

## **THE POLICY RECOMMENDATIONS OF THE 18<sup>th</sup> MEETING OF THE COMCEC FINANCIAL COOPERATION WORKING GROUP**

The COMCEC Financial Cooperation Working Group (FCWG) successfully held its 18th Meeting on October 3rd, 2022, in a virtual-only format, with the theme of “Standardization Efforts in Islamic Finance”. During the Meeting, FCWG made deliberations on the policy recommendations related to improving standardization efforts in Islamic finance sector. In the light of the main findings of the report and the intense deliberations during 18th Meeting, the Working Group has come up with the following policy recommendations:

**Policy Recommendation 1:** Developing a comprehensive strategic master plan that clearly defines the standardization and harmonization requirements (at global and local levels).  
**Rationale:** The success of the Islamic Financial Services Industry (IFSI) depends on the development of a comprehensive master plan with a clear strategic direction reflected in the blueprints, strategies, and policies of government agencies and self-regulatory organizations representing the industry stakeholders. Upon institutionalizing standardization, the policies, directives, and guidelines will be geared toward achieving this strategic objective.

**Policy Recommendation 2:** Establishing a centralized *Shari’ah* governance framework to ensure the compliance of the Islamic Financial Services Industry with standards on *Shari’ah* products, dispute resolution, and reporting.

**Rationale:** A two-tier *Shari’ah* governance framework would enhance the public trust in the Islamic finance ecosystem through proper checks and balances by ensuring the consistency and uniformity of industry practices and compliance of market operations with the tenets of the *Shari’ah*. While the institution-level *Shari’ah* boards are responsible for monitoring routine business operations, the role of the jurisdiction-level Central *Shari’ah* Board is to issue general and broad *Shari’ah* (principle-based) rulings and review the new Islamic Finance contracts and products. The Central *Shari’ah* Board would serve the interests of all stakeholders by ensuring that the Islamic financial institutions (IFIs) duly implement the *Shari’ah* standards, regulations, and resolutions. Besides, the Central *Shari’ah* Board would assist in dispute resolution by providing clarification and proper *Shari’ah* interpretation of any controversial issues relating to Islamic commercial law brought before a court or arbitral tribunal.

**Policy Recommendation 3:** Ensuring periodical review of the standards so that they reflect current market dynamics and needs.

**Rationale:** In order to ensure that markets are dynamic, efficient, competitive, and innovative, the standardization process should not be rigid. Periodic revision of standards reflecting the industry’s demands would benefit all the stakeholders, which could be achieved by introducing a special platform (meetings, periodicals, etc.) for discussion of related issues.

**Policy Recommendation 4:** Enhancing the legal, regulatory, and supervisory frameworks to create a level-playing field for all market participants.

**Rationale:** There is a need to create a level playing field for all market participants to ensure tax neutrality so that Islamic financial transactions are not taxed differently from conventional transactions. Additionally, the simplification of Islamic Finance-related legal documentation and

harmonization of legal, regulatory, and supervisory frameworks will make standardization more effective.

**Policy Recommendation 5:** Enhancing the coordination among regulatory bodies and with international standard-setting bodies.

**Rationale:** An effective system of cooperation among supervisory agencies should be established to coordinate the development of standards and ensure their compliance and enforcement. Developing constructive communication between international Islamic standard-setting bodies (such as AAOIFI, IFSB, and IIFM and any other relevant standard-setting body that may be set up in the future for the purpose of standardization of products and practices in Islamic finance) and national regulators and continuously improving it will ensure smooth adaption and adoption of international standards to the national ecosystem. Moreover, the adequate representation of the member countries in the international standard-setting bodies would be a pre-condition for factoring in the country-specific guidelines for adapting a specific standard. The establishment of national and international research and working committees dedicated to international harmonization and standardization can assist in reducing divergence and achieving greater connectivity by bridging the gap between local and international industry players. The OIC could provide a platform for collaboration, coordination, and discussion of Islamic finance standardization- and harmonization-related activities and offer financial and technical assistance in this direction. This platform would also help design strategic master plans for the development of the IFSI with embedded standardization/harmonization, offering training and policy dialogue programs for regulators. Also, it could play an important role in dispute resolution for cross-border IFSI-related issues, particularly under the auspices of the newly established OIC Arbitration Centre located in Istanbul.<sup>1</sup>

**Policy Recommendation 6:** Developing quality human capital by including standardization-related modules in the higher education curriculum/syllabus, conducting training and seminars, and introducing accreditation of Islamic Finance academic programmes.

**Rationale:** The success of standardization in Islamic finance relies heavily on human capital development, which is why experts in Islamic finance, such as *Shari'ah* scholars, lawyers, and regulators, should be given priority in expanding their knowledge capacity. The minimum qualification requirements should be set for the members of the *Shari'ah* Advisory Boards, who are also required to attend the continuous professional development modules with a particular focus on standardization-related areas. Also, introducing an international academic accreditation agency for “licensing” the Islamic finance academic programs worldwide will serve the industry's standardization needs as well as ensure that Islamic finance graduates have the knowledge, skills, and attributes required for the field.

### **Instruments to Realize the Policy Advices:**

**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.

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<sup>1</sup> For details, please refer to: <https://www.mondaq.com/turkey/arbitration-dispute-resolution/897458/organization-of-islamic-cooperation-arbitration-center-established-in-istanbul>

**COMCEC Project Funding:** Under the COMCEC Project Funding, the COMCEC Coordination Office issues a 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. To realize 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.