

EXECUTIVE SUMMARY SIGNIFICANT ANNOUNCEMENTS

COVERAGE: **CENTRAL BANK OF UAE**

LOCATION: **UNITED ARAB EMIRATES**

ISSUE: **APR, 2022 TO JUN, 2022**



INTRODUCTION & SUMMARY

During the period from April 2022 to June 2022, Central Bank of UAE issued total 01 announcement on different matters. These regulatory instructions were predominantly in the areas of Banking Regulations

ANNOUNCEMENTS

01



DETAILS OF ANNOUNCEMENTS

Key instructions disseminated by Central Bank of UAE during the 2nd quarter of 2022 are summarized below:

Banking Regulations – Risk Management

Specialized Standard Regarding Profit Equalization for Islamic Banks dated April, 2022

- These standards regarding profit equalization for Islamic banks constitute additional requirements to the Standard Risk Management Requirements for Islamic Banks issued by the Central Bank. These standards are mandatory and enforceable.
- This Standard elaborates on the supervisory expectations of the Central Bank with respect to profit equalization in Islamic Banks and it must be read in conjunction with the regulations, standards and resolutions issued by the Central Bank and the Higher Shari'ah Authority.
- This Standard applies to all IBs. Islamic Banks established in the UAE with Group relationships, including Subsidiaries, Affiliates, or international branches, must ensure that the Standard is adhered to on a solo and group-wide basis.
- Islamic Banks may maintain more than one investment pool for different Investment Account Holders ("IAHs"). Each investment pool may earn a different return depending on the yield of the allocated and/or tagged portfolio of assets. The IBs must maintain the separation of accounts for each investment pool.
- The funds raised are further deployed into the pool that the IB manages in its capacity as Mudarib or Wakil ("Fund Manager"), for both of which the IB enjoys certain rights and undertakes certain responsibilities.
- The profit sharing and loss bearing contracts expose IBs to different risks, which require adherence to strong risk management governance and a high degree of transparency.
- IBs are expected to develop and implement a sound methodology to identify, monitor, measure and report the impact of DCR and the amount needed to mitigate the exposure. The methodology must be applied systematically and reviewed regularly.
- In managing this risk, IBs may adopt the profit equalization techniques i.e. i. Establish an Investment Risk Reserve ("IRR"). ii. Establish a Profit Equalization Reserve (PER). iii. Forgo part of or its entire profit as the Mudarib, in favor of the IAH in order to increase the profit attributed to the IAH iv) Transfer the IB's current profits or retained earnings to the IAH on the basis of Hibah / gift.
- IBs must set limits for the amounts transferred to the IRR and PER and must distribute the rest to the IAHs.
- If the IB has various Investment Accounts ("IA") (with different categories/types/tiers), the IB must ensure that any accumulated reserve (appropriated from a specific category/type/tier) will benefit only the respective IAs, avoiding, in the process, any cross funding.
- The Board must ensure that the internal policies, procedures and controls are adequate and duly approved by the Internal Shari'ah Supervision Committee ("ISSC").
- The Board must review and approve the policies and strategies of the investments, and strategies for the management of DCR, and conduct regular reviews of the investment policies and the performance of the asset portfolio in which IAHs funds are invested.
- In order to ensure that profit equalization, including utilization of reserves such as PER and IRR, are appropriately checked and monitored, the Board must form an independent committee (which must have three members) mandated to scrutinize the utilization of such reserves and to make appropriate recommendations to the Board.

- The Board or its committees must ensure rigorous and diligent oversight policy, process and procedures.
- The ISSC must ensure that all IB's practices related to profit equalization are Shari'ah compliant.
- IBs must make adequate and timely public disclosures in their annual report, website and any other means used by the IBs, of any material changes to their policies regarding profit calculation, asset allocation, investment strategies and mechanics of equalization of the returns in respect of the IAs.
- IBs must disclose information on policies, procedures, product design/type, profit allocation basis and differences between restricted and unrestricted IAH in addition to the clarity and transparency regarding the rates of return and associated risks that are applicable to IA.
- IAH disclosures must contain information to reflect, with the appropriate level of detail, the direct and indirect fees, expenses, taxes deducted and the net amount received by the IAH based on the profit calculation and allocation methods adopted by the IB.
- In the event of voluntary liquidation, the IBs must dispose the outstanding IRR and PER in accordance with the agreed terms and conditions at the time of establishing the reserves.
- Periodic reports must be shared by the Board with the Board committees, ISSC and the Central Bank, stating the current state of the reserve, amount used for the equalization of the profit, and the amount allocated for investment.
- The IBs must comply fully with the requirements stated in this Standard within 180 days from publishing this Standard.

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