



ISLAMIC FINANCIAL SERVICES BOARD

**Questionnaire for Institutions Offering Islamic Financial Services
(excluding Islamic Insurance (Takaful) institutions)
On
Transparency and Market Discipline**

March 2007

Name of institution:

Country of operation:

Contact person:

Email address:.....

Kindly return the duly completed Questionnaire to the IFSB secretariat latest by **30 April 2007** either by email (survey@ifsb.org) or fax (+ 603 2698 4280).
Should you have any enquiries or require the soft copy of the Questionnaire form, please do not hesitate to contact Ms. Mashair Mohammed Ibrahim (email: mashair@ifsb.org, or tel +603-26984248 ext 135).

**A SURVEY ON
TRANSPARENCY AND MARKET DISCIPLINE FOR INSTITUTIONS (OTHER
THAN INSURANCE INSTITUTIONS) OFFERING ISLAMIC FINANCIAL
SERVICES (IIFS): DISCLOSURE ISSUES**

This survey aims to study the existing draft ED 4 on Transparency and Market Discipline for Institutions (Other than Insurance Institutions) offering Islamic Financial Services (IIFS): Disclosure Issues on IIFS. The main issue addressed by this study is whether IIFSs disclose the items as per draft ED 4 as well as any additional items not addressed by the draft. The study also aims to identify the gaps that exist between the existing draft ED 4 and the present disclosures by Islamic banks. The findings of the study could be taken into account to improve the existing draft ED 4.

Instructions:

The survey is divided into six sections; General Disclosure Principles, Corporate Information Disclosure, Capital Structure and Capital Adequacy Disclosures, Investment Account Holders Disclosures, Risk Management, Risk Exposures and Risk Mitigation Disclosures and General Governance and Shari’ah Governance Disclosures. The disclosures will not be only limited to annual reports of the Islamic banks, but could also be extended to other reports, for example interim reports, brochures, internet, etc. In most cases, please tick wherever appropriate with your practice (**Yes = 1, Plan to implement = 2, No = 3**). In certain cases, please specify your answer.

Yes	Plan to Implement	No
1	2	3

A. General Disclosure Principles

No.	Description	1	2	3
1.	A formal disclosure policy which is approved by the bank’s board of directors.			
2.	Has your bank established a Governance Committee?			
3.	Has your bank established a Shari’ah Audit Committee?			
4.	Which accounting standards adopted by your bank?			
	a. International Accounting Standards			
	b. AAOIFI Standards			
	c. Others (e.g. national standard) please specify			
5.	Disclosure for any departure from complying with your chosen standards.			
6.	Are there any voluntary disclosures ¹ in the annual reports?			
7.	Please indicate whether the following information is provided in the annual reports?			
	i. A financial review by management ²			
	ii. Factors determining performance ³			
	iii. Sources of funding			
	iv. Policy on gearing			

¹ Voluntary disclosures = additional disclosures made which are not required by mandatory accounting standards.

² Describing and explaining the main features of the Islamic financial institutions’ financial performance and financial position.

³ Including changes in the environment, its response to those changes, and investment policies aimed at maintaining and enhancing performance, including its dividend policy;

	v. Risk management policies			
	vi. Strengths and resources whose value is not reflected in the balance sheet			
	vii. An environmental report			
	viii. Value added statements			
	ix. Statement of Zakat Fund			
	x. Statement of Qard Fund.			
	xi. Activities which are not Shari'ah compliance			
	xii. Shari'ah Compliance and Review Report			
	xiii. Statement of Charity Fund			
	xiv. Fatwa(s)			
	xv. Others (please specify)			
8.	Do you agree that Islamic banks should provide other disclosures in addition to the minimum requirements as required by relevant accounting standards?			
9.	Do you agree that IIFS should be more transparent ⁴ than conventional banks?			

Yes	Plan to Implement	No
1	2	3

B. Corporate Information Disclosure

No	Description	1	2	3
1.	Qualitative information:			
	a. Name of the ultimate holding corporate entity (or parent entity) in the group.			
	b. Outline of differences in the bases of consolidation for financial reporting and for regulatory purposes (if any), with a brief description of the entities within the group.			
	c. Any restrictions, or other impediments, on the transfer of funds or regulatory capital within the group.			

⁴ Transparent information = public disclosure of reliable and timely information that enables users of that information to make an accurate assessment of a bank's financial condition and performance, business activities, risk profile and risk management practices.

2.	Quantitative information:			
	a. Aggregate amount of surplus capital of any unconsolidated insurance subsidiaries.			
	b. Aggregate amount of capital deficiencies (in relation to the regulatory capital) in all subsidiaries not included in consolidation, and the name(s) of such subsidiaries.			
	c. Aggregate current book value of the firm's total interests in the insurance entities, whether consolidated or not.			

Yes	Plan to Implement	No
1	2	3

C. Capital Structure and Capital Adequacy Disclosures

No.	Description	1	2	3
1.	Qualitative information on the types, forms, terms and conditions of the main features of all capital and equity related capital instruments and unrestricted investment accounts.			
2.	Quantitative information on the amount of Tier I capital.			
	a. Issued and paid-up share capital			
	b. Reserves			
	c. Minority interests in the equity of subsidiaries			
	d. Any capital and equity related capital instruments that are eligible for inclusion in Tier 1 capital			
	e. Surplus capital from insurance companies			
	f. Other reserves			
3.	Total amount of Tier 2 and Tier 3 capital.			
4.	Total eligible capital.			
5.	Amount of unrestricted IAH funds.			
6.	Profit Equalisation Reserve (PER) - shareholders' and IAH components and Investment Risk Reserve (IRR).			
7.	A summary discussion of IIFS's approach to assessing the adequacy of its capital to support current and future activities.			
8.	Description of policy on identifying risk weighted assets funded by unrestricted investment accounts (if any).			

9.	Capital adequacy ratio.			
	If yes, is it Standard formula?			
	is it Supervisory Discretion formula?			
10.	Ratio of total and Tier 1 capital to total risk weighted assets (RWA).			
11.	Ratio of credit risk-weighted assets (CRWA) to total RWA.			
12.	Ratio of market risk-weighted assets (MRWA) to total RWA.			
13.	Ratio of total capital to total assets.			
14.	Ratio of operational risks			
15.	Capital requirements according to different risk categories (credit risk and market risk) for each contractual category of asset and in total.			
16.	Capital requirements for different business lines within the IIFS.			
17.	Displaced commercial risk (DCR).			

Yes	Plan to Implement	No
1	2	3

D. IAH (Unrestricted and Restricted IAH) Disclosures

D1 General Disclosures on IAH

No.	Description	1	2	3
1.	Written procedures and policies applicable to the investment accounts, including a synopsis of the following:			
	a. Range of investment products available from the IIFS			
	b. Characteristics of investors for whom various investment accounts may be appropriate			
	c. Purchase, redemption and distribution procedures			
	d. Experience of portfolio managers, investment advisors and trustees			
	e. Governance arrangements for the IAH funds			
	f. Strategy for trading and origination of assets			
2.	IAH funds are invested and managed in accordance to Shari'ah requirements.			
3.	Product information and the manner in which the products are made available to customers.			

4.	Bases of allocation of assets, expenses and profit in relation to IAH funds.			
5.	The policies governing the management of both unrestricted and restricted IAH funds.			
6.	Profit Equalisation Reserve (PER) to PSIA ratio.			
7.	Investment Risk Reserves (IRR) to PSIA ratio.			
8.	Return on assets (ROA).			
9.	Return on Equity (ROE).			
10.	Ratio of profit distributed to PSIA by type of IAH.			
11.	Ratio of financing to PSIA by type of IAH.			
12.	Duties and obligations of investment account managers in managing the IAH funds.			
13.	Major changes (if any) in the investment strategies that affect the investment accounts (including commingling of funds).			
14.	Methodology for calculation and distribution of profits.			
15.	Rules governing the transfer of funds to or from PER and IRR.			

D2 Disclosures on Unrestricted Investment Account Holders (IAH)

No.	Description	1	2	3
1.	Bases applied for charging expenses to unrestricted IAH.			
2.	Description of total administrative expenses charged to unrestricted IAH.			
3.	Amount of unrestricted IAH.			
4.	Share of profits earned by unrestricted IAH, before transfers to or from reserves (amount and as a percentage of funds invested).			
5.	Movements of PER during the year.			
6.	Movements of IRR during the year.			
7.	Profits earned and paid out over the past 3 to 5 years (amounts and as a percentage of funds invested).			
8.	Average quoted rate of return or profit rate on unrestricted PSIA by maturity (3-month, 6-month, 12-month, 36-month).			
9.	Types of assets in which the funds are invested and the actual allocation among various types of assets.			
10.	Changes in asset allocation in the last 6 months.			

11.	Off-balance sheet exposures arising from investment decisions, such as commitment and contingencies.			
12.	Limits imposed on the amount that can be invested in any one asset.			
13.	General investment objectives and policies that are offered to the unrestricted IAH based on the general business strategy and risk-sharing policies of the IIFS (including commingling of funds).			

D3 Disclosures on Restricted Investment Account Holders

No.	Description	1	2	3
1.	Investment objectives and policies applicable to the restricted IAH based on their specific investment portfolio.			
2.	Share of profits earned by restricted IAH, before transfers to or from reserves.			
3.	Share of profits paid out to restricted IAH, after transfers to or from reserves.			
4.	Movements of PER during the year.			
5.	Movements of IRR during the year.			
6.	The computation of PER and/or IRR			
7.	The utilization of PER and/or IRR.			
8.	Current period returns.			
9.	Historical returns over the past 3 to 5 years.			
10.	Average quoted rate of return or profit rate on restricted PSIA by maturity (3-month, 6-month, 12-month, 36-month).			
11.	Types of assets in which the funds are invested in, and use of off-balance sheet transactions for investment management, where relevant.			
12.	Amount invested in each type of assets.			
13.	Changes in asset allocation in the last 6 months.			
14.	The limits imposed on the amount that can be invested in any one asset.			

Yes	Plan to Implement	No
1	2	3

E. Risk Management, Risk Exposures and Risk Mitigation Disclosures

E1. General Disclosures: Risk Exposures and Assessment

No.	Description	1	2	3
1.	Risk management structure.			
2.	Policies and practices for mitigating risks, including monitoring the continuing effectiveness of risk mitigants.			
3.	Range and measures of risks facing each restricted IAH fund based on its specific investment policies.			
4.	Treatment of assets financed by restricted IAH in the calculation of Risk-Weighted Assets for capital adequacy purposes.			
5.	Treatment of the part of assets financed by unrestricted IAH in the calculation of Risk-Weighted Assets for capital adequacy purposes.			
6.	Percentage of financing by types of Shari'ah compliant contracts to total financing.			
7.	Percentage of financing by categories of counterparty to total financing.			

E2. Credit Risk Disclosures

No.	Description	1	2	3
1.	Names of ECAI used for the purpose of assigning risk weights to assets.			
2.	Definitions of past due receivables and impaired financial assets, and policies and practices for making loss provisions on financial assets.			
3.	Islamic financing assets exposures in terms of geographical area, counterparty and industry.			
4.	Islamic financial institution or instrument exposures by rating categories.			
5.	The amount of past due and impaired financing assets, as well as specific and general loss provisions, classified by counterparty and industry, for each class of Islamic financing assets.			
6.	The amount and changes in loss provision during the financial year.			
7.	Any penalty imposed on customers for default, and the disposition of any monies received as penalties.			

E3. Credit Risk Mitigation Disclosures

No.	Description	1	2	3
1.	Use of collateral.			
2.	Use of loss provisions reserves			
3.	Description of the main types of collateral taken by the IIFS:-			
	a. Hamish jiddiyyah			
	b. Urbun			
	c. Cash or PSIA deposits			
	d. Pledged assets			
	e. Sukuks			
	f. Guarantees by third parties			
3.	Policies and processes for valuation of collateral and for ensuring enforceability.			
4.	Policies for assets leased under Ijarah Muntahia Bittamleek.			
5.	Main types of guarantor and their creditworthiness.			
6.	Carrying amount of financial assets pledged as collateral and the terms and conditions relating to the pledges.			
7.	Value of assets owned and leased under Ijarah Muntahia Bittamleek.			

E4. Liquidity Risk Disclosures

No.	Description	1	2	3
1.	A summary of the liquidity risk management framework in addressing risk exposure for each category of funding as well on aggregate basis:			
	a. Current accounts			
	b. Unrestricted investment accounts			
	c. Restricted investment accounts			
	d. Others (please specify)			
2.	Policy on diversity of funding sources to allow sufficient recourse to Shari'ah compliant funds to mitigate liquidity risk.			
3.	Information on classification of financing and various categories of funding (current account, unrestricted investment account and restricted investment account) by different maturity buckets.			
4	Instruments to mitigate the risks (please specify)			

E5. Market Risk Disclosures

No.	Description	1	2	3
1.	Appropriate framework for market risk management, including reporting, in respect of all assets held, including those that do not have a ready market and/or exposed to high price volatility.			
2.	Indicators of exposures to market risk such as:			
	a. Market risk weighted assets			
	b. Foreign exchange net open positions to capital			
	c. Commodity net open positions to capital			
	d. Equity net open positions to capital			
3.	Types of assets in which the funds are invested.			
4.	Measures of Value at Risk for different types of market risk such as:			
	a. Exchange rate risk			
	b. Commodity price risk			
	c. Potential losses due to movements in market rate of return, benchmark rates, or equity prices			

E6. Operational Risk Disclosures

No.	Description	1	2	3
1.	Policies to incorporate operational risk measures into the management framework e.g. budgeting, target-setting and performance review.			
2.	Policies on processes to help track of loss events and potential exposures and to report these losses, indicators and scenarios on a regular basis and to be reviewed jointly by risk and line manager.			
3.	Policies on loss mitigation process via contingency planning, business continuity plan, staff training and enhancement of internal control, as well as business processes and infrastructures.			

E7. Rate of Return Risk Disclosures

No.	Description	1	2	3
1.	Discussion factors affecting rates of return and benchmark rates, and the affects thereof on the pricing of the contracts.			
2.	Processes and systems to monitor and measure the factors that give rise to rate of return risk.			
3.	Indicators of exposures to rate of return risk.			

E8. Displaced Commercial Risk Disclosures

No.	Description	1	2	3
1.	The IIFS's policy on Displace Commercial Risk, including the framework form managing the expectations of its shareholders and unrestricted IAH, the sharing of risks among the various stakeholders, and the range and measures of risks facing unrestricted IAH based on the IIFS's general business strategies and investment policies.			
2.	Historical data over the past 5 years on:			
	a. Total Mudarabah profits available for sharing between unrestricted IAH and shareholders (as Mudarib) as percentage of Mudarabah assets			
	b. Mudarabah profits earned for unrestricted IAH (as percentage of assets) before any smoothing			
	c. Mudarabah profits paid out to unrestricted IAH (as percentage of assets) after any smoothing			
	d. Balances of PER and IRR, and movements on these in determining unrestricted IAH payout			
	e. Variations in Mudarib's agreed ratio from the contractually agreed percentage and amount			
	f. Market benchmark rates			
3.	5-year comparison of historical rate of return of unrestricted IAH in relation to market benchmark rate.			
4.	5-year comparison between the percentage rate of returns to IAH and the percentage returns to shareholders from Mudarabah profits.			
5.	Amount and percentage of profits appropriated to PER and IRR.			
6.	Analysis of the difference between aggregate Mudarabah earned profits, and profits distributed (paid out) to IAH as a function of movements in PER, IRR and Mudarib's share.			
7.	Analysis of the proportion of the risk weighted assets funded by IAH that should be considered in arriving at the total risk weighted assets (alpha).			

E9. Contract-specific Risks Disclosures

No.	Description	1	2	3
1.	Policy on relative shares of various Islamic finance contracts and capital allocation for various types of Islamic finance contracts.			
2.	Total risk weighted asset classified by type of Islamic financing contract.			

Yes	Plan to Implement	No
1	2	3

F. General Governance and Shari'ah Governance Disclosures

F1. General Governance Disclosures

No.	Description	1	2	3
1.	Any departure from complying with the applicable financial reporting standards.			
2.	IIFS's corporate governance arrangements and practices, including whether it complies in full with the IFSB Standard on Corporate Governance, and if it does not so, an explanation of non-compliance.			
3.	Any related party transactions and treatment of material events by the IIFS.			
4.	Any investor/consumer education programmes for information on new products and services.			
5.	Information on mediation and advice bureaux for investors and customers set up by the IIFS, including clear written procedures for lodging complaints.			
6.	Social functions and charitable contributions of the IIFS such as <i>sadaqqah, qard</i> etc.			

F2. Shari'ah Governance Disclosures

No.	Description	1	2	3
1.	Statement on the governance arrangements, systems and controls employed by IIFS.			
2.	How non-Shari'ah compliant earnings and expenditure occur and the manner in which they are disposed.			
3.	Nature, size and number of violations of Shari'ah compliance during the year.			
4.	Annual zakat contribution of the IIFS where relevant according to constitution, general assembly or national requirement.			
5.	Expenses of external Shari'ah auditors (if applicable).			
6.	Remunerations of external Shari'ah advisors and consultants (if applicable).			
7.	Fatwa(s) (if any) disclosed to the public.			
8.	Which party should conduct Shari'ah compliance testing in Islamic banks.	Yes		
	Is it Internal auditor?			
	Is it Shari'ah auditor?			
	Is it external auditor?			

8.	Do you agree that internal Shari'ah review should be made as a requirement to Islamic banks?			
9.	Do you agree that external Sharia'h review should be made as a requirement to Islamic banks?			

General information of respondents:

1. Name of organization :
2. Country where your organization is based in: _____
3. Your level in the organization structure (please choose):

1.	Chief Executive	
2.	Director	
3.	Assistant Director	
4.	Senior Manager	
5.	Manager	

Thank You for Your Cooperation