ISLAMIC FINANCIAL SERVICES BOARD

IFSB Strategic Plan 2025- 2027

December [8], 2024

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About the IFSB

- The Islamic Financial Services Board (IFSB) is the global standard-setting body responsible for promoting the development of a prudent and transparent Islamic financial services industry through the development and issuance of standards, guidance and other supporting material and assisting in their effective and consistent implementation. The IFSB also provides a forum for knowledge-sharing and cooperation among its members.
- The IFSB standards complement the international architecture for financial stability, while providing minimum benchmarks and guidance to improve the prudential framework for Islamic financial services segments across jurisdictions, considering its specific nature and characteristics.
- Established in 2002, the IFSB has a current membership of 188 members from across 58 jurisdictions. The IFSB coordinates its work with other international financial policymakers, multilateral bodies and international infrastructure organisations.

IFSB Mission

- The mission of the IFSB is to support the mainstream adoption of Islamic finance by promoting effective and globally consistent regulation and supervision to develop a fair, safe and resilient Islamic financial services industry that contributes to overall global financial stability.

IFSB Mandate

- Issue Standards and Guidance for all segments of the Islamic financial services industry
- Carry out financial stability monitoring and analysis of the Islamic financial services industry
- Provide capacity building and technical assistance.

ABBREVIATIONS

CPICM:	Core Principles for the Islamic Capital Markets
CPIDIS	Core Principles on Islamic Deposit Insurance Systems
CPIFR:	Core Principles for Islamic Finance Regulation
FSAP:	Financial Sector Assessment Programme
FSSR:	Financial Sector Stability Review
IFRS:	International Financial Reporting Standards
IFSI:	Islamic Financial Services Industry
ICAP:	Impact and Consistency Assessment Programme
LCGS:	liquid local currency government sukuk
NBFI:	Non-Bank Financial Institutions
PSIFI:	Prudential and Structural Islamic Financial Soundness Indicators
RSA:	Regulatory and Supervisory Authorities
SP:	Strategic Plan
TA:	Technical Assistance

EXECUTIVE SUMMARY

The IFSB Strategic Plan (SP) 2025-2027 defines the strategic direction and priorities over the 3-year period considering relevant global and Islamic finance developments. The global environment is characterised by heightened risks from geopolitical and economic volatility and policy uncertainties, the buildup of vulnerabilities, and emerging risks arising from climate-change and new technologies. The Islamic finance industry continues to grow, albeit unevenly across sectors, but is vulnerable to global risks and to new financial stability risks from new instruments.

The financial sector policy work will increasingly focus on the nonbank financial sector. This will help address a significant gap in the development of the non-bank sector within the Islamic finance ecosystem. Additionally, policy development work will focus on completing the ongoing work on elements of the financial safety net framework to ensure the resilience of the industry in the face of the upcoming challenges, ensure the quality and adequacy of the existing standards, and assess implications of emerging issues, including climate and digitalisation.

The capacity development programme will be enhanced significantly. The programme, including the new technical assistance mandate (TA), will be geared towards supporting consistent implementation of the IFSB standards, building an enabling legal and regulatory environment, supporting sukuk and insurance markets development, and frameworks for liquidity management. The TA programme will be contingent on the availability of the needed resources.

The research programme will focus on supporting the IFSB work. In particular, IFSB research will be directed to provide an analytical foundation for the development of standards and guidance, develop analytical tools supporting standards implementation activities, and explore evolving and cutting-edge issues relevant to Islamic finance.

Efforts to improve communication and implement the needed institutional reforms will be strengthened. In particular, the focus will be on revamping membership engagement and communication programmes, completing the on-going governance reform process, and strengthening internal procedures and staff skills.

The strategic work programme is built around a conservative medium-term budget. Considering that membership fees account for most of IFSB's revenue and have not materially changed since 2013, the medium-term budget is assumed to be static with negligible growth and spending allocations will be similar to past budgets. The mobilisation of TA donor funding will expand the budget envelope, but its extent remains uncertain.

The SP faces potential risks of strategic misalignment, financial, operational and governance. The risks of misalignment of strategic priorities with global and industry development and a financially unsustainable work programme are low considering the broad consultation and conservative budgeting. Operational and governance risks are more elevated considering the need for a better staff skill-mix and significant governance reforms.

INTRODUCTION

1. **This SP defines the direction of the IFSB over the 2025-2027 period in support of its mission and in line with its mandate.** It guides and sets strategic priorities for the IFSB's work programme over the 3-year period (Appendix I).

2. **In line with the mission and mandate of the IFSB, the development of the 2025-27 SP was guided by the following principles:**

   a. Strong commitment to the soundness and stability of Islamic finance globally, through the development and maintenance of robust financial sector policies (standards and guidance), monitoring of financial stability risks, and carrying out supportive and cutting-edge research,

   b. Steadfast support to helping member countries develop a safe and sound Islamic financial services industry (IFSI), through enhanced TA and capacity-building activities,

   c. Enhanced global engagement, cooperation, and communication with members, Islamic infrastructure organisations, international financial and development institutions, non-government organisations, and the public at large, and

   d. Agile and effective organisation through strengthened governance, enhanced staff skills, and strategically focused work programme delivery.

3. **The SP has been informed by extensive consultation and preparation that involved:**

   a. Broad consultation with member regulatory and supervisory authorities (RSAs), including through the early circulation of a Strategy Note that outlined the proposed strategic direction and priorities, relevant international organisations and standard setters, and Islamic infrastructure organisations,

   b. In-depth background research of global economic and financial developments potentially impacting IFSI, and the state of development and conditions of IFSI, and

   c. Internal review of Council's discussions over the past two years and the progress of IFSB's on-going work.

4. **The SP 2025-2027 activities were prepared within the projected available resources to maintain the IFSB's financial viability over the medium term (Appendix II).** Nevertheless, the SP highlights additional activities (mainly TA and research) that are consistent with the strategic direction of the plan, but their implementations will be contingent on securing additional resources.

CONTEXT

1. **The direction and strategic priorities of the SP 2025-27** have been developed considering the expected global economic and financial trends, the state of development of the IFSI, and a stock-take of the progress of IFSB's ongoing work and mandates.

2. **Geopolitical and economic volatility, the buildup of vulnerabilities, and potential emerging risks arising from climate change and the adoption of new technologies, will continue to challenge financial markets globally during the SP period:**[1]

a. **Near-term financial stability risks remain contained but growing vulnerabilities pose risks to financial stability over the medium term.** Geopolitical and trade policy uncertainties coupled with high levels and rapidly rising sovereign debt pose downside risks to future economic growth, asset prices, and credit flows, with significant potential adverse effects on financial stability.

b. **Financial vulnerabilities are rising in the nonbank financial intermediation (NBFI) sector.**[2] In particular, the rapid increase in the use of leverage in the NBFI sector could generate liquidity strains and rapid volatility that could quickly transmit throughout the financial sector and amplify risks.

c. **Preserving financial stability in emerging and frontier markets could be challenging, with implications for the Islamic finance industry.** Elevated uncertainty regarding trade policies and geopolitics, and weak macroeconomic policies (particularly in several frontier markets), could increase the volatility of capital flows, reduce access to international finance, and increase risk premiums. Given that most Islamic financial institutions operate in emerging and frontier markets, they will be susceptible to potential financial stability risks that could develop in these markets.

d. **Climate and technology will continue to reshape the global financial system.** Underinvestment in climate finance is delaying climate mitigation and adaptation in emerging and frontier markets, leading to greater exposure to systemic climate-related financial stability risks. In addition, artificial intelligence and fintech are reshaping global financial markets. These technologies are progressively being adopted by emerging and frontier markets with potential financial stability implications. Climate and

[1] For more detailed analysis see, for example, the IMF's Global Financial Stability Reports of April and October 2024, and FSB 2024 reports on the financial stability implications of artificial intelligence and tokenization.

[2] The NBFI sector comprises a diverse set of financial activities, entities and infrastructures, including investment funds, insurance companies, pension funds, private credit institutions, and other financial intermediaries.

technology-related risks could impact the Islamic financial institutions operating in these markets.

3. **The IFSI continues to grow at a robust pace, albeit unevenly across sectors, with new financial stability risks emerging.**[3]

a. **The global Islamic financial services industry is expanding rapidly across both advanced and nascent Islamic finance jurisdictions.** Global IFSI assets saw a growth of 4 percent to reach USD3.38 trillion in 2023, despite a challenging macroeconomic environment. Many of the more mature Islamic finance jurisdictions have systemically significant Islamic banking segments in their jurisdiction and many others are expected to reach domestic significance or have dominant Islamic financial systems, particularly in emerging markets, in the next few years.

b. **The IFSIs remain heavily concentrated in the banking sector with significant underdevelopment of the capital markets (sukuk market in particular) and insurance sectors.**[4] Exacerbating the sukuk market underdevelopment are limited sukuk issuances by governments on a regular basis at sufficient volumes, fewer corporate issuers in many jurisdictions, and very limited secondary market activity. The Takaful sector has not picked up development in any noticeable way and remains very small.

c. **The underdevelopment of the Islamic capital market and insurance sector seems to be driven by structural issues and a lack of concerted government efforts.** Sukuk structures are highly complex and costly to issue. Commitment has also been lacking in developing deep and liquid local currency government sukuk (LCGS) markets. The takaful sector has been undermined by a lack of harmonised governance practices and the absence of broadly accepted alternatives.

d. **The lack of viable local currency sukuk markets (government sukuk in particular) has had a significant adverse impact on the IFSI.** In particular, the absence of properly structured and deep LCGS market deprived the IFSI from a critical financial benchmark and high-quality liquid assets, and undermined the development of the private sukuk market, proper liquidity management practices at Islamic banks, and adequate liquidity facilities at central banks.

[3] For more details see the IFSB's 2024 Financial Stability Report.

[4] Islamic banking assets accounts for about 70 percent of total Islamic financial assets.

e. **The use of hybrid financial instruments has spread in Islamic banking in recent years,[5] creating new financial stability risks.**[6] Many Islamic banks have resorted to using hybrid instruments to solve chronic structural problems, particularly with respect to liquidity management. These instruments, however, have created new risks that were minimised previously, including leverage and spillover risks.

f. **There is momentum at present to leverage Islamic finance for sustainability and social finance.** In particular, Islamic finance, including green sukuk, could provide solutions for greenwashing problems that continues to cast a shadow on the global sustainability finance movement. Islamic finance could also redefine financial inclusion, particularly with its ability to link with local social support networks.

g. **AI and fintech will impact the IFSI, but their adoption remain limited at present.** IFSB surveys have not found extensive use of AI and fintech by the IFSI that could raise financial stability concerns. Adoption, however, will likely accelerate over the next few years.

4. **The IFSB's work on developing financial sector policies for IFSI has largely matured, but there is significant room for improving their consistent implementation in member jurisdictions:**

a. **The 2025 – 2027 period follows an intensive standard-setting phase of the IFSB.** The IFSB has so far issued 44 standards and guidance across the three main segments of the Islamic financial sector addressing the core elements of prudential regulation, supervision, and governance. In particular, The IFSB has completed the issuance of Core Principles for all segments of the Islamic financial services industry (Banking, Capital Markets, Takaful, Deposit Insurance, and Financial Market Infrastructure).[7] The IFSB's standard-setting programme has largely narrowed the gap between Islamic finance standards and global benchmarks. The ongoing initiatives are now closely aligned with the work programmes of other global standard-setters.

b. **The IFSB was given a TA mandate in 2023.** The IFSB was reorganised to set up a new standards implementation department to help improve standards implementation, support IFSI development in member countries, and respond to the rising number of

[5] Hybrid instruments replicate aspects of conventional finance in an Islamic banking context.

[6] See IMF 2017 report: "Ensuring Financial Stability in Countries with Islamic Banking."

[7] The Core Principles for Islamic Finance Regulation (Banking Segment) and its associated methodology was endorsed by the IMF in 2018, to be applied in financial sector assessment programmes (FSAP) as a supplement to the Basel Core Principles for Effective Banking Supervision, in countries where Islamic banking is systemically significant or identifies as strategic development objective.

TA requests. The TA mandate, however, has not been funded and its effective implementation will hinge on the successful mobilisation of adequate funding.

STRATEGIC PRIORITIES

5. **The IFSB strategic priorities for 2025-2027 are set to support the development of a safe and sound broad Islamic finance ecosystem.** The strategic priorities are intended to meet the challenges and exploit the opportunities of the environment facing the IFSI and the idiosyncratic developments within the industry, as identified above. They are informed by the feedback and resolutions from recent Council meetings, broad consultation with member RSAs, and discussions with other international standard setters and international organisations.

6. The IFSB work programme will be oriented in line with the strategic priorities. This includes increased focus on the nonbank financial sector, financial safety net framework, the quality and adequacy of the existing standards and emerging issues, including climate and digitalisation. The capacity development programme will be enhanced significantly, particularly the delivery of TA. The research programme will focus on providing analytical support for the development of standards and guidance and tools for standards implementation, as well as exploring evolving issues relevant to Islamic finance. Efforts to implement the needed institutional reforms will be strengthened, including completing the ongoing governance, reform process and strengthening internal procedures and staff skills.

Financial Sector Policy Development

7. **The IFSB will continue to develop, refine and maintain internationally recognised standards and guidance to promote the stability, soundness and safety of the IFSI.** This will include the completion of the ongoing work and increased focus on reviewing the effectiveness of existing standards and updating them in response to emerging risks and trends and development in other international standards.

8. **Promoting the sound development, transparency and resilience of the NBFI sector is a strategic priority for the future of Islamic finance.** A well-developed and sound Islamic NBFI sector is important for deepening Islamic financial systems, promoting a broad and competitive Islamic finance ecosystem, financing the real economy, and supporting financial inclusion. With the broad progress in developing Islamic banking standards thus far, combined with the rapid growth in Islamic NBFI in recent years, the IFSB will broaden its work in the non-bank financial sector while being mindful of the need for product diversification and development in this sector. This will include assessing, identifying, and addressing specific challenges, risks, and regulatory gaps to promote the sound development of capital markets, insurance, finance companies, and social finance and financial inclusion:

a. The IFSB's work on capital markets will cover, in particular, the sukuk markets, including the development of a sukuk taxonomy that will set the stage for a future review of the *Guiding Principles on Disclosure Requirements for Islamic Capital Market*

Products (in particular, sukuk disclosures) and a review of the *Core Principles for the Islamic Capital Markets.* In addition, the ongoing work on revision of the *Guiding Principles on Governance of Islamic Collective Investment Schemes* will be completed during the plan period, which would also facilitate a deeper examination of the prudential issues related to Islamic pension funds. The IFSB will also review aspects of the commodities and equity markets that are important for the Islamic NBFI sector.

b. To help deepen and broaden the Islamic insurance market, the IFSB will examine the potential of mutual and cooperative insurance for providing shariah-compliant insurance services, and the financial stability and risk implications for these forms of insurance providers. It is envisaged that once progress has been achieved in understanding all the relevant aspects of these types of insurance, they will be incorporated into existing IFSB standards. The work on the insurance sector will also include the completion of the ongoing revision of the standard on *Risk Management for Islamic Insurance.*

c. The IFSB will examine the natural synergy in Islamic finance between social support/finance and financial inclusion to potentially help develop a more effective financial inclusion framework. The IFSB will also further review the need for additional policy guidance on social finance instruments such as cash waqf or for revision of the *Technical Note on Financial Inclusion*.

d. Islamic finance companies (e.g., leasing, mudarabah, etc.) play an increasingly important role in financing small businesses and consumers in many member countries. The IFSB will examine potential financial stability and consumer protection issues that could arise within this sector.

9. **Strengthening financial safety nets and crisis management frameworks is essential to ensure Islamic finance resilience to potential volatility and uncertainty risks.** To safeguard the stability of the Islamic financial sector in the face of elevated global financial stability risks, the IFSB will enhance its work on strengthening frameworks for Islamic deposit insurance, lender-of-last resort and recovery and resolution. This will include a review of the *Core Principles on Islamic Deposit Insurance Systems* to reflect the updates to the conventional Core Principles and completion of the associated *Handbook on Islamic Deposit Insurance Systems* that provides guidance for assessing compliance with the Core Principles. The IFSB will complete the ongoing work on resolution and recovery for Islamic insurance and will consider further work on additional guidance on crisis management preparedness framework depending on resource availability.

10. **The IFSB will review the issued standards and guidance to ensure their continued relevance, alignment with global regulatory developments, and improved presentation.** The IFSB will commence the standards evaluation process for targeted standards, including key

banking standards, to review their effectiveness in meeting the intended objectives and their impact. The reviews will identify the need for revisions, clarity or guidance in relation to issued standards as part of the formal process of maintaining the standards. Furthermore, the IFSB will issue supplementary versions of its standards to enhance clarity and ease of reference to IFSB standards and guidance by streamlining their presentations and avoiding duplication of issues already addressed in other international standards. Finally, the IFSB will explore approaches to help guide secular jurisdictions that do not recognize Shariah in the adoption and implementation of IFSB standards in support of IFSI in these jurisdictions.

11. **The IFSB will continue to assess the impact and related regulatory and supervisory implications of issues related to sustainability, climate, and digitalisation, on IFSI stability.** The IFSB will pursue a complementary approach to addressing sustainability and climate-related financial risks for the Islamic capital markets and the banking sector, aligned with the work of other standard-setters. This will include completion of the ongoing work on disclosures and regulatory and supervisory issues related to sustainability-related issues for Islamic capital markets (including green sukuk), and guidance on effective management and supervision of climate-related financial risks and disclosures for Islamic banks. The IFSB will enhance its engagement on digitalisation issues, including developing a deeper understanding of their regulatory and supervisory implications and impact on IFSB standards. In particular, the impact of digitalisation on existing IFSB standards will be considered, commencing with the banking standards given their relative maturity compared to standards for other sectors.

Financial Stability Monitoring and Assessment

12. **The IFSB will take a forward-looking approach to identify, monitor and analyse potential risks and vulnerabilities in the Islamic finance industry**. The focus will be on monitoring emerging trends and sector-specific risks that could affect IFSI financial stability and resilience, while actively engaging IFSB member regulatory and supervisory authorities to develop a risk monitoring framework. This work will cover two strategic priorities:

a. **Enhancing the monitoring of the soundness of the IFSI** by expanding the Prudential and Structural Islamic Financial Soundness Indicators (PSIFIs) database, as well as improving its consistency, completeness, and continued alignment with global reporting standards. The IFSB will also improve the data management system for more streamlined and timely processes for data submission, validation and dissemination. These enhancements to the PSIFIs database aim to strengthen the depth, consistency, and usability of data for assessing the stability of the IFSI.

b. **Enhancing the IFSB's Annual Financial Stability Report (IFSR),** by introducing topic-focused analysis of pertinent financial stability issues in the industry, with each year's report centered around a specific theme or focus area that reflects current challenges and emerging issues. This thematic approach will be complemented by a more granular assessment of prudential indicators across key sectors, ensuring the IFSR remains relevant, forward-looking, and impactful for stakeholders.

Standards Implementation

13. **The IFSB will significantly expand its efforts to promote the full adoption and consistent implementation of its standards and support the development of the IFSI in member jurisdictions.** The IFSB will focus on enhancing its capacity- building activities, substantially building up its TA programme, and strengthening implementation monitoring and regulatory gap assessment. To achieve these objectives, the IFSB will launch a donor-funded account to mobilise the necessary resources.

14. **The capacity-building activities will aim to deepen the understanding of IFSB standards, disseminate good practices, and strengthen the supervisory and regulatory expertise of member RSAs.** Accordingly, the IFSB will focus on delivering targeted and enhanced training workshops that will equip regulatory and supervisory staff with the skills and knowledge necessary to adopt and implement IFSB standards effectively. This will be complemented with peer experience-sharing sessions, fostering a collaborative environment through active engagement among IFSB members and relevant stakeholders, and facilitating a strong and interconnected regulatory community committed to the effective implementation of IFSB standards. The key takeaways from the capacity-building activities will be documented for continuous feedback and improvement, providing a basis for developing case studies and guidance on IFSB standards implementation. In addition, the IFSB will enhance its e-learning platform in terms of technical depth, layout and design of its contents, to serve as a high-quality resource for continuous professional development for IFSB members.

15. **The IFSB will build up its TA capacity to provide technical support and advise to member RSAs on Islamic-finance related policy, technical, and infrastructure issues.** The IFSB will upgrade its TA operational framework in line with the practices of other relevant international organisations. Concurrently, the IFSB will strengthen staff capacity through training and recruitment, compile and maintain a well-vetted roster of external subject matter experts to be deployed under IFSB supervision on TA assignments, and continuously develop and refine the necessary diagnostic and analytical tools. Key areas of focus for TA activities will include legal and regulatory frameworks for all IFSI segments, particularly in nascent Islamic finance markets, sukuk markets development with a focus on the LCGS market, and frameworks for liquidity management at market and central bank levels.

16. **The IFSB will enhance its monitoring of standards implementation.** Monitoring will be carried out through surveys, desk-based reviews, and bilateral and regional discussions with member RSAs. The IFSB will also explore developing a standards adoption dashboard to facilitate

more direct engagement from member RSAs in reporting progress in standards adoption. The IFSB will engage proactively with member RSAs to identify adoption impediments and provide the necessary support to overcome them.

17. **The IFSB will actively engage in standards implementation assessment activities in collaboration with relevant international organisations and member RSAs.** The IFSB will work closely with the IMF and World Bank to support their FSAP engagements in countries with systemically important Islamic financial sector as mandated by the 2018 IMF Board Paper, as well as, the IMF's Financial Sector Stability Review (FSSR) programme as needed. The IFSB will engage with member jurisdictions undergoing FSAP to ensure the effective implementation of the recommendations provided by the assessors. In addition, the IFSB will help, if requested, to facilitate RSAs self-assessments under the Impact and Consistency Assessment Programme (ICAP).

18. **To achieve the standards implementation objectives, the IFSB will actively seek donor funding for its standards implementation programme.** A dedicated donor-funded account will be launched to enable the IFSB to cover the high costs associated with the delivery of technical assistance missions and capacity building activities and provide broad and effective support to member jurisdictions. The administration and governance of the dedicated donor-funding account will be based on the "Administered Account Framework for Selected Activities," [approved by the IFSB Council at its 45th meeting on December 22, 2024].

Research

19. **The IFSB's research programme will be strengthened to adopt and incorporate a forward-looking research agenda that aligns with the IFSB's strategic priorities and member countries' needs, prioritising high-impact research**. A flexible, collaborative, and dynamic research framework will be implemented to enhance the IFSB's capacity to support its member RSAs and will be geared towards three strategic focus areas:

a. **Providing an analytical foundation for the development of standards and guidance**, particularly on non-bank financial sector issues. This will include research related to cooperative and mutual insurance, development of a sukuk taxonomy, finance companies (e.g. Mudarabah and Ijarah companies), cash waqf, exploring the financial stability issues in dual-banking jurisdictions, and stability implications of hybrid financial instruments.

b. **Developing analytical tools supporting standards implementation activities**, such as comparative country analysis, strategies for developing Islamic finance systems, legal frameworks, and research on conversions of conventional banks to Islamic banks. In partnership with the IsDBI, the IFSB will embark upon an exercise that taps into the current approaches of Islamic finance and related laws in various countries to develop a database and guiding templates that can serve as a benchmark for jurisdictions that wish to develop an Islamic financial system.

c. **Evolving and cutting-edge issues relevant to Islamic finance**, such as digitalisation and sustainable and social finance. This will include research on a new four-pillar framework for financial inclusion (involving microfinance, social finance, fintech and regulations), as well as green sukuk.

Engagement and Communications

20. **The IFSB will strengthen its membership engagement and communications approach.** The focus will be on improving value-delivery at all levels of membership, deepening stakeholder engagement, and enhancing global visibility.

21. **The IFSB will pursue an active and member-centric engagement approach that delivers tangible value to all members in a continuous and consistent manner.** The IFSB will focus on enhancing members' access to its services and information, broadening the range of activities for engagement and feedback, facilitating networking opportunities for all members, and increasing the number of experience-sharing events. Furthermore, communication strategies and engagement activities will be tailored for the needs of each member category, covering RSAs, market players and international organizations.

22. **Broadening the IFSB's outreach will support the realisation of the envisaged strategic priorities.** The IFSB will expand its contacts with market players, particularly in the NBFI sector, including industry associations, finance intermediaries, stock exchanges, digital finance platforms, and others. In addition, the IFSB will continue to strengthen its relations with relevant international financial and development institutions, standard setters, and Islamic finance infrastructure organisations. The IFSB will also engage with non-government organisations on issues that are relevant to its members and the public at large, including, among other things, social finance, climate and sustainability, and public awareness of Islamic finance

23. **The IFSB will pursue a proactive communications strategy.** The focus will be on delivering well-targeted and effective messaging to its stakeholders and the public at large through new expanded media reach, including international media, and new media channels and tools. The IFSB will carry out periodic membership needs assessment to understand evolving expectations and adjust the engagement plan accordingly.

Institutional Reforms

24. **Adopting the governance changes, including as it is called for under the IFSB Transformation Plan, has been a key objective in the past two years.** Completing the governance reform agenda would underpin the successful implementation of the 2025-27 SP. These changes would provide a principle-based approach for the planned update of the Articles-of-Agreements (AoA) and By-Laws as called for by the Council. The focus would be on:

a. **Updating the IFSB's mandate to formally reflect the functions and tasks that have been assigned to the Secretariat through various Council resolutions over the years.** While the original mandate centered around standards development, two additional functions were tasked to the Secretariate in recent years and constitutes new mandates. These are financial stability analysis and monitoring (through the Financial Stability Report, market surveillance, and financial stability data reporting by member institutions) and standards implementation (through ICAP, TA, and capacity-building).

b. **Completing the realignment of the roles and responsibilities of the IFSB's governing bodies (the Council and its committees) and the Secretariat.** The realignment would be based on the recommendations of the 2021 benchmarking exercise, international best practices, and the IFSB's updated mandate. The realignment would broadly aim at:

   i. clarifying and preserving the roles of the governing bodies in determining the IFSB's strategic agenda, approving IFSB-issued financial sector policies (standards and guidance), and providing effective oversight,

   ii. providing operational flexibility to the Secretariate to develop and effectively execute the necessary work programme to deliver the strategic priorities, and

   iii. adopting a more effective governance of the Secretariate's technical work considering the diversity of its sectoral work and increased focus on non-bank financial sector work.

25. **Strengthening the IFSB human resources (HR) and operational practices will be critical for the quality and timely implementation of the strategy.** The IFSB will pursue an HR policy that ensures the availability of staff with the right mix of skills while balancing technical and soft skills (such as communication, adaptability, and problem-solving), both of which are important for achieving the envisioned strategic priorities. This will be achieved by enhancing the recruitment process, expanding the technical secondment and fellowship opportunities, strengthening staff training, and encouraging continuous learning. Finally, the IFSB will modernise its internal operations with a view to increasing efficiency and streamlining work processes through updated internal regulations and operating procedures.

FINANCIAL IMPLICATIONS

26. **The medium-term budget supporting the Strategic Plan is based on a largely static budget (Appendix II).** Over 95 percent of the IFSB's budget is funded from membership fees, which is the funding model adopted at the establishment of the IFSB. Membership fees have not been changed since 2013, resulting in static growth in the budget in nominal terms, and a substantial decline in real terms. Considering that raising membership fees may not be feasible at present, fiscal prudence necessitates using conservative budget assumptions, based on the status quo financials.

27. **Under the status quo budget scenario, IFSB's revenues are assumed to rise moderately while maintaining a balanced budget.** The rise reflects the possibility of new members joining the IFSB and some limited additional revenues from events' fees. Expenditures in the status quo budget are set across the IFSB functions at about the same proportional levels of past budgets, considering that the distribution of work under the status quo scenario remains the same.

28. **The donor funding for TA will expand the budget envelope.** The availability of TA funding would allow the commencement of the TA programme and increase, accordingly, the allocations to the standards implementation department. The envisaged overhead charges for TA activities,[8] would help cover the IFSB's expenses incurred in delivering TA and release some resources that could be used to support additional research and policy development activities.

RISKS

29. **The successful implementation of the 2025-27 SP could face four types of potential risks.** These are strategic misalignment, financial, operational and governance risks, as detailed below.

30. **Strategic misalignment risk:** The risk that the identified strategic priorities are misaligned, in whole or in part, with member RSAs expectations or emerging economic and financial sector developments.

a. **Assessment:** The misalignment risk is broadly low, as the strategic priorities are based on the broad consensus of member RSAs and driven by careful assessment of the environment facing the IFSI. The exception is the impact of digitalisation on IFSI. Considering the relatively low penetration of digitalisaiton in IFSI at present, it does not seem to give rise to financial stability concerns in the near future. Nonetheless, as

[8] The proposed donor-funded TA account calls for 25 percent overhead charge on TA activities funded by the TA account to cover the expenses of backstopping, managing and delivering the TA activities. This is a standard procedure in international institutions like the IMF and World Bank.

noted by many member RSAs, this is an important area for the future of Islamic finance, and digital adoption by IFSI could accelerate quickly and unexpectedly. However, the effective engagement of the IFSB on this issue requires staff skills and resources that are not available at the IFSB at present.

b. **Mitigating actions:** Should digitalisation in the IFSI accelerate to the extent requiring active IFSB involvement, consideration could be given to setting up a fully funded specialised unit within the IFSB, in cooperation with interested RSAs, to ensure effective and informed engagement.

31. **Financial risk:** The risk of strategic priorities giving rise to work programmes that are not financially sustainable.

a. **Assessment:** The financial risk is low as the strategic priorities are premised on a work programme that assumes very conservative financial projections over the plan's period. One area where financial risk could be material is related to the TA programme that is not funded at present.

b. **Mitigating actions:** The execution of the IFSB's work programme will be monitored carefully and continuously to ensure that there are no cost overruns. Given the uncertainty about the funding of the TA programme, the majority of TA activities are programmed as contingent and will be executed only to the extent of funding availability.

32. **Operational risk:** The risk that the IFSB's operations, or parts of it, may not support the effective execution of the SP.

a. **Assessment:** The operational risk is medium and largely relates to the availability of the appropriate staff skill-mix to work on the strategic priorities, considering that many of these priorities are new work experiences for most of the staff.

b. **Mitigating actions:** Staff skill-mix risk will be addressed through three measures: (a) developing an intensive internal training programme, (b) strengthening the recruitment process, and (c) expanding the secondment programme with member RSAs.

33. **Governance risk:** The risk that the IFSB's governance arrangement does not support the articulation of clear strategic guidance and provide the necessary operational agility to effectively execute the SP.

a. **Assessment:** Governance risk is likely a medium-low, considering the expressed desire of the Council to refocus on strategic issues while delegating the operational issues to the Secretariate.

b. **Mitigating actions:** Ealy completion of the envisaged revisions to the AoA and By-Laws, based on international governance best practices.

APPENDIX I. 2025-2027 STRATEGIC ROADMAP

Note: *Standard-setting and guidance projects are tentative and intended to provide an indication of key areas of focus and anticipated timelines. Except for projects that are currently ongoing, the commencement of any new standard-setting, maintenance or guidance projects will be subject to recommendation of the TC and approval by the Council. The actual project timelines will depend on the progress of the work of the respective Working Groups, public consultation outcomes and decisions made by the Technical Committee and the Council.*

	2025	2026	2027	2028
Policy Development				
Capital Markets				
Revision of Guiding Principles on Governance of Islamic Collective Investment Schemes, IFSB-6 (maintenance project) - Ongoing				
Review of Guiding Principles on Disclosure Requirements for Islamic Capital Market Products, IFSB-19 (maintenance project)				
Review of Core Principles for Islamic Finance Regulation (CPIFR) [Islamic Capital Market Segment], IFSB-21 (maintenance project)				
Insurance				
Revision of the Standard on Risk Management for Takāful Undertakings, IFSB-14 (maintenance project) - Ongoing				
Financial Inclusion				

	2025	2026	2027	2028
New Guidance on Cash Waqf and Review of the Technical Note on Financial Inclusion and Islamic Finance (guidance or maintenance project based on research outcome)				
Climate Risks and Sustainability				
New Guidance on Effective Management and Supervision of Climate Risks [Banking Segment] (guidance project) - Ongoing				
New Disclosures on Climate-related Financial Risks [banking segment] (Standard-setting Project)				
New Guidance on Sustainability and Climate-related Issues and Disclosures for the Islamic Capital Markets (guidance project)				
Financial Safety Net				
New Guidance on Recovery and Resolution for Institutions Offering Islamic Financial Services [Takaful Segment] (guidance project) - Ongoing				
Review of the Core Principles on Islamic Deposit Insurance Systems (CPIDIS) (maintenance project)				
Standards Evaluation and Review				
Preparation of Supplementary Editions and Consolidated Framework for IFSB-16, IFSB-22, and IFSB-23				
Review of Core Principles for Islamic Finance Regulation (CPIFR) [Banking Segment], IFSB-17 (maintenance project)				

	2025	2026	2027	2028
Financial Stability Monitoring and Analysis				
Launch of new e-Platform and Data Management System for the Prudential and Structural Islamic Financial Indicators (PSIFI) database - Ongoing				
Updated Islamic insurance indicators to reflect changes in reporting standards (IFRS 17)				
Expanded PSIFI Date Coverage and Indicators				
Enhanced and Thematically-Focused Financial Stability Reports				
Standards Implementation				
Technical Assistance and Capacity Building Missions (about 40 over 3 years, contingent on external funding availability)				
Training and experience-sharing workshops (21 Over 3 years)				
New e-Learning Platform featuring updated existing modules and additional new modules				
FSAP Missions Participation (3 in 3 years, contingent on agreement with IMF and World Bank)				
Issuance of a comparative country and sectoral report on IFSB Standards Implementation based on the IFSB Standards adoption and implementation survey.				

	2025	2026	2027	2028
Upon request, engage with RSAs conducting self-assessment or post-FSAP assessment based on IFSB Core Principles				
Standards Assessment Training for Supervisors [Banking Segment] (new training programme, contingent on external funding availability)				
Research				
Sukuk Taxonomy (potential policy development support)				
Mutual and Cooperative Insurance (working paper and potential policy development support)				
Financial Inclusion – New 4-Pillars Framework (working paper)				
Green Sukuk (working paper)				
Finance Companies Regulations (e.g., Mudarabah & Ijarah companies) (potential policy development support)				
Cash Waqf (potential policy development support)				
Financial Stability Implications of IFSI Wide-Use of Hybrid Financial Instruments				
Financial Stability Issues in Dual-Banking Financial Systems (working paper)				
Conventional-to-Islamic Bank Conversion (internal guidance for TA operations)				

	2025	2026	2027	2028
Islamic Finance Legal Framework (Legislation database, working paper and internal guidance for TA operations)				
Engagement and Communication				
Review of Membership Benefits Considering the Envisaged Governance Reforms				
Modernised and Substantially Upgraded IFSB Summit Format, Deliverables, and Marketing				
Strengthened Engagement with Member RSAs (e.g., spotlighting their Islamic finance initiatives at IFSB and joint events).				
Strengthened Engagement with Non-RSA Members (targeted events and roundtable discussions)				
Building and Maintaining Strong Collaboration and Communication lines with both Islamic and Other International Organisations				
Institutional Reforms				
Governance Reforms and AoA/By-Laws Amendments				
Strengthened Human Resource Management (Staff recruitment, evaluation and promotion, and structured internal training)				
Modernised Internal Operations (new IT infrastructure, operation standards, knowledge and risk management, and staff regulations)				

APPENDIX II. 2025-2027 BUDGET PROJECTIONS

3 years Budget for the Financial Years 2025 - 2027

A. Proposed Budget for Financial Year 2025 - 2027

1. Table A below provides an overview of the 2023 Actual, 2024 Forecast, 2025 Proposed Budget and Indicative Budget for financial years 2026 to 2027.

Table (A): Budget Proposal

No	Item	Para	2023 Actual[1] USD	2024 Forecast USD	2025 Proposed Budget USD	2026 Indicative Budget USD	2027 Indicative Budget USD
1							
	Membership Fees	6.1	3,629,000	3,581,000	3,610,500	3,652,000	3,693,500
	Income from Investments	6.2	327,916	337,186	320,000	331,904	343,487
	Workshops and Conferences	6.3	-	73,472	-	100,000	100,000
	Contributions and Grants	6.4	-	79,237	121,405	-	-
	Other Income	6.5	6,283	68,715	118,766	82,976	85,872
	Total Income		**3,963,199**	**4,139,110**	**4,170,671**	**4,166,880**	**4,222,859**
2							
	Recurring expenditure		3,370,199	3,867,718	3,880,295	4,025,440	4,099,816
	Extraordinary expenses		-	-	-	-	-
	Total Operating Expenditure		**3,370,199**	**3,867,718**	**3,880,295**	**4,025,440**	**4,099,816**
3	**Net Income**		**593,000**	**271,392**	**314,802**	**141,440**	**123,044**
4	Waqf fund		3,520,429	3,588,402	3,667,102	3,702,462	3,733,223
5	Special reserve account		1,756,602	1,824,575	1,530,280	1,565,640	1,596,401
6	Accumulated surplus		3,281,385	3,349,358	3,574,732	3,645,452	3,706,974
7	Capital expenditure		25,502	240,602	570,217	30,717	30,717
8	**Cost to Income Ratio**		85.04%	93.43%	92.50%	96.61%	97.09%

[1] As per audited financial statements for financial year ending 31 December 2023.

2. The **key assumptions** adopted are as below:
   (a) The budget is prepared on accrual basis.
   (b) The budget incorporates all the activities related to proposed Strategic Plan for financial year 2025 - 2027.
   (c) The budget takes into consideration of:

Forecasted inflation	Malaysia	Global
2025	2.51%	4.51%
2026	2.17%	3.72%
2027	2.05%	3.49%

   (d) Activities in 2025 – 2027 will be conducted in both physical and online.
   (e) The investment income budget for financial year 2025 is based on information provided by Bank Negara Malaysia (IFSB's Fund Manager) as per tabled under Agenda 27 on Investment Review 2024 and Investment Strategy 2025 by BNM in **Attachment 1**.
   (f) Exchange rate used for the years 2025 to 2027 are as below:-

Forecasted inflation	Exchange rate
2025	4.5577
2026	4.5232
2027	4.5132

B. Summary of Key Drivers

3. Membership Fees. Membership fee, the main source of income, is expected to generate USD3,610,500 or 88.4% of the total budgeted income in 2025 based on the following projections:
   (a) 188 members as at 30 November 2024.
   (b) Membership movement after the 44th Council meeting.
   (c) The annual membership fees are USD50,000 (Full), USD20,500 (Associate) and USD10,000 (Observer). The annual membership fee for three (3) Associate Members namely, Bank for International Settlements, International Monetary Fund and the World Bank is USD 7,500.

(d) At present, the membership fees for the subsequent years are expected to remain unchanged. However, the amount may change, subject to decisions made by the General Assembly[2] (in terms of annual membership fees) and the Council[3] (in terms of membership movement).

(e) Budgeted member in year 2025 is expected to be 192 members.

(f) Subsequent year forecasts increase by 1 associate member and 2 observers.

C. Capital Position

Table B below summarises total equity for the financial year to 2023 (Actual), 2024 forecast, 2025 Proposed Budget, and Indicative Budget for the years 2025 to 2027.`

Table (B): Capital Position

Particulars	2023 Actual USD	2024 Forecast USD	2025 Proposed Budget USD	2026 Indicative Budget USD	2027 Indicative Budget USD
Waqf Fund	3,520,429	3,588,402	3,660,996	3,696,356	3,727,117
Special Reserve Account	1,756,602	1,824,575	1,524,174*	1,559,534	1,590,295
Accumulated Surplus	3,281,385	3,417,331	3,562,519	3,633,239	3,694,761
Total Funds and Reserves	**8,558,416**	**8,830,308**	**8,747,689**	**8,889,128**	**9,012,172**

**The decrease in Special Reserve in year 2025 is due to the plan to liquidate the fund for office expansion amounting to USD372,995.*

[2] Article 14(c) of the Articles of Agreement of the IFSB states that "*The General Assembly shall have, inter alia, the following duties and responsibilities: (c) To determine membership fees for the various categories of members referred to in Article 6, including any exemptions or reductions for individual members, as determined on a case-by-case basis.*"

[3] Article 21(j) of the Articles of Agreement of the IFSB states that "*To assess and approve applications for membership (in accordance with Article 51).*"