InFocus

General Council for Islamic Banks And Financial Institutions

المجلس العام للبنوك والمؤسسات المالية الإسلامية

CIBAFI

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Message from Secretary General

Welcome to the InFocus, designed to keep you informed of CIBAFI's activities and initiatives. I am pleased to open this inaugural edition with the news that the Board of Directors has approved CIBAFI's Strategic Plan for the period 2015-2018.

The approved Strategic Plan is a carefully crafted plan aimed at addressing the real concerns and challenges facing the Islamic Financial Services Industry (IFSI) stakeholders, and as such is the result of a rigorous consultation process. The Secretariat conducted interviews with a number of member institutions, and also disseminated a "Satisfaction and Expectations Survey" (SES) that gathered comprehensive information from 67 Islamic financial institutions in 27 countries across the globe. The invaluable stakeholders feedback provided CIBAFI with a clear understanding of stakeholders awareness and satisfaction with CIBAFI, its activities, as well as members' expectations going forward.

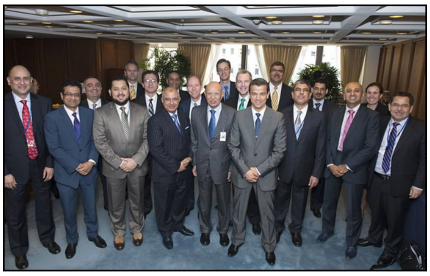
CIBAFI now has a clear roadmap as it continues in its mission to promote and grow the IFSI, enhance cooperation and knowledge sharing between members, and other international institutions, and foster dissemination of Islamic finance principles and best practices.

The Strategic Plan is now ready to be executed, and I would like to take this opportunity to thank you for the important role all stakeholders played in its development, and look forward to your continued support as we work towards its successful implementation.

Yours Sincerely,
Abdelilah Belatik

CIBAFI at the International Scene

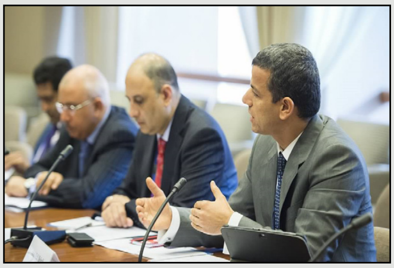
CIBAFI at the IMF External Advisory Group Meetings in Washington D.C.



As a member of the External Advisory Group (EAG) to the International Monetary Fund (IMF) CIBAFI represented by the Secretary General, Abdelilah Belatik attended the first Interdepartmental Working Group on Islamic Finance (IDWGIF) meeting on October 9, 2014, in Washington, D.C., to discuss issues related to Islamic banking and the development of *Sukuk* markets.

Discussions covered regulation and supervision, the scope for Islamic financial institutions to improve access to finance, the implications of Basel III requirements on Islamic financial institutions, and the possibility for enhancing *Shariah* and corporate governance practices. EAG members also discussed development of *Sukuk* market and its potential for financing infrastructure investment and for providing instruments to facilitate liquidity management and central banking operations.

CIBAFI Participates in 2nd Meeting of IASB Consultative Group in Malaysia



CIBAFI recently participated in the 2nd meeting of the International Accounting Standards Board (IASB) Consultative Group (CG) on *Shariah*-compliant Instruments and Transactions with a focus on the issues in the application of International Financial Reporting Standards (IFRS) to Islamic finance.

The meeting, which was supported and staged by the Malaysian Accounting Standards Board (MASB), brought consultative group members together at the Mandarin Oriental Hotel, Kuala Lumpur, Malaysia.

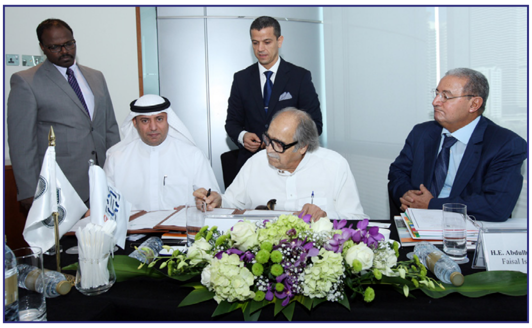
The meeting was an outreach initiative by the IASB to discuss issues in the classification of financial instruments under IFRS 9 – Financial Instruments. The Consultative Group held focused discussions on the challenges that may arise in the application of IFRS to Islamic finance instruments and transactions.

CIBAFI Calls OIC to Support Islamic Finance

CIBAFI called on the Organization of Islamic Cooperation (OIC) to support Islamic finance through its Ten-Year Programme of Action (TYPOA) for 2016 – 2025, putting forward four key objectives in order to further support the development of the Islamic Financial Services Industry. The call came in response to a request from the OIC to CIBAFI as the global umbrella of Islamic Financial Institutions and an affiliated organisation, to provide input on their programme of action for the next 10 years. Corresponding with the role and mandate of CIBAFI, we have submitted to the OIC four key objectives. These are the 'Enablement of Islamic financial regulations to cover all sectors, and the creation of an environment conducive to Islamic Financial Institutions.' Secondly, 'Prioritizing the use of Islamic finance in order to alleviate social exclusion' and develop SME financing. Thirdly 'Advocating Islamic finance regulations for institutional investors and Islamic capital markets in order to channel the Muslims' wealth, in particular from the Sovereign Wealth Funds into Islamic finance development and infrastructures financing across the OIC member states'. The final objective is to 'Facilitate the global linkages of Islamic finance through cooperation between OIC members, non-members, international Islamic financial institutions, and other multilateral institutions. CIBAFI participated in the first consultative meeting on the "OIC 2025 - Programme of Action", on 7 – 8 December 2014, Jeddah, KSA to discuss the first draft of the Programme.

InFocus on CIBAFI Activities

MoU with SCA to Support Capacity Building in the IFSI



CIBAFI signed a Memorandum of Understanding (MoU) with the Emirates Securities and Commodities Authority (SCA) that will serve as the foundation for collaboration between CIBAFI and SCA towards the shared goal to enhance knowledge sharing and professional development in the IFSI.

The MoU outlines cooperation in the areas of research and publications, professional development, awareness programmes, and joint meetings. The signing ceremony was held in Dubai, UAE on the 18th November on the sidelines of the Council's 24th meeting of the Board of Directors and a Technical Workshop organised by CIBAFI and hosted by the SCA on the subject of Islamic Capital Market. CIBAFI Board of Director's (BOD) Chairman H.E. Sheikh Saleh A. Kamel as well as CIBAFI Board members attended the ceremony.

CIBAFI Professional Development Initiatives

CIBAFI recognizes that in order to sustain industry innovation and growth a substantial pool of professional talent is required. In order to achieve this objective, CIBAFI has conducted a number of professional development initiatives.

Professional Training Programmes – this year CIBAFI has provided professional certifications to 1079 Islamic finance practitioners, which brings the total number of CIBAFI certified professionals to 3965 dating from year 2009. Highlights from the Professional Training Programmes include the following two activities:

- CIBAFI has started an in house training programme for entire staff of Bank of Khartoum, Sudan (1,200 employees). The 'Certified Islamic Banker' programme is delivered from September this year and will continue until March 2015. Bank of Khartoum is not only underscoring its dedication to employees, it is also emphasising an unwavering commitment to delivering the highest standards of professional service to its customers.
- Supporting development of Islamic finance in the African continent, CIBAFI has co-organised with the Islamic Development Bank (IDB) a training in Mauritania on 7 - 12 December 2014, which was hosted by the Banque al Wava Mauritanienne Islamique (BAMIS). This professional training programme, which was conducted in French language, has certified 48 C-suit professionals from 10 banks and financial institutions and regulatory authorities from Mauritania. The programme is part of a Technical Assistance agreement between CIBAFI and IDB.

Technical Workshops - CIBAFI has organized two Technical Workshops this year for its members. The first was on Risk Management and was conducted in Arabic language in Bahrain. It was supported by Al Salam Bank and sharing experience sessions were presented by Bank Al Khair and Al Salam Bank. Second Technical Workshop was conducted in English language on Islamic Capital Market in Dubai. It was hosted by the Emirates Securities and Commodities Authority (SCA) and sharing experience sessions were presented by the securities Commission Malaysia and Sudan Financial Services Company. It was attended by participants from 5 countries.

CIBAFI Strategic Plan 2015 – 2018

CIBAFI's Strategic Plan for the period 2015 - 2018 was approved at the Council's 24th meeting of the Board of Directors held in Dubai, UAE on the 18th November 2014. The Strategic Plan is a comprehensive 4 – year plan that will provide CIBAFI with a clear guide as it carries out its mission to represent the Islamic Finance Services Industry globally, to introduce its nature and progress, to participate in defending and protecting its role, and to offer support for its expansion and cooperation between its institutions.

The Strategic Plan defines key objectives that will support the achievement of this mission including CIBAFI underscoring its position as the 'voice' of the industry by strengthening its role as advocate for the IFSI with International standard setting organisations and regulatory and supervisory authorities.

The Strategic Plan also highlights CIBAFI's role in providing relevant market research and high quality publications that seek to guide innovation in the financial sector, promote best practices, and highlight opportunities in emerging markets.

The following have been identified as Strategic Objectives of CIBAFI:

Strategic Objective 1 - Policy, Regulatory Advocacy

Strategic Objective 2 - Research and Publications

Strategic Objective 3 - Awareness and Information Sharing

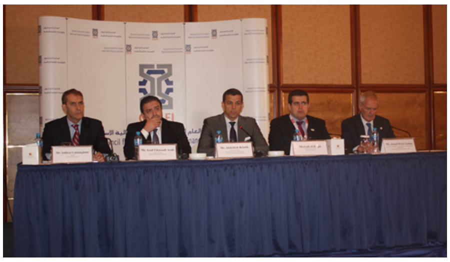
Strategic Objective 4 - Professional Development

Going Forward

We are confident that CIBAFI is well positioned to achieve its strategic objectives and we continue to employ a committed and consistent approach. Going forward into 2015 CIBAFI will actively seek to achieve its strategic objectives through a number of activities. These include maintaining dialogue, coordinating with and strengthening relationships with relevant Regulatory and Supervisory Authorities (RSAs) and advisory groups.

We also seek to enhance the quality of our research and publications with the production of new publications relevant to the industry. Each strategic objective will be achieved through clear outputs that have been approved as part of our work-plan for the year 2015.

CIBAFI Organises In-Focus Session on Basel III and Islamic Banks



CIBAFI Secretary General Abdelilah Belatik and four industry experts presented an InFocus session entitled "Strategic Options for Islamic banks in response to Basel III – the practitioner's perspective" at the World Islamic Banking Conference on 2 - 3 December 2014.

Over 100 people crowded into the seminar room at the end of the second day of the Conference, which was held at the Gulf Hotel Conference Centre in Bahrain.

Addressing the participants, Abdelilah Belatik said, "Islamic banks are part of the international financial community and they are committed to complying with international standards. But Basel III presents some challenges for Islamic banks that do not exist for conventional banks. As the spokesman and advocate for Islamic banks and financial institutions, CIBAFI is helping the industry identify strategic options to enable it to thrive and grow in a Basel III world."

Andrew Cunningham, Director of the London-based consulting firm Darien Analytics, gave an overview of the Basel III standards and suggested that Islamic banks were unlikely to face difficulties complying with the higher capital requirements since most Islamic banks are already very well capitalised. In contrast, he said that Basel III's new liquidity standards, the Liquidity Coverage Ratio and the Net Stable Funding Ratio, would likely present challenges for Islamic banks, since their ability to hold High Quality Liquid Assets is more limited than that of conventional banks since such Assets often comprise interest-bearing bonds.

Andrew Cunningham also considered other standards that are part of the Basel III package, including new standards on corporate governance, pay and incentives, risk management, and risk concentration. In each case, he suggested that Islamic banks should not have difficulty applying the new, stricter standards.

Three senior bankers then shared some of their own experiences addressing the Basel III standards.

Iyad Ghasoub Asali, General Manager of Islamic International Arab Bank, Jordan, noted that his bank was showing a liquidity coverage ratio of more than 150%, well in excess of the Basel standard. He commented that one of the reasons for his bank's strong position was its ability to attract retail deposits, which are deemed by the Basel Committee to be the most stable and reliable form of funding.

Fadi Al Faqih, the CEO of Bank of Khartoum, Sudan described the Investment Fund set up by the Sudanese banks and the local regulator. The Fund enables the creation of highly-rated *Shariah*-compliant liquid assets that local banks can buy in order to meet their liquidity standards.

Peter Szalay, Group Head of Credit and Risk Management at Al Baraka Banking Group described the ways in which Al Baraka manages its global capital and liquidity requirements and stressed the need for international banks to consider local regulations and industry conditions as part of a broader global strategy.

After a lengthy question and answer session, Abdelilah Belatik closed the session and thanked the organizers of the World Islamic Banking Conference for providing CIBAFI with a platform within which to discuss the effect that Basel III will have on Islamic banking operations. He looked forward to more CIBAFI events in future, addressing other areas of importance both to Islamic banks and to non-bank Islamic financial institutions.

InFocus on the Industry

Four Non-Muslim Countries Issue Sovereign *Sukuk* in 2014

The United Kingdom, Hong Kong, South Africa and Luxembourg issued *Sukuk* for the first time in 2014.

The issues were the first by non-Muslim sovereign governments.

All four governments used their issues to stake a claim to be considered a centre for Islamic finance activity.

All the deals were structured as *Ijara's*, using rental income from government buildings.

The United Kingdom's £200 million five-year issue was the first sovereign *Sukuk* issued by a non-Muslim country. The deal was priced at 2.036%, the same as conventional U.K. government bonds. It was ten-times oversubscribed and was completed in June.

In early September, the Government of Hong Kong issued $1 billion of five year *Sukuk*. The issue was priced at 2.005% and was four times oversubscribed. Hong Kong is a special administrative region of China.

Later in September, the Government of South Africa issued $500 million of 5.75 year *Sukuk* (maturing in June 2020) that were priced at 3.9%. The issue was four-times oversubscribed.

The Government of Luxembourg issued €200 million of two year sukuk in early October. The issue was priced at 0.436% and was oversubscribed twice.

All four sovereign issuers were keen to use their *Sukuk* issuances to stake a claim to leadership within the international Islamic finance industry. Most obviously, the UK government is trying to leverage London's existing position as an international financial centre to attract international Islamic finance business.

Luxembourg has been courting the Islamic finance industry for many years and is a centre for asset management, custody and trust services in Europe.

South Africa is trying to establish itself as a centre for Islamic finance in Africa, while Hong Kong wants to become an alternative issuance centre to Malaysia and Indonesia.

The U.K., Hong Kong and Luxembourg governments are all rated AAA by at least one of the major international rating agencies, enabling the governments to claim to have issued the first *Sukuk* ever Sterling, Dollar and Euro *Sukuk* issued by a AAA-rated sovereign. (The Islamic Development Bank has a AAA rating and has issued AAA-rated *Sukuk*.)

Indonesia Introduces New Regulations to Encourage and Strengthen Islamic Finance

Indonesia's Financial Services Authority ("OJK") has introduced a series of new regulations relating to Islamic banking, as part of a broad package of new regulations announced on 20 November.

The regulations affecting Islamic banks include risk-based capital requirements that will lead to some Islamic banks showing capital ratios of 14%. The regulations also address the use of hybrid capital instruments that will convert into equity if the issuing bank faces extreme financial difficulties.

The Indonesian authorities are keen to expand the share of Islamic finance in the country's banking system. At the moment, the total assets of the 11 Islamic banks and 23 Islamic business units of conventional banks total only $20bn, according to the website Indonesia-Investments. That represents 4.5% of total banking assets in Indonesia. The authorities have said that they hope Islamic finance will account for 15% of the total market by 2023, and the recent regulatory moves are designed to support that goal.

In addition to strengthening the prudential framework governing the operations of Islamic banks in Indonesia, OJK has introduced regulations to clarify the relationship between Islamic business units and conventional banks that own them; to increase the transparency of profit sharing arrangements on *Mudaraba* and *Musharaka* contracts; and to strengthen the role of Indonesia's National *Shariah* Board.

Indonesia is the most populous Muslim nation in the world (its population of about 250 million makes it the fourth most populous country in the world), but the assets of the banking system are small when compared to many other countries.

New Islamic Finance Law in Morocco

The Moroccan Parliament has passed a law to permit the creation of Islamic banks. The law was passed on 25 November and was due to take effect when it was published in the Official Gazette a few days later.

The Highest Shariah Council of Morocco will be responsible of giving Shariah conformity opinions that will be binding for Islamic Financial Institutions. This council is an independent body chaired by HRH King Mohamed VI.

Press reports have suggested that BMCE Bank is likely to open a *Shariah*-compliant subsidiary as a joint venture with a Gulf firm, and that other large Moroccan banks are also speaking to Gulf investors about the possibility of establishing *Shariah*-compliant subsidiaries.

Since October 2007, Moroccan banks have been allowed to sell three Islamic contracts—*Ijara, Murabaha* and *Musharaka*—but there has been no legal or regulatory provision for the creation of Islamic banks.

Regulations were introduced to permit the creation of *Shariah*-compliant finance companies and in 2010 Dar Assafaa Litamwil was licensed by the Bank Al Maghrib as a subsidiary of Attijariwafa Bank. Dar Assafaa sold products such as *Shariah*-compliant auto financing and finance for the purchase of house furnishings.

The licensing of *Shariah*-compliant finance companies followed some changes to the Moroccan tax laws that made Islamic financial products competitive with similar conventional products.

CIBAFI Issues Statement of Support for Saudi Arabia's National Commercial Bank (NCB)

CIBAFI has issued a statement supporting National Commercial Bank's plans to convert itself into a fully Islamic bank over the medium term, and to raise funds in an initial public offering in order to facilitate that conversion.

CIBAFI's statement was issued on 5 November and was signed by the Council's Chairman, H.E. Sheikh Saleh A. Kamel.

NCB raised $6 billion through an Initial Public Offering (IPO) in November. The offering represented 25% of the bank's equity. Fifteen per cent was sold to Saudi citizens and 10% to the Saudi state pension fund.

Some scholars questioned whether it was permissible for Muslims to buy shares in a bank whose balance sheet included assets and liabilities that were not *Shariah*-compliant and whose profits arose in part from activities that were not *Shariah*-compliant.

On 22 November, the Saudi Standing Committee on Fatwas issued a statement forbidding the purchase of shares in institutions that deal in interest.

CIBAFI's statement explained why it was permissible to invest in NCB and also outlined the general principles governing investment in financial institutions that earn part of their profits from activities that are not *Shariah*-compliant.

CIBAFI noted the statement by NCB's *Shariah* Supervisory Board that all branches of NCB restrict their activities to the provision of Islamic financing and financial services; that 67% of the bank's assets and 92% of its liabilities were Shariah-compliant, and that 73% of the bank's income in the first half of 2014 was generated by *Shariah*-compliant business.

NCB's *Shariah* Board also noted that the bank would continue to restrict its retail operations to *Shariah*-compliant types of banking, and that it would begin restricting corporate business to *Shariah*-compliant types of banking as part of an overall plan to make all of the bank's operations *Shariah*-compliant. The Board also expressed its confidence that the bank would be able to implement its plan for full conversion to Islamic operations within a reasonable period of time.

CIBAFI statement noted that many respected organisations have issued opinions on the conversion of conventional banks into Islamic banks.

For example, Al Baraka's Council for Islamic Economics has noted that there is no reason why banks should not take a gradual approach to conversion if such an approach is in the long-term interests of the bank. Al Baraka's council noted that the Caliph Omar took a step-by-step approach in his campaign to root out corruption and sin.

CIBAFI Statement also cited standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) that state that it is permissible to participate in and do business with conventional institutions provided that their non-*Shariah* compliant activities are contained within certain limits, such as maintaining interest-based lending and interest bearing deposits below 30% of total market capitalisation, and keeping revenues from non-*Shariah* compliant activities below 5% of market capitalisation.

CIBAFI statement concluded by affirming its respect for all the esteemed organisations that had issued opinions on the NCB IPO in particular and the permissibility of dealing with conventional banks more broadly; and by stating its belief that there was no inconsistency between the various positions presented by the various organisations.

Council restated its commitment to supporting conventional banks and financial institutions that wish to convert their operations to a fully *Shariah* compliant basis. The statement noted that the gradual conversion of conventional banks to *Shariah*-compliant banks is a process that should be welcomed and supported.

About CIBAFI

General Council for Islamic Banks and Financial Institutions (CIBAFI) is a non-profit organisation that is the umbrella for Islamic financial institutions worldwide. It was founded by the Islamic Development Bank (IDB) and a number of leading Islamic Financial Institutions. CIBAFI is affiliated with the Organisation of Islamic Cooperation (OIC). Being established on 16 May 2001, in the Kingdom of Bahrain, today CIBAFI is recognised as a key piece in the international architecture of Islamic finance.

CIBAFI was established with the objectives of developing the Islamic Financial Services Industry (IFSI) and promoting the industry in various fields through information and financial analysis, communication, awareness and human resources.

CIBAFI has 110 members, its membership is spread across 28 jurisdictions in the Middle East, Africa, Europe as well as South and Central Asia and includes Islamic financial institutions, multilateral banks, international standard setting organizations and other professional services firms. CIBAFI is focused on expanding the membership base both geographically and by sector.

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