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Diversity in the regulation of Islamic Financial Institutions

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Abstract

More than 200 Islamic Financial Institutions (IFIs) are reported to have total combined assets in excess of US\$ 200 billion with an annual growth rate estimated between 10 and 15%. The regulatory regime governing IFIs varies across countries. International organizations have been established to set standards that would strengthen and eventually harmonize prudential regulations as they apply to IFIs. The paper contributes to the discussion on the nature of the prudential standards to be developed. It clarifies risks IFIs are exposed to and the type of regulation that would help to manage them. It considers that the industry is still evolving with an anticipated convergence of the practice of Islamic financial intermediation with its conceptual foundations. Accordingly, the paper contrasts the risks and regulation that would be needed in the case of Islamic financial intermediation operating according to core principles and current practice. Implications for approaches to capital adequacy, licensing requirements and reliance on market discipline are outlined. The paper suggests an organization of the industry that would allow it to develop in compliance with its principles and prudent risk management

would allow it to develop in compliance with its principles and prudent risk management and to facilitate its regulation.



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