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International Monetary Fund  
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### **IMF Executive Board Adopts Decisions to Formally Recognize the Core Principles for Islamic Finance Regulation (CPIFR) for Banking**

The Executive Board of the International Monetary Fund (IMF) today endorsed a proposal on the use of the Core Principles for Islamic Finance Regulation (CPIFR), which were developed by the Islamic Financial Services Board (IFSB) with the participation of the Secretariat of the Basel Committee on Banking Supervision. The CPIFR are intended to provide a set of core principles for the regulation and supervision of the Islamic banking industry and are designed to take into consideration the specificities of Islamic banks, as explained in the IMF Staff Paper, “*The Core Principles for Islamic Finance Regulations and Assessment Methodology*.”

The CPIFR will complement the international architecture for financial stability, while providing incentives for improving the prudential framework for Islamic banking industry across jurisdictions.

The CPIFR and their associated methodology will be applied in financial sector assessments undertaken in fully Islamic banking systems and, as a supplement to the Basel Core Principles for Effective Banking Supervision (BCP), in dual banking systems where Islamic banking is systemically significant.

#### **Executive Board Assessment<sup>1</sup>**

Executive Directors welcomed the opportunity to consider the staff’s proposals to strengthen the Fund’s engagement on promoting financial stability in countries with Islamic banking. They noted that the Islamic finance sector continues to grow and evolve in size and complexity, with Islamic banking offered in more than 60 countries. Directors concurred that the growth of Islamic finance presents important opportunities to strengthen financial inclusion, deepen financial markets, and mobilize funding for development by offering new

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<sup>1</sup> An explanation of any qualifiers used in the summing up can be found here: <http://www.imf.org/external/np/sec/misc/qualifiers.htm>.

modes of finance and attracting “unbanked” populations that have not participated in the financial system.

Directors noted that Islamic banks (IB) undertake distinct operations with risk profiles and balance sheet structures that differ in important respects from conventional banks, with associated financial stability implications. In this regard, they called for stronger efforts to strengthen the regulatory and supervisory frameworks to take into consideration the specificities of IB to promote financial stability and sound development, particularly in countries where IB have become systemically important. The approach to regulating and supervising IB should reflect the nature of risks to which IB are exposed and the financial infrastructure needed for effective regulation and supervision, which requires additional or different regulation and supervisory practices to address risks inherent in the Islamic banking operations.

Directors broadly endorsed the use of the “Core Principles for Islamic Finance Regulation” (Banking Sector) (CPIFR) and their assessment methodology for the purposes of undertaking financial sector assessments and preparing Reports on the Observance of Standards and Codes (ROSCs) initiated after January 1, 2019 regarding the effectiveness of regulation and supervision of IB. The CPIFR, which was developed by the Islamic Financial Services Board (IFSB) with the participation of the Secretariat of the Basel Committee on Banking and Supervision (BCBS) for assessments of the banking regulatory and supervisory regimes for countries where Islamic banking is systemically significant, will complement the international architecture for financial stability, while simultaneously providing incentives for improving the prudential framework for the Islamic banking industry across jurisdictions.

Directors saw merit in maintaining close cooperation between the IFSB and the BCBS to ensure their respective standards remain consistent.

Directors noted that the CPIFR standard and assessment methodology will be used in fully Islamic banking systems and as a supplement to the Basel Core Principles for Effective Banking Supervision (BCP) in dual banking systems where IB has a significant market share (of 15 percent or more). Where a jurisdiction has both significant Islamic banking and significant conventional banking sectors, the Fund will assess both sectors at the same time using the CPIFR and BCP standards and assessment methodologies respectively, which would also reveal the relevant linkages between the IB and its conventional counterpart, and their implications for financial stability. Directors noted that the use of CPIFR would help strengthen evenhandedness and consistency in surveillance, program design and technical assistance. They considered that the outcome of these assessments would be useful for the Fund in formulating policy recommendations and addressing specific country circumstances.

Directors welcomed staff’s proposal for countries where the IB system is below the 15 percent threshold. They considered that adoption of the CPIFR could be supported

through technical assistance to help nascent IB financial systems develop in a safe and sustainable way. For these countries, Islamic finance plays a complex developmental role including in meeting the United Nations' sustainable development financing goals in terms of providing access to investment and equity finance and inclusion for large parts of their unbanked populations where conventional finance may have less acceptance. Directors encouraged the Fund to continue developing alternative criteria to determine the significance of the IB sector in a country, beyond the simple market share in the financial market. A number of Directors saw merit in future work on developing comprehensive standards for Islamic financial services.

Directors emphasized the importance of close cooperation between the Fund and relevant key institutions on IB issues. In order to avoid duplication of efforts, they saw merit in a clear division of labor between standard-setters and international organizations.