ISLAMIC FINANCIAL SERVICES BOARD

STRATEGIC PERFORMANCE PLAN 2016 - 2018

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2016 - 2018

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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 banking, capital markets and insurance sectors. The standards prepared by the IFSB follow a lengthy due process as outlined in its Guidelines and Procedures for the Preparation of Standards/ Guidelines, which includes the issuance of exposure drafts and the holding of workshops and, where necessary, public hearings. The IFSB also conducts research and coordinates initiatives on industry-related issues, as well as 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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ABBREVIATIONS

AAOIFI	Accounting and Auditing Organization for Islamic Financial Institutions
ADB	Asian Development Bank
BCBS	Basel Committee on Banking Supervision
BIS	Bank for International Settlements
CPIFR	Core Principles for Islamic Finance Regulation
CPMI	Committee on Payments and Market Infrastructures
FATF	Financial Action Task Force
FIAP	Financial Inclusion Action Plan
FIS	Facilitating the Implementation of Standards
FSB	Financial Stability Board
GCC	Gulf Cooperation Council
GFC	Global Financial Crisis
GPFI	Global Partnership for Financial Inclusion
G-SIFI	Global Systemically Important Financial Institutions
IAASB	International Auditing and Assurance Standards Board
IADI	International Association of Deposit Insurers
IAIS	International Association of Insurance Supervisors
IASB	International Accounting Standards Board
ICM	Islamic capital market
ICPs	Insurance Core Principles
IDB	Islamic Development Bank
IFAC	International Federation of Accountants
IFSB	Islamic Financial Services Board
IFSF	Islamic Financial Stability Forum
IFSI	Islamic financial services industry
IIFM	International Islamic Financial Market
IIFS	Institutions offering Islamic financial services
IMF	International Monetary Fund
IOSCO	International Organization of Securities Commissions
IRBM	Integrated Result Based Management
IRTI	Islamic Research and Training Institute
KPI	Key performance indicator
LOLR	Lender of last resort
ML/FT	Money laundering and financing of terrorism
MTP	Medium Term Plan
MTS	Medium Term Strategy
OECD	Organisation for Economic Co-operation and Development
PSIA	Profit-sharing investment account
PSIFI	Prudential and Structural Islamic Financial Indicators
QIS	Quantitative Impact Study
RSA	Regulatory and supervisory authority
SKRA	Strategic Key Result Area
SPP	Strategic Performance Plan

STRATEGIC PERFORMANCE PLAN 2016 - 2018

The role of the Islamic Financial Services Board (IFSB) is unique. It is an institution that is tasked with formulating standards, and facilitating their implementation, for the benefit of the three sectors of the Islamic financial services industry (IFSI) (namely, banking, Islamic capital market and *Takāful*) with an overarching objective of ensuring its stability and resilience. This role is increasingly challenging given the state of the development of the industry and its growing interconnectedness with global finance.

It is within this context that the IFSB embarked on its first Strategic Performance Plan (SPP) in the year 2012 covering the period until 2015. The SPP 2012–2015 emphasised the importance of responding to the identified needs of the IFSI in a structured and measured manner by way of developing a set of Strategic Key Result Areas (SKRAs), Outcomes and Outputs that met the needs and expectations of the IFSB stakeholders, particularly the IFSB Council. These, in turn, were operationalised through the preparation of the annual work plan as well as periodic reporting mechanisms.

With the end of the first SPP in December 2015, the Secretariat commenced the preparation of the SPP 2016–2018 with due consideration given to three key areas. First, the new SPP is being formulated in light of the earlier SPP by way of an extensive, independent review that delineated important issues in regards to the conceptualisation of the SKRA framework as well as the recorded achievements in its execution. This has resulted in a modified SKRA framework that revolves around focus, measurability and effectiveness in the carrying out of the IFSB mandate.

Second, a detailed assessment of the global regulatory environment was conducted which highlighted the trajectory of the global regulatory agenda in the coming three years. More specifically, the assessment concentrated on the forthcoming work plans of the other international standard-setting organisations, namely the Basel Committee on Banking Supervision (BCBS), the International Association of Insurance Supervisors (IAIS) and the International Organization of Securities Commissions (IOSCO), as well as the high-level objectives of the Financial Stability Board (FSB) along with important areas of relevancy to the IFSI (e.g. financial inclusion, money laundering, deposit insurance, etc.).

Third, an examination of the current state, and the prospective evolution, of the IFSI was undertaken in order to ascertain both the implications of the global regulatory agenda for the industry, as well as the unique opportunities and challenges that it faces.

The above-noted second and third areas have resulted in a clearly defined annual technical and awareness-raising work plan, across the three sectors, for the IFSB in the coming three years. Furthermore, the standard-setting process within the IFSB has been analysed both distinctively and in comparison with other international standard-setting institutions with the objective of increasing responsiveness to the expectations of the IFSB's stakeholders.

Highlights

The SPP 2016–2018 stresses continuity with its predecessor through a continued focus on the IFSB's core mandate – **the preparation of new prudential standards** that are benchmarked against global standards issued by conventional standard-setting bodies such as the BCBS, IAIS and IOSCO. The IFSB had earlier recognised the introduction of Basel III, and of comparable developments in the areas of capital markets and insurance, as major steps forward in the global regulation of the financial industry to which it had to respond. A key finding of the independent review of the IFSB's performance to date is that it has performed creditably in the period 2012–2015, keeping pace with international developments by adopting the new global regulatory framework through the issuance of four new standards and one guidance note covering capital adequacy, the supervisory review process and liquidity standards, among other topics. The issuance of these standards was aimed at supporting the orderly development of Islamic finance at the national level – for both dual and full-fledged Islamic financial systems – while promoting a harmonised and consistent framework for resilient cross-border growth. The rapid take-up for implementation of the latest IFSB standards is an indication of the effectiveness and relevance of the IFSB's operations during this period. In continuing this important agenda, the SPP 2016–2018 proposes to launch a strong work programme encompassing seven new standards and one technical note.

With the rapid growth of Islamic finance in many IFSB member jurisdictions, the SPP 2016–2018 anticipates paying increased attention to promoting the integration of Islamic finance into the global economy and into the global surveillance system for financial stability. To support this process, among the new standards to be launched, it is proposed to build on the issuance in 2015 of IFSB-17: *Core Principles for Islamic Finance Regulation (Banking Segment) (CPIFR)* by launching a work programme leading to the development of core principles for Islamic finance regulation for both the Islamic capital markets (ICM) and the *Takāful* sectors. It is expected that the proposed core principles will be supported by detailed assessment methodologies that will facilitate both self- and peer assessments of the core principles, as well as of their preconditions.

A key aspect of the IFSB's forward strategy for 2016–2018 is to increase its operational support for the implementation of its standards for harmonised and resilient cross-border growth. The IFSB member jurisdictions display a wide variation in market, institutional, and policy and regulatory development, which requires a customised approach in supporting the members in their implementation of the IFSB's standards. An ongoing programme of workshops entitled "Facilitating the Implementation of Standards" (FIS) ensures flexibility in meeting the requirements of the respective member jurisdictions. In response to strong feedback from national jurisdictions, as well as the results of the annual surveys on implementation, the SPP 2016–2018 proposes to add further resources and staff in order to strengthen the IFSB's implementation capacity. The result of an elaborate consultation process within the IFSB governance structure, as well as with a wide array of stakeholders, the SPP 2016–2018 is expected to propel the IFSB to a higher level of achievement in the coming period. It is built on the previous SPP, and on the lessons learned in executing it, along with an ostensible recognition of the need for the IFSB to evolve in response to changes in its operating environment. Consequently, the expected end result is for the IFSB to continue to be a significant and leading institution in the Islamic finance space that positively contributes to the development, stability and resilience of the Islamic financial services industry.

1 INTRODUCTION

1.0.1 In November 2011, the Council of the IFSB approved a Medium Term Strategy (MTS) Work-in-Progress Paper which outlined the proposed activities to be undertaken by the IFSB during the period 2012–2015. In December 2011, the IFSB Secretariat began to transform the MTS into a Strategic Performance Plan based on an Integrated Result-Based Management (IRBM) approach, where all activities were streamlined towards sharpening the focus on the mission, goals and objectives of the IFSB.

1.0.2 The purpose of the SPP 2012–2015, which was approved by the IFSB Council in March 2012, was to strengthen the Council's oversight on the future directions of the IFSB, giving it an enhanced and more flexible management tool with which to progressively assess its intended deliverables. More specifically, the aim was to structure the strategies and activities proposed in the MTS Paper using an approach that focuses on the appropriate and timely achievement of the goals and objectives of the IFSB at all levels. This approach allowed the Council to improve its policy decision-making process and monitor programme performance through a process incorporating strategic planning, systematic implementation and resource usage, performance monitoring, measurement and reporting, as well as systematic utilisation of performance information to be supplied by the Secretariat on an ongoing basis.

1.0.3 The preparation of the Strategic Performance Plan 2016–2018 commenced in early 2015 with the launching of a series of background studies through which the Secretariat assessed and evaluated key factors that are likely to impact the IFSB and its operations over the 2016–2018 time period. This process was led by staff and supported by the work of a technical consultant as well as by an independent consultant firm that provided an assessment of the IFSB's performance to date, along with a review of the structure and operations of the IFSB's global comparators. The preparation process has drawn upon key aspects of the IFSB's knowledge base, including the annual Survey on Implementation and the Membership Survey, as well as on the work carried out in the preparation of the IFSB's *Islamic Financial Services Industry Stability Reports*. The elaboration process included a presentation to the Technical Committee, and the holding of three regional focus group meetings (in Jakarta, Indonesia; Abu Dhabi, UAE; and Almaty, Kazakhstan) comprising both regulatory and supervisory authorities (RSAs) and market players.

1.0.4 The SPP 2016–2018 provides guidance and reference to all IFSB stakeholders – the IFSB Council, in particular – to monitor and measure the progress and the levels of achievement of each of the identified Strategic Key Result Areas, Outcomes, Outputs and Key Performance Indicators (KPIs). It is expected that this document will result in an increased level of clarity on the responsibility and accountability of the IFSB to its stakeholders, and a greater degree of transparency in the procurement and use of resources.

1.1 Formulation of THE SPP 2016–2018

1.1.1 The preparation of the SPP 2016–2018 commenced with a recognition and internalisation, through a proper assessment, of the wide range of those factors that have influenced the IFSB in the past and those that are expected to affect it in the future.

1.1.2 To prepare for the SPP 2016–2018, the Secretariat undertook the following assessments:

(i) ***Review of SPP 2012–2015***

The formulation of the SPP 2016–2018 takes into account a review of the SPP 2012–2015 with the aim of examining the appropriateness of its parameters as well as its achievements. More specifically, for the parameters, the review includes, among others, the appropriateness of continuing with the existing SKRAs and the IFSB Strategic Results Framework (i.e. Outcomes, Outputs and KPIs). The examination of the achievements, for its part, studies the level of attainment of the various components of the IFSB Strategic Results Framework as well as delineates the drivers of the successes and shortcomings.

For SKRA 1, the standard-setting agenda for the period 2012–2015 had a high degree of achievement with the issuance of four IFSB standards (IFSB-14 to IFSB-17) and a guidance note (GN-6). These standards served three overarching objectives of the IFSB at the time: (1) to address the critical and challenging issue of alignment with, and the adoption of, the Basel III capital and liquidity framework; (2) to launch work towards facilitating the integration of Islamic finance into the global stability framework through the issuance of the first Core Principles for Islamic Finance Regulation (Banking Segment); and (3) to continue to roll out a comprehensive set of standards by extending coverage to beyond the banking sector, which was achieved through the issuance, as well as launching, of new standards for the *Takāful* and ICM sectors. While a high percentage of the IFSB standards issued since its establishment were brought to conclusion in this period, the Secretariat's review of performance during the first SPP indicated weaknesses in the performance measurement approach. Specifically, KPIs were monitored on the output level but not at the outcome level. More specifically, emphasis was placed on ensuring that outputs are achieved, but less focus was placed on determining whether the outputs helped achieve the outcomes in the form of standards implementation. The IFSB also strengthened its research programme during this period and issued its first four working papers as well as a joint issues paper with the IAIS on the *Microtakāful* sector. This research programme, however, fell short of delivering the planned 20 research papers, in some cases for reasons related to changing institutional priorities, but also in some respects because of an overly ambitious set of targets. Two further papers, on *Sharī`ah*-compliant deposit insurance schemes and *Sharī`ah* non-compliance risk, are in the finalisation stage.

For SKRA 2, the review noted that activities where a specific beneficiary cannot be readily identified, such as for e-learning and the translation of standards into other languages, the performance was less positive as compared to technical assistance and FIS workshops where the beneficiaries are known. An implication of this is the overemphasis on outputs whose activities have a localised impact to the detriment of those outputs that can reach a broader audience. The challenge for IFSB is thus to accept that, given the finite resources at its disposal, there is a need to find a balance between "tactical" and "strategic" outputs in order to maximise the effectiveness and impact of the Secretariat's implementation work programme, without losing the very real benefits that accrue from targeted and tailored assistance.

Similar to SKRAs 1 and 2, the IFSB did not monitor the performance of KPIs at the outcome level for SKRA 3 and SKRA 4. As such, there were no clear indicators on whether the KPIs for these two SKRAs' outcomes have been achieved. The outputs for Publications, which is a key activity of the IFSB, was successfully achieved, with all planned 15 publications being completed by

2015. Another milestone achieved for SKRA 3 was the launching of the Arabic website in January 2015. For SKRA 4, the Secretariat is conscious of some weaknesses when it comes to the delivery of quality services to its members, and is fully aware that communication and information sharing is an important element of the engagement process. While the IFSB's membership levels were generally unchanged during the first SPP, on a longer-term basis, membership levels have declined from a peak of 195 members in 2010 to 189 members as at December 2015, a net decline of six members with most of the exits in the Observer Member category. Reasons for exits include: financial constraints of members, merging of entities between members, and changes in management at the member's organisation who prefer not to be a part of the IFSB. The Secretariat is cognisant of these issues and will continue to focus on strengthening its engagement with its members to better understand and meet their needs.

(ii) ***Global Regulatory Environment Assessment***

The formulation of the SPP 2016–2018 analyses the existing global regulatory environment and considers its future directions in order to properly elaborate a forward-looking SPP. This includes a clear understanding of the evolution of the regulatory reforms that commenced in the wake of the Global Financial Crisis (GFC) and the different levels of their implementation, including any of the associated challenges. Moreover, the global regulatory environment assessment includes an analysis of the scope of work (current and prospective) of the BCBS, IAIS and IOSCO with a view to reinforcing the complementarities between the work of these institutions and the scope of work of the IFSB. This assessment also involves a study of the frameworks of the international standard-setting institutions for supporting the implementation of their respective standards, which have been reinforced considerably since the GFC. This review also involves a study of the approach adopted in recently issued strategic plans by the IAIS, IOSCO and the International Auditing and Assurance Standards Board (IAASB).

(iii) ***Industry and Sectors Analysis***

The formulation of the SPP 2016–2018 assesses the Islamic financial services industry with a detailed focus on the Islamic banking, ICM and *Takāful* sectors. This includes the industry's development and future progression, particularly on the regulatory front, in a manner that accounts for the various opportunities and challenges that it faces. The industry and sectors analysis, which was mainly developed based on the IFSB's *IFSI Stability Report*, is an important aspect in the formulation of the SPP 2016–2018 in that it should significantly enhance its relevancy and appropriateness to the IFSI.

(iv) ***Stakeholder Dialogue and Institutional Surveys***

The preparation of the SPP 2016–2018 drew on a number of sources of information, including ongoing dialogue with the Council and Technical Committee on a range of operational factors. This dialogue has provided an overarching perspective on the relevance of the IFSB's mission, the challenges it needs to meet, and the modalities available for this purpose. Two additional sources of information have been drawn upon. First, two important surveys conducted by the IFSB – the Survey on IFSB Membership Satisfaction and the Survey on the Implementation of the IFSB Standards – have provided a consistent source of feedback on the IFSB's performance and served as platforms through which leading-edge issues are brought to the attention of the Council and Secretariat. Second, the SPP 2016–2018 draws on a series of focus groups, comprised of regulators and market players, from across the IFSB's member jurisdictions. The findings of the surveys and focus groups are further detailed below:

Survey on the Implementation of the IFSB Standards: This bi-annual survey, the last one of which was completed in 2014, explores the extent of implementation of the IFSB's standards in the member countries and provides feedback on the challenges faced by member RSAs in implementing the standards. It also provides input on the Secretariat's initiatives to support the implementation of its standards in member countries.

Survey on IFSB Membership Satisfaction: This bi-annual survey, the last one of which was completed in 2014, seeks to: (i) identify the level of satisfaction of the members; (ii) understand perceptions and expectations of the members; (iii) explore products and services that the IFSB may need to offer to attract new members; and (iv) provide actionable insights to increase satisfaction among the members. The Membership Survey feeds into the IFSB Membership Strategy, which itself is incorporated into the framework of the SPP.

Focus Group – Feedback from Stakeholders: The Secretariat also conducted three regional focus groups (in Jakarta, Indonesia; Abu Dhabi, UAE; and Almaty, Kazakhstan) to garner in-depth feedback and responses from the stakeholders of the IFSB on their perceptions, opinions, and attitudes towards the organisation, the Secretariat and the IFSB work program. The stakeholders included RSAs, institutions offering Islamic financial services (IIFS), multilateral institutions, and consultants and industry experts.

1.2 Structure and Content

This SPP 2016–2018 is divided into five sections. The formulation of SPP, and its expected outcomes, are provided in this introductory section, **Section 1**.

Section 2 outlines the background of the formulation of the SPP 2016–2018, with an emphasis on the key reasons for the establishment of the IFSB, along with its mission, objectives and core values.

Section 3 provides a global regulatory outlook and examines its implications for the work of the IFSB. Furthermore, it puts forward for consideration important elements in the IFSB's technical work programme.

Section 4 lists the considerations used in articulating the SKRAs for the SPP 2016–2018 and the plausible risks impacting the organisation arising from these considerations. This section also clarifies the expected outcomes to be derived from a number of programmes, along with the outputs, KPIs and activities undertaken by the IFSB from 2016 to 2018.

Section 5 provides a summary of the SKRAs for the years 2016–2018.

2 BACKGROUND

This section outlines the background of this Strategic Performance Plan by way of an emphasis on the key rationales for the establishment of the IFSB, as well as a delineation of the mission, objectives and core values that frame its mandate and operations. It also elaborates on the demographics of the IFSB's key stakeholders – the IFSB membership – highlighting their invaluable role and contribution in the formulation of the SPP and the achievement of its identified outcomes.

2.0 Purpose-in-Life of the IFSB

The establishment of the IFSB was the result of the leadership and vision of its founding members, who were committed to the emergence of a vibrant Islamic finance industry as a means to achieve more prosperous and equitable societies in which risks were better diversified and shared. In particular, the founders saw the need for an international institution – the IFSB – that would promote the harmonisation and standardisation of regulatory approaches in order to boost the Islamic finance industry and to provide it with a level playing field within the global economy. Specifically, the founders envisioned that the IFSB would act as a body for coordinating and giving guidance on good practices in the regulation and supervision of Islamic financial services, which would also serve to promote the sound growth, and support the resilience and stability, of the global Islamic financial services industry which is defined broadly to include the banking, ICM and *Takāful* sectors.

2.1 Mission

2.1.1 The mission of the IFSB is to promote the stability and resilience of the IFSI through the issuance, and facilitating the implementation, of global prudential standards and other initiatives that foster knowledge sharing and cooperation.

2.1.2 The SPP 2016–2018 will facilitate the achievement of this mission by providing a framework that can strategically identify the activities, along with the requisite resources, needed to deliver a set of outputs that will collectively result in a specific set of outcomes. The combination of the identified outcomes will be the key driver for the IFSB to achieve its mission.

2.2 Objectives and Policy Preferences

The objectives of the IFSB stated in Article 4 of the IFSB Articles of Agreement are:

1. To promote the development of a prudent and transparent Islamic financial services industry through introducing new, or adapting existing, international standards consistent with *Sharī`ah* principles, and to recommend these for adoption.
2. To provide guidance on the effective supervision and regulation of institutions offering Islamic financial products and to develop for the Islamic financial services industry the criteria for identifying, measuring, managing and disclosing risks, taking into account international standards for valuation, income and expense calculation, and disclosure.
3. To liaise and cooperate with relevant organisations currently setting standards for the stability and soundness of the international monetary and financial systems and those of the member countries.
4. To enhance and coordinate initiatives to develop instruments and procedures for efficient operations and risk management.
5. To encourage cooperation amongst member countries in developing the Islamic financial services industry.
6. To facilitate training and personnel development in skills in areas relevant to the effective regulation of the Islamic financial services industry and related markets.

7. To undertake research into, and publish studies and surveys on, the Islamic financial services industry.
8. To establish a database of Islamic banks, financial institutions and industry experts.
9. Any other objectives on which the General Assembly of the IFSB may agree from time to time.

2.3 Core Values

A set of core values drives the operations of the IFSB. These values are universal and apply in all its operations, which cover members and beneficiaries from many countries and environmental settings. The four core values governing the IFSB's operations are:

ACCOUNTABILITY	Be responsible for actions that influence credibility
RESPONSIVENESS	Be responsive to the needs of those we serve
COLLABORATION	Collaborate within and outside the IFSB to deliver quality international prudential standards for the Islamic financial services industry
INTEGRITY	Act with honesty and integrity through a common set of values

2.4 The IIFSB membership

2.4.1 The IFSB's membership base forms an invaluable, mixed pool of Islamic finance expertise from which the IFSB derives its strength. The diverse membership, spanning RSAs, international organisations and market players, has been a source of strength for the IFSB. Moreover, the participation and contribution of members are not only key in the design of the work programme and the activities of the IFSB, but also drive how the IFSB undertakes its mandate. To illustrate, member organisations send their representatives to participate in IFSB activities such as:

(i) the IFSB Technical Committee, to chart the work plan for, and review the work of, the Secretariat;

(ii) IFSB Working Groups, to formulate and develop the IFSB's standards and guiding principles;

(iii) Editing Committee, to review documents and ensure the quality of their translations into the Arabic language; and

(iv) the awareness programmes (e.g. forums, roundtables, conferences and the IFSB Summit), in which members share their knowledge and experiences.

2.4.2 The SPP 2016–2018 is developed against the background of the membership of the IFSB (as at December 2015), consisting of 189 organisations from more than 47 countries spanning the regions of the Middle East and North Africa (MENA); Central, Far and South-East Asia; and Europe and Sub-Saharan Africa. This membership base also includes international inter-governmental organisations such as the Asian Development Bank, Bank for International Settlements, International Islamic Liquidity Management Corporation, International Monetary Fund (IMF), Islamic Development Bank (and its subsidiaries Islamic Corporation for the Development of the Private Sector (ICD) and Islamic Corporation for Insurance of Investments and Export Credits (ICIEC)) as well as the World Bank.

2.4.3 The interaction and continued engagement with member organisations, be they RSAs, international intergovernmental organisations, or market and industry players, shape and drive the operations of the IFSB, and are crucial to the successful implementation of the SKRAs identified in the SPP 2016–2018.

3 INTERNATIONAL DEVELOPMENTS AND POLICY IMPLICATIONS

3.0 Global Regulatory Outlook

3.0.1 Overall, Islamic finance assets are heavily concentrated in the Middle East and Asia, although the number of new markets is expanding. The Gulf Cooperation Council (GCC) region accounts for the largest proportion of global Islamic financial assets, with 38% of the total. The MENA region (excluding GCC) follows with a 34% share, largely because of Iran's fully *Sharī`ah*-compliant banking sector. Asia ranks third, representing a 22% share in the global total, with Malaysia particularly influential. The contribution from the other regions, particularly Europe and Sub-Saharan Africa, remains low.

3.0.2 New jurisdictions continue to enter the markets. In 2014, significant regulatory developments in the Islamic banking sector took place in Afghanistan, Azerbaijan, Morocco, Tajikistan and Uganda. Similarly, the *Sukūk* sector saw the primary sovereign *Sukūk* market debuts of Maldives, Senegal, South Africa and the Emirate of Sharjah, as well as sovereign debuts by advanced financial centres such as the United Kingdom, Hong Kong and Luxembourg. The motivations for doing so vary; while in some sectors this will reflect a wish to make Islamic financial services available to Muslim citizens, whether they are a majority or a minority, capital markets developments will in some cases reflect a wish to attract external Muslim investors, or to establish a position intermediating capital flows, especially from the GCC.

3.0.3 The preparation of SPP 2016–2018 takes place against a background in which there is uncertainty regarding the prospects for global economic growth over the medium term. There is also concern over the possibility of a recurrence of cross-border volatility in financial markets associated with a number of factors including the anticipated withdrawal of monetary policy stimulus in the form of unconventional monetary policy, or quantitative easing. The decline in oil prices is also perceived to have introduced uncertainty to both the global economy and to the prospects for Islamic finance. However, at the same time, as noted above, there is rising interest in Islamic finance – in both traditional and new jurisdictions. This increased interest reflects the widening recognition that Islamic finance is a potentially viable and alternative form of financing that can serve fundamental goals of national economic development and of social inclusion, while also serving to strengthen the stability and resilience of financial systems, and to provide access to new forms of investment financing in advanced and emerging markets alike. In particular, there has been widespread interest in the use of *Sukūk* to fund investment in both social and physical infrastructure.

3.0.4 Reflecting the balance of these factors, despite the global economic slowdown, growth of Islamic finance assets is robust – although moderating – across Islamic financial sectors, with the banking sector's cumulative average growth rate at 15.4% per annum during the post-crisis period 2008–2014. The cumulative average growth rate of *Sukūk* issuances is slightly higher during this period, at 17.3% per annum. The total *Takāful* contributions are estimated to reach U$22.1 billion as of end-2014. However, these growth rates are also moderating since last year. In addition, as a result of high and sustained growth, there are now 11 jurisdictions in which the Islamic banking sector is of systemic importance, which the IFSB, together with the IMF, defines as a jurisdiction in which 15% or more of financial sector assets are Islamic. Islamic banks continue to be well capitalised, with higher levels of high-quality capital than mandated by regulatory requirements. Finally, while profitability, capitalisation, asset quality and other indicators are either stable, or show encouraging trends, the continued relative scarcity of *Sharī'ah*-compliant high-quality liquid assets points to a long-term requirement – which is for additional and flexible liquidity management tools – the absence of which poses potential risks to the stability and resilience of Islamic banks. In this context, the fall in oil prices could lead to a stronger incentive to tap into Islamic finance to diversify funding sources in revenue-strapped economies, while also serving to reduce the ability to fund existing expenditure plans. It remains to be seen how these opposing factors will play out.

3.0.5 This summary of recent developments, and of key findings from the *IFSB Stability Report 2015*, underscores the immediate and long-term challenge, which is to develop *Sharī'ah*-compliant financial markets and instruments, and financial safety nets, that will aid risk and liquidity management capabilities of financial institutions, while contributing to the ability of the authorities to maintain control over monetary aggregates and risks to financial stability at the economy-wide level. This is a demanding agenda that will be aided by policy road maps for Islamic finance, such as those being prepared and implemented by a number of IFSB member jurisdictions.

3.0.6 The magnitude, scope and wide-ranging reverberations of the GFC led to a consensus on the need for a centralised and consistent approach to the global standard-setting agenda to be led by the G20, through the Financial Stability Board (FSB). The FSB "coordinates at the international level the work of national financial authorities and international standard-setting bodies and develops and promotes the implementation of effective regulatory, supervisory and other financial sector policies". Its Compendium of Standards lists "the standards that are internationally accepted as important for sound, stable and well-functioning financial systems". These, especially the "key standards", are the standards whose implementation the FSB advocates and monitors by various means. The financial regulation and supervision standards listed are the core principles of the BCBS, the IAIS and the IOSCO. There are macroeconomic and statistical standards from the IMF and "institutional and market infrastructure" standards from the World Bank, FATF, IADI, IASB, IAASB, CPMI and OECD.[1] The core bodies for setting regulatory and supervisory standards in the conventional world are thus the BCBS, IAIS and IOSCO, with a number of other bodies playing significant roles in specialised areas.

Programmes of Key Conventional Standard-setters

3.0.7 Because the IFSB's standards are based, where possible, on those of the conventional standard setters, and because most RSA members supervise both Islamic and conventional finance, it is relevant to look at the programmes of the main conventional standard setters to identify any recent or projected developments to which the IFSB should respond.

3.0.8 Following the GFC, a major programme of standards revision and extension was undertaken, under the overall leadership of the FSB. Some elements of this have been highly relevant to Islamic finance; the Basel III capital and liquidity standards are an example. Others have been less relevant; the attempts to bring derivatives trading on-exchange are an example of this kind, because of the very limited use of derivatives,

1 Respectively, the Financial Action Task Force, International Association of Deposit Insurers, International Accounting Standards Board, International Auditing and Assurance Standards Board, Committee on Payments and Market Infrastructures, and Organisation for Economic Co-operation and Development.

for *Sharī`ah*-related reasons, in Islamic finance. Overall, now that many of the most immediate reforms have been put in place, the pace of change is slowing somewhat, but there are nevertheless important initiatives under way in some standard setters.

Financial Stability Board and Cross-sectoral Issues

3.0.9 A major issue for the FSB, and one which has been cascaded down to other standard setters, has been the issue of "too big to fail". One component of work on this has been the identification of Global Systemically Important Financial Institutions (G-SIFIs), which will receive enhanced supervisory attention in various ways, and to which enhanced regulatory provisions (e.g. as to capital) can be applied. Once this concept had been articulated, it was immediately apparent that similar concepts could apply on a regional or a domestic basis, leading to the identification of R-SIFIs and D-SIFIs. This has proved easier in some sectors than in others, and the first regulatory priority has tended to be the banking sector. The BCBS has published criteria for identifying both G-SIBs and D-SIBs (Global and Domestic Systemically Important Banks, respectively), and the latter have been reflected in IFSB-15. However, the application of this framework in Islamic finance has not been studied in any detail. For example, interconnectedness and cross-jurisdictional activity are key criteria, but it remains unclear to what extent Islamic banks constitute a separate transaction network, only loosely coupled to the conventional banking network, or whether they are closely coupled into it. This contributes to a lack of clarity on how systemic shocks might be transmitted between the two parts of the banking system. As a consequence, the IMF has argued for more work on macroeconomic issues in Islamic finance, and understanding questions such as these will be essential to such work.

3.0.10 Also driven by the issue of "too big to fail", the FSB has, since the GFC, issued a series of papers on recovery and resolution of financial institutions. The main focus has, once more, been on banks, but they have also covered other financial institutions, including insurers. The most important document, which was updated in 2014, is the "Key Attributes of Effective Resolution Regimes for Financial Institutions".[2] There is also continuing work on cross-border recognition of resolution regimes. Recovery and resolution also is an area which has been little studied for institutions offering Islamic financial services. There are, in principle, significant issues for consideration in this area which include, for example, the treatment of investment account holders or the policyholders' risk fund of a *Takāful* undertaking. In addition, the FSB approach to bail-in within resolution is based on the principle that creditors required to bail-in should be no worse off than in insolvency, but the treatment of IIFS in insolvency is not well-understood, and there are material *Sharī`ah* issues.

3.0.11 In the area of prudential regulation, also, the post-crisis period has seen a greater emphasis on consolidated supervision, both of single entities and of groups. This is typically supported by group supervision arrangements using supervisory colleges. The FSB and other standard setters continue to publish documents in this area,[3] although, in general, the main lines of policy are clear. The default position for consolidated supervision is that capital requirements should be applied at the group level, on the basis of group consolidated accounts.[4] This, in itself, raises technical issues for IIFS about the ability to consolidate at group level funds which, in principle, have different ownership,

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2 See www.financialstabilityboard.org/2014/10/r_141015/.

3 Where the group is cross-sectoral, the key standards come from the Joint Forum, which revised its *Core Principles for the Supervision of Financial Conglomerates* in 2012.

4 Though it is generally accepted that non-financial businesses should not be consolidated, and that there may not be consolidation of businesses in different financial sectors – for example, an insurance company with a bank.

and group consolidation is another area in which little work has so far been done. More broadly, the effect of the increased emphasis on consolidation is to enhance the position of the supervisory authority where the top-level company in the group is located, and for the standards of that authority to be the dominant influence on the group's activity. To the extent that Islamic financial services are provided by international financial groups with a substantial conventional activity, they may well be headquartered in jurisdictions with little Islamic finance of their own, and there is a risk that the default position will be the application of conventional standards across the group.

3.0.12 A further concern of the FSB, and the three main standard setters, has been the coverage of the financial regulatory system, and in particular the concept of "shadow banking". The fundamental issue on that topic is that entities other than banks which have the potential to threaten the stability of the financial system, especially by facilitating credit expansion, should not escape proper regulation. Although the kinds of institutions of concern at the global level tend to be of limited relevance in the Islamic finance system, there would be value in considering what kinds of institutions are operating within Islamic finance, what (if any) systemic risks they may pose, and whether there are any issues of the regulatory perimeter worth considering.

3.0.13 As in regards to the future, there appears to be a priority being given by the FSB to the completion and implementation of the reforms discussed above. Although there is some discussion of possible emerging risks, the actions put forward are at this stage much more about understanding risks than about regulatory actions to deal with them.

Basel Committee on Banking Supervision

3.0.14 The BCBS has continued to make adjustments to the Basel III framework. A revised set of Pillar 3 disclosures has been put in place. Key pieces of work under way, but not yet finalised, cover revisions to the standardised approach for credit risk, and the treatment of operational risk, market risk and interest rate risk in the banking book. Some of the proposed changes are very substantial, and all are likely to be finalised in 2016. In addition, the BCBS will continue to work on the leverage ratio, with the standard to be finalised by 2017 at the latest. One common theme in much of this work is a general thrust, relevant to the IFSB's programme, to reduce reliance on models. In addition, the BCBS is considering how a longer-term reform of the Basel Regime (i.e. a "Basel IV") might be structured. It is approaching this gradually, through a series of consultation papers which are structured more for discussion than as proposed standards. It is likely, given the burden of implementation imposed by Basel III, that this longer-term reform will not come to fruition within the period of the SPP 2016–2018.

3.0.15 There have been some issues raised with regards to the Basel framework from emerging market economies, and also from Islamic banks, on the basis that the data on the basis of which parameters – particularly risk weights – are set come dominantly from large international banks and may not reflect the reality of banking under other conditions. There has, however, been a paucity of data (e.g. on probabilities of default, or loss given default) to support or refute such arguments. Enhancing the data quality in Islamic banking, in particular, is discussed in other parts of the SPP. It is, however, particularly relevant to the issue of the use by Islamic banks of risk-sharing modes of financing, which many would like to encourage but where the Basel risk weights have been argued to be an unnecessary deterrent.

3.0.16 The BCBS has also revised its standard on corporate governance. However, the IFSB has done sufficient work on the Islamic specificities relating to corporate governance that RSAs wishing to implement the new BCBS standard may be able to do so on the basis of existing material, which suggests that this is a standard to which an immediate response is not needed.

3.0.17 A key aspect of the BCBS work programme, post-GFC, is the emphasis placed on implementation of its standards, and in particular on ensuring the consistency in implementation of the new risk-based capital and liquidity framework. For these latter standards, in its post-GFC work programme, the BCBS, following the G20 and the FSB, has emphasised the need to progress in a phased manner, from ensuring "*ex-ante* consistency" in the understanding of its standards across jurisdictions, to ensuring "*ex-post* consistency" in the implementation of standards. Hitherto, *ex-ante* consistency in understanding was approached through the seminars, workshops and other elements of the work programme of the Financial Stability Institute. Post-GFC, this evolved into an explicit peer-based exercise that examined the consistency with which national legislation had incorporated the new global regulatory architecture. At present, a further exercise has been launched, the Regulatory Consistency Assessment Programme, that scrutinises *ex-post* consistency in implementation. The concepts of *ex-ante* and *ex-post* consistency in the implementation of the IFSB's standards have relevance for its work programme. *Ex-ante* consistency in the understanding of IFSB standards is sought through the FIS programme and its workshops and associated technical assistance. In addition, the goal of *ex-post* consistency in implementation is being gradually formalised through the launch of the Annual Implementation Survey and by selected multi-country studies on implementation. The lesson drawn from the BCBS approach is that the IFSB, while not yet in a position to launch the intensive peer reviews that underpin the BCBS, should also ramp up its work in the area of implementation of the new capital and liquidity framework with a view to further improving both *ex-ante* and *ex-post* consistency in standards implementation. On this front, the IFSB has made significant progress through the release of Prudential and Structural Indicators of Islamic Finance (PSIFIs), which now incorporate regular data releases by 17 of the leading Islamic finance jurisdictions for the banking sector.

International Organization of Securities Commissions

3.0.18 Apart from its revision of its core principles, IOSCO has, in general, worked recently on topics of limited relevance to Islamic finance. These have included credit rating agencies, hedge funds and transaction recording for derivatives, in particular. In light of the limited work done by the IFSB in the capital markets area there are, however, substantial areas of past IOSCO work that are at present unexamined.

3.0.19 IOSCO adopted in June 2015 a "Strategic Direction" document, setting its direction over the period 2015–2020. Although the full details of the Strategic Direction have not been published, it is expected that IOSCO will place increased priority over the period on consolidating its recent achievements. This will imply a greater focus on implementation, and support for its members in that regard. It is also expected that there will be new emphasis on broadening IOSCO's risk identification activities, from systemic risk to risks arising from market practices, technology and products; an increased focus on capacity building; and collaboration with other international organisations and standard setters. All the indications seem to point towards a reduced pace of change in the standards framework.

International Association of Insurance Supervisors

3.0.20 The IAIS, following a post-GFC revision of its core principles even more substantial than those of the BCBS and IOSCO, has been working towards capital standards, concentrating initially on additional capital requirements for global systemically significant insurers, but now focusing on the wider class of internationally active insurance groups. It has published its strategic goals for 2015–2019, with seven high-level goals covering multiple areas.

3.0.21 While there will be increased work on implementation, focusing on the Insurance Core Principles (ICPs), the perceived need to produce a full international capital standard for insurers, at least for internationally active insurance groups, means that the main emphasis is likely to be on standards development. The key activities in this area are described as follows:

(i) Develop a higher loss absorbency (HLA) requirement for global systemically important insurers by the end of 2015.

(ii) Complete the Common Framework for Internationally Active Insurance Groups (ComFrame) by the end of 2018.

(iii) Develop a risk-based global insurance capital standard as part of the Common Framework for Internationally Active Insurance Groups (ComFrame) by the end of 2016.

(iv) Review and revise the current ICPs – in particular, on the basis of the feedback from assessments – in order to establish a revised set of ICPs that lends itself to promoting globally consistent and proportionate regulation of the insurance industry, with an appropriate and balanced focus on the entire scope of regulatory aspects and which can form the foundation for ComFrame.

3.0.22 The IAIS programme has some clear implications for the IFSB's own planning, in that the IAIS's capital standard may well be applied beyond internationally active insurance groups and will, in any event, have implications for groups containing a *Takāful* operation. Since it is unlikely to deal with the specificities of *Takāful*, the IFSB may need to consider responding by amending or extending its standards in the *Takāful* area. In addition, the revision of the ICPs will affect the timing for a set of core principles for *Takāful* based on them.

Microfinance and Financial Inclusion

3.0.23 This topic is treated separately because of its cross-sectoral character. Although the terms "microfinance" and "financial inclusion" are not identical, they are in practice closely related and it is therefore convenient to deal with them together for the purposes of the SPP 2016–2018.

3.0.24 Financial inclusion is a topic that was given high-level prominence in the immediate aftermath of the GFC. The G20 declaration following the 2010 Seoul Summit[5] adopted a Financial Inclusion Action Plan (FIAP), and committed to launch the Global Partnership for Financial Inclusion (GPFI). The Bank for International Settlements, in particular, has stressed the importance of standard setters recognising the contribution that financial inclusion can make to financial stability.[6] The BIS has advocated a proportionate application of the regulatory perimeter so as to facilitate the financial innovation that would widen financial inclusion. The IMF study on the effectiveness of Islamic banking in increasing financial inclusion[7] suggests a number of policy measures to enhance financial inclusion in Organisation of Islamic Cooperation countries. A potential regulatory

5 See www.financialstabilityboard.org/wp-content/uploads/seoul_summit_document_2010.pdf?page _moved=1 paragraphs 55-57.

6 "Financial Inclusion: The Role of the Basel Process: Opening remarks by Jaime Caruana, General Manager of the Bank for International Settlements", at the First Annual GPFI Conference on Standard Setting Bodies and "Financial Inclusion: Promoting Financial Inclusion through Proportionate Standards and Guidance", hosted by the Financial Stability Institute at the Bank for International Settlements, Basel, 29 October 2012, www.bis.org/speeches/sp121109.htm.

7 See www.imf.org/external/pubs/ft/wp/2015/wp1531.pdf.

issue that has been flagged by a number of observers is the risk weights attached to risk-sharing contracts, and whether these pose challenges to the development of risk-sharing modalities for financial inclusion in Islamic finance.

3.0.25 The 2014 revision of the FIAP[8] includes actions aimed at making financial inclusion a mainstream issue for the standard-setting bodies. Along the same lines, the BCBS has recently published a report[9] surveying "practice in the regulation and supervision of institutions relevant to financial inclusion". The IAIS has in the past published a group of papers, the most recent in 2012, and continues to work with the IFSB in the joint working group on *Microtakāful* and with the "Access to Insurance" initiative.

3.0.26 As already mentioned, in addition to financial inclusion as a facilitator of growth, there is a wide recognition that financial inclusion is linked to financial and social stability. From the papers that have been produced, there appears to be a broad regulatory consensus that the core principles of the standard setters are relevant to microfinance and other finance directed at increasing inclusion, that it is appropriate to apply them to microfinance, but that this needs to be done proportionately. At least two of the papers, that from the BCBS and one from the IAIS,[10] are largely devoted to exploring what proportionality means. The general thinking appears to be that, in so far as the obstacles to financial inclusion are regulatory, they come from applying similar regulation indiscriminately across the board. Thus, the IAIS document is aptly referred to as an "Application Paper" because it is about how the IAIS standards can be applied to promote financial inclusion. While the standard setters have reached this point fairly readily, and have helped their members to share experience, the diversity of local situations, and of approaches to financial inclusion, seem to have made it difficult for them to go further and to propose specific standards. It, thus, appears that the regulatory work programme in this area may need to be targeted not towards formal standards, per se, but towards the identification of guiding principles in the form of a guidance note that would focus on the sharing of experience, in microfinance structures, in the use of new technology and in the appropriate way to regulate this important area within accepted principles.

3.0.27 The jurisdictions from which most IFSB members come have a strong interest in this area, and in principle there is much about Islamic finance that makes it appropriate as a way of furthering financial inclusion, not only because of the ability to reach those who have excluded themselves for religious reasons, but also because of the potential for the use of risk-sharing approaches that would mitigate the burdens imposed by credit-based approaches reliant on high interest rates. In addition, the forms of local and non-profit organisation that are characteristic of Islamic finance appear to be particularly well suited to contributing efficaciously to the goal of financial inclusion. Moreover, the emphasis on charitable giving, both obligatory and voluntary, leads to questions of whether and how this can be used to support microfinance activities which would not be viable in pure commercial terms.

3.1 The IFSB in Global Regulation

3.1.1 The IFSB was established to promote the stability and resilience of Islamic finance through the formulation, issuance and adoption of prudential standards, benchmarked against existing global standards, while reflecting the specificities of Islamic finance. Over the years it has interpreted this mandate to include conduct standards, and in the course of its operations

8 See www.gpfi.org/sites/default/files/documents/2014_g20_financial_inclusion_action_plan.pdf.

9 www.bis.org/bcbs/publ/d310.pdf.

10 http://iaisweb.org/index.cfm?event=openFile&nodeId=34110.

it has emerged as the global counterpart for Islamic finance of the BCBS, IAIS and IOSCO. While some IFSB standards have no conventional counterparts, that on *Sharī`ah* governance being an obvious example, it is an operating principle of the IFSB that standards should be based so far as possible on those of the conventional standard setters, diverging where this is necessary to deal with the specificities of Islamic finance. This approach is significant for countries with mixed (both conventional and Islamic) financial systems, who wish to have compatible standards, not least to minimise the risk of regulatory arbitrage. In particular, there will be some key areas, such as capital and liquidity standards, where it will remain important to maintain correspondence with conventional standards as these continue to develop.

3.1.2 The IFSB established a close working relationship with the BCBS at the outset, reflected in its membership in the BCBS's Consultative Group, and in the participation of BCBS staff in key IFSB working groups for the development of its standards. The IFSB has also established a close working relationship with the IAIS, initially formalised through a joint study on insurance core principles, and subsequently reflected in continuing consultations as well as a joint current study on issues in *Microtakāful*. The IFSB's substantive collaboration with each of these conventional standard setters has underscored their recognition that issues in Islamic finance are of sufficient import and complexity that they require high-level expertise and resources to address, which they lack, at a time when there is a heavy agenda of other work. The IFSB has also established a working relationship with IOSCO involving a joint study on transparency and disclosure regimes in Islamic finance.

3.1.3 With regard to other standard setters:

(i) The IFSB has so far not undertaken standards work related to the territory of FATF, on the grounds that there are no obvious specificities of Islamic finance in this area. However, this position may need to be re-evaluated in a changing global environment in which Islamic finance has grown at rapid rates and come to the attention of global bodies responsible for global surveillance, such as the IMF.

(ii) IADI has done some work on Islamic deposit insurance schemes, and the IFSB has also done work on financial safety nets in the form of two working papers. Financial safety nets feature as one of the eight "building blocks" identified in the 2010 Task Force Report, *Islamic Finance and Global Financial Stability*.

(iii) The IFSB has participated in the IASB's Consultative Group for *Sharī`ah*-Compliant Instruments and Transactions.

(iv) While the IFSB has not done any work on accounting and audit, it has launched a collaborative exercise with the International Federation of Accountants (IFAC) for the dissemination of material in Islamic finance for awareness building to IFAC members. In addition, the IFSB participates on the Consultative Advisory Groups of two standard-setting bodies affiliated with IFAC: the International Auditing and Assurance Standards Board and the International Ethical Standards Board for Accountants.

(v) The IFSB has not yet touched on the territory of other standard setters, except to some extent in corporate governance.

3.1.4 The IFSB's operations over the 12 years since its establishment, and the high quality of its standards and the processes that underpin their preparation, have served to establish its credibility as the global standard setter for the prudential regulation of Islamic finance. Under the leadership of the Council, the IFSB was especially effective in its response to the GFC and the emergence of a new regulatory architecture. This saw the IFSB issue a series of new standards that aligned the industry with the new regulatory regime arising from the work of the G20 and FSB. In the course of this work, the IFSB was also an effective advocate of the interests of Islamic finance, as reflected in the recognition provided to the IFSB and to the needs of the Islamic finance industry in key documents issued by the BCBS on its revised core principles and for liquidity management. In principle, further formal recognition of the IFSB's global role, and of its standards, is welcome, and has been advocated by the IMF in its recent Staff Discussion Note on Islamic Finance, as well as in its submission to the G20 in 2015. The IFSB has supported this prospective formalisation through its direct communications with the FSB, supported by key Council Members on the G20, as well as through its active participation in the IMF's External Advisory Group on Islamic Finance. The IFSB's preparation of *Core Principles for Islamic Finance Regulation* may help to further this process, in due course, through inclusion in the FSB's Compendium of Standards. More broadly, in the context of its continuing operations and its dialogue with its global counterparts as well as with its members and stakeholders, while the IFSB had concentrated on the banking sector in the first few years of its operations, there is now a need to pay greater attention to other sectors, and also to some important cross-sectoral topics.

3.1.5 From the above analysis of the regulatory environment, some general themes may be drawn. First, there is strong emphasis from all parties on the need for implementation of agreed standards, especially after the period of rapid change following the GFC. Second, there has been a great deal of emphasis on high-level themes such as systemic significance, safety nets, and resolution and recovery. These themes are in principle relevant to all sectors, but in practice they impact most strongly on banking, and raise questions which are largely unexplored for Islamic finance. Third, in banking, RSAs are already busy implementing Basel III in addition to the high-level agenda already mentioned. Their workload is likely to limit their appetite for new Islamic finance standards outside these areas. Third, the capital markets standards area is likely to be largely stable, with IOSCO's own focus shifting rather more to implementation. That being said, there are many areas in the capital markets sector that have hitherto been addressed by IOSCO that need further examination by the IFSB. Fourth, there are likely to be important standards developments in insurance, as the IAIS's ComFrame is developed with a new capital standard and its core principles are revised, but these will come to fruition only towards the end of the period.

3.2 Developments in the Islamic Financial Services Industry

3.2.1 This section examines the implications for the work of the IFSB of the above discussion on the global regulatory outlook and the current state of the IFSI. Furthermore, it puts forward important elements for consideration in regards to the IFSB's technical work program, which will be discussed in the following sections.

The IFSB's Positioning and Priorities

3.2.2 The IFSB's operational relevance and international credibility are predicated on its continued leadership role in the formulation, dissemination and adoption of prudential standards for Islamic finance which are accepted not only by its own members, but also by other important players in the global standard-setting structure. The quality of the IFSB's outputs, and the processes that lead to them, are critical in this and should not be jeopardised. This, in turn, means that the standards programme needs to be capable of being carried out to the IFSB's current high quality levels within the resources likely to be available over the period of the SPP 2016–2018.

3.2.3 A key issue that underlies many of the individual standards decisions is the scope of work that the IFSB should consider. In particular, should it confine itself to roughly the area covered by the BCBS, IOSCO and IAIS; or define a wider, though still limited, scope; or should it be willing to fill any gaps in the standards area where the specificities of Islamic finance are not being covered – subject in all cases to priorities? A context for answering such questions, as well as guidance on key areas of development, is given by the 2010 report *Islamic Finance and Global Financial Stability* produced by a task force whose conclusions were endorsed by the IFSB Council. That report identified eight building blocks aimed at strengthening the Islamic financial infrastructure at the national and international levels.

3.2.4 The first of these building blocks was "the development of a set of comprehensive, cross sectoral prudential standards and supervisory framework covering Islamic banking, *Takāful* and capital market which takes into account the specificities of the IIFS". This was seen as the role of the IFSB. At that time, the need for more work in the *Takāful* sector was noted, as was the need for a coordinated cross-sectoral approach to regulation and supervision, including activities of financial conglomerates.

3.2.5 The second building block was concerned with liquidity infrastructure, and has led to the creation of the International Islamic Liquidity Management Corporation. The third was concerned with financial safety nets and noted the need for an adequate range of tools and instruments for lender-of-last-resort (LOLR) and emergency financing operations, and well-designed depositor insurance. The fourth was concerned with crisis management and a resolution framework, and recommended that "policy actions be expedited to develop a *Sharī`ah*-compliant framework for crisis management and resolution".

3.2.6 The fifth building block was concerned with accounting, auditing and disclosure standards. Although some areas of this are clearly outside the IFSB's remit, the report noted the IFSB's work on *Sharī`ah* governance and transparency and disclosure. The sixth building block dealt with macroprudential surveillance, and noted what has become the PSIFI project. The seventh and eighth dealt with ratings and capacity building, respectively.

3.2.7 Although responsibilities for some of these developments were not assigned, it can reasonably be inferred that, absent any other plausible candidates, the Council intended that the IFSB should be willing to work in (at least) the areas of financial safety nets, crisis management and resolution, in addition to prudential standards narrowly defined. The proposals which follow have been formulated on that basis. This is consistent with the view taken by the IFSB's members in the focus discussions, where those present tended to see the IFSB as the lead body in the Islamic finance standards world, and the default option for topics not covered elsewhere.

3.2.8 In this context, the IFSB has reviewed the views and priorities of the IMF as set out in its recent Staff Discussion Note. Much of the report, in so far as it was concerned with regulation, focused on the need for differential treatment of Islamic and conventional finance and for jurisdictions to implement standards like those of the IFSB, of which the report is overall highly supportive. Some elements do, however, bear on future standards development. In particular, the IMF says that "national authorities should develop and implement a consumer protection framework that caters to the specific character of Islamic finance, improves financial literacy, ensures strong oversight of related-parties financing by banks to subsidiaries, and strengthens bankruptcy and insolvency regimes", which suggests several areas for future work.

3.2.9 It is noteworthy that the IFSB Council had earlier identified consumer protection in Islamic finance as a significant area for further study by the Secretariat, which led to ongoing research on the subject by the IFSB. The IMF also notes that "deposit insurance schemes that protect depositors of Islamic banks, development of *Sharī`ah*-compliant emergency liquidity instruments, and resolution frameworks that ensure undertaking swift resolution measures are key policies that need to be put in place to preserve financial stability", and discusses at some length the issues around resolution of Islamic banks. It addresses the need to develop more effective instruments for monetary policy under Islamic finance, and suggests possible collaboration between the IMF, the IFSB and other relevant parties to adopt internationally accepted principles for macroprudential oversight of Islamic banks. It also argues for work on money laundering and financing of terrorism (ML/FT) risks. Many of these themes are reflected in the proposals that follow.

3.2.10 Apart from the IFSB, other standard setters in Islamic finance and their work agendas are briefly discussed here, which complements the work on the fifth building block related to accounting, auditing and financial disclosures as well as the second building block on liquidity management and money markets.

(i) **Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI)**: This body was originally set up, as its name suggests, to develop accounting and auditing standards for Islamic finance, bearing roughly the same relationship to the IASB (and, to some extent, the IAASB) as the IFSB bears to the BCBS, IAIS and IOSCO. In practice, while the accounting and auditing work of the AAOIFI has evolved over the years, the AAOIFI has been much more influential through its development of *Sharī`ah* standards and in other closely related fields (e.g. *Sharī`ah* audit). While the area of *Sharī`ah* standards lies outside the IFSB's scope, and is one that it has chosen firmly not to enter, the IFSB has had a marginal interest in accounting and auditing standards in the same way that the BCBS and IOSCO have. In addition, there are some overlapping interests in governance and *Sharī`ah* governance, and both organisations have interests in aspects of disclosure.[11]

(ii) **International Islamic Financial Market (IIFM):** The IIFM describes itself as "the international Islamic finance industry's standard setting organisation focused on the Islamic capital and money market segment of the industry. Its primary focus lies in the standardisation of Islamic financial products, documentation and processes at the global level." Its role is thus concerned with commercial structures and documentation, rather like that played in conventional markets by the International Swaps and Derivatives Association. All seven of the standards it has published have been in this area. It has also published research on the markets for *Sukūk*. There is thus no overlap with the current scope of the IFSB, and the main significance of the IIFM's activity is that it covers the Islamic capital market, which is an area into which the IFSB might otherwise be pressed to expand, albeit not with the same focus as the IIFM.

11 Some aspects of disclosure are normally thought of as the primary concern of the regulatory standard setters; these include disclosures to customers and prospectus disclosures. Disclosures in financial statements are normally the primary concern of accounting standard setters. However, regulatory standard setters specify disclosures required for market discipline (as in Pillar 3 of the Basel Accord) and accounting standards often form a base for these, even if regulators insist on more extensive information. Similarly, although the requirements of securities regulators for both prospectuses and continuing disclosure may go beyond accounting standards, accounting disclosures will often form part of the minimum requirement.

Strategy for Islamic Finance

3.2.11 In 2007, the IFSB and the Islamic Research and Training Institute (IRTI) published jointly a *Ten-Year Framework for the Development of the Islamic Financial Services Industry*. The two organisations undertook a Mid-Term Review (MTR) of that Framework, which set important new targets, and was published in 2014. They have also agreed to produce a new Ten-Year Framework in 2018, which will include a review of the progress on the various jurisdiction-level KPIs included in the MTR. Although this will not be, strictly speaking, a standard, it is an important piece of work for the development of the industry, and will make substantial demands on the technical resources of the IFSB. It is more appropriately included in the SKRA relating to standards development than elsewhere.

4 THE STRATEGIC PERFORMANCE PLAN 2016 – 2018

4.0 The IFSB Standards Development Agenda

4.0.1 Against the background set out in the previous section, the SPP 2016–2018 now considers, in more detail, the need for future standards to support the Islamic finance industry over the period 2016–2018. And since it is the established policy of the Council that the IFSB's research activity should be regarded as laying the groundwork for possible future standard setting (or related activity such as implementation), it is helpful to discuss standard setting and research together. At several points when preparing the SPP 2016–2018, consideration has had to be given to whether a particular topic has reached a level of maturity at which a standard should be drafted, or whether it would be more appropriate first to produce a research paper. In some instances, there may also be merit in holding an initial awareness-raising activity to gain understanding of the issues related to a particular topic. These instances, however, are treated in this SPP as falling outside the standards programme.

4.0.2 The proposed programme that follows is inevitably constrained by the resources available to the Secretariat. There are additional projects that would have been good candidates to begin within the SPP period but which could not be included for resource reasons. Moreover, as with the previous SPP, the planned programme may be subject to change depending on a number of factors, including external developments. In particular, the proposed programmes for 2017 and 2018 will be put before the Council for approval in the usual way towards the end of the previous year.

(a) *Core Principles*

4.0.3 The *Core Principles for Islamic Finance Regulation (CPIFR)* for the banking sector have now been adopted as a standard. They have been a flagship project of the IFSB, and are regarded as central to facilitating the integration of Islamic finance into the global economy, and garnering support and recognition from the global standards-setting and surveillance community. The IMF has already been supportive, and its Staff Discussion Note recommends the adoption of the core principles by RSAs.

4.0.4 The IFSB has said publicly that its plan is to follow the CPIFR for banking with core principles for the *Takāful* and ICM sectors (in that order). This partly reflects the fact that core principles usually reflect and incorporate a significant body of standards work already completed, and that it is difficult to prepare them without having gone through the thinking process implicit in that work.

4.0.5 The IAIS's review of its core principles throws this sequence into question, since it would not be sensible to begin core principles for *Takāful* while that work is continuing. This suggests that the work on *Takāful* core principles can be started in 2018 at the earliest. In the meantime, it is proposed that work should begin in 2016 on core principles for the Islamic capital market for which the joint roundtable and subsequent publication with the IOSCO helps identify a reasonable set of unique issues to be addressed. Similarly, previous and ongoing IFSB standards on Islamic collective investment schemes, *Sukūk* and securitisation, as well as disclosure of ICM products, will provide background material for the preparation of these core principles.

(b) *Cross-sectoral Issues*

4.0.6 There are a number of issues which are relevant to more than one sector of the Islamic financial services industry. In some cases, it will be appropriate for the IFSB's work on these to be cross-sectoral from the beginning. In others, it may be more appropriate to begin work in a single sector, with the expectation that it will need to be extended to other sectors in the future. These issues are discussed in this section. It is to be noted that where it is recommended for work to begin in a single sector, they are elaborated in that specific sector analysis.

Safety Nets

4.0.7 The topic of financial safety nets remains important internationally; it was prominent in the 2010 IFSB Task Force Report and has already been the subject of significant work by the IFSB. A research paper on *Sharī`ah*-compliant LOLR was published recently, and a corresponding one on deposit insurance is expected to be published shortly. The question is whether, when and how to move on from these.

4.0.8 In the case of LOLR, there are strong reasons, including the recent views of the IMF, for continuing work. It may, however, be too early to move to a single definitive standard, especially given other recent developments on liquidity issues. Given the research already published in Working Paper 1, and the other demands on the IFSB's resources, it is proposed that no further work should be scheduled within the SPP period.

4.0.9 The third element, which the FSB sees as closely linked to financial safety nets, is resolution and recovery. Resolution and recovery have been important themes within the international standards community, and remain a key interest of the IMF. They formed the fourth "building block" of the IFSB 2010 Task Force Report, which identified key issues for Islamic finance in this area, but little work has so far been done on them. This partly reflects the lack of experience on this subject in Islamic finance, but also the fact that the issue of insolvency in Islamic finance raises difficult questions, including some of *Sharī`ah.*[12] However, it is difficult to discuss resolution and recovery without some understanding of the rights of each party in insolvency, since these provide the baseline against which any other outcome will be judged. This area is sufficiently important that the IFSB should now try to make early progress in it. The best initial approach may be a research paper reviewing the FSB's *Key Attributes of Effective Resolution Regimes for Financial Institutions*,[13] effectively seeking to define a future agenda. This can be done on a cross-sectoral basis.

Consolidation

4.0.10 Consolidation and group supervision, including crisis management arrangements, have been another important theme internationally. Aspects of consolidation and group supervision – the topics are closely linked – have recurred in various past pieces of IFSB work, because they raise difficult issues. Past IFSB coverage of these issues (e.g. in IFSB-17) has generally been procedural, and concerned with how supervisors should interact and what information they should exchange. There are, however, important substantive issues for consideration. For example, a key principle of the Basel regime is that, in addition to being applied at the solo level for each individual bank, it should be applied at a consolidated level to the banking group as a whole. For a (possibly mixed) group including one or more Islamic banks, this raises issues about, for example, how profit-sharing investment account (PSIA) assets and liabilities held in different legal entities can be consolidated, and how a group-level capital requirement can be set. It is proposed that the first stage

12 Some of these issues were exposed at the joint World Bank/IFSB Roundtable on the subject held in October 2010.

13 www.financialstabilityboard.org/wp-content/uploads/r_141015.pdf.

should be a research paper covering group consolidation, including the application of capital requirements at group level, including in mixed conventional and Islamic groups. Although the issues are not confined to the banking sector, they are most pressing there, and in order to keep the issues manageable, that should be the initial focus. Once this key technical foundation has been laid, it would be possible to move to a standard on group supervision, but for resource reasons this would need to be beyond the period of the current SPP, as would extension of the work on consolidation into other sectors (primarily *Takāful*).

Money Laundering and Financing of Terrorism

4.0.11 As noted above, the IMF has raised publicly the issue of money laundering and financing of terrorism risks. The IMF states that there is no evidence that ML/FT risks in Islamic finance are materially different from those posed by conventional finance, but then suggests that "there would be value in the Financial Action Task Force (FATF), the Islamic finance standardsetters, and the national regulators working together to seek a greater understanding of the ML/TF risks that may be specific to Islamic finance". The IFSB's position has always been that there is indeed no evidence of materially different risks, and that work in this sensitive area would therefore not be justified. However, this opinion from an important stakeholder cannot be ignored, and were work to be undertaken in this area it would be in the interest of Islamic finance for it to benefit from the knowledge of the IFSB and its members. Therefore, it is considered prudent to make provision for some activity in this area, in the expectation that this will be conducted jointly with another body. It is assumed that the initial focus will be in the area of Islamic banking.

Islamic Windows

4.0.12 The topic of Islamic windows has been addressed in past IFSB standards. To illustrate, IFSB-17 contained one core principle dedicated to this subject. However, some of the IFSB member RSAs have requested work specifically on Islamic windows. Although this is in principle a non-sectoral topic, the questions it raises are in fact very different in different sectors, and any future work should therefore be done on a sectoral basis. Because most of the IFSB's past thinking about windows has been done in a banking context, and because the issues raised by windows are sharpest in areas that are prudentially regulated, it is proposed that the next piece of work on windows should be in the *Takāful* sector, initially in the form of a research paper.

4.0.13 Apart from the above subject areas, specialised institutions, crowd funding and shadow banking can be potential candidates for research. However, due to resource considerations, it is proposed that these areas can be explored in the subsequent SPP starting in 2019.

(c) *Banking*

4.0.14 Islamic banking remains the largest sector of the industry, accounting for some 80% of total assets. Banking regulation has recently been dominated by the various revisions to the Basel regime, especially Basel III, and the introduction of three new elements (the Liquidity Coverage Ratio, Net Stable Funding Ratio and Leverage Ratio). Defining the Islamic analogues to the various components of Basel III has been a major preoccupation of the IFSB, and this task continues. Implementation of the relevant standards is likely to remain high on the priority list of IFSB member regulators for some time to come, especially since some of these standards have wider implications for the financial sector infrastructure. (For example, the liquidity measures have exposed the need for Islamic banks to have access to good-quality *Sharīʿah*-compliant liquid assets.) A second priority has been around dealing with banks in difficulty, embracing both safety nets (LOLR, and deposit insurance) and also recovery and resolution regimes; because these issues are also relevant to other sectors, they have been discussed above.

4.0.15 The focus groups for the SPP 2016–2018 and other discussions indicate that members attach priority to the IFSB's providing the standards they need in order to implement an Islamic analogue of Basel III, parallel to that for their conventional banks. The IFSB's priority should therefore be to publish standards in the banking sector in response to changes in the Basel capital and liquidity framework, and to fill any gaps in its own coverage of that framework.

4.0.16 The most immediate gap is the revision of IFSB-4 to cover the revised Pillar 3 disclosures corresponding to those of Basel III. This would also offer the opportunity to look at aspects of disclosure bearing on consumer protection rather than only market discipline, and would build on the recent working paper on consumer protection.

4.0.17 Approval of internal models, and the frameworks for both credit and market risk associated with this, were to have been another topic (the more important area being credit risk because of the limited market activities generally conducted by Islamic banks). However, the proposals recently put forward by the BCBS for revisions to its framework for credit risk in the Standardised Approach would effectively eliminate the need for model approvals in this area, and similar lines of development are under way in relation to market risk. Although these would not, in principle, eliminate the use of models in more advanced approaches, it is understood that the general thrust of BCBS policy is greatly to reduce the capital adequacy advantages of such approaches. It is thus likely that the relevance of model approvals to Islamic banks in general will be greatly diminished in the future, and the Secretariat proposes that no work should be done in this area during the current SPP period.

4.0.18 Once the BCBS operational risk framework is finalised, there will need to be an amendment to IFSB-15 (and possibly IFSB-16). The BCBS is also revising its proposals for the leverage ratio, and the IFSB will need to respond to the revised proposals when they appear. Both of these will be important pieces of work, and will need to be done as soon as possible after the BCBS standards are finalised. The BCBS has also proposed a new treatment of interest rate risk in the banking book, which would create a capital requirement for this risk, within Pillar 1 of the Basel regime. Although Islamic banks are not subject to interest rate risk, they are subject to rate of return risk which, like interest rate risk, has previously been treated within Pillar 2. Should the BCBS proceed with this proposal, it will be important to consider how rate of return risk should be treated; this is likely to involve a further amendment to IFSB-15.

4.0.19 Including the work on credit risk and market risk, therefore, there are five streams of changes emerging from the BCBS which will affect the Basel III framework, and whose implications for the existing IFSB standards (primarily IFSB-15) need to be considered. While each considered individually may be relatively limited in its impact, taken together they are likely to involve a significant package of changes, albeit mainly technical in character. It is therefore proposed that the IFSB's work on them be brought together in a single project, commencing in 2017. It is believed that this will be consistent with the relatively long implementation periods which the BCBS has in mind, and will not pose problems for those jurisdictions that want to implement new regimes for their conventional and Islamic banks at essentially the same time.

4.0.20 A long-standing issue in Islamic finance is the treatment of profit-sharing investment accounts, including the extent of displaced commercial risk, or, alternatively, how far and in what circumstances they can be considered to be loss-absorbing. This affects both their prudential treatment and issues of stability and safety nets. The new Malaysian legal regime for PSIAs draws a clear distinction between these and deposits, and requires warnings to customers that neither principal nor return is guaranteed. It is considered that an evaluation of this new regime, and its impact on the behaviour of both customers and banks, will be valuable to other jurisdictions considering the treatment of PSIAs. It is proposed that there should be research to capture this evidence and, where possible, to compare this approach with the experience in other jurisdictions. However, since the first full year in which the new Malaysian regime will be in operation will be 2016, it would not be sensible to assume that good statistical data will be available until towards the end of the SPP period.

4.0.21 It is also proposed that there should be work on the use of risk-sharing arrangements (based principally on *Muḍārabah*, *Mushārakah* and *Wakālah*) by Islamic banks in the context of funding for commercial activity. While there are good arguments suggesting that such funding would be more in the spirit of Islamic finance than the transaction structures which currently dominate the Islamic banking sector, it is unclear what banks see as the real obstacles to using such contracts, and how those banks which do use them succeed in doing so. It would thus cover best practice in areas such as risk mitigation techniques, tools for assessing creditworthiness, credit guarantee schemes, role of technology, etc. It also connects strongly to issues of the capital treatment of such arrangements under the Basel regime, and whether such treatment is appropriate to the risks involved. It implies a need for concrete data (an issue discussed in more general terms elsewhere), and it is proposed that a research paper should be produced, with a strong quantitative element.

4.0.22 Islamic money markets have emerged as an issue for some jurisdictions developing Islamic banking sectors. The IFSB published a technical note on the development of Islamic money markets in 2008, but there has been significant development since then, and significant new requirements deriving from the international liquidity regimes. It may therefore be appropriate to take stock and consider whether further work by the IFSB is required. An awareness-raising activity would be the natural way to do this, and it is suggested that this should take place early in the period, followed by research to explore in more depth those issues identified that are relevant to the work of the IFSB.

Systemic Significance and Macroprudential Oversight

4.0.23 The earlier discussion noted the increased attention being given internationally to systemic significance, initially at the global level, but also at the regional and domestic levels. In the focus groups to the SPP 2016–2018, it became clear that there is a demand from RSAs for assistance in understanding how to identify systemically significant Islamic financial institutions, at any one of these three levels. Since interconnectedness is a key aspect of systemic significance, this implies understanding the transaction patterns of Islamic financial institutions, among other issues. Such work would also be very valuable in understanding stability issues in Islamic finance more generally, and would inform other work such as the IFSB's *IFSI Stability Report*. It is suggested that this topic should be the subject of a research paper initially, concentrating on the banking sector which, given its size, is most likely to raise systemic issues in the foreseeable future. (The mapping should, however, identify linkages between banks and institutions in other sectors; this should help to expose whether there are likely to be important cross-sectoral systemic issues.) The research should be preceded by a short preliminary study intended to ascertain whether data are available to support the main research.

4.0.24 Beyond this, there will also be a need to understand any Islamic specificities in the way that systemically significant institutions of various kinds should be treated – for example, through the application of the kinds of capital buffer envisaged in the Basel regime. For lack of any evidence to the contrary, IFSB-15 assumed uniform application over both Islamic and conventional institutions in a jurisdiction, but this is not axiomatic. However, these issues are difficult to address without understanding the position of Islamic institutions – especially banks – in a macroprudential context. Without such understanding it is difficult, for example, to determine whether Islamic institutions and conventional ones should be considered separately when decisions are made about the application of a countercyclical capital buffer, or whether they should be regarded as part of a single national system. Should the IMF propose work on these kinds of macroprudential issues mentioned above, the Secretariat recommends that the IFSB should be ready to cooperate, but it should not initiate action until the study mentioned in the previous paragraph has been completed.

(d) *Takāful*

4.0.25 Insurance regulation has historically lagged behind both banking and capital markets regulation in many jurisdictions. Correspondingly, international standards have been less precise and less well-implemented. The lack of an international capital standard has left many national regulators needing to define their own capital regimes. These issues have been even more pronounced in the *Takāful* sector. The structures of *Takāful* undertakings, as well as the requirements for *Sharī`ah* compliance, pose significant regulatory challenges. The IFSB has done significant work to address these, including its current work on guiding principles for *Retakāful*.

4.0.26 The intention had been that a set of core principles for *Takāful* would be produced as the next stage in the IFSB's Core Principles project. This would be a natural response to a sector in which the structures of Islamic finance are materially different from those of conventional institutions, and where there are important prudential issues. However, as already noted, the IAIS is engaged in a substantial revision of its own core principles, which is not due to be completed until late 2017, and it would not be sensible to begin core principles for *Takāful* until this work is complete. The SPP 2016–2018 therefore assumes that the next set of IFSB core principles will be for the ICM, and that those for *Takāful* will begin in 2018.

4.0.27 One major new development is the IAIS's work on an insurance capital standard. Once this has been produced, it will be appropriate and important for the IFSB to work on its adaptation to *Takāful*. It had been expected at one point that this work would be complete by the end of 2016, and that the IFSB's work might therefore commence in 2017. However, it now appears that the IAIS standard may not be available until late 2017, and there are some hints that even this may be only a Phase 1 standard, with significant changes likely to follow. It is assumed, therefore, that a new IFSB solvency standard for *Takāful* should not commence within this SPP period, though the IAIS work shall continue to be monitored in case this view is too pessimistic.

4.0.28 In the light of this, it is proposed that the IFSB should complete the work programme set out in the original IFSB/IAIS joint issues paper (issued in 2006), by producing standards on the supervisory review process, and on transparency and disclosure. There is some risk that these will need to be amended once a new solvency standard is produced, but it is considered that the delay that would be involved in waiting for such a standard would not be appropriate. It is proposed to begin with the standard on the supervisory review process, responding to what we understand to be the leading concerns of the *Takāful* regulators among the IFSB members.

4.0.29 There are three aspects of the *Takāful* sector on which the Secretariat proposes new research projects:

(i) A project concerned with Islamic windows has already been discussed.

(ii) A project on issues arising from changes in *Takāful* capital requirements (surplus, capital instruments, etc.) would be intended to address the questions of what instruments might be allowed as regulatory capital, and hence lay some ground for future work on capital adequacy.

(iii) Consumer protection in *Takāful* would cover the full span, from product design through sales, claims handling and dispute resolution.

(d) *Islamic Capital Market*

4.0.30 In capital markets, as noted above, the IOSCO standards, or at least those relevant to Islamic finance, are expected to remain relatively stable over the SPP period. This allows the IFSB to address specificities of Islamic finance against a stable background and on the basis of established conventional standards. The analysis of the IOSCO core principles published in Working Paper 2 covers the full scope of capital markets regulation, and is therefore helpful in identifying where those specificities may be. This analysis actually suggests there are fewer areas where the specificities of Islamic finance materially change regulation than in either banking or capital markets. Many of those areas, particularly for *Sukūk* and Islamic collective investment schemes, concern disclosure and transparency, and the project under way on disclosure for ICM products will provide a more detailed understanding of these issues. As indicated above, the Secretariat therefore considers that it would be feasible to begin work in 2016 on core principles for the ICM, and that this should be the next step in the Core Principles programme.

4.0.31 It is also proposed to carry forward the theme of consumer protection by developing a standard on consumer protection in the ICM. This will cover all stages from product design through the sales process, post-sale treatment of customers, complaints handling and dispute resolution. There is, however, likely to be particular attention to the sales process, including issues of both disclosure and quality of advice. Capital markets, in general, are characterised by an important body of intermediaries (e.g. brokers, advisers and asset managers) and this work on consumer protection will be largely concerned with the behaviour of such parties.

4.0.32 The work on consumer protection will not, however, exhaust the theme of intermediation. The behaviour of intermediaries in wholesale markets is also of significance, and conventional regulators take a substantial interest in the conflicts of interest that exist between, for example, brokers and their clients and which are characterised by problems such as front-running. It is, however, unclear to what extent the issues in wholesale markets diverge from those in conventional finance, and research is proposed to investigate this. It will also cover an issue which is certainly specific to Islamic finance: *Sharī`ah* governance in relation to intermediaries. It is sometimes argued that the full apparatus of IFSB-10 is arguably onerous for, say, an adviser which merely recommends products offered by others, or a fund manager following an external index, and some research on this would be helpful.

4.0.33 Finally, financial markets infrastructures have been a significant topic in the conventional world. Part of this focus has been on capturing derivatives transactions, but another important part has been on the prudential regulation of central counterparties, including supervision and resolution planning, because of their possible systemic importance in the future. However, with few organised markets attempting to be fully Islamic, and with very limited thinking having been done on infrastructure issues, the Secretariat does not consider that this should be addressed in the standards and research programme during the SPP period, though it may be appropriate for there to be an awareness-raising event to understand the issues.

(e) *Microfinance and Financial Inclusion*

4.0.34 There is a natural interest among IFSB members in microfinance, and indeed financial inclusion more generally. This would include financing for smaller enterprises. It is, however, unclear that the principal issues to be addressed are regulatory ones, in the sense that new standards are required. So far as regulation is concerned, it is likely that the key questions will be how (not whether) a principle of proportionality should be applied in very diverse social and commercial environments. This might include the diversity in practices of regulating the microfinance sector, the incentive structures provided by the legal and regulatory framework in various jurisdictions and the best practices internationally.

4.0.35 The Mid-Term Review also noted a need for regulators to find the right balance between financial inclusion and consumer protection if the problem of financial inclusion is not to be replaced with the problem of exploitation of the poor. At present, the main need at the IFSB level appears to be to create a task force for members to exchange experience on these issues specifically in an Islamic context. Any such task force would also offer sharing of experience on other topics, such as the use of philanthropic structures to facilitate microfinance for the poorest. It is proposed that such a task force be established with the aim initially of producing a technical note on microfinance and financial inclusion issues in Islamic banking. (This reflects the fact that the IFSB has already worked on *Microtakāful* jointly with the IAIS, and Islamic banking is therefore the most important area so far uncovered). In addition to this, the IFSB should be ready to work with other bodies in this area, including any new forum on digital technology that may emerge.

4.1 The Strategic Key Result Areas for the Period 2016– 2018

4.1.1 As Islamic finance becomes mainstream and reaches a new level of development and maturity, so do the priorities and expectations of the industry. In assessing the needs of Islamic finance over the period 2016–2018, the experiences and lessons learned during the first SPP will be applied in the second SPP. And just as the Islamic financial services industry evolves, so should the IFSB's strategic priorities. In developing the SPP 2016–2018, the IFSB has deemed that the SKRAs of the first SPP remain relevant in the coming years. Nevertheless, to better fulfil the IFSB's mandate, the SKRAs were refined, aimed at further sharpening the focus of the IFSB in order to achieve a more effective delivery of the IFSB's initiatives over the next three years. The revised SKRAs for the SPP 2016–2018 are:

(i) SKRA 1: Formulation and Issuance of Prudential Standards and Studies for the Regulation of the IFSI;

(ii) SKRA 2: Facilitating the Implementation of Prudential Standards and Capacity Development;

(iii) SKRA 3: Increasing Awareness and Knowledge Sharing; and

(iv) SKRA 4: Enhancing Cooperation with Other Islamic Finance Stakeholders.

4.1.2 The SKRAs for the period 2016–2018 reflect the needs of the IFSB's stakeholders over the period and the tenets of the IFSB as defined in its mission, core values and objectives.

4.1.3 For the SPP 2016–2018, the changes to the SKRAs and outcomes will be felt in the IFSB's focus on the issuance (i.e. SKRA 1) and implementation (i.e. SKRA 2) of prudential standards. Outcomes will be revised for most of the SKRAs to reflect the evolution of both the IFSB and the IFSI.

Figure 1: SKRAs and Outcomes for the Period 2016–2018

SKRA	Outcome
SKRA 1: Formulation and Issuance of Prudential Standards and Studies for the Regulation of the IFSI	**Outcome 1 (OC1):**Enhanced Guidance on the Prudential Supervision of IFSI **Outcome 2 (OC2):** Expansion of Coverage of IFSI Issue Areas
SKRA 2: Facilitating the Implementation of Prudential Standards and Capacity Development	**Outcome 3 (OC3):** Increased Implementation of the IFSB Standards in Member Jurisdictions **Outcome 4 (OC4):**Enhanced Capacity of Member Jurisdictions to Understand the Enabling Factors for an Effective Regulatory and Supervisory System
SKRA 3: Increasing Awareness and Knowledge Sharing	**Outcome 5 (OC5):** Improved Awareness by Stakeholders of the Growth, Stability and Soundness of the IFSI **Outcome 6 (OC6):** Enhanced Knowledge Sharing through the Dissemination of Information
SKRA 4: Enhancing Cooperation with the Islamic Finance Stakeholders	**Outcome 7 (OC7):** Improved Cooperation with Members and Non-members of the IFSB **Outcome 8 (OC8):** Increased Satisfaction of Members with the Services Provided by the IFSB

4.2 SKRA 1: Formulation and Issuance of Prudential Standards AND STUDIES for the Regulation of the IFSI

4.2.1 Reflecting the growing stature and responsibilities of the IFSB as the principal prudential standard setter for Islamic finance, SKRA 1 focuses on the formulation of prudential standards for the IFSI. More specifically, SKRA 1 focuses on the standards, guidance notes and technical notes issued, and on research papers completed on regulatory issues. This allows equal importance to be given to the implementation of standards by the IFSB's members, through the creation of the new SKRA 2, and for each of these two activities to be better focused and targeted.

4.2.2 For SKRA 1, the outcomes and the KPIs are as set out in Figure 2.

Figure 2: Outcomes and KPIs of the Outcomes for SKRA 1 (2016–2018)

Outcome	Description	Key Performance Indicators
OC1	Enhanced Guidance on the Prudential Supervision of IFSI	Prudential standards issued
OC2	Expansion of Coverage of IFSI Issue Areas	New topic areas covered

4.2.3 Where the first SPP measured the success of the IFSB's standard development activities in relation to the standards implementation rate (which will instead be the success measure for the new SKRA 2), the SPP 2016–2018 will measure the success of the IFSB's standard development activities on the number of standards issued and related outputs. The KPIs set the tone that the IFSB is committed to measure its success in undertaking its mandate, which is to formulate standards. The outputs for SKRA 1 are indicated in Figure 3.

Figure 3: SKRA 1 Outputs and Activities for the Period 2016–2018

Output	Description	Activities
OP1.OC1	Issuance of new prudential standards	Standards Issued (by the Council)
OP1.OC2	Strengthened understanding of regulatory issues in the IFSI	Other New Documents Issues

A description of the outputs for SKRA 1 is given below:

4.2.4 **OP1.OC1 –** *Standards Issued (by the Council)*: The KPI for this output measures the number of standards approved by the Council for implementation by the IFSB's members. The KPIs are based on ongoing standards that are still in development and expected to be completed during the period of the SPP 2016–2018, and on standards scheduled to commence development during this period. Specifically, the output "standards" include guiding principles, core principles and standards, technical notes (TNs) and guidance notes (GNs).

4.2.5 **OP1.OC2 –** *Other New Documents Issued*: The KPI for this output measures the number of documents other than standards produced by the IFSB, encompassing research and working papers, the IFSB's *IFSI Stability Reports* and strategy papers. Research papers are documents which aim to provide the IFSB's members with industry updates on specific issues affecting the IFSI. In 2018, the IFSB plans to issue a Strategy Paper on the Islamic Financial Services Industry Development: Ten-Year Framework and Strategies Paper which will be jointly developed with the IDB/IRTI. The IFSB's *IFSI Stability Report* is the annual comprehensive study on the global IFSI landscape highlighting the important trends and analysis on the global front for the entire year.

4.2.6 In formulating the SPP 2016–2018, the Secretariat undertook a review of the global and regulatory landscape, an assessment of the Islamic finance environment and, in consultation with members (particularly by way of focus groups), has identified a list of standards and research agenda for the SPP 2016–2018 cycle that will support the aspirations and growth of Islamic finance.

4.2.7 The importance of the standard-setting agenda within the IFSB is demonstrated in the upward trend in the number of new standards and notes (i.e. Outcome 1) and related topics (i.e. Outcome 2) planned for the period 2016–2018. In total, the Secretariat plans to commence work on eight standards-related outputs, consisting of seven standards (including standards amendments) and one TN.

4.2.8 Recognising the uniqueness of Islamic finance, the Secretariat has also identified the need for an expanded and focused research agenda aimed at laying the foundations for potential new prudential standards. Research also aims to provide a manner for Islamic finance industry stakeholders to keep abreast of potential issues that may arise in the future. While some of the issues/topics may not be significant enough to require a standard, the findings will serve as a guide for stakeholders to be on the same direction in addressing a specific issue. The need to identify regulatory and stability issues unique to Islamic finance has been considered by the IFSB members as important in addressing not just the Islamic finance requirements of comparative conventional standards, but also issues not addressed in the conventional standards.

4.2.9 The Standards Development Agenda, as well as the Research Agenda, for SKRA 1 for the next three years is outlined in the following sections.

Standards Development Process

4.2.10 As part of the SPP 2016–2018 formulation process, and in response to feedback from the IFSB's members to shorten the length of the standard development process, a comparative assessment of the standards-setting approach of the IFSB and that of other similar organisations (the BCBS, IAIS and IOSCO) was undertaken. The assessment identified several key differences in the standards development process of the IFSB and these counterparts. These differences include: publishing of public consultation feedback (the counterparts publish feedback received from their public consultation), conducting surveys/quantitative impact studies (QIS) (the counterparts are not required to conduct surveys/QIS as part of the standards development process), as well as translation of drafts into other languages (the counterparts do not have the requirement to translate standards into other languages during the development process as their official working language is English. The IFSB draft standards undergo Arabic translation/review at least twice during the standards development process.)

4.2.11 While the IFSB has taken steps to reduce the lead times and is continuously seeking to improve its standard development process, an internal review by the Secretariat of the IFSB's processes concludes that the current process and average duration, the main aim of which is to ensure the quality of the standards produced, is consistent with that of other standard-setting institutions. Nevertheless, flexibility in the standards development process in regard to certain elements, such as omitting the survey, streamlining the public consultation process and combining the outputs of some meetings, can help to improve the lead time for the development of a standard.

4.2.12 Based on these findings, to further strengthen the IFSB's standard development process, the IFSB Council has approved a number of measures that will facilitate a more streamlined process through the exercise of flexibility where it is warranted. These measures include:

(i) *Surveys*: The Technical Committee will have the authority to decide whether a survey is required. Omission of the survey would shorten the standards process by one working group (WG) meeting.

(ii) *Issues Paper and Initial Study Report*: The Secretariat shall decide prior to the inception of the first WG meeting whether to seek the approval of the Technical Committee to combine the issues paper and the initial study report. The combination would shorten the standards process by one WG meeting.

(iii) *Public Consultation Period*: The public consultation period shall be 120 days, with some flexibility in particular cases, bringing it closer to the practice followed by other standard setters. Flexibility will also be given on the activities to be conducted (public hearings or workshops) during the public consultation period. These activities may not necessarily be made compulsory for all standards, guiding principles, GNs and TNs. Rather, the Technical Committee and the WG would be given the discretion to decide the necessity for it, depending on the type of topics covered. The Secretariat will, in addition, supplement this process where it is efficacious to do so through roundtables and use of information technology.

(iv) *Publication of Public Consultation Results*: A summary of all public consultation feedback shall be published on the IFSB's website for public access, along with any responses by the IFSB. This would be done subsequent to the issuance of the standard/guiding principle/GN/TN, and subject to any specific requests for confidentiality.

4.3 SKRA 2: Facilitating the Implementation of Prudential Standards and Capacity Development

4.3.1 A consistent request by the IFSB members is for greater support in the area of standards implementation. Such is the consistency of the request that the Secretariat has identified implementation as an important aspect of the IFSB's work programme for the next three years.

4.3.2 While the issuance of prudential standards is important for the establishment of a superior regulatory and supervisory framework for the IFSI, the positive effects can only be achieved through a consistent and continuous implementation agenda. In essence, standards issued, but not implemented, can lead to a sub-optimal supervisory environment in member countries along with the associated negative effects on the stability and resilience of the IFSI. Therefore, whereas the first SPP's implementation agenda focused on technical assistance and capacity building, the new SKRA 2 will broaden the scope to encompass all activities that will help achieve the objective of greater and consistent implementation of the IFSB's standards.

4.3.3 Furthermore, the Secretariat's consultations with the IFSB members during the formulation of the second SPP, as well as results from the 2014 implementation survey, identified implementation as a cornerstone priority of the IFSB's members over the coming years. For SKRA 2, the outcomes and the KPIs of the outcomes are as shown in Figure 4.

Figure 4: Outcomes and KPIs of the Outcomes for SKRA 2 (2016–2018)

Outcome	Description	Key Performance Indicators
OC3	Increased implementation of the IFSB Standards in Member Jurisdictions	Positive implementation growth rate (%) of IFSB standards implemented by member countries (measured individually)
OC4	Enhanced Capacity of Member Jurisdictions to Understand the Enabling Factors for an Effective Regulatory and Supervisory System	Satisfaction rate (%) by the RSA Members on implementation activities

4.3.4 SKRA 2's measure of success would be the implementation rate of the IFSB's prudential standards among the IFSB member countries and the satisfaction rate of the IFSB RSA members with the Secretariat's implementation activities.

Figure 5: SKRA 2 Outputs and Activities for the Period 2016–2018

Output	Description	Activities
OP1. OC3	Workshops	FIS workshops RSA workshops
OP2. OC3	Implementation Assessment Reports Completed	Annual implementation survey
OP1. OC4	Technical Assistance and Policy Advice Provided	Technical assistance and policy advice
OP2. OC4	Outreach Programmes	Outreach programmes
OP3. OC4	Other Implementation Activities	Number of standards with e-learning modules Standards translated into other languages

4.3.5 The KPIs for the outcomes and outputs of SKRA 2 for the next three years are indicated in Figure 6.

Figure 6: SKRA 2 Outcome, Outputs and KPIs for the Period 2016–2018

Output	Description	Key Performance Indicators			
		2016	**2017**	**2018**	**Total**
OC3: Increased implementation of the IFSB standards in member jurisdictions		35%	40%	45%	45%
OP1. OC3	Workshops	12	12	12	36
	FIS workshops	9	9	9	27
	RSA workshops	3	3	3	9
OP2. OC3	Implementation Assessment Reports Completed	1	1	1	3
	Annual implementation survey	1	1	1	3
OC4: Enhanced Capacity of Member Jurisdictions to Understand the Enabling Factors for an Effective Regulatory and Supervisory System		35%	40%	45%	45%
OP1. OC4	Technical Assistance and Policy Advice Provided	2	3	4	9
OP2. OC4	Outreach Programmes	2	2	2	6
OP3. OC4	Other Implementation Activities	1	6	7	14
	Number of standards with e-learning modules	0	4	4	8
	Standards translated into other languages	1	2	3	6

4.3.6 The new SKRA 2 will absorb all the activities of the current SKRA 2 and any activity that will affect the standards implementation rate of the IFSB standards by member countries. This includes current activities such as technical assistance, policy advice, FIS (facilitating the implementation of standards) workshops, e-learning initiatives, annual implementation survey and translation of standards into other languages, as well as new activities such as assessment and reporting of implementation progress and consistency in the implementation of the IFSB standards. This is above and beyond any other activities and reports aimed at monitoring, reporting and increasing the implementation rate of the IFSB standards.

4.3.7 A description of the outputs for SKRA 2 is given below.

OP1.OC3 – *Workshops*: FIS workshops remain the most accessible and direct form of implementation assistance. In fact, the IFSB noted the strong demand for workshops among members, reflected in 87% of respondents in the 2014 implementation survey indicating workshops as significant in assisting with the implementation of the IFSB's standards. FIS workshops are also flexible in that the focus and content of each workshop can be tailored to the specific needs of the participants. Furthermore, the FIS workshops remain one of the most effective and efficient methods for the IFSB to engage with its RSA members. The KPIs for the workshops have been increased from those established in the first SPP in order to meet the expectations of the IFSB members.

OP2.OC3 – *Implementation Assessment Reports Completed*: As a standard-setting body, it is important for the IFSB to monitor the level of implementation of the IFSB standards on a regular basis. As part of its implementation agenda in the second SPP, the IFSB will seek to enhance the existing annual implementation survey to monitor the depth and breadth (i.e. completeness) with which the IFSB standards have been integrated within the RSA members' regulatory regime. This will be undertaken in a manner that takes into consideration the specifics of the particular jurisdiction. Moreover, the comparative studies on implementation will continue to be a focus of the IFSB.

OP1.OC4 – *Technical Assistance and Policy Advice Provided*: The Secretariat's engagements with the IFSB members indicated a high demand for technical assistance (TA) from member countries, particularly in markets new to Islamic finance. This observation is consistent with the results from the 2014 implementation survey where the members identified some challenges in regards to the legal, regulatory and supervisory frameworks as the principal inhibiter for the broader adoption of IFSB standards. To address the members' needs in this area, the IFSB will reassess its capacity development programme, particularly its TA and policy advice initiatives, to respond to the aforementioned challenges. Although the scope of the output has been widened, TA programs will only provide support in a context that will be supportive of the implementation of the IFSB standards.

OP2.OC4 – *Outreach Programmes*: This output is retained from the first SPP. Although outreach programmes are dependent on the invitation of other organisations, the IFSB, nevertheless, has identified outreach programmes as important in facilitating the implementation of its standards. However, based on experience from the first SPP, specifically the challenges in securing invitations to participate in other organisations' events, the IFSB will lower the number of KPIs for the second SPP, targeting six programmes in total (compared to 15 in the first SPP).

OP3.OC4 – *Other Implementation Activities*: Other implementation activities encompasses all other implementation-related outputs not already covered, namely: (1) number of e-learning modules developed; and (2) standards translated into other languages. For e-learning modules, the IFSB aims to develop eight modules in the 2016–2018 period. For standards translated into other languages, the IFSB aims to have a total of six standards translated into French and/or Russian.

4.3.8 To support the implementation strategy for the period 2016–2018, the Secretariat will be enhancing its implementation activities. For workshops, the enhancements are designed to maximise their beneficial effects through customisation of the course contents to better suit the specific needs of the workshop participants. More specifically, these enhancements include:

(i) Customising the workshops according to geographical parameters;

(ii) Customising the workshops according to the maturity levels and needs of the IFSB members – for example, workshops tailored to different levels of experience such as beginner, intermediate and advanced workshops; and

(iii) Customising the workshops according to the type of attendees – for example, customising workshops to suit the specific needs of RSAs' supervision team, policy and standards development team, and macroprudential stability/monitoring team.

4.3.9 For technical assistance and policy advice, the Secretariat analysed the results of the 2014 implementation survey and found that the main challenges in the implementation of the IFSB standards were in the areas of legal, regulatory and supervisory frameworks, with members consistently ranking the regulatory and supervisory framework as a key challenge in the 2012, 2013 and 2014 surveys. With this in mind, the Secretariat would need to take on a more substantive involvement with the RSAs, in regards to the enabling environment, in order to achieve higher implementation rates of the IFSB standards.

Figure 7: Challenges in Implementing the IFSB's Standards (Low Score = Higher Importance)

Challenges	2014 Survey **Mean**	2013 Survey **Mean**	2012 Survey **Mean**
Need to change legal framework	2.37	N/A	N/A
Need to change regulatory and supervisory framework	2.55	2.4	2.7
Lack of personnel with relevant knowledge/ experience/training	2.68	2.5	3.0
Cost of Implementation	2.75	3.38	3.9
Lack/poor quality of data to support implementation of the standards	2.81	3.6	4.1
Institution size and complexity	2.91	3.45	4.1

4.3.10 The IFSB remains committed to developing a comprehensive e-learning programme. E-learning has the advantage of allowing members on-demand access to training and awareness material for a wide variety of standards. Furthermore, e-learning allows members who are otherwise unable to attend workshops to still receive training on the IFSB standards while providing the IFSB with a platform to easily disseminate updated material. To this end, the Secretariat will continue to support the ongoing e-learning programme by ensuring the timely completion of the development and rollout of all the e-learning modules in the coming years.

4.3.11 Despite the challenges of translating the IFSB standards into a third language (other than English and Arabic), the Secretariat has deemed this initiative to remain relevant given the increasing importance, in Islamic finance, of Africa and countries from the Commonwealth of Independent States, which have sizeable French- and Russian-speaking populations, respectively. Therefore, the Secretariat will collaborate closely with RSA members whose primary language is French and Russian to facilitate the translation process.

4.3.12 The Secretariat will also be continuing an implementation activity for the SPP 2016–2018, one which it has identified as pivotal in not only increasing the implementation of the IFSB standards, but also in supporting the objective of establishing a consistent supervisory framework for the IFSI. More specifically, regular monitoring and reporting will be conducted on the standards implementation among the IFSB members. Moreover, the Secretariat's dialogue with the IFSB members indicates an increasing interest in determining the implementation experience (e.g. approach, completeness and challenges) of members who have successfully integrated the IFSB's standards into local supervisory frameworks.

4.3.13 The eventual proliferation of such reports/studies will gradually transform the implementation model from one driven by the IFSB, to one where peer pressure and learning among RSAs will drive the implementation agenda. This will align the IFSB's model to the BCBS and the IAIS, which relies on peer pressure and a preference for RSAs to learn from each other (thereby facilitating the establishment of a consistent global supervisory framework).

4.3.14 Lastly, similar to the work done by the IAIS and the IOSCO, the Secretariat will explore the possibility of conducting thematic reviews looking at the implementation of core principles and/or standards across countries with a view towards incorporating thematic reviews into the 2019–2021 work programme. The proposed thematic or country reviews would allow the Secretariat to assess the following:

(i) The timelines of implementation activities;
(ii) The differences between implemented standards and the IFSB standards; and
(iii) The depth and breadth of implementation of the IFSB standards.

4.3.15 However, successful execution would require the Secretariat to reassign resources from the standards development team. The Secretariat concluded that this would not be supportive of either the IFSB's broadened standards development agenda or the resource commitments by the participating RSAs. As such, the Secretariat will revisit this activity in the SPP 2019–2021 cycle.

4.4 SKRA 3: Increasing Awareness and Knowledge Sharing

4.4.1 The second SPP makes a small but important change to SKRA 3, by changing the priority from information sharing to knowledge sharing. With the increasing integration of Islamic finance into the global financial system, it has been recognised that the IFSB should shift its focus from the sharing of information (e.g. presentation of facts) to the sharing of knowledge (e.g. experience and understanding of various subject matters). Despite the execution and delivery challenges faced during the first SPP, the IFSB believes that this strategic priority remains an important aspect of the IFSB's work for the period 2016–2018.

4.4.2 While SKRA 1 aims to define the IFSB's role in knowledge creation, SKRA 3 will focus on knowledge sharing. Thus, the outcomes of SKRA 3 and the KPIs of the outcomes are as shown in Figure 8.

Figure 8: Outcomes and KPIs of the Outcomes for SKRA 3 (2016–2018)

Outcome	Description	Key Performance Indicators
OC5	Improved Awareness by Stakeholders of the Growth, Stability and Soundness of the IFSI	➢ Increased usage of the IFSB's publications and databases
OC6	Enhanced Knowledge Sharing through the Dissemination of Information	➢ Increased usage of the IFSB's publications and databases

4.4.3 SKRA 3's measure of success would be the acceptance and value of the IFSB's outputs to the IFSB members. To support the knowledge-sharing role of the IFSB, the Secretariat has identified the outputs and activities shown in Figure 9 to support SKRA 3's outcomes and KPIs.

Figure 9: SKRA 3 Outputs and Activities for the Period 2016–2018

Output	Description	Activities
OP1. OC5	PSIFI Database	➢ Number of contributors to the database ➢ Capacity building workshops/task force meetings ➢ PSIFI dissemination ➢ Compilation guidelines issued ➢ MTP 2017 – 2019: Expansion to New Sectors
OP1. OC6	Dissemination of Information	➢ Number of IFSB publications ➢ Number of newsletters ➢ Enhancement to the IFSB's website and communication channels

4.4.4 More specifically, the KPIs for the outcomes and outputs of SKRA 3 for the next three years are as indicated in Figure 10.

Figure 10: SKRA 3 Outcome, Outputs and KPIs for the Period 2016–2018

Output	Description	Key Performance Indicators			
		2016	**2017**	**2018**	**Total**
OC5: Improved Awareness by Stakeholders of the Growth, Stability and Soundness of the IFSI		**35%**	**N/A**	**40%**	**40%**
OP1. OC5	PSIFI database*				
	Number of contributors to the database	17	18	19	19
	Capacity building workshops/task force meetings	2	4	4	10
	PSIFI access and dissemination	3	3	3	9
	Compilation guidelines issued	1[14]	0	2[15]	3
	MTP 2017 – 2019: Expansion to New Sectors	1[16]	0	0	1
OC6: Enhanced Knowledge Sharing through the Dissemination of Information		**35%**	**N/A**	**40%**	**40%**
OP1. OC6	Dissemination of Information	10	11	11	32
	Number of IFSB publications	9	9	11	29
	Number of newsletters	3	3	3	9
	Enhancements to the IFSB's website and communication channels	2	2	2	6

** Subject to the PSIFI Medium Term Plan 2017–2019 to be issued in 2016.*

4.4.5 The IFSB's existing communication channels will continue to be enhanced with an increased emphasis on creating an accessible, consistent and reliable communications and knowledge-sharing platform. In this respect, the IFSB will focus its efforts on enhancing its online delivery channels where one of the considerations of the IFSB is to better leverage on technology to engage and communicate with its members and non-members.

14 Revised compilation guide for Banking, which will be finalized after reviewing the IMF's Revised Compilation Guide on Financial Soundness Indicators (FSIs) expected to be issued in late 2016.

15 Compilation Guides for the *Takāful* and ICM sectors.

16 The new sectors shall be *Takāful* and ICM.

4.4.6 With the successful launch of the PSIFI database in April 2015, the collection of data and indicators represents a major industry need; thus, continuous collection and dissemination of data is planned on a quarterly basis for the 2016–2018 period. Moreover, for the second SPP, the Secretariat will expand the coverage of the PSIFI database to the *Takāful* and ICM sectors, in addition to the current focus on the banking sector.

4.4.7 As part of the Medium Term Plan (MTP) 2014–2016 of the PSIFI project, the IFSB will continue to consult with the various project stakeholders on the future direction of the programme. This includes an expanded coverage to other jurisdictions and sectors. The IFSB will undertake a review of the MTP in 2016 with a target issuance of the MTP document in 2016 that will chart the direction of the PSIFI project for the years 2017–2019.

4.4.8 In addition, the Secretariat will be issuing the detailed compilation guide for the banking sector, which will bring together the 2011 revision, the 2014 supplement and experiences gained in the period after April 2015, as well as incorporating the changes arising from new standards issued by the IFSB. Essentially, the focus will be on enhancing the definitions of the existing PSIFI indicators. Furthermore, the Secretariat will work on enhancements to the data collection and distribution platform (e.g. automated web-based system for viewing, searching and storing of data). Moving on to 2018, the Secretariat will issue new compilation guides for the *Takāful* and ICM sectors.

4.4.9 To support better communication with members, the IFSB will undertake enhancements to the Secretariat's operational processes. One of the key challenges noted by the Secretariat is the limited number of resources available to execute all the plans established in the first SPP. Underestimation of the logistical planning needed to support the increasing tempo of the organisation's activities meant a substantial amount of resources were allocated to the administration aspects, rather than to engagement of the IFSB members and strategic planning (e.g. formulating an effective membership engagement strategy).

4.4.10 A key driver in achieving the objectives of SKRA 3 will be to improve members' and non-members' access to information. In this respect, the Secretariat will continue to focus on enhancing the IFSB's website, including the Members Zone. In addition, the IFSB's dialogue with its members identified interest in accessing information related to the implementation of the IFSB's standards. For this, the Secretariat will seek to explore ways of enhancing the IFSB's Annual Implementation Survey (an output of SKRA 2 on the implementation of the IFSB's standards).

4.4.11 A description of the outputs for SKRA 3 is given below:

OP1.OC5 – *PSIFI Database*: The PSIFI database is an important component of the IFSB's work programme in the second SPP. Despite the initial delays, the PSIFI database's launch in 2015 strengthened both the IFSB and the IFSI's access to Islamic banking data. The KPIs for the coming period are subject to change as part of the PSIFI's MTP 2017–2019.

(i) Number of contributors to the database: The target for this KPI is based on the number of contributors to the PSIFI database. The Secretariat aims to increase the number of contributors by one a year between 2016 and 2018. The gradual increase takes into account the plan to expand the PSIFI's scope to encompass the *Takāful* and ICM sectors during the next cycle, 2019–2021.

(ii) Capacity-building workshops/task force meetings: Four capacity-building workshops for the purpose of data submission to the PSIFI Database have already been conducted in the most recent 12 months. As such workshops play an important role in enhancing the capacity of existing contributors as well as supporting new contributors, the number of workshops would be included as an activity of SKRA 3.

(iii) PSIFI access and dissemination: Phase 1 of the PSIFI MTP 2014–2016 envisages the PSIFI Database being accessed through an icon/link on the IFSB's website with an online system for the collection, storage, dissemination and retrieval of the information. For Phase 2, the PSIFI Database will be accessed through its own independent website. Notwithstanding the review and development of the MTP 2017–2019, the IFSB aims to complete Phase 2 by 2016, with further enhancements to the PSIFI.

(iv) Compilation guides issued: For 2016, the Secretariat will be issuing the detailed compilation guide which will bring together the 2011 revision, the 2014 supplement and experiences gained in the period after April 2015, as well as incorporating changes arising from new standards issued by the IFSB. The focus will be on enhancing the definitions of the existing PSIFI indicators. As part of the PSIFI project's next phase, the Secretariat will work on compilation guides for the *Takāful* and ICM sectors, for issuance in 2018.

(v) MTP 2017–2019: Expansion to new sectors: Phase 2 of the PSIFI project will cover the period 2017–2019. The MTP will define the project's direction. The Secretariat will commence work on the MTP in 2016, which will be issued in the same year.

4.4.12 **OP1.OC6** – *Dissemination of Information*: This output will focus on the four key activities, all in support of the IFSB's dissemination of information. The activities are:

(i) Number of IFSB publications: The IFSB's publications continue to be viewed favourably, with the 2014 membership survey indicating that, on average, one in every three respondents has either used or benefited from the IFSB's publications. The Stability Report received the highest positive response, with one in every two respondents having either used or benefited from the report. For the period 2016–2018, the Secretariat will maintain the number of publications issued.

(ii) Number of newsletters: Newsletters allow the IFSB to engage, communicate and disseminate knowledge in a consistent, regular and sustained manner. For the period 2016–2018, the Secretariat will maintain the number of newsletters issued in a year.

(iii) Enhancements to the IFSB's website and communication channels: The Secretariat's review of the first SPP found that the enhancements to the website and communication channels are viewed as two separate outputs, which have led to sub-optimal allocation of resources since enhancements to the website are, in essence, an enhancement to the IFSB's communication channels. By making both distinct, the Secretariat was required to identify, recommend and implement more enhancements than necessary. With that in mind, for the next SPP, the Secretariat will combine both outputs into a single activity, which will improve resource allocation. The enhancements will focus on creating an accessible, consistent and reliable communications and knowledge-sharing platform.

4.5 SKRA 4: Enhancing Cooperation with OTHER Islamic Finance Stakeholders

4.5.1 As a global standard-setting institution, continuously enhancing cooperation with the various stakeholders within and outside of the Islamic financial services industry is crucial for the IFSB in order to ensure that it continues to contribute to the development of a resilient and stable IFSI, as well as its integration within the global financial system.

4.5.2 In light of the above, the second SPP retains the SKRA on cooperation enhancement. Essentially, being part of the IFSI's infrastructure and the principal cross-sector prudential standards developer means that the IFSB will continue to play a leading role in enhancing cooperation among its members as well as between members and non-members. With a cross-sector focus, the IFSB is well positioned to facilitate the establishment of a consistent regulatory and supervisory framework for Islamic finance.

4.5.3 SKRA 4 will focus on supporting both the knowledge-creation aspect of SKRA 1 and the knowledge-sharing aspect of SKRA 3 by means of enhancing the IFSB's level of cooperation with the IFSI stakeholders. Thus, the outcomes of SKRA 4 and the KPIs of the outcomes are as shown in Figure 11.

Figure 11: Outcomes and KPIs of the Outcomes for SKRA 4 (2016–2018)

Outcome	Description	Key Performance Indicators
OC7	Improved Cooperation with Members and Non-members of the IFSB	Number of events and activities conducted with the IFSB members.
OC8	Increased Satisfaction of Members with the Services Provided by the IFSB	Increased members' satisfaction with the IFSB's services.

4.5.4 To achieve the KPIs of SKRA 4, the Secretariat has identified the outputs and activities shown in Figure 12.

Figure 12: SKRA 4 Outputs and Activities for the Period 2016–2018

Output	Description	Activities
OP1. OC7	Platforms for Cooperation	Serial programmes Non-serial programmes Awareness raising
OP2. OC7	Participation in Others' Events	Participation in others' events
OP3. OC7	Collaboration with International Standard Setters, Multilaterals and Strategic Partners	Collaboration with international standard setters, multilaterals and strategic partners
OP4. OC7	Industry Engagement and High-level Meetings	Industry engagement session High level meetings with members and non-members Platforms held for discussion
OP1. OC8	Membership Satisfaction	Membership satisfaction survey Review of membership package

4.5.5 The KPIs for the outcomes and outputs of SKRA 4 for the next three years are indicated in Figure 13.

Figure 13: SKRA 4 Outcome, Outputs and KPIs for the Period 2016–2018

Output	Description	Key Performance Indicators			
		2016	**2017**	**2018**	**Total**
OC7: Improved Cooperation with Members and Non-members of the IFSB		**45**	**47**	**47**	**139**
OP1. OC7	Platforms for Cooperation	*12*	*13*	*12*	*37*
	Serial programmes	8	9	8	25
	Non-serial programmes	2	2	2	6
	Executive programmes	2	2	2	6
OP2. OC7	Participation in Other's Events	10	10	10	30
OP3. OC7	International Collaboration with Standard Setters, Multilaterals and Strategic Partners	4	4	4	12
OP4. OC7	Industry Engagement and High-level Meetings	*18*	*19*	*19*	*56*
	Industry engagement session	4	5	5	14
	High-level meetings with members and non-members	10 countries	10 countries	10 countries	30
	Platforms held for discussion	4	4	4	12
OC8: Improved Satisfaction of Members with the Level of Services Provided by the IFSB		**60%**	**N/A**	**60%**	**60%**
OP1. OC8	Membership Satisfaction	*2*	*1*	*2*	*5*
	Membership satisfaction survey	1	0	1	2
	Review of membership package	1	1	1	3

4.5.6 A description of the outputs for SKRA 4 is given below:

OP1.OC7 – *Platforms for Cooperation*: Platforms for cooperation in the second SPP consist of serial programmes (which are recurring events), non-serial programmes (non-recurring events) and awareness raising. This output provides the Secretariat with the opportunity to cooperate on issues/topics relevant to Islamic finance. For the SPP 2016–2018, the Secretariat will introduce new awareness-raising activities into the work programme. Awareness-raising activities are events designed to create for the Secretariat and the IFSB members a platform for discussing issues/topics that may not yet have sufficient industry information to warrant further work (standards, research, etc.). Consequently, such issues/topics will be addressed through awareness-raising exercises. For awareness raising, the Secretariat will organise two events covering the following topics:

(i) Financial markets infrastructure: To understand the issues and topics of relevance regarding financial markets infrastructure – for example, on the supervision of Central Counterparty Clearing (CCP) and the Recovery and Resolution Planning of CCPs.

(ii) Islamic money markets: Since the issuance of TN-1: *Technical Note on Issues in Strengthening Liquidity Management of Institutions Offering Islamic Financial Services: The Development of Islamic Money Markets* in 2008, there have been significant developments in Islamic money markets. The awareness-raising event seeks to take stock of the developments to determine if further work is required (in addition to TN-1).

OP2.OC7 – *Participation in Others' Events*: This output is retained from the first SPP. For the period 2016–2018, the Secretariat will reduce the number of events to 10 a year, from 12 during the first SPP. The reduced number of events will allow the Secretariat to focus on events that bring greater benefit to, and fit the goals of, the IFSB.

OP3.OC7 – *International Collaboration with Standard Setters, Multilaterals and Strategic Partners*: This is a new output for the second SPP, which aims to consciously promote the IFSB's participation and collaboration in the international standard-setting arena through continuous engagement in the work and activities of other international standard setters. The IFSB currently sits on, and participates in the meetings of, the Basel Committee Consultative Group, the International Accounting and Auditing Standards Board and the International Ethics Standards Board for Accountants. There is also ongoing work with the IAIS and IOSCO. For example, the IFSB–IAIS paper on *Issues in Regulation and Supervision of Microtakāful* is an undertaking based on the joint effort of the IFSB and the IAIS.

OP4.OC7 – *Industry Engagements and High-level Meetings*: This output is a consolidation of two outputs from the first SPP – public relations activities and platforms for discussion. The consolidation will allow the IFSB to better allocate its resources to identify, plan, execute and deliver high-impact engagements. The aim is to strengthen the quality of every engagement organised, rather than focusing on increasing the quantity as a means of reaching out to more members and non-members. The Secretariat will organise three types of activities: (1) industry engagement sessions will provide valuable networking opportunities, with 75% of respondents in the 2014 membership survey having utilised this benefit, and 58% of respondents indicating they were completely/very satisfied; (2) high-level meetings will relate to the Secretariat's engagement with senior personnel from the IFSB members and non-members, which has been identified as crucial in broadening and deepening the IFSB's relationship with the IFSI stakeholders; and (3) platforms held for discussion will be events/activities designed to provide the Secretariat and the IFSB members with an opportunity to interact in a non-formal environment where the platforms are typically in the form of IFSB booths set up at both IFSB and non-IFSB events.

OP1.OC8 – *Membership Satisfaction*: This output consists of two activities aimed at monitoring members' satisfaction. The biennial membership satisfaction survey will be made a key activity and included in the Secretariat's KPI, given the importance and value of the survey in understanding members' satisfaction with the IFSB and the Secretariat's performance. The Secretariat has also formulated a Membership Strategy, built upon the success of the strategies employed in the previous SPP period. As part of this strategy, the Secretariat will undertake an annual review of the IFSB's membership package to ensure that the benefits continue to meet the expectations of the IFSB members, as well as to ensure alignment with the IFSB's membership strategy.

The Membership Strategy comprises two main components: (a) membership drive, and (b) enhancing the relationship with existing members. The Secretariat will continue to adopt and implement the strategies and activities undertaken in the last SPP period for the upcoming period of 2016–2018. Specifically, the membership drive will focus on RSAs and market players in the new regions, building relationships with offshore centres, following up with organisations approached previously, participation in external events and re-establishing contact with former members. For enhancing the relationship with existing members, the Secretariat will focus on making periodic contact with the members, updating the membership database on a regular basis, and revisiting regions/countries where the IFSB has not organised activities in recent years. The IFSB will also continue to hold its Meet and Members and Industry Engagements sessions throughout the year in various regions.

SUMMARY OF STRATEGIC KEY RESULT AREAS (SKRAS)

SKRA 1: FORMULATION AND ISSUANCE OF PRUDENTIAL STANDARDS AND STUDIES FOR THE REGULATION OF THE IFSI

Output	Description	Key Performance Indicators			
		2016	2017	2018	Total
Outcome 1 (OC1): Enhanced Guidance on the Prudential Supervision of IFSI					
OP1.OC1	**Issuance of New Prudential Standards**	**2**	**1**	**1**	**4**
	Standards	1[17]	1[18]	1[19]	3
	Technical note	1[20]	0	0	1
	Guidance notes	0	0	0	0
Outcome 2 (OC2): Expansion of Coverage of IFSI Issues Areas					
OP1.OC2	**Strengthened Understanding of Regulatory Issues in the IFSB**	**2**	**2**	**6**	**10**
	Research and working papers	1[21]	1	4	6
	Stability report	1	1	1	3
	Strategy papers	0	0	1[22]	1

Standards Development Agenda 2016–2018

Item	Type	Project	Sector	Development Period
1	Standard	Key Elements in the Supervisory Review Process of *Takāful*/ *Retakāful* Undertakings	*Takāful*	2016–2018
2	Standard	Core Principles for Islamic Finance Regulation (Islamic Capital Market Segment)	ICM	2016–2019
3	Standard	Disclosure to Promote Transparency and Market Discipline in Islamic Banking (Revised IFSB-4 with focus on consumer protection)	Banking	2016–2019
4	Technical note	Microfinance and Financial Inclusion	Banking	2017–2020
5	Standard	Consumer Protection in Capital Markets	ICM	2017–2020
6	Standard	Disclosure to Promote Transparency and Market Discipline for *Takāful*/*Retakāful* Undertakings	*Takāful*	2017–2020
7	Standard	Operational Risk, Market Risk, Revised Approach to Credit Risk, Rate of Return Risk and Leverage Ratio (Revised IFSB-15 with group of topics undertaken as a single project)	Banking	2018–2020
8	Standard	Core Principles for Islamic Finance Regulation (*Takāful* Segment)	*Takāful*	2018–2021

17 *IFSB-18: Guiding Principles for Retakāful (Islamic Reinsurance)*

18 *Disclosure Requirements for ICM Products*

19 *Key Elements in the Supervisory Review Process of Takāful / Retakāful Undertakings*

20 *TN-2: Stress Testing for Institutions Offering Islamic Financial Services (IIFS)*

21 *WP-05: Sharī`ah-Compliant Deposit Insurance Scheme*

22 *Strategy Paper on the Islamic Financial Services Industry Development: Ten-Year Framework and Strategies Paper*

Research Agenda 2016–2018

Item	Research	Sector	Development Period
1	Issues Arising from Changes in *Takāful* Capital Requirements (surplus, capital instruments, etc.)	*Takāful*	2016–2017
2	Systemic Links and Macroprudential Issues for Islamic Banks	Banking	2016–2018
3	Resolution and Recovery	Cross-sectoral	2016–2018
4	Anti-Money Laundering/Counter Terrorism Financing[10]	Banking	2017–2018
5	Capital Market Intermediaries	ICM	2017–2018
6	Risk-sharing Instruments in Islamic Banking	Banking	2017–2019
7	Consumer Protection in *Takāful*	*Takāful*	2017–2019
8	Profit Sharing Investment Accounts: Cross-country Analysis	Banking	2018–2019
9	Group Consolidation	Banking	2018–2019
10	Islamic Hedging Instruments	Cross-sectoral	2018–2019
11	Research on Issues Arising from *Takāful* Windows Operation	*Takāful*	2018–2020

SKRA 2: FACILITATING THE IMPLEMENTATION OF PRUDENTIAL STANDARDS AND CAPACITY DEVELOPMENT

Output	Description	Key Performance Indicators			
		2016	**2017**	**2018**	**Total**
Outcome 3 (OC3): Increased Implementation of the IFSB Standards in Member Jurisdictions		**35%**	**40%**	**45%**	**45%**
OP1.OC3	**Workshops**	**12**	**12**	**12**	**36**
	FIS workshops	9	9	9	27
	RSA workshops	3	3	3	9
OP2.OC3	**Implementation Assessment Reports Completed**	**1**	**1**	**1**	**3**
	Annual implementation survey	1	1	1	3
Outcome 4 (OC4): Enhanced Capacity of Member Jurisdictions to Understand the Enabling Factors for an Effective Regulatory and Supervisory System		**35%**	**40%**	**45%**	**45%**
OP1.OC4	**Technical Assistance and Policy Advice Provided**	**2**	**3**	**4**	**9**
OP2.OC4	**Outreach Programmes**	**2**	**2**	**2**	**6**
OP3.OC4	**Other Implementation Activities**	**1**	**6**	**7**	**14**
	Number of standards with e-learning modules	0	4	4	8
	Standards translated into other languages	1	2	3	6

23 To be undertaken jointly with another body.

SKRA 3: INCREASING AWARENESS AND KNOWLEDGE SHARING

Output	Description	Key Performance Indicators			
		2016	2017	2018	Total
Outcome 5 (OC5): Improved Awareness by Stakeholders of the Growth, Stability and Soundness of the IFSI		**35%**	**N/A**	**40%**	**40%**
OP1.OC5	**PSIFI Database**				
	Number of contributors to the database	17	18	19	19
	Capacity-building workshops/task force meeting	2	4	4	10
	PSIFI access and dissemination	3	3	3	9
	Compilation guidelines issued	1	0	2	3
	MTP 2017–2019: Expansion to New Sectors	1	0	0	1
Outcome 6 (OC6): Enhanced Knowledge Sharing through the Dissemination of Information		**35%**	**N/A**	**40%**	**40%**
OP1.OC6	**Dissemination of Information**	**10**	**11**	**11**	**32**
	Number of IFSB publications	9	9	11	29
	Number of newsletters	3	3	3	9
	Enhancements to the IFSB's website and communication channels	2	2	2	6

SKRA 4: ENHANCING COOPERATION WITH OTHER ISLAMIC FINANCE STAKEHOLDERS

Output	Description	Key Performance Indicators			
		2016	2017	2018	Total
Outcome 7 (OC7): Improved Cooperation with Members and Non-members of the IFSB		**45**	**47**	**47**	**139**
OP1.OC7	**Platforms for Cooperation**	**12**	**13**	**12**	**37**
	Serial programmes	8	9	8	25
	Non-serial programmes	2	2	2	6
	Executive programmes	2	2	2	6
OP2.OC7	**Participation in Others' Events**	**10**	**10**	**10**	**30**
OP3.OC7	**International Collaboration with Standard Setters, Multilaterals and Strategic Partners**	**4**	**4**	**4**	**12**
OP4.OC7	**Industry Engagement and High-level Meetings**	**18**	**19**	**19**	**56**
	Industry engagement session	4	5	5	14
	High-level meetings with members and non-members (number of countries)	10	10	10	30
	Platforms held for discussion	4	4	4	12
Outcome 8 (OC8): Improved Satisfaction of Members with the Level of Services Provided by the IFSB		**60%**	**N/A**	**60%**	**60%**
OP1.OC8	**Membership Satisfaction**	**2**	**1**	**2**	**5**
	Membership satisfaction survey	1	0	1	2
	Review of membership package	1	1	1	3

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