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Dr. Bello Lawal Danbatta
Secretary General
Islamic Financial Services Board
Level 5, Sasana Kijang
Bank Negara Malaysia
2, Jalan Dato' Onn
50480 Kuala Lumpur
Malaysia

Dear Dr. Danbatta,

السالم عليكم ورحمة هلا وبركاته،،،

CIBAFI Response to the IFSB's Exposure Draft no: 24 "Guiding Principles on Investor Protection in Islamic Capital Markets (ICM)"

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 develop a standard on investor protection in Islamic capital markets (ICM) which recognises the crucial role that investor protection plays in the development and integrity of capital markets.

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 130 Islamic banks and non-bank financial institutions, both large and small, from 34 jurisdictions.

We welcome this opportunity to offer our comments and recommendations on the IFSB's Exposure Draft 24 (ED - 24) "Guiding Principles on Investor Protection in Islamic Capital

Markets”. The comments contained in this letter represent the views of CIBAFI Secretariat and feedback received from our members.

First: Para 17 states the date of implementation of the standard taking into account an adequate pre-implementation period starting from the issuance date of this standard for the Guiding Principles to be embedded into national regulations and guidelines and, where applicable, implemented into supervisory practices. In this regard, it is recommended to provide a guiding timeline for the pre-implementation period to ensure effective implementation in different jurisdictions.

For wide accessibility and understanding of the standard, it is also recommended to issue the exposure draft as well as the final version of the standard in both Arabic and English languages as a minimum.

And as this standard should be referred to along with other IFSB standards such as IFSB-22, it is recommended to state these standards if and when applicable to certain principles, in order to provide a more comprehensive guideline.

Second: the ED suggests, under section 2.1, the development of a code of ethics governing the conduct of ICM professionals; however, it does not specify the authority which will be responsible for the approval of the code of ethics. Thus, it is recommended to specify the local authority which will be responsible for the approval of the code of ethics developed by the market intermediaries to ensure that it covers all aspects of their activities.

Third: in addition to the recommended best practices in the ED-24 under section 2.4.2, it is recommended for the regulators to publish the list of the accredited firms to the public for investors’ reference. In the same context, the firms need to highlight their accreditation in their websites and any relevant marketing and communication documents.

Fourth: in section 2.5.1, it is recommended that:

- a. Intermediaries should consistently focus on market research and perform due diligence processes in all their offered products and services e.g. to identify potential risks and returns (before and after client's investment) and convey them to clients on a timely and effective manner. Intermediaries should also have adequate resources, good operational systems and sound technical capabilities at all times to effectively perform the roles and responsibilities expected in this regard.
- b. Intermediaries should devise appropriate re-assessment mechanism of client's profiling that should include; (i) client's knowledge and understanding of the ICM and Shariah-compliant instruments and services, (ii) financial situation of the client, (iii) risk tolerance, (iv) Shariah compliance, environmental, social and governance and ethical investment preferences, and (v) customer experience and satisfaction.
- c. Regulators should monitor intermediaries' commitment to market research and due diligence processes to identify potential risks and returns as well as sharing necessary information with clients on a timely and effective manner. Regulators should also monitor re-assessment exercise by firms to update their client profiles (highlighted in point a & b).
- d. Regulators should set minimum qualification and experience criteria, in understanding Islamic finance and Shariah-compliant products and services, for employees (of firms) explaining or advising on the Shariah-compliant products and their structures and specificities. Qualification criteria may cover requirements to earn a relevant degree/certification in Shariah-compliance from a reputed Islamic finance academic institute.

Fifth: under section 2.5.2, the ED stresses on the appointment of natural persons that are 'fit for the job' and possess the necessary knowledge and competence to fulfil their obligations. However, the ED did not indicate on the qualification and experience requirement in this

regard. Therefore, regulators should ensure that intermediaries are placing natural persons that are fit for the job (i.e. right person for the right job) and possess the necessary skills, knowledge and experiences to perform their duties.

Sixth: under the section 2.5.4, in addition to Para 180 & 181, the regulators should devise a Content Screening Mechanism (screening of published content in annual reports, websites and other marketing and promotional material) on a timely basis to ensure that financial and other information about the intermediary, its operations, Shariah-compliance, products and services (specific features, benefits and any relevant risks or returns) are disclosed fairly and accurately.

Seventh: under the section 2.5.5 and in addition to para 186 & 188, the regulators should ensure that the intermediaries devise an appropriate reporting mechanism to report conflicts of interest (including actual or potential conflicts of interest between firms, their managers, employees and tied agents, members of the BOD and Shariah board members) and their efforts in managing those conflicts of interest (at the firm level) to the regulators on regular basis. It is also recommended that intermediaries should be held accountable, by the regulators, in case they fail to report an actual or potential conflict of interest between their activities and the interests of their clients.

Eighth: section 2.7 states the process and mechanism of handling and resolving clients' complaints in a fair and effective manner. In this regard the below best practices are recommended:

- a. Accessibility: low-cost access should be provided to the client, ensure supporting information is easy to understand and use, assistance in making a complaint should be made available, provide support for clients with special needs (e.g. interpreters).
- b. A monitoring tool can be developed to track the process of addressing the complaints (a digital platform for example).

Finally, section 2.8 indicates that it is the regulators' duty to educate and ensure that investors have the essential knowledge and computation skills to make rational decisions and accurate evaluations and prevent investors from being defrauded. In this context the below best practices are recommended:

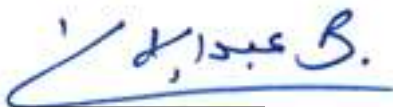
- a. The regulators should announce major and potential information regarding general issues that could inform and guide investors (Investor alert).
- b. The regulators may encourage firms (intermediaries) to educate clients on specific products/issues where possible and provide material that is clear and easy to understand in order to enhance the clients' knowledge (for example through their websites).

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

The General Council for Islamic Banks and Financial Institutions takes this opportunity to renew to the Islamic Financial Services Board (IFSB) the assurances of its highest respect and consideration.

With highest regards and best wishes.

Yours sincerely,



Dr. Abdelilah Belatik
Secretary General