

CENTRAL BANK OF THE GAMBIA



GUIDELINE FOR THE REGULATION AND SUPERVISION OF ISLAMIC FINANCIAL INSTITUTIONS (IFIs) IN THE GAMBIA

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PART A: INTRODUCTION

1. Overview of The Guidelines

- 1.1 This Guideline is for the regulation and supervision of Islamic Financial Institutions IFIs (Islamic banks, Islamic Microfinance, Islamic Windows, and Takaful Operations) in The Gambia. The Guideline is a complement to the current regulatory and supervisory framework applicable to FIs offering Islamic finance products through full fledges IFI, subsidiary and window. The Guideline shall be read together with other Guidelines, circulars and directives issued by the Bank.

2. Purpose of this Guideline

- 2.1 The purpose of the guideline is to facilitate participation of financial institutions in Islamic Finance Business (IFB) by providing guidance on the establishment procedures and ensure its operations are fully Shari'ah compliant; and
- 2.2 The guideline seeks to ensure IFB will be conducted in accordance with Islamic finance principles and ensure practices are align with international standards without conflicting with laws of The Gambia.

3.0 Objects and Reasons

- 3.1 The Gambian Islamic financial sector continues to experience modest growth amidst operating in a fully dominated conventional environment. In recent times, the sector has witnessed a proliferation of Islamic financial institutions, requiring the formulation of robust policies to accommodate their growth as well as ensure their effective regulation and supervision.
- 3.2 The Islamic finance ecosystem encompasses the banking sector, takaful companies, and microfinance institutions, including credit unions. With the current trajectory of growth, there are possibilities for more institutions to venture into Islamic finance business either as a full-fledge institution, subsidiary, or a window.
- 3.3 Therefore, considering the unique features of Islamic finance as well as its potential growth, it is pertinent to develop separate guidelines that will adequately and appropriately cater for the operations and activities of Islamic

financial institutions. The business of Islamic finance is regulated by the rules of Shariah, which requires IFIs to always operate within its principles and precepts.

- 3.4 Shariah prohibits dealing in interest-based transactions, gambling, speculations, as well as dealing in matters that involve excess uncertainty. Moreover, any goods or services deemed illicit by Shariah cannot be the subject of trade by IFIs. On the other hand, it promotes partnership contracts based on the concept of risk-sharing, as well as trade and lease-based contracts involving underlying assets.
- 3.5 In this regard, developing comprehensive guidelines for the Islamic financial sector will ensure that institutions operate in accordance with their license requirements. This will assist in achieving the twin goals of growth and stability of the sector. Importantly, effective regulatory frameworks will enhance the reputation of the IFIs as well as solidify the confidence of customers in the products and services offered by these institutions. Moreover, with the availability of guidelines, potential investors can also be attracted to invest in the sector, thus accelerating the growth of the sector.
- 3.6 It is against this background that the Senior Management of the Bank embarked on the formulation of Islamic finance guidelines that will effectively cater for the operations and activities of IFIs, covering commercial banks, insurance companies, microfinance institutions, Islamic window operation as well as credit unions.
- 3.5 In this regard, the objectives of the guidelines are as follows:
 - i. To ensure that Islamic Financial Institutions (banks, Takaful, and Islamic Microfinance Institutions) operate within the tenets of Shariah;
 - ii. Address alternative liquidity management constrains for Islamic Financial Institutions;
 - iii. Facilitate and promote infrastructure financing through the introduction of new products;
 - iv. Enable conversion and introduction of fully fledged and windows of Islamic financial institutions; and
 - v. To bring about standardization through the adoption of the AAOIFI and IFSB standards

3. Guiding Principles

- 3.1 The provisions of the Guideline are the minimum standards that Institution should follow. However, IFIs are permitted to follow high regulatory and prudential

standards in line with international best practice and ensure they are not in conflict with laws of The Gambia.

4. Applicability

- 4.1 The Guideline is applicable to IFIs licensed as a full fledged, subsidiary and window under the relevant Acts (Banking Act 2009, Non-Bank Financial Institution Act 2016 and Insurance Act 2007; and
- 4.2 The Guideline is for both local and international financial institutions that wish to undertake and are currently undertaking IFB in The Gambia.

5. Legal Provisions

- 5.1 The Guidelines is issued pursuant to provisions of:
 - i. Section 161 (4) (d) of the 1997 Constitution which provides that the Bank shall direct and regulate the financial, insurance, banking, and currency systems in the interest of the economic development of The Gambia;
 - ii. Section 71(3) of the Banking Act 2009, which gives the Bank the mandate to issue such Guidelines, interpretation bulletins or other regulatory statements as the Bank may consider necessary or desirable for the administration of this Act and the regulations; and
 - iii. Section 33 and 34 of the NBFI Act 2016.
 - iv. Section 3 (2) A, C and G of the Insurance Act 2003 and Insurance Amendment Act 2006
- 5.2 The Guidelines shall be read together with the above Acts and other regulations, Guidelines, or Directives that the Bank have issued or may issue in the future.

PART B: ESTABLISHMENT PROCEDURES

6. Eligibility for Islamic Window

- 6.1 The eligibility of an institution to offer Islamic window shall be considered by the Bank keeping in view, among others, the financial strength of the institution as evident from its capital base (net capital free of actual and potential losses), adequacy of its capital structure, record of earning capabilities, future earnings prospects, managerial capabilities, liquidity position, track record of adherence

to prudential and other regulations, credit discipline, quality of customer services and availability of experienced and trained key staff. Similarly, there should not be major adverse inspection findings against the institutions.

7. Scope of Business

7.2 IFB shall include dealing in deposit-taking, provision of financial services, investment Banking services, Takaful operations, Islamic Microfinance, Islamic Fintech and investment in securities and properties.

8. Licensing

8.1 Institutions shall be licensed under the provisions of laws of The Gambia and as stipulated in the Guidelines for Licensing Financial Institutions 2009 issued by the Bank. The institution may be established either as a full fledge, subsidiary, or window. License or approval to participate in IFB in The Gambia shall be issued by the Bank, only upon satisfying the licensing requirements.

8.3 The promoters must provide evidence validating and verifying the sources of capital for the proposed IFB, depicting that the funds are not from any source that is Prohibited by Shari'ah or any other laws of The Gambia.

8.4 Promoters applying for license are required to submit an application package that includes:

- (i) A detail business plan in line with Guideline for Licenses of Financial Institutions 2009
- (ii) The proposed name of the IFI and location of business;
- (iii) The Fit and Proper Person details of Board of Directors, Chief Executive Officer (CEO) and Senior Management and staff;
- (iv) Evidence that demonstrates majority of its Directors have understanding of the IFB;
- (v) Evidence of establishing or identifying a Shari'ah Advisory Board/Shariah Advisor;
- (vi) The name, qualification and experience of Board of Directors and Shari'ah Board members/Shariah Advisor;
- (vii) The planned name of the IT system that will be Compatible with IFB along with name of the vendor; and

- (viii) A planned organogram of the IFI, Window, or Subsidiary showing clear reporting lines for *Shari'ah* Audit, *Shari'ah* Committee, and Internal Audit.
 - (ix) A drafted Memorandum and Articles of Association with a clear, unreserved statement that, its proposed financial activities or operations will be conducted in strict compliance with the principles of *Shari'ah* and practices of Islamic commercial laws. These instruments, under which the applicant is incorporated, shall be duly verified by a legal declaration by a Senior Officer of the applicant.
- 8.5 Promoters may be required to submit such valuable information as requested by the Bank while processing their application for license.
- 8.6 The Bank will evaluate the proposal keeping in mind the merits of the case and upon its satisfaction, will grant an Approval in Principle (AIP) upon such terms and conditions as it deems fit in line with the Guideline for Licensing of Financial Institutions in The Gambia.
- 8.7 Where the Bank decided to grant AIP, the promoters, or applicants for IFI, Window, or Subsidiary have a maximum period of six (6) months to submit all the required documents and information for final license consideration.
- 8.8 Once an AIP has elapsed, the promoters must restart the application process all over again and all previous correspondences become nullified including forfeiture of the licensing fees.
- 8.9 Upon successful application and issuance of a license, the Bank may impose any condition(s) it consider necessary or desirable which may limit the exercise of powers of the licensed institution as an IFI, in accordance with the provisions of the relevant Acts and the Guidelines for Licensing of Financial Institutions 2009.

9. Permissible Activities

- 9.1 All activities and operations of the IFI must be in accordance with the rules and principles of *Shari'ah*.
- 9.2 Involvement in transactions that directly or indirectly deals with any of the under listed items is not permissible for IFIs:
- i. Interest (*riba*) any type or in any form of predetermined monetary gain on funds given as loan by a lender to a borrower;
 - ii. Ambiguity and/or uncertainty (*Gharar*) in transactions relating to subject matter, price, delivery, terms, and conditions;
 - iii. Gambling (*Maisir*);

- iv. Speculation and Hoarding
- v. Exploitation and Unjust enrichment;
- vi. Exploitation/unfair trade practices;
- vii. Dealings in non-halal and prohibited things like pork, alcohol, arms & ammunition, pornography, and materials promoting nudity, vulgarity, etc.
- viii. Any other transactions, products, goods, or services which are not compliant with the codes of Shari'ah.

9.3 IFIs are not permitted to invest in the equities or place funds with any entity that deals with any of the above items as its primary business activity.

9.4 IFIs are permitted to carry on activities that are approved by their Shari'ah Committee members/Advisor and endorse by the Bank.

10. Capital Requirement and License Fee

10.1 The minimum paid-up capital to set-up as a full-fledged IFI or Subsidiary shall be as stipulated in the relevant Guidelines or as determine by the Bank. These requirements shall not be different from that of the conventional Financial Institutions.

10.2 For an Islamic Window, the Bank will reserve the exclusive right to set the capital level as it deems fits

PART C: POLICY AND REGULATORY REQUIREMENTS

11.0 Capital Adequacy

- (i) The Bank requires that all IFIs observe and comply with the minimum capital Adequacy Ratio as stipulated in the relevant Guidelines and as per global prudential standards;
- (ii) The Bank sets prudent an appropriate capital adequacy requirement for IFIs, the Bank defines the components of regulatory capital (which must comply with *Shari'ah* rules and principles) bearing in mind their ability to absorb losses;
- (iii) All IFIs are required to apply appropriate capital adequacy approach that reflects the extent of risk sharing between the IFIs, Window, or Subsidiary own capital (shareholders' funds) and that of Investment Account Holders (IAHs);

- (iv) Institutions shall, in the computation of the capital adequacy requirements, include the sum of any accrued losses in the profit-sharing investment accounts as part of its contingent claims;
- (v) IFIs, Subsidiaries, or Islamic window shall:
 - a. disclose requirements relating to profits to be shared with holders of profit-sharing investment accounts;
 - b. keep a record of any profits to be shared with the holders of profit-sharing investment accounts; and
 - c. appropriate to a reserve account, an amount to be used to cater for possible losses arising out of projects financed by profit sharing investment account holders.
- (vi) The amount appropriated to a reserve account shall comprise of profits accrued before sharing profits with the holders of profit-sharing investment accounts;
- (vii) The reserve account shall qualify as a general reserve in the computation of Capital Adequacy Ratio; and
- (viii) Institutions shall disclose in its Annual Financial Statements, the amounts held in and paid out of the reserve account during that year.

11.1 Risk Management

- (i) All IFIs are required to have an adequate risk management framework that takes into account policies, and procedures, for identification, measurement, implementation, controlling and reviewing the different risk facing the institution;
- (ii) The Bank requires IFIs to establish risk management framework/process that are in line with its business activities;
- (iii) The Board of Directors should approve all significant policies relating to the management of risk throughout the Institution; and
- (iv) On a regular basis, the IFIs are required to inform the Board of Directors of the risk exposures the institution is facing, and where appropriate, review the IFIs risk management policies and procedures.

11.2 Liquidity Management

- i. The IFI's Board and Senior Management are primarily responsible for its liquidity management and must ensure an effective structure is in place for managing liquidity that includes an agreed strategy and policies for the day-to-day management of liquidity;
- ii. The IFI is required to maintain sufficient liquidity to always meet its obligations as it becomes due and ensure sufficient funds to finance increases in asset; and

- iii. The IFI shall have a Liquidity Contingency Plans in place that address the strategy for handling liquidity shortages and include procedures for meeting cash flow shortfalls in a crisis situation.

11.3 Single Exposure Limit

- i. The IFIs shall have a policy on concentration of credit to a single customer or group of related customers. In accordance with prudent financial standards, IFI shall observe an exposure limit of 25% of capital or such limits as Bank may prescribe from time to time.

11.4 Shari'ah Unit

- i. All IFIs are required to set-up a *Shari'ah* Unit at the institution's designated Head Office. The Shariah Unit shall serve as the Secretariat of the Shariah Advisory Board;
- ii. The Head of the *Shari'ah* Unit shall hold a minimum of Bachelor in Islamic Finance from a recognized institution of higher learning with some experience in banking;
- iii. The IFI shall prior to appointment of the Head of Shari'ah Unit submit a Fit and Proper request to the Bank in line with the relevant Guidelines for the designated candidate;
- iv. The *Shari'ah* Unit shall be responsible for development of policy and procedures, internal *Shari'ah* control systems, product appraisal, marketing, branch supervision, *Shari'ah* Audit, *Shari'ah* Review, *Shari'ah* Research etc;
- v. The Heads of *Shari'ah* Unit shall serve as liaison officer between the Board of Directors and the *Shari'ah* Committee and other departments in the IFI to ensure smooth operations; and
- vi. The *Shari'ah* Unit is required to adhere to other roles and responsibilities as determined by the Bank from time to time.

11.5 Audit of Shariah Compliance

- i. IFI or window shall have in place a *Shari'ah* audit function which in collaboration with the *Shari'ah* Committee will undertake *Shari'ah* compliance review to ensure that the IFI's operations, processes and procedures are in line with *Shari'ah* principle;
- ii. Appointments into the *Shari'ah* audit function shall be individuals with knowledge in Islamic Commercial Jurisprudence and shall be submitted to the Bank for approval;

- iii. IFIs, Subsidiaries, or Islamic window shall conduct a Shari'ah audit at least once every two years;
- iv. The Shari'ah audit may be performed by internal auditors with adequate knowledge and training in Islamic Finance and Shari'ah-related matters;
- v. The institution may engage the services of a Shariah Audit Experts or Consulting Firm to conduct the audit;
- vi. The Shari'ah audit shall be designed to enable the institution:
 - (a) To assess whether a sound and effective internal control system for Shari'ah compliance has been implemented;
 - (b) To develop a comprehensive internal Shari'ah audit program or plan and shall include objectives, scope, personnel assignment, sampling, control and duration as well as establish proper audit processes, policies and procedures of the financial institution's operations;
 - (c) To obtain and make reference to relevant sources including decisions of the Shari'ah Committee;
 - (d) To communicate results of any assessment or findings arising from the Shari'ah audit to the Shari'ah Committee; and
 - (e) To provide recommendations on corrective measures for addressing the identified shortcomings.
- vii. The Bank may require IFIs, Subsidiary, or window to appoint a qualified shariah Auditor to conduct an audit of the shariah compliance of the IFI's operations, products, and services;
- viii. The institution shall publish in their annual account a shari'ah compliance report covering, among other things, the mechanism established to provide shari'ah oversight of the activities of an Islamic window; and
- ix. The report of the Shariah Auditor shall be submitted to the Board for appropriate actions to be taken.

11.6 External Auditor

- (i) IFIs shall appointment external auditors with some degree of understanding of Islamic finance principles and contracts. The external auditor shall work with the internal audit function and Board audit committee to set the overall audit functions and its Term of Reference shall include conduct of review of *Shari'ah* compliance issues.

11.7 Islamic Finance Fund (IFF)

- i. Islamic windows are required to allocate and maintain an Islamic Finance Fund (IFF), as a separate fund from its conventional funds and the FI shall conduct due diligence to ensure that these funds are not co-mingled at any time and under any circumstances after allocated;
- ii. The IFF can be funded by way of an allocation by head office of the window or through injection of fresh additional capital;
- iii. The IFF shall be utilized for overhead expenses and matters relating to the operations of the window and income earned from the window operations shall be credited into the IFF;
- iv. The IFF must be clearly segregated and separated from the capital designated for conventional operations and cannot be reallocated to the conventional operations at any time without prior approval from the Bank.
- v. A separate operating software must be used to capture the operations of the windows.

12.0 Anti Money Laundry and Terrorism Financing

- 12.1 The Bank shall put in place a systematic and effective process in assessing the safety and soundness of IFIs through evaluation of the institution's risk profile, risk management processes and compliance with the Anti-Money Laundering Laws, policies and procedures issued by the Bank and other relevant local and international authority/agencies for combating money laundering and the financing of terrorism;
- 12.2 IFIs are required to constantly monitor and seen to be monitoring their shareholders, customers, counterparties, transactions, products and activities against the proceeds of crime, corruption, terrorist financing and other illicit activities using legal and moral filters.
- 12.3 The IFI is required to establish sufficient controls to prevent the institution from being used as a conduit for money laundering and financing of terrorism activities;
- 14.4 The IFI shall ensure that it's financial activities are conducted in conformity with the Anti-Money Laundering and Anti-Terrorism Financing Act 2012 and other relevant laws and regulations of The Gambia; and
- 12.5 The IFI is also expected to put in place efficient measures and mechanisms to combat money laundering and financing of terrorism, that should include among others customer identification, continuous monitoring of abnormal or suspicious

conduct of accounts and transactions, record keeping, and reporting of suspicious transactions;

PART D GOVERNANCE

13.0 Corporate Governance

- i. The IFI shall observe the Islamic approach to corporate governance which embraces responsibility, honesty, sincerity, integrity, competence, fairness, accountability and transparency;
- ii. Accordingly, IFIs are required to uphold ethical values and effective corporate governance policies that ensure a balance and equitable participation of the Board, *Shari'ah* Committee, Senior Management, and other stakeholders; and
- iii. The governance framework of the IFI shall ensure that all activities of the IFI are in compliance with *Shari'ah* principles and relevant Corporate Governance Guidelines the Bank.

13.1 The Board of Directors

- i. The Board should ensure that the IFI's activities are *Shari'ah* compliant and are responsible for lapses on the part of the *Shari'ah* Committee. Accordingly, Board shall adopt policies that aid in providing range of products and services that uphold the ethical values of Islamic Finance;
- ii. The Board of the IFI shall have adequate knowledge and expertise in Islamic Finance to enable them carryout their oversight function effectively. They have a fiduciary responsibility to act in the best interest of the IFI;
- iii. The Board shall approve and review policies, strategies, set out clear lines of responsibility for Management, appoint competent and qualified people to Senior Management positions and ensure that the operations of the IFI are conducted within the framework *Shariah* and laws of The Gambia; and
- iv. The IFI shall seek the written approval of the Bank prior to the appointment of the Board, Senior Management, and any changes thereafter.

13.2 Shari'ah Advisory Committee/Shariah Advisor

- i. The IFI shall appoint a *Shari'ah* Committee or Shariah Advisor to ensure that its operations, processes, and procedures are in compliance with *Shari'ah* rules and principles;
- ii. The *Shari'ah* Committee shall consist of a minimum of three (3) members. Among these Committee members at least two (2) shall be proficient in Islamic finance and/or Islamic Commercial Jurisprudence;

- iii. The Shariah Advisor shall be a consulting firm with proven knowledge and experience of Shariah advisory; and
- iv. The appointment of individuals into the *Shari'ah* Committee or Shariah Advisor shall require the prior written approval of the Bank in accordance with relevant Guidelines and appendix 2 of this Guideline.

13.3 Senior Management

- i. The Senior Management of the IFI shall have the requisite skills, knowledge, and expertise to manage the IFIs. The IFI shall demonstrate to the Bank that the composition of its Senior Management is adequate to carryout IFB. The Senior Management should demonstrate high sense of responsibility and uphold good governance standards;
- ii. The appointment of individuals into Senior Management shall require the prior written approval of the Bank in accordance with relevant Guidelines. In addition, the Senior Management shall have adequate training in Islamic Finance products and services; and
- iii. In the appointment and reappointment of Senior Management, the Bank may impose necessary conditions it deems fit in addition to the requirements in the relevant Guidelines.

PART (E): OPERATIONS

14.0 Sources of Fund

14.1 Deposit taking IFIs shall accept deposit from sources permitted by *Shari'ah*. The IFI shall mobilise deposit using appropriate Islamic financial contracts approved by the *Shari'ah* Committee base on:

- i. Equity;
- ii. Amanah (Safe Keeping);
- iii. Transaction deposits that are risk free and yield no return;
- iv. Investment deposits that carry the risks of capital loss for the promise of variable return; and
- v. Other deposit instruments/contracts approved by the Shariah Committee/Advisor and the Bank.

14.2 Licensed Takaful operators shall accept contributions from clients permitted by the Bank and sources permitted by *Shari'ah*. The Takaful Operator shall drum up contributions using appropriate Islamic financial contracts approved by the *Shari'ah* Committee.

15.0 Financing and Investing Activities

- 15.1 The IFI shall utilize the deposit funds by giving out financing facilities or invest in Shariah compliant products. The financing facilities shall be done based on the Islamic concepts accepted by the *Shari'ah* Committee. The IFI shall in addition, comply with the Bank's regulations on depositor's fund; and
- 15.2 Takaful Operators (TO) shall utilize the contributions to invest in Shari'ah compliant instruments based on the Islamic concepts accepted by the Shari'ah Committee. The TO shall in addition, comply with other regulations.
- 15.3 It is the IFIs' fiduciary duty to manage the investments in a sound and prudent manner, in line with Shari'ah requirements and customers' expectations;
- 15.4 IFI shall manage liabilities in a model that commensurate with the funds' tolerance of risks. The investment strategy must be reasonably formulated to avoid adverse impact on customers' funds;
- 15.5 IFI shall have in place effective and reliable infrastructure to support investment management and where relevant, shall be able to tag specific investment to the relevant funds.
- 15.6 IFI must ensure that efficient processes are established to manage customers funds including putting in place effective risk controls and monitoring systems with a view to safeguard the funds and protect the interests of the stakeholders;
- 15.7 In determining the appropriate amount and structure of remuneration to be taken from investment, IFI shall ensure that the following requirements are observed:
 - i. There must be specific and clear intended outcome from the work undertaken to justify the remuneration;
 - ii. The remunerations to be taken shall be appropriate and reasonable, and determined with due regard to provide fair treatment to stakeholders;
 - iii. Implications on funds, in particular on the funds' long-term viability shall be considered; and
 - iv. The level of remunerations to be taken must commensurate the complexity of the services rendered and the associated risks.

16. Accounting Standard and Financial Reporting

- 16.1 IFIs shall maintain full set of financial records and prepare their Financial Statement in accordance with relevant laws and Guidelines for Financial Reporting 2014 issued by the Bank and International Financial Reporting Standard (IFRS) issued by the International Accounting Standard Board (IASB);
- 16.2 IFIs may choose to prepare their financials according to the set of standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI);
- 16.3 For Islamic finance contracts or transactions not covered by the Bank's Financial Reporting Guideline 2014 and IFRS, IFIs may refer to the Bank and seek approval to use most appropriate standards issued by AAOIFI;
- 16.4 Where the IFIs is a Subsidiary or Window, it must keep separate accounting records in respect of its operations and ensure that there is no comingling of funds;
- 16.5 The IFIs shall submit statutory returns as prescribe by the Bank. In addition, IFIs are required to submit on Monthly basis detail report on:
- Financing and Investment activities by *Shari'ah* contracts
 - Deposit by account type and *Shari'ah* contracts
 - *Shari'ah* non-compliance income, commission and fees
 - Zakat Computations and Amount.
- 16.6 The IFIs shall include in the notes to accounts a set of disclosures aimed at giving a detail description of *Shari'ah* non-compliance activities, method used for monitoring *Shari'ah* compliance regarding its systems and procedures and methods used in calculating rate of return and profit distributions.

17.0 Products and Services

- 17.1 The IFI in consultation with the *Shari'ah* Committee shall develop its own product base on Islamic principles and contracts. The *Shari'ah* Committee/Advisor shall review and approved all products and services before they can be offered to customers;
- 17.2 The IFIs shall obtain from the Bank a prior written approval for any new product or services before they can be offered to customers. The application shall be accompanied with a detail description of product/service features, Islamic contract used, and certification by the Board and an approval of the *Shari'ah* Committee/Advisor;

- 17.3 The Bank may require IFIs to do a presentation of the new product or service before approval can be given; and
- 17.4 Products and services that are controversial shall be avoided in as much as possible. However, such products or services will be allowed where they are approved by the *Shari'ah* Committee/Advisor.

18. Information Technology

- 18.1 IFIs shall procure or develop an IT system that is *Shari'ah* compliant. The system shall cover the entire spectrum of Islamic Finance: Islamic Investments, Islamic Deposits, Islamic Trade Finance, Islamic Treasury, Computation of Zakat, Takaful Operation, and Islamic Money and Capital Markets.

19.0 Management of Operating Costs

- 19.1 The Board shall instill financial discipline and ensure efficient operational cost management to enhance those actual expenses incurred do not lead to cost overruns. IFI are required to reciprocate by establishing policies and procedures to manage operating costs to boost fairer contributions and higher returns to the shareholders;
- 19.2 The IFI shall also comply with requirements on rebates to customers. In general, rebates should be given to customers where there is savings in acquisition costs i.e. acquisition costs have been priced in the product but there is no or minimal acquisition costs that were actually incurred;
- 19.3 IFI shall not pay expenses such as commissions and management costs, out of the customer funds, except if these are direct claims related expenses or direct investment related expenses;
- 19.4 In case of Takaful Operations, direct claims and investment related expenses must be approved by the *Shari'ah* Committee/Advisor and qualify only if these are not already factored into the determination of the upfront fees or other sources of remuneration; and
- 19.5 The amount shall be limited to the actual amount of expenses incurred. Where the expenses charged to the funds are deemed inappropriate, the Bank may disallow or require the expenses to be repaid and apply retrospective adjustments to the funds.

20.0 Disclosure and Transparency

- 20.1 IFI shall be transparent in undertaking activities as part of good governance and to promote better understanding of its operation;
- 20.2 IFI are expected to publish details of its operational model together with its underlying *Shari'ah* principles, to enable participants, stakeholders and public to better understand the underlying operations;
- 20.3 Information provided should be accurate, adequate, and up to-date to enable stakeholders to make an assessment on the IFIs' financial standing;
- 20.4 Information disclosed must be made apparent to the customers in documents used at the pre contractual stage, upon signing the contract and throughout the duration of the contract;
- 20.5 The level of information disclosed, in respect to the operational model, the underlying *Shari'ah* principles, and the relevant terms and conditions of the contract shall be appropriate to enable customers to clearly understand their rights, obligations and the risks associated with the product;
- 20.6 For products with savings or investment elements, where customers bear the investment risks, information disclosed should be sufficient to enable understanding of market movements and its implications on the funds;
- 20.7 IFI must ensure consistency in information being disclosed in the different documents. The information given to customers shall be consistent with the information provided to the Bank via the product submission process. To further promote transparency, IFI shall publish on their website, details of products, fees and charges;
- 20.8 Where the IFI make modifications or changes to its operational model or to the terms and conditions of the products, customers should be sufficiently informed of the changes and the impact of the changes;
- 20.9 If the impact of the changes is material and financially significant, such disclosure should be sufficiently detailed to be reasonably understood by the customers. In any event, any modification or changes to the terms and conditions of products or services shall be within the scope of the contract; and
- 20.10 The IFIs by way of Product Disclosure Sheet provide customers with essential information to help them decide whether to invest in a product. The PDS must be published on the IFIs website.

21.0 Effective Date

21.0 This Guideline shall come into effect **January 31, 2023**.

PART F: APPENDICES

1.0 'Fit & Proper' Criteria of the *Shari'ah* Board/Advisor

1.1 Appointment of the *Shari'ah* Committee

1. The board shall, upon recommendation of its nomination formalities, nominate the appointment of a members of the *Shari'ah* Committee/Shariah Advisor;
2. The appointment and reappointment of a *Shari'ah* Committee/Shariah Advisor shall obtain prior written approval of the Bank; and
3. In approving the appointment and reappointment, the Bank may impose necessary conditions it deems fit in addition to the requirements in the Framework. Failure to comply with any conditions shall nullify the approval.

1.2 Application Procedures of the *Shari'ah* Committee

1. In processing the application of a *Shari'ah* Committee member or Shariah Advisor, a vetting shall be conducted to ensure that the proposed *Shari'ah* Committee member or Shariah Advisor is a 'fit and proper' person. Similar vetting shall also be conducted for their reappointments;
2. In line with Guideline 12, the Bank may grant approval for renewal of term of the *Shari'ah* Committee member or Shariah Advisor;
3. Insitutions must refrain from making any public announcements about any proposed changes of its *Shari'ah* Committee or Shariah Advisor prior to obtaining the Bank's written consent for the proposed changes; and
4. The application for the appointment or reappointment of members of the *Shari'ah* Committee or Shariah Advisor shall be submitted to the Bank in a formal written letter within a reasonable time period.

Islamic law) or *Fiqh Muamalat* (Islamic transaction/commercial law) from a recognized university;

2. It is reasonable to expect that the majority members of the *Shari'ah* Committee should be able to demonstrate strong proficiency and knowledge in Islamic Commercial Jurisprudence and have good understanding of Islamic Finance and the English language;
4. The *Shari'ah* Committee may comprise of conventional experts from relevant backgrounds such as finance and law, which could support the depth and breadth of the *Shari'ah* deliberations. However, these members must not form the majority of the *Shari'ah* Committee; and
5. The *Shari'ah* Committee preferably shall comprise members of diverse backgrounds in terms of qualification, experience, and knowledge.

1.4 Disqualification

1. The members of the *Shari'ah* Committee or Shariah Advisor shall be persons of acceptable reputation, character, and integrity. The Bank reserves the right to disqualify any member or Advisor who fails to meet the requirements. In particular, any member may be disqualified due to any of the following breaches:
 - a. acted in a manner which may cast doubt on his fitness to hold the position as a *Shari'ah* Board member or Advisor;
 - b. failed to attend 75% of the *Shari'ah* Committee meetings in a year without reasonable excuse;
 - c. found guilty for any serious criminal financial offence punishable with imprisonment of one (1) year or more; or
2. In the event that a *Shari'ah* Committee member or Advisor becomes subject to any ground of disqualification or otherwise becomes unfit to hold such appointment as provided in the Framework, and/or in the letter of approval from the Bank, the institution shall terminate the appointment of the *Shari'ah* Committee member or Advisor.

1.5 Resignation or Dismissal of the *Shari'ah* Committee Member

1. An institution shall notify the Bank of any resignation or dismissal of a member of the *Shari'ah* Committee or Shariah Advisor within fourteen (14) days of the date of resignation or dismissal, stating the reasons of such resignation or dismissal; and

2. The resignation or dismissal will only take effect upon approval by the Bank.