ISLAMIC FINANCIAL SERVICES BOARD

EXPOSURE DRAFT (ED) - 33

REVISED GUIDING PRINCIPLES ON GOVERNANCE OF ISLAMIC COLLECTIVE INVESTMENT SCHEMES

JULY 2026

Comments on this Exposure Draft should be sent to the IFSB Secretariat no later than 4 September 2026 by email to public_consultation@ifsb.org

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ABBREVIATIONS

IFSB	Islamic Financial Services Board
CIS	Collective Investment Schemes
ICIS	Islamic Collective Investment Schemes
RSAs	Regulatory and Supervisory Authorities

Invitation to comment

The IFSB invites comments on the proposals in the Exposure Draft, particularly on the questions set out in the Exposure Draft for respondents.

Comments are most helpful if they:

(a) address the questions as stated;
(b) specify the paragraph(s) to which they relate;
(c) contain a clear rationale;
(d) identify any wording in the proposals that is difficult to understand; and
(e) include any alternative the IFSB should consider, if applicable.

Responses to all consultation questions are optional, and stakeholders may comment only on those questions relevant to them or provide general comments on any aspect of the Exposure Draft.

The IFSB is requesting comments only on matters addressed in the Exposure Draft.

SECTION 1: INTRODUCTION

1.1 Background

1. Islamic collective investment schemes (ICIS) have expanded significantly and now represent an increasingly important component of the Islamic financial services industry. This growth has heightened the need for robust governance arrangements to ensure that ICIS are managed in a manner that protects investors, supports sound risk management, and maintains confidence in the integrity of Islamic capital markets.

2. In many jurisdictions, ICIS operate within the same legal and regulatory frameworks applicable to conventional collective investment schemes (CIS) and are managed through substantially similar fund management, custody, administration, valuation, and distribution arrangements. Accordingly, the legal and operational mechanics of ICIS are generally not fundamentally different from those applicable to CIS more broadly.

3. Nevertheless, certain characteristics of ICIS may give rise to governance, operational, liquidity, valuation, and risk management considerations that differ from those encountered in conventional CIS. These differentiated considerations arise primarily from the investment eligibility methodologies applied within ICIS, the characteristics of Islamic financial markets and instruments, and the operational and market infrastructure environments within which ICIS operate. At the same time, certain characteristics of ICIS, including their emphasis on ethical investment objectives and restrictions on excessive leverage and speculative activities etc. may contribute to market discipline, investor confidence, and resilience.

4. ICIS are subject to governance arrangements relating to compliance with Sharīʻah rules and principles, including governance of screening methodologies, treatment of non-compliant exposures, purification arrangements, and oversight by Sharīʻah governance bodies. Since the issuance of IFSB-6 *Guiding Principles on the Governance of Islamic Collective Investment Schemes* in 2009, regulatory and supervisory approaches relating to Sharīʻah governance have evolved substantially; in 2025, IFSB-31 *Guiding Principles for Effective Supervision of Sharīʻah Governance* was issued, providing guidance applicable to ICIS.

5. Furthermore, Islamic financial markets and technology have evolved considerably since the issuance of IFSB-6. These developments have increased the importance of governance frameworks capable of addressing the operational, market, liquidity, valuation, compliance, and infrastructure considerations arising within ICIS. Accordingly, this standard provides revised guiding principles for the governance of ICIS, with the objective of strengthening supervisory and governance frameworks applicable to issues specific to ICIS while avoiding duplication with broader CIS governance standards and related IFSB standards that are also applicable to the governance of ICIS.

1.2 Objectives and Scope

6. These Guiding Principles are intended to assist regulatory and supervisory authorities (RSAs) in strengthening governance and oversight frameworks applicable to ICIS by addressing governance considerations arising from the specific characteristics of ICIS that may not be addressed sufficiently within CIS governance standards.

7. In particular, these Guiding Principles focus on governance considerations arising from investment eligibility methodologies and portfolio construction processes, specific market characteristics associated with Islamic financial markets, and governance arrangements relating to compliance with Sharīʻah rules and principles.

8. These Guiding Principles adopt a supplementary approach and are not intended to duplicate other international standards applicable to CIS generally. Matters equally applicable to conventional CIS and ICIS should continue to be addressed through applicable IOSCO standards.

9. Similarly, these Guiding Principles are not intended to duplicate other IFSB standards addressing Sharīʻah governance or Islamic capital market regulation generally. Rather, these Guiding Principles provide additional guidance on specificities of governance within the ICIS context and should be read together with other relevant IFSB standards.

10. Furthermore, these Guiding Principles are not intended to constitute a disclosure standard for ICIS. Disclosure requirements applicable to Islamic capital market products, including ICIS, are addressed separately under IFSB-19 *Guiding Principles on Disclosure Requirements for Islamic Capital Markets* and any future revisions thereto.

11. For the purpose of this standard, ICIS refers to any financial scheme which fundamentally meets all of the following criteria: (a) investors have pooled their capital contributions in a fund, whether established through a separate legal entity or contractual arrangement, through the subscription of units or shares of equal value representing proportionate ownership interests in the underlying assets of the fund and giving rise to the right or obligation to share in the profits or losses derived from those assets; (b) the fund is established and managed in accordance with Sharīʻah rules and principles; and (c) the fund is financially accountable separately from the institutions that establish, sponsor, or manage it, including through maintaining a separate asset and liability profile. [1]

12. ICIS for the purpose of this standard include open-ended funds redeemable on either a continuous or periodic basis; closed-ended funds, whether tradable or untradable; unit investment trusts established on either a contractual basis or under structures similar to Undertakings for Collective Investment in Transferable Securities; individual funds and umbrella fund structures comprising multiple sub-funds; and Islamic windows of conventional CIS.

13. This definition excludes arrangements that do not constitute collective investment schemes in substance, including funds that are not established as pooled collective investment arrangements, funds established by takāful operators that are linked to Islamic insurance or takāful policies and are irredeemable until maturity, pension funds, profit-sharing investment accounts (PSIAs), and hedge funds.

14. These Guiding Principles should be applied proportionately to the size, complexity, operational structure, and risk profile of the ICIS.

1.3 Relationship with Other Standards

15. These Guiding Principles should be read together with applicable IOSCO standards and guidance, including the IOSCO *Objectives and Principles of Securities Regulation*; the *Principles for the Valuation of Collective Investment Schemes*; the revised *Recommendations for Liquidity Risk Management for Collective Investment Schemes*; and other relevant IOSCO standards and guidance applicable to CIS.

16. These Guiding Principles should also be read together with relevant IFSB standards, including:

- IFSB-10: Guiding Principles on Sharīʻah Governance Systems;
- IFSB-19: Guiding Principles on Disclosure Requirements for Islamic Capital Market;
- IFSB-21: Core Principles for Islamic Capital Market Regulation; and
- IFSB-31: Guiding Principles for Effective Supervision of Sharīʻah Governance.

[1] In certain jurisdictions, ICIS may operate under different legal forms or designations (e.g., muḍārabah funds). The principles of this standard should apply based on the substance of the arrangement and to any vehicle that meets the definition of an ICIS set out in this standard.

Questions for Respondents – SECTION 1 (Paragraphs 1 - 16)

1. Are the proposed objectives of the Exposure Draft clear? Why or why not?

2. Is the proposed scope of the Exposure Draft appropriate in view of the objectives? Why or why not?

3. Does the proposed definition of ICIS appropriately capture the range of Islamic collective investment schemes operating in your jurisdiction? If not, please identify any aspects of the definition that should be clarified, revised or expanded.

SECTION 2: SPECIFIC CONSIDERATIONS FOR ISLAMIC COLLECTIVE INVESTMENT SCHEMES

17. While the legal and operational structures of ICIS are generally similar to those applicable to conventional collective investment schemes, certain characteristics of ICIS may give rise to additional governance, operational, liquidity, valuation, risk management, and compliance oversight considerations. These characteristics arise primarily from investment eligibility methodologies, the structure and depth of Islamic financial markets, and the specific governance arrangements applicable to ICIS.

18. These specific characteristics may affect portfolio construction, concentration risk, transaction execution, liquidity management, valuation reliability, operational resilience, investor treatment, compliance processes, and governance oversight. Accordingly, the governance of ICIS requires consideration of the manner in which these specific characteristics interact within ICIS structures and operations.

2.1 Investment Eligibility Methodologies and Portfolio Construction

19. A distinguishing characteristic of ICIS is the use of investment eligibility methodologies (screening criteria), to determine the assets or instruments in which the ICIS may invest. Such methodologies may be applied through externally constructed Islamic indices, third-party screening providers, internal investment methodologies, or guidance issued by national Sharīʿah authorities or Sharīʿah boards of the ICIS.

20. In many jurisdictions, Islamic capital markets may already comprise a narrower range of issuers, instruments, and market segments than broader conventional markets. The application of investment eligibility methodologies may further reduce the investable universe available to ICIS, resulting in greater concentration within particular sectors, issuers, instruments, counterparties, or market segments. Consequently, ICIS may exhibit different concentration characteristics, benchmark divergence, portfolio turnover behaviour, and transaction execution dynamics from comparable conventional CIS.

21. Investment eligibility methodologies may also require ongoing monitoring of issuer eligibility and periodic reassessment of portfolio holdings. Changes in issuer classifications, financial thresholds, business activities, index composition, or methodology assumptions may necessitate portfolio adjustments, disposals, or rebalancing activity. Where multiple ICIS follow similar methodologies or benchmark indices, portfolio transition activity may occur simultaneously across funds, particularly within relatively narrow or less liquid eligible investment universes.

22. Differences may also arise across jurisdictions, screening providers, or index methodologies regarding financial ratio thresholds, treatment of mixed business activities, implementation timelines, purification assumptions, treatment of temporary threshold breaches, and other methodological assumptions. Such differences may create operational complexity, inconsistent portfolio treatment, or disclosure and comparability challenges across jurisdictions and products.

23. In certain circumstances, investments may become non-compliant after acquisition due to changes in the issuer's business activities, financial ratios, corporate actions, or updated methodology determinations. Such events may require disposal or other corrective actions within specified timeframes and may create transaction execution, valuation, liquidity, operational, or investor treatment considerations for the ICIS.

2.2 Liquidity and Market Structure Characteristics

24. Certain Islamic financial markets, including ṣukūk and Islamic money markets, may exhibit lower secondary market depth, less continuous trading activity, concentrated investor bases, uneven

issuance patterns, or reduced transaction observability during stressed market conditions relative to broader conventional fixed-income markets.

25. These conditions may affect transaction execution capacity, portfolio turnover, valuation reliability, liquidity management assumptions, redemption management, and the operation of liquidity management tools within ICIS. In stressed market environments, liquidity conditions may deteriorate rapidly where market participation is concentrated or where secondary market activity becomes materially reduced.

26. In some jurisdictions, Islamic money market development may remain constrained by limited availability of short-term instruments, resulting in concentration in particular counterparties, issuance programmes, rollover structures, or funding arrangements. These conditions may affect refinancing assumptions, liquidity buffers, maturity management, and the resilience of liquidity management frameworks within ICIS.

27. In addition, certain Islamic financial markets may have less developed Islamic alternatives to repo markets, securities lending arrangements, derivatives markets, and other market infrastructure commonly utilised within conventional CIS environments for liquidity access, duration management, portfolio hedging, or other risk management purposes. These structural characteristics may affect the range, responsiveness, or effectiveness of available liquidity and risk management tools.

28. Market structure characteristics may also differ materially across Islamic asset classes. While some listed Islamic equity markets may exhibit substantial liquidity and trading depth, other asset classes, including certain ṣukūk, may exhibit materially different liquidity, valuation, settlement, and transaction execution characteristics. Accordingly, liquidity conditions within ICIS may vary significantly depending on the underlying asset composition and market environment.

2.3 Valuation Characteristics

29. Certain Islamic financial instruments and markets may exhibit lower transaction frequency, reduced pricing observability, fragmented pricing environments, or more limited secondary market liquidity relative to broader conventional markets. These conditions may create additional considerations relating to valuation reliability, pricing inputs, valuation uncertainty, fair value determination, and net asset value calculation, particularly during periods of market stress or reduced market activity.

30. In certain ṣukūk markets, secondary market transactions may occur infrequently or become materially reduced during stressed market conditions. As a result, valuation processes may depend to a greater extent on indicative pricing, interpolation methodologies, proxy pricing, dealer quotations, or model-based valuation approaches. Under such conditions, pricing observability and valuation certainty may differ materially from those applicable in more liquid conventional fixed-income markets.

31. During periods of market stress, valuation challenges may become more pronounced where transaction activity declines materially, observable prices become limited, or asset liquidity deteriorates significantly. These conditions may affect valuation reliability, redemption pricing, investor treatment, and the operation of liquidity management tools.

2.4 Sharīʻah Governance

32. ICIS are subject to governance arrangements intended to ensure ongoing compliance with Sharīʻah rules and principles. Such arrangements may include oversight by Sharīʻah governance organs, compliance review processes, treatment of non-compliant exposures through purification arrangements and corrective action procedures.

33. In contrast to conventional CIS, governance of compliance within ICIS may require ongoing assessment of portfolio eligibility, monitoring of issuer status, periodic review of investment

methodologies, and governance over events in which investments may become non-compliant after acquisition. Such events may require corrective action, disposal, purification, investor communication, or other remediation measures within specified timeframes.

34. Certain ICIS may additionally involve corrective actions such as purification arrangements relating to the treatment of income associated with non-compliant activities, incidental exposures, or methodology adjustments. These arrangements may create additional governance considerations.

35. Governance of compliance arrangements may also differ across jurisdictions depending on applicable Sharīʻah governance frameworks, institutional structures such as national Sharīʻah supervisory boards, regulatory requirements, or market practices. Such differences may affect methodology assumptions, governance structures, operational implementation approaches, and supervisory expectations applicable to ICIS.

2.5 Technology and Automated Decision-Making

36. Technology, including artificial intelligence and automated processes, may be used to support certain functions relevant to the operation of ICIS, including the application of investment eligibility methodologies, assessments of compliance with Islamic finance principles, and corrective actions associated with non-compliant exposures. Unlike many conventional investment mandates that rely on a relatively fixed set of investment criteria, ICIS may require continuing assessments and responses to changes in the status of portfolio holdings. This may involve qualitative assessments, jurisdiction-specific requirements, transitional arrangements, or approved treatments for exceptional circumstances that require the exercise of judgement and may not readily lend themselves to standardised or fully automated determinations.

37. Additional considerations may arise where technology platforms or third-party solutions developed for broader investment markets incorporate assumptions or classifications that differ from those adopted by the ICIS or required under the applicable regulatory and Sharīʻah governance framework. This may have implications for the consistent application of investment eligibility methodologies, compliance processes, and other requirements specific to the operation of ICIS.

38. The use of technology in such areas may give rise to considerations relating to the transparency, traceability, and effective oversight of determinations relevant to the implementation of the ICIS's investment mandate and compliance framework, particularly where such processes involve qualitative judgements, approved exceptions, or other matters requiring human oversight within the governance framework of the ICIS.

Questions for Respondents – SECTION 2 (Paragraphs 17 - 38)

4. Does Section 2 accurately and comprehensively identify the characteristics of ICIS that give rise to governance considerations distinct from those applicable to conventional CIS? Please identify any additional characteristics or governance considerations that should be addressed.

5. Does Section 2 accurately and comprehensively identify the specific characteristics of ICIS that give rise to governance, operational, and risk management considerations distinct from those applicable to conventional CIS?

SECTION 3: GUIDING PRINCIPLES ON GOVERNANCE OF ISLAMIC COLLECTIVE INVESTMENT SCHEMES

3.1 Board and Senior Management Oversight

Principle 1: RSAs should ensure that the board of directors and senior management of ICIS operators maintain governance arrangements capable of overseeing the specific characteristics, structures, and operational environments of ICIS.

39. Governance responsibilities applicable to ICIS are broadly consistent with those applicable to collective investment schemes generally. However, RSAs should ensure that the board and senior management possess sufficient understanding of the specific characteristics of ICIS and its operating environment and of how such characteristics may affect portfolio construction, liquidity management, valuation, and compliance oversight.

40. RSAs should ensure that the board and senior management continuously enhance their knowledge and understanding of Islamic finance and remain abreast of relevant developments to effectively discharge their oversight responsibilities.

Board of Directors

41. RSAs should require that the board approves and oversees governance arrangements proportionate to the nature, scale, complexity, and risk profile of the ICIS. Governance arrangements should remain appropriate in view of the characteristics and operating arrangements of the ICIS and should be reviewed periodically to ensure their continued suitability in light of material changes affecting the ICIS or its operating environment.

42. The board should maintain appropriate oversight of investment eligibility methodologies and their implications for the management and operation of the ICIS. In exercising such oversight, the board should understand the potential implications of issuer reclassification events, methodology revisions, and other developments that may materially affect portfolio construction, liquidity, valuation, risk exposures, or investor interests.

43. The board should maintain appropriate oversight of the liquidity and valuation characteristics of the ICIS and their implications for its operation and risk profile, particularly during periods of market stress.

Senior Management

44. Senior management should ensure that investment eligibility methodologies approved for the ICIS are effectively implemented and integrated into portfolio management, compliance monitoring, and operational processes. Appropriate arrangements should be maintained to manage the operational implications arising from issuer reclassification events, methodology revisions, and resulting portfolio rebalancing activities.

45. Senior management should ensure that the liquidity and valuation characteristics of the ICIS are appropriately reflected in its day-to-day management and risk management processes, including during periods of market stress or market dislocation. This includes maintaining appropriate processes to address structural market characteristics that may arise in Islamic capital markets with relatively limited market depth or breadth, such as implications of a narrower investment universe, limited market liquidity, and valuation uncertainties arising in markets with limited secondary market activity or reduced pricing observability.

46. Senior management should establish and maintain reporting, escalation, and decision-making arrangements to ensure that material matters, including significant risk events and compliance

breaches, are identified, addressed, and communicated to the board in a timely manner to support effective oversight of the ICIS.

Question for Respondents – PRINCIPLE 1 (Paragraphs 39 - 46)

6. Does Principle 1 adequately define all relevant governance and oversight responsibilities of the board and senior management on issues that are specific to ICIS? If not, please identify any other responsibilities that should be clarified or expanded.

3.2 Investment Eligibility Methodologies

Principle 2: RSAs should ensure that ICIS operators establish robust governance arrangements over investment eligibility methodologies, including their design, implementation, monitoring, review, and operational application throughout the investment process.

47. RSAs should require ICIS operators to maintain clearly documented investment eligibility (screening) methodologies approved through appropriate governance arrangements and applied consistently across investment, monitoring, compliance, operational, and reporting processes. Governance arrangements should ensure that methodologies remain operationally implementable, subject to periodic review,[2] and capable of supporting ongoing monitoring of issuer eligibility, financial thresholds, business activity classifications, and related portfolio eligibility determinations.

48. Where investment eligibility determinations are based on externally developed methodologies or Islamic indices, RSAs should ensure that ICIS operators maintain sufficient internal capabilities to understand, assess, and monitor the implications of such arrangements for the investment activities and operation of the ICIS.

49. RSAs should ensure that ICIS operators maintain clear governance and oversight over the selection and application of investment eligibility methodologies, including the treatment of changes in issuer classification, methodology revisions, and any resulting portfolio adjustments.

50. Where changes in investment eligibility determinations require portfolio rebalancing or disposal of holdings, RSAs should ensure that governance arrangements appropriately consider the implications for portfolio management and the orderly implementation of resulting portfolio adjustments.

51. Where investments become non-compliant after acquisition, RSAs should require ICIS operators to maintain clearly documented procedures governing the identification, escalation, and treatment of such exposures, including disposal, or remediation where appropriate. Governance arrangements should additionally consider the potential liquidity, valuation, transaction execution, and portfolio management implications arising from such events.

52. RSAs should ensure that ICIS operators maintain governance arrangements capable of identifying and managing operational risks arising from screening methodologies, including risks relating to inaccurate issuer classification, delayed implementation of methodology revisions,

[2] The frequency of this review may be determined by the RSA.

inconsistent application across portfolios, operational processing errors, deficiencies in underlying screening data, or failures in operational coordination between portfolio management, compliance, operational, and reporting functions.

53. Where technology, automated processes, artificial intelligence, or algorithmic tools are utilised in screening or portfolio eligibility processes, RSAs should ensure that governance arrangements support appropriate oversight of the implementation and reliability of such processes, including appropriate review and testing of model integrity and methodologies, and appropriate monitoring of screening outputs and operational performance.

Questions for Respondents – PRINCIPLE 2 (Paragraphs 47 - 53)

7. Does Principle 2 provide an appropriate governance framework for investment eligibility (screening) methodologies of ICIS? If not, please identify any aspects that should be strengthened or clarified.

8. Does the proposed guidance adequately address governance over changes in investment eligibility, including investments that become non-compliant after acquisition? If not, suggest any additional governance expectations that should be considered.

3.3 Sharī'ah Governance

Principle 3: RSAs should ensure that ICIS operators maintain effective Sharī'ah governance arrangements appropriate to the nature, scale, complexity, and structures of the ICIS, including effective oversight of compliance processes, treatment of non-compliant exposures, and purification arrangements.

54. RSAs should require ICIS operators to maintain Sharī'ah governance arrangements consistent with relevant IFSB standards, including IFSB-31. Such arrangements should remain proportionate to the scale, complexity, investment activities, operational structures, and cross-border activities of the ICIS.

55. Sharī'ah governance arrangements for ICIS should appropriately address the operational characteristics of ICIS, including ongoing portfolio monitoring, treatment of non-compliant exposures, purification arrangements, screening methodologies, portfolio transition activity, and other relevant operational processes that may require ongoing compliance assessments, such as the treatment of cash balances or the use of insurance arrangements, among others. Governance arrangements should additionally support effective coordination between Sharī'ah governance organs, the board, senior management, internal control functions, and operational functions involved in the operation of the ICIS.

56. RSAs should ensure that Sharī'ah governance organs are provided with sufficient authority, independence, resources, information access, and operational support to discharge their responsibilities effectively. ICIS operators should establish clear reporting and escalation arrangements enabling timely communication of material compliance matters, methodology changes, portfolio

eligibility issues, or operational developments that may affect compliance processes or investor treatment.[3]

57. ICIS operators should maintain clearly documented arrangements governing the identification, escalation, assessment, remediation, and corrective actions applicable to actual or potential non-compliance events. Such arrangements should support timely decision-making, implementation of corrective actions, and appropriate oversight over remediation processes.

58. Where investments become non-compliant after acquisition, RSAs should require that there are appropriate procedures governing the assessment, treatment of non-compliant exposures, including their disposal or remediation where appropriate, and implementation of related corrective actions applicable to such exposures. Governance arrangements should additionally ensure appropriate oversight over the implementation of related disposal or remediation decisions.

59. RSAs should require ICIS operators to maintain clearly documented purification methodologies governing the identification, calculation, segregation, oversight, and disbursement of relevant amounts. Governance arrangements should ensure that purification processes and methodologies remain operationally verifiable, consistently implemented, and subject to appropriate review and oversight arrangements.

60. Where conventional instruments, facilities, or arrangements are utilised under exceptional circumstances,[4] RSAs should require that the basis for such usage is appropriately documented, the relevant approvals are obtained through the applicable Sharīʻah governance arrangements, and appropriate oversight and review arrangements are maintained over the use, duration, and monitoring of such arrangements, including any related compliance, reporting, or purification requirements for any non-compliant income.

61. Governance arrangements should remain subject to periodic review in light of changes in investment activities, market practices, operational complexity, product structures, and global regulatory developments.

Questions for Respondents – PRINCIPLE 3 (Paragraphs 54 - 61)

9. Does Principle 3 appropriately address all relevant Sharīʻah governance arrangements for ICIS? If not, please identify any aspects that require further guidance.

10. Does the proposed guidance appropriately address governance over corrective actions and purification arrangements? If not, please identify any additional governance expectations that should be reflected.

[3] Refer to IFSB-10 and IFSB-31 for more detailed guidance on Sharīʻah governance and its effective supervision.

[4] Where options compliant with Islamic finance principles are unavailable, or where exceptions are otherwise permitted by the relevant regulatory authority, such arrangements should remain subject to the applicable legal, regulatory, and Sharīʻah governance framework of the jurisdiction.

3.4 Risk Management Framework

Principle 4: RSAs should ensure that ICIS operators establish comprehensive risk management frameworks capable of identifying, assessing, monitoring, and managing the material risks arising from the specificities and market conditions of ICIS.

62. RSAs should require ICIS operators to maintain risk management frameworks supported by appropriate policies, procedures, and controls proportionate to the nature, scale, complexity, and investment activities of the ICIS. Risk management frameworks should appropriately incorporate the specific characteristics and governance considerations relevant to the operation of the ICIS.

63. In particular, RSAs should require risk management frameworks to remain aligned with the actual characteristics of the underlying markets and instruments in which the ICIS invests, rather than assumptions derived solely from broader conventional market environments. Risk management assumptions should therefore reflect prevailing market structure conditions, liquidity characteristics, operational constraints, transaction execution capacity, and available market infrastructure within the relevant market environment.

64. RSAs should require ICIS operators to maintain stress testing frameworks reflecting the characteristics of the ICIS and the markets it operates in. Stress testing arrangements should assess the resilience of the ICIS under adverse market and operating conditions, including circumstances where changes in investment eligibility determinations require portfolio rebalancing within relatively narrow or less liquid markets.

65. Risk management functions should maintain sufficient expertise and understanding of the characteristics of the ICIS to support the effective identification, assessment, monitoring, and escalation of material risks.

66. Risk management frameworks should remain subject to periodic review and enhancement in light of changes in market conditions, investment activities, technology,[5] and market environments, as well as any other evolving risk characteristics within the ICIS sector.

Question for Respondents – PRINCIPLE 4 (Paragraphs 62 - 66)

11. Does the proposed risk management framework appropriately reflect all relevant characteristics and risks specific to ICIS? If not, please identify any additional governance expectations that should be included.

3.5 Liquidity Risk Management

Principle 5: RSAs should ensure that ICIS operators maintain liquidity risk management frameworks appropriate to the liquidity characteristics, redemption structures, and market environments of the ICIS and the investments held within its portfolio.

67. RSAs should require ICIS operators to establish liquidity risk management frameworks proportionate to the investment strategy, redemption arrangements, frequency of investor subscriptions

[5] This includes, for example, the use of AI, automated processes and digital assets structures within the operation of the ICIS.

and redemptions, asset composition, and market environment of the ICIS. Liquidity management arrangements should reflect the actual liquidity characteristics of the investment portfolio and markets in which the ICIS invests, including transaction execution capacity, market depth, settlement conditions, and the availability of liquidity management tools and measures under both normal and stressed market conditions.

68. Where ICIS invest in markets where secondary market liquidity or trading activity may become limited, RSAs should ensure that liquidity management arrangements are based on prudent assumptions that remain appropriate under stressed market conditions. ICIS operators should avoid relying solely on historical trading activity or normal market conditions where such conditions may not remain sustainable during periods of market stress.

69. RSAs should require ICIS operators to maintain liquidity stress testing frameworks capable of assessing the resilience of the ICIS under adverse market and operating conditions, including conditions involving heightened redemption activity, deterioration in market liquidity or pricing observability, disruptions affecting transaction execution or settlement processes, and significant portfolio rebalancing activity.

70. Where investments become non-compliant after acquisition and require disposal or corrective action, RSAs should require ICIS operators to assess the potential liquidity implications of such events within their liquidity management frameworks and stress testing arrangements, including the potential effects of forced or concentrated disposal activity on portfolio liquidity and redemption management.

71. RSAs should ensure that ICIS operators maintain appropriate governance arrangements over liquidity management tools, including redemption gates, swing pricing, anti-dilution measures, in-kind redemption arrangements, suspension mechanisms, redemption fees, or other extraordinary liquidity management measures where permitted within the relevant jurisdiction. Governance arrangements should clearly address activation criteria, approval processes including their compliance with Islamic finance principles, escalation procedures, operational implementation arrangements, investor protection considerations, and communication processes applicable to such measures.

72. ICIS operators should maintain contingency arrangements appropriate to the liquidity characteristics of the ICIS and its market and operational environments. These arrangements should address circumstances that may impair liquidity management or investor dealing, including stressed liquidity conditions, market closures, settlement disruptions, operational failures, or severe deterioration in market functioning. Liquidity management frameworks should remain subject to periodic review and enhancement in light of changes in market structure, investment activities, investor composition, operational complexity, or prevailing liquidity conditions.

Questions for Respondents – PRINCIPLE 5 (Paragraphs 67 - 72)

12. Does the proposed guidance appropriately reflect the liquidity characteristics of ICIS? If not, please identify any aspects that require further consideration.

13. Are the proposed governance expectations for liquidity management appropriate? If not, suggest any additional expectations that should be considered.

3.6 Valuation

Principle 6: RSAs should ensure that ICIS operators establish and maintain valuation arrangements appropriate to the pricing environments, liquidity characteristics, valuation inputs, and asset structures of the ICIS.

73. General valuation expectations applicable to CIS should continue to be addressed in accordance with applicable IOSCO standards and guidance relating to valuation practices for collective investment schemes. The guidance that follows addresses additional considerations arising from the characteristics of ICIS and the markets and asset classes in which they operate.

74. Valuation arrangements applicable to ICIS should address the differing levels of market liquidity, availability of observable market inputs, pricing availability, valuation uncertainty, and frequency of valuation across the ICIS portfolio, particularly where the ICIS invests in markets or asset classes characterised by limited transaction activity, episodic pricing observability, fragmented pricing environments, or reduced secondary market liquidity, as discussed in Section 2.

75. Valuation arrangements should establish appropriate escalation and review procedures where pricing inputs become materially unreliable, observable market prices become unavailable, transaction activity declines significantly, or valuation uncertainty increases materially. Governance arrangements should additionally ensure appropriate oversight over fair value determinations, the use of non-observable inputs or discretionary assumptions, and any material pricing overrides or valuation adjustments applied within valuation processes.

76. Where observable market transactions or quoted market prices become limited or unavailable, RSAs should ensure that ICIS operators maintain appropriate governance and validation over the use of evaluated pricing, indicative quotations, model-based valuation approaches, or other non-observable pricing inputs utilised within valuation processes.

77. Where ICIS utilise model-based valuation approaches, evaluated pricing methodologies, or other valuation techniques that rely on comparable market data or other indirect inputs, RSAs should ensure that governance arrangements support appropriate model oversight, methodology validation, independent review, periodic recalibration, testing procedures, and governance over material model changes or valuation adjustments. ICIS operators should additionally maintain appropriate oversight over externally sourced pricing data, pricing vendors, valuation agents, and third-party valuation service providers utilised within valuation processes.

78. RSAs should require valuation arrangements applicable to ICIS to remain subject to periodic review in light of changes in market conditions, pricing environments, valuation inputs, asset composition, product structures, or market infrastructure applicable to the ICIS.

Question for Respondents – PRINCIPLE 6 (Paragraphs 73 - 78)

14. Are the proposed governance expectations for valuation of ICIS appropriate, particularly where there are valuation uncertainties and market prices are not readily observable? If not, please identify any aspects that should be clarified or strengthened.

3.7 Outsourcing

Principle 7: RSAs should ensure that ICIS operators maintain effective governance and oversight over outsourced functions and third-party service providers' dependencies, considering the specific characteristics of the ICIS.

79. RSAs should require ICIS operators to maintain governance and risk management arrangements over outsourced functions and third-party service providers that support activities associated with the specific characteristics of the ICIS, including investment eligibility determinations, compliance processes, specialised valuation inputs, and other functions that may influence portfolio construction, investment decisions, or investor treatment.

80. Governance and oversight arrangements should address the risks arising from reliance on external screening providers, index providers, Sharīʻah advisory services, pricing vendors, data providers, fund administrators, custodians, and other third parties where their services, methodologies, assessments, or determinations form part of the operation of the ICIS.

81. RSAs should require ICIS operators to conduct appropriate due diligence prior to entering into such arrangements, including assessment of the provider's competence, reliability, governance arrangements, conflict-of-interest management, and ability to support the requirements applicable to the ICIS.

82. ICIS operators should retain sufficient internal expertise and governance capacity to understand, challenge, and oversee the methodologies, determinations, and services provided by third parties, and should not rely on outsourced arrangements in a manner that compromises independent oversight or accountability for decisions affecting the ICIS.

83. ICIS operators should identify and manage concentration risks arising from reliance on a limited number of service providers, methodologies, data sources, pricing services, screening providers, or other specialised third parties whose disruption, failure, or withdrawal may materially affect the operation of the ICIS.

84. ICIS operators should maintain contingency arrangements addressing the potential disruption, unavailability, or replacement of critical third-party services that support investment eligibility determinations, portfolio management, valuation processes, compliance activities, or other functions associated with the specific characteristics of the ICIS.

85. Outsourcing and third-party governance arrangements should be subject to periodic review, particularly where changes in service providers, methodologies, market practices, technology environments, or operational dependencies may affect the continued suitability of the arrangements for the ICIS.

Question for Respondents – PRINCIPLE 7 (Paragraphs 79 - 85)

15. Does Principle 7 adequately address all relevant issues in the governance and oversight of outsourced functions and third-party service providers that are specific to ICIS? If not, please identify any additional governance expectations that should be addressed.

3.8 Windows

Principle 8: RSAs should ensure that ICIS operated through Islamic window arrangements are supported by appropriate governance, oversight, and operational arrangements that ensure effective segregation, accountability, and control between Islamic and conventional operations.

86. Where ICIS are operated through Islamic window structures, RSAs should ensure that governance arrangements preserve appropriate segregation of assets, records, information flows, operational activities, and decision-making processes in order to minimise commingling risks between Islamic and conventional operations.

87. Governance arrangements applicable to Islamic windows should address the implications arising from shared operational arrangements between Islamic and conventional activities. Where personnel, systems, operational infrastructure, or support functions are shared, RSAs should ensure that appropriate controls and oversight arrangements exist to preserve the integrity of the ICIS and minimise inappropriate influence, operational overlap, or conflicts between Islamic and conventional activities.

88. RSAs should require ICIS operators operating Islamic windows to maintain effective controls over use of shared services, and operational arrangements that may affect the treatment of Islamic and conventional portfolios differently. Governance arrangements should support clear accountability and oversight over decisions affecting the ICIS where operational arrangements are shared across Islamic and conventional activities.

Questions for Respondents – PRINCIPLE 8 (Paragraphs 86 - 88)

16. Does the proposed guidance adequately address the governance considerations arising from Islamic window arrangements of ICIS? If not, please identify any additional governance considerations that should be reflected.

17. Are the proposed governance expectations relating to segregation arrangements and shared services appropriate considering practices of ICIS windows? If not, suggest additional expectations that may be addressed.

3.9 Conflicts of Interest

Principle 9: RSAs should ensure that ICIS operators identify, manage, mitigate, and appropriately oversee conflicts of interest arising from specificities within the governance or operational arrangements relevant to the operation of the ICIS.

89. Arrangements for the management of conflicts of interest should address conflicts that may arise where the interests of the ICIS operator, affiliated entities, related parties, service providers, Sharīʻah governance bodies, or other parties involved in the operation or oversight of the ICIS differ from the interests of the ICIS or its investors. Governance arrangements should support appropriate identification, assessment, escalation, and management of such conflicts.

90. RSAs should ensure that appropriate governance arrangements exist to manage conflicts involving Sharīʻah governance organs. Such conflicts may arise where members of Sharīʻah

governance organs serve multiple institutions or have financial, commercial, or other interests that may affect independent judgment relating to the ICIS.

91. RSAs should require ICIS operators to maintain appropriate oversight over arrangements involving related-party transactions or services connected to the ICIS, particularly where such arrangements may influence investment decisions, valuation outcomes, or other decisions affecting the interests of the ICIS or its investors.

92. Where purification arrangements involve connected parties or affiliated entities, governance arrangements should support appropriate transparency, segregation of responsibilities, and oversight over the determination, administration, frequency, and distribution of purification amounts. Purification amounts should not ordinarily be allocated in a manner that results in a direct or indirect benefit to the ICIS operator or its connected parties. The allocation of purification amounts to such parties should therefore be restricted. Any exception should be supported by a clear rationale, be consistent with the applicable purification methodology, and be subject to approval. The basis for such arrangements should be appropriately documented and disclosed to support transparency and the effective management of potential conflicts of interest.

93. ICIS operators should maintain appropriate reporting and escalation arrangements enabling material conflicts of interest, related-party concerns, or breaches of conflict management policies to be identified, assessed, escalated, and addressed in a timely manner.

Question for Respondents – PRINCIPLE 9 (Paragraphs 89 - 93)

18. Does the proposed governance expectations for identifying and managing conflicts of interest that are specific to ICIS adequate in addressing all relevant issues? If not, please identify any additional conflicts or governance safeguards that should be addressed.

3.10 Technology

Principle 10: RSAs should ensure that the use of technology in the operation of ICIS, including artificial intelligence and automated processes, is supported by governance arrangements that preserve the integrity and consistent implementation of the governance and operational arrangements specific to ICIS, while maintaining effective human oversight over matters requiring the exercise of judgement.

94. The use of artificial intelligence and other advanced technologies in ICIS may give rise to additional governance considerations where such technologies are used to operationalise ICIS-specific processes such as investment eligibility methodologies, additional compliance processes, or corrective actions such as purification methodologies for non-compliant income. Unlike many conventional investment mandates, such methodologies may incorporate qualitative assessments, transitional arrangements, jurisdiction-specific requirements, or approved treatments for exceptional circumstances that require the exercise of judgement. Governance arrangements should therefore ensure that the use of technology preserves the integrity and intended application of approved methodologies and does not inadvertently constrain or alter the exercise of judgement embedded within the governance framework of the ICIS.

95. RSAs should ensure that ICIS operators retain appropriate governance and oversight over the configuration, implementation, and ongoing application of artificial intelligence and other technologies, and remain capable of ensuring their continued alignment with the approved methodologies, governance arrangements, and regulatory requirements applicable to the ICIS.

96. Where technology is used to support compliance monitoring, corrective actions, or other processes relevant to compliance with Islamic finance principles, governance arrangements should additionally ensure that the basis of relevant determinations remains sufficiently transparent, traceable, and capable of independent review. The use of technology should support, rather than diminish, the ability of Sharīʻah governance organs, internal control functions, and RSAs to verify the implementation of approved methodologies and exercise effective oversight over matters material to the specific investment mandate of the ICIS.

Question for Respondents – PRINCIPLE 10 (Paragraphs 94 - 96)

19. Does the proposed approach and guidance on technology governance adequately address all relevant issues in the use of technology, including artificial intelligence and automated decision-making, within ICIS? If not, please suggest any gaps in the guidance in relation to current market practices of ICIS and any additional governance considerations that should be considered to address the identified issues.

Questions for Respondents – CORE CONTENT

20. Are the proposed Guiding Principles and accompanying guidance appropriately aligned with the stated objective and scope of the Exposure Draft? If not, please identify the areas where alignment could be strengthened.

21. Are there any governance issues specific to ICIS that are not adequately addressed in the Exposure Draft? If so, please identify those issues and explain their significance.

22. Do you have any comments on the overall structure and clarity of the Exposure Draft?

23. Do you have any other comments on the proposals set out in the Exposure Draft?

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