

IFSB Seminar on Islamic Finance and Global Regulation

4 April 2017 | Kuala Lumpur, Malaysia

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“Islamic Finance and Global Regulation: Moving Targets and New Horizons”

Against the backdrop of sustained economic and financial turbulence the Islamic Financial Services Industry (IFSI) maintained a strong growth trajectory in the years following the global financial crisis (GFC). This period has witnessed the rolling out of extensive regulatory reforms for the financial sector by the conventional standard setting bodies such as Financial Stability Board, Basel Committee on Banking Supervision and others. For the banking sector, while a wide ranging set of reforms and new standards have been introduced, the agenda is not yet complete as the Basel Committee is giving final shape to its revised proposals such as credit and operational risk. At the same time, the Committee is shifting its focus towards a consistent and timely implementation of its standards, though its surveys and the introduction of a regular Regulatory Consistency Assessment Programme (RCAP) for its members. During this period, the IFSB has also issued a series of standards in various sectors to strengthen the stability framework for Islamic finance, while also seeking greater cross border consistency through the issuance of high-level Core Principles for Islamic Finance Regulation (Banking Segment). The Core Principles have been widely supported, and are now being considered for recognition as a standard under the IMF/World Bank Standard and Codes Initiative. More broadly, these new IFSB standards are being implemented by regulatory and supervisory authorities across various regions as reflected in the latest IFSB Annual Implementation Survey 2016. The Survey also showed that there has been a relatively quicker take up of the most recent “second generation” standards on capital adequacy and liquidity coverage, as the countries strive to catch up with the international developments, though important challenges of capacity building of staff and adopting legal and regulatory systems remain.

From the broader economic perspective, a general outlook of increasing socio-economic risks, weakening growth and low commodity prices pose challenges for the global economy as well as for emerging economies and the evolving Islamic financial services industry. But there is also greater awareness of the potential offered by Islamic finance as an alternative source of funding as well as appreciation for its suitability for key goals such as widening financial inclusion. Nevertheless, the trade-offs between the pursuit of growth and expansion on the one hand, and financial stability on the other, continues to be challenging to the orderly development of a global Islamic financial services industry. With de-risking and retrenchment being observed by many international banks over the previous few years, the role of regulation in shaping the financial services sector worldwide is being considered of increased importance.

In this market environment, it is important to examine the progress made by regulatory and supervisory authorities (RSAs) in rolling out new rules and regulations for their Islamic finance industry players. Relatively protracted transitional arrangements for implementation of new global standards has provided room to both the RSAs and market players to plan the implementation of new global reforms, while enhancing their capacity. The Islamic banking sector has faced structural issues with regards to liquidity and the ability to obtain sufficiently liquid assets. The introduction and phased ramp-up of both LCR and NSFR ratios has caused many Islamic banks to change their funding profiles and business models. From capital adequacy perspective, many players have made adjustments through the issuance of Basel III/IFSB-15 compliant *sukuk*. Examination of the IFSI’s successes and future challenges in dealing with prudential requirements such as this may offer insights as to where the industry is headed.

The shifting landscape in financial services can also offer growth potentials and ‘new horizons’. A general economic downturn has left voids in the financing being offered to the start-up and SME sectors. Does Islamic Finance has the synergy with what these sectors require to act as the catalyst for economic stimulation? Importantly, can it manage the risk and regulatory burden that exposure to such sectors brings? Similarly, the rise of FinTech has attracted regulatory attention, with authorities ‘sandboxing’ platforms such as crowdfunding. Such mediums may be the means by which the IFSI reaches a wider audience and overcomes some of the structural challenges it has so far faced. Ultimately, an examination of regulatory changes, achievements and corresponding adjustments by the industry players can lead to what an optimised structure and shape looks like for the future.

This one-day seminar on “*Islamic Finance and Global Regulation: Moving Targets and New Horizons*” is designed to provide an interactive environment enabling speakers and participants to explore the above issues and share ideas; bringing together regulators, market players, academics, rating agencies and other stakeholders of the industry.

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Time	Session
08:30 – 09:30	Registration
09:30 – 09:45	Welcoming Remarks
09:45 – 10:00	Keynote Address
10:00 – 10:30	<i>Coffee break</i>
10:30 – 11:45	<p>Session 1: The Roll Out of Regulatory Reforms– Progress so Far and What is Left to Do? The Session aims to discuss how regulatory and supervisory authorities (RSAs) have achieved implementation and compliance with key prudential regulatory standards. It will look at what have been the main challenges, including the capacity building dimension. What is still to be accomplished e.g. on macroprudential supervision, cross-sector and consolidated supervision, stress testing and dealing with systemically important banks?</p>
11:45 – 13:00	<p>Session 2: Developing Liquid Islamic Money Markets: Challenges in Harmonisation and Local and International Issuances This session aims to discuss the current state of the sukuk market against the backdrop of the existing economic conditions and market dynamics. What more needs to be done to spur sukuk issuances for liquid and vibrant Islamic money markets? What are specific legal, regulatory and disclosure reforms needed to resolve the impediments? Do sukuk structures and absence of trading platforms pose major hindrances to develop an active secondary sukuk market?</p>
13:00 – 14:00	<i>Lunch and Prayers</i>
14:00 – 15:15	<p>Session 3: New Horizons – Wider Outreach for the IFSI and Structural Challenges This session aims to discuss the potential for Islamic finance to become more active across the start-up/SME financing space. What are the associated challenges from the regulatory and risk perspectives, and how can Islamic finance better manage these challenges? Discussion will also consider the rise of FinTech (i.e. crowdfunding/digital currencies) and how far Islamic finance can benefit it from its growth.</p>
15:15 – 15:45	<i>Coffee Break</i>
15:45 – 17:00	<p>Session 4: Panel Discussion - What does a “Future State” Islamic Finance Industry Look Like? The panel discussion will address the opportunities for Islamic finance going forward. Discussions will aim to examine whether the current state and shape of the industry are optimal given structural and regulatory challenges. The panel may look at where it sees the industry in the next 5 years; what does a future state Islamic financial services industry look like, and how do we get there? What are the pre-conditions in terms of capacity building and human resources?</p>

Programme Changes: The IFSB reserves the right to make any necessary amendments/changes to the programme without prior notification.