



الوكالة الإسلامية الدولية للتصنيف  
Islamic International Rating Agency

# **AAOIFI – World Bank Annual Conference on Islamic Banking and Finance 2007**

**November 18-19, 2007  
Diplomat Hotel, Bahrain**

## **“Dynamics of Shari’a Compliance”**

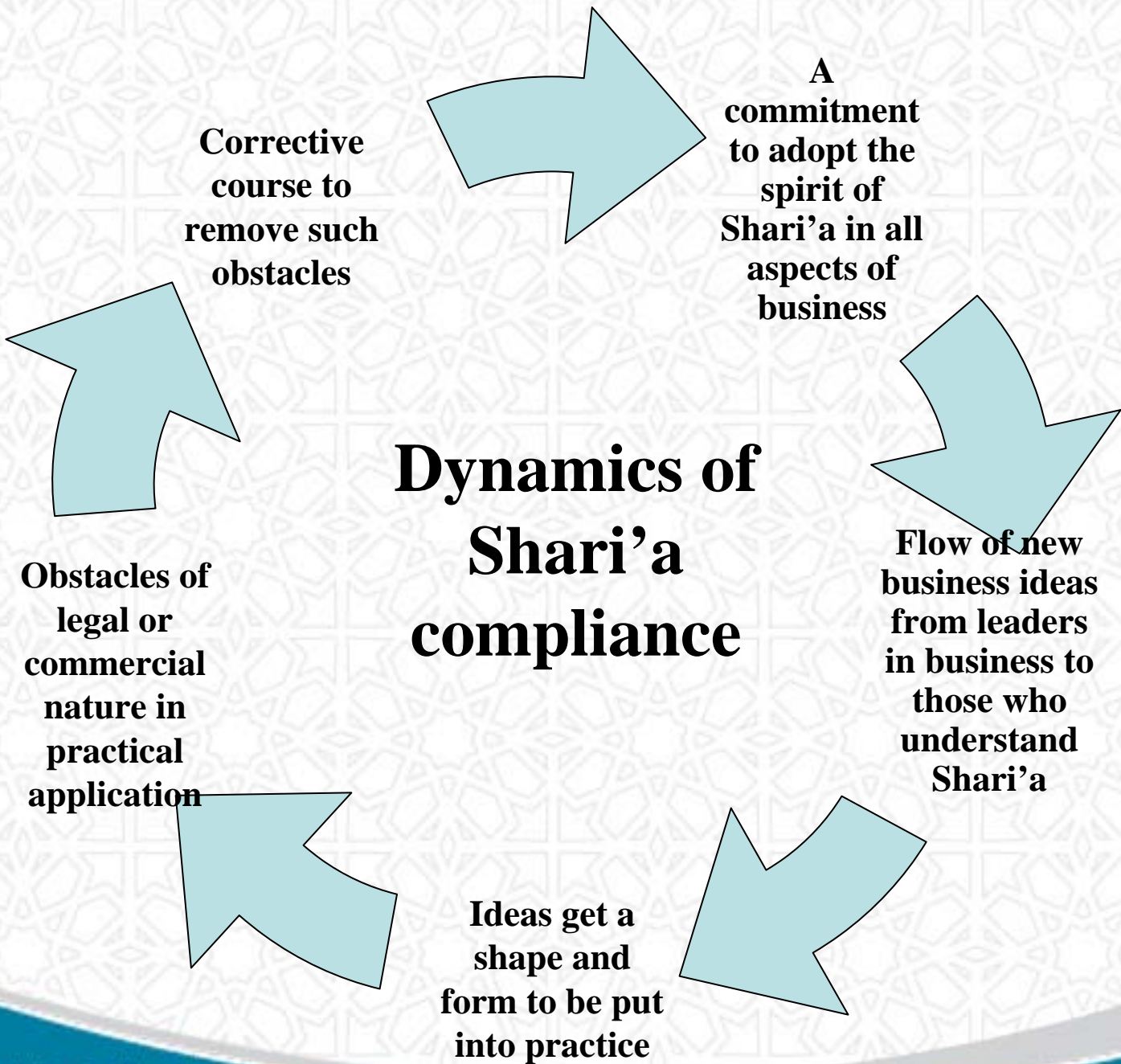
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Islamic International Rating Agency



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# Dynamics of Shari'a compliance



**Corrective course to remove such obstacles**

**A commitment to adopt the spirit of Shari'a in all aspects of business**

**Flow of new business ideas from leaders in business to those who understand Shari'a**

**Ideas get a shape and form to be put into practice**

**Obstacles of legal or commercial nature in practical application**



# **Is it important to ascertain the level of Shari'a compliance of IFIs and why?**

- *The assessment of level of Shari'a compliance is important to investors and depositors, and to the regulators*
- *Depositors and investors choose IFI for business to conform to their faith. Regulators expect IFIs to meet regulations of compliance with Shari'a*
- *A rating provides a credible assessment of level of compliance*



# Is it possible to assess the level of compliance?

- *Yes, it is possible to do a thorough assessment with a well-defined and comprehensive rating process*



# Is it important to be transparent about the level of compliance?

- *Transparency in Shari'a compliance is important for healthy competition and for growth of IFIs on a qualitative foundation*



## **Who is best suited to do this assessment?**

- *The limited role assigned to external Auditor versus comprehensiveness of the rating agency's process and report*

### **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 Quality Rating

- **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.



# **IIRA's Comprehensive Evaluation Criteria**

- 1. Shari'a Committee**
- 2. Internal Shari'a Control**
- 3. Accounting Standards**
- 4. Training and Human Resources**
- 5. Zakat**
- 6. Social Impact**
- 7. Modes of Financing**
- 8. Identity and Corporate Image**
- 9. Other Considerations**



## Teaser for Islamic investors

*Would you prefer to deal with an institution which discloses its Shari'a Quality Rating or an institution which simply claims to be Shari'a compliant?*



# Thank You

Please visit our website [www.iirating.com](http://www.iirating.com) for information on rating methodologies and rating scales

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