

The IFSB bulletin

Volume 3 Issue 1 | May 2015



ISLAMIC FINANCIAL SERVICES BOARD

Welcome Message from the Secretary-General

The first four months of 2015 has been an eventful period for the Secretariat.

We concluded the IFSB Annual Meetings, comprising the 26th meeting of the IFSB Council in Jakarta, Indonesia on 2 April 2015. In this meeting, the Council approved to adopt a landmark standard – *the Core Principles for Islamic Finance Regulation (Banking Segment) (IFSB-17)* – as well as the *Guidance Note on Quantitative Measures for Liquidity Risk Management in Institutions Offering Islamic Financial Services (Excluding Islamic Insurance (Takāful) Institutions and Islamic Collective Investment Schemes) (GN-6)*.

The Council also admitted six new members into the IFSB membership, bringing the members to 188 organisations covering 45 jurisdictions.

On the communication front, we held a Meet the Members and Industry Engagement Session as a side event of the Annual Meetings. The session allowed the Secretariat to provide an update to our key stakeholders, our members, as well as the general Islamic finance industry on the work and activities of the IFSB, and discuss how they can play a role in our work. A similar Session will be held in Almaty, Kazakhstan during the IFSB Summit, where the IFSB welcomes and encourages interaction and feedback from both the IFSB members and non-members alike.

Also on the communication front, we launched the Arabic version of the IFSB website (<http://arabic.ifsb.org>) in January this year. This initiative, we hope, will allow us to reach out more effectively to our members and the industry stakeholders in Arab-speaking member countries.

The Secretariat is also in the midst of preparing the IFSB Strategic Performance Plan for 2016-2018 (SPP). In particular, the SPP 2016 – 2018 seeks to

sustain the progress made under the current SPP towards enhanced resilience and stability of the Islamic financial services industry (IFSI). As part of this initiative, the Secretariat has organised a series of Focus Group Meetings (FGMs), with the aim to get a better understanding of the views of key stakeholders on emerging challenges facing the IFSI, as well as the members' perceptions of the IFSB and its role in promoting the resilience and stability of the industry. The first two FGMs were held in Jakarta, Indonesia and Abu Dhabi, United Arab Emirates. The final meeting will be held in Almaty, Kazakhstan, preceeding the 12th IFSB Summit.

Allow me to conclude by welcoming the new members into our fold, and thanking the existing IFSB members for their continuous support to our events and activities. We are striving our best to fulfill to your needs and suggestions.

Jaseem Ahmed

26th Meeting of the IFSB Council 2 April 2015, Jakarta, Indonesia



Front L to R : Jaseem Ahmed, H.E. Abdulaziz AlFuraih, H.E. Saeed Ahmad, H.E. Ravi Menon, H.E. Dr. Zeti Akhtar Aziz, H.E. Agus D.W. Martowardojo, H.E. Dr. Mohammad Y. Al-Hashel, H.E. Dr. Muliaman Dharmansyah Hadad, H.E. Dr. Adel Ahmad Ismail Al-Sharkas, H.E. Saeed Abdullah AlHamiz, Mr. Adi Marhain Leman
Back L to R : S.M. Moniruzzaman, Hanadi Khaled Ahmed, Mujeb Turki Al-Turki, Ian Johnston, Khalid Hamad, H.E. Datuk Ranjit Ajit Singh, H.E. Fola Daniel, H.E. Dr. Ali Saeedi, Dr. Badreldin Gurashi Mustafa, Bulent Damar, Ahmet Bicer, Dr. Halim Alamsyah

CONTENTS

Welcome Message from the Secretary-General	1	Technical Updates	4
Event Highlights		IFSB in the International Arena	5
IFSB Annual Meetings and Side Events in Jakarta, Indonesia	2	IFSB Membership Updates	6
Facilitating the Implementation of the IFSB Standards		IFSB Project on Prudential and Structural Islamic	
(FIS) Workshops	2	Financial Institutions (PSIFIs)	6
Meeting Updates		IFSB Publications	7
Updates from the 26 th Meeting of the IFSB Council	3	Events Calendar 2015	7
IFSB Personalities	3	About the IFSB	8

IFSB Annual Meetings and Side Events 2015 (Jakarta, Indonesia)

In conjunction with the IFSB Annual Meetings 2015 which was held in Jakarta, Indonesia on 2 April 2015, the IFSB organised a series of side events which took place from 31 March – 1 April 2015, at the Hotel Indonesia Kempinski, hosted by Bank Indonesia.



Session 2: Enhancing the Capacity of Islamic Microfinance, Islamic SMEs and microTakāful to Alleviate Poverty and Contribute towards Sustainable Economic Growth

The first event was **Seminar on Enhancing Financial Inclusion through Islamic Finance**, held on 31 March 2015. The Seminar aimed to explore the role of Islamic finance in supporting financial inclusion, the building blocks necessary for the development and promotion of access to finance to the uncovered population and key success factors and challenges in promoting financial inclusion for greater shared prosperity, financial stability and economic growth.

Dr. Halim Alamsyah, Deputy Governor, Bank Indonesia and Mr. Jaseem Ahmed, Secretary-General of the IFSB delivered the opening and welcoming speeches respectively. The keynote addresses were delivered by H.E. Dr. Muliaman D. Hadad, Chairman, Indonesia Financial Services Authority (OJK) and H.E. Agus D.W. Martowardojo, Governor, Bank Indonesia.

Twelve chairpersons and speakers from among senior financial sector supervisors discussed the following issues at the Seminar:-

- Promoting Financial Inclusion through Islamic Finance: Core Issues
- Enhancing the Capacity of Islamic Microfinance, Islamic SMEs and *MicroTakāful* to Alleviate Poverty and Contribute towards Sustainable Economic Growth
- Policies and Strategies for Enhancing Financial Inclusion: Regulation, Stability and Innovation

Over 180 delegates from 25 jurisdictions among the IFSB member and non-member organisations – representatives from market players, regulatory bodies, international agencies – *Shari'ah* scholars as well as academia and other interested parties from the public attended this Seminar.

The Seminar was followed by the **7th IFSB Public Lecture on Financial Policy and Stability** on 1 April 2015. The Lecture carried the theme, *Development of Entrepreneurship through Islamic Finance*. Mr. Jaseem Ahmed, Secretary-General of the IFSB and Mr. Mirza Adityaswara, Senior Deputy Governor, Bank Indonesia delivered the opening and welcoming speeches. The Lecture was delivered by Dr. M. Kabir Hassan, Ph.D, Professor of Finance and Hibernia Professor of Economics and Finance, University of New Orleans. The Lecture saw the attendance of nearly 100 participants from government, regulatory and supervisory bodies, legal sector and higher learning institutions.



Participants attending the 7th IFSB Public Lecture



The IFSB and NBT Secretariat in the FIS Workshop in Tajikistan.

Facilitating the Implementation of the IFSB Standards (FIS) Workshops

Three "Facilitating the Implementation of the IFSB Standards (FIS)" Workshops were conducted from February to April 2015.

The first workshop, hosted by the Central Bank of Sudan (CBOS) from 10-12 February 2015, was a 3-day Workshop tailored for regulators as well as market players within the Islamic banking and capital market sectors in Sudan. It focused on IFSB-15: Revised Capital Adequacy Standard. The Workshop was attended by 80 participants which included 21 from the CBOS and 20 from among the IFSB member organisation in Sudan.

The second workshop was held in Egypt and hosted by Egyptian Banking Institute (EBI) from 24-26 March 2015. This Workshop was designed specifically for the banking sector in Egypt and its neighbouring countries. It was attended by 24 participants from five countries. The Workshop focused on IFSB-1: Risk Management and IFSB-15: Revised Capital Adequacy Standard.

The third workshop was held from 7–10 April 2015 in Dushanbe, Tajikistan hosted by the National Bank of Tajikistan (NBT). This 4-day Workshop was tailored for the NBT as well as market players within the Tajikistan and Kyrgyz Republic. The Workshop was attended by 72 participants.

There will be several more Workshops from May till end of the year. Kindly visit the IFSB website www.ifsb.org for more details on the upcoming FIS Workshops.

ورش تسهيل تفعيل تطبيق المعايير الصادرة عن مجلس الخدمات المالية الإسلامية

عقد مجلس الخدمات المالية الإسلامية ثلاث ورش عمل لتسهيل تفعيل تطبيق المعايير الصادرة عن المجلس في الفترة من فبراير إلى أبريل 2015

استقبلت الأمانة العامة لمجلس الخدمات المالية الإسلامية ورشها لهذا العام من السودان. حيث استضاف بنك السودان المركزي، الورشة الأولى في الفترة ما بين 12-10 فبراير 2015. تم تصميم هذه الورشة خصيصاً للسلطات الرقابية والإشرافية، فضلاً عن الشركاء في قطاعي المصرفية الإسلامية وسوق رأس المال الإسلامي في السودان. وركزت جلسات الورشة على المعيار رقم 15 "المعيار المعدل لكفاية رأس المال". وقد حضر هذه الورشة 80 مشاركاً، من بينهم 21 مشاركاً يمثلون بنك السودان المركزي و20 مشاركاً يمثلون مؤسسات عضوة في المجلس.

أما الورشة الثانية، فقد تم تنظيمها في جمهورية مصر العربية، حيث استضاف المعهد المصرفي المصري فعاليات الورشة في الفترة ما بين 27-26 مارس 2015، وقد تناولت جلسات هذه الورشة الخاصة بالقطاع المصرفي الحديث عن كل من المعيار رقم 1 الخاص بإدارة المخاطر، وكذلك المعيار رقم 15 الخاص بكفاية رأس المال. يشار إلى أن هذه الورشة تم تخصيصها للقطاع المصرفي في جمهورية مصر العربية والدول المجاورة، وحضرها 24 مشاركاً من خمس دول مختلفة.

وعقدت الورشة الثالثة في الفترة ما بين 10-7 أبريل 2015 في العاصمة الطاجيكية دوشنبه، حيث استضاف بنك طاجيكستان المركزي، واستهدفت الورشة العاملين في بنك طاجيكستان المركزي، وكذلك شركاء صناعة الخدمات المالية الإسلامية في كل من جمهوريتي طاجيكستان وقيرغيزستان، حيث حضر الورشة 72 مشاركاً اثنان منهم من جمهورية قيرغيزستان.

الجدير بالذكر أن مجلس الخدمات المالية الإسلامية سينظم عدة ورش عمل من شهر مايو حتى نهاية العام الجاري، ولزود من المعلومات حول تلك الورش وأماكن تنظيمها، يرجى زيارة الموقع الإلكتروني لمجلس الخدمات المالية الإسلامية على الرابط التالي: <http://arabic.ifsb.org>

Updates from the 26th Meeting of the IFSB Council

2 April 2015 | Jakarta



The Council members during the 26th Meeting of the IFSB Council

The IFSB Council Adopts Core Principles for Islamic Finance Regulation (IFSB-17) and Guidance Note on Quantitative Measure for Liquidity Risk Management (GN-6)

The Council has resolved to approve the adoption of a new Standard on Core Principles for Islamic Finance Regulation (Banking Segment) (IFSB-17) and Guidance Note on Quantitative Measures for Liquidity Risk Management in Institutions Offering Islamic Financial Services (Excluding Islamic Insurance (*Takaful*) Institutions and Islamic Collective Investment Schemes) (GN-6).

The main objective of IFSB-17 is to provide a set of Core Principles along with associated assessment methodology for the regulation and supervision of the Islamic financial services industry (IFSI), taking into consideration the specificities of the institutions offering Islamic financial services (IIFS) in the banking segment, the lessons learned from the financial crisis, and complementing the existing international standards, principally the

Core Principles for Effective Banking Supervision issued by the Basel Committee on Banking Supervision.

GN-6, for its part, aims to complement global liquidity standards such as Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) as well as other developments on liquidity risk management for the IFSI. It will help the regulatory and supervisory authorities to provide a level-playing field to the IIFS in the application of liquidity standards vis-a-vis their conventional counterparts, and thus will promote the sound management of liquidity risk in IIFS.

The softcopies of IFSB-17 and GN-6 are available on the IFSB website, www.ifsb.org, in both English and Arabic languages.

The IFSB admits Six Organisations into Its Membership

The Council of the IFSB resolved to approve the admission of six organisations into the IFSB membership, which includes one supervisory authority as a Full Member, another supervisory authority as an Associate Member as well as three financial institutions and one professional firm as Observer Members.

The newly admitted members are:

Full Member

1. Securities and Exchange Commission, Nigeria

Associate Member

2. Banco de Mocambique, Mozambique

Observer Member

3. Gulf International Bank, Bahrain
4. First Community Bank, Kenya
5. Tamweel Africa Holding, Senegal
6. Islamic Finance Council, United Kingdom

This brings the IFSB membership (as at April 2015), to 188 member organisations comprise of 61 regulatory and supervisory authorities, eight international inter-governmental organisations, and 119 market players (financial institutions, professional firms and industry associations) operating in 45 jurisdictions.

The full list of the IFSB members is available on the IFSB website, www.ifsb.org

11th Islamic Financial Stability Forum

The 11th Islamic Financial Stability Forum was held on 2 April 2015, after the Council and General Assembly meetings. The theme of the Forum was “*Comparative Study on the Implementation of the IFSB Standards: Cross-country Assessment*”, and the speakers were Mr. Zahid Ur Rehman Khokher, Assistant Secretary-General of the IFSB and Mr. Peter Casey, Consultant to the IFSB. The discussants were Mr. Saeed Ahmad, Deputy Governor, State Bank of Pakistan and Mr. Khalid Hamad, Executive Director, Central Bank of Bahrain.



Participants attending the 11th Islamic Financial Stability Forum

IFSB PERSONALITIES



Chairman,
Core Principles for Islamic Finance Regulation Working Group

Bakarudin Ishak
Assistant Governor, Bank Negara Malaysia

Bakarudin Ishak is currently the Assistant Governor of Bank Negara Malaysia, overseeing the financial sector development including Islamic banking and *Takaful*, payment systems and development of financial institutions. He has served the Bank since 1985 and has held several senior positions in the Bank.



Chairman,
Revised Standard on Supervisory Review Process Working Group

Tarek El-Sayed Fayed
Assistant Sub-Governor Banking Supervision Unit - Offsite, Central Bank of Egypt

Mr. Fayed has more than 22 years of diversified experience in the fields of banking supervision, risk management, audit & risk review and corporate & investment banking businesses, as well as working for a number of well-reputable international financial institutions in Egypt and abroad.

Appointment of Technical Committee Chairman



H.E. Osamah Shaker
Director General of Banking Control, Saudi Arabian Monetary Agency



Mujeb Turki Al-Turki
Director of Supervision and Oversight Department, Qatar Central Bank

The Council in its 26th Meeting has resolved to approve H.E. Osamah Shaker, Saudi Arabian Monetary Agency (SAMA) as Chairman and Mr. Meheb Turki Al-Turki, Qatar Central Bank as Deputy Chairman of the Technical Committee for the period of 2015 – 2018.

Strategic Performance Plan (SPP) Update (2016-2018)

With the first SPP 2012 – 2015 reaching its end, the IFSB is now preparing the second SPP for the years 2016 to 2018. In particular, the SPP 2016 – 2018 seeks to sustain the progress made under the current SPP towards enhanced resilience and stability of the Islamic financial services industry.

For this purpose, the Secretariat has organised a series of Focus Group Meetings, with the aim to get a better understanding of the views of key stakeholders on emerging challenges facing the Islamic financial services industry, as well as perceptions about the IFSB and its role in promoting the resilience and stability of the global industry. The first FGM was held in Jakarta, Indonesia on 18 March 2015 where the meeting was divided into two groups-regulators and market players. The second FGM was held in Abu Dhabi, United Arab Emirates (UAE) hosted by the Central Bank of United Arab Emirates. The third and final FGM was held on 18 May 2015 in Almaty, Kazakhstan.

Guiding Principles for *Retakāful* (Islamic Reinsurance) Undertakings

The IFSB has established the Guiding Principles for *Retakāful* Undertakings Working Group (GPRTUWG) for the preparation of a draft of a standard on *Retakāful* Undertakings. In order to support this project, and in accordance with the due process for standards, the IFSB is conducting a survey on the existing practices of *Retakāful* undertakings, the practices of *Takāful* undertakings in relation to *Retakāful*, and the practices of supervisory authorities. The objective of the survey is to collect background information on the *Retakāful* sector that will be used by the GPRTUWG in drafting the proposed GPRTU Standard.

The survey ended on 5 August 2014 and the Secretariat received feedback from 67 institutions comprising 14 *Retakāful* Operators (RTOs), 38 *Takāful* Operators (TOs) and 15 Regulatory and Supervisory Authorities (RSAs). In the WG meeting on 29 September 2014, the WG members deliberated the Survey Report and Outline of the Standard. On 28 January 2015, the WG members in its meeting discussed and deliberated on the first Preliminary Exposure Draft (PED) and incorporated all recommendations made by the WG members into the Revised PED (RPED). The RPED was then presented in the WG meeting on 22 April 2015 in Muscat, Oman.

The Secretariat is currently refining the RPED based on the inputs given during the WG meeting in Oman. The RPED will be presented to the next Technical Committee (TC) meeting in Abu Dhabi, for their approval to submit the document for *Shari'ah* deliberation.

Shari'ah-compliant Deposit Insurance Coverage as a Safety Net

Following a focused discussion at the 4th Islamic Financial Stability Forum held on 17 November 2011 in Kuala Lumpur, the Council of the IFSB on 29 March 2012 approved, as part of the IFSB Strategic Performance Plan 2012-2015, for the Secretariat to conduct two studies on *Shari'ah*-compliant lender of last resort (SLOLR) and a *Shari'ah*-compliant deposit insurance scheme (SCDIS). The study on SLOLR has been undertaken and the Working Paper (WP-01) was published by the IFSB in April 2014.

The survey findings and the first draft of the paper on SCDIS was submitted in the 34th TC meeting held on 20 October 2014. The Secretariat is currently working on the revision of draft research paper that will be presented in the next TC meeting in Abu Dhabi.

Consumer Protection in Islamic Finance

The Council of the IFSB, in its 21st meeting held on 12 December 2012 in Jeddah, Kingdom of Saudi Arabia, approved the IFSB Secretariat to conduct a study on Consumer Protection in institutions offering Islamic financial services (IFS).

As a part of this study, the Secretariat conducted a survey among member regulatory and supervisory authorities to collect information on legal and regulatory framework and best practices on consumer protection in Islamic financial services industry. The project commenced in the second quarter of 2014. The Survey Questionnaire was prepared and distributed to member supervisory authorities in banking, *Takāful* and Islamic capital market sectors in June 2014.

The Secretariat and Consultant have prepared the Survey findings and initial draft of the Paper, which was submitted in the 34th TC meeting in Jordan. After further revision, the second draft of the Paper was submitted in the 35th TC meeting held on 13 March 2015 in Kuala Lumpur, Malaysia. The TC approved the paper to be distributed to the IFSB member RSAs and multilateral organisations for their feedback and input.

Technical Note on Stress Testing for IIFS

In March 2012, the IFSB Council approved for adoption IFSB-13 – Guiding Principles on Stress Testing for IIFS. The guiding principles are intended to complement the existing international stress testing May 2010 framework taking into consideration the specificities of IIFS as well as the lessons learned from the financial crisis so as to contribute to the soundness and stability of IIFS, in particular, as well as the IFSI as a whole. During the development and the public consultation of the IFSB-13, the need for developing detailed guidance for the operationalisation of IFSB-13 was highlighted. Because of the degree of difficulty and challenges in incorporating IFSB-13, it was agreed for the technical details to be addressed through a separate document (possibly a Technical Note) to be issued by the IFSB in due course taking into account feedback from public consultation period and public hearing and/or seminars.

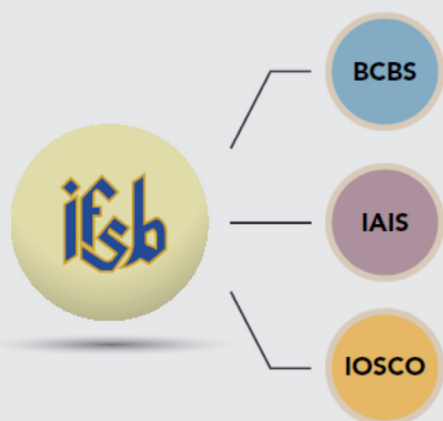
The proposed Technical Note was incorporated within the work plan outlined in the IFSB Strategic Performance Plan 2012-2015. The Council of the IFSB thus approved the preparation of Technical Note on Stress Testing for IIFS and the setting up of an Expert Group for this purpose on its 23rd meeting on 10 December 2013.

The Task Force for Stress Testing for IIFS was established and had its first meeting on 19 December 2014. This Task Force met for the second meeting on 21 April 2015 in Muscat, Oman where they discussed the outline and preliminary exposure draft (PED) of the proposed Technical Note.

Guiding Principles for Disclosure of Islamic Capital Market Products (New Standard)

The Council of the IFSB approved this project in its 21st meeting, held on 12 December 2012 in Jeddah, Kingdom of Saudi Arabia. In 2013, the IFSB collaborated with the International Organization of Securities Commissions (IOSCO) and Securities Commission Malaysia (SC) on a joint publication, a compilation of papers and commentaries presented at the IFSB-IOSCO-SC Roundtable on Disclosure Requirements for Islamic Capital Market (ICM) Products, held in Kuala Lumpur in September 2012. This publication, titled “*Disclosure Requirements for Islamic Capital Market Products*”, was released in September 2013 (and is available on the IFSB website). After the joint publication, the Secretariat started work on the preparation of an Issues Paper to provide an overview on set of issues to be addressed in the new Guiding Principles. This Issues Paper was deliberated by the TC in its 34th Meeting held in Amman, Jordan on 20 October 2014. The TC agreed to the broader framework presented in the Issues Paper and approved the Secretariat to commence the project in early 2015.

In its 35th meeting on, held in Kuala Lumpur, Malaysia, the TC appointed Mr. Zainal Izlan Zainal Abidin, Executive Director, Securities Commission Malaysia as the Chairman of the WG. The first WG meeting was held on 23 April 2015 in Oman, in which the Issues Paper was discussed.



Collaboration with International Standard-Setting Bodies and Multilaterals

As a part of global policy dialogue, the IFSB has been engaging with other international standard-setting bodies for conventional finance such as the Basel Committee on Banking Supervision (BCBS), the International Organisation of Securities Commissions (IOSCO) and the International Association of Insurance Supervisors (IAIS).

These interactions have resulted in better understanding and recognition of the issues faced by the Islamic financial services industry at the global level.

The IFSB participates formally in the Consultative Group of the BCBS as well as in the Consultative Advisory Groups of International Auditing and Assurance Standards Board (IAASB) and International Ethics Standards Board for Accountants (IESBA).

IFSB-IAIS Joint *Microtakāful*

The Council of the IFSB, in its 24th meeting in Brunei in March 2014 approved the development of a research paper on *Microtakāful* to be part of IFSB 2014 Workplan. In view of this, the IFSB and IAIS established a Joint Working Group (JWG) comprising nine members from Regulatory and Supervisory Authorities, International and Multilateral Organisations for the preparation of this research paper.

The JWG held its first meeting on 8 April 2014 in Sasana Kijang, Kuala Lumpur to discuss on the Issues Paper which highlights the issues engulfing the *Microtakāful* industry. To get more information on the issues faced by the *Microtakāful* industry, a survey questionnaire was distributed to the industry for its feedback. A total of 15 institutions comprising nine market players and six RSAs responded to the survey. The survey report and outline of the Draft Issues Paper (DIP) was discussed in the JWG second meeting on 28 September 2014. In JWG third meeting on 23 February 2015, its members deliberated on the initial DIP. The Secretariat took note of the recommendations made by the JWG members and revised the DIP based on them. The revised DIP will be presented in the next Technical Committee (TC) meeting in Abu Dhabi for its approval for issuance as Exposure Draft.

The IFSB and ADB Launch Joint Publication on “Islamic Finance for Asia: Development, Prospects, and Inclusive Growth”

The IFSB and the Asian Development Bank (ADB) launched on 4 May 2015, a joint ADB-IFSB publication entitled “*Islamic Finance for Asia: Development, Prospects, and Inclusive Growth*”. The book was launched by the ADB Vice President, Stephen Groff during an ADB-IFSB panel discussion on “How Islamic Finance Can Contribute to Sustainable Growth in Asia”, which took place in Baku, Azerbaijan, during the ADB Annual Meeting 2015.

The joint ADB-IFSB publication is a summary compilation of various presentations and conference papers presented at the Conference, “Islamic Finance for Asia: Development, Prospects and Inclusive Growth and a Roundtable Session for Regulators”, jointly organised by the two institutions in November 2013.

The Secretary-General of the IFSB, Mr. Jaseem Ahmed stated that the IFSB is pleased its cooperation with the ADB has resulted in a publication that clarifies how Islamic finance can serve as a catalyst for the goals of economic development and social inclusion. Mr. Ahmed mentioned, “The launch of the publication is especially noteworthy as it aims to identify the key challenges and opportunities faced by policymakers as they work towards mainstreaming Islamic finance into national development and poverty reduction strategies. The publication also complements the existing efforts undertaken by the IFSB under ADB’s technical assistance, such as the launch of the Prudential and Structural Islamic Finance Indicators (PSIFI) database, and the development of e-learning modules for the implementation of the IFSB Standards in the IFSB member countries”.

IMF Staff Discussion Note on Islamic Finance (SDN)

The IMF released the SDN in April and established a link on its website referencing its External Advisory Group which features the IFSB. The SDN identifies IFSB Standards as being important for high priority implementation. The IFSB provided the extensive comments on the SDN and its supporting working papers.

April 2015
SDN/15/05

IMF STAFF DISCUSSION NOTE

Islamic Finance: Opportunities, Challenges, and Policy Options

Alfred Kammer, Mohamed Norat, Marco Piñón,
Ananthakrishnan Prasad, Christopher Towe,
Zeine Zeidane, and an IMF Staff Team



The IFSB management during the Session



Q & A session

Meet the Members and Industry Engagement Session in Jakarta

The first Meet the Members and Industry Engagement (MTM&IE) Session of 2015 was held in Jakarta, Indonesia on 1 April 2015 and hosted by Bank Indonesia. The Session was held in conjunction with the 2015 IFSB Annual Meetings and Side Events.

The session was attended by 55 participants consisting of the IFSB members and the Indonesian local financial community. It aimed to provide a platform for the IFSB members and greater financial community an insight and update into the work of the IFSB, its relevance to the development of the global industry, and the role the stakeholders (members and non-members) can play in this development.

Dr. Halim Alamsyah, Deputy Governor, Bank Indonesia delivered the Opening Remarks and followed by a presentation on the development of the Islamic financial services industry, as well as the work of the IFSB by Mr. Jaseem Ahmed, Secretary-General and Mr. Zahid Ur Rehman Khokher, Assistant Secretary-General of the IFSB, respectively. The Session drew very positive response and feedback from the participants.

The next MTM&IE Session will be held on 19 May 2015 in Almaty, Kazakhstan.

IFSB Project on Prudential and Structural Islamic Financial Indicators (PSIFIs)

Background

The PSIFIs are a set of indicators on the financial soundness and structure of the Islamic financial systems. The PSIFIs are macro-level indicators covering capital adequacy, earnings, liquidity, asset quality and exposures to various types of risks. The data on these indicators is contributed by 16 IFSB member regulatory and supervisory authorities across the globe.

Phase I and Phase II

Since the Council's resolution in December 2004 to commence this project, the IFSB developed this programme in a number of phases. Phases I and II of this went through a series of background activities, including a pilot study, dedicated to preparing a Compilation Guide, conducting capacity building workshops and survey in order to establish the global Islamic finance database. The first Compilation Guide was issued by the IFSB in 2007, which was later updated in 2011 to incorporate global regulatory changes over the period.

This project has benefitted from the Technical Assistance from both the Islamic Development Bank (IDB) and Asian Development Bank (ADB) over the years. The current phase of the project is being undertaken with a Technical Assistance from the ADB.

The Current Phase

In 2014, the IFSB started the third phase of PSIFIs programme to start regular collection and dissemination of the indicators and extend the outreach in order to provide accurate, reliable and updated information on the soundness and structure of the industry as a part of its initiatives to enhance the supervisory framework for the IIFS. Accordingly, a Task Force on PSIFIs was established that comprises country compilers from each participating jurisdiction.

Set of Indicators

Currently, the PSIFI statistics comprise three main types of indicators; (1) Core Prudential Indicators, which capture the strengths and vulnerabilities of the sector, including capital adequacy, asset quality, earnings, leverage, liquidity, and sensitivity to market risks; (2) Additional Prudential Indicators; and (3) Structural Indicators, which provide indications of the size, volumes and structure of the Islamic banking sector. The database also includes "metadata" which provides information on the design and specifications of data elements.

Participating Countries

At present, regulatory and supervisory authorities from 16 countries are participating in this project. These countries are: Afghanistan, Bahrain, Bangladesh, Brunei, Egypt, Indonesia, Iran, Jordan, Kuwait, Malaysia, Nigeria, Oman, Pakistan, Saudi Arabia, Sudan, and Turkey.

Capacity Building of the Member Jurisdictions

The IFSB organises workshops/meetings for the country compilers to provide insight into the methodology and compilation practices of PSIFIs, which facilitates a consistent understanding of the programme's data requirements and procedures. These workshops are also aimed at supporting participating jurisdictions to improve their data collection and dissemination platforms for the Islamic banking industry. Under the current phase, the IFSB has already conducted three meetings of the Task Force on PSIFIs. These meetings not only helped the capacity building of the participants but also provided a platform for the country compilers to share their experiences and challenges in compiling aggregate data and metadata for the Islamic banking sector.

First Release of Data

On 27 April 2015, the IFSB released the first set of PSIFIs of the participating countries. The data point available for the first set of statistics is 2013 annual data, while subsequent disseminations will be based on quarterly data from participating countries.

Separate Data for Islamic banking and Islamic Windows

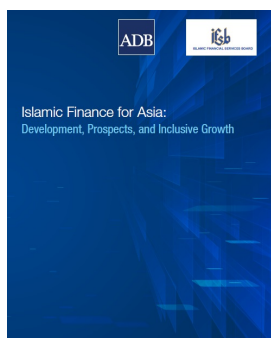
An important feature of this database is that it provides separate data for stand-alone Islamic banks and Islamic windows of conventional banks. The first set of data are from stand-alone Islamic banks (full-fledged Islamic banks) which are separately incorporated, or are independent subsidiaries of other banks. The second set of data are from Islamic windows of conventional banks – which refer to the Islamic finance activity of conventional banks.

Going Forward

The PSIFI database currently focuses on the banking sector. Going forward, the IFSB plans to expand the number of reporting countries and broaden the indicators to cover other sectors, including capital market and *Takāful* sectors. The IFSB is working on building a web-based automated system to collect and disseminate data in future that will provide more user-friendly features on viewing, filtering and downloading the data.

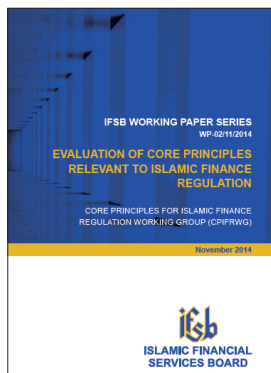
PSIFI website

The PSIFI Database (full set of data with metadata) is available on the PSIFIs portal at the IFSB website <http://psifi.ifsb.org>.



ISLAMIC FINANCE FOR ASIA: DEVELOPMENT, PROSPECTS AND INCLUSIVE GROWTH Issuance date: April 2015

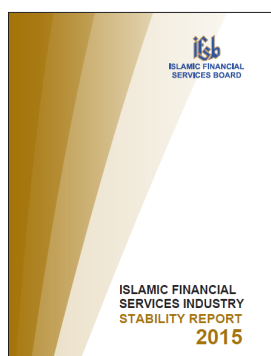
The Asian Development Bank (ADB) and the Islamic Financial Services Board (IFSB) organised a conference on Islamic Finance for Asia: Development, Prospects and Inclusive Growth and a Roundtable Session for Regulators on 4–5 November 2013 at the ADB Headquarters in Manila, Philippines. This joint-publication of the two organisations, which is authored by selected presenters of the conference and roundtable, is produced against the backdrop of the growing importance of Islamic finance in ADB's member countries. The authors have presented their views on various aspects of Islamic finance, namely the growth and development of Islamic finance in Asia, legal and regulatory issues, financial inclusion, the role of *Sukūk*, implementation of the global prudential standards, initiatives undertaken by governments and the public sector, and the way forward for Islamic finance in Asia. The conference has increased the awareness on Islamic finance among ADB's developing member countries, as a potential source for cofinancing projects.



WP-02: WORKING PAPER ON EVALUATION OF CORE PRINCIPLES RELEVANT TO ISLAMIC FINANCE REGULATION

Issuance date: November 2014 (Soft Copy), April 2015 (Printed Copy)

WP-02 assesses in full the Core Principles issued by the Basel Committee for Banking Supervision (BCBS), the International Organization for Securities Commissions (IOSCO), as well as those issued by the International Association of Insurance Supervisors (IAIS). The key objective is to analyse the applicability and relevance to the prudential regulation and supervision of Islamic finance of the Core Principles of the international standard-setting bodies for conventional financial system. In particular, the WP provides a principle-by-principle gap analysis of these Core Principles and explains whether: (a) the existing principles are fully applicable; (b) they require modifications or adjustments; or (c) new principles are needed. The analysis indicated many areas of relevance, but it also underscored the importance of having additional principles to cater for the specific nature of products and the balance sheet structure of institutions offering Islamic financial services (IIFS).



ISLAMIC FINANCIAL SERVICES STABILITY REPORT 2015 Issuance date: May 2015

The issuance of the Islamic Financial Services Board's (IFSB) third Islamic Financial Services Industry Stability Report takes place against the background of a fragile and uneven global economic recovery. While global economic prospects appeared to brighten on the back of the economic recovery of the United States, and a shift to domestic demand-led growth in some key emerging markets, they remain uncertain in the Eurozone and in Japan. Moreover, with new of the remarkable expansion in Islamic finance since the onset of the Global Financial Crisis in 2007 continues, as does the growth of *Sukūk* issuances, concern about the changing composition and increased volatility of capital flows points towards a new set of risks for the global economy. Against this backdrop the regulatory changes to the capital and liquidity framework initiated by the Group of Twenty (G20) and the Financial Stability Board (FSB) have seen a sustained and comprehensive response by the IFSB through the issuance of a range of guiding principles, culminating in two standards in 2015, on liquidity management and on core principles, that set the stage for the integration of the Islamic financial services industry (IFSI) into the global economy as well as into the global surveillance mechanism for financial stability. Thus, in this report, the IFSB takes up the principal features of the recent developments that affect Islamic finance through an assessment and evaluation of its growth, as well as of changes in the global regulatory and supervisory framework with its implications for the industry. As amply documented by the IFSB in recent times, the growth of Islamic finance is highlighting challenges to stability while also raising awareness of the issues that require a strong and sustained policy and regulatory response. The IFSB's Stability Report 2015 seeks to illuminate these issues for the IFSB's wide membership, as well as for all those who have a substantive interest in the stability

Please visit the IFSB website, www.ifsb.org to find out more on the IFSB publications.

Upcoming IFSB Workshops & Awareness Programmes

May – November 2015

18 May 2015 | Kazakhstan

FOCUS GROUP MEETING ON THE IFSB STRATEGIC PERFORMANCE PLAN 2016 - 2018

19 May 2015 | Kazakhstan

12TH IFSB SUMMIT 2015

Hosted by

- IFSB-IRTI SESSION ON THE MID-TERM REVIEW OF THE IFSI DEVELOPMENT: TEN-YEAR FRAMEWORK AND STRATEGIES
Fostering Integration of the Islamic Financial Services Industry for the Orderly Development of the Industry
- KAZAKHSTAN COUNTRY SHOWCASE
- INCEIF-MIFC BUSINESS FORUM
- INDUSTRY DEVELOPMENT SESSION BY THE WORLD BANK
- IFSB MEET THE MEMBERS AND INDUSTRY ENGAGEMENT SESSION



20 - 21 May 2015 | Kazakhstan

12TH ISLAMIC FINANCIAL SERVICES BOARD SUMMIT

Core Principles for Islamic Finance: Integrating with the Global Regulatory Framework

25 - 26 May 2015 | Turkey

IFSB-FIS WORKSHOPS ON ISLAMIC BANKING
(IFSB-6, IFSB-10, IFSB-12 and GN-6)



3 - 4 June 2014 | Malaysia

Co-organised with

INCEIF

7TH IFSB-INCEIF EXECUTIVE FORUM

Building Momentum for Islamic Liquidity Management

17 - 20 August 2015 | Djibouti

Hosted by



IFSB-FIS WORKSHOPS ON ISLAMIC BANKING

19 - 21 October 2015 | Malaysia

IFSB-FIS WORKSHOP ON IFSB STANDARDS FOR REGULATORY AND SUPERVISORY AUTHORITIES OF THE IFSB MEMBER COUNTRIES (ISLAMIC CAPITAL MARKET AND TAKAFUL)

16 - 20 November 2015 | Malaysia

IFSB-FIS WORKSHOP ON IFSB STANDARDS FOR REGULATORY AND SUPERVISORY AUTHORITIES OF THE IFSB MEMBER COUNTRIES (BANKING SECTOR)
(IFSB-10, IFSB-16 and GN-6)

نبذة عن المجلس

يعتبر مجلس الخدمات المالية الإسلامية هيئة دولية واضحة للمعايير التي تهدف إلى تطوير وتعزيز متانة واستقرار صناعة الخدمات المالية الإسلامية. وذلك بإصدار معايير احترازية ومبادئ إرشادية لهذه الصناعة التي تضم بصفة عامة قطاعات الصيرفة، وأسواق المال، والتكافل (التأمين الإسلامي). كما يقوم مجلس الخدمات المالية الإسلامية بأنشطة بحثية، وتنسيق المبادرات المتعلقة بهذه الصناعة، فضلاً عن تنظيم حلقات نقاشية، وندوات ومؤتمرات علمية، للسلطات الرقابية، والشركاء المهتمين بهذه الصناعة.

منذ إنشاء مجلس الخدمات المالية الإسلامية، تم إصدار اثنين وعشرين معياراً، ومبدأً إرشادياً، وملاحظة فنية، خاصة بصناعة الخدمات المالية الإسلامية. وقد غطت هذه الإصدارات المجالات التالية:

(المعيار رقم 1): المبادئ الإرشادية لإدارة المخاطر.

(المعيار رقم 2): معيار كفاية رأس المال.

(المعيار رقم 3): المبادئ الإرشادية لضوابط إدارة المؤسسات.

(المعيار رقم 4): معيار الإفصاحات لتعزيز الشفافية وانضباط السوق للمؤسسات.

(المعيار رقم 5): الإرشادات المتعلقة بالعناصر الرئيسية في إجراءات الرقابة الإشرافية للمؤسسات.

(المعيار رقم 6): المبادئ الإرشادية لضوابط برامج الاستثمار الجماعي.

(المعيار رقم 7): متطلبات كفاية رأس المال للصكوك، والتصكيك، والاستثمارات العقارية.

(المعيار رقم 8): المبادئ الإرشادية لضوابط التأمين التكافلي.

(المعيار رقم 9): المبادئ الإرشادية لسلوكيات العمل للمؤسسات التي تقدم خدمات مالية إسلامية.

(المعيار رقم 10): المبادئ الإرشادية لنظم الضوابط الشرعية للمؤسسات التي تقدم خدمات مالية إسلامية.

(المعيار رقم 11): معيار متطلبات الملاءة للتأمين التكافلي.

(المعيار رقم 12): المبادئ الإرشادية لإدارة مخاطر السيولة للمؤسسات.

(المعيار رقم 13): المبادئ الإرشادية لاختبارات الضغط للمؤسسات.

(المعيار رقم 14): معيار إدارة المخاطر لشركات التكافل (التأمين الإسلامي).

(المعيار رقم 15): المعيار المعدل لكفاية رأس المال للمؤسسات

(المعيار رقم 16): الإرشادات المعدلة للعناصر الأساسية لإجراءات الرقابة الإشرافية على المؤسسات

(المعيار رقم 17): المبادئ الأساسية للرقابة على التمويل الإسلامي.

(المبادئ الإرشادية رقم 1): الإرشادات المتعلقة بمعيار كفاية رأس المال: الاعتراف بالتصنيفات للأدوات المالية المتفقة مع أحكام

الشرعية الإسلامية الصادرة من مؤسسات تصنيف ائتماني خارجية.

(المبادئ الإرشادية رقم 2): الإرشادات المتعلقة بإدارة المخاطر ومعيار كفاية رأس المال: معاملات المربحة في السلع.

(المبادئ الإرشادية رقم 3): الإرشادات المتعلقة بممارسات دعم دفع الأرباح لأصحاب حسابات الاستثمار.

(المبادئ الإرشادية رقم 4): الإرشادات المتعلقة بمعيار كفاية رأس المال: تحديد عامل "ألفا" في نسبة كفاية رأس المال.

(المبادئ الإرشادية رقم 5): الإرشادات المتعلقة بالاعتراف بالتصنيفات الصادرة عن مؤسسات تصنيف ائتماني خارجية للتأمين

التكافلي وإعادة التكافل.

(المبادئ الإرشادية رقم 6): الإرشادات المتعلقة بالمعايير الكمية لإدارة مخاطر السيولة.

(ملاحظة فنية رقم 1): قضايا تعزيز إدارة السيولة للمؤسسات التي تقدم خدمات مالية إسلامية: تطوير أسواق المال الإسلامية.

(ورقة عمل رقم 1): تدعيم شبكة الأمان المالية: دور تسهيلات مسعف الملاذ الأخير المتفق مع الشرعية كآلية تمويل في حالات

الطوارئ.

(ورقة عمل رقم 2): تقويم المبادئ الأساسية المتعلقة بالرقابة على التمويل الإسلامي.

الجدير بالذكر أن المجلس يضم في عضويته منظمات دولية، وإقليمية، ووطنية، والشركاء الذين تجمعهم به أهداف مشتركة. للمزيد من المعلومات حول مجلس الخدمات المالية الإسلامية وللحصول على المعايير والتقارير والأوراق البحثية أو أي إصدارات أخرى الرجاء زيارة الموقع الإلكتروني <http://arabic.ifsb.org>

About the IFSB

The IFSB is an international standard-setting organisation that 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 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.

As of April 2015, the IFSB has published twenty-six Standards, Guiding Principles, Guidance and Technical Notes and Working Papers as follows:

IFSB-1 Guiding Principles of Risk Management for Institutions (Other Than Insurance Institutions) Offering Only Islamic Financial Services (IIFS)

IFSB-2 Capital Adequacy Standard for IIFS

IFSB-3 Guiding Principles on Corporate Governance for IIFS

IFSB-4 Disclosures to Promote Transparency and Market Discipline for IIFS

IFSB-5 Guidance on Key Elements in the Supervisory Review Process of IIFS

IFSB-6 Guiding Principles on Governance for Islamic Collective Investment Scheme

IFSB-7 Capital Adequacy Requirements: Sukūk Securitisations and Real Estate Investment

IFSB-8 Guiding Principles on Governance of Islamic Insurance (*Takāful*) Operations

IFSB-9 Guiding Principles on Conduct of Business for IIFS

IFSB-10 Guiding Principles on *Shari'ah* Governance System

IFSB-11 Standard on Solvency Requirements for *Takāful* (Islamic Insurance) Undertakings

IFSB-12 Guiding Principles on Liquidity Risk Management

IFSB-13 Guiding Principles on Stress Testing

IFSB-14 Standard on Risk Management for *Takāful* (Islamic Insurance) Undertakings

IFSB-15 Revised Capital Adequacy Standard

IFSB-16 Revised Guidance on Key Elements in the Supervisory Review Process of IIFS

IFSB-17 Core Principles for Islamic Finance Regulation (Banking Segment)

GN-1 Guidance Note in Connection with the Capital Adequacy Standard: Recognition of Ratings by External Credit Assessment Institutions (ECAIs) on *Shari'ah*-Compliant Financial Instruments

GN-2 Guidance Note in Connection with the Risk Management and Capital Adequacy Standards: Commodity *Murābahah* Transactions

GN-3 Guidance Note on the Practice of Smoothing the Profits Payout to Investment Account Holders

GN-4 Guidance Note in Connection with the IFSB Capital Adequacy Standard: The Determination of the Alpha in the Capital Adequacy Ratio

GN-5 Guidance Note on the Recognition of Ratings by ECAIs on *Takāful* and *ReTakāful* Undertakings

GN-6 Guidance Note on Quantitative Measures for Liquidity Risk Management in IIFS

TN-1 Technical Note on Issues in Strengthening Liquidity Management of Institutions Offering Islamic Financial Services: The Development of Islamic Money Market

WP-01 Working Paper on Strengthening the Financial Safety Net: The Role of *Shari'ah*-compliant Lender-of Last-Resort (SLOLR) Facilities as an Emergency Financing Mechanism

WP-02 Evaluation of Core Principles Relevant to Islamic Finance Regulation

The members of the IFSB comprise regulatory and supervisory authorities, international inter-governmental organisations and market players, professional firms and industry associations.

For more information about the IFSB and to download the IFSB Standards, reports, research papers and other publications, please visit www.ifsb.org.

Contact Information :

ISLAMIC FINANCIAL SERVICES BOARD

Level 5, Sasana Kijang, Bank Negara Malaysia, 2, Jalan Dato' Onn,
50480 Kuala Lumpur, Malaysia.

Telephone: +6 03 9195 1400 Facsimile: +6 03 9195 1405

Email: ifsb_sec@ifsb.org