



الوكالة الإسلامية الدولية للتصنيف  
Islamic International Rating Agency

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**“Shari’a Quality Rating”**

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# Contents

- **What Shari'a Quality Rating is and what it is not**
- **Evaluation criteria for Shari'a Quality Rating**
- **What is the meaning of Shari'a Quality Rating scale**
- **How Shari'a Quality Rating compliments Auditor's Report and Shari'a Supervisory Board report prescribed by AAOIFI**
- **Frequently asked questions**



# Shari'a Quality Rating

- **Shari'a Quality Rating is a process aimed at providing information and independent assessment regarding the level of compliance by Islamic financial institutions or conventional institutions providing Islamic financial services and Islamic financial products such as Sukuk, with principles of Shari'a**
- **IIRA aims to become a reference on which investors and financiers can rely to achieve "Quality" in terms of compliance with the related Shari'a rules and principles for financial services and products marketed as "Islamic"**
- **Shari'a Quality Rating is neither a warranty of a rated entity's current or future ability to meet contractual obligations, nor a recommendation to buy, sell or hold any security**

# IIRA's Evaluation Criteria

## 1. Shari'a Committee

- **Existence and constitution**
- **Manner of appointment**
- **Frequency and duration of meetings**
- **Quality and quantity of agenda**
- **Quality of minutes of discussion**
- **Quality of Shari'a committee's relations with management**
- **Distribution/direction of reports of Shari'a committee**
- **Quality of Shari'a committee's relation with general assembly and the Board**
- **Annual Shari'a review report and its importance**



# IIRA's Evaluation Criteria

## 2. Internal Shari'a Control

- **Existence of approved rules for Shari'a control procedures and operations**
- **Existence of independent department for Shari'a control**
- **Number of Shari'a control staff, their qualification and experience**
- **Distribution of reports**
- **Procedures for dealing with violations and mistakes**
- **Availability of resources for internal Shari'a control**
- **Quality of control based on report examination**



# IIRA's Evaluation Criteria

## 3. Accounting Standards

- **Adopting AAOIFI standards or any other standards developed in conformity with Islamic financial rules**



# IIRA's Evaluation Criteria

## 4. Training and Human Resources

- **Existence of training programs in Islamic financial institutions**
- **Quantity and quality of training programs**
- **Number of trainers**
- **The knowledge, experience and training of the staff in Islamic banking**
- **Participation of staff in external training programs**
- **Participation of Shari'a Supervisory Board members in staff training**



# IIRA's Evaluation Criteria

## 5. Zakat

- **Regularity of Zakat payments**
- **Help given to clients in calculating Zakat**
- **Help given to clients in proper distribution of Zakat**



# IIRA's Evaluation Criteria

## 6. Social Impact

- **Contribution of financing and investment operations to social aspects such as job creation, economic value creation, etc.**



# IIRA's Evaluation Criteria

## 7. Modes of Financing

- **Extent of equity participation Ijarah contracts and Mudarabah contracts to total assets**
- **Existence of an approved policy for diversification of financing operations**
- **Sources of funding**



# IIRA's Evaluation Criteria

## 8. Identity and Corporate Image

- **Existence of approved internal policies to reflect Islamic identity**
- **Corporate image as reflected in publications and marketing activities**



# IIRA's Evaluation Criteria

## 9. Other Considerations

- **Existence of ladies branches**
- **Gender separations**
- **Existence of approved procedures for purifications of non Shari'a compliant income**
- **Existence of prayer rooms**



# Shari'a Quality Rating Methodology - Definition

- **AAA (SQR)**: In IIRA's opinion, an entity/instrument rated AAA (SQR) conforms to highest level of standards of Shari'a requirements in all aspects of Shari'a quality analysis.
- **AA (SQR)**: In IIRA's opinion, an entity/instrument rated AA (SQR) conforms to very high level of standards of Shari'a requirements in all aspects of Shari'a quality analysis.
- **A (SQR)**: In IIRA's opinion, an entity/instrument rated A (SQR) conforms to high level of standards of Shari'a requirements and has very few weaknesses in some areas of Shari'a quality analysis.
- **BBB (SQR)**: In IIRA's opinion, an entity/instrument rated BBB (SQR) conforms to moderately high level of standards of Shari'a requirements and has few weaknesses in some areas of Shari'a quality analysis.
- **BB (SQR)**: In IIRA's opinion, an entity/instrument rated BB (SQR) conforms to satisfactory level of standards of Shari'a requirements and has some weaknesses in some areas of Shari'a quality analysis.
- **B (SQR)**: In IIRA's opinion, an entity/instrument rated B (SQR) conforms to adequate level of standards of Shari'a requirements and has weaknesses in some areas of Shari'a quality analysis.



# Auditor's Report - Contents

## Financial Statements:

- **Present true and fair view of operations, cash flows, sources and uses of charity funds, qard funds and zakat, changes in owner's equity and restricted investment accounts**
- **Conform to AAOIFI standards and guidelines of Shari'a Supervisory Board**
- **As of a particular date**



# **Shari'a Supervisory Board's Report - Contents**

- **No violation of Shari'a rules in documents and procedures**
- **Allocation of profit or loss conforms to Shari'a rules and procedures**
- **Calculation of Zakat conforms to Shari'a rules and procedures**
- **Income prohibited by Shari'a rules and procedures disposed off to charity**



# **Auditor and Shari'a Supervisory Board Reports are standardized and;**

- **Do not provide any qualitative differentiation between organizations**
- **Do not help investors to make any preferential choice based on level of Shari'a compliance**
- **Reflect the position as on specific date in calendar**



# Shari'a Quality Rating

- **The rating is a third party, neutral and independent opinion**
- **It provides a qualitative differentiation between organizations**
- **The rating scale highlights the differentiation in very simple letters**
- **The report discusses the level of compliance with detailed criteria**
- **The rating assigned gives investors the tool to use in investment decisions**
- **Unlike audit, the rating once given is kept under surveillance for the period of contract and any movements in ratings due to changes in operations are proactively advised to investors**



# Frequently asked questions:

Q. Is there any need for a Shari'a Rating?

*The major element characterizing Islamic financial institutions and products is that they are legitimate and there has to be an evaluation of institutions and products according to the extent that they adhere and respect this element of legitimacy. It is quite logical that all of them cannot be at the same level. The differentiation of the levels of compliance will lead to a healthy competition and is expected to bring about a general improvement in the industry.*



Q. Does IIRA anticipate any conflict between its Shari'a board conclusions and those of the issuing institution? How would it propose to deal with such conflict?

*The Shari'a Quality Rating does not aim at giving a Shari'a opinion on the products or to comment on the decisions of the Shari'a Supervisory Board of the issuing institution. IIRA's basic role in rating is to assess the level of compliance by the institution in letter and spirit to the guidelines issued by the Shari'a Supervisory Board. IIRA aspires to serve all Muslims belonging to all sects and schools and therefore we do not anticipate any conflict between our Shari'a board and the Shari'a board of the issuing institution.*



**The End**

