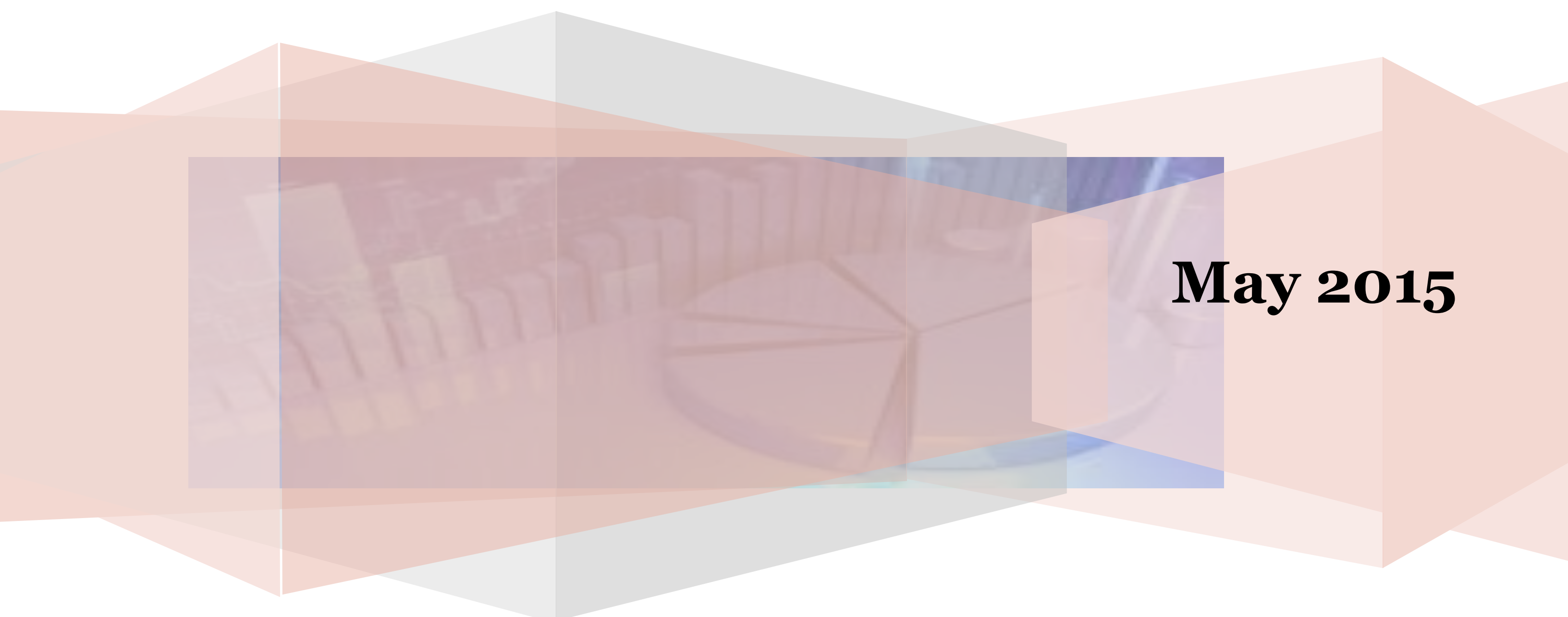
Compilation Guide on Prudential and Structural Islamic Financial Indicators: Supplement

ISLAMIC FINANCIAL SERVICES BOARD



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PSIFI Compilation Guide: Supplement

May 2015

1 INTRODUCTION

This supplement to the PSIFI Compilation Guide (CG) updates indicators to be compiled under the IFSB's program on Prudential and Structural Indicators for Islamic Financial Institutions (PSIFIs), which are aggregate indicators of the soundness or vulnerabilities of Islamic financial systems and the structure and growth of the industry. These aggregate measures examine the sector as a whole, as opposed to micro-prudential measures of the soundness of individual Islamic financial institutions.

The changes reflect lessons learned during the global financial crisis that began in 2007, revisions to global regulatory framework in Basel III and corresponding IFSB standards, modifications to the list of IMF Financial Soundness Indicators (FSIs), proposals by the Statistical, Economic, and Social Research and Training Centre for Islamic Countries (SESRIC), and experiences of the IFSB and IMF in working with countries to compile and disseminate soundness indicators.

The global financial crisis highlighted the need for indicators that comprehensively review the vulnerabilities of financial systems. The crisis was unique in its depth and global scope but also in accenting new types of financial threats including a massive liquidity freeze, collapsing asset prices in real estate and securities, damaging linkages between the financial and real economies, procyclical dynamics that first built vulnerabilities within the system then contributed to the speed and depth of the downturn, inadequacy of capital within financial systems, and dangers of securitization and financial engineering, among others.

The Islamic financial services industry was also affected by the crisis, but overall fared better than conventional financial systems. This stemmed from multiple factors, including holding high levels of capital, less involvement in financial instruments (securitized assets, derivatives, subordinated debt, etc.) that experienced major problems during the crisis, and less integration with international capital markets and the financial stresses that developed within them. However, Islamic finance was affected by factors such as concentrated exposures to real estate and project finance, lack of market diversification, and lack of access to short-term liquid instruments.

Such factors led the international community to intensively reexamine the types of indicators available to understand the vulnerabilities of financial systems and resources available to address problems. As part of this review, the IMF extensively revised its set of Financial Soundness Indicators (FSIs) to capture the changes underway in bank supervision (Basel III) and cover new types of vulnerabilities.[1] In parallel, the IFSB is revising its soundness indicators to reflect the changes in conventional finance and to capture information on the threats and sources of strength to Islamic finance revealed in the financial crisis.

This Supplement describes the changes to the IFSB PSIFIs compared to the existing *PSIFI Compilation Guide*, which will remain the reference for many issues related to PSIFIs.

[1] International Monetary Fund. Modifications to the Current List of Financial Soundness Indicators. November 13, 2013. www.imf.org/external/np/pp/eng/2013/111313.pdf.

2. CHANGES TO INDICATORS

2.1 CHANGES TO CORE PRUDENTIAL INDICATORS

The set of Core Prudential Indicators is the heart of the PSIFI system. The set includes indicators believed to best capture the strengths and vulnerabilities of the sector. Countries are urged to compile all core indicators. Special emphasis can be given to indicators closely related to the new Basel III standards and related IFSB standards because they can provide supervisors, markets, and the public current information on the effective implementation of the new standards – information needed to assure markets and make valid comparisons of Islamic finance across countries and in comparison to conventional finance.

All Core indicators correspond to equivalent IMF Financial Soundness Indicators (FSIs), except for Net Profit Margin and the Cost to Income ratio, which are commonly used banking indicators and which are analyzed in the IFSB's annual *Islamic Financial Services Industry Stability Report*.

The set of core indicators has been expanded to include 9 series related to Basel III items or which have demonstrated importance during the crisis.[2]

All countries with Islamic banking should separately compile prudential and structural indicators both for stand-alone Islamic banks and Islamic windows of conventional banks. Indicators are the same for banks and windows except some difference in the structural indicators.

The core indicators are listed below.

Capital adequacy

Capital adequacy ratio[3]

Tier 1 capital to RWA

Common equity Tier 1 (CET1) capital to RWA

Asset Quality[4]

Gross nonperforming financing (NPF) ratio

Net nonperforming financing (Net NPF) to capital.

[2] In contrast, a handful of indicators have been dropped from the core set because they add complexity, are micro-prudential in nature and not tightly linked with financial stability concerns, and are more related to the structure of the industry than its financial strength.

[3] Different formulas exist for the Capital Adequacy Ratio – (1) the ratio covering all banks as promulgated by the Basel Committee for Banking Supervision ('Basel'), (2) the standard formula used in the IFSB's Capital Adequacy Standard ('IFSB Standard') that applies only to Islamic institutions and Islamic Windows of conventional banks, and (3) the IFSB supervisory discretion formula ('IFSB supervisory discretion'). Compilers are given flexibility to report whichever formula they wish, and can also report more than one version.

[4] These 3 indicators all correspond to FSIs and deal with asset impairment - gross impaired assets to total assets, net impaired assets to capital, and provisions for impairment.

Provisions for Gross NPF

Earnings

Return on assets (ROA)

Return on equity (ROE)

Net profit margin[5]

Cost to income

Leverage

Capital to assets (Balance sheet definition)

Leverage (Regulatory definition)

Liquidity

Liquid assets ratio

Liquid assets to short-term liabilities

Liquidity Coverage Ratio (LCR) – High-quality liquid assets to net cash outflow

Net Stable Funding Ratio (NSFR) – Long term funding available to the amount of required stable funding

Sensitivity to Market Risk; Other

Net foreign exchange open position to capital

Large exposures to capital[6]

Growth of financing to the private sector

2.2 CHANGES TO ADDITIONAL PRUDENTIAL INDICATORS[7]

Several series formerly in this group have been reclassified as core indicators. This group has been cut back to delete series mostly focused on micro-prudential supervision.

All countries with Islamic banking should consider compiling the indicators listed below, but may choose not to compile individual indicators depending on the degree of importance in their country, difficulty in obtaining data, or methodological or statistical problems.

[5] Net profit margin is an important variable in understanding the health of a financial sector and for comparisons of operating profits (on a pretax and pre *Zakat* basis) between countries and between conventional and Islamic financial systems.

[6] This PSIFI is added to cover the vulnerabilities arising from concentration of lending risk to large individual customers or groups.

[7] Formerly entitled "Encouraged Prudential Indicators".

Income distributed to investment account holders (IAH) out of total income from assets funded by PSIA

Total off-balance-sheet items to total assets

Foreign-currency denominated funding to total funding

Foreign-currency denominated financing to total financing

Value of *Sukūk* holdings to total capital

Value (or percentage) of *Shariah*-compliant financing by economic activity

Value (or percentage) of gross NPF by economic activities

Value (or percentage) of Returns by major type of *Sharī`ah*-compliant contract

Total Returns

Murābahah
Commodity Murābahah / *Tawwaruq*
Salam
Istisnā`
Ijārah / Ijārah Muntahia Bittamlīk
Mudārabah
Mushārakah
Diminishing Mushārakah
Wakālah
Qard Hassan
Others (please specify)[8]
(i)
(ii)
(iii)
Others

2.3 CHANGES TO STRUCTURAL INDICATORS

These are indications of the size and structure of the Islamic banking sector. In contrast to the analytical ratios that comprise the prudential indicators, most structural indicators are not ratios but numbers indicating size or amounts.

The structural indicators are divided to separately cover 1. Stand-alone IIFS (full-fledged Islamic banks), and 2. Islamic banking branches and Islamic windows operated by conventional banks. This is because of differences between stand-alone banks and windows in their structure and ease or difficulty in collecting statistical information.

2.2.1 IIFS (Stand-alone Islamic banking and near banking institutions)

Number of Islamic banks

[8] Compilers are requested to report the values of return from other types of Shariah-compliant contracts, if any, by extending the list (for example, Bai Ajil, Bai Bitaman Ajil (BBA), Joaalah etc.). Thereafter, the 'Other' category covers the remaining amount of return.

Number of domestic branches

Number of ATMs

Number of employees

Total assets

Total *Sharī`ah*-compliant financing (excluding interbank financing)

Sukuk holdings

Other Sharī`ah-compliant securities

Interbank financing

All other assets

Total funding/liabilities

Profit-sharing investment accounts (PSIA)

Other remunerative funding (*Murābahah*, Commodity *Murābahah* etc.)

Nonremunerative funding (current account, *Wadia*)

Sukūk issued

Other *Sharī`ah*-compliant securities issued

Interbank funding/liabilities

All other liabilities

Capital and reserves

Total Revenues

Financing based

Investment based (*Sukūk*, other *Sharī`ah*-compliant securities etc.)

Fee based

Other

Earnings before taxes and *Zakat*

Value (or percentage) of financing by major type of *Sharī`ah*-compliant contract

Total Financing

Murābahah
Commodity Murābahah / *Tawwaruq*
Salam

Istisnā`
Ijārah / Ijārah Muntahia Bittamlīk
Mudārabah
Mushārakah
Diminishing Mushārakah
Wakālah
Qard Hassan
Others (please specify)[9]
(i)
(ii)
(iii)
Others

Assets held by domestic systemically important Islamic banks

2.2.2 Windows (Islamic banking branches and Islamic Windows of conventional banks)

Number of conventional banks with Islamic windows

Number of domestic branch offices

Number of employees

Total assets

Total *Sharī`ah*-compliant financing (excluding interbank financing)

Sukūk holdings

Other Sharī`ah-compliant securities

Interbank financing

All other assets

Total Funding/Liabilities

Profit-sharing investment accounts (PSIA)

Other remunerative funding (*Murābahah*, Commodity *Murābahah* etc.)

Nonremunerative funding (current account, *Wadia*)

Sukūk issued

Other *Sharī`ah*-compliant securities issued

Interbank funding/liabilities

[9] Compilers are requested to report the values of financing from other types of *Shariah*-compliant contracts, if any, by extending the list (for example, Bai Ajil, Bai Bitaman Ajil (BBA), Joaalah etc.). Thereafter, the ‘Other’ category covers the remaining amount of financing.

All other liabilities

Capital and reserves

Total Revenues

Financing based

Investment based

Fee based

Other

Earnings before taxes and *Zakat*

Value (or percentage) of financing by major type of *Sharī`ah*-compliant contract

Total Financing

Murābahah
Commodity Murābahah / Tawwaruq
Salam
Istisnā`
Ijārah / Ijārah Muntahia Bittamlīk
Mudārabah
Mushārakah
Diminishing Mushārakah
Wakālah
Qard Hassan
Others (please specify)[10]
(i)
(ii)
(iii)
Others

Assets held by domestic systemically important Islamic windows

[10] Compilers are requested to report the values of financing from other types of *Shariah*-compliant contracts, if any, by extending the list (for example, Bai Ajil, Bai Bitaman Ajil, Joaalah etc.). Thereafter, the 'Other' category covers the remaining amount of financing.

3 CONSOLIDATION BASIS

Data reported by banks for statistical compilation can use a variety of consolidations of the accounts of the parts of the enterprise. The indicators compiled can be significantly different depending on the consolidation used. Three consolidations are recommended for Islamic banks and Islamic Windows.[11] [12]

Cross-border domestically controlled (CBDC) basis

> The Cross-border domestically controlled basis (CBDC) covers only domestically-owned banks incorporated in the country. These banks are fully subject to domestic supervision and hold own capital. The cross-border aspect of this consolidation captures information on strength and risk of the global operations on the parent banks. This consolidation is consistent with the Basel standard.

Cross-border domestically incorporated (CBDI)[13] basis

> In addition to coverage of domestically-owned banks incorporated in the country (above), this consolidation includes foreign banks' subsidiaries in the country. All these banks are incorporated in the country and thus are subject to domestic supervision and hold own capital. This consolidation captures information on strength and risk of the global enterprise for domestically and foreign controlled incorporated banks. It is consistent with the Basel standard.

Domestically consolidated (DC) basis

> This consolidation covers all the banks operating within the country, but excludes their operations in other countries. It includes (1) domestically-owned incorporated banks, (2) domestically incorporated bank subsidiaries of foreign banks, and (3) foreign banks' branches operating in the country. All positions and transactions of these banks with their foreign subsidiaries, branches, or parents are treated as external to the consolidation.

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[11] All three consolidations are presumed to be on a cross-sector ("CS") basis, meaning that reporting should include the banking parent and its financial-industry subsidiaries and branches (other than insurance). The initials "CS" can be inserted in the basic consolidation acronym whenever appropriate; for example, CBDI can be expanded to CBCSDI. This cross-sector aspect is consistent with the Basel standard.

[12] Compilers are permitted to use other consolidations, but should report the basis used in metadata.

[13] The broadest consolidation is the Cross-border domestically incorporated plus foreign bank branches basis (CBDIFBB) that covers all units in the CBDI consolidation above plus foreign banks' branches operating in the country. This is a new consolidation adopted in the draft IMF *FSI Compilation Guide*.

4 DESCRIPTIONS OF INDIVIDUAL PSIFIS

4.1 CORE PIFIS

Capital adequacy: Most countries in Phase III of PSIFI project have indicated that they will implement Basel III on time or earlier than the phased-in schedule developed by the BCBS. Some countries are using Basel II, but might compile several Basel III indicators such as Leverage or LCR – Liquidity Coverage Ratio. A few countries are implementing the IFSB-15 Capital Adequacy Standard. Recommended aggregations of capital components under Basel III, Basel II (or Basel I), and IFSB-15 are shown in Appendix 1.

CP01a. Capital adequacy ratio (Basel formula) ***(FSI equivalent)***
Definition This PIFI measures the total capital adequacy of IIFS based on the general formula developed by the Basel Committee for Banking Supervision (BCBS). Although the ratio is designed to cover all types of banks (conventional and Islamic), for use as a PIFI only Islamic banks should be included. $$\mathbf{CAR_{Basel} = Total\ Regulatory\ Capital\ /\ Risk\text{-}Weighted\ Assets_{Basel}}$$ Capital: Sector-wide regulatory capital, after supervisory deductions. RWA_{std}: Sector-wide risk-weighted assets as defined by BCBS to cover credit, market, and operational risk.
Data Sources Underlying data are from supervisory series covering the consolidated regulatory capital. Series may be based on Basel I, II, or III rules as applied by each country.
Aggregation and Consolidation Either the cross-border, domestically controlled (CBDC) or cross-border domestically incorporated (CBDI) consolidation is required for financial soundness analysis. In addition, the domestic consolidation (DC) can be considered in order to highlight macroeconomic linkages. Because data on stand-alone Islamic banks and windows are recorded on separate forms (Form B for stand-alone Islamic banks; Form W for windows), the numerators and denominators for each should be separately aggregated.

CP01b. Capital adequacy ratio (IFSB Standard formula) ***(FSI equivalent)***
Definition This PIFI measures the total capital adequacy of Islamic banks based on the standard formula defined in the IFSB's Capital Adequacy Standard (CAS). $$\mathbf{CAR_{std} = Capital\ /\ Risk\text{-}Weighted\ Assets_{std}}$$ $$= \frac{\text{Total regulatory Capital}}{\begin{array}{c}\text{Total RWA (credit + market risks) + RWA (operational risk)}\\ \text{less}\\ \text{RWA funded by PSIA (credit + market Risks)}\end{array}}$$ Eligible Capital: Sector-wide regulatory capital, after supervisory deductions.

RWA_{std}: Sector-wide risk-weighted assets for credit risk and market risk, plus risk-weighted assets for operational risks, minus risk-weighted assets for credit risk and market risk funded by PSIA. One hundred per cent of credit and market risk-weighted assets funded by both restricted and unrestricted PSIA is borne by restricted and unrestricted IAH; all operational risk arising from the management of these assets is borne by the IIFS. Total RWA funded by PSIA = RWA funded by restricted PSIA plus RWA funded by unrestricted PSIA. [For details, please see *IFSB-15: Revised capital adequacy standard for IIFS* and *Guidance Note 4 relating to capital adequacy standard* available at www.ifsb.org]

Data Sources Underlying data are from supervisory series covering the consolidated regulatory capital, consolidated risk-weighted assets for credit and market risks, consolidated RWA for operational risks and consolidated RWA funded by PSIA for credit and market risks of domestically controlled Islamic banking groups in the reporting population.

Aggregation and Consolidation Either the cross-border, domestically controlled (CBDC) or cross-border domestically incorporated (CBDI) consolidation are required for financial soundness analysis. In addition, the domestic consolidation (DC) can be considered for macroeconomic linkages.

Because data on stand-alone Islamic banks and windows are recorded on separate forms (Form B for stand-alone Islamic banks and Form W for windows), the numerators and denominators for each should be separately aggregated.

CP01b. Capital adequacy ratio (IFSB Supervisory Discretion definition) ***(FSI equivalent)***

Definition This PIFI measures the capital adequacy of IIFS based on the supervisory discretion formula defined in the IFSB's Capital Adequacy Standard (CAS).

$$\mathbf{CAR_{sd} = Capital\ /\ Risk\text{-}Weighted\ Assets_{sd}}$$

$$= \frac{\text{Total regulatory Capital}}{\begin{array}{c}\text{Total RWA (credit + market risks) + RWA (Operational risk)}\\ \text{less}\\ \text{RWA funded by Restricted PSIA (credit + market Risks)}\\ \text{less}\\ (1-\alpha)[\text{RWA funded by Unrestricted PISA (credit + market risks)}]\\ \text{less}\\ \boldsymbol{\alpha}[\text{RWA funded by } \mathit{PER\ and\ IRR\ of\ Unrestricted\ PSIA} \text{ (credit + market risks) }]\end{array}}$$

Eligible Capital: Sector-wide regulatory capital, after supervisory deductions.

RWA_{SD}: Sector-wide risk-weighted assets for credit risk, market, and operational risks *minus* risk-weighted assets funded by PSIA for credit risk and market risks less (1–α[14]) risk-weighted assets funded by unrestricted

[14] Alpha (α) is the portion of assets funded by unrestricted PSIA held subject (per supervisory discretion) to the IIFS's capital requirements for credit and market risk. α may vary by country and on a case-by-case basis. "Displaced commercial risk (DCR)" refers to the magnitude of risks transferred back to IIFS shareholders in order to cushion the volatility of returns to IAH, who, in principle, should bear all of the investment risks under a *Mudārabah* contract. Under a *Mudārabah* contract, unrestricted IAH carry most banking risks, such as credit, market, and rate of

PSIA for credit and market risks, *minus* (α) risk-weighted assets funded by PER and IRR of unrestricted PSIA for credit and market risk. A portion α (as determined by national supervisory authorities) of credit and market risk-weighted assets funded by PSIA is deemed as borne by IIFS due to the displaced commercial risk. All operational risk arising from the management of these assets is borne by the IIFS. [For details, please see *IFSB-15: Revised capital adequacy standard for IIFS* and *Guidance Note 4 relating to capital adequacy standard* available at www.ifsb.org]

Data Sources Same as for Capital adequacy ratio (IFSB Standard Formula).

Aggregation and Consolidation Same as for Capital adequacy ratio (IFSB Standard Formula).

CP02a. Tier 1 capital to RWA (Basel formula) ***(FSI equivalent)***

Definition This PIFI measures the ratio of Common Equity Tier 1 and Additional Tier 1 capital relative to total risk-weighted assets (RWA) based on the general formula developed in Basel III. Although the ratio is designed to cover all types of banks (conventional and Islamic), for use as a PIFI only Islamic banks and Islamic windows should be included.

$$\mathbf{CART1_{Basel} = Tier\ 1\ Capital\ /\ Risk\text{-}Weighted\ Assets_{Basel}}$$

Tier 1 Capital: Total Tier 1 regulatory capital, including Common Equity Tier 1 and Additional Tier 1 capital, as defined by Basel after supervisory deductions.

RWA_{std}: Sector-wide risk-weighted assets as defined by BCBS to cover credit, market, and operational risk.

Data Sources Underlying data are from supervisory series covering the consolidated regulatory capital. Series may be based on Basel I, II, or III rules as applied by each country.

Aggregation and Consolidation Either the cross-border, domestically controlled (CBDC) or cross-border domestically incorporated (CBDI) consolidation is required for financial soundness analysis. In addition, the domestic consolidation (DC) can be considered for macroeconomic linkages.

Because data on stand-alone Islamic banks and windows are recorded on separate forms (Form B for stand-alone Islamic banks and Form W for windows), the numerators and denominators for each should be separately aggregated.

CP02b. Tier 1 capital to RWA (IFSB Standard formula) ***(FSI equivalent)***

Definition This indicator parallels the total capital ratio (IFSB standard definition) above but uses Basel regulatory Tier 1 capital in the numerator. Tier 1 capital is considered core capital with the highest degree of liquidity and capital certainty.

$$\mathbf{CART1_{std} = Tier\ 1\ Capital\ /\ Risk\text{-}Weighted\ Assets_{std}}$$

return risks, but may benefit from DCR assumed by the IIFS. The transfer of risks from IAH back to shareholders requires appropriate inclusion of a fraction of the RWA funded by IAH in the denominator of the CAR formula, as specified in the IFSB CAS.

$$= \frac{\text{Tier 1 Capital}}{\text{Total RWA (credit } + \text{ market risks)} + \text{ RWA (Operational risk)}}$$

$$\text{Less}$$

$$\text{RWA funded by PSIA (credit } + \text{ market Risks)}$$

Tier 1 Capital: Total Tier 1 regulatory capital, including Common Equity Tier 1 and Additional Tier 1 capital, as defined by IFSB after supervisory deductions.

RWA_{std}: The same as in the total CAR_{std} above.

[For details, please see *IFSB-15: Revised capital adequacy standard for IIFS* available at www.ifsb.org]

Data Sources Same as for IFSB Capital adequacy ratio (IFSB Standard Formula).

Aggregation and Consolidation Same as for IFSB Standard Formula.

CP02b. Tier 1 capital to RWA (Supervisory discretion formula) ***(FSI equivalent)***

Definition This indicator parallels the total capital ratio (supervisory formula) above but uses regulatory Tier 1 capital in the numerator.

$$\mathbf{CART1_{sd} = \text{Tier 1 Capital / Risk-Weighted Assets}_{sd}}$$

$$= \frac{\text{Tier 1 Capital}}{\begin{array}{c}\{\text{Total RWA (credit } + \text{ market risks)} + \text{ RWA (Operational risk)} \\ \text{less} \\ \text{RWA funded by Restricted PSIA (credit } + \text{ market Risks)} \\ \text{less} \\ (1 - \alpha)[\text{RWA funded by Unrestricted PISA (credit } + \text{ market risks)}] \\ \text{less} \\ \alpha[\text{RWA funded by } PER \text{ and } IRR\ of\ Unrestricted\ PSIA \text{(credit } + \text{ market risks) }]\}\end{array}}$$

Tier 1 Capital: Total Tier 1 regulatory capital, including Common Equity Tier 1 and Additional Tier 1 capital, as defined by IFSB after supervisory deductions.

RWA_{sd}: The same as in the total CAR_{sd} above.

[For details, please see IFSB-15: Revised capital adequacy standard for IIFS available at www.ifsb.org]

Data Sources Same as for IFSB Capital adequacy ratio (IFSB Standard Formula).

Aggregation and Consolidation Same as for IFSB Capital adequacy ratio (IFSB Standard Formula).

CP03a. Common Equity Tier 1 capital to RWA (Basel formula) [New] ***(FSI equivalent)***

Definition This indicator parallels the total capital ratio (Basel definition) but uses Common Equity Tier 1 (CET1) capital defined in Basel III as the numerator. CET1 is the most stringent definition of core capital that has the highest degree of liquidity and capital certainty. This indicator should be completed only by countries that have adopted Basel III.

$$\textbf{CARCET1}_{\textbf{Basel}} = \textbf{Common Equity Tier 1 Capital / Risk-Weighted Assets}_{\textbf{std}}$$

$CET1_{Basel}$: Common Equity Tier 1 regulatory capital, as defined in Basel III. After supervisory deductions.

RWA_{Basel}: The same as in the total CAR_{Basel} above.

Data Sources Numerator and denominator should be drawn from supervisory data using Basel III definitions.

Aggregation and Consolidation Same as for IFSB Capital adequacy ratio (IFSB Standard Formula).

CP03b. Common Equity Tier 1 capital to RWA (IFSB Standard formula) [New] *(FSI equivalent)*

Definition This indicator parallels the total capital ratio (standard definition) above but uses Common Equity Tier 1 (CET1) capital defined in Basel III as the numerator. CET1 is a more stringent definition of core capital that has the highest degree of liquidity and capital certainty. This indicator should be completed only by countries that have adopted Basel III.

$$\textbf{CAR\_CET1}_{\textbf{std}} = \textbf{Common Equity Tier 1 Capital / Risk-Weighted Assets}_{\textbf{std}}$$

$$= \frac{\text{Common Equity Tier 1 Capital}}{\begin{array}{c}\text{Total RWA (credit } + \text{ market risks)} + \text{ RWA (Operational risk)} \\ \text{less} \\ \text{RWA funded by Restricted PSIA (credit } + \text{ market risks)}\end{array}}$$

Common Equity Tier 1 Capital: Common Equity Tier 1 regulatory capital, as defined in IFSB standard, after supervisory deductions.

RWA_{std}: The same as in the total CAR_{std} above.

[For details, please see *IFSB-15: Revised capital adequacy standard for IIFS* available at www.ifsb.org]

Data Sources Numerator and denominator should be drawn from supervisory data using IFSB-15 definitions.

Aggregation and Consolidation Same as for IFSB Capital adequacy ratio (IFSB Standard Formula).

CP03b. Common Equity Tier 1 capital to RWA (IFSB Supervisory discretion formula) [New] *(FSI equivalent)*

Definition This indicator parallels the total capital ratio (IFSB supervisory definition) above but uses Common Equity Tier 1 capital in the numerator as defined in the IFSB standard. This indicator should be completed only by countries that have adopted Basel III.

$$\textbf{CAR\_CET1}_{\textbf{st}} = \textbf{Common Equity Tier 1 Capital / Risk-Weighted Assets}_{\textbf{sd}}$$

$$= \frac{\text{Common Equity Tier 1 Capital}}{\begin{array}{c}\text{Total RWA (credit + market risks)} + \text{RWA (Operational risk)} \\ \text{less} \\ \text{RWA funded by Restricted PSIA (credit + market Risks)} \\ \text{less} \\ (1-\alpha)[\text{RWA funded by Unrestricted PISA (credit + market risks)}] \\ \text{less} \\ \alpha[\text{RWA (credit + market risks) funded by } PER\ and\ IRR\ of\ Unrestricted\ PSIA]\end{array}}$$

Common Equity Tier 1 Capital: Common Equity Tier 1 regulatory capital, as defined in IFSB standard, after supervisory deductions.

RWA_{sd}: The same as in the total CAR_{sd} above.
[For details, please see *IFSB-15: Revised capital adequacy standard for IIFS* available at www.ifsb.org]

Data Sources Numerator and denominator should be drawn from supervisory data using IFSB-15 definitions.

Aggregation and Consolidation Same as for IFSB Capital adequacy ratio (IFSB Standard Formula).

CP04. Gross nonperforming financing (NPF) ratio [Unchanged] ***(FSI equivalent)***

Definition This is the ratio of nonperforming financing to Total financing, as a measure of the asset quality of the bank's financing portfolio.

NPFTF = NPF / Total Financing

Numerator is the value of gross NPF.

Denominator is the total value of outstanding *Sharī`ah*-compliant financing including NPF and before deduction of provisions.

Data Sources Data can come either from supervisory sources or financial balance sheets.

Aggregation and Consolidation Either the cross-border, domestically controlled (CBDC) or cross-border domestically incorporated (CBDI) consolidation is required for financial soundness analysis. In addition, the domestic consolidation (DC) can be considered in countries where IIFS and Windows have limited cross-border affiliates and for macroeconomic linkages.

Because data on stand-alone Islamic banks and windows are recorded on separate forms (Form B for stand-alone Islamic banks and Form W for windows), the numerators and denominators for each should be separately aggregated.

CP05. Net nonperforming financing (Net NPF) to capital [Unchanged] ***(FSI equivalent)***

Definition This is the ratio of net nonperforming financing to capital. It examines the potential impact of nonperforming financing on capital – provisions and direct impairment deductions have already been deducted from the numerator and denominator, and thus this is a measure of the remaining risk to capital from NPF.

NNPFC = Net NPF / Total Regulatory Capital

Numerator: Value of gross NPF less provisions or direct reductions for impairment.

Denominator: Total regulatory capital, but flexibility exists to use balance sheet capital under the DC consolidation because foreign-owned branches might not hold regulatory capital.

Data Sources Supervisory balance sheets for IIFS and Windows

Aggregation and Consolidation Either the cross-border, domestically controlled (CBDC) or cross-border domestically incorporated (CBDI) consolidation is required for financial soundness analysis. In addition, the domestic consolidation (DC) can be considered in countries where IIFS and Windows have limited cross-border affiliates and for macroeconomic linkages.

Because data on stand-alone Islamic banks and windows are recorded on separate forms (Form B for stand-alone Islamic banks and Form W for windows), the numerators and denominators for each should be separately aggregated.

CP06. Provisions for Gross Nonperforming Financing [New] ***(FSI equivalent)***

Definition This indicator looks at the amount of provisions IIFSs have set aside to cover potential losses on nonperforming financing. The ratio is followed in the IMF Global Financial Stability Review.

PNPF = Provisions for NPF / NPF

Numerator: Total specific loss provisions on financings.

Denominator: Value of *Sharī`ah*-compliant financing including NPF and before deduction of specific provisions. The definition of the denominator is drawn from IFSB *Global Financial Stability Review* FSI Statistical Table 3.

Data Sources Supervisory balance sheets for IIFS and Windows

Aggregation and Consolidation Either the cross-border, domestically controlled (CBDC) or cross-border domestically incorporated (CBDI) consolidation is required for financial soundness and analysis. In addition, the domestic consolidation (DC) can be considered in countries where IIFS and Windows have limited cross-border affiliates and for macroeconomic linkages.

Because data on stand-alone Islamic banks and windows are recorded on separate forms (Form B for stand-alone Islamic banks and Form W for windows), the numerators and denominators for each should be separately aggregated.

CP07. Return on Assets (ROA) [Unchanged]	***(FSI equivalent)***

Definition This is a measure of the efficiency of use of assets. It is a standard measure used for comparison of banking systems between countries.

ROA = Net income / Total assets

Numerator: Net income before extraordinary items, *Zakat*, and taxes. For the current year, annualized data are from the beginning of the year until the reporting period. The net income can be derived from the table provided in Appendix 2.

Denominator: Total financial and nonfinancial assets corresponding to the accounting period for income. For annual data, an average of beginning of the year and end of the year assets should be used; if quarterly assets data are available, the average of quarterly data is preferred. For quarterly data, the preferred measure is the average beginning of quarter and end of quarter data, but the end of quarter data are acceptable (Reference to the IMF FSI compilation Guide).

Data Sources Underlying data are compiled from supervisory and financial accounting sources or monetary and financial statistics. Gains and losses on financial instruments valued at market or fair value in supervisory and financial accounting is preferred to valuation in monetary statistics which exclude such gains and losses. Gains and losses on the sale of an associate or subsidiary are also excluded from income.

Aggregation and Consolidation Either the cross-border, domestically controlled (CBDC) or cross-border domestically incorporated (CBDI) consolidation is required for financial soundness and analysis. In addition, the domestic consolidation (DC) can be considered in countries where IIFS and Windows have limited cross-border affiliates and for macroeconomic linkages.

Because data on stand-alone Islamic banks and windows are recorded on separate forms (Form B for stand-alone Islamic banks and Form W for windows), the numerators and denominators for each should be separately aggregated.

CP08. Return on Equity (ROE) [Unchanged]	***(FSI equivalent)***

Definition This is a measure of the return on shareholders' investment. It is a standard measure used for comparison of banking systems between countries.

ROE = Net income / Equity

Numerator: Net income before extraordinary items, *Zakat*, and taxes. For the current year, annualized data are from the beginning of the year until the reporting period.

Equity: Total financial and nonfinancial equity, including parent's equity in Islamic Windows, corresponding to the accounting period for income. For annual data, an average of beginning of the year and end of the year assets should be used; if quarterly data are available, the average of quarterly data is preferred. For quarterly data, the preferred measure is the average beginning of quarter and end of quarter data, but the end of quarter data are acceptable (Reference to the IMF FSI compilation Guide).

Data Sources Same as ROA.

Aggregation and Consolidation Same as ROA.

CP09. Net Profit Margin **[New]**

Definition This is a measure of net returns out of income earned. It is a standard measure of the health of a financial system by indicating the ability of banks to attract new capital, build capital, and grow. This series is analyzed in the IFSB annual *Islamic Financial Services Industry Stability Report*.

Net Profit Margin = Net income / Gross Income

Numerator: Net income before extraordinary items, taxes and *Zakat*. For the current year, annualized data are from the beginning of the year until the reporting month. The net income can be derived from the table provided in Appendix 2.

Denominator: Value of gross income, including income from Sharī`ah-compliant financing and other nonfinancing-related income. For IFIs, equals net revenue from jointly funded assets (total revenues less provisions for accrued interest and sub-standard financing less income distributed to IAH) plus other income.

Gross Income = net revenue from jointly funded assets plus other income

= (total revenue from jointly funded assets – income distributed to IAH) plus other income

For the current year, annualized data are from the beginning of the year until the reporting period. The gross income can be derived from the table provided in Appendix 2.

Data Sources Underlying data are compiled from supervisory and financial accounting sources or monetary and financial statistics. Gains and losses on financial instruments valued at market or fair value in supervisory and financial accounting are preferred to valuation in monetary statistics which excludes such gains and losses. Gains and losses on the sale of an associate or subsidiary are also excluded from income.

Aggregation and Consolidation Either the cross-border, domestically controlled (CBDC) or cross-border domestically incorporated (CBDI) consolidation is required for financial soundness and analysis. In addition, the domestic consolidation (DC) can be considered in countries where IIFS and Windows have limited cross-border affiliates and for macroeconomic linkages.

Because data on stand-alone Islamic banks and windows are recorded on separate forms (Form B for stand-alone Islamic banks and Form W for windows), the numerators and denominators for each should be separately aggregated.

CP10. Cost to Income [No change]

Definition This PIFI measures non-financing-related expenses (such as personnel and administrative expenses) to gross income. This series is analyzed in the annual IFSB Islamic Financial Services Industry Stability Report.

Cost to Income = Operating Costs / Gross Income

Numerator: Total operating expenses, including personnel, administrative costs, rent, purchases of goods and services, depreciation and other provisions, and all other non-financing overhead expenses.

Denominator: Value of gross income, including income from Sharī`ah-compliant financing and other nonfinancing-related income. For IFIs, equals net revenue from jointly funded assets (total revenues less provisions for accrued interest and sub-standard financing less income distributed to IAH) plus other income.

Gross Income = net revenue from jointly funded assets plus other income

= (total revenue from jointly funded assets – income distributed to IAH) plus other income

For the current year, annualized data are from the beginning of the year until the reporting period. The gross income can be derived from the table provided in Appendix 2.

Data Sources Underlying data are compiled from either supervisory or financial accounting sources.

Aggregation and Consolidation Either the cross-border, domestically controlled (CBDC) or cross-border domestically incorporated (CBDI) consolidation is required for financial soundness and analysis. In addition, the domestic consolidation (DC) can be considered in countries where IIFS and Windows have limited cross-border affiliates and for macroeconomic linkages.

Because data on stand-alone Islamic banks and windows are recorded on separate forms (Form B for stand-alone Islamic banks and Form W for windows), the numerators and denominators for each should be separately aggregated.

CP11. Capital to Assets [Unchanged] ***(FSI equivalent)***

Definition This ratio is a not-risk-weighted measure covering capital and assets as reported on financial balance sheets. Because the new Leverage indicator captures much the same information as the Capital to Assets ratio but with a broader definition of exposure, the FSIRG has proposed that it should replace this indicator once it is available.

Capital to Assets = Tier 1 Capital / Total Assets

Numerator: The IMF's Financial Soundness Indicators Reference Group (FSIRG) has selected Tier 1 regulatory capital as the numerator.

Denominator: Parallel to the numerator, the denominator should also come from total assets data from financial balances used for supervisory purposes.

Data Sources Tier 1 supervisory data for the numerator, and balance sheet data compiled for supervisory purposes for total assets. In some cases, published accounts might be used as a proxy for the preferred measure, but they will often be based on general accounting frameworks (IFRS or national GAAP) that use different consolidations from supervisory consolidations.

Aggregation and Consolidation Either the cross-border, domestically controlled (CBDC) or cross-border domestically incorporated (CBDI) consolidation is required for financial soundness and analysis. In addition, the domestic consolidation (DC) can be considered in countries where IIFS and Windows have limited cross-border affiliates and for macroeconomic linkages.

Because data on stand-alone Islamic banks and windows are recorded on separate forms (Form B for stand-alone Islamic banks and Form W for windows), the numerators and denominators for each should be separately aggregated.

CP12. Leverage (Regulatory definition) [New] ***(FSI equivalent)***

Definition This alternative to the IFSB risk-weighted capital adequacy ratios uses supervisory based capital divided by a not-risk-weighted measure of on- and off-balance sheet exposure.

The ratio is under review by the IFSB, but an interim measure requires a ratio of ≥ 3 percent during January 2013 through end 2016. Banks have been required to report the ratio to supervisors since January 1, 2013, and must publish the information beginning January 1, 2015 using common templates that show the differences between on-balance sheet assets and the exposure measure used in the ratio.

Leverage = Tier 1 Capital / Exposure

Numerator: Regulatory Tier 1 capital.

Denominator: A broad concept of exposure equal to on-balance sheet assets adjusted for 1. Investments in banks, insurance, or commercial entities consolidated for accounting purposes but outside the regulatory consolidation, 2. Any on-balance-sheet fiduciary assets excluded from the leverage ratio, 3. Financial derivatives, 4. 'Securities financing transactions' (repos and similar secured lending), and 5. On-balance-sheet equivalent of off-balance sheet items. Detailed descriptions of the adjustments are in Section 2.1.5 in *IFSB-15 Standard on capital Adequacy.*

Data Sources Supervisory series. The total exposure data and adjustments are already required to be reported to supervisors. Compilers are encouraged to compile and disseminate the leverage ratio for the Islamic banking sector and the adjustments beginning in 2015. Some of the adjustments cover items not common to Islamic banking and publication of the adjustments will highlight some key differences between Islamic and conventional banking.

Aggregation and Consolidation Either the cross-border, domestically controlled (CBDC) or cross-border domestically incorporated (CBDI) consolidation is required for financial soundness and analysis. In addition, the domestic consolidation (DC) can be considered in countries where IIFS and Windows have limited cross-border affiliates and for macroeconomic linkages.

Because data on stand-alone Islamic banks and windows are recorded on separate forms (Form B for stand-alone Islamic banks and Form W for windows), the numerators and denominators for each should be separately aggregated.

CP13. Liquid assets ratio [Unchanged] ***(FSI equivalent)***

Definition This PIFI provides indications of the liquidity available to meet expected and unexpected demands for cash.

Liquid Assets Ratio = Liquid assets / Total assets

Numerator: Value of broad liquid assets quickly available with little or no cost in mobilizing the funds. Distinguishing between domestic and foreign currency-denominated liquid assets is useful because the availability and value of foreign currency-denominated assets can be uncertain during periods of financial stress. Private sector securities assigned with less than investment grade should be excluded from liquid assets.

Denominator: Value of financial and nonfinancial assets.

Data Sources Data potentially could be drawn from supervisory, accounting, or monetary statistics sources. Some supplementary information on the liquidity of instruments presented in these sources might be needed.

Aggregation and Consolidation Either the cross-border, domestically controlled (CBDC) or cross-border domestically incorporated (CBDI) consolidation is required for financial soundness and analysis. In addition, the domestic consolidation (DC) can be considered in countries where IIFS and Windows have limited cross-border affiliates and for macroeconomic linkages.

Because data on stand-alone Islamic banks and windows are recorded on separate forms (Form B for stand-alone Islamic banks and Form W for windows), the numerators and denominators for each should be separately aggregated.

CP14. Liquid assets to short-term liabilities [Unchanged] ***(FSI equivalent)***

Definition This PIFI captures information on the adequacy and potential liquidity mismatch between readily available assets and short-term liabilities. It provides an indication of the extent to which IIFS could meet short-term withdrawals of funds without facing liquidity problems, and could provide information on potential 'roll-over' risk.

Liquid assets to short-term liabilities = liquid assets / short-term liabilities

Numerator: Value of core liquid assets as described in the liquid assets ratio above.

Denominator: Short-term liabilities.

Data Sources Data potentially could be drawn from supervisory, accounting, or monetary statistics sources. Some supplementary information on the liquidity of instruments presented in these sources might be needed.

Aggregation and Consolidation Either the cross-border, domestically controlled (CBDC) or cross-border domestically incorporated (CBDI) consolidation is required for financial soundness and analysis. In addition, the domestic consolidation (DC) can be considered in countries where IIFS and Windows have limited cross-border affiliates and for macroeconomic linkages.

Because data on stand-alone Islamic banks and windows are recorded on separate forms (Form B for stand-alone Islamic banks and Form W for windows), the numerators and denominators for each should be separately aggregated.

CP15. Liquidity Coverage Ratio (LCR) – Stock of *Sharī`ah*-compliant High Quality Liquid Assets to net cash outflow. [New] ***(FSI equivalent)***

Definition This indicator corresponds to a new global liquidity requirement developed by the BCBS to address problems created by the global liquidity freeze during the financial crisis. In the LCR, the IIFS must hold unencumbered high-quality liquid assets against the possibility of cash-outflows during a one-month period of financial stress. This indicator will be introduced in January 2015.

LCR = (Stock of *Sharī`ah*-compliant High Quality Liquid Assets / Total net cash outflows over the next 30 calendar days) ≥ 100%

Numerator: The BCBS has provided detailed information on the requirements for assets to qualify for use in the LCR. These data must be reported to supervisors and thus will be readily available for use in this indicator.

Denominator: Total expected cash outflows less expected cash inflows over the next 30 days under specified financial distress conditions. Formulas are provided by the BCBS to measure the speed of expected outflows and inflows.

[For details in IFSB standard, please see *Guidance Note-6* on Quantitative Measures for Liquidity Risk Management *for IIFS* available at www.ifsb.org]

Data Sources Supervisory data compiled in accordance with Basel III or IFSB Guidance Note-6 requirements.

Aggregation and Consolidation Either the cross-border, domestically controlled (CBDC) and cross-border domestically incorporated (CBDI) consolidation are required for financial soundness and analysis. In addition, the domestic consolidation (DC) can be considered in countries where IIFS and Windows have limited cross-border affiliates and for macroeconomic linkages.

Because data on stand-alone Islamic banks and windows are recorded on separate forms (Form B for stand-alone Islamic banks and Form W for windows), the numerators and denominators for each should be separately aggregated.

CP16. Net Stable Funding Ratio (NSFR) [New] ***(FSI equivalent)***

Definition The NSFR corresponds to a new global liquidity standard developed by the BCBS to address problems created by the global liquidity freeze during the financial crisis. It is intended to encourage banks to develop access to medium- and long-term funding.

The NSFR equals the ratio of the amount of Available Stable Funding (ASF) to the amount of Required Stable Funding (RSF). The ratio must be greater than 100%. Stable funding is defined as the portion of those types and amounts of equity and liability financing expected to be reliable sources of funds over a one-year time horizon under conditions of extended stress.

NSFR = (Available stable funding (ASF) / Required stable funding (RSF)) ≥ 100%

The NSFR is the portion of capital and liabilities expected to be available over a one year period. The amount of such stable funding required of a specific institution is a function of the liquidity characteristics and residual maturities of the various assets held as well as off-balance sheet exposures.

Numerator and Denominator: ASF is composed of the total amount of an IIFS's (1) capital, (2) UPSIA with a maturity equal to or greater than one year, (3) liabilities or Sukūk issued with effective or remaining maturities of one year or greater, and (4) that portion of "stable" non-maturity deposits and/or term deposits or UPSIA with maturities of less than one year expected to stay with the IIFS for an extended period in an idiosyncratic stress event.

RSF is measured using supervisory assumptions about the broad characteristics of the liquidity risk profiles of assets and off-balance sheet exposures. A RSF factor is assigned to each asset type, with assets deemed more liquid receiving a lower RSF factor and therefore requiring less stable funding.

[For details in IFSB standard, please see *Guidance Note-6* on Quantitative Measures for Liquidity Risk Management *for IIFS* available at www.ifsb.org]

Data Sources: Supervisory data compiled in accordance with Basel III requirements

Aggregation and Consolidation Either, the cross-border, domestically controlled (CBDC) or cross-border domestically incorporated (CBDI) consolidations is required for financial soundness and analysis. In addition, the domestic consolidation (DC) can be considered in countries where IIFS and Windows have limited cross-border affiliates and for macroeconomic linkages.

Because data on stand-alone Islamic banks and windows are recorded on separate forms (Form B for stand-alone Islamic banks and Form W for windows), the numerators and denominators for each should be separately aggregated.

CP17. Net foreign exchange open position to capital [Unchanged] ***(FSI equivalent)***

Definition This PIFI covers exchange rate risk exposure of IIFS backed by their capital. It measures the mismatch (open position) of foreign currency and liability positions to assess the potential vulnerability of IIFS' capital position to exchange rate movements. Exchange rate volatility can affect both asset and liability market values and unmatched positions expose the IIFS to valuation gains or losses that affect the IIFSs capital position.

Net foreign exchange open position to capital = Net foreign currency open positions / Total Regulatory Capital

Numerator: The numerator is the value of all foreign currency positions (assets less liabilities including the net market value equivalent of derivative, contingent, and off-balance sheet positions), applying the market spot exchange rate as of the reporting date. The BCBS market risk framework defines the net open position as the sum of the net spot position for all assets and liabilities (including accrued interest and expenses); net forward position in forwards, futures, and swaps; guarantees expected to be exercised, net hedged but not yet accrued future income and expenses, any other profit or loss position.

Denominator: Regulatory capital, after supervisory deductions.

Data Sources: Supervisory data per the BCBS market risk framework, or monetary statistics data (which will not include many of the derivative and guarantee positions included in the supervisory data).

Aggregation and Consolidation: Either the cross-border, domestically controlled (CBDC) or cross-border domestically incorporated (CBDI) consolidations is required for financial soundness and analysis. In addition, the domestic consolidation (DC) can be considered in countries where IIFS and Windows have limited cross-border affiliates and for macroeconomic linkages.

Because data on stand-alone Islamic banks and windows are recorded on separate forms (Form B for stand-alone Islamic banks and Form W for windows), the numerators and denominators for each should be separately aggregated.

CP18. Large exposures to capital [New] ***(FSI equivalent)***

Definition This PSIFI covers the risk to IIFS resulting from exposure to a few large financing positions because their default can severely affect IIFS capital. This indicator helps cover the vulnerabilities arising from concentration of lending risk to large individual customers or groups due to project and real estate financing. Large exposures to both domestic and foreign borrowers are included.

Large exposures to capital = Value of large exposures / Total Regulatory Capital

Numerator: Value of individual large exposures, in which smaller exposures to closely connected counterparties should be treated as single exposures. The BCBS defines large exposures (and the threshold for reporting) as 10% of regulatory capital, but balance sheet capital may alternatively be used. Large exposures to foreign borrowers are also included. (Reference: Supervisory framework for measuring and controlling large exposures, April 2014, Bank for International Settlements.

Denominator: Regulatory capital or balance sheet capital to match the measure can be used in the numerator.

Data Sources Supervisory data or requests for supplemental information on individual large exposures of IIFS and Windows.

Aggregation and Consolidation Either the cross-border, domestically controlled (CBDC) or cross-border domestically incorporated (CBDI) consolidation is required for financial soundness and analysis. In addition, the domestic consolidation (DC) can be considered in countries where IIFS and Windows has limited cross-border affiliates and for macroeconomic linkages.

Because data on stand-alone Islamic banks and windows are recorded on separate forms (Form B for stand-alone Islamic banks and Form W for windows), the numerators and denominators for each should be separately aggregated.

CP19. Growth of financing to the private sector [New] ***(FSI equivalent)***

Definition The annual rate of growth of financing to the private sector. Very rapid growth of financing to the private sector has frequently preceded episodes of financial instability.

Growth of financing to private sector = Total financing at the end of current period / Total financing at the end of same period in previous year

Numerator: Total financing in current period provided by IIFS or Windows to nonfinancial corporations and households.

Denominator: Total financing one year earlier provided by IIFS or Windows to nonfinancial corporations and households. If data are available a full-year earlier, the most recent year-end data should be used and growth to the current period estimated at an annualized rate.
Data Sources Supervisory or monetary statistics data.
Aggregation and Consolidation Either the cross-border, domestically controlled (CBDC) or cross-border domestically incorporated (CBDI) consolidation are required for financial soundness and analysis. In addition, the domestic consolidation (DC) can be considered in countries where IIFS and Windows have limited cross-border affiliates and for macroeconomic linkages. Because data on stand-alone Islamic banks and windows are recorded on separate forms (Form B for stand-alone Islamic banks and Form W for windows), the numerators and denominators for each should be separately aggregated.

4.2 ADDITIONAL PRUDENTIAL INDICATORS

AD01. Income distributed to IAH out of total income from assets funded by PSIA
Definition This PIFI measures the amount of profit distributed to the IAH out of gross income of IIFS. **Percentage income distributed = (Income distributed to IAH / Total income from assets funded by PSIA) x 100** Income distributed: The amount of distributions to the IAH, after adjusting income for any flows into or out of PER and IRR. Gross income: The value of total income, which includes income from *Sharī`ah*-compliant financing of IIFS in PSIA activities.
Data Sources Supervisory data on total income distributed to IAH and total income **from assets funded by PSIA**.
Aggregation and Consolidation Either the cross-border, domestically controlled (CBDC) or cross-border domestically incorporated (CBDI) consolidation is required for financial soundness and analysis. In addition, the domestic consolidation (DC) can be considered in countries where IIFS and Windows have limited cross-border affiliates and for macroeconomic linkages. Because data on stand-alone Islamic banks and windows are recorded on separate forms (Form B for stand-alone Islamic banks and Form W for windows), the numerators and denominators for each should be separately aggregated.
AD02. Total off-balance-sheet items to total assets
Definition This PIFI measures the fair value of total off-balance-sheet items relative to total on-balance sheet assets. This measure examines whether on-balance-sheet resources are sufficient to deal with the risks and volatility that might affect off-balance-sheet positions. **Percentage Off-balance-sheet positions = (Off-balance-sheet items / Total assets) x 100** Off-balance-sheet positions = The net fair value of off-balance sheet items (asset items less liability items) that might be included in total liabilities, equity of unrestricted IAH, and capital and reserves. Total Assets = The value of total assets (financial and non-financial).
Data Sources Supervisory or financial accounting data on off-balance-sheet positions on a fair value basis. Equals items in a net asset position less items in a net liability position.
Aggregation and Consolidation Either the cross-border, domestically controlled (CBDC) or cross-border domestically incorporated (CBDI) consolidation is required for financial

soundness and analysis. In addition, the domestic consolidation (DC) can be considered in countries where IIFS and Windows have limited cross-border affiliates and for macroeconomic linkages.

Because data on stand-alone Islamic banks and windows are recorded on separate forms (Form B for stand-alone Islamic banks and Form W for windows), the numerators and denominators for each should be separately aggregated.

AD03. Foreign-currency denominated funding to total funding (excluding interbank)

Definition This PIFI measures total foreign currency-denominated funding relative to total *Sharī`ah*-compliant funding. Potential volatility inherent in foreign currency funding can affect IIFS's payment obligations and returns to IAH.

Foreign-currency funding ratio = (Foreign-currency funding / Total funding) x 100

Foreign-currency funding = The total amount of foreign currency-denominated funding.

Total Funding = Amount of funds from unrestricted PSIA, *Sharī`ah*-compliant savings, and current accounts.

Data Sources Supervisory data

Aggregation and Consolidation Either the cross-border, domestically controlled (CBDC) or cross-border domestically incorporated (CBDI) consolidation is required for financial soundness and analysis. In addition, the domestic consolidation (DC) can be considered in countries where IIFS and Windows have limited cross-border affiliates and for macroeconomic linkages.

Because data on stand-alone Islamic banks and windows are recorded on separate forms (Form B for stand-alone Islamic banks and Form W for windows), the numerators and denominators for each should be separately aggregated.

AD04. Foreign currency denominated financing to total financing (excluding interbank)

Definition This PIFI measures the total amount of foreign currency-denominated financing to total financing. Potential volatility inherent in foreign currency financing can affect returns to IIFS and IAH.

Foreign-currency financing ratio = (Foreign-currency financing /Total financing) x 100

Foreign-currency funding = The total amount of foreign currency-denominated financing.

Total Financing = The total value of outstanding *Sharī`ah*-compliant financing (including NPF and before deduction of specific provisions).

Data Sources Supervisory data

Aggregation and Consolidation Either the cross-border, domestically controlled (CBDC) or cross-border domestically incorporated (CBDI) consolidation is required for financial soundness and analysis. In addition, the domestic consolidation (DC) can be considered in countries where IIFS and Windows have limited cross-border affiliates and for macroeconomic linkages.

. Because data on stand-alone Islamic banks and windows are recorded on separate forms (Form B for stand-alone Islamic banks and Form W for windows), the numerators and denominators for each should be separately aggregated.

AD05. Value of *Sukūk* holdings to Capital

Definition This PIFI measures the market value of total *Sukūk* holding of IIFS relative to capital and reserves. Volatility inherent in the fair value of *Sukūk* can affect the capital and solvency of IIFS.

Value of *Sukūk* holdings to Capital = (*Sukūk* holdings / Total Regulatory Capital) x 100

Sukūk holdings = The total fair value of *Sukūk* (market value) holdings less any deductions or provisions for impairment. Many *Sukūk* do not have unambiguous market or fair value equivalent values which can increase the risk inherent in these products.

Total Regulatory Capital = Sector-wide regulatory capital, after supervisory deductions.

Data Sources Supervisory of financial accounting data.

Aggregation and Consolidation Either the cross-border, domestically controlled (CBDC) or cross-border domestically incorporated (CBDI) consolidation is required for financial soundness and analysis. In addition, the domestic consolidation (DC) can be considered in countries where IIFS and Windows have limited cross-border affiliates and for macroeconomic linkages.

Because data on stand-alone Islamic banks and windows are recorded on separate forms (Form B for stand-alone Islamic banks and Form W for windows), the numerators and denominators for each should be separately aggregated.

AD06. Value (or percentage) of *Sharī`ah*-compliant financing by economic activity

Definition This PIFI provides information on the distribution of financing among sectors by economic activities based on the International Standard Industrial Classification (ISIC) list of industrial activities. This indicator provides indications about diversification of investments and possible financing concentration in particular volatile sectors.

$$\mathbf{SSF} = \frac{\mathbf{FES}}{\mathbf{TF}} \mathbf{\ x\ 100}$$

FES = The value of outstanding Sharī`ah-compliant financing (including NPF and before deduction of Specific Provision (SP)) extended to each sector by economic activities. The item (t*) *other financing of households* includes financing to households for consumption, personal finance, car purchases, hadj, education, welfare, or other nonbusiness purposes, etc.. However, financing to households for real estate should be reported within item (l) real estate activities.

The item (u*) *financing to nonresidents* includes all financing to nonresidents.

(a) agriculture; forestry, hunting and fishing;

b) mining and quarrying;

(c) manufacturing;

(d) electricity; gas; steam and air-conditioning supply;

(e) water; supply; sewerage; waste management

(f) construction;

(g) wholesale and retail trade; repair of motor vehicles and motorcycles;

(h) transportation and storage;

(i) accommodation and food service activities;

(j) information and communication;

(k) financial and insurance activities;

(l) real estate activities;

(m) professional, scientific and technical activities;

(n) administrative and support service activities;

(o) public administration and defense; compulsory social security;

(p) education;

(q) human health and social work activities;

(r) arts; entertainment and recreation;

(s) other service activities;

(t) activities of households as employers;

(t) other financing of households*

(u) activities of extraterritorial organisations and bodies.

(u) financing to nonresidents*

Countries are also permitted to use alternative disaggregations of financing available from their statistical systems. In this case, each category should be listed on the reporting form along with the data.

A modified arrangement of the ISIC (International Standard Industry Code) could also be used, in which the detailed ISIC categories (shown in parentheses) are aggregated into somewhat broader categories that might be more relevant for Islamic finance.

Extractive industries and agriculture (a + b)

Manufacturing (c)

Financial and Insurance (k)

Utilities, Infrastructure, and construction (d + e + f)

Wholesale and retail trade (g)

Other Services, including Transportation and Tourism (i.e., all other services ex. Real estate)

Real Estate - Commercial (l – partial)

Real Estate - Residential (l – partial)

Households and proprietorships, other than Real Estate (t + t*)

General government (o)

Rest of the World (u + u*)

TF = The total value of outstanding Sharī`ah-compliant financing (including NPF and before deduction of special provisions).

Data Sources Supervisory data on value of financing by type of contract, summed to major category totals.

Aggregation and Consolidation Either the cross-border, domestically controlled (CBDC) or cross-border domestically incorporated (CBDI) consolidation is required for financial soundness analysis. In addition, the domestic consolidation (DC) can be considered in countries where IIFS and Windows have limited cross-border affiliates and for macroeconomic linkages. Data are aggregated separately for all IIFS, and for Islamic Windows, and any gaps in coverage should be noted in metadata.

AD07. Value (or percentage) of gross NPF by economic activities

Definition This PIFI measures the breakdown of gross NPF of total Sharī`ah-compliant financing by type of major sector and industries, such as real estate, trade, transport etc.

$$\mathbf{NPFsec} = \frac{\mathbf{NPFsec}}{\mathbf{GNPF}}\ \mathbf{X\ 100}$$

NPFsec : The total value of the NPF for financing extended by economic activity.

Classify NPF_{sec} by activity using the modified ISIC categories listed in PIFI *Value of Sharī`ah-compliant financing by economic activity*, above.

GNPF = The total value of gross non-performing financing.

Data Sources Supervisory data on value of financing by type of contract, summed to major category totals.

Aggregation and Consolidation Either the cross-border, domestically controlled (CBDC) or cross-border domestically incorporated (CBDI) consolidation is required for financial soundness and analysis. In addition, the domestic consolidation (DC) can be considered in countries where IIFS and Windows have limited cross-border affiliates and for macroeconomic linkages.

Because data on stand-alone Islamic banks and windows are recorded on separate forms (Form B for stand-alone Islamic banks and Form W for windows), the numerators and denominators for each should be separately aggregated.

AD08. Value (or percentage) of returns by major type of Sharī`ah-compliant contract

Definition This PIFI gauges the weighted average return (in percentage terms) for each enumerated type of financing contract – for example, average return on each type of Lease Financing Assets relative to the total value of Lease Financing Assets. Major types of financing contracts are;

Total Returns

Murābahah
Commodity Murābahah / Tawwaruq
Salam
Istisnā`
Ijārah / Ijārah Muntahia Bittamlīk
Mudārabah
Mushārakah
Diminishing Mushārakah
Wakālah
Qard Hassan
Others (please specify [15]

(i)
(ii)
(iii)
Others

Data Sources Supervisory data on returns to financing by type of contract.

Aggregation and Consolidation Either the cross-border, domestically controlled (CBDC) or cross-border domestically incorporated (CBDI) consolidation is required for financial soundness and analysis. In addition, the domestic consolidation (DC) can be considered in countries where IIFS and Windows have limited cross-border affiliates and for macroeconomic linkages.

[15] Compilers are requested to report the values of return from other types of Shariah-compliant contracts, if any, by extending the list (for example, Bai Ajil, Bai Bitaman Ajil, Joaalah etc.). Thereafter, the 'Other' category covers the remaining amount of return.

Because data on stand-alone Islamic banks and windows are recorded on separate forms (Form B for stand-alone Islamic banks and Form W for windows), the numerators and denominators for each should be separately aggregated.

4.3 STRUCTURAL INDICATORS (SIFI)

The SIFI are divided into two groups:

1. Stand-alone IIFS (full-fledged Islamic banks), and
2. Windows (Islamic banking branches, divisions, and Islamic Windows) operated by conventional banks.

The Islamic banking industry is comprised of both groups, but data for Islamic banking branches and Islamic Windows are often less available. Within International Accounting Standards requiring a single consolidated financial accounting report for the full enterprise, activities of Islamic banking branches and Islamic Windows will be commingled with that of the conventional arms of the bank. In some cases, it might be difficult to disentangle the Islamic banking activity for statistical purposes and therefore separate reporting in requested for full-fledged IIFS and whenever available for Islamic banking branches and Islamic Windows.

All countries should complete the first section on Banking and near-banking IIFS on Form B; and countries with data on Islamic banking branches and Islamic Windows should complete both sections and report the windows activity on Form W.

Islamic banking branches and Islamic Windows operated by conventional banks carry out similar activities, but reflect different organizational strategies of their parent bank. Some banks separate their Islamic banking activities into separate branches, but others place their Islamic banking activities in separate divisions that in effect operate as if they are a separate branch. For the purpose of PSIFIs, all the Islamic operations of conventional banks (whether organized or called Islamic branches, windows, divisions, departments etc.) will be combined in the category of Islamic Windows. Please note that Islamic banking *subsidiaries* of conventional banks will be reported as stand-alone Islamic banks because they hold their own capital and are subject to supervision like stand-alone IIFSs.

Windows are not permitted in some countries, and in other cases windows do not prepare separate financial accounts – countries should indicate in notes reasons why there might be no reporting of windows.

4.1.1 Banking and near-banking IIFS

BS01. Number of Islamic banks
Definition Total number of banking and near banking IIFS. This is a measure of the size of the Islamic banking industry.

Data Sources Supervisory data on registered institutions, or monetary statistics data on number of institutions. Units that have ceased operations, but which still hold assets and which have not yet been legally closed should be included.
Aggregation and Consolidation Includes only stand-alone IIFSs, whether incorporated domestically or which are domestic branches of foreign parents. Islamic subsidiaries of conventional banks should be reported as stand-alone Islamic banks because they hold their own capital and prepare separate financial accounting reports.
Number of domestic branch Offices
Definition Total number of branch offices. This is a measure of the access of the public to Islamic banking facilities.
Data Sources Supervisory data
Aggregation and Consolidation Includes only branches and offices of stand-alone IIFS within the country, whether incorporated domestically or which are domestic branches of foreign parents.
Number of ATMs
Definition The number of automatic teller machines that receive or dispense cash and permit the public to carry out various banking transactions.
Data Sources Supervisory data
Aggregation and Consolidation Includes only ATMS operated by branches and offices of stand-alone IIFS within the country, whether incorporated domestically or which are domestic branches of foreign parents.
BS02. Number of Employees, domestic and foreign
Definition Number of full-time employees equivalent of banking and near banking IIFS, by domestic and foreign control.
Data Sources Supervisory data
Aggregation and Consolidation Includes only employees of stand-alone IIFS, whether registered and incorporated domestically or which are domestic branches of foreign parents.
BS03. Total assets
Definition Total assets of banking and near banking IIFS, by domestic and foreign control.
Data Sources Supervisory, financial accounting, or monetary statistics data.
Aggregation and Consolidation Includes only assets of stand-alone IIFS, whether registered and incorporated domestically or which are domestic branches of foreign parents.
BS04. Total Funding/Liabilities

Definition Total funding/liabilities of banking and near banking IIFS, by domestic and foreign control. Categories include; Profit-sharing investment accounts (PSIA) Other remunerative funding (*Murābahah*, Commodity *Murābahah* etc.) Nonremunerative funding (current account, *Wadia*) *Sukūk* issued Other *Sharī`ah*-compliant securities issued Interbank funding/liabilities All other liabilities Capital and reserves
Data Sources Supervisory, financial accounting, or monetary statistics data.
Aggregation and Consolidation Includes only funding/liabilities of stand-alone IIFS, whether registered and incorporated domestically or which are domestic branches of foreign parents
Profit Sharing Investment Accounts (PSIA)
Definition PSIA refers to "profit-sharing investment accounts", which are pools of investment funds placed with an IIFS, usually on a *Mudārabah* basis, in which case the IAH (fund providers) act as *Rabb-ul-mal* and the IIFS (fund manager) acts as a *Mudarib*. PSIA are categorized as Restricted PSIA and Unrestricted PSIA depending on whether the funds are commingled with other assets of the IIFS.
Other remunerative funding
Definition Other remunerative funding is basically commodity *Murabaha*-based transactions (CMT).
Nonremunerative funding /liabilities
Definition Nonremunerative funding / liabilities are current accounts such as Wadia that do not pay depositors returns.
BS05 Total Revenues
Definition Total revenues from financings, fees and services income, and other income. For the current year, annualized data from the beginning of the year until the reporting month. Revenues should be reported for the following categories Total revenues Financing based Investment based (*Sukūk*, other *Sharī`ah*-compliant securities etc.)

Fee based Other
Data sources Supervisory data, or financial accounting data of stand-alone IIFS.
Aggregation and Consolidation Includes only revenues of stand-alone IIFS, whether registered and incorporated domestically or which are domestic branches of foreign parents
BS06 Earnings before taxes and *Zakat*
Definition Income of banking and near-banking IIFS, before *Zakat*, and taxes.
Data Sources Supervisory data, or banking and near-banking IIFS.
Aggregation and Consolidation Includes only earnings of stand-alone IIFS, whether registered and incorporated domestically or which are domestic branches of foreign parents.
BS07. Value (or percentage) of Financing by major type of Sharī`ah-compliant contract
Definition This PIFI covers the value of financing by major type of Sharī`ah-compliant financing contract. Major types of financing contracts are:  Total Financing  *Murābahah* *Commodity Murābahah / Tawwaruq* *Salam* *Istisnā`* *Ijārah / Ijārah Muntahia Bittamlīk* *Mudārabah* *Mushārakah* *Diminishing Mushārakah* *Wakālah* *Qard Hassan* *Others (please specify*[16] *(i)* *(ii)* *(iii)* *Others* Total value for each enumerated major types of financing should be reported.
Data Sources Supervisory data on financing by type of contract.
Aggregation and Consolidation Either the cross-border, domestically controlled (CBDC) or cross-border domestically incorporated (CBDI) consolidation is required for financial

[16] Compilers are requested to report the values of financing from other types of *Shariah*-compliant contracts, if any, by extending the list (for example, Bai Ajil, Bai Bitaman Ajil, Joaalah etc.). Thereafter, the 'Other' category covers the remaining amount of financing.

soundness and analysis. In addition, the domestic consolidation (DC) can be considered in countries where IIFS have limited cross-border affiliates and for macroeconomic linkages. Because data on stand-alone Islamic banks and windows are recorded on separate forms (Form B for stand-alone Islamic banks and Form W for windows), the numerators and denominators for each should be separately aggregated.
BS08 Assets of Domestically Significantly Important Islamic Banks (D-SIBs)
Report total assets of Islamic banks that are domestically significantly important banks (D-SIBs). Appendix 2 provides a brief on D-SIBs.

4.1.2 (Windows) – Islamic banking branches and Islamic Windows of conventional banks

WS01. Number of conventional banks with Islamic windows
Definition Total number of conventional banks operating Islamic windows (Islamic banking branches or Islamic windows). In some countries, Islamic windows are an important component of total Islamic financial activity.
Data Sources Supervisory data on registered conventional financial institutions stating that they operate Islamic banking branches or Islamic Windows.
Aggregation and Consolidation Domestic control basis, including all domestically-owned banks and bank subsidiaries and branches of foreign banks.
Number of domestic branch offices
Definition Total number of separate branches, offices, and locations of Islamic banking branches or Islamic windows operated by conventional banks. This is a measure of access of the population to Islamic financial facilities.
Data Sources Supervisory data on the number of separate branches, offices, locations of Islamic banking branches, and Islamic Windows operated by conventional banks.
Aggregation and Consolidation Includes data only on separate Islamic banking branches or Islamic Windows operated by conventional banks. If an Islamic banking branch or Islamic Window operates multiple branch offices or locations, the total number of such offices should be reported. Domestic consolidation (DC) basis.
WS02. Number of Employees
Definition Number of full-time employees equivalent of Islamic banking branches and Islamic Windows banking and near banking IIFS, by domestic and foreign control.
Data Sources Supervisory data
Aggregation and Consolidation Includes only direct employees Islamic banking branches and Islamic Windows. Excludes employees of their conventional bank parent.
WS03. Total assets
Definition Total assets of Islamic banking branches and Islamic Windows.
Data Sources Supervisory data.
Aggregation and Consolidation Can be reported on CBDC or DC basis. CBDC basis: Although the category covers only Islamic banking branches and Islamic Windows operating within the country, their total assets data can be reported on a CBDC basis to include assets held by their branches or operations in other countries.

DC basis: Only report assets held against units resident in country.
WS04. Total Funding/Liabilities
Definition Total funding/liabilities of Islamic windows, by domestic and foreign control. Categories include; Profit-sharing investment accounts (PSIA) Other remunerative funding (*Murābahah*, Commodity *Murābahah* etc.) Nonremunerative funding (current account, *Wadia*) *Sukūk* issued Other *Sharī`ah*-compliant securities issued Interbank funding/liabilities All other liabilities o/w to parent bank or affiliated banks Capital and reserves Some windows might not have separate capital accounts or have liabilities to their parent that serve as working capital funding. Compilers should complete entries as relevant. Notes might be added to explain special situations.
Data Sources Supervisory data, or financial accounting data of Islamic windows.
Aggregation and Consolidation Includes only funding/liabilities of Islamic windows, whether registered and incorporated domestically or which are domestic branches of foreign parents
Profit Sharing Investment Accounts (PSIA)
Definition PSIA refers to as "investment accounts", which are pools of investment funds placed with an IIFS, usually on a *Mudārabah* basis, in which case the IAH (fund providers) act as *Rabb-ul-mal* and the IIFS (fund manager) acts as a *Mudarib*. PSIA are categorized in Restricted PSIA and Unrestricted PSIA
Other remunerative funding
Definition Other remunerative funding is basically commodity Murabaha-based transactions (CMT).
Nonrenumerative funding /liabilities
Definition Nonrenumerative funding /liabilities are often referred to as current accounts.
Sukūk issued
Definition This SIFI measures the market value of total Sukūk issued by Islamic windows.
WS05. Total Revenues

Definition Total revenues from financings, fees, and services income, and other income. For the current year, annualized data from the beginning of the year until the reporting period. Revenues should be reported for the following categories Total revenues Financing based Investment based (*Sukūk*, other *Sharī`ah*-compliant securities etc.) Fee based Other
Data sources Supervisory data, or financial accounting data of Islamic windows.
Aggregation and Consolidation Includes only revenues of Islamic windows, whether registered and incorporated domestically or which are domestic branches of foreign parents
WS06. Income before taxes and *Zakat*
Definition Income of Islamic banking branches and Islamic Windows, before Zakat, and taxes. Indicate in notes if zakat is treated as a regular expense of the bank and thus is excluded from pretax income.
Data Sources Supervisory data
Aggregation and Consolidation Includes only earnings of Islamic banking branches and Islamic Windows. Excludes earnings of their conventional parent.
WS07. Value (or percentage) of Financing by major type of Sharī`ah-compliant contract
Definition This PIFI covers the value of financing by major type of Sharī`ah-compliant financing contract. Major types of financing contracts are: Total Financing

Murābahah *Commodity Murābahah / Tawwaruq* *Salam* *Istisnā`* *Ijārah / Ijārah Muntahia Bittamlīk* *Mudārabah* *Mushārakah* *Diminishing Mushārakah* *Wakālah* *Qard Hassan* *Others (please specify)*[17] *(i)* *(ii)* *(iii)* *Others* Total value for each enumerated major types of financing should be reported.
WS08 Assets held by domestic systemically important windows of conventional banks or by windows of domestic systemically important conventional banks
Report total assets of windows that are themselves domestically systemically important or that are windows of parent banks that are domestically or globally systemically important. Appendix 3 provides a brief on D-SIBs.

[17] Compilers are requested to report the values of financing from other types of *Shariah*-compliant contracts, if any, by extending the list (for example, Bai Ajil, Bai Bitaman Ajil, Joaalah etc.). Thereafter, the 'Other' category covers the remaining amount of financing.

Appendix 1. Recommended aggregation of capital components under Basel and IFSB standards

Basel version/IFSB Standard	Total regulatory capital
Basel I	Tier 1 + Tier 2 – supervisory deductions
Basel II	[Tier 1 + Tier 2 + Tier 3 (if applicable)] – supervisory deductions
Basel III	[Tier 1 (CET1 + AT1) + Tier 2] – supervisory deductions
IFSB-15	[Tier 1 (CET1 + AT1) + Tier 2] – supervisory deductions

Appendix 2. Calculation of net income from income and expense statement

Income and expense statement		Operations
1.	Revenue/income from jointly funded assets	
	Financing income (sales, lease and equity based)	
	Investment Income	
	Less: provisions for accrued income on non-performing assets	
2.	Cost of saving pools (CMT based deposits etc.)	
3.	IIFS share in income from restricted investment income as Mudarib /Agent	
4.	Fee-based income	
5.	Other income	
7.	**Total gross income**	**= 1-2+3+4+5**
8.	Transfer to profit equalisation reserve (PER)	
9.	Financing and non-financing costs	
	Provisions or allowances for sub-standard, bad and doubtful financing, and other financial asset provisions	
	other costs (if any)	
10.	Income available to IIFS and IAH	= 7 – 8 – 9
11.	Income available to IAH	
12.	IIFS share in income	= 10 – 11
13.	Depreciation and other provisions	
14.	Personnel, administrative and other overhead expenses (if any)	
15.	Minority interest	
16.	**Net income before extraordinary items, *Zakah* and taxes**	**= 12 – 13 – 14 – 15**

Appendix 3. Domestic Systemically Important Banks (D-SIBs)

Basel III posits that Systemically Important Financial Institutions (SIFI) may pose special threats and deserve special oversight. The BCBS holds that the threat from SIFI is not measured just by the size of the institutions, but can be multifaceted and should be measured by the danger of loss posed by the institutions.

IFSB-15 also notes that a number of IIFS in various jurisdictions have systemic significance within their financial sectors and could be deemed as domestic systemically important banks (D-SIBs). IFSB-15 provides a framework for the assessment and additional regulatory requirement for D-SIBs. The additional requirements proposed in the Standard aim to minimize the probability that a D-SIB will fail, and to limit the costs to society and the state. Supervisory authorities should establish a methodology for assessing the degree to which banks are systemically important in a domestic context. Such a methodology should reflect the potential impact of, or the externality imposed by, a bank's failure on the domestic economy. With respect to the domestic operations of a foreign-incorporated bank, home authorities should assess banks for their degree of systemic importance at the consolidated group level, while host authorities should assess subsidiaries in their jurisdictions for their degree of systemic importance.

Supervisory authorities should undertake regular assessments of the systemic importance of the banks in their jurisdictions to ensure that their assessment reflects the current state of their financial systems. The interval between assessments should be appropriate so as to reflect changes in the various selected factors – for example, one year.

Supervisory authorities should publicly disclose information that outlines the methodology employed to assess the systemic importance of banks in their domestic economy. Public disclosure of the assessment process will provide appropriate incentives for banks to seek to reduce the systemic risk they pose to the reference system. Supervisory authorities should decide the broad category of factors that will be used for assessing the impact of a D-SIB's failure.

The higher loss absorbency (HLA) requirement should be met fully by CET1, which is the simplest and most effective way to increase the going concern loss-absorbing capacity of a bank. Supervisory authorities have the discretion to stipulate any additional requirements and other policy measures they consider to be appropriate to address the risks posed by a D-SIB. The HLA requirement for D-SIBs is over and above the capital buffers and minimum capital requirement, with a pre-determined set of consequences for banks that do not meet this requirement. Indicatively, supervisory authorities can select HLA requirement between 0.5% –3.5% of CET1 to total risk weighted assets (RWAs), depending upon the chosen assessment methodology and relevant buckets, if any [For details, please see *IFSB-15: Revised capital adequacy standard for IIFS* and *IFSB-16: Revised guidance on key elements in the supervisory review process of IIFS* available at www.ifsb.org].