



AAOIFI

ACCOUNTING AND AUDITING ORGANIZATION
FOR ISLAMIC FINANCIAL INSTITUTIONS



**14th Meeting
COMCEC Financial Cooperation Working Group**

Shari'ah Governance Framework and AAOIFI

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15 September 2020

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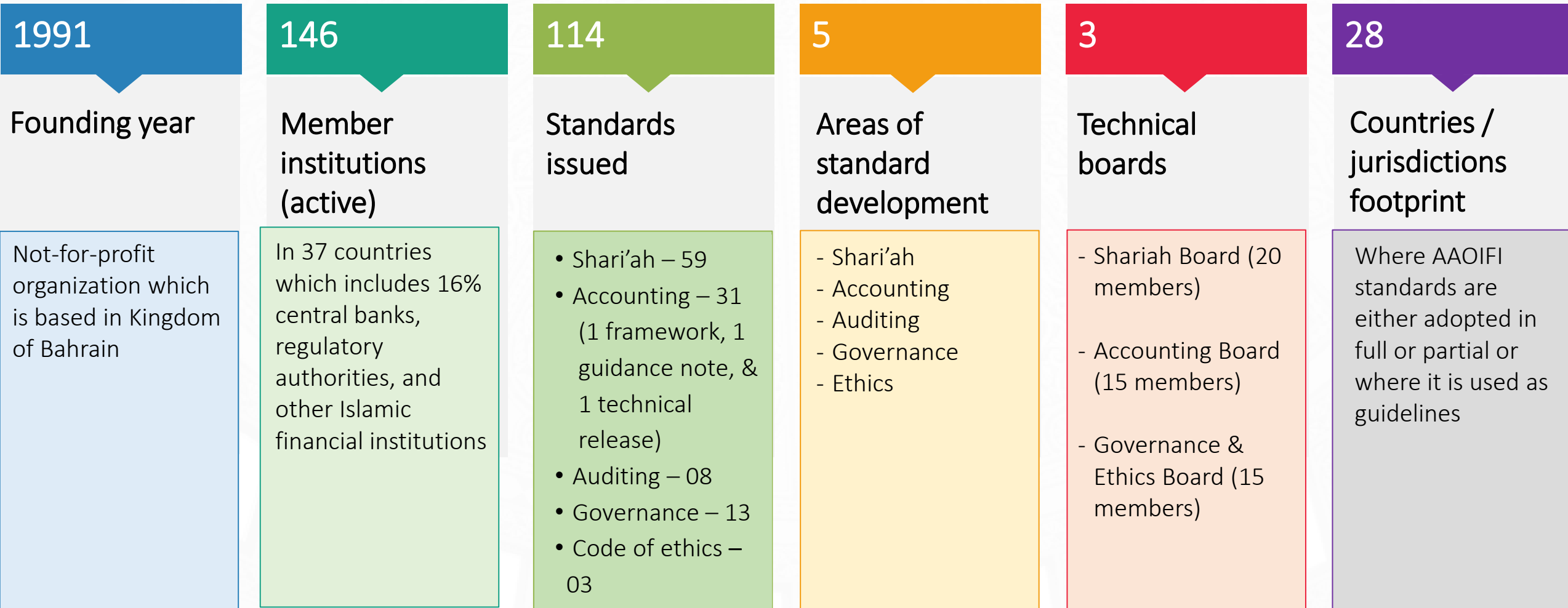
05 Awareness and advocacy



AAOIFI – at a glance



Key facts and figures



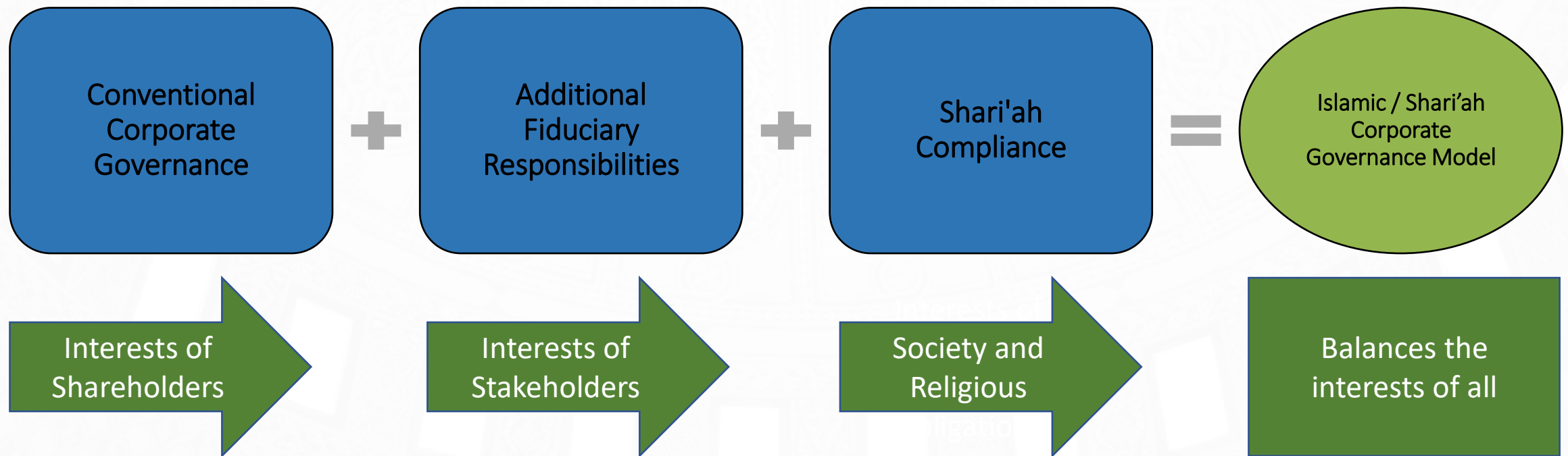


Shari'ah Governance



Shari'ah Governance

- The Shariah governance framework is a set of organisational arrangements through which Islamic financial institutions ensure effective oversight, responsibility and accountability of the board of directors, management and Shariah committee.
- Following are the components of the Shari'ah Governance model:



Shari'ah governance gives legitimacy to Islamic banks and financial institutions, enhances public confidence and reduce the reputational risk



Shari'ah Governance Challenges



Key challenges of Shari'ah Governance

Changing the thinking style and mindsets of stakeholders with regards to the differences in conventional governance and Islamic governance model

Understanding the conceptual differences between the two governance models, their implications, and its implementation mechanism

Shari'ah Governance organs, no matter how good, are run by humans. How to tackle the challenge of "People Risk"?

How to set up the Shari'ah Governance infrastructure without making Islamic finance expensive?

Key challenges of Shari'ah governance – contd.

Considering the overall human resource issues—both at regulatory and at institutional levels—in terms of availability, competency, motivation, ethics etc.

Different madhahibs and Urfs have different interpretations while there are independent preferred models? **What to adopt?**

Lack of availability of or adoption of internationally benchmarked Governance standards; Lack of standardization of Shari'ah Governance framework resulting in inefficient processes and increased Shari'ah non-compliance risks. **Different levels of AAOIFI adoption**

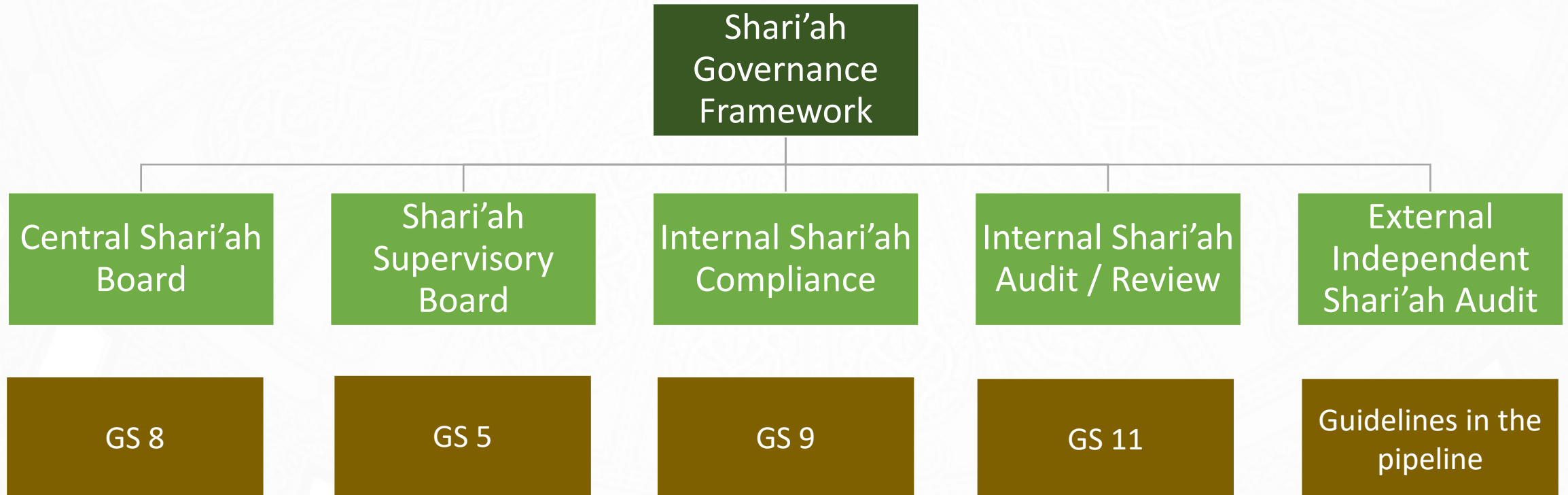
Laying rules and regulation for emerging sectors/ technology-driven developments (e.g., crowdfunding based on Fintech, smart contracts, etc.)



Shari'ah Governance Framework of AAOIFI



AAOIFI Shari'ah Governance Framework



AAOIFI and IFSB Shari'ah Governance standards

AAOIFI

- GS 1: Shari'a Supervisory Board: Appointment, Composition, Report (1997)
- GS 2: Shari'a Review (1998)
- GS 3: Internal Shari'a Review (1999)
- GS 4: Audit and Governance Committee for IBIs (2001)
- GS 5: Independence of SSB (2005)
- GS 6: Statement of Governance Principles for IFIs (2005)
- GS 7: Corporate Social Responsibility: Conduct and Disclosure of IFIs (2009)
- GS 8: Central Shari'a Board (2019)
- GS 9: Shari'a Compliance Function (2018)
- GS 10: Shari'a Compliance & Fiduciary Ratings (2019)
- GS 11: Internal Shari'a Audit (2019)
- GS 12: Sukuk Governance (2019)

IFSB

- IFSB 3: Guiding Principles for Corporate Governance of Islamic Banks (2006)
- IFSB 6: Guiding Principles on Governance of Islamic Collective Investment Schemes (2008)
- IFSB 8: Guiding Principles on Governance of Takaful Undertakings (2009)
- IFSB 10: Guiding Principles Shari'ah Governance Systems for IIFS (2009)
- IFSB GN 3: Guidance Note on the Practice of Smoothing the Profits Payout to IAH (2010)

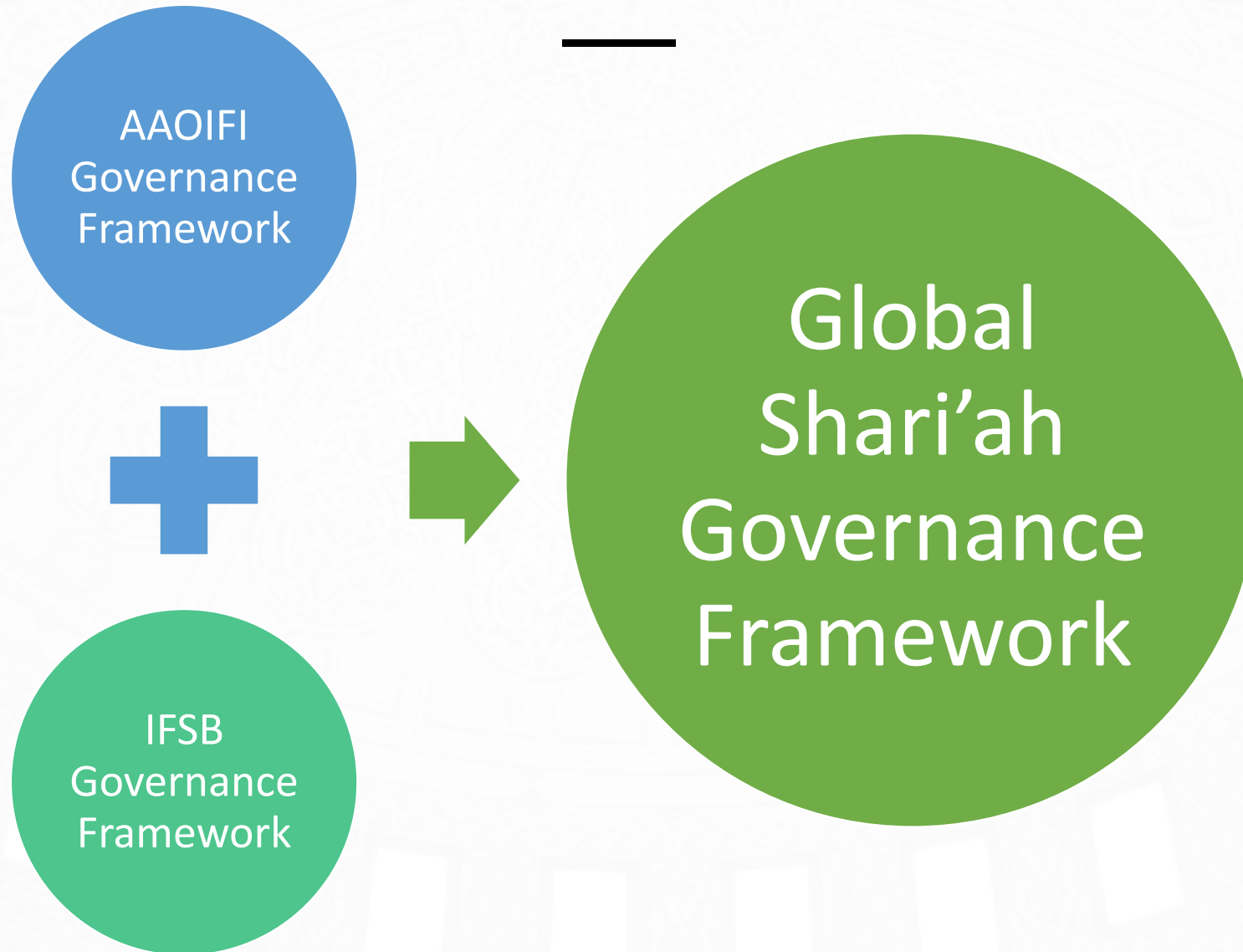
AAOIFI and IFSB Shari'ah Governance Frameworks

Areas	AAOIFI	IFSB
Tenure of Appointment of Shari'ah Board	At least one SSB Member to be rotated every 05 years.	Not specified
Reporting Line of Shari'ah Board	Shareholders	Shareholders
Minimum Frequency of Shari'ah Board Meetings	- Silent for IFIs individual SSB. - CSB to decide itself.	Twice a year
Minimum Number of Shari'ah Board Members	- At least Three for institutional SSB - At least 05 or 07 members for CSB	Not specified
Minimum Experience Requirements for Shari'ah Board Members	- Silent for IFIs individual SSB. - Preferably 10 but not less than 05 years for CSB.	Only for Chairman
Composition of Shari'ah Board - Members other than those specialized in Fiqh ul Muamlaat	Allowed - Shall not vote on Shari'ah Matters	Allowed - Shall not vote on Shari'ah Matters
Termination of Shari'ah Board Member	Shareholders in GM on BoDs recommendations	Silent
Appointment of Shari'ah Board Member	Shareholders in AGM on BoDs recommendations	Silent
Remuneration of Shari'ah Board	Shareholders may authorize BoD	Silent
Shari'ah Board's Report required to be published with IFI's Annual Report	Yes	Yes
Primary Duties of Shari'ah Board	Defined	Defined
Delegation of Shari'ah Board's powers (like product approvals) to Internal Shari'ah Officers	No such provision	Allowed
Ethics and Code of Conduct for Shari'ah Board Members	AAOIFIs code of conduct	IIFIs own code
Assessment of Shari'ah Board's Effectiveness	- Silent for IFIs individual SSB. - Self-evaluation with Regulator's consent for CSB	a) Through BOD, or b) Self Assessment (Collective and Individual)

AAOIFI and IFSB Shari'ah Governance Frameworks

Areas	AAOIFI	IFSB
Shari'ah Compliance Dept. (SCD)/ Internal Shari'ah Compliance Unit (ISAU)	Mandatory	Strongly recommended
Reporting Line of SCD/ ISCU	Management of IFI with dotted line reporting to SSB	Silent
Fit and proper criteria for Head SCD/ ISCU	Yes	Silent
SCDs input in PD Process	Allowed, but not considered as final approval	Silent
Outsourcing of SCD	Not allowed	Silent
Performance appraisal of SCD/ ISCU	Management in consultation with SSB	Silent
Fit and proper criteria for Head Internal Shari'ah Audit (ISA)	Yes	Not specified
Follow-up of ISA observations	SCD	Not specified
Outsourcing of ISA	Allowed not as a preferred option and with certain conditions	Silent
External Shari'ah Audit	Required	Silent
Responsibility for Shari'ah Training of IB Staff	Management to devise plan in coordination with SCD	SB encouraged to train
Impact of non-compliances on appraisals of staff	Yes	Silent

Revised Shari'ah Governance Framework



و الحمد لله في الأولى والآخرة

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