

14th MEETING
COMCEC FINANCIAL COOPERATION WORKING GROUP
IMPROVING SHARIA GOVERNANCE FRAMEWORK IN ISLAMIC FINANCE

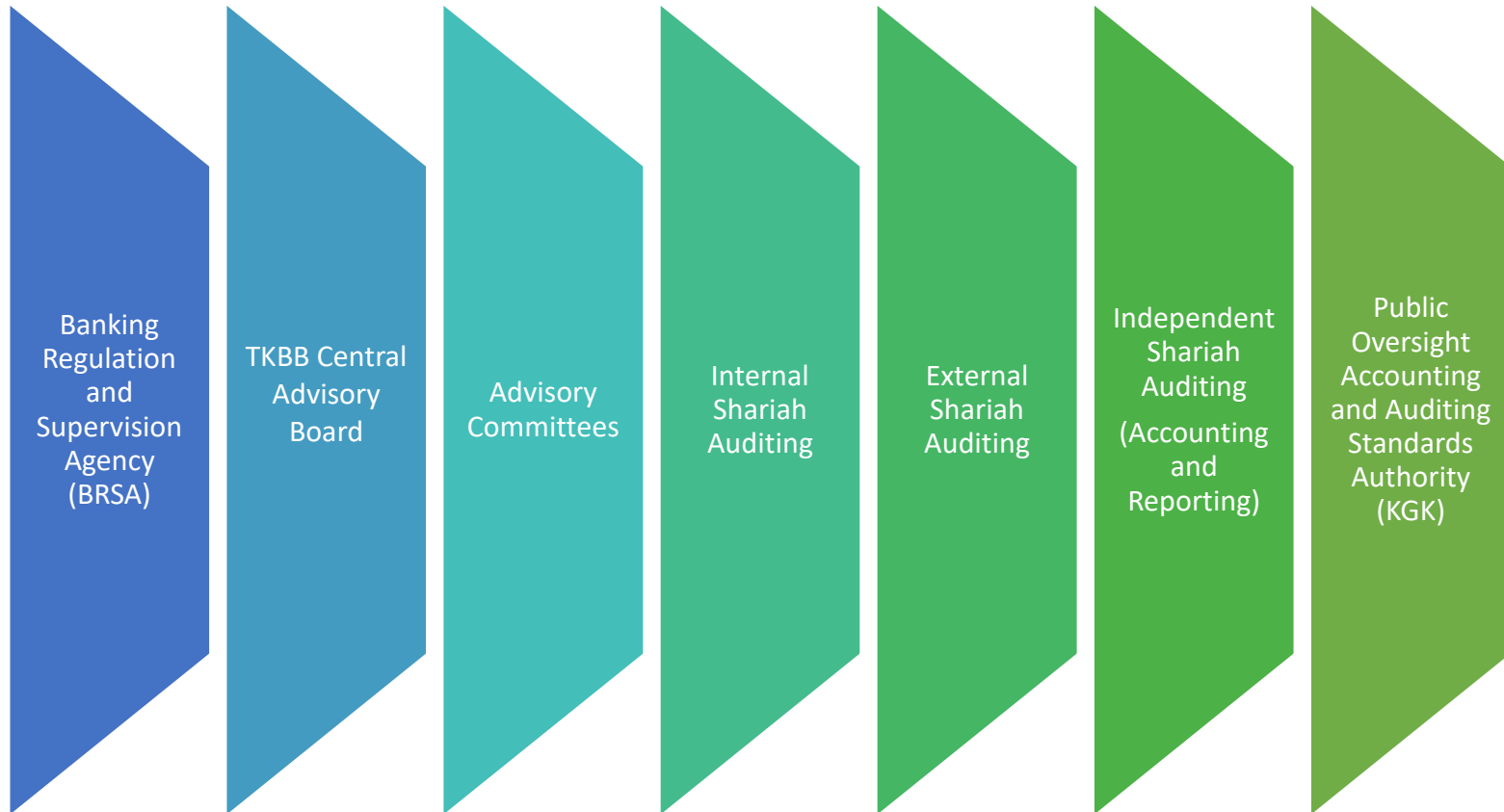
SHARIA GOVERNANCE FRAMEWORK IN TURKEY

MUSTAFA A. SANCAR

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Shariah Governance Ecosystem in Turkey



TKBB Central Advisory Board

- Central Advisory Board was set up with a decision of the **Banking Regulation and Supervision Agency (BRSA) on 22 February 2018** (decision no: 7736).
- TKBB board of directors issued a declaration named ***“Declaration for Formation of Advisory Board and its Duties and Working Principles”*** on 2 April 2018. (decision no: 253)
- Board members are appointed with the decision of the Board of Directors of TKBB on 2 May 2018.
- The Board held its first meeting on **10 May 2018** and carries out its activities based on ***“Internal Directive on Working Methods and Principles of Advisory Board”*** issued by the Board of directors of TKBB.
- Current Members of the Board are:
 - Prof. Dr. Hasan HACAĞ
 - Temel HAZIROĞLU
 - Prof. Dr. Abdullah KAHRAMAN
 - Prof. Dr. Ahmet YAMAN

TKBB Central Advisory Board

- Central Advisory Board is an **independent board** under the Participation Banks Association of Turkey (TKBB).
- Board's **decisions are binding** on Participation Banks.
- The Board consists of **seven members** who serve for a **five years period**.
 - 4 members of the board are professors in Islamic sciences (one vacancy is empty at the moment). One of the members is coming from High Board of Religious Affairs of Presidency of Religious Affairs.
 - 1 member is an academician in the field of law (because it is a new addition to the board, the vacancy is empty at the moment).
 - 1 member is an academician in the field of Economics and Finance (because it is a new addition to the board, the vacancy is empty at the moment).
 - 1 member is from the Participation banking industry who has management experience.
- The Board's secretariat currently consists of five researchers, who are also following an academic path, but it can be increased according to the needs of the board.

TKBB Central Advisory Board Activities

- The main responsibility of the Board is to **set standards** and principles for participation banks and the other Islamic finance industry stakeholders in Turkey.
 - The 'Share Certificates Standard' is released,
 - The 'Tawarruq Standard' is in legal review stage,
 - And the 'Murabahah Standard' is in stake holders review stage.

Currently
1 standard is
released and other
2 standards
are about to be
released

- Taking **decisions** regarding the needs of industry.

Currently
24
decisions

- Regular physical board meetings twice a month, and virtual meetings according to the needs...

- Organizing workshops that bring together academia and industry stakeholders.

- Studies carried out in cooperation with national and international organizations.

TKBB Advisory Board Standard Development Process

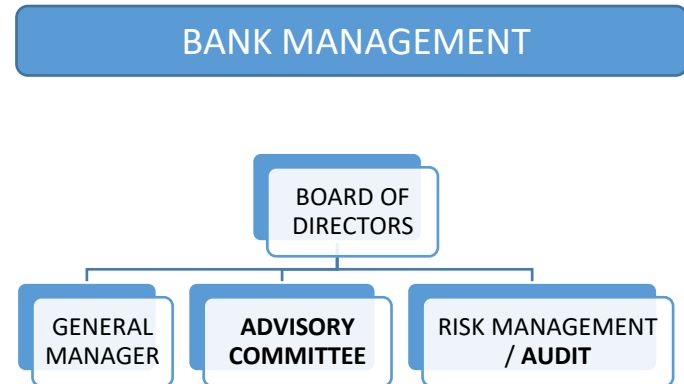


BRSA and TKBB Advisory Board's Place in the Shariah Governance Ecosystem

- Banking Regulation and Supervision Agency (BRSA) is the legal authority that is providing **regulation, supervision and enforcement** to the banking and participation banking sectors. Under this perspective, BRSA is not only **setting the rules and standards of shariah governance system**, but it is actively joining in **legal review of standards step** of standard development process and it will be **supervising the inner auditing activities** of the participation banks.
- TKBB Advisory Board is preparing the standards in a detailed process with the goal of **standardization and transparency of the shariah governance** in Turkey. All the sector actors are included during and after the preparation of the standard drafts. So, the standards will be **well prepared and well discussed**, which will in return enrich the **quality of the sector instruments** from a shariah perspective and further **satisfy the customers satisfaction** from the standards.
- These binding standards also **unify the application** of Islamic financial products in the sector and **eliminate the confusion** of what is halal and what is not from the customers perspective.

Participation Bank's Advisory Committee's and Audit Mechanism's Place in the Shariah Governance Ecosystem

- Also, each bank will have its own **advisory committee**. The main principles of financial products will be coming from Central Advisory Board, where advisory committees will be responsible on managing the shariah issues at the institutional level and **apply the standards** of the Central Advisory Board to the transactions. Also, they will be **reporting their decisions** to the Central Advisory Board periodically as well.



- In addition to the boards, there is **interior and exterior audit mechanisms** placed in banks. **Internal auditing department** will be executing compliance and auditing functions. These **auditors will be certified by TKBB** through a standardized and comprehensive certification program. **Exterior audit mechanism** will be executed by Banking Regulation and Supervision Agency (**BRSA**).

- Public Oversight Accounting and Auditing Standards Authority (**KGK**) **published regulation on auditing standards**. So the audits will also done in a unified and systematic way. Another topic KGK is working on is independent auditor companies to be added to the system after 2021.

Consulting Companies' Advisory Committees and TKBB's Place in the Shariah Governance Ecosystem

- **Investment banks** are also under the Shariah governance ecosystem. They have been using some of the Islamic financial products. They get **consulting for their Shariah governance** needs. In September 2019, a new legislation disclosed. The **consulting companies** who would like to give services to the investment banks should be **certified by TKBB**. Their **advisory committee members and the supervisors** who will work in the bank for the implementation and auditing purposes, will also **get certification from TKBB**. Currently **two consulting companies** got approval from TKBB.
- So this way, the investment banks will have a **unified and transparent Shariah governance process**.
- Once the above mentioned steps are completed, the participation banking industry will have **Shariah governance coverage from end to end**.

What is Next in Shariah Governance Horizon?

- Achieve a **holistic Shariah Governance system** by putting together Central Advisory Board, internal Advisory Committees, Shariah Compliance and Audit Committees of the participation banks, external auditing by BRSA and independent auditors.
- Having the **necessary regulations and products under Central Bank** to handle the issues of participation banks.
- Achieve a **holistic perspective through the values of maqasid** by adding Islamic economics perspective; such as uneven **income distribution**, **ethics** and **sustainability** issues. Also **SDGs**-Sustainable Development Goals and **PRI**- Principles for Responsible Investment of the modern finance issues should be included in the same perspective.
- **Strengthening ties with other stakeholders** of the ecosystem (takaful, stock market, microfinance, waqf, ROSCO organizations etc.) **and extending unified shariah governance for the whole Islamic finance sector.**
- Increase **academic collaborations** and develop joint projects with Islamic Economics and Finance departments, which exist in 12 universities in Turkey.
- **Increase the transparency and the availability of information** regarding the products and services of the participation banks in line with new BRSA regulations for achieving high level awareness of the sector customers.

THANK YOU

Akofis Park C Blok No:8 Kat:8 34768 Ümraniye / İSTANBUL
+90 (216) 636 95 00
info@tkbb.org.tr