

CONTENTS:

Message from Secretary General	1
Members' Strategic Session in Malaysia	1
Strategic Objective 1: Policy, Regulatory Advocacy	
CIBAFI Submitted Comments to the AAOIFI on Auditing Standard for Islamic Financial Institutions No. 6	2
CIBAFI Submitted Comments to the AAOIFI on Financial Accounting Standard No. 30	2
CIBAFI Submitted Comments to the AAOIFI on Financial Accounting Standard (FAS) No. 31	2
CIBAFI Submitted Comments to the AAOIFI on Financial Accounting Standard (FAS) No. 34	2
CIBAFI Submitted Comments to the Basel Committee on Banking Supervision (BCBS) on the Consultative Document on "Simplified alternative to the standardised approach to market risk capital requirements"	3
CIBAFI Submitted Comments to the Basel Committee on Banking Supervision (BCBS) on the Consultative Document "Sound Practices: Implications of fintech developments for banks and bank supervisors"	3
5 th Meeting of the Members Consultative Group (MCG)	3
CIBAFI Activities under the Implementation Plan of the OIC	3
Strategic Objective 2: Research and Publications	
CIBAFI – World Bank Publication on Corporate Governance in Islamic Banks 2017	4
CIBAFI Briefing Issue 6: Bancatakaful - Building Synergies, Creating Opportunities	4
CIBAFI Briefing Issue 7: Rebranding as an expansion strategy for Islamic financial institutions	4
Strategic Objective 3: Awareness and Information Sharing	
CIBAFI Seminar on Credit Ratings: Focus on Islamic Banks and Sukuk Ratings Methodology	4
4 th Mediterranean Islamic Finance Forum	4
CIBAFI Global Forum 2018	5
Strategic Objective 4: Professional Development	
CIBAFI – Ivey Business School Executive Programme on Strategic Thinking, Innovation and Corporate Entrepreneurship and Change Leadership	5
Technical Workshop on Products Development and Financial Engineering for Islamic Financial Institutions (IFIs)	5
CIBAFI In-House Training Programmes	6
CIBAFI Network of Global Professional Development Agents	6
Update: July - December 2017	

Message from Secretary General

Welcome to the 9th edition of CIBAFI InFocus newsletter, through which we endeavour to keep our stakeholders informed about our activities and initiatives.

As the final newsletter of the year, I am pleased to share with you that in 2017, CIBAFI successfully achieved all of its strategic goals and objectives as they were laid down in the Strategic Plan 2015 – 2018.

I am delighted to share with you some updates on our recent activities. To start with, CIBAFI held its regular regional Members' Strategic Session on 8th September 2017 in Kuala Lumpur Malaysia, to meet with its stakeholders in the region.

To meet our first Strategic Objective of Policy, Regulatory Advocacy, CIBAFI submitted four sets of comments to the AAOIFI on its various Exposure Drafts on accounting and auditing. In addition to these comments, CIBAFI also engaged in consultation process with its members to gather comments on the Basel Committee on Banking Supervision (BCBS) Consultative Documents on "Simplified alternative to the standardized approach to market risk capital requirements" and on the "Sound Practices: Implications of fintech developments for banks and bank supervisors".

I am also pleased to share with you that CIBAFI 5th Meeting of the Members Consultative Group (MCG) successfully took place in Manama, on 5th December, 2017.

In the area of Research and Publication, our second Strategic Objective, CIBAFI published its first joint publication with The World Bank titled "*Corporate Governance Practices in Islamic Banks 2017*". The Secretariat also issued 6th Briefing on Bancatakaful: Building Synergies, Creating Opportunities, and 7th Briefing on Branding. Secretariat is currently finalizing few other publications on the pipeline for 2018.

In achieving the Strategic Objective 3 Awareness and Information Sharing, CIBAFI held a Seminar on Credit Ratings: Focus on Islamic Banks and Sukuk Ratings Methodology in Manama, Kingdom of Bahrain on 17 - 18 September 2017 in cooperation with S&P Global Ratings and under the patronage of the Central Bank of Bahrain. 4th Mediterranean Islamic Finance Forum was held on 23rd November in Barcelona, Spain. And finally, I am pleased to announce that our annual event - CIBAFI Global Forum (CGF) will be taking place in Turkey on 2-3 May 2018. We look forward to welcoming all our stakeholders in Istanbul.

In fulfilling the Strategic Objective 4 Professional Development, CIBAFI continuous collaboration with Ivey Business School, led to the 3rd joint Executive Programme on Strategic Thinking, Innovation and Corporate Entrepreneurship and Change Leadership which took place on 7 - 8 November, in Manama, Bahrain. CIBAFI also organized a Technical Workshop in Barcelona, Spain on 22 November 2017. We have conducted an in-house training sessions for the Arab Islamic Bank of Palestine, where from April 2017 a total of 193 employees have been certified. A total of 363 employees of the bank will be trained for the Certified Islamic Banker programme of CIBAFI by mid-2018. Through our network of professional development agents, 39 training sessions were organized from July - December 2017, facilitating professional certifications for 600 trainees.

On behalf of CIBAFI, I would like to express our sincere thanks to our Board of Directors, members and other stakeholders for their continuous support and encouragement.

Yours Sincerely,

Abdelilah Belatik

Members' Strategic Session in Malaysia

The Secretariat held a Members' Strategic Session on 8th September 2017 in Kuala Lumpur, Malaysia. Bank Muamalat Malaysia Berhad (BMMB) and the Association of Islamic Banking Institutions Malaysia (AIBIM) have kindly hosted CIBAFI's Members' Strategic Session with its members and stakeholders in Malaysia. The Session was opened by Dato' Hj. Mohd Redza Shah Abdul Wahid, CEO of BMMB and President of AIBIM. This was followed by an update on activities of CIBAFI by Mr. Abdelilah Belatik, Secretary General of CIBAFI.

The Session has stemmed a rich discussion between CIBAFI and its members & industry stakeholders in Malaysia. Mr. Abdelilah Belatik, Secretary General of CIBAFI spoke about importance of South East Asian region during the session. CIBAFI's Strategic Members' Session in Malaysia was concluded by a Luncheon hosted by BMMB and AIBIM. CIBAFI is pleased to have had the opportunity to have this session in Kuala Lumpur and was delighted with the unwavering support it received from local stakeholders.



Strategic Objective 1: Policy, Regulatory Advocacy

CIBAFI Submitted Four (4) Sets of Comments to the AAOIFI on its Exposure Drafts

Aligned with its role as advocate of the Islamic Financial Services Industry (IFSI), CIBAFI has provided its comments on four (4) sets of exposure drafts of the AAOIFI from August to December 2017.

In its submissions, CIBAFI thanked the AAOIFI for giving the opportunity to the Islamic financial services industry stakeholders to comment on the exposure drafts of the standards in issuance.

CIBAFI also congratulated the AAOIFI on the extensive work it has recently been undertaking to enhance and promote the industry best practices.

CIBAFI Submitted Comments to the AAOIFI on its Exposure Draft of Auditing Standard for Islamic Financial Institutions No. 6: “External Shariah Audit”

On 14th August 2017 CIBAFI submitted its comments to the Accounting & Auditing Organization for Islamic Financial Institutions (AAOIFI) on its Exposure Draft (ED) on Auditing Standard for Islamic Financial Institutions No. 6: External Shariah Audit (Independent Assurance Engagement on an Islamic Financial Institution’s Compliance with Shariah Principles and Rules).

The Exposure Draft has been issued on 20th June 2017 and was open for public consultation until 15th August 2017. In its submission, CIBAFI provided comments comprising three key points.

Firstly, CIBAFI noted that the reference point in this standard is the International Standard on Assurance Engagements (ISAE) 3000. However, the standard does not refer to any of other AAOIFI auditing standards unlike the previous AAOIFI auditing standards, which make reference to the audit standards approved by AAOIFI for IFIs. This seems to undermine the previous work of AAOIFI, and may pose the question about the framework of other auditing standards.

Secondly, the ED established a hierarchy of standards which auditors must apply. CIBAFI perceives that the adoption of this standard in any jurisdiction would therefore automatically apply to all AAOIFI Shariah standards in the jurisdiction, and ahead of any national standards, which might not be appropriate for many jurisdictions and may hamper the adoption and implementation of the whole standard.

Thirdly, the ED suggested for Islamic Financial Institutions (IFIs) to implement the standard effective 1st January 2018. CIBAFI believes the proposed time is not enough to do so. Especially, as the standard will not be issued immediately. CIBAFI members also emphasised the need for having the ED issued in Arabic language to increase the number of banks’ responses and to engage more interested parties including the Shariah scholars.

CIBAFI Submitted Comments to the AAOIFI on its Exposure Draft of Financial Accounting Standard No. 30: “Impairment and Credit Losses”

CIBAFI has provided its comments on 5th October 2017 to the AAOIFI on its Exposure Draft (ED) on Financial Accounting Standard (FAS) No. 30 Impairment and Credit Losses.

CIBAFI noted that as FAS 30 covers some of the same topics as IFRS 9, it would be helpful if the AAOIFI could provide more guidance and description of the principal similarities and differences between the two in the areas where they overlap. A number of CIBAFI members have to use IFRS for some or all of their financial statements, and are naturally concerned to understand where the differences lie.

CIBAFI Submitted Comments to the AAOIFI on its Exposure Draft of Financial Accounting Standard (FAS) No. 31: “Investment Agency” (Al-Wakala Bi Al-Istithmar)

CIBAFI has provided its comments to the AAOIFI on its Exposure Draft



AAOIFI
ACCOUNTING AND AUDITING ORGANIZATION
FOR ISLAMIC FINANCIAL INSTITUTIONS

(ED) of Financial Accounting Standard (FAS) No. 31: Investment Agency (Al-Wakala Bi Al-Istithmar). Collective feedback of CIBAFI and its member Islamic banks from 32 jurisdictions comprised comments on the detailed accounting treatment of Al-Wakala Bi Al-Istithmar as well as the following two key points.

Firstly, CIBAFI noted that the ED maintains that if two contracts or undertakings are separate in Shariah terms, they must also be treated as separate in accounting terms. For example, if an investment agency contract is accompanied by a repurchase undertaking, the former cannot be dependent on the latter. These contracts must be accounted separately rather than as a single transaction. As the ED recognises, Wakala (agency) arrangements are utilised by IFIs under different structures, and in many cases the transaction is viewed as a whole for accounting purposes. The ED would require a change in this practice, and it is not clear whether the consequences of such a change have been analysed. CIBAFI believes that such a change may lead to some problems in practice in some jurisdictions, not only in respect of accounting and auditing, but also in respect of tax, risk management and regulatory treatment.

Secondly, IFIs commonly use investment agency for relatively short-term inter-bank placements. CIBAFI and its members have identified a number of issues concerning such placements. One, to which attention was drawn, concerns the proposed disclosures and presentation regarding the investor. In some cases, the disclosures could be very extensive and onerous, and it is unclear that they would materially assist users of the accounts.

CIBAFI Submitted Comments to the AAOIFI on its Exposure Draft of Financial Accounting Standard (FAS) No. 34: “Financial Reporting for Sukuk-holders”

CIBAFI provided its comments to the AAOIFI on its Exposure Draft (ED) of Financial Accounting Standard (FAS) No. 34: Financial Reporting for Sukuk-holders.

The Exposure Draft has been issued on 26th October 2017 and was open for public consultation until 10th December 2017.

Firstly, the title of the ED may mislead into thinking that the ED is about financial reporting by sukuk-holders i.e. how investors in sukuk should account for their investments in their accounts. Therefore, it was recommended for the AAOIFI to reconsider the ED title to reflect more the purpose of the ED, and make clear in the introduction for which reporting entities this is intended.

Secondly, CIBAFI noted that the ED classifies Sukuk structures based on the nature of investment as “business sukuk” and “asset sukuk”. The explanations in the ED are notably short and on the basis of the provided text, it would be very difficult to assign many of the sukuk practically in issue to one category or the other. CIBAFI members believe that more details about this classification should be provided, preferably with examples of its application to different types of sukuk currently used in practice and familiar to users of the standards.

Thirdly, there are some concerns on the adoption of this proposed standards as a part of most national frameworks. ED-34 states that the originator of the sukuk should make the disclosures as part of its own accounting. However, the originators of sukuk are not, in general, financial services firms, and would therefore not be required to use the AAOIFI standards in those jurisdictions, which apply them to their Islamic financial institutions (IFIs).

CIBAFI Submitted Two (2) Sets of Comments to the Basel Committee on Banking Supervision (BCBS)

Basel Committee on Banking Supervision



BANK FOR INTERNATIONAL SETTLEMENTS

CIBAFI Submitted Comments to the BCBS on the Consultative Document on “Simplified alternative to the standardised approach to market risk capital requirements”

On 27th September 2017, CIBAFI submitted its comments to the BCBS on the Consultative Document on “Simplified alternative to the standardised approach to market risk capital requirements”. The Consultative Document was issued on 29th June 2017 and was open for public consultation until 27th September 2017.

CIBAFI thanked the BCBS for giving the opportunity to the IFSI to comment on the Consultative Document before the proposed simplified alternative approach is adopted. CIBAFI has provided collective feedback of its member banks from over 32 jurisdictions. In its submission to the BCBS, CIBAFI also expressed its appreciation of the work that the BCBS does to maintain sound regulatory practices and highlighted the need for the BCBS to align its work recognizing the Islamic financial industry’s considerations.

CIBAFI Submitted Comments to the BCBS on the Consultative Document on “Sound Practices: Implications of fintech developments for banks and bank supervisors”

On 31st October 2017, CIBAFI submitted its comments to the BCBS on the Consultative Document on “Sound Practices: Implications of fintech developments for banks and bank supervisors”.

The Consultative Document was issued on 31st August 2017 and was open for public consultation until 31st October 2017.

Consultative Document set out five scenarios for the way the banking industry may change, ranging from one in which existing banks adopt new technology to improve their services (but customer relationships remain essentially unchanged), to one in which banks become essentially irrelevant, as customers interact directly with individual financial services providers.

The BCBS implicitly recognises that fintech firms may have a greater impact in some markets than others. Consultative Document laid emphasis on the need to maintain Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) controls in fintech-enabled transactions, though it recognises the assistance that some new technologies, including artificial intelligence may offer. In conclusion, CIBAFI highlighted that its members have pointed out that more comprehensive researches might be needed to assess the macro level effect of fintech, the effect on economy, financial stability, and the way the central banks may still influence the economy via the monetary and other policies.

5th Meeting of the Members Consultative Group (MCG)

The Secretariat held 5th meeting of the Members Consultative Group (MCG) on 5th December 2017 in Manama, Kingdom of Bahrain. MCG discussed the following points among others:

- Concept note on Islamic Interbank Benchmarking Rate;
- Global Islamic Bankers’ Survey 2019;
- CIBAFI Strategic Plan 2019 - 2022; and
- Upcoming Briefing.

The meeting has provided an opportunity to the Secretariat to acquire from the MCG members all the required expert consultation and guidance on new and ongoing CIBAFI projects.



CIBAFI Activities under the Implementation Plan of the OIC-2025: Programme of Action



As an affiliated organ to the Organisation of Islamic Cooperation (OIC), CIBAFI submitted to the OIC, a report of activities for the years 2016 and 2017.

The report included list of activities undertaken by CIBAFI within “Action Programme of Implementation” of OIC-Strategic Plan 2025, for the purpose of reporting to the 45th session of the Council of Foreign Ministers.

Strategic Objective 2: Research and Publications

CIBAFI – The World Bank Publication on Corporate Governance Practices in Islamic Banks 2017



CIBAFI and The World Bank launched first joint publication titled “Corporate Governance Practices in Islamic Banks 2017” in Manama, Kingdom of Bahrain during the 5th meeting of the Members Consultative Group (MCG). CIBAFI and The World Bank have been working closely together to develop the Islamic finance industry under a Memorandum of Understanding (MoU) signed in July 2015.

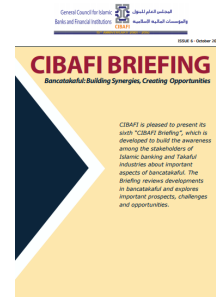
In March 2016, CIBAFI published a Briefing Note on Corporate Governance that drew attention to important developments in the field

in recent years, and the need to update standards on corporate governance for Islamic banks to take account of those developments.

The study underlying this first joint report breaks new ground in the field of corporate governance for Islamic banks. Its methodology is academically rigorous. Its findings and conclusions are easily accessible, and they have clear implications for the day-to-day governance of Islamic banks.

Report will be available for download on both websites www.cibafi.org & www.worldbank.org from January 2018, in both English & Arabic languages.

CIBAFI Briefing Issue 6: Bancatakaful - Building Synergies, Creating Opportunities



CIBAFI issued its sixth briefing on the topic of Bancatakaful: Building Synergies, Creating Opportunities in October 2017.

This Briefing is developed to build the awareness among the stakeholders of Islamic banking and Takaful industries about important aspects of the potential of bancatakaful.

The Briefing reviewed developments in bancatakaful and explored important prospects, challenges and business opportunities for the industry.

CIBAFI Briefing Issue 7: Rebranding as an expansion strategy for Islamic financial institutions



CIBAFI issued its seventh briefing on the topic of Rebranding as an expansion strategy for Islamic financial institutions in December 2017.

The Briefing considers the role of brand as one of the key factors in establishing the image of the Islamic finance industry and how it can help a bank build its reputation. It also considers how effective branding is in retaining and developing a bank's customer base and to creating shareholder value. This Briefing was development in cooperation with branding agency “Industry”.

Strategic Objective 3: Awareness and Information Sharing

CIBAFI Seminar on Credit Ratings: Focus on Islamic Banks and Sukuk Ratings Methodology in Manama, Kingdom of Bahrain



The General Council for Islamic Banks and Financial Institutions (CIBAFI), in cooperation with S&P Global Ratings and under the patronage of the Central Bank of Bahrain (CBB) has conducted a Seminar on Credit Ratings: Focus on Islamic Banks and Sukuk Ratings Methodology on 17 – 18 September 2017 in Manama, Kingdom of Bahrain. The Seminar was supported by Ithmaar Bank and the Bahrain Association of Banks.

The Seminar has engaged participants in the discussion on different Credit Ratings Criteria that focused on Sovereign, Islamic Banks and Sukuk Ratings Methodologies.

Delegates from Bahrain, Bangladesh, Sudan, Saudi Arabia, Kuwait, and the United Arab Emirates, both CIBAFI member institutions and regional regulators engaged in insightful discussions with senior directors from S&P Global Ratings.

4th Mediterranean Islamic Finance Forum, in Barcelona, Spain



The General Council for Islamic Banks and Financial Institutions together with the Association of the Mediterranean Chambers of Commerce and Industry (ASCAME) and the Chamber of Commerce of Barcelona have co-organised the 4th Mediterranean Islamic Finance Forum, themed “Focus on Strategies for Mediterranean & Africa” on the 23rd November 2017, at Casa Llotja de Mar in Barcelona, Spain.

The Forum has explored the future of Islamic Banking through innovation and strategic regional & international positioning and shed more light on the strategies to empowering women role in Islamic finance development.

The discussions also provided a strategic perspective to unlock a broader potential of Islamic finance and tap opportunities in Mediterranean and African regions. The forum brought together an impressive range of experts and industry practitioners to share their insights, thoughts, and innovative strategies.



CIBAFI Global Forum 2018

CIBAFI is organizing its 3rd annual Global Forum themed *"The New Face of Financial Services: Disruptions, Opportunities and the New Normals"* in Istanbul, Turkey on 2 - 3 May 2018.

The objective of the CIBAFI Global Forum 2018 is to bring stakeholders of change onto a platform to discuss ground breaking disruptions, which are setting a new normal for the global Islamic financial services industry. All stakeholders, including regulators, bankers and customers alike are poised to reap benefits only if they are informed of the ground realities of these innovations, ultimately shaping their competitive advantages for the future of the industry.

Top industry stakeholders from within and outside of the Islamic finance industry, multilateral development institutions, international and national regulatory bodies, policy-makers, leading technocrats, among others will discuss disruptions, opportunities and key emerging issues affecting the Islamic financial sector today.

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2 - 3 May 2018 | Istanbul, Turkey

*The New Face of Financial Services:
Disruptions, Opportunities and the
New Normals*



Strategic Objective 4: Professional Development

CIBAFI – Ivey Business School Executive Programme on Strategic Thinking, Innovation and Corporate Entrepreneurship and Change Leadership, Manama, Kingdom of Bahrain



CIBAFI together with Ivey Business School held the 3rd joint Executive Programme in Manama, Kingdom of Bahrain. This year's Executive Programme was themed: Strategic Thinking, Innovation and Corporate Entrepreneurship and Change Leadership. It took place on 7 – 8 November.

The 2017 Executive Programme continued the successful collaboration between CIBAFI and Ivey Business School to deliver a world class and highly interactive learning experience for Islamic Financial Institutions (IFIs) Executives in the domain of strategic thinking, corporate entrepreneurship, and leadership development in face of organizational change.

Technical Workshop on Products Development and Financial Engineering for Islamic Financial Institutions (IFIs) in Barcelona, Spain



The General Council for Islamic Banks and Financial Institutions (CIBAFI), the Association of the Mediterranean Chambers Commerce and Industry of (ASCAME) and the Chamber of Commerce of Barcelona organized a Technical Workshop (TW) on Products Development and Financial Engineering for Islamic Financial Institutions (IFIs) on 22 - 23 November 2017 at Casa Llotja de Mar in Barcelona, Spain.

The Technical Workshop has been organized in conjunction with the 4th Mediterranean Islamic Finance Forum and it aimed to discuss how Islamic principles formulate the basis of contemporary Islamic financial products and examine the complex issues relating to products development processes. The TW was conducted in the French language.

CIBAFI In-House Training Programmes

CIBAFI continued conducting in-house training sessions for the Arab Islamic Bank of Palestine, where all the staff are participating in the Certified Islamic Banker Programme. A first and second batch of 170 and 193 employees have been granted the Certified Islamic Banker (CIB) certificate. It is expected to finish executing CIBAFI training sessions for the Arab Islamic Bank of Palestine by mid-2018. CIB certification is rated among the most popular foundation programmes of CIBAFI.

CIBAFI Network of Global Professional Development Agents Update: July - December 2017

CIBAFI offers its professional certifications through its Network of 30 Global Professional Development Agents in 16 countries. We are pleased to update our members that from July till December, CIBAFI agents have organized 39 training sessions and have thus facilitated professional certifications for 600 trainees.



MARK YOUR CALENDER

CIBAFI Technical Workshop on Stress Testing for Islamic Financial Institutions (IFIs)

8 - 10 January 2018 | Khartoum, Sudan

CIBAFI Technical Workshop

21 - 23 March 2018 | Dhaka, Bangladesh

CIBAFI Technical Workshop

April 2018 | Tunis, Tunisia

CIBAFI - Global Forum

2 - 3 May 2018 | Istanbul, Turkey

CIBAFI InFocus Session

11 May 2018 | Tatarstan, Kazan

CIBAFI Technical Workshop

May 2018 | Jordan

Stay tuned on CIBAFI activities:

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- Youtube.com/CIBAFI.ORG
- Instagram.com/CIBAFI_

About CIBAFI

CIBAFI is an international organization established in 2001 and Headquartered in the Kingdom of Bahrain. CIBAFI is affiliated with the Organization of Islamic Cooperation (OIC).

CIBAFI represents the Islamic financial services industry globally, defending and promoting its role, consolidating co-operation among its members, and with other institutions with similar interests and objectives.

With over 120 members from more than 32 jurisdictions, representing Islamic banks, market players, international intergovernmental organizations and professional firms, and industry associations, CIBAFI is recognised as a key piece in the international architecture of Islamic finance.

In its mission to support Islamic financial services industry by being the leading industry voice advocating regulatory, financial and economic policies that are in the broad interest of our members and that foster the development of the Islamic financial services industry and sound industry practices, CIBAFI is guided by its Strategic Objectives, which are 1.Policy, Regulatory Advocacy, 2.Research and Publications, 3.Awareness and information sharing and 4.Professional Development.

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