



البنك المركزي العُماني  
Central Bank of Oman

## **Consultation Paper**

**on**

## **Draft Regulatory Framework for Shari'ah Compliant Operations of Finance and Leasing Companies (FLCs)**



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Consultation Paper

## **A. LICENSING REQUIREMENTS**

### **1. Scope of Coverage**

- 1.1 Finance and Leasing Companies (FLCs), authorized for conducting Shari'ah compliant/Islamic business by the Central Bank of Oman ("Central Bank") under the Banking Law (all together called "Licensees" hereinunder), can offer their services as:
  - a) Full-fledged Islamic FLC; or
  - b) Islamic Window of a licensed conventional FLC, consisting of separate Islamic branch(es).
- 1.2 Persons wishing to be licensed to undertake Islamic FLC business, as authorized hereunder, must apply in writing to the Central Bank.
- 1.3 A Licensee shall conduct all of its activities, operations and transactions in accordance with Shari'ah rules and principles.
- 1.4 The Memorandum and Articles of Association of Licensees should provide for conduct of Islamic finance business according to Shari'ah rules and principles. Appropriate approvals from the shareholders and/or the Board of Directors as necessary must be obtained.
- 1.5 Each Licensee shall display the respective licenses at all times in a conspicuous place in all its offices.
- 1.6 It shall be unlawful for a Licensed FLC to use the word "bank" or "banking" in its name or to imply by advertising or otherwise that they are engaged in business not specifically authorized by the Central Bank.
- 1.7 The Central Bank has the right to revoke the License issued to the Licensee in case of violation of the provisions of this framework or any other applicable laws and regulations.

### **2. Licensing of Full-fledged Islamic FLC**

- 2.1 Unless regulated under any other laws of the Sultanate by a recognized regulator, authorized banking business, as stated in Article 52 of Banking Law, requires to be licensed by the Central Bank.

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- 2.2 Any person seeking to be licensed as a full-fledged Islamic FLC shall submit an application in the form prescribed, draft Articles of Association, feasibility report and plan of operations, covering at least three years and such other materials as may be prescribed by the Central Bank.
- 2.3 Any submissions to the Central Bank shall not preclude the person from submitting any documents which may be required by any laws of the Sultanate, including but not limited to submissions required by the Commercial Companies Law and Commercial Register Law.
- 2.4 The Central Bank shall determine as to whether the application for a license meets the commercial, financial and economic needs of the Sultanate and objectives of the Banking Law in the light of information to be provided concerning the geographic and commercial communities to be served by the applicant, specific kind of banking business in which it seeks to engage and the need of communities to be served.
- 2.5 The Central Bank shall approve or disapprove of the application within 120 days of submission complete in all respects.
- 2.6 A person, licensed by the Central Bank, shall comply with the requirements of all applicable laws, including the Commercial Companies Law, and commence business within 360 days of license or of listing in the Commercial Register as a Joint Stock Company, whichever date is later. The failure thereof shall result in automatic revocation of the license unless the Central Bank authorizes an extension of the period.

**3. Licensing of Islamic Window of a conventional FLC**

- 3.1 A Licensed FLC, interested in opening an Islamic Window with dedicated Islamic branches, shall file a letter of request to the Central Bank, highlighting the FLC's background and providing justification for interest in opening an Islamic Window, business vision, including a feasibility report for the Window for at least three years, strategies and business focus and such other materials as may be prescribed by the Central Bank.
- 3.2 An Islamic Window of a conventional FLC shall have and at all times maintain an allocated capital of not less than RO 5 Million or such higher amount as may be determined from time to time by the Central Bank.

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- 3.3 Capital requirement for Windows will be in addition to the minimum stipulated capital requirement of the licensed FLC.
- 3.4 Licensed FLC applying for the approval of an Islamic Window shall have a net non-performing loan (NPL) ratio of no more than 8% for the preceding three quarters.
- 3.5 Copies of the applicant's updated Articles and Memorandum of Association, with authorization to conduct Islamic finance business
- 3.6 Resolution of board of directors to seek Central' Bank's approval for Islamic Windows license.
- 3.7 Applicant has to provide letter of assurance that Islamic and conventional funds will not be commingled.
- 3.8 Applicant shall undertake to establish SSB and fulfil all other relevant Shari'ah governance requirements as stipulated by the Central Bank from time to time, as applicable to FLCs.
- 3.9 A licensed FLC already operating in Oman with conventional branches shall have capital to meet assignment / allocation requirement for Islamic operations, over and above the minimum capital requirements.
- 3.10 Any submissions to the Central Bank shall not preclude the person from submitting any documents which may be required by any laws of the Sultanate, including but not limited to submissions required by the Commercial Companies Law and Commercial Register Law.
- 3.11 The Central Bank shall determine as to whether the application for the license of Islamic Windows meets the commercial, financial and economic needs of the Sultanate and objectives of the Banking Law in the light of information to be provided and communities to be served.
- 3.12 The Central Bank shall approve or disapprove the application within 120 days of submission complete in all respects.

**4. Branch Licensing and Applicable Fee**

**a) Licensing of Branches**

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- 4.1 Application for a branch shall be filed with a feasibility report, plan of operations for three years and other requirements specified.
- 4.2 Licenses for branches, if granted, shall be availed within 180 days from the dates thereof, duly completing commercial registration and requirements of local Governmental authorities.
- 4.3 Applications for branches abroad shall be considered only selectively and against consideration of continued stability and success of operations and terms specified.
- 4.4 FLCs shall display the licenses issued hereunder in a conspicuous place of their respective approved offices and pay annual license fees before 31 January every year.
- 4.5 The Licensees shall not relocate their licensed branches without prior approval of the Central Bank.

**b) Application and License Fees**

- 4.6 The following fees shall be applicable for application and license as well as amendment to the existing license.

S. NO.	CATEGORY	FEE (OMR)
<b>1.</b>	<b>Application Fee (Non-Refundable)</b>	
a)	Head Office	3,000
b)	Branch	300
<b>2.</b>	<b>License Fee</b>	
a)	Head Office	3,000
b)	Branch	300
<b>3.</b>	<b>Fee for Amendment or Issue of a New License to an Existing Licensee Resulting from a Change in the Scope of Permitted Activities or Closure</b>	
a)	Head Office	3,000
b)	Branch	300

4.7 The application and license fee for branches/representative offices abroad shall be as follows:

<b>S. NO.</b>	<b>CATEGORY</b>	<b>FEE (OMR)</b>
<b>1.</b>	<b>Application Fee (Non-Refundable)</b>	
c)	First Branch in the country	600
d)	First Representative Office in the country (as present)	500
<b>2.</b>	<b>Application Fee (Non-Refundable)</b>	
c)	For additional Branch in the same country	300
d)	For additional Representative Office in the same country	250
<b>3.</b>	<b>Annual License Fee</b>	
a)	First Branch in the country	600
b)	First Representative Office in the country	500
c)	For additional Branch in the same country	300
d)	For additional Representative Office in the same	250



## **B. SCOPE OF BUSINESS**

### **1. Managing Unrestricted Investment Accounts**

- 1.1. An FLC licensed to conduct Islamic business can accept investment funds based on Islamic contracts (such as Mudarabah), only from corporates, with minimum size of OMR 5,000 (Omani Riyal five thousand only).
- 1.2. The corporate, as a fund provider (*Rab al Maal*), shall authorize the Licensee to invest its funds on the basis of underlying Islamic contract in a manner which the Licensee deems appropriate without imposing any restrictions as to where, how and for what purpose the funds should be invested.
- 1.3. Corporates shall be entities, other than individuals and sole proprietorships, and having official registration/recognition.
- 1.4. The invested amount shall be repaid by the Licensee to the corporate upon maturity, along with the profit/loss calculated *at the end of term*, based on the underlying Islamic contract.
- 1.5. A Licensee can accept/renew investment funds for a minimum period of three months and maximum period of 60 months.
- 1.6. Investment accounts shall be offered only in Omani Riyal.
- 1.7. A Licensee cannot accept investment funds repayable on demand.
- 1.8. Outstanding investment accounts at any point of time shall not exceed the net worth of the Licensee.
- 1.9. Outstanding liabilities, including investment accounts, shall not exceed five times of the company's net worth.
- 1.10. The investment accounts shall not be eligible for coverage under Islamic Bank Deposit Insurance Scheme and the same shall be transparently communicated to corporate depositors in writing.
- 1.11. FLCs shall be unambiguous and transparent and shall clearly spell out the terms and conditions applicable to investment accounts. Non-availability of Islamic deposit insurance coverage should be made clearly understood

to the corporates in writing. There shall be no foreclosure of investment funds within one year from acceptance. While investment funds may be taken as collaterals, FLCs shall continue to extend finance in accordance with authorizations and not extend loans against deposits per se.

- 1.12. FLCs should observe utmost due diligence while accepting investment funds from related parties and should not offer favorable terms.
- 1.13. Considering the financing profile of FLCs, the Central Bank encourages seeking long-term funds from corporates, even though the stipulated minimum period is one year. They should plan fund mobilization drives prudently so as to avoid crowded maturities and build up prudent and manageable maturity profile. Risk management practices shall, specifically, ensure appropriate fund flows and cushion by way of reserves and unutilized credit lines to meet maturities promptly.

## **2. Offering Islamic Financing Products and Other Services**

- 2.1. A Licensee can enter into a contract to provide financing in accordance with Shari'ah rules and principles.
- 2.2. Islamic financing contracts include *Mudarabah*, *Musharakah*, *Diminishing Musharakah*, *Murabahah*, *Musawamah*, *Salam*, *Istisna'* and *Ijarah*, among others.
- 2.3. Use of Commodity *Murabahah* or *Tawarruq*, by whatever name called, is not allowed for the Licensees, on both sides of the balance sheet, for their transactions both within and outside the Sultanate.
- 2.4. A Licensee can offer following type of Shari'ah compliant financing products, with due consideration to product approval process outlined in this framework.
  - 2.4.1. *Ijarah* Financing (Islamic leasing) of Shari'ah compliant assets;
  - 2.4.2. Vehicle Finance. In this case, customer shall pay a minimum 20% down-payment of the cost. In addition, Licensee shall arrange for takaful cover for life and total disability of the customer.
  - 2.4.3. Hire-Purchase of Shari'ah compliant assets.

2.4.4. Real Estate Financing:

- a) A Licensee can provide financing for warehousing, factory buildings and commercial projects for business purposes.
- b) In addition, a Licensee can offer financing to developers for the development of real estate projects (including development of residential units).
- c) This real estate financing shall be subject to the following conditions:
  - i) Total real estate lending shall not exceed 50% of Licensee's net worth.
  - ii) Exposure to a single person shall not exceed 10% of its net worth and aggregate exposure to the Connected Counterparty and Related Party shall not exceed 25% of its net worth. Connected Counterparty and Related Party shall have the same meaning as defined in Para (3) of Circular BM 1024.

2.4.5. Working Capital Financing – for business purpose.

2.4.6. Extension of Letters of Guarantees:

A Licensee can offer Letters of Guarantees to their Ijarah and other financing customers, which should be ancillary to their primary business and subject to the applicability of normal commercial practices and rules.

2.4.7. Personal Finance:

In addition to providing personal finance in the categories described in 2.4.1 – 2.4.3 above, a Licensee can provide Shari'ah compliant financing to individuals for meeting genuine personal needs such as education, medical and travel, on a limited scale.

Aligned with the principles of ethical and responsible financing inherent in Islamic finance, Licensees are expected to exercise prudence in offering personal finance products, avoiding any

practices that could encourage excessive or unnecessary consumption within the society, with strict compliance of Shari'ah rules and principles and the resolutions of HSSA.

**2.4.8. Bancatakaful Products by acting as Agents:**

A Licensee can offer Bancatakaful (Islamic insurance) products to their customers, while complying with the following rules, in addition to relevant requirements by the Financial Services Authority (FSA):

- a) A Licensee shall choose to act only as agents and not brokers;
- b) A Licensee may partner with a maximum of two takaful companies, one specializing in life takaful and the other in general takaful. The licensee is prohibited from selling the same category of product from multiple companies to prevent acting as a broker.
- c) A Licensee shall act fairly and transparently with due diligence. It must ensure its role as an agent is clear in all actions and appearances. It should not assume liability or responsibility, and its distinct role as an agent should be evident. Sales promotions should not obscure the principal-agent relationship and its exclusive liabilities.
- d) A Licensee must adhere to the rules and regulations of FSA for takaful agents.
- e) A Licensee should have a clearly spelt-out Agency Agreement with the takaful company, containing all the terms and conditions of the arrangement and, in particular, the scope of coverage, assistance in training, mutual roles and responsibilities, etc. It should comply with needed requirements such as filing the document with the FSA. In addition, it should submit all relevant material to the Central Bank for consideration before offering products to the customers.

- f) A Licensee should maintain an arm's length relationship with takaful companies and apply rigorous standards of due care and prudence in interactions with related parties.
- g) A Licensee should review its relationship and the functioning of the arrangement with takaful companies on an ongoing basis and be in a position to take corrective or mitigating steps, including annulling the relationship if necessary.

2.4.9. Any other business specifically authorized by the CBO Board of Governors or the Executive President under delegation, and to the extent such activities are authorized in the licenses granted.

### **3. Undertaking Investments**

- 3.1. A Licensee is authorized to invest in Sovereign Sukuk issued by Oman Government in OMR up to 20% of its net worth, unless specifically relaxed or amended otherwise by the Central Bank and subject to reasonable management of maturity mismatches.
- 3.2. A Licensee is also permitted to invest in Corporate Sukuk listed on the Muscat Stock Exchange, subject to a limit of 10% of its net worth. A Licensee shall not invest in Corporate Sukuk issued by any related parties or by companies which have obtained its financing.
- 3.3. All the investments shall follow Board approved investment policy, considering the liquidity, credit and other associated risks.
- 3.4. As a matter of general rule, A Licensee is not authorized to invest in any other securities or shares. Any investments, if exceptionally approved, for amounts exceeding 5% of paid up capital of the investee and 20% of net worth of the FLC, shall be subjected to specific conditions like infusion of additional capital and deduction from net worth for reckoning prudential authorizations and limitations.
- 3.5. Subject to applicable laws of the Sultanate relating to ownership of property, FLCs may acquire and own premises necessary and reasonable for the conduct of their business, including housing for employees.

- 3.6. Any property or shares acquired in debt settlement must be disposed of within 12 months of acquisition, unless an extension is granted by the Central Bank.

#### **4. Debt Burden Ratio**

- 4.1 For customers with monthly Net Salary of less than OMR 1,000, the maximum Debt Burden Ratio shall not exceed 50% of Net Salary\*.
- 4.2 For customers with or exceeding OMR 1,000 and those having repayment towards housing finance, the maximum debt burden ratio shall not exceed 60% of the Net Salary.

*\*Net Salary referred herein, is the salary received by the customer in their bank account on monthly basis.*

#### **5. Consumer Protection Requirements**

While offering Islamic financing products and other fee/commission-based services (such as Bancatakaful), to both business and non-business customers, a Licensee should consider the following points, as a minimum:

- a) *Product Disclosure:* A Licensee should provide clear and comprehensive product disclosure documents to customers, detailing product features, benefits, risks, and costs in easily understandable language.
- b) *Suitability Assessment:* A Licensee should conduct thorough suitability assessments to ensure that recommended products align with customers' financial goals, risk profiles, and needs.
- c) *Product Complexity:* A Licensee should avoid offering products with excessive complexity that could mislead customers.
- d) *Customer Focus:* A Licensee should prioritize customer interests over sales targets in all sales activities.
- e) *Sales Staff Training:* A Licensee should implement mandatory training and, where applicable, certification programs for sales staff to enhance product knowledge and ethical selling practices.

- f) *Cooling-Off Period*: A Licensee should provide non-business customers with a mandatory cooling-off period to review and cancel policies without penalty.
- g) *Commission Transparency*: A Licensee should disclose all commissions to customers clearly and transparently, especially those related to Bancatakaful.
- h) *Customer Complaints*: A Licensee should establish efficient complaint resolution processes and ensure timely redressal of customer grievances.

## **6. Launching New Islamic Finance Products and Services**

- 6.1 A Licensee shall seek the approval of the Central Bank before launching of new products and services, highlighting the following:
- a) The product structure, features and associated risks;
  - b) Basis for their conformity with *Shari'ah* requirements and the requirements of the Banking Law;
  - c) Accounting, reporting and other regulatory treatments proposed;
  - d) Confirmation of clearance by the respective Shari'ah Supervisory Board (SSB) and its cautionary observations, if any, and
  - e) Any other information as required by the Central Bank.
- 6.2 The Central Bank, at its discretion, may seek the review of High Shari'ah Supervisory Authority (HSSA) on the proposed product or service.

## **C. SHARI'AH GOVERNANCE**

### **1. General Requirements**

- 1.1 A Licensee shall declare that all their products and services follow Shari'ah rules and principles.
- 1.2 A Licensee shall appoint a Shari'ah Supervisory Board (SSB) which shall oversee the operations of the Licensee from a Shari'ah compliance perspective. The SSB shall also prepare and present an annual Shari'ah compliance report to the Board of Directors. The SSB shall be assisted by a system of Shari'ah Governance, as outlined in this Framework.
- 1.3 A licensed conventional FLC offering Islamic financial services through Windows shall group all branches offering Islamic financial services together for financial reporting and shall prepare a consolidated supplementary set of accounting statements as per the standards issued by the Accounting & Auditing Organization for Islamic Financial Institutions (AAOIFI), and where no relevant AAOIFI standards exist, with International Financial Reporting Standards ("IFRS").
- 1.4 The Islamic Window shall prepare a separate supplementary statement to be published in the notes to the financial statements showing in detail the funds mobilized according to the Shari'ah rules and principles and the assets financed by these funds.
- 1.5 The Islamic Window shall prepare a supplementary statement to be published in the notes to the financial statements showing in detail the income and expenses related to the Islamic financial services offered by the Window.
- 1.6 Licensed FLCs shall prepare, on an annual basis, a robust training and capacity building program for the board of directors, management, SSB and other Shari'ah resources as well as staff covering, among others, Islamic finance principles, contracts, products and risk management. A report on these training programs shall be submitted to board of directors of FLC in the first meeting of each calendar year for its feedback and future direction.

### **2. Overall Features of Shari'ah Governance Framework**

- 2.1 A Licensee shall establish Shari'ah Governance framework, which is a system whereby an Islamic financial institution attempts to comply with Shari'ah rules



and principles in all its activities. It is the duty of all the stakeholders particularly the shareholders and the management of the Licensees to establish and strengthen Shari'ah Governance framework of their respective institutions.

2.2 The main objectives of a Shari'ah Governance framework are:

- a) To provide a structure and a system to govern all the business activities of the Licensee in order to ensure Shari'ah compliance at all times and at all levels.
- b) To enable the Licensee to be perceived as Shari'ah compliant by the stakeholders including the general public.

2.3 The key elements of a Shari'ah Governance framework are as follows:

- a) SSB of the Licensee
- b) Internal Shari'ah Reviewer
- c) Shari'ah Compliance Unit
- d) Shari'ah Audit Unit
- e) External Shari'ah Audit

2.4 Besides the above specific functions, the Board and the management of the Licensee have a very important role to play in achieving and maintaining Shari'ah compliance. Without adequate support of the Board and the management it is difficult for a financial institution to achieve Shari'ah compliance.

2.5 The Board of the Licensee has the ultimate responsibility to create and maintain a robust Shari'ah Governance framework to ensure Shari'ah compliance of the operations of the Licensee. The Board shall approve all the policies and procedures for the Licensee related to Shari'ah matters in consultation with the Shari'ah Supervisory Board and shall put in place a mechanism to ensure that such policies and procedures are effectively implemented.

2.6 The Board shall ensure that the Head of Islamic Finance (in case of an Islamic Window) or the CEO (in case of a full-fledged Islamic FLC) of the Licensee has adequate knowledge, qualification and/or experience in Islamic finance and

finance and possesses at least a basic understanding of Shari'ah principles as they apply to Islamic finance products and processes.

- 2.7 The Head of Islamic Finance for an Islamic Window should be a senior and experienced person in the hierarchy of the organization. He should be at the level of General Manager, Deputy General Manager or Assistant General Manager (or relevant senior designation in line with the Licensee's organizational structure), reporting directly to the CEO of the FLC. He should not have any other responsibility in the organization related to conventional business, except managing and leading Islamic finance operations.
- 2.8 An Islamic Window shall have dedicated staff for business functions such as consumer and corporate, reporting to the Head of Islamic Finance. Treasurer may have dotted line interactions with Head of Treasurer of the institution, subject to strict compliance with non-comingling of conventional and Islamic funds.
- 2.9 An Islamic Window shall have at least one dedicated staff for various control functions including but not limited to financial control and risk, reporting to their respective departmental heads with dotted line reporting to the Head of Islamic Finance.
- 2.10 An Islamic Window may have shared support functions (e.g. legal, HR, central operations, admin, etc.) with its parent institution, for which a transparent cost allocation mechanism should be agreed.
- 2.11 The core banking/IT system adopted by the Licensees should be capable of recognizing the unique nature of Islamic finance contracts, transactions and processes.

### **3. Appointment and Functions of Shari'ah Supervisory Board**

- 3.1 The Board shall be composed of, as a minimum, three (3) members according to the resolution of the General Assembly of the Licensee. The resolution shall determine the remuneration of its members.
- 3.2 The Board members shall choose Chairman and the Deputy Chairman at the first meeting. In the event that the Chairman is unable to attend a meeting, the Deputy shall chair the meeting.
- 3.3 Each SSB member shall meet the following criteria:

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- i) Possess a minimum of bachelor's degree in Shari'ah.
  - ii) specialize in *Fiqh al Mu'amalat* (Islamic commercial jurisprudence).
  - iii) Have a minimum of 10 years of overall experience in the field of Shari'ah.
  - iv) Demonstrate strong proficiency in Arabic and preferably have a good understanding of English.
  - v) Have a respectable character and be of good conduct, not adjudged bankrupt or convicted of felony or criminal offence, with respect to honesty and integrity.
  - vi) Maintain independence from the Licensee by not serving on its Board of Directors and shall not be an employee of its associates/ affiliated companies, institutions or entities.
  - vii) Be of sound mind and able to exercise independent judgment.
- 3.4 The SSB may include additionally one or more non-voting members who have accumulated experience of 15 years in the field of finance, economics, accounting, law, or business administration, provided, that they meet the conditions stipulated in items (v, vi and vii) of the above paragraph. They should also hold a minimum of master degree in the relevant field.
- 3.5 The decision of the SSB shall be binding to the Licensee.
- 3.6 The Board shall have the following functions:
1. To decide on all matters related to Shari'ah and to guide, review and supervise the activities of the Licensee in order to ensure its compliance with the Shari'ah rules and principles. The functions include the following:
    - a) Review products and services, underlying Islamic contracts, product manual, additional collaterals and related matters.
    - b) Approve the policies, procedures, and systems set by the Licensee to ensure their Shari'ah compliance.
    - c) Review the products after implementation to ensure compliance with the related Shari'ah controls.
    - d) Approve the tasks carried out by Shari'a compliance and Shari'a audit functions.

- e) Shari'ah matters in the day-to-day business of the Licensee.
  - 2. Provide guidance on Shari'ah matters to legal counsel, external auditor, and others functions, when requested.
  - 3. Such other functions as may be assigned by the General assembly of the Licensee.
- 3.7 The SSB membership shall be for a term of three years, which shall be renewable for another three-year term.
- 3.8 The SSB shall, whenever needed, upon the invitation by the Chairman of the SSB or his alternate or by the Licensee, meet at least three (3) times a year. The Board meeting shall not be valid unless attended by a majority of the voting members, including the Chairman, or the deputy Chairman.
- 3.9 The SSB may seek the assistance of those, it deems fit to attend its meetings, having knowledge in Islamic finance, Islamic economics, law and others, whenever needed, provided however, that they will not have a countable vote.
- 3.10 The SSB may invite any relevant senior management personnel of the Licensee to attend its meetings, provided however, they will have not a countable vote.
- 3.11 The decision shall be taken by consensus or by a majority of voting members, and in case of an equality of votes, the vote of the Chairman of the meeting shall prevail.
- 3.12 The SSB members shall disclose any relation or conditions that may raise doubts on their independence or neutrality/objectivity, and absence of any conflict of interests.
- 3.13 SSB members may have relationships with the Licensee such as obtaining financing facilities, provided that such relationships do not conflict with their SSB membership obligations. No preferential treatment or special terms shall be granted to SSB members in their capacity as such. All such relationships must be disclosed in the Licensee's annual report as per Article 72 of the Banking Law.
- 3.14 The Board of Directors of the License shall have the following responsibilities in relation to its SSB:

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- a) Follow-up the implementation of Shari'ah rulings and decisions issued by the SSB are accessible to Licensee's concerned persons.
  - b) Provide disclosure and access to necessary information and resources to the SSB to carry out its work.
- 3.15 The Licensee shall disclose in the annual report the number of meetings of the SSB held during the year, including the frequency of attendance of each SSB member.
- 3.16 The Board of Directors of the Licensee must hold a joint meeting with the SSB, at least once a year, to discuss issues related to the activities and services offered by the Licensee.
- 3.17 In the event of serious doubts regarding the violation of certain activities or services of the Licensee to the Shari'ah rulings, the SSB, instantly, shall submit a report to the Board of Directors of the Licensee, including the proposals and necessary measures to remove the violation. The SSB shall also inform the Central Bank with such violations and report it in the annual report.
- 3.18 The Licensee shall conduct an annual review of the SSB members to ensure that they meet the membership conditions, which shall be submitted to the Board of Directors.
- 3.19 The SSB shall submit an annual Shari'ah compliance report to the Board of Directors of the Licensee, to ensure transactions are in compliance with Shari'ah.
- 3.20 The Licensee shall attach annual Shari'ah compliance report, along with the annual audited financial statement, in accordance with the provisions of Article (72) of the Banking Law.
- 3.21 The SSB members shall maintain the confidentiality of information and documents in the context of the performance of its duties.
- 3.22 No SSB member of an FLC shall join the SSB of another FLC, bank or other entity licensed by the Central Bank. However, an SSB member of an FLC may serve on the SSBs of no more than three (3) institutions licensed by the Financial Services Authority (FSA), contingent upon adherence to relevant FSA regulations.

- 3.23 The SSB membership shall be terminated by the General Assembly of the Licensee in any of the following situations:
- a) If he lost one of the membership conditions of the SSB, stipulated in clause 3.3 above.
  - b) If he has classified accounts.
  - c) If a member fails to attend at least two third of the SSB meetings set out in a year without a reasonable excuse.
  - d) If he violates any of the obligations specified in the provisions of this framework.
- 3.24 The Licensee shall notify the Central Bank of a membership termination of any SSB member, stating the reasons and actions taken.
- 3.25 The SSB members shall be compensated according to a remuneration policy approved by the Board of Directors of the Licensee.
- 3.26 The SSB shall be independent, objective, competent and appropriately empowered to carry out its responsibilities. Necessary measures shall be taken to ensure that the SSB not only works independently but is also seen to be independent by the stakeholders including the general public.
- 3.27 SSB members shall exercise appropriate discretion in decision making by keeping in mind both the technical aspects of Shari'ah and the objectives of Shari'ah (*Maqasid-e-Shari'ah*). They should pay attention to both the legal and the ethical dimensions of their decisions.
- 3.28 The principle of objectivity imposes obligations on SSB members to be fair, intellectually honest and free of conflict of interests.
- 3.29 SSB members should neither be employees of the Licensee, nor should they be involved in any manner with regard to managerial decisions and operational responsibilities of the Licensee.
- 3.30 Similarly, a member of the SSB cannot be a Director in the same institution or its associate / affiliate companies for the current or the last financial year.

#### **4. Appointment and Functions of Internal Shari'a Reviewer**

- 4.1 A Licensee shall appoint an Internal Shari'ah Reviewer (ISR), in consultation with its SSB, who shall be a full-time employee of the Licensee. He can only

work for one Licensee at a time in his capacity as ISR. He cannot be a member of the Licensee's or any other SSB at the same time.

- 4.2 He shall be a qualified Shari'ah scholar and meet the criteria of becoming a member of SSB, as outlined in this Framework.
- 4.3 He shall be responsible for Shari'ah compliance function and Shari'ah audit function of the Licensee. Following proportionality principle, he may be assisted by Shari'ah compliance officer(s) and Shari'ah audit officer(s). Such officer(s) shall have knowledge and experience of the banking business as well as basic orientation to and understanding of Shari'ah (in particular *Fiqh al Mu'amalat*) as applied to the banking and audit processes.
- 4.4 The ISR shall work independently and report to the SSB, with administrative reporting to the CEO (of a full-fledged Islamic FLC) or Head of Islamic Finance (in case of an Islamic Window).
- 4.5 A Licensee should take prior approval of the Central Bank for the appointment of its ISR.
- 4.6 A Licensee must promptly notify the Central Bank of any resignation or termination of the ISR, upon occurrence or as soon as the grounds for such action become known, whichever is earlier. Licensees shall also state the reasons of such termination or resignation and alternate arrangements for the interim period. The Licensee shall arrange for an exit interview with the Central Bank, if requested.
- 4.7 The ISR shall be a coordinator of the SSB. His responsibilities as the SSB coordinator will *inter alia* include:
  - a) Coordinating the work of the SSB and its meetings, and informing its members of the agenda before the scheduled date of the meeting.
  - b) Recording the minutes of the Board meetings, and documenting any differences of opinion among members of the SSB.
  - c) Informing the Licensee's internal control functions of what has been recorded in the minutes of the Board meetings.
  - d) Maintaining all minutes of the SSB meetings and submitting upon request, to the internal auditor, external auditor, and examiner from the Central Bank.

- e) Such other functions as may assigned by the Chairman of the SSB.
- 4.8 Apart from his role as the SSB coordinator, his responsibilities will include, among others:
- a) Providing Shari'ah guidance and direction in day-to-day matters to the Licensee's management. He may escalate an issue to the SSB to seek their guidance and approval, if deemed appropriate or necessary. *(However, this does not take away from the SSB their right to take up any issue on their own);*
  - b) Overseeing the Shari'ah training plans and schedule for the Licensee. He shall spend a significant percentage of his time, on an annual basis, in training the management and the staff of the Licensee and other stakeholders (including customers and the general public, among others) on Shari'ah as it applies to Islamic finance. *A log of his time spent on training shall be kept by the Licensee and shall be made available to the Central Bank examiners; and*
  - c) Advising Licensee's legal counsel, auditor or consultant on Shari'ah related matters, when requested.
- 4.9 The ISR and his team of Shari'ah compliance officer(s) and Shari'ah audit officer(s) shall have access to all records, documents and information from all sources including professional advisors and the Licensee's employees in discharge of his duties. The management shall be responsible to provide him with all the information relating to the Licensee's compliance with Shari'ah.

## **5. Shari'a Compliance Unit and Shari'ah Audit Unit**

- 5.1 A Licensee is required to introduce a Shari'ah compliance unit and Shari'ah audit unit as part of their Shari'ah Governance framework, reporting to the ISR.
- 5.2 Depending upon the scale of operations and following proportionality principle, each unit shall have one or more staff.
- 5.3 The staff in Shari'ah compliance unit and Shari'ah audit unit are required to have sound knowledge and understanding of banking and finance as well as Shari'ah principles in general and *Fiqh al Mu'amalat* in particular. They should have appropriate educational background and training relevant to their work.
- 5.4 Key responsibilities of Shari'ah compliance unit will include the following:



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- a) Facilitating the management in ensuring compliance with Shari'ah (as manifested by the guidelines and pronouncements (*Fatawa*) issued by the SSB) and relevant stipulations of the Central Bank on a day to day basis in all its business activities, operations and transactions;

*This shall be undertaken through review and approval of the contracts, agreements, policies, procedures, products, process flows, transactions, reports and profit distribution calculations, etc.;*

- b) Reviewing the structure and execution process of new product or service, before its submission to SSB for approval;
- c) Receiving regular reports and confirmations from the business departments and branches relating to the Shari'ah compliance of key transactions and the actions taken to resolve any observations raised by this unit on the operations, products or procedures;

*At a minimum, this reporting can be in the shape of a reporting checklist of key Shari'ah issues for various contract and transaction types, drafted by this unit, which shall be duly filled in and submitted by the relevant business department (or branch) on a regular basis to ensure ongoing Shari'ah compliance. The purpose of this reporting is to minimize the possibility of Shari'ah non-compliance and rectify any such issues (where possible) during the year before Shari'ah audit identifies them in their annual Shari'ah audit.*

- d) Assisting the ISR in training the employees of the Licensee – both management and staff – and other stakeholders including customers and the general public; and
- e) Performing Shari'ah risk control by identifying, measuring, monitoring, controlling and managing (with guidance from ISR) any real or perceived risk of Shari'ah non-compliance by the Licensee across the entire organization.

5.5 Key responsibilities of Shari'ah audit unit will include the following:

- a) Assisting the ISR and the SSB in forming or expressing an opinion on the extent of the Shari'ah compliance of the Licensee's operations. It will examine and evaluate the extent of compliance with Shari'ah principles, pronouncements (*Fatawa*), guidelines and instructions issued

by the Licensee's SSB through an actual audit of the business transactions;

- b) Examining and evaluating the adequacy and effectiveness of the Licensee's system of Shari'ah compliance and the quality of performance in carrying out assigned responsibilities. The scope of such examination shall cover all aspects of the Licensee's business operations and activities, including review of the products, processes, agreements and systems for assessing the extent of implementation of the Shari'ah guidelines and *Fatawa* issued by the SSB;
  - c) Preparing and submitting the Shari'ah audit report, for the review of the SSB for consideration and appropriate action. A copy of the report shall also be presented to the Audit Committee of the Board;
  - d) Assessing an Islamic Window as to whether the funds have been adequately segregated and that the services and transactions with the conventional parent (if any) are Shari'ah compliant and in accordance with the guidelines issued by the SSB and related rules of the Central Bank; and
  - e) Assisting the ISR in training the employees of the Licensee – both management and staff – and other stakeholders including customers and the general public.
- 5.6 The Shari'ah audit officers shall have direct and regular communications with all levels of management, ISR, SSB and external auditors. No scope limitation and/or restriction of access to documents, reports, etc. shall be placed on Shari'ah audit officers.
- 5.7 Shari'ah audit officers shall be objective and maintain independent attitude in performing their internal Shari'ah audit. They shall reach objective conclusions based on work performed and the results thereof.
- 5.8 The ISR shall be responsible for providing appropriate supervision throughout internal Shari'ah audit, starting from the planning stage. Appropriate evidence of supervision shall be documented and retained.
- 5.9 Any difference of opinion between the management and the Shari'ah audit officers on matters relating to Shari'ah interpretation shall be referred to the ISR and the SSB (if required). SSB shall be the final authority on matters of Shari'ah interpretation.

- 5.10 Shari'ah audit officer(s) shall follow up to ascertain that appropriate action is taken on their reported findings and recommended corrective actions. In addition, any other recommendations relating to Shari'ah matters made by the SSB, external auditors and/or regulatory agencies shall also be followed up. The management is responsible for rectification of non-compliance, its prevention in the future and ensuring that the agreed upon actions were carried out.
- 5.11 The management of the Licensee shall provide all the needed support to facilitate appropriate training of its Shari'ah compliance and internal Shari'ah audit resources to enable them to carry out their duties with competence and rigour. Such training should be arranged in consultation with and significant input from ISR and the SSB.

## **6. External Shari'ah Audit**

- 6.1 A Licensee shall engage an independent third party to conduct an annual external independent Shari'ah audit. The purpose of this audit is to add credibility to the internal Shari'ah audit of the Licensees through an independent endorsement. This will also enhance public confidence in the Shari'ah legitimacy of the Licensees.
- 6.2 An independent Shari'ah audit shall be similar in scope as internal Shari'ah audit. It is not meant to provide an opinion on the Shari'ah legitimacy of the SSB's decisions. It will only assess the extent of implementation by the Licensee's management of the decisions given by the SSB.
- 6.3 Independent Shari'ah auditor shall submit its report to the Board of Directors of the Licensee and the Central Bank, with a copy to the SSB and management of the Licensee.

## **7. The Charity Account**

- 7.1 The Licensee shall create and maintain a Charity Account to which proceeds from Shari'ah non-compliant sources, penalties or late payment charges received from clients in default or overdue cases will be credited. The SSB shall supervise the Charity Account.
- 7.2 The amount in this Account will be utilized for charitable and social welfare purposes in accordance with the policy devised by the Licensee, after the approval of its SSB.

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- 7.3 The Licensee should ensure that no amount of Charity Account can be disbursed without obtaining the approval of the SSB.
- 7.4 The Licensee should ensure that no amount of Charity Account can be directed to or utilized by persons directly or indirectly connected with the Licensee, including the spouses and first order relatives of the Board of Directors of the Licensee, the Senior Management, and the SSB.
- 7.5 The Licensee shall maintain proper books of accounts and records regarding all transactions relating to the Charity Account, and disclose in its annual audited financial statements the sources and uses of funds.
- 7.6 Amount available in the Charity Account shall normally be utilized by the Licensee within the same accounting year in which it was recorded. In special cases where there are justifiable reasons to delay the disbursement to the subsequent year, the Licensee may do so after the approval of the SSB.

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## **D. GENERAL OBLIGATIONS, GOVERNANCE AND OTHER REQUIREMENTS**

### **1. Working hours**

- 1.1 FLCs are permitted to apply business hours at their discretion, without conflict of any instructions under the Labour Law.
- 1.2 Branches of FLC may operate on all days of the year without seeking the specific approval of the Central Bank. The following should, however, be ensured:
  - Detailed assessment and appropriate management of security and other operational risks.
  - Compliance with other regulatory requirements.
  - Intimation to CBO regarding the changed working hours/days and display of notices to the public.
- 1.3 FLCs may operate any branch with extended working hours during the month of Ramadan, without seeking the specific approval of CBO, subject to compliance with the applicable requirements.

### **2. Shareholding, Reorganization and Change in Control of FLCs**

- 2.1 No FLC shall amend its Articles of Association or effect any material change in the organization or operation without the prior approval of the Central Bank.
- 2.2 Ownership and authorization or recording transfer of more than 10% of the voting shares shall require prior approval.
- 2.3 No commercial company or entity holding 10% or more in a FLC shall merge or combine with others or shall issue, authorize or record the transfer of more than 25% of its shares, unless approved by the Central Bank.
- 2.4 The aggregate holding by an individual and his related parties shall not exceed 15% of the voting shares in a Finance and Leasing Company.
- 2.5 The aggregate holding by an incorporated body and its related parties shall not exceed 35% of the voting shares in a FLC.

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- 2.6 An individual, who together with any related party, already owns 15% of the voting shares of a FLC, may own, by way of investment, shares in one other FLC only, up to 15% of its voting shares.
- 2.7 An incorporated body, who together with any related party, already owns 35% of the voting shares of a FLC, may own by way of investment, shares in one other FLC only, up to 35% of its voting shares.
- 2.8 The Board of Governors shall have the power to take appropriate action against any act undertaken or committed in contravention and liable to be construed as null and void.
- 2.9 For the purpose of these shareholding restrictions, the following guidelines shall be applicable:
- a) Incorporated body shall mean all juristic persons (entities other than sole proprietorships).
  - b) Related parties shall mean the following:
    - i) Spouse or dependent children.
    - ii) Any incorporated body wherein an individual, or his spouse or his dependent children or any other incorporated body, invests 35% or more.
- If an incorporated body owns the maximum shareholding of voting shares in a FLC, in such case, any other incorporated body having such shareholding in the 1st mentioned incorporated body, shall not own any voting shares in that FLC.
- 2.10 Besides and even if they may not require the Central Bank's approvals, FLCs should advise the Central Bank of significant changes of, say, 5% or more in the shareholdings, besides obtaining from Muscat Clearing and Depository Company and providing a copy of the list of shareholdings (of 1% or more) quarterly to Manager, Licensing Department, not later than 21<sup>st</sup> of the succeeding month.

### **3. Paid-up Capital and Capital Deposit Requirements**

- 3.1 A licensed Islamic FLC shall have and at all times maintain a paid-up capital of not less than Rial Omani Twenty-Five Million or such higher amount as may be determined by the Central Bank from time to time.
- 3.2 A licensed Islamic FLC shall be required to make a capital deposit of Rial Omani Two-Hundred Fifty Thousand or any higher amount stipulated by the Central Bank. The Central Bank, at its discretion, may pay a profit on this amount.
- 3.3 The capital deposit amount will be repayable on termination of conduct of business by an FLC in accordance with rules applicable for closure and on meeting all the obligations under instructions issued by the Central Bank.
- 3.4 An Islamic Window of a conventional FLC shall have – and at all times maintain – an allocated capital of not less than RO 5 Million or such higher amount as may be determined from time to time by the Central Bank.
- 3.5 Capital requirement for Windows will be in addition to the minimum stipulated capital requirement of the concerned licensed FLC.

### **4. Fiduciary Powers**

- 4.1 FLCs shall not exercise any fiduciary powers unless they are incidental to their primary authorizations.

### **5. Limitations on Borrowing and Financing**

#### **Definitions:**

##### *Net Worth*

For a licensed FLC, it shall include the paid-up capital, surplus reserves and retained earnings based on audited financials of the year immediately preceding the year of such financing and shall be as determined by the Central Bank.

##### *Senior Member in the Management*

- a) It includes all senior positions directly related to the top management of the FLC, such as the chairman, members of the Board, proxy director, chief executive officer/general manager and other line management.

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- b) Every Shareholder of the FLC who owns, directly or through affiliated bodies or related business interests, over 10 percent of the issued shares of that company shall also fall into the category of Senior Member.
- c) A Holding Company owning 25 percent or more of the Net Worth of an FLC, if any, shall also be identified for this purpose as a Senior Member in its corporate name, if it is not represented in the FLC by a Proxy Director.

*Related Parties/Business Interests*

A business shall be deemed related to a Senior Member in the management of the FLC when it includes one or more of the following:

- a) Proxy of a Senior Member in the management of the FLC;
- b) Spouse or relatives of a Senior Member in the management of FLC either within the first-degree blood relationship or relatives by legal adoptions; or
- c) Corporations, associations or affiliated bodies when it is established that a Senior Member in the Management of FLC or his spouse or his relatives within the first-degree or his related/affiliated business interests own or control shares which, when aggregated, are equivalent to 25 percent or more in the borrowing entity.

*Affiliated bodies*

entities wherein a Senior Member in the management of the FLC or spouse or direct relatives within the first-degree or proxy, individually or jointly, own or control shares equivalent to 25 percent or more in the Net Worth of such entity.

- 5.1 Outside liabilities, including funding in foreign currency, shall not exceed five times of the Net Worth as at the end of the previous year.
- 5.2 FLCs authorized to conduct Islamic business (full-fledged or Windows) may raise funds from other Islamic financial institutions, including Islamic Windows, on Shari'ah compliant basis.
- 5.3 Islamic FLCs and Islamic Windows of FLCs can also accept investment funds from corporates, as outlined in this framework and issue Sukuk/other Shari'ah compliant instruments to the extent specified by the Central Bank from time to time.



- 5.4 Islamic FLCs may borrow in foreign currencies, guided by prudence and principles and practices of risk management. The tenor will be one year and over and total will be within the overall leveraging limits. Islamic FLCs may borrow in foreign currencies up to 100% of their net worth without prior Central Bank approval. However, they should seek approval for any foreign currency borrowings exceeding this limit. Foreign currency borrowings in excess of 40% of net worth shall attract exchange reserve of 20%, 10% coming at the end of first year and 2.5% each in subsequent years. Islamic FLCs should always endeavor to obtain long term funds and improve maturity profile.
- 5.5 Islamic FLCs may raise investment accounts from corporates up to 100% of net worth as outlined in section B-1 of this framework titled "Managing Unrestricted Investment Accounts".
- 5.6 Issuance of Sukuk shall be restricted to 100% of paid up capital and subject to fulfillment of criteria and conditions as will be stipulated specifically. They shall have the approval of the Financial Services Authority and conform to its requirements.
- 5.7 Total financing (direct financing and contingent liabilities) by a licensed FLC to a person, including his related parties/business interests, should not to exceed 15 percent of its Net Worth. (Single Obligor Financing limit).
- 5.8 Total financing by a licensed FLC to a Senior Member in the management of that institution and to his related parties/business interests/affiliated bodies should not to exceed 10 percent of its Net Worth.
- 5.9 Total financing by a licensed FLC to all Senior Members in the management of an institution and their related parties/business interests/affiliated bodies should not exceed 35 percent of its Net Worth.
- 5.10 Aggregate of direct and indirect financing to any non-resident customer (persons and/or corporates) should not exceed 5 percent of the FLC's Net Worth.
- 5.11 Aggregate of direct and indirect financing to all non-resident customers, put together, should not exceed 30 percent of the FLC's Net Worth.
- 5.12 The aforementioned limitations on financing shall not apply to financing secured by cash or equivalent collateral and guarantee of the Government of the Sultanate, any Ministry or corporation thereof, a bank or financial

institution within or outside the Sultanate or any collateral authorized by the Central Bank.

- 5.13 FLCs shall not grant any leasing or financial accommodation to their external audit firms and their partners and employees.
- 5.14 FLCs shall not accept their own shares as security.
- 5.15 While financing of Rial Omani to non-residents and placements of Rial Omani with banks and financial institutions abroad are prohibited, FLCs shall observe moderation and be prudent and circumspect in providing finance in foreign currency. FLCs are, generally, not envisaged to provide financing abroad, unless through approved foreign branches.

## **6. Exchange Reserve on Foreign Currency Borrowings**

- 6.1 The licensed FLCs are permitted to borrow/accept funding in foreign currencies up to 100% of their Net Worth, subject to the following conditions.
- 6.2 The licensed FLCs should also endeavor to obtain long term funding (over one year) and improve maturity profile.
- 6.3 For foreign currency funding in excess of 40% of net worth, licensed FLCs shall create exchange reserve of 20%, 10% coming at the end of the year of obtaining foreign currency funding and 2.5% each in subsequent years. However, FLCs are exempt from creating the aforementioned exchange reserve if the foreign currency funding is denominated in US Dollars or any other currency where exchange rate risk is fully hedged.
- 6.4 Licensed FLCs shall put in place well documented policies and procedures in detail with approval from their Board of Directors to engage in any of the above activities taking into consideration related risks like maturity mismatch and bullet payment etc.
- 6.5 Necessary prerequisites like Memorandum of Association and Articles of the company shall be in place.

## **7. Profit Rates and Other Charges**

- 7.1 FLCs licensed to offer Shari'ah compliant products shall be transparent to their customers about the nature and terms of underlying Shari'ah compliant contracts, including expected profit rates, as well as all other terms and

conditions, commissions, fees, additional charges and penalties, charges if any, and other aspects such as terms of takaful coverage. All such information shall be clear, transparent, well-articulated and documented.

- 7.2 Customers and guarantors shall provide acknowledgements of their understanding of all terms and conditions. Such acknowledgements should be available for inspection.
- 7.3 There shall be no ambiguous terms or hidden burdens in any Shari'ah compliant product offered by an FLC.

## **8. Confidentiality of Banking Relationship and Diligence**

- 8.1 Licensed FLCs shall refer requests for disclosure of any information by any Government agency or person to the Central Bank. This stipulation will, of course, not apply to compliance to attachment of customers' accounts in the execution of the Courts having jurisdiction or binding decisions of tax authorities in terms of Circulars BM 691 dated 19 May 1993 and BM 934 dated 25 March 2002.
- 8.2 No FLC or its director, officer, manager or employee shall disclose any information relating to any customer unless authorized by the customer or it is required under the laws of the Sultanate and done as instructed by the Central Bank. FLCs shall be guided by Circular BM 943 dated 16 October 2002 for appropriate enabling provision in documents.
- 8.3 FLCs shall participate in Oman Credit & Financial Information Centre (Mala'a) and have access to its Cheque Return System subject to terms and conditions set therefor and with information used solely for their financing decisions and to be treated in utmost confidence and with diligence. The diligence shall also extend to guidance by all other required prudent practices and stipulations, including obtention (as stated in Circular letter BDD/IBS/NBFC/2002/1962 dated 16 June 2002) of audited financials from customers and applicants, having/seeking credit limits, in aggregate, fund based and otherwise, of RO 250,000 or over from the respective institutions or of RO 500,000 and over from the licensed financial sector as a whole.

## **9. Freedom of Banking Relationships**

- 9.1 No FLC shall take any action which would unreasonably preclude any customer or prospective customer being a customer of another FLC or licensed bank.

## **10. Reports**

- 10.1 In terms of Article 72 (a) of the Banking Law 2000, the Central Bank has powers to establish procedures for submission of annual reports by licensed banks including FLCs, audited by independent auditors.
- 10.2 In terms of Article 74 of the Banking Law 2000 and Regulation 49/3/2004 on Relationship of the Central Bank of Oman with External Auditors, licensed banks including FLCs are required to ensure that their external auditors meet with Central Bank, by prior appointment after submitting the financial statements for approval.
- 10.3 Pursuant to the above provisions, FLCs are required to comply with the following requirements.

### Submission of Financial Statements for Approval

- 10.4 All Islamic FLCs are required to prepare Balance Sheet and Profit and Loss account each financial year, as per the standards issued by the Accounting & Auditing Organization for Islamic Financial Institutions (AAOIFI), and where no relevant AAOIFI standards exist, with IFRS.
- 10.5 Similarly, licensed conventional FLC offering Islamic financial services through Windows shall prepare a consolidated supplementary set of accounting statements as per the standards issued by the AAOIFI, and where no relevant AAOIFI standards exist, with IFRS. These supplementary financial statements shall be published as an appendix in the notes to the financial statements of the institution.
- 10.6 Licensed FLCs are also required to submit draft audited Balance Sheet and Profit and Loss account along with a scheme of appropriation and distribution of the profit for the year to the Central Bank for approval.
- 10.7 FLCs are required to submit the following documents, duly signed by the authorized signatories of the Company and the External Auditors, as per the

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formats prescribed herein under, in a single lot, while seeking the approval of the Central Bank.

- i) Draft audited Balance Sheet and Profit and Loss Account, along with the notes on accounts.
- ii) External Auditor's interim report duly signed or initialed by the Auditors.
- iii) Management Report issued by the Auditor.
- iv) Scheme of appropriation and distribution of profit for the year.
- v) Schedule of classified financing with specific loan loss provisions and reserve profit held as at 31st December.
- vi) Schedule of account-wise movement in specific provisions and reserve profit for the year.
- vii) Schedule of summary movement of provisions and reserve profit
- viii) Schedule on the adequacy of provisions
- ix) Schedule on assets written-off.
- x) List of specially mentioned accounts as per CBO Examiner.

Due Date for Submission of Financial Statements for Approval

10.8 The FLCs are required to submit the above documents along with draft audited financials, duly approved by the Board, for the prior approval of the Central Bank before presenting the same to Annual General Meeting, latest by 15th February of the following year.

Meeting of Auditors

10.9 After submitting the financial statements for approval, FLCs are required to seek an appointment for the meeting of the External Auditors with the Central Bank. Approval of financial statements is subject to the meeting with the External Auditors.

10.10 The Central Bank may establish direct access with the external auditors in the circumstances when it considers that such contacts are necessary to ensure financial integrity, or whenever found necessary.

Publication of Financial Statements

- 10.11 All FLCs shall publish by 31<sup>st</sup> March of the following year, after obtaining the approval from the Central Bank, in at least one Arabic Language newspaper published in the Sultanate a summarized Balance Sheet and Profit and Loss Account.
- 10.12 FLCs should ensure that the financial statements submitted to the Central Bank, Balance Sheet and Profit and Loss Account printed for the shareholders and other stakeholders, and the published financial statements are consistent with each other.

Disclosure of information

- 10.13 In terms of Article 70 of the Banking Law 2000, micro-level credit information cannot be disclosed, without the consent of the Central Bank of Oman, to any government agency or any person.
- 10.14 FLCs may, however, submit the financial statements to Financial Services Authority prior to the approval of the same by the Central Bank, subject to complying fully with the loan classification and provisioning norms contained in this framework, and with a disclosure that the financial statements are subject to the approval by the Central Bank.
- 10.15 Further, FLCs should ensure that the audited financial statements are submitted simultaneously to the Central Bank for approval.
- 10.16 Reports should be accurate and timely. There shall be disclosure of the affairs, as required, to the shareholders and others.
- 10.17 The Central Bank may also call for any report from any of FLCs' directors or employees.
- 10.18 The Central Bank shall have the right to set criteria and procedures for appointments and prior approval of the external auditors and requirements to be concluded by FLCs and external auditors.

**11. Examination and Records**

- 11.1 Licensed FLCs are subject to examination by the Central Bank, done through its employees or under contract and in accordance with procedures and details determined by it. FLCs shall cooperate in all such examinations, making

available information well-kept for the purpose of proper record of operations and treating the contents of examination reports and related correspondence in confidence.

- 11.2 Record maintenance shall meet the requirements of relevant laws including Oman Commercial Law and Anti-Money Laundering Law.

## **12. Duty and Care of Directors, Officers, Managers and Employees**

- 12.1 Each director, officer, manager and employee of a FLC shall be personally liable for any losses or damages suffered by it as a result of his fraudulent or willfully negligent performance of duties or his failure to act as a reasonable and prudent person under the circumstances.
- 12.2 The appointment and renewal of directors of FLCs shall go through the prior approval process set by Regulation BM/REG/46/2/99 and, in addition, FLCs shall arrange to have copies of nomination forms filed with the Financial Services Authority simultaneously submitted to the Central Bank.
- 12.3 There can be no multiple directorships among FLCs and no individual (representing himself or as a proxy) and no corporate (except Pension Funds, Government bodies and Quasi-Government entities) shall be a Director in more than one FLC.
- 12.4 Powers, obligations and responsibilities of members of the Board of Directors and undertakings/declarations to be filed are set out in Regulation BM/REG/42/11/97.

### Financial Obligations of Senior Members in the Management of FLCs

- 12.5 Since FLCs are leveraged institutions and are carrying out their business in public confidence, the international best practices require that only persons of highest integrity and moral standards hold senior positions in FLCs. In the interest of enhancing soundness of the financial system, promoting corporate governance, achieving greater transparency and to reinforce the 'fit and proper' criteria for senior positions in the FLCs, the following instructions shall be applicable.
- 12.6 The senior members in the management of the FLCs should be removed from their respective positions when any of their obligations to any of the licensed financial institutions have been classified as sub-standard or doubtful or loss, as

per the extant instructions of the Central Bank, by banks / FLCs or the Central Bank or the external auditors.

12.7 The term 'senior members', in this context is broad and should also include "related parties / business interests" and "affiliated bodies". The definitions are provided as under:

a) Senior Member in the management of an FLC

- i) Senior Member in the management includes all senior positions directly related to the top management of the FLC such as the Chairman, Members of the Board, Proxy Director, Chief Executive Officer / General Manager, and other line Management.
- ii) Every shareholder of the lending institution who owns, directly or through affiliated bodies or related business interests, over 10 percent of the issued shares of that institution shall also be considered Senior Member.
- iii) A Holding Company owning 25 percent or more of the net worth of that institution, if any, shall also be identified for this purpose as a Senior Member, in its corporate name, if it is not represented in the FLC's Board by a Proxy Director.

b) Related Parties / Business Interests

A business shall be deemed related to a Senior Member in the management of an FLC, when it includes one or more of the following:

- i) Proxy of a Senior Member in the management of the FLC.
- ii) Spouse or relatives of a Senior Member in the management of the FLC, either within the first degree by blood relationship (father and mother, husband and wives and sons and daughters, either dependent or not), or relatives by legal adoptions.
- iii) Corporations, associations or affiliated bodies, when it is established that a Senior Member in the Management of the FLC or his spouse or his relatives within the first degree, or his related / affiliated business interests own or control shares which, when aggregated, are



equivalent to 25 percent or more in the net worth of the borrowing entity.

c) Affiliated Bodies

- i) Entities wherein a Senior Member in the management of the FLC or spouse or direct relatives within the first degree, or proxy, individually or jointly, own or control shares equivalent to 25 percent or more in the net worth of such entity.

- 12.8 The 'obligations' include all types of credit/financing facilities, both direct and indirect obligations.
- 12.9 Accordingly, these requirements shall apply to all senior positions, directly related to the top management of the licensed FLCs, such as the Chairmen/Chairpersons, Members of the Boards including Proxy Directors, Chief Executive Officers, and other line Management - General Managers, Deputy General Managers and Assistant General Managers.
- 12.10 The FLCs should ensure that the provisions of this circular are also applied to other senior level positions, who are reporting directly to the Boards / CEOs or otherwise, although they are not explicitly designated.
- 12.11 The onus of enforcing the provisions of the circular, both in letter and spirit, rests with the FLCs.
- 12.12 The FLCs should review their position at least at quarterly intervals and put in place proper systems, including inquiring the classified online database of the Mala'a system for ensuring full compliance.
- 12.13 The FLCs should also submit certificates on compliance with the provisions of the circular to the Central Bank within 15 days of the last day of each quarter. The certificate for the December quarter, duly certified by the external auditors, should be submitted latest by February 15th of the following year.
- 12.14 The FLCs should also report the particulars of classification of the obligations of the senior members of any of the banks/FLCs in their books, as and when known, to the Central Bank.

### **13. Acts of Officers and Employees**

- 13.1 A licensed FLC shall be bound by the acts performed by its directors or any committees thereof, officers, managers and employees when such persons are acting in its name and within scope of authority and when any third party shall be entitled to reasonably assume the action to be within the scope of respective authority.

### **14. Officers, Managers and Employees**

- 14.1 FLCs shall ensure that there will be continuity of management at all times for the proper conduct and supervision of their business.
- 14.2 FLCs shall ensure fit and proper criteria of all their staff, as laid down below.
- 14.3 Proposals to appoint and renew services of senior manager staff, viz., Chief Executive Officer, General Manager, Deputy General Manager and Assistant General Manager shall be referred to the Central Bank for prior approval, ensuring conformity with the fit and proper criteria.
- 14.4 Pursuant to Article 77 of the Banking Law and Regulation BM/REG/010/11/75-4-6.03, the Central Bank requires licensed FLCs to ensure, before seeking the CBO's approval for appointment of senior management members, that the proposed appointee meets the following "Fit and Proper" Criteria:
- i) not been convicted for any crime, unless cleared by a judicial authority,
  - ii) not committed an offense involving fraud or other dishonesty or violence,
  - iii) not acted in contravention of any statute of the Sultanate of Oman or abroad or provisions thereof established for the purpose of protecting members of the public from financial loss due to dishonesty, incompetence or malpractice by the person concerned,
  - iv) not been involved in any deceptive or oppressive practices (whether lawful or not) which would cast doubt on his integrity and in the business, and

- v) not been involved or associated with any other business practices or otherwise conducted himself that would need to doubt his competence and soundness of judgment.
- 14.5 In addition to above, licensed FLCs shall look into the previous conduct and activities in business and financial matters of the concerned persons and consider the other positions held by such persons in their concerns, financial solvency and also qualifications, experience and expertise in the relevant positions they are proposed for.
- 14.6 Licensed FLCs shall satisfy themselves with appropriate references to the previous employers and/or others on the above and on any other additional requirements, they may deem fit to follow, in accordance with prudent practices. FLCs' service regulations/ contracts should, among others, provide appropriate clauses for obtaining suitable undertakings, periodical reviews and action for any misrepresentation.
- 14.7 In the case of all new prospective appointees to senior management, FLCs shall submit a complete curriculum vitae of the persons concerned at the time they seek CBO's prior approval.
- 14.8 In regard to renewal of existing service contracts of senior management, FLCs shall submit a complete curriculum vitae of the concerned persons if such CV has not been previously submitted to CBO.
- 14.9 FLCs shall seek the prior approval of the CBO for the renewal of contracts of senior management personnel every two years.
- 14.10 Irrespective of the contractual arrangement, it is imperative that the performance of all staff, including senior management staff, requires to be reviewed periodically with reference to not only progress and conduct of business but also compliance, fit and proper criteria etc.
- 14.11 The Central Bank may, within its discretion, displace any of the directors, executive officers or senior manager staff by a detailed note to safeguard the FLC or financial system.

## **15. Omanisation**

- 15.1 FLCs shall adhere to Omanisation target.

- 15.2 Recognizing the need to provide more employment opportunities for Omanis, following Omanisation ratio requirement in FLCs shall be applicable:

Category	% of Omanisation to be achieved
Overall	90%
Top and Middle Management	70%
Non-Clerical Cadre	100%
Clerical Cadre	100%

- 15.3 FLCs are required to pay utmost attention to training and other preparedness and provide opportunities for career development and progress to Omani employees.
- 15.4 Central Bank believes that the well-established FLCs with increased business opportunities would appreciate the importance and make necessary efforts in developing young Omani citizens.
- 15.5 The efforts made and the progress achieved by FLCs will be watched closely and any failure to comply with the required Omanisation targets would attract sanctions including levying of penalty.

## **16. Bonding**

- 16.1 Directors and staff of a FLC shall be bonded at its expense to such amount and manner specified by the Central Bank from time to time.

## **17. Restrictions on Directors and Staff and Related Party Transactions**

- 17.1 There shall be observance of diligence, as applicable to related parties, in relation to transactions between the FLCs and its Directors and staff. There shall be no scope for conflict of interests in discharging responsibilities and best practices and principles, besides the Code of Corporate Governance of the Financial Services Authority.

***For Consultation: Draft Regulatory Framework for Shari'ah Compliant Operations of FLCs***

- 17.2 The Central Bank reiterates the importance of avoiding scope for abuses in general and arising from connecting financing and transactions in particular and, for this purpose, advises FLCs to be guided by the following requirements.
- 17.3 As a matter of general rule, FLCs shall ensure that no counter-party to a financial transaction is a party to the decision or decision-making process and that decisions are taken, as permitted by applicable provisions, by authorized non-interested functionaries, under appropriately structured delegated authority system and at arms' length in such a way that there shall be no scope for abuse or doubt of good faith.
- 17.4 All financial decisions, related to financing, will go through check and control process of two or more, as all banking transactions generally should, and there shall be clear demarcation of authorities with provision for decisions to be reported by the approving functionary to a higher authority for post facto confirmation with reference, in particular, to fulfillment of laid down principles, policies, rules and procedures. Possible exceptions are a few operational delegations for the sake of expediency and extraordinary cases (like those under staff welfare schemes) and, in those cases too, there should be adherence to best practices and organizational interests, and appropriately structured and conditional delegation, reporting and overseeing.
- 17.5 There should be absolute transparency in all transactions, self-explanatory records of processing and approvals being maintained and made available to the auditors and Central Bank, when required.
- 17.6 The procedural manuals should incorporate details of the approval and reporting responsibilities and processes and it is imperative for the Board of Directors/management to ensure adherence, validation and assurances through the Audit Committee, Internal and External Auditors and other mechanisms, as appropriate to particular counter-parties.
- 17.7 Nothing, hereunder, shall dilute the rigors to be followed in adhering to the approval and reporting stipulations, mentioned in the code of Corporate Governance on related party transactions, in the ordinary course of business and otherwise and Central Bank's instructions on exposure to senior management and other applicable rules and regulations, including those relating to classification and provisioning/write off relevant to senior management. It is pertinent to note in this connection that related party transactions are, generally, considered to be a source of significant risks/financial instability and that some jurisdictions go to the extent of

prohibiting them or reducing such exposures from the net worth of concerned FLCs for various prudential reckoning. Hence, there is imperative need to appreciate implications and observe due diligence all through to ensure, among others, that approvals, terms and conditions and all actions are along the normal course and with no favors.

- 17.8 Special attention should be paid to transactions connected to the following:
- i) Directors, including proxy Directors, of the FLC;
  - ii) The Chief Executive Officer, General Manager and Assistant General Manager (and also senior staff, vested with substantial approval powers and needing focus on a documented risk-based approach);
  - iii) Shareholders owning 10% or more of the capital;
  - iv) Spouses or relatives of the above within the first degree by blood relationship or relatives by legal adoptions;
  - v) Entities which are for 25% or more of the capital owned or controlled (by contract or otherwise) by the above singly or jointly; and
  - vi) Entities, which own or control 25% or more of the FLC and others in which those entities and/or the FLC have ownership or control of 25% or more.
- 17.9 Violative/non-compliant FLCs shall attract penalties under Regulation BM/REG/012/5/78 and instructions thereunder.

## **18. Classification and Provisioning of Financing**

- 18.1 Accounts are considered as specially mentioned when they remain overdue for 90-179 days and will attract 5% provision.
- 18.2 Accounts are classified as substandard when they remain overdue for 180-269 days and will attract 25% provision.
- 18.3 Accounts are classified as doubtful when they remain overdue for 270-364 days and will attract 50% provision.
- 18.4 Accounts are classified as loss when they remain overdue for 365 days or more and will attract 100% provision.

- 18.5 Reserve interest will be deducted from the outstanding amount before calculating the provision amount.
- 18.6 In case of substandard, doubtful and loss accounts, it will be ensured that the FLCs maintain a minimum of 25% cash provision on the net amount (outstanding balance net of reserved profit), irrespective of the value of collaterals. The value of collaterals will not be reckoned for determining provisions against assets classified as substandard.
- 18.7 Straight-line depreciation method for leased assets will be applicable, as under:
- a) A life span of five years is considered for the calculation of depreciation on motor vehicles. Thus, the value of the vehicle will be treated as 100% of the sale price (after discount etc.) during the first year from the date of registration, 80% during the second year, 60% during the third year, 40% during the fourth year, 20% during the fifth year, and 0% from the sixth year onwards.
  - b) A life span of eight years is considered for the calculation of depreciation on heavy equipment/machinery. Thus, the value of such leased assets will be treated as 100% of the cost of the asset (after discount etc.) during the first year from the date of sale, 87.5% during the second year, 75% during the third year, and thereafter, continue to reduce by 12.5% each year of the original sale price.
  - c) These norms will apply only to assets classified as doubtful or loss.
- 18.8 The FLCs are encouraged to insist on takaful of the leased assets, throughout the currency of the exposures. In cases where valid comprehensive takaful policies are held on record, 100% of the depreciated value of the leased assets will be reckoned against the required provisions. Otherwise, only 50% of the depreciated value of the leased assets will be considered for determining the provisions.
- 18.9 The financial sector including FLCs is exposed to the changes in macro-economic conditions. The FLCs are therefore encouraged to build-in adequate general loan loss provisions, over and above the specific provisions to meet latent losses in future.

## **19. Charges and Fees**

- 19.1 Licensed FLCs should be moderate in the profit rate/charges levied on their financing and services, especially for SME and personal finance segments.
- 19.2 While other charges remain deregulated, the following maximum charges will be applicable:

<b>Types of Charges</b>	<b>Maximum Charges</b>
Charges for rescheduling of financing/lease to individuals and SMEs	RO 10
Rescheduling charges for others	RO 25
Charges for prepayment or pre-closure of the financing/lease before the due date of payment	1% of the prepaid/pre-closed amount

- 19.3 FLCs should not charge hefty amounts for providing certain basic services like the issuance of a no-due certificate, release letter, balance confirmation, etc. and should charge nominal amount around of RO 2. Similarly, duplicate statements of accounts should not be charged with more than RO 5.
- 19.4 Similarly, FLCs are expected to charge reasonable profit rates on their financing/lease arrangements.
- 19.5 The contribution to charity for overdue installments should exceed 1% of the outstanding amount, as per the guidelines of High Shari'ah Supervisory Authority (HSSA).
- 19.6 FLCs should communicate all their terms/charges transparently and clearly through various modes including display in notice boards, pamphlets, and in their websites. The coverage should be full and not partial. The customers should be informed, beforehand, by incorporation in the documents/arrangement letters. Any change, too, should be reasonable and conveyed well ahead. Reasonableness and prior disclosure/consent shall also cover the effective rate of profit, terms of takaful and refund, etc.



19.7 FLCs should review periodically all the charges on their own and whenever a complaint is received on excess, they should make refunds on erroneous cases at the earliest.

## **20. Net Worth**

20.1 Net worth will be the aggregate of paid up capital, reserves not specifically earmarked, permitted revaluation surplus and retained earnings net of deductions for goodwill, losses and impairments not provided for and exceptional investments and other items specially advised to be reduced by the Central Bank.

## **21. Combating Money Laundering and Countering Terrorism Financing**

21.1 Reference is invited to the Law on Combating Money Laundering and Terrorism Financing (Royal Decree No. 30/2016) and supervisory instructions issued thereunder vide Circular FM 38 dated April 25, 2022.

21.2 All licensed FLCs shall comply accordingly with above mentioned directions noting sanctions, as stated in the law and instructions.

## **22. Dissolution, Liquidation and Termination**

22.1 A FLC may enter into voluntary liquidation, dissolution or termination of its business by submitting a request to the Central Bank in such manner and in such form as may be prescribed by it. Any such action as well as involuntary dissolution and liquidation will follow the rules set by the Commercial Law, Commercial Companies Law and other applicable provisions and stipulations made by the Central Bank.

## **23. Applicability of various laws and general provisions**

23.1 FLCs shall be guided by applicable provisions of all laws of the Sultanate of Oman, including Oman Commercial Law and Commercial Companies Law, to the extent they are not in conflict with those hereunder and shall refer to the Central Bank in case of doubt and on matters having impact on the coverage of regulation and supervision of the Central Bank.

23.2 FLCs shall follow best practices and principles in all their business operations, availing guidelines provided by Basel Committees on Customer Due Diligence, risk management, internal audit etc., as applicable to them.

23.3 FLCs shall keep themselves updated at all times on instructions issued from time to time, in general and specific to them and be guided accordingly, obtaining specific approvals, internal and regulatory, wherever necessary.

**24. Penalties**

24.1 FLCs shall be subjected to penalties for violation and non-compliance under Regulation BM/REG/012/5/78 and instructions thereunder.

Consultation Paper