

# The IFSB bulletin

Volume 2 Issue 3 | May 2014



ISLAMIC FINANCIAL SERVICES BOARD

## CONTENTS

Welcome Message from the Secretary-General	1
IFSB Facilitating the Implementation of Standards (FIS) Workshops in Nigeria and Sudan	1
Event Highlights	
• 6 <sup>th</sup> IFSB Seminar on the Regulation of <i>Takāful</i> and IFSB Special Session	2
• IFSB Annual Meetings and Side Events 2014, in Bandar Seri Begawan, Brunei	2
Meeting Updates	3-4
Technical Updates	5-6
IFSB in the International Arena	6
Events Calendar	7
Focus on the IFSB Publications	7
IFSB Membership	8
About the IFSB	8

## Welcome Message from the Secretary-General

This second Bulletin for 2014 is issued after the highly successful 24<sup>th</sup> Annual General Meetings and Side Events in Bandar Seri Begawan, Brunei Darussalam on 25 – 27 March 2014. The AGM was preceded by the very stimulating 6<sup>th</sup> Legal Seminar on 25 March 2014, followed by a Public Lecture and Meet the Members Lunch on 26 March. The Annual Meetings continued with the General Assembly and Council Meetings on the 27<sup>th</sup> March, and concluded with the 9<sup>th</sup> Stability Forum, all of which were chaired by H.E. Dato Mohd Rosli Sabtu, Managing Director, Autoriti Monetari Brunei Darussalam and also Chairman of the IFSB Council for 2014.

During the 24<sup>th</sup> Council Meeting, amongst its landmark decisions the Council approved “A Mid-Term Review of the Ten-Year Framework and Strategies for Islamic Financial Services Industry Development”, which is a joint effort with the Islamic Research and Training Institute (IRTI). The MTR’s key recommendations are grouped around the themes of “Enablement, Performance and Reach”, and it is to be launched at the 11<sup>th</sup> IFSB Summit in Mauritius.

The Council also approved the adoption of a new Standard in its 24<sup>th</sup> Meeting, the Revised Guidance on Key Elements in the Supervisory Review Process of Institutions Offering Islamic Financial Services (Excluding Islamic Insurance (*Takāful*) Institutions and Islamic Collective Investment Schemes), or IFSB-16. Before the 24<sup>th</sup>

Meeting began, we received a warm message of support from H.E. Baroness Warsi, Senior Minister and Chairman of the UK government’s Islamic Finance and Investment Group who informed the IFSB of the latest developments on the UK *Sukūk* issuance plan.

Our major awareness and capacity building focused on Africa in the first half of the year, and included the 6<sup>th</sup> Seminar on the Regulation of *Takāful*, two FIS Workshops and a Meet the Members Session carried out in Khartoum in February. They were hosted by the Insurance Supervisory Authority, and the Central Bank of Sudan, respectively. The very heavy attendance at these events was striking. We will be turning next to Central Asia, the Gulf and West Africa for the next phase of our capacity building.

Our next major event will be the Annual Summit, in Mauritius from 19 – 22 May 2014. This will be the first Summit to be held in the African continent. We will be launching the IFSI Stability Report 2014 at the Summit. While a lot of effort has focused on the preparations for this event, we are also working on a Seminar and Workshops in Kazakhstan as well as the Executive Forum, a joint-collaboration with INCEIF, both in June. I hope IFSB members will take this opportunity to participate in these upcoming events.

Jaseem Ahmed

## 24<sup>th</sup> Meeting of the IFSB Council 27 March 2014, Bandar Seri Begawan, Brunei Darussalam



## IFSB Facilitating the Implementation of Standards (FIS) Workshops in Nigeria and Sudan

The IFSB has conducted three series of workshops in January and February 2014. The first workshop was held in Abuja, Nigeria from 13 -17 January 2014, hosted by the Central Bank of Nigeria. The Workshops were designed specifically for the banking sector and attended by 53 participants from the central bank, securities commission and insurance supervisory authority.



Banking Workshop participants (Nigeria)



Mrs. Kartina during the *Takāful* workshop (Sudan)



Banking Workshop participants (Sudan)

Two workshops were held in Khartoum, Sudan. A workshop for the banking sector, which was hosted by the Central Bank of Sudan from 18 – 20 February 2014, saw attendance of 65 participants.

Another workshop was for the *Takāful* sector and hosted by the Insurance Supervisory Authority of Sudan. The 1-day workshop, held on 20 February 2014 was attended by 60 participants from 4 different countries and comprising of *Takāful* regulators, market players and professionals.

## EVENT HIGHLIGHTS

### 6<sup>th</sup> Seminar on the Regulation of *Takāful* and IFSB Special Session on *Takāful*

The 6<sup>th</sup> Seminar on the Regulation of *Takāful*, hosted by the Insurance Supervisory Authority of Sudan, was held on 19 February 2014 in Khartoum. The Seminar is part of the IFSB Seminar on *Takāful* series, and carried the theme "Current Regulatory Issues Facing the Islamic Financial Industry". It aimed to deepen understanding on pertinent issues relating to the regulation of *Takāful*, taking into consideration on the changing dynamics of the industry.

Mr. Jaseem Ahmed, Secretary-General of the IFSB and Mr. Nasr Eldeen Mohammad Omar, Chairman of Board of Directors, Insurance Supervisory Authority delivered the opening and welcoming speeches respectively. Twelve chairpersons and speakers from among senior financial sector supervisors, market players, and experts from international financial institutions were invited to discuss the following issues at the Seminar:-

- Global *Takāful* Industry's Development: Growth and challenges
- Solvency's Quantitative Guide: Will a standardised approach ensure a stable and safe environment for the industry, or should the industry be given the flexibility to diversify its solvency requirements?
- Re*Takāful* Industry: Legal and regulatory developments and ongoing challenges
- The Way Forward for Emerging Markets in Establishing an Effective Regulatory Framework,

the right mix of product offerings whilst ascertaining the compliance to *Shar'ah* principles

The Seminar saw the attendance of 64 participants from government, regulatory and supervisory bodies and industry players.

The IFSB also cooperated with the International Cooperative and Mutual Insurance Federation (ICMIF), and organised a Special Session on *Takāful*, on 18 February 2014. The session was part of the ICMIF-Global *Takāful* Group-IFTI *Takāful* Seminar, which was themed "*Takāful* for Tomorrow: Growing with Substance". This is the second time the IFSB cooperated with ICMIF in this manner. The first such cooperation was in 2010, in a similar seminar held in Sri Lanka.

The Special Session comprised of two sessions:

- Surplus Distribution: The thin line between securing the interest of the stakeholders and appropriateness of retaining surplus to meet solvency requirements. How can regulations play a part in ensuring fairness to all?
- Risk Management: Striking a balance to protect interests of all stakeholders. Regulatory challenges in enforcing responsibility of key stakeholders

It was attended by almost 150 participants from government, regulatory and supervisory bodies, and key players of the global *Takāful* industry.



Chairperson and speakers of Session 1 of the 6<sup>th</sup> IFSB Seminar on the Regulation of *Takāful*



Participants in the 6<sup>th</sup> IFSB on the Regulation of *Takāful*



The IFSB Special Session in the GTG/ICMIF/IFTI Joint Network *Takāful* Seminar

### IFSB Annual Meetings and Side Events 2014 in Bandar Seri Begawan, Brunei

In conjunction with the IFSB Annual Meetings 2014 which was held in Bandar Seri Begawan, Brunei, the IFSB organised a series of side events which took place from 25 – 27 March 2014, at The Empire Hotel and Country Club hosted by the Autoriti Monetari Brunei Darussalam (AMBD).

The Annual Meetings and Side Events started off with the 6<sup>th</sup> Seminar on Legal Issues in the Islamic Financial Services Industry on 25 March 2014.

The Seminar which carried the theme, 'Innovation in *Sukūk* Securitisation and Islamic Hedging Instruments: Developments and Challenges', was part of the IFSB seminar series on legal issues, and aimed to create awareness on the emerging legal issues, developments and challenges in securitisation and Islamic hedging instruments.

Mr. Jaseem Ahmed, Secretary-General of the IFSB and Mr. Rosdi Amin Dato Paduka Haji Yaakub, Deputy Managing Director of AMBD delivered the opening and welcoming speeches respectively. The keynote address was delivered by Dato' Dr. Nik Ramlah Mahmood, Deputy Chief Executive, Securities Commission Malaysia.

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

- Asset Securitisation and *Sukūk* Structuring
- Growth of Islamic Hedging Instruments: Legal Issues and Challenges
- Role of Institutional and Central *Shar'ah* Boards in Structuring of *Sukūk* and Islamic Hedging Instruments

The Seminar saw the attendance of 147 participants from government, regulatory and supervisory bodies, legal sector and higher learning institutions, from among member and non-member organisations of the IFSB\*.

The Seminar was then followed by the 6<sup>th</sup> IFSB Public Lecture on Financial Policy and Stability on 26 March 2014. The Lecture, delivered by Professor Dr. Mehmet Asutay, Director, Durham University, United Kingdom was themed, "Islamic Moral Economy and Dynamics of the Development of Islamic Financial Services Industry."

Mrs. Lily Kula, Deputy Managing Director of the AMBD delivered the opening and welcoming speech. The Lecture saw the attendance of 110 participants from government, regulatory and supervisory bodies, legal sector and higher learning institutions.

9<sup>th</sup> Islamic Financial Stability Forum was held on 27 March 2014. The theme of the Forum was "Implementation of the IFSB Standards and Guiding Principles: Overview and Challenges", and the speakers were Mr. Jaseem Ahmed, Secretary-General of the IFSB and Mr. Zahid Ur Rehman Khokher, Assistant Secretary-General, who presented on the progress and challenged in implementing the IFSB Standards. The discussants were H.E. Ravi Menon, Managing Director, Monetary Authority of Singapore, Mr. Muhammad Ashraf Khan, Executive Director, State Bank of Pakistan and Ms. Mashair Sabir, Director, Central Bank of Sudan.



Speakers and participants attended the 6<sup>th</sup> IFSB Legal Seminar



Prof. Mehmet Asutay delivered his presentation in the 6<sup>th</sup> IFSB Public Lecture



Participants attended the 9<sup>th</sup> Islamic Financial Stability Forum

\* Members can download the seminar presentations from the IFSB Member's Zone. The IFSB will publish papers on 6<sup>th</sup> Public Lecture and 9<sup>th</sup> Islamic Financial Stability Forum in due course.

# MEETING UPDATES

## IFSB-IRTI Mid-Term Review of the Ten-Year Framework and Strategies

In its 24th meeting on 27 March 2014, the Council of the Islamic Financial Services Board (IFSB) approved the draft of a Mid-Term Review Report for the Ten-Year Framework and Strategies for Islamic Financial Services Industry (IFSI) Development, a joint initiative of the IFSB and Islamic Research and Training Institute (IRTI), the research arm of the Islamic Development Bank Group (IDB).

In March 2007, the IFSB, IDB and IRTI jointly published the IFSI Development: Ten-Year Framework and Strategies (Ten-Year Framework), to provide a general blueprint or guideline that may benefit national authorities in designing and developing their national plans and initiatives as part of their financial sector development policies.

After five years, a Mid-Term Review of the Ten-Year Framework was undertaken with the aim to assess the progress made by the IFSI in implementing the 2007 recommendations, reconcile the new developments taking place in the global financial system and the challenges faced by the IFSI, and ultimately ensure that the Ten-Year Framework not only continues to remain current, relevant and beneficial for the IFSI, in particular for new Islamic finance jurisdictions, but also to ensure the resilience and stability of the IFSI moving forward.

The Mid-Term Review of the Ten-Year Framework has taken into account feedback from regulatory and supervisory authorities as well as market players and select leading industry experts, obtained in 2013 via several platforms organised by the IFSB and IRTI, namely a Roundtable on the Mid-Term Review of the Ten-Year Framework on 6 April 2013 in Doha, Qatar; a Forum on preliminary findings of the mid-term review on 14 May 2013 in Kuala Lumpur, Malaysia; and a Review Committee Meeting on 17 September 2013 in Istanbul, Turkey. An industry-wide Survey covering the regulators and market players of the IFSI was also conducted in mid-2013.

Benefitting from these comprehensive inputs, the revised Framework comprises four main sections – (a) overall assessments and progress of the priorities and initiatives suggested in the 2007 Ten-Year Framework, (b) sector-level assessments – Islamic banking, Islamic non-bank financial institutions, *Takāful* and *ReTakāful* services, and Islamic capital markets – arising from developments in the global financial system post-crisis, (c) updated framework recommendations and key performance indicators for measuring progress, and (d) measures to be undertaken by all stakeholders of the IFSI to implement the 16 recommendations of the Ten-Year Framework, outlined under three categories, namely Enablement, Performance and Reach.

The Report will be available for download on the IFSB and IRTI websites, [www.ifsb.org](http://www.ifsb.org) and [www.irti.org](http://www.irti.org) from 19 May 2014.

## IFSI Stability Report 2014

In its 19th meeting held on 17 November 2011 in Kuala Lumpur, Malaysia, the Council approved the workplan that included a proposal to:

- Review numerous significant developments taking place in the international financial landscape, particularly in relation to prudential and regulatory issues to further strengthen the financial industry
- Identify issues that could affect Islamic financial institutions as well as the stability of the IFSI.

On 14 May 2013, the IFSB released the inaugural IFSI Stability Report 2013 which encompassed the above. The Stability Report 2013 was favourably received, especially as a point of discussion with IFSB members during the Meet the Members session in 2013.

The IFSI Stability Report (a) focuses on standard setting and research activities, (b) draws on the IFSB's strengths through its survey findings, and (c) identifies key emerging issues relevant to institutions offering Islamic financial services (IIFS) and the IFSB's regulatory agenda, and (d) develops and disseminates stability indicators for IIFS and collaborates with central banks on stability issues.

The IFSI Stability Report serves as a platform for the IFSB to engage on topical issues with its stakeholders and for sharing with them the recent IFSB standards, research, and other publications, as well as findings of the IFSB Surveys. The Report has also included deliberations on the emerging issues of the IFSI, which, over time, has covered aspects such as financial inclusion, infrastructure financing and consumer protection etc. Henceforth, the IFSB is producing and publishing the IFSI Stability Report on a yearly basis. On 14 May 2013, the IFSB released the inaugural IFSI Stability Report 2013. The Stability Report 2013 was favourably received, especially as a point of discussion with IFSB members during the Meet the Members session in 2013.

The IFSI Stability Report 2014 draft was presented to the Technical Committee on its 32nd meeting in Basel, Switzerland, on 4 March 2014. The Technical Committee members have provided their comments and feedback to further strengthen the draft Report. The upcoming IFSI Stability Report 2014 is targeted to be released and distributed during the 11<sup>th</sup> IFSB Summit in May 2014 in Mauritius.

## Updates on Strategic Performance Report

The IFSB's Strategic Performance Plan (SPP) for 2012 – 2015 was approved by the Council in March 2012. The SPP is a results-based strategy that charts a roadmap for the IFSB to engage its stakeholders for further development of Islamic finance.

The SPP identifies four Strategic Key Result Areas (SKRAs), which will strengthen the future directions of the IFSB. They are:

- Formulation, adoption, implementation and promotion of prudential standards for the Islamic financial services industry
- Technical assistance and capacity building
- Cooperation enhancement
- Communication and information sharing

Throughout 2013, the Secretariat undertook several key initiatives in terms of internalising the SPP among Secretariat staff and IFSB member organisations. It also took positive steps to implement an effective monitoring and evaluation (M&E) system for the SPP. These initiatives are as follows:

**Incorporating the outputs and performance indicators identified in the Strategic Results Framework in the reporting system of the Secretariat**, which has resulted in updates presented to the Council, Technical Committee and Working Groups being revised to incorporate the SKRAs and their respective outputs.

**Concerted efforts have been made to disseminate, share and align the SPP objectives and goals with the members of the IFSB.** The SPP document was printed and distributed at the IFSB Annual Meetings and Summit, and made available in softcopy on the IFSB website. This has been supplemented by presentations and Q&A sessions on the SPP during Meet the Member sessions.

**M&E of the SPP.** The manual implementation of the M&E of the SPP has been put in place since August 2013. In line with the decision of the Council in its 22<sup>nd</sup> meeting on 7 April in Doha, Qatar, the Secretariat is in the early stages of migrating this manual system to a web-based Monitoring and Evaluation (e-M&E) system.

The e-M&E system is planned to be operational within the Secretariat at the end of Q4 of 2014. Successful implementation of this system will increase the efficiency and effectiveness of the Secretariat's work, in line with the goals and directions determined by the Council, and guidance provided by the Technical Committee and Working Groups.

## The Council Adopts IFSB-16 for the Islamic Financial Services Industry

The Council has resolved to approve the adoption of a new Standard in its 24<sup>th</sup> Meeting in Bandar Seri Begawan, Brunei Darussalam. The document is **Revised Guidance on Key Elements in the Supervisory Review Process of Institutions Offering Islamic Financial Services (Excluding Islamic Insurance (*Takāful*) Institutions and Islamic Collective Investment Schemes)**, or IFSB-16.

*Continued on page 4*

## MEETING UPDATES

### Medium Term Plan: Prudential and Structural Indicators for Islamic Financial Institutions (PSIFIs)

The IFSB Council resolved to mandate the Secretariat to establish a global prudential database of Islamic financial services statistics in its 5<sup>th</sup> meeting held on 22 December 2004 in Jeddah, Saudi Arabia. As a first step, the IFSB Secretariat worked on preparation of the Compilation Guide (CG), which was adopted by the IFSB Council in its 10<sup>th</sup> meeting held on 26 March 2007 in Kuala Lumpur, Malaysia. A revised version of the CG was issued by the IFSB in March 2011 to reflect the changes in global regulatory landscape and Islamic financial services industry.

In order to work on the next phase of the project, a Medium Term Plan (MTP) was approved by the IFSB Council in March 2014. This MTP covers the data collection and dissemination process, extending the reach of the programme to a wider set of IFSB member countries, the need of capacity building for the compilers at regulatory and supervisory authorities and updating and prioritising the list of PSIFIs in the light of new global reforms and recently issued IFSB Standards.

### General Assembly

The General Assembly was held on 27 March 2014 in Bandar Seri Begawan, Brunei Darussalam.



Participants attending the General Assembly

from page 3

### The Council Adopts IFSB-16 for the Islamic Financial Services Industry

The overall aim of IFSB-16 is to update the earlier standard on this subject (IFSB-5), in setting forth guidance on key elements in the supervisory review process for authorities supervising institutions offering Islamic financial services (IIFS), taking into consideration the specificities of the IIFS, the lessons learnt from the global financial crisis, and, at the same time, to complement the existing international guidance on the supervisory review process issued by the Basel Committee on Banking Supervision (BCBS).

IFSB-16, which is broadly analogous to Pillar 2 of the Basel Accords, is about the supervisory process and how regulatory and supervisory authorities should supervise some specific areas pertinent to the IIFS. It ensures that the supervisory review process covering IIFS is consistent with those for conventional institutions and relevant to the current state of the industry, while catering for the specificities of *Shari'ah*-compliant financial transactions and promoting the financial soundness of the IIFS. In this respect, it intends to foster convergence towards best practice among authorities supervising IIFS by establishing a minimum standard, enabling such supervisory authorities to meet their requirements when carrying out the roles expected of them in the light of IFSB Standards.

The softcopy of IFSB-16 (English and Arabic versions) are available on the IFSB website, [www.ifsb.org](http://www.ifsb.org).

### Appreciation to Mr Belatik

The Secretariat bid farewell and thank you to Mr Abdellillah Belatik, the Assistant Secretary-General of the IFSB in early March 2014. Mr. Belatik, who served the IFSB from January 2010 – March 2014, greatly contributed to the Secretariat's work on the Islamic capital markets sector of the industry, as well as the IFSB's Implementation initiatives. Mr. Belatik also oversaw key initiatives such as strategic performance planning for the Secretariat and spearheaded cooperation and development with multilaterals and international organisations. A farewell gathering was held, attended by the Secretary-General and members of the Secretariat.



# TECHNICAL UPDATES

## New Projects

### Guidance Note on Quantitative Measures for Liquidity Risk Management in IIFS

This Guidance Note is being prepared with the following objectives:

- i. To complement other prudential standards issued by the IFSB as well as to support the harmonised application of the international regulatory regime in the area of liquidity risk
- ii. To provide guidance to supervisory authorities on the application of the Liquidity Coverage Ratio (LCR) in their jurisdictions and on their role in assessing the discretionary items specified in this Guidance Note, including the application of the Alternative Liquidity Approaches;
- iii. To delineate the disclosure requirements required alongside the application of liquidity standards

The preliminary expose draft (PED) on the Guidance Note was presented to the Technical Committee (TC) in its 32nd Meeting held in March in Basel, Switzerland. The updated PED will be now presented in the 33rd meeting of the TC scheduled in June for approval to submit it for the review of the *Shari'ah* Board. After incorporating the feedback by the *Shari'ah* Board, the document will be presented in the 34th TC meeting for approval to be issued as an Exposure Draft for Public Consultation.

### IFSB – IAIS Joint Paper on Micro*takāful*

The IFSB attended the International Association of Insurance Supervisors (IAIS) Financial Inclusion Subcommittee Meeting (FISC) in Manila in July 2013 where the IFSB made a presentation on its initiatives in relation to *Takāful*. The meeting proposed a joint paper on Micro*Takāful*.

The objectives of the Joint Paper are:

- To deliberate and jointly prepare a paper addressing issues concerning Micro*takāful* undertakings
- To identify the current practices and models used for offering Micro*takāful* products
- To identify steps and initiatives to promote financial inclusion through the *Takāful* sector.

A Joint IFSB-IAIS Working Group (WG) was established for this purpose. Among the members of this WG include the World Bank (WB), Asian Development Bank (ADB), Islamic Development Bank (IDB), Islamic Corporation for the Development of the Private Sector (ICD) as well as regulatory members of the IAIS and the IFSB. The first meeting was held on 7 April 2014, in Kuala Lumpur, Malaysia.

## Ongoing Projects

### Standard on Core Principles for Islamic Finance Regulation (CPIFR)

A survey exercise was sent to 39 Supervisory and Regulatory Authorities in September 2013 with the objectives:

- Ascertain key aspects of the existing regulatory framework (including policies and procedures) developed by the supervisory authorities to accommodate the specificities of IIFS in various IFSB member jurisdictions
- Determine how the Core Principles issued by the BCBS have been used in formulating this framework.
- Identify areas in which existing Core Principles have proved difficult to interpret for the regulation of Islamic finance
- Identify specific areas of regulation that might therefore be covered in CPIFR.

An update on the Survey results and preliminary outline of the Exposure Draft (ED) was presented in the 32<sup>nd</sup> TC meeting on 4 March 2014 and the work on the Standard will continue in 2014. The ED is expected to be issued for Public Consultation in September/October 2014.

### Guiding Principles on *ReTakāful* Undertakings

The working paper was presented to the Technical Committee in October 2013, and the first Working Group meeting for this project was held on 7 April 2014.

In the 1<sup>st</sup> WG meeting, the members discussed the Issues Paper and Initial Study Report, and identify the main issues to be considered in the Survey. Objectives of the Issues Paper and Initial Study Report are:

- To provide basic principles behind *ReTakāful* undertakings
- To identify and analyse issues relating to the *ReTakāful* industry

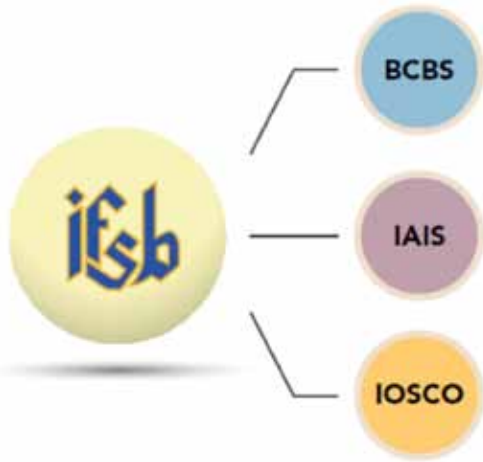
### Working Paper on Strengthening the Financial Safety Nets: Role of *Shari'ah* -Compliant Lender of Last Resort (SLOLR) Facilities as Emergency Financing Mechanisms (WP-01)

The working paper addresses the *Shari'ah* perspective on the provision of a lender-of-last-resort (LOLR) facility by the central bank, as well as examining the role and significance of well-designed *Shari'ah* -compliant lender-of-last-resort (SLOLR) facilities as an emergency mechanism for institutions offering Islamic financial services (IIFS) in promoting the stability and resilience of the Islamic financial services industry (IFSI). The paper also evaluates the possible initiatives (or arrangements) by regulatory and supervisory authorities (RSAs), aimed at providing stand-by funding opportunities for IIFS on a *Shari'ah* -compliant basis for short-term, overnight or intraday periods of liquidity stress. The originality of the paper lies with an industry-wide survey that was carried out as a stock-taking exercise among 38 banking RSAs who are members of the IFSB. The survey, which used a questionnaire format, had response rate of 95%. The results provide useful insights into the important aspects of SLOLR, such as: the existence of an SLOLR mechanism for IIFS; the current assessment of the development of SLOLR facilities as a safety net; SLOLR structuring mechanisms used by RSAs; the adaptability of tools for monetary operations of the central bank to cater to the specificities of IIFS; and key challenges and issues that need to be addressed before developing the SLOLR facilities as a safety net. Finally, taking into account classical and contemporary viewpoints on the LOLR, the paper outlines some potential strategies for developing SLOLR facilities.

On 24 October 2013, the TC approved the publication of the working paper. The paper is now available on the IFSB website under the Downloads Section.

## IFSB in the International Arena Collaboration with International Standard-Setting Bodies and Mutilaterals

As a part of global policy dialogue, the IFSB has been engaging with other international standard-setting bodies for conventional finance such as the Basel Committee on Bank Supervision (BCBS), the International Organisation of Securities Commissions (IOSCO) and the International Association of Insurance Supervisors (IAIS). These interactions have resulted in better understanding and recognition of issues faced by the Islamic financial services industry at the global level.



The BCBS' Revised Core Principles of 2012, and its final policy paper on the Liquidity Coverage Ratio of January 2013 both recognise that Islamic banks are an active part of the global financial community and that the new regulatory framework needs to reflect their specific concerns.

In 2006, the IFSB established a joint working group with IAIS and produced an Issues Paper on the applicability of the existing IAIS core principles to the regulatory and supervisory standards for *Takāful* to be developed by the IFSB. In 2014, the IFSB and IAIS established a Working Group (WG) on micro*Takāful*.

In 2013, the IFSB and IOSCO co-published a book "Disclosure Requirements for Islamic Capital Market Products", a compilation of the Issues Papers and commentaries at the 2012 IFSB-IOSCO-SC Roundtable on Disclosure Requirements for Islamic Capital Market Products.

The IFSB is also part of the International Accounting Standards Board (IASB) Advisory Group on accounting for *Shari'ah*-compliant financial instruments and transactions.

## 2014 INITIATIVES

### Membership of the Consultative Advisory Group (CAG) of the International Ethics Standards Board for Accountants (IESBA)

The IFSB has been accepted as an IESBA CAG Member, effective 14 March 2014, based on a recommendation from the IESBA CAG Membership Panel. The IFSB will be a non-permanent Member Organisation on the CAG.

### Global Islamic Finance and Investment Group (GIFIG), an Initiative by the British Government to Promote Islamic Finance

The British government has stepped up its Islamic finance plan with the establishment of the Global Islamic Finance and Investment Group (GIFIG), comprising financial regulators and chief executives from the OIC countries. The Group is chaired by UK Foreign and Commonwealth Office Minister, Baroness Saeeda Warsi, and Co-Chair by Sajid Javid of the UK Government Islamic Finance Task Force. The Group was launched by the Prime Minister H.E. David Cameron in March 2014. The IFSB has been invited to be part of GIFIG to lend its expertise in the growth of Islamic financial industry globally.

## International Monetary Fund (IMF) and the World Bank

The Secretary-General visited the IMF and the World Bank on 29-30 April for consultations with senior staff, including, at the IMF, with Mr. Masood Ahmed, Director of Middle East and Central Asia Department, and Mr. Jose Vināls, Director of Monetary and Capital Markets Department. He also made a presentation on "Islamic Finance: Some Perspectives on Progress in the Stability and Resilience Framework", which was delivered to an IMF inter-departmental working group on Islamic finance. At the World Bank, the SG discussed cooperation issues with Mr. Tunc Uyanik, Director of Financial Systems and Global Practice, and Mr. Abayomi Alawode, Practice Manager & Head of Islamic Finance of Financial Systems and Global Practice.



The Bank for International Settlements (BIS) hosted the 32nd Technical Committee Meeting on 4 March 2014 at its headquarters in Basel, Switzerland. BIS also hosted the 4th Meeting of Core Principles for Islamic Finance Regulation Working Group on 3 March 2014.

## EVENT CALENDAR

UPCOMING IFSB WORKSHOP & AWARENESS PROGRAMMES  
MAY - OCTOBER 2014

19 – 22 May 2014 | Mauritius

11<sup>TH</sup> ISLAMIC FINANCIAL SERVICES BOARD SUMMIT  
New Markets and Frontiers for Islamic Finance: Innovation and the Regulatory Perimeter

Hosted by



9 – 10 June 2014 | Malaysia

IFSB - INCEIF EXECUTIVE FORUM ON ISLAMIC FINANCE  
Islamic Capital Market: New Horizons, New Frontiers

Co-organised with



16 June 2014 | Kazakhstan

SEMINAR ON THE PROSPECTS AND CHALLENGES IN THE DEVELOPMENT  
OF ISLAMIC FINANCE FOR KAZAKHSTAN

Hosted by



17 – 19 June 2014 | Kazakhstan

IFSB - FIS WORKSHOPS FOR THE BANKING SECTOR

Hosted by



18 – 22 August 2014 | Malaysia

IFSB - FIS WORKSHOPS FOR REGULATORY AND SUPERVISORY  
AUTHORITIES FOR THE BANKING SECTOR

3 – 5 September 2014 | Senegal

IFSB - FIS WORKSHOPS FOR THE BANKING SECTOR

Hosted by



28 – 29 October 2014 | Qatar

IFSB - FSI SEMINAR ON LIQUIDITY RISK

Co-organised with



Hosted by

Please visit [www.ifsb.org](http://www.ifsb.org) for more information and registration details

## FOCUS ON THE IFSB PUBLICATIONS

**IFSB-14: Standard on Risk Management for *Takāful* (Islamic Insurance) Undertakings**  
Issuance Date: December 2013

IFSB-14 aims to provide guidance to the industry in understanding the types of risks that the *Takāful* industry is exposed to. The current global market conditions necessitate the relevant regulatory and supervisory authorities to continue strengthening the industry. With the best practices set forth by this Standard, it provides a *Shari'ah* -compliant mechanism in the development of a risk management framework for *Takāful* undertakings.

Taking into consideration the specificities of Islamic finance, IFSB-14 highlights the key risks which are specific to *Takāful* undertakings, i.e. *Shari'ah* non-compliance risk, risks arising from segregation of funds, and risks relating to the use of *ReTakāful*. The document further illustrates the responsibilities and functions of key management functions in ascertaining the effectiveness of the risk management framework. It is hoped that the Standard will provide a guideline to all the industry stakeholders in creating a safe and prudent environment for the growth, sustainability and development of the *Takāful* industry.

**IFSB-15: Standard on Revised Capital Adequacy for Institutions offering Islamic Financial Services (other than *Takāful* Institutions and Islamic Collective Investment Schemes) (IIFS)**  
Issuance Date: December 2013

IFSB-15 is a revised and enhanced version of two previous IFSB standards on capital adequacy, namely IFSB-2: Capital Adequacy Standard for IIFS (published in 2005) and IFSB-7: Capital Adequacy Requirements for *Sukūk*, Securitisations and Real Estate Investment (published in 2009). IFSB-15 also adopts key Basel III proposals on capital components and macroprudential tools for the IIFS.

This Standard aims to assist the implementation of a capital adequacy framework that will ensure effective coverage of risk exposures of the IIFS and allocation of appropriate capital to cover these risks, based predominantly on the Standardised Approach. In order to achieve these objectives, IFSB-15 provides guidance on the features and criteria for high-quality regulatory capital components, including Additional Tier 1 and Tier 2, which comply with *Shari'ah* rules and principles. Similarly, IFSB-15 provides new guidance on macroprudential tools, such as capital buffers, leverage ratio and domestic systemically important banks, which will facilitate supervisory authorities in achieving the goal of protecting the banking system and the real economy from system-wide shocks.

IFSB-15 also provides more elaborate guidance on capital adequacy treatment of various risk exposures related to *Shari'ah* -compliant products and services, including *Sukūk*, securitisation and real estate. The new Standard has revised and consolidated earlier guidance on the treatment of profit sharing modes of financing, as well as expanded guidance on credit risk mitigation techniques as well as calculation of capital charge for various approaches of market and operational risks. These revisions endeavour to enhance the loss absorption capacity of the IIFS and provide a more comprehensive framework for the application of risk weights aligned closely to the underlying risk exposures.

## IFSB MEMBERSHIP UPDATES

### IFSB Membership Satisfaction Survey 2013/2014

The second Membership Satisfaction Survey was conducted from 13 December 2013 to 19 February 2014. The key objectives of the Survey were to:

- identify the satisfaction level of members and track performance;
- understand perceptions, expectations of members as well as past members;
- explore products and services that IFSB may need to offer to attract the new members; and
- provide actionable insights to increase satisfaction among members.

The findings from the Membership Satisfaction Survey indicated, among other things, that in overall, high satisfaction levels seen across members and also over the years, members are seeing an improvement in IFSB's contribution to standards and guidelines to meet industry needs. The role of the IFSB is also seen to be more proactive, and focused during the global crisis and developing a new range of standards. The IFSB initiative of preparing annual Islamic Financial Stability Report is perceived very well among the members.

The initial Survey was conducted at the beginning of the year. However, the percentage of responses among the IFSB Associate and Observer members could not be taken as representative of the members. The IFSB is thus embarking on a second round of follow-up, and seek your kind cooperation to complete the questionnaire. Your concerns and issues matter to the Secretariat and we seek your kind cooperation to provide us your views by participating in the Survey. Your collective responses will assist the Secretariat in formulating its membership strategies for the coming year, as well as contribute to form the IFSB's annual workplan. This year's Survey is also strategically important as the IFSB will be using the results as inputs in formulating the IFSB's second Strategic Performance Plan from 2015 onwards.

### Meet the Members Sessions Sudan, February 2014



HE Abdelrahman Hassan Abdelrahman, Governor, Central Bank of Sudan delivering the Welcoming Remarks at the Meet the Members Session in Sudan.

### Brunei, March 2014



Among the delegates attending the Meet the Members Session in Brunei

## About the IFSB

The IFSB is an international standard-setting organisation that promotes and enhances the soundness and stability of the Islamic financial services industry by issuing global prudential standards and guiding principles for the industry, broadly defined to include banking, capital markets and insurance sectors. The IFSB also conducts research and coordinates initiatives on industry-related issues, as well as organises roundtables, seminars and conferences for regulators and industry stakeholders. Towards this end, the IFSB works closely with relevant international, regional and national organisations, research/educational institutions and market players.

As of 2014, the IFSB has published twenty-two Standards, Guiding Principles, Guidance and Technical Note covering these topics:

- IFSB-1** Guiding Principles of Risk Management
  - IFSB-2** Capital Adequacy Standard
  - IFSB-3** Guiding Principles on Corporate Governance
  - IFSB-4** Disclosures to Promote Transparency and Market Discipline
  - IFSB-5** Guidance on Key Elements in the Supervisory Review Process
  - IFSB-6** Guiding Principles on Governance for Islamic Collective Investment Scheme
  - IFSB-7** Special Issues in Capital Adequacy Requirements: *Sukūk* Securitisations and Real Estate Investment
  - IFSB-8** Guiding Principles on Governance of Islamic Insurance (*Takāful*) Operations
  - IFSB-9** Guiding Principles on Conduct of Business
  - IFSB-10** Guiding Principles on *Shari'ah* Governance System
  - IFSB-11** Standard on Solvency Requirements for *Takāful* (Islamic Insurance) Undertakings
  - IFSB-12** Guiding Principles on Liquidity Risk Management
  - IFSB-13** Guiding Principles on Stress Testing
  - IFSB-14** Standard on Risk Management for *Takāful* (Islamic Insurance) Undertakings
  - IFSB-15** Revised Capital Adequacy Standard
  - IFSB-16** Revised Guidance on Key Elements in the Supervisory Review Process
- 
- GN-1** Guidance Note in Connection with the Capital Adequacy Standard: Recognition of Ratings by External Credit Assessment Institutions (ECAIs) on *Shari'ah*-Compliant Financial Instruments
  - GN-2** Guidance Note in Connection with the Risk Management and Capital Adequacy Standards: Commodity *Murābahah* Transactions
  - GN-3** Guidance Note on the Practice of Smoothing the Profits Payout to Investment Account Holders
  - GN-4** Guidance Note in Connection with the IFSB Capital Adequacy Standard: The Determination of the Alpha in the Capital Adequacy Ratio
  - GN-5** Guidance Note on the Recognition of Ratings by ECAIs on *Takāful* and *ReTakāful* Undertakings

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

For more information about the IFSB and to download the IFSB Standards, reports, research papers and other publications, please visit [www.ifsb.org](http://www.ifsb.org).

Contact Information

**ISLAMIC FINANCIAL SERVICES BOARD**

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

Telephone: +6 03 9195 1400 Facsimile: +6 03 9195 1405 Email: [ifsb\\_sec@ifsb.org](mailto:ifsb_sec@ifsb.org)  
website: [www.ifsb.org](http://www.ifsb.org)