



الوكالة الإسلامية الدولية للتصنيف
Islamic International Rating Agency

Introducing and Implementing Islamic Finance

28-29 May 2008, Geneva

**“Shari’a Quality Rating – a Tool to Assess the Dynamic
Shari’a Compliance Process”**

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Shari'a Compliance

Shari'a compliance is commitment and adoption of the spirit of Shari'a in all aspects of business.

The major aspects of compliance of Islamic financial institutions encompass:

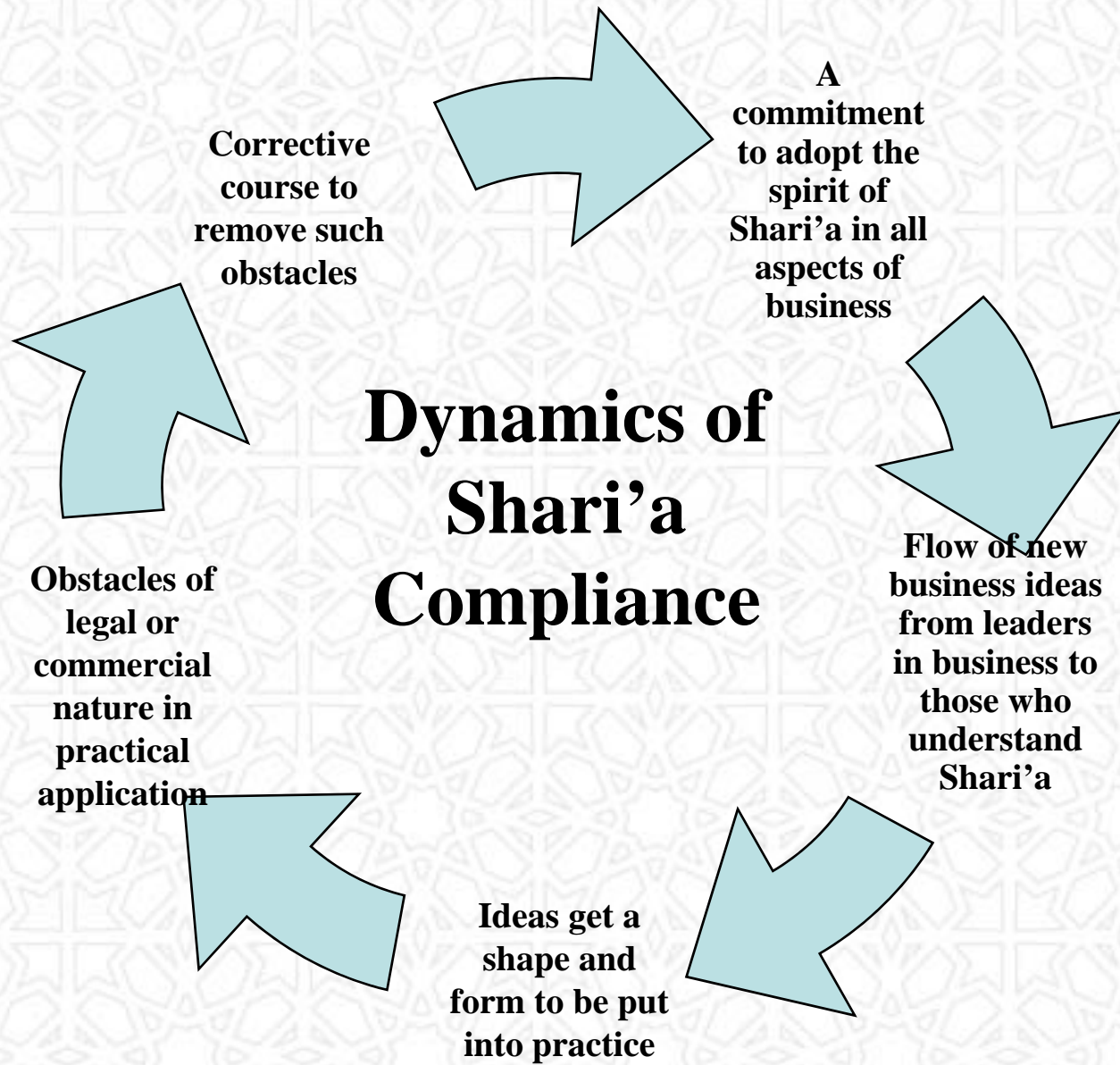
1. The prohibition of Riba
2. The prohibition of Gharar, Jahala and Gambling
3. Profit and Risk Sharing
4. Moral values
5. The share of the poor in the wealth of the rich (Zakat)



Elements of Investor Confidence in IFI

- Compliance with Shari'a
- An optimal risk – reward relationship
- Stable economic and political environment





Assessing the level of Shari'a Compliance

- Because of the dynamic nature of Shari'a compliance, all institutions cannot have the same level of compliance
- There is an inverse relationship between Shari'a compliance and exposure to risks arising from non-Shari'a compliance



Risks of Non-Shari'a Compliance

- Displaced commercial risk
- Loss of income
- Risk of non-sustainability of Shari'a compliance
- Risk of conflict of interest inherent in audit by SSB

Institutions have different levels of Shari'a compliance and therefore different levels of exposure to above risks

Shari'a Quality Rating mitigates the above risks



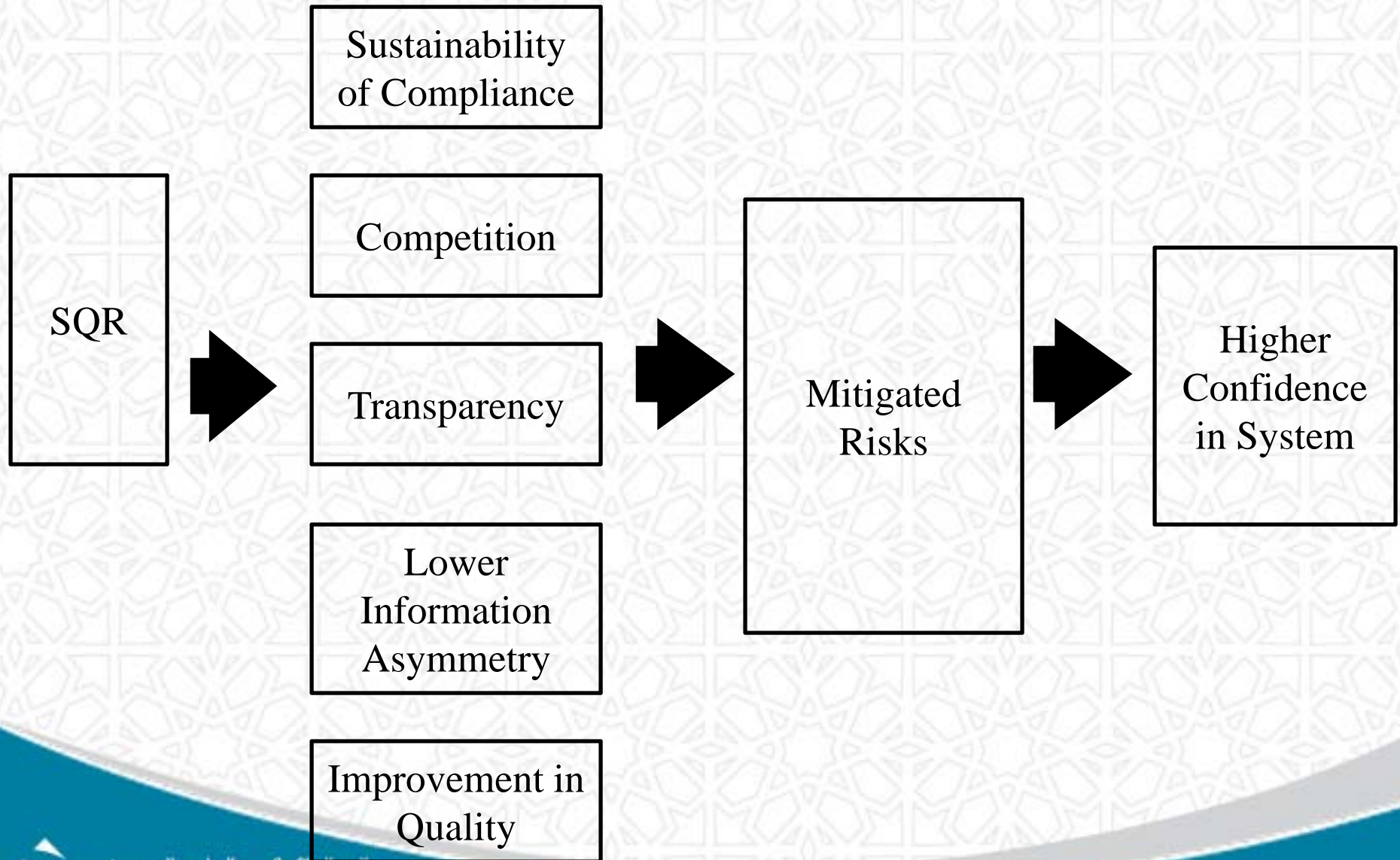
Shari'a Quality Rating

- Shari'a Quality Rating is a transparent evaluation system based mainly on objectivity, impartiality and independence.
- Shari'a Quality Rating provides a credible assessment of level of compliance
- Shari'a Quality Rating places institutions on a single comparable scale in an independent, impartial framework prepared by prominent Shari'a scholars

Parties interested in Shari'a Quality Rating

- The assessment of level of Shari'a compliance is important to managers, investors and depositors, and to the regulators
- Management can improve Shari'a compliance practices to manage non-compliance risks
- A third party independent assessment of Shari'a compliance will foster confidence of investors and depositors
- Regulators will get comfort from the commitment of the entity to Shari'a compliance

What SQR Achieves



SQR Evaluation Criteria

- Shari'a Board
- Internal Shari'a Control
- Accounting Standards
- Training and Human Resources
- Zakat
- Social Impact
- Modes of Financing
- Identity and Corporate Image
- Other considerations



SQR Evaluation of Sukuk

- The SQR of Sukuk looks at both **mechanisms** for Shari'a compliance and the overall **Shari'a spirit** of the Sukuk issue
- Strong mechanisms of Shari'a compliance lead to sustainability of Shari'a compliance of the Sukuk throughout its lifespan.
- The spirit of Shari'a compliance of the Sukuk relates to the degree of submission of the Sukuk to higher Islamic economic objectives

SQR Assessment of Sukuk – Main Criteria

- Shari'a Board membership and credentials
- Acceptability of Fatwa content among Islamic Scholars
- Quality of decision making process
- Transparency in disclosing Shari'a compliance of the product

SQR Assessment of Sukuk – Main Criteria

(continued)

- The issuer has to comply with Shari'a rules according to his role (wakeel, mudarib, etc)
- The Shari'a compliant use of the underlying asset must be maintained throughout the life of the Sukuk
- The transfer of asset or investment at the end of the Sukuk lifespan has to comply with Shari'a rules
- Positive social and economic impact of Sukuk contributes positively to the rating level of the Sukuk

Thank You

Please visit our website www.iirating.com for information on rating methodologies and rating scales

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