

# 9<sup>th</sup> Islamic Financial Stability Forum

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

Brunei Darussalam

*In conjunction with the 24<sup>th</sup> Meeting of the Council of the IFSB*

Organised By:



Hosted By:



# 9th IFSF : Speakers & Discussants

## Speakers:

- ❖ *Jaseem Ahmed, Secretary-General, Islamic Financial Services Board*
- ❖ *Zahid ur Rehman Khokher, Assistant Secretary-General, Islamic Financial Services Board*

## Discussants:

- ❖ *H.E. Ravi Menon, Managing Director, Monetary Authority of Singapore*
- ❖ *Muhammad Ashraf Khan, Executive Director, State Bank of Pakistan*
- ❖ *Mashair Sabir, Director, Central Bank of Sudan*



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# 9th ISLAMIC FINANCIAL STABILITY FORUM

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

### Speakers:



**JASEEM AHMED**  
Secretary-General  
Islamic Financial Services  
Board



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# IFSB Standards Implementation: Overview and Challenges

*PRESENTED AT:*

**9<sup>th</sup> Islamic Financial Stability Forum**

Bandar Seri Begawan, Brunei Darussalam | 27 March 2014

**Jaseem Ahmed**

Secretary General

**Zahid ur Rehman Khokher**

Assistant Secretary General

Islamic Financial Services Board

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# Implementation Initiatives by Global Standard-Setting Bodies



# Global Standard-Setting Bodies to Promote Financial Stability

**Banking and Insurance Sector**  
BIS-hosted organisations

FSB

BCBS

IAIS

IADI

FSI

**Securities Sector**

IOSCO

**Islamic Finance Sector**

IFSB

**Joint Forum:**

Issues common to the banking,  
securities and insurance  
sectors



# Basel Committee on Banking Supervision (BCBS)

## Mandate

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

## Strategies

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

# Financial Stability Institute (FSI)

## Mandate

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

## Strategies

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

# Ensuring Implementation of Standards

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

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

## Key Goals

**Ex-ante**  
Consistency in the  
understanding of  
standards

**Ex-post**  
Consistency in  
implementation at  
international level

Surveys

Peer Reviews

Self Assessments

# Facilitating the Implementation of IFSB Standards

# Facilitating the Implementation of Standards

## Implementation of IFSB Standards

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

→ Enhances the soundness and stability of the financial system

- In September 2007, the IFSB introduced the "Facilitating the Implementation of Standards (FIS) Workshop Series" as part of its efforts **to facilitate the implementation of IFSB Standards among member countries**.
- The Workshop series is aimed at providing participants with the necessary **knowledge and skills to understand and implement the IFSB Standards** in order to support the operations of institutions offering Islamic financial services (IIFS) to remain robust and sound.
- The Workshops are targeted at personnel from **central banks, regulatory and supervisory bodies as well as IIFS**.

# FIS New Initiatives

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

- **Organising Regional Workshops**
- **Customised Workshops Based on Country Needs and Objectives**
- **Sharing of Country Experiences**
- **Conversion into E-learning Modules**
- **FIS Outreach (Speakers) Programme**

# The FIS Initiatives in Strategic Performance Plan (SPP) 2012-2015

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

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



# FIS - Enhancements Over the Years

2007    2008    2009    2010    **2011**    **2012**    **2013**    **2014**

- FIS Workshops
  - FIS Workshops Country Programme
  - FIS Workshops for RSAs
- FIS Speaker Programme

- FIS E-Learning Programme (Development of E-Learning Programme for IFSB-1)

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

- Organise Regional FIS Workshops
- Invite external speakers for the FIS Workshops in particular from member countries to share countries experiences
- Provide customise FIS Workshops that meet the members' need

- IFSB-INCEIF Executive Forum

# FIS Workshops: Current Structure

## FIS Workshops



# Review of the FIS Workshops 2007- 2014

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

## Figures & Facts – 2007 - 2013

Countries

32

Number of Workshops

149

Number of Participants

2,098

## Figures & Facts – 1Q 2014

Countries

2

Number of Workshops

3

Number of Participants

133

# Planned Initiatives

## Planned Activities as a Part of Technical Assistance from the ADB



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



**Develop IFSB E-Learning Programmes** to enhance dissemination of IFSB standards and guiding principles.

# Members' Satisfaction With Awareness Programmes

← Somewhat dissatisfied /dissatisfied | 0% Completely/very satisfied → Satisfied

Public lectures

Base : 35

0%

69%

31%

Public hearings

Base : 37

-5%

57%

38%

Round tables

Base : 39

0%

67%

33%

Executive Forums

Base : 36

0%

58%

42%

**Workshops – including  
Facilitating the  
Implementation of  
Standards (FIS) workshops**

Base : 53

-2%

72%

26%

■ Somewhat dissatisfied/  
dissatisfied  
■ Completely/very satisfied  
■ Satisfied

Satisfaction  
is high for  
workshops.

Q. Please tell us, on an overall basis how satisfied are you with the quality of awareness programmes, capacity building workshops and meetings organised by IFSB that we have discussed?

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

**Source: IFSB Survey on Members Satisfaction 2013**

# Strengthening Support for Implementation: Successes and Constraints

## Success

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

## Issues/ Constraints

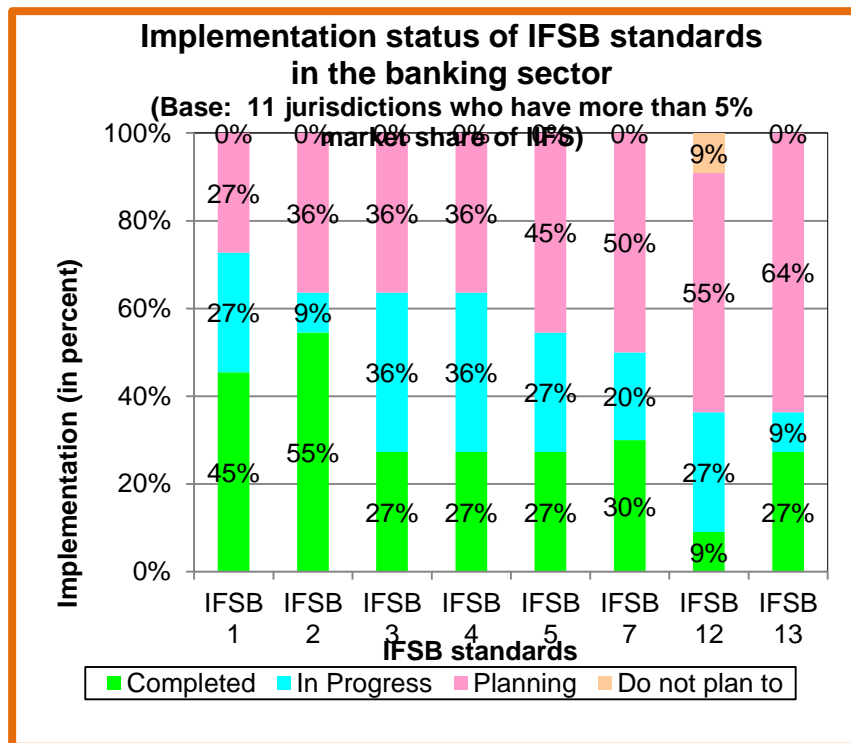
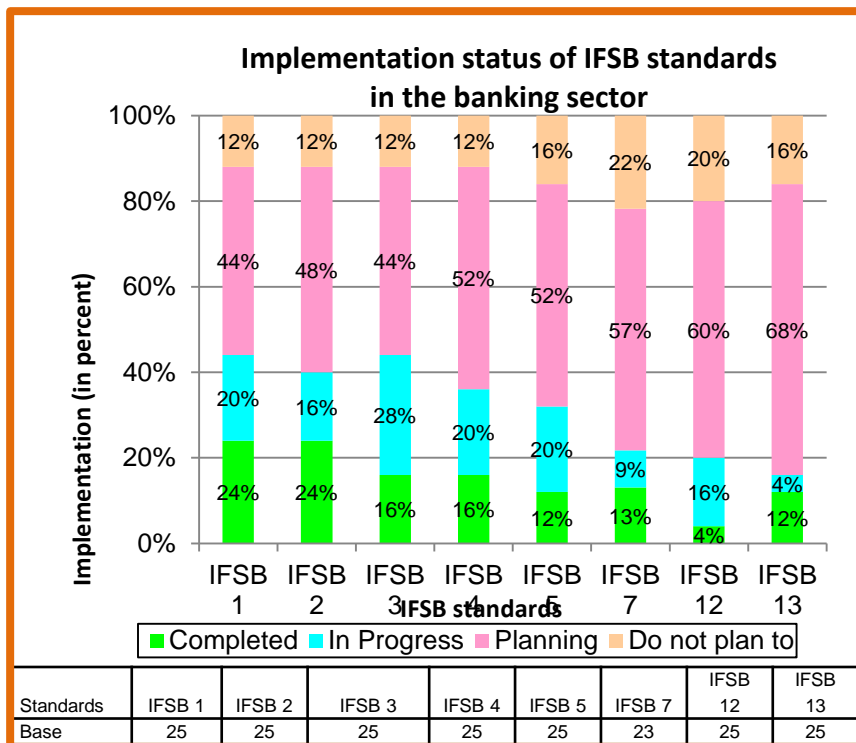
- The demand for FIS workshops is much higher than currently conducted
- Capacity and capability constraints
  - Same staff engages in wide set of activities
  - Lack of suitable staff to provide policy level review of issues and provide assistance to the members
- Limited resources (human and financial)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

# Status of IFSB Standards Implementation

(Based on IFSB Standards Implementation Survey 2013)



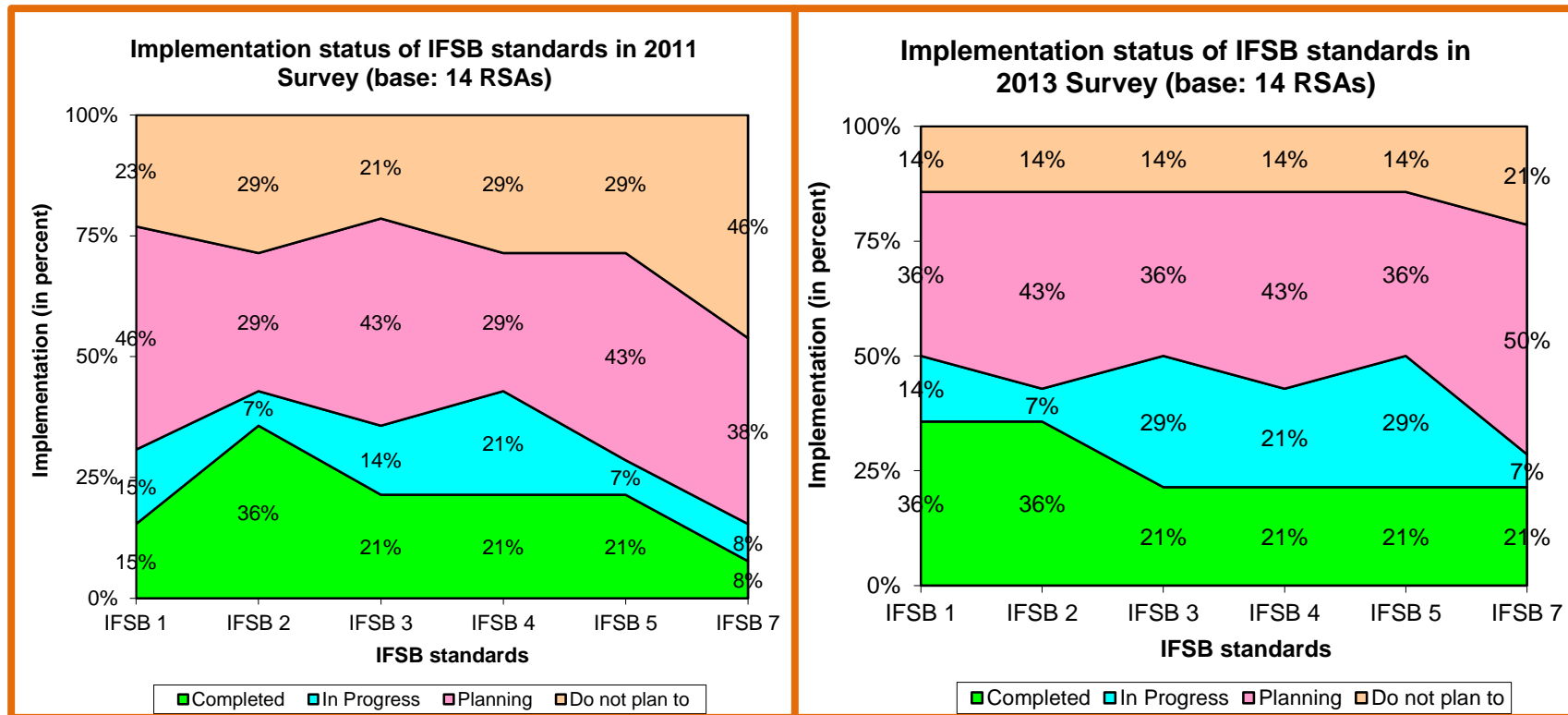
# Banking Sector: Implementation Status



## Findings

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

# Banking Sector: Comparison between 2011 & 2013 Surveys

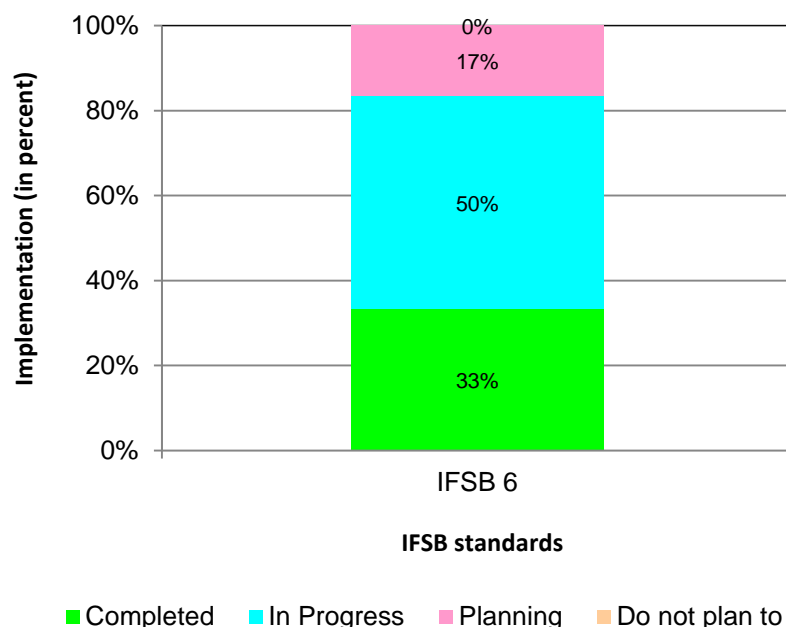


## Findings

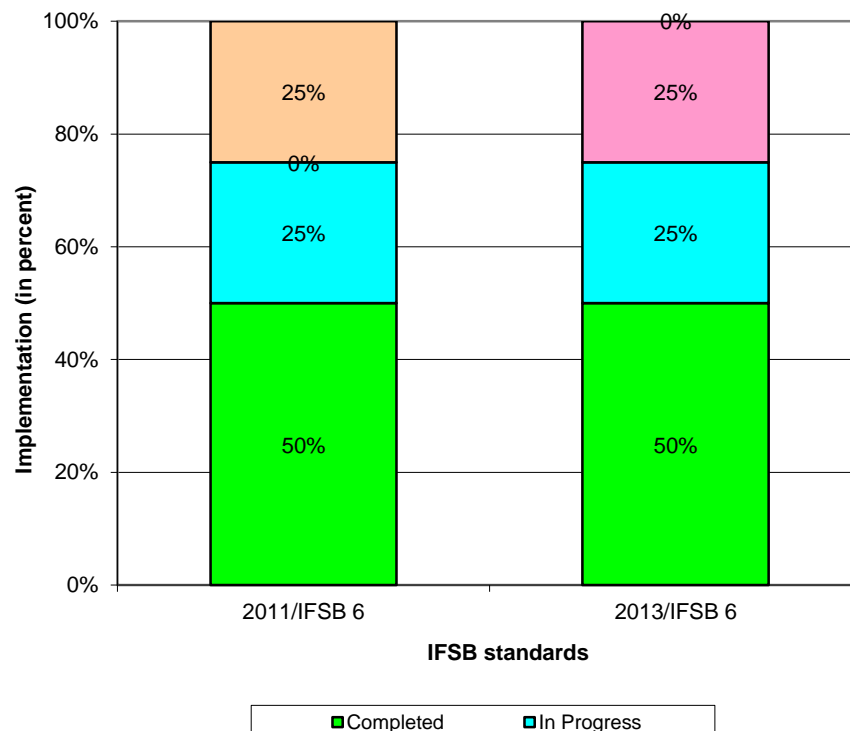
- There is an improvement for the banking sector in all dimensions of implementation of standards in 2013 as compared to that in 2011.
- IFSB-1 was implemented by 36% (5 of 14 RSAs) in 2013, while it was 15% (2 of 14) in 2011.
- The progress was also evident for IFSB-7, which was implemented by 21% (3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

# Capital Market Sector: Implementation and Comparison

Implementation status of IFSB standards in the capital market sector (base 6 RSAs)



Comparison between the two surveys under same jurisdictions (5 RSAs)

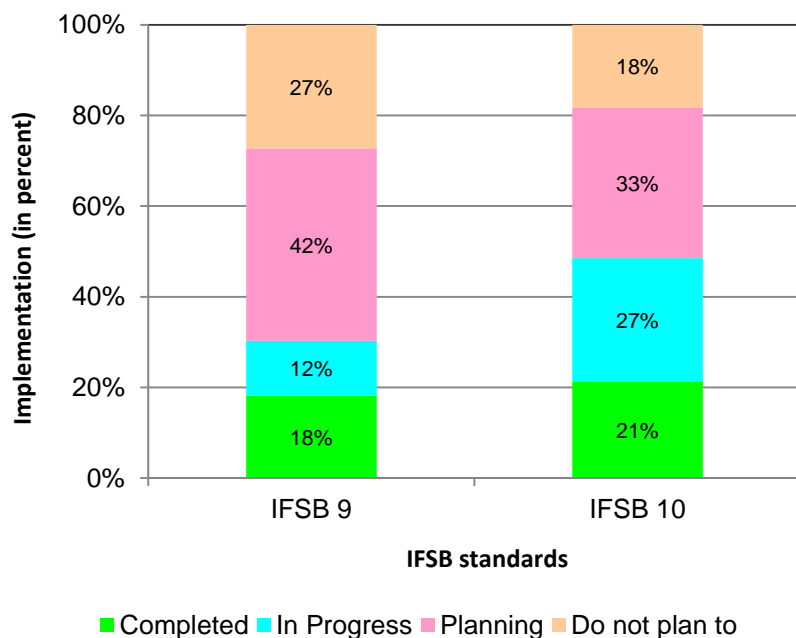


## Findings

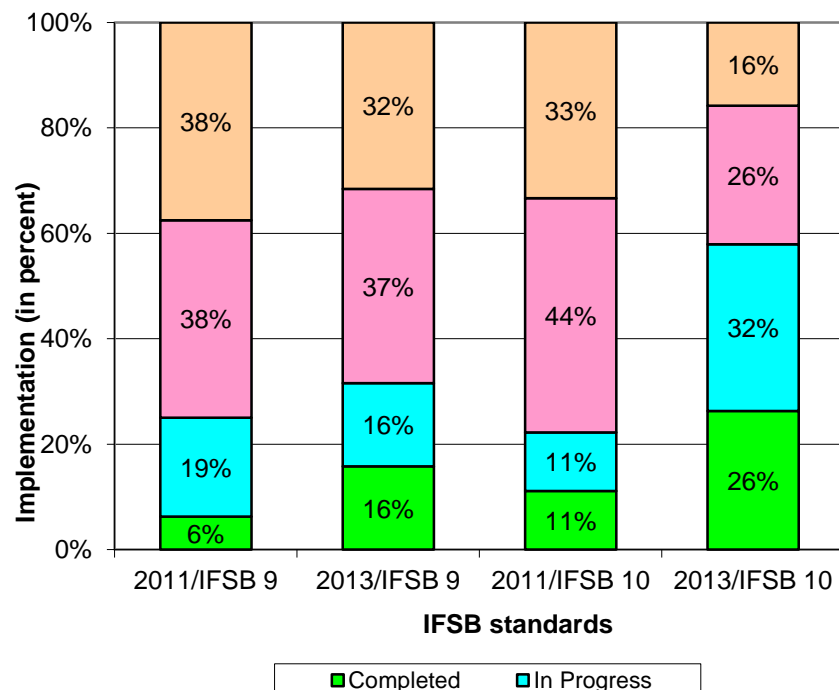
- In the capital market sector, 33% (2 of 6 RSAs) of the respondent RSAs fully implemented IFSB-6 in 2013.
- 50% (3 RSAs) were in the 'in progress' category, followed by 17% of RSAs in the 'planning' category.

# Cross-sectoral: Implementation and Comparison

**Implementation status of cross-sectoral IFSB standards (base: 33 RSAs)**



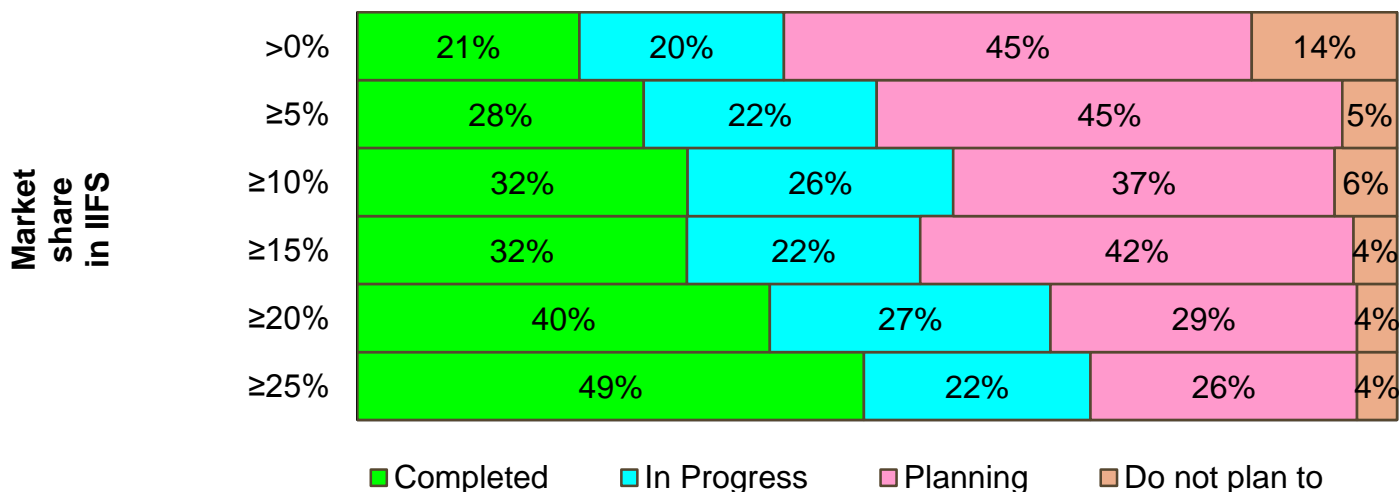
**Comparison between the two surveys under same jurisdictions (17SAs)**



## Findings

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

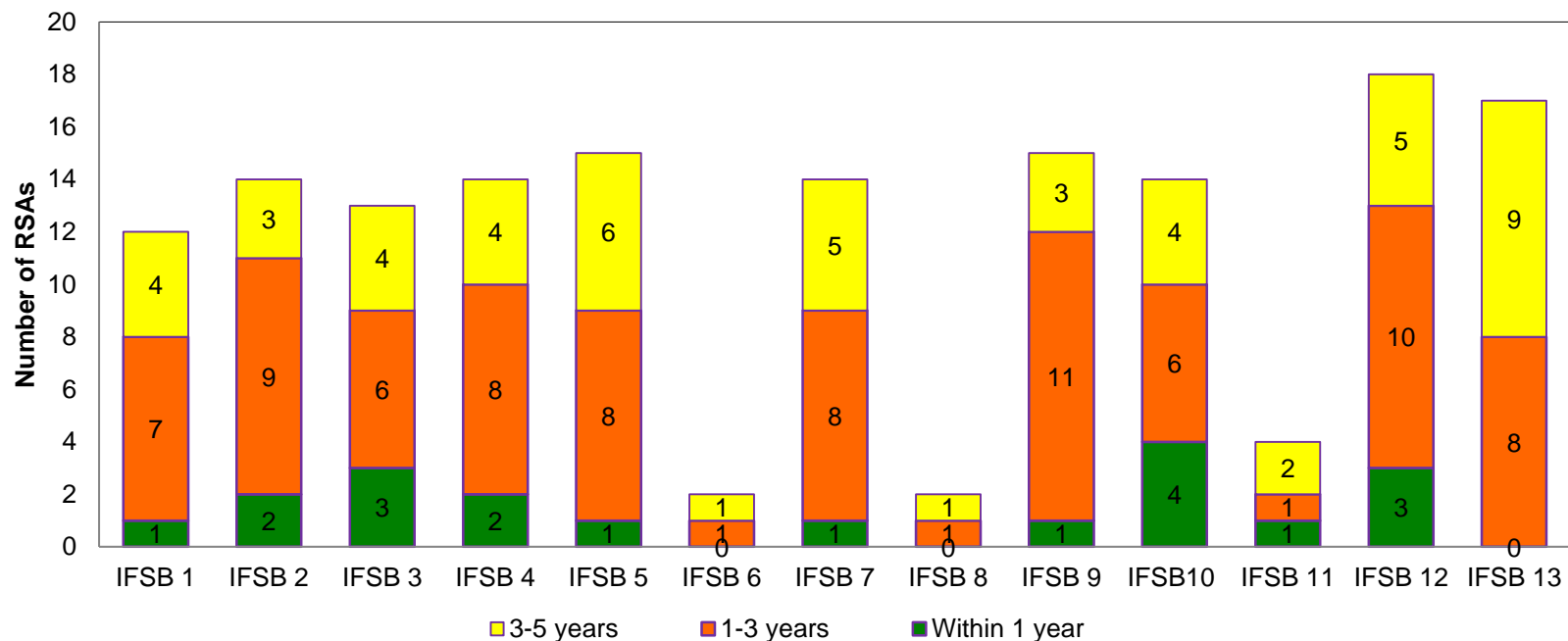
# Implementation status and market Shares...



## Correlation

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

# Timeframe for Implementation



No. of RSAs (in percent)

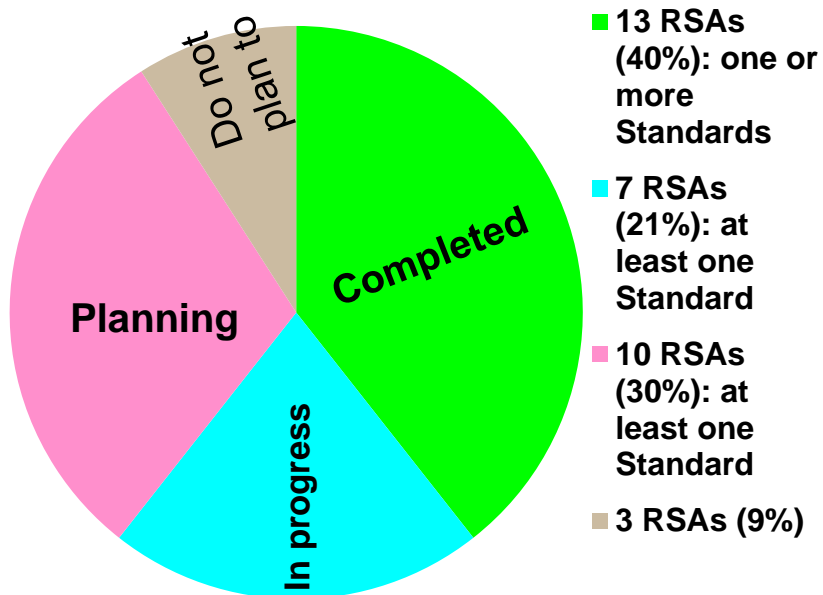


## Timeframe

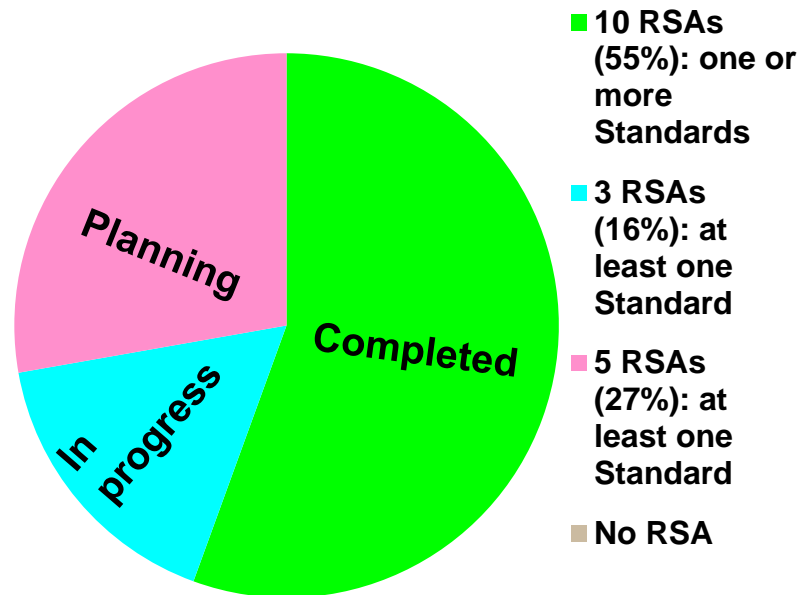
- **Most jurisdictions indicated a shortening of the timeframe within which they planned to implement the IFSB Standards.**
- On average, 55% of the RSAs planned to implement the Standards between '1-3 years' period, and 12% planned for immediate implementation, that is, 'within one year' period.
- Overall, 67% of RSAs planned to implement the standards within 3 years.

# Highlights

## 33 RSAs



## 18 RSAs (benchmark: 5% market share in IIFS)



**Insight:** IFSB-12 and IFSB-13 were issued in March 2012; however, there is a rapid take up by many jurisdictions for those latest standards.



# Challenges in Implementation: Comparison

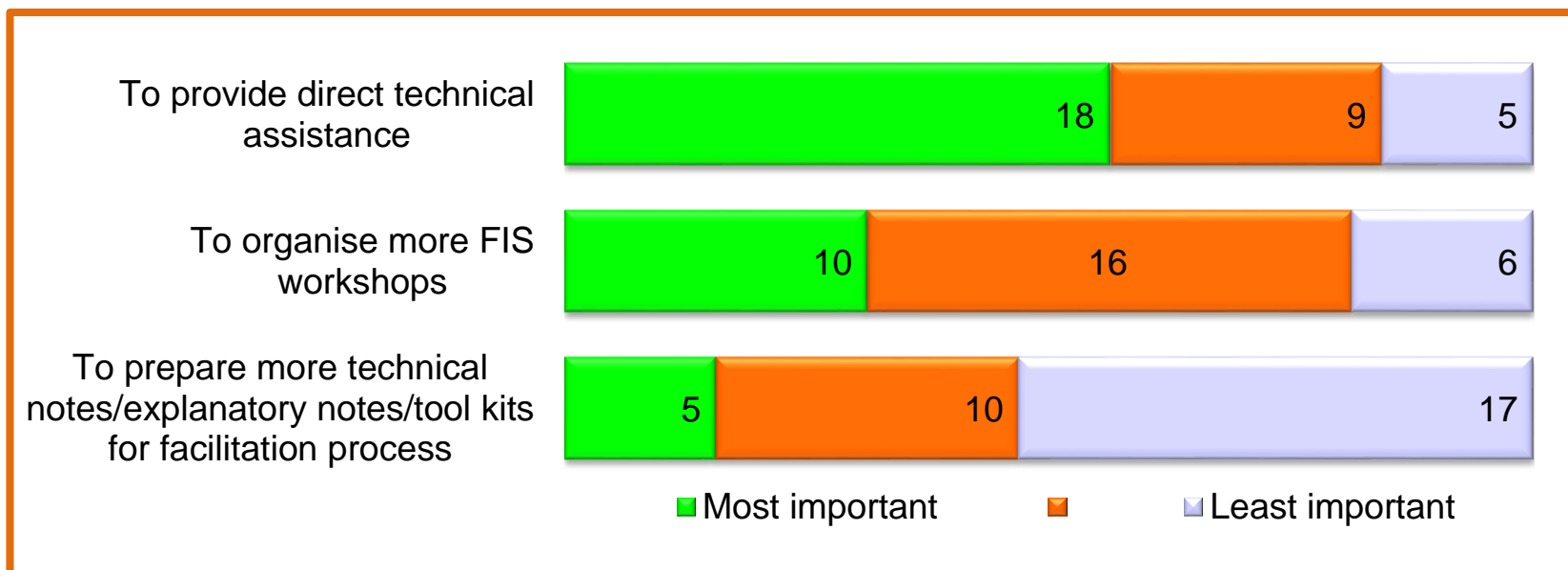
## Rank of challenges in implementing the IFSB standards

Challenges	2013 Survey			2011 Survey		
	Mean	Rank	Base	Mean	Rank	Base
Need to change regulatory and supervisory framework	2.4	1	29	2.7	1	25
Lack of personnel with relevant knowledge/experience/training	2.5	2	30	3.0	2	25
Cost of implementation	3.38	3	29	3.9	3	25
Institution size and complexity	3.45	4	29	4.1	4	25
Lack/poor quality of data to support implementation of the Standards	3.6	5	30	4.1	4	25

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

**The low mean scores for 2013 Survey show that from the RSAs' perspectives, the intensity of the challenges has increased over time.**

# Options for Supporting Implementation



## Technical Assistance

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

# Moving Forward: Options for Supporting Implementation

# Moving Forward: Options for Supporting Implementation (1/4)

## Direct Technical Assistance

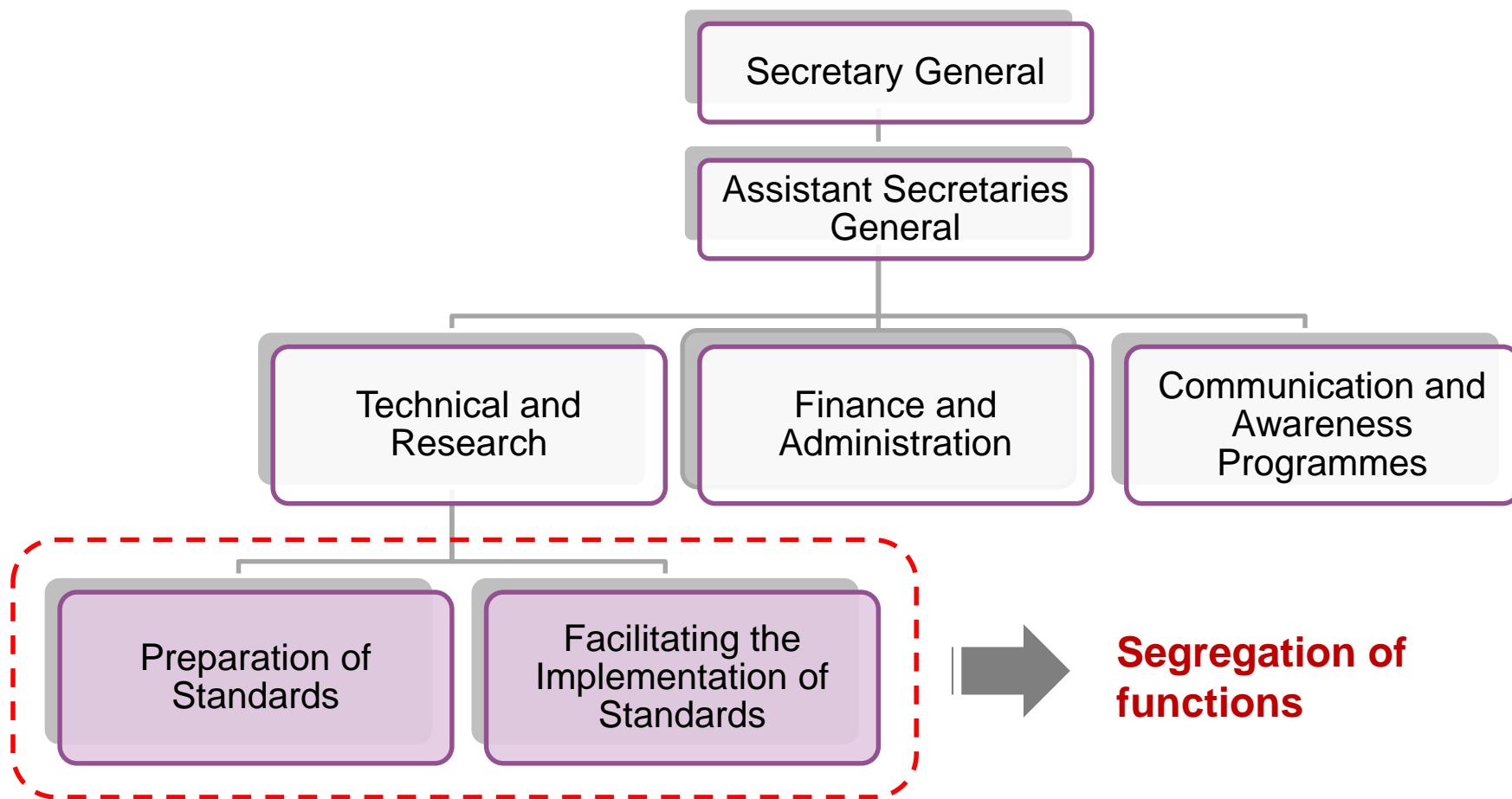
Module		Objective	Duration (week)	Experts required
1	Basic training in IFSB Standards	<ul style="list-style-type: none"> <li>To provide an overview of the IFSB Standards and their relation with other Standards.</li> <li>To address RSAs and IIFS dealing with risk management and compliance functions.</li> </ul>	1	<ul style="list-style-type: none"> <li>Islamic finance</li> <li>Islamic banking supervision</li> <li>Risk management</li> </ul>
2	Assessing the baseline institutional arrangements and supervisory systems against Basel Core Principles	<ul style="list-style-type: none"> <li>To identify the legislative and regulatory changes needed to strengthen the effectiveness of supervision.</li> <li>To help implement IFSB Standards for IIFS.</li> </ul>	3	<ul style="list-style-type: none"> <li>Islamic finance</li> <li>Islamic banking supervision</li> </ul>
3	Assessing the gaps in systems and practices at IIFS and their supervisory implications	<ul style="list-style-type: none"> <li>To assess IIFS' risk management systems, data availability for risk management and risk reporting, internal controls, and governance, in relation to IFSB/ Basel requirements.</li> <li>To develop an action plan based on Modules 2 and 3.</li> </ul>	2	<ul style="list-style-type: none"> <li>Islamic finance</li> <li>Islamic banking supervision</li> <li>Risk management</li> </ul>
4	Strengthening risk management systems in IIFS and the supervisory review of risk management and controls	<ul style="list-style-type: none"> <li>To focus on, among others, appropriate processes for risk identification, measurement, monitoring and control, as well as supervisory guidance and assessment on risk management systems in IIFS.</li> </ul>	3	<ul style="list-style-type: none"> <li>Islamic finance</li> <li>Risk management</li> <li>Islamic banking supervision</li> </ul>

# Moving Forward: Options for Supporting Implementation (2/4)

Module		Objective	Duration (week)	Experts required
5	Strengthening capital adequacy of IIFS in line with IFSB standards, and the capital adequacy assessment process of supervisors	<ul style="list-style-type: none"> <li>To focus on, among others, application of standardised approach to IIFS capital adequacy, credit risk mitigation, external ratings, management of PSIA for risk sharing and its implications for IIFS capital adequacy, capital adequacy assessment process by RSAs.</li> </ul>	2	<ul style="list-style-type: none"> <li>Islamic finance</li> <li>Islamic banking supervision</li> <li>Rating agency</li> </ul>
6	Strengthening corporate governance of IIFS in line with IFSB standards	<ul style="list-style-type: none"> <li>To focus on the current regulatory framework governing IIFS governance, the approach to managing the rights and expectation of investment account holders (IAH), approaches to ensuring compliance with <i>Shari'ah</i> principles, and strengthening internal controls and operational risk management.</li> </ul>	3	<ul style="list-style-type: none"> <li>Islamic finance</li> <li>Corporate governance</li> </ul>
7	Strengthening the public disclosure regime for IIFS, in line with IFSB standards for transparency and market discipline	<ul style="list-style-type: none"> <li>To complement the corporate governance module, by stressing various measures that would enhance IIFS disclosures to the public.</li> <li>To facilitate market discipline and accountability to stakeholders, particularly the IAH.</li> </ul>	3	<ul style="list-style-type: none"> <li>Islamic finance</li> <li>Islamic finance accounting</li> </ul>
8	Strengthening supervisory review to facilitate implementation of IFSB standards	<ul style="list-style-type: none"> <li>To focus on various general supervisory processes where additional attention would be desirable to facilitate implementation of IFSB Standards.</li> </ul>	3	<ul style="list-style-type: none"> <li>Islamic finance</li> <li>Islamic banking supervision</li> </ul>

# Moving Forward: Options for Supporting Implementation (3/4)

## Changes in Secretariat Structure



# Moving Forward: Options for Supporting Implementation (4/4)

## Additional Human and Financial Resources

### Current Staffing

- Additional staff to support the existing team

or/ and

### Reorganise internally

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



To be configured and addressed in SPP 2016



# THANK YOU FOR YOUR ATTENTION

# Appendix: Implementation Initiatives by Other Global Standard-Setting Bodies

# International Association of Insurance Supervisors (IAIS)

## Mandate

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

## Strategies

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

# International Organization of Securities Commissions (IOSCO)

## Mandate

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

## Strategies

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

# Financial Stability Board (FSB)

## Mandate

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

## Strategies

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

# Islamic Financial Services Board (IFSB)

## Mandate

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

## Strategies

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

# THANK YOU

