



الوكالة الإسلامية الدولية للتصنيف
Islamic International Rating Agency

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“Shari’a Compliance in Islamic Financial Institutions”

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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:

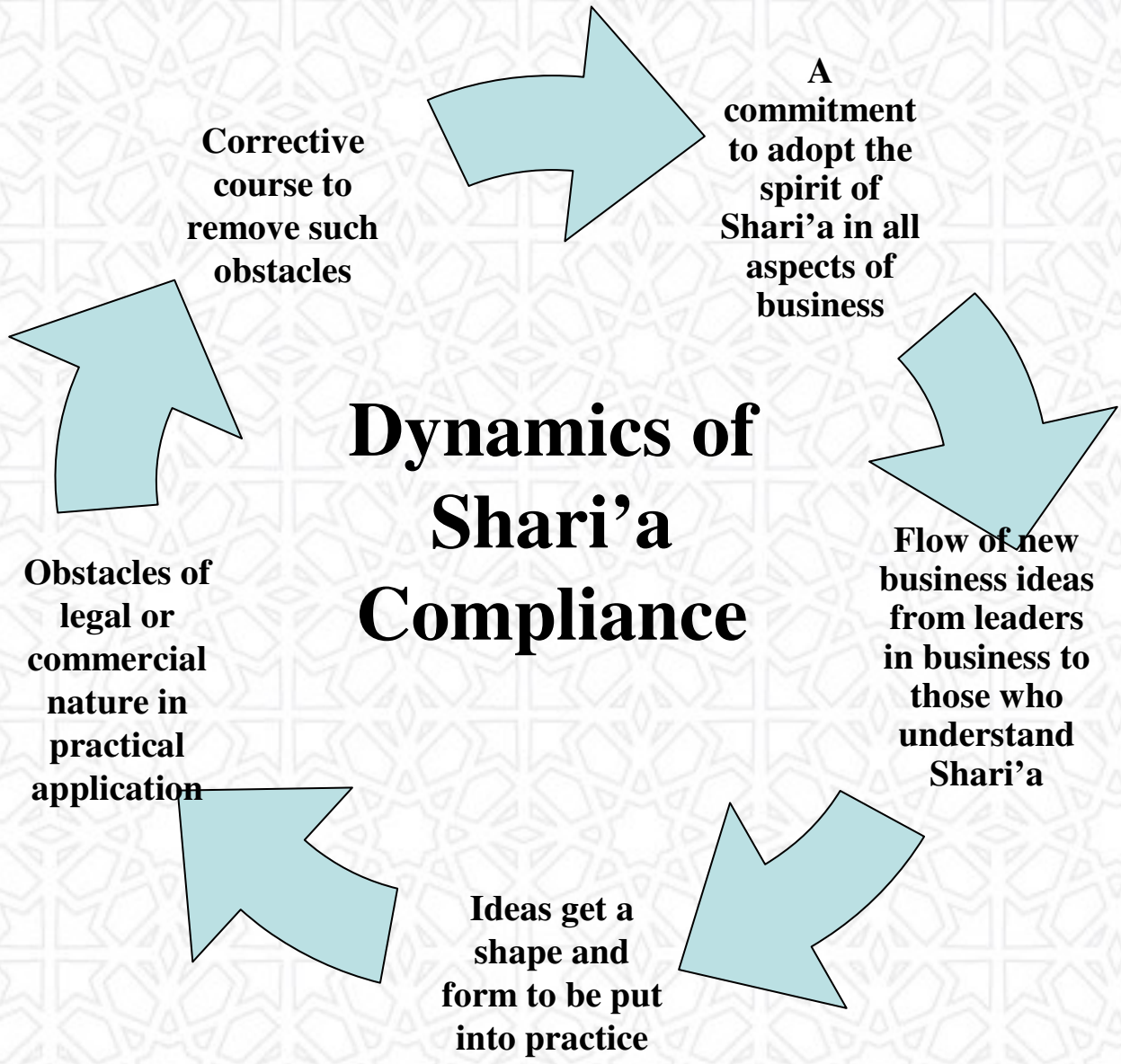
- 1. The prohibition of Riba***
- 2. The prohibition of Gharar, Jahala and Gambling***
- 3. Profit and Risk Sharing***
- 4. Moral values***
- 5. The share of the poor in the wealth of the rich (Zakat)***



Elements of Investor Confidence in IFI

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





Because of the dynamic nature of Shari'a compliance, all institutions cannot have the same level of 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**



Assessment of Level of Compliance

- *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*
- *Depositors and investors choose IFI for business to conform to their faith. Regulators expect IFIs to meet regulations of compliance with Shari'a*



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*



Advantage of SQR to Market and Investors

- *Enhances quality of investors' decision making process*
- *Creates competition*
- *Encourages transparency*
- *Reduces information asymmetry*
- *May encourage reluctant Investors to come forward*



SQR Evaluation Criteria

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



SOR Process

Issuer/Client	1	Signs agreement for rating with IIRA
	2	Submits preliminary information materials to IIRA
IIRA	3	Informs the Secretariat of the Shari'a Board to formulate the Shari'a Quality Rating Committee
	4	Conducts a preliminary study and sends the preliminary information to the Shari'a Quality Rating Committee
Shari'a Quality Rating Committee	5	Liaises with IIRA to submit a detailed questionnaire to the issuer/client
Issuer/Client	6	Provides detailed information in response to detailed questionnaire
IIRA	7	Sets up with Shari'a Quality Rating Committee the points to be covered during the due diligence
	8	Conducts pre due diligence meeting analysis
	9	Conducts due diligence meetings
	10	Conducts post due diligence analysis
	11	Submits report to Shari'a Quality Rating Committee
Shari'a Quality Rating Committee	12	Decides the preliminary/initial rating
IIRA	13	Notifies issuer/client of the preliminary/initial rating
	14	Discusses the rating rationales and issues with issuer/client
Issuer/Client	15	May appeal based on any new facts or information
Shari'a Quality Rating Committee	16	Deliberates on appeals by issuer/client and gives decision
IIRA	17	Notifies the decision of the Shari'a Quality Rating Committee to the issuer/client
Issuer/Client	18	Consents to release of the rating to the public
IIRA	19	Releases the rating to media

Shari'a Board Scholars

1. Justice Muhammad Taqi Usmani, Pakistan
2. Dr. Abdul Sattar Abu Ghudah, Syria
3. Dr. Mohamed A. Elgari, Saudi Arabia
4. Dr. Layachi Feddad, Algeria
5. Dr. Ahmad Ali Abdullah, Sudan
6. Dr. Nazih Hammad, Canada
7. Sheikh Mohamed Ali Al-Taskheri, Iran
8. Dr. Hussein Hamed Hassan, Egypt
9. Dr. Sheikh Nizam Yaquby, Bahrain
10. Dr. Mohammed Daud Bakar, Malaysia
11. Professor Dr. Mohamed A. Al-Sherif, Kuwait
12. Dr. Abdulwahhab Al-Dailami, Yemen
13. Professor Dr. Abdul Salam Al Abbadi, Jordan
14. Sheikh Mohsin Hussien Al Asfoor, Bahrain
15. Dr. Mohamed Al-Habib Ibn Al-Khuja, Tunisia
16. Professor Dr. Ali Moheldin Al-Quradaghi, Qatar
17. Sheikh Abdullah Al-Manea, Saudi Arabia
18. Sheikh Khalil Al-Mais, Lebanon
19. Professor Dr. Abdulaziz Bayindir, Turkey



Question 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 for information on rating methodologies and rating scales

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