

**Risk Management Meeting on Islamic Banking**  
December 10, 2012, IDB Headquarter, Jeddah

IRTI hosted a joint consultative meeting on Risk Management in collaboration with GARP (Global Association of Risk Professionals), a leader in global financial risk testing and certification programs. Other IDB Group departments such as IFPDC (Islamic Financial Product Development Center) and GRMD (Group Risk Management Department) collaborated in the event held at the IDB Headquarters.

The event mainly sought to achieve four objectives: (i) to identify issues considered important to market players, regulators, stakeholders, Sharī‘ah scholars and researchers; (ii) to identify risk management and measurement tools applicable to Islamic financial institutions in accordance with Sharī‘ah principles; (iii) to serve as a basis for further policy and technical discussions with stakeholders of the Islamic financial industry, and (iv) to provide a market review as a basis to determine a priority for the development of risk management framework. The participants also discussed prioritizing the development of practice driven risk management standards which will allow for more rapid implementation of the general principles enunciated by the Islamic Financial Services Board (IFSB), the international standard setting body that promotes and enhances the soundness and stability of the Islamic financial services industry.

Given the background of GARP in risk management and the rich background of IDB in Islamic finance, the two institutions are expected to come up with a road map on how to address Islamic finance-related risk management issues. Since 2011, IRTI and GARP have been discussing a joint pilot project to map and measure risks in Islamic financial products to develop practice driven learning material for risk professionals.

“This joint effort will be fruitful for the industry as a whole”, explained Dr. Ahmed Jachi, Chairman, Islamic Finance at GARP adding; “Islamic banks performed in a better way than conventional banks in terms of the effects of the global economic crisis. However, at the end of the day, there

are risks whether you are Islamic or Conventional. If Islamic banks address these issues more properly, they may be in a better position than the Conventional banks.”

Dr. Azmi Omar, Director General, IRTI, on the occasion emphasized the need to come up with an integrated set of principles and best practices for managing risks in Islamic banking and to disseminate it at a global level.

To begin with, IRTI and GARP are to initiate a pilot project on risk mapping measurement and mitigation of *Murābahah* instrument. The scope could be extended to other instruments after the successful conclusion of the pilot project. The participants at the meeting further expressed willingness, with no binding commitment, to help in the project by sharing information, providing advice and insight for the successful completion of the pilot project.

The event was attended by 30 delegates from 13 entities including the World Bank and the International Monetary Fund (IMF); regulators from State Bank of Pakistan, Bank Indonesia, Central Bank of Kuwait and Bank Negara Malaysia, Bank Muamalat Indonesia, Bahrain Islamic Bank, Jordan Islamic Bank, Saudi Economic and development Company (SEDCO) Holding, the National Commercial Bank (NCB), representatives from IDB Group entities and Path Solutions (a leading software provider for the financial services industry with special focus on Islamic banking).

*(Summarized by Salman Syed Ali, Hylmun Izhar and Ahmad Jachi)*

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**Expert Group Meeting on the  
Financial Sector Assessment Program for Islamic Finance (iFSAP)**  
December 11, 2012, IDB Headquarter, Jeddah

IRTI-IDB has been working on developing a template for Islamic financial sector assessment program (*iFSAP*). The target is to develop supplementary templates that are consistent with Islamic finance requirements and that can help the World Bank – International Monetary Fund in the financial sector assessment program (FSAP) that they routinely carry out for their member countries. An initial study was undertaken in 2008-9 to identify the gaps and needs in the current FSAP if it is applied to Islamic financial sector. Based on that, a second study was started in 2010-11 in consultation with institutions such as IFSB, AAOIFI, World Bank, IMF and financial authorities (central banks, capital market authorities, insurance supervisors, and governments) to define the position of Islamic financial sector within the global finance and come up with some draft templates for assessment of this sector's stability and development needs. A working draft of this study has been completed and shared with others in the Expert Group Meeting on *iFASP* held on December 11, 2012 in IDB Headquarters.

The full day Meeting was attended by representatives of the IFSB, AAOIFI, IIFM, World Bank, IMF, Central Bank of Bahrain, and financial sector experts from within and outside the IDB. The focus of discussion was the above mentioned study to comment and share expert opinions for its further refinement.

The present study identifies potential differences and similarities of the regulatory frameworks of the conventional and Islamic systems. It offers a method for global integration of the Islamic financial industry into the international market and shows how the Islamic financial industry can contribute to economic development and financial stability. It also provides some analytical grounds for governments that wish to develop Islamic finance within its jurisdictions, whilst maintaining its financial soundness and operational efficiency.

The study explores two major areas: potential observance of international best practices set out in the regulatory standards and the prudential measures allowing the supervisors to always maintain financial soundness. In the area of regulatory standards, the study focuses on the compilation process of the

main documents on the international regulatory standards issued by the conventional bodies and the international standard setter for Islamic finance. This compilation process is aimed at identifying the existing gaps that should be filled by the Islamic regulatory setting bodies so that it could serve as reference points for financial supervisors. The regulatory framework covers the banking industry, capital market, insurance, social sector, accounting standards and other aspects relating to the infra-structural development.

The project's objectives are:

- 1- A compilation of the international regulatory standards as the reference point for regulatory observance. This include the compilation of the conventional and Islamic regulatory standards.
- 2- Identification of potential adoption of the existing framework and the needs for the development of the Islamic regulatory framework at both micro and macro levels.
- 3- Setting up templates to complement the current FSAP framework, particularly when it comes to the assessment of the Islamic financial industry.

*(Summarized by Dadang Muljawan and Salman Syed Ali)*

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**Lecture on**  
**The Reform of UK Financial Regulations**  
December 10, 2012, IDB Headquarter, Jeddah  
Delivered by Prof. Maximillian J.B. Hall  
(Professor of Banking and Financial Regulation in the Economics  
Department at Loughborough University)

*Background of the Lecture*

Taking advantage of the presence of Prof. Maximillian J.B. Hall in Jeddah for his participation in the Expert Group Meeting on Financial Sector Assessment Program, IRTI invited him to give a lecture on “The Reform of UK Financial Regulations”. The objective of the lecture was to provide updated information about the current trends in the development of regulatory environment of the international financial markets. Historically, UK has been a trend setter for other jurisdictions in financial development and regulation. The participants of the lecture were made aware of how the UK financial authorities reacted to the financial crisis and took precautionary actions in anticipation of the potential adverse financial situation.

*Summary of the Lecture*

Some important points that can be noted from the lecture are the following.

1. Introduction of the new Banking Act in February 2009 has created a new ‘special resolution regime’ in the UK. It has handed a new financial stability mandate to the Bank of England and strengthened the ‘Memorandum of Understanding’ under which the Tripartite Authorities operate. The financial reform debate has since intensified.
2. A major catalyst for this was publication of the ‘Turner Review’ which was followed by publication of the Labour Government’s and the Conservative Party’s White Papers on financial reform.
3. The Bank of England and the FSA also contributed, at various points in time, to the debate as they “battled for turf” under the new world order.
4. A new coalition government was elected in 2010 and the Conservative Party’s previously-espoused views were more or less adopted in their entirety in the new government’s White Paper on financial reform. Moreover, the new Chancellor of the Exchequer, in his Mansion House

speech of 15 June 2011, committed the government to accepting the main findings of the Independent Commission on Banking (a body it set up), three months in advance of publication of its final report.

5. A comparison of all the protagonists' views reveals a remarkable degree of unanimity on how regulatory and supervisory policies ought to be developed to prevent a recurrence of the type of financial crisis recently experienced around the globe.
6. Perhaps unsurprisingly, however, given their differing vested interests, there is little agreement on how the domestic financial architecture ought to be re-fashioned to facilitate delivery of the proposed package of reforms.
7. At the end of the day, however, it will be down to ordinary people – regulators, central bankers, supervisors, auditors, compliance officers, board members, etc. – to deliver what society expects from reform, whatever the design of policy and the form of the institutional architecture and financial infrastructure put in place to facilitate it.

*(Summarized by Dadang Muljawan)*

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