Basel III: Relevance for Islamic banking

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Abstract:

The emergence of strong Islamic movements in last decades has generated a renewed interest in Islamic economics. Hence, this study attempts to treat an important subject which is concerned with the adoption of Basel III in the Islamic banks. this later was designed to improve and stabilize the financial system worldwide, especially in developing and emerging countries, the implementation of Basel III has involved a number of challenges and obstacles. Accordingly, the main aim of this study is to investigate the main difficulties an obstacle that may face the Islamic banks in adopting Basel III standards. The study concluded that the requirements provided by Basel III accord can be easily implemented by the Islamic banks which have special nature and work according to the sharia law, since Islamic banks don't rely on the third pillar of capital when meeting the requirements of capital adequacy, which is in support loans, and therefore there will be no impact to cancel the third pillar of capital on Islamic banks. Second, the dependence of the capital adequacy standard on the first tier of capital by Islamic banks, which is high quality capital, enabling them to meet the requirements of the Basel III framework. Finally, Islamic banks achieve good profit rates that enable them to form the necessary reserves for risk management,

***Key Words**: Basel III, Islamic banks, capital requirements, leverage ratio, capital adequacy.*

الملخص:

لقد أدى ظهور حركات إسلامية قوية في العقود الثلاثة الماضية إلى تجدد الاهتمام بالاقتصاد الإسلامي. ومن هنا، تحاول هذه الدراسة معالجة موضوع مدى إمكانية تطبيق معايير اتفاقية بازل 3 في البنوك الإسلامية. حيث جاءت هذه الاتفاقية لتحسين واستقرار النظام المالي في جميع أنحاء العالم، وخاصة في البلدان النامية والناشئة، وقد اشتمل تنفيذ اتفاقية بازل الثالثة على عدد من التحديات والعقبات. وبناءً على ذلك، فإن الهدف الأساسي لهذه الدراسة هو التحقق من الصعوبات الرئيسية التي قد تواجهها البنوك الإسلامية في تبني معايير بازل 3. وخلصت الدراسة إلى أن المتطلبات التي يوفرها اتفاق بازل 3 يمكن تطبيقها من طرف المصارف الإسلامية وذلك لعدم اعتماد البنوك الإسلامية عند الوفاء بمتطلبات كفاية رأس المال على الشريحة الثالثة لرأس المال والمتمثلة في القروض المساندة، وعليه لن يكون هناك تأثير لإلغاء الشريحة الثالثة لرأس المال على البنوك الإسلامية بالإضافة إلى اعتماد البنوك الإسلامية في تطبيق معيار كفاية رأس المال على الشريحة الأولى لرأس المال والمتمثلة في رأس المال عالي الجودة مما يمكنها من الوفاء بالمتطلبات التي أقرها إطار بازل 3. أخيرا تحقق البنوك الإسلامية معدلات ربحية جيدة تمكنها من تكوين الاحتياطيات اللازمة لإدارة المخاطر.

الكلمات المفتاحية: بازل 3 ، البنوك الإسلامية ، متطلبات رأس المال ، نسبة الرافعة المالية ، كفاية رأس المال.

1. Introduction

In 1988, the Basel Capital Accord, known as “Basel I”, was established by a group of central banks and other national supervisory authorities, and approved by the G10, working under the governance of the Basel Committee on Banking Supervision (BCBS). It was meant to promote the soundness and the stability of the international banking system, basically by imposing a minimum capital ratio of 8% of capital to risk-weighted assets. During the last years, the international financial and banking system have been facing perturbations and changes (especially through different innovations and financial crisis), which prompted the BCBS to develop a new accord in 2004, namely Basel II, because Basel I was not efficient enough and showed its limit in preventing banks failure. The new regulatory framework was based on three pillars: minimum capital requirement, supervisory review and market discipline.

The 2008 financial crisis has revealed underlying weakness in the current global financial system and it hit the performance of many financial institutions. International financial regulation seeks to promote stability by preventing systemic failure, but the crisis has severely damaged the credibility of the status quo, leading to calls by many to correct its apparent failures before new ones arise. Upon this background, a variety of alternatives are being proposed and seriously considered by those who feel wronged by the current architecture.

Islamic finance which is one of these alternatives has experienced considerable growth over the last three decades. The network of Islamic banking system spans over 60 countries, most of them are in Middle East and Asia, with at least 180 banks and 120 non-banks financial institutions. The banking system in Iran, Pakistan and Sudan are being entirely converted to the Islamic system. In the Far East, Middle East and Africa, Islamic Banks are operating along with conventional banking institutions, and countries like Malaysia and Bahrain are racing to be established as banking hubs to serve 1.2 billion Muslims around the world (Khrawish, Siam and Khrawish , 2011). Given that Islamic banks are liquid and inherently risk averse, the sector avoided many of the speculative products that contributed to the 2008 economic turmoil.

Moreover, the profound impact of the global financial crisis prompted the international institutions to seek agreement on a set of internationally effective rules to improve both the quantity and quality of bank capital as well as to discourage excessive leverage. At its September 2011 meeting, the Basel Committee agreed to commence a process to review members' implementation of Basel III. Full, timely and consistent implementation of Basel III will be fundamental to raising the resilience of the global banking system, in maintaining market confidence in regulatory ratios, and in providing a level playing field. The review process is intended to provide additional incentives for member jurisdictions to fully implement the norms within the agreed timelines.

Therefore, this paper tries primarily to identify the extent to which Basel III norms can be adopted in Islamic banks, and this will be done through answering the following questions:

- Are Islamic banks ready to implement the norms of Basel III?
- Are there any obstacles that may face Islamic banks in adopting these norms?
- Are there some factors that may help the Islamic banks to adopt Basel III norms successfully?

2.Study objectives

This study aims to reach the following objectives:

- To enhance the knowledge about Basel III norms and about the ability to adopt these norms by Islamic banks.
- To identify the extent to which Basel III norms can be adopted by Islamic banks.
- To determine the challenges and the obstacles that may face Islamic banks in adopting Basel III norms.
- To identify the most important factors of successful adoption of these norms by Islamic banks.

3.Study Background

3.1 A Brief Review of Developments in Islamic Banking

The first Islamic social bank was established in Pakistan in the 1950s to help poor farmers. At about the same time, Malaysian Muslims established funds that helped pilgrims gather their savings for the pilgrimage to Makkah

(Mecca) The MitGhamer savings bank in Egypt was established in 1963 and the Nasser Social Bank in 1971 (Gait and Worthington, 2009). While the movement of Islamic banking and finance gained real momentum with the establishment of Dubai Islamic Bank as the world's first private interest-free bank and the Jeddah-based Islamic Development Bank in 1975(Ayub, 2007). Islamic banking spread dramatically during the final decades of the last century. Currently, there are about 270 Islamic financial institutions worldwide, including banks, mutual funds, mortgage companies, and Takaful or insurance firms (Ariss, 2010). Moreover, the growth of Islamic banking world-wide has been phenomenal with assets under management generally growing at annual rates of 12% to 15% per year (Olson and Zoubi, 2008). Aioanei (2007), mentioned that there are Islamic banks opening branches or subsidiaries in Europe or US, and they are “forcing” the authorities to find some ways to integrate these services into the global financial system. Much progress was made in UK for launching Islamic products from an UK authorized and established Islamic bank. This is expected to be followed by US and Canada.

3.2 What is Islamic Banking?

Before defining what an Islamic bank is like, it is better to give a short description of conventional banking. Conventional banking does not follow one pattern. In Anglo-Saxon countries, commercial banking dominates, while in Germany, Switzerland, the Netherlands, and Japan, universal banking is the rule. Naturally, then, a comparison between banking patterns becomes inevitable Commercial banking is based on a pure financial intermediation model, whereby banks mainly borrow from savers and then lend to enterprises or individuals. They make their profit from the margin between the borrowing and lending rates of interest. They also provide banking services, like letters of credit and guarantees. A proportion of their profit comes from the low-cost funds that they obtain through demand deposits. Commercial banks are prohibited from trading and their shareholding is severely restricted to a small proportion of their net worth (Al-Jarhi and Iqbal, 2001).

Al-Jarhi and Iqbal (2001) identify An Islamic bank as a deposit-taking banking institution whose scope of activities includes all currently known banking activities, excluding borrowing and lending on the basis of interest. On the liabilities side, it mobilizes funds on the basis of a Mudarabah or Wakalah (agent) contract. It can also accept demand deposits which are treated as interest-free loans from the clients to the bank and which are guaranteed. On the assets side, it advances funds on a profit-and–loss sharing or a debt-creating basis, in accordance with the principles of the Shariah.

However, Silva (2006) states that Islamic banking can be considered banking with a conscience. Islamic banks each have a Shariah board made up of Shariah scholars as well as financial experts who are responsible for determining what activities are and are not Shariah-compliant.

Islamic Banking is working in accordance with the rules of Islamic low. Islamic Banking is rooted in the Muslim world as form of bank that prohibits the payment of interest “Riba“. The prohibition of Riba is fixed in the Shariah. The main source of Islamic religion is the Qur’an. The interest –free banking or Islamic Banking first was an idea, this idea is an a result of refusing to accept and to challenge the existence of western interest – based banks in Muslim countries, the principle reason behind this refusing is mainly the disapproval of Riba, and also anything else which the Shariah deems unlawful (Haram) as financing a company that make money out of alcohol, gambling and environmentally harmful activities, because of their moral and ethical unacceptability (Abdul Gafoor, 1995).

3.3 Major differences between Islamic and conventional banks

Table1 Major Differences between Islamic and Banking System

Major Differences between Islamic and Banking System	
Conventional System	**Islamic System**
Money is a product besides medium of exchange and store of value.	Real Asset is a product. Money is just a medium of exchange.
Time value is the basis for charging interest on capital.	Profit on exchange of goods & services is the basis for earning profit.
Interest is charged even in case, the organization suffers losses. Thus no concept of sharing loss.	Loss is shared when the organization suffers loss.
While disbursing cash finance, running finance or working capital finance, no agreement for exchange of goods & services	The execution of agreements for the exchange of goods & services is must, while disbursing funds under Murabaha, Salam &Istisna

is made.	contracts.
Due to non existence of goods & services behind the money while disbursing funds, the expansion of money takes place, which creates inflation.	Due to existence of goods & services no expansion of money takes place and thus no inflation is created.
Due to inflation the entrepreneur increases prices of his goods & services, due to incorporating inflationary effect into cost of product.	Due to control over inflation, no extra price is charged by the entrepreneur.
Bridge financing and long term loans lending is not made on the basis of existence of capital goods. Rather, they are disbursed on the basis of Windo Dressed project feasibility and credibility of the entrepreneur.	Musharakah& Diminishing Musharakah agreements are made after making sure the existence of capital good before disbursing funds for a capital project.
Government very easily obtains loans from Central Bank through Money Market Operations without initiating capital development expenditure.	Government can not obtain loans from the Monetary Agency without making sure the delivery of goods to National Investment fund.
The expanded money in the money market without backing the real assets, results deficit financing.	Balance budget is the outcome of no expansion of money.
Real growth of wealth does not take place, as the money remains in few hands.	Real growth in the wealth of the people of the society takes place, due to multiplier effect and real wealth goes into the ownership of lot of hands.
Due to failure of the projects the loan is written off as it becomes non performing loan.	Due to failure of the project, the management of the organization can be taken over to hand over to a better management.
Due to decrease in the real GDP, the net exports amount becomes negative. This invites further foreign debts and the local-currency becomes weaker.	Due to increase in the real GDP, the net exports amount becomes positive, this reduces foreign debts burden and local-currency becomes stronger.

Source: Al-Jarhi and Iqbal (2001).

3.4 Basel I and II Accords

The first Basel accord was adopted in 1988 and is credited with providing stability to the international banking system. Banking regulators in the United States and other countries developed Basel II in 2004 because Basel I was not sufficiently sensitive in measuring risk exposures. By 2006, the European Union implemented Basel II. U.S. banking regulators issued the final rules for the implementation of the Basel II on December 7, 2007, and published the final regulations for implementing Basel II on April 1, 2008. At the time, the United States was in the most severe economic recession in more than 70 years. Federal regulatory agencies turned their attention to stabilizing the financial system, and Basel II was never fully implemented (Eubanks, 2010). The Basel Committee established the Basel II agreement to address and correct Basel I's weaknesses in assessing risk. Basel I failed to quantify and subject important risks to capital regulation; most significantly, it did not address operational risk. Since the implementation of Basel I, increased securitization of loans created major regulatory arbitrage opportunities that caused banks' regulatory capital requirements to diverge from their actual exposure to risk. Additionally, as the banking industry as a whole grew in complexity with the development of new products and instruments, banks devised similarly innovative methods to more accurately manage their risk

3.4.1 The Basel III Capital Adequacy Accord

Basel III refers to the package of amendments to the Basel II regime created as a direct response to the 2008 international financial crisis, which was not averted by the existing regulatory framework. Basel III does not change the fundamental architecture of Basel II, but makes a series of adjustments to the calculation components with the effect of increasing the amount of capital banks are required to hold at all times, and imposes constraints on certain banking activities (Change, 2010) as well as it introduces new regulatory requirements on bank liquidity and bank leverage. BASEL III is a global regulatory standard on bank capital adequacy, stress testing and market liquidity risk agreed upon by the members of the Basel Committee on Banking Supervision in 2010-11.

While at the time of writing, Basel III has not yet come into effect, it is predicted that it will increase the capital charge for derivatives and securities transactions, increase the risk charge for exposures, increase minimum capital levels allowed, change the definitions of capital permitted to count towards meeting minimum levels, increase the leverage ratio, and impact the liquidity coverage ratio and net stable funding ratio . These increases will not take place immediately; instead, banks will be given until 2023 to implement changes.15 the purpose of these changes is to increase the quality and transparency of the capital base, to strengthen the risk coverage of all institutions, to reduce the cyclicality of the Basel II requirements, and to generally increase liquidity and reduce risk. (Hersh, 2011).

Basel III is a work in progress that is far from completion. What is being called Basel III is a consultative document entitled, Strengthening the Resilience of the Banking Sector that was first promulgated on December 17, 2009, by the Basel Committee on Banking Supervision at the Bank for International Settlements in Basel, Switzerland (Bank for International Settlements, 2009a). This document was an expanded and updated version of an earlier document entitled, Enhancement of the Basel II Framework that was published in July 2009. (Bank for International Settlements, (2009b).

3.4.2 Increased Capital Requirement

At its 12 September 2010 meeting, the Group of Governors and Heads of Supervision, the oversight body of the Basel Committee on Banking Supervision, announced a substantial strengthening of existing capital requirements and fully endorsed the agreements it reached on 26 July 2010. According to this committee the minimum requirement for common equity, the highest form of loss absorbing capital, will be raised from the current 2% level, before the application of regulatory adjustments, to 4.5% after the application of stricter adjustments. The Tier 1 capital requirement, which includes common equity and other qualifying financial instruments based on stricter criteria, will increase from 4% to 6% over the same period (table 1).

3.4.3 A New Liquidity Requirement

Banks experienced liquidity difficulties during the financial crisis, despite meeting their regulatory risk-weighted assets capital requirements. Basel III introduced a new global liquidity standard to be internationally harmonized. The committee’s standard establishes a minimum liquidity requirement along the lines of the minimum capital requirement of the Basel capital accords. The rapid reversal of the liquidity market in 2008 placed the banking system under severe stress, which required central bank actions to support both the functioning of money markets and individual institutions. The committee developed two minimum standards for funding liquidity. First, there is a 30-day liquidity coverage ratio, consisting mostly of government securities and cash, which would promote short-term resilience to potential liquidity disruptions. The second is a long-term structural ratio to address liquidity mismatches and provide incentives for banks to use stable sources to fund their operations (Eubanks, 2010).

On September 12, 2010, the central bank governors approved the introduction of the liquidity coverage ratio requirement effective in 2015 after an observation period beginning in 2011 and ending in December 2014. In the observation period, the committee plans to put in place rigorous reporting processes to monitor the ratio and continue to review the implications of the liquidity coverage ratio for financial markets, credit extensions and economic growth.

3.4.4 A Capital Conservation Buffer

The Group of Governors and Heads of Supervision also agreed that the capital conservation buffer above the regulatory minimum requirement be calibrated at 2.5% and be met with common equity, after the application of deductions. The purpose of the conservation buffer is to ensure that banks maintain a buffer of capital that can be used to absorb losses during periods of financial and economic stress. While banks are allowed to draw on the buffer during such periods of stress, the closer their regulatory capital ratios approach the minimum requirement, the greater the constraints on earnings distributions.

On September 12, 2010, the central bank governors agreed to set the capital conservation buffer at 2.5% of risk-weighted assets to cushion against future periods of stress. The Basel Committee has not changed the total minimum risk-weighted capital requirement under Basel II, which is 8%. The 2.5% capital conservation buffer must consist mostly of common tangible equity. The conservation buffer would increase in increments of 0.625% annually. As shown in Table 2, on January 1, 2016, the conservation buffer would be 0.625; on January 1, 2017, it would be 1.25%; on January 1, 2018, it would be 1.875%; and 2.5% on January 1, 2019 (see table 2).

3.4.6 A Countercyclical Capital Buffer

A countercyclical buffer within a range of 0% – 2.5% of common equity or other fully loss absorbing capital will be implemented according to national circumstances. The purpose of the countercyclical buffer is to achieve the broader macro prudential goal of protecting the banking sector from periods of excess aggregate credit growth. For any given country, this buffer will only be in effect when there is excess credit growth that is resulting in a system wide build up of risk. The countercyclical buffer, when in effect, would be introduced as an extension of the conservation buffer range.

These capital requirements are supplemented by a non-risk-based leverage ratio that will serve as a backstop to the risk-based measures described above. In July, Governors and Heads of Supervision agreed to test a minimum Tier 1 leverage ratio of 3% during the parallel run period. Based on the results of the parallel run period, any final adjustments would be carried out in the first half of 2017 with a view to migrating to a Pillar 1 treatment on 1 January 2018 based on appropriate review and calibration (Basel Committee on Banking Supervision, 2010).

3.4.7 Introduction of a Global Leverage Ratio

One lesson learned from the financial crisis is that there was a build up of excessive on-and offbalance sheet leverage (undercapitalized lending) in the banking system, even though banks were able to meet their regulatory risk-weighted assets capital requirements. However, it was only when the banks were forced by market conditions to reduce their leverage that the system increased the downward pressure in asset prices. This exacerbated the decline in bank capital and the contraction in available credit. To prevent the excessive deleveraging from happening again, the Basel Committee has introduced a leverage ratio for the first time that is intended to achieve the following objectives:

Constrain the buildup of leverage in the banking sector, helping to avoid the destabilizing and deleveraging processes which can damage the broader financial system and the economy.

Reinforce the risk-based requirements with a simple non-risk-based backstop measure based on gross exposure (Bank for International Settlements, 2009a).

On July 26, 2010, the phased-in arrangement was announced by the Basel Committee's group of governors and heads of Supervision. However, the governors did not approve a specific leverage ratio, leaving it up to each member country for its determination. The supervisory monitoring period will begin January 1, 2011, and the parallel run, in which both old and new requirements are operating at the same time to determine the differences, would begin January 1, 2013, until January 1, 2015. Based on the results of the parallel-run period, adjustment will be made in the first half of 2017 and the minimum leverage ratio will be determined and applied in January 1, 2018 (See table 2).

Table 2 The New Capital Requirements

Calibration of the Capital Framework Capital requirements and buffers (all numbers in percent)			
	Common Equity (afterdeductions)	**Tier 1 Capital**	**Total Capital**
Minimum	4.5	6.0	8.0
Conservation buffer		2.5	
Minimum plus conservation buffer	7.0	8.5	10.5
Countercyclical buffer range		0 – 2.5	

Source: Basel Committee on Banking Supervision (2010), p. 7.

Table 2: Phase-in arrangements (shading indicates transition periods) (all dates are as of 1 January)

	2011	2012	2013	2014	2015	2016	2017	2018	2019
Leverage Ratio	Supervisory monitoring		Parallel run 1 Jan 2013 – 1 Jan 2017 Disclosure starts 1 Jan 2015					Migration to Pillar 1	
Minimum Common Equity Capital Ratio			3.5%	4.0%	4.5%	4.5%	4.5%	4.5%	4.5%
Capital Conservation Buffer						0.625%	1.25%	1.875%	2.50%
Minimum commonequity plus capital conservation buffer			3.5%	4.0%	4.5%	5.125%	5.75%	6.375%	7.0%
Phase-in of deductions from CET1 (including amounts exceeding the limit for DTAs, MSRs and financials)				20%	40%	60%	80%	100%	100%
Minimum Tier 1 Capital			4.5%	5.5%	6.0%	6.0%	6.0%	6.0%	6.0%
Minimum Total Capital			8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%
Minimum Total Capital plus conservation buffer			8.0%	8.0%	8.0%	8.625%	9.25%	9.875%	10.5%
Capital instruments that no longer qualify as non-coreTier 1 capital or Tier 2 capital			Phased out over 10 year horizon beginning 2013						

Source: Basel Committee on Banking Supervision (2010), p. 7.

4. The Impact of Basel III on Islamic Banks

While Islamic finance is small compared to the global financial system, and concentrated in areas where Islamic products and services are demanded by Muslim clientele, its international nature and rapid growth warrant a strong framework to ensure harmonization and universally accepted standards. Strength of an international system requires institutionalized regulations to promote stability and consistency. In the case of conventional finance, the Basel Committee of the Bank of International Settlements fills this role. Islamic financial products largely mimic their conventional counterparts, making the Basel regulations an appropriate starting point (Hersh, 2011).

4.1 Impact of Liquidity Ratio on Islamic banks

The new liquidity ratios, outcomes of Basel Accord III, namely: Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) will have a sizeable effect on Islamic banks for two reasons: (i) the lack of a developed Islamic money market, and (ii) the lack liquid Islamic investment instrument with short term maturities. LCR and NSFR do not take into account the specificity of the Islamic finance: for the LCR, it misses to Islamic banks the abundance of Sharia-compliant short-term instruments; and for the NSFR, there is no profusion of longer term liabilities that can be withdraw at short term (Harzi, 2009).

Really, Islamic banks don’t have High Qualified Liquidity Assets (HQLA) to meet the definition of level 1 and level 2 assets under the LCR numerator despite the fact that the Basel Committee granted derogation for Islamic banks to use sukuk as HQLA. For the denominator which is the total net cash outflow, the inflow from sharing is unknown and difficult to estimate and for outflow the treatment of PSIA as stable deposit is questionable. Regarding the NSFR, the issue is less problematic for Islamic banks than for the LCR, because the PSIA and other deposits can be considered as Available Stable Fund (ASF) on the numerator and the sukuk and other modes of Islamic financing (such as leasing, markup sale, …) might fall under the Required Stable Funding (RSF) in the denominator depending on the counterparty and the applicable RSF factor.

4.2 Leverage Ratio and capital adequacy

Most sharia-compliant institutions also have considerably higher capital adequacy ratios than conventional banks. Islamic finance offers limited options to raise alternative forms of capital and so results in a lack of subordinated debt in sharia-compliant form, as well as fewer preference shares. The capital structures and above-average capital ratios of Islamic financial institutions puts them in a favourable position compared with conventional banks. And while Islamic banks are limited in their scope of capital-raising instruments, this has sheltered them from the problems faced by conventional banks. Sharia-compliant banks' limited use of derivatives and securitised structures will benefit their levels of capital adequacy. In addition, these banks will remain immune from the costs needed to address the inherent risks in such products. Also, the lack of leverage in most Islamic banks means they will not be impacted by the leverage ratio of Basel III (Kara, 2011).

Conclusion

Risks identified during the financial crisis can be solved by Basel III standards. But What is different this time is that increased risk weighted capital requirements alone are no longer believed to cure all shortcomings of the financial sector and macroprudential elements are considered as well, especially leverage, liquidity, procyclicality and systemic risk they create. And the implementation requirements provided by Basel III accord can be implemented by the Islamic banks which have special nature and work according to the sharia law, since they don't have high quality assets and they depend on fixed assets comparing with the traditional banks at the same time the even that Basel Accord was primarily designed for G10 countries, and not for developing countries, but its goal was to increase the stability of the financial systems in both developed and developing countries, so Islamic banks can apply the Basel III framework for capital adequacy without any difficulties due to the following:

1. Islamic banks don't rely on the third pillar of capital when meeting the requirements of capital adequacy, which is in support loans, and therefore there will be no impact to cancel the third pillar of capital on Islamic banks.

2. The dependence on the capital adequacy standard on the first tier of capital by Islamic banks, which is high quality capital, enabling them to meet the requirements of the Basel III framework.

3. Islamic banks achieve good profit rates that enable them to form the necessary reserves for risk management, and if they lead to reduced profit rates distributed in the short term only because the stability and strength of the financial situation of banks at that time will support the confidence of customers, Resources invested and then increase profits.

But, it is sure that the Basel III accord makes some pressure on Islamic banks in developing and emerging economies to work harder in order to meet international practices and procedures.

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