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**Dr. Ghiath Shabsigh**  
Secretary General  
Islamic Financial Services Board  
Level 5, Sasana Kijang  
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2, Jalan Dato' Onn  
50480 Kuala Lumpur  
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Dear Dr. Shabsigh,  
السلام عليكم ورحمة الله وبركاته،،

**CIBAFI Response to the IFSB's Exposure Draft GN-11 on “Guidance Note on  
Climate-Related Financial Risks 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 does to promote and enhance the Islamic financial services industry.

CIBAFI is the official umbrella for all Islamic financial institutions, whose services and products comply with the Shariah rules and principles. CIBAFI acts as the voice of the Islamic finance industry, and our members comprise more than 140 Islamic banks and non-bank financial institutions, both large and small, from more than 30 jurisdictions.

We welcome this opportunity to offer our comments and recommendations on the IFSB exposure draft (ED) on the Guidance Note 11 (GN-11): “Guidance Note on Climate-Related Financial Risks for Institutions Offering Islamic Financial Services (Banking Segment)”. The comments contained in this letter represent the views of the CIBAFI Secretariat and feedback received from our members.

**First:** Para 22 of the ED outlines the assignment of responsibilities for climate-related financial risks to the Board of Directors and its committees. While this is a positive step, the ED would benefit from recommending that the Regulatory and Supervisory Authorities encourage the Institutions Offering Islamic Financial Services (IIFS) to demonstrate how such responsibilities are embedded within governance structures. This includes integrating climate considerations into the mandates of board committees and fostering structured dialogue between senior management and the Shariah board. Such enhancements would strengthen the clarity and accountability of climate governance in IIFS. The ED could go further by recommending that IIFS integrate climate-related objectives into institutional strategies using clearly defined key performance indicators and performance management frameworks.

**Second:** The ED could encourage IIFS to set internal, measurable climate-related objectives that reflect their risk appetite and exposure profile, and integrate these into the Internal Capital Adequacy Assessment Processes (ICAAPs) and the Internal Liquidity Adequacy Assessment Processes (ILAAPs). Where material, progress toward such objectives can be disclosed to stakeholders to ensure transparency and reinforce capital and liquidity adequacy assessments.

**Third:** The ED would benefit from offering more detailed guidance on how IIFS can integrate climate-related risks into their stress testing exercises, ICAAPs, and ILAAPs. Such guidance would support the standardization of practices across jurisdictions and contribute to a level playing field among Islamic banks with regard to capital and liquidity adequacy assessments.

**Fourth:** The ED appropriately outlines how IIFS should incorporate climate-related financial risks into their risk management frameworks, considering Islamic finance specificities. To further enhance alignment with BCBS Principle 6, the ED could provide additional guidance on how IIFS might adapt their existing risk assessment methodologies to evaluate climate-related risks specific to different Islamic contracts. This would support IIFS in establishing "reliable approaches to identifying, measuring, monitoring and managing those risks" as required by BCBS Principle 6, while recognising the unique risk characteristics of equity-based structures such as musharakah and mudarabah, which may have different climate risk transmission mechanisms than conventional debt instruments.

**Fifth:** While the ED addresses various risk types, it could be enhanced by specifically addressing reputational and liability risks related to climate claims in the Islamic finance context. Islamic financial institutions face unique reputational considerations due to their explicit ethical positioning and Shariah compliance requirements, which may create heightened stakeholder expectations regarding environmental stewardship. The ED could recommend that IIFS specifically address potential misalignment between climate-related product claims and actual financing practices (greenwashing risk), particularly given that such misalignment could constitute both a Shariah governance issue and a reputational risk. This would help IIFS implement BCBS Principle 11 in a manner that accounts for their distinct ethical and regulatory positioning.


**Finally,** Recommendation 8 of the ED acknowledges the special considerations for IIFS in managing liquidity risk, particularly regarding investment account holders and limitations in Shariah-compliant liquidity management tools. While paragraph 39 notes the potential disruption of commodity markets and its impact on commodity murabahah transactions, the ED would benefit from further elaboration on how IIFS should assess and address climate-related risks that may affect these markets. Given the comparatively greater reliance of IIFS on specific commodity markets for liquidity management, the inclusion of additional guidance on contingency planning for such disruptions would enhance the

practical applicability of the ED. This would also support more effective implementation of BCBS Principle 10 within the operational context of IIFS.

CIBAFI expresses appreciation to IFSB for its significant effort and commitment to developing standards that accommodate the interests of the global Islamic finance industry. The CIBAFI Secretariat remains available should any further clarification on the above points be required.

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.

Yours sincerely,

  
**Dr. Abdelilah Belatik**  
Secretary General