

GUIDELINES ON THE ESTABLISHMENT OF LABUAN ISLAMIC DIGITAL BANK UNDER SANDBOX REGULATORY REQUIREMENTS

Labuan Financial Services Authority
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1.0 Introduction

- 1.1 In response to the growing demand for accessible financial services, Labuan International Business and Financial Centre (Labuan IBFC) has introduced a sandbox regulatory requirements for the establishment of Labuan Islamic digital bank which is known as “i-BOX”. This is part of the initiatives under Islamic Digital Asset Centre (IDAC) which was launched in year 2022. The strategic goal of IDAC is to attract more digital assets and fintech players to Labuan IBFC, and to carve out a niche in the digital Islamic finance space. This unique platform offers an alternative to the conventional digital finance landscape, providing a distinctive solution in the global market. The i-BOX aims to catalyse Labuan IBFC's development as an Islamic international financial hub by attracting new entrants to establish Labuan Islamic digital bank and to provide banking support and facilities to entities operating under IDAC.
- 1.2 The i-BOX allows Labuan Islamic digital bank to operate under a sandbox environment for a period of three (3) to five (5) years with the objective to promote both financial inclusion and Islamic social finance. The Labuan Islamic digital bank will be licensed as a Labuan Islamic bank under the Labuan Islamic Financial Services and Securities Act 2010 (LIFSSA) to carry on Labuan Islamic banking business as defined under Section 60 of LIFSSA. The Guidelines on the Establishment of Labuan Islamic Digital Bank under Sandbox Regulatory Requirements (the Guidelines) shall be read together with the Labuan Digital Banking Framework and other relevant Guidelines issued by Labuan FSA.
- 1.3 This Guidelines also offers incentives for applicant who has been successfully admitted into the i-BOX, contingent upon satisfying specific requirements outlined in the Guidelines.

2.0 Legal Provision

- 2.1 The applicant is required to be licensed by Labuan FSA pursuant to Section 63 of LIFSSA.
- 2.2 The Guidelines is issued pursuant to Section 4A of the Labuan Financial Services Authority Act 1996 (LFSA) to clarify the provisions of Part VI of LIFSSA.
- 2.3 Any person who fails to comply with the Guidelines may be subject to enforcement actions which include a compound and/or and administrative penalty under Section 36B and Section 36G of the LFSA.

3.0 Effective Date

- 3.1 The Guidelines shall come into effect immediately and would remain effective and applicable for a period of five (5) years after the issuance of the Guidelines. Subsequently, Labuan Islamic digital bank licensed in this Guidelines are required to adhere to the requirements stipulated in Labuan Digital Banking Framework and other relevant guidelines issued by Labuan FSA.
- 3.2 The Guidelines is not intended to supersede any of the existing guidelines applicable to a Labuan Islamic digital bank and applicants may refer to the respective applicable guidelines on the relevant regulatory requirements. Labuan FSA reserves the right to review the Guidelines as and when required.

4.0 The i-BOX Lifecycle

- 4.1 The i-BOX lifecycle is structured into three distinct phases to ensure that the applicant meets the eligibility criteria, adhere to regulatory requirements, and demonstrate sustainable business practices. The phases include the Evaluation Period, Provisional Period, and Graduation Period as per the diagram below.

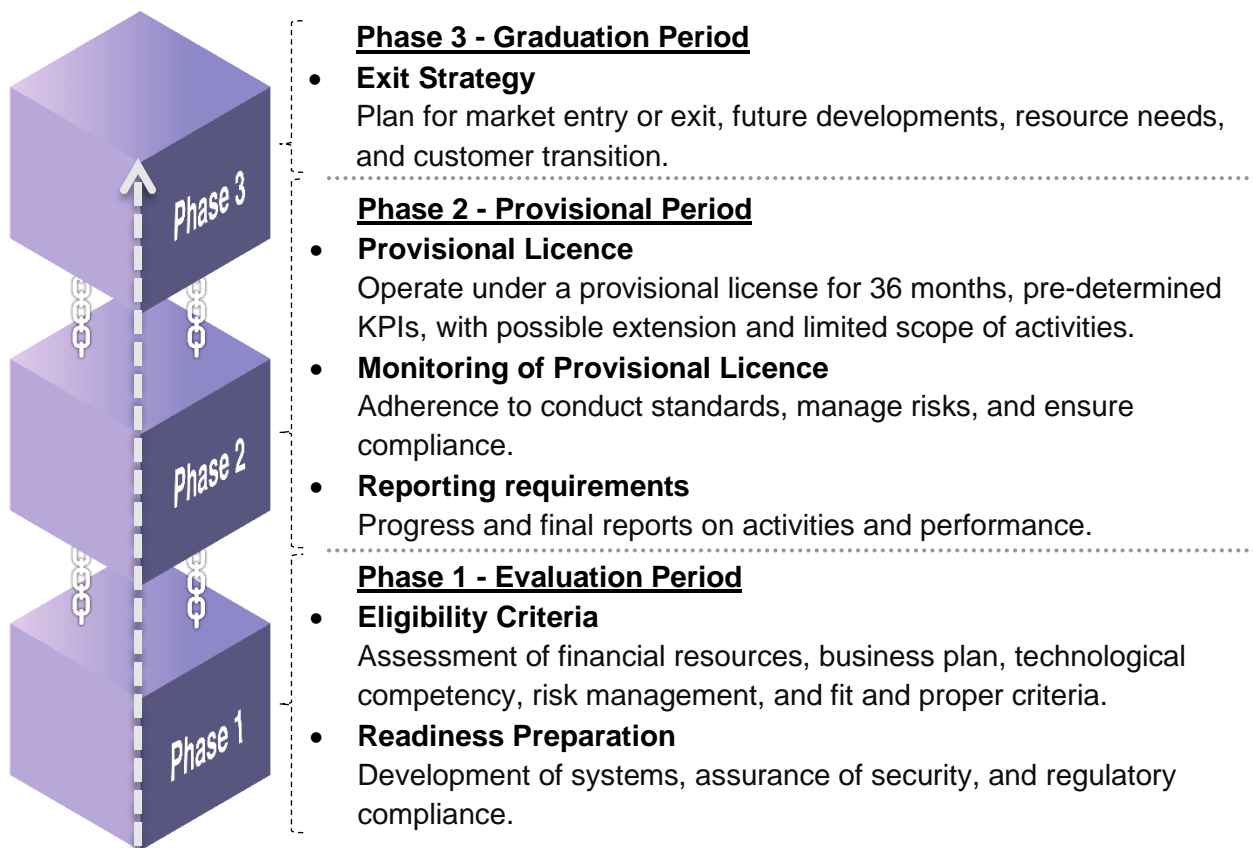


Diagram 1: The i-BOX Lifecycle

Phase 1 – Evaluation Period

5.0 Eligibility Criteria

5.1 A corporation that:

- (i) has strong financial resources and demonstrates ability to meet and maintain the applicable minimum paid-up capital requirement;
- (ii) has credible and viable business plan which sets out the approach on how it intends to incorporate innovative use of technology for its operations to meet the proposed strategic business objectives; and
- (iii) demonstrates the ability to conduct digital financial services, e-commerce and technological-driven business.

5.2 Applicants under the i-BOX are exempted from the requirement under Section 63(2)(e) of LIFSSA, to present a copy of the audited balance sheet for each of the three financial years immediately preceding the date of licence application. Nevertheless, Labuan FSA will assess the application based on, *inter alia*, the profile of the applicant, immediate shareholder(s) and ultimate beneficial owner(s) (UBO) to meet the following criteria:

- (i) *Financial Resources and Capital Requirements*
 - (a) must have sufficient and sound financial resources to continuously provide financial support as well as demonstrates the ability to meet and maintain the minimum paid-up capital of RM50 million or equivalent in foreign currency;
 - (b) place a non-interest-bearing security deposit of RM2.5 million or its equivalent in foreign currency with Labuan FSA which is refundable after graduation or exit from the i-BOX, subject to the assessment of the Labuan Islamic digital bank's performance; and
 - (c) submit the latest three months of bank statements certified by the bank indicating the amount of funds available, management accounts, audited financial statements or net worth statements certified by qualified accountant of the immediate shareholders and UBO as proof of the source of funds.

(ii) *Business Plan*

Sets out a credible and viable strategic business plan and how it intends to incorporate innovative use of technology in its operations to meet the proposed business objectives including Islamic social finance agenda emphasizing initiatives to promote financial inclusion for underserved and unserved market segments.

(iii) *Technological Competency*

Demonstrates the ability to conduct digital financial services, e-commerce and technological-driven business and has technological infrastructure and capabilities to develop in-house core banking system.

(iv) *Risk Management*

- (a) demonstrate the ability to identify and mitigate risks associated with its Islamic digital banking activities in a manner proportionate to the projected scale of business activity and the nature of the risks involved. This includes having sufficient resources or plans to acquire the required expertise in risk management.
- (b) have a proper risk management strategy that incorporates appropriate safeguards to mitigate and control potential risks that may arise especially on the following:
 - (I) management of credit risk, operational risk, market risk and liquidity risk, where relevant;
 - (II) fair treatment of financial consumers and data privacy;
 - (III) cybersecurity and information technology infrastructure;
 - (IV) anti-money laundering and countering financing of terrorism (AML/CFT); and
 - (V) Shariah compliance and governance.
- (c) implement of a robust Shariah governance framework to ensure compliance with Shariah principles and regulations; and

- (d) comply with banking capital adequacy framework to ensure the Islamic digital bank operated in a sound and prudent manner.

(v) Fit-and-proper

The persons in control, directors, officers, Shariah advisors and any person who are primarily responsible for the operations and financial management shall be fit and proper persons.

(vi) Exit plan

Develop a credible exit plan to ensure that the Islamic digital bank is able to unwind its business operations voluntarily without any regulatory intervention and in an orderly manner without causing disruption to its customers and the financial system. The exit plan should cover at least the following:

- (a) circumstances in which the plan will be triggered;
- (b) the channels to be used to repay depositors;
- (c) source of funding to make the payments; and
- (d) communication strategy including the method and timeframe for communicating with relevant parties, e.g. Labuan FSA, customers and investors.

5.3 Upon submission of a complete application, Labuan FSA will assess the application and inform applicant of its status within the specified client charter. Labuan FSA may request for clarification and/or any information regarding the applicant's suitability to participate in the i-BOX.

5.4 Eligibility to participate in the i-BOX should not be interpreted as authorisation for the applicant to commence operations. This stage serves as a preliminary assessment on the suitability of an applicant to participate in the i-BOX.

6.0 Readiness Preparation

- 6.1 Once the applicant meets the eligibility criteria, the applicant would be assessed and required to comply with the conditions specified by Labuan FSA before the applicant is granted with a licence to operate as a Labuan Islamic digital bank.
- 6.2 The assessments or conditions should include, at minimum, the following:
- (i) a limited scope of activities that will be proportionate to the nature, size and complexity of the proposed business plan based on parameters in **Appendix I**. The parameters will serve as one of the Key Performance Indicators (KPIs) for the Labuan Islamic digital bank, to be mutually determined and agreed by both the applicant and Labuan FSA. The KPIs may be reviewed from time to time as the Labuan Islamic digital bank demonstrates stability and maturity.
 - (ii) a state of readiness and risk management capabilities which include parameters in **Appendix II**.
- 6.3 Upon satisfying the above requirements, the Labuan Islamic digital bank will be granted a provisional licence for a period of thirty-six (36) months starting from the date of the issuance of the provisional licence.

Phase 2 – Provisional Period

7.0 Provisional Licence

- 7.1 The provisional licence period of Labuan Islamic digital bank under the i-BOX shall not exceed thirty-six (36) months from the date of the provisional licence.
- 7.2 Labuan FSA will assess whether the Labuan Islamic digital bank is eligible to submit the application for graduation or extension of the provisional licence upon submission of the fifth half-yearly progress report.
- 7.3 Subsequently, the Labuan Islamic digital bank must submit the application to Labuan FSA within thirty (30) calendar days upon receiving the assessment result from Labuan FSA, based on the following scenario:
- (i) if the Labuan Islamic digital bank is eligible to graduate, the bank may submit an application to graduate from the i-BOX as per paragraph 11.1(i).

- (ii) if the Labuan Islamic digital bank is ineligible to graduate, the applicant may submit an appeal to Labuan FSA, to extend the provisional period for a maximum of twenty-four (24) months, together with reasonable justifications. During this period, the pre-agreed KPIs may be reviewed in accordance with the Labuan Islamic digital bank's capacity and capability.
- (iii) if the Labuan Islamic digital bank is ineligible to graduate but fails to submit the application for appeal to remain in the i-BOX, Labuan FSA may initiate a revocation process of the provisional licence. The Labuan Islamic digital bank may exit the i-BOX in accordance with the bank's exit plan and paragraph 11.1(i)(b).

Illustration of the above scenario is provided in **Appendix III**.

- 7.4 Nevertheless, Labuan FSA reserves the right to revoke any provisional licence granted. Such action may be taken in response to adverse developments, which may include, but are not restricted to instances as specified in **Appendix IV**.
- 7.5 Labuan FSA may decide to reinstate or allow the continuation of the provisional license, with or without additional conditions.

8.0 Monitoring of Provisional Licence

- 8.1 A Labuan Islamic digital bank under the i-BOX will be subjected to a close monitoring and supervision by Labuan FSA.
- 8.2 A Labuan Islamic digital bank shall have in place policies, controls and procedures to manage and mitigate Money Laundering/Terrorism Financing (ML/TF) risks and ensure effective infrastructure to capture of all digital transactions. This includes:
 - (i) identifying and assessing the ML/TF risks that may arise in relation to the digital infrastructure. This includes, but not limited to the risks with regard to the development of new products, services, business practices, delivery mechanisms, adoption of new technologies and dealings with their counterparties (e.g. clients, liquidity provider);
 - (ii) effecting appropriate measures to manage and mitigate the risks; and
 - (iii) maintaining sufficient documentation of this risk management policy.

8.3 A Labuan Islamic digital bank is required to adhere to the following requirements:

- (i) principles of good conduct as provided in **Appendix V**;
- (ii) Shariah governance requirements, ensuring that solutions for Islamic financial services are consistent with the Shariah principles and rulings in line with the Guidelines on Shariah Governance for Labuan Islamic Financial Institutions; and
- (iii) any other requirements as specified in the Labuan Digital Banking Framework.

9.0 Reporting Requirements

9.1 During the provisional licence period, other than the existing reporting requirements¹, the Labuan Islamic digital bank shall submit a progress report to Labuan FSA on half-yearly basis (within seven (7) working days after the half-yearly deadline) which shall include, at minimum, the following:

- (i) statistical information in relation to or arising from the business activity such as measures for KPIs² and key milestones³;
- (ii) key issues observed including fraud incidents or other operational incidents; and
- (iii) actions or steps taken to address the key issues.

9.2 The Labuan Islamic digital bank is required to submit a final report to Labuan FSA 30 days before the end of the provisional licence period that shall include, at minimum, the following:

- (i) key outcomes, KPIs against agreed-upon measures to determine the success or failure of the business plan, and findings from the business activity conducted;

¹ Submission of the audited annual financial reports, statistical reports, compliance reports, etc.

² For example, Customer Acquisition Rate, Customer Retention Rate, Digital Engagement Metrics, Transaction Volume etc.

³ For example, Product Launches, Partnerships and Collaborations, User Growth Targets, Revenue Targets, Technology Upgrades and Enhancements, etc.

- (ii) a full account of all incident reports and resolution of customer complaints; and
 - (iii) in the case of a failed business plan, lessons learnt from the business activities conducted.
- 9.3 Labuan FSA may request additional information taking into account the duration, complexity, scale, and risks associated with the business operations.
- 9.4 The progress and final reports must be attested by the Principal Officer of the Labuan Islamic digital bank that all information submitted is true and accurate and to be submitted to Head of Authorisation and Licensing Unit of Labuan FSA (attention to Business Compliance).
- 9.5 The Labuan Islamic digital bank is required to submit audited financial statements within six (6) months after the closure of each financial year.

10.0 Operational Requirements

- 10.1 Maintain minimum capital that is unimpaired by losses of at least RM50 million or its equivalent in any foreign currency with a bank in Labuan or Malaysia. Labuan FSA may exercise its discretion to require additional capital to commensurate with the business operations of the digital bank, taking into account the risk profiles as well as nature, scale, complexity and diversity of the business activities.
- 10.2 Establish an operational office in Labuan to comply with LIFSSA.
- 10.3 Ensure that the persons in control, directors, Shariah advisors and officers are fit and proper.
- 10.4 Maintain adequate and proper records and books of accounts in Labuan and ensure that all its operations are conducted in, from or through the operational office in Labuan.
- 10.5 Indicate clearly the Labuan Islamic digital bank's names in all media being used for communication purposes.
- 10.6 Appoint an internal and external auditor to carry out an audit of its operations and accounts pursuant to Sections 134 and 135 of LIFSSA, as the case may be.

10.7 Appoint an internal Shariah advisory board to advice on the operations of its business, in order to ensure that its operations are in compliance with Shariah principles pursuant to Sections 129 of LIFSSA.

10.8 Obtain prior approval from Labuan FSA on the following matters:

- (i) change of name;
- (ii) change of business plan;
- (iii) appointment of its Board of Directors;
- (iv) appointment of Principal Officer (PO). The appointment of PO is only valid for two (2) years or as may be determined by Labuan FSA. The Labuan Islamic digital bank may renew the appointment of the PO by submitting the renewal application one (1) month before the expiry date;
- (v) establishment of office outside Labuan including the acquisition of subsidiary and establishment of a marketing office or co-located office;
- (vi) reduction of paid-up capital⁴; or
- (vii) use of external service provider.

10.9 Notify Labuan FSA within 14 days pertaining to the following matters:

- (i) resignation of directors and principal officer;
- (ii) change of place of business or office in Labuan;
- (iii) change to its constituent documents; or
- (iv) significant event that affects its going concern or reputation.

10.10 Comply with the applicable laws, rules and regulations relevant to the Labuan Islamic digital banking business, including relevant guidelines issued by Labuan FSA as per **Appendix VI** and other regulatory requirements of the

⁴ Not tantamount to reduction of amount lower than the prescribed minimum paid-up capital requirement and/or higher capital as imposed/determined by Labuan FSA, during the licence granted.

jurisdictions where the Labuan Islamic digital bank is authorised to operate in, where applicable, at all times. In this regard, Labuan Islamic digital bank is expected to obtain the necessary approvals from the authorities in the markets it intends to operate in prior to commencing its business in those respective markets.

10.11 Comply with any other operational requirements as may be imposed by Labuan FSA from time to time.

Phase 3 – Graduation Period

11.0 Exit Strategy

11.1 The exit strategy must address two specific scenarios:

(i) Graduation from the i-BOX

- (a) The criteria for the graduation from the i-BOX may include the following:
 - (I) achievement of all the pre-agreed KPIs between Labuan FSA and the Labuan Islamic digital bank;
 - (II) value proposition;
 - (III) financial stability;
 - (IV) customer satisfaction;
 - (V) adherence to regulatory standards and requirements; and
 - (VI) contributions to the overall development of the Islamic digital banking sector.
- (b) The Labuan Islamic digital bank must provide a detailed description of the future development and how it intends to transition its business plan out of the i-BOX into the broader market. This should include, at minimum, the following:
 - (I) details of the growth targets and the anticipated resources (human, technical or financial) necessary to support the

business model outside the i-BOX environment once the provisional licence period has ended;

- (II) required resources and expertise to mitigate and control potential risks and losses arising from offering the product, service or solution.

(ii) Exit plan

A clearly defined exit plan in the event of discontinuation of the business plan, revocation of the provisional licence, or unsuccessful graduation, must be outlined to ensure fulfilment of existing obligations towards relevant stakeholders. This exit plan should be submitted to Labuan FSA together with the licence application. The exit plan should include, at minimum, the following:

- (a) circumstances in which the plan will be triggered;
- (b) transition and resolution plan for customers;
- (c) the channels to be used to repay depositors;
- (d) source of funding to make the payments;
- (e) disposal plan of all confidential information including customers' personal information; and
- (f) communication strategy including the method and timeframe for communicating with relevant parties, e.g. Labuan FSA, customers and investors.

11.2 The exit plan shall be disclosed to the clients and counterparties of the Labuan Islamic digital bank.

11.3 The Labuan Islamic digital bank shall ensure that any existing obligation to its customers of the financial service under the provisional licence period must be fully fulfilled or addressed before exiting the sandbox or discontinuing the sandbox.

Incentives under the i-BOX

12.0 Labuan IBFC Fiscal Policies

- 12.1 Labuan Islamic digital bank is required to adhere to the relevant substance requirements to qualify for the preferential tax regime under the Labuan Business Activity Tax Act 1990 (LBATA) as stipulated in the *Labuan Business Activity Tax (Requirements for Labuan Business Activity) Regulations 2021*.
- 12.2 Labuan Islamic digital bank under the i-BOX is exempted from the payment of tax in respect of any of its income derived from a qualifying activity pursuant to *Labuan Business Activity Tax (Exemption) Order 2024* [P.U. (A) 127], subject to compliance with substance requirements as mentioned in paragraph 12.1.
- 12.3 Labuan IBFC also offers withholding tax exemption on various type of payments made to a non-residents person or another Labuan Entity, such as interest and technical or management services. Dividend and interest income received from the Labuan Islamic digital bank are exempted from income tax in the hands of the shareholder (*Income Tax (Exemption)(No 22) Order 2007* [P.U.(A) 437]).
- 12.4 All instruments executed by Labuan Islamic digital bank in connection with their Labuan business activities are exempted from stamp duty. These instruments include agreements, contracts, and other legal documents related to Labuan business activities. The exemption facilitates cross-border transactions and investments, making it more attractive for businesses to operate in Labuan. Labuan Islamic digital bank seeking the exemption must submit the necessary documents to the Inland Revenue Board of Malaysia (IRBM). Applications for assessment of stamp duty for Labuan Islamic digital bank are submitted via the IRBM's online STAMPS system.
- 12.5 Nevertheless, Labuan Islamic digital bank is required to comply with other relevant tax regulations including non-deductibility rules in *Income Tax (Deductions Not Allowed for Payment Made to Labuan Company by Resident) Rules 2018 (Amendment) 2020*.

13.0 Employment Pass for Expatriate

- 13.1 Employment pass for professional expatriate will be given for five (5) years from the date of issuance of employment pass. The application requirements are stipulated under the Guidelines on Work Permit Application in Labuan IBFC for Licensed and Non-Licensed Entities.

- 13.2 Labuan FSA will facilitate the application of employment pass for expatriate and provide recommendation to the Immigration Department of Malaysia subject to meeting the requirements specified in paragraph 13.1. This recommendation serves as an endorsement from the Regulatory Authority that the company is in compliant with the relevant regulations and requirements.

14.0 Establishment of Co-located Office

- 14.1 Labuan Islamic digital bank under the i-BOX is exempted from the pre-determined criteria in paragraph 2.2 of the Guidelines on Co-location of Labuan Bank, for application of co-located office anywhere in Malaysia, subject to Labuan FSA's prior approval. A co-located office may facilitate its business operations leveraging, among others, on the infrastructures, human capital, professional services, recreational and residential facilities that are available in the co-located cities to serve its business operations. This provides options for Labuan Islamic digital bank to establish an office or offices in other part of Malaysia other than its office in Labuan.
- 14.2 Labuan Islamic digital bank under the i-BOX, which has been given approval to establish a co-located office under this Guidelines, shall continue to observe the substantial activity requirements in Labuan. This includes establishing an operational office in Labuan to avail the preferential tax regime under LBATA.

15.0 Application Requirements

- 15.1 Applicant that meets the eligibility criteria in paragraph 5.0 may submit their application to Labuan FSA within six (6) months from the date of issuance of this Guidelines. This timeframe allows ample time for the Labuan Islamic digital bank to establish and operate, as well as benefit from the incentives provided under the i-BOX.
- 15.2 The application to establish a Labuan Islamic digital bank under the i-BOX is to be submitted preferably via email to:

Head of Authorisation and Licensing Unit
Labuan Financial Services Authority
17th Floor, Main Office Tower
Financial Park Complex, Jalan Merdeka
87000 Federal Territory of Labuan, Malaysia
Email: bplicensing@labuanfsa.gov.my

15.3 Any enquiries or clarification may be directed to the following contact details:

Telephone no. : 03 8873 2000

E-mail : a) bpu@labuanfsa.gov.my / ifpu@labuanfsa.gov.my
(*Guidelines*)
b) bplicensing@labuanfsa.gov.my (*Application*)
c) bclicensing@labuanfsa.gov.my (*Progress Reporting*)

Scope of Activities under the i-BOX

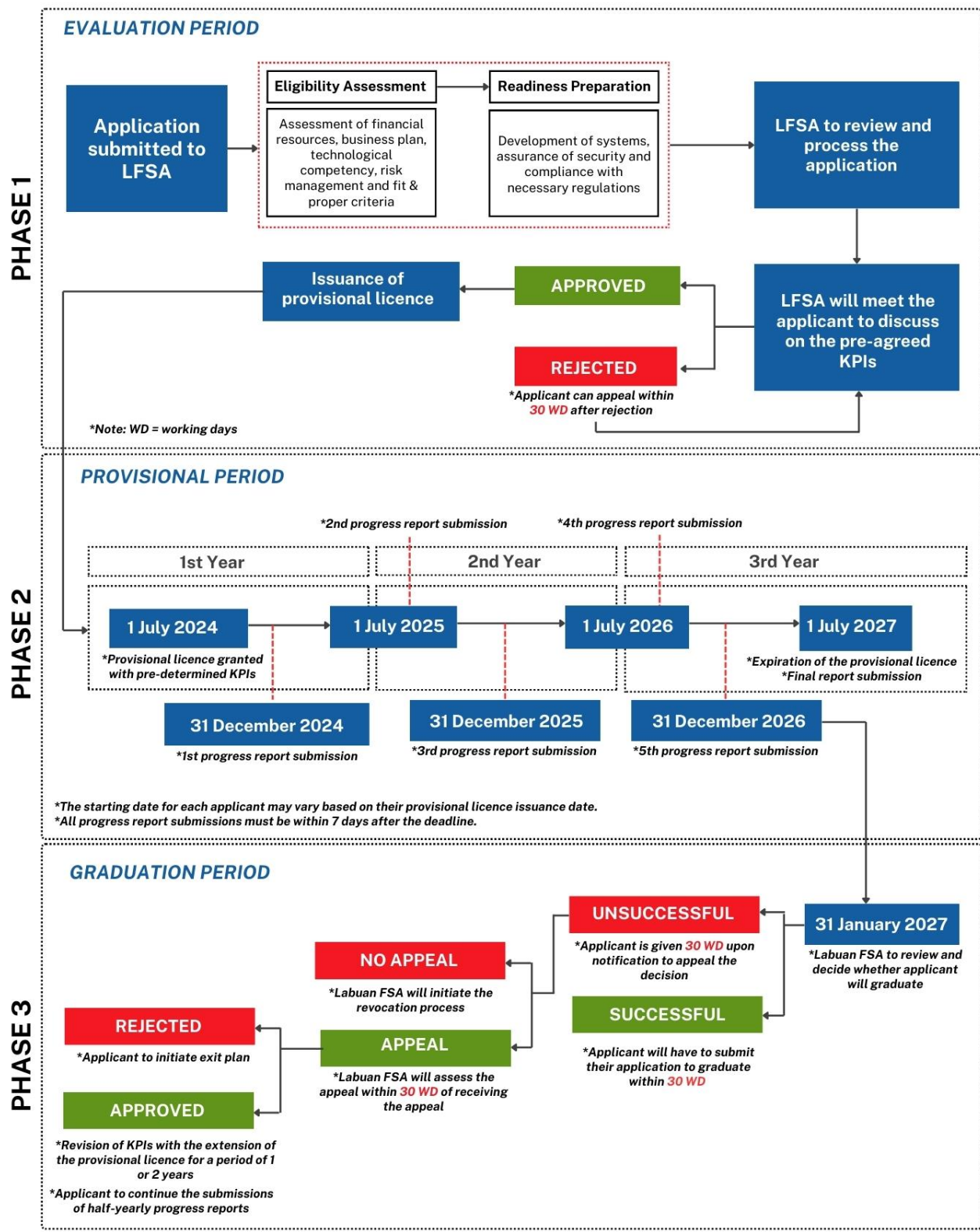
1. The primary objective of Labuan Islamic digital banking activities under the i-BOX is to fulfil the *Maqasid Syariah* (objectives of Shariah), while at the same time ensuring that elements of Islamic social finance are not neglected in its business operations.
2. The Islamic digital bank under the i-BOX will be subjected to specific business parameters and restrictions that are proportionate to the nature, size, and complexity of the proposed business model. These threshold measures shall include but are not limited to the following:
 - (a) the number of clients;
 - (b) segment or profile of clients; and
 - (c) value or frequency of transactions.
3. In addition to paragraph 2, the business restrictions would include the following:
 - (a) Shariah-compliant digital banking services, such as current accounts, and investment accounts that adhere to Shariah principles;
 - (b) offering Islamic financing products, such as *Murabaha*, *Ijarah*, *Musharakah*, and any other Shariah-compliant structures through digital channels;
 - (c) providing online *Zakat* and *Waqf* calculation and payment services for customers;
 - (d) offering digital platforms for donation (*Sadaqah*) and *Waqf* management;
 - (e) providing digital tools and resources for Islamic financial education and literacy;
 - (f) offering secure and user-friendly digital banking platforms that cater to the specific needs of Islamic banking customers; and
 - (g) any other scope of activities to be determined by Labuan FSA.

State of Readiness and Risk Management Capabilities

1. Have an in-house core banking system that processes and records daily banking transactions in regard to the banking activities which may include, but not limited to, the following:
 - (i) digital corporate banking.
 - (ii) customer onboarding.
 - (iii) digital trade.
 - (iv) digital loans origination.
 - (v) watch banking / wearable tech.
 - (vi) financial chatbot.
 - (vii) mobile wallet.
 - (viii) social banking.
2. Have adequate policies and controls regarding information security, system resilience and business continuity management including IT governance, cybersecurity, online client on-boarding processes and systems. The applicant must demonstrate an adequate cyber risk management policy and procedures for regular review of security and technology related arrangements in relations to:
 - (i) occurrence and severity of cyber breaches including the maximum service downtime, recovery time objectives, contingency measures etc;
 - (ii) measures to manage cyber risk encompassing prevention, detection and recovery from a cyber breach;
 - (iii) roles and responsibilities of key personnel and functions involved in cyber risk management; and

- (iv) processes and procedures for the Labuan Islamic digital bank's management response to cyber breach risk events (e.g. assessment, decision-making rectification, communication to stakeholders).
- 3. Have a stringent data and consumer protection measure to safeguard customer information, privacy, and rights.
- 4. Establish systems and controls to comply with Shariah governance requirements and ensure the products and services offered are in compliance with Shariah principles and endorsed by the appointed internal Shariah advisory board.
- 5. Have clear guidelines for regulatory compliance and reporting requirements to ensure adherence to applicable laws and regulations as well as mechanisms for regulatory supervision and monitoring oversight.
- 6. Have a robust Know-Your-Customer (KYC) framework which consist of proper customer due diligence and enhanced due diligence processes for onboarding clients and for transactional activities.
- 7. Have a credible exit plan to ensure that the applicant able to transition its business plan to the wider market after graduation or unwind its business operations in case of revocation, without regulatory intervention, and in an orderly manner that minimises disruption to customers.

Illustration of Scenario



Examples of Adverse Developments

1. Fails to comply with the business parameters (pre-agreed KPIs), restrictions and on-going requirements.
2. Submits false, misleading, or inaccurate information, or conceals or fails to disclose material facts in the application.
3. Contravenes any applicable law administered by Labuan FSA or any other written or foreign law, or is involved in civil suits, particularly those affecting the participant's integrity, reputation, financial stability, and market confidence in Labuan IBFC and Malaysia.
4. Undergoing or has gone into liquidation.
5. Breaches data security and confidentiality requirements.
6. Conducts business operations in a manner detrimental to customers or the public.
7. Fails to effectively address any technical defects, flaws, or vulnerabilities in business operations leading to recurring service disruptions or fraud incidents.
8. Breaches any performance inconsistent with prevailing Shariah rulings or principles.
9. Any other adverse developments that Labuan FSA deemed fit.

Principles of Good Conduct

1. Conduct its business with honesty, fairness, integrity and professionalism.
2. Act competently and diligently with regard to all dealings with its clients.
3. Treat information relating to the deals transacted or being transacted as confidential and limit access to such information. Subject to applicable laws and regulations, confidential information may be disclosed where the disclosure is:
 - (i) with the explicit permission from the parties involved; or
 - (ii) required by laws, a court of law or relevant supervisory authorities.
4. Act in the best interest of its clients and must not jeopardise or prejudice the clients' interest and ensure that client's asset is properly safeguard from any wrongful conversion or inappropriate use by any individual. Any information provided to its clients must be fair, accurate and timely.
5. Efficiently manage conflict of interest which may arise in the course of the company carrying out its business. Such conflict must be managed in a timely manner.
6. Have in place adequate mechanism to properly disclose pertinent information to its clients including potential risks and chargeable fees taking into account the nature of the Labuan Islamic digital bank which predominantly has minimal face-to-face client dealings.
7. Have in place adequate mechanism to handle client disputes or complaints that are appropriate to the nature, scale and complexity of the business. Details of the complaints, responses and actions taken must be recorded and maintained.

List of Relevant Guidelines/Directives/Circulars

All Guidelines/Directives/Circulars relating to the banking industry are applicable to Labuan Islamic digital bank, including but not limited to, the following:

1. Labuan Digital Banking Framework
2. Guidelines on Digital Governance Framework
3. Guidelines on Corporate Governance for Labuan Banks and Labuan (Re)Insurers
4. Guidelines on Shariah Governance for Labuan Islamic Financial Institutions
5. Guidelines on Technology and Cyber Risk Management for Labuan Banking and Insurance Business
6. Guidelines on Risk-Weighted Capital Adequacy
7. Circular on Risk-Weighted Capital Ratio for Subsidiary Banks
8. Guidelines on Single Counterparty Exposure Limit for Labuan Banks
9. Guidelines on Credit Transactions and Exposures with Connected Parties for Labuan Banks
10. Guidelines on Classification and Impairment Provisions for Loans/Financing for Labuan Banks
11. Guidelines on Fit and Proper Person Requirements.
12. Guidelines on Beneficial Ownership for Labuan Legal Persons and Legal Arrangements
13. Guidelines on External Auditor of Labuan Financial Institutions
14. Guidelines on Minimum Audit Standards for Internal Auditors of Labuan Banks
15. Guidelines on Compliance Function for Labuan Licensed Entities
16. Guidelines on External Service Arrangements for Labuan Financial Institutions
17. Directive on Financial Reporting Standards for Labuan Financial Institutions
18. Circular on Financial Reporting Standards for Labuan Financial Institutions
19. Directive on Accounts and Record-Keeping Requirements for Labuan Entities
20. Directive on Islamic Financial Business in Labuan IBFC
21. Guidelines on the Establishment of Marketing Office
22. Guideline on Co-location of Labuan Bank

23. Guidelines on Travel Rule for Labuan Digital Financial Services
24. Guidelines on Politically Exposed Person (PEP) – Family Members and Close Associates of PEP
25. Guidelines on Implementation of Targeted Financial Sanctions on Terrorism Financing
26. Guidelines on Anti-Money Laundering, Countering Financing of Terrorism, Countering Proliferation Financing and Targeted Financial Sanctions for Labuan Key Reporting Institutions (AML/CFT/CPF and TFS for Labuan KRIs)
27. Guiding Principles on Business Continuity Management

Disclaimer: The above lists are not exhaustive. In the event of any amendments to the existing guidelines, the stipulations outlined in the new/updated guidelines will prevail.