

**FORMAT FOR SUBMISSION OF ISLAMIC FINANCIAL PRODUCTS
OR INSTRUMENTS TO BE ENDORSED BY
LABUAN FSA'S SHARIAH SUPERVISORY COUNCIL**

Preamble

This format is issued aiming at promoting standard information submitted by Labuan Financial Institutions (LFI) in Labuan IBFC to apply for the Shariah Supervisory Council (SSC)'s approval/endorsement of Islamic financial services and products or instruments (Product).

Scope of Coverage

This format is applicable to all LFI offering Islamic financial product and services in the Labuan IBFC that intends to engage the services of the SSC of Labuan FSA. This format should be read together with the *Directive on Islamic Financial Business in Labuan IOFC* issued by Labuan FSA on 1 October 2003, to the extent applicable to the respective LFI that prefers to engage the services of the Labuan FSA's SSC.

The information that are required to be submitted in the application for SSC's approval / endorsement are as follows:-

Salient Features of the format

i. Introduction

- a. Proposed name of the product.

- b. The purpose of submission.
- c. Shari'ah matters to be discussed

ii. Objectives

The objectives of introducing the new Product.

iii. Type of markets / clients / customers

- a. List the type of target customers (corporates, banking, institutions, takaful operation, insurance companies, retail customers etc)
- b. Perform a financial projection based on the target take up rate of the product/service and expected market share.

iv. Structure of the Product

Describe the structure of the Product (including diagrammatic illustrations and flowcharts) to cover:

- a. The Shariah concept, including the relevant fiqh literature, supporting evidence, precedence and reasoning;
- b. The building blocks of the new Product;
- c. How it can be constructed from existing Products, where possible; and
- d. Mechanics of how the new Product works and how its risks are managed (provide an example using actual prevailing market rates, where possible).

v. Description of the Product

- a. Describe the main features of the Product, where applicable, including but not limited to the following: offer period, tenure, investment size, coverage, profit rates, rebate, commission and pricing/premium table, fees, charges and compensation charges, mode and frequency of profit payment, security/collateral requirement, facilities/services, renewal,

prepayment and optionality, potential returns and the returns variability of the Product.

- b. Eligibility criteria for customers.
- c. Table of differences in the features of the new Product compared to existing Product in the market, where applicable.
- d. Proposed date to launch the new Product.

vi. Third Party Arrangements

Details of any arrangements with other parties/strategic alliances in offering the new Product. Where new Products involve strategic alliance with other entities (for e.g. selling takaful for a takaful operator etc), the following information is required:-

- a. Details of the arrangement of the alliance (e.g. key terms of strategic alliance, commitments, costs and benefits of alliances);
- b. Information about the third party/strategic alliance;
- c. Rationale why the strategic alliance is critical to the successful introduction of the new Product; and
- d. Highlight the potential risk and actions taken to minimise or mitigate these potential risks arising from the strategic alliance in offering the new Product.

vii. Terms and Conditions

To submit the terms and conditions as well as the agreement and actual term sheet that shall be Shariah compliant.

viii. Transparency to Customers

To submit a draft sample of brochures /leaflets / advertisements / marketing slides which will be used when marketing the new Product (not applicable for tailor-made Products which are not targeted to the public or where specific term sheets are used). Where no advertising materials are being used, to submit a copy of the letter of offer or application form with

the terms and conditions.

ix. Risk Management Infrastructure and Processes

- a. Describe the potential risks that may arise from introducing the new Product, how to quantify the downside risk and how the risks have been mitigated and managed, wherever possible.
- b. Security features and controls which include how the information confidentiality, integrity and availability are ensured.

x. Accounting and Reporting Treatment

- a. Describe the specific examples of accounting treatment/entries that will be applied to the new Product. Provide the accounting treatment that is adopted in other jurisdiction which the Islamic financial institutions are familiar in compliance with accounting standard.
- b. Propose how the new Product should be reported vis-à-vis the existing reporting structure and how the new Product will be monitored for regulatory purposes.

xi. Endorsement by the Board of Directors

Endorsement from the Board of Directors that it:-

- a. has approved the new Product; and
- b. has ensured that the Directive on Islamic Financial Business in Labuan IBFC have been complied with.

Labuan Financial Services Authority

15 May 2006