

EXECUTIVE SUMMARY SIGNIFICANT ANNOUNCEMENTS

COVERAGE: CENTRAL BANK OF UAE

LOCATION: UNITED ARAB EMIRATES

ISSUE: JULY, 2022 TO SEPTEMBER, 2022



INTRODUCTION & SUMMARY

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



DETAILS OF ANNOUNCEMENTS

Key instructions and amendments disseminated by Central Bank of UAE during the 3rd quarter of 2022 are summarized below:

Banking Regulations – Risk Management

Standard Regarding Profit Equalization for Islamic Banks dated September, 2022

- This Standard Regarding Profit Equalization for Islamic Banks constitutes additional requirements to the Standards Re Risk Management Requirements for Islamic Banks issued by the Central Bank. This Standard is 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.
- IAHs bear the commercial risk associated with the underlying investments made using their funds unless there is negligence, misconduct or breach of contract from the IB.
- The return to be distributed to the IAHs can only be ascertained at the end of the investment period. Contractually, IAHs are only entitled to profits or returns if the pool's underlying assets perform.
- 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.

- The broad policies and strategies must address, inter alia, the following areas:
 - i. The management of DCR, including the limits to and tolerance level of DCR;
 - ii. The policies and mechanisms used in respect of the IB forgoing its share of profits in favor of the IAH;
 - iii. Appropriations to reserves and provisioning, in accordance with the agreed contractual terms and conditions for IAH.
- 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 at least 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 Board or its committees must ensure rigorous and diligent oversight policy, process and procedures over the following:
 - i. The financing and investment activities undertaken by the IB using IAH's funds;
 - ii. The fiduciary duties performed by the IB, which must be in accordance with the terms and conditions of the Mudarabah and Wakala contracts between the IB and its IAH;
 - iii. The level of reserve allocation, ensuring that it is appropriate and fair to both existing and new IAHs.
- 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.

CONTACT US:

United Arab Emirates

Prime Tower, Office #45A,
27th Floor, Business Bay, Dubai United Arab
Emirates.
E: asad.ali@benchmatrix.com
M: +971 50 8508325

Canada

INC 31 Durward Place, Unit C, Waterloo,
ON, N2 4E5.
E: noman.zahid@benchmatrix.com
D: +1 647 540 8188

Pakistan

3rd Floor, Lakson Square,
Building No.3, Sarwar Shaheed Road, Karachi,
Pakistan.
E: taimur.kaleem@benchmatrix.com
T: +92 21 35620944
M: +92 332 5432689

Kuwait

E: sanju.francis@benchmatrix.com
M: +965 555 09074

Kingdom of Saudi Arabia

2839 Sufayyah bint Abdulmutalib
Street, Alnaeem district,
Zipcode 23621,
Jeddah, Saudi Arabia
E: sultan.malki@benchmatrix.ca
M: +966 55 031 3461

Bahrain

Office 63, Building 2317,
Road 2830, Block 428, Al Seef,
Manama, Kingdom of Bahrain.
E: waqas.alam@benchmatrix.com
M: +973 3513 9689

Algeria

E: imed.ouitis@benchmatrix.com
M: +213 7714 78444

