



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

COMCEC

Standardization Efforts in Islamic Finance



COMCEC COORDINATION OFFICE

September 2022



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LIST OF ABBREVIATIONS

AAOIFI	: Accounting and Auditing Organization for Islamic Financial Institutions
AB	: Advisory Board
ALF	: Alternative Liquidity Facility
AUM	: Assets Under Management
BAFIA	: Banking and Financial Institutions Act
BAKM	: Bank Al-Maghrib (Central Bank of Morocco)
BCBS	: Basel Committee on Banking Supervision
BIS	: Bank for International Settlements
BIST	: Borsa Istanbul (Türkiye)
BNM	: Bank Negara Malaysia (Central Bank of Malaysia)
BOE	: Bank of England
BRSA	: Banking Regulation and Supervision Agency (Türkiye)
CAGR	: Compound Annual Growth Rate
CBO	: Central Bank of Oman
CBRT	: Central Bank of the Republic of Türkiye
CGFS	: Committee on the Global Financial System
CMA	: Capital Market Authority (Oman)
CMB	: Capital Markets Board (Türkiye)
CML	: Capital Markets Law
COMCEC	: Standing Committee for Economic and Commercial Cooperation
CPMI	: Committee on Payments and Market Infrastructures
CSR	: Corporate Social Responsibility
ESG	: Environmental, Social, and Governance
FASB	: Financial Accounting Standards Board
FATF	: Financial Action Task Force on Money Laundering
FSMA	: Financial Services and Markets Act
GAAP	: Generally Accepted Accounting Principles
GCC	: Gulf Cooperation Council
HAS	: Higher <i>Shari‘ah</i> Authority
HCU	: Higher Council of Ulama
IAASB	: International Auditing and Assurance Standards Board
IADI	: International Association of Deposit Insurers
IAIS	: International Association of Insurance Supervisors
IASB	: International Accounting Standards Board
IBOR	: Interbank Offered Rate
IBRF	: Islamic Banking Regulatory Framework
IFCUK	: Islamic Finance Council UK
IFDI	: Islamic Finance Development Indicator
IFI	: Islamic Financial Institution
IFRS	: International Financial Reporting Standards
IFSA	: Islamic Financial Services Act 2013
IFSB	: Islamic Financial Services Board

IFSI	: Islamic Financial Services Industry
IIFA	: International Islamic Fiqh Academy
IIFC	: Istanbul International Finance Centre
IIFM	: International Islamic Financial Market
IIRA	: Islamic International Rating Agency
IOPS	: International Organization of Pension Supervisors
IOSCO	: International Organization of Securities Commissions
IPPRSA	: Insurance and Private Pension Regulation and Supervision Agency (Türkiye)
IRTI	: Islamic Research and Training Institute
ISDA	: International Swaps and Derivatives Association
IsDB	: Islamic Development Bank
ISSSA	: Insurance and Social Security Supervisory Authority
ITA	: Income Tax Act
MCMA	: Moroccan Capital Markets Authority
MENA	: Middle East and North Africa
MIFC	: Malaysia International Islamic Financial Center
MOCIIP	: Ministry of Commerce and Industry and Investment Protection (Oman)
MoU	: Memorandum of Understanding
MSX	: Muscat Stock Exchange
MTA	: Malaysian <i>Takaful</i> Association
MTF	: Ministry of Treasury and Finance (Türkiye)
OECD	: Organization for Economic Cooperation and Development
OIC	: Organization of Islamic Cooperation
P2P	: Peer-to-Peer
PBAT	: Participation Banks Association of Türkiye
PBUH	: Peace be upon him (Prophet Muhammad)
POA	: Public Oversight, Accounting and Auditing Standards Authority
PSIA	: Profit-Sharing Investment Account
REIT	: Real Estate Investment Trust
SAC	: <i>Shari‘ah</i> Advisory Council
SCF	: <i>Shari‘ah</i> Committee for Finance
SDIF	: Savings Deposit Insurance Fund
SFH	: Special Finance House
SFI	: Saving Financial Institution
SMF	: <i>Shari‘ah</i> -compliant Mutual Fund
SMIIC	: Standards and Metrology Institute for Islamic Countries
SPV	: Special Purpose Vehicle
SRI	: Sustainable and Responsible Investment
SSB	: <i>Shari‘ah</i> Supervisory Board
SSO	: Standard-setting Organization
TASB	: Turkish Accounting Standards Board
UCITS	: Undertakings for the Collective Investment in Transferable Securities
UNCITRAL	: United Nations Commission on International Trade Law

EXECUTIVE SUMMARY

The growing number of Islamic financial institutions (IFIs) across jurisdictions and the sophistication of Islamic Finance instruments require standardizations or at least harmonization¹ of Islamic Finance contracts and services to regulate the markets in order to promote their transparency and improve their stability and ultimately create a fair and equitable financial system. As part of this effort, several international Islamic standard-setting organizations (SSOs), including the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), the Islamic Financial Services Board (IFSB), and the International Islamic Financial Market (IIFM), have issued numerous standards covering *Shari‘ah* products, *Shari‘ah* governance including ethics-related standards, and Islamic accounting and auditing. Consequently, the guidelines and resolutions are introduced at the local level.

RESEARCH OBJECTIVE: This study aims to elaborate on and analyze the recent initiatives and issues regarding the standardization in Islamic Finance by covering different sectors such as Islamic banking, Islamic capital markets (ICM), and Islamic Insurance (*Takaful*), with a particular focus on developments in OIC Member Countries.

SCOPE OF THE STUDY: This study focuses on (i) the standardization efforts in Islamic Finance sectors (Islamic banking, ICM, *Takaful*, and others) at local, regional, and international levels; (ii) the roles and initiatives of various international SSOs towards Islamic Finance sectors; (iii) some detailed analysis of the standardization efforts in four OIC Member Countries and a single non-OIC Islamic Finance market.

METHODOLOGY: Addressing the research objectives, the study extensively reviews the relevant literature (such as reports, books, articles, and regulations), collects data via administering semi-structured questionnaires and expert interviews, applies descriptive analysis, and reports the findings. The case study countries include Malaysia, Morocco, Oman, and Türkiye, representing OIC countries, and the UK – a non-OIC European Islamic Finance market. These countries are selected based on the regional distribution, the maturity level of the Islamic Finance Services Industry (IFSI), and type of legal jurisdiction.

FINDINGS: The study provides concise, systematic, and viable policy recommendations to the OIC Member Countries for tackling their standardization issues to facilitate the further acceleration of Islamic Finance development, considering the best practices and lessons learned from case studies

¹ ‘*Harmonization*’ is the process of minimization of existing differences, whereas ‘*standardization*’ is about the elimination of any differences.

within the framework of this report. So, to minimize the divergence of interpretation of Islamic Finance principles and to bring consistency to the industry practices and products, the following key policy actions are proposed:

#	Policy Recommendation
1	Developing a comprehensive strategic master plan that clearly defines the standardization and harmonization requirements (at global and local levels)
2	Establishing a centralized <i>Shari‘ah</i> governance framework to ensure the compliance of the IFSI with standards on <i>Shari‘ah</i> products, dispute resolution, and reporting
3	Ensuring periodical review of the standards so that they reflect current market dynamics and needs
4	Enhancing the legal, regulatory, and supervisory frameworks to create a level-playing field for all market participants
5	Enhancing the coordination among regulatory bodies and with international standard-setting organizations
6	Developing quality human capital by introducing standardization-related modules into the higher education curriculum/syllabus, conducting training and seminars, and introducing accreditation of Islamic Finance academic programmes.

The findings and recommendations shall benefit the industry players and policymakers of the OIC and non-OIC member countries, the international community, and international organizations.

CHAPTER 1: INTRODUCTION

The current chapter provides a theoretical basis for standardization, particularly in the finance sector, and elaborates on its significance.

1.1. Background of the Study

There has been a significant growth in Islamic Finance Services Industry (IFSI) globally since the emergence of the first modern Islamic financial institutions (IFIs) in the late 1960s. According to the Islamic Financial Services Stability Report ([IFSB, 2021](#)), the total asset size of the industry has increased from US\$2.44 trillion in 2019 to US\$2.70 trillion in 2020, with a 10.7 percent growth rate despite the adverse effects of the COVID-19 pandemic all over the world. Islamic banking was still the dominant segment [68.3 percent share], which grew 4.3 percent and reached US\$1,841.80 billion in 2020. *Şukūk* market and Islamic funds constitute Islamic Capital Markets (ICMs), representing 25.6 percent and 5.3 percent, respectively, as of 2020. On the other hand, the share of the *Takaful* (Islamic Insurance) segment decreased to 0.9 percent in 2020, from 1.1 percent in 2019. Meanwhile, the higher estimates are reported by Thomson Reuters in Islamic Finance Development Report 2021 ([IFDI, 2021](#)), as shown in [Table 1](#).

Table 1: Global Islamic Finance Assets Distribution (US\$, the year 2020)

Segment	Amount (US\$ Billion)	Institutions/ Instruments	Share (%)
Islamic Banking	2,349	527	69.62
<i>Şukūk</i>	631	3,805	18.70
Other IFIs	178	1,698	5.28
Islamic Funds	154	745	4.56
<i>Takaful</i>	62	323	1.84
Total	3,374	3,293 IFIs + 3,805 Instruments	100.00

Source: [IFDI \(2021\)](#)

[Table 2](#) below presents the top 10 countries ranked based on the performance of Islamic Finance sectors: Islamic banking, *Takaful*, ICM (*Şukūk* issuance, and Islamic funds), and other IFIs. The global IFSI is led by three countries: Iran, Saudi Arabia, and Malaysia.

The top five sovereigns—Kuwait, Malaysia, Saudi Arabia, Indonesia, and Türkiye—accounted for 86 percent of all *Şukūk* issuances in 2020 ([IFDI, 2021](#)). Meanwhile, the UK issued a £500 million (US\$686.9 million) *Şukūk*, the second-ever following its debut issuance in 2014, to strengthen its domestic IFSI and establish itself as a reputable conduit for Islamic financing in the West ([IFDI, 2021](#)).

Table 2: Top 10 Islamic Finance Markets (by Segments)

Rank #	Islamic Banks	Takaful	Other IFIs	Şukuk	Islamic Funds
1	Iran	Iran	Malaysia	Malaysia	KSA
2	KSA	KSA	Iran	KSA	Iran
3	Malaysia	Malaysia	KSA	Indonesia	Malaysia
4	UAE	Indonesia	Qatar	UAE	UK
5	Kuwait	UAE	Kuwait	Qatar	Luxembourg
6	Qatar	Türkiye	Switzerland	Türkiye	Indonesia
7	Bahrain	Qatar	UAE	Iran	USA
8	Türkiye	Bangladesh	Brunei	Bahrain	Pakistan
9	Bangladesh	Pakistan	Senegal	Kuwait	South Africa
10	Indonesia	Brunei	Egypt	Oman	Kuwait

Source: [IFDI \(2021\)](#)

In addition to the notable growth performance of the IFSI, institutional and product diversification is also increasing, and IFIs are expanding into new countries. Despite this, IFIs have a relatively small market share compared to the global finance industry; a number of key issues need to be addressed in order to increase their stake. Lack of standardization is considered one of the most important issues facing the industry ([S&P, 2020](#); [Zainul, 2018](#)). A greater degree of standardization and codification is necessary in certain areas to gain wider acceptance among regional and international investors. The level of standardization, even at the local level, remains limited in some cases, so further progress would need to be made at the regional and international scales.

The standardization issue for Islamic Finance is generally evaluated from the *Shari‘ah* perspective. In other words, different interpretations of the *Shari‘ah* law may cause dichotomy, especially at the product level among countries, even within the country, where one Islamic bank approves the product while another disapproves it. This inconsistency deteriorates the perceptions of the IFIs; there is a need for standardization at the product level. However, standardization goes beyond *Shari‘ah* issues, and other areas have to be handled, such as auditing, financial and accounting reporting, product structure and documentation, governance framework for ethics, and dispute resolution.

Several international SSOs are operating in Islamic Finance, such as the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), based in Bahrain, which was established in 1991 and has been issuing accounting, auditing, governance and ethics, and *Shari‘ah* standards for IFIs. The IFSB is another international SSO specializing in Islamic Finance. These institutions and others (such as IIFM) have introduced numerous standards for Islamic banking and other Islamic Finance sectors. For instance, IIFM recently issued a new standard for *Şukuk Al Mudarabah*. These attempts have achieved significant success in the IFSI; however, there is still much room to go, and several issues must be tackled.

The study seeks to examine and improve standardization efforts in Islamic Finance by covering different sectors, such as Islamic banking, ICMs, and *Takaful*, with a particular focus on developments at national and global levels.

1.2. Objective and Scope of the Study

The main objective of this study is to provide an analysis and elaborate on (i) the standardization efforts made in each segment of the Islamic Financial Services Industry (IFSI) - Islamic banking, ICMs, and *Takaful* - at local, regional, and international levels; (ii) the roles and initiatives of various international SSOs towards Islamic Finance sector; (iii) detailed analysis of the standardization efforts in the selected case countries.

Based on the analysis, the study provides policy recommendations for improving the standardization process in the IFSI of the OIC Member and non-OIC Countries, particularly considering the lessons learned from the good practices analyzed and the case studies conducted within the framework of this report.

1.3. Conceptual Framework

1.3.1. Concept of Standardization

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 optimum degree of order or uniformity in given context, discipline, or field; standards are most frequently developed on international level; there exist national standardization bodies cooperating with international bodies; standards can be either legally binding or de facto standards followed by informal convention or voluntary standards (recommendations).*

” ([Lhotska et al., 2013](#)).

As [Ayub \(2017\)](#) stated, good financial standards should exhibit the characteristics of “*relevance, understandability, verifiability, neutrality, timeliness, comparability, and completeness*”. Relevance and dependability of the information are emphasized as the key traits among them. For instance, financial reports for Islamic Finance should include reliable and accurate information regarding the rights and liabilities of different stakeholders as well as adherence to *Shari‘ah* principles to maintain integrity as a Divine and values-based system.

The process of standardization should be based as well on the consensus of different stakeholders in the Islamic Finance industry, such as market players, interest groups, SSOs and governments.

1.3.2. Views on Standardization

In support of standards, the following arguments have been presented: (a) standards are an effective means of disseminating information, (b) standards result in greater coordination of activities, and (c) standards simplify processes (Brunsson & Jacobsson, 2002). By creating consistency and homogeneity even among geographically dispersed individuals and organizations, standards enhance international coordination and collaboration. Standardization boosts the clarity of communication, guarantees the quality of processes, and minimizes the risks of critical information being omitted. The goal of standardization is to bring about uniformity, that is, everyone will look and act in the same manner.

It is argued that the IFSI's growth has been hampered by the lack of consensus among *Shari'ah* scholars from different schools of thought (*Madhahib*) (Ali Ghoul, 2011). The diversity of viewpoints within the IFSI has led to a dispute regarding the legitimacy of some features of Islamic Finance products offered in the market. As Islamic Finance differs considerably from conventional finance, there is a need for major legal and regulatory reforms before Islamic commercial law can be transplanted into jurisdictions (Ercanbrack, 2019). The number of IFIs is growing across jurisdictions, and Islamic Finance instruments are becoming more sophisticated, which calls for standardization of the markets to enhance transparency and stability. Several international Islamic SSOs, including AAOIFI, IFSB, and IIFM, have been established to achieve this objective, including *Shari'ah* Governance, Islamic accounting and auditing standards.

The advocates of standardization argue that the process would help in unifying the *Shari'ah* standards, reducing the shortage of *Shari'ah* scholars, and consolidating *Shari'ah* interpretations. In addition, it would increase the efficiency and transparency of the product development process (Ahmed, 2014) and strengthen market confidence in the IFSI, enhancing the soundness and stability of the IFSI, and leading to increased profitability and competitiveness (Hussain *et al.*, 2016). Ultimately, standardization would result in better integration of the IFSI into the mainstream global financial system maintaining its unique identity. Furthermore, without standardization, the industry is highly susceptible to '*Shari'ah* arbitrage'², opening the doors for '*fatwa* shopping'³ by market players looking for resolutions that best serve their interests and creating loopholes that are exploited by financial engineering.

² The practice of '*Shari'ah* arbitrage' involves rent extraction from captive market participants for merely labeling (financial) products as *Shari'ah*-compliant (El-Gamal, 2006).

³ In '*fatwa* shopping', an Islamic financial transaction may be deemed to be Islamic if a firm consults multiple *Shari'ah* advisors to find an amiable opinion.

On the other side, critics assert that standardization would curb innovation, pointing out that standardization is often promoted by international quasi-governmental organizations. They suggest harmonization instead of standardization to allow for innovation and continuous improvement. Furthermore, it is argued that the process of standardization is challenging due to significant natural, economic, cultural, or political factors (BSI, 2011). As a result of these fragmentations, *Shari‘ah* standards vary across jurisdictions. Furthermore, Mohamad and Kashi (2017) and Delle Foglie *et al.* (2022) argue that the IFSI follows different governing standards across countries.

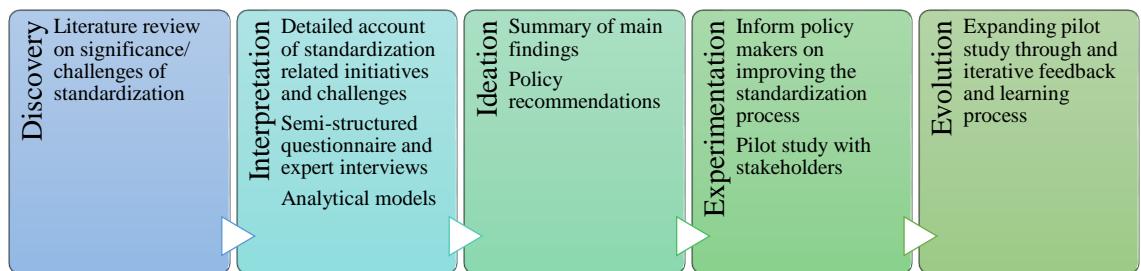
Finding the right balance between standardization and flexibility is a continuing challenge for the Islamic Finance industry. The right balance can be achieved through harmonization rather than standardization (Laldin & Furqani, 2013; Shaharuddin, 2016). When harmonization takes place, it takes into account differences between standards and sets bounds on their degree of variation. Harmonization in Islamic Finance involves minimizing significant differences in how *Shari‘ah* decisions and rulings are formulated and applied. In order to achieve this, it is necessary to understand the underlying reasons for the disagreements in *Shari‘ah* interpretation and then identify the strategies for resolving them (Laldin & Furqani, 2013).

1.4. Methodology

Addressing research objectives, the study adopted a design thinking approach. It emphasizes a human-centric approach to uncover unexpected insights (Brown, 2008) as well as an understanding of people's behavior, activity, needs, and motivations (Kumar, 2009). In the process of solving a problem, design thinking helps reveal hidden issues and problems and finally assists in finding creative and synthetic solutions. This is accomplished by following five defined phases of design thinking – *discovery*, *interpretation*, *ideation*, *experimentation*, and *evolution* – to translate observations into feasible and successful solutions (see *Figure 1* below).

In the *discovery phase*, a comprehensive literature survey was conducted to provide a theoretical basis for standardization, particularly in the IFSI, and to explain its significance and challenges. Next, during the *interpretation phase*, the standardization-related issues and initiatives in Islamic Finance on local, regional, and global scales were profoundly identified. In this phase, the concentration is made on the current standardization efforts by IFIs and international SSOs and the challenges they faced in the OIC member countries.

Figure 1: Design Thinking Process



Source: Authors' elaboration

Findings from the literature are complemented with the insights gained from primary data collected through a two-phase research design, i.e., a questionnaire followed by expert interviews. The first phase comprises a semi-structured online questionnaire, with both closed and open questions, targeting Islamic Finance participants from diverse backgrounds. Questionnaire participants were asked for their opinions and recommendations on local and global standardization efforts. Primary data collected via semi-structured questionnaires, combined with descriptive analysis, would assist in identifying the most pressing issues and concerns the IFSI stakeholders face, as well as determining the factors that could lead to tangible standardization outcomes.

The second phase consists of semi-structured expert interviews administered either in person or via videoconference. We collect data from a wider group of participants having diverse backgrounds, including industry practitioners, regulators, *Shari‘ah* scholars, and representatives from SSOs to capture and integrate multiple perspectives to achieve a more advanced, holistic view on standardization. The in-depth insights from these interviews will also help better understand the standardization practices in selected case countries. A pilot study was run to ensure the validity of the survey process. The questions were tested on 10 participants from various backgrounds. Despite not substantially modifying the survey questions, pilot interviews were useful for refining them and developing follow-up inquiries.

The output from the previous phases serves as an input for the *ideation* phase. However, it is beyond the scope of this study to cover the fourth (*experimentation*) and the fifth (*implementation*) stages, as they require implementation procedures and an impact study in real-world environments.

Hence, the policy recommendations shall be formulated based on the findings and insights from the following sources:

- 1) **Literature Review.** The study conducts an in-depth review of written and visual literature, analyses information from related documentation to comprehend the experiences of

relevant countries (the OIC Member Countries as well as countries from the rest of the world) and international institutions, and uses the resources of relevant national institutions.

- 2) **Surveys and interviews.** The online semi-structured questionnaire is administered to collect data on standardization efforts from the stakeholders, such as the government authorities and the private sector representatives of the selected countries. Moreover, to support and improve surveys and to get deeper insights, expert interviews with related industry leaders and influencers are administered (in-person and videoconferencing) to identify the needs and challenges and to learn the best practices.
- 3) **Case Studies.** The study applies the case country selection criteria and selects five countries, including a non-OIC country. The cases specifically focus on standardization efforts in Islamic Finance, taking into account the findings from the previous chapters considering the legal and regulatory frameworks as well as current trends and industry sizes. The structural, regulatory, technical, and academic challenges that prevent the well-functioning standardization at local, OIC and global levels are analyzed in-depth.
- 4) **Data Analysis.** The study employs descriptive analysis of collected survey data to derive meaningful conclusions and formulate policy recommendations.

1.4.1. Case Country Selection Criteria

The study applies three criteria in the selection of case countries (see *Table 3* below): *firstly*, four case countries must represent the OIC member states, in addition to a non-OIC country; *secondly*, represent different geographic regions; and, *finally*, represent different maturity levels in IFSI development.

The first and second criteria are applied based on the list of countries provided by [COMCEC \(n.d.\)](#)⁴. Furthermore, the third criterion is met by referring to Thomson Reuters' Islamic Finance Development Indicators (IFDI)⁵ obtained from the Refinitiv Eikon database.

⁴ See "Annex 1 of ToR: The Official 3 Regional Groups of the OIC Member States"; as well as the COMCEC website: <https://www.comcec.org/member-states/>

⁵ Refinitiv Islamic Finance development indicator (IFDI) 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 development in the industry: Quantitative Development, Knowledge, Governance, CSR, and Awareness. By measuring changes in these indicators over time and across different countries, the IFDI provides a vital tool in guiding policy within the industry. The IFDI also gives an indication of the strength of the ecosystem behind the industry's overall development as well as the size and growth of the different Islamic Finance sectors within the many countries where it has a presence.

Table 3: Case Country Selection Criteria

Criteria	Description	Approach
I	4 OIC member countries and 1 non-OIC country	COMCEC List
II	Geographic groups: African, Arab, Asian, and European	COMCEC List
III	Maturity of the IFSI	IFDI

Note: IFDI is the Islamic Finance Development Indicator provided by Thomson Reuters.

Table 25 (see Annex) ranks 52 OIC Member Countries based on their IFSI development level.⁶ Focus is emphasized on the first 33 jurisdictions since they significantly contribute to the global IFSI. Based on this list, the pioneering five markets are **Malaysia**, Indonesia, Saudi Arabia, Bahrain, and the United Arab Emirates. The middle position is taken by **Oman**, Maldives, Qatar, Brunei, Nigeria, Bangladesh, and **Türkiye**, whereas the least development is seen in the following five economies: Egypt, Yemen, Gambia, **Morocco**, and Kazakhstan. Among the non-OIC countries, Singapore and the **UK** are the top performers. Hence, the final list of case countries includes the following jurisdictions (see *Table 4*):

Table 4: List of Selected Case Countries

Country	Group	OIC	Legal System	IFDI Ranking
Malaysia	Asian	Yes	Mixed (<i>Shari‘ah</i> Law and English Common Law)	#1
Morocco	Arab	Yes	Mixed (<i>Shari‘ah</i> Law and French Civil Law)	#29
Türkiye	Asian	Yes	Civil Law	#15
Oman	Arab	Yes	Mixed (<i>Shari‘ah</i> Law and Anglo-Saxon Law)	#9
UK	European	No	English Common Law	#25

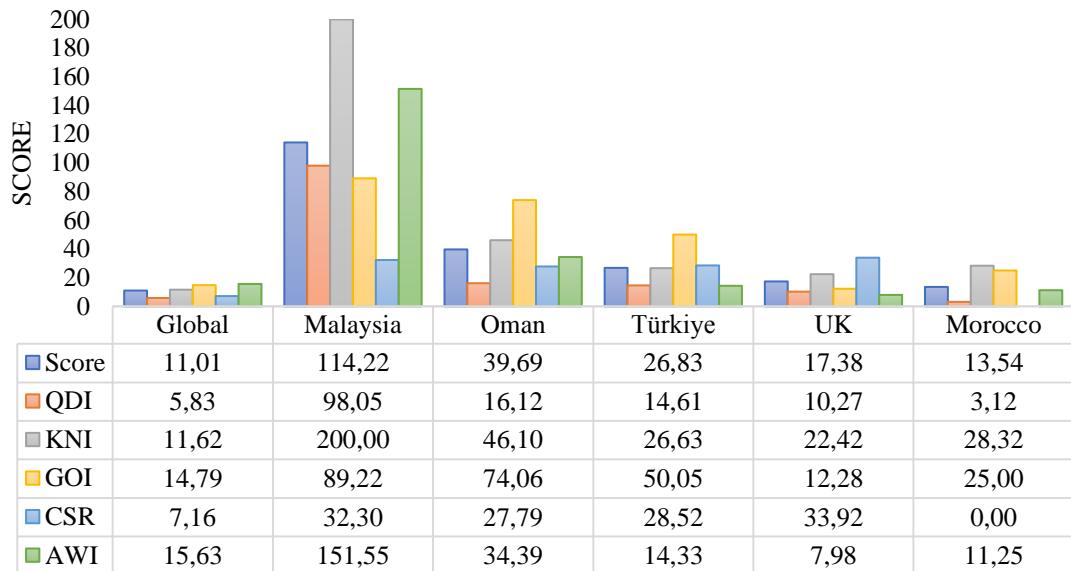
Note: IFDI stands for Islamic Finance Development Indicator provided by Thomson Reuters. The countries are ranked based on the year 2020 scores.

Figure 2 below presents the IFDI 2020 scores of the selected countries ([IFDI, 2021](#)). Quantitative development (**QDI**) measures the financial growth, depth, and performance of the overall Islamic Finance industry as well as its segments: Islamic Banking, *Takaful*, and ICM. Knowledge (**KNI**) is assessed through education and research in the area of Islamic Finance, which are the input factors needed for fully qualified human capital to achieve depth and efficiency in the IFSI. Corporate Social Responsibility (**CSR**) is assessed using two components: disclosed CSR activities and CSR funds disbursed. Governance (**GOI**) indicates the health of the IFSI's infrastructure and assesses the regulations, corporate governance, and *Shari‘ah* governance. Awareness (**AWI**) about Islamic Finance is evaluated based on three components: conferences, seminars, and news volume. Malaysia

⁶ Note that non-OIC countries have been removed from the list.

leads the sample countries (score 114.2), followed by Oman (39.7), Türkiye (26.8), the UK (17.4), and Morocco (13.5).

Figure 2: IFDI 2020 Scoring of Case Countries



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 \(2021\)](#).

1.4.2. Sample Sizes and Distribution of Interviewees and Questionnaire Respondents

Table 5 presents the sample size and distribution of top-profile professionals (regulators, *Shari‘ah* scholars, academics, and industry players) selected for expert interviews to identify the standardization needs and challenges and to learn the best practices. There were 43 sessions in total using face-to-face and online modes, and responses were transcribed accordingly.

Table 5: Sample Size and Distribution of Expert Interviewees

Category	Malaysia	Morocco	Oman	Türkiye	UK	Subtotal
Regulators	1	2	3	4	-	10
<i>Shari‘ah</i> 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

In addition, to obtain deeper insights, online questionnaire is administered by inviting the diverse group of participants (198 in total) having exposure to Islamic Finance (see *Table 6*).

Table 6: Sample Size and Distribution of Online Questionnaire Respondents

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

CHAPTER 2: TRENDS, ISSUES, AND CHALLENGES IN STANDARDIZATION

This chapter focuses on global, regional, and country-level standardization-related issues and initiatives in Islamic Finance. It provides concrete cases and policies from different OIC member countries.

2.1. Standardization in Islamic Commercial Jurisprudence

Since the early days of Islam, when commercial transactions were regulated through clear guidance from legal (*Shari‘ah*) texts in *Qur‘an* and *Sunnah*, there were diverse practices and understandings of the way merchants interact. Though such issues raised in the early days of Islam were resolved through clear prophetic precedents, the need to ensure standardization was emphasized. During the time of Prophet Muhammad (PBUH), there was clear guidance when controversial issues arose. However, after his demise, the noble companions had to rely on their collective interpretations of what they perceived was the way the Prophet (PBUH) handled similar situations, and those practices altogether formed the concept of *ijma‘* or consensus among the companions. The concept and practice of *ijma‘* itself was an effort toward standardization of understanding of the *Shari‘ah* texts by the noble companions. Such efforts continued during the time of the Four Rightly Guided Caliphs, which further led to the development of Islamic jurisprudence (*Fiqh*). The further expansion of the then Islamic State later led to the emergence of various schools of thought (*Madhab*) which, to some extent, weakened the standardization of rulings that was earlier enjoyed by the earlier microcosm of the Ummah in Madinah.

From the subsequent eras in the Muslim world, from the Umayyad and Abbasid up to the Ottoman era, the need for standardization of *Fiqh* rulings remains a major challenge due to the continuous expansion of the frontiers of the Muslim world (Oseni, 2016; 2017). Significant efforts were made during the Ottoman era to standardize the *Fiqh*. This is seen in the commonly cited Ottoman Civil Code.⁷ This is one of the most prominent examples of standardization during the Ottoman era, deeply rooted in a carefully crafted code based on the Hanafi school of Islamic jurisprudence. The efforts toward standardizing the applicable private law that governed civil transactions, including commercial-cum-financial dealings, were carried out between 1850 and the late 1880s. The final

⁷ C. R. Tyser, et al, *The Mejelle: Being an English Translation of Majallah el-Ahkam-l-Adliyah and a Complete Code of Islamic Civil Law*, Lahore: Law Publishing Company, 1980, at 494. Also see, ‘Ali Haidar, *Durar al-Hukkam fi Sharh Majallat Al-Ahkam*, (Haifa: ‘Abasid Press, 1925), vol. 1, Art. 1790. This book, in 12 volumes, is an edited version with commentary of *The Medjelle* by the great Ottoman jurist.

compilation of the civil code was led by the famous jurist, Ahmet Cevdet Pasha from 1868-1876 ([Avi, 2007](#)).

The effect of legal standardization occasioned by such laudable efforts was captured perfectly by [Avi Rubin \(2007:283\)](#) where it was emphasized that “*What made it a ‘real’ civil code, comparing to the old state law collections promulgated by the sultans, known as kanunnames, was its actual application as a legal standard in force in Nizamiye and Sharī‘ah courts throughout the empire, whereas previously, the judge addressing civil and criminal matters at the local Sharī‘ah court had considerable leeway in choosing the sources relevant to a particular case*”. The considerable influence the Ottoman empire had across the world, particularly what could be regarded as the modern Muslim world, makes the *Mejelle*, a major reference point to date in any discussion involving legal standardization in commercial transactions ([Tyser & Demitrades, 2001](#)).

The more recent efforts made by the AAOIFI in issuing *Sharī‘ah*, accounting, governance, and ethics-related standards with substantial adoption across geographies are laudable examples at the global level that would help mainstream Islamic Finance within the global financial system ([Abdel Karim & Oseni, 2020:64-66](#)). Similar efforts have been made by the IIFM, which has consistently focused on standardizing legal documentation utilized in the Islamic Finance markets ([Abdel Karim & Oseni, 2020:69-70](#)).

Similarly, the IFSB has provided regulatory and supervisory authorities worldwide with prudential standards and guidance notes to further deepen the development of the IFSI in various countries through a substantially standardized regulatory framework ([Abdel Karim & Oseni, 2020:66-69](#)). This is more so when one considers the recent history of the IFSI being a niche market operating based on diverse interpretations of *Sharī‘ah* principles, varying degrees of mixed legal systems, disagreements on some product structures, and non-standardized legal documentation. With significant efforts carried out in the past two decades, some of the earlier challenges the IFSI faced in its early stage in the 1970s have been largely addressed. However, there are still challenges the industry needs to address, such as the need to redefine “standardization” within the Islamic jurisprudential realm, as well as ensuring strict standardization of product structures, legislation, and even documentation does not stifle innovation in the industry.

2.2. Standardization in Islamic Finance: Structural and Technical Issues

Despite the various macroeconomic and global health crisis that pose significant challenges to the global economy, the IFSI has remained resilient, with a projected steady growth of 10-12 percent annually in 2020 and 2021 ([IFSB, 2021](#)). This is primarily seen in the increased market share of *Shari‘ah*-compliant finance across different sectors, with significant developments recorded recently where conventional banks have either acquired or merged with Islamic banks. There is also an appreciable growth in the green *Sukuk* space where there is some convergence between the original value proposition of Islamic economics and environmental, social, and governance (ESG) financing. In the face of these significant developments, standardization remains a major stumbling block that negatively impacts the numerous growth potentials of the IFSI. In other words, since the inception of the modern practice of Islamic Finance in the last century, one key challenge often considered a major constraint to the industry’s growth is the lack of standardization ([Smolo & Habibovic, 2012](#)).

While there is much room for tremendous growth in the IFSI since it has found its way beyond the original frontiers of the Muslim world, without standardization, the expected growth could be stagnated. However, it is pertinent to define the length and breadth of the desired standardization properly. Does standardization mean a one-size-fits-all standard will be developed for the entire industry? What is the impact of such an approach to innovation and product development? Is it preferable to develop common global standards for consistent market practices premised on minimum standards while allowing different jurisdictions to reflect their local uniqueness? What are the current standardization initiatives in the OIC member countries, and how can they be leveraged upon to identify the best approach to standardization? These, among other pertinent questions, will be addressed in this report.

Whether one uses the word “standardization”, “harmonization”, or even “convergence” of practices, rules, laws, and approaches, one important question to answer is what the subject matter at issue is. In the existing Islamic Finance literature and as evidenced in most Islamic Finance forums, the most common issue that arises when standardization is being discussed is the lack of standardization of *Shari‘ah* principles, rules, and practices across different jurisdictions.⁸ Undoubtedly, *Shari‘ah* compliance and substantial harmonization of principles and regulations are extremely important in a fluid cross-border market that is less regulated. The lack of harmonization of *Shari‘ah* rulings is a major challenge for the industry. On the flip side of the argument, one could

⁸ See for instance, [Fahim Khan \(2007\)](#), [Ayub \(2014:1\)](#), and [Grassa \(2013\)](#).

wonder whether full standardization of such rulings leading to complete codification could stifle innovation in Islamic Finance.

There is no doubt that the principles of Islamic jurisprudence (*Usul al-Fiqh*) are replete with fundamental sources of the law and ways of interpreting them to fulfill the original *Shari‘ah* objectives (Kamali, 1991). In interpreting such textual evidence, it is inevitable to encounter different approaches which have led to divergent opinions on *Shari‘ah* matters within the commercial sphere (Khallaf, 1990). Such disagreements in interpretation of original sources are often seen in the legal rulings (*Furu‘*) rather than the fundamental sources and principles (*Usul*);⁹ hence, one could therefore argue that there is an inherent standardization in the sources of Islamic jurisprudence while the law allows for divergent rulings to suit different cases as they emerge. This is considered one of the critical features of Islamic jurisprudence, as it provides for substantial flexibility in the application of rulings, particularly in matters relating to Islamic commercial law (*Fiqh al-Mu‘amalat*) (Shubayr, 2007). Understanding these permutations in the sciences of Islamic jurisprudence is germane in coming up with some policy considerations for regulators and supervisory authorities in the modern IFSI.

The divergence in *Shari‘ah* rulings is often seen as a negative feature in the modern IFSI, particularly in issues relating to product development. One must not shy away from restating that the modern IFSI, though substantially premised on classical Islamic jurisprudential rules, has been significantly influenced by the growth in the conventional finance industry, where products, documentation, and practices are largely standardized. This notion of standardization is a product of legal transplant from the conventional finance industry, but it does have its pros and cons in the ultimate analysis of the concept and practice. For instance, Islamic banks are expected to offer standardized products and services which should be applicable across various jurisdictions. This has not been the experience of Islamic banks in different jurisdictions, as there are significant differences of opinion among scholars on the use of specific product structures such as commodity *Murābaha*. There have been noticeable inconsistencies in the approval and non-approval of certain products in various jurisdictions. This has been flagged as a cause of negative perception towards practices in the industry. While this needs to be addressed at the policy level to determine acceptable standards, there is a need to be cautious in the approach to avoid stifling innovation, which is much needed in a nascent sector of the global financial system.

With the establishment of international Islamic SSOs such as AAOIFI, IFSB, and IIFM, it appears there is a new glimmer of hope for the industry. However, until recently, one could observe that these

⁹ See generally, Al-Shatibi (1997).

bodies were working in silos and sometimes issued standards on the same subject matter. The collaboration being witnessed among these bodies is a welcome development. However, there is still more room for improvement, as they need to adopt common standards in their respective approaches to standard development.

One key observation from the ongoing standardization efforts within the IFSI is the influence of global standardization practice, particularly within the finance sector. Therefore, it is instructive to briefly examine such global standardization efforts in the finance industry even though the discussion could dovetail into other standardization efforts in international trade and finance, legal documentation, and legislation, which seem relevant to this study.

2.3. Standardization Needs, Challenges, and Trends at Global, Regional, and Country Levels

In examining standardization efforts in the IFSI, it is important to think outside the box by exploring global standardization efforts in the conventional finance industry. This is expected to provide insights into formulating policy responses to the main questions raised in this study. Beyond the early examples of standardization in commercial dealings, the major attempts toward standardization occurred during the 18th century with the Industrial Revolution. 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. Such efforts are seen in different endeavors of life, including the finance industry.

An often-cited example of standardization in the finance industry is the generally accepted accounting principles (GAAP) created by the Financial Accounting Standards Board (FASB). These sets of standardized guidelines are meant to ensure that the preparation and presentation of financial statements by companies, firms, and banks comply with set guidelines and are subject to the same processes in the disclosure of information. This will ensure the consistency, reliability, and relevancy of relevant disclosures in the financial statements, which can easily be compared across different entities. For instance, all companies, including financial institutions listed on the US stock exchanges, must adhere to GAAP in their financial reporting ([Fosbre, Kraft, & Fosbre, 2009](#)).

Similar global standardization efforts have been witnessed in the capital markets with particular reference to legal documentation. The International Swaps and Derivatives Association (ISDA) is the primary source of global industry standards in documentation to make the global financial market safe and more efficient for investors and financial institutions ([Borowicz, 2021](#)). This has helped a great

deal to enhance legal certainty and ensure maximum risk reduction in financial transactions. For instance, with the increasing importance of digital assets and their unbridled proliferation in the finance industry, ISDA has been proactive in coming up with appropriate standards to ensure a safe and efficient digital market. The urgent need to come up with such standards is seen in the rapid development experienced in the digital asset space from a near zero market value a decade ago to about US\$3 trillion today. Hence, to address the diverse market practices, ISDA has issued its paper as the first step in its standardization efforts. The paper outlines how ISDA will embark on its standardization process through the development of relevant product templates as well as definitions, amongst others ([Golden, 2014](#)).

There have been some collaborations between ISDA and the IIFM. The latest of such strategic partnerships is the recent publication of the ISDA/IIFM IBOR Fallback Definitions Booklet for Islamic Hedging Transactions which provides a framework for parties to agree to standard fallbacks for some key interbank offered rates (IBORs) in their contractual dealings. In a similar vein, ISDA and IIFM have jointly published the ISDA/IIFM *Shari‘ah*-Compliant Bilateral Amendment Agreement template, which will help counterparties negotiate and incorporate relevant fallbacks in their legacy Islamic hedging contracts.

As an international body, the Financial Stability Board (FSB) monitors and provides high-level recommendations relating to the global financial system. Since April 2009, when it was established to replace the Financial Stability Forum (FSF), the FSB has developed 15 key international standards and codes for sound financial systems. Besides its standards, the FSB publishes standards of other international SSOs in a Compendium of Standards, which is available on its website ([FSB, n.d.](#)). The SSOs include the Basel Committee on Banking Supervision (BCBS), Committee on the Global Financial System (CGFS), Committee on Payments and Market Infrastructures (CPMI), Financial Action Task Force on Money Laundering (FATF), Financial Stability Board (FSB), International Association of Deposit Insurers (IADI), International Association of Insurance Supervisors (IAIS), International Accounting Standards Board (IASB), International Auditing and Assurance Standards Board (IAASB), International Monetary Fund (IMF), International Organization of Pension Supervisors (IOPS), International Organization of Securities Commissions (IOSCO), Islamic Financial Services Board (IFSB), Joint Forum (JF), Organization for Economic Cooperation and Development (OECD), and the World Bank (WB).

Furthermore, the International Organization of Securities Commissions (IOSCO) is an international SSO that develops and implements standards for the securities market. It also promotes

adherence of various regulators to internationally recognized standards. In carrying out its objectives, IOSCO has its Objectives and Principles of Securities Regulation with the following three key objectives of securities regulation: investor protection; fair, efficient, and transparent markets; and reduction of systemic risk. These three key objectives are further divided into 38 principles of securities regulation. In achieving its stated objectives, IOSCO, as an internationally recognized standard setter for the securities sector, works very closely with the FSB as well as the G20. Recently, IOSCO released its final report on Principles on Outsourcing which provides a common set of principles for outsourcing to enhance financial market infrastructures.

Beyond the financial markets, there have been significant developments in the standardization of practices and documentation in the international trade landscape. The United Nations Commission on International Trade Law (UNCITRAL) has a primary objective of facilitating international trade and investment globally. The UNCITRAL is a subsidiary of the United Nations General Assembly. It was established in 1966 with the official policy mandate to promote the progressive harmonization, unification, and modernization of the law of international trade law. This is carried out through the most stringent instruments of ensuring compliance which include conventions and model laws. What led to the establishment of UNCITRAL was the dramatic expansion in world trade in the 1960s, where sovereign governments realized the importance of setting global standards, rules, and practices that govern international trade and investments. As a result, UNCITRAL was created to facilitate such global standardization in order to promote cross-border trade and investments.¹⁰

With numerous Conventions, Model Laws, and Legislative Guides, UNCITRAL has fulfilled its mandate, as many countries have ratified the Conventions and substantially adopted the Model Laws. Some of the relevant Conventions from the finance industry perspective include the Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the New York Convention) (1958), the United Nations Convention on International Bills of Exchange and International Promissory Notes (1988), the United Nations Convention on Independent Guarantees and Stand-by Letters of Credit (1995), the United Nations Convention on the Assignment of Receivables in International Trade (2001), and the United Nations Convention on International Settlement Agreements Resulting from Mediation (the Singapore Convention on Mediation) (2018). As for Model Laws that have substantially influenced domestic legislation of various countries across the world, UNCITRAL has issued the UNCITRAL Model Law on International Commercial Arbitration (1985), the UNCITRAL Model Law on International Credit Transfers (1992), the UNCITRAL Model Law on Cross-Border

¹⁰ See generally, [Ott \(2010\)](#).

Insolvency (1997), the UNCITRAL Model Law on International Commercial Conciliation (2002), the Model Legislative Provisions on Privately Financed Infrastructure Projects (2003), the UNCITRAL Model Law on Secured Transactions (2016), the UNCITRAL Model Law on Electronic Transferable Records (2017), and the UNCITRAL Model Law on the Recognition and Enforcement of Insolvency-Related Judgments (2018), amongst others ([Zeller, Mohanty, & Garimella, 2021](#)). Most of these Conventions and Model Laws contribute significantly, albeit indirectly, to shaping the IFSI globally ([Yaacob & Abdullah, 2012](#)).

It is important to briefly highlight one more initiative, which is regional in nature, to explain further the significance of the transformation of financial systems through a convergence of principles and practices as well as standardization. The current financial integration witnessed in the European Union (EU) is a result of concerted efforts toward unifying the financial system in the region. It has been argued that the standardization efforts within the EU have helped to create a single market in the area. As expected, the EU standardization policy is effectively backed by law through Regulation (EU) No.1025/2012. This provides a legal basis for adopting and using common EU standards for all products and services, apart from identifying the ICT technical specifications that will enhance such products and services ([Andersdotter & Olejnik, 2021](#)). The law also provides the legal basis for financing the EU standardization process, which is key to creating a single market. It should be highlighted that all *Shari‘ah*-compliant securities issued within the EU and those issued elsewhere but distributed within the region are subject to the relevant EU laws ([Oncins & Orero, 2021](#)). Learning from such global and regional initiatives, which have primarily been considered successful, will help prepare a good strategy for the OIC member countries in their efforts toward standardization in Islamic Finance.

The global efforts toward standardization have tremendously impacted the IFSI, as the industry is a niche market within the global financial system. For instance, in preparing its international prudential standards and guiding principles, the IFSB strives to streamline its standards and guidelines with conventional SSOs to ensure the proper integration of Islamic Finance into the global financial system. In doing this, the IFSB benchmarked its activities with the BCBS, IOSCO, IAIS, and IADI ([Al-Ali, 2019](#)). In some of the approaches adopted by the IFSB, such as the “comprehensive” approach in standard setting, it directly adopts principles from the existing conventional standards, which may not require any amendment from the *Shari‘ah* perspective. In some other cases, the IFSB provides “supplementary” guidance to complement conventional standards to address the specificities of Islamic Finance. Similarly, in its standardization of legal documentation for *Shari‘ah*-compliant

transactions, IIFM works very closely with ISDA. In most cases, it adapts conventional legal documentation to suit the unique nature of Islamic Finance transactions.

Prior to recent steps taken by international SSOs within the IFSI, sincere individualized efforts of bodies like AAOIFI and IFSB toward standardization could potentially lead to duplication of efforts and inconsistencies in some related standards issued by the bodies. Therefore, contrary to what obtains before, where each SSO works in silos within the IFSI, there have been recent efforts among the SSOs to collaborate and address common issues to ensure further products, practices, and services are substantially standardized in the industry. In 2018, AAOIFI and IFSB signed a Memorandum of Understanding (MoU) ([Mamedov & Gasimov, 2021](#)). In the MoU, the two SSOs identified the following areas of cooperation:

- “Collaboration includes jointly developing and revising prudential, *Shari‘ah*, accounting, and governance standards on areas of mutual interest, as well as supporting activities of either organization through the circulation of research materials and exposure drafts to the combined membership.
- The collaboration includes organizing joint workshops, providing expertise for joint technical assistance missions, and coordinating policy dialogues with regulatory and supervisory authorities in the member jurisdictions.
- The collaboration includes exchanging information and knowledge-sharing activities to benefit from each organization’s experiences and expertise. These also include promotion and dissemination of any work related to standards or research as well as enhancing outreach to respective member jurisdictions for creating awareness through jointly organizing and hosting of international conferences, seminars, and forums on areas of mutual interest.” ([AAOIFI, n.d.-a](#)).

In furtherance of the strategic collaboration, AAOIFI and IFSB issued an Exposure Draft titled “IFSB-AAOIFI Revised *Shari‘ah* Governance Framework for Institutions Offering Islamic Financial Services” in May 2022. This new policy document harmonizes the various *Shari‘ah* governance standards issued earlier by the two bodies. Similar synergetic collaborations have been seen between AAOIFI, IIFM, and other organizations.

Nevertheless, one must admit that there have been a series of uncoordinated diverse efforts in standardization in Islamic Finance across different sectors and aspects. Even the standards and guidelines adopted in other jurisdictions have faced significant challenges during implementation. While the SSOs often celebrate the level of adoption of their standards and guidelines, IFIs that are

required to follow the rules often face structural and technical challenges in implementation. This has led to a question of whether such laudable standardization efforts have unintended consequences, such as stifling innovation in the IFSI. This is one of the key questions this study seeks to address through a market survey to unravel the unintended consequences and further seek policy directions.

One of the uncertainties created recently by standardization is seen in the United Arab Emirates (UAE), where financial institutions grapple with the uncertain impact of new regulatory changes. Interestingly, this is one of the most recent efforts toward standardization in Islamic Finance. The Higher *Shari‘ah* Authority (HSA), under the auspices of the UAE Central Bank, is the highest *Shari‘ah* body in the country, and it issues *Shari‘ah* regulations and directions to the industry for compliance with the law. One key regulatory guidance issued by the HSA compels all IFIs to comply with AAOIFI *Shari‘ah* standards. All IFIs, including Islamic windows and finance companies, were required as of 1st September 2018 to comply with AAOIFI standards fully. Beyond just complying with AAOIFI standards, the financial institutions were required to revise existing products and services and ensure they were all in compliance with AAOIFI standards by the stipulated deadline ([AlQassar & Ahmed, 2021](#)).

Though the regulatory move in UAE was broadly commended and celebrated by some quarters in the global IFSI, little did the industry players know about the unintended consequences on legal products as well as future deals. The regulatory action of HSA has affected various aspects of the daily operations of IFIs operating in the UAE, and such aspects include their efforts toward the issuance of *Sukūk* as well as acting as arrangers or even investing in certain *Sukūk* whose structures are based on specific *Shari‘ah* finance modes. Though these efforts began as benign moves toward standardization, their unintended consequences could lead to fewer *Sukūk* issuances in UAE while subtly pushing potential issuers to opt for conventional bonds or syndicated finance.

From the UAE, there is also an ongoing initiative to introduce a global legislative framework for Islamic Finance, which could lead to the harmonization of Islamic Finance law across the world.¹¹ This initiative was launched by the Minister of Finance of the UAE on 6th May 2020. The initiative, which relies on the AAOIFI standards as a reference, is poised to promote further expansion of the Islamic economy and address the growing call for standardization in the industry. The initiative’s main objective is to introduce a unified international legal and legislative framework that will herald a new beginning for standardization in the global IFSI. The ultimate plan is to adopt the Code as an international treaty to be adopted by all OIC member countries and beyond. By enacting the Code,

¹¹ For a discussion on lawmaking in Islamic Finance, see [Ercanbrack \(2019\)](#).

Islamic Finance is expected to be mainstreamed into new global markets. One unique and commendable aspect of the initiative is the scope of the Code. It is not designed to be a “plug and play” set of rules, but it is intended to provide a general legal framework for product structuring, transparency, consumer protection, and dispute resolution, among other areas. Any country that adopts the Code will have to adapt it to suit its local variations and requirements while upholding the core provisions contained therein. This approach is similar to other harmonization efforts seen at the EU level as well as at UNCITRAL.

Malaysia is considered a global Islamic Finance hub, as it has continued to spearhead leading initiatives, innovations, legal reforms, and best practices across different sectors of the IFSI. Its prime position in the global IFSI remains critical in driving global initiatives and reforms. With unprecedented comprehensive legislation on Islamic financial services, Malaysia has reinforced its objective of attracting Islamic businesses worldwide. The Islamic Financial Services Act 2013 (IFSA), the most comprehensive legislation on Islamic financial services, provides clear guidance and standards on what a legal framework should be in Islamic Finance ([Lee & Oseni, 2015](#)). In all cases, the first point of call for efforts toward standardization or harmonization is the need to underpin such actions with an enabling law binding to all industry players. This is the case in Malaysia, and such legislation provides the necessary impetus for the issuance of policy documents by the Central Bank of Malaysia (otherwise known as Bank Negara Malaysia - BNM), which has promoted the complete standardization of products, services, and practices across all sectors in the country. In addition, Malaysia is one of the first countries to introduce a sound *Shari‘ah* governance framework with a two-tiered *Shari‘ah* governance process which has the *Shari‘ah* Advisory Council (SAC) at the apex bank level and *Shari‘ah* Committees at the individual bank level. With the periodic publication of *Shari‘ah* resolutions of the SAC and issuance of policy documents on various *Shari‘ah* products and services, the Malaysian market is standardized. Therefore, the Malaysian example could serve as a good model for further study to identify critical areas that can be exported to other jurisdictions as best practices ([Ali & Oseni, 2017](#)).

Though a non-OIC member country, the UK remains a global financial hub. Beyond the conventional financial industry, the UK has also positioned itself as a hub for Islamic Finance products and services. It pioneered the standardization of regulations for Islamic Finance in the western world, which leveled the playing field for all financial institutions ([Belouafi & Chachi, 2014](#)). With the second sovereign *Sukuk* of £500 million issued by the UK government in 2021, there is an increase in the supply of *Shari‘ah*-compliant assets to the market, thereby contributing to the development of Islamic Finance in the country. The most recent initiative is the Alternative Liquidity Facility (ALF)

for Islamic banks in the UK, which helps to increase the supply of high-quality liquid assets to the market. The Bank of England (BOE) developed this new facility to allow Islamic banks in the UK to have access to *Shari‘ah*-compliant liquid assets, which will enable them to hold reserves following *Shari‘ah* principles. This new product is a result of product standardization which took into consideration the feedback from experts and the public in general (Zucchelli, 2022). These developments in the UK finance industry will have a far-reaching impact on other jurisdictions, particularly in the OIC member countries with predominantly Islamic banks. Therefore, learning from the approach of the BOE in creating the ALF will support emerging economies as well as developing nations within the OIC member countries in structuring and standardizing similar products within their IFSIs.

The OIC member countries are at varying degrees of development in issues involving standardization in Islamic Finance. In arriving at a classification of economies according to the development level of the IFSI, this study adopts the findings of Refinitiv in its *Islamic Finance Development Report 2021*, where it utilizes the Islamic Finance Development Indicator (IFDI) to arrive at its conclusions based on comprehensive data from 135 countries, including those in the OIC member countries.¹² Other data relied upon include an analysis of their various legal and regulatory frameworks for Islamic Finance and identification of standardization policies in such frameworks. In addition, the relevant literature on each OIC member state has been reviewed to explore secondary sources on the degree of development in issues relating to standardization in Islamic Finance. 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. *Figure 3* classifies all OIC member states as follows:

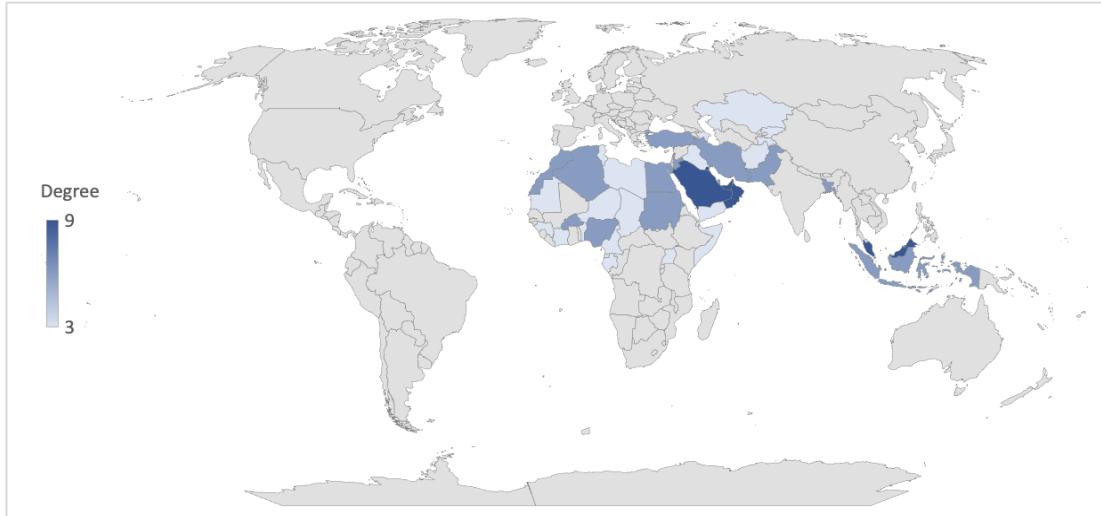
1. Countries within the OIC member states with no regulatory framework for Islamic Finance are classified as 0 with a grey label. These countries may have IFIs operating in their jurisdictions but lack a supporting legal and regulatory framework.
2. Countries with some regulatory framework for Islamic Finance without proactive efforts to standardize practices in the IFSI are categorized as 3 with a light blue label. These countries are still in the midst of introducing a distinct regulatory framework for Islamic Finance.
3. Countries with a standard regulatory framework for Islamic Finance with some proactive and concerted efforts towards standardization are categorized as 6 with a normal blue label. This

¹² See generally, [IFDI \(2021\)](#).

category includes countries that have either adopted the AAOIFI and IFSB standards or have commenced major initiatives toward standardizing practices in the IFSI.

4. Countries with a standard regulatory framework for Islamic Finance with replicable standardization policies are categorized as 9 with a dark blue label. Practices, policies, and precedents in these few countries could help other jurisdictions develop their own sectors.

Figure 3: Degree of Standardization in Islamic Finance in OIC Member Countries



Source: Authors

The degree of standardization in each jurisdiction only takes into consideration the availability and adequacy of a legal and regulatory framework that underpins such policies rather than the mere presence of IFIs or *Sukuk* issuance by either the government or corporate entity. The analysis also excludes financing support from international organizations such as the Islamic Development Bank (IsDB) or any other body within the IsDB Group and other industry-level advocacy efforts. Except in a few instances where sectors regulate themselves through industry self-regulatory policies, standardization is often carried out through far-reaching initiatives by the regulatory and supervisory authorities in the financial sector.¹³

It is pertinent to emphasize that the needs and challenges of each jurisdiction differ, as standardization does not portend a one-size-fits-all approach. Rather, it is important to consider each economy's stage of development and what approach best addresses the specific needs of such a country. Most advanced economies, such as Malaysia and Bahrain, have gone through significant stages of development in the past and have experienced unique and jurisdiction-specific teething

¹³ See generally, Lundqvist (2014).

problems, which have helped share their current relative successes. For instance, substantial standardization recorded in Malaysia cannot be fully transplanted to Türkiye without considering some unique local variations, including in *Shari‘ah* interpretation of certain product structures, legal system and legislative history, and the extent of market development.

2.4. Standardization Efforts of International Islamic SSOs

As briefly discussed above, the international SSOs in Islamic Finance have taken the lead to ensure the standardization of practices, rules, documentation, legislation, and even product structures. Notable among the international SSOs are AAOIFI, IFSB, and IIFM.

2.4.1. Impact of Conventional SSOs on Islamic Finance Globally

Though often not emphasized in most discourses, the conventional SSOs and their standards have impacted the nature of the Islamic Finance standards being adopted across the OIC member states and beyond. While relying on *Shari‘ah* principles underpinned by the overarching Islamic principles, the Islamic SSOs aim to standardize and, in some cases, harmonize global standards and best practices (AAOIFI, 2020). So, rather than reinventing the wheel, the Islamic SSOs have continuously strived to mainstream the IFSI in the global financial system while maintaining its original *Shari‘ah* basis. This approach is more adequate in relevant standards and issued guidelines that relate to governance, ethics, and financial reporting.

The subtle impact of conventional SSOs on Islamic Finance globally, which is often not pronounced, is a welcome development and does not in any way affect the authenticity of the standards and guidelines issued by the Islamic SSOs. In the process of standard development, some of the SSOs within the IFSI rely on established standards from conventional bodies even though such conventional standards are modified where applicable and adapted to suit the needs of Islamic Finance. This approach is in no way contradictory to principles of Islamic law, as the *Shari‘ah* does not prohibit taking wisdom from others, provided the outcome of the process does not contradict fundamental principles of the *Shari‘ah*.

2.4.2. Accounting and Auditing Organization for Islamic Financial Institutions

The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) is the earliest SSO in the global IFSI. Based in Bahrain, AAOIFI was established in 1991 with a clear mission to help standardize and harmonize Islamic Finance practices and financial reporting worldwide and ensure they all comply with the tenets of the *Shari‘ah*. AAOIFI achieves its objective through the

issuance of standards on *Shari‘ah*, accounting, ethics, and governance matters. Since its inception, AAOIFI has issued over 114 standards and technical pronouncements (AAOIFI, 2020:27).¹⁴

As part of the efforts toward ensuring global standardization of practices and financial reporting, the AAOIFI standards have been adopted in various countries, mainly among the OIC member states. According to AAOIFI, as of 2020, not less than 43 jurisdictions and 36 countries have adopted the AAOIFI standards worldwide, even though the status of such adoption varies by country. The AAOIFI standards could be adopted completely, adapted, or partially adopted. In some jurisdictions and countries, the AAOIFI standards are merely adopted as guidelines in developing local standards. In some other jurisdictions and countries, AAOIFI standards are adopted voluntarily depending on the policy of the regulatory and supervisory authority.

According to AAOIFI (n.d.-b), countries and legal jurisdictions that have fully or partially adopted its *Shari‘ah* standards or even adopted them as guidance include the following non-exhaustive list: Afghanistan, Astana Financial Services Authority, Dubai International Financial Centre, Iraq, IsDB Group, Jordan, Kyrgyz Republic, Lebanon, Libya, Mauritius, Nigeria, Oman, Palestine, Pakistan, Qatar, Qatar International Financial Center, Sudan, Syria, UAE, and Yemen.

Table 7 below from AAOIFI gives the status of the adoption of AAOIFI standards in various countries and jurisdictions:

Table 7: Level of adoption of AAOIFI standards

Level of AAOIFI standards adoption	No. of regulatory jurisdictions			No. of countries		
	SHA	ACC	GOV	SHA	ACC	GOV
Full adoption	19	24	18	16	18	15
Partial adoption	4	5	6	3	5	6
Guidance / Reference material	9	7	8	9	7	8
Local standards based on AAOIFI standards	2	4	4	2	4	3
Guidance and local standards based on AAOIFI standards	1	2	3	1	1	2
Supplementary reporting	0	1	1	0	1	1

Notes: SHA – AAOIFI *Shari‘ah* Standards, ACC – AAOIFI Accounting Standards, GOV – AAOIFI Governance / Auditing Standards. Source: AAOIFI (2020:45)

As for the accounting standards, the following countries and legal jurisdictions have fully or partially adopted the standards or adopt them as guidance: Afghanistan, Bahrain, IsDB, Iraq, Jordan, Kyrgyz Republic, Lebanon, Libya, Mauritius, Nigeria, Qatar, Qatar International Financial Center, Oman, Pakistan, Palestine, Sudan, Syria, and Yemen. In a similar vein, a number of countries and

¹⁴ The list of AAOIFI standards is presented in *Table 22* (see Annex).

autonomous legal jurisdictions have also adopted, although at varying degrees, the Auditing, Governance standards as well as Code of Ethics. These include Afghanistan, Bahrain, Dubai International Financial Center, Jordan, Kyrgyz Republic, Nigeria, Qatar, Qatar International Financial Center, Oman, Pakistan, Sudan, Syria, and Yemen ([AAOIFI, n.d.-b](#)).

Apart from issuing new standards, AAOIFI also embarks on a laudable initiative to revise some standards that have been issued in the past to make them relevant to current market developments. The approach to standard setting by AAOIFI is summarized in five different steps as follows ([AAOIFI, n.d.-b](#)):

- 1. Preparation of the Work Programme or Agenda:** After due consultation with the relevant standard board, the AAOIFI Secretariat prepares a tentative work plan on a proposed standard or revision of an existing one. Some preliminary feedback is sought from key members of the IFSI to identify needs, issues as well as anticipated solutions.
- 2. Conducting Preliminary Study or Research:** Once the key issues have been identified in the work plan, a preliminary study or in-depth research is undertaken to ensure all the relevant issues are correctly articulated. This research is either outsourced to an external consultant or conducted in-house by members of the General Secretariat of AAOIFI.
- 3. Preparation of a Consultation Note:** With the preliminary study in place, the major issues to be addressed become more evident to AAOIFI, which leads to the preparation of a consultation note containing major points to be addressed in the proposed standard or revised standard. The consultation note is subject to rigorous review, first by the relevant committee or working group and second by the relevant standards board. Once the latter approves the consultation note, it is sent to key experts in the IFSI for comments and suggestions. This is done in different ways, including through workshops and public hearings.
- 4. Preparing and Issuing the Exposure Draft:** The consultation note is therefore developed into an exposure draft that mirrors the desired final draft of the standard. Just like the consultation note, the exposure draft goes through a rigorous internal review at AAOIFI, including at the relevant committee level or working group, and finally, the relevant standards board, after which the draft will be issued to experts in the global IFSI through technical workshops, seminars, forums, and public hearings. All suggestions and comments received are reviewed by AAOIFI, and they form the basis of further revision of the draft.
- 5. Issuing the Final Standard:** Once all comments and suggestions have been thoroughly reviewed and relevant points considered accordingly, the exposure draft is revised, and the final draft of the standard is produced. The relevant committee or working group also

discusses this final draft before finalizing it. The related standards board will also approve the draft before the final issuance of the standard to the global IFSI as a final and authoritative draft for adoption.

Undoubtedly, the AAOIFI has contributed significantly to the standardization of practices and reporting standards in the global IFSI. With success recorded by AAOIFI, it is proposed that some level of flexibility should be accorded to standards that have been fully adopted by regulatory and supervisory authorities to avoid rigidity in applying rules and standards. This suggestion is pertinent since different jurisdictions are at varying degrees of maturity in terms of their development; hence, any standard issued should allow the regulatory and supervisory authorities to adopt such standards to suit the local needs of the industry. Actually, AAOIFI standards are used by many market players, whereas IFSB standards are used by regulatory authorities. If any regulatory authority wishes to promulgate AAOIFI standards, they are free to make any adaptation according to their needs. However, then it becomes a regulation, not AAOIFI standard. Therefore, harmonization of practices seems more appropriate to allow for local variations, which is also recognized under the *Shari‘ah*. Legal rules and standards are implemented in phases gradually to allow for sufficient time for the industry players to adjust.

2.4.3. Islamic Financial Services Board

The Islamic Financial Services Board (IFSB) was established on 3rd November 2002 but officially began its operations on 10th March 2003. As an international SSO, the IFSB has a 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. Since its inception, the IFSB has issued 26 standards¹⁵, four Technical Notes, and seven 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 ([IFSB, 2020](#)). For a proper understanding of its methodology, IFSB has divided the process into four major stages, which are summarized thus:

- 1. Preparation Stage.** This stage involves compiling desired standards and guidelines based on the latest happenings and best practices among other international SSOs within the global financial system. Therefore, right from the very beginning, IFSB identifies what its peers are doing in the conventional financial industry to ensure a sound and stable financial system. As

¹⁵ The list of IFSB standards is presented in [Table 23](#) (see Annex).

discussed earlier, this is a commendable move; there is nothing wrong in borrowing a leaf from others for any good effort, but IFSB takes it to another level by ensuring that its own standards and guiding principles are underpinned by *Shari‘ah* principles. IFSB consults further with members of its Technical Committee and other regulatory bodies worldwide. Subject to internal approvals within IFSB, any proposed standard could either be comprehensive in its approach or merely supplementary, where the latter approach only provides specific regulatory and supervisory prescriptions for the IFSI with some modifications of conventional standards to fulfill the particular needs of Islamic Finance.

2. ***Development Stage.*** Once the terms of reference have been approved and the relevant budget allocated, the process moves to the development stage, where the Working Group will work on the proposed standard. This stage involves focused group discussions with industry experts and subject matter experts. The process comprises the preparation of the Issue Paper, which leads to the preparation of the Initial Study Report. This is further discussed with further inputs, which finally leads to the preparation of an industry survey. After the compilation of all responses, the Preliminary Exposure Draft is developed, which is thoroughly discussed and thoroughly revised before presenting it to the Technical Committee. At some relevant time, the Revised Preliminary Exposure Draft is translated to Arabic and edited adequately before referring to the *Shari‘ah* Board for review and approval.
3. ***Public Consultation Stage.*** Once the Exposure Draft has been issued, the next stage is the Public Consultation Stage which comprises the release of the draft on the IFSB website, circulation among IFSB members¹⁶, and direct engagement with industry stakeholders. This stage leads to further revision after collating. Then, the draft will go through quality control among different organs of IFSB, including the Editing Committee, *Shari‘ah* approval, and recommendation by the Technical Committee for final approval by the IFSB Council.
4. ***Finalization and Adoption Stage.*** The IFSB Council approves the standard for adoption. Once approved, the IFSB shall issue the new standard to the global IFSI through its website and printing of hard copies.

2.4.4. International Islamic Financial Market

The International Islamic Financial Market (IIFM) is an international SSO with the specific mandate to standardize *Shari‘ah*-compliant financial contracts and product structures which is often undertaken through the issuance of standard documentation for various structures of *Shari‘ah* transactions.

¹⁶ The list of IFSB full members is presented in *Table 24* (see Annex).

Through Royal Decree No.23 of the year 2002 of the Kingdom of Bahrain, the IIFM was established as an international SSO. In achieving its core mandate of developing standardized Islamic Finance documentation with relevant guidelines and product confirmations, the [IIFM \(n.d.\)](#) provides its services in the following manner:

1. “Publish practical and ready-to-use globally standardized *Shari‘ah*-compliant Financial Documentation, Product Confirmations, and related Guidance Notes which are supported with the IIFM *Shari‘ah* Board approval “Pronouncements” as well as jurisdiction-specific Legal Opinions.
2. IIFM’s approach to developing its global standards is through the creation of standardization-specific working groups whose participants are senior representatives of major financial institutions, key industry institutions, market participants, and certain regulatory bodies.
3. Create industry awareness and share technical knowledge on IIFM Standards by organizing specialized seminars, technical workshops, and standardization-specific industry consultative meetings.
4. Practical Training for Professionals on IIFM Published Standards (with a special discount to IIFM Members).
5. Publish annual *Sukūk* Report and periodic Concept Papers on specific topics.”

The IIFM adopts a unique approach to developing its standards. Rather than just issuing the relevant standards, the IIFM also provides fully implementable legal documentation and applicable templates in addition to legal opinions and *Shari‘ah* pronouncements. With this, it is clear that the full suite of documentation and guidance documents is provided. The development process is comprehensive and comprises the following phases:

1. ***Issuance of Concept Paper and Consultative Meeting.*** The IIFM issues a concept paper to the market, thoroughly deliberated at a consultative meeting involving global participants in the IFSI. All inputs are collated, and the final version is tabled to the Board of Directors.
2. ***Board of Directors Approval:*** Once the Board of Directors approves the Concept Paper, the accompanying budget is also approved which leads to the appointment of an external legal counsel.

3. **Global Working Group.** Once the external legal counsel finalizes the scope of work and a review of the Concept Paper, a working group scrutinizes the documentation and provides their comments and feedback.
4. **Coordination with External Legal Counsel and Drafting.** The external legal counsel addresses all the comments and suggestions and prepares the legal drafting of the relevant documentation, product structure, and legal opinions.
5. **Shari‘ah Board Guidance and Approval.** All relevant product structures and legal documentation are submitted to the *Shari‘ah* Board for its review and approval before the final issuance of the standard (Alvi, 2018).

Since its establishment, the IIFM has played a significant role in developing standardized documentation for Islamic financial services, which has been adopted widely in the industry. To date, the IIFM has issued 16 standards on hedging, liquidity management, *Sukuk*, trade finance, and IBOR transition, while some others are under development. These standards and documentation have been adopted and implemented in various countries, including Bahrain, Brunei, Japan, Jordan, Kuwait, Malaysia, Oman, Qatar, Saudi Arabia, Singapore, Türkiye, UAE, Sudan, and many others. Major international banks in the EU, UK, United States, South Africa, and other countries have also adopted the standards and documentation on a voluntary basis (Alvi, 2018).

2.4.5. Comparison of the Different Approaches of Standard-Setting Institutions

In understanding the approach adopted in promoting standardization, product development, and enhancing consistency in reporting, there is a need to briefly compare the different approaches of the three leading international SSOs: AAOIFI, IFSB, and IIFM. *Table 8* presents a thematic comparison of the strategies adopted by the three Islamic SSOs.

Table 8: Comparison of Different Approaches of Three Standard-Setting Institutions

#	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	<i>Shari‘ah</i> Board

Source: Authors

From the snapshot provided in *Table 8*, it is clear that, with the exception of IIFM, the approaches adopted by the other two SSOs are similar. In other words, on the face of it, while the IFSB approach appears to be different from the AAOIFI methodology, a deep understanding of the stages reflects the same process as that of AAOIFI. The Public Consultation Stage of IFSB could be broken down into two to include the Consultation Note and Exposure Draft stages of the AAOIFI process. The IIFM approach is unique since it focuses on legal documentation, which requires the input and coordination of external legal counsel from the very beginning.

2.5. Key Issues and Challenges in Standardization Efforts in Islamic Finance

As identified above, one of the key challenges facing the global IFSI as well as individual countries is the lack of standardization in the different sectors of Islamic Finance. This challenge has been identified, discussed, and critiqued in the literature, forums, and conferences, but fewer efforts have been put into a concrete action plan at the industry level beyond the commendable efforts of the international SSOs. Until recently, even international SSOs sometimes release standards on the same subject matter, which defeats the very essence of standardization. Such confusion created unintended standardization conflicts and avoidable duplications among the international SSOs, particularly AAOIFI and IFSB. As discussed above, this has since changed recently, but there is still room for improvement in the approaches adopted.

Beyond standardization of *Shari‘ah* rulings and practices, there are other areas that require significant policy review. These aspects include financial and accounting reporting, governance and prudential regulation, product structure and legal documentation, legislation, and tax policies for cross-border transactions. Most of these areas are being addressed in an effective manner by the international SSOs in the IFSI. However, it appears there is less regulation at the cross-border level, which remains fluid. It is common to witness the issuances of global *Sukūk*. Even though they are mostly issued under English law, with some aspects being regulated by domestic legislation, there is always the cross-border component. The question that begs immediate policy response is whether there could be some sort of enforcement of some international regulations across borders.

As discussed above, there have been a series of commendable efforts toward standardization in Islamic Finance across different sectors at local, regional, and global levels. However, the level of standardization and enforcement of standardized rulings in diverse sectors ranging from Islamic banking, and ICMs to *Takaful*, are at different developmental stages with numerous issues and challenges. Despite the laudable efforts of international SSOs in Islamic Finance and various initiatives in a number of advanced jurisdictions, the IFSI seems to be facing more challenges than

before; hence, there is a need to take a step backward, reassess the current state of things, and provide some policy guidance for regulators and supervisory authorities within the OIC member countries. Assessing the current issues and challenges with a practical illustration of the major problems is a *sine qua non* to finding a lasting solution and policy direction. These include issues and challenges relating to *Shari‘ah*, Financial and Accounting Reporting, Legislation, Product Structure, and Legal Documentation.

Benchmarking is essential in coming up with policy directions. Therefore, undertaking a detailed analysis of standardization efforts in key jurisdictions such as Malaysia, Bahrain, Türkiye, and Oman would allow for the transfer of knowledge between OIC member countries, even though some jurisdictions may have their unique specific needs. To address such specific needs of certain countries, the policy direction will learn from other best practices, such as the EU single market experiment and other experiments outside the OIC region, such as the UK, to consider the best approach to standardization in Islamic Finance in a highly diversified group of countries. The study will provide global, regional, and national agendas for standardization in Islamic Finance depending on the development level of Islamic Finance in each jurisdiction. Far from a one-size-fits-all approach, this study will provide different frameworks for OIC member countries at the infant, developing, and mature phases of development, respectively, in addition to a global agenda.

CHAPTER 3: CASE STUDIES

The current chapter focuses on standardization-related issues and initiatives in the selected OIC and non-OIC case countries. Each case starts with the overview of the landscape of Islamic Finance in these markets, explains their legal, regulatory, and *Shari'ah* frameworks, describes the trends, challenges and issues faced by the market in the process of standardization, and concludes with describing the lessons learnt, country-specific policy recommendations and their implications.

3.2. Case Country #1: Malaysia

3.2.1. Background Information

Malaysia is considered, without a doubt, a leading country in the achievement of a high level of standardization in Islamic Finance. This is thanks to its clear vision, mission, and strategic initiatives. With its conducive regulatory framework that champions standardization and innovation, Malaysia ranks first in the global Islamic Finance and *Sukuk* market while ranking 12th out of 190 in the World Bank's Ease of Doing Business index in 2020 ([WBG, 2021](#)). The Financial Sector Blueprint 2011-2020 ([BNM, 2011](#)) reflects this ambition, stating that the objectives of Malaysian banking regulations are to promote regional and international financial integration as well as the internationalization of Islamic Finance. However, its regulatory and standardization level peaked when the Islamic Financial Services Act 2013 (IFSA) was issued. With this major development, Malaysia established itself as a global center for Islamic Finance and a thought leader, product developer, and institutional player. The Malaysian Islamic Finance market is the most standardized in the world, yet it is also the most innovative, according to [Fitch \(2017\)](#).

Malaysia retained its lead on the Global Islamic Economy Indicator (GIEI) for the ninth consecutive year, according to the State of the Global Islamic Economy Report 2022 ([DS, 2022](#)).¹⁷ Governments, corporations, and civil society have collaborated in Malaysia to build an ecosystem for sustainable finance by leveraging Islamic Finance to fund sustainable economic activities ([CPM, 2021](#)).

The recent development in FinTech, digital banking, and crowdfunding has positioned Malaysia even stronger in providing a conducive and comprehensive ecosystem that facilitates cross-border transactions, contributing to the quest for global standardization.

¹⁷ Taking into account their sizes, the GIEI assesses which countries have the most conducive environment for developing Islamic business and economy.

The following sections briefly describe the regulations and standardization processes that underlie this success and suggest ways to adapt and further enhance these factors.

3.2.2. The Size and Share of Three Segments of Islamic Finance: Key Facts

Malaysia's IFSI is comprehensive, comprising three sectors: Islamic banking, *Takaful*, and Islamic Capital Market (ICM). As of 2021, Islamic banking deposits and investments represented 39.8 percent of total banking system assets, with assets of RM1.192 trillion ([BNM, 2021](#)).

The Malaysian *Takaful* sector recorded a strong growth rate in both family and general *Takaful* businesses in the first half of 2021 compared to 2020, ranking the sector third globally, complemented by a comprehensive Islamic Finance ecosystem ([Fitch, 2021b](#)). In 2021, *Takaful* net contributions to total net premiums/contributions accounted for 19.3 percent. In the same period, Family *Takaful* amounted to RM45.73 billion, an increase from RM41.87 billion in 2020, and net *Takaful* contribution income increased to RM6.59 billion ([BNM, 2021](#)).

Malaysia's Islamic banking and *Takaful* industry continues its steady path toward attaining parity in terms of its market share in the aggregate banking market by 2030 with the conventional sector ([Parker, 2021](#)). The diagram below ([Figure 4](#)) summarizes the growth of Islamic banking and *Takaful* as of the end of end-2021. As illustrated in the figure, the country's Islamic banking and insurance markets experienced substantial development because of effective policies and regulations.

The development of Malaysia's ICM contributed to the diversification of market-based funding avenues, particularly the *Sukuk* market. By the end of 2021, the domestic ICM was valued at RM2,308.5 billion (or 65.4 percent of the entire domestic capital market), up from just RM294 billion in end-December 2000. This position has ranked Malaysia number one in the number of *Sukuk* issuances from 2001 to 2018, with 74 percent of the global *Sukuk* issuances ([Edge, 2021](#)).

The following figures illustrate the significant growth of the Malaysian ICM within a very short period.

Figure 4: Growth of Islamic Banking and *Takaful* Industry in 2021

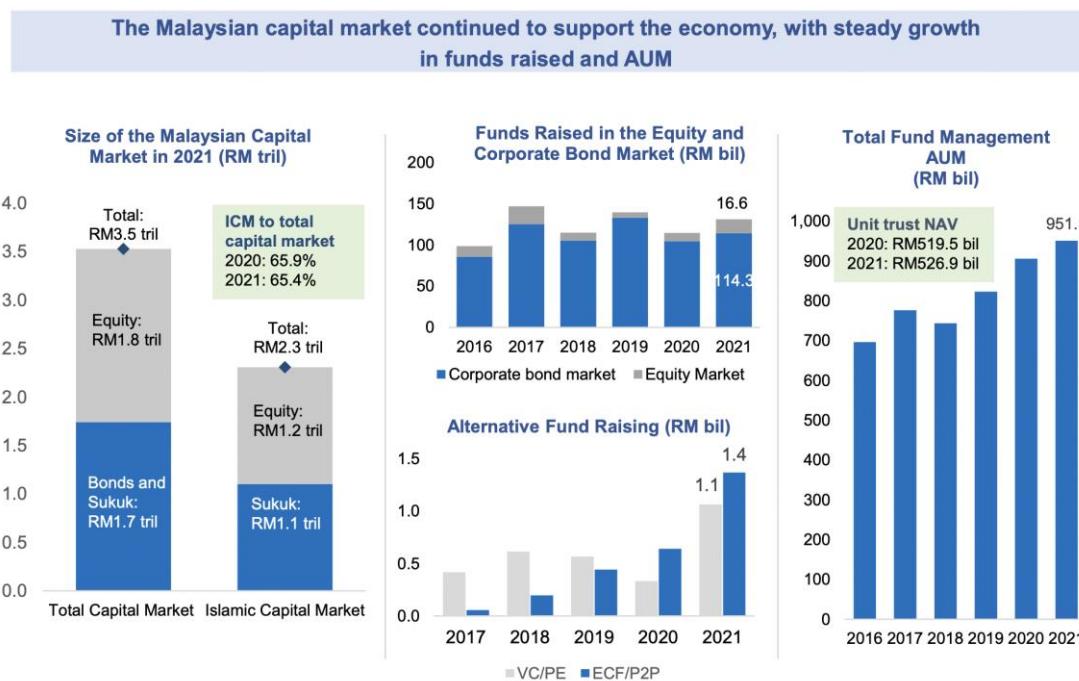
	As at end				
	2H 2019	1H 2020	2H 2020	1H 2021	2H 2021p
Islamic Banking System					
Total Assets ¹	1,020,371.0	1,041,629.6	1,089,540.7	1,139,095.2	1,192,862.4
% of total assets of entire banking system ¹	33.5	33.3	34.2	35.1	35.5
Total Financing ¹	753,609.9	780,376.6	817,403.3	841,507.2	886,607.2
% of 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

Source: BNM (2021)

SC (2022) provides the following key facts about the Malaysian capital market (see *Figure 5*):

- The capital market size increased to RM3.5 trillion in 2021 (2020: RM3.4 trillion).
- In the equity and corporate bond markets, RM130.9 billion was raised in 2021 (5Y pre-pandemic average: RM121.4 billion).
- RM1.4 billion was raised through equity crowdfunding/peer-to-peer lending (RM640.4 million in 2020) and RM1.1 billion through venture capital/private equity.
- Fund management AUM rose to RM951.1 billion (2020: RM905.5 billion).

Figure 5: Contribution of Capital Market to the Malaysian Economy



Source: SC (2022)

3.2.3. Legal, Regulatory, and *Shari‘ah* Frameworks

The legal, regulatory, and *Shari‘ah* development of Islamic Finance in Malaysia has gone through three major stages:

- **Stage I** (1983-1993): the *infancy* or the *initial stage* of Islamic Finance, during which the country built the legal, regulatory, and *Shari‘ah* foundations. This stage started in the Islamic banking field in 1983, the year of the enactment of the Islamic banking law that governed the operations of Islamic banks in Malaysia and the establishment of the first full-fledged Islamic bank called ‘Bank Islamic Malaysia Berhad’. The stage also witnessed the enactment of the *Takaful* law in 1984 and the establishment of the first *Takaful* operator in the same year. The ICM had yet to be institutionalized in this stage though the year 1990 witnessed the issuance of the first Global *Sukuk* by Shell Sdn Bhd, amounting to RM525 million.
- **Stage II** (1993-2001): the *intermediate stage*. The stage featured institution building as it witnessed the establishment of the Securities Commission (SC) in March 1993 to facilitate the orderly development of an innovative and competitive capital market and to promote and maintain fair, efficient, secure, and transparent securities and futures markets. It has also witnessed an increasing number of players after legislative amendments to allow Islamic

banking and *Takaful* windows and subsidiaries. This has contributed to the stimulation of competition and market vibrancy. The stage also witnessed the first steps to harmonizing *Shari‘ah* interpretation by establishing the SAC of BNM and The Islamic Instrument Study Group in 1994 to discuss the ICM-related *Shari‘ah* matters.

- **Stage III** (2003 - present): the *advanced stage*. This stage emphasized the strategic positioning and international integration of Islamic Finance. Several measures have been taken to ensure that the strategic and legal framework accommodates Islamic Finance. Among them are the enactment and review of laws, regulations, guidelines, and standards.

The development of Islamic Finance in Malaysia is presented in the following subsections.

3.2.3.1. Banking Sector

As stated above, the Islamic banking sector started with the enactment of the Islamic Banking Act in 1983 and the establishment of the first full-fledged Islamic bank in the same year. The Act accorded the power to BNM to regulate and supervise Islamic banks. The act is now superseded following the enactment of the Islamic Financial Services Act 2013. Additionally, an interest-free provision has been added to the Government Investment Act (GIA) 1983 for both Statutory Reserves and Liquidity Reserve Requirements. In 1989, the BNM issued the Banking and Financial Institutions Act (BAFIA). According to this act, conventional banks are allowed to conduct trade activities under Islamic banking business (via “Islamic windows”) if it complies with BNM directives issued in consultation with the SAC of BNM (Section 124 of BAFIA 1989).

The second stage of Islamic banking development saw the issuance of Guidelines on Skim *Perbankan Tanpa Faedah* (SPTF) (Interest-Free Banking Scheme) in 1993. Three years later, in 1996, the Banking and Financial Institutions Act (BAFIA) 1989 was amended to formalize the Islamic window business and to establish the SAC of BNM. The SAC of BNM was officially established in 1997. The banking sector witnessed a considerable increase in the number of players and asset shares, with the establishment of 16 Islamic banks, 12 Islamic windows, and six development financial institutions. Malaysia’s Islamic banking industry has seen solid development thanks to the release of the Islamic Financial Service Act. The act has put Islamic banks on a level-playing field with conventional banks. The issuance of the *Shari‘ah* Governance Framework in 2010, which was revised in 2019, and the issuance of guidelines, directives, and standards have further strengthened the Islamic banking industry and made them very competitive.

3.2.3.2. *Takaful Sector*

The *Takaful* insurance sector in Malaysia represents 19.3 percent of the total premiums of the local insurance market ([BNM, 2021](#)). A government initiative to provide financial assistance to low-income earners for buying insurance and *Takaful* coverage under the ‘*Perlindungan Tenang*’ scheme, otherwise known as the Quiet Protection scheme, is expected to support *Takaful* penetration to continue to grow ([Fitch, 2021a](#)). Recent figures have shown that *Takaful* is becoming a solution of choice for Malaysians, despite having a dual financial system. A jump in the market share from 3 percent to nearly 19.3 percent in just one decade clearly indicates this direction. Since the *Takaful* sector falls under the BNM’s jurisdiction, the legal, regulatory, and *Shari‘ah* governance developments have the same effect on *Takaful* as Islamic banks regarding growth and resiliency. Today, Malaysia’s *Takaful* sector consists of 12 *Takaful* operators and four *ReTakaful* operators. Based on new business contributions, the sector accounted for 38 percent of Malaysia’s life insurance market in the first half of 2020. This is an increase from 34 percent in 2019. In addition, 16 percent of the general insurance market comprises general *Takaful* accounts ([Fitch, 2021b](#)).

3.2.3.3. *Islamic Capital Market*

The Islamic Capital Market (ICM) dates to the early 1990s since the issuance of the “Shell” tradable *Sukūk*. However, the official start came in March 1993 when the Securities Commission (SC) was established to facilitate the orderly development of an innovative and competitive capital market by promoting and maintaining fair, efficient, secure, and transparent securities and futures markets. Other developments also marked the period, such as establishing an Islamic Instrument Study Group in 1994 to discuss the *Shari‘ah* matter. As a result of a change of status on 16th May 2006, the group became a more formal body, with approval from the Ministry of Foreign Affairs (MOF) and a mandate to implement the ICM. It was then named the SC’s *Shari‘ah* Advisory Committee (SAC). In addition to advising the SC on all matters related to the comprehensive development of the ICM, the SAC serves as a reference for all issues relating to the ICM. With regard to the strategic push for the ICM, Malaysia started with the issuance of the first strategic direction of the Capital Market Masterplan (CMMMP), which was launched in 2001. With 152 recommendations covering 11 topics, including 13 specific recommendations aimed at establishing Malaysia as an international capital market center over the long run, the plan serves as a blueprint for the long-term strategic development of the Malaysian capital market. The second CMMMP (2011-2020) focused on governance and standardizing processes and procedures, whereas the third CMMMP (2021-2025) focused on the continuation of the development of market frontiers.

3.2.4. Current State of Standardization Efforts in the IFSI

Malaysia is regarded as the most advanced country in terms of standardization. This global recognition is a result of a well-planned and efficiently executed strategy. This includes the legal, regulatory, *Sharī‘ah* governance, and supporting bodies.

3.2.4.1. The Current State of the Legal Standardization Efforts

The first fundamental milestone of standardization efforts is the enactment, and continuous reviews and enhancements of the Islamic banking, *Takaful*, and ICM acts. Different financial players were given comprehensive guidance to standardize the practices and ensure clarity, discipline, consistency, and synergy. These considerable legal efforts took the following sequences:

- The enactment of the Islamic Banking Act in 1983,
- The Government Funding Act (GFA) in 1983,
- The enactment of the *Takaful* act in 1984,
- • The Banking and Financial Institutions Act 1989 (BAFIA),
- The Development Financial Institutions Act 2002 (DFIA),
- The establishment of the Law Review Committee in 2003,
- The issuance of the Capital Market Services Act 2007 (CMSA),
- The issuance of the Central Bank of Malaysia Act 2009,
- The establishment of the Law Harmonization Committee in 2010,
- The issuance of the *Sharī‘ah* Governance Framework in 2010,
- The enactment of the Islamic Financial Services Act combining the Islamic Banking Act and the *Takaful* in 2013,
- The issuance of the revised *Sharī‘ah* Governance Framework in 2019 under the name of *Sharī‘ah* Governance Policy (SGP).

The second fundamental milestone is harmonizing Islamic Finance with conventional one by addressing the issues of discrepancies and ensuring a level-playing field for the IFSI. To achieve this, the BNM established the Law Review Committee in June 2003 and has made recommendations to the Government regarding the relevant tax laws governing Islamic banking and finance transactions. Accordingly, the Government announced in the 2005 budget a tax neutrality policy for Islamic banking and finance. This was so that Islamic banking and financial transactions could be treated fairly with conventional banking operations ([ISRA, 2016:119](#)).

The Committee has contributed tremendously to ensuring that *Shari‘ah* principles can be imported into Malaysian law in a way that is effective and seamless. Among its significant contributions is achieving tax neutrality. Tax neutrality provided a level playing field for Islamic banking transactions. Section 2(7) Income Tax Act (ITA) 1967 stated that any reference in ITA to interest should “.... *apply, mutatis mutandis to gains or profits received and expenses incurred, in lieu of interest, in transactions conducted in accordance with the principles of Shari‘ah*” ([ITA, 2006:21](#)). The ITA treats profits similarly to interest; so, taxability or deductibility of profits would be similar to the treatment of interest in conventional financing.

Section 2(8) of the Income Tax Act (ITA) 1967 states that: “*Any reference in ITA to the disposal of an asset or a lease shall: exclude any disposal of an asset or lease by or to a person pursuant to a scheme of Financing approved by Central Bank, Securities Commission or Labuan Offshore Financial Services Authority, as a scheme which is in accordance with the principles of Shari‘ah where such disposal is strictly required for the purposes of complying with those principles but which will not be required in any other schemes of financing*”. For tax purposes, the Section opts to ignore the underlying asset transactions and allows Islamic financing to proceed unhindered if the relevant authorities have approved the transfers or leases. Moreover, stamp duty laws have been amended to create equal treatment between Islamic banking and conventional banking transactions. The Sec 14 of the [Stamp Act \(2014\)](#) states that for Islamic banking documents, “*duty chargeable thereon shall be calculated on the principal amount provided by the financier or financing body*”. The Committee’s objectives are as follows ([BNM, n.d.](#)):

- To create a conducive legal system that facilitates and supports the development of the IFSI;
- To achieve certainty and enforceability in the Malaysian laws concerning Islamic Finance contracts;
- To position Malaysia as the reference law for international Islamic Finance transactions; and
- To consider Malaysian laws as the law of choice and the forum for settlement of disputes for cross-border Islamic Finance transactions ([BNM, n.d.](#)).

Although the tax incentives are not contributing directly to the standardization process, they play a great role in facilitating the standardization of products, contracts, documentation, and practices.

The third milestone in the legal standardization efforts is establishing a multi-tier dispute resolution system facilitating a professional, reliable avenue for litigation and dispute resolution infrastructure to instill public confidence. This was translated into setting up a department in the judiciary system and appointing a dedicated High Court judge to adjudicate Islamic Finance cases and provide a

competent pool of judges. The Kuala Lumpur Regional Centre for Arbitration (KLRCA) of Malaysia represents another attempt to standardize the mechanisms to cover emerging substantive areas of dispute, including Islamic Finance disputes. The other avenue for dispute resolution is the Financial Mediation Bureau as an alternative dispute resolution mechanism.

3.2.4.2. The Current State of the Regulatory Standardization Efforts

In Malaysia, Islamic Finance regulations are developed using universal prudential wisdom and taking into account Islamic Finance's particularities to maintain a sound Islamic financial system and ensure adherence to *Shari'ah* conducts. This enables a comprehensive standardization that provides financial stability.

Among the regulatory issuances contributing to the standardization efforts of Islamic banking are:

Table 9: Regulatory Issuances Contributing to the Standardization Efforts of Islamic Banking

Frameworks/Guidelines	Objective
Governance of <i>Shari'ah</i> Committee	Governing the <i>Shari'ah</i> Committee and the internal processes required to ensure compliance with <i>Shari'ah</i>
Capital Adequacy Framework for Islamic Banks (CAFIB)	Risk identification and measurement based on underlying <i>Shari'ah</i> contracts
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
Rate of Return Framework	A standard methodology for calculating depositors' returns
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
Property Development and Investment Activities	Property development and property investment policies governing Islamic banks
Guidelines on <i>Musharakah</i> and <i>Mudarabah</i> Contracts	Policies and regulations governing Islamic banking assets structured using <i>Musharakah</i> and <i>Mudarabah</i> contracts
Financial Disclosure for Islamic Banking Institutions	Basis for disclosure and presentation of financial statements and reports
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
<i>Shari'ah</i> Governance Policy (SGP)	Outlines the bank's strengthened expectations for effective <i>Shari'ah</i> governance arrangements that are well-integrated with business and risk strategies of the IFIs
Guidelines on <i>Ibra'</i> (Rebate) for Sale-Based Financing	Providing greater transparency and clarity by harmonizing the different practices among the IFIs.

Source: Adapted from [Idris \(2011\)](#)

This is in addition to the operational aspects of the 14 *Shari'ah* standards that ensure uniformity of product development and implementation.

3.2.4.3. The Current State of the *Shari'ah* Governance Standardization Efforts

The enactment of Islamic banking, *Takaful*, and ICM acts aimed at ensuring end-to-end *Shari'ah* compliance. However, there was a need to enhance the *Shari'ah* governance further and standardize the understanding and implementation of the directives. As a result, section 124 of the Banking and Financial Act (BAFIA) was amended in 1996 to allow banks licensed under the Act to offer Islamic banking services. In the 2003 amendment to IBA, a new section (13A) was added, which provides that Islamic banks may consult the SAC on *Shari'ah* issues pertaining to their banking business, and Islamic banks are required to follow its advice.

Table 10: Contract-Based Regulatory Framework based on IFSA 2013 and SGP 2019

End-to-end <i>Shari'ah</i> Compliance							
<i>Shari'ah</i> Standards		Operational Standards	Oversight Functions	Resolutions			
Compliance with fundamental requirements of respective <i>Shari'ah</i> contracts		Strengthened risk management, governance, transparency and disclosure, market conduct and other operational aspects of applying <i>Shari'ah</i> standards	Codification of the role of the <i>Shari'ah</i> committees and boards of directors of financial institutions in ensuring <i>Shari'ah</i> compliance	Priority of payment reflective of underlying <i>Shari'ah</i> contracts			
<i>Shari'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> 		

Source: Adapted from [BNM \(2013\)](#)

The Central Bank of Malaysia Act 2009 brought Islamic Finance and the *Shari'ah* governance and compliance to a new level when it institutionalized Islamic banking by recognizing the dual banking system by stating in Section 27 that: “*The financial system in Malaysia shall consist of the conventional financial system and the Islamic financial system.*” ([BNM, 2009:31](#)). The act placed the SAC as the highest authority. Section 56(1): “*The court or arbitrator shall consider published rulings of BNM's *Shari'ah* Advisory Council (SAC) and to refer any *Shari'ah* questions to the SAC for its ruling,*” and Section 57 states that rulings of SAC shall be binding on IFIs, courts or arbitrators and these rulings are final ([BNM, 2009:53](#)).

The peak of the *Shari'ah* governance standardization efforts was the issuance of the *Shari'ah* Governance Framework in 2010, which was revised in 2019, the Islamic Financial Services Act

(IFSA) in 2013, and 14 *Shari‘ah* standards. These combined strategic achievements established end-to-end *Shari‘ah* compliance. Although BNM *Shari‘ah* standards share many similarities with those of AAOIFI, BNM *Shari‘ah* Standards use a different methodology. In addition to integrating procedural and prudential aspects, the BNM *Shari‘ah* standards differ somewhat from the AAOIFI standards in terms of partial *Shari‘ah* jurisprudential preferences.

3.2.4.4. The Current State of Supporting Bodies in Boosting the Standardization Efforts

One of the significant efforts in the quest for standardization is the conducive and proactive supporting bodies, whether educational and training institutions, national industry associations or networking, and promoting service providers.

Since the inception of Islamic banking, the Government of Malaysia has been fully aware of the importance of human capital development to support the newly developed industry. The International Islamic University Malaysia (IIUM) was established in 1983, when Islamic banking was introduced, to address the need for qualified human capital. This was followed by establishing universities and specialized institutes and departments. However, the strategic contribution in this area was the direct contribution of the BNM by establishing dedicated institutions to harness the critical talent needs of the IFSI locally and globally. Among the institutions that played an essential role in the effort to standardize Islamic Finance are:

- The International Centre for Leadership in Finance (ICLIF) 2001 (BNM),
- The Financial Institutions Directors’ Education under the ICLIF Leadership and Governance Centre 2008 (BNM),
- The Global University of Islamic Finance (INCEIF University) 2005 (BNM),
- International *Shari‘ah* Research Academy for Islamic Finance 2008 (BNM),
- The Islamic Banking and Finance Institute Malaysia Sdn Bhd (IBFIM) was founded in 2001 by the industry,
- *Shari‘ah* Advisors in Islamic Finance (ASAS).

These institutions played a pivotal role in educating and training industry players, contributing to the standardizing efforts.

The IFSI associations also played a tremendous role in bridging the gap between industry practices. The Association of Islamic Banking and Financial Institutions (AIBIM) was formed in 1995 to promote sound Islamic banking practices and systems in Malaysia. Its working committees, research projects and strategic reports and initiatives played a pivotal role in bringing the Islamic banking

industry to a common ground of understanding and practices. In 2002, the Malaysian *Takaful* Association (MTA) was established to provide leadership on issues affecting the collective strength and image of the industry and shaping and influencing public authorities' decisions to benefit the industry as a whole. MTA played a crucial role in putting the *Takaful* and *ReTakaful* industry in a leading position thanks to its effort in standardizing and bridging the gaps between *Takaful* industry practices. The Chartered Institute of Islamic Finance Practitioners (CIIFP) and the International Council of Islamic Finance Educators (ICIFE) also played an important role in the efforts of standardization. These efforts have paid off as they resulted in an active Islamic finance market and leading positions and global recognition.

Table 11: Global Recognition and Expansion of Malaysian Islamic Finance Marketplace

✓ Ranked 1 st as the most developed Islamic Finance market, according to IFDI.			
Quantitative Development	Rank #1	Governance	Rank #1
Awareness	Rank #1	Knowledge	Rank #1
Diversified players offering Islamic financial services			
Islamic Banks	16	Islamic Windows	12
<i>Takaful</i> Operators	15	Islamic Fund Management	53
<i>ReTakaful</i> Operators	4	Training and Education Entities	101
Development Financial Institutions	6	Professional Ancillary Services (legal, <i>Shari‘ah</i> firms, etc.)	42

Source: Adapted from [IFN \(2020:79\)](#) and [CMM \(2022\)](#)

Besides the capacity-building institutions and supporting bodies, BNM established the Malaysia International Islamic Financial Centre (MIFC) in 2006 as an international Islamic financial center and networking enabler to position Malaysia globally and contribute to more robust global connectivity.

The hard work of standardization efforts discharged by different Malaysian Islamic Finance fraternities placed the market in the leading position not just in the standardization efforts and achievements but across most Islamic Finance market segments.

3.2.5. Standardization: Current Trends, Issues, and Challenges

Although Malaysia is making great strides in Islamic Finance standardization, some issues and challenges remain. Nine prominent academics and legal, regulatory, and industry experts were interviewed to validate this finding and provide recommendations. The following presents a summary of the issues, challenges, and recommendations highlighted by the prominent interviewees.

3.2.5.1. Legal and Regulatory Issues

The legal fraternity contributes to gearing up Islamic Finance to the next level. Though the present laws and regulations have satisfied the industry's needs to operate in a stable and coherent manner,

some lawyers and practicing experts believe that the existing laws and regulations may not be conducive to supporting further growth in Islamic Finance. Many respondents emphasized the importance of a balanced approach to regulatory and legal standardization, highlighting their concerns over standardization at different stages of maturity of Islamic Finance markets. Moreover, they stressed the importance of *Shari‘ah*-compliant capital market activities via securities laws, expressing concerns about the enforceability of *Shari‘ah* contracts or arrangements.

To overcome these challenges, it is recommended:

- 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 *Shari‘ah* rules;
- Expanding the pool of expertise in emerging areas of Islamic Finance;
- Establishment of a legal community and infrastructure to facilitate the growth of the IFSI;
- Establishing a legal community and infrastructure to support the growth of the IFSI;
- Acquiring a greater understanding of the intricacies of *Shari‘ah*-compliant transactions to facilitate better deliberation on legal disputes;
- Having a deep understanding of *Shari‘ah* matters to better handle litigations in Islamic Finance.

3.2.5.2. *Taxation*

In addition to traditional manufacturing and agricultural industries, Malaysia offers a variety of tax incentives to encourage investments, such as those in information and communication technology, education, tourism, healthcare as well as Islamic financial services ([Deloitte, 2021](#)).

The latest tax incentive offered by the government for the Malaysian IFSI includes ([MIFC, 2018](#)):

- International Islamic Banks and International Currency Business Units of licensed institutions, such as commercial, investment, and Islamic banks, are entitled to a 10-year tax holiday on income earned from Islamic banking conducted in foreign currencies between 2007 and 2016.
- Islamic banks are exempt from paying taxes on any profits they make on deposits placed at them by nonresident companies/institutions.
- Between 2nd September 2006 and 31st December 2015, 20 percent stamp duty remission on Islamic Finance instruments.

- A tax exemption has been granted to Islamic banks for five consecutive years regarding income derived from overseas branches or investee companies.
- Individuals and non-resident depositors of Islamic banks are exempt from tax on profits, and experts in Islamic Finance who are non-residents are exempt from withholding taxes.

Although respondents agree that tax incentives offered by the government and regulators are satisfactory, they believe there is still room for improvement, especially regarding product offerings. Due to the distinct documentation and contract requirements, a partnership (*Musharakah*) product could be prone to tax issues. Among the respondents, one proposed integrating partnership contracts within the tax code as a means of mortgage financing. According to respondents, it is crucial to ensure the existence of a level-playing ground with conventional banks.

3.2.5.3 Relationship with International Standard-setting Institutions

Respondents agree that among the core factors placing Malaysia's Islamic Finance at the forefront of the standardization efforts are its openness to global innovations and advancements and its adoption of the global best practices in regulation, supervision, and governance. As a result, Malaysia did not just establish a good relationship and close ties with the international SSOs. The country went even further by hosting many of them in Malaysia to facilitate closer coordination and collaboration. Below is the list of international financial organizations and SSOs hosted by the Malaysian government:

- The Malaysia International Islamic Financial Centre,
- The Islamic Financial Services Board,
- The International Islamic Liquidity Management Corporation,
- The Islamic Development Bank (regional office),
- The Islamic Corporation for Development of the Private Sector (regional office),
- The World Bank Malaysia Hub.

Malaysia also established a strong relationship with the AAOIFI by signing MoUs, establishing AAOIFI Southeast Asia Committee based in Malaysia, and collaborating on research and events.

Although respondents viewed Malaysia as a proactive country in developing a conducive relationship with international SSOs, they agreed that additional efforts are needed to discuss strategic initiatives supporting global Islamic Finance standardization, such as holding regular roundtable discussions with AAOIFI, IFSB, IIFM, and Islamic International Rating Agency (IIRA).

3.2.6. Specific Needs to Improve Standardization Level

Although Malaysia is ranked first in the standardization efforts, thanks to its comprehensive and proactive approach, there is always room for further improvement to keep abreast with the fast-growing international efforts of harmonization and standardization. To further improve the standardization process, the following recommendations are proposed:

- To continue strengthening the legal, regulatory, and supervisory frameworks by continuously adopting the global best practices;
- To upsurge the effectiveness of the IFSI by encouraging the creation of vanilla value-added *Sharī‘ah*-compliant financial products;
- To increase international cooperation and global connectivity to achieve the highest level of standardization, thus, enabling smoother cross-border transactions;
- To facilitate a harmonious understanding and implementation of relevant standards by industry stakeholders;
- To adopt a more principles-based set of guidelines to encourage innovation within *Sharī‘ah* parameters by taking advantage of technological advancements;
- To support specialized research centers as incubators for innovations and standardization; and
- To enhance the interdisciplinary training program to increase knowledge and awareness, facilitating the standardization process.

3.2.7. Lessons Learnt and Transfer of Knowledge among OIC Member Countries

Considering the remarkable Malaysian experience and the advanced level of standardization it has achieved, we can conclude that the following factors were instrumental in its standardization quest:

- Institutionalization of standardization as well as enduring, unqualified government support;
- Mapping out a clearly defined vision, goals, and strategic directions with detailed short-, medium-, and long-term plans for standardization;
- Setting comprehensive legal, regulatory, and *Sharī‘ah* governance frameworks;
- Creation of a conducive environment for contribution by IFIs towards the achievement of standardization; and
- Laying the foundation for effective competitiveness and innovation by incentivizing the pursuit of standardization-related initiatives.

3.2.8. Country-Specific Policy Recommendations

According to experts, a conducive ecosystem facilitating the standardization process is essential for achieving comprehensive standardization in Islamic Finance. In this regard, experts have called for developing a master plan and setting a clear strategic direction. This direction should be reflected in the government's plans, the Central Bank's blueprints, and the capital market's master plan. The standardization in the strategic plan must be institutionalized to ensure that future policies, directives, and guidelines are geared toward achieving this strategic goal.

The second policy advice is to undertake comprehensive human capital development with a particular focus on standardization-related areas. Capacity building and human capital development are the keys to the success of standardization in Islamic Finance. *Shari'ah* scholars and legal and regulatory Islamic Finance experts, working on standardization should be given priority.

The third policy advice is to enhance the existing legal, regulatory, and supervisory infrastructure to harmonize the existing laws and simplify legal documentation. Enhancing these infrastructures is key to a smooth standardization process.

The fourth policy advice is bridging the gap between local and international industry players to reduce divergence and achieve greater connectivity. This collaboration can be achieved through establishing national and international research and working committees dedicated to achieving international harmonization and standardization of Islamic Finance products and practices.

3.2.9. Implications of Policy Recommendations for OIC Member Countries

The OIC member countries are better positioned to undertake the task of standardization due to the existing established collaboration and connectivity. They also have a high interest in attaining a high level of standardization as this will have a massive implication on their Islamic Finance businesses. Policy recommendations would have the following implications, among others:

- Facilitating cross-border liquidity management among OIC member countries, which is believed to be hindered by the divergence of *fatwas* and legal interpretation;
- Increasing the capital flow and foreign trade among the OIC member countries due to the friendly and well-regulated investment environment;
- Reducing transaction costs in the process of Islamic banking, *Takaful*, and capital market product development;
- Facilitating the exchange of expertise across OIC jurisdictions for further standardization of legal, regulatory, and *Shari'ah* governance frameworks.

3.3. Case Country #2: Morocco

3.3.1. Background Information

Morocco is one of the strongest economies in the African continent. According to the World Bank, the country's economy is the 5th largest African economy by GDP (PPP) as of 2020. Regarding non-oil GDP, Morocco is classified second after Egypt in the Arab region as of 2017. Morocco was also placed the 1st most competitive economy in North Africa by the World Economic Forum in its Africa Competitiveness Report 2014–2015. Morocco's economic system follows an open approach toward the outside world and has witnessed several reforms and recovery plans aiming for further development. As for the legal system, Morocco, like most Muslim countries, is characterized by a dualistic legal context. Moroccan civil law is based on *Shari'ah* and French civil law.

According to the [World Bank \(2022\)](#), in May 2021, the New Development Model (NDM) unveiled some of the most recent plans to support economic recovery and development. These included the reform of state-owned enterprises and the universalization of access to public health insurance and family allowances, which is a cash transfer program. In addition, the Mohammed VI Fund was created to catalyze private investments through (i) equity investments in viable small- and medium-sized enterprises (SMEs) operating in strategic sectors (agriculture, tourism, manufacturing, and other innovative and growth-oriented sectors) and (ii) Public-Private Partnerships to finance commercial infrastructure projects.

The financial sector of Morocco witnessed several developments to ensure better support for the economy. One of these developments is the introduction of Islamic Finance, labeled as 'Participative Finance', with the publication of Law No.103.12 on *Credit Institutions 2014*. This law presents the activities of participative banks and the legislative framework that defines their scope of application, compliance instances, and other various dispositions. More recently, the introduction of Law No.15-18 on *Crowdfunding 2021* is one of the most recent developments in the Moroccan financial ecosystem.

Morocco is one of the latest Muslim-majority nations to authorize Islamic banking by licensing five participative banks and three participative windows at the start of 2017. A fourth window within the company of the guarantee and the financing of enterprises dedicated to Participative Finance was authorized in 2019. With more banked citizens than at any other time in history and the nation issuing its first Islamic sovereign *Sukuk* in the last couple of years, participative banking is emerging as a key

prospective player in the local financial industry. Over the past few years, Moroccan Participative Finance recorded one of the highest growth rates in the world, even though from a lower base.

The growth rate of Islamic banking assets in 2021 was 32 percent. According to Bank Al-Maghrib (BAKM), the Central Bank of Morocco, the prudential framework for participative banks is continuously evolving, following the market's needs and global developments ([BAKM, 2022](#)). In this respect, BAKM contributed to developing liquidity management tools for Participative Finance in 2021. It has also set the framework for the Collective Fund for Deposit Guarantee. The effective start-up of this fund took place at the beginning of 2022.

The Moroccan case allows us to investigate whether the country enjoys a late-adopter advantage and the extent of its standardization process. Furthermore, the banking system of Morocco is well integrated into Europe due to the Moroccan diaspora in Europe. Moroccan banks are also very active in African markets, where Islamic Finance draws the attention of regulatory bodies, governments, and the public. Therefore, Morocco's case study can pave the way to open up Islamic Finance to an ever-increasing Muslim population in African and European economies.

3.3.2. The Size and Share of Three Segments of Islamic Finance: Key Facts

The second half of the year 2017 was marked by the gradual start of the participative banking activity, following the publication in the Official Gazette of the approvals of five participative banks and three windows and BAKM's circulars validated by the Higher Council of Ulama (HCU) pertaining to financing products, investment deposits and conditions for the operation of participative windows. Morocco's Islamic Finance landscape currently comprises five banks and four participative windows within conventional banks dedicated to mobilizing resources to serve customers' needs.

The network of participative banks and windows reached 181 branches in April 2022 compared to 44 branches at the end of 2017, and the number of current accounts reached 159,553 ([BAKM, 2018](#)). The outstanding deposits reached US\$0.8 billion by April 2022, with 76 percent demand deposits and 24 percent investment deposits. Although relatively young and underdeveloped, Islamic Finance is rising in the jurisdiction following a positive trajectory. According to the BAKM, the sector experienced an exponential growth rate of 75 percent between 2019 and 2020. Throughout 2021, the industry recorded a 32 percent growth rate reflecting its resistance to global trends ([BAKM, 2022](#)).

The outstanding amounts of *Murābaha* (cost-plus financing) stood at US\$2.1 billion, by April 2022, with 87.5 percent dedicated to real estate *Murābaha*, 6.9 percent for Auto *Murābaha*, and 5.6

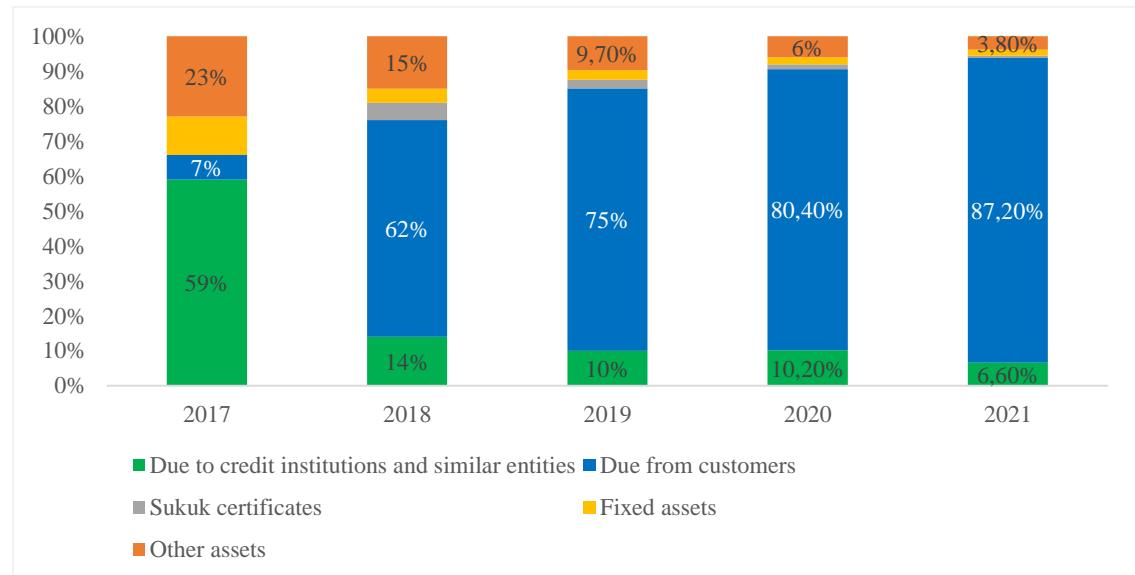
percent for *Murābaha* financing for equipment. At the end of 2021, participative banks and windows had a total balance sheet of US\$2.2 billion, a 32 percent growth compared to 2020 ([BAKM, 2022](#)).

Figure 6: Asset Size ((US\$ bln) and Growth of Moroccan Participative Banks and Windows



Source: [BAKM \(2022\)](#)

Figure 7: Asset Structure of Moroccan Participative Banks and Windows (2017-2021)



Source: [BAKM \(2022\)](#)

The efforts to develop the participative capital market in Morocco started with the issuance of the first sovereign *Sukūk* on 5th October 2018, following approval from the HCU. The *Sukūk* certificates, the subject of the issue, are of the *Ijarah* type for the amount of US\$100 million, amortizable over a period of five years. This milestone was an essential step toward developing Participative Finance. It

will increase liquidity from foreign investors, diversifying the funding sources of public, private, and semi-private sectors ([Maghreb Titrisation, n.d.](#)).

These *Şukūk* were issued in local currency via an *Ijarah* contract, under which mode of financing the state cedes the annual rental value of certain real estate assets to *Şukūk* holders. In terms of results, subscription requests amounted to nearly US\$360 million and were served up to 28 percent, i.e., an oversubscription rate of 3.6 times. The investors served by this issuance were conventional banks (39%), participative banks (35%), Undertakings for the Collective Investment in Transferable Securities (UCITS) (16.3%), and other investors (9.5%). *Şukūk* are essential for the development of Participative Finance in Morocco as they help various players manage their liquidity and optimize their resources. This issuance was the first of a program of the Moroccan state on the *Şukūk* market planned over several years ([MEFM, 2018](#)). There were, however, no more issuances after this first issuance.

Table 12 presents the evolution of the Moroccan Participative Finance landscape.

Table 12: Key Developments in Moroccan Participative Finance Ecosystem

Date	Key Development
2007	<ul style="list-style-type: none"> The issuance of recommendation No.33/G/2007 that permits local commercial banks to offer alternative products.
2015	<ul style="list-style-type: none"> The approval of Law No.103.12, including a dedicated chapter on participation banks BAKM released a circular governing licensing of participation banks.
2017	<ul style="list-style-type: none"> BAKM released circulars governing the functioning of Participative banks (financing products, investment accounts, windows, governance, etc.). The approval of the adapted accounting framework of participative banks based on AAOIFI standards, taking into account national discretion.
2018	<ul style="list-style-type: none"> BAKM released circulars covering equity, solvency, and liquidity ratios. The issuance of the first sovereign <i>Şukūk</i>. The release of the amended law No. 33.06 on the Securitization Law to introduce Certificate of <i>Şukūk</i>.
2019	<ul style="list-style-type: none"> The release of the amended Law No.17.99 on the Insurance Code to introduce <i>Takaful</i>.
2021	<ul style="list-style-type: none"> The ISSSA published a circular on the application of the provisions of the Insurance Code relating to ‘<i>Takaful</i>’ insurance.
2009-2021	<ul style="list-style-type: none"> Gradual adoption of tax measures to ensure tax neutrality compared to conventional financial products as new participation products are rolled out
2022	<ul style="list-style-type: none"> Issuance of ministerial orders relating to <i>Şukūk Murābaha</i>, <i>Salam</i>, <i>Istisna'</i>, <i>Mudarabah</i>, <i>Wakalah</i>, and <i>Musharakah</i> certificates.

Source: Authors' elaboration

In August 2022, the official bulletin published ministerial orders relating to the modalities and technical characteristics of six types of *Şukūk* certificates. These are the *Şukūk Murābaha*, *Salam*, *Istisna'*, *Mudarabah*, *Wakalah*, and *Musharakah* certificates. These publications complete the

regulatory framework of the participative capital market in Morocco and will provide the diverse market players the new means of financing and asset classes for investors looking for *Shari‘ah*-compliant investment instruments. Experts expect the private sector to play a vital role in *Sukūk* issuances in the coming years.

Another development in terms of the efforts to complete the Participative Finance ecosystem in Morocco is related to the *Takaful*. The ecosystem, which has just been strengthened by the approval of the regulatory framework, is composed of a circular, a ministerial decree, and a new chart of accounts dedicated to *Takaful* and *ReTakaful*. The permissions to introduce *Takaful* insurance products were granted by the Insurance and Social Security Supervisory Authority (ISSSA) to six *Takaful* operators, including participative banks and *Takaful/ReTakaful* institutions. The ISSSA approved these institutions in early 2022 to undertake *Takaful* operations. The *Takaful* companies can start their operations after the approval of the HCU of the management regulations, *Takaful* insurance policies, and the general regulations on repurchase and advance.

3.3.3. Legal, Regulatory, and *Shari‘ah* Framework

3.3.3.1. The Banking Sector

Part III of Law No.103-12 on *Credit Institutions 2014* governs credit institutions and similar entities and consists of provisions introducing participative banks (MEFM, 2014). The new Banking Act was published in 2015, and the Dahir¹⁸ reorganizing the HCU, which created the *Shari‘ah* Committee for Participative Finance within this institution, was published in 2015. In addition, specific provisions have been introduced in the banking law to cater to the specificities of participative finance. This implies applying common rules to conventional and participative banks when no specific treatment is needed for the latter; however, specific provisions and exemptions for participative banks are introduced whenever needed. Participative banks must also be members of the Moroccan Professional Association of Banks.

Therefore, the banking law enables participative banks to provide *Shari‘ah*-compliant participatory, financial, and investment services. To conduct this new business, the economic operators have various options in terms of legal structures. Through a participative window, Moroccan banks can conduct participative financial activities. In practice, it is noted that the subsidiaries of foreign banks have chosen to use this option.

¹⁸ Moroccan King’s decree.

In terms of *Shari‘ah* compliance of the participative banks’ offerings, the law introduced a body that is responsible for the *Shari‘ah* compliance mechanism ([Mechkour & Lotfi, 2018](#)), a regulatory pillar represented by the *Shari‘ah* Committee for Finance (SCF) within the HCU.

The responsibilities of the HCU have been expanded to include issues related to Participative Finance according to the Royal Decree No.1.15.02 of 20th January 2015. As such, the HCU is the sole authority that has the power to pronounce a *fatwa*.

Furthermore, the decree sets up an SCF within the HCU. The SCF is dedicated to Participative Finance. According to the decree, all requests related to *Shari‘ah* compliance notices must be 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.

Having a *Shari‘ah* board at the level of participative banks is not a rule set by the Moroccan legislature. In fact, *Shari‘ah* compliance with the products and the operations is only ensured by the HCU. However, to guarantee compliance with the HCU opinions and recommendations, participative banks need to set up compliance functions according to Moroccan banking law. The control is conducted by reviewing an evaluation report sent by participative banks to the HCU every year. The modalities of functioning of the participative banks’ compliance function are defined by the BKAM circulars.

3.3.3.2. The Takaful Sector

Takaful in Morocco is governed by Law No.87.18 on *Takaful Insurance 2019*, modifying and supplementing Law No.17-99 on the *Insurance Code 2002* ([MEFM, 2022](#)). The *Takaful* activities are subject to the assent of the HCU.

The regulatory framework covers the following texts:

- Decree No.2-20-323 taken pursuant to the provisions of Articles 10-5, 36-1, 248, and 248-1 of Law No.17-99 on the *Insurance Code 2002*. This decree aims to implement the provisions of Articles 10-5, 36-1, 248, and 248-1 of Law No.17-99 on the *Insurance Code 2002*. It also allows the government authority responsible for finance to determine specific provisions concerning ‘*Takaful*’ insurance, in particular, the criteria for determining the management fees

for the accounts of the *Takaful* fund, its methods of payment to *Takaful* insurance and reinsurance companies, as well as the ceiling of these costs. In addition, it makes it possible to determine the methods of distribution of the technical and financial surpluses of the accounts of the fund of the *Takaful* insurance between participants in the operations of *Takaful*.

- Order No.2403-21 of 7th September 2021, pursuant to Law No.17-99 on *the Insurance Code 2002* with regard to *Takaful*. The text, made up of 21 articles, essentially deals with the rules of application pertaining to the *Takaful* contract, especially the conditions, the methods of execution (payment of premiums, remuneration of the insurer, coverage of the claim, life annuity, beneficiary, etc.) and termination-cancellation of the contract.
- Circular of the Moroccan ISSSA No.AS/02/2021, which outlines the specific provisions with regard to *Takaful* relating in particular to the contract, the conditions of exercise, the prudential rules for the *Takaful* funds, and the *Takaful* insurance and reinsurance company as well as the rules for the presentation of these operations.
- Instruction of the ISSSA relating to the presentation of *Takaful* operations which defines the professional qualifications to be justified and the documents to be produced in support of any application for approval, the extension of approval, or authorization for the presentation of *Takaful* operations. It also sets the requirements for the layout of the “premises” and the signage to be respected when the applicant is approved or authorized for the presentation of non-*Takaful* insurance operations.

3.3.3.3. Capital Market sector (*Sukūk* and UCITS)

The legislative and regulatory framework for *Sukūk* in Morocco is defined by Law No.33-06 on *Securitization 2013*, gradually amended by Law No.119-12, Law No.05.14, and Law No.69.17.

This legislation has expanded the scope of assets eligible for securitization by replacing the concept of receivables with qualified assets, including tangible, real estate, or movable assets. It also broadened the base of initiating institutions by allowing the State, public enterprises, and Moroccan commercial companies to have direct recourse to securitization, offering them an alternative means of financing. The law defined the procedures for obtaining the confirmation and compliance opinion of the HCU through the MCMA.

As part of expansion efforts of the Participative Finance ecosystem, the BAKM has initiated discussions with the MCMA and the participative banks and windows on the adaptation of the financial asset management market to participative financial instruments and securities. In this context, a draft amendment to the law on UCITS has been initiated, which aims to set up and supervise

participative UCITS, whose investments should comply with the opinions of the HCU. The criteria and operating methods of these UCITS, in particular, the nature and composition of the assets, the types of operations, and the eligible depository and marketing establishments, will be fixed by circular of the MCMA after the assent of the HCU ([BAKM, 2022](#)).

3.3.4. Current State of Standardization Efforts in the IFSI

Islamic Finance, known as Participative Finance in Morocco, was introduced in 2007 when the Moroccan authorities took concrete actions that manifested in issuing the recommendation No.33/G/200, which permitted local commercial banks to offer alternative products through participative windows: *Murābaha*, *Musharakah*, and *Ijarah*. The specificities of the instruments were established in collaboration with the Moroccan Professional Association of Banks and by referring to AAOIFI standards. However, the absence of conducive legal, tax, *Shari‘ah* compliance, and regulatory frameworks refrained the financial institutions from developing their offerings; thus, the expected success of this first experience was not achieved for several reasons.

This experience highlighted the need to implement a solid and innovative ecosystem and legal framework to guarantee the success of Participative Finance in Morocco. In this regard, a number of initiatives and efforts were conducted by the Moroccan legislature to harmonize the banking law with various regulations. To standardize the *Shari‘ah* aspect according to the Moroccan specificities, a normative framework was established to allow homogeneous practices of participative banks and ensure consumer protection.

These efforts resulted in publishing and adopting Law No.103.12 on *Credit Institutions 2014*, which presented the legislative framework of participative banks. Several initiatives preceded this law, from the BAKM, to support the start of Participative Finance, such as becoming, in 2013, a full member of the IFSB and creating within the Banking Supervision Department a Participative Finance Regulation Division. Subsequently, in 2014, the BAKM became a member of AAOIFI.

Further to the law introducing Participative Finance, the BAKM took action to ensure that the new sector started as smoothly as possible and in the best possible conditions by releasing, in 2016, four circulars governing the functioning of Participative Finance. These include:

- Circular No.1/W/17 on participative financing products,
- Circular No.2/W/17 relating to the terms for collection and investment of deposits,
- Circular No.3/W/17 on conditions for operating participative windows, and
- Circular No.16/W/16 on the function of compliance with HCU’s opinions.

In addition to these circulars, the BAKM worked on adapting the accounting framework of credit institutions to the activities of participative banks and windows based on AAOIFI standards, taking into account national discretion. This framework was submitted in early 2017 to the National Accounting Council (NAC) for opinion. The adaptations were primarily based on the standards issued by AAOIFI. The amendments that covered the accounting and assessment rules, chart of accounts, and financial statements were approved by the NAC on 11th July 2017.

On the prudential side, the BAKM worked on establishing a framework dedicated to participative banks. After examining standards issued by the IFSB and conducting a benchmark study on the prudential frameworks adopted by a group of selected countries, the BAKM developed circulars covering equity, solvency, and liquidity ratios. The first version of the circular on equity was published in 2018 and sets out the terms for determining the equity to be used for calculating prudential ratios. On the other hand, the circular on the solvency ratio of participative banks, issued in 2018, covers the capital requirements for credit, market, and operational risks of participative banks. The circular indicates that participative banks shall respect a Tier 1 capital ratio of 9 percent and a solvency ratio of 12 percent, similar to conventional banks. In addition, the BAKM amended the circular on the technical characteristics and terms of presenting Participative Finance products to introduce the *Istisna'* product.

In terms of taxation, the BAKM collaborates with the Tax General Directorate to adapt the tax system to participative products, in line with the processing followed for conventional products. In this context, a draft circular has been developed covering the measures of the finance law governing participative products. In addition, a circular taking into account the VAT specificities of social housing acquired under the *Murābaha* or *Ijarah Muntahia Bittamlik* contracts was also issued.

In 2020, the BAKM finalized a draft directive regarding the external audit of compliance with the opinions of the HCU. In this project, participative banks and windows will be encouraged to manage the risk of non-compliance with HCU opinions. This directive also seeks to frame the external *Shari'ah* audit mission and set the terms and conditions to be observed by participative banks and windows in the context of carrying out this mission. And, this directive was enacted in 2021.

To ensure the harmonious development of the Participative Finance market and the conditions for healthy competition between the players, the BAKM has undertaken, together with market players, the development of a code of good practices in Participative Finance.

3.3.5. Standardization: Current Trends, Issues, and Challenges

In order to identify the current trends, issues, and challenges of standardization in Participative Finance in Morocco, interviews were administered with several experts and industry stakeholders, including academics, practitioners, and industry stakeholders.

3.3.5.1. Legal and Regulatory Issues

Most of the interviewees agree that the centralized nature of the *fatwa* presents pros and cons. Among the advantages are avoiding the pitfalls of divergent interpretations and reputation risk as well as assuring harmonization. But at the same time, it brings a higher workload to the institution in charge of issuing *fatwas*. Banking regulations in Morocco are issued by the BAKM serving the role of the Central Bank, and the HCU must approve some regulations specific to Islamic Finance and the related contractual documentation. Unlike other countries, which allow structures and financial products based on *Bai' al-Ina*, organized *Tawarruq* or *Bai' al-Dayn*, the HCU does not permit them, resulting in a limited offer of participation banking products, especially for refinancing, interbank money market, trading of *Sukuk*, etc.

There has been an effort to harmonize the legislative and regulatory frameworks for participative banking operations, with the activity of Islamic banks being regulated by Banking Law No.103-12 on *Credit Institutions 2014*, which authorizes the creation of participative banking institutions. Some such reforms include the insurance code, the securitization law, and the Dahir relating to the reorganization of the HCU.

Going forward, standardization advocates agree that frictions must be addressed explicitly within the standardization framework. Smoothing out these tensions will protect the industry from several risks, especially fiscal and legal ones.

3.3.5.2. Taxation

Until recently, Morocco's taxation requirements did not take into account the specificities of Islamic Finance. The Moroccan authorities have recognized that taxation could impede the activities of participative banks and have therefore been developing tax measures between 2009 and 2020 that could facilitate the expansion of the Islamic banking sector. The interviewees outlined some of the most notable measures in their responses.

The first initiative to develop *Shari'ah*-compliant banking in Morocco in 2007 was met with challenges with being unable to price services competitively due to a disregard for tailored tax regulations for alternative banking services. One such example was the financing, which was subject

to higher cost or markup than conventional loans due to a higher VAT on Islamic Finance products. Furthermore, certain types of financing, such as *Murābaha*, were subject to double taxation – both upon registration of the property acquisition with the bank and upon ownership transfer.

The 2015 update to the regulatory framework, Law No.103-12 on *Credit Institutions 2014*, authorized the formation of independent IFIs called “participative banks”. The Finance Act subsequently removed double taxation and amended the VAT requirements for Participation Finance to level the playing field with conventional banks. The revisions also saw the development of a committee to oversee *Shari‘ah* compliance in IFIs.

Some discrepancies remain, however, despite targeting a tax neutrality. One respondent noted that for *Takaful* operators, the funds collected are exclusively owned by participants. The surplus constitutes what remains from the contributions that must be paid back to participants; therefore, no tax shall be applied to the surplus. However, in the interest of neutrality, the tax department decided that the surplus is equivalent to the net income of conventional insurance companies and, therefore, a 37 percent tax must be paid.

3.3.5.3. Academic and Technical Issues

The development of training to facilitate skilled and qualified human resources was no small undertaking, but respondents noted that it is a crucial part for the development of Islamic Finance in Morocco. Market players began executive training to address the initiation of participative banking; the BAKM also gave its agents training related to standard setting both in Morocco and abroad. In response, several universities have started developing specialized training in participative finance. Participative banking institutions are also making great strides through internal training by the compliance function with the opinions of the HCU, which has its own established annual training program.

The development of standardization measures must go beyond practical application to include academic debate within universities and the establishment of doctoral research centers and laboratories. Though participative banking is still in its nascent stages in Morocco, the process of educating agents on these alternative banking specifics is underway and expected to flourish in the coming years. Morocco is quickly catching up to other countries in the number of professionals certified by the General Council of Islamic Banks and Financial Institutions. As of January 2022, Morocco is ranking sixth in terms of certified professionals in various fields. On the academic front, they started later than many other countries, but their universities offering Islamic Finance degrees, masters and doctoral research are increasing rapidly.

However, the rise of participative banking will need further development of education in specialized sectors of Islamic banking and finance, including *Shari‘ah* compliance, risk management, product development, etc. A *Shari‘ah* scholar highlighted that SCF members benefitted from visits to Islamic Finance international centers (including Malaysia and Bahrain) to learn about international practices. They are supported by experts in legal, economic, and financial matters. A banker noted that the SCF plays a key role in standardization efforts and the harmonization of practices. Having the *fatwa* centralized and independent of Participation Finance institutions lends the industry a greater measure of credibility by the public. In the long term, this will prove to be very beneficial for the orderly development of the industry.

Morocco’s recurring issue, which appeared in several responses, is a lack of in-country experts in knowledge specific to Islamic banking. It would therefore be wise to create specialized training in Islamic Finance at the academic level: focused postgraduate master’s degrees in faculties of law and economics would bolster the wealth of Islamic Finance-specific knowledge in the marketplace.

Participative banks could use the expertise of in-country graduates of these higher degrees while encouraging professional training courses at IFIs abroad. This diversified knowledge would allow graduates to immerse themselves in management cultures, formulate participative products, and ultimately develop standardization methods for managing and offering participative products.

3.3.5.4. Problems Associated with Weak Standardization Level

Standardization of Islamic Finance aims to achieve neutrality between the regulation of participation banks and their conventional counterparts. Knowing that the participation banks arrived after the commercial banks, a regulatory catch-up effort is made. However, for new financial regulations, specific Participation Finance frameworks are introduced, addressing accounting, prudential and fiscal matters.

According to one of the respondents, Morocco’s biggest challenge is adapting accounting, tax, and contractual frameworks for standardization. If the opening of the market has been thought out and reflected through a roadmap, the new phase through which these banks are going through should be accompanied by a strategy and roadmap.

Despite comprising a potential 10 percent of financial business, participative banking in Morocco still suffers from a lack of public confidence due to its relative novelty. Cohesive standards will improve public perception of participative banking in the country, as it presents a united set of regulations to which institutions can confidently adhere.

3.3.5.5. Relationship with International Standard-setting Institutions

Advocates agree that international SSOs (such as the AAOIFI, IFSB, and IIFM) can provide a helpful reference framework for Moroccan regulatory authorities when developing their own set of standards. Such standards are integral to increasing profitability while reducing risk.

One interviewee was more specific in their response to the areas where standardization organizations should focus: the standardization of accounting, governance, and prudential topics. Because this move for harmonized regulations is rooted in *Shari‘ah* compliance, it is essential to factor in the different perspectives of each country subject to said regulations. Differing interpretations of *Shari‘ah* reference should be taken into account and integrated.

Participative banking standards in Morocco are primarily constructed using internationally accepted standards as a benchmark. In areas where it is possible, participative banking standards mirror conventional banking standards. If specific products are not defined or covered by the conventional standards, supplements are added; in situations where there are provisions contrary to the principles governing Participative Finance, the standards are modified accordingly. For regulatory neutrality, it is important to adhere to conventional standards, as long as such adherence does not interfere with the core tenets of Islamic Finance. Morocco has membership in international Islamic financial infrastructure institutions as follows:

- (i) **IFSB:** Morocco has two members in the IFSB, with the BAKM acting as a full member and the Moroccan CMA as an observer member.
- (ii) **AAOIFI:** One board member representing Morocco in the AAOIFI, Dr. M. Jameel Mubarak.

3.3.6. Specific Needs to Improve Standardization Level

Morocco has adopted the approach of centralizing the *Shari‘ah* Board for the entire IFSI while supporting the latter on the legal and regulatory aspects with the regulatory authorities of the banking, capital market, and insurance sectors. Respondents highlighted that the Moroccan framework for standardization is an interesting one; however, some adjustments are required – such as issuing comprehensive standards that include day-to-day operations in a detailed manner. In order to achieve this objective in a harmonized manner, the regulatory and supervisory authorities endeavor to coordinate the market needs with the HCU through regular and continuous dialogue and meetings. Through this mechanism, opinions and *fatwas* issued by the SCF are clarified in view of the market practice.

Participation banks are consulted throughout the regulatory process. They should fully play an active role and be a source of proposals. With regard to banking sectors, BAKM has finalized all the regulatory texts on the products. The relay is binding for banks, which are required to submit draft contractual documents to the HCU.

As for *Shari‘ah* texts which may constitute a source of legal friction, the BAKM has prepared a study listing these functions. Constraints identified by the participation banks are also taken on by the BAKM and sent to the competent ministry for necessary adaption and/or amendment.

For example, as part of efforts to adapt the Moroccan legal and regulatory corpus to the specificities of the activities of participative banks and windows, the BAKM amended and supplemented Dahir No.1-73-645 (11 Rebia II 1395), which concerns the operations for the acquisition of agricultural lands or lands intended for agrarian activities outside the urban perimeter. The amendments removed certain legal frictions and allowed participative banks and windows to finance the acquisition of these lands.

3.3.7. Lessons Learnt and Transfer of Knowledge among OIC Member Countries

In order to promote the development of the IFSI, Morocco has established strong working relationships with the international SSOs, i.e., AAOIFI and IFSB. The outputs produced by the standards-setters in the field of Participative Finance allow convergence with pre-existing standards and the development of a common base. They also offer a series of recommendations to regulators on the best practices to be adopted. Thus, there is a significant room for standardization of accounting, governance, and prudential topics to maneuver and improve, and SSOs should act in this direction.

Another lesson from Morocco is the establishment of the SCF (at the HCU) for the entire IFSI. Coordination is ensured between the operators and the HCU via regulatory and supervisory authorities of the financial sector. This mechanism is necessary to conclude, if necessary, the opinions and *fatwas* issued by the SCF.

The model adopted by Morocco to introduce Islamic Finance brings several advantages, such as mitigating the conflict of interest and promoting standardized and harmonized practices. This leads to an increase in the credibility of the IFSI, which will positively impact the confidence of clients and investors in the IFIs and their offerings.

3.3.8. Country-Specific Policy Recommendations

The Moroccan legislature took slow but steady steps towards introducing Islamic Finance into the financial ecosystem. To ensure an auspicious start of this new industry, efforts were undertaken to analyze and learn from existing models; necessary law amendments were made, and a central *Shari‘ah* authority was established to ensure *Shari‘ah* compliance in addition to solid support and guidance from the regulators. It is necessary for international SSOs and national regulatory bodies to communicate constructively and synergistically to develop the industry further and ensure harmonization globally. Strengthening the adherence of national regulators to standards set by the international SSOs for the Participative Finance sector and ensuring their strong involvement in developing standards would smoothen the adaption and adoption of the international standards into the national ecosystem.

More efforts should be made to enhance and coordinate communication among the diverse stakeholders of Participative Finance in Morocco to address the industry's current issues and challenges. Clear guidelines and full disclosure are essential for market players at all levels.

It is imperative. As part of this process, it is necessary to provide practitioners and researchers with the necessary training while promoting innovation and collaboration.

Participative Finance of Morocco is still in its infancy stage. The participative banking system is facing several issues:

- Participative banks have to deal with liquidity pressures. Operators have only one product for interbank financing called Interbank ‘*Wakalah Bil Isthitmar*’ (WBI). The BAKM does not finance participative banks directly, and there are no *Shari‘ah*-compliant monetary policy instruments and tools yet. However, BAKM recognizes WBI underlying assets financed by conventional banks as collateral to refund them on preferential basis.
- Tax treatment is an ongoing issue for participation products. While market players call for tax incentives, the regulator still strives for tax neutrality. At present, participative banking has achieved tax neutrality for *Murābaha* financing, *Ijarah Muntahiya Bittamlīk*, and investment deposits. Some minor arrangements are being finalized.
- Educating the public about the specifics and practical applications of Islamic Finance is a necessity. Consumers still have a number of misconceptions regarding the industry that need to be clarified. For instance, some people mistakenly believe that participative banking is “free banking”.

- As a regulator, BAKM strives for financial inclusion and consumer protection. Both require a well-informed public, particularly in a nascent participative banking industry. Potential clients should at least be aware of their rights and obligation to make an informed decision.
- The independence of regulatory authorities could be seen as a double-edged sword. The regulation pace could differ from one regulatory body to another, and given the interaction between the sectors, some could be held back.

Overall, the main challenge is to continue to adapt the current regulatory framework to fit the specifics of Participative Finance and to prepare stakeholders to adhere to the concept without friction.

Participative Finance is an ongoing project requiring continuous effort on the part of all stakeholders. Regulators and market players seek to ensure fair treatment in parallel with the conventional industry. The BAKM adheres to the principle and invests its full efforts toward that objective.

3.3.9. Implications of Policy Recommendations for OIC Member Countries

Communication and experience-sharing are integral when developing standardization strategies. The SSOs should be given an opportunity to assist the national financial authorities in making informed regulatory decisions. Furthermore, moving toward standardization of Islamic Finance can be ensured by developing multi-party international conventions for the adoption of standards issued by the global SSOs and encouraging national regulators to adopt and implement these standards through signatories. This methodology will ensure the development a more holistic approach that considers the national specificities and gradually harmonizes and standardizes Islamic banking standards at the domestic level. It is also essential to strengthen exchanges and interactions between *Shari‘ah* committees globally, particularly central ones. The round tables organized since 2018 by the central *Shari‘ah* committees within the Central Banks of Malaysia and the UAE and in which the HCU participates allow networking, exchanging of expertise, and addressing trending topics in addition to the opportunity to discuss the different interpretations of *Shari‘ah* matters.

3.4. Case Country #3: Oman

3.4.1. Background Information

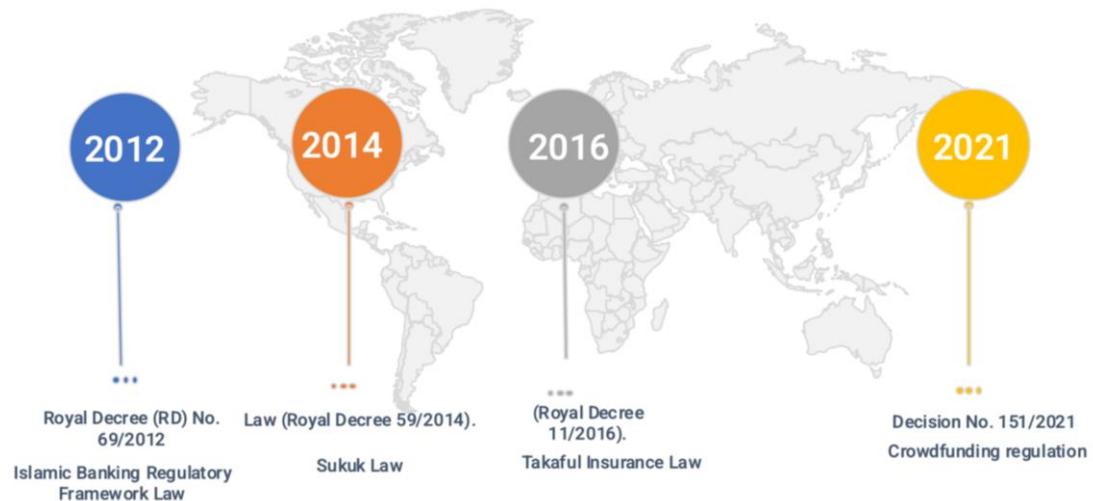
The Sultanate of Oman is a growing market economy with an emerging IFSI. The country is ranked 8th in 2020 and 9th in 2021 in global average values, according to the Islamic Finance Development Report 2021 ([IFDI, 2021](#)), having a steady economic growth and smooth recovery from the effects of the COVID-19 pandemic and maintaining a stable credit rating B+/B, as affirmed by S&P ([Arab News, 2022](#)). The report also states that Oman is one of the fastest growing Islamic Finance markets, with a compound annual growth rate (CAGR) of 25 percent over the period 2020-2025. The Sultanate's economic indicators show financial stability, though still depending on net oil and gas revenue, which accounts for more than 75 percent of the revenue-generating stream. The need to diversify the economy is outlined in the national strategic plan of Oman Vision 2040.

Furthermore, the country is revising its debt market regulation by adding a set of detailed clauses to ease the *Sukūk* issuance process. The Capital Market Authority (CMA) released draft guidelines to get stakeholders' feedback in July 2021. The move is intended to cope with the country's current requirements to find new funding sources for infrastructural development without burdening the fiscal and current account balances. Among the clauses in the draft regulation is the sustainable and responsible investment (SRI) *Sukūk* that includes green, social, and *Waqf Sukūk*.

The IFSI of Oman is projected to grow not only in total banking assets but also in capital markets (*Sukūk* and mutual funds) and *Takaful* sectors. In terms of growth in the banking industry, the total assets of IFIs exceeded 15 percent of the total assets of the banking sector as of the end of June 2021, hence establishing a “*systemically important Islamic banking system*”, according to the criteria set by IMF and IFSB ([CBO, 2021](#)). Market penetration level outpaces even the most developed OIC Islamic Finance markets. The market share of the Islamic banking sector in the total financing and deposits of the banking sector reached 16.9% and 16.8%, respectively. Such growth was supported by high-quality assets, as the level of non-performing funds did not exceed 1.93 percent in December 2020.

In alignment with the growth level, the government has introduced several laws to license the IFIs in the Sultanate. The timeline of the introduction of regulations for each segment of the IFSI in Oman is presented in [Figure 8](#) below.

Figure 8: Timeline of Islamic Finance Regulation in Oman (2012-2021)



Source: Authors' presentation

3.4.2. The Size and Share of Three Segments of Islamic Finance: Key Facts

In some regions, like Asia and Africa, the industry is moderately growing with the presence of a large number of local and international players. And, the Gulf Cooperation Council (GCC) is a highly competitive market ([Globe Newswire, 2022](#)), with the *Shari‘ah*-compliant assets representing a significant portion of the total banking assets of the area. While in the Middle East and North African (MENA) region, Islamic banking assets represent 14 percent of total banking assets, the market share of Islamic banking in the GCC crossed the 25 percent threshold, which implies that Islamic banks have become systemically important in these countries ([Mordor Intelligence, 2021](#)). The State of the Global Islamic Economy 2022 Report ([Salaam Gateway, 2022](#)) ranks Oman number 8 in terms of Islamic Finance development (see [Table 13](#) below).

Table 13: Leading Markets based on Global Islamic Economy Indicator

Islamic Finance		Halal Food		Muslim-Friendly Travel	
1	Malaysia	1	Malaysia	1	Malaysia
2	Saudi Arabia	2	Indonesia	2	Singapore
3	Bahrain	3	Türkiye	3	Türkiye
4	Kuwait	4	Russia	4	Bahrain
5	UAE	5	UAE	5	UAE
6	Indonesia	6	Kazakhstan	6	Tunisia
7	Iran	7	Singapore	7	Saudi Arabia
8	Oman	8	Saudi Arabia	8	Kuwait
9	Qatar	9	South Africa	9	Kazakhstan
10	Jordan	10	Australia	10	Morocco

Source: [Salaam Gateway \(2022:21\)](#)

3.4.2.1. Islamic Banking

Islamic banking was first introduced to Oman in 2013 by launching a full-fledged Islamic bank called Bank Nizwa. The Islamic Banking Regulatory Framework (IBRF) was issued on 18th December 2012, permitting the launching of full-fledged Islamic banks or Islamic banking windows by conventional banks in Oman. It covers almost all areas of the regulatory requirements. As a result, there are six Islamic windows operated by conventional financial institutions, such as Meethaq by Bank Muscat, Al Muzn by National bank of Oman, Maisarah by Bank Dhofar, Sohar Islami by Sohar International, Ahli Islamic by Ahli Bank, and Al Izz by Oman Arab bank. The *Shari‘ah* Supervisory Boards (SSB) have been established in every Islamic banking institution in Oman to ensure compliance with *Shari‘ah*.

Oman’s Islamic banking market share is seen to reach 20 percent by the end of 2022. According to the global credit rating agency Moody’s, Türkiye and Oman are experiencing the fastest growth rate among Islamic Finance markets around the world. A predominantly Muslim population explains the strong demand for products that meet *Shari‘ah* requirements ([Muscat Daily, 2021d](#)).

Oman’s Islamic banking industry continues to perform well despite the economic headwinds caused by the coronavirus pandemic and oil price volatility. Islamic banking share in the total banking system has been steadily growing since the launch of the *Shari‘ah*-compliant banking industry in the country. Despite low penetration, Islamic banking assets in Oman have proliferated in recent years, outpacing conventional banking assets. By 2025, Islamic banking assets are expected to account for 20-25 percent of Omani total banking assets.

The monthly statistical report published by the Central Bank of Oman (CBO) highlights that there had been a 9.5 percent growth in Islamic financing in Oman in 2020, as compared with a 2.1 percent growth in conventional bank loan assets ([Muscat Daily, 2021e](#)). It is explained by the rise in the demand for Islamic Finance products, the launch of Islamic windows by conventional banks, and the regulations conducive to the IFSI growth. By February 2021, Islamic banks and windows represented approximately 14.5 percent of the banking sector assets, increasing by 11 percent on a year-over-year basis and reaching RO5.4 billion. As of March 2022, the country’s Islamic banking institutions provided financing worth RO4.9 billion, recording a growth of 9.6 percent over that a year ago. Total deposits held with Islamic banks and windows increased by 11.7 percent to RO4.5 billion at the end of March 2022 compared to a year ago. Key structural challenges persist mainly due to the sector’s recent inception in Oman (around a decade ago), which include gaps in distribution channels, limited

product offerings, a still-developing regulatory framework, a small capital base, limited *Sukūk* investment options, and insufficient Islamic liquidity management products.

Despite several structural challenges, Islamic banking is expected to remain positive in Oman for the short-to-medium term. As a Muslim-majority country with a sizeable *Sharī‘ah* -sensitive and unbanked population, Oman has positive growth potential in the long term.

Ongoing capital injections will largely fund the growth of the sector. Bank Nizwa recently announced a RO75 million rights issue, and Bank Muscat's Meethaq benefited from a capital injection of RO50 million in 2020. It is anticipated that the Omani regulatory framework will continue to support Islamic Finance. Moody's stated: '*So, it is expected that the Islamic Finance regulations to continue to evolve over the next 12 to 18 months to support the banks' activities and continued growth. We expect an ongoing pipeline of new Islamic Finance regulations to broaden the market over the coming years.*' ([Muscat Daily, 2021c](#)).

3.4.2.2. Islamic Capital Market

The global *Sukūk* market is evolving, with corporate *Sukūk* picking up global *Sukūk* issuance and crossing the US\$100 billion threshold in the first half of 2021, a record high ([AlTaitoon, 2021](#)), and it was projected to reach US\$140-155 billion by year-end ([Darasha, 2021](#)). The S&P expects global Islamic Finance to grow by 12 percent, fueled by *Sukūk* and *Takaful* growth ([Zawya, 2021](#)). The technological transformation in the GCC region has disrupted the financial sector, including the *Sukūk* market. More sustainability-driven ICM products such as *Sukūk* and Islamic funds were launched in 2020, moving towards cleaner and greener *Sukūk* along with ESG and *Waqf* funds.

Currently, Oman is revising its debt market regulation by adding a set of detailed clauses that include the SRI *Sukūk* such as green, social, and *Waqf Sukūk* ([Times of Oman, 2021b](#)). Regarding Islamic Finance governance, 47 countries have at least one type of Islamic Finance-related regulation. Out of these regulations, *Sukūk* has either been recently introduced in new markets such as Egypt and Uzbekistan or revised, as in the case of the UAE and Oman. Because *Sukūk* is gaining traction, there is a need for adequate regulatory oversight in case of non-payment, resulting in *Sukūk* defaulting or restructuring during the pandemic.

The S&P Global also expects more frequent issuance of dedicated Islamic social finance instruments and green *Sukūk* as the industry leverages its alignment with ESG values. This would help tackle the aftermath of the pandemic and support the agenda for core countries' energy ([Times of Oman, 2021a](#)).

The CMA released draft rules for *Sukūk* and bonds, including ESG-linked instruments. *Sukūk* issuance represents about 19 percent of total listed government bonds and *Sukūk* in Oman as of March 2022 ([Fitch, 2022](#)). The *Shari‘ah*-compliant capital market has formally expanded, expressly recognizing the ability of companies listed on the Muscat Stock Exchange (MSX) to issue *Sukūk*. Subsequently, and based on the amendment to the Capital Market Law (CML), the *Sukūk* regulation of the CMA specified the procedures and requirements relating to *Sukūk* issuances in Oman.

Sukūk performance surpassed 2020 issuances due to low-interest rates and investors seeking higher yields, refinancing the CAPEX as well as the deficit on the supply side ([Jivraj, 2021](#)). It is worthwhile to note that the first rolled-out retail *Sukūk* in Oman was oversubscribed ([Muscat Daily, 2020](#)). *Ijarah Muntahiya Bittamlik* is the most prevalent form of *Sukūk* in the jurisdiction which has been employed repeatedly by the government in the context of sovereign debt capital market issuances both locally and internationally. In Oman, the *Ijarah Muntahiya Bittamlik* *Sukūk* usually adopts an asset-based structure (i.e., the originator would issue a binding promise to purchase the leased asset, which the *Sukūk* holders can use as recourse against the originator in case of breaching the obligations), rather than an asset-backed structure (i.e., the *Sukūk* holders would only have recourse against the leased asset) ([Al Busaidy, 2020a](#)).

Given the success of Oman’s international *Sukūk* issuance in January 2021, it is expected that the government will undertake further issuances of *Sukūk*, especially in the global markets, to fund government expenses, cover budget deficits, and finance infrastructure development projects ([Fitch, 2022](#)).

Investment in mutual funds in Oman is getting more acceptable among the Omanis and other residential communities, especially in *Shari‘ah*-compliant funds. Despite the enormous investment potential that mutual funds offer, they have not been popular among investors, particularly in the Middle East. Because most of the investors in the region were unaware of investment options, many of them were skeptical of the returns and safety of the investments ([Khan, Syed, & Uddin, 2016](#)).

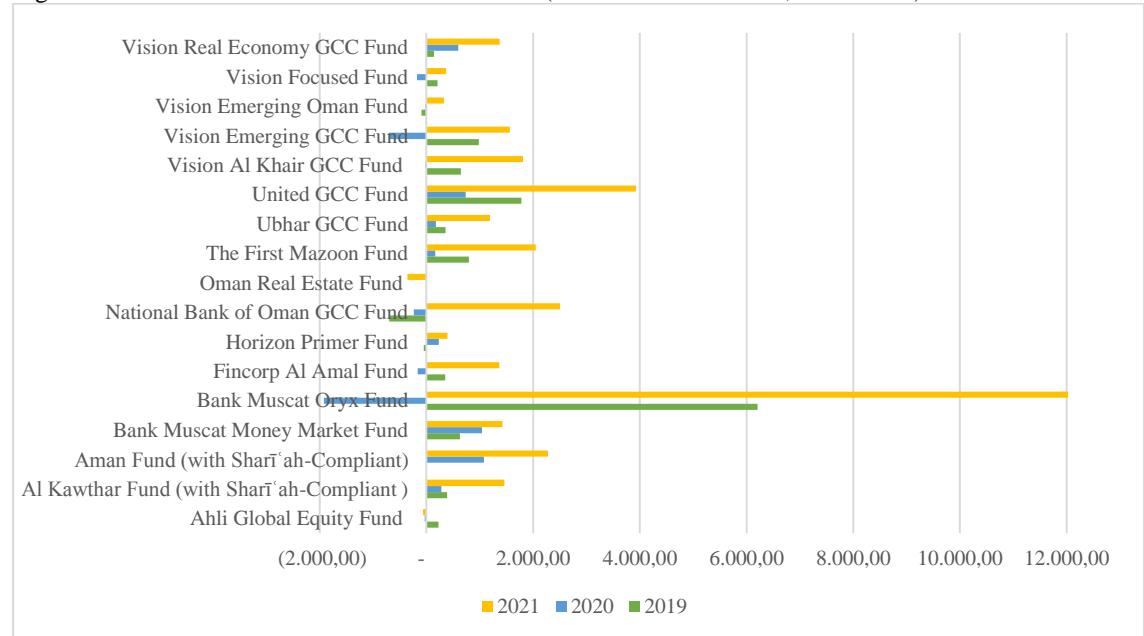
The first mutual funds were launched in Oman in 1995 when the local financial markets reached enough level of maturity. Presently, 19 mutual funds are operating in the jurisdiction, three of which are *Shari‘ah*-compliant. The expectation of global investors, especially Omanis, on the performance of those mutual funds in the future is a significant question that prompts further contributions ([Khan & Naem, 2019](#)). According to Fitch Ratings, assets under management (AUM) in *Shari‘ah*-compliant mutual funds (SMFs) have increased substantially ([IFN, 2022](#)), peaking in end-June 2021 at around US\$130 billion before falling to around US\$120 billion at the end of 2021. It is estimated that the

growth rate of Islamic funds (84% nominal/13% annualized) has exceeded that of the broader global mutual fund industry (68% nominal/11% annualized), based on the latest comparable data for the five years to end-September 2021, as per Lipper and ICI Global data ([Singh, 2022](#)).

The first SMF was launched by Vision Investment Services in January 2013 ([Khan & Naem, 2019](#)). SMFs are required to follow the *Shari‘ah* guidelines in their investment plans and invest in *Shari‘ah*-compliant companies only. *Shari‘ah* condemns all forms of gambling (*Qimar/Maysir*), usury (*Riba*), and contractual/legal uncertainty (*Gharar*) ([El-Gamal, 2000](#)) as sources of injustice but encourages profit-and-loss and partnership arrangements. SMFs are introduced to the local market to meet the growing demand of investors, especially Muslim investors. Most investment funds in Oman are established as open-ended unincorporated funds. *Shari‘ah*-compliant investment funds remain limited in number as compared to conventional investment funds. Examples of *Shari‘ah*-compliant investment funds in Oman include Al Kawthar Fund (founded by Tanmia, which is a state-owned investment company) and Al Hilal Mena Fund (by Ahli Bank) ([Al Busaidy, 2020a](#)).

The Commercial Companies Law (CCL) in Oman is complemented by the Capital Market Law, CMA rulings and regulations, and corporate governance code for public joint-stock companies. The CCL provides that *Shari‘ah*-compliant commercial companies (including those carrying out real estate investment activities) must comply with the principles of *Shari‘ah* ([Al Busaidy, 2020a](#)).

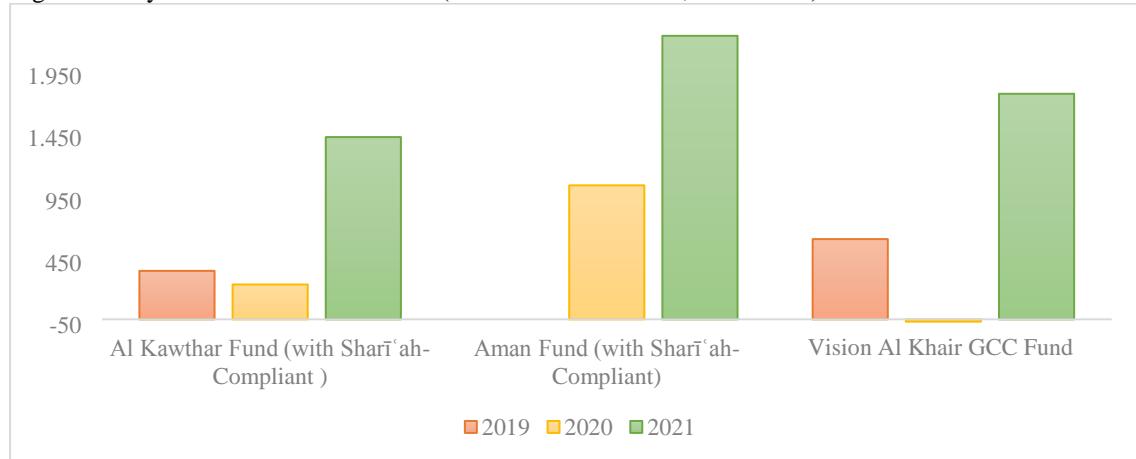
Figure 9: Performance of Mutual Funds in Oman (Net Profit in RO ‘000, 2019-2021)



Source: [CMA \(2022\)](#)

Figure 9 above shows the performance of mutual funds in terms of net profit over the 2019-2021 period. All funds showed an increase in profitability except for the Oman Real Estate Fund, which can be attributed to a slowdown in the growth of the Omani real estate market. *Figure 10* presents the dynamics of SMFs during 2019-2021, suggesting a growth trend in net profits.

Figure 10: Dynamics of SMFs in Oman (Net Profit in RO '000, 2019-2021)



Source: CMA (2021)

Investment funds can either be incorporated in the form of a joint-stock company or be an unincorporated entity with a legal personality. In the latter case, they must be formed by a commercial bank or an investment company whose capital should be no lower than RO5 million. An investment fund can be either open-ended (i.e., its capital is subject to changes and variation because of issuance and redemption of new units) or closed-ended (i.e., the fund issues a fixed number of units, redeemable only upon expiry of the fund's term, but the fund retains the right to issue new units) (Al Busaidy, 2020a).

3.4.2.4. *Takaful* Industry

The *Takaful* industry has a positive outlook, powered by Muslim-majority markets' demand and appetite for *Sharī'ah*-compliant alternative insurance products and services. As a result, these countries have higher entry rates for the *Takaful* market as compared to conventional insurance, as the latter is prohibited under Islamic law. Naturally, the market penetration rate is higher in Muslim-majority countries. In addition, government-sponsored *Takaful* programs help the market thrive in Malaysia as well as the GCC region.

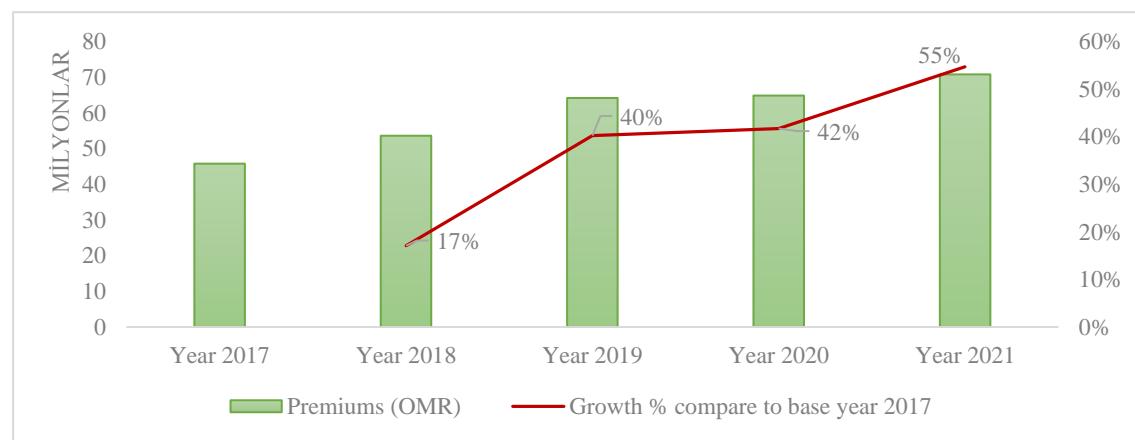
The global *Takaful* market is estimated to reach US\$49.8 billion by 2027, even though still subject to COVID-19 uncertainties (IMARC Group, 2022). This growth can be explained by youths below 25 years of age representing most of the global Muslim population, which implies that the majority of

their customers would have a prolonged presence. The same trend is witnessed in Saudi Arabia, UAE, Oman, Malaysia, and other jurisdictions.

The *Takaful* market was estimated to be worth roughly US\$25.1 billion in 2021 and is expected to reach US\$55.6 billion by 2028 ([Global Newswire, 2022](#)). Currently, the GCC as a region occupies a leading position in the global industry, while the top three top companies that operate on the global front are Islamic Insurance Company (Qatar), Jama Punji (Pakistan), and AMAN (Kuwait) ([Research and Markets, 2018](#)). According to Middle East Insurance Review, Al Madina *Takaful* (AMAT) and *Takaful* Oman Insurance (TAOI) have posted combined contributions of RO70.8 million (US\$183.9 million) in 2021, representing a growth of nine percent over 2020 ([Muscat Daily, 2022](#)).

The *Takaful* industry of the Sultanate shows an upward trend, with the gross premiums reaching RO70.779 million at the end of 2021 as compared to RO64.847 million at the end of 2020, an increase of 9.1 percent. Gross premiums of *Takaful* were 15 percent of the gross direct premiums of the sector in general and 13 percent of the total paid indemnities during the year. The sector displayed resilience amid COVID-19 affirming stability and significance in maintaining socio-economic balance. However, the year 2021 showed mixed results as compared to the previous years. The sector's contribution to the GDP was 1.45 percent. Gross direct premiums increased by 3 percent to RO479.857 million at the end of 2021 compared to RO465.895 million at the end of 2020. The data on insurance premiums indicates that health insurance constituted 34 percent of the gross direct written premiums while moto insurance (comprehensive and third party) constituted 21 percent of the gross premiums. Total claims paid for *Takaful* business increased by 13.7 percent to RO38.392 million in 2021 compared to RO33.777 million in 2020, which represents 13 percent of the gross claims paid by insurance companies.

Figure 11: *Takaful* Performance in Oman (2017-2021)



Source: [CMA \(2021\)](#)

3.4.3. Legal, Regulatory, and *Shari‘ah* Framework

The Sultanate of Oman introduced an Islamic banking regulation in 2012, and the banking industry was the first sector that received the license to operate. The CBO has introduced the Islamic banking regulatory framework (IBRF). The regulation covers eligibility for licensing, governance, accounting standards, supervision and control, capital adequacy requirements, credit, market operation, liquidity risks, and other report and disclosure requirements. The CBO has mandated each Islamic bank to appoint a *Shari‘ah* supervisory board (SSB) in which independence and competence are set as a requirement. The formation of a central *Shari‘ah* board for the IFSI falls under the purview of the CBO; and conducting internal and external *Shari‘ah* reviews and audit is mandatory for the IFSI in Oman ([AAOIFI, 2016](#)).

Since legal systems in Muslim majority nations vary widely, there has been little effort to harmonize legal frameworks across jurisdictions. However, there was an initiative announced in May 2020 by the UAE Ministry of Finance in partnership with the IsDB and other entities to establish a unified global legal and legislative framework for the IFSI. Taking AAOIFI standards as a reference in building the international legal framework, the idea was to draft a code for a unified international legal and legislative framework that would serve as a “*legal and legislative framework across jurisdictions and work as the basis for a new international treaty*”. As ambitious as this project is, we have yet to see progress on this project.

In the Sultanate of Oman, Banking Law 2000 has a dedicated section for Islamic banking, which covers a range of areas related to *Shari‘ah* governance, the formation of High *Shari‘ah* Supervisory Authority (HSSA), licensing of Islamic banks and windows, tax neutrality and others.

In a study on *Shari‘ah* governance in Oman by [Al Shiabah, Ayedh, and Shafii \(2021\)](#) assessing the compliance with the disclosure standards set by IBRF, it was found that there is a high degree of compliance and disclosure and transparency provision in Omani firms. Therefore, there is a degree of compliance and uniformity in the practices, which was also rated high on the solid governance framework by the IFDI report.

The regulatory environment in the country is supportive of the industry. A pipeline of new Islamic Finance regulations will likely broaden the market in the coming years. In January 2022, Bank Nizwa and Sohar International Bank received the CBO’s approval to start due diligence for a potential merger. Consolidation could be accredit-positive as it generates cost-efficiencies, deepens distribution channels, and strengthens capitalization. Considering that Oman is a small market, consolidation could also encourage further growth of the window subsidiary model through the larger conventional banks’

capitalization and liquidity profiles. Omani Islamic banking sector could gain from such consolidations by potentially increasing the segment's profitability, creating synergies, and affording the combined entities greater pricing power and better deposit-gathering capability.

The growth and development will accompany consumer awareness, demand for retail banking products, regulations, and a strong presence of the Islamic market players. The technological infrastructure also would accelerate improving the operating environment, an expected positive real GDP growth, higher oil prices, the easing of COVID-19 restrictions, and the rise in interest or profit rates will also support growth in both Islamic and conventional banking.

At a jurisdiction level, a multi-pronged approach needs to be taken to ensure harmonization of practices, which includes the establishment of (i) national or regulator-level High *Sharī'ah* Advisory Board, (ii) *Sharī'ah* Supervisory Boards (SSB) at the level of individual IFI, (iii) *Sharī'ah* compliance function, (iv) internal *Sharī'ah* audit, and (v) external *Sharī'ah* audit. Setting up all these organs of *Sharī'ah* governance is expected to strengthen the practices and bring uniformity. In doing so, the role of the national-level High *Sharī'ah* Advisory Board is quite essential since it can provide guidance on diverse *Sharī'ah* practices prevailing in the jurisdiction and advise a uniform way of doing things. Additionally, publishing *fatwas* issued by the SSBs of related IFIs on a regular basis would enhance transparency and promote consistency in practices.

At the international level, the *Sharī'ah* Boards of AAOIFI and OIC *Fiqh* Academy are playing an effective role in the standardization of *Sharī'ah* rulings and harmonization of the practices across the globe. Market pressure is also contributing to this push for uniformity. For example, in those jurisdictions where the SSBs permit their IFIs secondary market trading in the debt-based instruments such as *Murābaha Sūkūk* (based on a specific *Fiqhi* opinion), these IFIs usually issue *Ijarah* or equity-based *Sūkūk* if they wish to raise money from outside their country; that is because they are aware that outside investors will not concur with the local *Fiqhi* rulings.

The IBRF promulgates a robust *Sharī'ah* governance framework in which all the critical parameters of an effective governance framework are present. In addition, the Assistant Grand Mufti of Sultanate, Honorable Sheikh Dr. Kahlan Bin Nabhan Al Kharosi (Chairman of the Central *Sharī'ah* board at CBO), serves as a member of the *Sharī'ah* board of AAOIFI representing the Sultanate on a matter related to *Sharī'ah* ruling and IFI practices in the sector. This step would ensure further coordination and collaboration.

The CMA has issued executive regulations on the *Takaful* Insurance Law by Decision No.103/2019, which provides, *inter alia*, for segregation between the assets of a *Takaful* operator and

a *Takaful* fund and the establishment of *Shari‘ah* supervisory boards within *Takaful* operating companies. *Takaful* companies in Oman are required by law to have the legal form of a public joint-stock company. The *Takaful* Insurance Law provides a robust and comprehensive framework covering all aspects of the *Takaful* insurance sector and oversees all the activities of *Takaful* operators. The CMA is tasked with regulating and supervising *Takaful* operators in the jurisdiction.

As of the present, the *Takaful* Insurance Law remains silent on the possibility of foreign *Takaful* companies opening branches in Oman. *Takaful* operators offer the same types of products offered by their conventional counterparts. The CMA formed a Supreme *Shari‘ah* Supervisory Board that took decision No.171/2021 on *Fiqh*-related disputes among members of the *Shari‘ah* supervisory committees of *Takaful* companies. It issued its Articles of Association pursuant to Article 5 of the *Takaful* Insurance Law promulgated by Royal Decree No.11/2016, aiming to enhance the legislative and regulatory processes for the companies operating in the *Takaful* business based on best international practices.

The establishment of SSB comes in line with the development of the *Takaful* industry in the Sultanate of Oman. The evidence is seen in the market’s growth, reaching about RO64.8 million and representing 14 percent of the total insurance portfolio. The board shall comprise five members: a chairman and members having a right mix of experience and qualification - holding a bachelor’s degree in *Shari‘ah* or an equivalent degree in Islamic transactions (*Fiqh al-Mu’amalat*), Islamic banking, Islamic Finance, capital market, or insurance, in addition to ten years of experience in the same field (Thomas, 2022). The role of the SSB includes setting up policies and developing *Shari‘ah*-related legislation, in addition to providing advice on the compatibility of the products, services, and contracts of the *Takaful* companies.

The latest development in the Sultanate in terms of regulatory landscape is the introduction of regulation governing the issuance and management of *Sukuk* transactions, which came into force on 11th April 2016. It is issued by the CMA, the body authorized to regulate *Sukuk* by an earlier amendment to the CML (Royal Decree No.59/2014).

There is no specific legal or regulatory framework governing *Shari‘ah*-compliant investment funds in Oman except for real estate investment funds or trusts (REITs), which are a sub-class of investment funds. The REIT regulation makes several references to *Shari‘ah*-compliant REITs by providing, inter alia. There is a specific mention of the requirement to establish a *Shari‘ah* committee or using the services of a *Shari‘ah* board or third-party parties to ensure that the activities of the REIT are compatible with the principles of Islamic law (Al Busaidy, 2020b). The REIT regulation sets out the

duties, characteristics, requirements, and restrictions relating to the members of the *Shari‘ah* board to ensure their impartiality and objectivity when auditing a fund’s *Shari‘ah* compliance. As with a conventional REIT, the licensing of a *Shari‘ah*-compliant REIT requires substantial minimum capital as they are required to have capital of no less than RO10 million (or its equivalent in another currency). If the REIT is intended to be *Shari‘ah*-compliant, the investment manager is required to form an internal *Shari‘ah* committee or engage the services of a third-party *Shari‘ah* committee ([Al Busaidy, 2020b](#)).

In addition, the CCL imposes a general requirement on commercial companies undertaking *Shari‘ah*-compliant activities to have their transactions comply with the principles of Islamic law, and it has tasked the CMA and the Ministry of Commerce and Industry and Investment Protection (MOCIIP) to issue specific regulations on the *Shari‘ah* auditing mechanisms to be implemented within such companies. The amended CCL and new regulations and requirements were introduced to govern the issuance of bonds and *Sukūk* in separate chapters. Such new laws and regulations will likely have a broad impact on the entirety of the Islamic Finance market, extending to both Islamic banking and *Shari‘ah*-compliant capital markets. Judging by the comprehensive legislative reforms that took place in 2020, it is expected that the upcoming reforms will be of equal sophistication, pushing the *Shari‘ah*-compliant segment of the economy forward. Issuance of sovereign debt, the banking sector, and capital markets are expected to be subject to new laws and regulations in the near future ([Fitch, 2022](#)).

3.4.4. Current State of Standardization Efforts in the IFSI

The IFSI of the Sultanate adopts AAOIFI standards - mandatory on accounting but voluntary on *Shari‘ah* standards. However, while providing a conducive *Shari‘ah* governance framework, it prohibits Islamic banks and windows from offering *Tawarruq* (commodity *Murābaha*), a financial instrument used as a money market instrument for short-term liquidity. In April 2009, the OIC *Fiqh* academy council declared organized *Tawarruq* prohibited and deceptive and therefore non-*Shari‘ah*-compliant. Oman is the only jurisdiction that publicizes a ban on all forms of *Tawarruq* under the IBRF ([Al Busaidy, 2016](#)).

Standardization implies that there is a comprehensive one-size-fits-all solution that has its pros and cons. On the one hand, it results in a more efficient and faster volume of transactions. On the other hand, it may hinder innovation in an ever-changing dynamic market, especially with introducing new technology. Countries are heterogeneous in terms of development; therefore, standardization may present challenges depending on the market’s maturity level. For example, in Oman, since it does not bind IFIs to comply with AAOIFI *Shari‘ah* standards, the Sultanate has its own stand against the use

of *Tawarruq* transactions in the market. Although the AAOIFI standard is still there, the Islamic regulatory framework of Oman does not permit the use of *Tawarruq* as well as any exchange of cash in the intermediation system.

Sharī'ah standards are conceptualized based on the demands. Islamic jurists' interpretation of classical *Fiqhi* principles is contextualized in modern markets and legal systems. Practitioners argue that to increase the market acceptability of the IF products and services, the transactions need to be less complex, considering the maturity level. Islamic Finance law came to facilitate Muslim daily lives while making transactions, and there are factors to be considered to ease the dealings. Different *Sharī'ah* opinions can be examined to arrive at a balanced approach and facilitate Muslim lives.¹⁹

The CEO of bank Nizwa Kayed stated, “*It is important to have unified standards in Islamic Finance across the world, especially in Islamic countries. This is essential for better growth, stability, resilience, risk management, and consistency. Standardization has emerged as a key factor, both as an opportunity and a challenge, which is critical to take the Islamic Finance industry into globalization, where the multi-national Islamic banks will play a key role in driving growth of the industry.*” ([Muscat Daily, 2021b](#)).

The regulator commented that the *Sharī'ah* higher authority had not been formed yet because the domestic ICM is still at the nascent stage. In response to corporate demands, the CMA favored decentralization; that is, until the ICM becomes more mature and efficient in its operations. According to the authority, standardization will help streamline Islamic financial transactions and save time and money.

The facilitation of financial services must follow a certain rhyme that is compatible with the direction in which the country is heading. For example, despite the fact that Malaysia is among the pioneers in Islamic Finance, with the first regulation act being launched in 1983, the *Sharī'ah* advisory council in the jurisdiction was established in 1998 only. Hence, market maturity plays a vital role in its development. Another aspect is in appreciating the differences in the legal schools of thought (*Madhahib*). Oman follows a balanced approach with the *Sharī'ah* board embracing different legal schools of thought and coming to a consensus on product release and contractual agreements.

Standardization is favorable for the integration into the global IFSI and gaining a competitive advantage. However, certain parameters may not be practiced even if covered under AAOIFI due to restrictions in following some standards. In Oman, as mentioned earlier, the commodity *Murābaha*

¹⁹ Haider Hamoudi's work is particularly forceful in this regard. See [Hamoudi \(2008\)](#).

(although introduced by AAOIFI as a standard) is not accepted. Similarly, some markets may not accept an alternative financial arrangement used in the Sultanate, such as *Wakalah*, due to the risk involved and having no guarantee for cross-border transactions. Hence, synergies in standardization may not be possible across all OIC member countries considering this limitation. However, recommendations to create regional standardized hubs were explored to create an edge and harmony in the markets.

By leveraging lessons learned from other financial markets, Oman has been refining its Islamic financial instruments for better efficiency and effectiveness. For example, the requirement of annual approvals after the release of *Sukūk* mitigates the risk of declaring the issuance as null and void due to non-compliance revealed after the maturity of its first issuance.

The CMA deals with a number of short and long investment horizon instruments such as equity, fixed income, and funds. The wide spread of instruments with different characteristics necessitates referring to standards issued by various international SSOs. Since the authority plays the role of regulator, it follows IFSB standards for governance and stability as well as AAOIFI and IIFM for ICM standards. For instance, Omantel, the national telecom provider, is listed on the Muscat Securities Market (MSM), where it was classified as *Sharī'ah*-compliant. However, the telecom mogul was declassified and delisted from the Islamic equity market after exceeding the debt-to-equity ratio threshold of 33 percent set by AAOIFI. Therefore, further synergies are required to ensure that the SSOs are in tune with the product development that suits the market and is structured according to the requirements set by the standards.

The Omani government recognizes the importance of the IFSI in the country and its potential for growth in the future. However, many customers complain about the lack of financial products offered by the IFIs that meet their requirements, pushing them to turn to their conventional counterparts. In addition, there is a greater need for legal and consultancy services to review and match Islamic contracts with the AAOIFI standards. Further coordination between governing bodies in Oman is needed to ensure standardization across the IFSI. As a result, many standards and regulations have focused solely on Islamic banks, even though such rules and laws apply to ICMs, *Takaful*, and mutual funds. As discussed on *Sukūk* issuance and Islamic mutual funds, the investment platform is gaining momentum and requires further efforts to create an attractive investment horizon for investors. Furthermore, although CMA authorizes the list of advisory committees for *Takaful* firms in Oman, a similar list of advisory committees for Islamic mutual funds and Islamic banks may also be required.

The independence of the advisory board is crucial for preventing a conflict of interest and minimizing *Shari‘ah* non-compliance risk in IFIs. Members of advisory boards do not serve on the boards of other IFIs, which helps to avoid conflicts of interest. IFIs can appoint *Shari‘ah* boards following the eligibility criteria set by the Central *Shari‘ah* Board at the CBO level. There are guidelines shared with IFIs only rather than all stakeholders. In addition, IFIs may seek revisions in the standards to facilitate their financial activities. The duties and responsibilities of advisory boards and regulatory bodies may overlap, sometimes causing them to disagree on some issues. As a result, coordination and dialogue among regulatory bodies can get worse than before, and the number of inconsistent procedures within the *Shari‘ah* governance mechanism and *Shari‘ah* standards can rise rapidly.

The Advisory Board’s appointments are made rigorously to ensure the scholars have the right exposure and expertise. However, the scholar composition consists of a limited ‘Omanization’ rate. The reason is that the scholars have limited knowledge of the English language. At the same time, Islamic Finance was introduced to the market as an alternative financial model in 2013, and the Sultanate is still at an infancy stage in implementing Islamic Finance.

The general assembly of the Islamic bank selects the *Shari‘ah* board after an initial check-up routed to CBO. The eligibility criteria for a member include qualification in *Fiqh al-Mu‘amalat*, being Muslim, having a good command of the Arabic language, and experience in the Islamic banking field. As for specific specializations such as law or academic background, there is no particular mention.

As for the *Shari‘ah* supervisory board of Islamic mutual funds and *Takaful* companies, the CBO and CMA have no jurisdiction over the nomination of advisory board members. As a result, the degree of collaboration among CBO and CMA on SSB appointments is limited. The same implies that the role of the regulatory bodies in conducting joint training programs to tackle current issues is reduced.

Islamic Finance is driven by robust guidelines for partnership arrangements such as *Mudarabah* and *Musharakah*, which are the core of Islamic Finance. The Central *Shari‘ah* board would ensure that the IFIs in the capital markets comply with a standard set of *Shari‘ah* rulings and regulations. The IFIs follow their own SSB in reviewing, approving, and releasing the products. In the absence of central authority, their role becomes of significance by facilitating the operability of the market and offering *Shari‘ah*-compliant instruments without compromising the principles of *Shari‘ah*. Therefore, utilizing suitable Islamic Finance products, transactions, accounting entries, and taxation is necessary. For example, the regulatory body can override double taxation for a transaction that its form requires sequential accounting on ledgers for *Shari‘ah* purposes.

3.4.5. Standardization: Current Trends, Issues, and Challenges

3.4.5.1. Legal and Regulatory Issues

The expert interviews were administered with top profile *Shari‘ah* scholars, Central bankers, CMA regulators, Islamic banking practitioners, and academicians with finance and banking backgrounds.

This step is crucial to understand the standardization process in Oman and assess how well it harmonizes with other OIC member countries. In Oman, AAOIFI accounting standards are adopted fully, while the implementation of the *Shari‘ah* standards is not mandatory. Therefore, the standardization efforts in the country might be tailored to meet the needs of the local market rather than those of the regional or international finance industry.

Islamic Finance markets are growing and spreading fast despite the fact that it has been practically limited to the Islamic banking industry. Oman is one of the pioneers of *Sukuk* issuance, creation of mutual funds, and establishment of *Takaful* and Islamic equity markets. Oman has established its first crowdfunding platform EthisX²⁰ in 2022, followed by Beehive, the second crowdfunding platform.

Hence, there should be a point of reference to the operations of these IFIs depending on the scope. The risk of *Shari‘ah* non-compliance and unfair tax treatment is increasing for the IFSI.

There is a need for coordination among regulatory bodies in Oman. The Islamic banking industry of the Sultanate follows CBO’s IBRF, whereas the ICM is guided by the CMA. However, with the emergence of peer-to-peer lending, in what seems to be crowdfunding platforms, the two regulatory bodies need to decide on how to oversee the activities that fall under the purview of both. Thus, it is imperative that the two regulatory bodies collaborate in order to define their respective oversight responsibilities.

Interviewees agree that Oman is a growing market, and its maturity level differs from other OIC countries. Therefore, the regulations should be revisited to ensure alignment with the industry growth. The offering of products and services by the IFIs is vital for the sustainability of the IFSI. To ensure the attainment of market share and continuity of the industry, the complexities of accounting records need to be streamlined in a platform that allows simultaneous reflection of the ledger.

The Sultanate’s legal system is mixed, combining Anglo-Saxon law and Islamic law. However, interviewees felt that English law is the prevailing law for dispute resolutions related to Islamic

²⁰ EthisX is regulated by Oman Capital Market Authority. It is “*the first platform of its kind catering to Shari‘ah -compliant and impact-driven investors globally. The platform provides investors and funders direct access to companies, issuers, and social campaigns from around the world with a focus on Asia and the Gulf region.*” For details, refer to: <https://ethis.co/blog/ethis-launch-global-platform-ethisx-cma-oman/>

Finance transactions. In 2018, the Omani Commercial Arbitration Centre (OCAC) was established by Royal Decree No.26/2018, followed by the issuance of the arbitration rules No.8/2020 by the OCAC. The role of the OCAC is to resolve any disputes before escalation to the court system by mutual consent of both disputing parties. It is recommended that conflicts arising in IFIs are ascended to OCAC for the resolution to follow the guidelines and *fatwas* related to the issue of contention.

It is also imperative to develop the capacity of the Omani court of law in *Shari‘ah* standards to ensure that judges are equipped with the right tools to arrive at rulings.

It is anticipated that standardization would initially result in uniformity of applications for straightforward value exchange transactions. However, how well do *Shari‘ah* rulings reflect the pace of technological advancement? How can standardization assist in overcoming the urgency to change/amend/reflect these changes without compromising the Islamic value propositions using technology? Does technology need to conform to standardization, or rather standardization need to conform to technology in the application of *Shari‘ah* rulings? Proponents of the technology claim that it came as an enabler, accelerator, and groundbreaking method for making life easier. However, the question remains whether those standards are subject to changes. The SSOs should be dynamic in response to new market requirements for ESG, which in turn require additional disclosure and reporting. Therefore, to be abreast with the latest updates and revisions of standards, the high-caliber scholars should collaborate with the SSOs as advisors or participate in working groups.

Several interviewees commended the efforts of regulatory bodies on establishing Islamic rulings pertaining the Islamic financial practices. On the other hand, the central *Shari‘ah* board at the CMA level has not been appointed. *Shari‘ah* rulings on money markets for IFIs are necessary to streamline the operations of the *Sukuk* market, mutual funds, and Islamic equity market, in addition to the *Takaful* industry. Despite its applaudable developments and the potential for further growth, in general, the industry is susceptible to certain challenges such as the lack of awareness among consumers, scarcity of human resources in the *Takaful* industry, limited number of *Takaful* models, lack of transparency in the financial transactions carried out in the *Takaful* sector, shortage of *Shari‘ah* scholars and other factors.

Albeit the presence of worrying challenges, the *Takaful* industry is still in for a bright future. The fact that the industry experiences a low market penetration rate in family *Takaful*, especially in Oman, hints at the vast opportunity available to tap and the potential for its growth. Furthermore, the recent trend in sustainable and environmentally friendly investments and business prospects brings forth a new opportunity for the *Takaful* business to tap into. This is because the business model of the industry

makes it halfway sustainable; seeing as it is *Shari‘ah*-compliant, it is already mandated to stay away from *Haram* elements that are destructive to individuals and the environment. Also, as the underlying methodology behind it is contribution and community wellness, which is viewed already as a Corporate Social Responsibility (CSR), it only must take an additional step further to be a part of this new green initiative.

In addition, the industry is still technologically lagging compared to its conventional counterpart, making them to fall short in places of opportunity. The government is responsible for playing a pivotal role in developing the framework and regulations for the *Takaful* companies. This is to ensure the stability, effectiveness, and efficiency of any initiative proposed by the companies. Although there should be a legal framework in place, there is a need to find a middle ground so as not to stiffen innovation with excessive regulations. Also, they should work hand to hand with *Takaful* companies to determine what sort of risk they can accommodate. For instance, insurance for the underprivileged. The private *Takaful* companies would not be willing to insure people who cannot afford a policy; hence, the government could initiate subsidizing all healthcare insurance packages.

Currently, the Banking Law is being amended in which, among others, several provisions related to the Islamic banking and finance sector are also being proposed for revision. When approved by the competent authority, these amendments will further help strengthen the objective of harmonization of the legal framework in the Sultanate. This is significant as the industry feels that the regulation impedes the growth of the IFSI, primarily due to the lack of money market financial instruments and the high provision rate for *Mudarabah* as a financing tool. To promote growth, they recommend:

- To review the IBRF to reflect on current market requirements and analyze the impediments to Islamic market growth in the Sultanate;
- To equip the legal and regulatory fraternity in the Sultanate with access to Islamic Finance education through the establishment of an Islamic Finance educational center that includes *Shari‘ah* scholars and practitioners under one roof to discuss new developments;
- To create an Islamic FinTech hub to keep abreast with revolutionary technology such as blockchain and artificial intelligence;
- To produce simpler and less-costly legal documentation without compromising *Shari‘ah* rules;
- To activate the commercial arbitration center and route through cases that are subject to resolution rather than escalation to court-hearing under English law;

- To expand the pool of specialists in Islamic Finance to include such areas as ICMs, ESG, *Fiqh al-Mu'amalat*, Islamic law of contract, *Takaful*, Islamic risk management, and Islamic FinTech;
- To create a community that supports the Islamic Finance market growth in the Sultanate and understands market requirements from practitioners' and scholars' points of view.

3.4.5.2. *Taxation*

Uniformity in tax laws and codes for the financial sector, especially in bringing tax neutrality between conventional and *Shari'ah*-compliant financial transactions, is one of the key parameters for the smooth functioning and growth of the IFSI.

The nature of Islamic financial transactions requires a double entry in bookkeeping to ensure compliance with *Shari'ah* requirements, and the same gives rise to taxation. To mitigate over-taxation, there should be clarity on the sequential recording of the ledger. Therefore, advisory committees advise acknowledging this aspect with the tax authorities to avoid future limitations and offer asset-based risk-sharing instruments.

3.4.5.3. *Academic and Technical Issues*

The IFIs of the Sultanate use the English language extensively in their communication. A number of certificate programs are currently available on standardization in Islamic Finance, which are required by regulatory bodies for professionals from the IFSI. The CBO requires banks to nominate their staff to attend a minimum of two training programs annually, which accounts for approximately 24–36 hours of training. However, the content of the programs is not vetted by CBO for rolling out as a requirement. In addition, capacity building in the specialist field in Islamic Finance that leads to continued professional development (CPD) certifications is also not mandated to enhance the caliber in risk management, treasury, trade finance, and investment. *Shari'ah* issues, Islamic Finance law, and Islamic accounting and governance. There is a need to fundamentally address educational issues surrounding *Takaful* and individual risk management amongst Muslim societies to develop consumer awareness. Most of the current education on *Takaful* is offered among interested or related practitioners and investors, and very few awareness campaigns are aimed at or designed for the target population ([Jaffer et al., 2010](#)).

The CBO mandates Islamic banks to update their human capital with the necessary knowledge and skills. The establishment of the College of Banking and Financial Studies (CBFS) under the umbrella

of CBO is a firm step toward enhancing and building the caliber. The CBFS offers various banking programs at the undergraduate and vocational levels.

3.4.5.4. Problems Associated with Weak Standardization Level

It is generally accepted that the success of the entire IFSI depends upon the quality of products offered. The standardization of products is a prerequisite for the development of the industry.

As Fitch Ratings noted, the critical structural challenges persist mainly due to the sector's recent inception in Oman (about a decade ago), including gaps in the distribution channels, limited product offerings, a still-developing regulatory framework, a small capital base, limited *Sukūk* investment options, and insufficient Islamic liquidity management products ([Akif, 2022](#)). The essential factor that will spur the growth of the IFSI is the continued support by the government, so the government and banks need to focus on building a local talent pool of Islamic Finance professionals to carry the industry forward. Most importantly, the CBO should implement regulations and guidelines relating to profit and loss distribution and liquidity management of Islamic banks, as these are the core of the Islamic banking industry. In this respect, the CMA should finalize and issue the proposed *Sukūk* and *Takaful* regulations (drafts of which have already been circulated amongst key market players for their feedback). As of date, the CBO has aimed to address this by setting up a task force to develop and suggest new *Shari‘ah* -compliant liquidity management tools such as short-term *Sukūk* or Islamic repurchase agreements because the IFSI targets will depend largely on the effectiveness of the Government and the key players in the IFSI in making legislative and policy adjustments, where necessary, for the development of innovative products and spreading awareness of Islamic banking amongst the public at large and within government ministries and departments ([Al Busaidy, 2015](#)).

According to [Smolo and Habibovic \(2012\)](#), “*there is no doubt that IFI needs a uniformity, standardization as well as more regulatory, supervisory, and transparency procedures that will improve its position within the global financial market. Uniformity and standardization will promote a sound and stable Islamic financial system and make it a viable and credible component of the global financial system, while the supervisory and regulatory standards will bring about the credibility of Islamic Finance*“. So, no doubt that in the long run, if these issues were addressed properly and if there were standardization and/or harmonization of practices, the IFSI would benefit in general. In addition, this would provide a more stable financial environment for the stakeholders, and the industry would be more competitive in the market. The authors also mentioned in their paper that “*Many authors are suggesting that there is an urgent need for the standardization in IFI, especially in the field of the Islamic banking products which are not being standardized across the different*

jurisdictions and which are creating obstacles at the international level”. Thus, standardizing rulings would make it easier for companies and ordinary people to comprehend them better.

3.4.5.5. Relationship with International Standard-Setting Institutions

Oman has established close collaboration with international Islamic SSOs, including IFSB, AAOIFI, and IIFM. The CBO became an “Observer Member” of IFSB in 2012, which was upgraded to “Full Member” status in 2019. This membership status allows CBO to be a part of the IFSB Council, represented by governors and heads of bank supervisors from 25 countries, as well as the President of IsDB. Apart from the Council, CBO is also represented by IFSB’s Executive Committee, Technical Committee, as well as numerous working groups, task forces, and special committees. CBO has also hosted several IFSB working group meetings, training workshops, and awareness sessions in Oman over the years. Two CBO staff are also seconded at the IFSB Secretariat in Kuala Lumpur, Malaysia. The CMA is an Associate Member of the IFSB and is represented in various working groups and task forces.

Over the past few years, AAOIFI has strengthened its communication and relationship with the CBO. Currently, CBO is represented in two of its Technical Boards (Accounting Board and Governance and Ethics Board) as well as some working groups. In addition, the Chairman of CBO’s High *Shari‘ah* Supervisory Authority (HSSA) is a member of the AAOIFI *Shari‘ah* Board. The CBO leadership has participated and spoken in many AAOIFI conferences and seminars. The CBO staff have also acted as a trainer in its capacity-building programmes of AAOIFI.

Moreover, the AAOIFI signed an MoU with the College of Banking and Financial Studies (CBFS), which is a training arm of CBO. CBFS has hosted several events, public hearings and professional exams. AAOIFI has also partnered with Bank Nizwa on knowledge-sharing session on emerging Islamic Finance issues.

The CBO’s relationship with the IIFM, a Bahrain-based international SSO, is strengthening over time. The regulator collaborates with the IIFM in producing product-level standards and documentation for Islamic banks’ wholesale business, mainly on *Shari‘ah*-compliant treasury, interbank trading and hedging products. In September 2019, an awareness seminar by IIFM was organized in Muscat with the support of CBO and Oman Banking Association.

Interviewees agree that Oman has established a good positioning with international SSOs by signing MoU’s with AAOIFI through the CBFS that is a centralized education hub under the CBO mandated to develop relationship with stakeholders in the IFSI and conduct public hearings to solicit

feedback from the industry players in the Sultanate on standards. It clarifies the pressing issues highlighted by the practitioners who are invited to comment and advise on the write up and at the same time getting updates on the new amendments. In terms of board membership at AAOIFI, the Sultanate has an adequate representation in the *Shari‘ah* board represented by Sheikh Kahlan al Kharusi (Deputy Mufti), accounting board by Mr. Saud Al Busaidi, and governance board by Mr. Zahid Abdulrahman. The CBO is in talks to finalize an MoU late 2022 with CBO to officiate the partnership further.

In addition, there is quite a considerable disparity in reporting frameworks of leading IFIs. It shows that while most jurisdictions adopt IFRS standards entirely or adapt partly, many others use IFRS with additional requirements for Islamic banks or the standards issued exclusively for Islamic banks, such as by AAOIFI. These disparities raise concern over comparability and consistency within the IFSI as well as the broader financial services sector.

One of the major benefits of using a common, globally accepted set of accounting standards is the comparability it offers for users of different institutions' financial statements, ultimately enhancing institutions' ability to access funding and investment opportunities across borders. Disparity in accounting practices can hamper cross-border operations and cause difficulties in the preparation of financial statements. For IFIs, these differences and difficulties are particularly acute, as applied standards may not cover the concerned products or do not offer appropriate disclosure requirements. As reflected in AAOIFI Footprint Report 2020 ([AAOIFI, 2020](#)), an encouraging development is that more and more jurisdictions are realizing the importance of adopting Islamic financial accounting and disclosure standards. According to the report, 24 countries have already adopted AAOIFI's accounting standards, and many others are in the process of doing so. In Oman, CBO requires banks to follow AAOIFI accounting standards in their dealings and preparing financial statements.

Regulatory bodies prefer to solve inevitable problems by issuing circulars to a current reoccurring issue. This mechanism is a temporary fix to a more significant issue that requires litigation and further analysis. The legal framework for IFIs becomes subject to scrutiny and needs an update to include and address current issues of concern.

As *Shari‘ah* compliance is a *raison d'être* of the IFSI, the inconsistencies in *Shari‘ah* rulings and pronouncements within a jurisdiction and across borders can make customers lose their trust, hamper transaction flow, and bring a bad reputation to the sector. Nevertheless, it should be acknowledged that several Islamic schools of thought have existed for centuries, having varying opinions on many aspects of transactions, contracts, and financial dealings.

An exceptional contribution of the IFSI to the *Shari‘ah* interpretation in *Fiqh al-Mu’amalat* is that it has brought different *Fiqhi* opinions together by providing guidance on dealing with modern, complex financial transactions and product structures. In this way, to borrow the term from late scholar Mahmood Ahmad Ghazi, Islamic Finance has contributed to establishing a ‘cosmopolitan *Fiqh*’ for financial dealings and structures, in which opinions of each Islamic school of thought have contributed one way or the other.

3.4.6. Specific Needs to Improve Standardization Level

In the view of the majority of respondents, standardization is a welcome step in the IFSI to ensure efficiency in time and efforts to arrive at a comprehensive cross-border transaction between the OIC member countries. There are several dimensions in this regard i) legal framework; ii) regulation and supervisory standards; iii) financial accounting and disclosure; and iv) *Shari‘ah* rulings. Variation in the captioned dimensions results in fragmented growth due to higher costs, varying interpretations, and reduced ability of IFIs for investment opportunities, especially across the border. The limitation of applying some standards also depends on each OIC country’s developmental pace and level. In addition, there are several schools of thought in Islamic law that some of the OIC member countries follow. For example, Oman follows AAOIFI in the accounting standards on a mandatory basis. The Sultanate does not impose the adoption of AAOIFI *Shari‘ah* standards, but they are referred to on a voluntary basis. The same manifests in the decision of Oman to exclude *Tawarruq* from the IBRF.

Therefore, when talking about standardization, it should be realized that not every aspect of the IFSI can be “standardized”, especially when talking about transactions running across borders. Rather, an effort can be made to “harmonize” the standards and practices within a jurisdiction to the extent possible.

The discussion with the interviewees leads that each Islamic Finance sector in the Sultanate has a different approach to disseminating Islamic Finance rulings. For example, the CBO has a central *Shari‘ah* board that approves resolutions applicable across all Islamic banks. On the other hand, the CMA has not yet been appointed a central *Shari‘ah* authority, giving the capital market decision-making capabilities in introducing Islamic Finance instruments that suit the market demand. Although the same seems unstandardized, the silver lining is the maturity of each market as the Islamic banking sector is active with multiple players and is streamlined. On the other hand, the money market implies greater reliance on probability-based intermediations such as short-term instruments. *Shari‘ah* scholars encourage the use of *Wakalah* as an underlying contract as a basis for cross-border short-term financial instruments, which is found by practitioners to be a risky instrument to be used and

does not guarantee returns. Therefore, while it is imperative to follow *Shari‘ah* rulings and mitigate *Shari‘ah* non-compliance risk in the financial markets, it is also important not to hamper market demand for innovative products that facilitate money markets transactions, especially at the cross-border level. Similarly, most interviewees point out that it is meaningful to introduce Islamic fund management certifications to facilitate market development. The awareness allows the practitioners and *Shari‘ah* scholars to create a level-playing field to understand both market dynamics and *Shari‘ah* rulings.

Each OIC member country has different legal and regulatory mechanisms for governing financial institutions. While applying some financial instruments to other markets might be easy, they could be limited in their exposure and regulations. Oman prides itself as a country that does not deal with *Tawarrug*, which is commendable in international summits as a learning point for other Muslim countries. Although the Sultanate was a late entrant to Islamic Finance, it capitalized on other countries' mistakes, as quoted in those international conferences. The notion is that, although pure intentioned, other countries mimicked conventional mindsets and did not offer value-based intermediation (VBI) as esteemed by the *Shari‘ah*. Therefore, they missed the differentiation Islamic Finance offered for the Muslim Ummah in financial inclusion, application of social financing instruments such as *Zakah*, *Waqf*, and *Sadaqah*, and the unique risk-sharing model applications. As a result, bearing this reputation, Oman is ranked highly on governance and strict adherence to the *Shari‘ah* rulings that are stemmed from the IBRF.

Shari‘ah advisory bodies disseminate, encourage, and follow the IBRF rulings, and any deviation from them leads to non-compliance. However, interviewees argue that there are limited connections between regulations, financial institutions, and the end beneficiaries of the IFSI. Therefore, even if regulatory bodies issue solid regulations for IFIs, the market still demands instruments that suit their requirements. For instance, at the corporate finance level, in which there is a considerable amount of financing required for non-conventional purposes such as intangible assets related to cloud computing platforms. This limitation does not provide room for corporates to grow and keep up with the digital environments that are unique to this day. Islamic Finance regulations and communique and superior norms can generate significant challenges in the operations of IFIs due to the non-expanding of the definition of an asset.

Therefore, there is always room for improvement to grow in this ever-dynamic market and facilitate development without compromising the integrity of the standardization process. To do this, the following is needed:

- 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 *Shari‘ah* rulings and their applications and practices;
- Leverage the Islamic social centers that are under the supervision of the Mufti of the Sultanate, such as Jaber Bin Zaid foundation, to create incubation centers;
- Support the youth to take up Islamic Finance education that covers both the *Shari‘ah* and Islamic Finance requirements.

3.4.7. Lessons Learnt and Transfer of Knowledge among OIC Member countries

The Omani experience is exceptional since it is one of the first countries to ban *Tawarruq* as a financial instrument in its regulatory framework. Practitioners from a conventional side feel that the same does not place the industry at an advantage since the conventional counterpart has access to short-term money market instruments such as Repo. In addition, customers who wish to transfer their personal loans to IFIs cannot do so due to the nonexistence of an underlying asset. The following are some important aspects to be considered in the process of standardization:

- 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 *Shari‘ah* governance frameworks;
- There should be a conducive environment or infrastructure that enables institutions supporting the IFSI to contribute towards achieving the standardization objectives.

3.4.8. Country-Specific Policy Recommendations

The development of the IFSI is dependent on a conducive regulatory ecosystem that empowers the infrastructure. This is relevant as the industry is transforming due to integration with technological platforms. The standardization of Islamic Finance shall facilitate the application of alternative

instruments, thus, ensuring better market penetration. To enable the positive outlook of the Omani market to arrive at full spectrum, a strategic direction to review the regulation and roll up a 5-year and 10-year plans is necessary. It is also essential to streamline financing and investment regulations, especially since the CMA has published a regulation for crowdfunding platforms. This comes as part of the national priorities of the Oman Vision 2040. Crowdfunding platforms offer reward-based lending, charity, and investment activities. Therefore, further synergies between regulatory framework and legal guidelines are significant. For the capital market, further regulatory-level programs need to raise awareness for financiers and investors about alternative financing schemes.

In this step, a dialogue needs to be established between the major stakeholders, such as regulators, consumers, IFIs, international SSOs, and even environmentalists, seeking to address the deep-rooted issues on capacity building, and discuss not only *Shari‘ah* issues, but also accounting treatments, reporting, ICM products, and others. Similarly, standardized certification programs could be delivered by alternative methods, such as e-learning modules, across all OIC member countries.

Creating an infrastructure that supports the established regulatory framework and simplifies transactions is important. Standardization will result in higher volume of transactions recorded in the financial statements, adequate definitions and ledger entries, verified compliance with a set of standards, and most importantly, simplifying financial transactions.

3.4.9. Implications of Policy Recommendations for OIC Member Countries

The Sultanate of Oman can strengthen its position by simplifying the complex Islamic Finance-ledgering process into an enabling infrastructure powered by a standardized approach. The unique relationship that the Sultanate is blessed with in dealing with OIC member countries facilitates further development and growth of the market share. The approach is also shared with other OIC countries which pursue standardization. The implications of policy recommendations include, among others:

- Establishing an asset-based money market engine that allows flexibility to trade and transact in the Islamic Finance sphere mirroring Bursa Suq Al-Sila’ of Malaysia²¹.
- Activating a liquidity management center (LMC) in Bahrain whose role is to solve any short-term money market issues across OIC member countries;
- Establishing an Islamic Finance institute/center to disseminate the relevant knowledge;
- Pursuing capacity building;

²¹ Bursa Suq Al-Sila’ (BSAS) of Malaysia is “a commodity trading platform specifically dedicated to facilitate Islamic liquidity management and financing by Islamic financial institutions.” (MIFC, n.d.).

- Revising the current regulatory framework from the lens of all stakeholders in the jurisdiction;
- Setting up a committee that pools the opinions of scholars and practitioners;
- Establishing a multi-pronged strategy to address the diverse challenges of standardization having multiple dimensions, such as legal, regulatory, accounting, governance, and *Shari‘ah* standards.

There are additional considerations in terms of commitment, stage of market growth, and availability of qualified human resources to do the groundwork. The voluntary adoption of international Islamic Finance standards and the presence of a dual banking model add to the existing challenge.

The IFIs, on their part, should not only strengthen their internal capacity to follow best practices and regulatory requirements related to accounting, auditing, *Shari‘ah* governance, and other regulatory aspects but also simultaneously work with other IFIs in the jurisdictions to bring harmonization of practices in product offering, money market dealings and introduction of harmonized contracts for interbank trading.

The process of implementation of standards is a time-consuming and long-winded process involving many stakeholders. It requires the availability of competent and experienced staff – both at the regulator and IFI level. These standards also remain non-binding, and in the absence of any external push or accountability, regulatory bodies do not feel the same urgency or compulsion to implement standards.

3.5. Case Country #4: Türkiye

3.5.1. Background Information

As of 2021, Türkiye is the world's 19th biggest economy, with nominal GDP of US\$815.27 billion ([World Bank, n.d.](#)). Since the last quarter of 2009, Türkiye has witnessed strong growth rates. More significantly, the country's solid economic foundations allowed it to handle and alleviate the negative consequences of the global financial crisis in 2008 and 2009. In other words, the Turkish economy was significantly less affected during the 2008 global financial crisis than many countries.

However, geopolitical risks, the internal political situation, the 2016 coup attempt, the currency meltdown in 2018, and the pandemic problem in 2020 have all led to uncertainties in the Turkish economy. Despite these negative internal and external factors, the Turkish economy grew at a pace of 4.9 percent annually between 2014 and 2018. Even with Türkiye's 11th Development Plan targeting an average growth rate, the country will probably not be able to meet its target growth rate of 4.3 percent per annum for the next five years (2018-2023) due to the pandemic, falling domestic consumption, and decreased trade volume since 2020.

Turkish participation (Islamic) banking industry marked a significant milestone in 2005 as the sector gained a solid legal framework to compete with conventional banks. Despite the strong political support, the industry is yet to achieve its full potential. In this regard, standardization efforts within the industry will contribute to the further development of Islamic Finance. In addition, the country has geared up its efforts to collaborate with SSOs (such as AAOIFI) to help bridge the gap in accounting practices. Türkiye is an emerging market economy presented as a model for other countries with Islamic Finance development prospects. Besides, Türkiye is one of the G20 countries having the potential to elevate the standardization issues in Islamic Finance to the global scale. Türkiye is an active member and shareholder of BIS (Bank for International Settlements), which is promoting standardization in banking worldwide with the FSB (Financial Stability Board). The case study of Türkiye on standardization will also help the issue to be discussed at the global scale by the crucial institutions and actors of global financial markets

3.5.2. The Size and Share of Three Segments of Islamic Finance: Key Facts

Turkish Participation (Islamic) Finance sector has seen significant growth in recent years, with President Recep Tayyip Erdogan urging more initiatives to promote Islamic Finance in the country. As a result, the country is now a significant player in the global IFSI, owing to the governments, regulators, and the Islamic banking industry's strong commitment.

There are 53 banks operating in Türkiye, six of which are fully-fledged Islamic banks licensed by the Banking Regulation and Supervision Agency (BRSA). The market share of Turkish Islamic banks, known as participation banks, has grown from 2.4 percent in 2005 (US\$6.8 billion) to 7.7 percent (US\$50 billion) in 2021 (BRSA, n.d.). The establishment of three state-owned participation banks and improving regulatory framework has been a catalyst for the expansion of the Islamic banking industry over the last decade.

Kuveyt Türk Participation Bank offered the first *Sukūk* facility in 2010, raising US\$100 million in lease certificates. It issued the first corporate *Sukūk* in 2010 on offshore markets, while the first *Sukūk* issuance in domestic markets began in 2011. The Turkish government issued its first sovereign *Sukūk* in 2012, generating US\$1.5 billion. It frequently auctions gold-backed and, more lately, inflation-indexed *Sukūk*. Despite having a somewhat shorter history of *Sukūk* issuances, Türkiye is ranked fourth in the world in terms of *Sukūk* issuances. The major *Sukūk* issuers in the jurisdiction are participation banks and the Ministry of Treasury and Finance (MTF). As of 2021, MFT *Sukūk* issuances totaled around US\$8 billion, while *Sukūk* issuance by participation banks reached approximately US\$9 billion.

There are three fully-fledged Islamic asset funds in Türkiye; meanwhile, conventional asset funds also pool Islamic funds. Even though there was no Islamic fund a decade ago, the total number of Islamic investment and pension funds reached 93 in 2021.

Neova Insurance is the first participation insurance (i.e., *Takaful*) firm of Türkiye, which was launched by Kuveyt Türk Participation Bank in 2009. By 2021, 12 insurance firms were operating in the country, including 5 Life and 11 Non-Life businesses, with the premium output of participation insurance approaching US\$500 million. As a result of this significant expansion, the share of participation insurance has climbed from 1.5 percent in 2017 to 5 percent in 2021.

3.5.3. Legal, Regulatory, and *Shari‘ah* Framework

Türkiye has a civil law system that is based on codified laws. Case law is taken into consideration for the interpretation of laws. Higher court decisions have a power over the lower courts to ensure uniformity in judicial practice.

Islamic Finance is regulated under the current legal structure. As a result, conventional and participatory financial institutions are governed by the same legal and regulatory bodies. Its legislative and regulatory system encompasses the banking, capital markets, and insurance sectors, with each typically having a single regulator.

The BRSA regulates both participation and conventional banks under the same Banking Law and associated regulations. Although there is no dedicated legislation for Islamic banking, the Banking Law recognizes the distinctiveness of *Shari‘ah*-compliant transactions. In 2019, BRSA issued a communiqué on “Compliance to the Principles and Standards of Interest-Free Banking” and authorized PBAT to establish an Advisory Board (AB) to issue standards and improve the *Shari‘ah* Governance mechanisms for participation banks in Türkiye.

When the first *Sukūk* regulation was introduced by the Capital Markets Board (CMB) in 2010, it was basically designed to enable Islamic financing and investment in the form of a leasing (*Ijarah*) transaction. The first *Sukūk* regulation by the CMB was entirely updated in June 2013 via the release of a new Communiqué on Lease Certificates (No. III-61.1), which extended the scope of underlying assets to all kinds of rights and assets and introduced five more internationally well-known *Sukūk* structures based on ownership, management agreement, trading, partnership, and construction contract. Sovereign *Sukūk* (lease certificates) are not subject to CMB’s regulations. In terms of Islamic Finance, the CMB has the authority for developing the regulatory framework for the shares of publicly held companies, corporate lease certificates (*Sukūk*), and collective investment schemes. Sovereign *Sukūk*, on the other hand, fall under the control and regulations of the MTF. The necessary legal arrangement enabling the Turkish Treasury to issue *Sukūk* (lease certificates) was finalized in 2012.

Table 14 below provides an overview of the regulatory bodies that oversee the IFSI segments.

Table 14: Turkish Regulatory and Supervisory Frameworks

IFSI Segment	Primary Regulator/Supervisor	Other Regulatory Bodies
Islamic Banking	CBRT	SDIF
	BRSA	POA
		PBAT’s AB
Islamic Capital Market	CMB	BIST
	MTF ²²	Takasbank
		POA
		PBAT’s AB
Takaful	IPPRSA	Pools
		Offices
		POA
		PBAT’s AB

Notes: BRSA - Banking Regulation and Supervision Agency (Türkiye), CBRT - Central Bank of the Republic of Türkiye, CMB - Capital Markets Board (Türkiye), IPPRSA - Insurance and Private Pension Regulation and Supervision Agency (Türkiye), MTF - Ministry of Treasury and Finance, PBAT - Participation Banks Association of Türkiye, POA - Public Oversight, Accounting and Auditing Standards Authority, SDIF - Savings Deposit Insurance Fund; and AB - Advisory Board. *Source:* Authors

²² MTF is the responsible authority for sovereign *Sukūk*.

The necessary legal arrangement enabling the Turkish Treasury to issue *Sukuk* (lease certificates) was finalized in 2012 (the Law on Regulating Public Finance and Debt Management dated March 28, 2002, No.4749, Article 7/A), and the Treasury issued regular *Sukuk* in domestic and international markets since 2012.

Participation insurance and participation pension firms are regulated in Türkiye by the Insurance and Private Pension Regulation and Supervision Agency (IPPRSA). In 2020, IPPRSA released the first regulation on Insurance and Private Pension Activities based on Islamic Finance principles.

3.5.4. Current State of Standardization Efforts in the IFSI

3.5.4.1. Participation Banks

As part of the early 1980s economic and financial liberalization plans, the Özal administration issued Cabinet Decree 83/7506 on 16th December 1983, establishing Special Finance Houses (SFHs) in Türkiye. The principles governing their operations were published in the Official Gazette and went into effect on 25th February 1984. AlBaraka Türk Bank became Türkiye's first SFH in 1985 after passing the requisite bylaws. Later, three more SFHs were established in the 1980s.

The 1994 currency crisis, which resulted in bank failures, underlined the necessity for tighter financial regulation. As a result, on 17th December 1999, the SFHs were brought within the existing Banking Law, which meant all necessary laws for SFHs were extended. In reaction to the failure of İhlas SFH in 2001 due to the financial crisis and its detrimental impact on depositors, the Banking Law was amended in May 2001 to include SFHs under the 'guarantee system' that was applied to conventional banks. The SFH Association created the SFH Assurance Fund. As a result, special current and participation accounts were declared insured deposits ([Yas, Aslan, & Ozdemir, 2018](#)).

The new Banking Act No.5411, which went into effect on 1st November 2005, abolished dualism in Türkiye's banking industry by changing the status of SFHs to participation banks. Participation banks were given a new "guarantee scheme" alongside conventional banks under the reformed SDIF (Savings Deposit Insurance Fund), which overturned the former restriction. Under Banking Act No.5411 of 2005, the SFH Assurance Fund was reassigned to the SDIF. Furthermore, with its new statute in 2005, BRSA became the sole regulatory agency for both conventional and participation banks, overcoming the dualism visible in these banks' legal, regulatory, and operational frameworks since their inception in 1985 ([Asutay, 2013](#); [Yas, Aslan, & Ozdemir, 2018](#)). Participation banks were placed under the purview of the Banking Act No.5411 of 2005, under which the BRSA has developed

a single integrated regulatory framework that applied to all banks, with references to regulations specifically applicable to Islamic banks.

Moreover, the seventh section of the Istanbul International Finance Centre High Priority Transformation Program in the 10th Development Plan (2014-2018) sets a range of objectives for the development of the IFSI in Türkiye, and BRSA is assigned to implement plans to ensure the development of the Turkish IFSI. In early 2015, the BRSA formed a new entity called the “Implementation Department” to carry out participation banking-related tasks more efficiently and promptly and further develop the participation banking sector. The formation of this unit marks a shift from a government entity that did not make the essential provisions for SFHs to a specific unit for participation banks designed to advance Islamic banking in Türkiye.

According to Objective 91 of the Istanbul International Financing Centre High Priority Transformation Program, International standards in the field of interest-free finance shall be studied to ensure their implementation in Türkiye, and new standards can be created whenever necessary (MOD, 2014). Following its ambition to turn the Istanbul International Finance Centre (IIFC) into an international hub for the IFSI, the BRSA became a member of AAOIFI in June 2016. The membership aims to promote globally accepted norms for the industry, provide a platform for sharing experiences and ideas with other member states, and expand opportunities for collaboration (BRSA, 2016). The BRSA also joined IFSB and formed a working group to explore IFSB standards and their application to regulatory infrastructure for IFIs, particularly Islamic banks in Türkiye.

The talks between PBAT and BRSA determined that IFSB standards can be studied, and quantitative impact analyses on topics such as capital adequacy can be performed for participation banks. After reviewing IFSB rulings on capital adequacy, BRSA agreed to set an alpha value²³ of 0.5 for participation banks on 29th September 2016, while it is 1.4 for conventional banks (BRSA, 2016).

Meanwhile, AAOIFI *Shari‘ah* standards were translated into Turkish by PBAT and Istanbul Sabahattin Zaim University in collaboration with BRSA. The book was released in December 2018 to contribute to the Islamic banking industry (BRSA, 2018). The creation of an Advisory Board (AB) at PBAT to develop *Shari‘ah* requirements for participation banks was allowed by the BRSA on 22nd February 2018. The AB was founded in a communiqué dated 2nd April 2018, and the board’s working processes and principles were defined. The article specifies that it is the AB’s responsibility to set the

²³ Exposure value = $\alpha \times$ Effective Expected Potential Exposure (EPE) where α is $\alpha = 1.4$, unless competent authorities require a higher α or permit institutions to use their own estimates in accordance with paragraph 9. The equation is used for capital requirements regulation in the banking industry. (For more details, please refer to: <https://www.eba.europa.eu/regulation-and-policy/single-rulebook/interactive-single-rulebook/1868>).

principles and standards, as well as to address conflicts in practice and that sanctions would be imposed on banks that are in violation.

On 14th September 2019, the BRSA issued “The Communiqué on Compliance to the Principles and Standards of Interest-Free Banking”. The Communiqué contains articles about the structure, working principles, and independence of advisory committees and *Shari‘ah* compliance and Internal *Shari‘ah* audit functions within banks. Furthermore, by specifying the tasks and activities of PBAT’s AB and participation banks’ advisory committees, this Communiqué offered a *Shari‘ah* governance structure for participation banks (i.e., advisory committees). In the same year, BRSA made amendments to some regulations that allowed participation banks to diversify their methods of allocating funds, development, and investment banks to use participation banking methods and products, and flexibility for purification mechanisms for participation banks to ensure that earnings from non-compliant activities could be donated as charity.

In November 2021, “Amendments to the Communiqué on Compliance with the Principles and Standards of Interest-Free Banking” and “Communiqué on the Procedures and Principles of Informing the Customers and Public in terms of the Principles and Standards of Interest-Free Banking” was published in the Official Gazette. For participation banks, both regulations contain detailed provisions, including the revision of banks’ transparency to protect customers. The Amendment imposes stricter requirements on possible members of bank advisory committees, prohibiting them from serving on the committee if they have worked in the operational or executive departments in the previous year, among other things, to avoid any potential conflict of interest. The Principles of Informing Customers are outlined in the Communiqué. In this regard, banks are required to disclose information about their interest-free services and products to potential customers prior to signing initial contracts.

Although the establishment of Saving Financial Institutions (SFIs), which frequently apply Islamic principles for car and house financing, dates back 1990s, the number of SFIs increased substantially between 2017-2020 due to a lack of appropriate oversight and regulation. Consequently, on 7th April 2021, the BRSA issued “Regulation on the Principles of Establishment and Activity of Savings Finance Companies” due to potentially increasing systematic risk in financial markets by SFIs.

*3.5.4.2. Participation Funds and *Şukūk**

Even though Türkiye relatively recently adopted ICMs by releasing its first sovereign dollar currency *Şukūk* in 2012, important initiatives to establish ICM products date back to the 1980s. The Legislation to Promote Savings and Acceleration of Public Investment, for example, was passed in 1984 to allow state institutions and corporations to issue revenue-sharing certificates (RSCs), which

entitle holders to the revenues of publicly owned infrastructure facilities such as transportation and communication.

The Capital Markets Board (CMB) issued a Communiqué on 1st April 2010, to accelerate the issuance of lease certificates (*Ijarah Şukük*). Meanwhile, Kuveyt Türk Participation Bank issued the first *Şukük* in 2010. Then in 2011, tax inequalities on *Ijarah Şukük* compared to conventional products were solved and, hence, tax neutrality was provided. In 2011, exemption from stamp duty, income taxes, notary fees, etc. was granted on transactions related to the issuance of *Şukük*. In addition, the withholding tax rate was cut to 10 percent, and exemption from tax revenue derived from lease certificate issuances with maturities of at least 5 years was provided. Consequently, Kuveyt Türk Bank issued the first domestic corporate *Şukük* in October 2011 based on applicable tax regulations.

In June 2012, an amendment to Public Finance and Debt Management Law No.4749 was approved, giving the necessary regulations for sovereign *Şukük*, which resulted in the Republic of Türkiye releasing its first sovereign *Şukük* on domestic and international capital markets on 18th September 2012. For corporate *Şukük* issuances, regulations currently in force have been published under the Capital Market Law No.6362 of 2012 (CML). With the CML, “Asset Leasing Companies” (ALCs) have been identified as “Capital Market Institutions”, which are regulated and supervised by the CMB. By doing that, additional protection and market confidence for *Şukük* investors have been provided.

The first *Şukük* regulation by the CMB was entirely renewed in June 2013 via the release of a new Communiqué on Lease Certificates (No. III-61.1), which extended the scope of underlying assets to all kinds of rights and assets and introduced five more internationally well-known *Şukük* structures; based on ownership, management agreement, trading, partnership, and construction contract, thereby strengthening the ICM with new types of *Şukük* issuance (Resmigazete, 2013).²⁴ Accordingly, in order to support corporate *Şukük*, in 2016, tax and fee exemptions were extended with a legal amendment to cover all *Şukük*; thus, tax neutrality was provided for all *Şukük* structures.

CMB became an associate member of IFSB in August 2010 and a full member in April 2013. Maintaining its support as an observer member, CMB has been participating in various working groups and task forces established under IFSB and contributing to IFSB studies by providing answers to questionnaires and feedback to relevant reports (CMB, 2016; 2020).

On 6th January 2011, the Borsa Istanbul (Istanbul Stock Exchange) launched a participation index to allow clients of a participation bank to purchase *Sharī‘ah*-compliant equities known as KATLM,

²⁴ The translation of the Communiqué is available at <https://cmb.gov.tr/Sayfa/Dosya/160>

which functions through the industrial and financial *Shari‘ah* screening (Asutay, 2013; Yas et al., 2018). Despite the absence of relevant regulations in capital market law and other legislation relating to *Shari‘ah* compatible companies, Bizim Securities developed a participation index for 30 *Shari‘ah*-compliant stocks in 2011 with the support of four participation banks. In 2014, Bizim Securities launched two more Islamic indices: Participation 50 index and Participation Model Portfolio Index. The PBAT AB released its first standard, titled ‘IPO and Trading Stocks’, in 2020 for *Shari‘ah* compliance evaluation for Pre-IPO and trading *Shari‘ah*-compliant listed stocks in Borsa Istanbul. Until November 2021, Bizim Securities managed participation indices in collaboration with PBAT. Borsa Istanbul continues to administer five participation indices, namely the BIST Participation Whole Index, BIST Participation 100 Index, BIST Participation 50 Index, BIST Participation 30 Index, and BIST Participation Sustainable Index, in accordance with the applicable AB standard.

In 2016, in line with the goals of promoting the companies’ access to finance and cushioning their financial costs, a fifty percent discount was applied for the CMB fees on the issuances of capital market instruments, including *Şukuk*. Thus, it aims to channel capital market instruments and institutions for large infrastructure investments in Türkiye. The CMB also worked on a Draft Law on Interest-Free Finance along with the MTF and BRSA. In September 2020, the CMB revised the guidance note of Pension Funds and Investment Funds to improve the *Shari‘ah* Governance Framework for Islamic Funds in Türkiye. The guidance notes state that funds with the “participation” title are required to invest stocks in participation indices and receive approval from an Advisory Committee.

3.5.4.3. Participation Insurance and Private Pension Companies

Until 2017, there was no regulation on the legal infrastructure of *Takaful* in Türkiye, which was one of the primary reasons for the domestic sector’s sluggish growth. *Takaful* operators were, in fact, subject to Insurance Law and, like their conventional counterparts, were controlled by the Treasury Undersecretariat. However, because *Takaful* firms are subject to the same insurance legislation as traditional insurance companies, they must be established either as joint-stock companies or cooperatives.

On 20th September 2017, the Treasury Undersecretariat released a new “Regulation on the Working Procedures and Principles of Participation Insurance”. It was the first regulation to regulate the principles and procedures related to participation insurance activity in terms of functioning, development, healthy monitoring of participation insurance, and ensuring the system’s reliability and the observance of participants’ rights and interests.

The IPPRSA was founded in 2019 to monitor and regulate Turkish insurance and private pension industries. The Agency has administrative and financial autonomy and is a public legal entity.

The communique on Insurance and Private Pension Activities within the framework of the Principles of Participation by the IPPRSA was published on 19th December 2020 to respond to the insurance and private pension needs of religious customers. The Turkish model²⁵ of *Takaful* operations with a unique *Shari‘ah* Governance mechanism was introduced by the aforementioned regulation to contribute to the industry’s development. This new regulation set a deadline of 31st December 2021 for *Takaful* windows to convert into full-fledged *Takaful* companies.

3.5.4.4. Accounting and Auditing

The Turkish Accounting Standards Board (TASB) has been replaced by the Public Oversight, Accounting and Auditing Standards Authority (POA), established on 2nd November 2011, under Decree No.660. It is the authority to develop and issue Turkish Accounting Standards that are consistent with international standards, to ensure uniformity, high quality, and trust in statutory audits, to set auditing standards, to approve statutory auditors and audit firms, inspect their audits, and to perform public oversight in the field of statutory audits. It creates accounting standards entirely compliant with the International Financial Reporting Standards (IFRSs).

The Turkish Commercial Code, published in 2012, stipulates that all companies must abide by accounting rules established by the POA. The POA has the authority to determine the scope of the application of Turkish Accounting Standards, which are in full compliance with IFRSs. Furthermore, the POA has made it mandatory for public interest firms to use Turkish accounting standards.

The BRSA is in charge of inspecting statutory auditors in the banking industry. The BRSA oversees the banking industry's statutory auditors. At present, the auditing of banks falls under the jurisdiction of Banking Law. This also applies to participation banks. Auditing obligations for capital market institutions and publicly traded enterprises are specified in the Capital Markets Law and the CMB Communiqués (except for publicly owned banks and insurance companies).

All banks, including participation banks, are required to disclose information under the Banking Law and other related regulations, the CMB Law and associated regulations and its corporate governance policies, the Commercial Law, the Regulation of Borsa Istanbul and other related legislations, and the POA’s requirements.

²⁵ The model has recently been given the official name *Taysir*.

The POA is working to incorporate international standards published in interest-free finance into Turkish legislation to contribute to the development of the interest-free financial sector in Türkiye, improve the quality of financial transactions specific to this sector, and raise awareness about these transactions. On 27th September 2017, the POA and AAOIFI inked an agreement to incorporate accounting, auditing, ethical, and governance standards into Turkish legislation. This agreement intends to secure the presentation of accurate information in IFIs' financial accounts, as well as the *Shari‘ah* compliance of IFIs' financial activities.

In this context, AAOIFI's interest-free financial auditing standards were integrated into Turkish legislation through the publication of Ethical Rules, Interest-free Financial Audit Standards, one Conceptual Framework and Interest-free Accounting Standards in December 2019. According to [POA \(n.d.\)](#), IFIs have the discretionary use of Interest-free Accounting and Auditing Standards for periodical reports of their financial statements.

3.5.5. Standardization: Current Trends, Issues, and Challenges

This section discusses current trends, issues, and challenges in the standardization of the IFSI in Türkiye. They are elaborated based on the data obtained from the review of extant literature, content analysis of published documents and interviews conducted with ten prominent experts from industry players, regulators, *Shari‘ah* scholars, and academicians.

3.5.5.1. Legal and Regulatory Framework

- **Boundaries of Standards and Regulations:** Many respondents highlighted the importance of defining the limitations of Islamic Finance laws and regulations. To begin with, there are several schools of Islamic law. Due to the cultural diversity and differences in Islamic law schools throughout the Muslim world, there is a wide range of Islamic Finance practices today. As a result, determining essential principles for financial transactions on which diverse schools of law may agree is preferable to inferring strict rules on contentious issues. For example, regulations of IPPRSA enable the establishment of *Takaful* company as a cooperative in compliance with AAOIFI's *Shari‘ah* standards and the establishment of a limited company under the Insurance Act in compliance with the Turkish model of participation insurance. However, several interviewees stated that while it is essential not to be very strict about the boundaries of Islamic rulings on financial markets, lax regulations and standards on *Shari‘ah* issues might increase *Shari‘ah* non-compliance risk too. Similarly, most interviewees point out that each country has a different legal and regulatory mechanism for financial institutions. While it is easy and suitable

to use Arabic and *Shari‘ah*/Islamic terms for Islamic Finance products and services in many countries, it can be challenging to use those terms in Türkiye due to the secular constitution. As a result, officials in regulatory bodies evade hosting advisory boards and avoid using the term related to “Islam” or “*Shari‘ah*” in regulations and communique pertaining to Islamic Finance.

- **Hierarchy of Norms:** Several interviewees argue that there are weak or no connections among regulations, communique, decrees, and acts regarding the IFSI. Therefore, even if regulatory bodies issue communique and regulations for IFIs, they may not comply with superior norms. Contradictions between Islamic Finance regulations and communique and superior norms, in particular, can generate significant challenges in the operations of IFIs.
- **A Specific Act for Participation Finance:** Many interviewees argue that the absence of an Act for Participation Finance is the source of many barriers to developing the IFSI in Türkiye.
 - *Firstly*, IFIs are subject to the same acts as their conventional counterparts, and those acts are not designed to meet the needs of IFIs. Therefore, those acts often cause challenges in using suitable Islamic Finance products, transactions, accounting entries, and taxation because regulatory bodies usually try to match those products/transactions with a conventional product/transaction in relevant acts as a temporary solution. However, this approach often ends up with *Shari‘ah* non-compliance risk, misleading accounting, and wrong taxation. For example, when a participation bank uses a *Murābaha* contract, first it is supposed to acquire the product and own it and only then sell it to the client. However, to avoid taxation and accounting challenges, the bank appoints a client as its agent for purchasing the product on its behalf. Consequently, the client, acting as an agent of the participation bank, sells the product to himself, thus, avoiding double taxation and ensuring that participation banks operate similar to conventional banks in line with banking regulations and prevent over-involvement in buying non-financial assets. However, such practices of creating new products or transaction mechanisms for adopting existing regulatory issues might often result in higher *Shari‘ah* non-compliance risk.
 - *Secondly*, regulatory bodies, ministers, and the Parliament prefer to solve inevitable problems by issuing omnibus bills as an urgent and temporary solution. However, this leads to an unorganized legal framework for IFIs, and these omnibus bills usually fail to address the legal improvements that the industry requires.
 - *Thirdly*, Islamic Finance markets are growing and spreading fast. While Islamic Finance was previously dominated by participation banks, Türkiye now has participation funds, participation insurance, and private pension companies. With rampant issuance of

sovereign and corporate *Şukuk* and the establishment of new IFIs, such as SFIs and Islamic FinTech Institutions, the risk of *Sharī'ah* non-compliance and unfair tax treatment is increasing for the IFSI.

- **Participation Finance Department in Regulatory Bodies:** Most interviewees argue that the Participation Finance departments in regulatory bodies play a critical role in designing regulatory frameworks and supervision of IFIs. Several regulatory agencies in Türkiye have established Participation Finance departments in recent years. The BRSA was one of the first regulatory bodies to develop a Participation Finance section. Participation Finance departments were also present in the Finance Office of the Presidency, CBRT, and IPPRSA in 2021. On the other hand, CMB and Borsa İstanbul do not have a department for Participation Finance, and one of the participants argues as follows:

“According to the characteristics of securities industry and CMB’s current approach, ICM is regarded as a cross-cutting issue and hence, there is no specific/single department on Islamic Finance regulation and supervision at the CMB. However, in the related departments, there are some staff who spend more time on this area when compared to their colleagues. So it has not been considered necessary to form a separate organizational unit on Islamic Finance regulation and supervision at the CMB”.

- **Coordination Among Regulatory Bodies:** The majority of interviewees agree that the lack of coordination among regulatory bodies and stakeholders is a fundamental handicap for the healthy development of standardization in Türkiye. As a result, many standards and regulations have focused on participation banks, even if such rules and laws would affect Turkish ICMs, *Takaful*, and Private Pension organizations. The lack of coordination in the determination of the *Sharī'ah* governance mechanism is one major problem. The BRSA, for example, only certifies advisory board members; nevertheless, the AB also provides *Sharī'ah* standards for ICMs, *Takaful*, and Private Pension firms in Türkiye, for which CMB and IPPRSA are regulatory bodies. Furthermore, although IPPRSA authorizes the list of advisory committees for participation insurance firms in Türkiye, a similar list of advisory committees for participation funds and participation banks may also be required.
- **Independence of Advisory Board:** Most interviewees point out that the independence of the advisory board is crucial for preventing a conflict of interest and minimizing *Sharī'ah* non-compliance risk in IFIs. Members of advisory boards do not serve on the boards of other IFIs, which helps to avoid conflicts of interest. Several respondents, however, suggested that PBAT’s selection of AB members and payment of their salaries might lead to a conflict of interest.

Furthermore, some respondents say that draft guidelines are only shared with IFIs rather than all stakeholders. In addition, IFIs may seek revisions in the standards to facilitate their financial activities.

- **Appointment of Advisory Board Members:** The majority of respondents felt that AB's appointment mechanism is contentious. The current appointment method is as follows: To begin, two members are frequently picked from the Supreme Council for Religious Affairs, with an additional three members chosen from the Divinity Faculty of Universities. One member from the Islamic banking business and one from the Law Faculty of Universities are also selected. Following the determination of a list of candidates for the Advisory Board by PBAT, the list is forwarded to BRSA for approval. The BRSA has the right to modify names on the list and may insist on selecting certain individuals. To begin with, the AB sets requirements not just for Participation banks but also for participation funds, participation insurance, and private pension companies. However, the CMB and IPPRSA have no jurisdiction over the nomination of Advisory Board members. As a result, the degree of collaboration among CMB, IPPRSA, and the Advisory Board on *Shari‘ah* standards implementation, *Shari‘ah* audits, and training programs may be reduced.
- **Organization and Process Management of Advisory Board:** Most respondents claim that the AB's organization and working hours provide many issues. In Türkiye, the AB is still relatively young, with only a few standards produced thus far. The respondents believe the AB needs a more robust organizational structure and longer working hours to publish guidelines faster and reduce *Shari‘ah* non-compliance risk in the Islamic financial business. Furthermore, several respondents claim that the AB lacks professionals to undertake study and write studies on *Shari‘ah* concerns to expedite the release of new standards.
- **Shari‘ah Governance Mechanism:** If any participation bank acts contrary to the standards of the AB, a communique is not clear on what kind of penalty Islamic banks can pay. However, respondents stated that BRSA would examine participation banks to see whether their actions comply with AB criteria. If participation banks violate the AB's requirements, BRSA may withdraw their licenses. Even though participation funds, participation Insurance, and private pension companies are obliged to obtain advisory committee permission for their operations, CMB and IPPRSA currently are not assigned to undertake *Shari‘ah* audits to ensure *Shari‘ah* compliance in their business activities.
- **Saving Financial Institutions (SFI):** Despite the weakness of legal infrastructure, the number of SFIs that finance houses and automobiles according to Islamic principles has rapidly expanded.

As a result, the BRSA issued a regulation titled “On the Principles of Establishment and Operation of Saving Financial Institutions” on 7th April 2021. Although this law governs the procedures and principles governing the formation and operation of savings finance firms, few rules governing the use of interest-free products have been enacted. There is no comprehensive regulation regarding the *Shari‘ah* governance of SFIs.

- **Participation Insurance Companies under Cooperatives Act:** Even though AAOIFI’s *Takaful* model allows participation insurance companies to be structured as cooperatives, lax regulations and the Cooperatives Act restrict their operations. As a result, even though some participation insurance businesses were founded under the Cooperatives Act, they later opted to establish a company under the Insurance Act to compete on equal terms with insurance firms.
- **Ban on Participation Insurance Windows:** The IPPRSA’s new legislation set an initial deadline of 31st December 2021 for *Takaful* windows to turn into full-fledged *Takaful* firms. There is a worry that a restriction on *Takaful* windows may reduce participation insurance’s market share in Türkiye. To begin, several interviewees say that *Takaful* is a system rather than a product, making *Shari‘ah*-compliance of participation insurance very problematic. As a result, several nations prohibit *Takaful* window activities. On the other hand, the respondents say that the prohibition on participation insurance windows is now boosting the formation of full-fledged participation insurance firms in Türkiye. Two overseas *Takaful* businesses have recently applied for a participation insurance license in Türkiye to begin their operations.
- ***Sukūk* Types:** To begin with, applicable laws and communiques utilized the term “lease certificate” for *Sukūk* in general since the first *Sukūk* communique was released in 2010 to regulate *Ijarah Sukūk* solely. The new communiqué defined and regulated five categories of *Sukūk* in 2013. However, CMB continued to use ‘*Kira Sertifikası*’ (lease certificate) for *Sukūk* types that do not even involve any leasing contract as underlying *Sukūk* structure instead of using a new and more suitable term for *Sukūk*.

3.5.5.2. *Taxation*

Even if the IFSI of Türkiye has made great progress regarding ensuring tax neutrality, there are still a few issues that regulatory bodies can address:

- **Over-taxation:** The lack of applicable definitions and terms of Islamic Finance products and services in the Banking act can lead to different interpretations of participation banks’ activities in Turkish commercial codes and the Turkish taxation system. Therefore, advisory committees of participation banks either change their Islamic rulings and procedures regarding the application of

particular Islamic financial transactions or urge authorities to include certain Islamic Finance products and transactions into relevant acts and regulations. Even if many interviewees reported that participation banks do not face a significant challenge in terms of taxation today, the partnership and asset-backed nature of Islamic financial transactions and increasing innovation in the industry would always leave an open door for unfair tax burden on the IFSI in the future.

- **Lack of Tax Incentives:** Many interviewees highlighted that if Türkiye is keen to become a global hub of the IFSI, it is necessary to implement more tax incentives to develop the industry. Considering the increasing demand for talented human capital in the IFSI, tax relief can be provided on Islamic Finance courses approved by regulatory bodies at local institutions of higher education. Tax incentives for issuing Islamic securities, Islamic funds, and *Takaful* companies can speed up the development of ICMs and the *Takaful* sector as they are still in the infancy stage. For instance, to promote the companies' access to finance and cushion their financial costs, the CMB has made a 50 percent discount on the registration fees it imposed for capital market instrument issuances, including *Sukuk* in 2016.

3.4.5.3. Academic and Technical Issues

- **Certificate Programs:** Currently, there are several certificate programs about standardizations in Islamic Finance that some of the professionals in IFIs are required to obtain as requested by regulatory bodies. The AB of PBAT conducts a 61-hour certificate program on “Compliance with Interest-free Banking” over a period of five weeks. The certificate program is run by industry professionals and prominent academic staff. This certificate is compulsory for the limited number of participating banks employees, especially those who work in the auditing department. Some interviewees argue that this certificate program can be compulsory for a larger number of employees in different departments of participation banks to decrease *Shari‘ah* non-compliance risk and increase awareness about Islamic rules and principles for Islamic banking activities.

IPPRSA also offers a 32-hour certificate program in “Participation Insurance and Private Pension Scheme” for *Takaful* and Islamic Pension workers in Türkiye. This certificate, however, requires the participation of a wide range of employees from *Takaful* and Islamic private pension fund companies. As a result, IPPRSA offered this certificate program 30 times to over 1000 participants in four months. Although many participants were dissatisfied with the requirement of the certificate and extensive content about Islamic law and *Shari‘ah* principles regarding *Takaful* operations, the interviewee from IPPRSA argues that it is necessary to minimize *Shari‘ah* non-compliance risk in *Takaful* companies in Türkiye. Even if there are certificate programs for *Takaful*

companies and participation banks in Türkiye, there is a lack of certificate programs or licenses on ICMs by CMB for participation fund managers in Türkiye.

- **Lack of Coordination in Talent Development:** Even though the AB of PBAT run a similar certificate program for staff of participation banks, and they are the Advisory Board for setting *Shari‘ah* criteria for *Takaful* activities in Türkiye, IPPRSA arranged this certificate program independently. Several respondents voiced dissatisfaction with the regulatory organizations' lack of collaboration in talent development.
- **Lack of Accreditation:** Even though regulatory organizations recognize and manage certificate programs for IFIs, these programs must be accredited by independent bodies. One of respondents suggested that accredited certificates issued by independent organizations could also be accepted by regulatory agencies. Otherwise, if issuing certificates is monopolized by regulatory authorities, poor certificate program structure can occasionally lead to serious issues for the Islamic banking industry. Currently, compulsory certificate programs are new, and the program content may not be required for all participants. Several interviewees also agreed that the duration of several courses was either too short or too long in comparison to the relevance of the topic.

3.5.5.4. Relations with International Standard-Setting Bodies

Many interviewees agree that Türkiye is ambitious to become a global hub of IFSI. Therefore, they often recommended two strategies to be implemented by regulatory and supervisory bodies in Türkiye. First, regulatory and supervisory bodies can adopt standards of international SSOs as much as possible so that IFIs can compete in global financial markets. Second, specialists in regulatory bodies' Participation Finance divisions can actively participate in working groups and influence standards in international SSOs if a different strategy is required to implement specific standards. However, several interviewees argue that it is very typical to see the localization of some standards due to differences in cultures and the dominance of different schools of Islamic law in different countries. Therefore, it is essential to determine some core principles that regulatory bodies in all countries can agree on.

(i) **IFSB** - It has eight members from Türkiye. BRSA, CBRT, and IPPRSA are registered as full members, while the Undersecretariat of Treasury is the only associate member. Moreover, CMB, AlBaraka Türk Bank, Kuveyt Türk Bank, and Ziraat Participation Bank are observer members.

Coordination with IFSB: Although most regulatory bodies and a few participation banks join working groups of IFSB, participation insurance companies and participation fund management

companies in Türkiye do not participate in working groups of IFSB. The lack of collaboration between IFSB and actors in *Takaful* and ICMs in Türkiye can prevent improving more comprehensive and effective standards for IFSB member countries.

Implementation of IFSB Standards: In its Strategic Key Result Area 2 (SKRA2) of the Strategic Performance Plan for 2019-2021, the IFSB introduced the implementation of prudential standards for member countries. IFSB also intends to improve monitoring and assessment of its standards acceptance in Member Jurisdictions in SKRA2. To determine the extent to which Türkiye adhered to the IFSB criteria, the IFSB's Implementation Survey and Report, Country Self-Assessment, and Impact and Consistency Assessment Program (ICAP) will be examined. However, none of those IFSB outputs has monitored or assessed the adoption of the IFSB Standards in Turkish jurisdictions yet ([IFSB, 2018](#)).

Malaysia-Centric Approach by IFSB: One of the interviewees argues that IFSB standards followed the standards of regulatory and supervisory bodies of Malaysia, especially in the early years of its activities, due to being hosted by the BNM and receiving contributions from Malaysian employees in IFSB. Therefore, some initial standards may need to be revised to become more inclusive so they can be implemented in more countries.

(ii) **AAOIFI** - It plays an important role in issuing corporate governance, audit, and accounting standards for the IFSI. There are six founding members from four countries, but no financial institution from Türkiye acts as a founding member of AAOIFI. The only regulatory member of AAOIFI from Türkiye is BRSA, while AlBaraka Türk Bank, Kuveyt Türk Bank, Türkiye Finans Bank, and Ziraat Participation Bank are ordinary members.

*Implementation of AAOIFI *Shari'ah* Standards:* Even if AB of PBAT decided to issue its own standards, interviewees stated that the Advisory Board takes AAOIFI *Shari'ah* standards into account while issuing new standards. This approach also increases the speed of publishing new standards by the Advisory Board. Moreover, several interviewees also stated that Advisory Committees in several participation banks also consider or follow AAOIFI *Shari'ah* standards. Several interviewees reported that there is a demand by Gulf-owned participation banks in Türkiye to implement AAOIFI *Shari'ah* standards as much as possible to ensure consistency of *Shari'ah* standards with their parent banks. However, one regulatory authority respondent noted that specific AAOIFI *Shari'ah* criteria are not flexible and prohibit alternative interpretations of IFI operations. For example, the *Takaful* standards of AAOIFI do not allow the Turkish model, while *Shari'ah* standards on *Takaful* in Türkiye allow the AAOIFI model.

Implementation of AAOIFI Accounting and Auditing Standards: Even though most interviewees think that AAOIFI accounting rules accurately represent the nature of Islamic Finance contracts and transactions, there are many problems in implementing them in Türkiye. To begin with, some respondents suggested that several AAOIFI accounting rules are outdated and can be updated in order to keep up with their conventional contemporaries, such as IFRS. Moreover, legal and regulatory infrastructure in Türkiye refrains from using Arabic and Islamic terms for Islamic Finance contracts and transactions, so it is challenging to use the same terms with AAOIFI accounting standards. Finally, even if several participation banks are willing to use AAOIFI accounting standards in addition to their current ones, their employees need special training to learn how to use them. However, several Gulf-owned participation banks in Türkiye prepare additional financial reports in compliance with AAOIFI accounting standards to prepare consolidated financial statements.

(iii) **IIFM** - On 11th April 2022, the IIFM and PBAT signed a Memorandum of Understanding to accelerate the expansion of Islamic banking in Türkiye and throughout the world. IIFM and PBAT want to collaborate on areas of common interest for advancing the Islamic banking industry. This effort can potentially promote further the adoption of IIFM standards in Türkiye and drive the expansion of the Turkish IFSI. The IIFM standards have the potential to help Türkiye adopt *Shari‘ah* standards for Islamic banking and ICMs.

3.5.6 Specific Needs to Improve Standardization Level

Although Türkiye had tremendous progress in improving Islamic Finance standards in the last decade, there is still room to push standardization to a higher level. Thus, to ensure a better standardization level for the IFSI, it is needed to:

- 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 communique are connected with the acts as required by the hierarchy of norms.

3.5.7. Lessons Learnt and Transfer of Knowledge among OIC Member Countries

From the Türkiye case study, four key lessons may be learned. Moreover, this study provides 11 recommendations for government and regulatory bodies, five for IFIs, and six for academic institutions. These lessons and recommendations can increase knowledge transfer and standards in OIC and non-OIC nations.

3.5.7.1. Lessons

The IFSI of Türkiye has a history of almost 40 years. Türkiye has developed related standards and regulations, especially in the last decade. There are four important lessons from the Türkiye case to accelerate the development of standards and regulations in the IFSI.

- **Implementation of a Strategic Plan:** In the seventh component of the Istanbul International Finance Centre High Priority Transformation Program of the 10th Creation Plan, Türkiye includes the development of standardizations and regulatory framework for the IFSI and designated accountable entities (2014-2018). The strategic plan's execution significantly influenced the development of standards and regulations for the IFSI.
- **Centralized *Shari‘ah* Governance:** The establishment of a centralized *Shari‘ah* governance enabled the Advisory Board to provide *Shari‘ah* guidelines, increase *Shari‘ah* audits, and mitigate *Shari‘ah* non-compliance risk in the Islamic banking business.
- **Talent Development:** The number of certificate programs, training, and education programs by regulatory bodies and academic institutions has increased over last few years which enabled the dissemination of information on standards and regulations.
- **Coordination between Regulatory Bodies and Stakeholders:** The establishment of Participation Finance departments at different regulatory bodies and Finance Office of the Presidency of Türkiye and their collaboration between themselves and with stakeholders enabled the issuance of effective and comprehensive standards and regulations for the IFSI.

3.5.8. Country-Specific Policy Recommendation

This study provides 11 policy recommendations for government and regulatory bodies, five for IFIs and six for academic institutions.

(i) For Government and Regulatory Bodies

- **A Comprehensive Participation Finance Act:** Islamic and conventional financial institutions are governed by the same laws. IFIs require a distinct act to use appropriate Islamic Finance

products, transactions, accounting entries, and taxation so that applicable communiqués, laws, and standards may be backed by superior norms. Currently, omnibus legislation that revises acts established for conventional financial institutions does not address fundamental issues in the Islamic banking industry. Because the business is rapidly expanding, it is critical to pass comprehensive Participation Finance legislation to regulate the IFSI.

- **Setting up Participation Finance Departments in Regulatory Bodies:** Certainly, each institution may have its own characteristics. Hence it would be misleading to specify an institution to set an internal unit on Islamic Finance. However, setting up Participation Finance Departments within each regulatory body may improve the attention given to Islamic Finance issues and its prospects.
- **Talent Development by Regulatory Bodies:** Regulatory agencies must place a specific emphasis on staff capacity building in the Participation Finance departments. First, questions about Islamic Finance can be included in job exams, and graduates of Islamic Finance can be eligible for positions in regulatory authorities. Second, employees in the Participation Finance departments can be encouraged to pursue postgraduate studies in Islamic Finance. Third, regulatory organizations can hire Islamic Finance specialists from the sector rather than hiring new graduates for entry-level roles. Fourth, regulatory agencies and Participation Finance institutions in Türkiye could also attract foreign experts for their talent development. This would further strengthen collaboration between OIC member countries, foster cross-border knowledge sharing and promote standardization.
- **Better Coordination Among Regulatory Bodies:** Products, services, and sectors of IFIs can often intersect with each other. As a result, regulatory agencies must comprehend the intersections between each sector and provide a complete legislative and regulatory framework for IFIs in Türkiye. It is also critical that players from the IFSI and relevant government entities share their views and recommendations on the most appropriate Participation Finance Act in Türkiye. In this regard, the department of Participation Finance of the Finance Office of the Turkish Presidency plays a vital role in coordinating regulatory authorities and stakeholders. Regulatory entities can work together to enhance Türkiye's *Shari'ah* governance structure. The selection of Advisory Board members, the composition of advisory committees, and the administration of mandatory certification programs require improved coordination and communication among regulatory agencies and stakeholders. Furthermore, it is critical to establish the chain of command and lines of authority and assign roles and responsibilities among regulatory agencies and the Advisory Board.

- **Independence of Advisory Board:** Even if PBAT played a critical role in the development of the Advisory Board to strengthen the *Shari‘ah* governance mechanism in Türkiye, it is preferable to create the Advisory Board as a Juridical person under the government to increase its independence and prevent conflict of interests.
- **Appointment of Advisory Board Members:** CMB and IPPRSA, like other regulatory authorities, can also be engaged in the nomination of Advisory Board members. Several respondents also urge that the Advisory Board be more diverse in reflecting different schools of law and viewpoints from other nations. It is critical to favor more experienced *Shari‘ah* scholars from industry over members from universities and the Supreme Council for Religious Affairs because those members often do not understand IFIs’ activities effectively. Attracting experienced *Shari‘ah* and Islamic Finance scholars from overseas could also foster a growth of the industry and help the process of standardization.
- **Organization and Process Management of Advisory Board:** Members of the Advisory Board can gather more frequently, and there can be more *Shari‘ah* and Islamic Finance experts to conduct research on Islamic rulings on financial products and services.
- **Improving Cooperatives Act for *Takaful* Companies:** There can be a considerable demand by participation insurance companies to use AAOIFI’s *Takaful* model due to religious concerns of clients and managers. Therefore, IPPRSA needs to take action to improve the Cooperatives Act because, currently, the act puts barriers to the operations of *Takaful* companies.
- **Peer-to-Peer (P2P) *Takaful*:** Regulatory bodies can design a regulatory framework to implement P2P *Takaful* in Türkiye. P2P *Takaful* is a risk-sharing network in which a group of people pools their premiums to insure themselves against risk. P2P *Takaful* reduces the inherent conflict between a typical insurer and a policyholder when an insurer maintains the premiums and does not pay out claims.
- **Tax Neutrality and Incentives:** First, regulatory bodies must improve tax neutrality so that IFIs are not penalized due to the asset-backed and partnership nature of their transactions and enable them to compete with their conventional counterparts under similar circumstances. Second, if Türkiye would like to become a global hub of the IFSI, it is essential to provide a list of tax incentives to attract international investors and talents.

(ii) For IFIs

- **Appointing Managers and Directors with Islamic Finance Experience:** By increasing the number of IFIs, there has been a concern that only those with Islamic Finance experience can be

appointed as managers and directors. Otherwise, directors and managers may force their advisory committees to make certain decisions or resort to ‘*fatwa* shopping’. As a result, the reputation of the IFSI can deteriorate gradually. Therefore, considering the long history of the IFSI in Türkiye, the appointment of managers and directors with Islamic Finance experience would be beneficial to prevent an unfavorable convergence between Islamic and conventional finance practices.

- **Profit Maximization vs. *Sharī‘ah* Compliance:** Often, employees and managers of participation banks focus only on maximizing profit. This approach might sometimes lead to taking *Sharī‘ah* non-compliance risk and using controversial financial products to make more profit. By now, the Advisory Board has issued only a few standards, while IFIs are more inclined to follow the decisions of their advisory committees. Moreover, sometimes managers in IFIs also demand lax *Sharī‘ah* standards from Advisory Board to improve their financial performance. However, *Sharī‘ah* compliance itself can create value for some customers too, and higher *Sharī‘ah* non-compliance risk can decrease the value of Islamic Finance products and services for their religious customers.
- **Transparency on *Sharī‘ah* Governance:** IFIs can be more transparent about the *ijtihad* of their advisory committees by explaining which primary and secondary sources are used in detail. Currently, most *fatwa* documents of participation banks explain the procedure of using their Islamic Finance products or only convey information on whether they are approved or not.
- **Engaging in Developing Standards and Regulation:** IFIs can coordinate with regulatory bodies to improve standards and regulations because they are major stakeholders knowing what is on the ground in more detail.
- **Improving Relations with International Standard-Setting Bodies:** In Türkiye, still many IFIs did not become members of international SSOs. Improving relations with international SSOs can improve global standards for the IFSI. Nowadays, the increasing importance of IFSB and AAOIFI standards can affect even Basel standards, IOSCO principles, and IFRS for IFIs.

(iii) For Academic Institutions

- **Better Coordination in Talent Development:** Improving coordination between Islamic financial and academic institutions is necessary to ensure talent development in the industry. Participation banks have been training their staff due to the lack of any Islamic Finance programs and research in universities. However, the number of Islamic Finance programs, researchers, and academic publications has sharply risen in the last few years. As a result, universities can strengthen their links with IFIs to improve policy suggestions and personnel training.

- **Engaging in Developing Standards and Regulation:** Researchers from universities can be more involved in developing standards and regulations in the industry.
- **Regulations and Standards in Curriculum/Syllabus:** Standards and regulations regarding the IFIs can be included in the curriculum in Islamic Finance programs and course syllabi to improve Islamic Finance literacy and awareness about Islamic Finance standards.
- **Workshops and Conferences on Standardization:** Universities can conduct seminars and conferences on standards and regulations on Islamic Finance. Regulatory bodies and IFIs can contribute to those activities by participating, being partners, or providing sponsorship.
- **Special Issues on Regulations and Standardizations:** Prominent journals in Islamic economics and finance can have a special issue on standardizations and regulations in Islamic Finance. Interviewees also highlight that Islamic financial literacy and awareness can increase the demand for Islamic Finance products and services and catalyze the growth of the IFSI.
- **Inviting Regulatory Bodies for Part-Time Lecturing:** Increasing collaboration with regulatory bodies by inviting them as part-time lecturers in universities can increase awareness about standardizations in the IFSI.

3.5.9. Implications of Policy Recommendations for OIC Member Countries

The OIC member countries are either leaders of the IFSI or have great potential for the development of the industry. Therefore, a sound and stable IFSI can develop fast and extend to non-OIC member countries if OIC member countries can collaborate to develop standardization for Islamic Finance. Therefore, establishing international SSOs as joint initiatives of OIC member countries will increase cooperation and, thus, the adoption of global standards for Islamic Finance.

In addition, OIC member countries can play more active roles through OIC subsidiary organs such as the Standards and Metrology Institute for Islamic Countries (SMIIC) and the International Islamic *Fiqh* Academy (IIFA) to improve the standards of the IFSI. Moreover, OIC member countries can support collaborative approaches of international SSOs such as IFSB, AAOIFI, and IIFM for facilitating standardization efforts in Islamic Finance.

3.6. Case Country: The United Kingdom (UK)

3.6.1. Background Information

The IFSI of the United Kingdom (UK) has been struggling over the years to catch up with the centuries-old conventional financial system (COMCEC, 2019). Yet, with its high position in the global list of countries that provide Islamic Finance services and products, the UK is by far the most established non-Muslim country, offering Islamic financial services at the national and international levels. This is, perhaps, due to a blend of political interest and the recognition that Islamic Finance is becoming an important part of the global financial industry and, hence, something that should be reckoned with and accommodated by major financial hubs (Rhodes, 2019).

The UK financial sector is well ahead of many Muslim-majority countries, and its banking and insurance financial sectors are among the most sophisticated, diversified, and significant sectors (Rhodes, 2019). It hosts a range of large international financial institutions that offer attractive diversified Islamic Finance products, coming from all over the world, particularly from Saudi Arabia, Qatar, and other Gulf countries. It is ‘considered by many institutions – Islamic and non-Islamic – as a world center for Islamic Finance, both on the retail and wholesale sides’ (Ahmed, 2008; Masood *et al.*, 2009; Arifeen, 2010). The UK has also managed to operate the highest value of *Shari‘ah*-compliant assets compared to any other non-Muslim country (Burgess, 2022).

The UK, being a pro-trade banking and finance country, welcomed the new modern Islamic banking and finance since its revival and revitalization in the late 1970s and early 1980s, especially for wholesale financial products such as commodity *Murābaha* and/or house finance that were offered by Middle Eastern financial institutions, outside the British regulatory banking framework. Since then, given the lack of standardization and harmonization of Islamic Finance contracts and services, the UK has been continuously but cautiously, slowly, and gradually providing support to Islamic banking and finance to its national and international customers.

Despite the defying challenges and the resulting issues and difficulties, London (UK) remains one of the leading and sophisticated global financial centers (Reuters, 2022). It successfully competes with New York City (US) and Singapore and is an unmatched leader in the European financial market.

London is considered an international Islamic Finance hub located in the West (Ainley *et al.*, 2007) and a stand-alone experiment of Islamic Finance in Europe (Belouafi & Chachi, 2014). It has achieved more success in Islamic Finance than any other European country and more success than many of the

Islamic countries, whose populations are majority Muslims willing to run financial businesses in accordance with their beliefs (Azma *et al.*, 2018).

According to [TheCityUK Report \(2019\)](#), the UK is still the leading European center for Islamic Finance, given its historical role in establishing a level playing field for different financial structures. The country has a long-standing tradition of openness and flexibility. The UK's sizeable Muslim population (more than 3.3 million persons, constituting more than five percent of the total population, and making up the second-largest religious group in the country) provides a strong foundation for the IFSI growth. However, many of them being forced to use non-*Shari‘ah* banking services due to a lack of available alternatives ([Singer, 2022](#)).

Britain currently has more than 20 financial institutions, including four fully *Shari‘ah*-compliant banks, that offer Islamic Finance products. The key IFIs in the UK market include stand-alone IFIs such as Al Rayan Bank (formerly Islamic Bank of Britain) and some conventional institutions that offer Islamic Finance products by setting up Islamic financial windows.

The UK is also recognized and accepted as a provider of the specialist legal expertise and consultation required by third parties for Islamic Finance. There are more than 30 major law firms providing legal services in this area ([Di Mauro *et al.*, 2013](#)).

The UK government's strategy aimed to promote financial inclusion through alternative finance products. This made the Islamic Finance products and services available to the UK Muslim population, which was expected to contribute to projecting London as an international financial center, catering to the needs of all segments of the population ([COMCEC, 2019](#)). As reported by [Fara \(2021\)](#), over the years, the UK has been enacting laws and decrees and taking governmental economic and political decisions, with significant amendments to its financial laws and regulations to cater for the alternative Islamic Finance. For this reason, the UK was chosen as a non-OIC case country.

3.6.2. The Size and Share of Three Segments of Islamic Finance: Key Facts

3.6.2.1. Islamic Banking

The UK is the first western country to issue a license for the establishment of the first fully-fledged Islamic bank, the Islamic Bank of Britain (IBB), in 2004. Later, it was taken over by Al Rayan Bank. Also, the country's banking sector hosted such IFIs as Gatehouse Bank, Al Rayan Bank, Abu Dhabi Islamic Bank, Qatar Islamic Bank, Bank of London and The Middle East. Currently, out of originally six Islamic banks established in the jurisdiction, four only continue their operations ([Amin, 2021](#)).

Recently, the impact of Brexit, the COVID-19 pandemic, and the Russia-Ukraine War have all created more combined worries and uncertainties worldwide, including in the UK. As [Fara \(2021\)](#) noticed, the economic risks that Islamic banks bear are similar to those of their conventional counterparts. However, as a result of Brexit, the environment in which Islamic Finance operates is expected to become smaller. Nevertheless, it is reassuring that some UK Islamic banks have confirmed that there have been limited implications on their operations. This is perhaps due to the fact that their business in the UK is mainly focused on real estate and savings. They confirmed that the influx of investors wishing to invest in UK real estate had not been significantly affected by COVID-19 nor by Brexit.

3.6.2.2. Islamic Home Financing

The UK is well recognized that its Islamic mortgage and home finance markets are the most developed components of the UK's IFSI. Islamic mortgages in the UK have been structured under two contracts: *Murābaha* and *Ijarah*. *Murābaha* is a form of credit that enables the customer to make purchases without taking interest on a loan. In this context, the bank buys the goods from the market and sells them to the customer on a deferred basis for a certain period, adding an agreed markup or profit margin. The customer then pays the sale price without paying any interest. The other widely used Islamic mortgage contract in the UK is the *Ijarah*, which is similar to a leasing agreement, in which the bank purchases and then leases the asset to its clients for a particular rental over a specified period. The British government has abolished double stamp duty for Islamic mortgage contracts to provide a more equitable playing field with their conventional counterparts.

*3.6.2.3. Islamic Capital Market (*Sukūk*)*

The UK government has shown interest in *Sukūk* since 2006, after the then Labor Party Chancellor of the Exchequer, Gordon Brown's speech promising to promote London as a leading international financial hub. Part of the plan is to look into the potential economic benefits of *Sukūk* as a complementary instrument to conventional bonds that could be used to widen the British government's options in diversifying its financing sources ([Belouafi & Chachi, 2014](#)). This was followed by confirmation made in 2013 by David Cameron, the former Conservative Party UK Prime Minister, representing the British government, announcing the willingness and readiness to make London stand alongside Dubai and Kuala Lumpur as one of the great capitals of Islamic Finance anywhere in the world ([Kern, 2013](#)).

The UK issued its first-ever sovereign Islamic *Sukūk* of £200 million in 2014. This was structured as a *Sukūk al-Ijarah* that pays out profits based on the rental income from three government-owned

assets avoiding interest (*Riba*), which is forbidden by *Shari‘ah*, making it the first non-Muslim country outside the Islamic world to issue sovereign *Sukūk* and reinforcing its position as a hub for Islamic Finance. This first issue was heavily oversubscribed, attracting orders of more than £2 billion from global investors in the UK, Middle East, and Asia, attracting orders of £2.3 billion, which is ten times higher than the amount sold (Dewar & Hussein, 2013).

Then, in April 2015, the Secretary of State of the British Government guaranteed a *Sukūk* issued by Khadrway Limited, the proceeds of which were used by Emirates Airlines to finance the purchase of four new Airbus A380-800 aircraft. This was perhaps the world’s first *Sukūk* supported by an export credit agency (Dewar & Hussein, 2013).

In 2018, Al Rayan Islamic Bank issued a debut £250 million *Sukūk*. Many other UK corporate issuances followed from 2019 onwards. These issues provided alternative financing solutions to corporates and institutions and gave investors access to a broader range of *Shari‘ah*-compliant investments and assets in the UK.

In 2021, the UK issued its second-ever sovereign *Sukūk* of £500 million (\$686.9 million) after its debut issuance in 2014 to help bolster its domestic IFSI and its credentials as a choice conduit for Islamic Finance in the West (IFDI, 2021:43). This was purchased by a large number of institutional investors in the UK and the Middle East and Asia. The second *Sukūk* issue was more than double the size of the first issuance in 2014. These issues of *Sukūk* have significantly increased the supply of high-quality *Shari‘ah*-compliant liquid assets to the British market and have further reinforced the growth and development of Islamic Finance in the UK.

3.6.2.4. *Takaful Sector*

The UK insurance market is considered the largest in Europe and the fourth largest in the world. It remains the largest global center for commercial and specialty insurance risks (Scoville *et al.*, 2022), providing a unique international center of high-level expertise for insurance protection for businesses and people worldwide. With tax-efficient models, the UK insurance sector provides innovative solutions and uncommon commitment to global needs across different geographical divides.

Takaful is a financial product that has long been seen as an area with great potential not only in the UK but in all countries, especially the Muslim ones. The Insurance Business UK reports that the UK’s *Takaful* market now has around ten commercial insurers offering *Shari‘ah*-compliant products, ranging from political risk insurance to risk-sharing mechanisms in infrastructural projects undertaken by Islamic Finance; this is backed by company members of the International Underwriting Association

of London (IUA) and Lloyd's syndicates ([Fara, 2021](#)). Many British companies, like the Friendly societies and other mutual insurance firms, are potential vehicles that could offer *Takaful* and *ReTakaful* products.

3.6.2.5. Islamic FinTech

As observed by [Skinner \(2022\)](#), the past decade of innovation in FinTech has been interesting, watching the struggles of regulators trying to keep up. Fundamentally, failing to keep pace has led to many challenges down the line. They allowed many things to happen, which they are now trying to address. The regulators need to understand network change, technology, and digitalization and should be able to put an end early enough to malpractices, scams, and plans that expose UK British citizens and investors to abuse.

Islamic FinTech is a combination of *Shari‘ah*-compliant financial services with the use of modern technology to offer such financial services to retail customers. It is a growing industry both globally and within the UK. Based on the Islamic rule concerning the permission of all economic and financial transactions (*Mu’amalat*), as long as they do not contravene any of the few prohibited ones (interest, gambling, etc.), there is a consensus among Muslim scholars and among members of Islamic *Shari‘ah* Boards that *Shari‘ah* compliance does not necessarily mean preventing Islamic FinTech businesses from building new products. However, there are opportunities and challenges that the UK's Islamic FinTech industry's entrepreneurs are facing, including regulatory issues, *Shari‘ah* compliance, marketing and securing venture capital funding, etc. ([Wang, 2021](#)).

According to [Singer \(2022\)](#), there is a significant obstacle to Islamic FinTech from regulatory miscommunication as the regulatory frameworks are not yet designed to accommodate Islamic FinTech. There is also a lack of sufficient knowledge about *Shari‘ah* compliance, and the investment capital for Islamic FinTech is typically scarce, making it difficult for new entrepreneurs to develop their ideas. One of the UK academic interviewees suggests that technology can be used to advance standardization if the standardized contracts can be embedded in software and applications. Another UK *Shari‘ah* consultant interviewee confirms that there is no doubt that the modern banking industry (Islamic or conventional) rely on innovation and technology such that any standardization must be constructed with these concepts in mind.

3.6.3. Legal, Regulatory, and *Shari‘ah* Frameworks

It is generally recognized that any economy's financial system should be more controlled and regulated than any other economic activity. This is perhaps because the financial products and

contracts offered by financial institutions and markets differ substantially from the products and services provided by firms in other sectors of the economy. Consequently, the regulatory authorities of all countries pay special attention to this to maintain the reliability, integrity, and stability of the financial system in view of its vital importance in maintaining the smooth functioning and stability of the entire economy ([Llewellyn, 1999](#)).

The UK authorities have been acquainted with Islamic Finance services and products for a long period, and the government has been very supportive of its development and promotion ([Mordor Intelligence, 2021a](#)). Since the 2000s, the IFSI has witnessed significant results captured and translated by British government officials into rules, regulations, and policies that allowed Islamic Finance to flourish gradually in the UK without rushing into hasty decisions and policies ([Belouafi & Chachi, 2014](#)).

In 2000, the BOE acknowledged and recognized the potential for Islamic Finance in the UK. The UK Treasury established a specialized working group to investigate the obstacles facing the IFSI. This led to issuing the first legislative measures and laws introduced by the Treasury to enable the development of Islamic Finance in the UK ([Dewar & Hussein, 2013](#)).

Since 2003, the British Treasury, together with the British Revenue and Customs and the Financial Services Authority (FSA), has announced several changes to the tax and regulatory systems to enable British firms and financial institutions to offer a variety of Islamic Finance products, including asset finance and mortgages. And, since 2004, the FSA has authorized a number of IFIs, and the UK to be the first country in the EU to license and allow stand-alone IFIs to provide only *Shari‘ah*-compliant products ([Government UK, 2021](#)).

Over time, the UK has accommodated Islamic banking and finance to a great extent by issuing decrees, laws, and regulations that make it easier for Islamic banks and other financial institutions to operate in the UK, much earlier than in many Islamic countries.

As reported by [Dewar and Hussein \(2013\)](#), the regulation of Islamic Finance products and instruments in the UK is not different from regulating conventional finance products and instruments. The existing financial legislation applies to both Islamic and conventional financial products to provide a level-playing field for the IFSI. The UK has not enacted special laws and rules, specifically addressing Islamic banking, capital markets, and insurance. These are subject to general finance laws, which treat Islamic instruments in the same way as the conventional ones, after just amending a few existing laws and regulations to facilitate Islamic Finance transactions in the UK, ensuring a level-playing field for Islamic Finance products and conventional instruments. For example, the British

government remedied the adverse tax treatment of *Sukuk* by placing them on equal footing with conventional debt instruments. Another example is when the British Treasury abolished the double Stamp Duty Land Tax charge on *Shari‘ah*-compliant mortgages (Dewar & Hussein, 2013).

As recorded in Wikipedia (website on PRA), the Financial Services Authority (FSA) has been replaced by the Prudential Regulation Authority (PRA), which was formed by the Financial Services Act 2012, and which formally started functioning together with the new Financial Conduct Authority (FCA) on 1st April 2013. The PRA is a quasi-governmental regulator of financial services in the UK rather than an arm of the government.

The British government recognizes that the IFSI growth in the country is beneficial to all citizens, regardless of race, gender, or religion, and thus, Islamic Finance should be made available to Muslims as well. However, according to one of the UK academic interviewees, the British government and regulatory authorities do not interfere directly with *Shari‘ah*-related issues. The regime is rather decentralized and market-driven, and financial institutions have their own *Shari‘ah* boards issuing *fatwas* in a decentralized manner. This way, all customers, Muslims or non-Muslims, gain from a large set of choices of retail financial services, including those whose religious beliefs prevent them from using conventional finance. This will also benefit the UK financial services industry in succeeding as the leading Western center for Islamic Finance (Dewar & Hussein, 2013).

3.6.3.1. Alternative Islamic Liquidity Facility in the UK

One of the latest facilities that the BOE did to boost Islamic Finance in the UK after Brexit and the COVID-19 pandemic is to announce its new *Shari‘ah*-compliant non-interest-based deposit facility, the first such account from a Western Central Bank. It works by giving priority equity-like risk-sharing over debt, factoring ethical and environmental considerations into investment decisions, and embracing innovative financial solutions beyond traditional banking. This is a significant development in the UK’s IFSI to provide the opportunity for UK Islamic banks to make investments in *Shari‘ah*-compliant high-quality liquid assets, enabling them to hold *Shari‘ah*-compliant reserves and assets (Fara, 2021).

The launch of this new *Shari‘ah*-compliant non-interest-based deposit facility was announced by Andrew Hauser, Executive Director, Markets UK Islamic Finance, on 2nd December 2020. The facility, in which deposits from Islamic banks will be backed by a return-generating fund of high-quality *Shari‘ah*-compliant assets, will further strengthen the UK’s role as the leading international financial center for Islamic Finance outside the Muslim world (BOE, 2020).

This facility will also provide an alternative path for UK Islamic banks to manage their treasury and liquidity in a more diverse manner and is seen as another effort to level the playing field with conventional banking (Fara, 2021).

3.6.4. Current State of Standardization Efforts in the IFSI

The importance and need for standardization or at least harmonization of international Islamic financial contracts have been highlighted and emphasized in an interview conducted in 1995 with the late Lord Eddie George (Sir Edward Alan John George), the then Governor of the BOE, at the side of a major International Conference organized by the Islamic Foundation, the UK in its premises in Markfield (Leicester, UK), in collaboration with the Islamic Research and Training Institute (IRTI)²⁶ member of the IsDB and Loughborough University. The Lord Eddie George responded to an interview question, which says: *“Why does the Bank of England (BOE) not allow Islamic banks to operate in the UK, side-by-side with conventional banks, to serve the two million Muslims, who have idle funds outside the banking sector and who do not wish to break the Law of their faith, by accepting to deal with interest-based banks?”*. He responded saying: *“We wish to do so, but there are many issues in Islamic Finance, which the British Banking Law, as it stands at present, does not permit. These include, among many other issues, the passing on of losses to depositors. Secondly, as far as we know, there are no standardized Islamic financial contracts to follow or adopt that everybody agrees upon. You may find a contract that is allowed in one Islamic country or an Islamic financial institution but not allowed in another. Perhaps, when these issues have been cleared and resolved, we could see Islamic banking flourishing in the UK. Thirdly, why do Muslims insist on having Islamic banks, which are subject to the British Banking Law, when they can use their idle funds in different other financial institutions, such as Credit Unions, which are not subject to the British Banking Law?”* (Chachi, 1995).

In 2003, Lord Eddie George wrote: *“I became interested in Islamic Finance more than a decade ago, when I met a very lovely, deeply, religious Muslim couple who were living in this country with their family, and who had recently bought a house on the back of a conventional mortgage. They told me of their delight in their home, but then they explained to me –not at all in an aggressive way, in fact in sorrow rather than anger- their regret that they had had to go against their religious principles to finance it. That made a big impression on me... I thought our very inventive financial system could*

²⁶ Now known as Islamic Development Bank Institute (IsDBI).

find ways of meeting the needs of the different sectors of our society in ways where this kind of problem need not arise” ([George, 2003](#)).

In regulating the IFSI, the British government has followed a long, slow, but rigorous, and gradual process after recognizing its importance. In 2001, a high-level working group chaired by Lord Eddie George was established to identify and analyze the barriers that Islamic Finance faces in the UK ([Ainley *et al.*, 2007](#)).

According to [Lord Eddie George \(2003\)](#) himself, the analysis conducted by the working group was carried out along the following steps:

- Defining the various products, such as *Mudarabah* or *Wakalah*, on a case-by-case basis;
- Identifying the obstacles such as double stamp duty;²⁷
- Approaching the appropriate authorities such as the Treasury, the inland revenue, etc.

Among the measures taken by this working group was the establishment of more specialized working subgroups that look at tax issues and the consultation method to get a broader prospect from the stakeholders of the industry, including the Treasury, the Inland Revenue, the Muslim Community, the *Shari‘ah* experts, the lawyers, the consultancy firms and the Islamic Finance infrastructure institutions, such as the IFSB and AAOIFI ([Belouafi & Belabes, 2010](#)). All these initiatives later on succeeded.

At the end of 2008, the UK government stated that its main objectives for the development of Islamic Finance in the UK were two-fold: “*First, to enhance the UK’s competitiveness in financial services by establishing the UK as a gateway for international Islamic Finance; and second, to ensure that everybody, irrespective of their religious beliefs, has access to competitively priced financial products*” ([Belouafi & Chachi, 2014](#)).

There have been a number of attempts by the British government to make the financial environment more religiously inclusive in the UK. However, due to the lack of available standardized or at least harmonized *Shari‘ah*-compliant products, these are still topics of debate, discussion, and negotiation. For example, there are many calls from different Islamic quarters to introduce *Shari‘ah*-compliant student loans, enabling more Muslim students to access university education in the UK, but this is yet to be realized ([Mordor Intelligence, 2021a](#)).

²⁷ The Double Stamp Duty Land Tax was imposed twice on the purchase of a property: once by the Bank from the seller and once the re-sale of that property to the customer (the purchaser) through the various modes of Islamic Finance available for home purchase, such as *Murābaha*, *Ijarah*, or Diminishing *Musharakah*.

In 1995, Lord Eddie George recognized the ‘*growing importance of Islamic banking in the Muslim world and its emergence on the international stage as well as the need to put Islamic banking in the context of London’s tradition of ‘competitive innovation’*’ (Ainley *et al.*, 2007). Addressing the UK’s concern with the regulation of Islamic Finance in the UK, the BOE became an Associate Member of the IFSB and is also a member of the AAOIFI.

Concerning the standardization of Islamic financial services and products in the UK, one of the UK *Shari‘ah* consultant interviewees pointed out that standardization is a process that grows parallel to the industry’s growth. Meanwhile, regulatory authorities such as central banks, international Islamic SSOs and others should agree on a clear strategy to adopt the existing standards and provide financial support to issue new standards. He argues that Islamic jurisprudence is not formed or presented in well-defined articles compared to secular law. Due to that, most Islamic banking institutions consider English Law as governing law for their Islamic transactions. On the other hand, AAOIFI and IFSB are making substantial efforts to issue *Shari‘ah* governance, accounting, auditing, and prudential standards.

3.6.5. Standardization: Current Trends, Issues, and Challenges

Over the years, the UK’s IFSI has developed gradually and progressively. However, this has not been without some difficulties. First, in addition to the challenges faced by Islamic banking and finance generally, such as lack of awareness among finance personnel and laymen, even among Muslims, and shortages of professional scholars, experts, and practitioners, the UK faced some extra challenges such as how to accommodate Islamic banking and finance in the UK without contravening the UK Banking Act, which does not allow the passing of losses to the depositors. Second, there was a lack of standardization or harmonization of Islamic financial services and contracts that could be adopted and practiced. In this regard, Warde (2000) argues that the challenges faced by Islamic banks have a solid cultural dimension, relating primarily to trust, risk, and governance issues. In other words, the institutions must adapt themselves to the varying standards of society in the many parts of the world where they now operate if they are to succeed in the long term (Riaz *et al.*, 2017).

The development and expansion of Islamic Finance in the UK have brought up many issues, challenges, and opportunities that ‘*the industry players, supervisory authorities, and other parties are trying to examine and identify. The regulatory challenge is considered to be among the crucial challenges that need to be properly addressed as a prerequisite for an environment conducive to developing this emerging industry*’ (Belouafi & Belabes, 2010).

In addition to the side effects of the exit of Britain from the EU (Brexit), the COVID-19 Pandemic, and the Russia-Ukraine War, the [Arabian Business \(2020\)](#) questioned why Islamic Finance in the UK is not realizing its US\$3 trillion potential. According to an IFCUK expert, Omar Sheikh, an advisory board member for the Islamic Finance Council UK (IFCUK) in London, Brexit could offer opportunities for unlocking Islamic Finance regulation. “*We were previously locked in around EU laws,*” he said. “*Islamic Finance couldn’t issue unsecured lending – this is a consumer credit issue that can now be resolved. The government’s commitment to Islamic Finance liquidity tools needs to be realised.*” ([Arabian Business, 2020](#)).

Nevertheless, according to [Mordor Intelligence \(2021\)](#), the COVID-19 pandemic has provided another prospect for Islamic Finance to prove its potential and shine in the UK and worldwide. This is perhaps because the Islamic financial system is based on the principles of risk-sharing, ethics, and morality, which prepare it to safeguard the interest of the poor and vulnerable under crisis.

3.6.6. Specific Needs to Improve Standardization Level

As pointed out by [Tahir \(2003\)](#), the standardization of Islamic Finance contracts is at least “urgently needed in the following respects: (1) vocabulary of Islamic financing, (2) financial instruments and their documentation, and (3) pricing formulas for Islamic Finance products”.

According to the Islamic Finance Council UK (IFCUK), the country’s IFSI is facing several issues and challenges and is being hampered by a lack of consumer awareness ([Arabian Business, 2020](#)). Britain has also failed to deliver on a government commitment to boost the US\$19 billion Islamic Finance market and is also suffering from a lapsed government commitment and a lack of regulation.

One of the UK interviewees believes that collaboration with international bodies is essential to enhance the quality and performance of Islamic Finance, however their standards and practices should not be copied as they are. According to another interviewee, there is a need for political will to standardize Islamic Finance contracts and regulations at the UK domestic level.

Among the UK interviewees, who responded to the expert interview questions, five are academicians who consider standardization of Islamic financial services very important, as it reduces legal risks within a jurisdiction and facilitates cross-border transactions. Some argue that different interpretations of the same point may lead to the race to the bottom in terms of *Shari‘ah* dilution driven by market forces to achieve economic goals. This is done by ‘*fatwa-shopping*’, which is damaging to the reputation of the IFSI.

Another UK banking practitioner interviewee thinks one needs to be careful in “standardization” practices. Trying to make everything in Islamic Finance cookie-cutter is harmful. For instance, it is useful that accounting practices and principles for Islamic Finance products and services are standardized, but it is harmful (and impossible) to use cookie-cutter structures for large and complex infrastructure projects funded through Islamic Finance structures.

3.6.7. Lessons Learnt and Transfer of Knowledge

The approach of UK Prudential Regulation Authority (PRA)’s approach to regulation and supervision of financial services has three attributes:

- **A judgment-based approach:** by using judgment in deciding whether financial firms are safe and sound, whether insurers provide appropriate cover for policyholders and whether firms meet the minimum conditions.
- **A forward-looking approach:** by evaluating the current as well as the possible future risks that could affect the firms and judging whether it is necessary to intervene at an early stage before it is too late.
- **A focused approach:** by focusing on the issues and the firms that could pose the greatest risk and threat to the stability of the UK financial system and its stakeholders and policyholders.

With these various approaches to regulations and supervision, the PRA does not seek to operate a “zero-failure” regime. But rather, it strives to ensure that the failure of a financial firm, if it happens, avoids significant disruption to the supply of critical financial services ([Wikipedia, n.d.](#)).

3.6.8. Country-Specific Policy Recommendation

Throughout the years, the UK has maintained a conservative, slow, but rigorous, and gradual approach to the integration of Islamic Finance into its financial system. The main reason behind this move is perhaps due to the lack of standardization or harmonization of Islamic Finance contracts and services. One of the UK interviewees points out that global standardization can facilitate cross-border transactions, which can, in turn, enhance the performance of the IFSI.

One of the UK banking practitioners believes that the standardization of retail banking practices due to technological advances contributes significantly to the spread and growth of Islamic banking and will continue to do so in the future. However, this harms large and complex infrastructure projects funded through Islamic Finance structures. This is confirmed by some of the UK respondents to the survey of this study, who agreed that perhaps it is not easy nor recommended to standardize Islamic

financial services and contracts but to harmonize them, leaving enough space for invention, novelty, and innovation. This goes hand in hand with the flexibility of the Islamic *Mu'amalat* (transactions) and openness for innovation, which make the *Shari'ah* valid for all places and all times.

So, the key policy recommendations include:

- Creating a level playing field for all market participants by ensuring tax neutrality;
- Increasing public awareness and promotion of Islamic Finance products;
- Developing training programmes for employees of IFIs and other stakeholders;
- 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.

CHAPTER 4: SURVEY ANALYSIS

The current chapter discusses the results of a semi-structured online questionnaire used to collect the global view on standardization. After filtering out the incomplete or skipped answers, 198 complete responses remain. The sample includes experts from 27 countries having diverse backgrounds and exposure to Islamic Finance, such as regulators, *Shari‘ah* experts, industry players (from banking, capital market, and *Takaful* sectors), lawyers, and academicians.²⁸

The survey consists of five sections: (1) background information, (2) general information, (3) global standardization efforts, (4) local standardization efforts, and (5) recommendations. The background information section gathered data such as the country of residence, area of specialization, and familiarity with the standardization initiatives undertaken by the authorities in the country. The general information section sought the opinions of respondents on standardization in general. The following section solicited the opinions of participants on standardization efforts made on the global level. Another section collected views about the local standardization initiatives and achievements. The final section of the questionnaire was reserved for open-ended responses that sought recommendations on standardization.

4.1. General Information

Question 1: To what extent do you agree or disagree with the following statement? **Standardization has a positive effect on the following performance dimensions:**

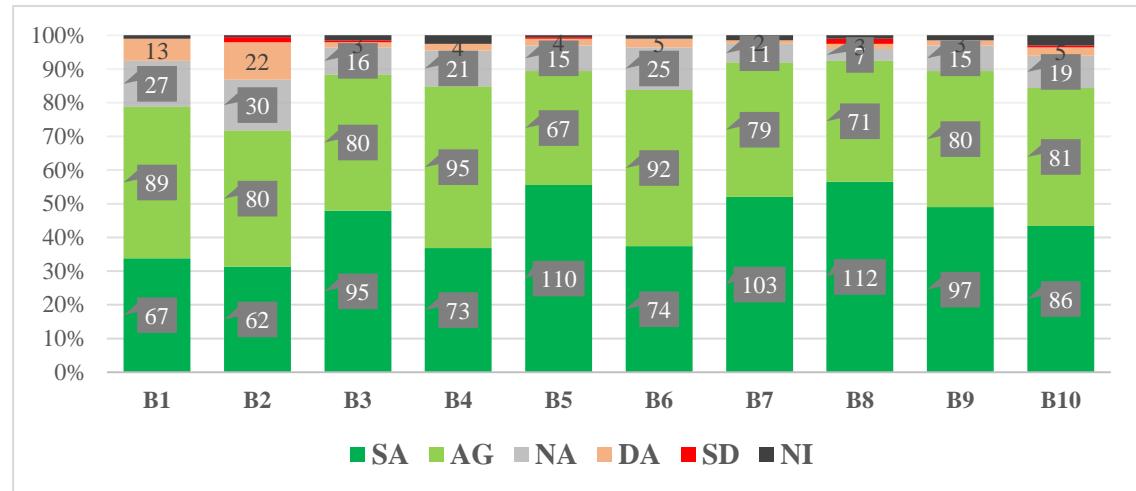
B1=Profitability, **B2**=Product innovation, **B3**=Risk management, **B4**=Business continuity, **B5**=*Shari‘ah* compliance, **B6**=Transaction execution, **B7**=Financial reporting, **B8**=Legal documentation, **B9**=Dispute resolution, **B10**=Outreach to international investors.

Results: The majority of respondents (79%) agree that standardization positively affects the profitability of companies (**B1**), whereas only a few of them (7%) disagree with this statement. Most of respondents also believe that standardization process facilitates product innovation (**B2**: 72% vs 13%), contributes to better mitigation of risks (**B3**: 88% vs 2%), business continuity (**B4**: 85% vs 2%), *Shari‘ah* compliance (**B5**: 89% vs 3%), smoother execution of transactions (**B6**: 84% vs 3%), better financial reporting (**B7**: 92% vs 1%), higher quality of legal documentation (**B8**: 92% vs 3%), more effective dispute resolution (**B9**: 89% vs 2%), and better access to foreign investors (**B10**: 84% vs 3%). Hence, positive responses supporting standardization efforts range between 72% and 92%. About 10% of respondents show either neutrality in this regard or unfamiliarity with the potential

²⁸ Table 6 of Chapter 1 provides the details about distribution of a sample by region and country.

outcome of standardization. These findings highlight the significance of the standardization potentials in the IFSI.

Figure 12: Responses to Question 1 (General Information)



Notes: **SA** – strongly agree, **AG** – agree, **NA** – neither agree nor disagree, **DA** – disagree, **SD** – strongly disagree, **NI** – I do not know. **B1**=Profitability, **B2**=Product innovation, **B3**=Risk management, **B4**=Business continuity, **B5**=*Shari'ah* compliance, **B6**=Transaction execution, **B7**=Financial reporting, **B8**=Legal documentation, **B9**=Dispute resolution, **B10**=Outreach to international investors. Total responses: 198.

Table 15: Tabulated Responses to Question 1 (General Information)

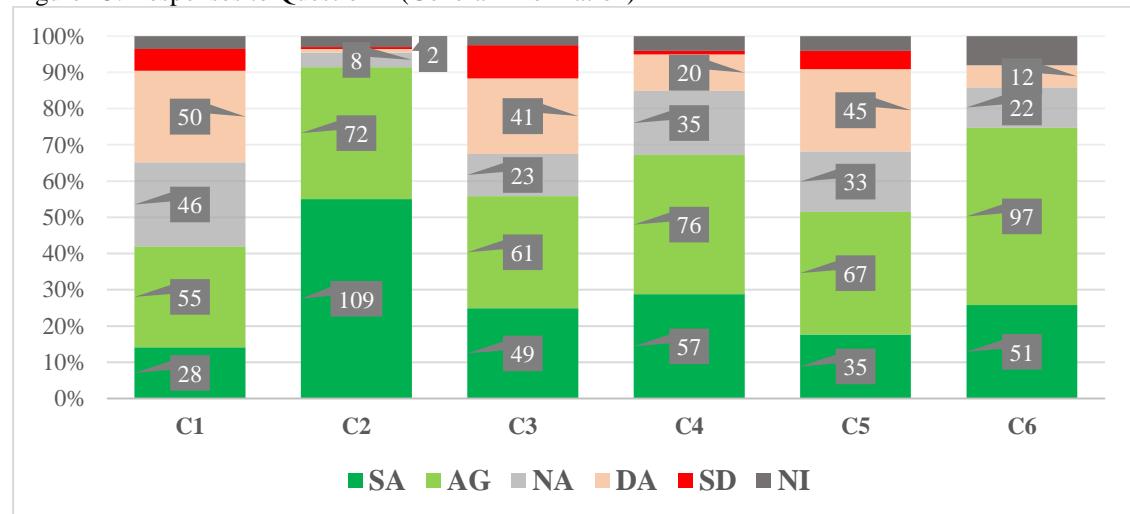
Responses	B1	B2	B3	B4	B5	B6	B7	B8	B9	B10
SA	67	62	95	73	110	74	103	112	97	86
AG	89	80	80	95	67	92	79	71	80	81
NA	27	30	16	21	15	25	11	7	15	19
DA	13	22	3	4	4	5	2	3	3	5
SD	0	3	1	0	1	0	0	3	0	1
NI	2	1	3	5	1	2	3	2	3	6
Total	198	198	198	198	198	198	198	198	198	198
Positive [SA+AG]	79%	72%	88%	85%	89%	84%	92%	92%	89%	84%
Negative [SD+DA]	7%	13%	2%	2%	3%	3%	1%	3%	2%	3%

Notes: **SA** – strongly agree, **AG** – agree, **NA** – neither agree nor disagree, **DA** – disagree, **SD** – strongly disagree, **NI** – I do not know. **B1**=Profitability, **B2**=Product innovation, **B3**=Risk management, **B4**=Business continuity, **B5**=*Shari'ah* compliance, **B6**=Transaction execution, **B7**=Financial reporting, **B8**=Legal documentation, **B9**=Dispute resolution, **B10**=Outreach to international investors. Total responses: 198.

Question 2: To what extent do you agree or disagree with the following statements? Note:
 ‘Harmonization’ is the process of minimization of existing differences, whereas ‘standardization’ is about the elimination of any differences.

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:** *Shari‘ah* harmonization is more appropriate than *Shari‘ah* standardization of all *fatwas* in Islamic Finance. **C5:** There should be a sole *Shari‘ah* interpretation through standardization of *Shari‘ah* rulings globally on all products and services in Islamic Finance. **C6:** A proper harmonization of *Shari‘ah* rulings will reduce incidences of *fatwa* shopping.

Figure 13: Responses to Question 2 (General Information)



Notes: **SA** – strongly agree, **AG** – agree, **NA** – neither agree nor disagree, **DA** – disagree, **SD** – strongly disagree, **NI** – I do not know. **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 the global standardization efforts; **C4**=*Shari‘ah* harmonization is more appropriate than *Shari‘ah* standardization of all *fatwas* in Islamic Finance; **C5**=There should be a sole *Shari‘ah* interpretation through standardization of *Shari‘ah* rulings globally on all products and services in Islamic Finance; **C6**=A proper harmonization of *Shari‘ah* rulings will reduce incidences of *fatwa* shopping. Total responses: 198.

Results: 42% of respondents argue that standardization would hamper the innovation process (**C1**) by market players, whereas 31% disagree with this point and find a positive relationship between standardization and creativity. Most participants believe that there is a need for collaboration at the international level to settle legal and regulatory issues in Islamic Finance (**C2**: 91% vs 2%). Almost

half of the respondents suggest that the IFSI should continue adapting conventional finance standards and guidelines to enhance global standardization efforts (**C3**: 56% vs 30%).

Shari‘ah harmonization is viewed as more appropriate than *Shari‘ah* standardization of all *fatwas* by two-thirds of participants (**C4**: 67% vs 11%). According to half of the respondents, there should be a sole *Shari‘ah* interpretation through standardization of *Shari‘ah* rulings globally on all Islamic Finance products and services (**C5**: 52% vs 28%). Most participants agree that a proper harmonization of *Shari‘ah* rulings would lessen the incidences of *fatwa* shopping (**C6**: 75% vs 6%).

Table 16: Tabulated Responses to Question 2 (General Information)

Responses	C1	C2	C3	C4	C5	C6
SA	28	109	49	57	35	51
AG	55	72	61	76	67	97
NA	46	8	23	35	33	22
DA	50	2	41	20	45	12
SD	12	1	18	2	10	0
NI	7	6	5	8	8	16
Total	198	198	198	198	198	198
Positive [SA+AG]	42%	91%	56%	67%	52%	75%
Negative [SD+DA]	31%	2%	30%	11%	28%	6%

Notes: **SA** – strongly agree, **AG** – agree, **NA** – neither agree nor disagree, **DA** – disagree, **SD** – strongly disagree, **NI** – I do not know. **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 the global standardization efforts; **C4**=*Shari‘ah* harmonization is more appropriate than *Shari‘ah* standardization of all *fatwas* in Islamic Finance; **C5**=There should be a sole *Shari‘ah* interpretation through standardization of *Shari‘ah* rulings globally on all products and services in Islamic Finance; **C6**=A proper harmonization of *Shari‘ah* rulings will reduce incidences of *fatwa* shopping. *Total responses: 198.*

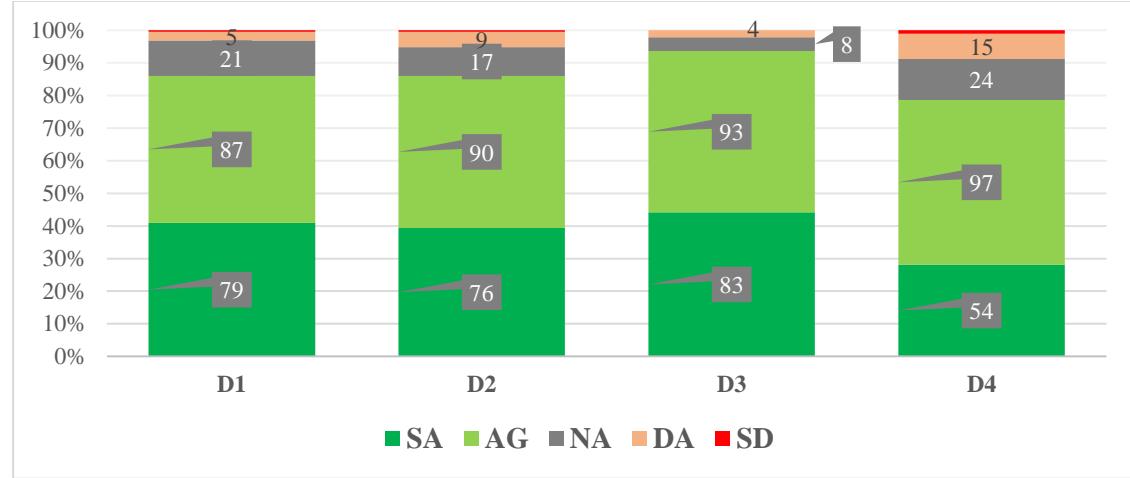
Question 3: To what extent do you agree or disagree with the following statements? Please select the appropriate response for each item.

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 *Shari‘ah* interpretation in different jurisdictions.

Results: Most of the participants believe that standardization plays an important role in the success of Islamic Finance globally (**D1**: 84% vs 3%), and the same number of respondents agree that

standardization would enhance greater acceptance of Islamic Finance products and services among international and conventional investors (**D2**: 84% vs 5%). The majority agree that the uniformity of legal documentation would speed up the negotiations of deals and closings (**D3**: 89% vs 2%). Moreover, two-thirds believe that standardization in Islamic Finance should allow for some differences in *Shari‘ah* interpretation in different jurisdictions (**D4**: 76% vs 9%).

Figure 14: Responses to Question 3 (General Information)



Notes: **SA** – strongly agree, **AG** – agree, **NA** – neither agree nor disagree, **DA** – disagree, **SD** – strongly disagree, **NI** – I do not know. **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 *Shari‘ah* interpretation in different jurisdictions. Total responses: 198.

Table 17: Tabulated Responses to Question 3 (General Information)

Responses	D1	D2	D3	D4
SA	79	76	83	54
AG	87	90	93	97
NA	21	17	8	24
DA	5	9	4	15
SD	1	1	0	2
NI	5	5	10	6
Total	198	198	198	198
Positive [SA+AG]	84%	84%	89%	76%
Negative [SD+DA]	3%	5%	2%	9%

Notes: **SA** – strongly agree, **AG** – agree, **NA** – neither agree nor disagree, **DA** – disagree, **SD** – strongly disagree, **NI** – I do not know. **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 *Shari‘ah* interpretation in different jurisdictions. Total responses: 198.

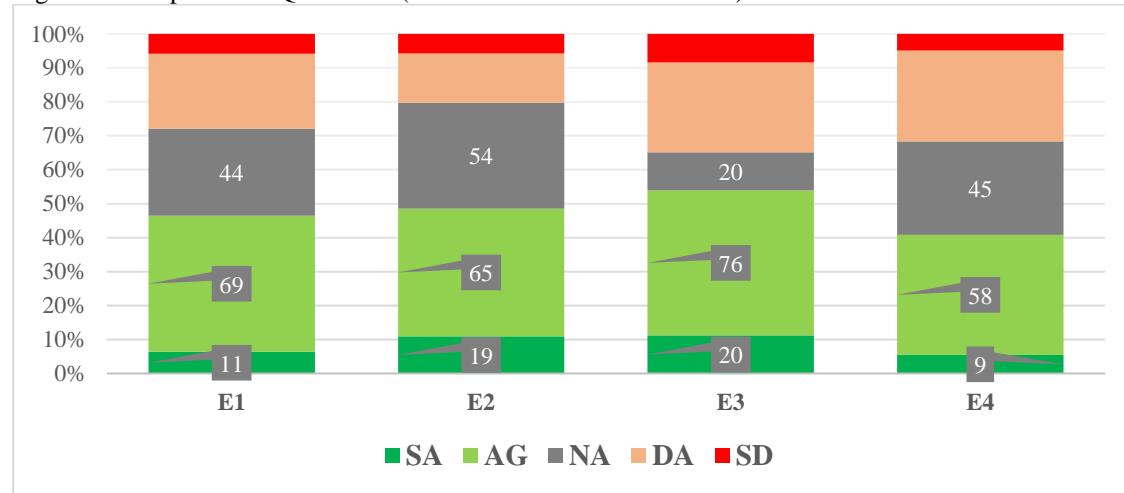
4.2. Global Standardization Efforts

Question 4: To what extent do you agree or disagree with the following statements? Please select the appropriate response for each of the following items.

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.

Results: Two-fifths of respondents are satisfied with the ways the international Islamic SSOs adapt conventional standards for the IFSI (**E1:** 40% vs. 24%) and believe that the OIC is better placed to coordinate all efforts toward standardization in Islamic Finance (**E2:** 42% vs. 18%). Almost half of the participants believe that standards and guidelines of international SSOs should only serve as guidance rather than making them mandatory for financial institutions (**E3:** 48% vs. 31%). One-third of participants argue that standardization by international Islamic SSOs, such as AAOIFI, IFSB, and IIFM, sometimes leads to conflicts and inconsistencies. However, the same number of respondents disagree with this statement (**E4:** 32% vs. 26%).

Figure 15: Responses to Question 4 (Global Standardization Efforts)



Notes: **SA** – strongly agree, **AG** – agree, **NA** – neither agree nor disagree, **DA** – disagree, **SD** – strongly disagree, **NI** – I do not know. **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. *Total responses: 198.*

Table 18: Tabulated Responses to Question 4 (Global Standardization Efforts)

Responses	E1	E2	E3	E4
SA	11	19	20	9
AG	69	65	76	58
NA	44	54	20	45
DA	38	25	47	44
SD	10	10	15	8
NI	26	25	20	34
Total	198	198	198	198
Positive [SA+AG]	40%	42%	48%	34%
Negative [SD+DA]	24%	18%	31%	26%

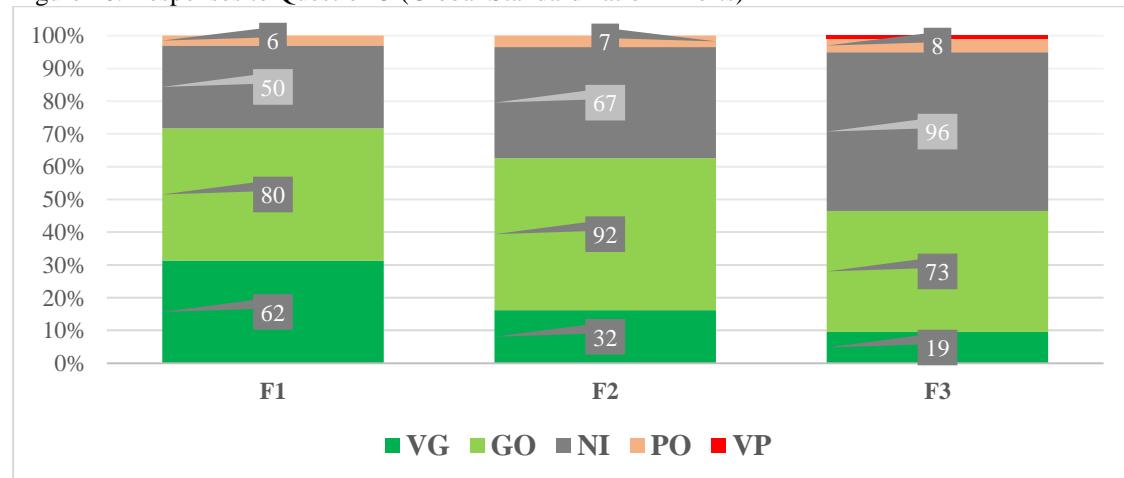
Notes: **SA** – strongly agree, **AG** – agree, **NA** – neither agree nor disagree, **DA** – disagree, **SD** – strongly disagree, **NI** – I do not know. **E1**=I am satisfied with the ways the international Islamic SSOs adapt conventional standards for the IFSI. **E2**=The Organization of Islamic 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. *Total responses: 198.*

Question 5: How would you rate the quality of standards and guidelines issued by the following international Islamic SSOs? Please select the appropriate response for each item.

F1: AAOIFI, F2: IFSB, F3: IIFM

Results: Most of the respondents positively rated the contributions made by AAOIFI and IFSB on standardization (72% and 63%, respectively), whereas IIFM received 46% of the votes due to a lack of familiarity of participants with the efforts made by the organization.

Figure 16: Responses to Question 5 (Global Standardization Efforts)



Notes: **VG** – very good, **GO** – good, **NI** – I do not know, **PO** – poor, **VP** – very poor; **F1**=AAOIFI, **F2**=IFSB, **F3**=IIFM. *Total responses: 198.*

Table 19: Tabulated Responses to Question 5 (Global Standardization Efforts)

Responses	F1	F2	F3
VG	62	32	19
GO	80	92	73
NI	50	67	96
PO	6	7	8
VP	0	0	2
Total	198	198	198
Positive [VG+GO]	72%	63%	46%
Negative [VP+PO]	3%	4%	5%

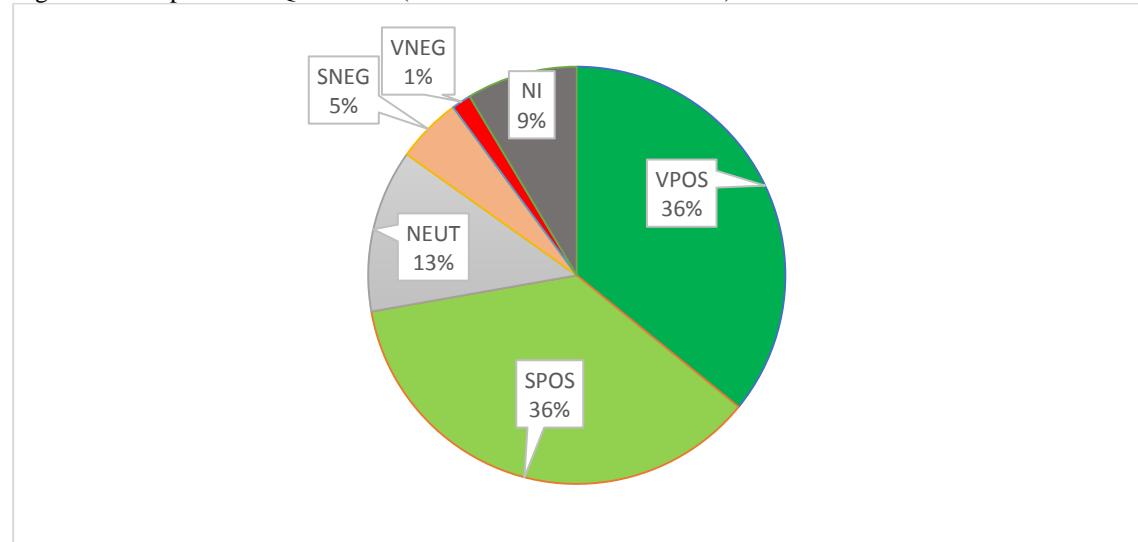
Notes: **SA** – strongly agree, **AG** – agree, **NA** – neither agree nor disagree, **DA** – disagree, **SD** – strongly disagree, **NI** – I do not know. Total responses: 198.

4.3. Local Standardization Efforts

Question 6: Do you support the Islamic Finance standardization activities by your country's regulator or a Central Bank with respect to products, services, and regulations?

Results: 72% positively reacted to the question, and 6% provided negative feedback. The remaining 22% of participants either took a neutral position or were not aware of the activities being made by the local authorities.

Figure 17: Responses to Question 6 (Local Standardization Efforts)



Notes: **VPOS** – very positive, **SPOS** – somewhat positive, **NEUT** – neutral, **SNEG** – somewhat negative, **VNEG** – very negative, **NI** – I do not know. Total responses: 198.

Question 7: What challenges does Islamic Finance in your country face when adopting international standards? Select all that apply.

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. **H5:** Other challenges.

Results: Two-fifths of the participants believe that there exists a contradiction of international standards with the existing national rules and regulations (**H1**: 41%), and that international SSOs have no enforcement power in the domestic market (**H2**: 45%). Almost the same number of respondents claim that market players are not aware of the presence of international standards (**H3**: 37%) or there is a lack of knowledge and capacity to implement international standards (**H4**: 38%). Among the other challenges listed by respondents are *Shari‘ah* arbitrage, excessive reporting burden on Islamic banks, lack of sincere intention for adherence to *Shari‘ah* principles, weak coordination between the local regulators and international Islamic SSOs, existence of huge gaps between local and international standards, unstable domestic political and economic conditions, insufficient depth of the market and lack of data.

Figure 18: Responses to Question 7 (Local Standardization Efforts)



Notes: **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. *Total responses: 198.*

Question 8: To what extent do you agree or disagree with the following statement?

I am confident that the regulator / Central Bank of my country will be able to standardize products, services, practices as well as regulations in the Islamic Finance industry.

Results: 112 participants responded to this question positively, whereas 34 were pessimistic about the local authorities' ability to standardize the IFSI.

Figure 19: Responses to Question 8 (Local Standardization Efforts)



Notes: **SA** – strongly agree, **AG** – agree, **NA** – neither agree nor disagree, **DA** – disagree, **SD** – strongly disagree, **NI** – I do not know. Total responses: 198.

So, the survey results can be summarized as follows:

- a) Standardization is recognized to be beneficial for the growth of the IFSI by promoting more transparency and efficiency in doing business, 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.
- b) 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.
- c) Conventional finance standards and guidelines could be adapted to the needs of the IFSI.
- d) International Islamic SSOs play a significant role; and, the market well appreciates the efforts of AAOIFI and IFSB.
- e) Local authorities made significant efforts to bring uniformity to the industry, and there is strong market confidence that regulators will successfully pursue the uniformity in the industry. However, local regulatory bodies and international Islamic SSOs are expected to work closely to accelerate the standardization in the industry.

CHAPTER 5: CONCLUSION AND POLICY RECOMMENDATIONS

With the proliferation of IFIs across jurisdictions and increasing the complexity of their products, standardization has been viewed as an important factor in ensuring the 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* Governance, Islamic accounting, 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.

After extensively reviewing the related literature (reports, books, articles, and regulations), the best practices and lessons learnt from case studies, and analyzing the primary data gathered using both online questionnaires and expert interviews, the study provides policy recommendations for addressing the standardization issues and facilitate the further growth of the IFSI in OIC member countries. *Table 20* presents the list of key policy recommendations summarized from case studies.

Table 20: Summary of Country-Specific Policy Recommendations

Market	Policy Recommendations
Malaysia	<ol style="list-style-type: none">1) Continuously improving the legal, regulatory, and supervisory frameworks;2) Increasing the effectiveness of the industry by introducing value-added vanilla products;3) Increasing international cooperation and collaboration on standardization,4) Ensuring cohesive acceptance and application of standards by the industry players;5) Promoting standardization by encouraging innovation within the <i>Shari‘ah</i> parameters;6) Developing specialized international and domestic research centers for innovation and standardization;

	<p>7) Developing interdisciplinary training programmes to foster a competency and increase the awareness on the standardization process.</p>
Morocco	<ol style="list-style-type: none"> 1) Strengthening the communication and collaboration between international SSOs and national regulatory bodies; 2) Improving the communication between the stakeholders of the IFSI to address the current issues and challenges facing the industry; 3) Promoting research and development among the practitioners and researchers; 4) Ensuring equitable tax treatment and level playing field for the industry; 5) Raising public awareness and literacy about Islamic Finance.
Oman	<ol style="list-style-type: none"> 1) Adopting the best practices and revising the existing legal, regulatory, and <i>Shari‘ah</i> governance frameworks by considering the recommendations and feedback from all IFSI stakeholders, and embracing technological advancements and ESG requirements; 2) Increasing public awareness about the Islamic Finance principles and applications; 3) Pursuing capacity building in the field of Islamic Finance via research centers, academic institutions, and other education channels; 4) Establishing a platform that facilitates collaboration between scholars and industry players by exchanging views and collecting ideas; 5) Providing marketing support for Islamic Finance products.
Türkiye	<ol style="list-style-type: none"> 1) Enhancing the communication and coordination among regulatory bodies and with international SSOs; 2) Passing a comprehensive Islamic Finance legislation that regulates the IFSI; 3) Establishing Islamic Finance departments within each regulatory body; 4) Pursuing talent development by bridging IFIs and academic institutions; 5) Tailoring Islamic Finance training programmes and workshops for regulators and industry players; 6) Introducing regulations and standards into the curriculum of universities; 7) Ensuring tax neutrality and providing incentives to attract foreign investors and talents; 8) Promoting the transparency of <i>Shari‘ah</i> governance processes, especially <i>fatwa</i> issuance; 9) Inviting practitioners and academics into the process of standardization.
The UK	<ol style="list-style-type: none"> 1) Creating a level playing field for all market participants by ensuring tax neutrality; 2) Increasing public awareness and promotion of Islamic Finance products; 3) Developing training programmes for employees of IFIs.

So, the policy recommendations can be summarized and clustered across five thematic areas: (i) legal, regulatory, and supervisory frameworks (tax neutrality, strategic master plain with embedded standardization, and cooperation among regulatory bodies on standardization); (ii) international collaboration (SSOs and regulators, research and working committees, common taxonomy); (iii) human capacity building (trainings and workshops, university curriculum, academic accreditation); (iv) *Shari‘ah* governance system (centralized *Shari‘ah* board, with 24/7 online communication system for IFIs); and (v) public awareness and promotion of Islamic Finance products.

Hence, the findings can be translated into the following six policy actions that are expected to minimize the divergence of interpretation of Islamic Finance principles locally and across markets and bring consistency to the products and practices of IFIs:

POLICY ADVICE 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 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 ADVICE 2: *Establishing a centralized *Shari‘ah* governance framework to ensure the compliance of the IFSI 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 IFIs duly implement the *Shari‘ah* standards, regulations, and resolutions. Also, 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 ADVICE 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, especially with the chairmen of different *Shari‘ah* Boards of market players.

POLICY ADVICE 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. In addition, the simplification of Islamic Finance-related legal documentation and harmonization of legal, regulatory, and supervisory frameworks will make standardization more effective.

POLICY ADVICE 5: *Enhancing the coordination among regulatory bodies and with international standard-setting organizations.*

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 executive 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.²⁹

POLICY ADVICE 6: *Developing quality human capital by introducing standardization-related modules into 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 *Sharī‘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 *Sharī‘ah* Advisory Boards, who are also required to attend the continuous professional development modules with a particular focus on standardization-related areas. In addition, 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.

The findings of the study and policy recommendations are expected to benefit the industry players and policymakers from the OIC and non-OIC Member Countries, the international community, and international organizations.

²⁹ For details, please refer to: <https://www.mondaq.com/turkey/arbitration-dispute-resolution/897458/organization-of-islamic-cooperation-arbitration-center-established-in-istanbul>

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ANNEX

Table 21: Components of the Global IFSI in 2020

Islamic Financial Institutions	1595
Countries with Islamic Finance regulation	47
Islamic Finance education providers	1008
Islamic Finance research papers	2878
<i>Shari'ah</i> scholars representing IFIs	1235
CSR funds disbursed by IFIs	US\$1.28 billion
Islamic Finance events	844
News on Islamic Finance	11856

Source: IFDI (2021)

Table 22: List of Standards Published by AAOIFI

Standard	Description
SS	<i>Shari'ah</i> Standards
SS 1	Trading in Currencies
SS 2	Debit Card, Charge Card and Credit Card
SS 3	Procrastinating Debtor
SS 4	Settlement of Debt by Set-Off
SS 5	Guarantees
SS 6	Conversion of a Conventional Bank to an Islamic Bank
SS 7	Hawalah
SS 8	Murabaha
SS 9	Ijarah and Ijarah Muntahia Bittamleek
SS 10	Salam and Parallel Salam
SS 11	Istisna' and Parallel Istisna'
SS 12	Sharikah (Musharakah) and Modern Corporations
SS 13	Mudarabah
SS 14	Documentary Credit
SS 15	Ju'alah
SS 16	Commercial Papers
SS 17	Investment Şukük
SS 18	Possession (Qabd)
SS 19	Loan (Qard)
SS 20	Sale of Commodities in Organized Markets
SS 21	Financial Paper (Shares and Bonds)
SS 22	Concession Contracts
SS 23	Agency and the Act of an Uncommissioned Agent (Fodooli)
SS 24	Syndicated Financing
SS 25	Combination of Contracts
SS 26	Islamic Insurance
SS 27	Indices
SS 28	Banking Services in Islamic Banks
SS 29	Stipulations and Ethics of Fatwa in the Institutional Framework
SS 30	Monetization (Tawarruq)
SS 31	Controls on Gharar in Financial Transactions
SS 32	Arbitration
SS 33	Waqf
SS 34	Hiring of Persons
SS 35	Zakah
SS 36	Impact of Contingent Incidents on Commitments
SS 37	Credit Agreement
SS 38	Online Financial Dealings
SS 39	Mortgage and its Contemporary Applications
SS 40	Distribution of Profit in Mudarabah-Based Investment Accounts
SS 41	Islamic Reinsurance
SS 42	Financial Rights and How They Are Exercised and Transferred

SS 43	Insolvency
SS 44	Obtaining and Deploying Liquidity
SS 45	Protection of Capital and Investments
SS 46	Al-Wakalah Bi Al-Istithmar (Investment Agency)
SS 47	Rules for Calculating Profit in Financial Transactions
SS 48	Options to Terminate Due to Breach of Trust (Trust-Based) Options
SS 49	Unilateral and Bilateral Promise
SS 50	Irrigation Partnership (Musaqat)
SS 51	Options to Revoke Contracts Due to Incomplete Performance
SS 52	Options to Reconsider
SS 53	Arboun (Earnest Money)
SS 54	Revocation of Contracts by Exercise of a Cooling-Off Option
SS 55	Competitions and Prizes
SS 56	Liability of Investment Manager
SS 57	The Gold standard
SS 58	Repurchase
SS 59	Sale of Debt
SS 60	Waqf (Updated)
SS 61	Payment Cards

FAS	Financial Accounting Standards
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FAS 1	General Presentation and Disclosures in the Financial Statements
FAS 3	Mudarabah Financing
FAS 4	Musharakah Financing
FAS 7	Salam and Parallel Salam
FAS 8	Ijarah and Ijarah Muntahia Bittamleek
FAS 9	Zakah
FAS 10	Istisna' and Parallel Istisna'
FAS 12	General Presentation and Disclosure in the Financial Statements of Islamic Insurance Companies
FAS 13	Disclosure of Bases for Determining and Allocating Surplus or Deficit in Islamic Insurance Companies
FAS 14	Investment Funds
FAS 15	Provisions and Reserves in Islamic Insurance Companies
FAS 16	Foreign Currency Transactions and Foreign Operations
FAS 18	Islamic Financial Services Offered by Conventional Financial Institutions
FAS 19	Contributions in Islamic Insurance Companies
FAS 20	Deferred Payment Sale
FAS 21	Disclosure on Transfer of Assets
FAS 22	Segment Reporting
FAS 23	Consolidation
FAS 24	Investments in Associates
FAS 26	Investment in Real Estate
FAS 27	Investment accounts
FAS 28	Murabaha and Other Deferred Payment Sales
FAS 30	Impairment, credit losses and onerous commitments
FAS 31	Investment Agency (Al-Wakala Bi Al-Istithmar)
FAS 32	Ijarah
FAS 33	Investments in Şukük, shares and similar instruments
FAS 34	Financial Reporting for Şukük-holders
FAS 35	Risk Reserves
FAS 36	First Time Adoption of AAOIFI Financial Accounting Standards
FAS 37	Financial Reporting by Waqf Institutions
FAS 38	Wa'ad, Khiyar and Tahawwut
FAS 39	Financial Reporting for Zakah
FAS 40	Financial Reporting for Islamic Finance Windows

Notes: The previous **FAS 5** "Disclosure of Bases for Profit Allocation Between Owners' Equity and Investment Accountholders" and **FAS 6** "Equity of Investment Account Holders and their Equivalent" have been replaced and superseded by **FAS 27** "Investment Accounts". The previous **FAS 17** "Investments" has been replaced and superseded by **FAS 25** "Investment in Şukük, Shares and Similar Instruments" and **FAS 26** "Investment in Real Estate" and later on the previous **FAS 25** "Investment in Şukük, Shares and Similar Instruments" has replaced and superseded by **FAS 33** "Investments in Şukük, Shares and Similar Instruments".

FAS 2 “Murabaha and Murabaha to The Purchase Orderer” and **FAS 20** “Deferred Payment Sale” was replaced and superseded by **FAS 28** “Murabaha and Other Deferred Sales”. **FAS 11** “Provisions and Reserves” was replaced and superseded by **FAS 30** “Impairment, Credit Losses and Onerous Commitments” and **FAS 35** “Risk Reserves”. The previous Accounting Guidance Note No.1 “Guidance Note on First Time Adoption of AAOIFI Accounting Standards by an Islamic Financial Institution” was replaced and superseded by **FAS 36** “First Time Adoption of AAOIFI Financial Accounting Standards”.

AS	Auditing Standards
AS 1	Objective and Principles of Auditing
AS 2	Auditor's Report
AS 3	Terms of Audit Engagement
AS 4	Testing for Compliance with Sharī'ah Rules and Principles by an External Auditor by External Auditor
AS 5	Auditor's Responsibility to Consider Fraud and Error in an Audit of Financial Statements
AS 6	External Sharī'ah Audit (Independent Assurance Engagement on an Islamic Financial Institution's Compliance with Sharī'ah Principles and Rules)
GS	Governance Standards
GS 1	Sharī'ah Supervisory Board: Appointment, Composition and Report
GS 2	Sharī'ah Review
GS 4	Audit and Governance Committee for Islamic Financial Institutions
GS 5	Independence of Sharī'ah Supervisory Board
GS 6	Statement on Governance Principles for Islamic Financial Institutions
GS 7	Corporate Social Responsibility, Conduct and Disclosure for Islamic Financial Institutions
GS 8	Central Sharī'ah Board
GS 9	Sharī'ah Compliance Function
GS 10	Sharī'ah Compliance and Fiduciary Ratings for Islamic Financial Institutions
GS 11	Internal Sharī'ah Audit
GS 12	Şukūk Governance
GS 13	Waqf Governance
CE	Code of Ethics for Islamic Finance Professionals

Source: [AAOIFI \(n.d.-c\)](#)

Table 23: List of Standards Published by IFSB

Standard	Description
IFSB-1	Guiding Principles of Risk Management for Institutions (other than Insurance Institutions) offering only Islamic Financial Services (IIFS)
IFSB-2	Capital Adequacy Standard for Institutions (other than Insurance Institutions) offering only Islamic Financial Services (IIFS)
IFSB-3	Guiding Principles on Corporate Governance for Institutions offering only Islamic Financial Services (Excluding Islamic Insurance (<i>Takaful</i>) Institutions and Islamic Mutual Funds)
IFSB-4	Disclosures to Promote Transparency and Market Discipline for Institutions offering Islamic Financial Services (excluding Islamic Insurance (<i>Takaful</i>) Institutions and Islamic Mutual Funds)
IFSB-5	Guidance on Key Elements in the Supervisory Review Process of Institutions offering Islamic Financial Services (excluding Islamic Insurance (<i>Takaful</i>) Institutions and Islamic Mutual Funds)
IFSB-6	Guiding Principles on Governance for Islamic Collective Investment Schemes
IFSB-7	Capital Adequacy Requirements for <i>Şukūk</i> , Securizations and Real Estate Investment
IFSB-8	Guiding Principles on Governance for <i>Takaful</i> (Islamic Insurance) Undertakings
IFSB-9	Guiding Principles on Conduct of Business for Institutions offering Islamic Financial Services
IFSB-10	Guiding Principles on Sharī'ah Governance Systems for Institutions offering Islamic Financial Services
IFSB-11	Standard on Solvency Requirements for <i>Takaful</i> (Islamic Insurance) Undertakings
IFSB-12	Guiding Principles on Liquidity Risk Management for Institutions offering Islamic Financial Services
IFSB-13	Guiding Principles on Stress Testing for Institutions offering Islamic Financial Services
IFSB-14	Standard on Risk Management for <i>Takaful</i> (Islamic Insurance) Undertakings
IFSB-15	Revised Capital Adequacy Standard for Institutions Offering Islamic Financial Services Excluding Islamic Insurance (<i>Takaful</i>) Institutions and Islamic Collective Investment Schemes]
IFSB-16	Revised Guidance on Key Elements in The Supervisory Review Process of Institutions Offering Islamic Financial Services (Excluding Islamic Insurance (<i>Takaful</i>) Institutions and Islamic Collective Investment Schemes)

IFSB-17	Core Principles for Islamic Finance Regulation (Banking Segment)
IFSB-18	Guiding Principles for <i>ReTakaful</i> (Islamic Reinsurance)
IFSB-19	Guiding Principles on Disclosure Requirements for Islamic Capital Market Products (<i>Sukuk</i> and Islamic Collective Investment Schemes)
IFSB-20	Key Elements in the Supervisory Review Process of <i>Takaful/ReTakaful</i> Undertakings
IFSB-21	Core Principles for Islamic Finance Regulation [Islamic Capital Market Segment]
IFSB-22	Revised Standard on Disclosures to Promote Transparency and Market Discipline for Institutions Offering Islamic Financial Services [Banking Segment]
IFSB-23	Revised Capital Adequacy Standard for Institutions Offering Islamic Financial Services [Banking Segment]
IFSB-24	Guiding Principles on Investor Protection in Islamic Capital Markets
IFSB-25	Disclosures to Promote Transparency and Market Discipline for <i>Takaful/ReTakaful</i> Undertakings
IFSB-26	Core Principles for Islamic Finance Regulation (Financial Market Infrastructures)

Source: IFSB (n.d.)

Table 24: List of IFSB Full Members

#	Country	Organization
1	Bahrain	- Central Bank of Bahrain
2	Bangladesh	- Bangladesh Bank
3	Brunei	- Brunei Darussalam Central Bank
4	Djibouti	- Banque Centrale De Djibouti
5	Egypt	- Central Bank of Egypt
6	Indonesia	- Bank Indonesia - Indonesia Financial Services Authority
7	Iran	- Central Bank of the Islamic Republic of Iran - Securities and Exchange Organization
8	Iraq	- Central Bank of Iraq
9	Jordan	- Central Bank of Jordan
10	Kazakhstan	- Agency of the Republic of Kazakhstan for Regulation and Development of the Financial Market - Astana Financial Services Authority (AFSA)
11	Kuwait	- Central Bank of Kuwait
12	Libya	- Central Bank of Libya
13	Malaysia	- Bank Negara Malaysia - Securities Commission of Malaysia
14	Mauritania	- Central Bank of Mauritania
15	Mauritius	- Bank of Mauritius
16	Morocco	- Bank Al-Maghrib
17	Nigeria	- Central Bank of Nigeria - National Insurance Commission - Nigeria Deposit Insurance Corporation (NDIC)
18	Oman	- Central Bank of Oman
19	Pakistan	- State Bank of Pakistan
20	Qatar	- Qatar Central Bank
21	Saudi Arabia	- Capital Market Authority - Saudi Central Bank
22	Sudan	- Central Bank of Sudan
23	Türkiye	- Banking Regulation and Supervision Agency - Central Bank of the Republic of Türkiye - The Insurance and Private Pension Regulation and Supervision Agency of Türkiye (IPRSA)
24	UAE	- Central Bank of the United Arab Emirates - Dubai Financial Services Authority
25	International Organization	- Islamic Development Bank

Source: <https://www.ifsb.org/membership.php?id=1>

Table 25: Ranking of OIC Member Countries (Based on IFDI 2020)

Market	OIC	Group	2020	2019	2018	2017	2016	2015
Malaysia	Yes	Asian	1	1	1	1	1	1
Indonesia	Yes	Asian	2	2	4	10	10	10
Saudi Arabia	Yes	Arab	3	5	5	5	5	5
Bahrain	Yes	Arab	4	3	2	2	2	2
United Arab Emirates	Yes	Arab	5	4	3	3	3	3
Jordan	Yes	Arab	6	6	6	6	8	8
Pakistan	Yes	Asian	7	7	7	4	6	6
Kuwait	Yes	Arab	8	9	8	8	7	7
Oman	Yes	Arab	9	8	9	7	4	4
Maldives	Yes	Asian	10	12	12	12	12	12
Qatar	Yes	Arab	11	10	11	11	9	9
Brunei	Yes	Asian	12	11	10	9	14	14
Nigeria	Yes	African	13	13	14	14	26	26
Bangladesh	Yes	Asian	14	16	13	13	16	16
Türkiye	Yes	Asian	15	18	16	20	25	25
Iran	Yes	Asian	17	17	18	16	19	19
Palestine	Yes	Arab	18	23	22	21	15	15
Tunisia	Yes	Arab	19	22	20	24	17	17
Syria	Yes	Arab	20	15	24	32	21	21
Iraq	Yes	Arab	22	25	26	29	49	49
Kazakhstan	Yes	Asian	24	21	21	22	31	31
Morocco	Yes	Arab	29	26	28	25	30	30
Gambia	Yes	African	30	32	31	34	32	32
Yemen	Yes	Arab	34	35	34	35	24	24
Egypt	Yes	Arab	35	27	27	26	23	23
Algeria	Yes	Arab	36	41	46	48	47	47
Djibouti	Yes	Arab	37	38	38	31	33	33
Kyrgyzstan	Yes	Asian	38	39	41	37	43	43
Uganda	Yes	African	41	48	94	45	63	63
Somalia	Yes	Arab	42	36	35	41	42	42
Tajikistan	Yes	Asian	46	44	45	40	48	48
Mauritania	Yes	Arab	47	45	48	50	37	37
Uzbekistan	Yes	Asian	49	54	55	76	102	102
Senegal	Yes	African	54	50	49	55	44	44
Suriname	Yes	Asian*	55	51	59	71	88	88
Comoros	Yes	Arab	56	57	56	58	50	50
Guinea	Yes	African	60	61	58	77	65	65
Cameroon	Yes	African	64	56	62	51	71	71
Guinea-Bissau	Yes	African	70	74	73	74	60	60
Guyana	Yes	Asian*	71	77	72	87	112	112
Azerbaijan	Yes	Asian	72	63	54	53	35	35
Gabon	Yes	African	74	76	75	81	64	64
Sierra Leone	Yes	African	78	81	76	80	67	67
Togo	Yes	African	79	83	80	91	61	61
Benin	Yes	African	83	80	81	88	52	52
Turkmenistan	Yes	Asian	85	89	60	99	92	92
Chad	Yes	African	86	85	82	89	69	69

Mali	Yes	African	89	94	87	92	70	70
Burkina Faso	Yes	African	90	93	79	78	72	72
Niger	Yes	African	91	95	84	82	66	66
Cote d'Ivoire	Yes	African	95	98	77	98	59	59
Mozambique	Yes	African	97	97	97	102	46	46

Notes: The countries are ranked based on IFDI scores of year 2020. 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, Knowledge, Governance, Corporate Social Responsibility, and Awareness.

Figure 20: IFSI's Key Developmental Milestones (Malaysia)

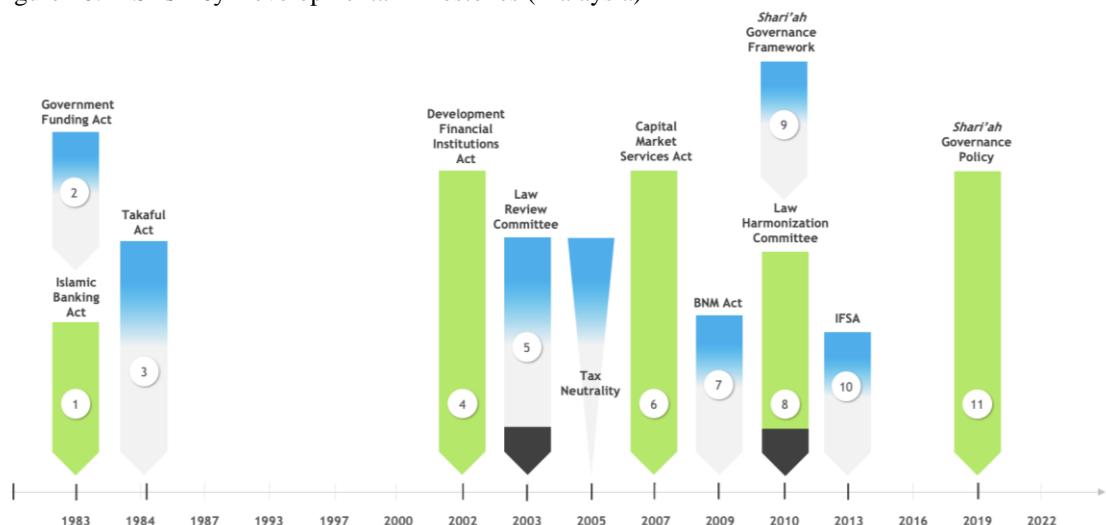


Figure 21: IFSI's Key Developmental Milestones (Morocco)

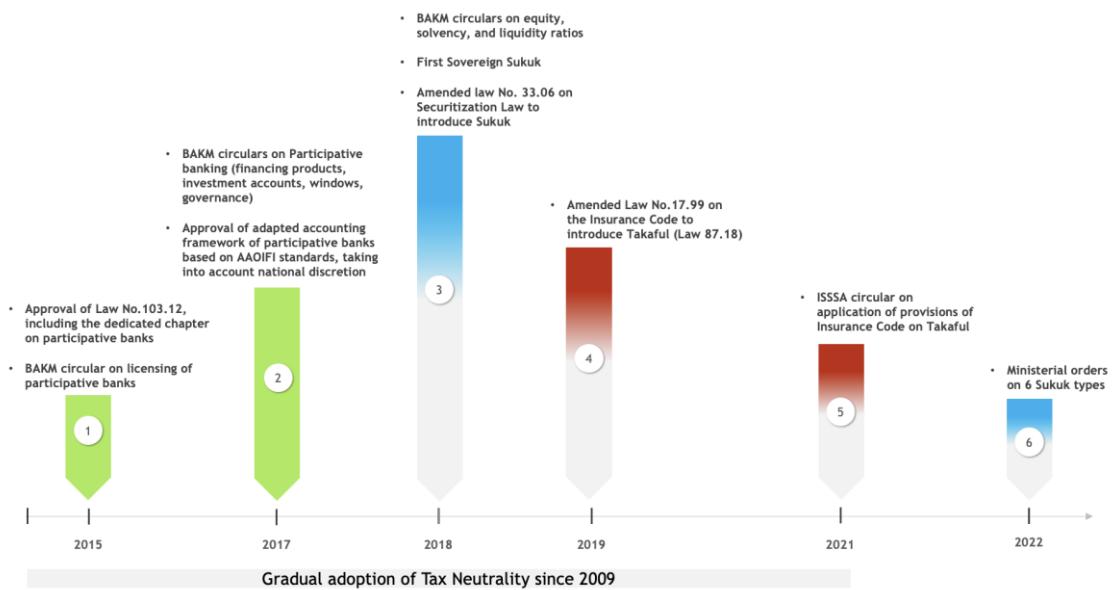


Figure 22: IFSI's Key Developmental Milestones (Oman)

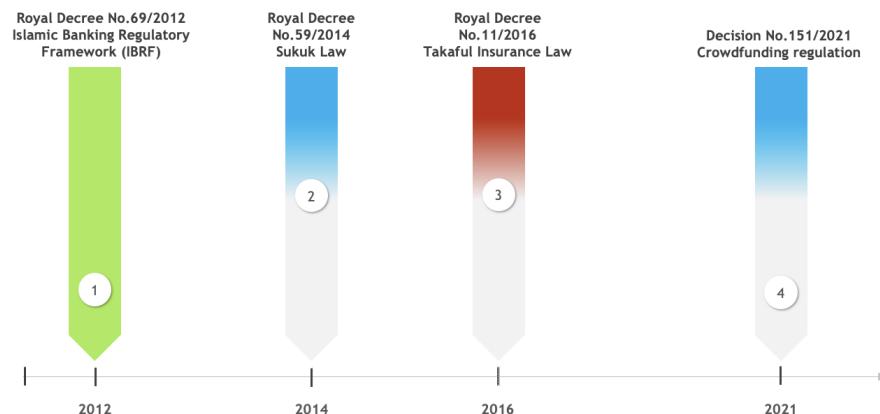


Figure 23: IFSI's Key Developmental Milestones (Türkiye)

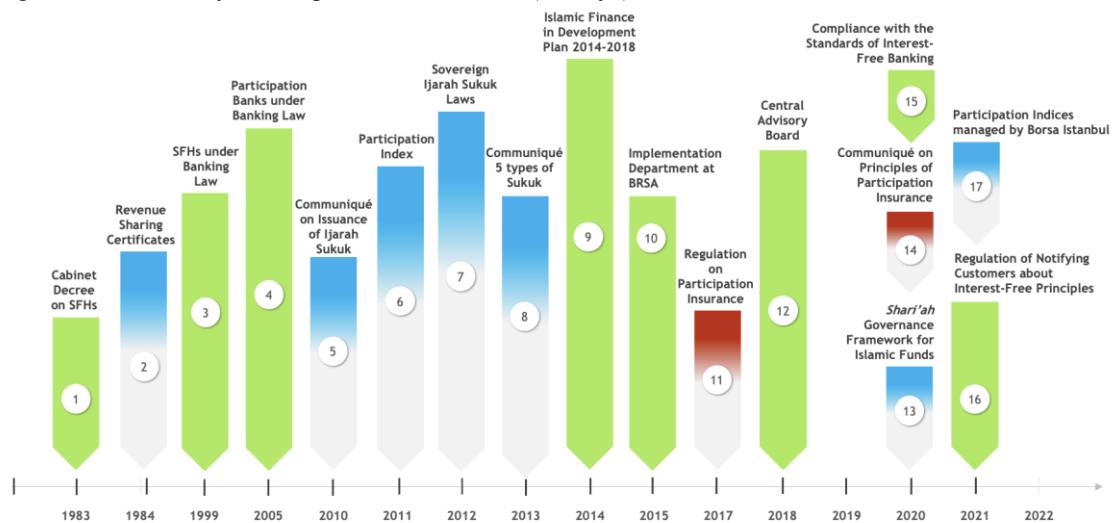
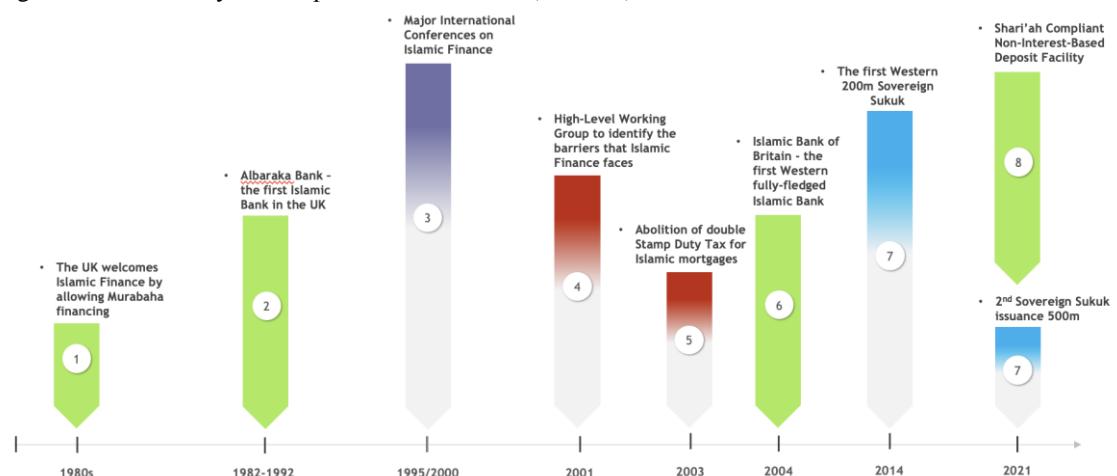


Figure 24: IFSI's Key Developmental Milestones (The UK)



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