



**ISLAMIC FINANCIAL
SERVICES BOARD**

GN-11

**GUIDANCE NOTE ON CLIMATE-RELATED
FINANCIAL RISKS FOR INSTITUTIONS OFFERING
ISLAMIC FINANCIAL SERVICES
(BANKING SEGMENT)**

DECEMBER 2025

ABOUT THE ISLAMIC FINANCIAL SERVICES BOARD (IFSB)

The Islamic Financial Services Board (IFSB) is an international organisation committed to promoting the soundness and stability of the Islamic financial services industry (IFSI) by developing international standards for the regulation and supervision of the IFSI, supporting the adoption and consistent implementation of standards and sound industry development through capacity building and technical assistance, and monitoring financial stability and identifying current and emerging risks to the IFSI.

Established in 2003 and headquartered in Kuala Lumpur, Malaysia, the IFSB works closely with other international organisations, regulatory and supervisory authorities, and regional partners, aligning its efforts with global standards towards the sustainable growth and development of Islamic finance, and serves as a platform for cooperation and knowledge sharing among its members.

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ABBREVIATIONS

BCBS	Basel Committee on Banking Supervision
BOD	Board of Directors
DCR	Displaced commercial risk
FSB	Financial Stability Board
GN	Guidance Note
IAH	Investment account holder(s)
ICAAPs	Internal capital adequacy assessment processes
IFSB	Islamic Financial Services Board
IIFS	Institution(s) offering Islamic financial services
ILAAPs	Internal liquidity adequacy assessment processes
ISSB	International Sustainability Standards Board
PSIAs	Profit-sharing investment accounts
RPSIAs	Restricted profit-sharing investment accounts
ROR	Rate of return risk
RSAs	Regulatory and supervisory authorities
UPSIAs	Unrestricted profit-sharing investment accounts

1. INTRODUCTION

1.1. Background

1. Climate change may result in physical and transition risks that have adverse impacts on the resilience of institutions offering Islamic financial services (IIFS) in the banking sector, both individually and systemically. Such risks may be transmitted across the financial system through various channels.¹ Given the potential of climate-related financial risks to cause large shifts in the values of both investments and financed assets, as well as catastrophic losses from extreme weather events, prudential policies need to be adapted to recognise and address material climate-related financial risks² in IIFS's governance and risk management frameworks.

2. Several international bodies, such as the Basel Committee on Banking Supervision (BCBS),³ the Financial Stability Board (FSB),⁴ and the International Sustainability Standards Board (ISSB)⁵ have issued principles and standards for effective management, supervision, and disclosures on climate-related financial risks. While these apply to IIFS, this Guidance Note (GN) identifies and addresses the specificities of Islamic banking in terms of additional considerations in the management and supervision of climate-related financial risks.

1.2. Objective

3. The primary objective of the GN is to provide additional guidance to regulatory and supervisory authorities (RSAs) on the application of the BCBS *Principles for the effective management and supervision of climate-related financial risks*, hereafter referred to as the BCBS Principles,⁶ to IIFS, considering the specific characteristics and nature of Islamic banking operations.

1.3. Scope of Application

4. The GN complements the BCBS Principles. The GN offers additional guidance to regulatory and supervisory authorities to address specific characteristics of Islamic banking that may result in differences in how climate-related risk drivers impact the risk profile of an IIFS. It does not duplicate guidance in the BCBS Principles that are equally applicable to IIFS. The IFSB's existing standards for the banking sector remain applicable in the context of managing climate-related financial risks. In this regard, this GN complements and should be read alongside other relevant IFSB standards and the BCBS Principles.

¹ The transmission channels are elaborated in Section 2 of this document. For further details on how climate-related financial risks can be transmitted across the financial system, refer to BCBS (2021), [Climate-related risk drivers and their transmission channels](#).

² For further explanation on the potential adverse impact of climate change on the financial system, refer to IMF (2019), [Climate change and financial risk](#).

³ BCBS (2022), [Principles for the effective management and supervision of climate-related financial risks](#).

⁴ FSB (2023), [FSB roadmap for addressing financial risks from climate change, progress report](#).

⁵ ISSB (2023), IFRS S1: [General requirements for disclosure of sustainability-related financial information](#); and IFRS S2: [Climate-related disclosures](#).

⁶ BCBS (2022), [Principles for the effective management and supervision of climate-related financial risks](#). Elements of the [BCBS Principles were included within the 2024 revision of the Core Principles for Banking Supervision](#).

5. The GN is intended primarily for full-fledged Islamic banks, (including those that are subsidiaries of conventional banks) as well as Islamic windows of conventional banks. For the purposes of this GN, an Islamic window⁷ is defined as part of a conventional financial institution (which may be a branch or dedicated unit of that institution) that provides Islamic banking products and services, with funds segregated from the host institution.

6. This GN applies a similar approach as the BCBS Principles, as it aims to accommodate a diverse range of banking systems and is intended to be applied on a proportionate basis⁸ depending on the size, complexity, and risk profile of the IIFS, subject to the discretion of RSAs.

2. ISLAMIC FINANCE SPECIFICITIES IN THE TRANSMISSION AND MANAGEMENT OF CLIMATE-RELATED FINANCIAL RISKS

7. Transmission channels are the causal chains linking climate risk drivers, both physical and transition, to the financial risks faced by banks and the banking sector. As set out in an analysis published by the BCBS in April 2021, transmission channels can be classified into two categories:⁹

- Microeconomic transmission channels include the causal chains through which climate risk drivers affect banks' individual counterparties, potentially resulting in climate-related financial risk to banks and to the financial system. These channels also include the direct effects on banks themselves, arising from impacts on their operations and their ability to fund themselves. Microeconomic transmission channels also capture the indirect effects on specific financial assets held by banks.
- Macroeconomic transmission channels are the mechanisms through which climate risk drivers affect macroeconomic factors such as labour productivity and economic growth and, in turn, may have an impact on banks through an effect on the economy they operate in. Macroeconomic transmission channels also capture the effects on macroeconomic market variables such as benchmark rates, inflation, commodities, and foreign exchange rates.

8. While the BCBS analysis provides a comprehensive foundation for understanding climate-related financial risks in conventional banking, there are specificities of IIFS which may lead to differences in the way that IIFS manage climate-related financial risks as compared to conventional banks. These specificities are discussed in the following paragraphs of this section, and their implications for the implementation of the BCBS Principles are dealt with in Section 3.

⁷ Islamic banking windows are dealt with in several IFSB Standards; [IFSB-17 CPIFR 32](#) provides a high-level view of key provisions relating to windows.

⁸ For further details, refer to paragraphs 5 and 6 of BCBS (2022) [Principles for the effective management and supervision of climate-related financial risks](#).

⁹ See BCBS (2021), [Climate-related risk drivers and their transmission channels](#).

2.1. Financing Structures

9. The financing structures used by IIFS may lead to some differences in transmission channels, as compared with those used by conventional banks.¹⁰ The following paragraphs focus on specificities that should be considered in managing climate-related financial risks.

10. An IIFS can be exposed to market risk in the form of inventory risk¹¹ on assets held by the IIFS for sale under a *murābahah*¹² contract (in so far as the promise to purchase is non-binding or the asset has not yet been sold and delivered) or for lease under an *ijārah*¹³ contract. Climate-related financial risks, in this case, may arise from damage to the assets or from changes in their value.

11. IIFS can also have exposure to completion risk associated with *istisnā'*¹⁴ used to finance the construction of an asset that the IIFS will supply to its client.¹⁵ Where the asset under construction is exposed to physical risks (e.g., physical damage to property under construction due to severe climate-events), the IIFS's exposure to completion risk may increase. This may lead to higher exposure to market risk in *istisnā'* contracts. Some of that risk could be mitigated by parallel *istisnā'*.

12. When IIFS use *salam*¹⁶ contracts for financing commodities, they are exposed to: (a) the credit risk of not receiving the purchased commodity after disbursing the purchase price to the seller; and (b) market risk incurred by the IIFS from the date of execution of the contract through the contract period and beyond maturity as long as the commodity remains in the ownership of the IIFS. Both risks may be impacted by climate risk drivers (e.g., physical risks such as extreme droughts, floods, or heat waves that impact commodity yields leading to non-delivery; or transition risks such as carbon pricing on palm oil plantations).

13. IIFS use investment contracts,¹⁷ such as *mushārah* and *muḍārah*, for venture purposes, and diminishing *mushārah* for Islamic mortgages. These contracts create an equity right in the value of the assets. IIFS in this case are exposed to capital impairment risk,¹⁸ representing the risk of losing the amount invested in an enterprise or in the ownership of an asset. Depending on the structure of the transaction, this may be the risk of an entire business or of a specific element of it. Climate-related financial risks, both physical and transition risks, may be relevant to such an investment and will need to be analysed in the specific business context. The capital impairment risk will be different from the risks associated with any equity investments made by a conventional bank, since the latter are likely to be in traded securities that can in practice be sold and have an available market price.

¹⁰ See IFSB 23 ([Section 5](#))

¹¹ Inventory risk is discussed in IFSB-23: [Section 4.2.5.4](#).

¹² *Murābahah* is discussed at length in IFSB-23: [Section 5.1.2](#).

¹³ *Ijārah* is discussed at length in IFSB-23: [Section 5.5](#).

¹⁴ *Istisnā'* is discussed at length in IFSB-23: [Section 5.4.3](#).

¹⁵ In conventional project financing, the completion risk is normally borne by the project sponsor/contractor, and not by the bank.

¹⁶ *Salam* is discussed at length in IFSB-23: [Section 5.3.1](#).

¹⁷ Investment contracts are discussed at length in IFSB-23: [Sections 5.6 and 5.7](#).

¹⁸ Capital impairment risk is discussed in IFSB-23: [Section 4.1.3.9.1](#).

14. Market risk arising from a change in the value of a commodity as a result of climate-related factors is limited for commodity *murābahah*¹⁹ but cannot be ruled out. The impact of climate-related risk drivers on the supply or price of commodities could also disrupt specific commodity markets to the extent that IIFS cannot rely on them for the transaction volumes they need. This would pose an operational risk to the IIFS, the extent of which would depend on the availability of alternative commodity markets on which the IIFS is able to transact.

2.2. Investment Assets

15. IIFS hold assets for investment purposes, often in the form of securities. They can be analysed using conventional financial methods and metrics as they share many financial characteristics with their conventional counterparts. This extends to some *ṣukūk* that have risk profiles primarily dependent on the creditworthiness of an ultimate obligor. However, should IIFS be invested in *ṣukūk* with a materially different risk profile, for example, one where the returns are linked to the performance/residual value of the underlying asset, then a bespoke analysis would be necessary to evaluate how that investment may be affected by climate-related financial risks.

16. In jurisdictions where IIFS hold physical assets for investment purposes, such as real estate,²⁰ these may be exposed to both physical and transition risks. The analysis of such assets will depend on the asset involved. For instance, some physical commodities may be significantly exposed to transition risk, while real estate may be exposed to physical risks, either acute (e.g., wildfires) or chronic (e.g., rising sea levels). The analysis of these effects has no obvious Islamic finance specificities but, depending on the local regulatory regime,²¹ may be more likely to be material for IIFS than for their conventional counterparts.

2.3. Profit-Sharing Investment Accounts

17. Profit-sharing investment accounts (PSIAs), especially unrestricted profit-sharing investment accounts (UPSIAs), are one of the most distinctive products of Islamic banking. In principle, investment account holders (IAH) share in all or some of IIFS' financing and investment activities, and their returns reflect the outcome of those activities, unlike a conventional bank's deposit holders who are normally remunerated through interest. For an IIFS, where UPSIAs is a source of funding, the impacts of climate-related financial risks on this type of investment account are in principle transmitted directly to IAH returns (though this risk transmission may in some cases be reduced through the use of smoothing reserves). If an IIFS, at its discretion, chooses to supplement IAH returns, it assumes exposure to Displaced Commercial Risk (DCR) where the risks originally borne by the IAH are, either wholly or partially, absorbed by the IIFS. The impact of climate-related financial risks on the capital adequacy of an IIFS may vary, depending on how PSIAs are treated for capital adequacy purposes in the jurisdiction.

¹⁹ Commodity *murābahah* is discussed at length in IFSB-23: [Section 5.2](#).

²⁰ [Section 7](#) of IFSB-23 clearly distinguishes between real estate assets held for investment and those arising from financing; only the former are considered here.

²¹ Where it allows Islamic banks to invest in physical assets while conventional banks are not allowed to do so.

18. Climate-related financial risks may also impact liquidity risk of the IIFS in the case of a sustained impact on returns to IAH.

2.4. Risk Mitigants

19. Climate-related financial risks may be harder to manage for IIFS due to their limited options of risk mitigants (e.g., Shari'ah-compliant hedging instruments and *takāful* coverage) compared to conventional banks.

3. SPECIFIC RECOMMENDATIONS FOR EFFECTIVE MANAGEMENT AND SUPERVISION OF CLIMATE-RELATED FINANCIAL RISKS FOR IIFS

20. This section provides specific recommendations for IIFS and RSAs on the application of the BCBS Principles for IIFS, given the Islamic finance specificities discussed in Section 2. It references those Principles but does not repeat them and does not comment on those Principles where there is nothing material to add. The BCBS Principles that are not addressed in this document are equally applicable to conventional banks and IIFS. Where recommendations are addressed to IIFS, it will be for RSAs to decide how far to impose these through regulation.

3.1. Corporate Governance

Recommendation 1 (BCBS Principle 2): The Board of Directors (BOD) and senior management should have a clear understanding of the distinctive nature of Islamic finance specificities and climate-related financial risks.

21. Responsibilities for managing climate-related financial risks, considering the distinctive nature of Islamic finance operations as well as the fiduciary responsibility towards IAH,²² should be clearly assigned to the BOD and its committees.²³ This role should be documented within the IIFS's governance framework.

22. The IIFS's BOD, senior management, and relevant committees should have an appropriate understanding of climate-related financial risks and how they are transmitted to IIFS, considering the distinctive nature of Islamic financial contracts used, as discussed in Section 2. If necessary, IIFS should build capacity and train the BOD and senior management on Islamic finance and climate-related issues.

²² For further elaboration on the BOD fiduciary responsibility towards IAHs, refer to [IFSB 30, Section 2.1.1](#).

²³ As per BCBS Principle 2, climate-related responsibilities should be assigned to members and/or committees. For further explanation of the need for other specialised committees focusing on emerging risks such as climate-related financial risks and sustainability, refer to IFSB-30: Revised Guiding Principles on Corporate Governance for Institutions Offering Islamic Financial Services (Banking Segment) [Section \(2.3.3.5\)](#).

3.2. Internal Control Framework

Recommendation 2 (BCBS Principle 4): IIFS should ensure that staff in internal control functions have an adequate understanding of the transmission of climate-related financial risks considering Islamic finance specificities and that these are appropriately addressed within the internal control framework.

23. Islamic finance specificities that affect the transmission of climate-related financial risks should be identified and appropriately considered within the internal control frameworks of IIFS. When incorporating climate-related financial risks into their internal control frameworks across the three lines of defence, IIFS should ensure that staff have adequate understanding of the ways these risks may be transmitted considering Islamic finance specificities. This includes awareness and understanding of how climate-related financial risks can impact the IIFS and their IAH, considering the specific nature of contracts used, the available Shari'ah-compliant investment assets, and the treatment of PSiAs, as discussed in Section 2.

3.3. Capital and Liquidity Adequacy

Recommendation 3 (BCBS Principle 5): When incorporating climate-related financial risks into ICAAPs and ILAAPs, IIFS should ensure that they reflect the specific risk profile of the IIFS's operations.

24. The incorporation of climate-related financial risks into IIFS' ICAAPs and ILAAPs should reflect the specificities of IIFS operations. As IIFS have different balance sheet structures and use different contracts compared to their conventional counterparts, the ICAAP/ILAAP has to capture such differences when assessing the impact of climate-related financial risks on IIFS (see section 2). This includes a separate analysis of the climate-related financial risks attributable to IAH.

3.4. Risk Management Process

Recommendation 4 (BCBS Principle 6): IIFS' risk management framework should incorporate climate-related financial risks, considering the nature of contracts used, the treatment of PSiAs, and the available Shari'ah-compliant risk mitigation instruments.

25. When incorporating climate-related financial risks into their risk management framework as described in BCBS Principle 6, IIFS should take account of product structures, as discussed in Section 2.

26. IIFS should consider how the risks involved in Islamic finance transactions change over the lifetime of the transaction. Because of the role played by tangible assets in Islamic finance and the relative complexity of some Islamic finance structures, the risk exposures may change in different ways

from those of their conventional counterparts.²⁴ Those engaged in risk management need to be clear on what exposures the IIFS has at any given time and how these may be affected by climate-related financial risks. This is particularly true where the IIFS is directly exposed to business activities or the value of physical assets. The principle of materiality should, however, be applied in some instances where the exposures are of short duration.

27. IIFS should determine that risks attributable to IAH are monitored and managed separately. This will involve separately evaluating the impact of climate-related financial risks on PSIAAs, particularly UPSIAAs, and ensuring that the IIFS fulfils its fiduciary duties to IAH when there are choices to be made about how climate-sensitive investments are attributed between IAH and shareholders. Where profit equalisation and investment risk reserves are permitted and utilised, climate-related financial risks will need to be considered in any decisions about the appropriate levels of those reserves.

28. IIFS' risk management frameworks should consider exposures by contract and by sector to identify any specific risk management arrangements for particular contract types. This may also be applicable to full-fledged Islamic banks and Islamic windows of conventional banks. In the case of Islamic windows, however, risk aggregations between the windows and their conventional parents will also need to be considered because shared exposures such as climate or sectoral risks can simultaneously impact multiple entities.

29. As discussed in section 2.4 of this GN, IIFS should consider the limited options of risk mitigation tools and assets available for investment that are in line with Islamic finance principles when incorporating material climate-related financial risks into their risk management framework.

3.5. Management, Monitoring, and Reporting

Recommendation 5 (BCBS Principle 7): IIFS should ensure that climate-related financial risks are incorporated in their internal monitoring and reporting system considering the various types of contracts used.

30. Data availability is an important component to ensure effective management of climate-related financial risks. As set out in the BCBS Principles, IIFS may actively engage with clients and counterparties to gain a better understanding of transition strategies and risks. This includes counterparties in financing through risk-sharing instruments, considering materiality.²⁵ This covers counterparties financed from PSIAAs as well as those financed from other funding sources.

31. Where proxies are used, these may be similar to the ones used by conventional banks, but some care may be necessary in ensuring that the proxies used are appropriate to IIFS. As an obvious

²⁴ These changing risk exposures are discussed at length, and for a wide variety of contract forms, in [Section 5](#) of IFSB-23.

²⁵ The principle of materiality is discussed in paragraph 28 of the [BCBS Principles](#).

example, some high-level aggregate proxies may include sectors that IIFS could not finance for Sharī'ah reasons and that have different risk characteristics from sectors that are permissible.

3.6. Comprehensive Management of Credit Risk

Recommendation 6 (BCBS Principle 8): IIFS should ensure that their credit risk management systems and processes have adequately considered material climate-related credit risks arising from the specific contracts used.

32. IIFS should identify, evaluate, and monitor credit risk arising at various stages, considering the specific Islamic finance contracts used. IIFS should have in place adequate mitigation measures against any material climate-related credit risk arising from the specificities discussed in Section 2, such as capital impairment risk from profit-sharing financing contracts (treated as credit risk in IFSB-23).

33. For *ṣukūk* exposures in the banking book, it may be necessary to consider the impact of climate-related financial risks on the specific assets underlying the *ṣukūk*, and/or on parties other than the originator. Identifying the relevant impacts needs to be based on a proper understanding of the IIFS's exposures, based on the analysis outlined in Section 6 of IFSB-23.

3.7. Comprehensive Management of Market, Liquidity, and Operational Risks

Recommendation 7 (BCBS Principle 9): IIFS should understand the impact of climate-risk drivers on their market risk position considering Islamic finance specificities and address any material climate-related financial risks in their market risk management systems and processes.

34. IIFS should understand how climate-related risk drivers can affect market risk for IIFS, depending on the type of contracts used, as discussed in Section 2. Adequate policies and procedures should be in place for effective assessment of the impact of climate-related financial risks on the IIFS exposures to market risk based on the nature of contracts.

35. For *ṣukūk* held in the trading book, BCBS Principle 9 is equally applicable. In addition to the impact of climate risks on the originator, the IIFS may, in some circumstances, need to consider the impact of those risks on the specific assets underlying the *ṣukūk* and on the ultimate obligor, where this is different from the originator.

Recommendation 8 (BCBS Principle 10): In evaluating and managing the impact of climate-related risk drivers on their liquidity risk profiles, IIFS should take account of risks related to IAH and any limitations in the Sharī'ah-compliant liquidity risk management tools available.

36. IIFS should assess the possible impact of climate-related financial risks on IAH²⁶ run-off rates which may lead to a deterioration of the IIFS's liquidity position and incorporate these impacts into the calibration of their liquidity buffers and liquidity risk management frameworks.

37. IIFS should consider the availability of Sharī'ah-compliant liquidity risk management tools²⁷ to manage liquidity risks arising from climate-related financial risks and address any potential limitations within their liquidity risk management framework (for example, the absence of lender-of-last-resort facilities for IIFS or a limited supply of High-Quality Liquid Assets denominated in the domestic currency).

Recommendation 9 (BCBS Principle 11): IIFS should consider, in their operational risk management systems and processes, possible disruptions to commodity markets as a result of climate risks that may affect their ability to conduct certain Islamic finance transactions.

38. IIFS should understand the impact of physical and transition risks on the commodities underpinning commodity *murābahah* transactions. As noted in Section 2.1, these risks may, in extreme cases, disrupt the market for one or more commodities that could impact its use for commodity *murābahah* transactions. IIFS should have adequate processes to identify potential vulnerabilities that may disrupt the commodity markets and prepare risk mitigation strategies which may, for example, include having arrangements in place to transact in alternative commodities.

3.8. Scenario Analysis

Recommendation 10 (BCBS Principle 12): Where appropriate, IIFS should make use of scenario analysis that appropriately reflects Islamic finance specificities.²⁸

39. When conducting climate scenario analysis, IIFS should consider the risks related to the various types of Islamic financial contracts used,²⁹ as well as the available Sharī'ah-compliant risk mitigation tools. The assessment should also include a separate analysis of the position of IAH.³⁰ Subject to materiality, the scenarios should cover all the sectors they are exposed to, either via financing or investment.

40. Climate scenario analysis is an evolving area and practices of IIFS may evolve as it develops. Given the relatively small size of most IIFS, they, like many conventional banks, are likely to require some support from their respective RSAs to conduct such analysis.

²⁶ See Section 2.3 of this GN.

²⁷ IFSB Technical Notes 1 and 5 provide guidance on Sharī'ah-compliant liquidity management tools.

²⁸ As stated in the BCBS report 'Climate-related financial risks - measurement methodologies', scenario analysis is a tool that challenges assumptions made for the purposes of risk analysis. A key feature of the scenarios analysed is to explore alternatives that may significantly alter the basis for business-as-usual assumptions. Accordingly, they need to consider extreme but plausible scenarios.

²⁹ Although it does not cover climate-related financial risks specifically, [IFSB Technical Note 2](#) provides guidance on the incorporation of Islamic specificities in stress testing and scenario analysis, including the treatment of PSIA's.

³⁰ The position of IAHs depends on how the PSIA's are treated. For further elaboration on treatment of PSIA's, refer to GN 6, [Section 2.3.1.1](#).

3.9. Prudential Regulatory and Supervisory Requirements for IIFS

Recommendation 11 (BCBS Principle 14): Supervisors should determine that IIFS can adequately identify, monitor, and manage material climate-related financial risks, taking proper account of the specific risk profile of the IIFS.

41. Supervisors should review the extent to which IIFS consider Islamic finance specificities in their assessment, monitoring, and management of climate-related financial risks. This may include ensuring that the IIFS's risk management framework takes into account all material climate-related financial risks it is exposed to, considering the specific nature of contracts used, the available Shariah-compliant investment assets, and treatment of PSIAAs as discussed in Section 2.

42. Regulatory practices for Islamic windows vary from jurisdiction to jurisdiction. In principle, these practices should be informed by the manner in which capital and liquidity are made available to the window. This includes, for example, whether the window has the ability to raise capital or liquidity independently from the conventional bank. Some supervisory authorities require Islamic windows to maintain a separate amount of capital and to follow the applicable minimum capital adequacy ratio requirements, while also requiring regulatory capital requirements to be met at the parent level. In other jurisdictions, there is no specific requirement for Islamic windows to maintain a separate amount of capital or to meet separate regulatory capital requirements. Treatment may also depend on whether the parent is based in the same jurisdiction.³¹ Similar differences exist in relation to liquidity, and GN-6 paragraph 33(d)³² briefly discusses liquidity provision from a parent to an Islamic window. Whether or not separate capital and/or liquidity requirements are applied to the window, consolidation should take place at the level of the conventional parent³³ and at higher levels within a group where appropriate. The approach to climate-related financial risks, like other financial risks, should be aligned with the regulatory treatment of the window. Potential effects on Islamic windows due to the impact of climate-related financial risks on the conventional parent's operations, or vice versa, depend on those issues discussed earlier as well as how windows are treated in insolvency.³⁴ At a minimum, the supervisor should ensure that climate-related financial risks, like other risks, are managed at the level of the parent as well as that of the window.

Recommendation 12 (BCBS Principle 15): Supervisors should determine the extent to which IIFS considers any limitations in available risk mitigation tools and whether these are adequately addressed in managing climate-related financial risks. Supervisors should determine that, where appropriate, IIFS apply climate scenario analysis that considers specific types of contracts and the position of IAH.

³¹ See [IFSB-23 Section 2.7](#) for a fuller discussion.

³² See [paragraph 33\(d\) in GN-6](#) Guidance Note on Quantitative Measures for Liquidity Risk Management in IIFS.

³³ [IFSB-17, CPIFR 32](#), Essential Criterion 6.

³⁴ For example, whether a court or other relevant body would determine that the assets of the window are available to pay debts of the conventional parent, or vice versa, see [IFSB-17, CPIFR 32](#), in particular, Essential Criteria 7 and 10.

43. Supervisors should determine that IIFS have considered the availability of appropriate Sharī'ah-compliant mitigation tools to manage and control climate-related risks. This may include assessing the adequacy of the available Sharī'ah-compliant mitigation techniques and the possible need to amend IIFS' strategies, for example through diversification, where climate-related financial risks cannot otherwise be adequately mitigated.

44. Supervisors should determine that IIFS' scenario analyses consider Islamic finance specificities, including the types of contracts used and the position of IAH. This should be done on a proportionate basis, depending on the size and complexity of their business model.

3.10. Responsibilities, Powers, and Functions of Supervisors

Recommendation 13 (BCBS Principle 18): Where supervisors use climate-related scenario analysis, the requirements placed on individual IIFS should take proper account of the Islamic finance specificities, including the position of IAH. Where system-wide exercises are undertaken, they should consider carefully the interactions between the Islamic and conventional financial sectors.

45. When supervisors require IIFS to undertake climate scenario analyses and stress tests, IIFS should be required to consider the effects on the Islamic financial contracts used, their balance sheet structures, in particular the use of PSiAs and the structure of assets available for investment, and the risk mitigants available.³⁵ Where such tests are undertaken to assess impacts on the banking system as a whole, it may, in some circumstances, be appropriate to consider how far IIFS transact with conventional banks in order to assess how shocks may be transmitted. Supervisors should also consider whether any limitations in the supply of Sharī'ah-compliant risk mitigation tools may be exacerbated in the circumstances of a system-wide shock.

³⁵ Although it does not cover climate-related financial risks specifically, [IFSB Technical Note 2](#) provides guidance on the incorporation of Islamic specificities in stress testing, including the treatment of PSiAs.

APPENDIX

Mapping between BCBS Principles and GN-11

BCBS Principles	IFSB Recommendations
Principle 1	Equally applicable
Principle 2	Recommendation 1
Principle 3	Equally applicable
Principle 4	Recommendation 2
Principle 5	Recommendation 3
Principle 6	Recommendation 4
Principle 7	Recommendation 5
Principle 8	Recommendation 6
Principle 9	Recommendation 7
Principle 10	Recommendation 8
Principle 11	Recommendation 9
Principle 12	Recommendation 10
Principle 13	Equally applicable
Principle 14	Recommendation 11
Principle 15	Recommendation 12
Principle 16	Equally applicable
Principle 17	Equally applicable
Principle 18	Recommendation 13

DEFINITIONS

The following definitions provide a general understanding of the terms used in this document. The glossary is by no means exhaustive.

Climate-related financial risks	The set of potential risks that may result from climate change and that could potentially impact the safety and soundness of individual financial institutions and the financial stability of the banking system. These risks are typically classified as physical and transition risks. Physical impacts include the potential economic costs and financial losses resulting from the increasing severity and frequency of extreme climate-change related events, and longer-term progressive shifts in the climate. Transition impacts relate to the process of adjusting to a low-carbon economy.
Commodity <i>murābahah</i>	A <i>murābahah</i> transaction based on the purchase of a commodity from a seller or a broker and its resale to the customer on the basis of deferred <i>murābahah</i> , followed by the sale of the commodity by the customer for a spot price to a third party for the purpose of obtaining liquidity, provided that there are no links between the two contracts.
Fiduciary risk	The risk that arises from an institution's failure to perform in accordance with explicit and implicit standards applicable to its fiduciary responsibilities.
<i>Ijārah</i>	A contract made to lease the usufruct of a specified asset for an agreed period against a specified rental. It could be preceded by a unilateral binding promise from one of the contracting parties. An <i>ijārah</i> contract is binding on both contracting parties.
<i>Ijārah Muntahiyah bi al-Tamlīk</i>	A lease contract combined with a separate promise from the lessor giving the lessee a binding promise to own the asset at the end of the lease period either by purchase of the asset through a token consideration, or by the payment of an agreed-upon price, or by the payment of its market value. This can be done through a promise to sell or to donate, or through a contract of conditional donation.
<i>Istisnā`</i>	The sale of a specified asset, with an obligation on the part of the seller to manufacture/construct it using his/her own materials and to deliver it on a specific date in return for a specific price to be paid in one lump sum or instalments.
<i>Muḍārabah</i>	A partnership contract between the capital provider (<i>rabb al-māl</i>) and an entrepreneur (<i>muḍārib</i>) whereby the capital provider would contribute capital to an enterprise or activity that is to be managed by the entrepreneur. Profits generated by that enterprise or activity are shared in accordance with the percentage specified in the contract, while losses are to be borne solely by the capital provider unless the losses are due to misconduct, negligence, or breach of contracted terms.

<i>Murābahah</i>	A sales contract whereby the institution sells a specified asset to a customer, and the selling price is the sum of the cost price and an agreed profit margin. The <i>murābahah</i> contract can be preceded by a promise to purchase from the customer.
<i>Mushārahah</i>	The participation of two or more partners in owning an asset either voluntarily or obligatorily. The profit/loss-sharing ratio will be based on the equity of each partner.
Parallel <i>salam</i>	A second <i>salam</i> contract with a third party to acquire, for a specified price, a due and described commodity of known type, quantity, and attributes, which corresponds to the specifications of the commodity in the first <i>salam</i> contract without the presence of any links between the two contracts.
Restricted investment accounts	Accounts whose holders authorise the investment of their funds based on <i>muḍārabah</i> or <i>wakālah</i> agency contracts with certain restrictions as to where, how, and for what purpose these funds are to be invested.
<i>Salam</i>	The sale of a specified commodity that is of a known type, quantity, and attributes for a known price paid at the time of signing the contract for its delivery in the future in one or several batches.
<i>Sukūk</i>	Certificates that represent a proportional undivided ownership right in tangible assets, or a pool of tangible assets and other types of assets. These assets could be in a specific project or specific investment activity that is Sharī'ah-compliant.
Transmission Channels	The causal chains that explain how climate risk drivers give rise to financial risks that impact banks directly or indirectly through their counterparties, the assets they hold, and the economy where they operate.
Unrestricted investment accounts	Accounts whose holders authorise the investment of their funds based on <i>muḍārabah</i> contracts without imposing any restrictions. The institutions can commingle these funds with their own funds and invest them in a pooled portfolio.

COUNCIL

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Deputy Chairman

H.E. Dr. Perry Warjiyo, Bank Indonesia

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H. E. Dr. Ahsan H. Mansur	Bangladesh Bank
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H.E. M. Ahmed Osman Ali	Banque Centrale de Djibouti
H.E. Hassan Abdalla	Central Bank of Egypt
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H.E. Dr. Adel Alsharkas	Central Bank of Jordan
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H.E. Naji Mohammed Issa Belqasim	Central Bank of Libya
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H.E. Khaled Mohamed Balama Al Tameemi	Central Bank of United Arab Emirates

*** In alphabetical order of the country the member's organisation represents, except international organisations, which are listed first.**

TECHNICAL COMMITTEE

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Mr. Saud Al Busaidi – Central Bank of Oman (since August 2024)

Deputy Chairman

Mr. Saud Al Busaidi – Central Bank of Oman (until April 2024)

Mr. Mohamed Abou Moussa – Central Bank of Egypt (since August 2024)

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Mr. Shahriar Siddiqui	Bangladesh Bank
Mrs. Shireen Abdulkarim Al Sayed	Central Bank of Bahrain
Mr. Haji Muhammad Shukri bin Haji Ahmad (until April 2024)	Brunei Darussalam Central Bank
Dr. Mariawati Omar (since July 2024)	Brunei Darussalam Central Bank
Dr. Jardine Husman (until April 2024)	Bank Indonesia
Dr. Rifki Ismal (since July 2024)	Bank Indonesia
Mrs. Nyimas Rohmah	Otoritas Jasa Keuangan, Indonesia
Dr. Alireza Naserpour (until April 2024)	Securities and Exchange Organization of Iran
Mr. Ahmed Yousif Kadhim Al-Helli (until April 2024)	Central Bank of Iraq
Mr. Mustafa Abd Nazzal (since July 2024)	Central Bank of Iraq
Mr. Mahmoud Ibrahim Moh'd Alsbeihat (until April 2024)	Central Bank of Jordan
Mr. Anuar Kaliyev (until April 2024)	Astana Financial Services Authority
Dr. Mohammad Bader Al Khamees	Central Bank of Kuwait
Dr. Ali Abusalah Elmabrok Amreeghah	Central Bank of Libya
Mr. Nik Faris Nik Sallahuddin	Bank Negara Malaysia

Mrs. Sharifatul Hanizah Bin Said Ali	Securities Commission Malaysia
Dr. Mohammed Zougari Laghrari (since July 2024)	Bank Al-Maghrib
Mr. Muhammad Hamisu Musa (until April 2024)	Central Bank of Nigeria
Dr. Abdurrahman Abdullahi (since July 2024)	Central Bank of Nigeria
Mr. Ahmad Usman Kollere (since July 2024)	National Insurance Commission (NAICOM), Nigeria
Mr. Ghulam Muhammad Abbasi (until April 2024)	State Bank of Pakistan
Ms. Nighat Tanveer (since July 2024)	State Bank of Pakistan
Mr. Hisham Saleh Al-Mannai	Qatar Central Bank
Mr. Bader Abdulmohsen Alissa (until April 2024)	Capital Market Authority, Saudi Arabia
Mr. Walid Alzahrani (since July 2024)	Saudi Central Bank
Dr. Muhammed Habib DOLGUN (since July 2024)	Central Bank of the Republic of Türkiye
Dr. İlker KOÇ's	Banking Regulation and Supervision Agency, Türkiye
Mrs. Emine Nur Ozturk Alkan (until April 2024)	Insurance and Private Pension Regulation and Supervision Agency of Türkiye
Mr. Abdulaziz Saoud Al Mualla	Central Bank of United Arab Emirates

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**WORKING GROUP FOR THE GUIDANCE NOTE ON CLIMATE-RELATED FINANCIAL RISKS
FOR INSTITUTIONS OFFERING ISLAMIC FINANCIAL SERVICES (BANKING SEGMENT)**

Chairman

Mr. Muhammad Hamisu Musa – Nigeria Deposit Insurance Corporation (Until February 2024)

Deputy Chairman

Mrs. Nyimas Rohmah – Otoritas Jasa Keuangan

Members*

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Ms. Noof Adel AlBalooshi	Central Bank of Bahrain
Mr. Izhar Ul Haq Tahiri	Da Afghanistan Bank
Mr. Mohammad Delowar Hossain	Bangladesh Bank
Mr. Tarik Tunckol	Central Bank of Turkish Republic of Northern Cyprus
Ms. Intan Natasha Putri (until April 2025)	Otoritas Jasa Keuangan
Ms. Risa Fadila	Bank Indonesia
Mr. Vidi Adyatma Nugraha	Bank Indonesia
Mr. Ali Abdulazeez Abbas	Central Bank of Iraq
Mrs. Nesreen Khalid Qashou	Central Bank of Jordan
Ms Noura Waleed AL-Bader	Central Bank of Kuwait
Ms. Loong Sok Sim	Bank Negara Malaysia
Mr. Abdul Basir Khan	State Bank of Pakistan
Ms. Bushra Shafiq	State Bank of Pakistan
Ms. Joanne Cortez	Bangko Sentral ng Pilipinas
Ms. Sundos H. Al-Twajjri (until March 2024)	Saudi Central Bank
Ms. Raghad Ababtain (since March 2024)	Saudi Central Bank

Mr. Meshal Alyahya (since March 2024)	Saudi Central Bank
Ms. Nagwa Sheikh Eldin Mohamed Hussien	Central Bank of Sudan
Ms. Canan Ozkan	Central Bank of the Republic of Turkey
Dr. İlker Koç	Banking Regulation and Supervision Agency, Turkey
Ms. Salama Obaid Altamimi	Central Bank of the United Arab Emirates
Mr. Abdulla Saud Al-Thani	Qatar Central Bank
Ms. Marie Medgee Lauricourt (Until June 2024)	Bank of Mauritius
Ms. Urvashi Chuttarsing-Soobarah	Bank of Mauritius
Dr. Ndeye Djiba Ndiaye	Banque Centrale Des Etats de L’afrique de L’ouest (BCEAO)
Mr. Sadiq Yau Kanya	Central Bank of Nigeria

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Dr. Mohamed Ali Ibrahim Elgari

Deputy Chairman

Dr. Nizam Muhammad Saleh Yaquby

Members

Dr. Aznan Hasan	Member
Mufti Muhammad Hassan Kalim	Member
Dr. Sa'id Adekunle Mikail	Member

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Dr. Bello Lawal Danbatta (until January 2024)	Secretary-General
Mrs. Aminath Amany Ahmed	Assistant Secretary-General, Research and Standard Development
Dr. Hechem Ajmi	Member of the Secretariat, Research and Standard Development
Mr. Peter Casey	Consultant