General Council for Islamic
Banks And Financial Institutions

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CIBAFI

المجلس العام للبنوك
والمؤسسات المالية الإسلامية

مؤسسة منتمية لمنظمة التعاون الإسلامي
تأسست بمرسوم ملكي رقم ٢٣ لسنة ٢٠٠١م

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Dear Dr. Danbatta,

CIBAFI Response to the IFSB's Exposure Draft no: 22 "Revised Standard on Disclosures to Promote Transparency and Market Discipline for Institutions Offering Islamic Financial Services [Banking Segment]"

The General Council for Islamic Banks and Financial Institutions (CIBAFI) presents its compliments to the Islamic Financial Services Board (IFSB) and takes this opportunity to express its appreciation of the work that the IFSB is doing to revise and update the disclosure requirements.

CIBAFI is an international body representing Islamic financial institutions globally, who offer financial services and products complying with Islamic rules and principles (Shariah). CIBAFI acts as the voice of the Islamic finance industry, and our members comprise more than 125 Islamic banks and non-bank financial institutions, both large and small, from 33 jurisdictions.

We welcome this opportunity to offer our comments and recommendations on the IFSB's Exposure Draft (ED) "Revised Standard on Disclosures to Promote Transparency and

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Market Discipline for Institutions Offering Islamic Financial Services [Banking Segment]". The comments contained in this letter represent the views of CIBAFI Secretariat and feedback received from our members.

Firstly, CIBAFI's members indicate that in some templates, more clarification and guidance on computation would be appreciated. For instance, Template 1: "Key Prudential Regulatory Metrics: Quarterly" needs more clarification on fully loaded expected credit loss (ECL) accounting model, fully loaded ECL accounting total capital, fully loaded ECL accounting model common equity tier 1, fully loaded ECL accounting model tier 1 ratio, and fully loaded ECL accounting model IFSB-15 leverage ratio. Similarly, Template 4: "Geographical Distribution of Private-Sector Credit Exposures Used in the Countercyclical Capital Buffer: Semi-Annual" needs guidance on computation of the Countercyclical buffer amount. On a separate note, some CIBAFI members also raise the question on Countercyclical Capital Buffer (CCB) in the case if the local regulator doesn't impose any requirements for establishing a CCB.

Secondly, the ED states in para 69 under step 2 that the IIFS should expand the lines of the balance sheet under the regulatory scope of consolidation from step 1 to show all the components appearing in Template 3 of this Standard. This is because many of the components used to calculate regulatory capital cannot be easily identified from the balance sheet. The ED also states in same para that "It is therefore expected that the level of disclosure in this area will be proportionate to the complexity of the balance sheet and capital structure of the IIFS". However, as each bank may expand lines based on its discretion and provide unnecessary information, it is appreciated to have more specific information on the expansion and the expanded lines in addition to further clarification on the definition of complexity.

Thirdly, CIBAFI's members notice that in para 77 (table 8) and para 79 (table 9), the ED refers to the term "general provisions", which is no longer applicable after the introduction of IFRS9 and AAOIFI FAS 30 standards.

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Fourthly, in para 78 (template 12), some CIBAFI members suggest that it is more appropriate to have two similar tables where one table shall be for exposures in the bank's corporate books and the other for exposures related to unrestricted investment accounts (with the incorporation of the alpha factor). In addition, the members find that in template 12, the "high risk categories" need further clarification regarding what categories and type of exposures are to be included under each category.

Fifthly, under para 88, table 17 "Securitisation Exposures in the Banking Book: Semi-Annual", the table provides a set of exposures based on different types of contracts and assets while mentioning only Ijarah, Istisna, Mudarabah, Musharakah and Murabahah. However, the ED indicates that the "IIFS may modify the breakdown and order of rows in the template if a different breakdown would be more appropriate in reflecting their activities", thus the breakdown shall reflect all types of contracts that might be used in securitization. Nevertheless, the ED is silent about the treatment of hybrid securitization which may depend on more than one contract.

Sixthly, under the sub-heading "Remuneration", the disclosures required in para 122-124 cover only employees, senior management and Shariah boards; the board of directors' remuneration is not covered here. On the other hand, putting remuneration under the "Risk management, risk exposures and risk mitigation" may not be appropriate. Some CIBAFI members suggest that remuneration may be put under the "General Governance" section.

Seventhly, under the heading "Displaced Commercial Risk" in para 130, CIBAFI's members indicate that quantitative disclosures should also include the level of profit smoothing in the past years in order to better assess the earning quality of assets funded by investment accounts.

Eighthly, Table 19: "General Governance" indicates that IFIs shall disclose whether they comply in full with the IFSB's Corporate Governance Standard, and if it not, an explanation of any non-compliance should be disclosed. IFIs in many countries follow the

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national code or guidelines of corporate governance which are observed first and foremost, thus they are not required to follow the IFSB’s corporate governance standards.

Finally, The Basel Committee on Banking Supervision (BCBS) has issued a Consultative Document “Pillar 3 disclosure requirements - updated framework” in February 2018. The BCBS’s new updated framework on Pillar 3 disclosure requirements should be reflected in IFSB’s new standard. For instance, the BCBS’s CD provided new disclosure requirements on asset encumbrance and Capital Distribution Constraints (CDC) which should be reflected.

We remain at your disposal should you need any further clarifications on the above.

Yours sincerely,

Abdelilah Belatik
Secretary General

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