Basel Accords and Islamic finance with special reference to Malaysia

Hasan, Zubair

INCEIF: Global University of Islamic Finance, Kuala Lumpur

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Prof Dr Zubair Hasan
INCEIF: The Global University of Islamic Finance, Kuala Lumpur

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Abstract
The worldwide colossal failures of financial institutions in the wake of the 2007–2010 financial turmoil the yesteryear advocates of liberalization and privatization converted almost overnight into vocal supporters of raising the safety walls around the interests of various stakeholders, especially the depositors. Admittedly, it was the heightened lure of leverage gains that led the financial institutions to expand credit beyond what the volume and quality of their capital assets warranted without crossing the limits of safety. The devastation led to a focus-shift so to say at the national and international level in finance specifically to capital adequacy that financial institutions must observe for their own safety as also in the wider social interest. Stringent and regular watch was needed; it was felt, to make adequacy work. The Basel Committee on Banking Supervision (BCBS), an organ of the Bank for International Settlements (BIS) developed what are known as Accords i.e. agreements defining capital and its adequacy for banks to limit the risks they could take within reasonable confines. It is interesting to find that Malaysia was in a sense predictive to revamp and strengthen its own regulatory framework. Also, the IFSB was alert to announce some new standards. This paper brieflytakes stock of these developments with a view to assess how far Basel Accords are likely to be absorbed by the Islamic system.

Key words: *Islamic finance; Capital Adequacy; Basel Accords; Shari'ah compliance; Bank Negara action.*

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1. Introduction

Banking – conventional or Islamic - is an attractive business because of the profits it promises for the bank owners via credit creation. But for the same reason it is also a very riskybusiness. Regulations and supervision of financial services has thereforeinvariably been a matter ofpublic concern at the national and international levels. The attention of attention has ever been the credit creation power of the financial institutions - banks in particular –that exposed them to unguarded vulnerabilities in the market

The wave of liberalization during the decades before the turn of the century onlypushedtheleverage (gains) lure to its zenithgiving rise to adventurism in credit expansionthatfinallyculminated in the 2007–2010 debacle. The result was colossal failuresof banks, insurance companies and investment fundsacross the globe. The devastation was highand wide toalarm the world into a virtual 'issue shift' in financial economics. Theyesteryears advocates of liberalization and privatization turned, almost overnight, intvocalproponents for raising the safety walls around the interests of variousstakeholders, especially the depositors.During the current melt down, Islamic financial institutions (IFIs) have apparently

[1] The author alone is responsible for the views expressed in this paper. They need not be associated with the institution where he works

withstood the shocks betterbut recurrent crises may nevertheless affect their financial health in future.

The existing secular regulations of financial institutions are being tightened at the local and international levelsvia what we know as the Basel Accords. These Accords are emphatic on capital adequacy requirements of financial institutions with a view to improving their resistance to crises especially in times of runs on deposits. Islamic bank operate as an integral part of the global financial system; thus, the Accords must impact them too in some measure. This raises two important questions. First, how far are these Accords compatible with the Islamic Shari'ah imperatives and with its *maqasid*? How far can they be absorbed in the Islamic system grounded as it is in specified ethical norms led by the abolition of interest, indeterminacy and speculation. Second, what steps Shari'ah led standards andgovernance rules provide to pre-empt the application of the Accords? The present paper reflects on these two questions. On the first issue Prof. Kamali (2014) is of the view that*all* of Basel recommendations are not only acceptable to Shariah, theyare highly recommendable. This is because IBF is generally grounded in ethical values and shari'ah requirements that point to the same directions as the BaseIs. Islamic finance is characteristically risk-averse and avoids highly speculative and debt-laden investment and financing operations.[2] It is for this very reason of inherent compatibility that Basel is finding general acceptance in the conventional as well as Islamic financial institutions. IFIs are thus taking measures to implement Basel Accordsas they find the recommendations supportive of the Islamic ethical perspectives. The opinion contains much truth, but some may not be as categorical. Islamic finance is still a candle facing the sun, it hold not even 1% of the global financial assets. Its smallness is the shield against speculative attacks albeit they are not completely immune from catching the cold.

Contextually, chronic capital insufficiency to cover the mounting risks emerged as the major source of trouble the world faces today. This led tofocus on defining the capital purposively and its adequacy of its levels that financial institution must observe for their own safety as also in the wider societal interest. In a fast-changing world of finance, a regular watch was needed to make the concepts workwithout sacrificing economic dynamism. Let us have for that matter a look at the Accords – their evolution and content.

[2]The view that Islamic banks are risk averse seems a bit misleading for the line of demarcation betweenrisk preference and risk aversion would always be arbitrary. It is difficult to say where preference ends and aversion starts. Islamic banks are simply more risk conscience than the conventional (Hasan 2014).

2. Basel Accords

The Basel Committee on Banking Supervision (BCBS), an organ of the Bank for International Settlements (BIS),keeps that watch. The committee is a group of eleven nations that include France, Germany, Italy, Japan, the Netherlands, Sweden, Switzerland, the UK, the US and Luxembourg (G-10) plus Spain. The listed countries decided to form a cooperative council after the chaotic and fussy liquidation of the Cologne –based Bank Herstatt in 1974. The objective wasto harmonizing banking standards and regulations within and between the member countries. The founding document of Committee stated that their goal was to extend regulatory coverage, promote adequate banking supervision, and ensure that no *foreign* banking institution can avoid supervision. Thus, the setup of the Committee exclusive inoriginand so it remains.

To promote its objectives, the Committee has developed the concept of capital adequacyfor banks [3] It defines the capital adequacy norms for *individual*institutions. Each company has to fulfil the requirements that the Committeedefines for it. However, making individual banks the unit for policy implementationmay seem compromising transparency in the treatment of banks across the board and may not always be taken as non-discriminatory. Presumably a better policy course would be to design a general framework equally applicable to countriesbut individual countrieshaving freedom to implementAccords according to their need and circumstances. Present Accords do grant some latitude to countries but the range and content may not suit all.

Since 1988, the BCBS has issued three Accords on capital adequacy standardsthat individual banks have to implement across the globe. The centre of attention in developing the Basel framework has been the eagerness to avoid the recurrence of financial crisesthe world so often faces. These Accords also have implications forIslamic financial institutions and remain under review by Islamic scholars, regulators andsupervisors. Let us have a brief look at each of these Accords.

These Accords are oftentimes too elaborate and technical in details for nontechnical policy makers or the general reader. We shall try to make their explanations simpler.

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[3] Capital inadequacy refers to the possibility of a financial institution being hurt by an unexpected loss. To ward off such an eventuality, Basel 1 categorizes the assets of these institutions with reference to such a risk into five categories (0%, 10%, 20%, 50%, 100%). Banks that operate internationally are required to have capital adequacy – a minimum of capital - that would keep the weight of such risk at 8% or less Basel II modified the categorization..

Risk-weighted approach

The degree of risk of loss in value that different classes of assets carry is different; it determines the comparative quality status of each class. Risk of loss varies with the ease and speed an asset can be converted into another. The assets that carry low risk of loss in this sense are of high quality and those which carry high risk of loss are of low quality. Thus, holding cash carries zero risk and so is almost the case with government securities; both are regarded high quality assets. In contrast, residentialmortgages for example, carry higher risk; their asset quality is lower. Likewise, assets, such as debentures (corporate bonds for long-term financing), are assigned a higher weight and included in lower class assets. We take the risk weighted aggregate of assets so classified and check if a bank has capital at least equal to this aggregate. For this purpose Basel Accords define four categories of capital which are called the 'tiers. But presently they identify two layers called Tier 1 and Tier 2. A capital adequacy ratio (CAR) is calculated for each bank as follows.

$$CAR = \frac{Tier\ 1\ capital + Tier\ 2\ capital}{Aggregate\ risk\ weighted\ assets}$$

Where:

Tier 1 capital = Total equity − Revaluation reserves

Tier 2 capital = Revaluation reserves + Subordinated debt + Hybrid capital +Provisions including deferred tax+ Total loan loss and other reserves

The CAR should be more than or equal to one (CAR ≥ 1).

The risk-weightedapproach is preferable for the following reasons:

(a) It provides an easier way of comparing banks across different jurisdictions.

(b) Off -balance-sheet exposures[4] can be easily included in capital adequacy estimates.

[4]The assets (and liabilities) of banks and other financial institutions are recorded in their balance sheets. However, the distinction between what are called off-balance sheet assets and on balance sheet assets is not exclusive. At times, on-balance sheet assets may become off-balance-sheet assets and vice versa; it all depends on managerial decisions. How, then, do we explain the term 'off-balance-sheet assets' and how are such assets different from 'on-balance-sheet assets'?

The essential l difference is that on-balance-sheet assets form part of the asset side total of the balance sheet, whereas off-balance sheet assets remain outside this total. However, this need not convey that off-balance-sheet assets are not shown on the balance sheet; they are recorded there. Let us illustrate. Broadly, the following situations give rise to off -balance-sheet assets: a) Debts that the bank advances to clients are included in its on-balance-sheet assets, but if the same debts are securitized and sold to third parties, they cease to be the assets of the bank. However, the bank may still manage the securities thus created for its customers. They become off -balance-sheet assets for the bank but are recorded in the form of a note in the balance sheet. Similar situations may arise in case of some liabilities also

(c) Banks are free to carry low-risk liquid assets in their accounts books.

The provision of the above background to Basel Accords may help the reader to better understand their content thrust and implications with reference to developing economiesand Islamic finance.

Basel I (1988)

Soon after the formation of the Committee, its members began to discuss the contours of a formal standard regarding proper capitalization of internationally active banks. They noted that some such banks took advantage of jurisdictional differences to escape the regulators, even moved their activities to more advantageous locations. The petrodollar boom had virtually ended and the financial sector was in the grip of the resultant crises of the 1980s. These developments pushed the common banking capitalization issue to the top of the Committee's programs. Six years negotiations led to the announcement of the first Accord in 1988.

This Basel Accord was simple and straightforward as it was essentially anagreement between the Basel Committee member countries and wasinitially applicable only to those of their banks that were operating at the internationallevel.

The Accord received prompt acceptance not only from the Basel country banks,but also from other global institutions. Basel I divided the capital of banks into twotiers on the basis of differences in the quality of their assets, as already discussedabove. Each of the two tiers was assigned a 4% risk weight that considered only creditrisk, leaving out others, thus making the overall CAR equal to 8%.As this ratio wasintended to define the minimum, not the optimal capital requirement for abank, it was assumed that the well-capitalized banks would go in for higher ratios inorder to cover the market and operational risks or currency exchange risks that the Accord had left out. It also did not take note of the off balance sheet assets.[4]It also did not cover the banks that were not operating outside the member countries. Oneoften-mentioned aspect of Basel Ithe *four pillars* on whichitstands.The first pillar is the *constituents of capital* – Tier 1 and Tier 2 - that we have already explained above.

The second pillar is the *Risk weighting* which constitutes a comprehensive system of assigning weights to various bank assets. It mentions five risk categories that cover all assets on the

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It may be mentioned here that as Islam does not allow the securitization of debts, they remain off the balance sheet except in Malaysia, where *bay'al-dayn*(sale of debt) is allowed.

balance sheet of a bank over a 0-5 range, specification for an asset depending on the discretion of the country's central bank. It seekstotake advantage of closer proximity between banks' capital and the risk exposure of its assets.

The third pillar is a *Target Standard Ratio.* It ties together the first and the second pillars f the Accord.Itset a universal standard stipulating that 8% of a bank's risk weighted assets must be covered by Tier 1 and Tier 2 capital reserves. Additionally, Tier 1 capital must cover 4% of a bank's risk weighted assets. This ratio is taken as specifying the minimum safety limit for a bank.

Finally,theforthpillar*Transitional and Implementing Agreements*setsthe stage for putting Basel Accords into operation. It requires the central bank of each country to ensure that Basel Accords are implemented. The central banks across countries are requested to erect a strong surveillance and enforcement system to ensure that Basel Accords were observed and that the transitional weights are provided to the Committee so that it could adopt the same over a four year period in place of the Accord standards.

Criticism

By the year 1999 all countries including China, Russia and India had adopted the Accord provisions. Even so, Basel 1 Accord has attracted much criticism. Put briefly. The main points raised are as follows. First, Basel I focused its attention only on credit risk to the exclusion of others no less important and restricted the application of its recommendations to G-10 countries. Also, it covered not allthelocalbanks but only thosewhich were also operatingoutside their country. Second, due to haste the Committee showed in the implementation of its recommendations, banks were not always able to translate them into language easily understood by the wide ranging clientele; this hindered the popularization of the recommendations. Third, even as the G-10 countries had already in place for long-term growth most of basics that Basel I required, the regulators there saw in the overdoing of its recommendations a discrimination against their mega private banks; they began to demand extension of the Accord across the globe to all including emerging markets. Finally, the Accord provided leeway for banks to apparently maintain a low risk profile, while they could indulge in taking much higher risks. To illustrate, the gap between the short-term and long-term debt weighting was in the 1:5 ratio and the banks could easily convert short term debt into the long-term through the technique of maturity transformation. The weighting system in implementation also contained an incentive for banks to shuffle the geographical locations for their operations. We shall see that subsequent Basel Accords did take notice of such criticisms and changes were made to plug the loopholes.

Basel II (2004)

The limitations of the Basel I Accord surfaced over the years and the criticism of its recommendations led the BaselCommittee to revise the standards of capital adequacy for internationally activebanks.The Basel II Accord was published in June 2004 and was titled as the*InternationalConvergence of Capital Measurement and Capital Standards: a Revised Framework*.The framework was further amended in July 2005. Basel II greatly expands the range, depth and technical aspects of the original Accord. This is done essentially by revising and revamping its pillars.

1. Taking note of the Basel I criticism for the **first pillar**Basel II makes the measurement of a bank's risk-weighted assets more sensitive and candid closing the loophole the earlier Accord contained. A bank now cannot conceal risk-taking through a transfer of assets to subsidiaries or combing branch assets into a composite whole for the bank. Changes have also been made in the weighting scheme incorporating the Rating Agencies'evaluation of assets into the picture. For example, A+ to BB+ debt is weighted at 50% while all debt rated below B- is risk-weighted at 150%. Pillar 1now covers not only the credit risk but others also. The Accord now provides risk-weightings for all other market based assets. Its strategy covers stocks, commodities, currencies, and mixed instruments where weight assignment is based on a separate set of methodologies

   A special feature of the Pillar relates to the provision of protection against operational risks; it requires the creation of a Reserve Pool out of profits. Of the three methods proposed for the purpose, the *Standardized Approach* looks simpler and operational. The method identifies business lines of a bank to determine the amount of cash each line's profit should contribute to the reserve. Box 2 provides the details.

Box 2: Standardized Approach Reserve Targets

Business line	ProfitneededforReserve
Corporate finance	18%
Sales and Trading	18%
Retail Banking	12%

Commercial Banking	15%
Settlement	18%
Agency Services	15%
Asset Management	12%

Source: Basel II Accords, 2006 Revision

2. Pillar 1 seeks to quantify the reserve banks would need to cover market risk arising due to the fluctuations in asset prices. For this it makes a distinction between fixed income assets like bonds and other sources such as equity, commodities and currencies where income is could be fluctuating. Implicitly, it separates the two components of the overall market risk: interest rate risk and volatility risk.

   For fixed income assets, the risk evaluation is the "value at risk" estimation (VAR). It is a complicated technique. Therefore, for banks that cannot do not want to implement the VAR, Pillar 1 recommends the creation of a reserve tied to the asset maturities for protecting their fixed income assets against interest rate variations. Box 3 presents in brief the risk weights assigned to each asset depending on its maturity time scale.

Box 3: Interest rate risk-weightings

Time to maturity	Risk weighting
I Month or less	0.00%
6 Months or less	0.70%
1 Year or less	1.25%
4 Years or less	2.25%
8 Years or less	3.75%
16Years or less	5.25%
20 Years or less	7.50%
Over 20 Years	12.5%

Source: Basel II Accords, 2006 Revision

3. Compared to pillar I of Basel II Accord, its**Pillars 2 and 3** are much less complicated. Pillar 2 essentially deals with the Regulator-bank relations. Regulators have the right supervise the bank; they can even liquidate a bank if needed. They have the power to oversee the internal risk evaluation procedures implementing the provisions the pillar 1 specifies. They also have the discretion to change or amend these provisions in the

light of local requirements, especially if they find that a bank cannot manage its credit, market and operational risks.

Pillar 2 indeed enhances the powers of the regulators considerably. Regulators are now allowed to create a “buffer” capital facility in addition to the minimum capital requirement if banks are found attempting to avoid pillar I provisions. The regulators are allowed to take appropriate action to pre-empt the oncoming crises in countries like China and Korea in case capital reserves tend to fall below the minimum.

4. **Pillar 3** seeks to improve market discipline *within* a country’s banking sector. In this regard the Accord makes a rather revolutionary proposal – to make available for public gaze some of the information regarding the banking structure and performance until now available only to the regulators.

Basel III (2010–11)

Building on and carrying forward the Basel II framework, the BCBS made public its third Accord, popularly known as Basel III, in 2010–11. The Accord was planned for introducing it over the period from 1 April 2013 until 31 March 2018. TheBasel III Report is a comprehensive document focusing on the consistency of risk weightings for banking assets generated. The salient features of the Accord are briefly as follows:

- **Capital requirements**: In addition to raising the capital requirement ratios for both the tiers, Basel III introduces two more capital buffers:
  1. A 2.5% capitalconservation obligatory buffer, and
  2. A counter-cyclical buffer, which wouldallow national regulators to require up to another 2.5% of capital during periodsof high credit growth. The adoption of this proposal is not compulsory.
- **Leverage ratio**: Basel III introduces a minimum *leverage ratio* which is calculated by dividing Tier 1 capital by the bank’s average total assets. The banks are expected to maintain a leverage ratio in excess of 3%. In July 2013, the US Federal Reserve Bank announced that the minimum leverage ratio would be 6% for eight system important financial institutions and 5% for their bank holding companies. A system important financial institution (SIFI) could be a bank an insurance company orsomeother financial institution which if fails may trigger a financial crisis.

• **Liquidity requirements**: Basel III introduced two obligatory liquidity ratios.One is the *liquidity coverage ratio* that requires a bank to hold sufficient high-quality liquid assets to cover its total net cash outflows over 30 days.

The other is the *net stable funding ratio* that requires the available amount of stable funding to exceed the amount needed to cover a one-year period of extended stress, i.e. the exposure of bank capital levels to turbulent economicand financialscenarios.Thus, Basel III tightens the leverage ratio framework and disclosure requirementsfor the banks and other financial institutions to enforce discipline in the waveringfinancial markets.

2. The Basel Accords and Islamic finance

Islamic finance operates as an integral part of the global financial system. Assuch, Islamic banks have to fall in line with international regulations as and whenenforced. This adds to a unidirectional convergence of the systems (Hasan 2011). The Basel Committee Accords on capital adequacy measureshave forced the pace of such convergence. Basel I was narrowly focused on thebanks of the Committee member countries and was of little consequence forIslamic banks. Basel III recommendations are in the process of being implementedover a time span. Thus, it is Basel II standards that demand consideration in thepresent context. These standards have blanket reach, covering banks across theglobe. Islamic bankers and jurists found some of the prescriptions of the Accordincompatible with the nature of Islamic banks' portfolios. For instance, the equityestimation for Islamic banks must include not only the bank owners' stake but alsothe investment deposits involved in participatory contracts.

Since the aim of these Accords is to have an adequate level of capital availableina bank for risk management, the following discussion is contextual to therisk-weighting of assets. It is also important to mention that in the calculation ofrisk-weights, banks have the choice of adopting the Basel II framework for thecalculation of capital adequacy or the internally set standards, with its approval.

The choice has allowed the central banks of countries to modify standards toaccommodate their domestic requirements. For example, in 2007 the ReserveBank of New Zealand simplified its explanation and examples of capital adequacyratios and calculated the same for local banks.Various sorts of standards for the Islamic financial institutions are set by the two autonomous international institutions –the AAOIFI and the IFSB. The AAOIFIsets the *Shari'ah* *compliance* standards for entering the Islamic financial markets.The objective is to build the confidence of the populace in Islamic finance byensuring, in addition, the transparency of the transaction and protection of thedepositors' interests.

In Malaysia, the regulatory framework and supervisory structure for financial management has evolved over time at a rather brisk pace. It has characteristically remained focused on pre-emptive and preventive actionaiming at stability and growth of the sector. Arrangements were made to enforce responsible business conduct, curb financial waywardness, ensure *Shari'ah*compliance of contracts, keep financial markets orderly and payment systems sound in addition tohaving tools ready to deal with crises when needed. BOX 4 provides the constituents of the paraphernalia. There is neither the need nor the space here to discuss the provisions or the implications of the listed laws for Islamic banking. Suffice to say they harmonize well with the

BOX 4

Malaysia's legal system for regulating Islamic financial industry

CBA Central Bank of Malaysia Act 2009

IFSA Islamic Financial Services Act 2013

FSA Financial Services Act 2013

DFIA Development Financial Institutions Act 2002

Anti-Money Laundering and Anti-Terrorism Financing Act 2001

intention and thrust of the Basel Accords. Their existence verifies that the BNM is not merely the central bank but the bank of Malaysia. It has acted faster and withexpedience than most central banksin developing countries havedonein testing situations. It has been able to harmonize national interests with global demands, especially in the tumultuous years since the turn of the century. The BNM kept continuallyengagedShari'ah scholars, academicians and industry players into meaningful dialogueon various issues relating to the industry. Consensual decisions emerged to become the basis of several reforms culminating in the recent introduction of a Shari,ah Governance Framework – the SG. As a result for example the on-going imitation of conventional products resulting in the erosion of their*Shari'ah*compatibility,is now frowned atanda December 2012 ruling intends at phasing out buy-back sale of *'inah'*and replace it by commodity*murabahah*and*tawarruq*. Most important is the rationalization the SG has executes in the organization and role of *Shari'ah* committees: the number of members has been raised from 3 to 5, the frequency of their meetings has been increased, the scope of their participation in management is enhanced and they are given greater operational independence.

The supervisory role of the *Shari'ah*Advisory Council of BNM (SACoBNM) is expanded to become the apex authority for the ascertainment of applied Shari'ah in IBF. The Central Bank has already demonstrated the value of the 2009 Central Bank of Malaysia Act. This has been followed by the introduction of the Islamic FinancialServices Act 2013 which probably is the most comprehensive legislation the industry has ever seen worldwide. Supervision, audit, and research have all been revamped.

Malaysian response to Basel Accords has also been prompt and measured, thanks to the leadership of its governor Zeti.The SG introduced not only the two tiers for capital adequacyalsoinitiated measures that aimed at ensuring a 'robust risk management control process and internal research capacity' I n this context, a liquidity management corporation has recently been established. In the same vein the IFSB has recently announced two more standards for Islamic financial institutions to strengthen regulation of Islamic banks at the global level.

4. New IFSB standards

IFSB-15: Standard has revised Capital Adequacy for Institutions offering Islamic Financial Services excluding*Takāful* Institutions and Islamic Collective Investment Schemes (IIFS). The revision has enhanced the version of two previous standards namely IFSB-2 of 2005 and IFSB-7 of 2007 dealing with requirements for *Sukūk*, Securitizations and Real Estate Investments (2009). It is worth noting that IFBS-15 also adopts Basel III proposals on capital components and macro prudential tool for the IIFS. The Standard would help implement a capital adequacy framework that will ensure effective coverage of risk exposures of the IIFS and allocation of appropriate capital to cover these risks.

For this purpose, IFSB-15 provides guidance on the features and criteria for high-quality regulatory capital components, including Additional Tier I and Tier 2, to comply with *Sharī`ah* rules and principles. Similarly, the standard also provides new guidance on macro policy tools, such as capital buffers, leverage ratio and important local banks, which will facilitate supervisory authorities in achieving the goal of protecting the banking system and the real economy from system-wide shocks.Supervisory authorities among the IFSB member countries are expected to start the implementation of IFSB-15 in their respective jurisdictions by January2015.

Basel III is designed for staggered implementation over time. The span gave it flexibility and space for adjusting with changing needs and circumstances. Another welcome feature is that countries can adjust capital adequacy requirements to suit local conditions.

Unfortunately Basel III came on the scene whencosts are rising and returns on capital are falling. Critics were quick to argue that the step would hinder the growth rates ignoring thatbumpyrides may also cause slower rates. In Europe, regulators ignoring such apprehensions are insistenton implementing the Basel Accords. Smaller banks are likely to gain. Indeed, part of the criticism emanates from ideological commitment to free markets.

3. Concluding remarks

The main objective of this paper was to improve the understanding of Basel Accords, their thrust and implications which objectives have presumably been met. On a more important side, we find that theBasel accords need not create any special difficulty for adoption in the Islamic section of global finance because they largely aim at achieving risk mitigation and stability: objectives that Shari'ahalso supports. Furthermore, the Accords contain flexibility to meet local and Islamic norms.Also, the greater role to regulators the Accords grant must be taken as a boon for the financial industryincluding its Islamic segment. SG is work-in-progress and what we have seen so far are positive developments introduced mainly in response toinforme opinion and demand at the national and international levels[5].

However, the recent developments in Islamic finance seem progressively dissolving into the main stream currents. Not a few feel that its Islamic character is being eroded. Most of Basel recommendations are so far welcome but the situation may not remain so in future. The composition of the BCBS is exclusive in terms of its membership– G10+Spain. The membership of the organization must be expanded to include members from the developing countries including Muslim where Islamic finance is concentrated and is going to be dominant in course of time. The call for expansion is logical anddemocratic; it will enhance confidence and transparency.

[5]See the opener of Chapter 12, 'Islamic Banking and Finance – An integrative approach by ZubairHasan, Oxford University Press January, 2014.

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