

**Standing Committee
for Economic and Commercial Cooperation
of the Organization of Islamic Cooperation (COMCEC)**

**Proceedings of the 14th Meeting of the
COMCEC Financial Cooperation Working Group**

**“Improving Shariah Governance Framework (SGF)
in Islamic Finance**



COMCEC COORDINATION OFFICE

October 2020

**PROCEEDINGS OF THE 14TH MEETING OF THE
COMCEC FINANCIAL COOPERATION WORKING GROUP
ON**

“Improving Shariah Governance in Islamic Finance”
(September 15th, 2020, Virtual Meeting)

**COMCEC COORDINATION OFFICE
October 2020**

For further information please contact:

Mr. Can AYGÜL
Senior Expert

COMCEC Coordination Office
Necatibey Caddesi No: 110/A
06100 Yüce-tepe
Ankara/TURKEY
Phone : 90 312 294 57 04
Fax : 90 312 294 57 77
Web : www.comcec.org
e-mail : finance@comcec.org

TABLE OF CONTENTS

Introduction	1
1. Opening Session	1
2. Overview and Analyses of Shariah Governance	2
3. Selected Case Studies and Policy Options	4
4. Policy Debate Session on Improving Shariah Governance in Islamic Countries	8
5. Member Country Presentations	9
6. Private Sectors' / International Institutions' Contributions	12
7. Utilizing the COMCEC Project Funding	17
8. Closing Remarks	18
Annex 1: List of Participants.....	19
Annex 2: Agenda of the Meeting.....	26
Annex 3: Program of the Meeting	27
Annex 4: Policy Recommendations	29

Introduction

The 14th Meeting of the COMCEC Financial Cooperation Working Group was held on September 15th, 2020 in a virtual-only with the theme of “***Improving Shariah Governance in Islamic Finance***”. The representatives of 21 Member States, which have notified their focal points for the Financial Cooperation Working Group, attended the Meeting. Representatives of COMCEC Coordination Office, SESRIC, SMIIC, IsDB, AAOIFI, CIBAFI, OIC Exchanges Forum, COMCEC Capital Markets Regulators Forum, and OIC-COMCEC Central Banks Forum, have also attended the Meeting.

Mr. Emin Sadık AYDIN, Director General of the COMCEC, made a opening speech and gave the floor to Mr. Deniz YILMAZ, Chairperson of the Meeting It was followed by the presentations made by Professor Mabid Ali Al-Jarhi, Dr. Abdurrahman Yazıcı, Dr. Ömer Faruk TEKDOĞAN, and Dr. Tawfik Azrak on Shariah Governance Framework Development.

The participants presented the background of Shariah Governance and Analysis of Shariah Governance, reviewed the current state of the Shariah Governance, highlighted the issues and challenges faced by the Shariah Governance, outlined the policy recommendations for the further growth of the Shariah Governance Framework in OIC member countries, which were presented in the research report titled “***Improving Shariah Governance in Islamic Finance***”.

The Representatives of the Member States shared their experiences, achievements, and challenges faced by Shariah Governance in their respective countries. The participants had the chance to discuss the policy options for enhancing the cooperation in this important field in a moderation session.

The efforts exerted by the private sector on Islamic finance were also reflected in the discussions.

1. Opening Session

In line with the tradition of the Organization of Islamic Cooperation (OIC), the Meeting started with the recitation from the Holy Quran. At the outset, Mr. Emin Sadık AYDIN, Director General of the COMCEC, made a opening speech about latest developments in the sector by touching upon the implications of COVID-19 pandemic on the sector.

Then, as the Chairperson of the Meeting, Mr. Deniz YILMAZ, Deputy Director General from General Directorate of Financial Markets and Exchange of the Republic of Turkey, introduced himself, thanked all the participants, and mentioned the programme of the meeting.

2. Overview and Analyses of Shariah Governance

In the first session, Mabid Ali Al-Jarhi, Professor from the International Center for Islamic Economics and Finance of Ankara Social Sciences University, presented the first part of the research report in the session entitled “**Overview and Analyses of Shariah Governance**”. At the outset, Professor Mabid Ali Al-Jarhi briefly outlined the scope of his presentation that covered three areas:

In the first part of the presentation, Prof. Dr. Mabid Ali Al-Jarhi has summarized the objectives of the study. He expressed that the study has four main objectives: provides an overview of the theoretical and legal nature of the Shariah governance framework in Islamic finance including the interpretation of various schools of thought, explains the detailed analysis of the current size and trends, structures, modes, and instruments of Islamic finance with a special focus on the Shariah governance framework, reveals various models of implementation of Shariah governance framework/regimes, roles, and responsibilities of SSBs, provides an assessment of country analysis for the selected countries on the Shariah governance framework and specific focus on the strength and weaknesses of the different Shariah governance models.

Prof. Dr. Mabid Ali Al-Jarhi stated that the report employs a comprehensive approach to collect data and do the required analysis. This runs at different stages. At the initial stage, primary and secondary data is collected, in addition to reviewing the case studies. At the following stage, a synthesis comprising conclusions and recommendations based on the obtained information is composed. Meanwhile, the literature review is used to build a comprehensive framework for the Shariah governance analysis to discover the best practices in the industry. The surveys include both structured questionnaires and semi-structured interviews.

He emphasized that the total worth of the Islamic Financial Services Industry (IFSI) has increased to \$2.52 trillion in 2018 compared to the USD 2.05 trillion recorded at the end of 2017 and 3.5 % year on year growth on the back of significant development across the three sectors of Islamic banking, Islamic capital market and takaful. It was said that the global financial asset is projected to reach \$3.80 trillion in 2023. Further, he touched on developments regarding Islamic finance assets by type expressing that the dominance of the Islamic banking sector is manifested in its share of 70% in total IFSI's assets in 2018 (\$1,760 Billion), the sukuk market segment's share of the total worth of the IFSI is 18% (\$470 Billion) in 2018. The Islamic funds and takaful sector's share of the total worth of the IFSI remain at %4 (\$108 Billion) and 2% (\$46 Billion) respectively in 2018.

For the definition of the Shariah governance framework, he quoted from IFSB as “*the set of institutional and organizational arrangements through which an International/national IFIs ensures that there is effective independent oversight of Shariah compliance over Issuance of relevant Shariah pronouncements/ resolutions, Dissemination of information on such Shariah, and an internal Shariah compliance review for verifying that Shariah compliance.*” Further, he said the concepts of the Shariah governance system include the following elements: (i) institutional and organizational arrangements and procedures, (ii) effective and independent Shariah supervision in accordance with the Shariah, (iii) an internal Shariah compliance review, (iv) issuing decisions and fatawa related to the work of IFIs, (v) dissemination of their expert opinions and other decisions to the stakeholders, (vi) fulfill all business and operations contracts in IFIs.

In the second part of the presentation, Prof. Dr. Mabid Ali Al-Jarhi shared information on corporate governance themes with a special focus on IFIs. After the definition of corporate governance, he emphasized that the difference between Shariah governance (SG) and corporate governance is only in scope. SG is part of corporate governance, which monitors the Shariah implementation, and compliance within the IFIs. The SSB or Shariah units fill the gap between Shariah governance and corporate governance. Furthermore, he identified 6 corporate governance themes for IFIs corporate governance index and gave detailed information about them: (i) board of directors, (ii) board committees, (iii) internal and external audit, (iv), risk governance, (v), Shariah governance, (vi) transparency and disclosure.

Prof. Al-Jarhi provided information about the development of Shariah Governance Regulations and different regulatory approaches in various jurisdictions.

In the final part of the presentation, Prof. Al-Jarhi discussed specific challenges and obstacles of Shariah Governance such as Independence, Transparency and Efficiency of SSB, Standardization Challenges, Educational & Human Development Challenges, SSB Members' Reputation, Role of SSB & Technical Challenges.

Prof. Al-Jarhi concluded his speech stating that the greatest challenge of SGF is linking to the scarcity of availability of these skills in SSB members. Improvement of this system would promote transparency and disclosure.

Question(s) and Comment(s)

Comment: The delegate from Malaysia expressed that some countries face challenges in terms of external audits because of the talent pool, which is quite shallow. The focus should be on developing the talent pool for having enough resources to do an external audit on Shariah compliance.

Comment: The delegate from Iran stated that one of the important challenges is that capital market authority and the supervisory body for the Iranian capital market is not involved in the internal auditing Shariah process for the Shariah committee resolution. There should be one specific Shariah committee located at the financial institutions and the other one that is located at the national level and these two should be connected.

Comment: The delegate from Pakistan stated that in Pakistan there is a Shariah governance framework and it is implemented since 2015. Shariah compliance needs to be defined. The standards are the main ingredient for the products of the Islamic financial world. AAOIFI covers almost all types and modes of financing. There is not any underlying standard that each one follows and that is the eventual and AAOIFI standards need to be adopted. IFSB and AAOIFI are the standard-setter bodies and if all their standard can be sort, people going to get maximum consistency. In terms of what Malaysia said, it is correct. One can only do Shariah audit when there are Shariah auditors in the market.

The Shariah governance framework of Pakistan introduced the Shariah compliance security and Shariah Compliance Company. That was done in 2017, Pakistan has Shariah advisors regulation prescribing eligibility standards and inter Shariah governance framework for all companies other than banks, non-banking finance companies. These regulations have been formulated from about 15 jurisdictions including Malaysia, UAE, Bahrain, Kuwait, Iran.

3. Selected Case Studies and Policy Options

Dr. Abdurrahman YAZICI, Director of International Center for Islamic Economics and Finance at Social Sciences University of Ankara (ASBU), presented the issues and challenges and highlighted the policy recommendations for Malaysia, United Arab Emirates, and Nigeria in the second session entitled “*Lessons Learnt from the Selected Case Studies and Policy Options*”.

Dr. YAZICI started his speech providing an information background of selecting criteria of five OIC countries and one non-OIC country. Dr. YAZICI explained that six countries were selected as samples for in-depth case studies to analyze the improvement of the Shariah governance in OIC countries. Different criteria are used for selecting case study countries as follow:

- (i) To ensure regional diversification, countries were selected from three OIC regions and one as a non-OIC country.
- (ii) The report assures the representation of countries that have different levels of development.
- (iii) The study takes into consideration the size of the Islamic financial industry in relevant countries.

Dr. YAZICI presented the summary of the issues and challenges regarding the Shariah governance framework of Malaysia, UAE, and Nigeria and highlighted the country-specific policy recommendations accordingly. Dr. YAZICI also gave brief information about the Islamic finance landscape and main developments in Islamic financial sector for these countries.

Then, Dr. Ömer Faruk TEKDOĞAN, Head of Department from the Ministry of Treasury and Finance of Turkey, presented the issues and challenges and highlighted the policy recommendations for the remaining three selected case studies in the second session entitled “*Lessons Learnt from the Selected Case Studies and Policy Options*”.

Dr. TEKDOĞAN presented a summary of the issues and challenges regarding the Shariah governance framework of Indonesia, Turkey, and the United Kingdom and highlighted the country-specific policy recommendations accordingly. Dr. TEKDOĞAN also gave brief information about the Islamic finance landscape and main developments in Islamic financial sector for these countries.

The summary of issues and challenges and policy recommendations are presented by Dr. YAZICI and Dr. TEKDOĞAN in below.

Country	Issues and Challenges	Country-based Policy Recommendations
Malaysia	<ul style="list-style-type: none"> – Different Shariah resolutions – Different background scholars – Shariah committee remuneration and conflict of interest 	<ul style="list-style-type: none"> – Communicating Shariah requirement to practitioners – Criteria for Shariah committee – Better communication between the Shariah committee and BOD
United Arab Emirates	<ul style="list-style-type: none"> – SGF is largely vested with the SSBs of IFIs – DIFC is exempted from the HSA – Unclear terms & conditions for HSA, SSB members – No rules for the appointment of SSB members – Transparency: fatwas are not published 	<ul style="list-style-type: none"> – Subject IFIs to HSA for Shariah governance and compliance – More awareness of SGF among IFIs and public – Improve Shariah audit function within HSA and IFIs – Regulatory provisions on SGF
Nigeria	<ul style="list-style-type: none"> – IF Misconception – Limited knowledge of IFIs standards – Limited accessibility to Shariah compliance information – Absence of IFI regulations 	<ul style="list-style-type: none"> – More awareness about IF – Expand ACE to include local talents and expertise for effective governance
Indonesia	<ul style="list-style-type: none"> – No Shariah audit, standards, or procedures – Shariah experts can sit on multiple SSBs – Some DSN members are also SSB members – No legal basis for the DSN – Many IFIs have no 	<ul style="list-style-type: none"> – SGF can be more effective if DSN is decentralized – Reduce the need for Shariah experts by establishing regional SSBs, or, increasing capacity to train more experts

	<ul style="list-style-type: none"> • Shariah compliance specialists • Shariah advisory unit <p>– DSN and OJK have different requirements for SSBs</p>	<p>– OJK can define the SSB's position in IFI structure</p>
Turkey	<p>– Poor perception management for IF</p> <p>– Conflicts between decisions of Shariah boards</p> <p>– Lack of qualified human capital in the IF sector</p> <p>– Doubts related to the Shariah compliance of IF products</p> <p>– Lack of regulation by the government</p>	<p>– SGF should be linked to international IF standards</p> <p>– Central Advisory Boards for IFIs other than IBs</p> <p>– Separate legislation for IFIs</p> <p>– SSBs response to new developments</p>
United Kingdom	<p>– Shariah unrecognized as a system of law, DIFC exempted</p> <p>– No single codified body of Islamic law</p> <p>– FCA has no Shariah scholars for reviewing the compliance</p> <p>– IFIs control own Shariah governance</p> <p>– Shariah boards in IFIs:</p> <ul style="list-style-type: none"> • advisory role • members can sit on multiple SB boards 	<p>– Develop SGF for IFIs</p> <p>– A central body must monitor Shariah governance</p> <p>– FCA must understand how SB affects firm conduct</p>

Lastly, Dr. Tawfik AZRAK Assistant Professor at Social Sciences University of Ankara (ASBU) presented the summary of the survey results and analysis. First of all, he has explained the conducted survey and its main categories, and he mentioned that in total there were 124 survey responses from 26 countries. One-third of the participants were from Turkey, Jordan, and Malaysia. Almost half of the survey participants are either academics, researchers, or scholars in the field of Islamic economics and finance.

In addition, he has explained that the survey was translated into Arabic and Turkish in order to increase the potential responses from Shariah scholars and other related stakeholders. In addition to case study county interviews, there were interviews through open-ended interview

questions for more than one hundred SSB members, Islamic finance experts, and Shariah scholars from OIC countries and the UK, regarding their views for improving the Shariah governance framework across jurisdictions.

Respondents by Regions and Countries

Region	Groups	Countries	Number of responses
OIC Countries	Arab Region	Palestine, Iraq, Bahrain, Algeria, Jordan, Morocco, Oman, Qatar, Saudi Arabia, Somalia, Sudan, Syria, UAE, Yemen, Kuwait, Tunisia	60
	Asian Region	Afghanistan, Indonesia, Malaysia, Pakistan, Turkey, Brunei Darussalam, Maldives	51
	African Region	Nigeria	7
Non-OIC Countries	Non-OIC Countries	United Kingdom	6
TOTAL			124

He followed his explanation by discussing some of the main survey finding as follows:

Two-thirds of the Shariah governance survey participants opine that the SGF implementation is effective and the SGF can be described as appropriate and well regulated. The average score for the effectiveness of the SGF is 3, 74 out of 5, and for the impact of SGF is 3, 57.

While when discussing the survey results in terms of selected countries, the report found that Indonesia has the highest score for the effectiveness and impact of SGF while the UK has the lowest one.

On the other hand, in terms of existence and successful implication of the code of conduct, Indonesia seems the best among the other selected countries. The general score of Indonesia is around 4 while Jordan and the UK are the lowest one with around 3 points.

In general, the Shariah governance survey indicates that the overall success of the Shariah governance landscape in selected countries, they stated that Sudan is the successful one among selected countries with 4.3 points out of 5. After Sudan, the UAE, Malaysia, and Indonesia come with scores of 4.4, and 3.86 respectively. On the other side, Jordan and the UK have the lowest score respectively in terms of successful Shariah governance landscape.

The details of policy recommendations and the relevant implementing authorities are presented in the report.

Question(s) and Comment(s)

Comment: The delegate from Malaysia mentioned that one possible implementation issue with regard to IAH because of the nature of both parties are slightly different. The proposal is to put them almost equal to no more shareholders. One is the going concern basis, the other is very much depending upon the contract they involve in, but there is maturity for that contract whereas shareholders are there forever. You can change the shareholders, but the capital is

there forever. So, one must be careful enough in some implementation because the nature of both parties is different.

Comment: AAOIFI delegate clarified one important point related to AAOIFI. He mentioned that AAOIFI is the part of the standard-setting regulatory body of the industry, but since its formation AAOIFI has been working on Shariah governance issues in terms of the standard. AAOIFI and IFSB are working with Fiqh Academy and make sure all their standards in line with their announcements, as Dr. Al-Jarhi mentioned. Our Shariah standards implicitly reflect the resolutions time-to-time by the Fiqh Academy. For the governance and accounting standards, we use Shariah standards as foundations of our standards.

4. Policy Debate Session on Improving Shariah Governance in Islamic Countries

The policy debate session was moderated by Mr. Deniz YILMAZ, the chair of the meeting. At the beginning of the session, Mr. Can Aygöl, senior expert at the COMCEC Coordination Office, made a brief presentation on the responses of the Member Countries to the Policy Questions on Improving of the Shariah Governance Framework in Islamic countries and introduced the Room Document including draft policy recommendations.

After extensive discussions, the Working Group has come up with the following four policy recommendations:

- **Policy Advice 1:** Developing a comprehensive legal and regulatory framework for the Shariah Governance processes and arrangements to ensure that all the operations and business activities in Islamic Finance are in accordance with Shariah.
- **Policy Advice 2:** Encouraging the establishment of national Shariah Supervisory Boards (SSBs) supervising the institutional SSBs.
- **Policy Advice 3:** Developing guidelines for ensuring/facilitating the active involvement of Investment Account Holders (IAHs) in IFIs' management in accordance with their contribution to the investment pool.
- **Policy Advice 4:** Encouraging talent development through training and professional certification programs and increasing the awareness of stakeholders about Shariah Governance.
- **Policy Advice 5:** Promoting the integration of the Islamic Finance sector into the whole economy with a view to making monetary policy more inclusive.

5. Member Country Presentations

5.1. IRAN

Majid Pireh Shariah Committee Secretary from the Securities and Exchange Organization of Iran made a presentation on the shariah governance in Iran capital market.

He started with the principle 43 of Iran constitution which emphasizes that it is not lawful in the country's financial system to launch any product which contradicts Shariah principles. For this reason, structuring financial products in banking system or capital market might be done only if they comply with Shariah requirements.

However, Mr. Pireh stated that it does not mean that Iran is enjoying a developed Shariah governance system. Instead, he mentioned that post-launch supervision should be strengthening in the capital market. Then, he has underlined that financial systems should be divided into three main categories in relation to how much they comply with Shariah principles which include:

1. Wholly Non-Shariah Compliant
2. Dual
3. Wholly Shariah Compliant

From a legal point of view, following the above sentences, He puts Iran financial system in the 3rd category.

Mr. Pireh emphasized that the establishment of Securities and Exchange Organization (SEO) of Iran's Shariah committee in 2007 was a notable step in development of Shariah governance system in Iran capital market. Just after which the SEO, as the market supervisor established its Shariah committee, there was a huge innovation in financial products in Iran. Different types of sukuk, some sorts of derivatives and introduction of multiple types of investment funds was some results of the committee establishment.

Then, he informed that, Shariah committee, Islamic Capital Market Working Group and Research, Development and Islamic Studies Department (RDIS) at the SEO are some organs of Shariah governance system in Iran capital market. These three organs work together towards introducing a Shariah compliant financial market. Later in his presentation, Mr. Pireh stressed that in order to launch a financial product, at first step the issue should be assigned to the RDIS department of the SEO, later on the Islamic capital market working group announces its viewpoint on how the issue complies with Shariah principles. And finally, he mentioned that it is the Shariah committee which confirms how the issue complies with Shariah principles.

So, the current Shariah supervision process at the country's capital market might be shown in the following figure:



Figure 1: main organs in Shariah governance system of Iran capital market

However, he underlined that lack of enough post-launch Shariah supervision is the missing point of Shariah governance framework. As stated above, there seems to be good study of Shariah supervision at pre-issuance phase; but post-issuance segment should be developed to have a relatively comprehensive Shariah governance system. In order to have such a more developed Shariah governance system, he suggested that SEO' board of directors may play a notable role in implementing the more comprehensive model.

5.2. MALAYSIA

Mr. Khairul Iswar Ibrahim from Central Bank of Malaysia made a presentation on the evolution of Shariah Governance Framework in Malaysia that was first issued in 2011. He mentioned the various development taking place for the past 10 years, particularly in terms of the maturity of Islamic finance sector, Bank Negara Malaysia (BNM) believed that it is time for the framework to be re-visited.

He focused on the 2019 revision of the framework are mainly in three (3) area, first, the mind-set shifts of the Islamic financial institutions (IFIs) in terms of Shariah matters from compliance-centric towards strategic centric. Secondly, the change of approach to Shariah matters from process-driven (backward-looking) to innovation driven (forward looking. Finally, the focus of the framework that shift from ensuring the right governance structure in place to the effective implementation of the structure.

Mr. Ibrahim also stated that in the effort to refresh the approach, BNM has paid much attention to several area of the framework:

1. The main focus was on the clarity of different accountabilities between different organ of Shariah non-compliance risk management control functions. The refresh framework provides a clear notion of ultimate responsibility, which lies with the Board (previously, the understanding was not clear as to whether the Board or Shariah Committee has the ultimate responsibility over Shariah matter).
2. The framework also emphasises on the need to maintain the Shariah Committee independence. The message to the Board is explicitly clear that there should not be any undue

influence over the Committee's ruling. Nevertheless, as highlighted earlier, the Board need to understand that it has the ultimate responsibility in any Shariah-related decision while Shariah committee is responsible on its ruling.

3. In addition, right competencies of Shariah Committee members have also been stressed upon. As a result, detailed requirement on pre-requisite academic background is introduced.

4. As an extension to the need to strengthen professionalism among Shariah Committee, there is emphasis on consistency of Shariah ruling and the need to ensure confidentiality of propriety information.

5.3. TURKEY

Ms. Mümine Kübra Altuntaş, Banking Specialist at Banking Regulation and Supervision Agency (BRSA), made a presentation on Islamic Finance and Shariah Governance in Turkey. Firstly, she informed the participants about the current size of Islamic Finance in Turkey by indicating that there are 6 full-fledged Participation Banks, and 12 Takaful companies as of 2019, and the total assets of participation banks are around 48 billion USD with the share of 6.3% in the banking sector.

Ms. Altuntaş continued her presentation by giving information about the milestones of Islamic Finance developments in Turkey. She stated that Islamic Finance in Turkey began in 1980s with the establishment of Special Finance Houses that were transformed to Participation Banks with the Banking Law No. 5411 at 2005. Later at 2009, the first Takaful company was established, and at 2010 the first corporate sector Sukuk was issued while the first sovereign Sukuk issuance happened at 2012. Participation banking sector continued to grow with the establishment of three state-owned banks respectively at 2015, 2016 and 2019. The Central Shariah Advisory Board was established at 2018 within the Participation Banks Association of Turkey (TKBB). Ethic norm, interest-free auditing and accounting standards, mainly based on AAOIFI standards, were published by Public Oversight Accounting and Auditing Standards Authority (POAASA). Lastly, at 2019, BRSA published the Declaration on Compliance with Principles and Standards of Interest-Free Banking that determines the structure and the working principles of advisory committees in participation banks and development and investment banks using interest-free financing methods.

Later in her presentation, Ms. Altuntaş indicated that there are different organizations regulating the different parts of Islamic Finance in Turkey. To name some of them, participation banks are regulated and supervised by BRSA, while the Takaful companies are under the regulation of Insurance and Private Pension Regulations and Supervision Agency. Capital Markets Board regulates corporate sukuk issuances while the sovereign sukuk is regulated by Ministry of Treasury and Finance.

She remarked that the year of 2018 was an essential year for the Shariah governance structure of participation banking sector in Turkey. She showed the differences before and after 2018 in terms of Shariah governance structure. Before the 2018, each bank had their own Shariah

Advisory Board or they outsource it from other institutions. The fatwas and decisions of different banks has differed and this led to a lack of confidence in participation banks by customers. At 2018, BRSA took a decision that a central advisory board should established. After this decision, the Central Shariah Advisory Board (Board) was established within TKBB. The Board's decision are binding on banks. There are still advisory committees within each bank. The committees cannot take a decision contradicting the decisions of Board and they have to report to Board regularly.

Ms. Altuntaş gave detailed information about the Declaration on Compliance with Principles and Standards of Interest-Free Banking which is published by BRSA at 2019. She stated that the Declaration contains detailed information about independence of the advisory committee, the working principles of the advisory committee, issues on committee members, Shariah compliance function, Shariah internal audit function, responsibilities of the board of directors, issues regarding bank personnel, customer notification and disclosure.

At the final part of her presentation, Ms. Altuntaş indicated that BRSA currently on the finalization stage of another declaration about Principles for Informing Customers Under The Principles and Standards of Interest-Free Banking and The Decisions of Advisory Committee. The new declaration is planned to be released before the end of 2020. It determines the principles for informing customers, customer notification forms, issues regarding the information about financing and participation funds, and disclosures to public.

6. Private Sectors' / International Institutions' Contributions

6.1. Shari'ah Governance Framework and AAOIFI

Dr. Rizwan Malik, Senior Manager, Standards Implementation and Strategic Developments at the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) delivered a presentation on Shari'ah Governance Framework and AAOIFI. The presentation was divided into two parts 1) AAOIFI's mandate and 2) AAOIFI's experience in developing Shari'ah Governance Framework.

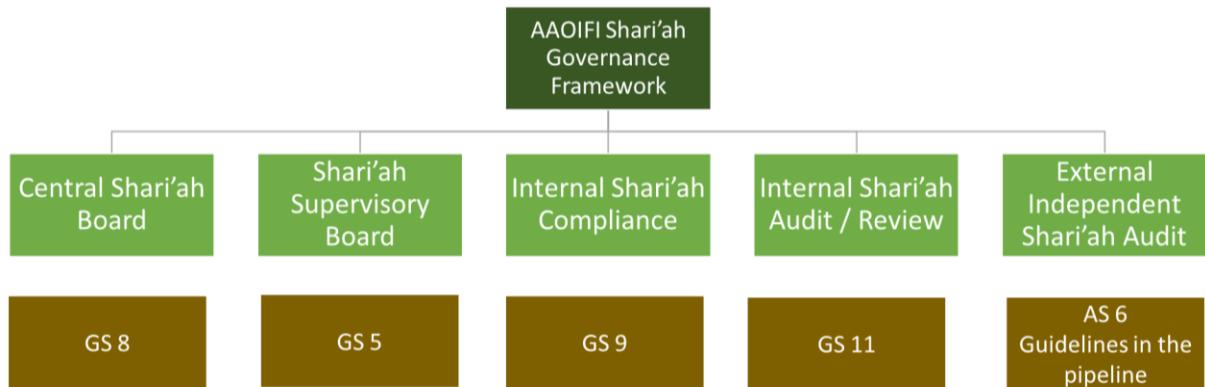
In the first part of the presentation, Dr. Malik introduced AAOIFI as a leading standards-setting organization set-up in 1991. With the mandate to develop standards in five areas, AAOIFI has 114 standards and technical pronouncements in issue as of September 2020. This includes 59 Shari'ah standards, 31 accounting standards, 8 auditing standards, 13 governance standards, and 3 codes of ethics. These standards are developed and issued to achieve AAOIFI's overall objectives to standardize and harmonize international Islamic finance practices in respective areas, in accordance with Shari'ah principles and rules, so as to support growth and expansion of Islamic finance industry globally. Dr. Malik highlighted that AAOIFI standards are followed as part of mandatory regulatory requirement or Islamic financial institutions' internal guidelines in various jurisdictions and are also adopted on a voluntary basis or used as guidelines by Islamic financial institutions in no less than 28 countries / jurisdictions. To support understanding and application of the standards, AAOIFI also offers professional development programs, i.e. Certified Shari'ah Adviser and Auditor (CSAA) and Certified Islamic Professional

Accountant (CIPA) – as well as other professional workshops. AAOIFI is supported by 146 institutional members – including central banks, Islamic financial institutions and other participants of the international Islamic finance industry – from all over the world.

In the second part, Dr. Malik started with the definition of Shariah governance framework, which is a set of organizational arrangements through which Islamic financial institutions ensure effective oversight, responsibility and accountability of the board of directors, management and Shariah Supervisory Boards. Shari’ah governance provides a strong base for proper management to Islamic banks and financial institutions, enhances public confidence and reduces the reputational risk. Dr. Malik then explained some of the challenges that AAOIFI faces in the development and adoption of AAOIFI governance framework, these include:

1. **Conventional governance framework vs. Shari’ah governance framework**
2. **Operational challenges**
3. **Making Shari’ah governance affordable**
4. **Different schools of thought**
5. **Emerging sectors**

Dr. Malik further introduced the AAOIFI Governance Framework to the audience by highlighting its important components. These include: Central Shari’ah Board, Shari’ah Supervisory Board, Shari’ah Compliance Function, Internal Shari’ah Audit and External Shari’ah Audit. AAOIFI has also issued standards in these areas.



Central Shari’ah Board

AAOIFI has issued GS 8, which aims to establish an advanced degree of harmonization and convergence in the work of Shari’ah Supervisory Boards of Islamic financial institutions to iron out the situations of inconsistencies and differences between the Fatwas, rulings, decisions and applications by such entity-level boards. This will allow uniformity in products and services offered by the IFIs and the promotion of standardized practices. By issuing this standard AAOIFI encourages CSB but does not mandate it in countries where AAOIFI standards are adopted.

Shari'ah Supervisory Board

A Shari'ah supervisory board is an independent body of specialized jurists in Fiqh Al-Mua'malat that is entrusted with the duty of directing, reviewing and supervising the activities of the Islamic financial institution in order to ensure that they are in compliance with Shari'ah Rules and Principles. AAOIFI has issued GS 5 on independence of Shari'ah Supervisory Board.

Shari'ah Compliance Function

AAOIFI issued GS 9 with the objective to set out a comprehensive framework for Shari'ah compliance function for the IFIs comprising of defining the role of Shari'ah compliance as part of governance, controls and practices of the IFIs; and the establishment of a Shari'ah compliance department within IFIs and its key functions, responsibilities and structure.

Internal Shari'ah Audit

GS11 on Internal Shari'ah Audit aims to provide improved guidance on Internal Shari'ah Audit function in Islamic financial institutions. The standard prescribes the compliance, quality control and ethical requirements, objectives and organizational structure along with the professional requirements with regard to the principal procedures, documentation and reporting for internal Shari'ah audit. The internal Shari'ah audit guidelines are also in the process and will be issued in some time.

External Shari'ah Audit Guidelines

AAOIFI has already issued a Shari'ah audit standard (AS 6) while it is in the process of issuing guidelines, which is required to ensure an independent conclusion on the Islamic financial institutions' compliance and on the design and operating effectiveness of controls implemented to achieve the compliance.

Dr. Malik also presented similarities and differences between AAOIFI Shari'ah Governance Framework and IFSB Shari'ah Governance Framework. Some of the important points include:

- a. Tenure of appointment of Shari'ah board is not specified in the IFSB Shari'ah governance framework, however AAOIFI Shari'ah governance framework states rotating at least one member every five years;
- b. Minimum number of Shari'ah board members according to AAOIFI is three for institutional Shari'ah board while it is five or seven for CSB, while IFSB does not specify it;
- c. On the terminations, appointment and remuneration IFSB is silent, while AAOIFI specifies that shareholders in annual general meeting on board of director's recommendations are responsible;
- d. On the minimum number of meetings a years, IFSB recommends twice a year while AAOIFI is silent for individual Shari'ah boards and leaves CSB to decide for itself;
- e. With regards to delegating Shari'ah boards powers to internal Shari'ah officers, AAOIFI has placed not such provision while IFSB has allowed it; and
- f. External Shari'ah audit is required based on AAOIFI Shari'ah governance framework, however it is not a requirement from IFSB.

These are some of the selected similarities and differences between the governance frameworks issued by two important standards-setting organizations within Islamic finance. Lastly, Dr. Malik stated that to ensure a uniform Shari'ah governance framework, we need more adoption and less ambiguity among the stakeholders thereby AAOIFI and IFSB are in the process of developing a revised Shari'ah Governance Framework for institutions offering Islamic financial services.

6.2. Shariah Governance Framework and TKBB

Mustafa A. Sancar from TKBB (Participation Banks Association of Turkey) Advisory Board Research Group, made a presentation on "Sharia Governance Framework in Turkey". Mr. Sancar started his presentation by drawing a shariah governance ecosystem (for participation banks) picture in Turkey; where Banking Regulation and Supervision Agency (BRSA), TKBB Central Advisory Board, Advisory Committees, Internal Shariah Auditing, External Shariah Auditing, Independent Shariah Auditing (accounting and reporting) and Public Oversight Accounting and Auditing Standards Authority (KGK) are the focal points.

Then, he continued with his organization; TKBB Central Advisory Board; which was set up with a decision of the BRSA and the Board members are appointed with the decision of the Board of Directors of TKBB on May 2018. It is an independent board under TKBB and its decisions are binding for participation banks. The main responsibility of the Board is to set standards and principles for participation banks and the other Islamic finance industry stakeholders in Turkey. Currently, the 'Share Certificates Standard' is released, the 'Tawarruq Standard' is in legal review stage and the 'Murabahah Standard' is in stake holders review stage. Also, the board is taking decisions regarding the needs of the industry. Currently 24 decisions have been released.

The Board consists of seven members who serve for a five years period. 4 members of the board are professors in Islamic sciences, 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, 1 member is an academician in the field of Economics and Finance and 1 member is from the Participation banking industry who has management experience. Current Members of the Board are: Prof. Dr. Hasan Hacak, Temel Haziroğlu, Prof. Dr. Abdullah Kahraman, Prof. Dr. Ahmet Yaman, Prof. Dr. Soner Duman and Doç. Dr. Abdurrahman Savaş. 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.

The Board holds an elaborate standard development process. First a pre-draft research phase takes place by doing research in fiqh, domestic and international examples, industry practices and having meetings with the stakeholders. The outcomes gathered as a report and presented to the board, where they determine the content of the standard. A draft is carved out according to the content which is shared by the stakeholders to get their view. After necessary changes takes place on the draft a workshop is organized to discuss the final draft with the related parties. After reevaluating the draft, draft goes on public display for 30 days to get their opinion on the standard. After this period the draft is finalized and shared with TKBB and BRSA for legal review. And the final standard is published on the Board's website.

Then the speaker continued with BRSA's and TKBB Advisory Board's place in the shariah governance ecosystem. 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. Whereas, TKBB Advisory Board is preparing the standards in a detailed process with the goal of standardization and transparency of the shariah governance system in Turkey. All the sector actors are included during and after the preparation of the standard drafts. This way the standards will be well prepared and 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 from the customers perspective.

Participation banks' advisory committees and audit mechanisms' place in the shariah governance ecosystem was the next topic in the speaker's agenda. Each bank will have its own advisory committee. And 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 BRSA. KGK published regulation on auditing standards. So, the audits will also be 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.

Mr. Sancar continued with the consulting companies' advisory committees place in the Shariah governance ecosystem. He stated that investment banks 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.

Mr. Sancar concluded his speech with the topics that are on shariah governance's horizon. The sector wants to achieve a holistic Shariah Governance system by putting together the aforementioned focal points. Another target is having the necessary regulations and products under Central Bank to handle the issues of participation banks. Also achieving a holistic perspective through the values of maqasid by adding Islamic economics perspective; such as uneven income distribution, ethics and sustainability issues. 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 and increase academic collaborations and develop joint projects with Islamic Economics and Finance departments, which exist in 12 universities in Turkey is another important topic in the sector's agenda. Increasing the transparency and the availability of information regarding the products and services of the participation banks would be another main target for the sector.

7. Utilizing the COMCEC Project Funding

Mr. Deniz GÖLE, Director at the COMCEC Coordination Office, briefed the participants regarding the COMCEC Project Funding and COMCEC COVID Response Program.

At the outset, Mr. GÖLE informed the participants on the 8th Call for Project Proposals started on September 1st, 2020. In this regard, he stated that the Member Countries can submit their project proposals through the Online Project Submission System until the end of September and they can reach all documents on the System by using the username and password, provided for the focal points.

He also reminded the participants to read the application documents particularly the Project Preparation and Submission Guidelines as well as supported sectoral themes before designing and submitting their project proposal. Moreover, Mr. GÖLE invited the Member Countries and OIC Institutions to submit their project proposals and wished all the success in the project submission period.

Furthermore, Mr. GÖLE informed the participants regarding the new CCO initiative to address the current and future negative impacts of the pandemic, which is COMCEC COVID Response Program. The Program was designed based on the feedback received from member countries during COVID Consultative Meetings and the questionnaire sent in July 2020. The Program will directly address the needs and demands of member countries in order to alleviate the situation in certain sectors.

At the end, Mr. GÖLE briefed the participants that the modus operandi of COMCEC COVID Response Program was being finalized and the call for project proposals under this Program was expected to start in October 2020.

Question(s) and Comment(s)

Question: Is there any chance to propose a project related to COVID-19 while another project of the same country is continuing?

Answer: Mr. GÖLE answered that due to COVID-19 Pandemic, several projects are not completed. So it is possible to apply for COVID Response Program in such a case you mentioned



8. Closing Remarks

The Meeting ended with closing remarks of Mr. Deniz YILMAZ, Deputy Director General from General Directorate of Financial Markets and Exchange of the Republic of Turkey International Division, Ministry of Finance Malaysia and the Chairperson of the Meeting.

In his closing remarks, Mr. YILMAZ thanked all the presenters and participants for the fruitful deliberations made during the meeting. Then, he informed the participants that the 15th Meeting of the COMCEC Financial Cooperation Working Group will be held in 2020 with the theme of “ Improving Shariah Governance Framework in Islamic Finance”. He stated that a research report will also be prepared for the meeting and shared with the focal points and other participants at in advance of the meeting.

Annex 1: List of Participants

LIST OF PARTICIPANTS
14th MEETING OF THE FINANCIAL COOPERATION WORKING GROUP
(September 15th, 2020, Virtual Meeting)

A. MEMBER COUNTRIES OF THE OIC

ISLAMIC REPUBLIC OF AFGHANISTAN

- Ms. FRISHTA KARGAR

Director, Ministry of Finance

- Mr. FAZLULLAH MISBAK

Aid Coordination Specialist, Aid Management Directorate, Ministry of Finance

REPUBLIC OF AZERBAIJAN

- Mr. GUNDUZ ALIYEV

Deputy Head of Policy of Financial Services, Ministry of Finance

KINGDOM OF BAHRAIN

- Mr. ABDULLA AL KHALIFA

Head of International Relations and Organizations, International Financial Relations Directorate, Ministry of Finance and National Economy

- Mr. KHAIRUL ANUAR AHMAD

Manager, Autoriti Monetari Brunei Darussalam

BRUNEI DARUSSALAM

- Mr. HATTADILLAH IBRAHIM

Associate, Autorii Monetari Brunei Darussalam

REPUBLIC OF GABON

- Mr. JEAN BOSCO NZEMBI

Advisor, Ministry of Budget



REPUBLIC OF GAMBIA

- Ms. FATOUMATA BARRY

Senior Fiscal Officer, Ministry of Finance

REPUBLIC OF INDONESIA

- Ms. JARDINE HUSMAN

Expert, Central Bank of Indonesia

ISLAMIC REPUBLIC OF IRAN

- Mr. MAJID PIREH

Secretary, Securities and Exchange Organization, Shariah Committee

- Ms. NASRIN GHASSEMI MOGHADAM

Expert, Office for Loans, International Financial Organizations and Institutions, Organization for Investment Economic and Technical Assistance of Iran (OIETAI), Ministry of Economic Affairs and Finance

HASHEMITE KINGDOM OF JORDAN

- Mr. ABDULRAHEEM AL- HYARI

Economic Researcher, Ministry of Industry, Trade & Supply

- Mr. MUSTAFA ZAZA

Islamic Finance Officer, Jordanian Ministry of Finance

THE STATE OF KUWAIT

- Ms. HANADI ALENEZI

Researcher, Ministry of Finance

MALAYSIA

- Mr. KHAIRUL ISWAR IBRAHIM

Deputy Director, Banking Supervision Department, Central Bank of Malaysia

- Ms. HALIMATION MOHAMAD

Manager, Central Bank of Malaysia

- Ms. ISMAIL NURLIDA JASMIN

Analyst, Islamic Banking and Takaful, Central Bank of Malaysia

REPUBLIC OF NIGER

- Mr. MADOU GAMBO GANA

Head of Division, Ministry of Finance

FEDERAL REPUBLIC OF NIGERIA

- Mr. MUKHTAR AMASA

Expert, Federal Ministry of Finance

ISLAMIC REPUBLIC OF PAKISTAN

- Mr. BILAL RASUL

Executive Director, Security & Exchange Commission

- Mr. OWAIS NAUMAN KUNDI

Expert, Economic Affairs Division

KINGDOM OF SAUDI ARABIA

- Mr. FAYEZ ALHEMAIDHI

Economic Specialist, Ministry of Finance

- Mr. WAEL MERZA

Consultant, Saudi Arabia Monetary Authority



REPUBLIC OF SENEGAL

- Mr. EL HADJI MAMADOU TOURE
Program Officer, Ministry of Economy
- Mr. MOUSSE SOW
Adviser to the Minister, Ministry of Finance and Budget

REPUBLIC OF SIERRA LEONE

- Mr. FODAY IBRAHIM KABBA
Senior Economist, Ministry of Finance

REPUBLIC OF SURINAME

- Mr. ANUSKA RAMDHANI
Expert, Ministry of Finance and Planning
- Ms. MONICA KRAMAWITANA
Expert, Ministry of Finance and Planning

REPUBLIC OF TOGO

- Ms. ESSO-N'WA BODJOLLE-KAPSA EPSE ATSU
Head of Money and Credit Section, Ministry of Economy and Finances

REPUBLIC OF TUNISIA

- Mr. BECHIR ELGARBI
Deputy Director, Ministry of Finance

REPUBLIC OF TURKEY

- Ms. SEÇİL SAYIN KUTLUCA
Senior Legal Expert, Capital Markets Board
- Mr. HALDUN NİĞİZ
Head of Department, Ministry of Treasury and Finance

- Mr. RECEP BİLDİK

Director, OIC Stock Exchanges Forum

- Mr. MAHMUT AYDOĞMUŞ

Manager, OIC Stock Exchanges Forum

- Mr. MELİH ÖZBULUT

Expert, Ministry of Treasury and Finance

- Ms. MÜMİNE KÜBRA ALTUNTAŞ

Banking Specialist, Banking Regulation and Supervision Agency

- Mr. HUSEYİN UNAL

Expert, Ministry of Treasury and Finance

- Mr. ÖZGÜ EVİRGEN

Expert, OIC COMCEC Central Banks Forum

- Mr. SELAMI KARABULUT

Expert, Public Oversight, Accounting and Auditing Standards Authority

- Mr. BURAK DENİZ

Assistant Expert, Central Bank of the Turkey

- Mr. İBRAHİM KÜÇÜKİKİZ

Assistant Expert, OIC COMCEC Central Banks Forum

- Mr. MEHMET BÜYÜKKARA

Assistant Expert, Central Bank of the Turkey

B. THE OIC SUBSIDIARY ORGANS

STATISTICAL, ECONOMIC, SOCIAL RESEARCH AND TRAINING CENTER FOR ISLAMIC COUNTRIES (SESRIC)

- Mr. CEM TINTIN

Senior Researcher, Economic and Social Researcher

- Mr. ABDULHAMİT ÖZTÜRK

Researcher, Statistics and Information Department

- Ms. ALIA SHARIFY ORTAQ

Project Officer, Training and Technical Cooperation Department

C. SPECIALIZED ORGANS OF THE OIC

ISLAMIC DEVELOPMENT BANK (IsDB)

- Mr. ABOUBAKAR KANTE

Manager, Shariah Compliance Section, Islamic Development Bank

- Mr. SULEIMAN DALHATU SANI

Senior Islamic Finance Expert, Shariah Compliance Section

D. INTERNATIONAL INSTITUTIONS

THE ACCOUNTING AND AUDITING ORGANIZATION FOR ISLAMIC FINANCIAL INSTITUTIONS (AAOIFI)

- Mr. MAJD BAKIR

Director, AAOIFI

- Mr. RIZWAN MALIK

Senior Manager, AAOIFI

E INVITED INSTITUTIONS

PARTICIPATION BANKS ASSOCIATION OF TURKEY

- Ms. FATMA ÇINAR

Manager, Participation Banks Association of Turkey

- Mr. MUSTAFA SANCAR

Specialist, Participation Banks Association of Turkey

F. CONSULTANTS

- Mr. MABID ALI AL-JARHI

Consultant, Social Sciences University of Ankara

- Mr. ABDURRAHMAN YAZICI

Consultant, Social Sciences University of Ankara

- Mr. ŞAHBAN YILDIRIMER

Consultant, Social Sciences University of Ankara

-Mr. TAWFIK AZRAK

Consultant, Social Sciences University of Ankara

-Mr. ÖMER FARUK TEKDOĞAN

Consultant, Ministry of Treasury and Finance of Turkey

-Mr. ADNAN OWEIDA

Consultant, Social Sciences University of Ankara

-Mr. AHMAD HERSH

Consultant, Social Sciences University of Ankara

-Mr. HÜSNÜ TEKİN

Consultant, Istanbul University

-Mr. BURAK ÇIKIRYEL

Consultant, Social Sciences University of Ankara

-Ms. FATMA SAYAR

Consultant, Social Sciences University of Ankara

G. COMCEC COORDINATION OFFICE

- Mr. FATİH ÜNLÜ

Deputy Director General

- Mr. SELÇUK KOÇ

Director

- Mr. DENİZ GÖLE

Director

- Mr. MEHMET ASLAN

Director

- Mr. MÜCAHİT ÖZDEMİR

Academic Consultant, Sakarya University

- Mr. CAN AYGÜL

Senior Exper

Annex 2: Agenda of the Meeting



14th MEETING OF THE COMCEC FINANCIAL COOPERATION WORKING GROUP

(September 15th, 2020, Virtual Meeting)*

“Improving Shariah Governance Framework in Islamic Finance”

DRAFT AGENDA

Opening

1. Shariah Governance Framework: Theory and Implementation
2. Selected Case Studies and the Lessons Learnt
3. Member States’ Experiences in Improving Shariah Governance Framework
4. International Institutions’ Contributions
5. Policy Debate Session on Improving Shariah Governance Framework
6. 8th Call for Project Proposals under COMCEC Project Funding and Introducing COMCEC COVID Response Program

Closing

Annex 3: Program of the Meeting



**DRAFT PROGRAMME
14TH MEETING OF THE
COMCEC FINANCIAL COOPERATION WORKING GROUP
(September 15th, 2020, Virtual Meeting)**

“Improving Shariah Governance in Islamic Countries”

13.30-13.40 **Opening**

13.40-14.00 **Shariah Governance Framework: Theory and Implementation**

- Presentation: Professor Dr. Mabid Ali Al-Jarhi, Social Sciences University of Ankara

14.00-14.10 *- Discussion*

14.10-14.40 **OIC Member Countries’ Practices and Lessons Learnt**

- Presentation: Assoc. Professor Abdurrahman YAZICI, Social Sciences University of Ankara

-Presentation: Dr. Omer Faruk Tekdogan

-Presentation: Dr. Tawfik Azrak, Social Sciences University of Ankara

14.40-15.00 *- Discussion*

15.00-15.40 **Member States’ Experiences in Improving SGF**

-Iran - Majid Pireh from Securities and Exchange Organization of Iran

-Malaysia - Mr. Khairul Iswar Ibrahim from Central Bank of Malaysia

-Turkey - Ms. Kübra Altuntaş from Banking Regulation and Supervision Agency of Turkey



15.40-16.00 Contributions of International Institutions / Private Sector

-Presentation: Dr. Rizwan Malik, Senior Manager

- AAOFI (The Accounting and Auditing Organization for Islamic Financial Institutions

- Presentation: Mustafa Sancar, Specialist

- TKBB (Participation Banks Association of Turkey)

16.00-16.40 Policy Debate Session on Improving Shariah Governance Framework

There will be a policy debate session to come up with a set of policy options for improving the Shariah Governance Framework in Islamic finance. At the outset, the CCO will make a short introduction on the room document and responses of the Member Countries to the policy questions which have already been conveyed to the Member Country Focal Points.

- Presentation: Mr. Can AYGÜL, Senior Expert

COMCEC Coordination Office

16.40-16.50 Utilizing the COMCEC Project Funding

- Presentation: Mr. Deniz GÖLE, Director

COMCEC Coordination Office

16.50-17.00 Closing

Annex 4: Policy Recommendations

POLICY RECOMMENDATIONS OF THE 14TH MEETING OF THE COMCEC FINANCIAL COOPERATION WORKING GROUP

This room document was prepared for enriching the discussions during the session to come up with concrete policy recommendations for policy approximation among the Member Countries. It was drafted in accordance with the main findings of the research report conducted for this meeting and the responses of the Member Countries to the policy questions, which have already been sent by the COMCEC Coordination Office.

Policy Advice 1: Developing a comprehensive legal and regulatory framework for the Shariah Governance processes and arrangements to ensure that all the operations and business activities in Islamic Finance are in accordance with Shariah.

Rationale: Islamic banking and financial market laws should contain the definitions of all currently known and approved Islamic finance products and services as well as instruments. The concerned law should stipulate the general rule of prohibiting trade in pure risk and debt. The law may also authorize the regulator to add new products once they are approved.

Furthermore, a special standard for the listed companies and Islamic financial instruments should be attached to the law with a stipulation of an annual review. Such standards would set the required conditions for ensuring Shariah compliance. Besides, a handbook on Islamic finance products and instruments should be issued by the regulators to support and facilitate the implementation of the respective law.

Policy Advice 2: Encouraging the establishment of national Shariah Supervisory Boards (SSBs) supervising the institutional SSBs.

Rationale: National Shariah Supervisory Boards (SSBs) have various important functions. They can play a very significant role in resolving the disputes between Islamic Financial Institutions (IFIs) and customers. Furthermore, approving new products, supervising IFIs on proper income purifications, reviewing yearly accounting of profit and zakat calculations and their distribution, assessing and regularly reporting Shariah non-compliance risks to shareholders and investment account holders are among the other major functions of National SSBs. The National SSBs are very instrumental in securing the interests of all stakeholders, not just shareholders.

Policy Advice 3: Developing guidelines for ensuring/facilitating the active involvement of Investment Account Holders (IAHs) in IFIs' management in accordance with their contribution to the investment pool.

Rationale: Comprehensive guidelines about Shariah Governance Framework can be developed to enable all stakeholders (i.e. customers, management, shareholders, supervisory authorities) perform their roles in accomplishing the Shariah Governance objectives, and to promote soundness and stability of IFIs. In this regard, the following mechanisms, among others, might be taken into consideration during the preparation of the concerned guidelines:

- Voting in the general assembly and board of directors should be distributed between shareholders and IAHs in proportion to their resources,

- The resources provided by IAHS might be measured as of the beginning of the financial year,
- IAHS might be allowed to assign their representatives in the general assembly of IFIs,
- BoD seats might be assigned to the IAHS with the largest accounts, in a proportion of their resources.

Policy Advice 4: Encouraging talent development through training and professional certification programs and increasing the awareness of stakeholders about Shariah Governance.

Rationale: In many cases, there might be a need for improving the qualifications of SSB's members and a shortage of qualified Shariah experts. The practice of assigning SSBs membership exclusively from among Shariah specialists without identifying the necessary qualifications such as academic degree, research and teaching experience etc. is a major challenge. In this respect, a set of criteria may be identified for the appointment of the SSB members. In addition, training and professional certification programs can be conducted for talent development in this crucial area.

Policy Advice 5: Promoting the integration of Islamic Finance sector into whole economy with a view to making monetary policy more inclusive.

Rationale:

In order to integrate the Islamic finance sector into the macro-economy and make monetary policy more inclusive, monetary authorities are advised to do the following:

- To issue Central Deposit Certificates (CDC) in proportion to the ratio of total Islamic finance assets to the total financial assets in the whole economy, against their cash value which would be placed as Central Deposits in IFIs. Accordingly, the monetary authority may wish to reduce money supply by the same amount or any amount that would make such issue non-inflationary, by increasing the legal reserve ratio.
- The monetary authority would set the instructions to control the investment of central deposits.
- The monetary authority can issue more CDC's and make them available for sale to the public, including IFIs. Their profits would be added to the Central Deposits in IFIs.
- The monetary authority may allow trading of CDC's in money market.
- The monetary authority can change the rate of growth of money through: (1) Adding to or subtracting from its Central Deposits balances with IFIs, (2) using open market operations in CDC's to adjust the rate of growth of the money supply.

Instruments to Realize the Policy Advice: COMCEC Financial Cooperation Working Group: In its subsequent meetings, the Working Group may elaborate on the above-mentioned policy areas in a more detailed manner.

COMCEC Project Funding: Under the COMCEC Project Funding, the COMCEC Coordination Office issues call for project proposals each year. With the COMCEC Project Funding, the member countries participating in the Working Groups can submit multilateral cooperation projects to be financed through grants by the COMCEC Coordination Office. For realizing the above-mentioned policy recommendations, the member countries can utilize the COMCEC Project Funding facility. These projects may include the organization of seminars, training programs, study visits, exchange of experts, workshops and preparation of analytical studies, needs assessments and training materials/documents, etc.