

Appendix 2

In this appendix underlining indicates new text and striking through indicates deleted text.



The DFSA Rulebook

Islamic Finance Rules

(IFR)

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5.4 Prudential requirements

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Credit risk and counterparty risk for Islamic contracts

- 5.4.6**
- (1) An Authorised Firm Managing a PSIA, which is an Unrestricted PSIA, must calculate its PSIACOMcredit in relation to all Islamic Contracts financed by Unrestricted PSIA's in the manner prescribed in this section.
 - (2) An Authorised Firm must, when undertaking the calculation in (1), apply an appropriate risk weighting for the relevant Islamic Contract.
- 5.4.7**
- (1) In this section:
 - (a) "E" represents the Exposure determined by an Authorised Firm as applicable to an Islamic Contract; and
 - (b) "CRW" represents the risk weighting or capital charge assessed by an Authorised Firm as appropriate to that Islamic Contract.
 - (2) Where an Islamic Contract is in the Non-Trading Book, an Authorised Firm must determine the PSIACOMcredit for that contract by applying the following formula:
$$E \times CRW \times 10\%8\%$$
 - (3) Where an Islamic Contract is in the Trading Book, an Authorised Firm must determine the PSIACOMcredit for that contract in accordance with the methodology in PIB A4.7 and A4.8 as appropriate.
 - (4) An Authorised Firm must calculate its PSIACOMcredit of all contracts by:
 - (a) identifying all Islamic Contracts to which this section applies;
 - (b) valuing the underlying investment or asset of each contract and reducing the value of any such investment or asset in the manner stipulated in Section 4.9 of chapter 4 of PIB, the result of which constitutes E for that contract;
 - (c) determining the risk weighting or capital charge appropriate to each contract, which will constitute the CRW for that contract in accordance with Rules in Sections 4.10, 4.11 and 4.12 of chapter 4 of PIB;



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- (d) applying the respective formula in Rule 5.4.7(2) or (3) to determine of PSIACOMcredit in respect of each contract; and
- (e) summing the PSIACOMcredit of each contract to determine the PSIACOMcredit applicable to the Authorised Firm.

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