are the individual counter limits imposed on investments in shares by banking institutions, restrictions placed on credit facilities to connected parties, prescribed scenarios for stress testing and prior notification requirements for the introduction of new products.

The shift towards more principle-based regulations is not absolute, but rather aims to strike an optimal balance between principle-based and rule-based regulations in order to preserve a sound prudential framework at the different stages of development of the financial sector. Prescriptive rules and requirements are accordingly retained in specific areas. For example, baseline, or Pillar 1, capital adequacy requirements for the banking and insurance sectors which are a fundamental cornerstone of the prudential framework remain largely prescriptive in nature. The Bank considers certainty and consistency in this particular area essential to maintain confidence in the financial system and avoid materially distortive competitive effects in the system. Regulatory reporting requirements have also remained prescriptive to facilitate the Bank's micro- and macro-surveillance functions. Where appropriate, the Bank has retained prudential limits as well – for example, on exposures to single counterparties – in certain areas as a minimum safeguard against excessive risk-taking. More specific prudential requirements have also continued to serve a useful purpose in achieving

Prudential Standards Issued in 2007

(i)	***Guidelines on Investment in Shares and Interest-in-Shares (issued in February 2007)***	▪ Provides greater flexibility for banking institutions to undertake equity-related activities according to the institution's internal risk management policies.
(ii)	***Guidelines on Stress Testing (issued in March 2007)***	▪ Introduces a more robust stress test regime by giving financial institutions greater flexibility in designing their stress test framework that would be most appropriate for their business profile, while encouraging financial institutions to better understand the risk drivers of their institution.
(iii)	***Guidelines on the Role of the Appointed Actuary for Takaful Operators (issued in March 2007)***	▪ Sets out the expected quality of actuarial investigations into the financial condition of family takaful funds by, among others, setting out: • the qualifying criteria for the appointment of appointed actuaries; and • their responsibilities to continuously evaluate the financial well being of the family takaful business, having due regard to certificate holders' reasonable expectations and developments in the business that may impact the financial condition of the funds.
(iv)	***Property Development and Property Investment Activities by Islamic Banks (issued in March 2007)***	▪ Sets out the duty of the boards of Islamic banks to ensure that adequate governance, sound internal controls and a strong risk management infrastructure are in place to support Islamic banks' direct participation in property development and property investment activities which is allowed under the Islamic Banking Act 1983.
(v)	***Revised Risk-Weighted Capital Adequacy Framework (issued in April 2007, implementation from January 2008)***	▪ Sets out the methodologies for quantifying the minimum regulatory capital requirements for credit, market and operational risk for conventional banking institutions.

	■ In October 2007, the market risk component was incorporated in the framework with enhanced guidance on trading book governance and the provision for banking institutions to adopt the Internal Models Approach, subject to the Bank's approval.
(vi) Risk-Based Capital Framework for Insurers (issued in April 2007, implementation from January 2009)	■ Replaces the existing solvency framework with the parallel run commencing from June 2007. ■ Sets out more transparent and risk-adjusted capital and valuation requirements that address all major financial risks of insurers. ■ A similar framework for takaful operators is being developed, with a concept paper expected to be released in 2008.
(vii) Valuation of Liabilities for Mortgage Reducing Term Takaful (MRTT) (issued in April 2007)	■ Specifies the minimum valuation requirement based on the net premium valuation method to be adopted by takaful operators in determining the reserves that must be provided for to meet future liabilities under MRTT contracts.
(viii) Capital Adequacy Framework for Islamic Banks (issued in June 2007, implementation from January 2008)	■ Sets out the capital adequacy requirements for Islamic banks covering credit, market and operational risks, which are consistent with the Capital Adequacy Standards issued by the Islamic Financial Services Board. The framework addresses risk characteristics unique to Islamic finance contracts. ■ Introduces specific capital requirements for inventory and commodities risks to reflect exposures to price fluctuations associated with the ability of Islamic banks to undertake the sale and purchase of assets.
(ix) Guidelines on Credit Transactions and Exposures with Connected Parties (issued in August 2007)	■ Provides greater flexibility for banking institutions to extend credit in the ordinary course of business to connected parties (previously prohibited) based on arm's length principles and subject to sound risk management practices and concentration limits.
(x) Policy on Musharakah and Mudharabah Contracts (issued in September 2007)	■ Sets out the Bank's expectations regarding key governance, risk management and internal control functions to support the sound conduct of investment and financing transactions based on *musharakah* and *mudharabah* contracts.
(xi) Guidelines on Single Counterparty Exposure Limit (concept paper issued in September 2007)	■ Strengthens the prudential requirements for controlling concentrated exposures to single names in line with international standards and best practices. ■ Proposed changes include the requirement to observe the limits on a consolidated basis, greater consideration of interconnected exposures based on financial and commercial interdependence, refinements to the basis for the computation of limits, and the application of permitted credit risk mitigation techniques to reduce exposures to a particular counterparty.

(xii) Corporate Governance Standards for Licensed Islamic Banks (issued in September 2007)	■ Outlines the broad principles and minimum standards for sound corporate governance which address management oversight, accountability, audit and transparency. ■ Strengthens the Shariah compliance framework through requirements for the establishment of a Shariah committee, Shariah internal audits and enhanced disclosures relating to Shariah matters in the annual report.
(xiii) Guidelines on Introduction of New Products (issued in November 2007)	■ Introduces a more efficient regulatory process for the offering of new products by banking institutions and development financial institutions. ■ Institutions are now allowed to offer new products in the market immediately upon submission of required information to the Bank (thereby replacing the former 21-day prior waiting period for supervisory reviews), subject to meeting the Bank's supervisory expectations set out in the guidelines. ■ A similar system will be introduced for insurers in 2008.
(xiv) Appointment of External Auditors (issued in November 2007)	■ Addresses the responsibility of financial institutions in evaluating the integrity, objectivity and professional competence of external auditors appointed under the relevant financial sector legislation.
(xv) Guidelines on Risk Governance (concept paper issued in December 2007)	■ Outlines high level principles on risk management governance for the board and senior management as well as supervisory expectations regarding the risk management control functions of banking institutions, insurers and takaful operators. ■ More specific risk management guidelines on credit, market and operational risks are concurrently being developed to provide further guidance on supervisory expectations in each risk area, with the concept papers expected to be released in 2008.
(xvi) Policy on the Recognition and Measurement of Profit Sharing Investment Accounts as Risk Absorbent (issued for implementation from January 2008)	■ Islamic banks that satisfy the minimum requirements of the framework would be allowed to deduct the credit and market risk-weighted assets funded by profit sharing investment accounts from the total risk-weighted assets for the computation of the risk-weighted capital ratio, in recognition of the effective transfer of risks from the Islamic banks to the investment account holders.

The Shariah Advisory Council of the Bank also issues pronouncements on Shariah matters to be observed by financial institutions regulated by the Bank. Please refer to the box on "Shariah Pronouncements in 2007".