



AAOIFI World Bank 12th Annual Conference

Oman Islamic Banking Regulatory Framework

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Approach of Central Bank for Islamic Banking

Islamic Banking to be credible and healthy through:

- ✓ Sound Sharia governance requirements
- ✓ Compliance with accredited standards/international best practices
- ✓ Dedicated banking services
- ✓ Robust regulatory oversight



Legal Framework

❖ **Banking Law was amended in 2012**

- ✓ Authorization of Islamic Banking
- ✓ Authority for Board of Governors to set rules, regulations and guidelines
- ✓ Authorization to license dedicated Islamic banks and windows of conventional banks
- ✓ Indicative sharia compliant activities
- ✓ Exemption of fees levied on Islamic banking transactions
- ✓ Sharia guidance/supervision through Sharia Boards of banks and market harmony through High Level Sharia Supervisory Authority in Central Bank



Regulatory Framework

- ❖ **Islamic Banking Regulatory Framework (IBRF) issued in December 2012**
- ❖ **IBRF based on:**
 - ✓ Best practices and experience of forerunners in Islamic Banking
 - ✓ IFSB guidelines
 - ✓ AAOIFI Standards
 - ✓ Applicable instructions under Banking Law
 - ✓ Basel Committee guidelines
- ❖ **IBRF distinct components:**
 - ✓ Emphasizes on ethics, transparency and sound Sharia governance framework
 - ✓ Guidance of SSBs, including comforts like Sharia audit within IBE and independent external Sharia audit
 - ✓ Segregation and avoiding co-mingling of funds
 - ✓ Prohibition of Tawaarq/commodity murabaha



Regulatory Framework ... continued

- ❖ **IBRF contains 10 Titles covering:**
 - Licensing
 - General obligations and Sharia governance
 - Accounting and auditing standards
 - Powers of supervision and control
 - Capital adequacy
 - Credit risk
 - Market risk
 - Operational risk
 - Liquidity risk
 - Other residual requirements



Regulatory Requirements ... Capital

Type	Capital (Amounts in RO millions)
Full fledged Islamic bank	100
Islamic window of local bank	10
Islamic Window of existing foreign bank	10
New foreign bank branch	20



Regulatory Requirements ... others

- Assigned Capital for windows is in addition to minimum requirements for respective local banks
- Capital Adequacy compliance requirements for windows
- Single Obligor limitation for windows based on parent bank
- Core banking system to recognize unique Islamic banking specifics (contracts, transactions and processes) to be subjected to third party certification.
- Policies and procedures (including Sharia compliance, profit distribution for IAH, risk management, charity fund)
- Emphasizes on segregation of windows' outlets/operations/funds/IT systems
- Emphasizes on diligence and disclosure (contracts, annual Sharia and financial reports)



Regulatory Requirements ... others

- CEO of local banks and Head of Windows to be of senior management
- Head of Islamic Banking Window to report to CEO
- Both positions above and other senior management/critical incumbents to have approval of CBO

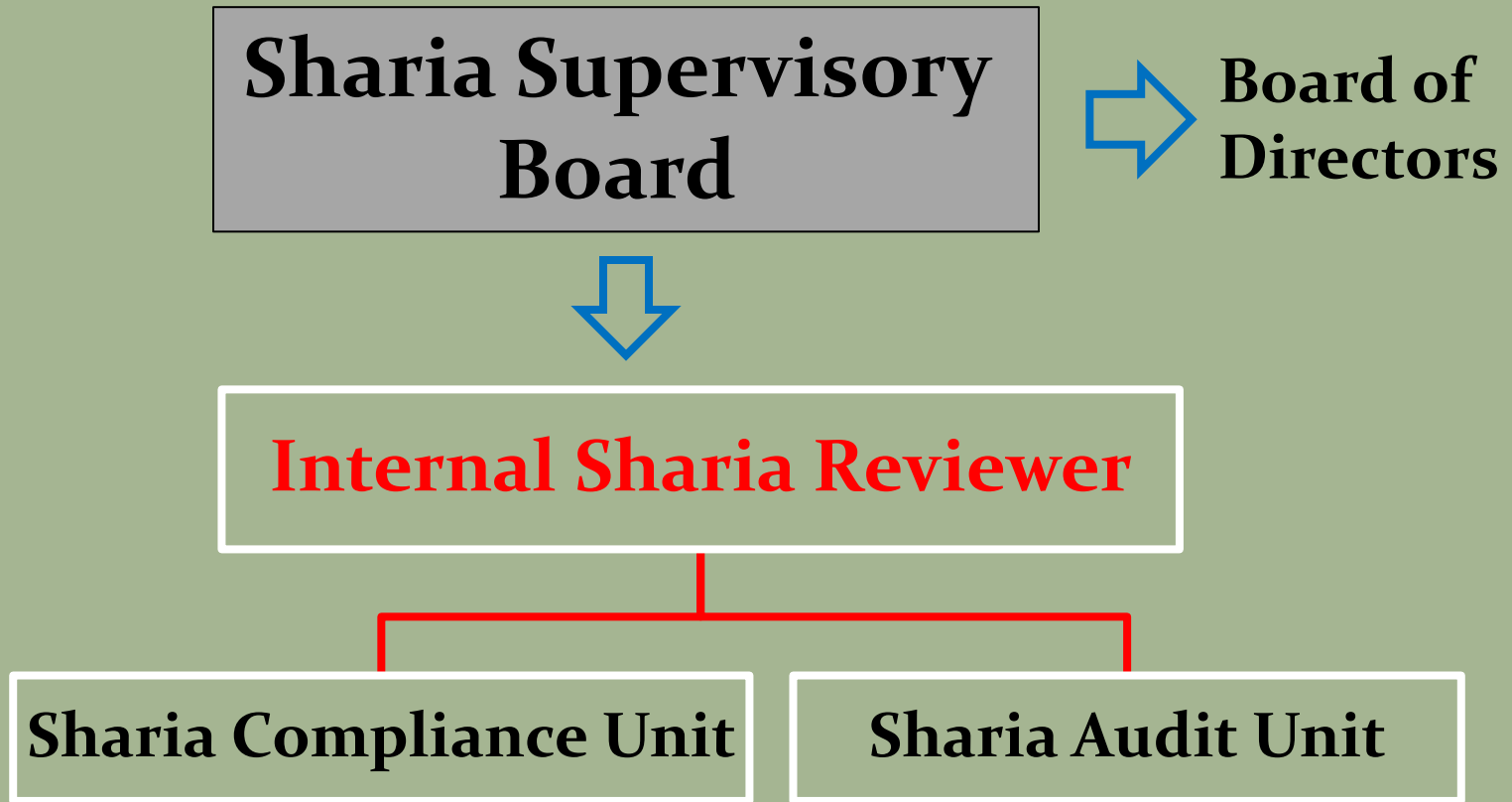


Sharia Governance ... Objective

- To Provide a structure and system to govern activities to ensure Sharia compliance business
- To enable the licenses to be perceived as Sharia compliant by all stakeholders and market



Sharia Governance ... Structure





Sharia Governance ... Requirements

- Qualified, experienced, empowered and independent with objectivity, fairness and honesty
- Minimum of 3 members with Sharia background and 10 years experience in Fiqh al Mu'amalat
- One or more optional members having experience in related field such as economics, banking, legal, accounting
- Appointed by Shareholders
- 3 years term renewed for another period
- No Conflict of Interest
- No SSB member to sit on SSB of any other competing institution and also not to be on more than four SSBs in Oman



Sharia Governance ... Roles and Responsibility

- The ultimate authority within the licensee for all sharia related matters.
- Reporting to the Board but independent on sharia rulings.
- Review and approval of all policies, procedures, products, processes, systems, contracts and agreements for their Sharia compliance.
- A charter shall be prepared by the Licensee and approved by the Board defining the scope of work for the SSB
- Advising management on day-to-day Sharia matters.
- Sharia compliance report to the Board to be published in annual report (to include all rulings).



Sharia Governance ... Internal Sharia Reviewer

- Internal Sharia Reviewer appointed by management in consultation with SSB
- Qualified with 5 years experience in Fiqh al Mu’amalat
- Heads Sharia compliance and audit Units
- Working independently and reporting to SSB
- Responsible for providing Sharia guidance on day-to-day matters



High Sharia Supervisory Authority

- Formation of HSSA was part of CBO's aim and efforts to establish a robust and compliant Islamic banking sector in Oman
- Plays a vital role in the overall Sharia compliant functioning of the sector as a whole in a sound and harmonized manner
- Commenced in 2015
- **Functions**
 - To give opinion and advice to the CBO on Sharia matters related to Islamic banking
 - To give rulings on Fiqh disputes between SSBs of different Islamic banking institutions
 - To give opinion on Sharia compliance of the transactions between Central Bank and Islamic banking institutions
 - *Rulings of the HSSA are binding on the SSBs*



Islamic Windows – Operating Model

- A “bank within a bank” model
- Separate (Assigned) Capital
- No co-mingling of funds (robust core banking & IT systems)
- Separate branches for doing Islamic banking only
- Separate books of accounts
- Dedicated staff
- Head of Islamic Window by senior management cadre and report to CEO
- Windows and Islamic banks can take funds from conventional banks on Islamic mode and not the other way



Accounting & Auditing Standards

- Full fledged Islamic banks and windows will both report under AAOIFI standards
- Consolidation of windows accounts with parent banks as per IFRS
- External Auditors to audit the accounts accordingly



Current status/initiatives

- Two full fledged banks and 6 Islamic windows with network of 72 branches
- CBO is looking into setting up Sharia compliant liquidity management instruments
- Measured regulatory relaxations in the start up period
- Government issued first sovereign Sukuk in 2016
- Some private Sukuk issued
- One IBE has been given approval for issue of Sukuk and is in preparation
- Sukuk regulation and takaful regulation issued by capital market regulator
- Two takaful operators already licensed
- IBEs assets amount to RO3,564 billion, 11.6% of banking sector, as June 17



Challenges

- Courage of convection among all stakeholders
- Deepening public understanding and knowledge
- Sharia compliant instruments for managing liquidity
- Awareness and application of Sharia rules by IBEs
- Developing needed human resources
- Continued training for IBEs staff
- Product innovations keeping up Sharia compliance and avoiding unhealthy precedents and competition
- Standardization of Islamic banking practices and adoption thereof
- Healthy and compliant growth in the midst of established conventional banks



Thank you