



Press Release

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Shadow Banking Caused Regulatory Sabotage

Shadow banking – particularly the packaging and distributing of derivative financial instruments that were not based on any real economic activities – caused a textbook-style manifestation of regulatory sabotage, explained Dr. Mohamad Nedal Achaar, Secretary General of Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI), the international standard-setting organisation for Islamic finance.

Delivering a keynote speech at the 9th Islamic Finance Summit that he chaired in London organised by Euromoney, Dr. Alchaar added “the regulatory sabotage gave rise to a new mosaic of the world financial landscape that was puzzling for not only regulators but also the investment community creating a perfect case of irrational exuberance”.

“Credit intermediation and maturity transformation were taking on new shapes and slowly but surely distancing us from real economic activities and thus causing a detachment between what is real and what is financial. This decoupling notion which is different from the one prevailed at the advent of the crises was the catalyst for what had to come – a full-blown economic, financial and social imbalance for us to deal with for the next generation”, said Dr. Alchaar.

As Islamic finance serves to support real economic activities, it can make do without synthetic instruments and instead focuses on economic allocation efficiency. However, while Islamic finance systems have the needed checks and balances, there is a danger that they can be circumvented and comprised in a similar fashion as took place in conventional finance. In order to prevent this from happening, Dr. Alchaar called for “the enforcement of well-designed standards backed by close regulatory supervision”.

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