



Islamic Finance Rules 2005 (ISFI)

Version No. 7

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Includes amendments made by
Miscellaneous Amendments Rules 2017
(QFCRA Rules 2017-3)

Islamic Finance Rules 2005

made under the
Financial Services Regulations

Contents

	Page
Chapter 1	1
General provisions	
Part 1.1	1
Preliminary	
1.1.1 Name of rules	1
1.1.2 Glossary	1
1.1.3 Application	1
Part 1.2	2
Key concepts	
1.2.1 What is <i>Islamic financial business</i> ?	2
1.2.2 What is an <i>Islamic financial institution</i> ?	2
Chapter 2	3
Conduct of Islamic financial business	
Part 2.1	3
Authorisation	
2.1.1 Additional requirement for application	3
2.1.2 Authorisation only if applicant required to be Shari'a-compliant	3
2.1.3 Condition as to compliance with Shari'a	3
Part 2.2	4
Conduct of business	
2.2.1 Other firms not to be held out as Islamic financial institutions etc	4

Contents

2.2.2	Islamic financial institutions not to conduct other financial business etc	page 4
Chapter 3	Disclosure	5
3.1.1A	Islamic financial institutions to disclose status	5
3.1.1	Disclosure about Shari'a supervisory board	5
3.1.2	When disclosure must be made	5
3.1.3	Disclosure by Islamic insurers	5
Chapter 5	Policies, procedures, systems and controls	7
5.1.1	General requirement	7
5.1.2	Policy and procedures manual	7
Chapter 6	Shari'a supervisory board	8
Part 6.1	Appointment and operation of a Shari'a supervisory board	8
6.1.1	Appointment of Shari'a supervisory board	8
6.1.2	Policy in relation to Shari'a supervisory board	8
6.1.3	Record-keeping	9
6.1.4	Records of assessment of competency of Shari'a supervisory board	9
6.1.5	Independence of Shari'a supervisory board	9
6.1.6	Information about Shari'a supervisory board to be given to Regulatory Authority	10
6.1.7	Obligation to assist Shari'a supervisory board	10
Part 6.2	Shari'a reviews	11
6.2.1	Shari'a reviews to be undertaken	11
6.2.2	Annual Shari'a report	11
6.2.3	Financial communication	11
Part 6.3	Internal Shari'a review	13
6.3.1	Obligation to perform internal Shari'a reviews	13
6.3.2	How reviews to be performed	13
6.3.4	Who must perform internal Shari'a reviews	13

Chapter 8	Islamic windows	page 14
8.1.1	What is an <i>Islamic window</i> ?	14
8.1.2	What kinds of business may be conducted by means of an Islamic window?	14
8.1.3	Authorisation to operate Islamic window	14
8.1.4	Conditions of operating Islamic windows	14
8.1.5	Shari'a supervisory board	15
8.1.6	Performance of internal Shari'a review	15
Glossary		16
Endnotes		17

Chapter 1 General provisions

Part 1.1 Preliminary

1.1.1 Name of rules

These rules are the *Islamic Finance Rules 2005* (or ISFI).

1.1.2 Glossary

The glossary at the end of these rules is part of these rules.

Note 1 There are also relevant definitions in the *INAP* glossary. To assist the reader, the application of a definition in that glossary is usually indicated by the defined term's being in italics (other than bold italics) in these rules.

Note 2 By contrast, the application of a definition in the glossary in these rules is not indicated by the defined term's being in italics.

Note 3 For the application of definitions, see *INAP*, r 2.1.8 (Application of definitions).

Note 4 A note on or to these rules is explanatory and is not part of the rules (see *INAP*, r 2.1.6 (1) and r 2.1.7).

Note 5 However, examples and guidance are part of these rules (see *INAP*, r 2.1.4 (1) (b) and (2)).

Note 6 An example is not exhaustive, and may extend, but does not limit, the meaning of these rules or the particular provision of these rules to which it relates (see *INAP*, r 2.1.5).

Note 7 For the effect of guidance, see *FSR*, art 17 (4).

1.1.3 Application

These rules do not apply to an Islamic bank or an Islamic investment dealer (within the respective meanings of *IBANK*).

Part 1.2 Key concepts

1.2.1 **What is *Islamic financial business*?**

Islamic financial business is the business of carrying on 1 or more *regulated activities* in accordance with Shari'a.

1.2.2 **What is an *Islamic financial institution*?**

An *Islamic financial institution* is an authorised firm whose authorisation includes a condition that the whole of the firm's business must be conducted in accordance with Shari'a.

Note For firms that conduct a part (but not the whole) of their business in accordance with Shari'a, see ch 8 (Islamic windows).

Part 2.2 Conduct of business

2.2.1 Other firms not to be held out as Islamic financial institutions etc

An authorised firm that is not an Islamic financial institution—

- (a) must not hold itself out as an Islamic financial institution; and
- (b) must not hold itself out as conducting Islamic financial business unless the firm's authorisation permits it to operate an Islamic window.

Note In relation to Islamic windows and their operation, see ch 8.

2.2.2 Islamic financial institutions not to conduct other financial business etc

An Islamic financial institution—

- (a) must not hold itself out as conducting financial business other than Islamic financial business; and
- (b) must not carry on any *regulated activity* otherwise than in accordance with Shari'a.

Chapter 3 Disclosure

3.1.1A Islamic financial institutions to disclose status

An Islamic financial institution must ensure that it discloses appropriately to each of its *clients*—

- (a) that it is an Islamic financial institution; and
- (b) that its business is required to be conducted in accordance with Shari'a.

3.1.1 Disclosure about Shari'a supervisory board

An Islamic financial institution must disclose the following information to each *client* with whom or on behalf of whom it conducts, or proposes to conduct, Islamic financial business:

- (a) the members of the institution's Shari'a supervisory board;
- (b) if the *client* requests, the manner and frequency of Shari'a reviews.

3.1.2 When disclosure must be made

An Islamic financial institution must disclose the information referred to in rule 3.1.1 to its relevant *clients*—

- (a) prior to conducting Islamic financial business with or on behalf of that *client*; and
- (b) thereafter, whenever the information changes.

Guidance

An Islamic financial institution may include the information required by rule 3.1.1 in the *terms of business* provided to a *client*.

3.1.3 Disclosure by Islamic insurers

An Islamic financial institution which effects or carries out *contracts of insurance* must disclose in its financial statements—

- (a) those matters set out in AAOIFI FAS 12, in the manner required by AAOIFI FAS 12; and

(b) those matters set out in AAOIFI FAS 13.

Guidance

- 1 One of the important matters required to be disclosed by an Islamic financial institution pursuant to rule 3.1.3 (b) is the basis applied by the institution in treating any insurance deficit or surplus. Appendix B to AAOIFI FAS 13 provides some guidance as to how such a deficit or a surplus may be treated.
- 2 That appendix states that there are a number of ways to address an insurance deficit, including—
 - (a) settling the deficit from the reserve of policyholders, if any; and
 - (b) borrowing from the shareholders funds or from others the amount of the deficit which should be paid back from future surpluses; and
 - (c) asking the policyholders to meet the deficit pro rata; and
 - (d) increasing the future premium contribution of policyholders on a pro-rata basis.
- 3 That appendix also states that there are a number of ways to allocate an insurance surplus, including—
 - (a) allocating the surplus to all policyholders, regardless of whether or not they have made claims on the policy during the financial period; and
 - (b) allocating the surplus only among policyholders who have not made any claims during the financial period; and
 - (c) allocating the surplus among those who have not made any claims and among those who have made claims of amounts less than their insurance contributions, provided that the latter category of policyholders should receive only the difference between their insurance contributions and their claims during the financial period; and
 - (d) allocating the surplus between policyholders and shareholders; and
 - (e) allocating the surplus by using other methods.

Chapter 5 Policies, procedures, systems and controls

5.1.1 General requirement

An Islamic financial institution must establish, implement and maintain policies, procedures, systems and controls that ensure that its business is conducted in accordance with Shari'a.

5.1.2 Policy and procedures manual

An Islamic financial institution must establish, implement and maintain an Islamic financial business policy and procedures manual that addresses the following matters:

- (a) how the compliance oversight function will be undertaken in relation to compliance with Shari'a;
- (b) how the institution's Shari'a supervisory board will oversee and advise it in regard to the institution's Islamic financial business;
- (c) how fatwas, rulings and guidelines of the Shari'a supervisory board will be recorded, disseminated and implemented and the internal Shari'a review undertaken;
Note For the requirement to conduct an internal Shari'a review, see r 6.3.1.
- (d) how disputes between the Shari'a supervisory board and the institution in relation to Shari'a compliance will be addressed;
- (e) the process for approving the internal policies, procedures, systems and controls to ensure that—
 - (i) Islamic financial business is conducted in accordance with Shari'a; and
 - (ii) information is disseminated to investors appropriately;
- (f) how conflicts of interest and potential conflicts of interest will be identified and managed.

Chapter 6 Shari'a supervisory board

Part 6.1 Appointment and operation of a Shari'a supervisory board

6.1.1 Appointment of Shari'a supervisory board

An Islamic financial institution must—

- (a) appoint a Shari'a supervisory board; and
- (b) ensure that—
 - (i) its Shari'a supervisory board consists of at least 3 members; and
 - (ii) the members appointed to the Shari'a supervisory board are competent to perform their functions as Shari'a supervisory board members taking into account their qualifications and previous experience; and
 - (iii) any appointments, dismissals or changes in respect of members of the Shari'a supervisory board are approved by the *governing body* of the Islamic financial institution; and
 - (iv) no member of the Shari'a supervisory board is a director or controller of the Islamic financial institution.

6.1.2 Policy in relation to Shari'a supervisory board

An Islamic financial institution must document its policy in relation to—

- (a) how appointments, dismissals or changes will be made to the Shari'a supervisory board; and
- (b) the process through which the suitability of Shari'a supervisory board members will be considered; and
- (c) the remuneration of the members of the Shari'a supervisory board.

6.1.3 Record-keeping

An Islamic financial institution must establish and retain records of—

- (a) its assessment of the competence of the Shari'a supervisory board members; and
- (b) the agreed terms of engagement of each member of the Shari'a supervisory board;

for at least 6 years following the date on which the individual ceased to be a member of the Shari'a supervisory board.

6.1.4 Records of assessment of competency of Shari'a supervisory board

The records of the assessment of competence of Shari'a supervisory board members in rule 6.1.3 (a) must include at a minimum—

- (a) the factors that have been taken into account when making the assessment of competence; and
- (b) the qualifications and experience of the Shari'a supervisory board members; and
- (c) the basis upon which the Islamic financial institution considers that the proposed Shari'a supervisory board member is suitable; and
- (d) details of any other Shari'a supervisory boards of which the proposed Shari'a supervisory board member is, or has been, a member.

6.1.5 Independence of Shari'a supervisory board

An Islamic financial institution must take reasonable steps to ensure that the members of the Shari'a supervisory board are independent of and not subject to any conflict of interest with respect to the institution.

6.1.6 Information about Shari'a supervisory board to be given to Regulatory Authority

An Islamic financial institution must provide the Regulatory Authority, upon request, with information on its appointed or proposed Shari'a supervisory board members with regard to the qualifications, skills, experience and independence of the Shari'a supervisory board members.

6.1.7 Obligation to assist Shari'a supervisory board

An Islamic financial institution must take reasonable steps to ensure that it and its *employees*—

- (a) provide such assistance as the Shari'a supervisory board reasonably requires to discharge its duties; and
- (b) give the Shari'a supervisory board right of access at all reasonable times to relevant records and information; and
- (c) do not interfere with the Shari'a supervisory board's ability to discharge its duties; and
- (d) do not provide false or misleading information to the Shari'a supervisory board.

Part 6.2 Shari'a reviews

6.2.1 Shari'a reviews to be undertaken

An Islamic financial institution must ensure that all Shari'a reviews are undertaken by the Shari'a supervisory board in accordance with the AAOIFI Standards on Governance (GSIFI No 2).

6.2.2 Annual Shari'a report

- (1) An Islamic financial institution must commission an annual report from the Shari'a supervisory board which complies with the AAOIFI Standards on Governance (GSIFI No 1).
- (2) An Islamic financial institution must give the Regulatory Authority a copy of each annual report of the institution's Shari'a supervisory board within 3 months after the day the relevant financial year of the institution ends.

Example

If a financial year of an Islamic financial institution ends on 31 December in a year, the annual report of the institution's Shari'a supervisory board must be given to the Regulatory Authority before 1 April in the next year.

6.2.3 Financial communication

- (1) Before an Islamic financial institution issues or approves a financial communication, it must ensure that, in addition to the information required by COND, the material states which Shari'a supervisory board has reviewed the products or services to which the material relates.
- (2) **Financial communication** means any communication (made through any medium including brochures, telephone calls and presentations) the purpose or effect of which is:
 - (a) to promote or advertise:
 - (i) *specified products*; or

- (ii) any *regulated activity* (or any activity that would be a *regulated activity* if it was carried on in or from the QFC); or
- (b) to invite or induce any *person*:
 - (i) to enter into an agreement with any *person* in relation to a *specified product*; or
 - (ii) to engage in any *regulated activity* (or an activity that would be a *regulated activity* if it was carried on in or from the QFC).

Part 6.3 Internal Shari'a review

6.3.1 Obligation to perform internal Shari'a reviews

An Islamic financial institution must perform an internal Shari'a review to assess the extent to which the institution complies with fatwas, rulings and guidelines issued by its Shari'a supervisory board.

6.3.2 How reviews to be performed

An Islamic financial institution must perform the internal Shari'a review in accordance with the AAOIFI Standards on Governance (GSIFI No. 3).

6.3.4 Who must perform internal Shari'a reviews

An Islamic financial institution must ensure that—

- (a) the internal Shari'a review is performed by its internal audit function or compliance oversight function; and
- (b) the individuals or departments involved in performing the review are competent and sufficiently independent to assess compliance with Shari'a.

Guidance

For the purposes of assessing competency of personnel or departments which perform the internal Shari'a review, Islamic financial institutions should consult the AAOIFI Standards on Governance (GSIFI No. 3).

Chapter 8 Islamic windows

8.1.1 What is an *Islamic window*?

If an authorised firm conducts a part (but not the whole) of its business in accordance with Shari'a, the part so conducted is an *Islamic window*.

8.1.2 What kinds of business may be conducted by means of an Islamic window?

- (1) Only insurance business (within the meaning given in *PINS*, rule 1.2.4) may be conducted by means of an Islamic window.
- (2) An authorised firm that is a banking business firm (within the meaning given in *BANK*) or an INMA firm (within the meaning given in *INMA*) must not operate an Islamic window.

8.1.3 Authorisation to operate Islamic window

- (1) An applicant for authorisation that proposes to operate an Islamic window must state that fact in its application.
- (2) An authorised firm that proposes to operate an Islamic window must apply to the Regulatory Authority for an appropriate variation of the conditions of its authorisation.

8.1.4 Conditions of operating Islamic windows

- (1) An authorised firm that operates an Islamic window—
 - (a) must identify the part or parts of its business that are to be conducted in accordance with Shari'a; and
 - (b) must establish and maintain policies, procedures, systems and controls that ensure that that part or those parts are so conducted.
- (2) An authorised firm that operates an Islamic window must comply with—
 - (a) Chapter 3 (except rule 3.1.1A); and

(b) Chapter 5;

in relation to the part or parts of its business conducted by means of the window.

- (3) For the application of Chapter 3 and Chapter 5 to such a firm, references to an Islamic financial institution are to be read as references to the firm.
- (4) The firm must ensure that the disclosures required by AAOIFI FAS 18 are made to each *client* with whom, or on whose behalf, it conducts Islamic financial business.

8.1.5 Shari'a supervisory board

- (1) An authorised firm that operates an Islamic window must comply with Chapter 6 in relation to the part or parts of its business that is conducted by means of the window.
- (2) For the application of Chapter 6 to such a firm, references to an Islamic financial institution are to be read as references to the firm.

8.1.6 Performance of internal Shari'a review

- (1) An authorised firm that operates an Islamic window must, to the extent possible, perform the internal Shari'a review in accordance with the AAOIFI Standards on Governance (GSIFI No. 3).

Note An authorised firm that operates an Islamic window must perform an internal Shari'a review of the firm's compliance with fatwas, rulings and guidelines issued by its Shari'a supervisory board—see r 6.3.1, as applied by r 8.1.5.

- (2) If the firm cannot perform its entire internal Shari'a review in accordance with those standards, it must document how it will perform the remainder of that review.

Glossary

(see r 1.1.2)

AAOIFI means the Accounting and Auditing Organisation for Islamic Financial Institutions.

authorisation means an authorisation granted under the *Financial Services Regulations*, part 5.

authorised firm (or **firm**) means a *person* that has an authorisation.

BANK means the *Banking Business Prudential Rules 2014*.

INMA means the *Investment Management and Advisory Rules 2014*.

Islamic financial business has the meaning given by rule 1.2.1.

Islamic financial institution has the meaning given by rule 1.2.2.

Islamic window has the meaning given by rule 8.1.1.

month means calendar month—that is, the period beginning at the start of any day of one of the 12 named months of the year and ending:

- (a) at the end of the day before the corresponding day on the next named month; or
- (b) if there is no corresponding day—at the end of the last day of next named month.

QFC means Qatar Financial Centre.

Regulatory Authority means the Regulatory Authority of the QFC.

Shari'a supervisory board, of an authorised firm, means the board appointed for the firm under rule 6.1.1.

Endnotes

1 Abbreviation key

a	=	after	ins	=	inserted/added
am	=	amended	om	=	omitted/repealed
amdt	=	amendment	orig	=	original
app	=	appendix	par	=	paragraph/subparagraph
art	=	article	prev	=	previously
att	=	attachment	pt	=	part
b	=	before	r	=	rule/subrule
ch	=	chapter	renum	=	renumbered
def	=	definition	reloc	=	relocated
div	=	division	s	=	section
g	=	guidance	sch	=	schedule
glos	=	glossary	sdiv	=	subdivision
hdg	=	heading	sub	=	substituted

2 Rules history

Islamic Finance Rules 2005 (ISFI)

made by

Islamic Finance Rulebook Rule Making Instrument No. 5, 2005 (RM05/2005)

Made 13 October 2005

Commenced 13 October 2005

Version No. 1

as amended by

Conduct of Business Rulebook Rule Making Instrument 2007 (RM2007/01 att G)

Made 28 June 2007

Commenced 1 July 2007

Version No. 2

Endnotes

Miscellaneous Amendments Rules 2009 (Rules 2009-2 sch 1, pt 1.10)

Made 6 December 2009

Commenced 6 December 2009

Version No. 3

Islamic Finance Amendments Rules 2012 (QFCRA Rules 2012-3 sch 1)

Made 19 December 2012

Commenced 1 February 2013

Version No. 4

PIIB, PRIN and ASET Repeal and Consequential Amendments Rules 2014 QFCRA Rules 2014-3 sch 1, pt 1.7)

Made 17 December 2014

Commenced 1 January 2015

Version No. 5

Islamic Banking Business Prudential (Consequential) and Miscellaneous Amendments Rules 2015 (QFCRA Rules 2015-3, sch 1, pt 1.6 and sch 3, pt 3.8)

Made 13 December 2015

Commenced 1 January 2016

Version No. 6

Miscellaneous Amendments Rules 2017 (QFCRA Rules 2017-3, sch 1, pt 1.5)

Made March 2017

Commenced 1 April 2017

Version No. 7

3 Amendment history

Background

om Rules 2012-3

General provisions

ch 1 sub Rules 2012-3

Application

r 1.1.3 ins Rules 2015-3

What is a profit sharing investment account (or PSIA)?

r 1.2.3 om Rules 2014-3

Conduct of Islamic financial business

- ch 2 sub Rules 2012-3
- r 2.2.1 am Rules 2009-2
- sub Rules 2012-3
- r 2.3.1 am Rules 2009-2
- sub Rules 2012-3

Disclosure

- ch 3 hdg sub Rules 2012-3
- pt 3.1 hdg om Rules 2012-3

Islamic financial institutions to disclose status

- r 3.1.1A ins Rules 2012-3

Disclosure about Shari'a supervisory board

- r 3.1.1 hdg ins Rules 2015-3
- r 3.1.1 am Rules 2012-3

When disclosure must be made

- r 3.1.2 hdg ins Rules 2015-3
- r 3.1.2 am Rules 2012-3

Disclosure by Islamic insurers

- r 3.1.3 hdg ins Rules 2015-3
- r 3.1.3 am Rules 2012-3
- r 3.1.3 g am Rules 2012-3

Constitutional Documents

- ch 4 om Rules 2012-3

Policies, procedures systems and controls

- ch 5 sub Rules 2012-3

Policy and procedures manual

- r 5.1.2 am Rules 2014-3; Rules 2017-3

Appointment of Shari'a supervisory board

- r 6.1.1 hdg ins Rules 2015-3
- r 6.1.1 am Rules 2012-3

Policy in relation to Shari'a supervisory board

- r 6.1.2 hdg ins Rules 2015-3
- r 6.1.2 am Rules 2012-3
- r 6.1.3 am Rules 2012-3

Records of assessment of competency of Shari'a supervisory board

- r 6.1.4 hdg ins Rules 2015-3
- r 6.1.4 am Rules 2015-3

Independence of Shari'a supervisory board

- r 6.1.5 hdg ins Rules 2015-3
- r 6.1.5 am Rules 2012-3

Endnotes

Information about Shari'a supervisory board to be given to Regulatory Authority

r 6.1.6 hdg ins Rules 2015-3
r 6.1.6 am Rules 2012-3

Obligation to assist Shari'a supervisory board

r 6.1.7 hdg ins Rules 2015-3
r 6.1.7 am Rules 2012-3

Shari'a reviews to be undertaken

r 6.2.1 hdg ins Rules 2015-3
r 6.2.1 am Rules 2012-3

Annual Shari'a report

r 6.2.2 hdg ins Rules 2015-3
r 6.2.2 am Rules 2009-2; Rules 2012-3; Rules 2015-3; Rules 2017-3

Financial communication

r 6.2.3 ins Rules 2014-3
am Rules 2015-3

Obligation to perform internal Shari'a reviews

r 6.3.1 hdg ins Rules 2015-3
r 6.3.1 am Rules 2015-3

How reviews to be performed

r 6.3.2 hdg ins Rules 2015-3
r 6.3.2 am Rules 2012-3
r 6.3.3 om Rules 2012-3

Who must perform internal Shari'a reviews

r 6.3.4 hdg ins Rules 2015-3
r 6.3.4 am Rules 2012-3; Rules 2015-3; Rules 2017-3

Conduct of business standards

ch 7 om Rules 2014-3

Profit sharing investment accounts

r 7.1.1 am Rules 2012-3
om Rules 2014-3

Contents of terms of business

r 7.1.2 sub Rules 2012-3
om Rules 2014-3
r 7.1.3 am RM2007/01; Rules 2012-3
om Rules 2014-3
r 7.1.4 om Rules 2012-3

Financial communication

r 7.1.5 am rules 2012-3
om Rules 2014-3

Islamic windows

ch 8 ins Rules 2012-3

What kinds of business may be conducted by means of an Islamic window?

r.8.1.2 am Rules 2014-3

Conditions of operating Islamic windows

r 8.1.4 am Rules 2015-3

Glossary

ins Rules 2012-3

def **AAOIFI**

ins Rules 2015-3

def **BANK**

ins Rules 2014-3

def **INMA**

ins Rules 2014-3

def **month**

ins Rules 2015-3

def **profit sharing investment account**

om Rules 2014-3

def **PSIA**

om Rules 2014-3

def **QFC**

ins Rules 2015-3

def **Regulatory Authority**

am Rules 2015-3

def **restricted PSIA**

om Rules 2014-3

4 Editorial changes

INAP, r 3.1.7, authorises certain editorial changes to Rules on publication (provided that the changes do not change the legal effect of the Rules). In version 4 of ISFI, the following editorial changes were made:

- the table of contents and the page headers and footers brought into line with current practice
- certain defined terms no longer capitalised
- some provisions formerly lettered with upper-case letters re-lettered with lower-case letters (and references to them changed accordingly)
- “Chapter” and “Part” inserted in headings (and references to the Chapter or Part changed accordingly)

Endnotes

- numbers formerly spelt out in the text shown as numerals (except at the beginning of a provision)
- minor changes to punctuation
- “and” or “or” inserted at the ends of certain paragraphs and subparagraphs, as appropriate, and omitted at the ends of paragraphs and subparagraphs where the sequence is preceded by “the following” or a similar expression.

In version 5 of ISFI the following editorial change was made:

- heading inserted to rule 6.1.3.