# ISLAMIC FINANCIAL SERVICES BOARD

# Impact and Consistency Assessment Programme (ICAP) Handbook
# for Assessing the Regulations of IFSB's Regulatory and Supervisory Members.
# (Version 2.0)

**October 2023**

# TABLE OF CONTENTS

# ABBREVIATIONS

| | |
|---|---|
| BCBS | Basel Committee on Banking Supervision |
| FSAP | Financial Sector Assessment Program |
| ICAP | Impact and Consistency Assessment Programme |
| IMF | International Monetary Fund |
| IFSB | Islamic Financial Services Board |
| RCAP | Regulatory Consistency Assessment Programme |
| RSA | Regulatory and Supervisory Authorities |

## FOREWORD

The Impact and Consistency Assessment Programme (ICAP) Handbook for the assessment of IFSB's Regulatory and Supervisory (RSAs) Members (the Handbook) describes the process for conducting assessments for and by the IFSB's RSA Members. It is designed to provide guidance both for RSAs undertaking the exercise and for those involved in the assessment process on ICAP flow and results.

An ICAP assessment can be conducted internally by the RSA Member itself (Self-assessment ICAP) or externally by members of an ICAP team assembled for that purpose by the IFSB Secretariat (Facilitated ICAP). This Handbook describes the process for a Facilitated ICAP assessment and also provides a separate section for RSAs that want to pursue a Self-assessment ICAP. The Handbook is supported by a number of assessment templates for particular IFSB standards.

The Facilitated ICAP assessment is governed by the IFSB's Executive Committee which will appoint all members of the ICAP team involved in an ICAP assessment. Composition of the ICAP team and their roles are described in Section 3 and Appendix 1.

The Handbook and the supporting templates present a general framework to identify any regulatory gaps arising from discrepancies in local regulations or practice, or inconsistency of these with IFSB standards. The Handbook also sets out an approach to measuring the impact of implementing IFSB standards. The Handbook was prepared by the IFSB's Implementation team, reviewed and endorsed by the first Task Force, which was convened to advise the IFSB Secretariat in developing the ICAP Framework and the Handbook. The Handbook has been approved by both the Technical Committee and the Executive Committee, with the final endorsement and adoption by the IFSB Council.

The Handbook and, in particular, the assessment templates have been drafted with a view to assessments of the Islamic banking sector. Further templates will be added from time to time, and some templates may be amended or withdrawn as new IFSB standards are adopted. The Handbook itself will be revised or elaborated further as the ICAP evolves taking into account lessons learnt from the jurisdictional assessments and discussions.

# SECTION 1 INTRODUCTION

1.      The Islamic Financial Services Board (IFSB) as an international standard-setting body wasestablished with a mandate to ensure the soundness and stability of the Islamic financial services industry. To achieve this mandate, the IFSB develops and issues prudential standards for the Islamic Banking, Islamic Capital Market and Takaful sectors, and recommends these standards for adoption. Implementation of IFSB standards is part of the core mandate of the IFSB, and without effective implementation of these standards, the mandate of the IFSB will not be achieved.

2.      Since its establishment, the IFSB has engaged in several types of initiatives that support the implementation of standards in member countries. These activities include conducting workshops to facilitate the implementation of IFSB Standards, offering technical assistance, providing policy advice, establishing an E-learning Platform, conducting outreach programs, administering Implementation Surveys, initiating a Training of Trainers Programme, and undertaking the translation of IFSB standards. Some of these initiatives aim to educate and enhance awareness of IFSB standards, while others offer direct assistance to member RSAs. This support extends to the development of policies and regulations, ensuring alignment with IFSB standards. The Implementation Survey, introduced to assess the implementation status of IFSB standards among member RSAs, serves to comprehend the challenges faced and identify the necessary support throughout the implementation process.

3.      The ICAP has been developed to enable RSAs to identify any regulatory gaps arising from discrepancies in local regulations or practice, or inconsistencies with IFSB standards. Additionally, the ICAP also provides a framework for measuring the impact of implementing IFSB standards though it acknowledges the difficulty of doing this in any consistent way across different standards and jurisdictions. The ICAP findings will highlight identified gaps or deviations in the domestic regulations and provide recommendations on bridging the gaps. Based on the ICAP outcomes and results, RSAs will be provided with feedback from the IFSB Secretariat on how to address the gaps and undertake the reforms needed to improve the alignment of national regulations with IFSB standards in the assessed RSA.

## SECTION 2   KEY BENEFITS OF ICAP FOR RSAs

4. The IFSB Council has recognised ICAP as a critical project for the IFSB. ICAP aims to create a better understanding among assessed RSAs regarding the implementation of IFSB standards and the effects of these standards in the local market. It will thus help the IFSB to achieve a vital part of its core mandate,

5. The following potential benefits are expected to be key for an RSA undergoing an ICAP assessment:

- Supporting the RSAs towards building a stable, resilient and high-integrity Islamic finance sector through complete and consistent implementation of IFSB standards agenda.

- Bringing confidence in the soundness of the Islamic finance industry in RSA's jurisdiction through gradual implementation of IFSB standards.

- Encouraging a fair competitive environment where both Islamic and conventional financial institutions and markets are provided with a level playing field from the regulation perspective.

- Discovering any regulatory gaps and obtaining post-assessment advice on how to remedy gaps.

- Receiving any necessary support from IFSB Secretariat to achieve complete and effective implementation of standards.

## SECTION 3 PHASES OF A FACILITATED ICAP ASSESSMENT

6. A Facilitated ICAP assessment has four distinct phases: (1) the Preparatory phase; (2) the Assessment phase; (3) the Review phase; and (4) the Follow-up phase. These are discussed in sections 4-6 in greater detail. Figure1 illustrates the main components of each phase.

7. A Facilitated ICAP follows the indicated phases and involves external parties as an ICAP team, while a Self-assessment ICAP will be controlled internally by the RSA without any involvement by the IFSB (please refer to Section 9 on Self-assessment ICAP).

Figure 1: PHASES OF AN ICAP ASSESSMENT

| PREPARATOTY PHASE | ASSESSMENT PHASE | REVIEW PHASE | FOLLOW-UP PHASE |
|---|---|---|---|
| Pre-assessment scoping | Off-site assessment | Review of report | Follow-up |
| Preparatory self-assessment | On-site assessment | Dissemination of report | Recommendations |
| Establishing an ICAP team | Identification of gaps | | |
| Data collection and initial review | Assessment of impact | | |
| | Discussion with RSA | | |
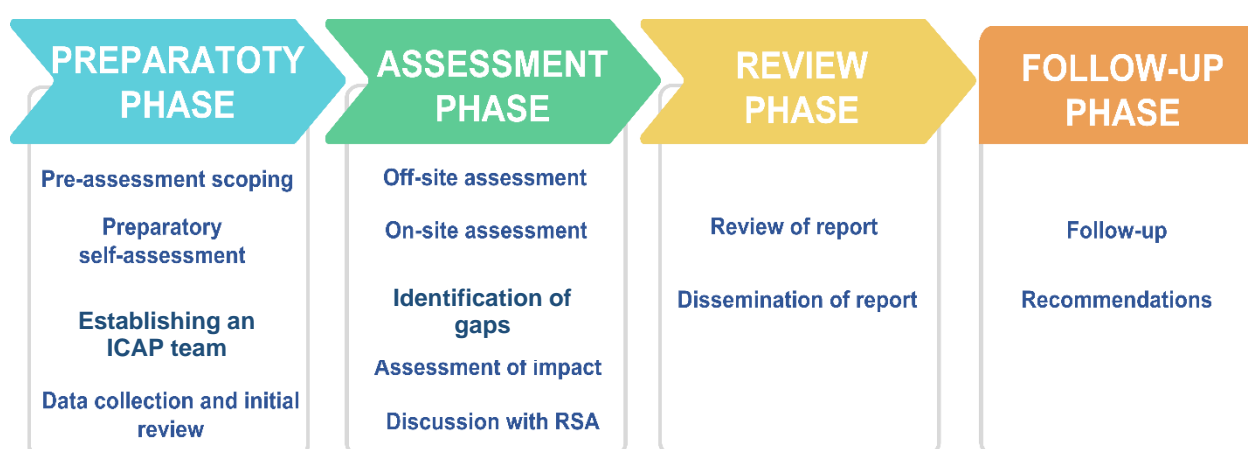
### 3.1. ICAP team members

8. An ICAP team is formed for a Facilitated ICAP. The members of an ICAP team are external experts mobilised among IFSB's RSA members other than the RSA that is undergoing an assessment. An ICAP team will be mobilised after the scope of assessment is agreed between the RSA seeking assessment and IFSB the Secretariat. The scope of the assessment will help to guide the selection of appropriate ICAP team members.

9. An ICAP team consists of an Assessment Team and a Review Team. Both teams are led by one Team Leader.

10. The Assessment Team's role is to effectively conduct an assessment for an RSA withinthe approved scope with the purpose of evaluation of jurisdiction's compliance with IFSB standards and impact of standards implementation. The ICAP report is primarily drafted by the Assessment Team.

11. The Review Team's role is to review the drafted report before it is shared with the assessed RSA and verify the assessment findings.

12.     The Team Leader's role is to support the work of Assessment Team and Review Team, coordinate ICAP team's work with IFSB Secretariat and an RSA undergoing an assessment.

13.     Appendix 1 provides information on selection criteria and roles of ICAP team members in more detail.

# SECTION 4  PREPARATORY PHASE

14.    The preparatory phase starts once a member RSA approaches the IFSB Secretariat and requests a Facilitated ICAP. The Preparatory phase will have four different stages: 1) Pre-assessment scoping; 2) Preparatory self-assessment; 3) Establishing an ICAP team; 4) Data collection and initial review.

## 4.1.    Pre-assessment scoping

15.    It is a voluntary decision of an RSA to undergo an ICAP assessment. At this stage the IFSB Secretariat will work with the RSA to identify and agree on the scope and timeframe of an ICAP assessment. At present, ICAP assessments are confined to the Islamic banking sector. Which Islamic banking standards will be assessed, and which items of the standards need to be examined will be decided depending on the RSA's objectives, available ICAP Assessment templates and the existence of results from other assessments if any (for example, FSAP, RCAP).

### 4.1.1.  ICAP Assessment Templates

16.    The IFSB Secretariat has developed a set of assessment templates for several core Islamic banking standards, including Guiding Principles on Shariah Governance System (IFSB-10), Revised Capital Adequacy Standard (IFSB-15), Revised Guidance on Key Elements in The Supervisory Review Process Standard (IFSB-16) and Revised Standard on Disclosures to Promote Transparency and Market Discipline (IFSB-22). The style of the templates is based on those used by the Basel Committee in its Regulatory Consistency Assessment Programme (RCAP) and is intended to allow a detailed assessment of the implementation of each key element of the standard, subject to one point mentioned below.

17.    IFSB-17 (Core Principles for Islamic Finance Regulation [Banking Segment]) provides an overarching high level regulatory framework for the sector, with its own assessment methodology embedded within it.  It has therefore not been necessary to develop a separate template for this standard but, where another standard is being assessed, the relevant parts of the Core Principles are included within the assessment template.

18.    The scope of assessment may include all relevant standards or some only. Because some topics are touched upon in more than one standard, the templates for the chosen standards will be customised to avoid duplication.

19.    Chosen assessment templates may also be customised to reflect the regulatory specificities adopted by an RSA undergoing an assessment, where the standard allows multiple options. For example, IFSB-15 on capital adequacy permits but does not require the use of smoothing techniques in relation to profit payouts on Profit Sharing Investment Accounts.

It makes certain stipulations where such techniques are permitted, but there it would be wrong to assess implementation of these in jurisdictions where smoothing is not permitted.

20.     The templates deal only briefly with points that are common between IFSB and conventional standards. However, it is considered appropriate further to customise the templates if an RSA has already undergone conventional assessment such as the RCAP. The results of such conventional assessment will be adopted for the purposes of the ICAP, thus assessing areas that are different for Islamic banking regulations only.

21.     The customised templates will be approved internally by the IFSB Secretariat prior to the Preparatory self-assessment stage.

22.     The Secretariat will continue developing new assessment templates for core IFSB standards, which will be available for both Facilitated and Self-assessment ICAPs. Priority will be given to core IFSB standards and updates to existing standards already included within the programme.

### 4.1.2.  ICAP Timeline

23.     The detailed timeline for each assessment will be formulated by the Team Leader (once appointed) and the IFSB Secretariat in agreement with the RSA. This may involve amendments to the indicative timings set out below depending, in particular, on the scope of the assessment. A cut-off date will be determined for every stage to ensure that there is sufficient time for all parties involved, including for the RSA undergoing an assessment to supply the required data, and the Assessment and Review Teams to conduct and verify the assessments. Jurisdictions whose regulations are not published in English should also consider the time needed to prepare translations, particularly during the Preparatory phase.

24.     Adjustments may be required to the timeline as the assessment progresses. Minor adjustments can be agreed between the Team Leader and the assessed RSA.

### 4.2.     Preparatory self-assessment

25.     Once the scope and timeframe of a Facilitated ICAP have been identified and agreed upon between the RSA and IFSB Secretariat, the RSA participating in a Facilitated ICAP assessment will be provided with Assessment templates, customised as appropriate.

26.     The RSA undergoing an assessment should start working on the provided assessment templates before the ICAP team is assembled and approved, and prior to the Assessment Team's actual on-ground assessment.

27.     Assessment templates consist of questions aimed at indicating whether the key components of each standard are implemented within the jurisdiction, which should be answered by an assessed RSA. Where an RSA undergoing an assessment considers

that a particular provision is implemented in the jurisdiction, it needs to cite evidence of such implementation. Evidence will be a reference or references to the main regulatory provisions. The RSA should properly and clearly cite references to the documents, providing the name of the Law/Act or Guidelines with detailed paragraph reference (for example section and/or clause). If (rarely) a component is implemented through supervisory practice without being clearly expressed in regulation, evidence from, for example, supervisory manuals may be provided. In either case, the aim should be that a member of the Assessment Team can look up the reference cited and verify quickly that it does indeed implement the provision.

28.    It is recommended for an RSA to arrange an internal review of all answered templates to ensure the consistency and accuracy of the responses and references.

29.    The initial filling out of the assessment templates by the RSA should follow the agreed timeline. Results of the self-assessment should be shared with the IFSB Secretariat which will subsequently share it with the Assessment Team.

30.    Once templates are completed, the RSA can concentrate on the collection of other information for the Assessment Team. The Team will need both qualitative and quantitative information on the regulatory environment and the Islamic banking sector at this stage, such as:

- Background information on the jurisdiction's Islamic banking sector.

- Legal and organisational structure of regulation in the jurisdiction.

- Structure of the regulatory regime and information on other regulatory authorities.

- The role of the courts or other disputes resolution bodies in regulatory matters.

- The Shariah Governance Framework (including the role of any national Shariah body).

- The updated prudential and structural Islamic financial indicators (PSIFIs), including information on the structure of the Islamic banking sector.

## 4.3.    Establishing an ICAP team

31.    The selection of ICAP team members will be based on the pre-agreed assessment scope (under the Pre-assessment scoping of the Preparatory phase). The nominees selected for the Assessment and Review Teams will be approved by the IFSB Executive Committee. The selection process and criteria are elaborated in Appendix 1.

### 4.3.1. *Team Leader*

32.    The Team Leader of an ICAP assessment will be a member of the Technical Committee of the IFSB. The Team Leader will be nominated by the Technical Committee in coordinationwith the IFSB Secretariat. The Executive Committee of the IFSB is to approve the nomination and officially appoint the Team Leader.

33.    The Team Leader's role is to manage the ICAP assessment, supported by the IFSB Secretariat. The Team Leader will manage and coordinate the off-site work of the Assessment Team, will lead the on-site mission and will be responsible for delivering the ICAP assessment report to the assessed RSA and the high-level report to the Executive Committee and Council. In addition to that, the Team Leader will also be heading the Review Team. To fulfill his role the Team Leader is expected to:

- Plan and support the work of the Assessment Team and Review Team as much as possible.

- Agree with the RSA on the detailed scope of assessment. (This responsibility should not be delegated).

- Request from the RSA to arrange meetings with relevant stakeholders (such as market players and/or other regulators within the jurisdiction) during the on-site assessment.

- Exercise an oversight role, with cooperation and assistance from the IFSB Secretariat.

- Ensure that Assessment Team's deliberations focus on substance over form and remain within the scope of the review.

- Head the on-site mission and attend meetings with the officials from the RSA undergoing an assessment and different stakeholders (the Team Leader shall attend the first meeting when starting the on-site engagement with the assessed RSA).

- As Head of the Review Team, Team Leader will provide the final endorsement on the ICAP assessment report. (This responsibility should not be delegated).

### 4.3.2. *Assessment Team*

34.    The Assessment Team conducts the off-site and on-site assessments, drafts the assessment report, and determines the preliminary assessment grades. Assessment Team comprises of staff from IFSB member RSAs (other than the one that is undertaking an ICAP). The mobilisation of Assessment Team members is done by the IFSB Secretariat via invitation to RSAs members to nominate their experts, who will be subject to the selection criteria based on their qualification for the particular ICAP mission.

35.    The IFSB's Executive Committee will approve the nomination and officially appoint the Assessment Team. The Assessment Team should be comprised of at least 4 people. The actual size and composition of the team will vary depending upon the scope of the assessment and the RSA undertaking an assessment. In composing the team, the IFSB Secretariat should ensure that the Assessment Team is independent from the jurisdiction that is undertaking an ICAP, so as to avoid any potential conflict of interest.

36.    The main objectives for team selection will be: (i) obtaining high-quality expertise to cover all components of the standards being assessed; (ii) ensuring that selected members could work both as primary and secondary reviewers within the team, ensuring "four-eyes" for each assessed component; and (iv) achieving appropriate geographic diversity and, where possible, language skills to assist in verifying any translations provided.

### 4.3.3.  Review Team

37.    To have a rigorous assessment, a Review Team will be set up distinct from the Assessment Team. The team's main objective is to review the draft report and provide feedback to the Team Leader and the Assessment team.

38.    The IFSB Secretariat will mobilise Review Team members following a similar invitation and selection process as for Assessment Team members. All selected Review Team members will be subject to approval by the Executive Committee. The Review Team will consist of four members who should be independent from the RSA undertaking an ICAP and Assessment Team members.

39.    The Review Team reviews the draft report before it is submitted to the RSA, both before and after the on-site visit. The Review Team also review the high-level (summary) report to be shared with the Executive Committee and Council.

# SECTION 5  ASSESSMENT PHASE

40.     The second phase will focus on conducting the assessments, identifying gaps and addressing the impact of standards. This is the phase where the Assessment Team will have to commence its duties. Individual assessors will review specific areas, based on their respective expertise (e.g., capital adequacy, liquidity, risk management, Shariah governance, etc.) feeding into an overall assessment of compliance for the respective jurisdiction. Assessors' work based on a "four-eyes" principle (i.e., two Assessment Team members covering the same area, one acting as primary reviewer and the other as a secondary reviewer). Assessors will interact with officials in the RSA that is undertaking an ICAP, especially during the on-site assessment.

41.     The Assessment Team is collectively responsible for proposing assessment ratings for individual components and the overall grade for each Standard or Core Principle. Assessment Team members will be responsible for delivering high-quality input for the ICAP assessment report. The work of the Assessment Team will be coordinated by the Team Leader with the assistance of the IFSB Secretariat.

## 5.1.    Off-site assessment

42.     The off-site assessment is based on information provided by the RSA to the ICAP team gathered during the Preparatory phase. The off-site assessment will be undertaken by primary and secondary assessors and active use of conference calls and face-to-face discussions to ensure interaction among the Assessment Team members.

43.     Following the "four-eyes" principle, the primary assessor will identify those parts of the domestic rules that are clearly compliant or largely compliant with the IFSB standards while seeking to identify, without further evaluation, those parts that are materially non-compliant, and to identify for further consideration any possible areas of non-compliance.

44.     When considering whether a provision is materially non-compliant or non-compliant, the primary assessor should apply a high standard of proof: anything not clearly shown to be compliant or largely compliant should be flagged. The second assessor focuses on the work of the primary assessor and does not normally need to review the domestic regulation in its entirety. The second assessor reviews the list of potential gaps and considers whether any items should be removed. The second assessor's work should result in a shorter list of potential non-compliance. All this is subject to validating, during the on-site visit, that the provisions of the domestic regulation are being applied in practice. In this respect, however, assessors may take some confidence from assessments by other bodies (e.g., FSAP, RCAP) if these have found a high quality of supervision in the jurisdiction.

45. The Review Team will consider the draft assessment report to see whether the Assessment Team's findings appear to be borne out by the evidence provided by the RSA, and whether a consistent standard of assessment has been applied. They will also identify any overarching issues which emerge from the assessment and to which particular attention should be paid in further interactions with the jurisdiction that is undertaking an ICAP exercise. As with the Assessment Team, members will generally be assigned a section of the assessment to review individually, with the conclusions being validated by the team as a whole.

46. The list of findings along with any additional data and clarification requests will be sent to the RSA ahead of any on-site visit for further analysis and data collection. At this stage, assessors are encouraged to be conservative by way of including issues and seeking further clarification where they are unsure.

47. The Team leader and the Assessment team should consider a work mode that is as efficient as possible using e-mail, tele-conferences, videoconferences or other virtual meetings and discuss the necessity of having one physical meeting of the Assessment Team prior to the on-site visit.

## 5.2. On-site assessment

48. The on-site assessment is the best way of obtaining a correct understanding of issues related to the adoption and implementation of IFSB standards identified during the off-site assessment. It involves face-to-face exchanges with relevant experts and the authorities responsible for the transposition and adoption of IFSB standards into domestic regulations and for supervision of compliance with them.

49. The length and content of each on-site review should be determined according to the complexity of the domestic implementation and the materiality of the issues identified. The assessment team should work closely with the RSA. Meetings with other relevant parties (including the finance ministry or treasury, other regulatory agencies, industry representatives, accounting representatives, Shariah bodies, rating agencies or analysts) may also take place to ensure that the Assessment Team collects a broad range of views and develops a sound understanding of local regulatory requirements and implementation issues. Meetings with the Islamic financial institutions should take place, if possible, without the participation of representatives of the domestic authorities. The purpose of these industry meetings typically includes:

- Discussing issues that could materially impact the quality and sustainability of implementation (these will be driven by off-site work by the Assessment Team and should not be firm-specific).

- Understanding the integrity of the implementation process in the jurisdiction and the

readiness of the industry.

- Giving the industry an opportunity to exchange views on IFSB standards and any unintended hurdles in implementation (including issues relating to a lack of clarity of IFSB standards).

- Understanding from an industry perspective the impact of standards implementation.

- Confirming the judgment of the Assessment Team on the way the relevant provisions are supervised in practice.

50. The RSA should provide all possible support and assistance to Assessment team during its on-site assessment visit, including:

- Engaging with the Assessment Team in discussions.
- Providing clarifications on matters highlighted by the Assessment Team.
- Making available further documents and additional information on ICAP team's request.
- Arranging requested interactions, meetings and discussions with market players or other regulating bodies during the on-site assessment.
- Giving feedback and commenting on drafted report prior to the review by the Review Team (under the Review phase).

## 5.3. Assessment methodology

51. For an ICAP conducted on the Islamic Banking sector, the Assessment Team will use a four-grade methodology scale (compliant, largely compliant, materially non-compliant, and non-compliant) for each standard assessed. To rate overall compliance with a standard, each item line in the template would be treated as an essential criterion. The Assessment Team will judge each item line in the assessment template that is being assessed based on the grading and provide comments on the significance and degree of each deviation if necessary. These grades are defined as follows:

- **"Compliant":** a regulation will be considered compliant if all minimum provisions of a standard applicable for this jurisdiction are met and no significant deficiencies have been identified which would give rise to prudential concerns.

- **"Largely compliant":** a regulation will be considered largely compliant if only minor provisions of a standard have not been met and if identified deficiencies do not raise any concerns about the authority's ability and clear intent to achieve full compliance within a prescribed period.

- **"Materially non-compliant":** A regulation will be considered materially non-compliant if key provisions of a standard have not been met or if identified deficiencies are sufficient to raise doubts about the authority's ability to achieve

13

compliance.

- **"Non-compliant":** a regulation will be considered non-compliant if provisions of a standard have not been adopted and significant deficiencies have been identified.

- In addition, a provision will be considered **"not applicable"** when, in the view of the Assessment Team, it does not apply given the structural, legal and institutional features of a jurisdiction.

## 5.4. Assessment of impact

52. ICAP's main objective is to assess how far domestic regulation in a particular member jurisdiction is aligned with the minimum requirements established within the IFSB standards. The result of such an assessment will help to indicate the current and potential impact of any deviations from the objectives of the RSA that is undergoing an assessment.

53. At the same time ICAP intends to provide some findings to the RSA on the impact of implementing IFSB standards on its regulated institutions. A clear assessment of impact is difficult under any circumstances, and especially when the standards are qualitative rather than quantitative. This Handbook briefly indicates a direction for an Impact assessment methodology. The comprehensive practical ways of assessing impact will be further explored and included later in the second version of the Handbook after conducting the first pilot ICAP project or case study. The IFSB Secretariat is planning to develop a standard approach to the assessment of impact by using both quantitative and qualitative approaches.

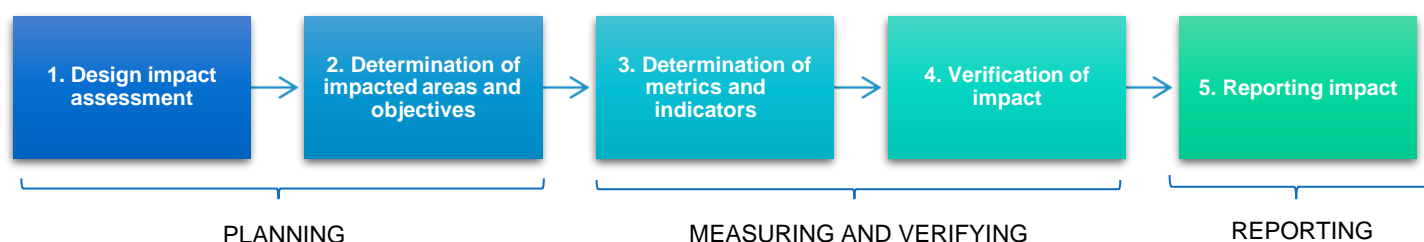### 5.4.1. Impact Assessment Framework

54. The impact of any standard, or set of standards, needs to be measured against what they are intended to achieve. In general, this will be related to a set of high-level regulatory objectives. Although defined objectives in regulation are articulated differently in different jurisdictions, they are focused mainly on the safety and soundness of the banking system, and on financial stability. They may include elements of consumer protection, but this is more commonly a feature of other sectors of financial services. In addition, an RSA choosing to be assessed is likely to have objectives linked to the growth and development of Islamic banking in its jurisdiction.

55. Some of the ultimate objectives of standards are inherently difficult to measure. For example, the ultimate objective of prudential standards may be to reduce the incidence of bank failures, but these are sufficiently rare that it is hard to draw statistically valid conclusions about them. Conduct standards may have as an objective the fair treatment of consumers, but this is not a concept for which there are currently internationally agreed metrics. Thus, impact measurement typically focuses on surrogate indicators, for example, the capital held by Islamic banks or consumer complaints. Indicators may be considered at a macro level, covering the whole of the Islamic banking sector in the jurisdiction, or at

a micro level, considering the impact of the standard on individual banks. Both have merits, depending on the nature of the standard and the indicators available.

56.    The main challenge for any impact assessment framework is to access reliable data that helps to build a conclusion on achieved impact, taking account of the range of stakeholders potentially affected, including market players, regulators, consumers, and the financial sector in general. Ideally, these will be quantitative indicators available in a consistent time series spanning the period of implementation. But where these do not exist, it may be necessary to use qualitative approaches as described below. Therefore, in the process of assessing an impact Assessment Team should focus on capturing and identifying an impact using both quantitative and qualitative approaches.

57.    An impact assessment framework should provide a structure that helps to address different aspects of an impact (see Figure 2 below).
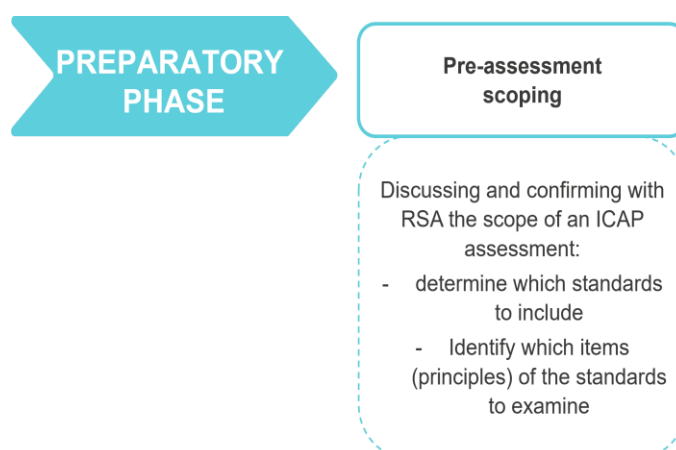
Figure 2: IMPACT ASSESSMENT FRAMEWORK



| 1. Design impact assessment | 2. Determination of impacted areas and objectives | 3. Determination of metrics and indicators | 4. Verification of impact | 5. Reporting impact |

PLANNING          MEASURING AND VERIFYING          REPORTING

### 5.4.2.  Impact Assessment Process

#### a)  Scoping

58.    As mentioned earlier, the Pre-assessment scoping under the Preparatory phase is the point where the scope of an ICAP is to be identified and agreed with the RSA. This will be true of both Consistency and Impact assessments. The RSA will need to highlight and approve which standards and/or which parts of those standards are to be examined. The scope of assessment may include all relevant standards or some only. Thus, each ICAP assessment may assess different standards or groups of standards, and, in addition, the Consistency assessment may find different levels of implementation of those standards.

59.    At an early stage, the Team Leader should discuss with the RSA its interest in impact assessment and its view on the approaches most likely to yield conclusions. The Team Leader should obtain from the RSA the relevant quantitative data series, where these are not already available. The Team Leader should discuss the intention and the relevant materials with the Assessment Team. On the basis of this discussion, it may be decided to seek further data from the RSA.

Figure 3: PREPARATORY PHASE OF IMPACT ASSESSMENT PROCESS

**PREPARATORY PHASE**

**Pre-assessment scoping**

Discussing and confirming with RSA the scope of an ICAP assessment:
- determine which standards to include
- Identify which items (principles) of the standards to examine

### b) Impact indicators

60. Once the scoping is finalised and standards or set of standards for the assessment are identified, the next step is to determine metrics/indicators. These indicators will be used to capture any progress resulting from the implementing of standards and conclude whether the desired change (expected or intended) has taken place.

61. To select the indicators an Assessment team will need to identify the intended impact areas of the standard that is being examined and evaluate whether the objectives of the standard have been achieved.

62. The impact indicators will represent metrics that measure the standard's objectives and outcomes. In other words, selected indicators need to be mapped with specific desired impact objectives. It will be the change in the indicators from the starting point (before a standard has been implemented) to the current day (after implementation of a standard) thatgives the best indication of impact, and the indicators thus need to be available in a consistent time series. Thus, for example, for the capital adequacy standards (IFSB-2, IFSB-15 and IFSB-23) several of the Prudential and Structural Islamic Financial Indicators (PSIFIs) indicators as CP02 Tier 1 capital to RWA and CP03 Common Equity Tier 1 (CET1) capital to RWA Asset Quality may be relevant.

63. The PSIFIs data are excellent examples of internationally agreed metrics applicable to certain standards. In other cases, for example, corporate governance, risk management, or conduct of business, such metrics do not exist. In some cases, there may be locally defined data series that are applicable; in others, there will not. Hence it may be necessary to use purely qualitative indicators.

### Quantitative indicators of impact

64. As already noted, the quantitative indicators used to measure impact are likely always to be proxies for the final objectives of regulation. They should be credible, available on a consistent basis over an appropriate period and, ideally, consistent across jurisdictions. The

PSIFIs data is intended to measure key factors about the Islamic finance industry and is compiled on the basis of standardised definitions. Some of the indicators from the PSIFIs data will throw light on some of the relevant issues, particularly the overall position of Islamic banking in the jurisdiction, capital adequacy and liquidity. These indicators are:

ST01 Number of Islamic banks/ Number of Islamic windows

ST02 Number of employees

ST03 Total assets

ST04 Total funding/liabilities

ST05 Total revenues

ST06 Earnings before taxes and *Zakat*

CP01 Capital adequacy ratio (CAR)

CP02 Tier 1 capital to RWA

CP03 Common Equity Tier 1 (CET1) capital to RWA Asset Quality

CP04 Gross nonperforming financing (NPF) ratio

CP05 Net nonperforming financing (Net NPF) to capital

CP06 Provisions for gross nonperforming financing (NPF)

CP13 Liquid assets ratio

CP15 Liquidity coverage ratio (LCR)

CP16 Net stable funding ratio (NSFR)

65. Where necessary, the Global Findex Database can be used as a source of additional indicators relating to financial inclusion, since it provides almost 300 indicators on topics such as account ownership, payments, saving, credit, and financial resilience and reports for all indicators by country, region, and income group. However, Islamic banking is not identified separately, and data are published only at intervals of (normally) 3 years.

66. One of the possible indicators for conduct issues is complaints made, normally by customers. These could be complaints to the regulator, or available data on cases resolved by an ombudsman, or judgments in a court, depending on practice in the jurisdiction. But the data needs to be collected consistently and the numbers need to be sufficient to reveal patterns over time.

67. Figures for Shariah non-compliant income will cast light on Shariah compliance issues, though will need to be interpreted carefully.

68. The Assessment Team will discuss with the assessed RSA which of these indicators are likely to cast light on the impact of implementing the relevant standards and are available over a sufficient period. They will also discuss any issues of interpretation.

69.     Particularly, but not exclusively, for qualitative standards, adequate quantitative indicators may not be available or may be too difficult to interpret. In these circumstances an ICAP team may need to use a "story-telling" approach. This would involve interviewing relevant people, in a structured way, to get their insights into how the implementation of particular standards has affected behaviour and industry development. The interviewees would need to include regulators, industry players and, ideally, outsiders such as academics or consumer organisations to get a balanced view. This approach will help to gain a balanced view and get respondents' insight on how the implementation of particular standards has affected the Islamic banking industry's behaviour and development. In these instances, the RSAshould assist the ICAP team in arranging meetings and discussions with relevant people.

70.     The impact of qualitative data (non-quantifiable) is assessed using expert judgment. Assessment Teams are expected to be as consistent as possible in assessing qualitative information. Based on the interview findings, the Assessment team can summarise the impact of each of the standards' objectives or principles as follows:

- "No or little impact": implementing the particular IFSB standard or group of standards did not discernibly affect the area that is being assessed.

- "Limited impact": implementing the particular IFSB standard or group of standards had an observable impact on the area that is being assessed, but the impact was limited in either scale or scope.

- "Significant impact": implementing the particular IFSB standard or group of standards had a material impact on the area that is being assessed.
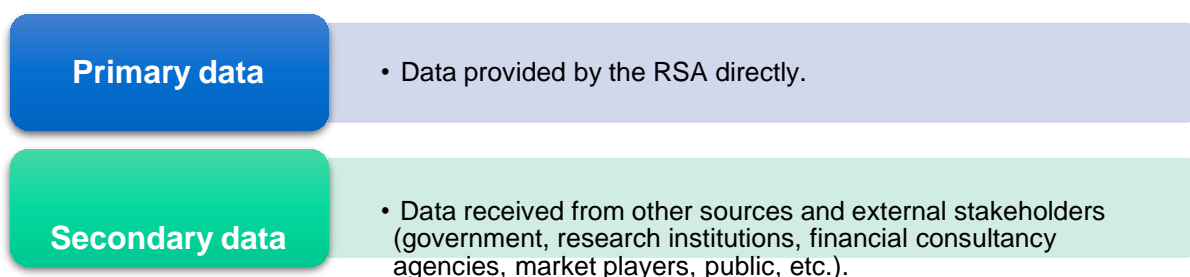
### c) Impact data collection via templates

71.     The evidence of the impact of the implementation of IFSB standards needs to be presented through data (both qualitative and quantitative as discussed earlier).

72.     It is suggested to use more than one source of data to support the impact assessment. The data quality that is being collected should be enhanced through engaging different stakeholders as well.

73.     Priority should be given to the data that already exists and is easily accessible. The Assessment team should also identify other sources of data to collect necessary information. Given the importance of having a consistent time series, it is unlikely that wholly new quantitative data can be generated, but there may be sources outside the regulator. For example, the standards on transparency and disclosure have as an objective effective market discipline, and there may be market data on the valuation of the shares and Sukuk of Islamic financial institutions that will help to indicate how far this is occurring.

74.     There might be certain challenges with existing data. For example, in some jurisdictions

the number of court cases and rulings on claimed Shariah non-compliance events may be a measure of the impact of Shariah governance standards. However, the data may exist but not shared with the regulatory or supervisory authority. In this case, there should be assurance that RSAs will provide full support to gather necessary data.

75.     Additionally, both macro and micro-economic data are important for impact evidence. Macro-level data will facilitate to detect changes across the Islamic banking sector, while micro-level data gives insights on a firm-by-firm basis. From the assessment perspective, both approaches complement each other. In general, the macro level data will give the best pictureof the overall impact of implementation, but it needs to be supplemented by some knowledgeof the micro level because of possible confounding factors arising at the individual bank level.

76.     However micro-level data might not be easily accessible since it is not public. On the other hand, there may be instances where, if there is no centrally held data, for example on consumer complaints, it may be that the only consistent data series are to be found at firm level, or even that a more subjective, "story-telling" approach must be used, in which case some potential narratives will be available only at the micro level.

Figure 4: SOURCE OF DATA

| **Primary data** | • Data provided by the RSA directly. |
|---|---|
| **Secondary data** | • Data received from other sources and external stakeholders (government, research institutions, financial consultancy agencies, market players, public, etc.). |

77.     Depending on the source of data, the Assessment team can collect data though different methods:

- Questionnaires and surveys;
- Industry research (websites, reports, statistical bulletins, etc.);
- National plans, roadmaps, and blueprints;
- Internal engagements – interviews with RSA's management and head of departments;
- External engagement – interviews with other stakeholders, like banks' management, other regulatory authorities, financial experts, consumers, and so on.

78.     The Team Leader's discussion with the Assessment Team should also involve planning what needs to be done on-site and what meetings are necessary, either for a qualitative approach or to help interpret quantitative data.

Figure 5: DATA COLLECTION METHODS

| QUANTITATIVE METHOD | QUALITATIVE METHOD |
|---|---|
| • Official statistics<br>• Surveys<br>• Questionnaires<br>• Official records and reports<br>• National development plans | • Interviews<br>• Feedbacks<br>• Discussions |

79.　To map received data with selected indicators and desired impact through standard's objectives and outcomes, the Impact assessment templates should be used to measure and manage an impact. Impact assessment templates to be developed for each individual standard that is being identified for scope of an ICAP, and in the light of discussions with the RSA on data availability.

80.　The Consistency assessment templates have been developed to identify any existing gap between RSA ground regulations and IFSB standards requirements. Following the same range of standards, the Impact assessment templates will be developed and linked with Impact assessment methodology.

### d) Impact data verification and analysis

81.　Prior to conducting an analysis of collected and received data, there should be a verificationprocess ensuring that data is credible, sufficient, and of good quality.

82.　Through verification the data can be recognised as impact data which is complete, transparent and came from the validated sources and methods of data collection.

83.　The verification process may include data comparison and triangulation within different time ranges and for different desired impact outcomes. It may also confirm certain assumptions made during the process of data collection.

84.　Verification process can be done using:
- *Comparative study*. This tool can be used once a sufficient amount of Facilitated (peer review) ICAP has been conducted, resulting in a database of impact results that will allow comparison with other RSAs that have similar baseline conditions, geographical and financial similarities and other similar issues and challenges.

- *Additional research*. This tool should be used to confirm whether determined indicators and data can be traced with other data (for example from national statistics, reliable databases, reports and records and others).

- *Interviews*. Follow up interviews might be conducted to verify the data and its link to the impact, covering different stakeholders.

- *Additional engagement.* If the received data implies that external stakeholders were impacted from the implementation of a standard, the engagement and discussion with that external stakeholder will support the verification of that assumption.

85.    Data analysis would be used to develop an impact result which should be confirmed by data and by different stakeholders for each of the standards that is included in the scope of an ICAP.

86.    The ultimate purpose of the analysis is to confirm the impact from implementation of the standard/s that is/are being assessed.

### e)  *Reporting and communication*

87.    Reporting impact refers to the communication of the impact assessment result to the RSA.

88.    ICAP teams should follow all prescribed steps above to ensure effective reporting on impact results which include determination of desired impact, choosing appropriate indicators and metrics, proper data collection and verification of impact data. (Please refer to section 5.5. "Drafting report" for more information).

### f)  *Monitoring and review*

89.    Monitoring impact is the continuous process of data collection to determine any achieved progress with regard to the objectives and outcomes of the implementation.

90.    Ideally impact monitoring should start right after the adoption of IFSB standards and continue throughout the standards implementation period.

91.    Impact monitoring is the prerogative of an RSA that went through a Facilitated ICAP since it is not feasible for the peer review team to reevaluate the impact results unless thereis a request from the RSA.

92.    The review process is described in more detail in Section 6 "Review phase".

Figure 6: IMPACT ASSESSMENT PROCESS

## 1. IDENTIFYING SCOPE OF IMPACT ASSESSMENT

- RSA to select and approve standard/s and items that need to be assessed.

## 2. IDENTIFYING IMPACT INDICATORS

- Determine the desired impact from standard/s implementation.
- Identify objectives and outcomes of the standard/s.
- Select quantitative and qualitative indicators to get information on the impact.
- Assign 1-3 indicators to each objective and outcome.

## 3. IMPACT DATA COLLECTION

- Determine what type of data needed (qualitative or quantitative).
- Identify data sources.
- Identify data providers.
- Use different data collection methods.
- Use templates to collect data.

## 4. IMPACT DATA VERIFICATION & ANALYSIS

- Conduct data verification process using available tools.
- Analyse verified data.
- Confirm achieved impact.

## 5. REPORTING AND COMMUNICATION

- Share impact assessment results.
- Provide comments on findings.
- Recommend next steps on addressing gaps.

## 6. MONITORING AND REVIEW

- Systematically collect and analyse new data to confirm or re-address impact assessment results (RSAs responsibility).
- Reevaluate impact results upon RSA's request.
- Review and approve a report and provide follow-ups.

## 5.5.    Drafting of report

93.    An ICAP report will have to be drafted during the off-site phase. The report will include the background information relating to regulations and financial system of the RSA included both in the report and annexes. The IFSB Secretariat will prepare the first drafts of these sections.

94.    Some parts of the report (e.g., data, annexes included for information only) may be completed by the authorities of the jurisdiction that is undertaking an ICAP.

95.    Assessment Teams should aim to send a list of the preliminary findings to the RSA prior to the on-site assessment. Where possible, this should be in the report format, so that the report can be easily updated during the on-site assessment and the findings (subject to the work of the Review Team) presented to the authorities of the jurisdiction that is undertaking an ICAP at the end of the visit.

96.    The RSA will be given an opportunity to comment on the draft report before the review phase. As part of this process, the RSA will have the opportunity to present its views on the findings of the assessment and have them reflected in a separate section of the report. Comments provided by the jurisdiction will be carefully considered by the Assessment Team, who should be prepared to explain how they have dealt with the major comments. However, the assessment report remains an expert report of the Assessment Team and should not become a matter of negotiation between the Assessment Team and the authorities.

97.    Where it proves possible for the Assessment Team to reach any conclusions on impact, these should be included within the report. In some cases, however, the report may need to concentrate on recommending to the RSA how impact may be monitored in the future, and what data will need to be collected to do this.

98.    The ICAP assessment report should essentially have the following information:

- Assessment and Review Team members.

- List of IFSB standards used in the assessment.

- Local regulations implementing the relevant IFSB standards.

- Assessment of the level of implementation of each standard.

- Identification of the major areas where implementation is incomplete.

- Assessment of the impact of standards implementation, or recommendations for its future assessment.

## 5.6. Discussion with RSA

99.     After conducting the assessments, the team involved will have a detailed discussion with the RSA on recommendations. Following that discussion, the team should aim to finalise (while still on-site) a draft report which will indicate the level of standards implementation as well as the material findings and the team's conclusions or recommendations on the assessment of impact. Comments from the RSA, if any, will be incorporated in a separate section when received. The last stage of the assessment provides the concerned RSA with a finalised report which illustrates the steps that should be taken by the RSA to address the ICAP findings. This will follow the review phase described below.

## 5.7. Impact Index

### Impact Index

100.    The longer-term aim of the ICAP project is to create a methodology and database that will result in the establishment of an Impact Index.

101.    The purpose of an Impact Index is to demonstrate the overall impact of implementing IFSB standards among member jurisdictions and to relate this to the extent to which jurisdictions have implemented the standards.

102.    Impact Index is a measurement system of the impact of implementing IFSB standardsthat will be composed of relevant IFSB standards applicable to the Islamic banking sector. The standards included in the Index will be selected based on the prudential areas that are of particular importance from a stability and resilience perspective.

103.    To arrive at a reliable Impact Index, it will require a significant number of jurisdictions to have conducted a Facilitated ICAP on standards that are included in the Index.

104.    Below table gives examples on standards that may constitute an Impact Index. It is important to envisage the replaceable character of certain standards (the successive generation of standards for the same prudential area):

| No | Prudential area | Relevant standards |
|----|-----------------|--------------------|
| | **Impact Index Composition** | |
| 1 | Shariah Governance | IFSB-10 (later superseded by revised standard) |
| 2 | Capital Adequacy | IFSB-15 (which will be superseded by IFSB-23) |
| 3 | Liquidity Risk Management | IFSB-12 and GN-6 |
| 4 | Core Principles | IFSB-17 |
| 5 | Supervisory Review Process | IFSB-16 |
| 6 | Disclosure Requirements | IFSB-22 |

| 7 | Stress-testing | IFSB-13 and TN-2 |
|---|---|---|
| 8 | Corporate Governance | IFSB-3 (later which will be superseded by IFSB-30) |
| 9 | Conduct of Business | IFSB-9 |

105. The Impact Index methodology will include a calculation of an individual impact rating for each of the standards within the Index. Therefore, the impact of each standard and each areaof the standards should be measured in a consistent way. This process will require the selectionand combination of variables (indicators and metrics) for each composite of an Impact Index. Every impact from each standard should be identified, considered, and calculated.

106. Decisions should be made on each indicator and its weight for individual impact rating calculation purposes.

107. Once the individual impact rating of the standards is calculated, the weightings between standards will be assigned, to represent the proportion of each standard's impact in the overall Impact Index and their significance.

108. Where different indicators have to be used for different jurisdictions, impact ratings for individual standards will need to be synthesised into a single score, inevitably involving some subjective judgements, before that score is weighted against others to create the Index.

109. We have considered whether some indicators (some of which may be relevant to more than one standard) might be incorporated within the index directly. However, it is likely that different standards – say capital adequacy and supervisory review process, which might well share some indicators – will have been implemented at different times, which implies that different parts of the time series will be relevant.

110. However, some additional macro-level data can be considered for Impact Index calculation. For example, the growth of the Islamic banking sector overall, extent of financial inclusion, etc., which cannot be immediately related to individual standards but may legitimately be regarded as influenced at least in part by a supportive and effective regulatory environment. Such data will receive its own separate weighting in the index.

# SECTION 6  REVIEW PHASE

111.    The third phase consists of review of a report, its approval, and discussions on follow-up.

## 6.1.    Review of report

112.    The draft report will be reviewed by the Review Team before being sent to the RSA. As before, Review Team members will be assigned a section of the assessment to review individually, and their findings will be discussed with the Review Team as a whole. Comments raised by the Review Team about the material findings or policy issues arising from the ICAP assessment will be shared with the Team Leader.

113.    The Review Team will also provide an opinion specifically on how the focus on substance has been met and is reflected in the draft ICAP report, considering the proportionality between the identified deviations and the grades and whether the assessment is balanced and sufficiently supported by analysis.

114.    The timetable for the review phase will be tight. The RSA will be given 10-15 days after the on-site visit to submit its comments on the assessment report (during which time the Review Team can begin its work). The Review Team will then have a further 10-15 days to finalise the assessment report and admit or address the RSA's comments. Otherwise, if within the given timeframe the Review Team is not able to finalise the report, the final report will be submitted based on the assessment results and RSA's comments.

115.    The Review Team will also review a summary of the ICAP report drafted by the Team Leader and intended as the high-level report for submission to the Executive Committee and the Council.

## 6.2.    Dissemination of report

116.    Once the assessment report is completed, it will be sent to the IFSB Secretariat which will forward it to the RSA that is undertaking an ICAP exercise.

117.    A high-level report will be provided to the Executive Committee for review and forwarding to the Council.

118.    The full report on the RSA that has undertaken an ICAP exercise cannot be shared publicly by any of the involved ICAP team members.

# SECTION 7   FOLLOW-UP PHASE

## 7.1.   Follow-up

119.   The ICAP follow-up processes allow the IFSB Secretariat to keep abreast of the continuing efforts by its members to implement standards. Further, this will improve the quality of reporting to the Council on progress with the implementation of IFSB standards. Above all, the process is intended to help member RSAs to systematise and communicate their own monitoring efforts at the national level.

120.   Issues identified by Assessment Teams for follow-up will be listed in the ICAP reports. These items should generally be limited to findings considered material or potentially material to the overall implementation.

121.   The Assessment Team's review of items listed for follow-up should generally be described in a separate report, to make it easier for stakeholders to track changes to the assessments of individual standards.

122.   One year after submitting the report, the RSA should explain how the deviations from the IFSB standards and Core Principles identified in the ICAP assessment report were addressed or what proposals have been made to address them. The RSA's report will include new or amended IFSB-based requirements or regulatory changes that have been enacted by the RSA. The Council will receive a high-level report on this also.

## 7.2.   Further support by the Secretariat

123.   The IFSB Secretariat, by agreement with an RSA undertaking an ICAP and depending on the nature of the issue can provide technical assistance and policy advice addressing gaps identified within the provided report and findings from the ICAP assessment.

124.   IFSB Secretariat may recommend adopting not yet implemented standards by the RSA based on the jurisdiction's plan.

125.   Further recommendations can be given by the IFSB Secretariat to the RSA.

# SECTION 8   CONFIDENTIALITY ARRANGEMENTS

126.   To protect the RSA's sensitive information during the ICAP exercise – both on-site and off-site, the Assessment and Review Teams will follow established IFSB confidentiality arrangements. In addition, the Assessment Team, Review Team, Team Leader, and any members of staff of the Team Leader's organisation supporting the assessment will be subject to a specific ICAP confidentiality agreement that is agreed upon with the RSA undertaking an assessment. All assessment findings and grades should be treated as confidential until certain information is discussed and approved by the RSA to be released as a summary report to the Executive Committee and the Council.

# SECTION 9   SELF-ASSESSMENT ICAP

127.   As mentioned previously, an ICAP assessment can also be conducted internally by the RSA itself, without involving the IFSB Secretariat and therefore without forming ICAP Assessment and Review teams. (It is of course open to the RSA to engage external assessors of its own if it so wishes.) This type of ICAP will be a Self-assessment ICAP.

128.   For a Self-assessment ICAP to have significant value, the RSA will need to commit to a sufficiently rigorous assessment process. Although this will be solely under the control of the RSA, an RSA is strongly advised to follow a broadly similar structure of assessment phases to that for a Facilitated ICAP.

## 9.1.   Scope and timeline of assessment

129.   Where an RSA opts only to undertake a Self-assessment ICAP, it can determine its own scope of assessment over whichever standards it wishes (where assessment templates already exist) and with its own chosen timeline for its assessment activities without any involvement by the IFSB Secretariat. An RSA, however, may seek advice from IFSB Secretariat in developing a scope of assessment.

## 9.2.   Assessment templates

130.   A Self-assessment ICAP will involve the use of the existing ICAP templates which will be available for download from the IFSB website for any RSAs. As in a Facilitated ICAP, the chosen assessment templates may be customised by an RSA to eliminate any overlaps between the standards being assessed, and any overlaps with topics already assessed under, for example, an FSAP or RCAP. There may also be customisations to reflect specific characteristics of the jurisdiction[1]. RSAs are, however, advised to use this last option sparingly; it may be better to use the template as it stands and simply mark some provisions as "Not Applicable". Customised templates do not need to be endorsed by the IFSB Secretariat, which will not be involved in this process in any way.

131.   The process of completion of the ICAP assessment templates should follow the recommendations outlined in Subsection 4.2 paragraph 27.

## 9.3.   Self-assessment team

132. A Self-assessment ICAP will not involve the mobilisation of an Assessment Team or a Review Team by the IFSB Secretariat. However, it is recommended for an RSA that is undertaking a Self-assessment ICAP to form an internal review team to ensure that its self-assessment is sufficiently rigorous to be a useful guide for future action. Since a Self-assessment ICAP will generally be intended to allow the RSA to fill any gaps or remedy

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[1] For example, that certain activities for which risk weights might be set are not permitted at all in the jurisdiction.

any divergences in implementation, itis recommended that formal internal arrangements for follow-up are established to ensurethat any gaps are addressed.

**ICAP TEAM**

| Categories | Selection Process | Selection Criteria | Role |
|---|---|---|---|
| **Team Leader** | • The nomination of the Team Leader will be done by the Technical Committee (TC) in coordination with the IFSB Secretariat.<br><br>• The Team Leader will be a member of the TC of the IFSB.<br><br>• The Executive Committee (EC) is to approve the nomination and officially appoint the Team Leader. This will normally be done by correspondence. | • Team Leader should have at least 15 years of relevant experience, including experience in developing financial services policy and regulation.<br><br>• Should have direct exposure in implementing and enforcing international standards in his/her home jurisdiction.<br><br>• Should have a very good understanding of IFSB standards.<br><br>• Team Leader to be independent of the jurisdiction that is undertaking an ICAP to avoid any potential conflict of interest. | • Plan and support the work of the Assessment Team and Review Team as much as possible.<br><br>• Determining the scope of the assessment with the jurisdiction that is undertaking an ICAP.<br><br>• Exercise an oversight role, with cooperation and assistance from the Secretariat, ensuring that the Assessment Team's deliberations focus on substance over form and remain within the supervisory scope of the review. |
| **Assessment Team (AT)** | • The nomination of the Assessment Team (AT) will be done by the IFSB Secretariat.<br><br>• The AT members will be drawn from the IFSB member RSAs.<br><br>• The EC is to approve the nomination and officially appoint AT.<br><br>• The AT should | • An AT member should have a minimum of 10 years of relevant experience, including experience indeveloping financial services policy and regulation.<br><br>• Should have direct exposure to implementing and enforcing international standards in his/her home jurisdiction.<br><br>• Should have exposure to supervision and methodology of off-site | • The role of the AT is to effectively conduct the assessment within the scope and timeline given.<br><br>• The AT is to assess a jurisdiction's compliance with IFSB standards and to the extent possible assess the impact of standards implementation.<br><br>• The AT is to take |

| | | | |
|---|---|---|---|
| | • comprise of at least 4 people. | and on-site assessments.<br>• Should have a very good understanding of IFSB standards (especially the area he/she is overlooking, e.g., capital adequacy).<br>• AT to be independent of the jurisdiction that is undertaking an ICAP, to avoid any potential conflict of interest. | primary responsibility fordrafting the ICAP report. |
| **Review Team (RT)** | • The nomination of the Review Team (RT) will be done by the IFSB Secretariat.<br>• The RT members will be drawn from the IFSB member RSAs.<br>• The RT will include a senior staff member from the Secretariat (Assistant Secretary-General, Standards Implementation Department, ASG SID).<br>• The EC is to approve the nominations and officially appoint the RT.<br>• The RT should comprise of at least 4 people. | • An RT member (other than the ASG SID) should have a minimum of 10 years of relevant experience, including experience in developing financial services policy and regulation.<br>• Should have direct exposure in implementing and enforcing international standards in his/her home jurisdiction.<br>• Should have a very good understanding of IFSB standards.<br>• RT to be independent of the AT and the jurisdiction that is undertaking an ICAP, to avoid any potential conflict of interest. | • The RT reviews the draft report before it goes to the assessed jurisdiction, both before and after the on-site visit.<br>• The RT reviews the summary report to be sent to the EC and Council.<br>• It should inform the Team Leader about material findings or policy issues arising from the ICAP assessment. |

| IFSB Secretariat | • The IFSB Secretary-General will appoint the staff involved in the ICAP assessment.<br>• The ICAP Project Manager will be in charge of the project from the IFSB Secretariat side.<br>• The ASG SID is to be part of the RT. | • The ICAP Project Manager is drawn from the IFSB's Standard Implementation Department.<br>Other Secretariat members from the Research and Standard Development Department will be consulted as needed.<br>• The ICAP Project Manager will not be part of the validation effort by the RT. | • The IFSB Secretariat to play the coordination role in the exercise and ensure effective communication and flow of information between all stakeholders. |

**ICAP RESPONSIBILITY MATRIX**

| | Pre ICAP | During ICAP | Post ICAP |
|---|---|---|---|
| Member RSA | • Conduct self-assessment.<br>• Provide the needed data and information | • Engage with AT in discussions.<br>• Provide clarifications on matters highlighted by the AT.<br>• Provide further documents and information if needed.<br>• Arrange for any interactions with market players during the assessment. | • Address comments and feedback given by AT.<br>• Provide feedback on corrective actions taken. |
| Assessment Team (AT) | • Develop the scope of the assessment.<br>• Review of data and information submitted by the RSA.<br>• Establishing methodology and approach for the assessment exercise. | • Off-site and on-site review.<br>• Identification of gaps.<br>• Assessing an impact.<br>• Draft preliminary and final reports.<br>• Engaged in discussion with the RSA. | • Finalise the report and dissemination of information to RSA and IFSB management.<br>• Submit an action plan with feedback and recommendation. |
| Review Team (RT) | • Not applicable | • Review the ICAP report and ensure that the assessment is balanced and sufficiently supported by analysis.<br>• Provide feedback to the AT on their findings. | • Not applicable |

| | | | |
|---|---|---|---|
| IFSB Secretariat | • Facilitate the process of AT and RT selection.<br>• Ensure SOP is implemented.<br>• Coordinate the data gathering and ensure documents submitted to AT. | • Coordinate on off-site and on-site review.<br>• Assist in drafting the report.<br>• Attend discussions between AT and RSA.<br>• Report to IFSB management on progress. | • Report to IFSB management on the results of the ICAP assessment.<br>• Follow up on corrective actions by RSA. |
| Executive Committee (EC) | • Approve the appointment of the head of the AT, who will be a member of the TC.<br>• Approve the team members of AT and RT. | • Receive high-level updates on the progress of the ICAP project. | • Endorse the high-level report on ICAP and provide feedback and recommendations. |
| Council | • Not applicable | • Not applicable | • Receive the high-level report on ICAP and provide feedback and recommendations if any. |