	Specifies rate of conversion into the more loss-absorbent instrument.	Free text
27.	For convertible instruments, specifies whether conversion is mandatory or optional.	[Mandatory] [Optional] [NA]
28.	For convertible instruments, specifies instrument type convertible into.	[Common equity tier 1] [Additional tier 1] [Tier 2] [Other]
29.	If convertible, specify issuer of instrument into which it converts.	Free text
30.	Specifies whether there is a write-down feature.	[Yes] [No]
31.	Specifies the trigger at which write-down occurs, including point of non-viability. Where one or more authorities have the ability to trigger write-down, the authorities should be listed. For each of the authorities it should be stated whether the legal basis for the authority to trigger conversion is provided by the terms of the contract of the instrument (a contractual approach) or statutory means (a statutory approach).	Free text
32.	For each write-down trigger separately, specifies whether the instrument: (i) will always be written down fully; (ii) may be written down partially; or (iii) will always be written down partially.	Free text referencing one of the options above

Row Number	Explanation	Format/List of Options (where relevant)
33.	For write-down instrument, specifies whether write-down is permanent or temporary.	[Permanent] [Temporary] [NA]
34.	For instrument that has a temporary write-down, description of write-up mechanism.	Free text
34a.	Type of subordination.	[Structural] [Statutory] [Contractual] [Exemption from subordination]
35.	Specifies instrument to which it is most immediately subordinate. Where applicable, IIFS should specify the column numbers of the instruments in the completed main features template to which the instrument is most immediately subordinate. In the case of structural subordination, "NA" should be entered.	Free text
36.	Specifies whether there are non-compliant features.	[Yes] [No]
37.	If there are non-compliant features, asks IIFS to specify which ones.	Free text

2.6 Countercyclical Capital Buffer

60. The countercyclical capital buffer (CCyB) has the macroprudential objective of reducing systemic risk by protecting the banking sector from periods of excessive aggregate credit growth and ensuring that it has levels of capital sufficient to maintain an uninterrupted supply of credit to the various economic sectors during periods of stress. This is intended to ensure that the real sector is not constrained by reduced credit availability during a downturn, and that capital in the banking sector has a cushion enabling it to absorb additional provisioning and credit losses during stressed market conditions. In addition, the CCyB is intended to promote financial stability by inhibiting the build-up of asset price bubbles in times of economic expansion (by imposing increased capital requirements during such times) and consequent financial system imbalances. In other words, during a period of excessive credit supply in the initial phase of an economic cycle, the build-up of a CCyB could increase the cost of credit, thus reducing the demand for it. It thus aims to reconcile microprudential policies with the goal of preserving the soundness of the financial system as a whole.

61. Supervisory authorities should set out CCyB requirements in their jurisdictions based on the guidance provided in section 2.3 of IFSB-15.

62. As shown in Template 5, IIFS are required to provide an overview of the geographical distribution (by country) of private-sector credit exposures (including financing based on profit-sharing contracts such as *muḍārabah* and *mushārah*) relevant for the calculation of CCyB. This is only applicable to IIFS subject to countercyclical buffer requirements in jurisdictions in which they have private-sector credit exposure subject to a countercyclical buffer requirement in accordance with IFSB-15. Disclosure is required only for IIFS with exposures to jurisdictions in which the countercyclical buffer rate is above zero.

63. Where possible, IIFS should geographically allocate exposures according to the country in which the guarantor of the exposure resides, rather than where the exposure was booked – that is, on an ultimate risk basis. IIFS must describe methodologies used in geographical allocation of credit exposures, particularly if such methodologies differ from the ultimate risk method. Changes in exposure amounts and drivers of those changes must be disclosed by IIFS, along with relevant jurisdiction-specific CCyB rates.

**Template 5 Geographical Distribution of Private-sector Credit Exposures Used in
the Countercyclical Capital Buffer: Semi-annual**

a	b	c		d	e
Geographical Breakdown	Countercyclical Capital Buffer Rate	Exposure Values and/ or Risk-weighted Assets Used in the Computation of the Countercyclical Capital Buffer		IIFS-specific Countercyclical Capital Buffer Rate	Countercyclical Buffer Amount
		Exposure Values	Risk-weighted Assets		
(Home) Country 1					
Country 2					
...					
Country N					
Sum					
Total					

2.7 Capital Distribution Constraints²³

64. Section 2.2 of IFSB-15 requires IIFS to build up a capital conservation buffer (CCB) amounting to 2.5% of CET1 during benign periods, which can be utilised to absorb losses during periods of financial and economic stress. The CCB ratio was set at 2.5% of RWAs, comprising only CET1 capital, and was established above the regulatory minimum capital requirement (i.e. after meeting the minimum requirements of 4.5% for CET1 and 8% for total capital). IFSB-15 also sets capital distribution restrictions on IIFS when their capital falls into the capital buffer range, in a manner that increases such restrictions as IIFS' CET1 ratios decline.

65. In line with the updated Pillar 3 framework issued by the BCBS as a consultative document in February 2018, the IFSB considers the provision of information by IIFS comparing their actual capital ratios with those that, if breached, would result in capital distribution restrictions being imposed by the relevant RSA to be meaningful and useful for market participants to assess the likelihood of capital distributions becoming restricted.

66. Template 6 requires IIFS to disclose two CET1 capital ratios that would trigger capital distribution restrictions: (a) one that considers only CET1 capital used to maintain minimum CET1 capital ratio, applicable risk-based buffer requirements (i.e. CCB, CCyB and additional capital requirements for D-SIBs) and any CET1 capital required by the applicable supervisory review process (SRP) standards; and (b) one where CET1 capital is used to meet regulatory minimum capital ratios (e.g. CET1 capital used to meet minimum tier 1 and/or total capital requirements) in addition to risk-based buffer requirements and any CET1 capital required by the applicable SRP standards. Where relevant, additional rows may be added to accommodate other national requirements that would trigger capital distribution constraints. Table 5 provides explanatory text relevant to Template 6.

67. IIFS should provide accompanying narrative describing capital distribution constraints where such constraints have been imposed. In addition, IIFS should provide a link to the RSA website (or attach relevant documents issued by RSAs) where the characteristics of the relevant jurisdiction's national requirements concerning capital distribution constraints are set out (e.g. stacking hierarchy of buffers, relevant time frame between breach of buffer and application of constraints, definition of earnings, and distributable profits used to calculate restrictions). IIFS may provide additional information they consider to be relevant for understanding the reported figures.

23 Disclosure requirements on capital distribution constraints should be read in line with the relevant provisions of IFSB-15 as issued in December 2013 and its subsequent revisions. These provisions highlight that supervisory authorities can apply limitations on some or all of the following items for IIFS whose capital falls below stipulated minimum requirements: (a) dividend payments to holders of common equity; (b) share buy-backs; (c) discretionary profit distributions to holders of other CET1 instruments; and/or (d) discretionary bonus payments to staff, provided this step is not in conflict with any contractual or legal obligations of the IIFS.

Template 6 Capital Distribution Constraints: Annual

		(a)	(b)
		CET1 Capital Ratio that would Trigger Capital Distribution Constraints (%)	Current CET1 Capital Ratio (%)
1.	CET1 minimum plus IFSB-15 buffers (excluding CET1 capital used to meet other regulatory capital requirements)		
2.	CET1 minimum plus IFSB-15 buffers (including CET1 capital used to meet other regulatory minimum capital requirement)		

Table 5 Definitions for Capital Distribution Constraints Template

Row Number	Explanation
1.	<i>CET1 minimum plus IFSB-15 buffers (excluding CET1 capital used to meet other regulatory capital requirements):</i> CET1 capital ratio that would trigger capital distribution constraints should the IIFS's CET1 capital ratio fall below this level. This ratio takes into account only CET1 capital used to maintain the minimum CET1 capital ratio of 4.5%, applicable risk-based buffer requirements (i.e. CCB, CCyB and any D-SIB surcharge), in addition to any capital requirements by the applicable SRP standards. This ratio does not take into account instances where the IIFS has used its CET1 capital to meet its other minimum regulatory ratios (i.e. tier 1 capital and total capital), which could increase the CET1 capital ratio that the IIFS has to meet in order to prevent capital distribution constraints from being triggered.
2.	CET1 minimum plus IFSB-15 buffers (including CET1 capital used to meet other regulatory minimum capital requirement): CET1 capital ratio that would trigger capital distribution constraints should the IIFS's CET1 capital ratio fall below this level. The ratio takes into account only CET1 capital that IIFS must maintain to meet the minimum regulatory capital ratios (i.e. CET1, tier 1 and total capital requirements), applicable risk-based buffer requirements (i.e. CCB [2.5%] and CCyB) and any CET1 capital required by the applicable SRP standards.

68. A numerical illustration of how IIFS would disclose their CET1 capital ratios under this requirement is provided below. This illustration assumes an IIFS that has a CET1 capital ratio of 12%, currently meets the IFSB-15 minimum CET1 ratio requirements of 4.5%, has a CCB of 2.5% CET1, a CCyB of 2% and uses CET1 capital of 1% of its RWA to meet its minimum of 6% tier 1 capital ratio. The IIFS, in this scenario, will disclose a capital distribution trigger of 9% (being 4.5% + 2.5% + 2%) in row 1, which does not consider CET1 that the IIFS has used to meet other regulatory minimum capital requirement (tier 1). The capital distribution trigger disclosed in row 2 will be 10% (4.5% + 2.5% + 2% + 1%), reflecting the true trigger by incorporating CET1 capital that the IIFS has used to meet its minimum tier 1 capital requirement. As the ratio disclosed in column (b) is higher than the minimum requirements in column (a), users of data disclosed in this template will know that capital distribution constraints are not triggered for this IIFS.

Numerical Illustration of Disclosure of Capital Distribution Constraints Template

		(a)	(b)
		CET1 Capital Ratio that would Trigger Capital Distribution Constraints (%)	Current CET1 Capital Ratio (%)
1.	CET1 minimum plus IFSB-15 buffers (excluding CET1 capital used to meet other regulatory capital requirements)	9%	12%
2.	CET1 minimum plus IFSB-15 buffers (including CET1 capital used to meet other regulatory minimum capital requirement)	10%	

SECTION 3 : LINKAGES BETWEEN FINANCIAL STATEMENTS AND REGULATORY RISK EXPOSURES

69. In maintaining harmony with the BCBS's Pillar 3 guidelines, IIFS are required to show the link between numbers in their balance sheet, which appears in their published financial statements, and figures disclosed in Template 3 of this standard using a three-step approach. Considering the different accounting frameworks applied in different jurisdictions, Template 7 provided in this standard should be regarded as illustrative rather than prescriptive, and IIFS must ensure that disclosure in this area is aligned with the presentation of balance sheets in their published financial statements.

70. **Step 1:** For each of the items (in rows) in this template, IIFS must report the numbers in column (a) of this template from their published balance sheets in their financial statements, reflecting their accounting scope of consolidation. IIFS should also report the numbers for each of the relevant items (rows) in this template according to their regulatory scope of consolidation in column (b). Should regulatory and accounting scopes of consolidation be identical, an IIFS may state that no difference exists between the two scopes. If the two scopes differ, IIFS should disclose a list of legal entities that are included in the accounting scope of consolidation, but excluded from the regulatory scope of consolidation, and similarly, legal entities included in the regulatory scope of consolidation but excluded from the accounting scope of consolidation. If an entity, or group of entities, is included in both scopes of consolidation, but with a differing method of consolidation in the two scopes, IIFS should then list the entities in question and explain the differences in consolidation methods. For each legal entity required for disclosure under this step, IIFS must also disclose total assets and equity appearing on the entity's balance sheet, together with a description of the entity's principal activity.

71. **Step 2:** IIFS should expand the lines of the balance sheet under the regulatory scope of consolidation from step 1 to show all components appearing in Template 3 of this standard. This is because many of the components used to calculate regulatory capital cannot be easily identified from the face of the balance sheet. Expansion of these elements of the balance sheet by IIFS need not go beyond the components that are used in Template 3 of this standard. 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. Furthermore, each of the expanded elements must be given a reference letter/number.

72. **Step 3:** Using the reference letters/numbers assigned in step 2, IIFS should then map each component disclosed in step 2 to Template 3 of this standard by showing how these components of the balance sheet under the regulatory scope of consolidation (from step 2) have been used to calculate corresponding items in Template 3 of this standard.

Template 7 Reconciliation of Regulatory Capital to Balance Sheet: Annual

	a	b	c
	Balance Sheet as in Published Financial Statements	Under Regulatory Scope of Consolidation	Reference
	As at Period-end	As at Period-end	
Assets			
Cash and balances at central banks			
Deposits and placements with banks and other financial institutions			
Investment accounts due from other financial institutions			
Sharī'ah-compliant securities held for trading			
Sharī'ah-compliant hedging financial instruments			
Sharī'ah-compliant securities available for sale			
Sharī'ah-compliant securities held-to-maturity			
Financing and advances			
Other assets			
Fixed assets			
Intangible assets			
Of which: goodwill			(a)
Of which: other intangibles			(b)
Of which: residential financing servicing rights			(c)
Current and deferred tax assets			
Total assets			
Liabilities			
Deposits from customers ²⁴			
Customer investment accounts			
Deposits and placements from banks and other financial institutions			

24 "Deposits from customers" refers to non-PSIA Sharī'ah-compliant demand deposits (savings and current accounts).

	a	b	c
	Balance Sheet as in Published Financial Statements	Under Regulatory Scope of Consolidation	Reference
	As at Period-end	As at Period-end	
Shari'ah-compliant hedging financial instruments			
Accruals, deferred income and other liabilities			
Current and deferred tax liabilities (DTLs)			
Of which: DTLs related to goodwill			(d)
Of which: DTLs related to intangible assets			(e)
Of which: DTLs related to residential financing servicing rights			(f)
<i>Sukūk</i> and other Shari'ah- compliant securities in issue			
Provisions			
Total liabilities			
Shareholders' equity			
Paid-up share capital			
Of which: amount eligible for CET1			(g)
Of which: amount eligible for AT1			(h)
Retained earnings			
Accumulated other comprehensive income			
Total shareholders' equity			

73. In addition to Template 7, IIFS must map their financial statement categories with regulatory risk categories as shown in Template 8. As in Template 7, rows in this template must match the presentation of the balance sheet appearing in an IIFS's published financial statements. Amounts in columns (a) and (b) in this template must match columns (a) and (b) in Template 7, which identify differences (if any) between accounting and regulatory scopes of consolidation. Columns (c)–(g) group figures appearing in the IIFS's financial statements into correspondent regulatory risk categories. It is important to note that some items may attract regulatory capital charges in more than one regulatory risk category. Such items should be reported in all regulatory risk categories for which they are subject to capital charges. Accordingly, the horizontal sum of amounts in columns (c)–(g) may not equal amounts in column (b).

Template 8 Differences between Accounting and Regulatory Scopes of Consolidation and Mapping of Financial Statement Categories with Regulatory Risk Categories: Annual

	a	b	c	d	e	f	g
	Carrying Values as Reported in Published Financial Statements	Carrying Values under Scope of Regulatory Consolidation	Carrying Values of Items:				
			Subject to Credit Risk Capital Charges	Subject to Counterparty Credit Risk Capital Charges	Subject to Securitisation Capital Charges	Subject to Market Risk Capital Charges	Not Subject to Capital Requirements or Subject to Deduction from Capital
Assets							
Cash and balances at central banks							
Deposits and placements with banks and other financial institutions							
Investment accounts due from other financial institutions							
Shari'ah-compliant securities held for trading							
Shari'ah-compliant hedging financial instruments							
Shari'ah-compliant securities available for sale							
....							
Total assets							
Liabilities							

Template 8 Differences between Accounting and Regulatory Scopes of Consolidation and Mapping of Financial Statement Categories with Regulatory Risk Categories: Annual

Deposits from customers							
Customer investment accounts							
Deposits and placements from banks and other financial institutions							
Shari'ah-compliant hedging financial instruments							
....							
Total assets							
Liabilities							

74. Template 9 requires IIFS to provide information on the main sources of differences (other than due to different scopes of consolidation which are shown in Template 8) between the financial statements' carrying value amounts and the exposure amounts used for regulatory purposes. Disclosed figures should represent carrying values that correspond to values reported in financial statements but according to the scope of regulatory consolidation (rows 1–3) and amounts considered for regulatory exposure purposes (row 10).

75. Row headings shown in the template may be adapted by the IIFS to describe the most meaningful drivers for differences between its financial statement carrying values and the amounts considered for regulatory purposes.

76. Amounts in rows 1 and 2, columns (b)–(e) correspond to the amounts in columns (c)–(f) of Template 8. Off-balance sheet amounts include off-balance sheet original exposure in column (a) and the amounts subject to regulatory framework, after application of the credit conversion factors (CCFs) where relevant in columns (b)–(e).

77. The breakdown of columns in regulatory risk categories (b)–(e) corresponds to the breakdown prescribed in the rest of the standard; that is, column (b) credit risk corresponds to the exposures reported in section 5.2 below, column (c) corresponds to the exposures reported in section 5.5, column (d) corresponds to exposures reported in section 5.4, and column (e) corresponds to the exposures reported in section 5.7.

**Template 9 Main Sources of Differences between Regulatory Exposure Amounts
and Carrying Values in Financial Statements: Annual**

		a	b	c	d	e
		Total	Items Subject to:			
			Credit Risk Framework	Securitisation Framework	Counterparty Credit Risk Framework	Market Risk Framework
1.	Asset carrying value amount under scope of regulatory consolidation (as per Template 8)					
2.	Liabilities carrying value amount under regulatory scope of consolidation (as per Template 8)					
3.	Total net amount under regulatory scope of consolidation					
4.	Off-balance sheet amounts					
5.	Differences in valuations					
6.	Differences due to different netting rules, other than those already included in row 2					
7.	Differences due to consideration of provisions					
8.	Differences due to prudential filters					
9.	⋮					
10.	Exposure amounts considered for regulatory purposes					

78. In addition, IIFS are required to provide qualitative explanations on the differences observed between accounting carrying value and amounts considered for regulatory purposes under each framework, explaining the origins of the differences between accounting amounts, as reported in financial statements amounts and regulatory exposure amounts, as displayed in Templates 8 and 9. Such disclosure shall be in line with Table 6.

Table 6 Explanations of Differences between Accounting and Regulatory Exposure Amounts

Qualitative Disclosures: Annual	
1.	IIFS must explain the origins of any significant differences between the amounts in columns (a) and (b) in Template 8.
2.	IIFS must explain the origins of differences between carrying values and amounts considered for regulatory purposes shown in Template 9.
3.	<p>In accordance with the implementation of the BCBS guidance on prudent valuation, banks must describe systems and controls to ensure that the valuation estimates are prudent and reliable. Disclosure must include:</p> <ul style="list-style-type: none"> • valuation methodologies, including an explanation of how far mark-to-market and mark-to-model methodologies are used; • description of the independent price verification process; and • procedures for valuation adjustments or reserves (including a description of the process and the methodology for valuing trading positions by type of instrument).

SECTION 4 : DISCLOSURES FOR INVESTMENT ACCOUNT HOLDERS

79. IAH provide funding for IIFS' activities on a profit-sharing and loss-bearing basis as *rabb al-māl* under a *muḍārabah* contract. The underlying *muḍārabah* contract that governs the relationship between the account holders and IIFS would require specific disclosures pertaining to their rights to profits earned from the activities funded by them and associated risks. Disclosure of information on policies, procedures, product design/type, profit allocation basis, and differences between restricted and unrestricted IAH are pertinent to provide clarity and transparency regarding the rates of return and associated risks that are applicable to PSIA. Furthermore, industry- or IIFS-specific policies on maintaining appropriate reserves to manage IAH returns also affect the risk–return mix facing IAH.

80. In addition, IFSB-15 notes that, based on the practices prevalent in various jurisdictions, its principles for minimum capital requirements for PSIA apply to other forms of investment contracts, such as *mushārah*. IFSB-15 also calls for supervisory authorities to use stringent eligibility criteria for including *mushārah*-based accounts in the definition of PSIA. Accordingly, and in line with the requirements of IFSB-15, this section applies to *mushārah*-based accounts where no element of actual or constructive capital protection²⁵ or promised returns is given by IIFS to the fund providers.

81. If PER and IRR are kept separately for unrestricted and restricted profit-sharing investment accounts (UPSIA and RPSIA, respectively), then movements in each of these reserves must be disclosed separately in the respective table. If, however, PER and IRR are kept for both unrestricted and restricted investment accounts without segregation, then transfers to and from these reserves must be made by account category.

82. The disclosures indicated should be made on a quarterly basis as part of the **periodic external financial reporting process (marked “F”** in Tables 7, 8 and 9), or as part of **product information published** in connection with new products or changes in existing products – for example, prospectuses, offer documents, product disclosure sheets, product highlight sheets and key investors information documents (**marked “P”** in Tables 7, 8 and 9). Some disclosures may be made under both headings. Quantitative disclosures applicable to both unrestricted and restricted PSIA are set out in Template 10.

25 “Protection” in this context is equivalent to deposit guarantees in conventional banking.

Table 7 Investment Accounts (both Unrestricted and Restricted PSIA)

	Qualitative Disclosures	F	P
1.	<p>Written policies and procedures applicable to the investment accounts, including a synopsis of the following:</p> <ul style="list-style-type: none"> • range of investment accounts available from the IIFS; • characteristics of investors for whom various investment accounts are addressed or are deemed appropriate by the reporting institution; • purchase, redemption and distribution procedures; • professional resume, including but not limited to qualifications and experience of portfolio managers, investment advisers and trustees; • governance arrangements for the IAH funds; • procedures for trading and origination of assets; and • policies and procedures for valuation of PSIA assets. 	√	√
2.	A statement asserting that IAH funds are invested and managed in accordance with Shari'ah requirements.	√	√
3.	Information on investment account products, such as fund/portfolio/product name, underlying contracts used and the manner in which the products are made available to investors. This should include investment objectives, the profit-sharing and loss-bearing (by capital provider) nature of <i>mudārabah</i> contracts, and profit- and loss-sharing characteristic of <i>mushārah</i> contracts, where applicable.		√
4.	A statement on the IIFS's responsibility to furnish accurate and consistent information covering fluctuations of returns and risks taken by IAH (including possible full or partial loss of principal).		√
5.	Bases of allocation of assets, expenses and profit in relation to IAH funds.	√	
6.	Disclosure on the policies governing the management of both unrestricted and restricted IAH funds, which covers the approaches to the management of the investment portfolio; establishment of prudential reserves; profit-smoothing techniques used (if any); the calculation, allocation and distribution of profits; types of fees charged to IAH; and the manner in which the IIFS would facilitate the monitoring of investment performance to IAH.	√	√
7.	Particulars of the management of any third party to whom the IIFS has outsourced, or will outsource, the management of the PSIA.	√	√
8.	Any changes to investment strategies by the IIFS or investment manager that could affect the IAH's investment.	√	

Template 10 Quantitative Disclosures Applicable to both Unrestricted and Restricted PSIA: Semi-annual

PSIA Disclosures	T	T-1	T-2	T-3	T-4
Total amount of IAH funds					
PER-to-PSIA ratio					
IRR-to-PSIA ratio					
Return on assets (ROA) ²⁶					
Return on equity (ROE) ²⁷					
Ratio of profit distributed to PSIA for unrestricted IAH ²⁸					
Ratio of profit distributed to PSIA for restricted IAH					

83. Disclosure of Template 11 should be made in two separate templates – one each for unrestricted and restricted investment accounts (where applicable). This treatment is also applicable to Template 12. Rows in Templates 11 and 12 are fixed and have to be filled. IIFS may add rows to Template 11 if they wish to provide additional asset/financing items in line with their business activities. Additional rows must not replace existing items provided in the template.

Template 11 Additional Quantitative Disclosures for Both Unrestricted and Restricted PSIA (by Contract): Quarterly

	Assets Funded by U/RPSIA	T	T-1	T-2	T-3	T-4
1.	Financing (total) – of which					
2.	<i>Murābahah</i> financing					
3.	Commodity <i>murābahah/tawarruq</i> financing					
4.	<i>Salam</i> financing					
5.	<i>Istisnā'</i> financing					
6.	<i>Ijārah</i> and <i>ijārah muntahiyah bittamlik</i> financing					
7.	<i>Muqārabah</i> financing					
8.	<i>Mushārah</i> financing					
9.	Diminishing <i>mushārah</i> financing					
10.	<i>Wakālah bi al-Istithmār</i> financing					
11.	<i>Qard ḥasan</i> financing					
12.	Other Sharī'ah-compliant financing					

26 Amount of total net income (before distribution of profit to UIAH)/Total amount of assets financed by shareholders' equity and minority interests, UIAH, and current accounts and other liabilities.

27 Amount of total net income (after distribution of profit to IAH)/Amount of shareholders' equity.

28 This must also be disclosed with other product information marked "P" in Table 7.

	Assets Funded by U/RPSIA	T	T-1	T-2	T-3	T-4
13.	Investments (total) – of which					
14.	<i>Sukūk</i> holdings					
15.	Other Sharī'ah-compliant securities					
16.	Other Sharī'ah-compliant assets					
17.	Total U/RIAH's funds (1 + 13 + 16)					

**Template 12 Additional Quantitative Disclosures for Unrestricted PSIA
(Financing by Economic Activity²⁹): Quarterly**

	Financing Funded by UPSIA	T	T-1	T-2	T-3	T-4	Concentration Limits
1.	Financing (total) – of which						
2.	Agriculture, forestry and fishing						
3.	Mining and quarrying						
4.	Manufacturing						
5.	Electricity, gas, steam and air-conditioning supply						
6.	Water supply; sewerage, waste management and remediation activities						
7.	Construction						
8.	Wholesale and retail trade; repair of motor vehicles and motorcycles						
9.	Transportation and storage						
10.	Accommodation and food service activities						
11.	Information and communication						

29 With the exception of line items 22 and 24, this standard uses economic activity classifications as adopted by the International Standard Industrial Classification of All Economic Activities (ISIC), Revision 4 and, without contravention of local regulatory requirements, IIFS should compile their data in line with methodologies prescribed by ISIC, Revision 4, which is available in different languages from <https://unstats.un.org/unsd/publications/catalogue?selectID=396>. Items 22 and 24 in this template are adopted by the Supplement to Compilation Guide of the IFSB's Prudential and Structural Islamic Finance Indicators (PSIFIs) as issued in May 2015, and some jurisdictions find them useful in reporting personal financing and financing to non-residents data. Accordingly, IIFS may utilise these items if needed. The supplement to the compilation guide is available at https://www.ifsb.org/psifi_08.php and includes the following categories in item 22: financing to households for consumption, personal finance, car purchases, hajj, education, welfare, or other non-business purposes, etc., while highlighting that financing to households for real estate should be reported under "real estate activities". All activities stated in the template must be compliant with Sharī'ah rules and principles.

	Financing Funded by UPSIA	T	T-1	T-2	T-3	T-4	Concentration Limits
12.	Financial and insurance activities (including <i>takāful</i>)						
13.	Real estate activities						
14.	Professional, scientific and technical activities						
15.	Administrative and support service activities						
16.	Public administration and defence; compulsory social security						
17.	Education						
18.	Human health and social work activities						
19.	Arts, entertainment and recreation						
20.	Other service activities						
21.	Activities of households as employers; undifferentiated goods- and services-producing activities of households for own use						
22.	Other financing of households						
23.	Activities of extraterritorial organisations and bodies						
24.	Financing to non-residents						

Table 8 Unrestricted Investment Accounts

	Additional Qualitative Disclosures	F	P
1.	General investment objectives and policies that are offered to the UIAH based on the general business strategy and risk-sharing policies of the IIFS (including commingling of funds and policy on diversification of portfolio).	√	√
2.	Disclosure on the major changes in the investment strategies that affect the investment accounts (including commingling of funds).	√	√
3.	Risks associated with underlying investment assets.	√	
4.	Method for calculation and distribution of profits.		√

	Additional Qualitative Disclosures	F	P
5.	Policies and rules governing the transfer of funds to or from PER and IRR. This includes disclosure of the treatment of PER and IRR funds when IAH terminate their contractual relationship with the IIFS. ³⁰	√	√
6.	Bases applied and methodology used for charging expenses to unrestricted IAH.	√	√
7.	Disclosure on whether funds from PSIA will be mixed with funds from other PSIA, and name, regulatory status and details of any such arrangements.	√	
8.	Description of total administrative expenses charged to UPSIA funds, including fees paid to third-party service providers.	√	√
	Additional Quantitative Disclosures		
9.	Total amount of UIAH funds, and subtotals by category of assets financed by UIAH funds. Breakdown of UPSIA assets across different contract categories – contracts employed to originate assets (not the contract used for liability, which would most probably be <i>muḍārabah</i>).	√	
10.	Share of profits earned by UPSIA, before the effects of profit smoothing (amount and as a percentage of funds invested).	√	
11.	Share of profits paid out to UIAH, after profit smoothing (amount and as a percentage of funds invested).	√	
12.	Movements in PER during the year, if applicable.	√	
13.	Movements in IRR during the year, if applicable.	√	
14.	Disclosure of transfers to PSIA profits resulting from an adjustment to the <i>muḍārib</i> 's share of profits.	√	
15.	Disclosure of transfers to PSIA profits from shareholders' funds.	√	
16.	Disclosure of the utilisation by unrestricted investment accounts of PER and/or IRR during the period.	√	
17.	Profits earned and profits paid out over the past three to five years (amounts and as a percentage of funds invested).	√	
18.	Amount of total administrative expenses charged to UIAH.	√	
19.	Average actual rate of return or profit rate on UPSIA by maturity (3-month, 6-month, 12-month, 36-month).		√

30 Paragraph 28 of the IFSB's GN-3: *Guidance Note on the Practice of Smoothing the Profits Payout to Investment Account Holders* (December 2010) notes that while IAH agree in advance on the proportion of their income that may be appropriated to PER and IRR, they also agree, in the same contract, to give up any right they have to these reserves when they terminate their contractual relationship with the IIFS. IAH will also not bear any unrealised losses that may be recorded after the termination of their contractual relationship with the IIFS on the basis of *mubāra'ah*. Such policies must be made clear to IAH at the time of account opening.

	Additional Quantitative Disclosures	F	P
20.	Structure of, and changes in, asset allocation in the last quarter.	√	
21.	Off-balance sheet exposures arising from financings and investment decisions, such as commitments and contingencies.	√	
22.	Disclosure of limits imposed on the amount that can be invested in any one type of asset.	√	√

84. Disclosures on profitability and off-balance sheet exposures of unrestricted and restricted PSIA are set out in Templates 13 and 14 respectively. Rows and columns in both templates are fixed and have to be filled.

Template 13 Profitability and Off-balance Sheet Exposure of Unrestricted PSIA

	Quarterly Disclosure	T	T-1	T-2	T-3	T-4
1.	Profits due to UPSIA before transfers to/from reserves					
2.	Ratio of profits due to UPSIA before transfers to/from reserves as a percentage of invested funds					
3.	Profits paid out to UPSIA, after transfers to/from reserves					
4.	Ratio of profits paid out to UPSIA, after transfers to/from reserves as a percentage of invested funds					
5.	Market benchmark rates					
6.	Amount of total administrative expenses charged to UPSIA					
	Annual Disclosure					
7.	Amount of profits earned					
8.	Profits earned as a percentage of IAH's funds invested					
9.	Amounts of profits paid out to IAH					
10.	Profits paid out as a percentage of IAH's funds invested					
11.	Any off-balance sheet exposures arising from investment decisions, such as commitments and contingencies					

Table 9 Restricted Investment Accounts

	Additional Qualitative Disclosures	F	P
1.	Written policies on the IIFS' fiduciary duties in managing IAH funds.		√
2.	Investment objectives and policies applicable to the restricted investment accounts based on their specific investment portfolio.	√	√
3.	Disclosure of the duties and obligations of investment account managers in managing the IAH funds.		√
4.	Written policies and procedures for monitoring fiduciary duties and regulatory obligations of the investment account managers.	√	√
5.	Method for calculation and distribution of profits.	√	√
6.	If applicable, rules for the transfer of amounts to and from PER and IRR, including contractual or regulatory limits on management's discretion in the matter, as well as the treatment of PER and IRR funds when IAH terminate their contractual relationship with the IIFS. ³¹	√	√
	Additional Quantitative Disclosures		
7.	Amount of restricted IAH funds for each asset category.	√	
8.	Share of profits earned by restricted IAH, before transfers to or from reserves (amount and as a percentage of funds invested).	√	
9.	Share of profits paid out to restricted IAH, after transfers to or from reserves (amount and as a percentage of funds invested).	√	
10.	Movements in PER during the year, if applicable.	√	
11.	Movements of IRR during the year, if applicable.	√	
12.	Disclosure of the computation of PER and/or IRR, if applicable.	√	
13.	Disclosure of transfers to PSIA profits resulting from an adjustment to the <i>muḍārib's</i> share of profits.	√	
14.	Disclosure of transfers to PSIA profits from shareholders' funds.	√	
15.	Disclosure of the utilisation of PER and/or IRR, if applicable.	√	
16.	Current period returns (as a percentage).	√	√
17.	Historical returns over the past three to five years (as a percentage). ³²	√	√

31 Profit smoothing could, in theory, apply to both UPSIA and RPSIA; however, in practice, it is normally confined to UPSIA.

32 The unavailability of historical data on key items in balance sheets and income statements would mean that some of the requested disclosures of past data would have to be phased in during a transitional period (of, say, three years) until a track record of key data is built up. See paragraph 42.

	Additional Quantitative Disclosures		
18.	Average actual rate of return or profit rate on RPSIA by maturity (3-month, 6-month, 12-month, 36-month).		√
19.	Off-balance sheet exposures arising from investment decisions, such as commitments and contingencies.	√	√
20.	Structure of, and changes in, asset allocation in the last quarter.	√	
21.	Disclosure of limits imposed on the amount that can be invested in any one type of asset.	√	√

Template 14 Profitability and Off-balance Sheet Exposure of Restricted PSIA

	Quarterly Disclosure	T	T-1	T-2	T-3	T-4
1.	Profits due to RPSIA before transfers to/from reserves					
2.	Ratio of profits due to RPSIA before transfers to/from reserves as a percentage of invested funds					
3.	Profits paid out to RPSIA, after transfers to/from reserves					
4.	Ratio of profits paid out to RPSIA, after transfers to/from reserves as a percentage of invested funds					
	Annual Disclosure					
5.	Amount of profits earned					
6.	Profits earned as a percentage of IAH's funds invested					
7.	Amounts of profits paid out to IAH					
8.	Profits paid out as a percentage of IAH's funds invested					
9.	Any off-balance sheet exposures arising from investment decisions, such as commitments and contingencies					

4.1 Retail Investor-oriented Disclosures to IAH

85. Some financial institutions publish a version of their annual report that is specifically intended for retail investors, providing synopses of key performance information and making use of graphical presentations (such as charts, tables and graphs to illustrate current and past performance) rather than large amounts of numerical financial data which may be difficult to comprehend for a retail investor. This standard proposes that such practices be adopted by IIFS as set out below, drawing on the disclosures set out in Tables 7, 8 and 9 of this standard.

86. IIFS should provide simplified disclosures in plain language in the account opening forms, or in product disclosure sheets, product highlight sheets or key investors information documents, and in stakeholder reports so that investors are provided with comprehensible and balanced information on which to base their investment decisions. Such retail investor-oriented disclosures shall be designed to be readily accessible and reasonably easy to understand by investors who are not financial professionals. This will enable them to monitor the IIFS's performance as well as that of the fund managers, thereby contributing to market discipline.

87. Some of these disclosures will be specifically concerned to explain comprehensively, but in non-technical language, the risk–return characteristics of products such as restricted and unrestricted PSIA, including:

- a. the accountability and responsibility of the IIFS to disclose accurate, relevant and timely information to the IAH on the investment of their funds, including its performance, investment policies, valuation, and frequency of valuation of the IAH-funded assets;
- b. type, purpose, terms/period of the contract and contractual profit-sharing ratio assigned to invested funds and initially agreed by the contracted parties;
- c. for UPSIA, the extent to which the IIFS is committed by its policies³³ to maintaining the IAH's investors' capital intact and to paying a competitive rate of return by accepting DCR;
- d. the *muḍārib* share as a percentage of the total investment profit, and the extent to which it is subject to partial or total waiver in order to pay a competitive rate of return to IAH;
- e. subsequent changes in the profit-sharing ratios and the weights assigned to the relevant category of investment account. These disclosures should be made to IAH in a timely manner by using available media, including display in branches, posting on websites, or directly informing IAH by post or through email;³⁴
- f. 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;
- g. the extent of management's right to appropriate IAH's share of investment profits in order to build up PER and/or IRR, to use these reserves to smooth profit payouts to IAH, and the disposition of unused balances on these accounts at the end of the relevant *muḍārabah* contract;
- h. investment and asset allocation policies for IAH funds, including, with particular reference to UIAH, the commingling of their funds with other funds managed by the IIFS, the balance between shareholders' and IAH's interests in terms of allocating investment funds and the risk–return characteristics of investments;

33 The commitment should not be construed as a contractual commitment, as this would not be Sharī'ah-compliant.

34 Changes to terms or conditions, charges or profit rates should take effect only on a new contract in the subsequent period.

- i. for UIAH, the extent of any sharing of profits from the IIFS's provision of fee-based/non-fund-based banking;
- j. the availability of personal banking and investment advisory and financial planning services for the benefit of IAH, and the degree of independence of advice in recommending products;
- k. whether the investment account is eligible for deposit insurance coverage (see section 9.1 of this standard for deposit insurance disclosure requirements);
- l. complaints procedures available to dissatisfied IAH; and
- m. rights of IAH in the event that the IIFS fails to perform its fiduciary obligations in accordance with the applicable PSIA contract – that is, in the event of proven negligence or misconduct by the IIFS where by the IIFS will have to recompense the IAH for any loss.

88. Retail investor-oriented disclosures for IAH (IAH disclosures) shall be made during account opening as well as periodically³⁵ in line with Tables 7, 8 and 9 of this standard. These disclosures shall contain true, factual and balanced statements, and not projections or estimates of future performance of the funds. These disclosures shall include all explanations, qualifications, limitations and other statements that are necessary to prevent the performance information from misleading investors. In that regard, IIFS shall ensure that IAH are aware of the possibility of full or partial impairment of their capital and profit-rate fluctuations.

89. IAH disclosures shall contain information to reflect, at an appropriate level of detail, the direct and indirect fees, expenses, taxes deducted and the net amount receivable by the IAH based on the profit calculation and allocation methods adopted by the IIFS.

90. In addition to the current period's performance information, the disclosures shall contain information on historical returns for IAH and shareholders compared to general market returns, and the underlying profit calculation and allocation method(s), which are consistent over a reasonable comparative period to enable IAH to make performance comparisons and to evaluate risks.

35 On quarterly and annual basis in accordance with templates in Section 4 of this standard.

SECTION 5 : RISK MANAGEMENT, RISK EXPOSURES AND RISK MITIGATION

5.1 General Disclosures: Risk Exposures and Assessment

91. The risks to which IIFS are exposed, and the techniques they use to identify, measure, monitor and control those risks, are important factors that market participants consider in their assessment of IIFS.

92. In this section, several key financing risks are considered: credit risk, counterparty credit risk, securitisation, liquidity risk, rate of return risk, market risk and operational risk. In addition, remuneration disclosures are set out. Some disclosures on credit risk mitigation, DCR and facility-specific risks are peculiar to IIFS.

93. In line with Table 10, and for each separate risk area, IIFS shall describe their risk management objectives, policies and practices, the structure and organisation of the relevant risk reporting and measurement systems, measures and indicators of risk exposures, policies for hedging and/or mitigating risk, and strategies and processes for monitoring the continuing effectiveness of risk management tools and techniques such as hedging and other risk mitigants.

Table 10 General Disclosures

Qualitative Disclosures: Annual	
1.	A description of the IIFS's risk management objectives, strategies, policies and procedures by risk category or in aggregate.
2.	Structure and organisation supporting the relevant risk management framework and functions.
3.	Scope and nature of the risk measurement and reporting system.
4.	Policies and practices for mitigating risks, including monitoring the continuing effectiveness of risk mitigants.
Quantitative Disclosures: Annual	
5.	Disclosure of the range and measures of risks facing each restricted IAH fund, based on its specific investment policies.
6.	Disclosure of the treatment of assets financed by restricted IAH in the calculation of RWA for capital adequacy purposes.
7.	Disclosure of the treatment of assets financed by unrestricted IAH in the calculation of RWA for capital adequacy purposes.
8.	Composition of financing by type of contract, category of assets, economic purpose, profit-rate sensitivity and geographical distribution.
9.	Percentage of financing for each category of counterparty ³⁶ to total financing – that is, amount of financing extended to a category of counterparties (outstanding)/amount of total financing (outstanding) x 100.
10.	Disclosure of the carrying amount of any assets pledged as collateral (excluding amounts pledged to the central bank or monetary authority) and the terms and conditions relating to each pledge.
11.	The amount of any guarantees or pledges given by the IIFS and the conditions attaching to those guarantees or pledges.

36 Categories of counterparty may include the government, financial intermediaries, non-financial private corporate entities, non-financial public enterprises and households.

5.2 Credit Risk

94. Credit risk is generally defined as the exposure to the likelihood that a counterparty will fail to meet its obligations in accordance with agreed terms. Credit risk exposures in Islamic financing arise in connection with accounts receivable in murābahah contracts, counterparty risk in salam contracts, accounts receivable and counterparty risk in istisnā contracts, lease payments receivable in ijārah contracts, and sukūk³⁷ held in the banking book, among others.³⁸

95. Credit risk is also associated with non-traded equity instruments, such as those based on muḍārabah and mushārahah contracts, which are held for investment purposes and not for trading. The capital invested through muḍārabah and mushārahah may be used to purchase shares in a publicly traded company or privately held equity or investment in a specific project portfolio or through a pooled investment vehicle. In any case, both are profit-sharing financings, under which the capital invested by the provider of finance does not earn a fixed return, but is explicitly exposed to impairment of capital in the event of losses. The capital impairment risk on such equity holdings is treated as part of credit risk.

96. In accordance with Table 11, IIFS shall make disclosures of information that reflect their overall approach and structure to credit risk management, their credit exposure, the distribution or percentage of credit risk exposures by segments including contract, counterparty, geography and industry, as well as the quality of their assets overall and by sectors, among others.

Table 11 General Disclosures

Qualitative Disclosures: Annual	
1.	The credit risk drivers of the IIFS's business model and how the business model translates into the components of its credit risk profile.
2.	In-depth discussion on the credit risk characteristics of each of the Sharī'ah-compliant contracts and facilities employed by the IIFS to provide financing to its clients, as well as the impact of those contracts on the credit risk performance of the IIFS.
3.	Criteria and approach used for defining credit risk management policy and for setting credit risk limits.
4.	A description of the institution's credit risk management policies and objectives.
5.	Credit risk management and control structure and organisation.
6.	Relationships between the credit risk management, risk control, compliance and internal audit functions.
7.	Disclosure on scope and main content of the reporting on credit risk exposures.
8.	Disclosure of definitions of past due receivables and impaired financial assets, and policies and practices for making loss provisions on financial assets.
9.	Names of the external credit assessment institutions (ECAIs) and export credit agencies (ECAs) used by IIFS, and the reasons for any changes over the reporting period.
10.	The asset classes for which ECAI or ECA is used.

37 Sukūk giving rise to credit risk capital charges also include certain categories of muḍārabah and mushārahah sukūk, depending on the intent of the underlying investments. These categories and their associated risk weights are specified in sections 5.9.4 and 5.9.5 of IFSB-15.

38 As defined in IFSB-1: Guiding Principles of Risk Management, December 2005.

11.	A description of the process used to transpose the issuer or issue credit ratings onto the internal credit grades used by the IIFS for relevant assets in the banking book.
12.	The alignment of the alphanumerical scale of each agency used with risk buckets (except where the relevant supervisor publishes a standard mapping with which IIFS have to comply).
Quantitative Disclosures: Semi-annual	
13.	Total gross credit exposures ³⁹ and average gross credit exposures ⁴⁰ over the period in terms of geographical area, counterparty and industry, and residual contractual maturity ⁴¹ for each class of financing assets, giving the percentages funded by the IIFS's own capital and current accounts and by PSIA, respectively.
14.	Total gross credit exposures and average gross credit exposures over the period by rating categories, where applicable.
15.	Total gross exposure and average gross exposure to equity-based financing structures by type of financing contract.
16.	Disclosure of the amount and changes in loss provisions ⁴² during the reporting period.
17.	Disclosure of any penalty imposed on customers for default, and the disposition of any monies received as penalties.

97. IIFS must also provide a breakdown of credit risk exposures by asset classes and risk weights (RWs) as prescribed in Template 15. Jurisdictions may add rows and columns to reflect any differences in their implementation of the standardised approach, but the numbering of the prescribed rows must not be altered and existing rows and columns in this template must not be deleted. Table 12 provides explanatory text relevant to Template 15.

98. IIFS are expected to supplement this template with narrative commentary explaining significant differences during the reporting period and key drivers of such changes.

39 That is, after accounting offsets in accordance with the applicable accounting regime, and without taking into account the effects of credit risk mitigation techniques, such as collateral.

40 Where the period end position is representative of the risk positions of the IIFS during the period, the average gross exposures need not be disclosed.

41 This may already be covered by accounting standards, in which case IIFS may wish to use the same maturity groupings as used in accordance with those standards.

42 Loss provisions could be specific or general, and are made in relation to receivables, financing and investment assets. The former (specific) could be identified as providing for expected impairment losses on specified assets, including doubtful receivables. The latter (general) are part of prudential reserves in that they do not relate to any specified expected impairment losses but, rather, provide a cushion against unexpected losses.

Template 15 Exposures by Asset Classes⁴³ and Risk Weights: Semi-annual

		0%	20%	50%	100%	150%	Other	Total Credit Exposure (Post-CCF and Credit Risk Mitigation [CRM])
1.	Sovereigns and their central banks							
	Of which: financed by UPSIA funds							
	Of which: financed by other Shari'ah-compliant funds							

		20%	50%	100%	150%	Other	Total Credit Exposure Amount (Post-CCF and Post-CRM)
2.	Non-central government public-sector entities						
	Of which: financed by UPSIA funds						
	Of which: financed by other Shari'ah-compliant funds						

		0%	20%	50%	100%	150%	Other	Total Credit Exposure Amount (Post-CCF and Post-CRM)
3.	Multilateral development banks							
	Of which: financed by UPSIA funds							
	Of which: financed by other Shari'ah-compliant funds							

⁴³ Financing of these asset classes must be Shari'ah-compliant and must not result in financing a prohibited activity.

		20%	30%	40%	50%	75%	100%	150%	Other	Total Credit Exposure Amount (Post-CCF and Post-CRM)
4.	Banks									
	Of which: financed by UPSIA funds									
	Of which: securities firms and other financial institutions ⁴⁴									
	Of which: financed by other Shari'ah-compliant funds									
	Of which: securities firms and other financial institutions									

		10%	15%	20%	25%	35%	50%	100%	Other	Total Credit
5.	<i>Sukūk</i>									
	Of which: financed by UPSIA funds									
	Of which: financed by other Shari'ah-compliant funds									

			20%	50%	65%	75%	80%	85%	100%	130%	150%	Others	Total Credit Exposure Amount (Post-CCF and Post-CRM)
6.	Corporates												
	Of which: financed by UPSIA funds												
	Of which: securities firms and other financial institutions												
	Of which: specialised financing												
	Of which: financed by other Shari'ah-compliant funds												
	Of which: securities firms and other financial institutions												
	Of which: specialised financing												

44 Exposures to securities firms and other financial institutions can be treated as exposures to banks only if relevant RSAs determine that these firms are subject to prudential standards and a level of supervision equivalent to those applied by banks. Exposures to all other securities firms and financial institutions will be treated as exposures to corporates.

		100%	150%	250%	400%	Other	Total Credit Exposure Amount (Post-CCF and Post-CRM)
7.	Equity exposures made under profit-sharing modes and other capital						
	Of which: financed by UPSIA funds						
	Of which: financed by other Sharf'ah-compliant funds						

		45%	75%	100%	Other	Total Credit Exposure (Post-CCF and Credit Risk Mitigation [CRM])
8.	Retail					
	Of which: financed by UPSIA funds					
	Of which: financed by other Sharf'ah-compliant funds					

Total Credit Exposure Amount (Post-CCF and Post-CRM)						
Other						
150%						
110%						
105%						
100%						
90%						
85%						
75%						
70%						
65%						
60%						
50%						
45%						
40%						
35%						
30%						
25%						
20%						
0%						
	Real estate	Of which: general residential real estate (RRE)	Of which: no exposure splitting applied	Of which: exposure splitting applied (secured)	Of which: exposure splitting applied (unsecured)	Of which: income-producing residential real estate (IPRE)
	9.					

Total Credit Exposure Amount (Post-CCF and Post-CRM)					
Other					
150%					
110%					
105%					
100%					
90%					
85%					
75%					
70%					
65%					
60%					
50%					
45%					
40%					
35%					
30%					
25%					
20%					
0%					
	Of which: general commercial real estate (CRE)	Of which: no exposure splitting applied	Of which: exposure splitting applied (secured)	Of which: exposure splitting applied (unsecured)	Of which: income-producing commercial real estate (IPCRE)

Total Credit Exposure Amount (Post-CCF and Post-CRM)	
Other	
150%	
110%	
105%	
100%	
90%	
85%	
75%	
70%	
65%	
60%	
50%	
45%	
40%	
35%	
30%	
25%	
20%	
0%	
	Of which: land acquisition, development and construction

Risk Weight	On-balance Sheet Gross Exposure	Off-balance Sheet Gross Exposure (Pre-CCF)	Weighted Average CCF*	Exposure (Post-CCF and Post-CRM)
Less than 40%				
40–70%				
75%				
85%				
90–100%				
105–130%				
150%				
250%				
400%				
1250%				
Total exposures				

* Weighting is based on off-balance sheet gross exposure (pre-CCF).

Table 12 Definition for Exposures by Asset Classes and Risk Weights Template

Rows	
Equity investments in ICIS	When further guidelines for IIFS investments in ICIS are set out by the IFSB in IFSB-15 revisions, corresponding disclosure requirements must not be reported in this template, but only in Template 2 of this standard.
General residential real estate (general RRE)	Exposures secured by residential real estate where repayment is not materially dependent on cash flows generated by the property securing the financing.
Exposure splitting	Refers to approaches set out in paragraphs 65 and 71 of the finalised Basel III framework.
Income-producing residential real estate (IPRRE)	Exposures secured by residential real estate where repayment is materially dependent on cash flows generated by the property securing the financing.
General commercial real estate (general CRE)	Exposures secured by commercial real estate where repayment is not materially dependent on cash flows generated by the property securing the financing.
Income-producing commercial real estate (IPCRE)	Exposures secured by commercial real estate where repayment is not materially dependent on cash flows generated by the property securing the financing.
Land acquisition, development and construction	Exposures subject to a specific risk weight as set out in paragraphs 74 and 75 of the finalised Basel III framework.
Defaulted exposures	Unsecured portion of any financing past due for more than 90 days or representing an exposure to a defaulted recipient of financing, as per the definition appearing in paragraph 90 of the finalised Basel III framework.

Other assets	Refers to assets subject to a specific risk weight as set out in paragraphs 95–97 of the finalised Basel III framework.
Total credit exposure amount (post-CCF and post-CRM)	The amount used for capital requirements calculation (for both on- and off-balance sheet amounts), therefore net of specific provisions (including partial write-offs) and after CRM techniques and CCF have been applied but before the application of relevant risk weights.

99. In addition, and as shown in Table 13, IIFS must provide the following disclosures relevant to the credit quality of assets:

Table 13 Credit Risk: Additional Disclosures Related to the Credit Quality of Assets

Additional Qualitative Disclosures: Annual	
1.	The scope and definitions of “past due” and “impaired” ⁴⁵ exposures used for accounting purposes and the differences, if any, between the definition of past due and default for accounting and regulatory purposes.
2.	The extent of past-due exposures (more than 90 days) that are not considered to be impaired and the reasons for this.
3.	Description of methods used to determine accounting provisions. Furthermore, IIFS must provide the rationale for categorising accounting provisions calculated under the ECL approach into general and specific categories.
4.	The IIFS’s own definition of a restructured exposure.
Additional Quantitative Disclosures: Annual	
5.	Breakdown of exposures by geographical areas, sector ⁴⁶ and residual maturity.
6.	Amount of impaired financing exposures (as defined by the IIFS for accounting purposes), as well as related accounting provisions, classified by industry and geographic.
7.	Ageing analysis of past-due exposures.
8.	Breakdown of restructured exposures between impaired and not impaired exposures.

100. IIFS must report details on credit quality of assets using Table 14 and Template 16 as shown. “Gross carrying values” refers to on- and off-balance sheet items that give rise to a credit risk exposure in accordance with the guidelines provided by IFSB standards – in particular, IFSB-15 – as well as relevant national regulations. Off-balance sheet guarantees given by IIFS must be measured gross of any CCF or CRM techniques – the maximum amount an IIFS would have to pay if the guarantees were to be called. Irrevocable credit commitments are measured at the total amount the institution has committed to advance, gross of any CCF or CRM techniques. Revocable credit commitments must not be included. The gross value is the accounting value after considering write-offs, but before any allowance/impairments.⁴⁷ IIFS must not take into consideration any CRM techniques.

45 When accounting standard IFRS 9: Financial Instruments is applied, impaired exposures are those that are considered “credit-impaired financial assets” as defined in Appendix A of IFRS 9.

46 Without contravention of local regulatory requirements, sectoral classification should follow economic activity categories and computational methodologies prescribed by the ISIC.

47 Capital treatment for off-balance sheet exposures is to be in accordance with section 3.1.2 of IFSB-15.

Table 14 Additional Disclosures Related to Prudential Treatment of Problem Assets

Qualitative Disclosures: Annual	
1.	The IIFS's own definition of non-performing exposures. The IIFS should specify if it is using the definition of non-performing exposures provided in the BCBS guidelines on the prudential treatment of problem assets (issued in April 2017) and provide a discussion on the implementation of such a definition, including the materiality threshold used to categorise exposures as past due, the exit criteria of the non-performing category (providing information on any probation period), and useful information for users' understanding of this categorisation, including any discussion on the differences or unique processes for the categorisation of retail and corporate financing.
2.	The IIFS's own definition of a forbore exposure. ⁴⁸ The IIFS should specify if it is using the definition of forbore exposures provided in the BCBS guidelines on the prudential treatment of problem assets and provide a discussion on the implementation of such a definition, the exit criteria of the restructured or forbore category (providing information on any probation period), and useful information for users' understanding of this categorisation, including any discussion on the differences or unique processes for the categorisation of retail and corporate financing.
Quantitative Disclosures: Annual	
3.	Gross carrying value of total performing as well as non-performing exposures, broken down first by Sharī'ah-compliant non-equity securities, financing and off-balance sheet exposures. Financing is to be broken down into retail and corporate exposures; RSAs may require additional breakdowns of non-performing exposures to enable an understanding of any material differences in levels of risk and provision cover between different portfolios (e.g. retail exposures secured by real estate, small and medium-sized enterprises [SMEs], revolving exposures and other retail). In addition, non-performing exposures should be categorised into: (a) defaulted exposures and/or impaired exposures; ⁴⁹ (b) exposures that are not classified as defaulted/impaired but are more than 90 days past due; and (c) exposures where there is evidence that full repayment is unlikely without the IIFS's realisation of collateral (even if the exposure is not full impaired/defaulted and is not more than 90 days past due). Any value adjustments and provisions for non-performing exposures should also be disclosed.
4.	Gross carrying values of restructured/forbore exposures must be broken down by Sharī'ah-compliant non-equity securities, financing and off-balance sheet exposures. Financing is to be broken down into retail and corporate exposures; RSAs may require additional breakdowns to enable an understanding of any material differences in levels of risk between different portfolios (e.g. retail exposures secured by real estate, SMEs, revolving exposures and other retail). In addition, exposures should be split into performing and non-performing, and impaired and not impaired exposures.

101. Write-offs for the purpose of Template 16 are related to a direct reduction of the carrying amount when the IIFS has no reasonable expectations of recovery. For defaulted exposures, IIFS should use the definition of default that they also use for regulatory purposes, and such definition must be provided in the accompanying narrative.

102. "Accounting provisions" refers to the total amount of provisions, made via an allowance against impaired and not impaired exposures (may correspond to general reserves in certain jurisdictions or may be made via allowance account or direct reduction – direct write-down in some jurisdictions) according to the applicable accounting framework.

103. IIFS must fill in columns (d) and (e) in accordance with the categorisation of accounting provisions distinguishing those meeting the conditions to be categorised in general provisions, as defined in footnote 42 of this standard in their jurisdiction, and those that are categorised as specific provisions. This categorisation must be consistent with information provided in Table 13.

48 According to Sharī'ah rules and principles, it is not permissible to restructure by increasing the debt.

49 See footnote 45.

Template 16 Credit Quality of Assets: Semi-annual

		a	b	c	d	e	f
		Gross Carrying Values of		Allowances/ Impairments	Of which: Accounting Provisions on Standardised Approach Exposures		Net Values (a + b – c)
		Defaulted Exposures	Non-defaulted Exposures		Allocated as Specific Provisions	Allocated as General Provisions	
1.	Financing						
2.	Sharī'ah-compliant securities (excluding equities and others included in equity of the IIFS)						
3.	Off-balance sheet exposures						
4.	Total						

104. In line with Template 17, IIFS must identify, and disclose, changes in their stock of defaulted exposures, flows between defaulted and non-defaulted exposure categories and write-offs leading to reductions in the stock of defaulted exposures.

Template 17 Changes in Stock of Defaulted Financing and Debt Securities: Semi-Annual

	a
1.	Defaulted financing and Sharī'ah-compliant non-equity securities at the end of the previous reporting period
2.	Financing and Sharī'ah-compliant non-equity securities that have defaulted since the last reporting period
3.	Returned to non-defaulted status
4.	Amounts written off
5.	Other changes
6.	Defaulted financing and Sharī'ah-compliant non-equity securities at end of the reporting period (1 + 2 – 3 – 4 ± 5)

5.3 Credit Risk Mitigation

105. IIFS must provide qualitative and quantitative information related to the mitigation of its credit risk. Such disclosures are detailed in Table 15 and must include the extent to which the IIFS applied credit risk mitigation techniques to reduce capital requirements.

Table 15 Credit Risk Mitigation

Qualitative Disclosures: Annual	
1.	Disclosure of use of collateral, and other Sharī'ah-compliant risk mitigation techniques, together with related policies for assets leased under <i>ijārah muntahiyah bittamlik</i> .
2.	A description of the main types of collateral and other credit risk mitigants taken by the IIFS, such as <i>hamish jiddiyyah</i> , ⁵⁰ <i>urbūn</i> , ⁵¹ Sharī'ah-compliant equities and units in ICIS, pledged assets, sukūk (rated or unrated by ECAI), ⁵² and guarantees by third parties.
3.	Disclosure of the policies and processes for valuation of collateral and for ensuring its enforceability, together with related policies and processes for assets leased under <i>ijārah muntahiyah bittamlik</i> . When the assets are not readily convertible into cash by the IIFS, the policies for disposing of the assets, or for using them in the IIFS's operations, shall be disclosed.
Quantitative Disclosures: Semi-annual	
4.	Disclosure of the total carrying amounts by type of collateral of any assets held as collateral by the IIFS (including any haircuts ⁵³) and the terms and conditions relating to the pledges.
5.	Where a third-party guarantee is taken as a risk mitigant, the RW applicable to the guarantor shall be disclosed.
6.	Disclosure of the carrying amount of assets owned and leased under <i>ijārah muntahiyah bittamlik</i> .
7.	Information about market or credit risk concentrations under the credit risk mitigation instruments used (i.e. by guarantor type, collateral and Sharī'ah-compliant hedging instruments, if any).

106. IIFS should disclose the extent of their use of credit risk mitigation techniques in Template 18. IIFS should include all CRM techniques used to reduce capital requirements and disclose all secured exposures. IIFS are expected to supplement Template 18 with narrative commentary explaining any significant changes over the reporting period and key drivers behind such changes. Rows in this template are fixed and must be filled. Jurisdictions may require additional sub-rows for a detailed breakdown of each row. Additional rows must not replace existing items in the template. Should IIFS be unable to categorise exposures into “financing” and “Sharī'ah-compliant non-equity securities”, they can either merge the two rows, or categorise the amount by the pro-rated weight of gross carrying values. IIFS must explain the methods they have used.

107. IIFS must illustrate the effect of credit risk mitigation (both comprehensive and simple approaches) on the calculations of their capital requirements under the standardised approach for credit risk. RWA density provides a synthetic metric on the riskiness of each portfolio. Such illustration must follow Template 19, and jurisdictions may add or delete rows to reflect differences in their implementation of the standardised approach, if any. The numbering of the rows in the template must, however, not be altered. Table 16 provides explanatory text relevant to Template 19.

⁵⁰ A refundable security deposit held as collateral by the IIFS prior to establishing a contract and which carries a limited recourse.

⁵¹ Earnest money held as collateral (taken from a purchaser or lessee) to guarantee contract performance after a contract is established. See section 3.1.7 of IFSB-15.

⁵² As per paragraph 186 of the IFSB's revised capital adequacy standard.

53 The term "haircut" refers to a discount on the full value of an asset as collateral, after taking into consideration some inherent risks that affect the volatility of the market price or value of the asset. It is commonly expressed in terms of a percentage by which an asset's value as collateral is reduced.

Template 18 Credit Risk Mitigation – Overview: Semi-annual

	a	b	c	d	e	f	g
	Exposures Unsecured: Carrying Amount	Exposures Secured by Collateral	Exposures Secured by Collateral, of which: Secured Amount	Exposures Secured by Financial Guarantees	Exposures Secured by Financial Guarantees, of which: Secured Amount	Exposures Secured by Sharī'ah- Compliant Hedging Instruments	Exposures Secured by Sharī'ah-Compliant Hedging Instruments, of which: Secured Amount
1. Financing							
2. Sharī'ah- compliant non-equity securities							
3. Total							
4. Of which: defaulted							

Template 19 Credit Risk Exposure and Credit Risk Mitigation Effects: Semi-annual⁵⁴

	Asset Classes	a		b		c		d		e		f	
		Exposures before CCF and CRM		Exposures Post-CCF and CRM		Exposures Post-CCF and Post-CRM		RWA and RWA Density					
		On-balance Sheet Amount	Off-balance Sheet Amount	On-balance Sheet Amount	Off-balance Sheet Amount	On-balance Sheet Amount	Off-balance Sheet Amount	RWA	RWA Density				
1.	Sovereigns and their central banks												
2.	Non-central government public-sector entities												
3.	Multilateral development banks												
4.	Banks												
	Of which: securities firms and other financial institutions												
5.	<i>Sukuk</i>												
6.	Corporates												
	Of which: securities firms and other financial institutions												
	Of which: specialised financing												
7.	Equity exposures made under profit-sharing modes and other capital												
8.	Retail												
9.	Real estate												
	Of which: general RRE												
	Of which: IPRRE												
	Of which: CRE												
	Of which: IPCRE												
	Of which: land acquisition, development and construction												

54 See footnote 43.

Template 19 Credit Risk Exposure and Credit Risk Mitigation Effects: Semi-annual⁵⁴

	Asset Classes	a		b		c		d		e	f
		Exposures before CCF and CRM		Exposures before CCF and CRM		Exposures Post-CCF and Post-CRM		Exposures Post-CCF and Post-CRM		RWA and RWA Density	
		On-balance Sheet Amount	Off-balance Sheet Amount	On-balance Sheet Amount	Off-balance Sheet Amount	On-balance Sheet Amount	Off-balance Sheet Amount	On-balance Sheet Amount	Off-balance Sheet Amount	RWA	RWA Density
10.	Defaulted exposures										
11.	Other assets										
12.	Total										

Table 16 Definition for Credit Risk Exposure and Credit Risk Mitigation Effects Template

Columns	
Exposures before CCF and CRM – On-balance sheet amount	IIFS to disclose the regulatory exposure amount (net of specific provisions, including partial write-offs) under the regulatory scope of consolidation gross of the effect of CRM techniques.
Exposures before CCF and CRM – Off-balance sheet amount	IIFS must disclose the exposure value, gross of CCFs and the effect of CRM techniques under the regulatory scope of consolidation.
Exposures post-CCF and post-CRM	This is the amount to which capital requirements are applied. It is a net credit equivalent amount, after CRM techniques and CCF have been applied.
RWA density	Total RWAs ÷ exposures post-CCF and post-CRM, expressed as a percentage [column (e) ÷ (column (c) + column (d))].

5.4 Counterparty Credit Risk

108. IFSB-15 defines counterparty credit risk as the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows. In the context of Islamic finance, this is related to Sharī'ah-compliant hedging contracts (if any) that are traded over the counter (OTC). The primary difference between CCR and credit risk is that credit risk is faced by IIFS only (unilaterally) as a fund provider, whereas CCR is a bilateral risk – both parties face risk of loss, depending on fluctuations in the market prices of underlying variables.

109. In accordance with Table 17, IIFS must describe the main characteristics of counterparty credit risk management, including operating limits, use of guarantees and other relevant techniques.

Table 17 Counterparty Credit Risk

Qualitative Disclosures: Annual	
1.	<p>Risk management objectives and policies related to counterparty credit risk. This must include:</p> <ul style="list-style-type: none"> • method used to assign operating limits for counterparty credit risk; • policies relevant to guarantees and other risk mitigants (see section 5.3) and assessments concerning counterparty risk; • policies relevant to wrong-way exposures (if any); and • the impact on the amount of collateral that the IIFS would be required to provide given a credit rating downgrade.
Quantitative Disclosures: Semi-annual	
2.	<p>A comprehensive disclosure of the methods used to calculate the regulatory requirements of counterparty credit risk – that is, regulatory exposures, RWAs, and the main parameters used for all exposures.</p>

110. IIFS should provide a breakdown of counterparty credit risk exposures calculated according to the standardised approach: by portfolio (type of counterparties) and by risk weight (riskiness attributed according to standardised approach) in accordance with Template 20. If an IIFS deems that the information requested in this template is not meaningful to users because the exposures and RWA amounts are negligible, the IIFS may choose not to disclose the template. The IIFS is, however, required to explain in a narrative commentary why it considers the information not to be meaningful to users, including a description of the exposures in the portfolios concerned and the aggregate

total of RWAs amount from such exposures.

111. Rows and columns in this template may be amended at jurisdiction level to reflect different exposure categories required as a consequence of the local implementation of the standardised approach. IIFS are expected to supplement the template with a narrative commentary to explain any significant changes over the reporting period and the key drivers of such changes.

Template 20 Standardised Approach – CCR Exposures by Regulatory Portfolio and Risk: Semi-annual⁵⁵

Risk Weight Regulatory Portfolio	a	b	c	d	e	f	g	h	i
	0%	10%	20%	50%	75%	100%	150%	Others	Total Credit Exposure
Sovereigns and their central banks									
Non-central government public-sector entities									
Multilateral development banks									
Banks									
<i>Sukūk</i>									
Corporates									
Equity, exposures in investments made under profit-sharing modes and other capital									
Retail									
Real estate									
Other assets									
Total									

112. In line with Template 21, IIFS must provide a breakdown of all types of collateral posted or received to support or reduce the counterparty credit risk exposures related to Sharī'ah-compliant hedging instruments (if any) or Sharī'ah-compliant alternatives (if any) to securities financing transactions (SFTs). Rows may be added to the template, but columns must not be altered. IIFS are expected to supplement the template with a narrative commentary to explain any significant changes over the reporting period and the key drivers of such changes.

⁵⁵ See footnote 43.

Template 21 Composition of Collateral for CCR Exposure: Semi-annual

	a	b	c	d
	Collateral Used in Sharī'ah-compliant Hedging Transactions		Collateral Used in Sharī'ah-compliant Alternatives (if any) to SFTs	
	Fair Value of Collateral Received	Fair Value of Posted Collateral	Fair Value of Collateral Received	Fair Value of Posted Collateral
Cash – domestic currency				
Cash – other currencies				
Domestic sovereign non-equity instruments				
Other sovereign non-equity instruments				
Government agency non-equity instruments				
Corporate non-equity instruments				
Equity securities				
Other collateral				
Total				

113. IIFS should illustrate the extent of IIFS exposures to Sharī'ah-compliant hedging instruments (if any) broken down between instruments bought or sold in accordance with Template 22. Rows may be added to the template but columns must not be altered. IIFS are expected to supplement the template with a narrative commentary explaining significant changes over the reporting period and the key drivers of such changes.

Template 22 Sharī'ah-compliant Hedging Instruments Exposures: Semi-annual

	a	b
	Protection Bought	Protection Sold
Notionals		
Sharī'ah-compliant profit rate swaps		
Other Sharī'ah-compliant hedging contracts		
Total notionals		
Fair values		
Positive fair value (asset)		
Negative fair value (liability)		

5.5 Securitisation⁵⁶

114. In line with Table 18, IIFS must describe their policies and risk management objectives for securitisation activities and the main features of these activities. IIFS holding securitisation positions reflected both in the regulatory banking book and in the regulatory trading book must describe each of the following points by distinguishing activities in each of the regulatory books.

Table 18 Qualitative Disclosure Requirements Relevant to Securitisation Exposures

Qualitative Disclosures: Annual	
1.	The objectives of IIFS in relation to securitisation activities, including the extent to which these activities transfer credit risk of the underlying securitised exposures away from IIFS to other entities, the type of risks assumed and the types of risks retained.
2.	IIFS must provide a list of: <ul style="list-style-type: none">• special purpose entities (SPEs) where the IIFS act as sponsors, indicating whether IIFS consolidate the SPEs into their scope of regulatory consolidation;• affiliated entities (i) that IIFS manage or advise, and (ii) that invest either in the securitisation exposures that IIFS have securitised or in SPEs that the IIFS sponsor; and• a list of entities to which the IIFS provide implicit support and the associated capital impact for each of them.
3.	Summary of the IIFS' accounting policies for securitisation activities.
4.	The names of ECAIs used for securitisations and the types of securitisation exposure for which each agency is used.

115. IIFS must detail the carrying values of their securitisation exposures in the banking book, if any, according to Template 23. Securitisation exposures include exposures to sukūk and other Islamic capital and money market instruments. IIFS may modify the breakdown and order of rows in the template if a different breakdown would reflect their activities more appropriately. Originating and sponsoring activities may be presented together. IIFS are to supplement the template with narrative commentary explaining any significant changes over the reporting period and key drivers of such changes.

⁵⁶ Securitisation exposures are of two types: (a) securitised exposures that are based on tangible assets or usufruct, which are tradable; and (b) securitised exposures that are based on financial assets (cash and receivables) which are not tradable.

Template 23 Securitisation Exposures⁵⁷ in the Banking Book: Semi-annual⁵⁸

		a	b	c
		IIFS Acting as Originators	IIFS Acting as Sponsors	IIFS Acting as Investors
1.	Total securitisation exposures – of which			
2.	<i>Ijārah and ijārah muntahia bittamlīk</i> instruments			
3.	<i>Istisnā</i> instruments			
4.	<i>Muḍārabah</i> instruments			
5.	<i>Murābahah</i> instruments			
6.	<i>Mushārakah</i> instruments			
7.	<i>Salam</i> instruments			
8.	<i>Wakālah bi al-Istithmār</i> instruments			
9.	Hybrid instruments [specify main contracts used in structure of instrument(s)]			

116. IIFS must detail the carrying values of their securitisation exposures in the trading book, if any, according to Template 24. IIFS may modify the breakdown and order of rows in the template if a different breakdown would be more appropriate in reflecting their activities. Originating and sponsoring activities may be presented together. IIFS are to supplement the template with narrative commentary explaining any significant changes over the reporting period and key drivers of such changes.

Template 24 Securitisation Exposures in the Trading Book: Semi-annual

		a	b	c
		IIFS Acting as Originators	IIFS Acting as Sponsors	IIFS Acting as Investors
1.	Total securitisation exposures – of which			

2.	<i>Ijārah and ijārah muntahia bittamlik instruments</i>			
3.	<i>Istisnā instruments</i>			
4.	<i>Muḍārabah instruments</i>			
5.	<i>Murābahah instruments</i>			
6.	<i>Mushārakah instruments</i>			
7.	<i>Salam instruments</i>			
8.	<i>Wakālah bi al-Istithmār instruments</i>			
9.	Hybrid instruments [specify main contracts used in structure of instrument(s)]			

117. IIFS should present exposure values, RWAs and capital charges of securitisation exposures in the banking book when IIFS act as originators or sponsors as per Template 25. Rows and columns of this template are fixed. IIFS are to supplement the template with a narrative commentary explaining any significant changes over the reporting period and key drivers of such changes.

57 Conventional securitisations are categorised as either traditional or synthetic, and IIFS' exposures would generally be limited to traditional securitisations (if any).

58 Murābahah and salam instruments are not tradable.

**Template 25 Securitisation Exposures in the Banking Book and Associated
Regulatory Capital Requirements – IIFS Acting as Originators or as Sponsors:
Semi-annual**

		Exposure Values (by RW Bands)						RWA	Capital Charge
		≤20% RW	>20% to 50% RW	>50% to 100% RW	>100% to 400% RW	>400% to <1,250% RW	1,250% RW		
1.	Total exposures – of which								
2.	<i>Ijārah</i> and <i>ijārah muntahia bittamlīk</i> instruments								
3.	<i>Istisnā</i> instruments								
4.	<i>Muqārabah</i> instruments								
5.	<i>Murābahah</i> instruments								
6.	<i>Mushārahah</i> instruments								
7.	<i>Salam</i> instruments								
8.	<i>Wakālah bi al-Istithmār</i> instruments								
9.	Hybrid instruments [specify main contracts used in structure of instrument(s)]								

118. IIFS should present exposure values, RWAs and capital charges of securitisation exposures in the banking book when IIFS act as investors as per Template 26. Rows and columns of this template are fixed. IIFS are to supplement the template with a narrative commentary explaining any significant changes over the reporting period and key drivers of such changes.

Template 26 Securitisation Exposures in the Banking Book and Associated Capital Requirements – IIFS Acting as Investors: Semi-annual

		Exposure Values (by RW Bands)						RWA	Capital Charge
		≤20% RW	>20% to 50% RW	>50% to 100% RW	>100% to 400% RW	>400% to <1,250% RW	1,250% RW		
1.	Total exposures – of which								
2.	<i>Ijārah</i> and <i>ijārah muntahia bittamlik</i> instruments								
3.	<i>Istisnā</i> instruments								
4.	<i>Muḍārabah</i> instruments								
5.	<i>Murābahah</i> instruments								
6.	<i>Mushārahah</i> instruments								
7.	<i>Salam</i> instruments								
8.	<i>Wakālah bi al-Istithmār</i> instruments								
9.	Hybrid instruments [specify main contracts used in structure of instrument(s)]								

5.6 Liquidity Risk

119. Liquidity risk is the potential loss to IIFS arising from their inability either to meet their obligations or to fund increases in assets as they fall due without incurring unacceptable costs or losses.⁵⁹ Liquidity risk can be categorised into two main types: (a) funding liquidity risk, and (b) market liquidity risk. Funding liquidity risk is the risk that an IIFS will not be able to meet efficiently both its expected and unexpected current and future cash flow and collateral needs without affecting either daily operations or the financial condition of IIFS.

⁵⁹ See paragraph 81 of IFSB-1: Guiding Principles of Risk Management for Institutions (Other than Insurance Institutions) offering Only Islamic Financial Services.

Market liquidity risk is the risk that IIFS cannot easily offset or eliminate a position at the market price because of inadequate market depth or market disruption. Liquidity risk can arise due to funding or market risk, or various factors arising due to a combination of these risks, which might be linked to changes in institutional or systemic behaviour.

120. IFSB-12: Guiding Principles on Liquidity Risk Management for IIFS, issued in March 2012, provides a set of 23 principles for the robust management of liquidity risk by IIFS and its vigorous supervision and monitoring by their supervisory authorities. Besides providing guidance on prudential aspects related to liquidity risk management in IIFS, IFSB-12 outlined necessary elements of effective liquidity risk management in the IFSI.

121. In complementing IFSB-12, the IFSB issued GN-6: Guidance Note on Quantitative Measures for Liquidity Risk Management in Institutions offering Islamic Financial Services (Excluding Islamic Insurance [Takāful] Institutions and Islamic Collective Investment Schemes) in April 2015, establishing a minimum level of liquidity for IIFS, including full-fledged IIFS, Islamic windows of conventional banks and Islamic banking subsidiaries of conventional banks on an individual and a consolidated basis. GN-6 also complements the final rules on liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) as issued by the BCBS in January 2013 and October 2014, respectively.

122. In achieving those objectives, GN-6 presents, among others, disclosure templates of LCR and NSFR, which are included in this standard along with necessary instructions and explanations.

5.6 *Liquidity Risk*

123. LCR disclosures must be calculated on a consolidated basis⁶⁰ and presented in a single currency. Disclosed data must be presented as simple averages of daily observations over the previous quarter. (That is, the average is calculated over a period of, typically, 90 days.)

124. Both unweighted and weighted values of the LCR components should be disclosed, in accordance with Template 27. The unweighted values of inflows and outflows are to be calculated as outstanding balances of various categories or types of liabilities, off-balance sheet items and contractual receivables. The “weighted” value of high-quality liquid assets (HQLA) is to be calculated as the value after haircuts are applied. The “weighted” values for inflows and outflows are to be calculated as the values after the inflow and outflow rates are applied. The values of total HQLA and total net cash outflows to be disclosed are the adjusted values, where the “adjusted” value of HQLA is the value of total HQLA after the application of both haircuts and any applicable caps on Level 2B and Level 2 assets. The adjusted value of net cash outflows is to be calculated after the cap on inflows is applied, if applicable.

125. IIFS must also provide links as well as references related to alternative liquidity approaches (ALA) or any such assumptions to the relevant supervisors’ rules or guidance on national implementation of the LCR. In addition to the quantitative data, IIFS should provide sufficient qualitative discussion around the LCR to facilitate a greater understanding of the results and data provided. For example, where significant to the LCR, IIFS should discuss:

⁶⁰ For more detailed guidance on the scope of consolidation, refer to paragraphs 164–166, Basel III: Liquidity Coverage Ratio and Liquidity Risk Monitoring Tools, January 2013.

- a. the main drivers of their LCR results and the evolution of the contribution of inputs to the LCR's calculation over time;
- b. intra-period changes, as well as changes over time;
- c. the composition of HQLA;
- d. concentration of funding sources;
- e. currency mismatch in the LCR;
- f. the degree of centralisation of liquidity management and interaction between various units in the IIFS's group; and
- g. other inflows and outflows in the LCR calculation that are not captured in the LCR common template but which the IIFS considers to be relevant for its liquidity profile.

126. IIFS may determine the scope and depth of their disclosures in relation to liquidity risk management, taking into consideration their business models, liquidity risk profiles, funding profile, reliance on concentrated funding sources and level of diversification in their funding avenues, as well as the nature and organisation of their liquidity risk management functions. These qualitative disclosures would enable market participants to understand the internal liquidity risk management and positions, particularly those related to that specific institution. This information should include:

- a. governance of liquidity risk management, including: (i) risk tolerance, structure and responsibilities for liquidity risk management; (ii) internal liquidity reporting; and (iii) communication of liquidity risk strategy, policies and practices across business lines and with the BOD;
- b. funding strategy, including policies on diversification in the sources and tenor of funding, and whether the funding strategy is centralised or decentralised;
- c. liquidity risk mitigation techniques;
- d. an explanation of how stress testing is used; and
- e. an outline of contingency funding plans.

127. The quantitative information that an IIFS should consider for inclusion in its disclosures about liquidity risk management should include customised measurement tools or metrics that assess the structure of the IIFS's balance sheet, as well as metrics that project cash flows and future liquidity positions, taking into account off-balance sheet risk exposures that are specific to that IIFS. Other quantitative information could include key metrics that management monitors, including:

- a. concentration limits on collateral pools and sources of funding (both products and counterparties);
- b. liquidity exposures and funding needs at the level of individual legal entities, foreign branches and subsidiaries, taking into account legal, regulatory and operational limitations on the transferability of liquidity; and
- c. balance sheet and off-balance sheet items broken down into maturity buckets and the resultant liquidity gaps.

Template 27 Liquidity Coverage Ratio: Quarterly

	(In Domestic Currency)	Total Unweighted ⁶¹ Value (Average)	Total Weighted ⁶² Value (Average)
HIGH-QUALITY LIQUID ASSETS (HQLA)			
1.	Total HQLA*		
CASH OUTFLOWS			
2.	Retail deposits/profit-sharing investment account (PSIA) and deposits/PSIA from small business customers, of which:		
3.	Stable deposits/PSIA		
4.	Less stable deposits/PSIA		
5.	Unsecured wholesale funding, of which:		
6.	Operational accounts (all counterparties) and deposits in networks of cooperative institutions offering Islamic financial services		
7.	Non-operational accounts (all counterparties)		
8.	Unsecured wholesale funding		
9.	Secured wholesale funding*		
10.	Additional requirements, of which:		
11.	Outflows related to Sharī'ah-compliant hedging instrument exposures and other collateral requirements		
12.	Outflows related to loss of funding on financing products		
13.	Credit and liquidity facilities		
14.	Other contractual funding obligations		
15.	Other contingent funding obligations		
16.	TOTAL CASH OUTFLOWS*		
CASH INFLOWS			
17.	Sharī'ah-compliant secured financing		
18.	Inflows from fully performing exposures		
19.	Other cash inflows		
20.	TOTAL CASH INFLOWS		
Total adjusted value ⁶³			
21.	TOTAL HQLA*		
22.	TOTAL NET CASH OUTFLOWS*		
23.	LIQUIDITY COVERAGE RATIO (%)*		

Note: Not all reported figures will sum exactly, particularly in the denominator of the LCR. For example, “total net cash outflows” (line 22) may not be exactly equal to “total cash outflows” minus “total cash inflows” (line 16 minus line 20) if the cap on inflows is binding. Similarly, the disclosed LCR may not be equal to an LCR computed on the basis of the average values of the set of line items disclosed in the template.

* No data should be entered in the cells of “Total **unweighted**⁶⁴ value (average)”.

128. Figures entered in the above template must be averages of the observations of individual line items over the financial reporting period (i.e. the average of components and the average LCR over the most recent three months of daily positions, irrespective of the financial reporting schedule). The averages are calculated after the application of any haircuts, inflow and outflow rates, and caps, where applicable.

For example:

$$\text{Total **unweighted** stable deposits}_{Qi} = \frac{1}{T} \times \sum_{t=1}^T (\text{Total **unweighted** stable deposits})_t$$

$$\text{Total **weighted** stable deposits}_{Qi} = \frac{1}{T} \times \sum_{t=1}^T (\text{Total **weighted** stable deposits})_t$$

where T equals the number of observations in period Q_i .

129. *Weighted* figures of HQLA in line 1 must be calculated after the application of the respective haircuts but before the application of any caps on Level 2B and Level 2 assets.

130. Unweighted inflows and outflows (lines 2–8, 11–15 and 17–21, second column) must be calculated as outstanding balances. Weighted inflows and outflows (lines 2–21, third column) must be calculated after the application of the inflow and outflow rates.

131. Adjusted figures of HQLA in line 22 must be calculated after the application of both haircuts and any applicable caps (i.e. cap on Level 2B and Level 2 assets).

132. The LCR (line 23) must be calculated as the average of observations of the LCR:

$$LCR_{Qi} = \frac{1}{T} \times \sum_{t=1}^T (LCR)_t$$

5.6.2 Disclosure Requirements for NSFR

133. NSFR disclosure requirements are applicable to IIFS on a consolidated basis but may be used for specific IIFS within a group or on any subset of IIFS entities of internationally active banks to ensure greater consistency and a level playing field between domestic and cross-border banks.

134. IIFS must publish this disclosure with the same frequency as, and concurrently with, the publication of their financial statements (i.e. typically, quarterly or semi-annually), irrespective of whether the financial statements are audited.

63 Adjusted values must be calculated after the application of both (a) haircuts and inflow and outflow rates, and (b) any applicable caps (i.e. cap on Level 2B and Level 2 assets for HQLA and on inflows).

64 Unweighted values must be calculated as outstanding balances maturing or callable within 30 days (for inflows and outflows).

135. In addition to Template 28, which requires quantitative disclosures, IIFS should provide qualitative discussion on their NSFR to facilitate understanding by its users and stakeholders of the NSFR disclosures and related data used for these disclosures. Such disclosures should include, but need not be limited to:

- a. the drivers of their NSFR results and the reasons for intra-period changes as well as changes over time (changes in business strategies, funding structure, asset generation strategies, etc.); and
- b. the composition of the IIFS's interdependent assets and liabilities and to what extent these transactions are interrelated.

Template 28 Net Stable Funding Ratio: Semi-annual

(In Currency Amount)		Unweighted Value by Residual Maturity				Weighted Value
		No Maturity	< 6 Months	6 Months to < 1 Year	≥ 1 Year	
ASF Item						
1.	Capital					
2.	Regulatory capital					
3.	Other capital instruments					
4.	Retail deposits/ profit-sharing investment account (PSIA) and deposits/ PSIA from small business customers					
5.	Stable deposits/ PSIA					
6.	Less stable deposits/PSIA					
7.	W h o l e s a l e funding					
8.	O p e r a t i o n a l accounts					
9.	Other wholesale funding					
10.	L i a b i l i t i e s with matching interdependent assets					
11.	Other liabilities					
12.	Net liabilities for Sharī'ah-compliant hedging contracts					

13.	All other liabilities and equity not included in the above categories					
14.	Total available stable funding					
15.	Total high-quality liquid assets (HQLA)					
(In Currency Amount)		Unweighted Value by Residual Maturity				Weighted Value
		No Maturity	< 6 Months	6 Months to < 1 Year	≥ 1 Year	
ASF Item						
16	Deposits/ PSIA held at other financial institutions for operational purposes					
17	Performing financing and Sharī'ah-compliant securities					
18.	Performing financing to financial institutions secured by Level 1 HQLA					
19.	Performing financing to financial institutions secured by non-Level 1 HQLA and unsecured performing financing to financial institutions					

20.	Performing financing to non-financial corporate clients, financing to retail and small business customers, and financing to sovereigns, central banks and public-sector entities, of which:					
21.	With a risk weight of less than or equal to 35% under IFSB-15					
22.	Performing financing for acquisition of residential real estate, of which:					
23.	With a risk weight of less than or equal to 35% under IFSB-15					
24.	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities					
25.	Assets with matching interdependent liabilities					
26.	Other assets					
(In Currency Amount)		Unweighted Value by Residual Maturity				Weighted Value
		No Maturity	< 6 Months	6 Months to < 1 Year	≥ 1 Year	
ASF Item						
27.	Physicaltraded commodities, including gold					
28.	Net assets for Sharī'ah-compliant hedging contracts					
29.	All other assets not included in the above categories					

30.	Off-balance sheet items					
31.	Total required stable funding (RSF)					
32.	NSFR (%)					

5.7 Market Risk

136. Market risk is defined as the risk of losses in on- and off-balance sheet positions arising from movements in market prices – that is, fluctuations in values in tradable and marketable instruments (including sukūk), in off-balance sheet individual portfolios, and in assets or positions that are identified as having exposure to price/market risk under IFSB-15. The risks arise from the volatility of market values of specific assets and of foreign exchange rates.

137. IIFS must describe their risk management objectives and policies for market risk according to the framework set out in Table 19.

Table 19 Market Risk

Qualitative Disclosures: Annual	
1.	<p>Strategies and processes of the IIFS, which must include an explanation and/or description of:</p> <ul style="list-style-type: none"> the IIFS's strategic objectives in undertaking trading activities (if any), as well as the processes implemented to identify, measure, monitor and control the IIFS's market risks, including policies for hedging risk and the strategies/processes for monitoring the continuing effectiveness of any Sharī'ah-compliant hedges (if any); and policies for determining the designation of a position for trading.⁶⁵ <p>In addition, IIFS should detail governance around the trading book, controls on assignment of positions to the trading book, any switches between trading and banking books, and adjustments to capital requirements resulting from such switches. IIFS must also describe cases where instruments are assigned to the trading or banking book contrary to the general presumptions of the instrument category.</p>
2.	The structure and organisation of the market risk management function, including a description of the market risk governance structure established to implement the strategies and processes of the IIFS outlined in (1) above.
3.	The scope and nature of market risk reporting and/or measurement systems.

138. IIFS must disclose the breakdown of RWAs, and components of the capital charge, under the standardised approach for market risk in accordance with Template 29. Rows of this template are fixed and must be filled. Additional rows can be added by IIFS for the breakdown of other exposures. IIFS are expected to explain any changes in the scope of positions for which capital requirements are calculated.

Template 29 Market Risk under Standardised Approach: Semi-annual⁶⁶

		Capital Charge
1.	Benchmark risk in trading positions in <i>sukūk</i>	
2.	Equity position risk in the trading book	
3.	Commodities and inventory risk	
4.	Foreign exchange risk	
5.	iCredit spread risk ⁶⁷ – non-securitisations	
6.	Credit spread risk – securitisations (non-correlation trading portfolio) ⁶⁸	
7.	Credit spread risk – securitisations (correlation trading portfolio)	
8.	Default risk – non-securitisations	
9.	Default risk – securitisations (non-correlation trading portfolio)	
10.	Default risk – securitisations (correlation trading portfolio)	
11.	Residual risk add-on ⁶⁹	
12.	Total	

66 For further details and explanations on row items 5–11, IIFS may refer to section B of *Minimum Capital Requirements for Market Risk* issued by the BCBS in January 2016.

67 The applicability of credit spread risk to Islamic equity and non-equity instruments will be further considered in the revision to IFSB-15.

68 The terms “correlation trading portfolio” and “non-correlation trading portfolio” are defined in paragraph 61 of the *Minimum Capital Requirements for Market Risk*, issued by the BCBS in January 2016. Available at <https://www.bis.org/bcbs/publ/d352.pdf>. Not all types of correlation/non-correlation trading portfolios are Sharī’ah-compliant, and, in this regard, IIFS must follow guidelines issued by centralised Sharī’ah boards in their jurisdictions where available, or obtain approval from their Sharī’ah boards.

69 The term “residual risk add-on” is defined in paragraph 58 of the *Minimum Capital Requirements for Market Risk*, issued by the BCBS in January 2016. Available at <https://www.bis.org/bcbs/publ/d352.pdf>.

5.8 Operational Risk⁷⁰

139. IFSB-15 defines⁷¹ operational risk as the risk of losses resulting from inadequate or failed internal processes, people and systems, or from external events, which includes, but is not limited to, legal risk and Sharī'ah non-compliance risk.⁷² Failure of these controls may affect the soundness of IIFS' operations and their reliability of reporting.

140. In aligning operational risk disclosures for IIFS with the standardised approach for the calculation of minimum capital requirements for operational risk as issued by the BCBS in December 2017, IIFS shall make disclosures describing the main elements and characteristics of their operational risk management framework, and the mechanisms they have in place to safeguard the interests of all fund providers. Such qualitative disclosures, as set out in Table 20, may be made in a flexible format as appropriate for the reporting IIFS and must describe the following:

Table 20 Operational Risk

Qualitative Disclosures: Annual	
1.	IIFS policies, guidelines and frameworks to manage operational risk.
2.	The structure and organisation of the operational risk management and control function.
3.	Operational risk measurement system.
4.	The scope and main context of their operational risk reporting framework to senior management and BOD.
5.	Sharī'ah-compliant risk mitigation techniques, including risk transfer, used in the management of operational risk.

141. From the implementation date of Template 30, IIFS must disclose aggregate operational losses incurred over the past 10 years in accordance with the template based on their accounting date (i.e. from the implementation date onwards, disclosure of all prior periods is required). RSAs may give permission to IIFS to use fewer years in their capital calculation on a transitional basis, and disclosure in such cases should correspond to the years permitted by the supervisors. Loss amounts and the associated recoveries and compensations should be reported in the year in which they were recorded in financial statements. Table 21 provides explanatory text relevant to Template 30.

142. Template 30 is applicable to: (a) IIFS that have Business Indicator (BI)⁷³ figures of more than €1bn; and (b) IIFS with BI figures of less than or equal to €1bn and which have received permission from their RSAs to include internal loss data in the calculation of their operational risk capital requirements.

143. IIFS are required to supplement the template with narrative commentary to explain the rationale for any new loss exclusions since the previous disclosure. IIFS must also highlight and describe recent large losses from operational risk, their context and the manner in which they were managed. IIFS should make additional disclosures regarding material recoveries and compensations and their amounts, together with other material information that would help inform the users as to the IIFS's historical losses.

70 Quantitative disclosures on operational risk in this standard, including thresholds used, are subject to change in line with revisions to IFSB-15.⁶⁷ The applicability of credit spread risk to Islamic equity and non-equity instruments will be further considered in the revision to IFSB-15.

71 This definition excludes strategic and reputational risks.

72 Sharī'ah governance disclosures are covered in section 7 of this standard.

73 BI is a financial-statement-based proxy for operational risk. Its components and formula are provided in Table 22.

Template 30 Operational Risk Historical Losses: Annual

		a	b	c	d	e	f	g	h	i	j	k
		T	T-1	T-2	T-3	T-4	T-5	T-6	T-7	T-8	T-9	Ten-year Average
Using €20,000 threshold												
1.	Total amount of operational losses (net of recoveries and compensations, no exclusions)											
2.	Total amount of excluded operational risk losses											
3.	Total number of operational risk losses											
4.	Total amount of operational losses net of recoveries and compensations, and net of excluded losses											
Using €100,000 threshold												
5.	Total amount of operational losses (net of recoveries and compensations, no exclusions)											
6.	Total amount of excluded operational risk losses											
7.	Total number of operational risk losses											
8.	Total amount of operational losses net of recoveries and compensations, and net of excluded losses											
Details of operational risk capital calculation												

9.	Are losses used to calculate the Internal Loss Multiplier (ILM)? (yes/no)	
10.	If "no" in row 9, is the exclusion of internal loss data due to non-compliance with the minimum loss data standards? (yes/no)	
11.	Loss event threshold used for operational risk capital calculation (if applicable): €20,000 or €100,000.	

Table 21 Definitions for Operational Risk Historical Losses Template

Row Number	Explanation
1.	Using a loss event threshold of €20,000, and for each of the last 10 reporting periods, the total loss amount (net of recoveries and compensations) resulting from loss events above the loss event threshold. Losses excluded from operational risk capital calculation must still be included in this row.
2.	Using a loss event threshold of €20,000, the excluded total net loss amounts above the loss threshold for each of the last 10 reporting periods.
3.	Using a loss event threshold of €20,000, the total number of operational risk losses.
4.	Using a loss event threshold of €20,000, the total amount of operational risk losses net of recoveries, compensations and excluded losses.
5.	Using a loss event threshold of €100,000, and for each of the last 10 reporting periods, the total loss amount (net of recoveries and compensations) resulting from loss events above the loss event threshold. Losses excluded from operational risk capital calculation must still be included in this row.
6.	Using a loss event threshold of €100,000, the excluded total net loss amounts above the loss threshold for each of the last 10 reporting periods.
7.	Using a loss event threshold of €100,000, the total number of operational risk losses.
8.	Using a loss event threshold of €100,000, the total amount of operational risk losses net of recoveries, compensations and excluded losses.

9.	Indicate whether the IIFS uses historical operational risk losses to calculate the Internal Loss Multiplier (ILM). IIFS in jurisdictions where RSAs have set the value of ILM at 1 should answer no.
10.	Indicate whether internal loss data are not used in the ILM calculation due to non-compliance with minimum loss data standards (as set out in paragraphs 19–31 in minimum capital requirements for operational risk, Basel III: Finalising post-crisis reforms).
11.	The loss event threshold used in the actual operational risk capital calculation (€20,000 or €100,000), if applicable.
Columns: T in rows 1 to 8 denotes the end of the annual reporting period, T-1 the previous year-end, etc. Column k refers to the average annual losses net of recoveries, compensations and excluded losses over 10 years.	

144. Each IIFS must also disclose the BI and its subcomponents in accordance with Template 31. Disclosure of all prior periods is required from the implementation date of this template. IIFS are expected to provide narrative commentary supplementing this template to explain changes over the reporting period and their key drivers. Additional narrative is required for IIFS that have received permission from their RSAs to exclude divested activities from the calculation of the BI. Table 22 provides explanatory text relevant to Template 31.

Template 31 Business Indicator and its Subcomponents: Annual

		a	b	c
	BI and its subcomponents	T	T-1	T-2
1.	Profit, <i>ijārah</i> instalments and dividend component			
1a	Income from placements with other entities, financing and advances, non-equity instruments and <i>ijārah</i> financing			
1b	Profits accrued and/or paid on deposit, investment account funds, non-equity instrument issuances and <i>ijārah</i> expenses			
1c	Profit-earning assets			
1d	Dividend income			
2.	Services component			
2a	Fee and commission income			
2b	Fee and commission expense			
2c	Other operating income			
2d	Other operating expense			
3.	Financial component			
3a	Net profit & loss on the trading book			
3b	Net profit & loss on the banking book			

4.	BI			
5.	Business Indicator Component (BIC)			
Disclosure on the BI				
6a	BI gross of excluded divested activities			
6b	Reduction in BI due to excluded divested activities			

Table 22 Definitions for Business Indicator and its Subcomponents Template

Row Number	Explanation
1.	The profit, <i>ijārah</i> instalments and dividend component (PIDC) = Min [Abs (income from profits earned and <i>ijārah</i> instalments – profits and <i>ijārah</i> instalments paid); 2.25%*profit-earning assets] + dividend income. All amounts in the formula are calculated as the average over three years: T, T-1 and T-2. Profit-earning assets are the total gross outstanding financing and advances, profit-earning non-equity instruments (including sovereign and corporate sukūk) and <i>ijārah</i> assets as measured at the end of each financial year.
1a	Profit earned from all financial and other assets (including profits earned through operating <i>ijārah</i> and <i>ijārah muntahia bittamlīk</i>).
1b	Expenses from all financial liabilities (including expenses from <i>ijārah muntahia bittamlīk</i> and operating <i>ijārah</i> and losses, depreciation and impairment of operating <i>ijārah</i> assets). ⁷⁴
1c	Total gross outstanding financing and advances, profit-earning non-equity instruments (including sovereign and corporate sukūk) and <i>ijārah</i> assets measured at the end of each financial year.
1d	Dividend income from investments in stocks and funds not consolidated in IIFS' financial statements, including such dividend income from non-consolidated subsidiaries, associates and joint ventures.
2.	Services component (SC) = Max (Fee and commission income; Fee and commission expense) + Max (Other operating income; Other operating expense). All terms in the formula are calculated as the average over three years: T, T-1 and T-2.
2a	Income received from providing advice and services. Includes income received by the IIFS as an outsourcer of Islamic financial services.
2b	Expenses incurred for receiving advice and services. Includes outsourcing fees paid by the IIFS for Islamic financial services (but not outsourcing fees incurred for the supply of non-financial services, such as logistical, IT, human resources).
2c	Income from ordinary banking operations not included in other BI items but of a similar nature.
2d	Expenses and losses from ordinary banking operations not included in other BI items but of a similar nature and from operational loss events (expenses from operating leases should be excluded).
3.	Financial component (FC) = Abs (Net P&L Trading Book) + Abs (Net P&L Banking Book). All terms in the formula are calculated as the average over three years: T, T-1 and T-2.
3a	This comprises: (i) net profit/loss on trading assets and trading liabilities (Shari'ah-compliant hedging instruments, if any, non-equity instruments, equity instruments, financing and advances and other assets and liabilities); (ii) net profit/loss from Shari'ah-compliant hedge accounting (if any); and (iii) net profit/loss from foreign exchange differences.

⁷⁴ IIFS should follow the accounting framework applicable in their jurisdictions for the appropriate treatment of expenses from losses, depreciation and impairment of *ijārah muntahia bittamlīk* assets.

3b	This comprises (i) net profit/loss on financial assets and liabilities measured at fair value through profit and loss; (ii) realised gains/losses on financial assets and liabilities not measured at fair value through profit and loss (financing and advances, assets available for sale, assets held to maturity, financial liabilities measured at amortised cost); (iii) net profit/loss from hedge accounting and (iv) net profit/loss from foreign exchange differences
4.	The BI is the sum of the three components: PIDC, SC and FC.
5.	The BIC is calculated by multiplying the BI by a set of regulatory determined marginal coefficients. As set in paragraph 8 of the minimum capital requirements for operational risk, Basel III: Finalising post-crisis reform, the marginal coefficients (α_i) increase with the size of the BI: 12% for $BI \leq \text{€}1\text{bn}$; 15% for $\text{€}1\text{bn} < BI \leq \text{€}30\text{bn}$; and 18% for $BI > \text{€}30\text{bn}$.
Disclosure on the BI should be reported by IIFS that have received supervisory approval to excluded divested activities from the calculation of the BI.	
6a	The BI reported in this row includes divested activities.
6b	Difference between BI gross of divested activities (row 6a) and BI net of divested activities (row 4).
Columns: T denotes the end of the annual reporting period, T-1 the previous year-end, etc.	

145. IIFS are to disclose operational risk regulatory capital requirements as per Template 32. Table 23 provides explanatory text relevant to Template 32.

Template 32 Minimum Required Operational Risk Capital: Annual

1.	Business indicator component (BIC) ⁷⁵	
2.	Internal loss multiplier (ILM) ⁷⁶	
3.	Minimum required operational risk capital (ORC)	
4.	Operational risk RWA	

Table 23 Definitions for Minimum Required Operational Risk Capital Template

Row Number	Explanation
1.	The BIC used for calculating minimum regulatory capital requirements for operational risk
2.	The ILM used for calculating minimum regulatory capital requirements for operational risk. Where national jurisdictions choose to exclude losses from the operational risk calculation, the ILM is equal to one.
3.	Minimum operational risk capital requirements. For IIFS using operational risk losses to calculate the ILM, this should correspond to the BIC multiplied by the ILM. For IIFS not using operational risk losses to calculate the ILM, this corresponds to the BIC.
4.	Converts the minimum operational risk capital requirement to RWA.

5.9 Rate of Return Risk

146. Rate of return (ROR) risk in the banking book of an IIFS (which is an analogue of interest rate risk in the banking book in conventional banks as defined by the BCBS) surfaces from the possible impact on the net income of the IIFS arising from the effect of changes in the market rates and relevant benchmark rates on the returns on assets and on the returns payable to PSIA. It differs from interest rate risk in that IIFS are concerned with the returns on their investment activities at the end of the investment holding period and with the impact on net income after the sharing of returns with IAH.

⁷⁵ Reference is made to paragraph 8 of the finalised Basel III reforms, issued in December 2017.

⁷⁶ Reference is made to paragraphs 9–10 of the finalised Basel III reforms, issued in December 2017.

147. In so far as IAH share the profits and bear the losses on investments and related operations of IIFS, any impact on the return on assets will be offset, at least in part, by the corresponding adjustments in the return payable on IAH funds. The extent to which IAH share the risks will depend on IIFS' policies to absorb part of the risks that would otherwise be borne by IAH under a muḍārabah contract. Thus, the greater the absorption of risks by IIFS (known as DCR), the greater the likely magnitude of the rate of return risk they face.⁷⁷

148. IIFS shall make disclosures, both qualitative and quantitative as shown in Table 24 and Template 33, of how they define rate of return risk, factors that cause rate of return risk, and the strategies the IIFS adopts to manage and mitigate this risk. It is pertinent that IIFS provide sufficient levels of disclosure describing indicators of rate of return risk, including data on maturity gaps, and on the sensitivity to changes in market rates of the returns on various Shari'ah-compliant financing contracts and of the returns payable to the various sources of funding. Disclosures of risks and returns for investment accounts, disclosures of returns on assets or contracts funded by the investment accounts, proportion of fixed to variable return assets, breakdown of assets across the entire range of repricing horizons, and the related disclosures on DCR (see section 5.11) are also relevant in assessing the rate of return risk.⁷⁸

Table 24 Rate of Return Risk

Qualitative Disclosures: Annual	
1.	A description of how the IIFS defines rate of return risk for purposes of control and measurement.
2.	Discussion of factors affecting rates of return and benchmark rates, and the effects thereof on the pricing of contracts, covering the nature and extent of rate of return risk involved in an IIFS's activities and caused by its balance sheet structure. How the IIFS incorporates its measurement of rate of return risk in formulating its strategy towards raising PSIA funds and in formulating strategies for generating assets to be financed under such investment accounts.
3.	A description of the IIFS's overall rate of return risk management framework, including policies, procedures, measurement tools, governance and mitigation strategies. This could include the monitoring of the economic value of equity (EVE), net income from financing and sukūk (NIFS) ⁷⁹ in comparison to defined limits, hedging practices (if any), stress testing, role of independent audit, the role and practices of the Asset-Liability Committee, and IIFS practices to ensure appropriate model validation and timely updates in response to changing market conditions.
4.	The periodicity of the calculation of the IIFS's rate of return risk measures, and a description of the specific measures that the IIFS uses to gauge its sensitivity to rate of return risk.
5.	A description of the rate of return shock and stress scenarios that the IIFS uses to estimate changes in earnings and economic value.

⁷⁷ The original Shari'ah ruling is that U/RAH bear the risk of losses, and IIFS would not compensate them for that. However, IIFS could forgo a portion of their profits to the IAH by providing unconditional smoothing, which, from the Shari'ah perspective, is a pure hibah that is not binding.

⁷⁸ Repricing in IIFS can be done by linking the rental payment in an ijārah contract with a known benchmark. As for the rest of the contracts, their price is fixed and therefore they cannot be repriced.

6.	<p>A high-level description of key modelling and parametric assumptions used in calculating changes in EVE, NIFS and other indicators that IIFS use in measuring rate of return risk. This includes:</p> <ul style="list-style-type: none"> the IIFS's strategic objectives in undertaking trading activities (if any), as well as the processes implemented to identify, measure, monitor and control the IIFS's market risks, including policies for hedging risk and the strategies/processes for monitoring the continuing effectiveness of any Shari'ah-compliant hedges (if any); and how the average repricing maturity of non-maturity funding products or liabilities has been determined (including any unique product characteristics that affect assessment of repricing behaviour); the methodology used to estimate the prepayment rates of customer financing and/or early withdrawal rates for deposits, and any other significant assumptions; discussion of the incorporation of behavioural assumptions on redemption/ withdrawal of funds by IAHs or other fund providers to IIFS in order to determine the possible impact of such assumptions on contractual maturities and measures of rate of return risk; any other assumptions that have a material impact on the disclosed change in EVE, NIFS and other measures of rate of return risk, including an explanation of why these are material; and any methods used for aggregation across currencies and a discussion of any significant correlations between rates of returns across different currencies on the IIFS's balance sheet.
Quantitative Disclosures: Annual	
7.	Indicators of exposures to rate of return risk – for example, data on expected payments/ receipts on financing and funding across the entire duration spectrum of the IIFS's balance sheet. Also, data on the cost of funding at different maturity buckets according to time of maturity for fixed-price assets or liabilities and according to time of repricing for floating rate assets or liabilities.
8.	Value of assets and liabilities that are profit-rate sensitive, classified as either fixed or floating profit-rate items, and the profit margin earned, duration and effective profit rate for each.
9.	Average and longest repricing maturity for non-maturity funding sources.
10.	Average and longest repricing maturity for funding sources with defined maturity.
11.	Average and longest repricing maturity for assets financed.

149. In addition, IIFS must provide details on changes in their EVE and NIFS under each shock scenario associated with the benchmark rate, as shown in Template 33. IIFS should provide narrative commentary on the significance of reported values, and explanations of any material changes during the reporting period.

79 NIFS includes, among others, income from placement of funds with central banks and other IIFS (whether on profit-sharing or other Shari'ah-compliant contracts), and all types of financing, including financing extended via profit-sharing contracts.

Template 33 Quantitative Information on Rate of Return Risk: Annual⁸⁰

In Reporting Currency	Δ EVE		Δ NIFS	
Period	T	T-1	T	T-1
Parallel up				
Parallel down				
Steepener				
Flattener				
Short rate up				
Short rate down				
Maximum				
Period				
Tier 1 capital				

5.10 Remuneration

150. Following the GFC, which started in 2007, several international standard-setting organisations published guidelines for firms on the disclosure of information about their compensation practices in order to facilitate comparability and, consequently, stakeholder engagement.⁸¹ This standard builds on relevant international standards on remuneration in requiring IIFS to describe their remuneration policies and the main elements of their remuneration system. Where relevant, disclosures should be made on the elements set out in Table 25.

⁸⁰ For further details on standardised benchmark rate shock scenarios, see Annex 2 of Interest Rate Risk in the Banking Book issued by the BCBS in April 2016.

⁸¹ In July 2009, the BCBS introduced supplemental Pillar 2 guidance to Basel II which incorporated Principles for Sound Compensation Practices proposals issued by the Financial Stability Board (FSB) in April 2009. The supplemental guidance included a requirement for firms to “disclose clear, comprehensive and timely information about their compensation practices to facilitate constructive engagement by all stakeholders, including in particular shareholders”. The FSB issued, in March 2010, a Peer Review Report on Compensation which noted differences in disclosure practices across jurisdictions on compensation, thus negatively affecting comparability and undermining the effectiveness of the disclosure. The FSB recommended that the BCBS incorporates compensation into its Pillar 3. The BCBS issued its first Pillar 3 disclosure requirements for remuneration in July 2011, and finalised these requirements in the consolidated and enhanced framework for Pillar 3 disclosure requirements in March 2017.

Table 25 Remuneration

Qualitative Disclosures: Annual	
1.	<p>Information relating to the bodies that oversee remuneration. Disclosures should include:</p> <ul style="list-style-type: none"> • name, composition and mandate of the main body overseeing remuneration at BOD and senior management levels; • external consultants whose advice has been sought, the body by which they were commissioned, and in what areas of the remuneration process; • a description of the scope of the IIFS's remuneration policy (e.g. by regions, business lines) including the extent to which it is applicable to foreign subsidiaries and branches; and • a description of the types of employees considered as senior managers and material risk takers.
2.	<p>Information relating to the design and structure of remuneration processes. Disclosures should include:</p> <ul style="list-style-type: none"> • an overview of the key features and objectives of remuneration policy; • whether the remuneration committee reviewed the firm's remuneration policy during the past year, and if so, an overview of any changes that were made, the reasons for those changes and their impact on remuneration; and • a discussion of how the IIFS ensures that risk and compliance employees are remunerated independently of the businesses they oversee.
3.	<p>Description of the ways in which current and future risks are taken into account in the remuneration processes. Disclosures should include an overview of the key risks, their measurement and how these measures affect remuneration.</p>
4.	<p>Description of the ways in which the IIFS seeks to link performance during a performance measurement period with levels of remuneration. Disclosures should include:</p> <ul style="list-style-type: none"> • an overview of the main performance metrics for the IIFS, top-level business lines and individuals; • a discussion of how amounts of individual remuneration are linked to IIFS-wide and individual performance; and • a discussion of the measures the IIFS will in general implement to adjust remuneration in the event that performance metrics are weak, including the IIFS's criteria for determining "weak" performance metrics.
5.	<p>Description of the ways in which the IIFS seeks to adjust remuneration to take account of longer-term performance. Disclosures should include:</p> <ul style="list-style-type: none"> • a discussion of the IIFS's policy on deferral and vesting of variable remuneration and, if the fraction of variable remuneration that is deferred differs across employees or groups of employees, a description of the factors that determine the deferred fraction and their relative importance; and • a discussion of the IIFS's policy and criteria for adjusting deferred remuneration before vesting and (if permitted by national law) after vesting through clawback arrangements.

6.	<p>Description of the different forms of variable remuneration that the IIFS utilises and the rationale for using these different forms. Disclosures should include:</p> <ul style="list-style-type: none"> an overview of the forms of variable remuneration offered (i.e. cash, shares and share-linked instruments, and other forms); and a discussion of the use of the different forms of variable remuneration and, if the mix of these different forms differs across employees or groups of employees, a description of the factors that determine the mix and their relative importance.
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151. Quantitative remuneration disclosures must be made in accordance with Template 34. IIFS may supplement the template with narrative commentary explaining any significant changes during the reporting period and the underlying drivers of such changes.

Template 34 Remuneration: Annual

	Remuneration Amount		Senior Management	Other Material Risk Takers
1.	Fixed remuneration	Number of individuals		
2.		Total fixed remuneration (3 + 5 + 7)		
3.		Of which: cash-based		
4.		Of which: deferred		
5.		Of which: share or other share-linked instruments		
6.		Of which: deferred		
7.		Of which: other forms		
8.		Of which: deferred		
9.	Variable remuneration	Number of individuals		
10.		Total variable remuneration (11 + 13 + 15)		
11.		Of which: cash-based		
12.		Of which: deferred		
13.		Of which: share or other share-linked instruments		
14.		Of which: deferred		
15.		Of which: other forms		
16.		Of which: deferred		
17.	Total remuneration (2 + 10)			

152. IIFS must disclose, on an aggregate basis, remuneration of their Sharī'ah board members during the reporting period, and on an annual basis the remuneration policy for these Sharī'ah boards.

153. IIFS are expected to provide quantitative information on special payments for the financial year in accordance with Template 35. Where it is not possible to disclose the template together with annual financial statements, it must be disclosed as soon as possible thereafter. IIFS must supplement the template with a narrative commentary explaining any significant movements over the reporting periods and the key drivers of such movements. Table 26 provides explanatory text relevant to Template 35.

Template 35 Special Payments

Special Payments	Guaranteed Bonuses		Sign-on Awards		Severance Payments	
	Number of Employees	Total Amount	Number of Employees	Total Amount	Number of Employees	Total Amount
Senior management						
Other material risk takers						

Table 26 Definition for Special Payments Template

Categories of senior management and material risk takers in rows 1 and 2 must correspond to the type of employees described in Table 25.	
Guaranteed bonuses	Payments of guaranteed bonuses during the financial year.
Sign-on awards	Payments allocated to employees upon recruitment during the financial year.
Severance payments	Payments allocated to employees dismissed during the financial year.

154. IIFS must also provide quantitative information on deferred and retained remuneration in accordance with Template 36. Where it is not possible to disclose the template together with annual financial statements, it must be disclosed as soon as possible thereafter. IIFS must supplement the template with a narrative commentary explaining any significant movements over the reporting periods and the key drivers of such movements. Table 27 provides explanatory text relevant to Template 36.

Template 36 Deferred Remuneration

	a	b	c	d	e
Deferred and Retained Remuneration	Total Amount of Outstanding Deferred Remuneration	Of which: Total Amount of Outstanding Deferred and Retained Remuneration Exposed to ex post Explicit and/or Implicit Adjustment	Total Amount of Amendment during the Year Due to ex post Explicit Adjustments	Total Amount of Amendment during the Year Due to ex post Implicit Adjustments	Total Amount of Deferred Remuneration Paid out in the Financial Year
Senior management					
Cash					
Shares					
Shari'ah-compliant cash-linked instruments					
Other					
Other material risk takers					
Cash					
Shares					

Shari'ah-compliant cash-linked instruments					
Other					
Total					

Table 27 Definitions for Deferred Remuneration Template

Outstanding exposed to ex post explicit adjustment	Part of the deferred and retained remuneration that is subject to direct adjustment clauses (e.g. subject to malus, clawbacks or similar reversal or downward revaluations of awards).
Outstanding exposed to ex post implicit adjustment	Part of the deferred and retained remuneration that is subject to adjustment clauses that could change the remuneration, due to the fact that they are linked to the performance of other indicators (e.g. fluctuation in the value of shares performance or performance units).
In columns (a) and (b), the amounts at reporting date (cumulated over the last years) are expected. In columns (c)–(e), movements during the financial year are expected. While columns (c) and (d) show the movements specifically related to column (b), column (e) shows payments that have affected column (a).	

5.11 Displaced Commercial Risk

155. “Displaced commercial risk” refers to the magnitude of risks that are transferred to shareholders in order to cushion the IAH from bearing some or all of the risks to which they are contractually exposed in muḍārabah funding contracts. Under a muḍārabah (profit-sharing and loss-bearing) contract, unrestricted IAH are exposed to the aggregate impact of risks arising from the assets in which their funds are invested, but they benefit from the DCR assumed by the IIFS. This risk sharing shall be achieved by constituting and using various reserves such as PER, and by the unconditional⁸² adjustment of the muḍārib’s profit share in order to smooth the returns payable to the IAH from exposure to the volatility of the aggregate returns arising from banking risks, and thereby enabling payment of returns that are competitive in the marketplace. Such transfer of risks from IAH to shareholders requires inclusion of a proportion of the RWA funded by IAH in the denominator of the CAR.⁸³

156. “PER” refers to reserves set aside from muḍārabah profits before applying the profit-sharing distribution; hence, part of the PER is a component of shareholders’ equity and the remainder is a component of the equity of IAH. The use of PER may help to smooth the rates of return paid to IAH and (as dividends) to shareholders. In particular, the use of the PER may be combined with the IIFS giving up a part or all of its muḍārib share of profits, in order to smooth the profit payout to IAH so as to match current market returns. Such a profit payout to IAH shall be distinguished from the unadjusted muḍārabah outcome, with the profits being shared according to the agreed contractual ratios, and with no smoothing of the returns paid to unrestricted IAH.

157. IRR is a reserve set aside from the part of profits allocated to IAH (after deducting the muḍārib share) based on the applicable profit share. Such a reserve belongs to IAH and may be used only to absorb losses (other than those due to misconduct or negligence) during a financial period. In any case, information on variability of aggregate muḍārabah

profits, the size and use of PER and IRR and of profits distributed after the utilisation of these reserves, is of prime importance in determining the risk–return mix facing the IAH and the size of DCR assumed by IIFS.

158. PER and IRR are considered as methods that mitigate DCR. IIFS can also smooth returns paid to IAH using methods that entail DCR without mitigation. These methods include the temporary reduction of an IIFS’s *muḍārib* share below the contractual share (which tends, in practice, to be set at a maximum level) and/or by otherwise assigning a lower profit share to shareholders, even if the IIFS is not contractually obliged to do so. This mechanism can only be used for income smoothing in the absence of losses, as investment losses on PSIA funds are to be borne by the IAH themselves, while IIFS merely receive no share of profit as *muḍārib*.

159. IIFS managements may also (with the shareholders’ approval) donate some portion of the shareholders’ income to IAH on the basis of *hibah*, so as to offer the latter a level of return close to the market benchmark level, when the overall investment returns of IIFS are lower than the benchmark.

160. IIFS shall disclose, on an annual basis, their policies on DCR, including the framework for managing the expectations of their shareholders and unrestricted IAH, the sharing of risks among the various stakeholders, and the range and measures of risks facing unrestricted or restricted (as the case may be) IAH based on the IIFS’s general business strategies and investment policies. Quantitative disclosures relevant to the assessment of DCR are included in Section 4 of this standard.

5.12 Contract-specific Risks

161. Each type of Islamic financing asset is exposed to a varying mix of credit and market risks. Accordingly, it is appropriate to monitor the total risk exposure in each type of financing asset and the corresponding capital charge for each type as set out in Table 28.

Table 28 Contract-specific Risks

Qualitative Disclosures: Annual	
1.	Policy on relative shares of various Sharī’ah-compliant financing contracts and capital allocation for various types of Sharī’ah-compliant financing contracts.
Quantitative Disclosures: Semi-annual	
2.	Total RWA classified by type of Sharī’ah-compliant financing contract.

82 Such unconditional adjustment of the *muḍārib*’s profit share must be based on a decision by the shareholders through the mechanism of *tabarru’* without any request from investment account holders. This decision, and the mechanism used to adjust the *muḍārib*’s profit share, must be disclosed by IIFS.

83 As specified in the IFSB’s *Revised Capital Adequacy Standard for Institutions offering Islamic Financial Services (Excluding Islamic Insurance [Takāful] Institutions and Islamic Collective Investment Schemes)*, December 2013. See also footnote 77.

SECTION 6 : ASSET ENCUMBRANCE

162. Disclosure of information on encumbered and unencumbered asset breakdowns by banks provides an overview of the extent to which a bank's assets remain available to creditors in the event of insolvency, and as such is viewed as meaningful to users of Pillar 3 data by the BCBS. The IFSB takes the same view for IIFS, and requires the disclosure for encumbered and unencumbered assets on the balance sheet using period-end values in accordance with Template 37.

163. Encumbered assets for purposes of disclosure in this template are defined as assets that the IIFS is restricted or prevented from liquidating, selling, transferring or assigning due to legal, regulatory, contractual or other limitations. On-balance sheet assets financed by an IAH's funds, together with the IAH's share of any undistributed profits (less any losses), and including their proportionate share of assets financed by commingled funds are considered as encumbered assets and shall be reported as "assets financed by IAH" in the template. On the other hand, unencumbered assets are assets that do not meet the definition of encumbered assets above. IIFS must use these definitions in making disclosure on this area. IIFS should use the regulatory scope of consolidation for purposes of this disclosure requirement, and include their securitisation exposures⁸⁴ (if any).

164. Columns (d), (h) and (i) should always be completed by IIFS. Headings of columns (a), (b) and (c) contain examples of breakdowns for column (d), and RSAs may separately require further breakdown of this column by type of transaction, and/or require the breakdown of column (h) into categories of unencumbered assets, which are illustrated by examples in columns (e), (f) and (g). Further guidance on the treatment of some assets as either encumbered or unencumbered may be provided by RSAs.

165. A column representing assets supporting Sharī'ah-compliant central bank facilities could be required for disclosure by the relevant RSA irrespective of whether breakdowns of IIFS' encumbered and unencumbered assets by transaction type and category are required. Assets supporting Sharī'ah-compliant central bank facilities are those in use to secure transactions, or remaining available to secure transactions, in any Sharī'ah-compliant central bank facility, including facilities used for monetary policy, liquidity assistance or any other ad hoc funding facilities. Disclosure of such assets could be sensitive and is therefore made optional (at the discretion of the relevant RSA). Where a separate column for Sharī'ah-compliant central bank facilities is used, IIFS should describe the types of assets and facilities included in this column. Where RSAs decide not to include the optional column in disclosure requirements, IIFS should group assets used in Sharī'ah-compliant central bank facilities with other encumbered and unencumbered assets as appropriate.

166. IIFS are expected to supplement the template with a narrative commentary explaining: (a) any significant changes in amounts of encumbered and unencumbered assets since the previous disclosure; (b) any definition of the amounts of encumbered and/or unencumbered assets broken down by types of transaction/category; and (c) any other relevant information necessary to understand the context of the disclosed figures.

84 See footnote 56.

Template 37 Asset Encumbrance: Semi-annual

	a	b	c	d	e	f	g	h	i
	Encumbered Assets				[Optional] Shari'ah- compliant Central Bank Facilities	Unencumbered Assets			Total
	Transaction Type 1 (e.g. Sukūk Issued)	Transaction Type 2 (e.g. Shari'ah- compliant Alternatives to Repurchase Transactions)	Transaction Type 3 (e.g. Assets Financed by IAH)	Total		Category 1 (e.g. Readily Available for Encumbrance)	Category 2 (e.g. Other Assets that are Capable of Being Encumbered)	Category 3 (e.g. Assets that Cannot be Encumbered)	Total
Assets on the balance sheet would be disaggregated, and there can be as much disaggregation as desired									

SECTION 7 : GENERAL GOVERNANCE AND SHARĪ'AH GOVERNANCE DISCLOSURES

167. Disclosures of general and Sharī'ah governance are designed to provide information on the structure, processes and functioning of such governance in IIFS. An important objective of these disclosures is to ensure transparency regarding overall governance of IIFS and regarding their measures to ensure Sharī'ah compliance.

168. International standards, codes and best practices of corporate governance, such as G20/OECD *Principles of Corporate Governance* issued by the Organisation for Economic Co-operation and Development (OECD), and *Corporate Governance Principles for Banks* issued by the BCBS, as well as other relevant governance standards, are congruent with these aims and, where relevant, are complementary in terms of guidance for appropriate disclosures.

169. The IFSB's Corporate Governance Standard deals with four areas: (a) general governance approach; (b) rights of IAH; (c) compliance with Sharī'ah rules and principles; and (d) transparency of financial reporting in respect of investment accounts.

170. The IFSB's Sharī'ah governance standard, IFSB-10: *Guiding Principles on Sharī'ah Governance Systems for Institutions offering Islamic Financial Services*, defines "Sharī'ah Governance System" as the set of institutional and organisational arrangements through which IIFS ensure that there is effective independent oversight of Sharī'ah compliance over several structures and processes, including the issuance of relevant Sharī'ah pronouncements/resolutions, dissemination of information on such Sharī'ah pronouncements/resolutions to the operative personnel of IIFS who monitor compliance with these pronouncements/resolutions, internal Sharī'ah review/audit, and annual Sharī'ah compliance review/audit to verify the appropriate application of the internal Sharī'ah compliance review/audit.

171. Various corporate and Sharī'ah governance practices are adopted by different IIFS in different countries. In particular, some countries have a centralised Sharī'ah authority that issues or approves the applicable pronouncement/resolution to be adopted by Sharī'ah boards of IIFS in these jurisdictions; in other countries, the applicable resolution/pronouncement for each IIFS is issued by the Sharī'ah board⁸⁵ of that institution. In line with Tables 29 and 30, IIFS shall make disclosures of the structure, processes and functioning of their general and Sharī'ah governance. Such disclosures shall include the rights of IAH, compliance with Sharī'ah rules and principles, and transparency of financial reporting in respect of investment accounts.⁸⁶ In addition, IIFS must use Template 38 in making quantitative disclosures relevant to Sharī'ah non-compliance.

Table 29 General Governance

Qualitative Disclosures: Annual	
1.	Disclosure and explanation of any departure from complying with the applicable financial reporting standards. ⁸⁷
2.	Disclosure of the IIFS's corporate governance arrangements and practices, including whether the IIFS complies in full with 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.
3.	Disclosure of all related party transactions and treatment of material events by the IIFS.

⁸⁵ This standard uses the term "Sharī'ah board" and notes that some jurisdictions use different terms, such as "Sharī'ah committee", "Sharī'ah supervisory board" and "advisory committee of experts", among others, to refer to a committee/board/panel with similar functions relevant to Sharī'ah matters.

Table 30 Sharī'ah Governance

Qualitative Disclosures: Annual	
1.	A statement on the governance arrangements, systems and controls employed by the IIFS to ensure Sharī'ah compliance, and on how these meet applicable national or international standards and, if there is less than full compliance with desirable standards, an explanation of the reasons for non-compliance. In countries where IFSB-10 is followed, or where national guidelines on Sharī'ah governance in IIFS exist, a statement of compliance with these standards (and reasons for any non-compliance) shall be provided.
2.	A statement clearly articulating the BOD's responsibility and accountability over the Sharī'ah governance of the IIFS.
3.	A statement on the independence of members of the Sharī'ah board or an advisory firm appointed by the IIFS to act as a Sharī'ah board. Such a statement should be prepared as per the criteria set out in paragraphs 42–43 of IFSB-10 or other applicable Sharī'ah governance guidelines.
4.	Qualifications and areas of expertise of each Sharī'ah board member.
5.	Appointment and change of members of the Sharī'ah board during the financial year.
6.	Sharī'ah board's opinion on the IIFS's state of compliance with Sharī'ah rules and principles.
7.	Disclosure of Sharī'ah non-compliance ⁸⁶ events that do not result in financial implications to the IIFS and their customers (such as procedural lapses in following appropriate Sharī'ah processes), and how these were resolved, including control measures to avoid recurrence of such events.
8.	IIFS are recommended to disclose Sharī'ah pronouncements/resolutions issued by the IIFS's Sharī'ah board during the last 12 months, along with the rationale supporting these pronouncements/resolutions and the process of how the Sharī'ah board reached its decisions. It is recommended that these Sharī'ah pronouncements/resolutions and the rationales supporting them be made in accurate terms and in clear, simple, easy-to-understand language and form.
9.	An IIFS is also recommended to make appropriate disclosure whenever its Sharī'ah board departs from or revises any of its Sharī'ah pronouncements/resolutions, and the reasoning for such departure or revision.
Quantitative Disclosures: Annual	
10.	Disclosure of Sharī'ah non-compliance events leading to financial implications for the institution offering Islamic financial services and its customers. Disclosure on this area must include amount of Sharī'ah non-compliant income (SNCI) (if any), how Sharī'ah non-compliant earnings and expenditure occur, and the associated rectification process.
11.	Disclosure of the total number of violations that were the result of failing to apply Sharī'ah rules and principles during the year. Number of violations must be classified into financing of Sharī'ah non-compliant assets/activities and procedural lapses in transaction execution.

86 Arrangements for monitoring Sharī'ah compliance by IIFS also differ. With specific reference to Sharī'ah compliance, the tables in this standard, taken together with other relevant governance standards, include disclosure requirements that are designed to allow stakeholders to judge whether the corporate governance arrangements of IIFS are such as reasonably to ensure Sharī'ah compliance.

87 Reference is made to the IFSB's *Guiding Principles on Corporate Governance for Institutions offering Only Islamic Financial Services (Excluding Islamic Insurance [Takāful] and Islamic Mutual Funds)*.

Template 38 Shari'ah Non-compliance: Annual

	T		T-1	
	No. of Events	Shari'ah Non-compliant Income (Currency)	No. of Events	Shari'ah Non-compliant Income (Currency)
Financing of Shari'ah non-compliant assets/activities				
Procedural lapses in transaction execution				
Other events ⁸⁹				
Total				

172. In accordance with Template 39, IIFS must disclose balances, allocation and uses of funds in charity accounts they maintain. IIFS must also disclose the sources of funds in the reported charity accounts, which could include SNCI and penalties, among others.

Template 39 Movement in Charity Account: Annual

		T	T-1
1.	Opening balance of undistributed charity funds		
2.	Allocation to charity account during reporting period		
3.	Uses of charity funds during reporting period (by category)		
4.	Of which: related-party distributions		
5.	Closing balance of undistributed charity funds (1 + 2 – 3)		

173. Rows in Templates 38 and 39 are fixed and have to be filled. IIFS may add rows reflecting the nature of Shari'ah non-compliance and movements in charity account not already captured by these templates. Additional rows must not replace existing items provided in the template.

174. As part of Shari'ah-compliance disclosures, and subject to national requirements, IIFS may, in line with Table 31, provide disclosures detailing annual zakāh contributions of IIFS, method(s) used in determining their zakāh base and the recipients of zakāh contributions. Zakāh disclosure requirements in this standard are only applicable to zakāh obligations of IIFS in accordance with applicable national laws and regulations.

88 "Shari'ah non-compliance" refers to the failure of an institution offering Islamic financial services to comply with, or apply, the Shari'ah rules and principles determined by its Shari'ah board or the relevant body in the jurisdiction in which the institution operates.

89 IIFS must describe the nature of "other events" should the corresponding SNCI amount be considered material.

Table 31 Zakāh

Qualitative Disclosures: Annual	
1.	The method used in the calculation of the <i>zakāh</i> base by an IIFS, where relevant.
2.	<i>Zakāh</i> fund disbursement channels employed by IIFS.
3.	If <i>zakāh</i> has not been paid by IIFS, in accordance with applicable national laws and regulations, then sufficient information must be disclosed by IIFS to allow shareholders and other investors to calculate their own <i>zakāh</i> contributions.
Quantitative Disclosures: Annual	
4.	<i>Disclosure of annual zakāh contributions of IIFS, where relevant, according to constitutional, general assembly or national requirements.</i>

SECTION 8 : TREATMENT OF ISLAMIC WINDOWS

175. For the purposes of this standard, an Islamic window operation is defined as part of a conventional financial institution (which may be a branch or dedicated unit of that institution, but not a separate legal entity) that provides both fund management (investment accounts) and financing and investment that are Sharī'ah-compliant. In principle, these windows must be self-contained in terms of Sharī'ah-compliant financial intermediation, as the funds managed will be invested in Sharī'ah-compliant assets. The term "window" is not applied in all jurisdictions, while in others it may be applied to operations that do not meet the definition given above but which are described, together with the applicable disclosure requirements, in paragraph 179 of this standard.⁹⁰

176. Disclosure requirements associated with PSIA, profit smoothing, Sharī'ah governance and non-compliance, commingling of funds (whether for PSIA or other deposit accounts) and liquidity⁹¹ as per this standard shall apply to an Islamic window in the same way as a full-fledged institution offering Islamic financial services.

177. Subject to the materiality criteria as indicated in paragraph 21 of this standard, a complete set of financial statements with notes for an Islamic window shall be provided as part of the notes to the financial statements of the conventional financial institution of which the window is a part. This standard requires that this, or an equivalent, practice be followed by all institutions having Islamic window operations as defined for the purpose of this standard.

178. This standard makes it a requirement that an Islamic window as defined here be accounted for as a virtual branch of the institution of which it is a part. If this institution's accounting system is not designed to produce this information, any requisite changes to the institution's accounting system will need to be made.⁹²

90 It is important to note that windows should be completely separate from their conventional parents in terms of their capital requirements and accounting for profit and loss, by ensuring that their operations are not intertwined with those of the parent. However, profits generated by the Islamic window in its capacity as *muḍārib* or *wakīl* can be transferred to the conventional parent in its capacity as the owner of the Islamic window.

91 In line with paragraph 33(d) of GN-6, separate liquidity disclosures are required from an Islamic window only when the window and its (conventional) parent are situated in different jurisdictions.

92 The financial statements of an Islamic window operation should appear separately as part of the notes to the financial statements of the entity of which the Islamic window is a part. If this entity does not publish separate financial statements, the financial statements of the Islamic window operation should be included separately in the notes to the consolidated financial statements of the institution's parent entity.

179. The term “window” is used in some jurisdictions to refer to operations whereby a conventional financial institution invests funds in Sharī’ah-compliant assets (such as home purchase plans based on *ijārah muntahia bittamlīk*, diminishing *mushārah* or *murābahah*) without such funds having been mobilised on a Sharī’ah-compliant basis or specifically for Sharī’ah-compliant investment purposes. Such operations may be carried out either through branches offering current account facilities or through other units of the institution. Such operations do not meet the definition of an Islamic window given in paragraph 175. Nevertheless, where such activities are undertaken, the institution shall comply with those disclosure requirements that relate to the risk management of the Sharī’ah-compliant assets and the appropriate risk weightings of those assets for capital adequacy purposes.

180. In addition, information on the appropriate mechanism established to provide Sharī’ah oversight of the activities of an Islamic window, as recommended in the IFSB’s Guiding Principles on Sharī’ah Governance Systems for Institutions offering Islamic Financial Services and Guiding Principles on Corporate Governance for IIFS, shall be disclosed.

93 Refer to section 4.1 for retail-investor oriented disclosures relevant to IAH.

SECTION 9 : CONSUMER PROTECTION

181. An IIFS shall make available to its customers appropriate information concerning any Sharī'ah-compliant deposit, investment or financing products relevant to these customers, including PSIA, in a timely manner, using an appropriate medium that is easily accessible, in easily understandable language, and in a clear and comprehensive form.

182. Disclosures on the area of consumer protection⁹³ are intended to include the most important information relating to products, terms and conditions, mediation and complaint handling, as well as usage charges, fees and commissions. While the specifics of these disclosures may vary from product to product, Table 32 sets out the minimum information required.

Table 32 Consumer Protection

		Point of Sale	Within Reasonable Time (before Coming into Effect)	Annual
Qualitative Disclosures				
1.	Product attributes, explaining the function that the product fulfils, in order to help consumers assess whether the product suits their needs.	√		
2.	Terms and conditions of the underlying contract for all financing, deposit and investment products, and treatment of dormant accounts.	√		
3.	Changes to any term or condition of the agreement, charges and/or material change to any profit rate, especially if that will be to the disadvantage of the customer. Notices of such changes may be made to affected customers, especially those with contracts containing automatic renewal clauses, by using appropriate medium/media before the change takes effect in a new or follow-up contract, taking into account any notice period required by the customer to terminate their agreement should they wish to do so.		√	
4.	TDisclosure of past performance of investment accounts and commodity murābahah accounts (to be made upfront). Further disclosure on the performance of these accounts shall be made periodically (on a quarterly basis for investment accounts).	√		√
5.	Information on mediation and advice bureaus for investors and customers set up by IIFS, including clearly written procedures for lodging complaints.	√		
6.	Disclosure of any investor/consumer education programmes for information on new products and services.			√

Quantitative Disclosures				
7.	Sharī'ah-compliant one-time, recurring and usage-dependent charges, fees and commissions must be disclosed by IIFS when a contract is established and thereafter prior to any subsequent changes.	√	√	

9.1 Deposit Insurance

183. This standard considers deposit insurance disclosures as important in enabling financial consumers to assess the level of risk inherent in financial products offered by IIFS and the compliance of deposit insurance systems with Sharī'ah rules and principles. This is relevant in light of evolving and innovative product offerings in the Islamic banking domain, where consumers may not necessarily be aware of their rights and responsibilities.

184. In line with Table 33, this standard requires IIFS to make disclosures relevant to their investment and other accounts during account opening by customers. Disclosures must be made in a language that is clear and concise, and easy for the consumer to understand.

Table 33 Deposit Insurance⁹⁴

Qualitative Disclosures: During Account Opening and Annual	
1.	Disclosure on the type of deposit and/or investment accounts offered by IIFS which are not covered by a deposit insurance scheme, the deposit/investment account products that are covered by a deposit insurance scheme, and whether each identified deposit insurance scheme is Sharī'ah-compliant or not.
2.	The trigger point(s) of identified scheme(s) and expected payout timing of each.
3.	IIFS must ensure that they inform consumers as soon as practicable should there be any changes to deposit insurance terms and conditions.
Quantitative Disclosures: During Account Opening and Annual	
4.	The maximum amount covered for each type of account offered by IIFS, or, if coinsurance is used, the maximum percentage covered of the balance of each account.
5.	If PSIA are covered by deposit insurance, then disclosures detailing payouts must be made (e.g. whether coverage includes IAH invested amounts only, or also profits).

⁹⁴ A survey conducted during the development process of this standard indicated that several jurisdictions require IIFS to insure customer deposits and investment accounts, even in the absence of a Sharī'ah-compliant deposit insurance scheme.

SECTION 10 : SOCIAL, ECONOMIC AND ENVIRONMENTAL IMPACT DISCLOSURES

185. Social, economic and environmental impact disclosures in this standard intend to cover disclosure aspects relevant to IIFS' contributions towards a sustainable society, economy and environment through their activities.⁹⁵ In line with Table 34, and where relevant, IIFS must disclose, on an annual basis, their initiatives and policies for ensuring that their activities have a positive impact on, and create value for, society, the economy and the environment. Disclosures shall include how these initiatives and policies have been embedded into their day-to-day activities, including financing and investment practices, as well as any efforts made by the IIFS during the year in terms of stakeholder engagement.⁹⁶

Table 34 Social, Economic and Environmental Impact Disclosures⁹⁷

Qualitative and Quantitative Disclosures: Annual	
1.	Whether and how the IIFS has integrated sustainability, or the environment, social and governance (ESG) criteria into its governance framework, financing and investment strategies, policies and procedures. Examples of such disclosures include, but are not limited to: <ul style="list-style-type: none"> • formal policies of the IIFS on sustainability-related practices; • links between the ESG criteria and governance and business practices of IIFS; • activities undergone to reduce the IIFS' carbon footprint, and activities to assess the environmental impact of financed projects; • factors considered in recruitment processes; • activities relevant to the procurement of sustainably produced goods and services; and • socially responsible or impact-based investments in Sharī'ah-compliant projects and investment funds.
2.	Contribution and impact created by IIFS towards a sustainable society, economy and environment through the organisation of business activities; measures taken in response to stakeholder engagement activities; financial education programmes; and charitable contributions of the IIFS, such as participation and sponsorships for social projects/events. ⁹⁸

⁹⁵ Activities conducted by the IIFS, especially their business and corporate social responsibility (CSR) activities.

⁹⁶ Reference is also made to Bank Negara Malaysia's strategy paper on value-based intermediation, as issued in July 2017. Available at: <https://www.bnm.gov.my/index.php?ch=57&pg=137&ac=612&bb=file>

⁹⁷ Quantitative social and environmental impact disclosures include distributions other than from zakāh and charity funds.

⁹⁸ This table provides examples, rather than a complete/definitive list of what could be disclosed by IIFS on social, economic and environmental impact disclosures.

APPENDIX A

The Conceptual and Institutional Environment of Market Discipline by Disclosure

1. The concept of transparency is wide-ranging and covers the notions of accountability as well as the legal and accounting infrastructure for economic decisions. However, from an operational perspective of a central bank or supervisory authority, “transparency of IIFS” refers to an environment where material and reliable information about IIFS is made available in a timely and accessible manner to the market at large and to all stakeholders. Such transparency can reduce asymmetric information and uncertainty in financial markets.

2. “Market discipline” refers to those environmental features, which, in response to the disclosure of material information, elicit prompt adjustments in either prices or quantities of financial positions in the IIFS, and thereby provide incentives for IIFS to limit excessive risk taking and to pursue good governance. Market discipline, in this sense, requires a set of mechanisms through which markets can penalise excessive risk taking or inadequate transparency.

3. The transmission mechanism by which information disclosure can act as a trigger for improved risk management and better governance by IIFS depends, however, on the availability of certain infrastructure components that can facilitate adequacy and reliability of information, and that can affect the incentives and capacity of various stakeholders to process and act on the information. These infrastructure components include:

- the accounting and auditing standards and the environment that govern the reliability of information disclosed;
- the availability of markets in which IIFS issue instruments;
- an effective market microstructure that determines price discovery and the efficiency with which available information is translated into asset prices;
- a corporate governance framework for IIFS that provides incentives for both the stakeholders and management to act on the information;
- the availability of external credit assessment institutions (ECAI) or rating agencies and other information service firms that help to process and analyse available information;
- investor education programmes to facilitate proper investment decisions, and to serve as an additional tool for investor protection; and
- legal and institutional arrangements for investor rights and investor protection, and the transparency of these arrangements.

4. Several of these infrastructure components also serve as necessary conditions for effective supervision generally, and not just for strengthening market discipline, and hence have close links to Pillar 2 of Basel III and the related IFSB document.⁹⁹ The infrastructure elements are further explained below.

1.1 Internationally recognised accounting and auditing standards, accounting standards issued by AAOIFI and effective institutional arrangements to enforce good audit and accounting frameworks will contribute to ensuring the accuracy, reliability, timeliness and comparability of the information disclosed across firms.

5. In practice, IIFS in most countries adopt national accounting standards, supplemented with international accounting, AAOIFI and other applicable standards. Recent advances in risk measurement and approaches to risk mitigation have, however, led to significant revisions in international accounting standards. Many national standards are still in the process of being adapted, to reflect the risk disclosures that are needed to capture more comprehensive risk measurement and risk mitigation practices. Such revisions are meant to enhance disclosures of entities’ (including IIFS’) exposures to

risks and how these are managed. Such information will be useful for users' assessment in order to make informed judgments on risk and return. The extent of such disclosure depends on the extent of IIFS' use of financial instruments and its exposure to risk.

6. Development of additional guidance on the prudentially oriented disclosures, including risk disclosures, implied by this standard would need to be closely coordinated and aligned with the ongoing developments in the general accounting and financial reporting standards, in order to avoid conflicts and to enhance risk disclosures.

1.2 An effective regulatory and operational environment for capital and money markets, and an effective microstructure for the functioning of these markets, are needed to encourage IIFS to issue tradable instruments in the markets, and to ensure that sufficient price signals are available and that market prices promptly incorporate the information disclosed.

7. The development and strengthening of capital markets with an emphasis on Islamic asset securitisation will facilitate issuance by IIFS of tradable instruments to raise equity capital, obtain funding, and manage liquidity and risks. However, well-functioning capital markets require an effective market microstructure. "Market microstructure" refers to the types of trading systems used to match orders to buy and sell (e.g. auction markets, dealer markets, etc.), rules for execution of trades (including transparency of pre-trade and post-trade information), and the roles of various market intermediaries involved in the mechanics and functioning of the markets. These institutional components play a key role in determining the liquidity of the market (whether trades can be executed rapidly at minimal cost and with minimum impact on prices) and the efficiency of price discovery (whether prices adjust to market-clearing levels in an orderly way).

8. In addition to the mechanics of trading, the quality of markets and market intermediaries will also affect price discovery and liquidity. Specifically, the quality of the research function performed by financial analysts, the robustness of the payment settlement system, and the effectiveness of regulation of the market intermediaries, all affect the confidence level and liquidity of

9. When information on the soundness of IIFS and their counterparties is promptly reflected in the prices of the IIFS' securities that are traded (e.g. IIFS' issued equity or sukūk), or in the prices of claims on major IIFS counterparties, such price information can provide signals that permit the holders of such instruments to intervene and demand management changes. An aspect of this form of market discipline is the existence of a well-functioning market for corporate control, which can facilitate takeovers of financial firms for the purposes of restructuring. Forward-looking market price signals can also complement the information on IIFS' risk profiles and soundness relied upon by supervisors that will trigger timely action to reduce risks or raise capital. Thus, market price developments can both complement and facilitate effective supervision.

99 IFSB-16: *Revised Guidance on Key Elements in the Supervisory Review Process for Institutions offering Islamic Financial Services (Excluding Islamic Insurance [Takāful] Institutions and Islamic Collective Investment Schemes)*, March 2014.

10. Even if markets provide good signals, their effect on IIFS' behaviour depends upon the incentive structures and governance mechanisms that enable stakeholders to exert pressure on the board, in turn resulting in actions by management to behave prudently. Thus, well-designed corporate governance mechanisms for IIFS serve as key factors in making market discipline effective.

1.3 Availability of external credit assessment institutions and other information service firms (investment advisers, investment research firms, credit bureaus, etc.) can facilitate effective disclosures and enhance market discipline.

11. Such institutions can help to assimilate and synthesise available disclosures in order to provide ratings of obligors and instruments, indicate changes in ratings due to new information, and summarise and assess risk–return information for the benefit of investors. The availability of ECAs that can consider the specific operational features of Islamic finance instruments is also an important requirement for the application of the Standardised Approach to capital adequacy under the IFSB's Revised Capital Adequacy Standard for IIFS.

12. Appropriate measurement and disclosure of credit and equity risks in various Islamic finance facilities can be achieved from institutional arrangements for systematic data collection, including establishing credit (and equity) registries. Such registries for Islamic finance facilities can be developed by including Shari'ah-compliant financing contracts in existing credit registries, or by developing registries specifically for Shari'ah-compliant contracts

1.4 A programme of investor and stakeholder education, and more broadly, consumer education, contributes to investor protection and stakeholder awareness, and enhances market discipline through better-informed investment and financing decisions.

13. Investor (and consumer) education can be seen as a tool to enable investors to understand better both the returns and the risks from various financial products, and to help make investment and financing decisions that best suit their circumstances and the needs of the IIFS' counterparties. Investor education is not a substitute for effective supervision, or for properly tailoring the disclosures to the type of counterparty.

1.5 Robust legal and institutional arrangements for insolvency, investor rights and protection (rights of shareholders and IAH), creditor rights and depositor protection, and the transparency of such policies, are essential to enhance market discipline.

14. Properly designed legal and institutional arrangements for insolvency, creditor, shareholder and IAH rights, including arbitration mechanisms, can empower these stakeholders to act on available information, and thus to exercise market discipline. Markets and market discipline require that there be legal mechanisms to foreclose on non-performing assets and, if necessary, to force obligors into bankruptcy or reorganisation where value available for depositors and investors may be maximised. That is, market discipline requires that the Shari'ah-compliant financing contract be enforceable in the relevant legal jurisdiction. This consideration would require that sound principles and good practices for insolvency and a creditor rights regime be adopted, with appropriate adjustments to accommodate the specifics of Shari'ah-compliant financing contracts (under which investors do not have the status of creditors to the IIFS).

15. In practice, the legal and institutional arrangements for investor and depositor rights in conventional financial institutions may not be adequate to deal with the special role of IAH, who typically lack the safeguards necessary to protect their interests. Such safeguards may exist both at the macro level in terms of the legal regime for insolvency and investor protection, and at the micro level in terms of the IIFS' statutes and corporate governance arrangements. This latter issue is 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 to represent the interests of IAH.

16. The Governance Committee could play a role in enhancing investor awareness and fostering consumer-friendly disclosures, while also serving as a channel for IAH to act on the information disclosed. However, significant further work will be needed on the development of an appropriate legal infrastructure for investor rights in IIFS.

17. However, the incentives to act towards market discipline will be influenced by the availability of implicit or explicit guarantees for depositors and IAH protection, as further outlined in paragraph 19.

18. Adequate transparency of the policy and institutional framework for insolvency, investor rights and investor protection, including the ranking of IAH claims in the event of IIFS insolvency, can influence the strength of market discipline.

1.6 The effectiveness of disclosures can be weakened by protection for account holders and investors, overreactions of markets, and system-wide events that impact the performance indicators of all banks.

19. Several factors may weaken the effectiveness of public disclosures by IIFS in influencing market discipline. First, the incentives to act in response to market signals will be influenced by the availability of implicit or explicit protection schemes (such as deposit protection) for current account holders and IAH. For example, the perception of Shari'ah-compliant protection of capital and return on IAH funds, by forming and using various reserves such as profit equalisation reserve and investment risk reserve, may reduce the incentives of IAH to monitor the performance of IIFS. Thus, arrangements that significantly limit stakeholders' exposure to risk, such as deposit insurance or lender-of-last-resort arrangements, will reduce the effectiveness of market discipline.

20. Second, when the market becomes aware that an institution offering Islamic financial services is in a weakened position, it may overreact – that is, react more harshly than is desirable, thereby triggering insolvency. This could also set in motion a broader reaction through interbank linkages and contagion. Such effects can be minimised through the availability of safety nets and liquidity facilities, and of a generally transparent environment of ongoing disclosure where well-managed IIFS can be better distinguished from weaker IIFS, and where problems can be corrected at an early stage.

21. Third, in situations of generalised over-extensions of risk due to system-wide factors affecting all IIFS as well as conventional banks, market discipline will not work, as the price signals identify only the relative performance of a bank, not system-wide effects. This issue requires a broader policy response that goes beyond prudential controls on individual IIFS.

APPENDIX B

1. The following table summarises the similarities and differences between the disclosure requirements in this standard and Basel III Pillar 3 disclosure as of September 2018. Differences arise due to the adaptation of the BCBS requirements to the specificities of IIFS.

2. This table provides a comparison for the sections containing disclosure tables and templates for IIFS, thereby excluding sections 1 to 2.1.

	Section	Comparison with BCBS Pillar 3 Disclosure Requirements
2.2	Scope of Inclusion: Corporate Information	No BCBS equivalent
2.3	Capital Structure and Overview of Risk Management, Key Prudential Metrics and RWA	Equivalent with minor amendments
2.4	Capital Adequacy	Equivalent with minor amendments
2.5	Main Features of Regulatory Capital Instruments	Equivalent with minor amendments
2.6	Countercyclical Capital Buffer	Equivalent with minor amendments
2.7	Capital Distribution Constraints	Equivalent with minor amendments
3	Linkages between Financial Statements and Regulatory Capital	Equivalent with minor amendments
4	Disclosures for IAH	No BCBS equivalent
4.1	Retail Investor-oriented Disclosures to IAH	No BCBS equivalent
5.1	General Disclosures: Risk Exposures and Assessment	No BCBS equivalent
5.2	Credit Risk	Equivalent with amendments
5.3	Credit Risk Mitigation	Equivalent with minor amendments
5.4	Counterparty Credit Risk	Equivalent with minor amendments
5.5	Securitisation	Equivalent with amendments
5.6	Liquidity Risk	Equivalent with amendments
5.7	Market Risk	Equivalent with minor amendments
5.8	Operational Risk	Equivalent with minor amendments
5.9	Rate of Return Risk	Equivalent with minor amendments
5.10	Remuneration	Equivalent with minor amendments
5.11	Displaced Commercial Risk	No BCBS equivalent

5.12	Contract-specific Risk	No BCBS equivalent
6	Asset Encumbrance	Equivalent with amendments
7	General Governance and Sharī'ah Governance Disclosures	No BCBS equivalent
8	Treatment of Islamic Windows	No BCBS equivalent
9	Consumer Protection	No BCBS Equivalent
9.1	Deposit Insurance	No BCBS Equivalent
10	Social, Economic and Environmental Impact Disclosures	No BCBS Equivalent

DEFINITIONS

The following definitions are intended to give a general understanding of some terms used in this document. The list is by no means exhaustive.

Section		Comparison with BCBS Pillar 3 Disclosure Requirements
2.2	Scope of Inclusion: Corporate Information	No BCBS equivalent
2.3	Capital Structure and Overview of Risk Management, Key Prudential Metrics and RWA	Equivalent with minor amendments
2.4	Capital Adequacy	Equivalent with minor amendments
2.5	Main Features of Regulatory Capital Instruments	Equivalent with minor amendments
2.6	Countercyclical Capital Buffer	Equivalent with minor amendments
2.7	Capital Distribution Constraints	Equivalent with minor amendments
3	Linkages between Financial Statements and Regulatory Capital	Equivalent with minor amendments
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5.11	Displaced Commercial Risk	No BCBS equivalent
5.12	Contract-specific Risk	No BCBS equivalent
6	Asset Encumbrance	Equivalent with amendments
7	General Governance and Shari'ah Governance Disclosures	No BCBS equivalent
8	Treatment of Islamic Windows	No BCBS equivalent
9	Consumer Protection	No BCBS Equivalent
9.1	Deposit Insurance	No BCBS equivalent
10	Social, Economic and Environmental Impact Disclosures	No BCBS equivalent

DEFINITIONS

The following definitions are intended to give a general understanding of some terms used in this document. The list is by no means exhaustive.

Diminishing <i>mushārah</i>	A form of partnership in which one of the partners promises to buy the equity share of the other partner over a period of time until the title to the equity is completely transferred to the buying partner. The transaction starts with the formation of a partnership, after which buying and selling of the other partner's equity takes place at market value or at the price agreed upon at the time of entering into the contract. The "buying and selling" is independent of the partnership contract and should not be stipulated in the partnership contract, since the buying partner is only allowed to promise to buy. It is also not permitted that one contract be entered into as a condition for concluding the other.
<i>Hamish jiddiyyah</i>	An amount paid by the purchase orderer to guarantee the fulfilment of his promise to purchase. The seller has the right of recourse to the purchase orderer to compensate him to the extent of the actual loss resulting from the reduction of the selling price to another party from the cost price.
<i>Ijārah</i>	A contract made to lease the usufruct of a specified asset for an agreed period against a specified rental. It could be preceded by a unilateral binding promise from one of the contracting parties. As for the <i>ijārah</i> contract, it is binding on both contracting parties.
<i>Ijārah muntahiyah bittamlik</i>	A lease contract combined with a separate promise from the lessor giving the lessee a binding promise to own the asset at the end of the lease period either by purchase of the asset through a token consideration, or by the payment of an agreed-upon price or the payment of its market value. This can be done through a promise to sell, a promise to donate, or a contract of conditional donation.
Investment risk reserve	The amount appropriated out of the profit of investment account holders, after allocating the <i>muḍārib's</i> share of profit, in order to cushion against future investment losses for investment account holders.
<i>Istisnā`</i>	The sale of a specified asset, with an obligation on the part of the seller to manufacture/construct it using his own materials and to deliver it on a specific date in return for a specific price to be paid in one lump sum or instalments.
<i>Muḍārabah</i>	A partnership contract between the capital provider (<i>rabb al-māl</i>) and an entrepreneur (<i>muḍārib</i>) whereby the capital provider would contribute capital to an enterprise or activity that is to be managed by the entrepreneur. Profits generated by that enterprise or activity are shared in accordance with the percentage specified in the contract, while losses are to be borne solely by the capital provider unless the losses are due to misconduct, negligence or breach of contracted terms.
<i>Murābahah</i>	A sale contract whereby the institution sells to a customer a specified asset, whereby the selling price is the sum of the cost price and an agreed profit margin. The <i>murābahah</i> contract can be preceded by a promise to purchase from the customer.
<i>Mushārah</i>	The participation of two or more partners in owning an asset either voluntarily or obligatorily. The profit loss-sharing ratio will be based on the equity of each partner.
Profit equalisation reserve	The amount appropriated out of the <i>muḍārabah</i> profits, in order to maintain a certain level of return on investment for the <i>muḍārib</i> and unrestricted investment account holders.

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