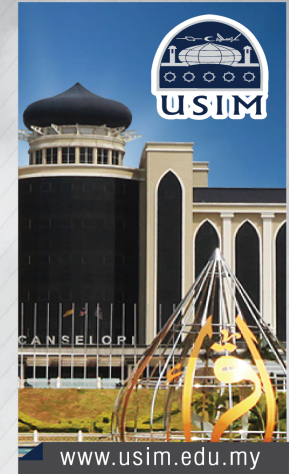


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FROM LEGALISM TO VALUE-ORIENTED ISLAMIC FINANCE PRACTICES: *SHARI'AH* GOVERNANCE APPROACH IN THE GCC COUNTRIES

Zulkifli Hasan

MEMPELOPORI SAINS ISLAM • MEMIMPIN KEILMUAN
PIONEERING ISLAMIC SCIENCE • SPEARHEADING KNOWLEDGE



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Introduction

- Despite the tremendous growth and transformation, there are numerous criticisms on the current practice of Islamic finance, which have led to series of questions as to the distinctiveness of Islamic finance with its conventional counterparts.
- The current practices of Islamic finance in general seem unable to attain its authenticity and share many common similarities with conventional finance.
- The literature has indicated the growing frustration of scholars and proponents of Islamic economics on the failure of Islamic finance in addressing the real economic and ethical issues beyond the legal realm of Shari'ah-compliance.

Between Aspiration and Reality

A study by Beloufi et al (2015) on 40 researches between 1983-2013 found a significant divergence between the theory and practice of Islamic finance.

Sheikh Saleh Kamel

- “I would like to tell you, in all frankness, that if I were to start all over again, I would not choose the bank as a framework for the application of Islamic teachings in the field of economy and investment. I would look for a not *Shari'ah* her framework, which is fully in line with the principles regulating investment. This is due to the fact that we have not been satisfied with taking only the name of the bank but also its basic concept, namely, that it is a financial intermediary. So, we have not been able to find for our financial institutions a concept and a pattern, which goes beyond the issue of financial intermediary. **This has led to the fact that the preferred investment patterns of Islamic banks have become a mix of a loan and an investment. It is a mix, which has most of the characteristics of a *riba*-based loan and the flaws of the Western capitalist system.** It fails to highlight the features of Islamic investment based on risk-sharing and real investment. It does not recognize the guarantee of the capital or its return.”

Critiques on Islamic Finance

Themes	Critiques
Objectives of Islamic law.	Islamic in Islamic finance should relate to the social and economic ends of financial transactions rather than the contract mechanics through which ends are achieved.
Excessive debt.	The disproportionate percentage of debt-based instruments as compared to equity-based.
Relying on legal fiction.	In developing a <i>fiqh muamalat</i> caution must therefore be exercised for it is all too easy, when creating and then relying on legal fiction, to fall into the pit of complacency and inadvertently developing a <i>fiqh hiyal</i> .

Themes	Critiques
Lack of social dimension and poor record of corporate social responsibility.	<p>Lack of commitment of Islamic finance industry to support developmental agenda and corporate social responsibility.</p> <p>‘The doctrine of shareholders’ value, which is the bedrock of capitalistic market, has been shown to be the basis of Islamic finance practices’.</p>
Identical to the conventional banking.	<p>“The ‘applied business model’ of IBs is almost identical to the conventional interest-bearing one. It is neither a ‘two-tier mudharabah’ nor a wakalah (agency) based model but rather a specially ‘engineered’ debt model. The framework adopted in the development of Islamic financial instruments has been to design products in such a way that these are almost equivalent in economic and risk characteristics to conventional debt instruments”.</p>
Lack of authenticity and operates within Neo-classical economics.	<p>“Rather than being part of the Islamic political economy, Islamic finance has been pursuing policies away from the theoretical underpinnings and systemic understanding of Islamic economics and has located a surrogate financial framework in neo-classical economics”.</p>

Themes	Critiques
Over legalistic approach.	<p>“From the legalistic perspective, it is argued that interest is haram for being unjust and exploitative. However these concerns are merely rhetorical, as the new institutions in question have become too cozy with their own exploitative environment about which they are mute. Islamic finance is delinked from the broader goals of development and poverty alleviation” (Farooq, 2007).</p> <p>Islamic finance is experiencing a “formalist deadlock” where the industry is more concerned with formal adherence to Islamic law instead of promoting Islamic ethical values (Balz, 2008).</p> <p>“The current trend reduces Islam and its <i>Shari’ah</i> to their legal dimension rather than seeing them within a greater civilizational framework” (Haneef, 2009).</p> <p>“<i>Shari’ah</i> scholars approach the issue from a microeconomic perspective, and reflect on how an IB, as a financial firm, should conduct its transactions according to <i>fiqh</i> rules; they do not see it in a macroeconomic terms, with IB, as financial intermediaries, meeting the financing needs of society” (Siddiqi 2000).</p>

Over Legalism and Its Implication

- The application of Islamic law in Islamic finance must not only be perceived as merely “law” but as “risk”.
- Lack of concern towards excessive debt in Islamic finance practices is a good example to illustrate the legalism and its implication.
- A key obstacle to recovery, growth and prosperity in the advanced economies is too much debt and too little equity in the economy.

Towards Reformation: From Legalism To Value-oriented Islamic Finance Practices

“Everything that lapses out from justice into injustice, and from mercy into its opposite, and from *maslahah* to *mafsadah*, and from wisdom into the frivolous, does not belong to *Shari’ah*, even if it is inducted into it by interpretation” (Ibn al-Qayyim).

Value-Oriented Islamic Finance Practices

- A Value Oriented Jurisprudence has already discussed the idea to employ values in the context of *maqasid al-Shari'ah*.
- History has also proven that moral enforcement supports and complements the legal mechanism to protect the interest and rights of individuals.
- Civilizational oriented dimension is concerned with the social justice and therefore closely related with human well-being.
- The permissibility of a transaction will not only depend on the pillars of a valid contract but also on the outcome or consequences of the transactions

From Legalism to Value-Oriented Islamic Finance

Tenet-Bound
Fundamentals tenets
derived from *Shari'ah*

Principles-Bound
Concept is grounded on
ethics and values

Real-economy Linked
Asset-backed transactions
with investments in real,
durable assets

Society-Service
Serving communities, not
markets

Shari'ah Governance as a Mechanism

- This paper strongly advocates that *Shari'ah* governance can be a catalyst for Islamic finance reformation towards value-oriented practices.
- To guide IFIs from over legalism towards value-oriented Islamic finance practices.

Islamic Finance in the GCC

After 40 Years?

2015		
Market Share	Customers	Total Assets
4 Markets with 30% Market Share	Less than 100 million customers (2.5 bn no bank's account, 1 bn youth across OIC)	3 trillion (Global financial asset USD300 trillion)
2021		
20 markets with 40-50% Market Share	250 million customers	9 trillion

Islamic Bank Share of Total Assets & Deposits

Country	Assets %	Deposits %
Saudi Arabia	48.9	N/A
Kuwait	44.6	47.3
Bahrain	27.7	47.8
Qatar	23.6	35.7
UAE	21.4	32.8
Malaysia	20.7	29.4
Pakistan	9.5	11.4
Turkey	5.9	7.1
Indonesia	5.5	11.4

Asset and Deposit

Bank	Assets \$ billion	Deposits \$ billion	Overseas focus
Al Rajhi	74.6	61.6	Malaysia
Kuwait Finance House	57.3	35.8	Turkey
Dubai Islamic Bank	30.8	21.6	Pakistan
Maybank Islamic	38.0	25.3	Indonesia, Singapore

Shari'ah Governance as a Mechanism

CG Structure in IFIs

Guidelines on Governance Code of Conduct Infrastructure Due Diligence Communication Internal Control Monitoring Enforcement	Regulation	Regulator			SB
	Electing BOD/ Approving Key Policy	Shareholder			
	Investor/ Shareholder Protection	BOD			
	Board Oversight	Risk Committee	Audit Committee	Governance Committee	
					Internal Shari'ah Compliance Unit/ Department
	Management Oversight	Risk Management	Internal Audit	Compliance Officer	

SG as part of CG in IFIs

- SG is a set of institutional and organizational arrangements through which IFIs ensure that there is independent oversight of Shari'ah compliance over the issuance of Shari'ah pronouncements, dissemination of information and an internal Shari'ah compliance review .
- IFIs shall have in place a SB to review and ensure that all financing proposals are *Shari'ah* compliant at all times.
- Internal/External *Shari'ah* review unit to assist the SB for *Shari'ah*-compliance purpose.

Objectives

Ensure compliance to *Shari'ah* Principles

Harmonization of practices

Enhance role of Board, SC and management

Instill public confidence on credibility of Islamic Finance operation

How SG complements CG framework in IFIs?

Function	Common Corporate Governance	Additional of IFI
Governance	Boards of Director	<i>Shari'ah</i> Committee
Control	Internal Audit Division, External Audit	Internal Shariah Review, <i>Shari'ah</i> Review by <i>Shari'ah</i> Committee, <i>Shari'ah</i> Audit
Compliance	Regulatory & Financial Compliance Division	Internal <i>Shari'ah</i> Compliance (Research)
Risk Management	Risk Management division (Credit, Market & Operational Risk)	<i>Shari'ah</i> Compliance Risk Management

Guidelines on *Shari'ah* Governance for IFIs

Issuer	Guidelines
AAOIFI	■ Governance Standards 1-5
IFSB	■ Guiding Principles on SG System for Institutions offering Islamic Financial Services
Bahrain	■ The CBB Rule Book Volume 2, Islamic Banks, Part A, High Level Control
DIFC	■ the DIFC Services Authority (DFSA) Rulebook on Islamic Financial Business Module
QFC	■ the Islamic Finance Rule Book 2007
Bank Indonesia	■ BI Rule No 6/24/PBI/2004
Malaysia	■ Shari'ah Governance Framework
Pakistan	■ Instruction and Guidelines for Sharī'ah Compliance in Islamic Banking Institutions.
Malaysia	■ Shari'ah Governance Framework

Institutionalization of *Shari'ah* Board

- The AAOIFI Governance Standard No.1 defines a *Shari'ah board* as “an independent body entrusted with the duty of directing, reviewing and supervising the activities of IFIs for the purpose of *Shari'ah* compliance and issuing legal rulings pertaining to Islamic banking and finance”
- “a body comprised of a panel of *Shari'ah* scholars who provide *Shari'ah* expertise and act as special advisers to the institutions”

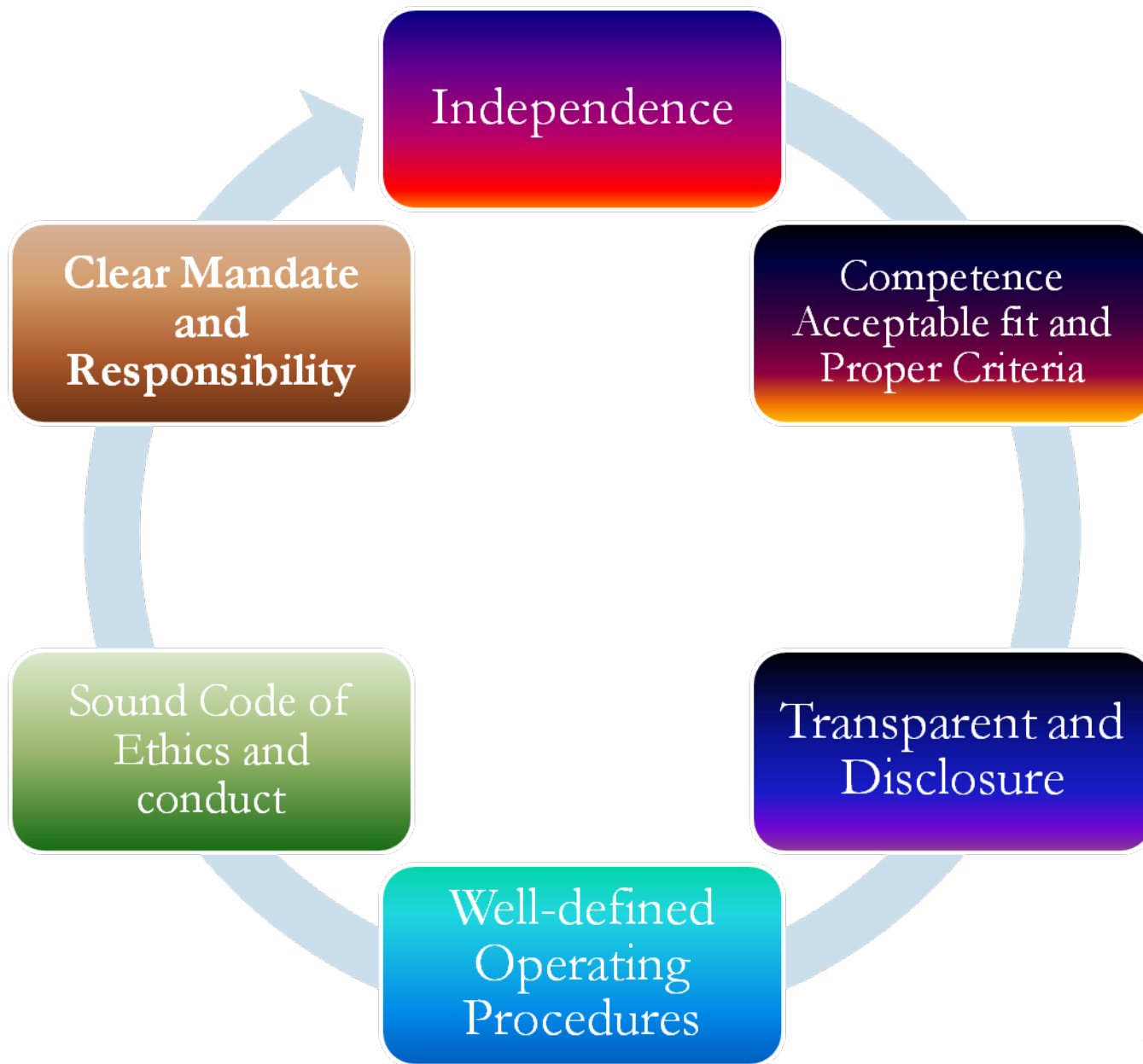
Roles of the *Shari'ah* Board

- To advise IFIs on any *Shari'ah* matter such as to its operation, to analyse and evaluate *Shari'ah* aspects of new products/schemes so as to ensure compliance with the shariah tenets and requirements in their operations.
- Ex-ante and ex-post SG process
- Eg. concept and structure of the product, documentation, manuals, business operation, zakah policy and etc.

Key Elements of SG

Key Element	Principle	Operational Framework
Competence	Fit and proper criteria	<i>Ex ante</i> : Screening process <i>Ex post</i> : Review and assessment
	Professional training	
	Formal assessment	
Independence	Adequate capability to exercise objective judgment	<i>Ex ante</i> : Appointment, disclosure and full mandate <i>Ex post</i> : Review and assessment
	Complete, adequate and timely information	
Confidentiality	Strictly observe the confidentiality	<i>Ex ante</i> : Undertaking secrecy <i>Ex post</i> : Review and assessment
Consistency	Fully understand the legal and regulatory framework strictly observes the said framework. The adoption of AAOIFI standards and Centralized Shari'ah board.	There must be consistency in all <i>ex ante</i> and <i>ex post Sharī'ah</i> governance processes.

Elements of Good *Shari'ah* Board



Shari'ah Governance in the GCC

Shari'ah Governance Model

- **Various models and approaches of *Shari'ah* governance:**
 - two-tier “centralized model”: a *Shari'ah* Advisory Council at the level of the central bank and individual *Shari'ah* committees at the market level in each IFI;
 - “centralized model”: *Shari'ah* Advisory Council at the central bank only;
 - “non-centralized model”: *Shari'ah* committees at the financial institution level only.
- **9 countries that have centralized *Shari'ah* board**
 - GCC region: Bahrain, Oman and United Arab Emirates,
 - Asian Region: Bangladesh and Pakistan, and South East Asia: Brunei, Indonesia, Malaysia and
 - Africa: Sudan.
 - These markets represent approximately USD750 billion of Islamic finance assets are located.

Shari'ah Governance Model in the GCC

Country	Model	Shari'ah Governance Framework
Kuwait	Non-centralized Shari'ah board	The <i>Shari'ah</i> governance practice in Kuwait is regulated by virtue of Article 93 of the CBK Law, which provides a legal basis for the regulations of the <i>Shari'ah</i> board. Article 4 of law 7 of 2010 decreed for the setup of special rules, regulations and procedures to regulate the activity of individuals working in accordance with Islamic law.
United Arab Emirates	Two-tier Centralized Shari'ah board	The Federal Law No. 6 of 1985 governs the <i>Shari'ah</i> governance system in the UAE. Article 5 of the Federal Law No. 6 of 1985 requires the establishment of a “Higher <i>Shari'ah</i> Authority” under the Ministry of Justice and Islamic Affairs to supervise Islamic banks, financial institutions and investment companies and to provide <i>Shari'ah</i> opinion on matters pertaining to Islamic banking and finance

Country	Model	<i>Shari'ah</i> Governance Framework
Bahrain	Two-tier Centralized <i>Shari'ah</i> board	The CBB Rule Book Volume 2, Islamic Banks, Part A, High Level Control provides that the CBB requires all banks to establish an independent <i>Shari'ah</i> board complying with the AAOIFI governance standards for IFIs No. 1 and No.2. Bahrain has established a National <i>Shari'ah</i> Advisory Board of the CBB with the purpose of serving and verifying <i>Shari'ah</i> compliance.
Kingdom of Saudi Arabia	Non-centralized <i>Shari'ah</i> board.	The SAMA treats IFIs as equal to their conventional counterparts. There is no national <i>Shari'ah</i> advisory board, nor are any institutions the sole authoritative body in Islamic finance. The existing <i>Shari'ah</i> governance system, as practised by IFIs in the kingdom, is a product of self-initiative rather than a regulatory requirement or at a regulator's direction.

Country	Model	<i>Shari'ah</i> Governance Framework
Qatar	Non - centralized <i>Shari'ah</i> board	The QCB issued prudential regulations for banking supervision known as Instructions to Banks and Part Seven of the Banking Supervision Instructions provides the guidelines for IFIs. Meanwhile, the QFC has its own rules and regulations pertaining to the <i>Shari'ah</i> governance system, as stipulated in the Islamic Finance Rule Book 2007.
Oman	Two - tier Centralized <i>Shari'ah</i> board.	Oman is relatively new in Islamic finance. In 2012, a comprehensive <i>Shari'ah</i> governance framework was introduced in Oman outlining the roles and duties of the board of directors and its main members including the <i>Shari'ah</i> committee and internal <i>Shari'ah</i> auditors. In 2013, the national <i>Shari'ah</i> Advisory Council was established to advise the central bank on <i>Shari'ah</i> matters pertaining to finance.

Why does SG matter?

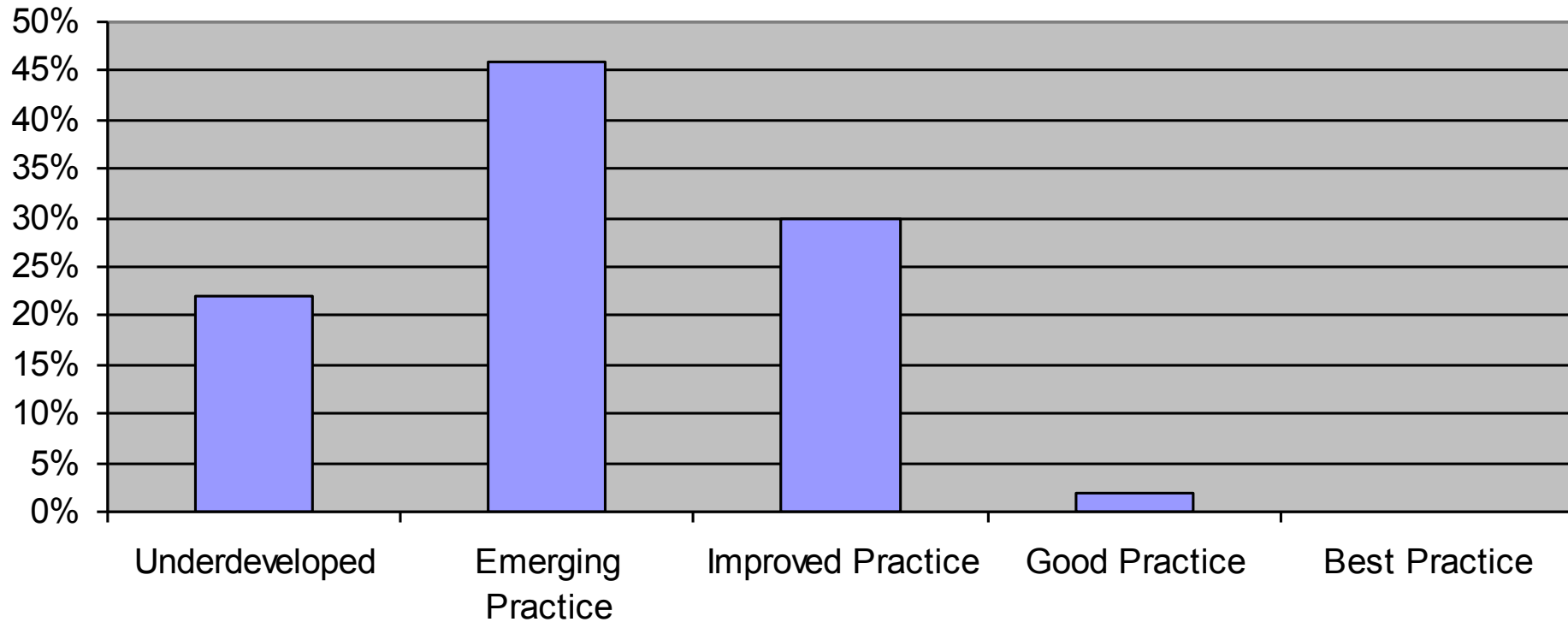
<i>The Investment Dar Company v Blom Developments Bank</i>	TID claims that the wakala based deposit in the amount of USD10m did not comply with the <i>Shari'ah</i> and therefore should be considered void.
The Majma' Fiqh declaration on <i>Tawarruq</i>	Resolution on <i>Tawarruq</i> at the 19 th meeting in Sharjah, UAE on 26-30 th April 2009
Statement of 85% of potential <i>Shari'ah</i> non-compliance sukuk	Has negated in some way public confidence on legitimacy and Islamicity of the sukuk. Sales of sukuk dropped 50% in 2008 and prices fell at an average of 1.51% . According to Bloomberg, sales of global sukuk had dropped to USD856 million in 2008 .
Financial Loss	The BNM received more than 100 submissions from IFIs for <i>Shari'ah</i> non-compliance reporting and less than 21% are actual <i>Shari'ah</i> non-compliance. The amount of actual loss due to this non-compliance is also significant.
<i>Judgment on BBA</i>	The High Court decreed that the profit derived from BBA facility is unlawful. The defaulters of BBA facility were only liable as to the original facility amount and not the selling price.
Kleinwort Benson	One of the factors that lead to the closure of KB in 1986 was due to investor' s reservation about the absence of a <i>SB</i> .
<i>Judgment on BBA</i>	The High Court decreed that the profit derived from BBA facility is unlawful. The defaulters of BBA facility were only liable as to the

Shari'ah Governance Practices in the GCC

Shari'ah Governance Index

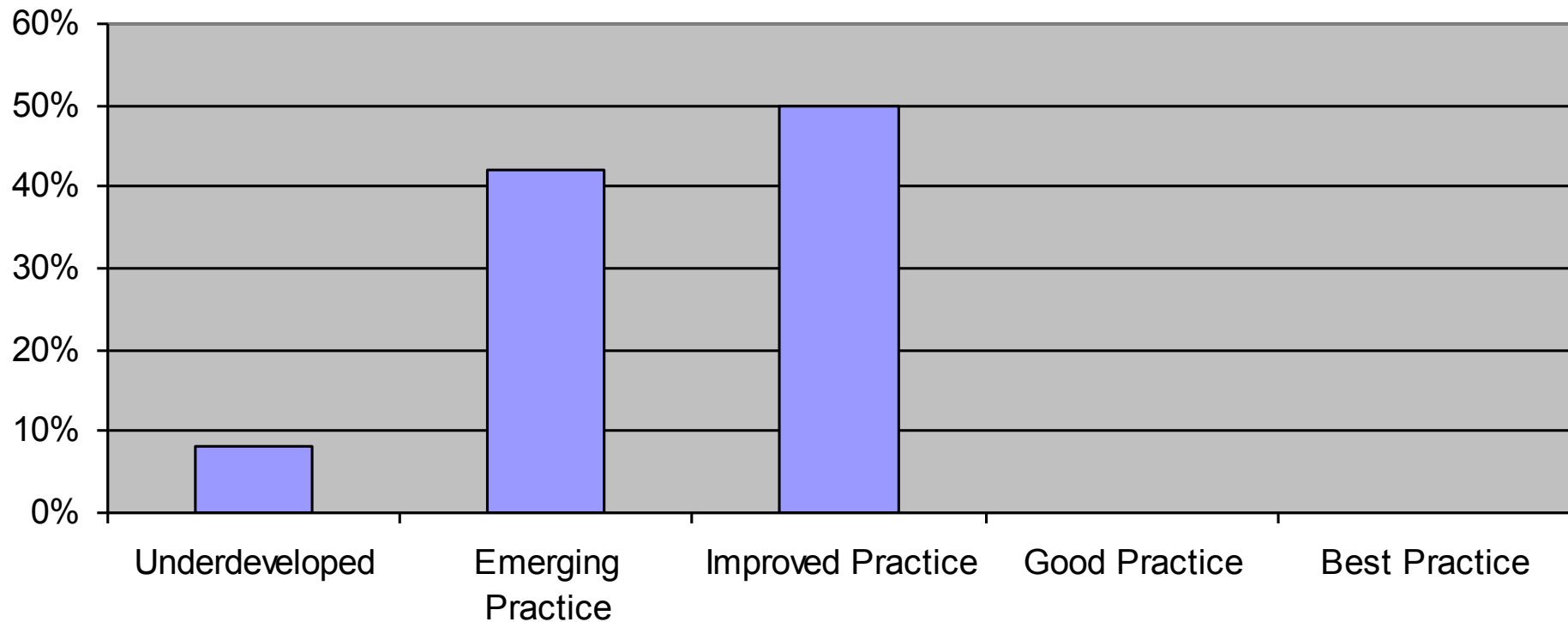
Indicator	<i>Shari'ah</i> Governance Disclosure
3	Disclosure of Commitment to <i>Shari'ah</i> Governance
15	Disclosure of <i>Shari'ah</i> Board Information
2	Disclosure of <i>Shari'ah</i> Board Remuneration
2	Disclosure of <i>Shari'ah</i> Report
3	Disclosure of <i>Shari'ah</i> Pronouncements
1	Disclosure of <i>Shari'ah</i> Compliance Review
2	Disclosure of Information on Products and Services

The Overall Disclosure Indices



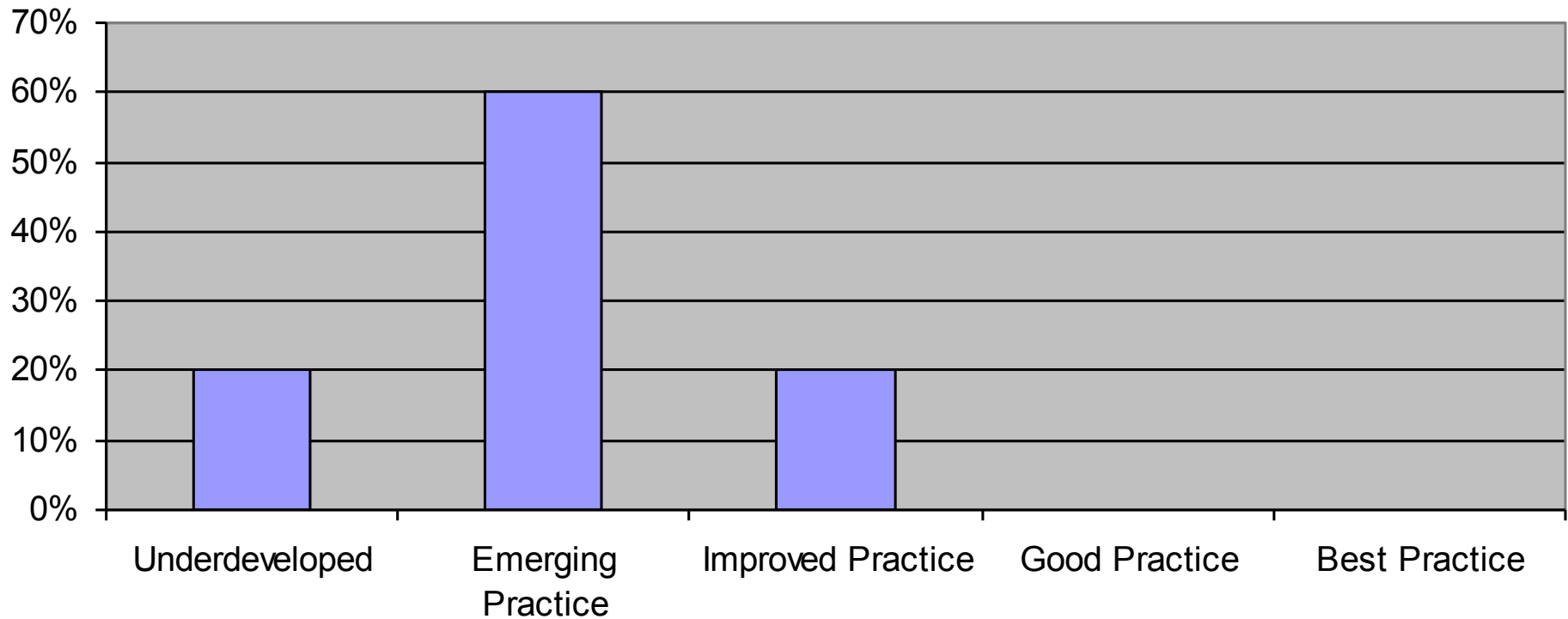
- **54 IFIs in the GCC.**
- **Most of IFIs (46%) are ranked as Emerging Practice followed by 30%, Improved Practice, 22%, Underdeveloped and 2%, good practice.**

Disclosure Indices for IFIs in Bahrain



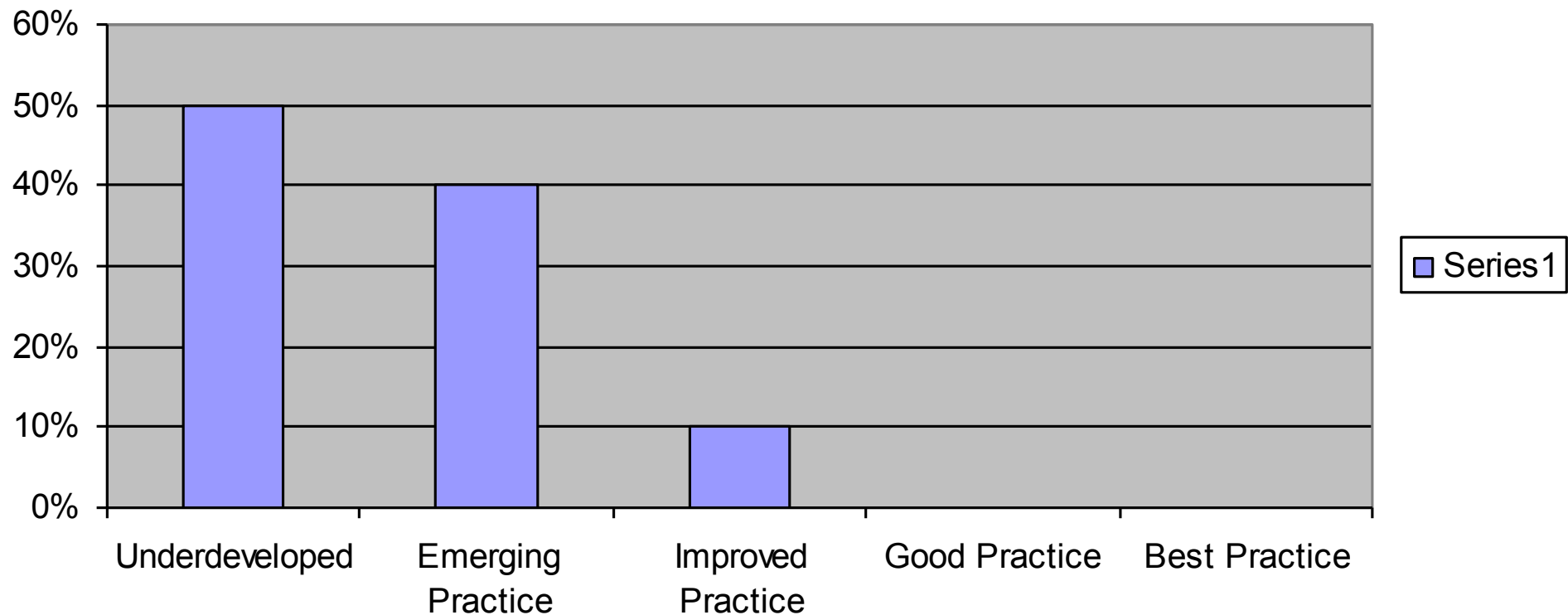
- Bahrain are generally producing low disclosure practices.
- 50% of IFIs are ranked as Improved Practice, 42%, Emerging Practice and 8%, Underdeveloped.

Disclosure Indices for IFIs in Kuwait



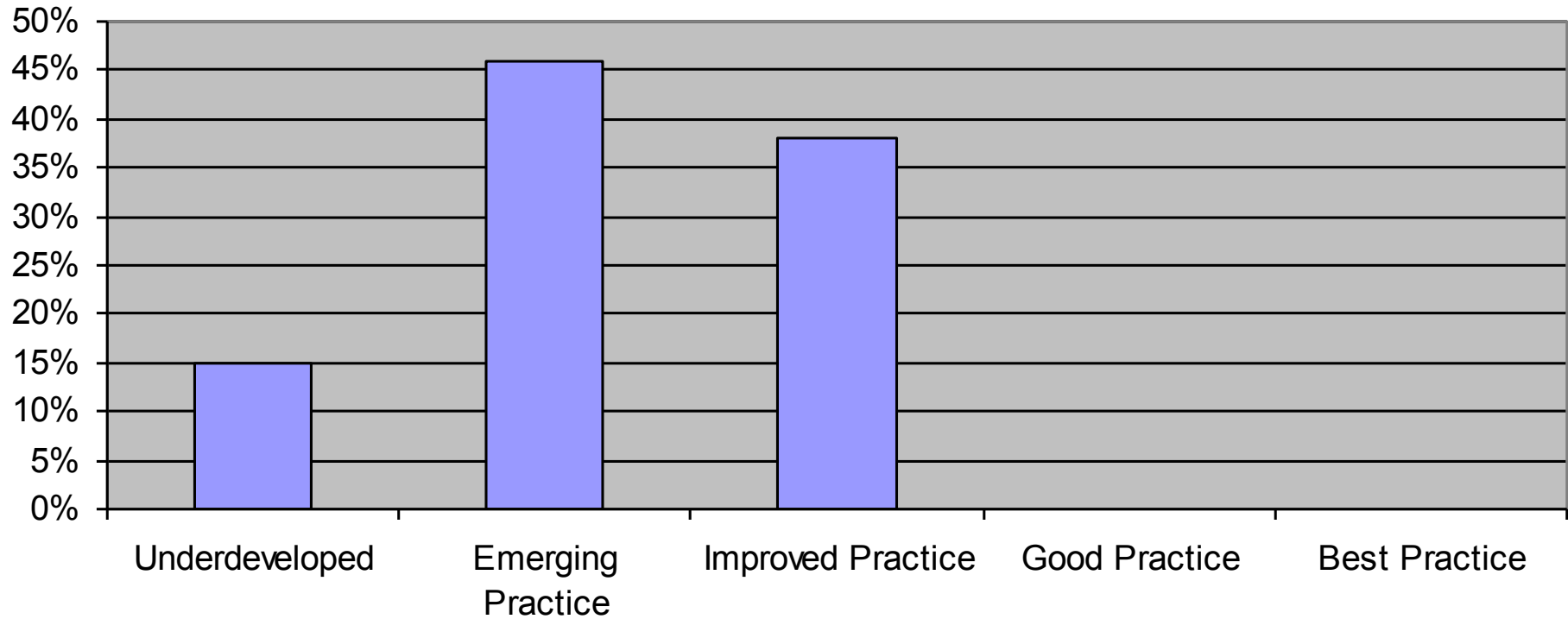
- Majority of IFIs (60%) are ranked as Emerging Practice followed by 20% Underdeveloped and Improved Practice.
- There is no single IFI achieved the level of Good Practice or Best Practice.

Disclosure Indices for IFIs in Qatar



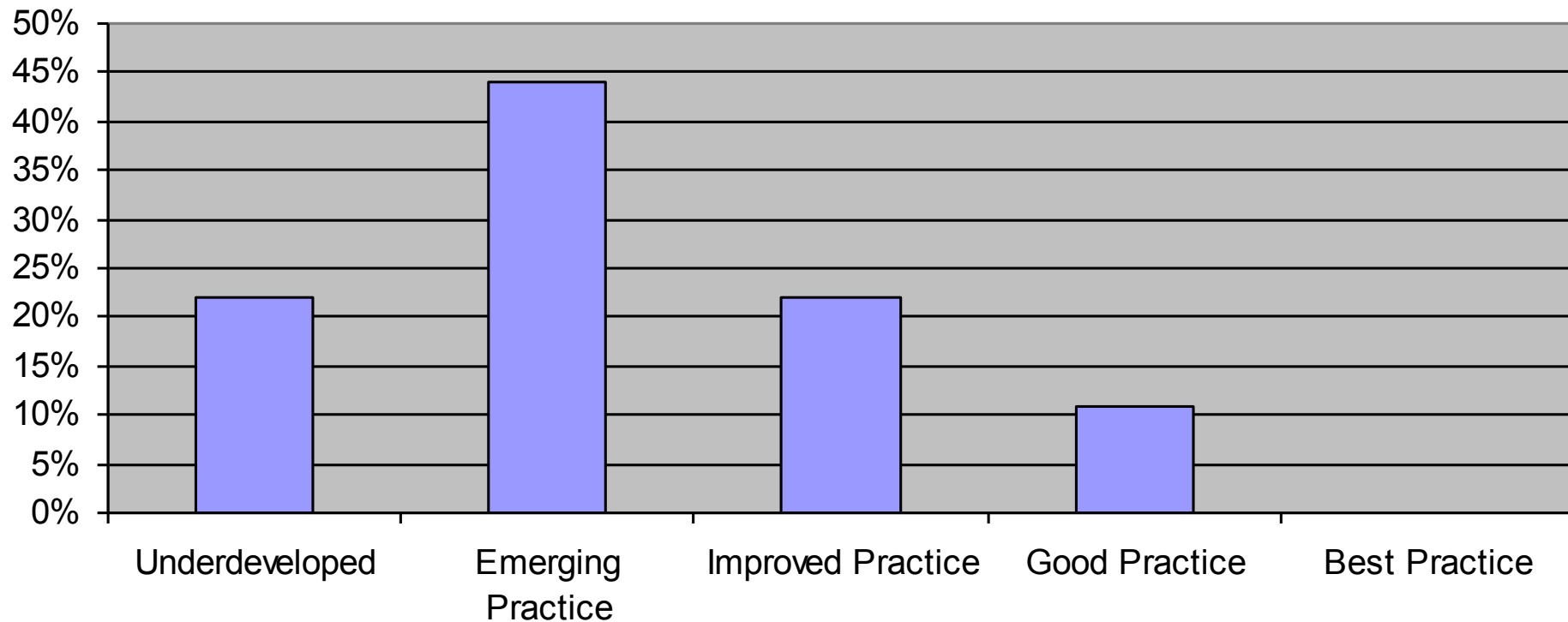
- The level of disclosure and transparency is also low in Qatar.
- The graph shows that 40% of IFIs are ranked as Emerging Practice, 50% as Underdeveloped and 10% of IFIs as Improved Practice.

Disclosure Indices for IFIs in UAE



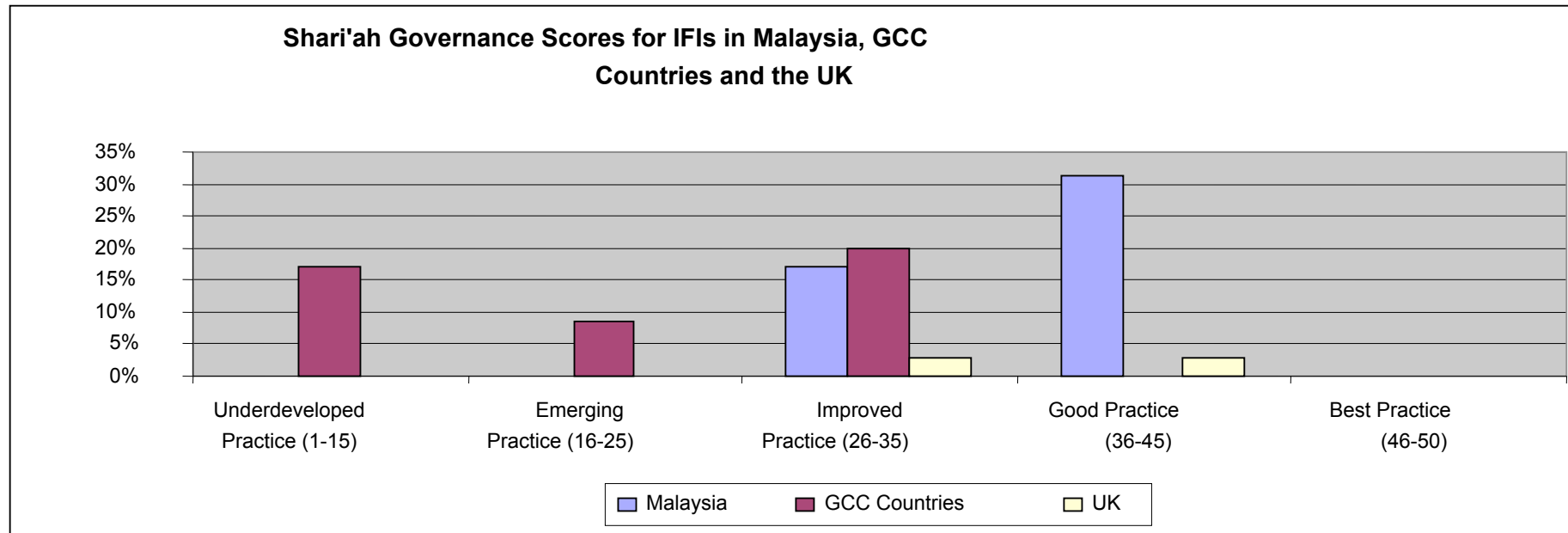
- Majority of IFIs (46%) are ranked as Emerging Practice followed by Improved Practice (38%) and Underdeveloped (15%).

Disclosure Indices for IFIs in Saudi Arabia



- 44% of IFIs are ranked as Emerging Practice followed by 22% of IFIs as Improved Practice and Underdeveloped and 11% of IFIs as Good Practice.

SG Practices: Country Specific Behavior



- IFIs in Malaysia presented slightly better score as compared to GCC and the UK. Most of IFIs in the GCC (20%) fall into the Improved Practice category and 17% into the Underdeveloped Practice category.

Shari'ah Governance Sub-Indicator

- (1) the number of IFIs with at least three members in their Shari'ah board
- (2) the number of Shariah scholars with at least one board membership, and
- (3) the number of scholars with more than five board memberships.

Shari'ah Governance Sub-Indicator

Country	<i>Shari'ah</i> Governance Indicator
Bahrain	142
Malaysia	116
Kuwait	106
Bangladesh	92
Sudan	89
Oman	70
Indonesia	57
Pakistan	56

High Concentration on Few Scholars

- 10 *Shari'ah* scholars serve in approximately 497 IFIs representing 76% the total IFIs with *Shari'ah* boards.
- 3 scholars with the highest number of board memberships serve about 40% of IFIs globally.
- The number of institutions increases and the amount of work increases.
- There is deficiency of about 1700 *Shari'ah* board members, whereby it is expected that the requirement for *Shari'ah* scholars will rise to 3000 in next 5 years if 5% growth is assumed in the number of IFIs.
- Succession Plan – Serious action required
- Performance Assessment (Collective & Individually) ⁴⁵

<i>Shari'ah</i> Scholar	Data as of 31.12.2008	Data as of 10.10.2009	Data as of 12.04.2010	
	467 Board Positions in 19 Countries	956 Board Positions in 22 Countries	1050 Board Positions in 24 Countries	Chairman Positions in 24 Countries
Shaikh Nizam Mohammed Saleh Yaquby	46	77	78	10
Dr. Abdul Satar Abdul Karim Abu Ghuddah	45	72	77	21
Dr. Mohammed Eid Elgari	31	64	65	8
Dr. Abdulaziz Khalifa Al Qassar	22	37	38	9
Dr. Mohd Daud Bakar	22	35	38	
Shaikh Abdulla Bin Sulaiman Al Manea	20	37	38	20
Dr. Hussein Hamid Hassan	19	29	32	21
Dr. Ali Mohi Eldinne Al Qaradaghi	17	23	31	7
Dr. Essa Zaki Essa	17	25	25	
Shaikh Ajeel Jasim Al Nashmi	15	24	22	
Average	25.3	42.3	44.4	9.6

Present Number of Scholars

- The total number of *Shari'ah* scholars reached 952 covering 652 IFIs in more than 46 countries.
- 75% within the top 10 countries (Malaysia Bangladesh Indonesia Kuwait Saudi Arabia Bahrain Sudan UAE Pakistan Oman)
- 41% in the GCC region.
- 26% South East Asia
- 16% in South Asia
- 11% in MENA nations
- 2% Europe

Shari'ah Scholars in the GCC

Countries	Number
Malaysia	203
Bangladesh	173
Indonesia	131
Kuwait	70
Saudi Arabia	68
Sudan	60
Bahrain	60
UAE	57
Pakistan	43
Oman	32
Qatar	30

Remuneration

- A small percentage of 3.7% of 54 IFIs in GCC countries disclosed *Shari'ah* board's remuneration.
- The *Shari'ah* board members of IFIs in Bahrain and the UK receive a larger amount of remuneration compared to their counterparts in Malaysia with averages of USD76,432 and USD74,553 respectively.
- A chairman of a *Shari'ah* board could earn USD50,000 to USD100,000 per board.
- A top scholar could gain up to USD250,000 on a typical capital markets deal.

What to Reform?

Value-Oriented Reformation

- Islamic finance practices require reformation from all stakeholders especially *Shari'ah* governance system.
- As the industry has matured and gained experience, *Shari'ah* governance framework plays major roles in guiding Islamic finance towards more value-oriented practices.
- *Shari'ah* scholars have a responsibility to act cautiously and to anticipate to the best of their ability the consequences of their *Shari'ah* supervisory practices.
- Increasing complexity in the role of *Shari'ah* scholars and at the same time with additional liabilities has been transforming the nature of fatwa, necessitating higher levels of sophistication and comprehension.

From Legalism to Value-Oriented Islamic Finance

- Islamic jurisprudential issue vs public policy or prudential issue.
- Islamic financial system — real or cosmetic?
- The permissibility of a transaction will not only depend on the pillars of a valid contract but also on the values, ethics and outcome or consequences of the transactions.

Specialization of *Shari'ah* Scholars

- The “one scholar fits all” approach is unlikely to be relevant in the future due to increasing complexity of a growing industry.
- Specialization of *Shari'ah* scholars by the different segments of the industry which will enable them to better serve the industry in a more efficient manner.
- Eg. Retail banking, investment banking, capital market, asset management, takaful, wealth management and etc.

Shari'ah Research and Development

- The overall performance of *Shari'ah* research is unsatisfactory. (Malaysia scored 211 points representing 31% of the total research papers on Islamic finance in the world).
- *Shari'ah* Research & development plays an instrumental role in the development of an industry.
- Innovative products to cater to the changing needs of customers in a complex environment, while giving due consideration to *maqasid al-Shariah*.
- *Shari'ah* scholars are important stakeholders in R&D.

Reasonable Understanding on Finance and Regulatory Framework

- Understand dispute resolution environment for adjudication and dispute settlement at the national and international levels;
- Legal certainty of *Shari'ah* contracts enforcement;
- Responsive and sensitive to legislative change.
- To have reasonable understanding or sufficient knowledge on finance.
- The SC to learn and understand the overall operations and policy of IFIs.

Understanding the Roles of Standard-Setting Agencies

Areas of Standards	Key Agency(s) in the International Financial Architecture	Corresponding Agency(s) in Islamic Finance
1. Accounting	International Accounting Standards Board (IASB), International Federation of Accountants (IFAC), Committee on Banking Supervision (BCBS)	AAOIFI
2. Anti-Money Laundering / Combating the Financing of Terrorism	Financial Action Task Force (FATF)	Common
Auditing	International Federation of Accountants (IFAC)	AAOIFI
3. Banking	Committee	IFSB
4. Corporate Governance	OECD, Basel Committee, World Bank	AAOIFI and IFSB
5. Data Dissemination	IMF	Common
6. Fiscal Transparency	IMF	Common
7. Insolvency and Creditor Rights Systems	World Bank, United Nations Commission on International Trade Law (UNCITRAL), International Bar Association (IBA)	Not yet addressed but especially critical for Islamic financing as it is based on risk sharing
8. Insurance Regulation	International Association of Insurance Supervisors (IAIS)	Not yet addressed but within the mandate of IFSB
9. Monetary & Financial Transparency Policies	IMF	Common
10. Payments Systems	Committee on Payment and Settlements Systems (CPSS)	Common
11. Securities Market Regulation	International Organization of Securities Commissions (IOSCO)	Not yet addressed but within the mandate of IFSB

Intermediating Between all Stakeholders

- The SC to have due regards to all stakeholders.
- The SC has the duties to act in the best interests of the IFIs and at the same time to act in the best interests of customers.
- To balance the interest and rights of all stakeholders.
- To understand the roles of regulators.
- Shareholders, Customers, depositors and investment account holders.

Scholars' Activism

- *Shari'ah* scholars have not been engaging with the public extensively and intensively.
- *Shari'ah* scholars must actively engaging the communities.
- The more *Shari'ah* scholars engage with the society, the higher the level of confidence of the general public with Islamic finance.

Concluding Remarks

Ask our Heart

- There are some valid and legitimate concerns on the current practices and trends of Islamic finance. In simple words, '**ask our heart**', whether the recent Islamic finance practices have fulfilled the real higher objectives of *Shari'ah*.
- It is important to critically evaluate the performance of IFIs against their foundational base and at the same time to maintain its positive development.
- This paper strongly advocates the roles of *Shari'ah* governance system in guiding the industry towards value-oriented Islamic finance practices. With the *Shari'ah* governance system in GCC countries as the case study, this paper submits that strong and robust *Shari'ah* governance system can be a catalyst and appropriate mechanism for Islamic finance reformation.

THANK YOU

