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**“Standardization Efforts in Islamic
Finance”**

(2nd Session: Discussion and Review of the Final
Draft of Research Report)



Standardization Efforts in Islamic Finance



Research Team

- This report has been commissioned by the COMCEC Coordination Office to Africa Foundation.

Team Member	Affiliation	Contribution
Dr.Ahmet Faruk Aysan	HBKU, Qatar	Project Coordinator
Dr.Adam (Ruslan) Nagayev	HBKU, Qatar / IZU, Türkiye	Technical Coordinator
Dr.Mustafa Disli	HBKU, Qatar	Chapters I and IV
Dr.Umar A.Oseni	IILM, Malaysia	Chapter II
Dr.Said Bouheraoua	ISRA, Malaysia	Ch III, Case Study #1: Malaysia
Dr.Abdelilah Belatik	CIBAFI, Bahrain	Ch III, Case Study #2: Morocco
Dr.Fatin Said Al Zadjali	CBFS, Oman	Ch III, Case Study #3: Oman
Dr.Murat Yaş	Marmara University, Türkiye	Ch III, Case Study #4: Türkiye
Dr.Abdelkader Chachi	IZU, Türkiye	Ch III, Case Study #5: The UK
Mohammed Umar	HBKU, Qatar	Research Assistant
Mohammed Muslehuddin Musab	HBKU, Qatar	Research Assistant

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INTRODUCTION

What is Standardization? Key Terms

- ✔ **Standardization** is defined as:
 - a process of **formulation**, **publication**, and **implementation** of guidelines, rules, methods, procedures, and specifications
 - for **common** and **repeated use**,
 - aimed at achieving the **optimum degree of order** or **uniformity** in a given context, discipline, or field.

- ✔ Standards are often developed at the **international level**.

- ✔ Standards can either be **legally binding** or de facto standards followed by informal convention or **voluntary** standards (recommendations).

- ✔ There exist **national** standardization bodies **cooperating** with **international** bodies.

- ✔ Standards should exhibit the characteristics of “**relevance**, **understandability**, **verifiability**, **neutrality**, **timeliness**, **comparability**, and **completeness**”.

- ✔ Standards should result in reliable and accurate information regarding the **rights** and **liabilities** of different stakeholders.

- ✔ ‘**Harmonization**’ is the process of **minimization** of existing differences, whereas ‘**standardization**’ is about the **elimination** of any differences.

Background Info



- Fair and Equitable Financial System



- Transparency
- Stability



- Standardization
- Harmonization



- Growing number of IFIs
- Sophistication of IF products

KEY INTERNATIONAL ISLAMIC SSOs

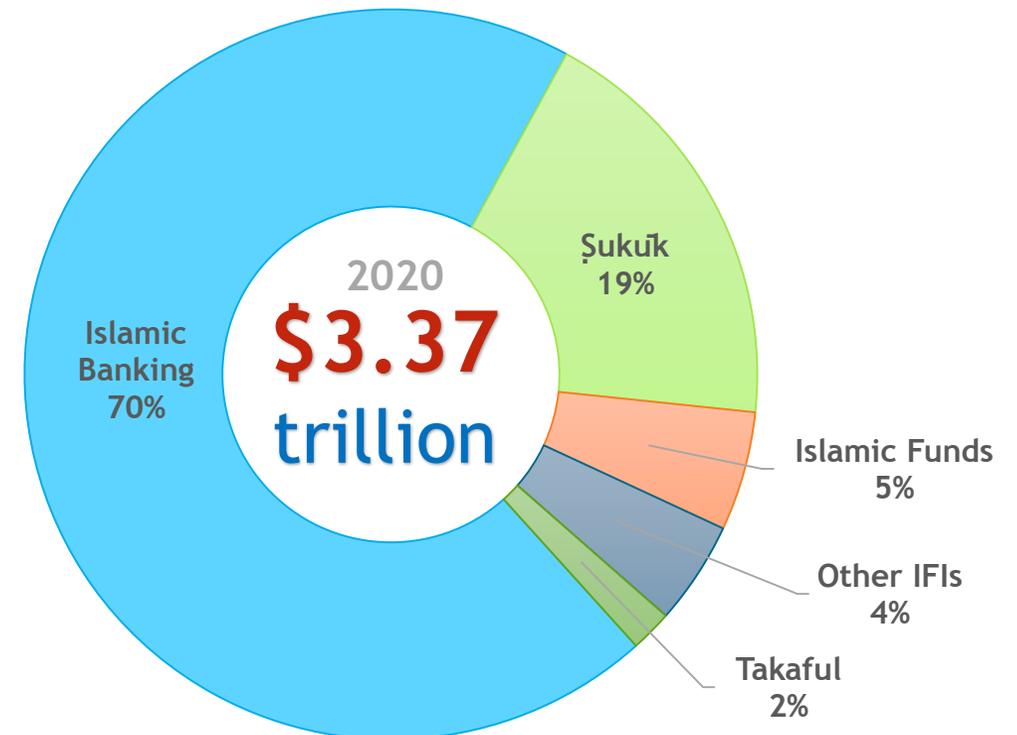
AAOIFI

IFSB

IIFM

- Standards: *Shariah Products, Reporting, Governance*

GLOBAL ISLAMIC FINANCIAL SERVICES INDUSTRY



Pros and Cons of Standardization



- effective means of disseminating information and reporting



- consolidation of *Shari'ah* interpretations



- uniformity and simplification of processes



- transparency and quality of processes



- better domestic and international coordination of activities

BUT



- curbs innovation and lacks flexibility



- does not consider cultural, political, economic heterogeneity

SCOPE

The study provides a detailed analysis and elaboration on:

1

standardization efforts made in each segment of the IFSI (**Islamic banking, Islamic Capital Markets, and Takaful**) at local, regional, and international levels

2

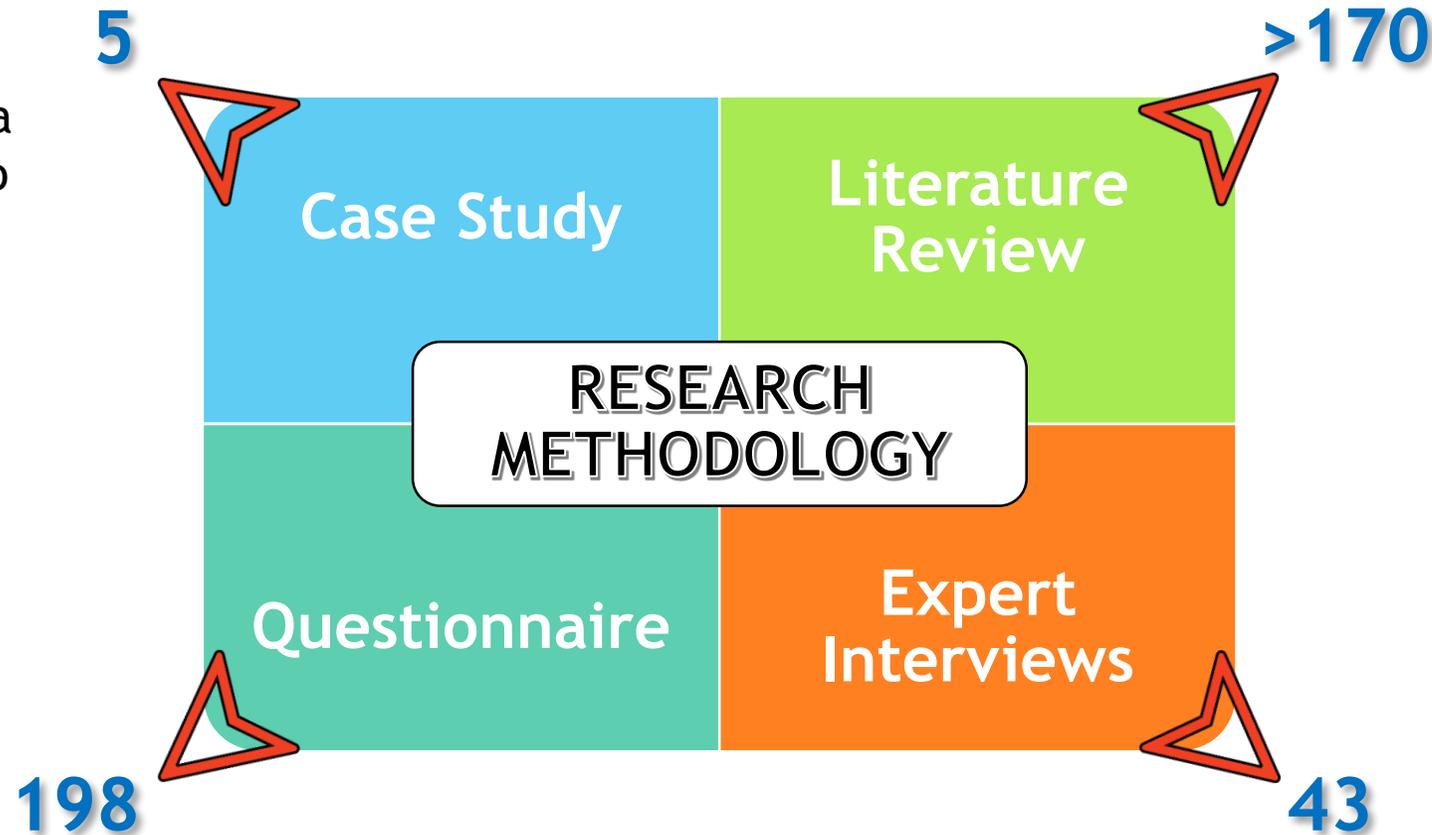
roles and initiatives of various international Islamic standard-setting bodies such as **AAOIFI, IFSB, and IIFM**

3

standardization initiatives taken by **4** representatives of OIC Member Countries: **Malaysia, Morocco, Oman, and Türkiye**. Also, the **UK** as a leading non-OIC Islamic Finance destination.

-  - Malaysia
-  - Morocco
-  - Oman
-  - Türkiye
-  - UK

-  - Articles
-  - Books
-  - Reports
-  - Guidelines
-  - Websites

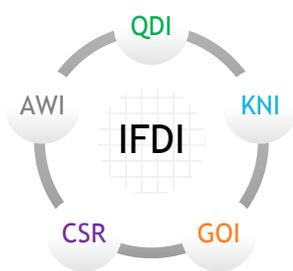


Region	Countries	Respondents
Africa	Algeria, Libya, Morocco, Nigeria, Senegal, Somalia, Tanzania, Tunisia	65
Asia	Afghanistan, Bangladesh, Brunei, Indonesia, Malaysia, Pakistan	22
Middle East	Bahrain, Iraq, Jordan, Kuwait, Oman, Palestine, Qatar, Saudi Arabia, UAE, Yemen	68
Europe and America	Türkiye, United Kingdom, United States	43
Total:		198

Source: Authors

Category	Malaysia	Morocco	Oman	Türkiye	UK	Subtotal
Regulators	1	2	3	4	-	10
Sharī'ah Scholars	2	2	1	2	1	8
Academics	-	1	1	1	3	6
Industry Players*	5	4	3	4	3	19
Total	8	9	8	11	7	43

Note: * Practitioners such as bankers, accountants, (legal) consultants. Source: Authors



Notes: The IFDI score is a composite weighted index that measures the overall development and health of the IFSI. It draws on five indicators that are the main drivers of growth in the industry: Quantitative Development (QDI), Knowledge (KNI), Governance (GOI), Corporate Social Responsibility (CSR), and Awareness (AWI). The total score represents the equal-weighted average score. The countries are sorted according to the IFDI ranking. Data source: IFDI (2021).

	Global	① Malaysia	② Oman	③ Türkiye	④ UK	⑤ Morocco
Score	11,01	114,22	39,69	26,83	17,38	13,54
QDI	5,83	98,05	16,12	14,61	10,27	3,12
KNI	11,62	200,00	46,10	26,63	22,42	28,32
GOI	14,79	89,22	74,06	50,05	12,28	25,00
CSR	7,16	32,30	27,79	28,52	33,92	0,00
AWI	15,63	151,55	34,39	14,33	7,98	11,25

**TRENDS, ISSUES, and CHALLENGES
in STANDARDIZATION**

Standardization in Islamic Commercial Jurisprudence

- Diverse practices regulated through **revelation** and **prophetic prescriptions**
- After the demise of the Prophet Muhammad (pbuh), reliance on prophetic precedents (**Sunnah**) and collective interpretation of companions (**ijma'**)
- Expansion of the then Islamic State led to the emergence of various **schools of thought** which led to different interpretations in Islamic jurisprudence (**fiqh**)
- From Umayyad, Abbasid, and ultimately, the Ottoman era
- The Ottoman Civil Code - The **Mejelle**
- **Modern efforts** - AAOIFI and some other efforts at the national level

Standardization in Islamic Finance: Technical & Structural Issues

- Despite the commendable growth in Sharī'ah-compliant finance, standardization remains a **major challenge**
 - What is, therefore, the **length** and **breadth** of standardization? **One-size-fits-all** approach?
 - “**Standardization**”, “**harmonization**”, “**convergence**”, and “**codification**”: **which is more appropriate?**
 - Will strict standardization **impact product development** and **innovation**?
- The need to differentiate between *usul* (fundamental sources and principles) and *furu'* (legal rulings)
 - Flexibility is the **hallmark** of commercial transactions in Islamic law
 - However, modern IF industry has been largely **influenced** by practices in the conventional finance industry - products, documentation and practices are largely standardized.
 - The establishment of international Islamic SSOs and their current move toward collaboration is a **welcome** development
 - Global standardization practices influence Islamic SSOs.

Standardization: Global, Regional, and Country Levels

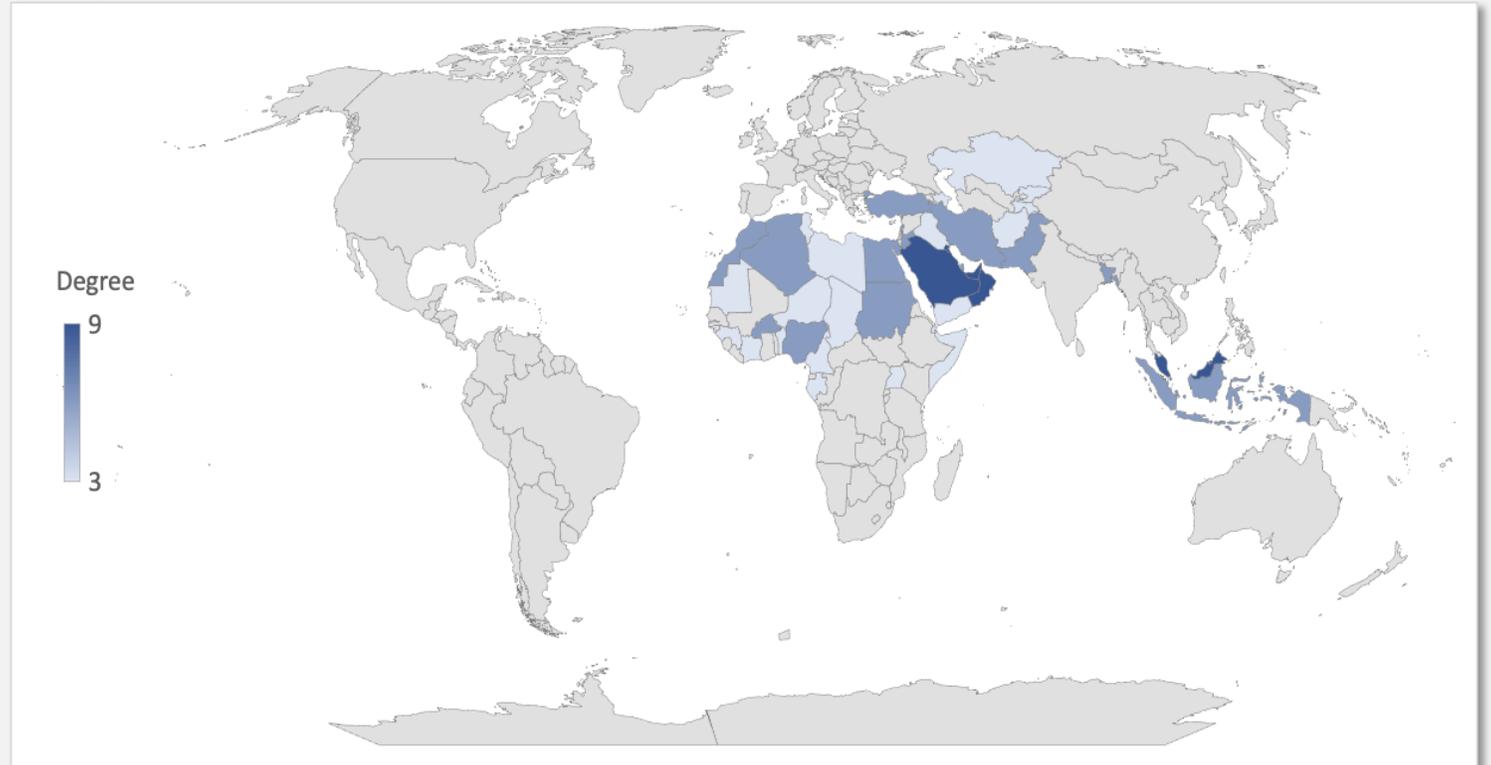
- The primary objective of standardization constitutes significant efforts to ensure the desired level of **consistency** or **convergence** of specific **practices**, **products**, and **operations** within a particular industry
- GAAP, FASB, FSB, ISDA, BCBS, CGFS, IOSCO, UNCITRAL
- There has been some **collaboration** between ISDA and IIFM
- ISDA/IIFM IBOR Fallback Definitions Booklet for Islamic Hedging Transactions
- ISDA/IIFM Sharīah-Compliant Bilateral Amendment Agreement Template
- The proposed **global legislative framework** for Islamic Finance in the United Arab Emirates

Standardization: Global, Regional, and Country Levels



- The result of the analysis, which triangulates the foregoing relevant data, is based on the following scale of [1 - 10],
- where 1 represents the least developed member state, and 10 represents the most advanced member state.

Degree of Standardization in Islamic Finance in OIC Member Countries



Standardization Efforts of International Islamic SSOs: AAOIFI

- Established in 1991 with a mission to **standardize** and **harmonize** Islamic finance practices and financial reporting.
- **Currently, over 114 standards and technical pronouncements**
- According to AAOIFI, as of 2020, **not less than 43 jurisdictions** and **36 countries** have **adopted** the AAOIFI standards worldwide

Approach:

- Preparation of the Work Program or Agenda
- Conducting Preliminary Study or Research
- Preparation of a Consultation Note
- Preparing and Issuing the Exposure Draft
- Issuing the Final Standard

Standardization Efforts of International Islamic SSOs: IFSB

- Established on 3rd November 2002.
- Policy mandate - to promote and enhance the **soundness** and **stability** of the global IFSI through the issuance of prudential standards and high-level guiding principles for the global industry.
- IFSB has issued **23 standards**, **4 Technical Notes**, and **7 Guidance Notes**.

- The methodology for issuing standards and guidance/technical notes by IFSB is contained in **a policy document** titled *Guidelines and Procedures for the Preparation of Standards and Guidance/Technical Notes*, issued in December 2020

Methodology:

- Preparation Stage
- Development Stage
- Public Consultation Stage
- Finalization and Adoption Stage

Standardization Efforts of International Islamic SSOs: IIFM

- Established through Royal Decree No.23 of the year 2002 of the Kingdom of Bahrain.

Policy mandate:

- To **standardize** Sharī ah-compliant **financial contracts** and **product structures** which is often undertaken through the issuance of standard documentation for various structures of Sharī ah transactions.

- To date, the IIFM has issued **16 standards** on hedging, liquidity management, Şukūk, trade finance, and IBOR transition, while some others are under development

Methodology:

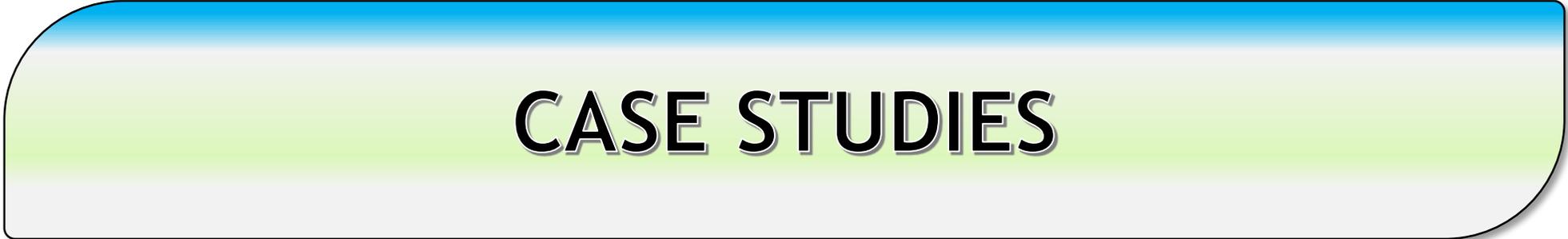
- Issuance of Concept Paper and Consultative Meeting
- Board of Directors Approval
- Global Working Group
- Coordination with External Legal Counsel and Drafting
- Sharī ah Board Guidance and Approval

Comparison of Approaches: **AAOIFI**, **IFSB**, and **IIFM**

#	STAGES	AAOIFI	IFSB	IIFM
1.	Preliminaries	Work Plan or Agenda	Terms of Reference	Concept Paper
2.	Development	Preliminary Study	Issue Paper	Concept Paper finetuned by external legal counsel
3.	External Contributions	Consultation Note	Initial Study Report	Global Working Group
4.	Public Consultation	Exposure Draft	Exposure Draft issued	Legal Drafting and consultation
5.	Final Approval	Relevant Standards Board	Council	Sharī'ah Board

Key Issues and Challenges for Consideration

- **Lack of standardization** across various jurisdictions remains a key challenge
 - Efforts of international SSOs are **commendable**, but **more needs** to be done
 - Beyond the standardization of Sharī ah rulings, **other aspects** should be considered
 - Financial and accounting reporting, governance and prudential regulation, product structure and legal documentation, legislation, and tax policies
- **Cross-border** standardization should also be prioritized.
 - **Benchmarking** is essential in efforts towards standardization -
 - **Within** and **beyond** the Islamic finance industry
 - **One-size-fits-all approach** may not be the best approach.
 - Various OIC member countries are at **varying development** level when it comes to Islamic finance.
 - Standardization should focus on **fundamental rules and principles**.



CASE STUDIES



Malaysia

Global Recognition and Expansion of Malaysian Islamic Finance Marketplace



Ranked **1st** as the most developed IF market (IFDI)



Quantitative
Development



Awareness



Governance



Knowledge

Diversified players offering Islamic Financial Services



Islamic
Banks



Islamic
Windows



Takaful
Operators



ReTakaful
Operators



Islamic Fund
Management



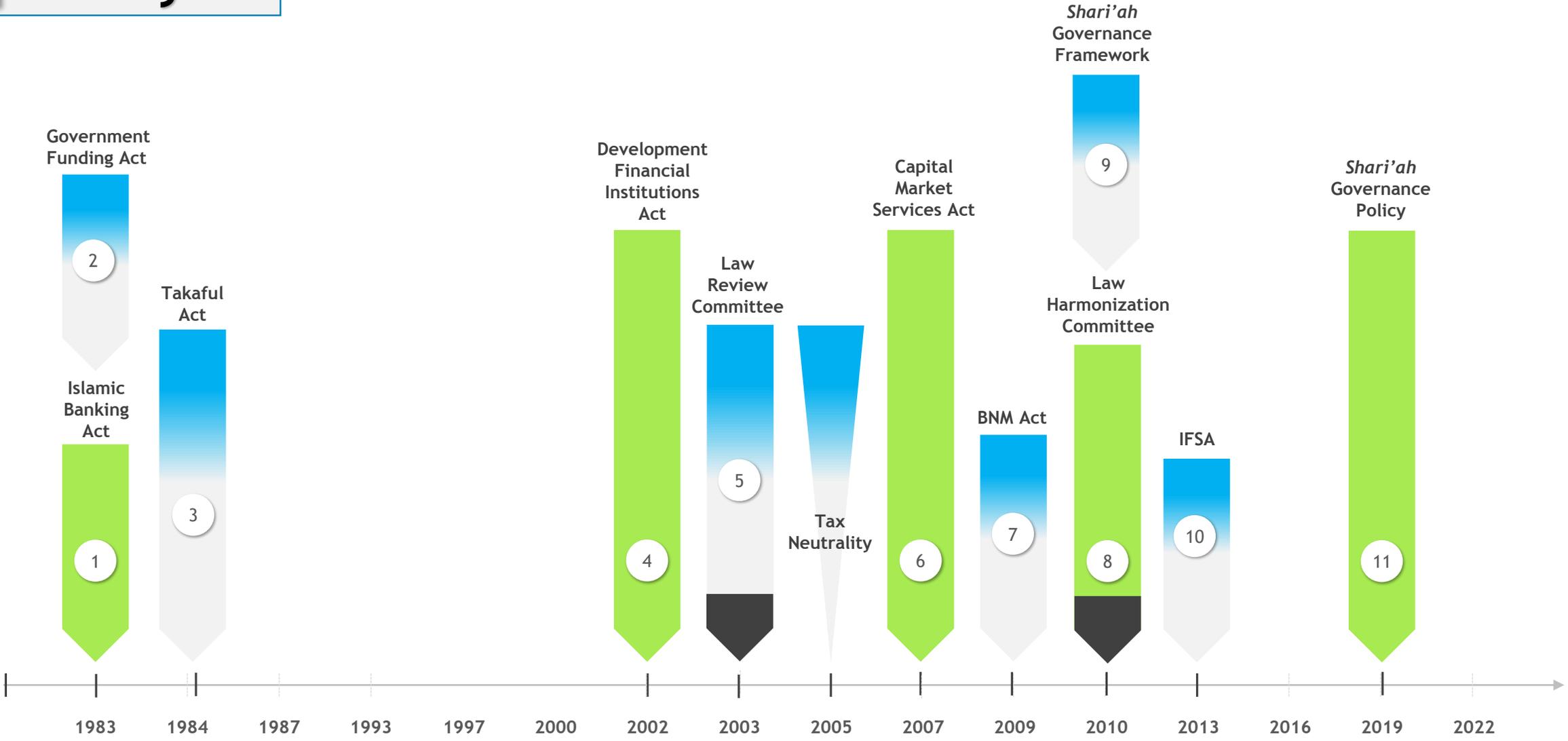
Development
Financial
Institutions



Professional
Ancillary
Services



Training &
Education
Entities





Size and Share of Islamic Banking and Takaful Segments

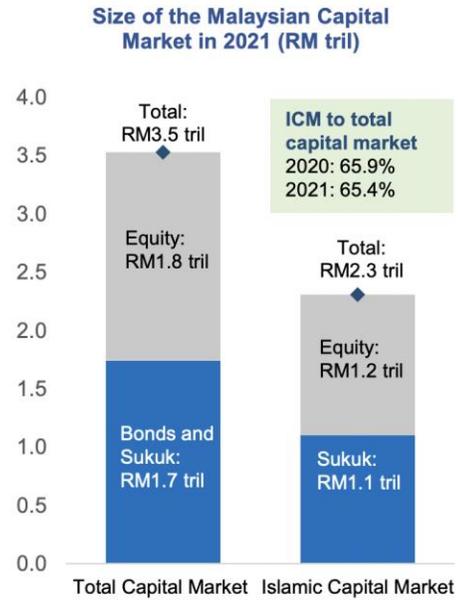
Key Financial Indicators: Islamic Banking and Takaful Sectors

	As at end				
	2H 2019	1H 2020	2H 2020	1H 2021	2H 2021p
Islamic Banking System	RM million (or otherwise stated)				
Total Assets ¹	1,020,371.0	1,041,629.6	1,089,540.7	1,139,095.2	1,192,862.4
% of total assets of entire banking system ¹	33.5	33.3	34.2	35.1	35.5
Total Financing ¹	753,609.9	780,376.6	817,403.3	841,507.2	886,607.2
% of total loans / financing of entire banking system ¹	39.2	39.9	41.0	41.5	42.5
Total Deposits and Investment Accounts ¹	826,167.2	859,946.8	889,951.4	933,749.8	968,909.4
Total Deposits ¹	739,130.3	761,993.4	790,905.4	820,390.9	844,293.4
Total Investment Accounts ¹	87,036.9	97,953.4	99,046.0	113,358.9	124,616.0
% of total deposits and investment accounts of entire banking system ¹	37.7	38.1	38.9	39.7	39.8
	%				
Total Capital Ratio	18.5	18.3	18.6	18.4	18.9
Tier 1 Capital Ratio	14.6	14.6	15.0	14.8	15.2
Common Equity Tier 1 Capital Ratio	14.1	14.0	14.5	14.3	14.7
Return on Assets	1.2	0.6	0.7	1.3	1.1
Net Impaired Financing Ratio	1.0	0.9	0.9	0.9	0.7
Takaful Sector	RM million (or otherwise stated)				
Takaful Fund Assets	36,517.6	39,040.1	41,871.2	43,223.1	45,730.6
Family	32,283.8	34,538.5	37,025.5	38,272.5	40,190.6
General	4,233.9	4,501.6	4,845.7	4,950.6	5,540.1
% of insurance and takaful industry	11.2	11.8	11.9	12.3	12.6
Net Contribution Income	5,542.4	5,642.8	5,985.5	7,189.0	6,593.8
Family	4,150.9	4,336.5	4,527.5	5,776.3	5,072.3
General	1,391.4	1,306.3	1,457.9	1,412.8	1,521.5
% of insurance and takaful industry	17.7	18.6	18.2	21.9	19.3
Family Takaful					
New Business Contribution	2,904.0	3,191.8	3,401.9	4,682.1	3,822.6
General Takaful					
Gross Direct Contribution	1,677.2	1,641.2	1,817.1	1,861.7	1,966.4
Claims Ratio (%)	59.5	53.3	58.0	51.8	50.7

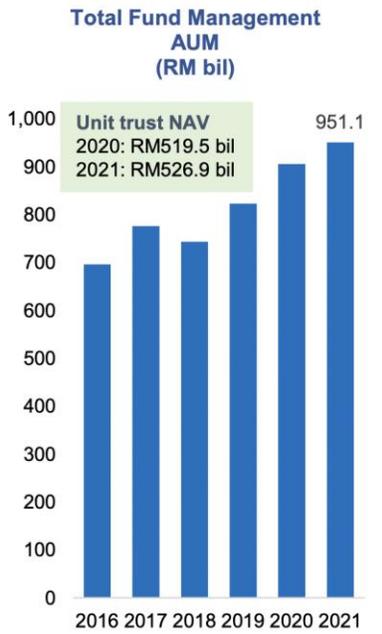
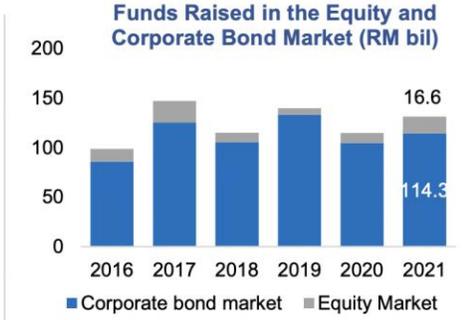


Size and Share of Islamic Capital Market

The Malaysian capital market continued to support the economy, with steady growth in funds raised and AUM



ICM to total capital market
2020: 65.9%
2021: 65.4%

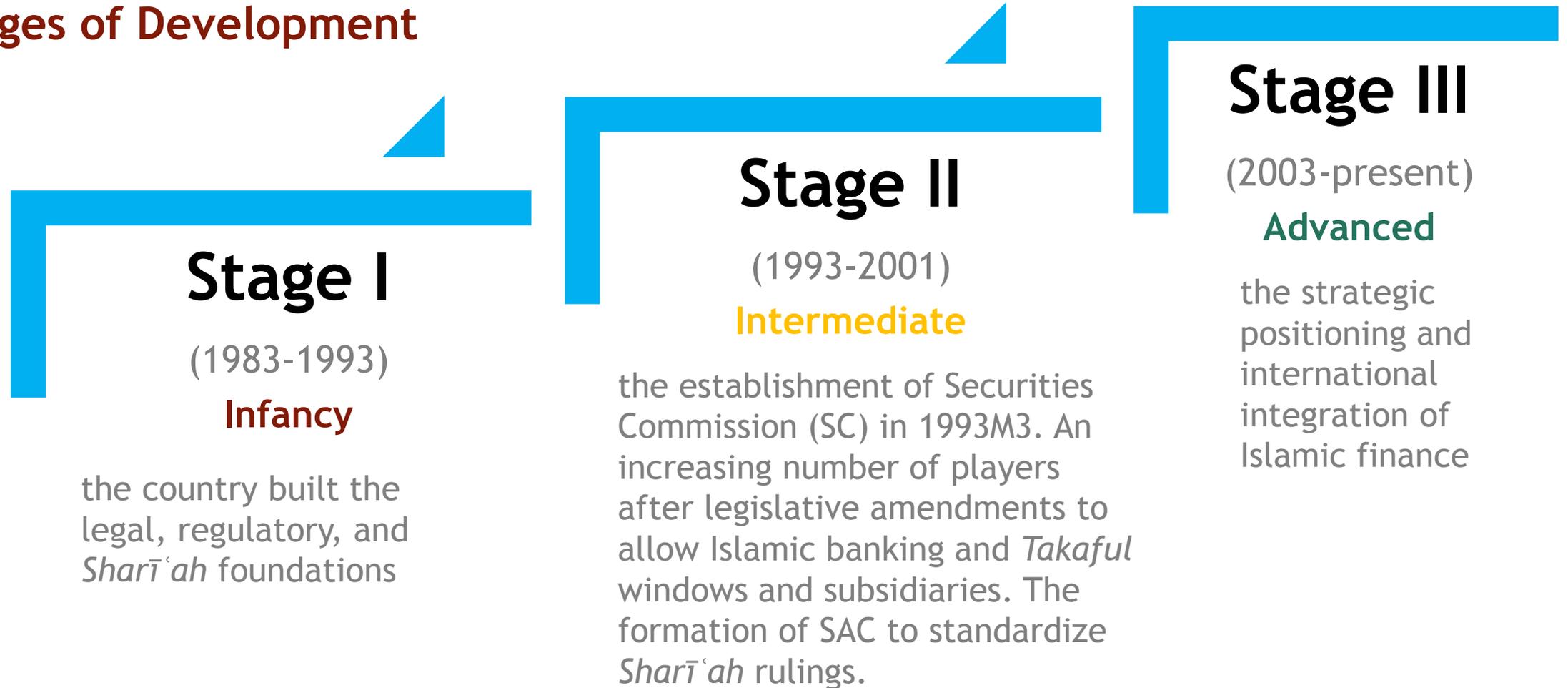


Unit trust NAV
2020: RM519.5 bil
2021: RM526.9 bil



Legal, Regulatory, and *Sharī'ah* Framework

Stages of Development





The Current State of the Regulatory Standardization Efforts

- Regulatory Issuances Contributing to the Standardization Efforts of Islamic Banking

§	Frameworks / Guidelines	Objective
1	Governance of Sharī'ah Committee	Governing the Sharī'ah Committee and the internal processes required to ensure compliance with Sharī'ah
2	Capital Adequacy Framework for Islamic Banks (CAFIB)	Risk identification and measurement based on underlying Sharī'ah contracts
3	PSIA as Risk Absorbent Framework	Profit-Sharing Investment Account (PSIA) assets do not need capital as long as they meet the requirements for effective risk transfer
4	Rate of Return Framework	Established a standard methodology for calculating depositors' returns
5	Guidelines on Profit Equalization Reserves (PER)	Implement an operational mechanism and accounting for PER, a risk management strategy to mitigate the effect of displaced commercial risks
6	Property Development and Investment Activities	Property development and property investment policies governing Islamic banks.
7	Guidelines on Musharakah and Mudarabah Contracts	Policies and regulations governing Islamic banking assets structured using Musharakah and Mudarabah contracts
8	Financial Disclosure for Islamic Banking Institutions	Basis for disclosure and presentation of financial statements and reports
9	Firewalls for Islamic window operation	Guidelines for Islamic windows are designed to promote strategic focus in the Islamic banking business and to prevent funds from being co-mingled
10	Sharī'ah Governance Policy (SGP)	Outlines the Bank's strengthened expectations for effective Sharī'ah governance arrangements that are well- integrated with business and risk strategies of the IFIs
11	Guidelines on Ibra' (Rebate) for Sale-Based Financing	Providing greater transparency and clarity by harmonizing the different practices among the IFIs
12	14 Sharī'ah standards	To ensure uniformity of product development and implementation.



Contract-Based Regulatory Framework based on IFSA 2013 and SGP 2019

End-to-end <i>Sharī'ah</i> Compliance					
<i>Sharī'ah</i> Standards		Operational Standards		Oversight Functions	
Compliance with fundamental requirements of respective <i>Sharī'ah</i> contracts		Strengthened risk management, governance, transparency and disclosure, market conduct and other operational aspects of applying <i>Sharī'ah</i> standards		Codification of the role of the <i>Sharī'ah</i> committees and boards of directors of financial institutions in ensuring <i>Sharī'ah</i> compliance	
Resolutions					
Priority of payment reflective of underlying <i>Sharī'ah</i> contracts					
<i>Sharī'ah</i> Contracts Applied in Islamic Financial Business					
Assets			Liabilities		
Sales-Based	Equity-Based	Fee-Based	Islamic Deposits	Investment Accounts (Equity)	Investment Accounts (Other)
<ul style="list-style-type: none"> • <i>Murābaha</i> • <i>Istisna'</i> • <i>Ijarah</i> • <i>Tawarruq</i> 	<ul style="list-style-type: none"> • <i>Mudarabah</i> • <i>Musharakah</i> 	<ul style="list-style-type: none"> • <i>Wakalah</i> • <i>Kafalah</i> • <i>Rahn</i> 	<ul style="list-style-type: none"> • <i>Wadi'ah</i> • <i>Qard</i> • <i>Tawarruq</i> 	<ul style="list-style-type: none"> • <i>Mudarabah</i> • <i>Musharakah</i> 	<ul style="list-style-type: none"> • <i>Wakalah</i>



Malaysia

Supporting Infrastructure

Industry:

- The Association of Islamic Banking and Financial Institutions (AIBIM) 1995
- The Malaysian Takaful Association (MTA) 2002.

Academia:

- The International Islamic University Malaysia (IIUM) 1983
- The International Centre for Leadership in Finance (ICLIF) 2001 (BNM)
- The Islamic Banking and Finance Institute Malaysia Sdn Bhd (IBFIM) 2001
- The Global University of Islamic finance (INCEIF University) 2005 (BNM)
- The Financial Institutions Directors' Education under the ICLIF Leadership and Governance Centre 2008 (BNM)
- International Sharī'ah Research Academy for Islamic Finance 2008 (BNM)
- The Asia School of Business (ASB) was established in 2015 (BNM)
- Sharī'ah Advisors in Islamic Finance (ASAS) 2011



Malaysia

Legal & Regulatory Issues

- an **unbalanced approach** to regulatory and legal standardization.
- a **micro-approach** to regulatory and legal standardization
- applying the **same** standardization approach at different stages of maturity of Islamic financial markets.

✔ Solutions:

- Establishing a **macro approach** in addressing regulatory and legal standardization
- Removing legal obstacles to product innovation by enacting **accommodative** laws
- **Keeping abreast** with increasingly sophisticated innovative products
- Producing **simpler and less-costly** legal documentation without compromising Sharī'ah rules
- Expanding the **pool of expertise** in emerging areas of Islamic finance
- Establishing of a **legal community and infrastructure** to facilitate the growth of Islamic finance
- Acquiring a greater understanding of the intricacies of Sharī'ah-compliant transactions to facilitate better **deliberation on legal disputes**



Malaysia



Malaysia has established close coordination and collaboration with key international players. Malaysia hosted:





Malaysia

Specific Needs to further Enhance Standardization Level



- To further **strengthen** the legal, regulatory, and supervisory framework through a continuous adoption of the latest global applications and innovations,
- To upsurge the effectiveness of the Islamic finance market by encouraging the creation of **simplified value-added** Sharī'ah-compliant financial products,
- To increase international **cooperation and global connectivity** to achieve the highest level of standardization, therefore, facilitating cross-border transactions,
- To facilitate a harmonious **understanding and implementation** of standardization efforts among industry stakeholders,
- To adopt a more principles-based set of guidelines to ensure the advancement of innovation within Sharī'ah parameters by taking advantage of the advances in innovation and technology,
- To support **specialized research centers** as incubators for advanced innovations and standardizations, and
- To enhance the **interdisciplinary training program** to increase knowledge and awareness, facilitating the standardization process.



Malaysia

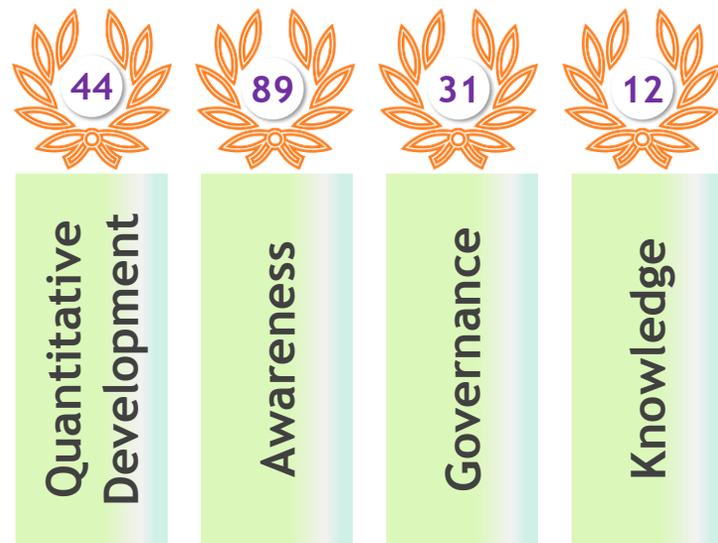
Policy Recommendations

- **Continuously** improving the legal, regulatory, and supervisory frameworks
- Increasing the effectiveness of the industry by introducing value-added **vanilla** products
- Increasing international **cooperation and collaboration** on standardization
- Ensuring cohesive **acceptance and application** of standards by the industry players
- Promoting standardization by encouraging **innovation** within the Shari'ah parameters
- Developing specialized international and domestic **research centers** for innovation and standardization
- Developing **interdisciplinary training programmes** to foster competency and increase awareness of the standardization



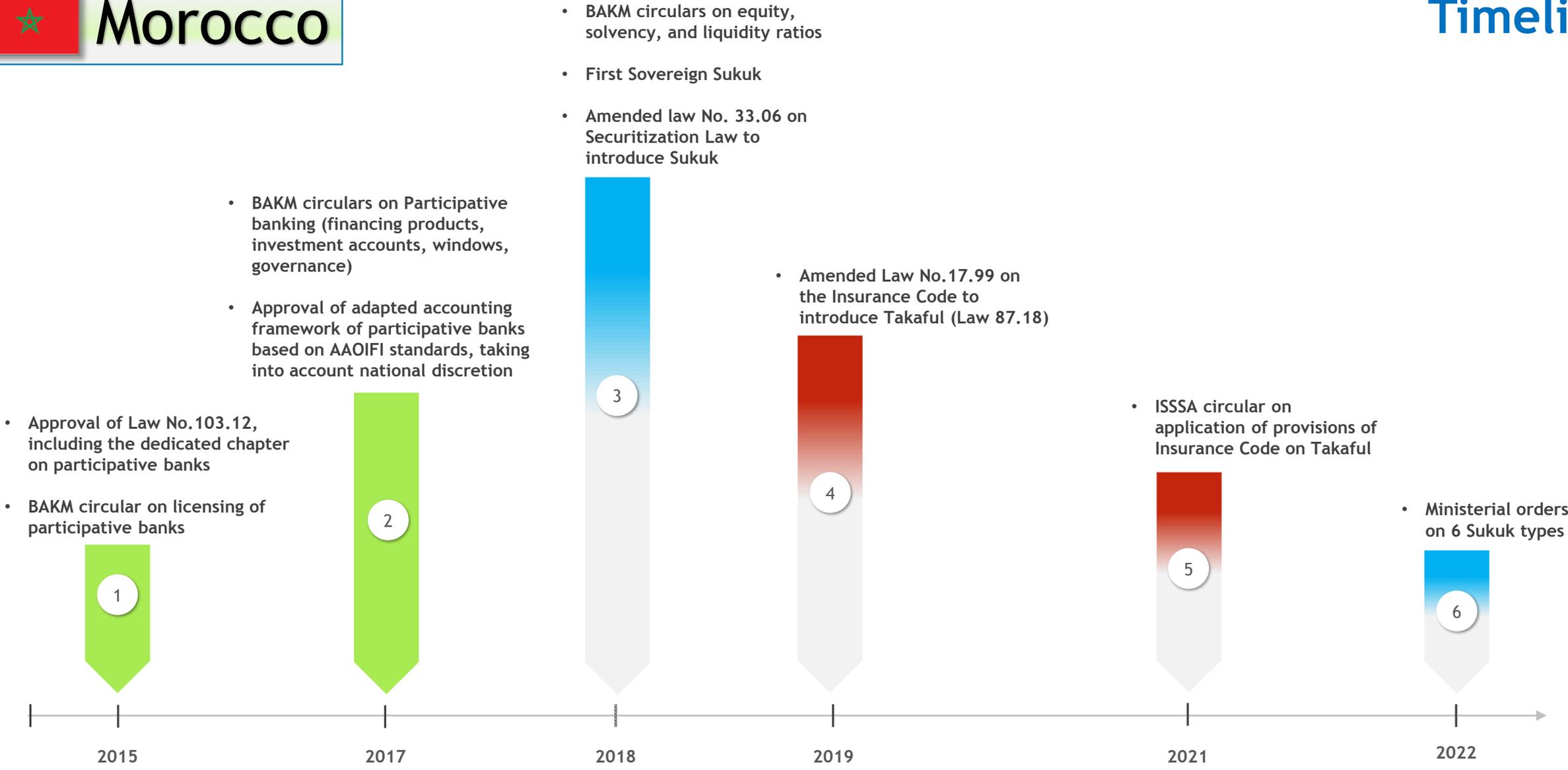
Morocco

According to IFDI 2020, ranked #29



Institutions offering Islamic Financial Services





Gradual adoption of Tax Neutrality since 2009



Morocco

Background Information



One of the leading economies in the African region:

- 5th largest African economy by GDP (PPP) as of 2020
- Second after Egypt in the Arab region according to non-oil GDP



Legal system:

- A dual legal system: Moroccan civil law based on Sharī'ah and French civil law



A developing Islamic financial sector:

- Issuance of recommendation No.33/G/2007 in 2007 that permits local commercial banks to offer alternative products
- Introduction of Islamic Finance, labeled as 'Participative Finance' in 2014.
- Authorizing Islamic banking by licensing participative banks and windows in 2017
- Issued first Islamic sovereign ṣukūk in 2018



Morocco

Sharī'ah Compliance Framework

- A Sharī'ah Committee for Participative Finance (SCF) is established at the Higher Council of Ulama (HCU) responsible for the **Sharī'ah compliance mechanism** of Participative Finance. The HCU is the **sole authority** that has the power to pronounce a fatwa.
- All requests related to Sharī'ah compliance notices are addressed to the SCF by:
 - The BAKM for requests coming from banks and credit institutions;
 - The ISSSA for requests coming from insurance companies;
 - Moroccan CMA for requests coming from capital market operators;
 - An operational pillar is represented by the compliance functions that the Moroccan participative banks are required to create.



Morocco

Standardization Efforts: Current Trends, Issues, and Challenges

Current State of Standardization Efforts

- Islamic finance was firstly introduced in Morocco in 2007 with the issuance of recommendations permitting local commercial banks to offer alternative products through **participative windows**.
- However, the absence of conducive legal, tax, Sharī'ah compliance, and regulatory frameworks **refrained** the financial institutions from developing their offerings.
- This highlighted the need for a solid and innovative ecosystem and legal framework to guarantee the **success** of Participative Finance in Morocco.

Legal and Regulatory Issues

- Centralized fatwas, while avoiding divergent interpretations and assuring harmonization, are seen to result in a **limited offer** of participation banking products as some structures and financial products are not permitted by the HCU, such as organized Tawarruq.

Taxation

- While Morocco has strived to achieve **tax neutrality**, with the Finance Act removing double taxation and amending the VAT requirements for Participative Finance, some **discrepancies** are still seen to remain such as the taxing of the surplus of Takaful funds.



Academic and Technical Issues

✓ Several initiatives were undertaken for the development of skilled and qualified human resources in participative finance, including executive trainings by market players and universities developing **specialized trainings** in participative finance.

However, there is still a recognition by the market that more efforts should be put for:

- Introducing specialized training in Islamic Finance at the **academic level**
- Addressing the lack of **in-country experts** in knowledge specific to Islamic banking

Weak Standardization Level

- ✓ Problems associated with weak standardization level:
- An important **challenge** is to adapt accounting, tax, and contractual frameworks for standardization.
 - Participative banking in Morocco is also seen to still suffer from a **lack of public confidence** due to its relative novelty.



Morocco

Specific Needs to Improve Standardization Level

- ☑ Some adjustments and developments are still seen to be required to the regulatory framework of participative finance in Morocco to enhance standardization.
 - Issuing **comprehensive** standards that include day-to-day operations in a detailed manner.
 - **Coordinating** the market needs with the HCU through regular and continuous dialogue and meetings for opinions and fatwas issued by the SCF to be clarified in view of the market practice.
 - Addressing legal texts which may constitute a source of **legal friction** for participation banks.

Lessons Learnt and Transfer of Knowledge

- ☑ The development of participative finance in Morocco benefited from:
 - Analyzing and learning from **existing** models.
 - Establishing strong **working relationships** with international SSOs, i.e., AAOIFI and IFSB, allowing convergence of practices with pre-existing standards.
 - Applying necessary **law amendments** to cater for participative finance specificities.
 - Establishing the SCF (at the HCU) for the **entire** Islamic finance sector.



Morocco

Policy Recommendations

- Strengthening the **communication and collaboration** between international SSOs and national regulatory bodies
- Improving communication between the IFIS stakeholders to address the current issues and challenges facing the industry
- Promoting **research and development** among the practitioners and researchers
- Ensuring equitable tax treatment and **level playing field** for the industry
- Raising **public awareness** and literacy about Islamic Finance



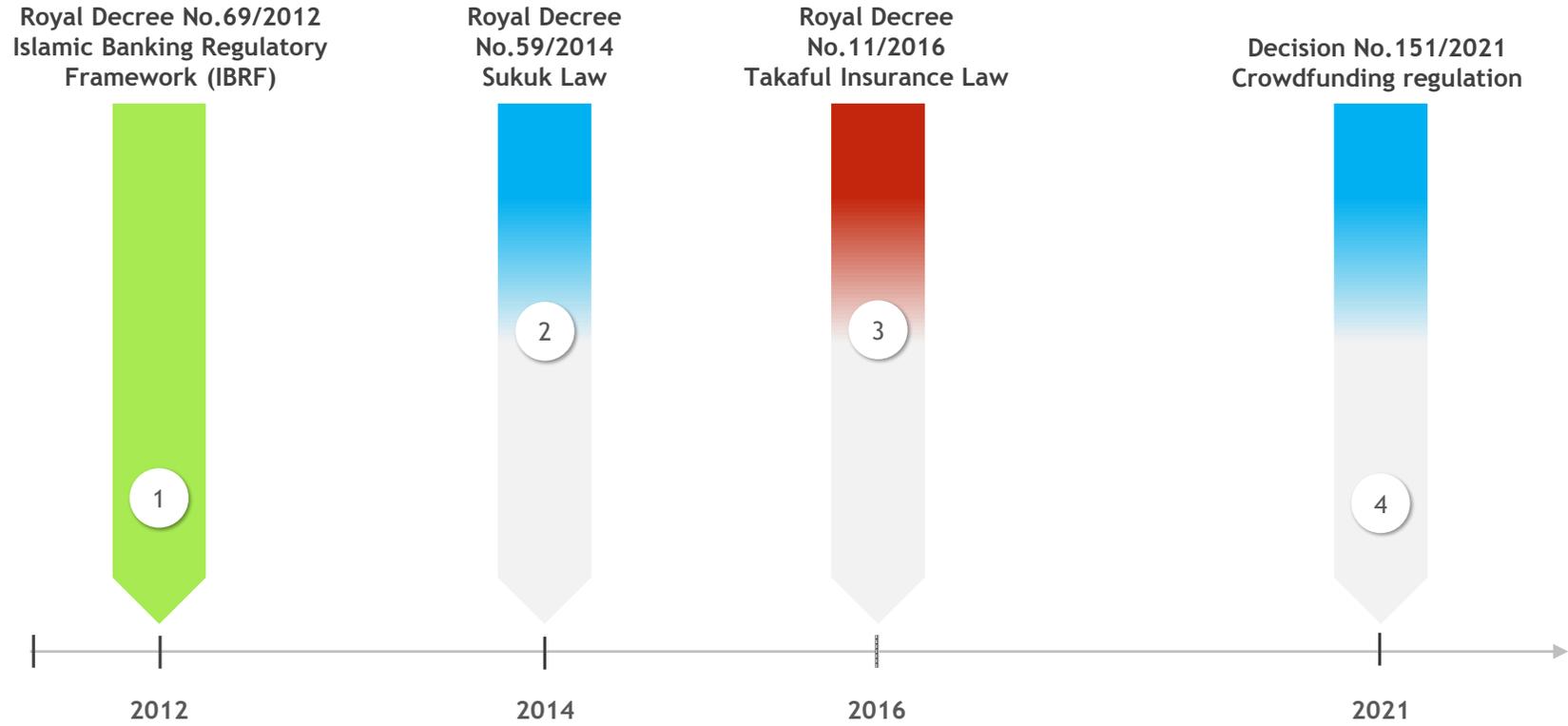
Oman

According to IFDI 2020, ranked #9



Institutions offering Islamic Financial Services







Legal, Regulatory, and Sharī'ah Framework

- **IBRF** covers licensing, governance, accounting standards, supervision and control, capital adequacy requirements, credit, market operations, liquidity risks, and other reporting and disclosure requirements.
 - **Banking Law** has a dedicated section for Islamic banking, which covers a range of areas related to Sharī'ah governance, the formation of the High Sharī'ah Supervisory Authority (HSSA), licensing of Islamic banks and windows, tax neutrality, and others.
 - **Takaful Insurance Law** provides a robust and comprehensive framework covering all aspects of the Takaful sector and oversees all the activities of Takaful operators.
- AAOIFI standards on accounting are **mandatory**, but Sharī'ah standards are **voluntary**.
 - **Decentralized** higher Sharī'ah authority for capital markets.
 - The Sultanate's legal system is **mixed**, combining Anglo-Saxon law and Islamic law.
 - **English law** is the prevailing law for dispute resolutions related to Islamic Finance transactions. In 2018, the **Omani Commercial Arbitration Centre (OCAC)** was established by Royal Decree No.26/2018.
 - **Islamic banking industry** is regulated by the Central Bank, whereas the **Islamic capital market** is guided by the Capital Market Authority.



Standardization Efforts: Current Trends, Issues, and Challenges

Academic and Technical Issues

- Central Bank of Oman mandates Islamic financial institutions to equip their caliber with the right set of knowledge and skills to perform. **Vetting the content** and establishing a **center in Islamic finance** is significant to achieve this milestone
- Disseminate knowledge and increase the level of **awareness** about new Islamic Finance products and services
- Need to focus on building **a local talent pool** of Islamic Finance professionals to carry the industry forward, especially with the positive outlook of 2025

Weak Standardization Level

- Need for **better coordination** between regulatory bodies.
- Need to develop a capacity of the **Omani court of law** in Sharī'ah standards to ensure that judges are equipped with the right expertise and tools to arrive at rulings.
- Takaful sector: **lack of awareness** among consumers, scarcity of human resources, limited number of Takaful models, lack of transparency, and the industry is still technologically lagging.



Oman

Specific Needs to Improve Standardization Level

- Open a **dialogue** between scholars and practitioners and align the requirements with a robust legal framework.
- **Update** the current framework to include technology and ESG requirements.
- Disseminate knowledge and increase the level of **awareness** about new Islamic Finance products and services that are covering market demand.
- Establish a **research center** for Islamic financial services to keep abreast with the latest Sharī'ah rulings and their applications and practices.
- Leverage the **Islamic social centers** that are under the supervision of the Mufti of the Sultanate to create incubation centers.
- **Support the youth** to take up Islamic Finance education that covers both the Sharī'ah and Islamic Finance requirements.

Lessons Learnt and Transfer of Knowledge

- Regulation should facilitate an **open dialogue** between the market players to establish further comprehension of deep-rooted issues that hamper the market growth, especially in lieu of the mergers of the fully-fledged Islamic banks with conventional windows.
- There is a need for clear standardization direction with a **timeframe** with detailed short, medium, and long-term plans.
- It is essential to establish **comprehensive** legal, regulatory, and Sharī'ah governance frameworks.
- There should be a **conducive environment** or **infrastructure** that enables institutions supporting the IFSI to contribute towards achieving the standardization objectives.



Oman

Policy Recommendations

- Adopting the **best practices and revising** the existing legal, regulatory, and Shari'ah governance frameworks by considering the recommendations and feedback from all IFSI stakeholders and embracing technological advancements and ESG requirements
- Increasing **public awareness** about the Islamic Finance principles and applications
- Pursuing **capacity building** in the field of Islamic Finance via research centers, academic institutions, and other channels
- Establishing a platform for **collaboration** between scholars and industry players by exchanging views and collecting ideas
- Providing **marketing support** for Islamic Finance products
- Encourage more **full-fledged / standalone** Islamic banks



Türkiye

According to IFDI 2020, ranked #15



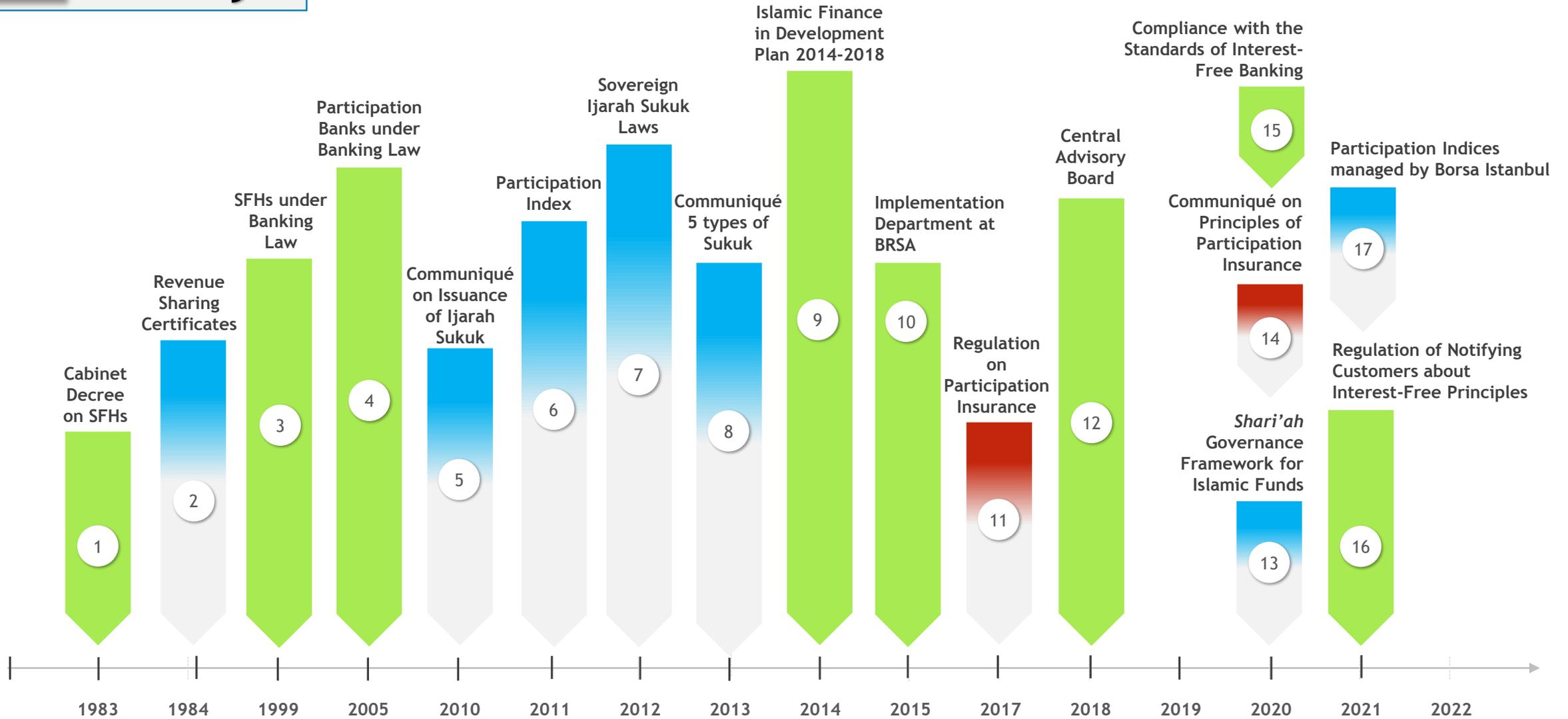
Institutions offering Islamic Financial Services





Türkiye

Timeline





Türkiye

Regulatory Infrastructure

Banking Regulation and
Supervision Agency (BRSA)

Participation and Conventional Banks

Capital Markets Board (CMB)

•Corporate Sukuk and Bonds, Participation
and Conventional Funds

Ministry of Treasury and
Finance

•Sovereign Sukuk and Bonds

Insurance and Private Pension
Regulations and Supervision
Agency

•Participation and Conventional Insurance
and Private Pension Companies

Participation Bank
Association of Türkiye
(PBAT)

Advisory Board

Public Oversight Authority
(PBO)

•Islamic and Conventional Accounting and
Auditing Standards



Türkiye

Specific Needs to Improve Standardization Level

- Strengthen the **coordination among regulatory bodies**, namely BRSA, CBRT, CMB, IPPRSA, and MTF, by the leadership of the Finance Office of the Presidency of Türkiye for adopting a comprehensive approach to improving standards for the IFSI
- Increase the effectiveness of **communication and collaboration with international SSOs** for the IFSI, such as IFSB, AAOIFI, and IIFM
- Support specialized **research centers** as incubators for advanced technology and standardizations
- Issue an **Act for Participation Finance** to ensure regulations, decrees, and communiques are connected with the acts as required by the hierarchy of norms.

Lessons Learnt and Transfer of Knowledge

- Steps that improved standardization:
 - Implementation of a **Strategic Plan**
 - **Centralized Shari'ah** Governance
 - **Talent** Development
 - **Coordination** among Regulatory Bodies and Stakeholders



Türkiye

Government and Regulatory Bodies

- ✓ To **finalize** a comprehensive participation finance act
- To ensure **tax neutrality** and provide tax incentives
- To set up participation finance **departments** in regulatory bodies
- To improve **human capital** of regulatory bodies
- To provide better **coordination** among regulatory bodies
- To develop a specific “**cooperatives act**” for Takaful companies
- To consider regulations for **peer-to-peer** (p2p) Takaful

Academia

- ✓ To improve coordination in **talent** development
- To **engage** in developing standards and regulation
- To include regulations and standards in **curriculum/syllabus**
- To organize **workshops and conferences** on standardization
- To invite regulators and practitioners as **lecturers**

Specific Recommendations

Advisory Board

- ✓ To improve **independence** of advisory board
- To increase involvement of stakeholders in **appointment** of advisory board members
- To improve **organization and functioning** of advisory board

Islamic Financial Institutions

- ✓ To give more emphasis in appointing managers and directors with **Islamic finance background**
- To ensure **right balance** between profit maximization and *Shari’ah* compliance motives
- To improve **transparency** on *Shari’ah* governance
- To **engage** more in developing standards and regulations
- To improve **relations** with international standard setting bodies



Türkiye

Standardization Efforts: Current Trends, Issues, and Challenges

Academic and Technical Issues

- Certificate Programs
 - Qualifications of Instructors
 - Duration and content of courses
 - Determining participants
- Lack of **coordination** in talent development
- Lack of **accreditation**

Relations with International SSOs

- **Dissemination** of standards
- Lack of **harmonization** of standards
- Lack of **coordination** with international SSOs
- Standards are **not flexible**

Legal and Regulatory Issues

- Loose connections among regulations, communiques, decrees, and acts
- No specific act for Participation Finance
- No Participation Finance Department
- Defining boundaries of regulation
- Lack of coordination among regulators and stakeholders
- Ban on Takaful Windows
- Over-taxation of IFIs
- No inclusiveness of stakeholders in appointment of Advisory Board Members
- No independence of Advisory Board
- No comprehensive Shari'ah audit mechanism
- Problems regarding organization and functioning of Advisory Board



Türkiye

Policy Recommendations

- Enhancing the **communication and coordination** among regulatory bodies and with international SSOs
- Passing a **comprehensive** Islamic Finance legislation that regulates the IFSI
- Establishing Islamic Finance **departments** within each regulatory body
- Pursuing **talent** development by bridging IFIs and academic institutions
- **Tailoring** Islamic Finance training programmes and workshops for regulators and industry players
- Introducing regulations and standards into the **curriculum** of universities
- Ensuring **tax neutrality** and providing **incentives** to attract foreign investors and talents
- Promoting the **transparency** of Sharī'ah governance processes, especially fatwa issuance
- Inviting practitioners and academics into the **process** of standardization

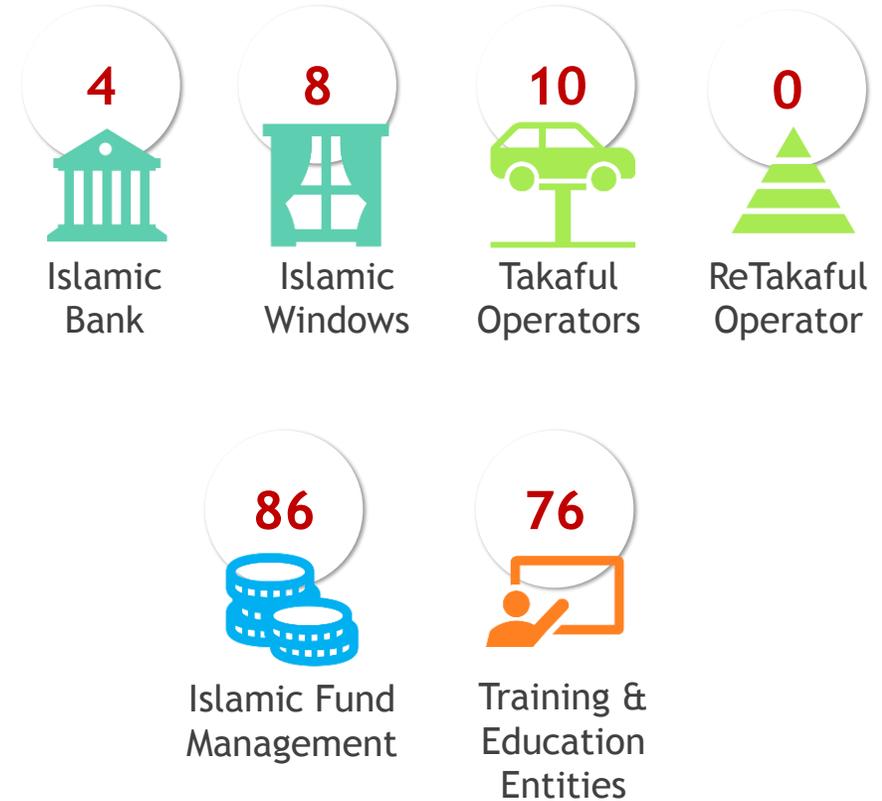


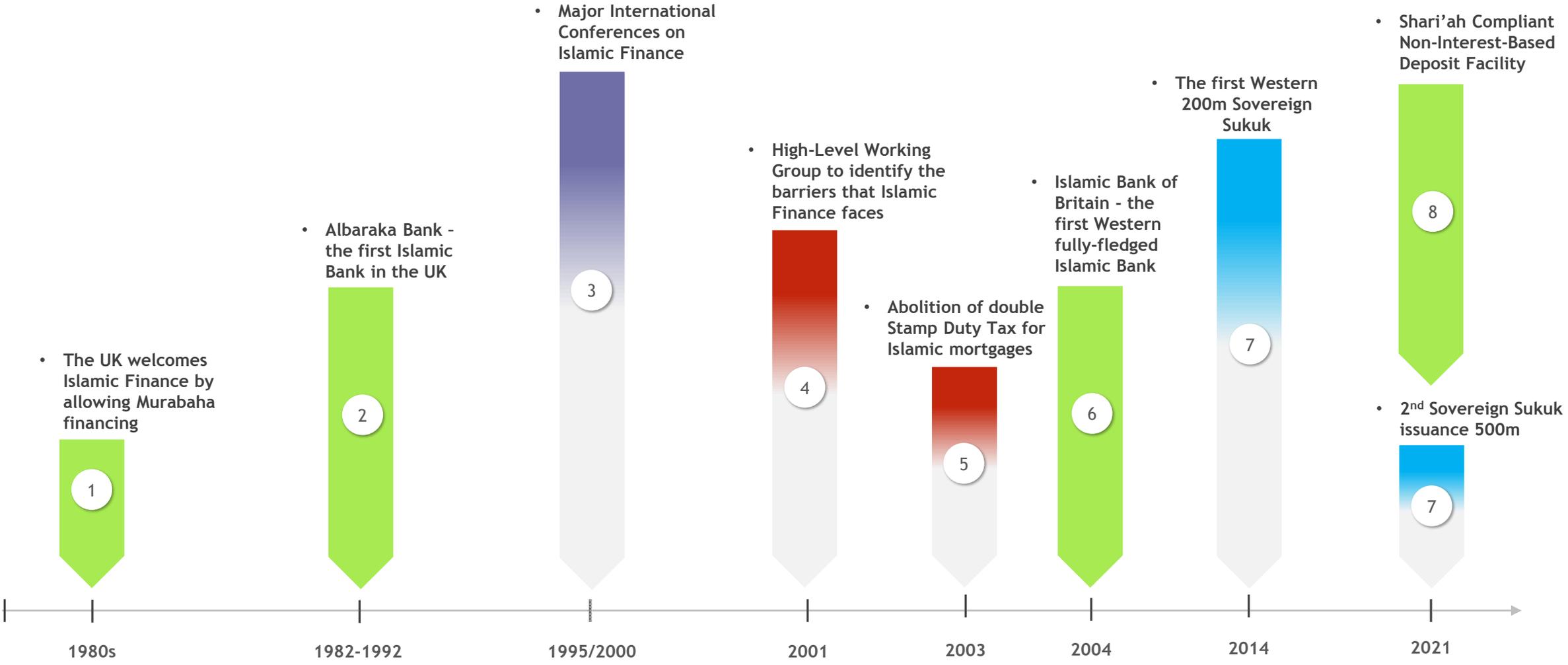
The UK

According to IFDI 2020, ranked #25



Institutions offering Islamic Financial Services







The United Kingdom

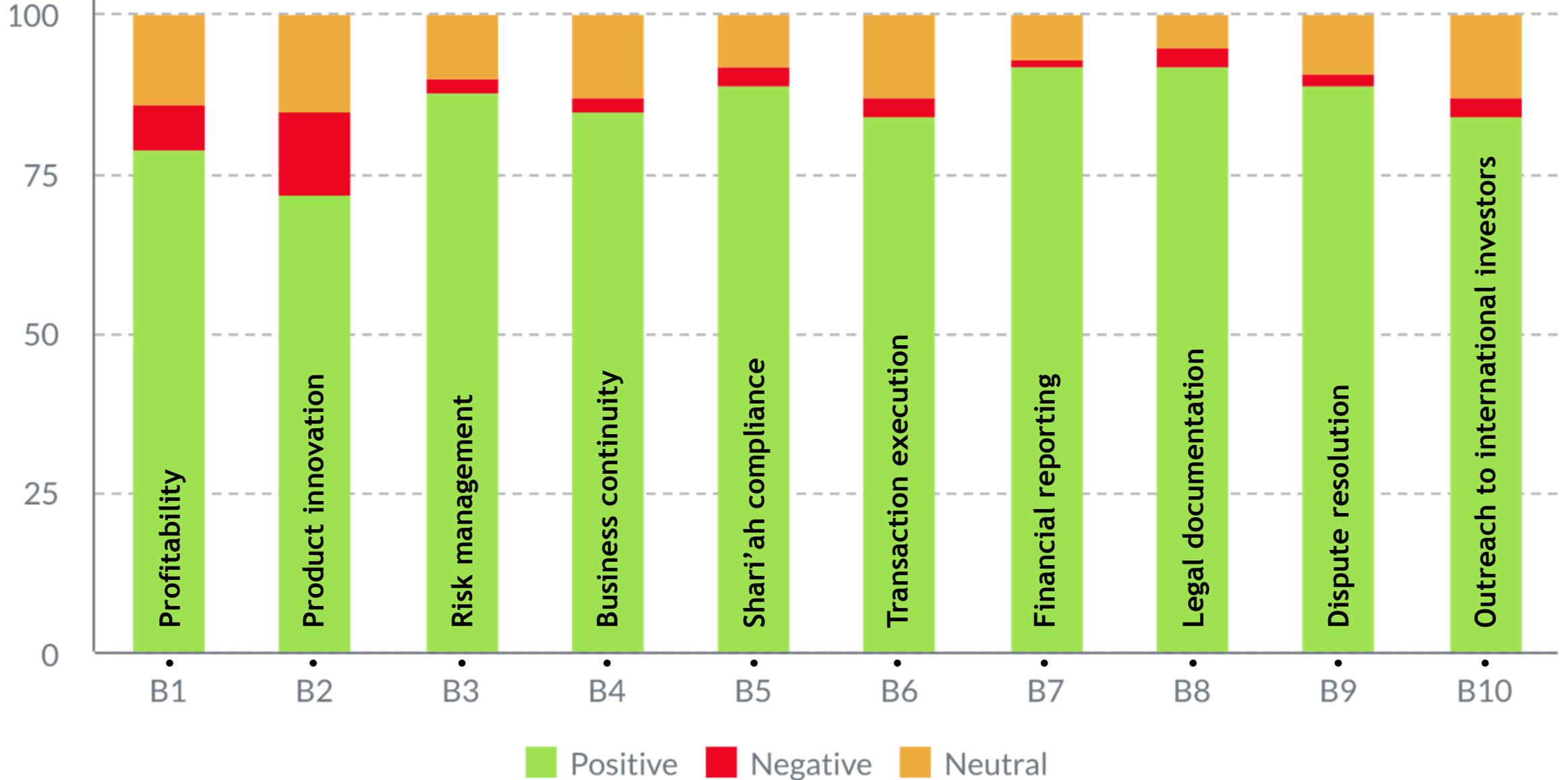
Policy Recommendations

- Increasing [public awareness and promotion](#) of Islamic Finance products
- Developing [training programmes](#) for employees of IFIs
- Creating a [level playing field](#) for all market participants by ensuring [tax neutrality](#)
- Developing [Shari'ah governance framework](#) to enhance operations and finances of IFIs
- Including provisions in law reflecting [alternative insurance \(Takaful\) arrangements](#)
- Pursuing [collaboration](#) with international Islamic SSOs

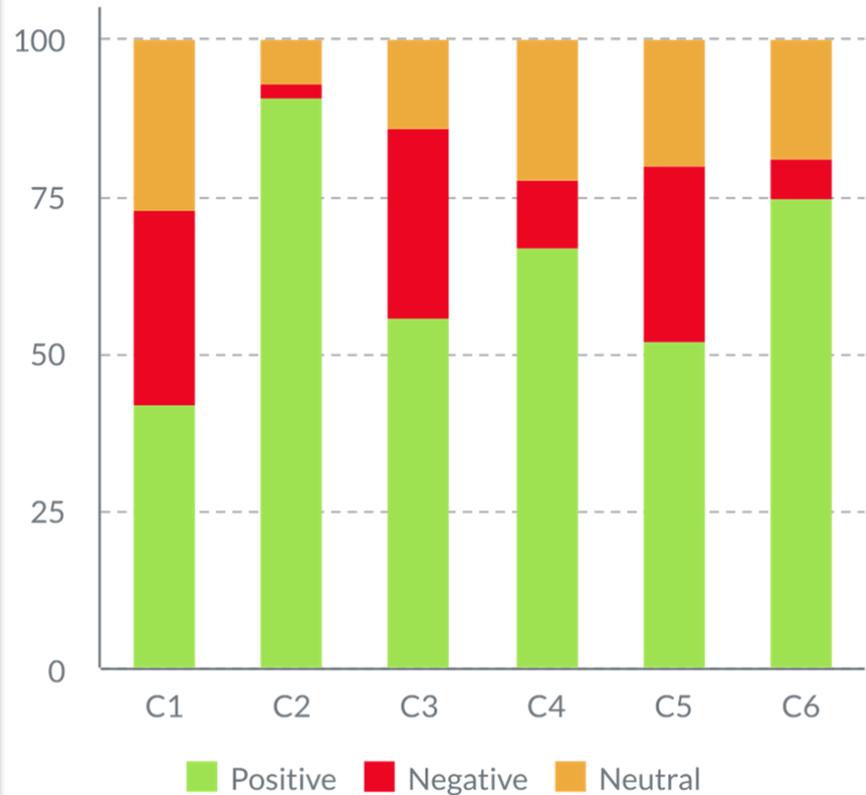


SURVEY ANALYSIS

Q1: Standardization has a positive effect on the following performance dimensions:



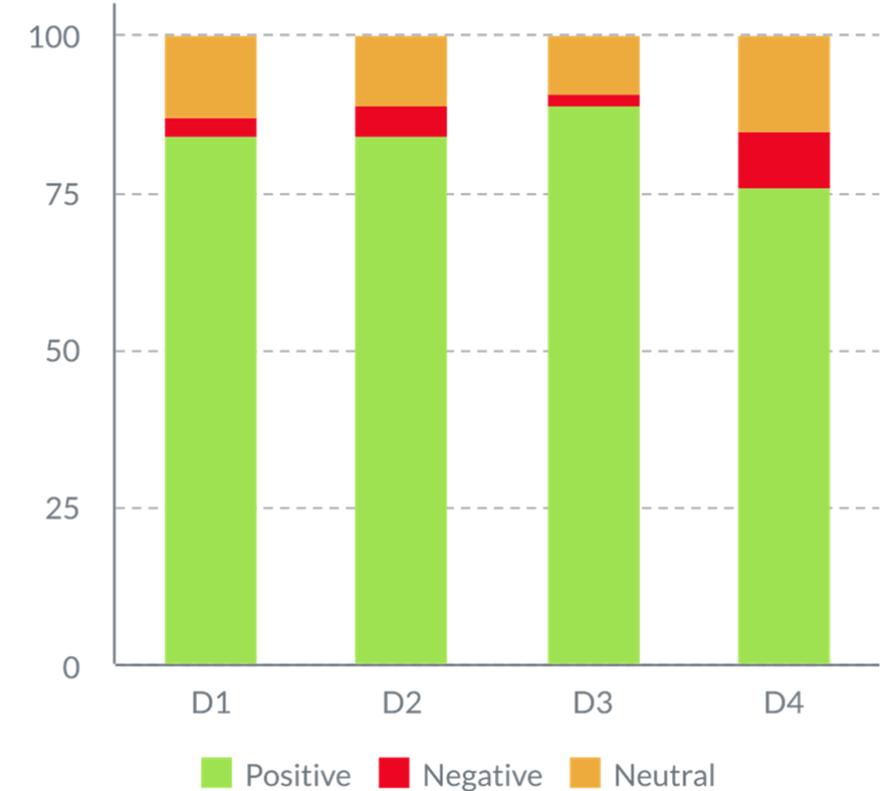
Q2: To what extent do you agree or disagree with the following statements?



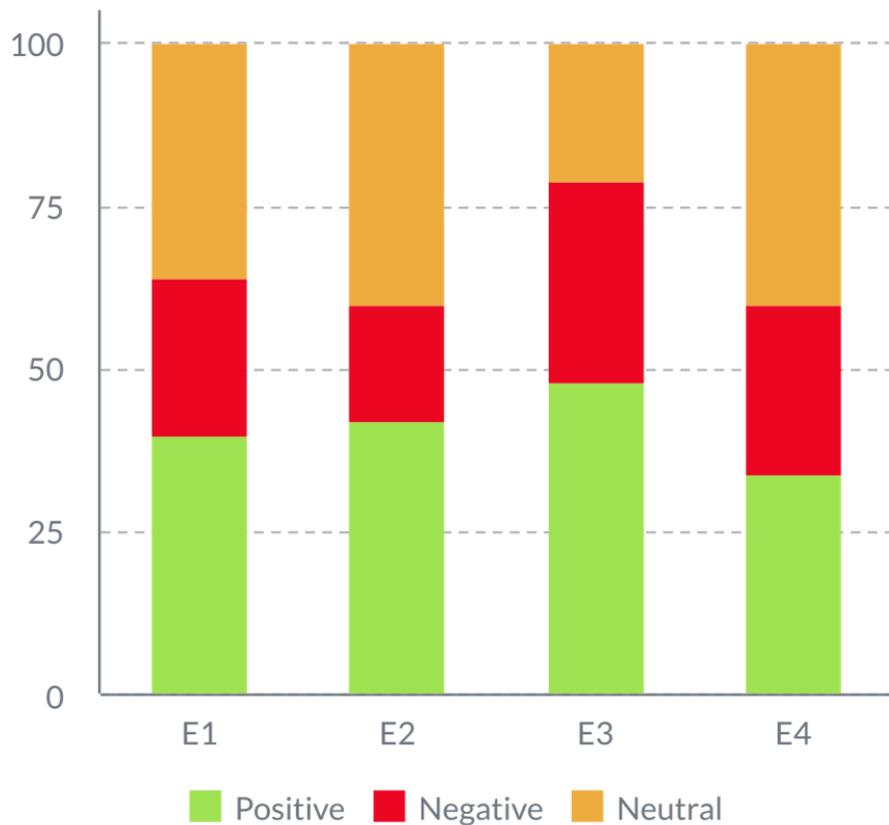
- **C1:** Standardization can **hamper** innovation.
- **C2:** There is a need for **collaboration** at the international level to settle legal and regulatory issues in Islamic Finance.
- **C3:** The IFSI should continue **adapting** conventional finance standards and guidelines to enhance global standardization efforts.
- **C4:** *Sharī'ah* **harmonization** is more appropriate than *Sharī'ah* standardization of all *fatwas* in Islamic Finance.
- **C5:** There should be a **sole** *Sharī'ah* interpretation through standardization of *Sharī'ah* rulings globally on all products and services in Islamic Finance.
- **C6:** A proper harmonization of *Sharī'ah* rulings will reduce incidences of ***fatwa shopping***.

Q3: To what extent do you agree or disagree with the following statements?

- **D1:** I believe that standardization plays an **important role** in the success of Islamic Finance globally.
- **D2:** I believe that standardization would enhance greater **acceptance** of Islamic Finance products and services among international and conventional investors.
- **D3:** I believe that standardization of the legal documentation for transactions will **shorten** the time between negotiations of deals and closings.
- **D4:** I believe that standardization in Islamic Finance should allow for some **differences** in *Sharī'ah* interpretation in different jurisdictions.

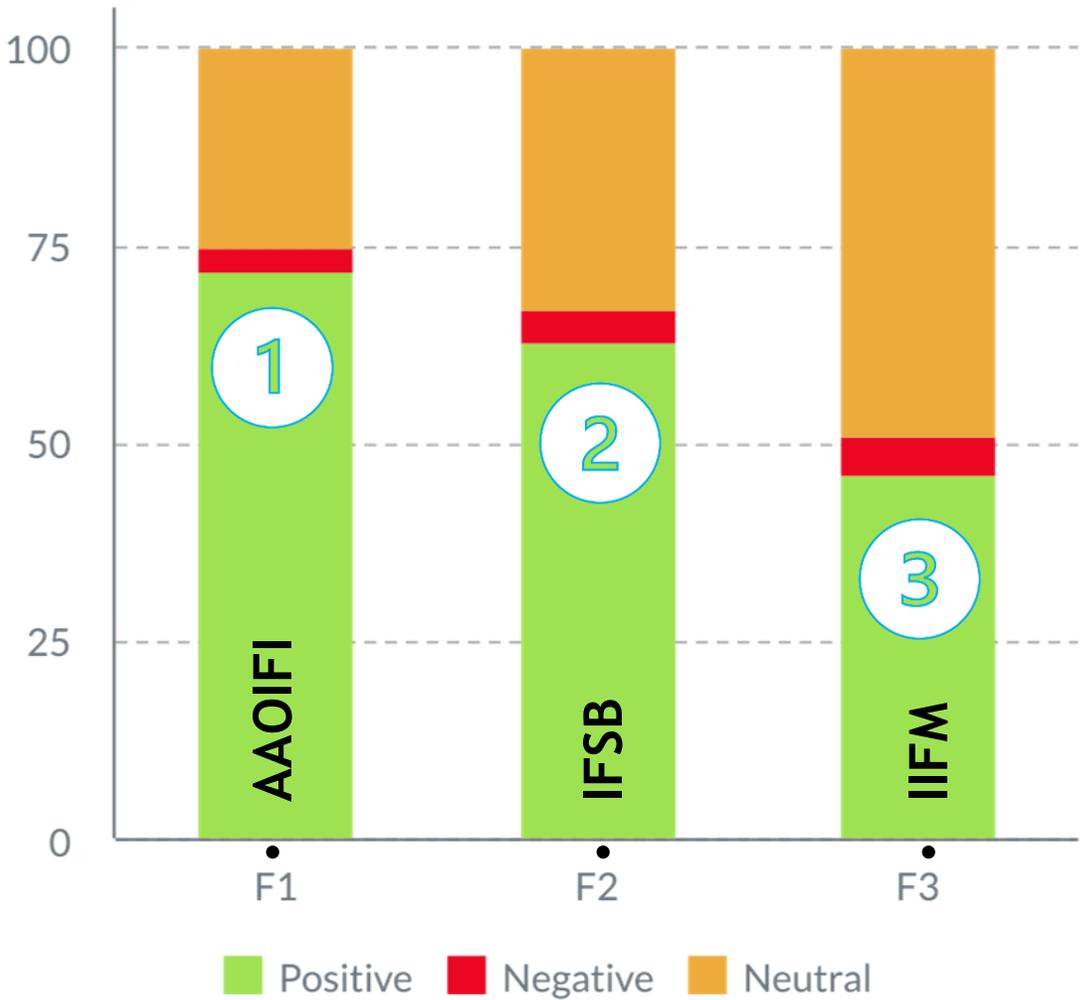


Q4: To what extent do you agree or disagree with the following statements?



- **E1:** I am **satisfied** with the ways the international Islamic SSOs adapt conventional standards for the IFSI.
- **E2:** The Organization of Islamic Cooperation (OIC) is **better placed** to coordinate all efforts toward standardization in Islamic Finance.
- **E3:** Standards and guidelines of international SSOs should only serve **as guidance** rather than making them mandatory for financial institutions.
- **E4:** Standardization by international Islamic SSOs (AAOIFI, IFSB, and IIFM) sometimes leads to **conflicts and inconsistencies**.

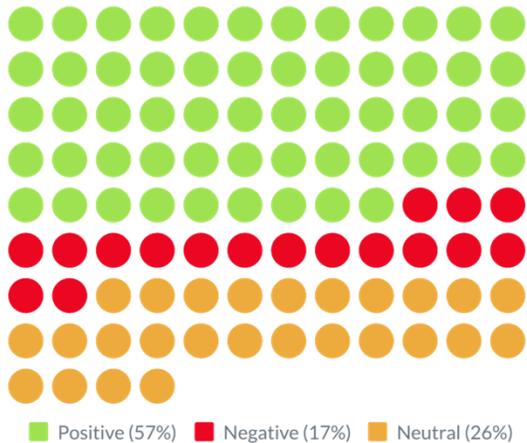
Q5: How would you rate the quality of standards and guidelines issued by the international Islamic standard-setting organizations?



Q6: Do you support the IF standardization efforts of your country's regulator or a Central Bank with respect to products, services, and regulations?

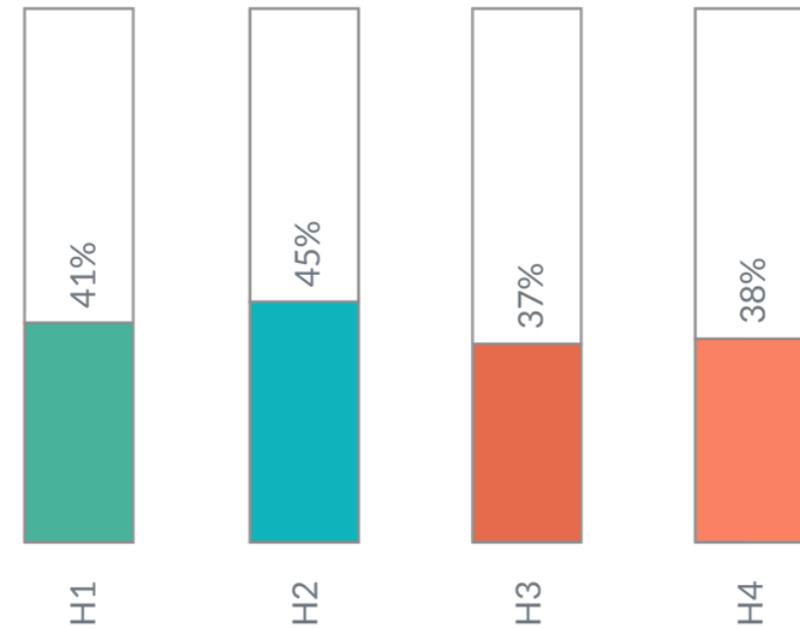


Q8: I am confident that the regulator / Central Bank of my country will be able to standardize products, services, practices and regulations in the IFSI.



Q7: What challenges does Islamic Finance in your country face when adopting international standards?

- H1:** There is a contradiction with existing national rules and regulations.
- H2:** International SSOs have no enforcement power.
- H3:** Lack of awareness of the presence of international standards.
- H4:** Lack of knowledge and capacity to implement international standards.



Summary of Survey Findings



Standardization is **beneficial** for the growth of the IFSI by promoting more transparency and efficiency, reducing risks, and increasing the acceptability and competitiveness of the products and services on the global level. **Harmonization** of *Shari'ah* resolutions allowing flexibility in interpretations is seen to be more feasible and healthier for the IFSI.



There is a need for more **cooperation** and **collaboration** at the international level to tackle industry issues, and OIC could provide such a platform for closer coordination.



International Islamic SSOs play a **significant role**. The market well appreciates the efforts of AAOIFI and IFSB.



Conventional finance standards and guidelines could be adapted to the needs of the IFSI.



Local authorities have made significant efforts to bring uniformity to the industry, and there is strong market confidence that regulators will **successfully** pursue uniformity in the industry. However, local regulatory bodies and international Islamic SSOs are expected to **work closely** to accelerate standardization in the industry.

CONCLUSION and POLICY ADVICE

CONCLUSION

- With the proliferation of IFIs across jurisdictions and the increasing complexity of their products, standardization has been viewed as an important factor in ensuring market integrity and stability, thereby achieving a fair and equitable financial system.
 - As standards are intended to bring about consistency and homogeneity even among individuals and organizations located in different parts of the world, they greatly contribute to international coordination and collaboration.
 - As part of this endeavor, a number of standards, guidelines, and resolutions pertaining to Shari'ah products, governance, and reporting, among others, have been issued by international Islamic SSOs such as AAOIFI, IFSB, and IIFM, as well as regulators within their jurisdictions.
- The study provides a detailed analysis and elaboration on (i) the standardization efforts made in each segment of the IFSI (Islamic banking, Islamic Capital Markets, and Takaful) at local, regional, and international levels; (ii) the roles and initiatives of various international Islamic SSOs such as AAOIFI, IFSB, and IIFM; (iii) the standardization initiatives taken by four representatives of OIC Member Countries: Malaysia, Morocco, Oman, and Türkiye, as well as the UK - a leading non-OIC Islamic Finance destination.
 - In selecting these case study countries, consideration was given to the regional distribution, the maturity level of the IFSI, as well as the type of legal jurisdiction.

Policy Pillars

Policy Advice #1

Developing a **comprehensive strategic master plan** that clearly defines the standardization and harmonization requirements.

Policy Advice #2

Establishing a **centralized *Sharī'ah* governance system** to ensure the compliance of the IFSI with standards on *Sharī'ah* products, dispute resolution, and reporting.

Policy Advice #3

Ensuring **periodical review of the standards** so that they reflect current market dynamics and needs.

Policy Pillars

Policy Advice #4

Enhancing the legal, regulatory, and supervisory frameworks to create a **level-playing field** for all market participants.

Policy Advice #5

Enhancing the **coordination** among regulatory bodies and with international standard-setting organizations.

Policy Advice #6

Developing **quality human capital**: standards in curriculum/syllabus; training and seminars; accreditation of Islamic Finance academic programmes.

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.
- A task force could be formed to follow up on the implementation of policy advice stated in this report.



COMCEC Project Funding:

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



THANK YOU!