

Press Release

Regarding Shariah Supervisory Governance for Kuwaiti Islamic Banks

His Excellency, the Governor of the Central Bank of Kuwait (CBK), Dr. Mohammad Y. Al Hashel announced that the CBK Board of Directors has resolved, in its session held on December 20th, 2016, to issue instructions on “Shariah Supervisory Governance for Kuwaiti Islamic Banks.” The issuance of these instructions are in line with the continuing efforts exerted by the CBK to promote Islamic banking activities in the State of Kuwait and accordingly to develop Shariah supervisory regulations for Islamic banks as per applicable best practices. The aforesaid instructions replace the CBK’s instructions regarding “Rules and Conditions for the Appointment and Responsibilities of the Shariah Supervisory Board in Islamic Banks” issued on June 15th and June 19th, 2003 and complement the instructions related to “Rules & Standards of Corporate Governance in Kuwaiti Banks” issued in 2012.

His Excellency, the Governor, added that the issuance of these instructions are in light of the substantial developments in the Islamic banking industry. In particular, the growth of the Kuwaiti Islamic banking sector in terms of its size and quality of operations since the issuance of the previously mentioned instructions in June 2003 has increased the importance of the role of Shariah supervision governance in Islamic banks. Furthermore, the growth in Islamic banking in Kuwait has made this topic a vital component of financial stability.

Dr. Al-Hashel explained that one of the major challenges facing the development of Islamic banking is the necessity of according importance to ensuring that Shariah principles are complied with, otherwise known as “Shariah auditing.” Shariah auditing is considered an integral part of the Shariah supervisory system and governance in an Islamic bank. Accordingly, the new instructions provide a comprehensive framework, clearly outlining the duties and responsibilities of the Shariah Supervisory Board, Internal Shariah Audit, and External Shariah Audit.

Dr. Al-Hashel clarified that the new instructions are organized and divided into the following sections on Shariah supervision governance: definitions, general requirements of the framework, Principles of Shariah supervision

governance including oversight, accountability and responsibility, roles of the board of directors, executive management and Shariah supervisory board, independence requirements, “Fit and Proper” requirements for the board members, confidentiality of information, and requirements for consistency among board members in their decision-making and in providing advice to the bank. Dr. Al-Hashel further explained that these instructions incorporate both internal and external Shariah auditing, including the scope and objectives of the audit, and the qualifications required of Shariah auditors.

The Governor mentioned that Kuwaiti Islamic banks would be given until December 31st, 2017 to fulfill the requirements as the instructions shall take effect starting on January 1, 2018. Accordingly, Kuwaiti Islamic banks are required to provide the CBK with a quarterly report including policies, procedures and actions taken by the respective Islamic bank in order to comply with the above-mentioned instructions. It is important that this quarterly status report demonstrate that the bank is making tangible progress in its compliance with these instructions according to the given timeline.

On the other hand, Dr. Al-Hashel emphasized that the implementation of these instructions by Kuwaiti Islamic banks is an integral part of corporate governance and will instill confidence in the Kuwaiti banking system both domestically and internationally. Hence, the implementation of the Shariah Supervision Governance instructions will result in an improved operating environment for Kuwaiti Islamic banks and the banking system, and thus further improve Kuwait’s macroeconomic performance.

Within the same context, Dr. Al-Hashel highlighted the increasing importance Kuwaiti Islamic banks already have been placing on various areas of Shariah supervision. Fittingly, the CBK’s development and issuance of the new instructions on Shariah Supervision Governance will provide employment opportunities for Kuwaiti youth in the Islamic banking sector. Accordingly, Shariah financial education centers such as the Faculty of Shariah at Kuwait University play an important role in providing the competencies required to implement the instructions in Sharia Supervisory Governance. Therefore, the CBK has initiated a dialogue with Kuwait University in this respect.

In addition, the Governor underlined that the new instructions in Shariah Supervision Governance along with the Kuwaiti banks’ increased attention to Shariah supervision play an important role in strengthening the position and

the professionalism of the Shariah audit and ensuring its pre-eminence locally and internationally.

Dr. Al-Hashel concluded his statement by emphasizing that the CBK is keen to continue its intensive efforts to provide the necessary environment to further the development of Islamic banking in Kuwait. Moreover, these internationally recognized and appreciated endeavors include the CBK's organization of the "Global Islamic Finance Conference" in collaboration with the International Monetary Fund on the 11th of November 2015 as well as the CBK's contribution to several forums organized by local and international specialized institutions.

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