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The IMF and its two Middle East regional capacity development centers conclude a workshop on “Strengthening Regulations and Supervision of Institutions Offering Islamic Financial Services (IIFS)”

The IMF’s Middle East Center for Economics and Finance (CEF), Monetary and Capital Market Department, and Middle East Regional Technical Assistance Center (METAC), concluded a joint workshop on “Strengthening Regulations and Supervision of Institutions Offering Islamic Financial Services (IIFS), in Kuwait City during December 17-20, 2018. The workshop attracted 33 senior bank supervisors from 11 Arab League countries (Iraq, Jordan, Kuwait, Libya, Mauritania, Morocco, Saudi Arabia, Syria, Tunisia, United Arab Emirates, and West Bank and Gaza) and two from Afghanistan.

Islamic finance instruments have grown substantially in value over the past two decades, from less than USD 500 million in 2001 to close to USD 319 billion in 2016.¹ METAC countries, and others, have stepped up their efforts to build an effective regulatory framework that balances the growth needs of the sector while ensuring its soundness, and enhancing financial stability. The key purpose of the workshop was to assist countries to achieve this objective by presenting and discussing several relevant thematic topics related to establishing and improving an effective regulatory and supervisory regime for IIFS. These topics included: (i) core principles for Islamic finance regulations; (ii) risk-based supervision framework; (iii) activities and inherent risks in IIFS; (iv) capital adequacy standards and determination of alpha in the calculation of capital adequacy ratios; (v) liquidity management; (vii) market risk management; and (viii) rate of return risk.

Participants in the workshop acquired practical methods for identifying and measuring risks, sharing their countries’ experiences, and working on case studies to enhance their practical knowledge of capital adequacy ratios, and determine alpha for calculating the displaced commercial risk born by the IIFS shareholders.

¹ Rafisah Mat Radzi, 2018, “Evolution in the Sukuk (Islamic Bonds) Structure: How do Market Demand and Shariah (Islamic Law) Solutions Shape Them?”, Journal of Islamic Banking and Finance, Vol. 6, No. 1.