

RIAYAH CONSULTANCY

Sharia Governance

CONTRACT

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of this Agreement, All parties shall act to complete
supersede all prior negotiations, agreements and
agrees to indemnify and hold harmless the contract
of the liability or potential liability of the contract
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What is Shariah Governance?

Shariah governance is the system ensuring Islamic financial institutions (IFIs) comply with Shariah principles across all products, operations, and activities.



Oversight

Supervision on all Shariah matters



Accountability

Clear responsibility mechanisms



Transparency

Open Islamic financial practices



Consistency

Alignment with AAOIFI, IFSB, and regulations

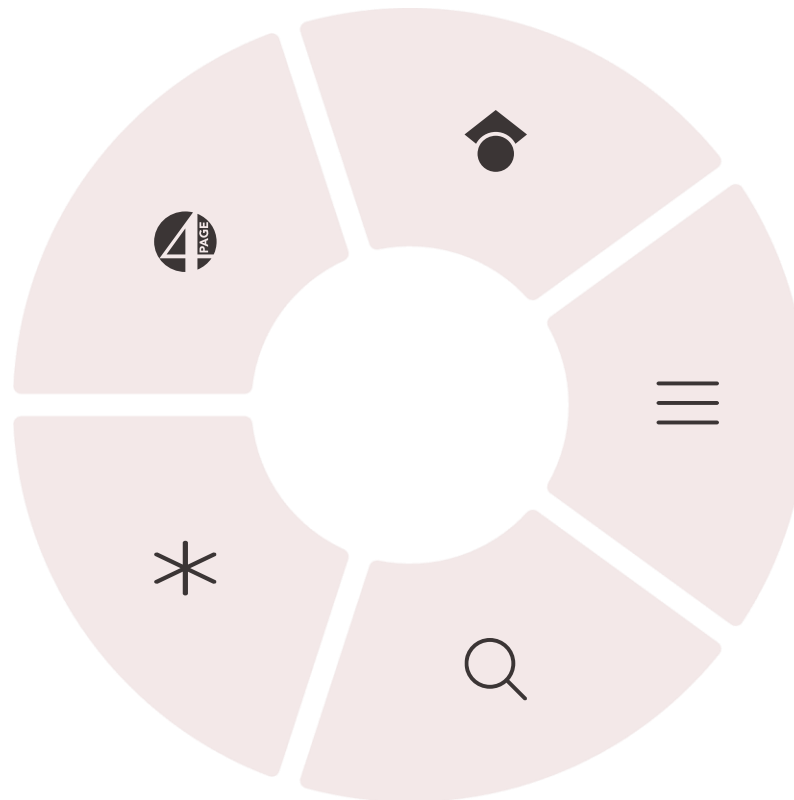
A sound framework protects stakeholders from Shariah non-compliance risk, reputational damage, and financial losses.

Five Core Components

A standard Shariah governance structure comprises five essential elements working together to ensure comprehensive compliance.

Board of Directors
Ultimate accountability for Shariah compliance

Risk Management
Integration of Shariah non-compliance risk



Shariah Supervisory Board
Independent rulings and oversight

Compliance Function
Day-to-day monitoring and implementation

Audit Function
Independent annual reviews

Corporate Governance

Framework for Direction and Control



Focus

Maximize shareholder value and protect stakeholder interests through effective direction and control.



Core Principles

Built on fairness, accountability, transparency, responsibility, and clear communication.



Scope

Manages relationships between management, board of directors, and shareholders.

Shariah Governance

Ensuring Sharia Compliance



1

Focus

Ensures all activities and operations of Islamic financial institutions comply with Shariah (Islamic law).

2

Principles

Operates on ethical, spiritual, and legal aspects derived from shariah.

3

Scope

Creates a dual governance structure with the Shariah committee guiding board and management.



Transparency & Disclosure

Corporate Governance

- Financial reporting
- Governance disclosures
- Stakeholder communication

Shariah Governance

- Shariah-compliance status
- SAC rulings disclosure
- Shariah audit reports

📌 **Shared Priority:** Both frameworks emphasize transparency, timely reporting, and full disclosure to all stakeholders.

Protecting Stakeholders



Corporate Governance

Protects shareholders, depositors, regulators, and employees through fair practices and accountability.



Shariah Governance

Protects all stakeholders while ensuring compliance with Shariah principles, safeguarding customers from riba, gharar, and maysir.

Common Goal: Both frameworks ensure fairness, trust, and confidence in the institution.



Comparing the Two Frameworks

Aspect	Corporate Governance	Shariah Governance
Primary Focus	Shareholder value maximization	As well as shariah compliance
Foundation	Business principles and regulations	Shariah Principles
Key Stakeholders	Shareholders, board, management	Plus Shariah committee
Oversight Structure	Single layer	Dual layer
Scope	Business operations and control	Ethical, spiritual, and legal compliance



Board of Directors

Ultimate Accountability

01

Framework Approval

Approves Shariah governance framework, policies, and internal control systems

03

Strategic Endorsement

Endorses strategic decisions aligned with Shariah requirements

02

Resource Allocation

Ensures adequate resources for Shariah functions



Shariah Supervisory Board

The Central Component

Mandate

- Provide independent Shariah rulings (fatwas)
- Oversee compliance of operations, products, and contracts
- Review and approve product structures and documentation
- Guide management on governance, ethics, and Islamic values

Composition

3–7 members typically

- Shariah scholars with expertise in Fiqh al-Muamalat
- Knowledge of AAOIFI standards and regulatory guidelines
- May include technical experts (lawyers, accountants, risk specialists)

Reports directly to the Board ensuring independence

Shariah Compliance Function



Implementation

Implement SAC resolutions and conduct regular Shariah reviews



Monitoring

Monitor day-to-day compliance across all operations



Review

Review contracts, marketing materials, and system configurations



Secretariat

Serve as Secretariat to SAC, coordinating all activities

Often headed by a Shariah Compliance Officer or Manager who ensures seamless execution of Shariah requirements.

Governance Flow

How the Framework Operates



Appointment & Structure



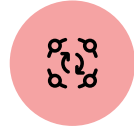
Board Appointment

Appointed by the Board of Directors as independent advisors with impartial mandate execution authority.



Meeting Schedule

Quarterly meetings plus additional sessions when required for urgent matters.



Membership Size

3–5 qualified scholars with expertise in Islamic jurisprudence and finance.



Quorum Rules

Minimum 3 members, or 2 plus Shariah Compliance Head if board has exactly 3 members.

Character & Competency Requirements

1

Good Character

No fraud or crime history. Demonstrated integrity, honesty, and ethical conduct in all professional dealings.

2

Shariah Competence

Deep knowledge in Islamic jurisprudence, especially Fiqh al-Muamalat (Islamic commercial law).

3

Fitness to Serve

Mental, physical, and emotional capability to perform duties effectively and consistently.

4

Preferred Expertise

Knowledge in finance, law, economics, or accounting enhances board effectiveness.

Chairman Roles & Authority



Meeting Leadership

Chairs all meetings, ensuring punctuality, participation, and member discipline throughout proceedings.



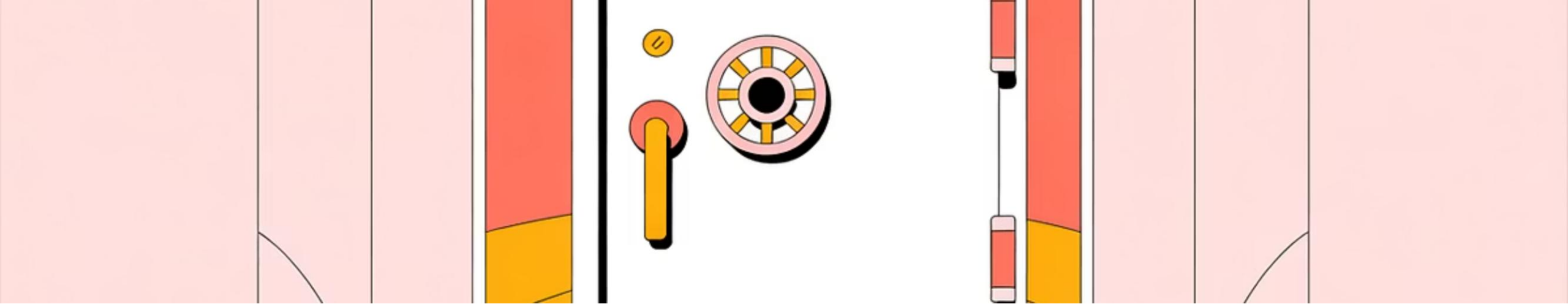
Urgent Decisions

Can approve urgent matters on behalf of Shariah Board but must report in next meeting.



Term & Tenure

Elected every 3 years with eligibility to serve multiple consecutive terms.



Confidentiality Obligations

Members must protect all proprietary information and cannot share or duplicate without written permission.

Products & Systems

Product designs, systems architecture, manuals, and operational procedures.

Stakeholder Data

Client information, staff records, and personal data of all stakeholders.

Internal Intelligence

Financial details, legal matters, and operational strategies.

Decision-Making & Rulings

01

Seek Consensus

Preferably reach unanimous decisions through thorough discussion and deliberation.

03

Follow Framework

Base rulings on Quran & Sunnah, majority scholarly opinion, AAOIFI & IFSB standards.

02

Majority Vote

If consensus impossible, majority vote is binding; dissenting views are minuted.

04

Expert Consultation

Complex matters may be referred to international Shariah experts for guidance.

Performance Evaluation Criteria

The Financial Institution evaluates Shariah Board performance across multiple dimensions:



Meeting Attendance

Consistent participation and punctuality in scheduled and emergency meetings.



Public Advocacy

Promoting Takaful principles and Islamic finance awareness.



Contribution Quality

Depth and relevance of insights provided during deliberations.



Ruling Consistency

Soundness and coherence of Shariah rulings over time.





Knowledge Initiatives


Research contributions and thought leadership in Islamic finance.

Member Selection Criteria

 Reputation
Community respect, neutrality, and demonstrated independence in professional conduct.

 Academic Qualifications
Shariah degree or recognized authority status in Islamic jurisprudence.

 Commercial Law Knowledge
Expertise in Islamic commercial law and contemporary financial transactions.

 Professional Exposure
Experience with Islamic Financial Institutions, familiarity with AAOIFI and IFSB standards.

 Background Verification
Clean background checks confirming integrity and professional standing.

Investment Policy Statement Approval

One of the most critical responsibilities of the Shariah Board is approving the Investment Policy Statement.



Permissible Asset Classes

Equities, Sukuk, real estate, Islamic money market instruments, Islamic REITs, and Shariah-compliant infrastructure.



Screening Methodology

Sectoral screens exclude alcohol, gambling, and interest-based banking. Financial ratio screens and purification methodology for mixed-income securities.

Shariah Screening Framework

Sectoral Screens

Prohibited sectors include:

- Alcohol production
- Gambling operations
- Interest-based banking
- Tobacco manufacturing
- Pork-related products

Financial Compliance

Financial ratio screens ensure investments meet Islamic standards, with purification methodology applied to mixed-income securities.



Benefit Payment Policies

The SSB must vet and approve all benefit payment rules to ensure Shariah compliance.

1

Payment Types

Lump sum withdrawals, monthly pension withdrawals, early retirement, death benefits, disability payouts, employer contributions, and unclaimed benefits treatment.

2

Key Requirements

No interest, no gharar (ambiguity) in benefit formulas, and benefits based on actual pool performance.

Takaful & Risk Fund Arrangements

When pension schemes include risk or mortality benefits, the SSB approves comprehensive Takaful arrangements.

01

Takaful Operator Selection

Careful vetting of operators for Shariah compliance and operational excellence.

02

Payment Conditions

Clear terms for death, permanent disability, and critical illness coverage.

03

Compliance Assurance

No unjust enrichment, no riba-based mortality costs, fair allocation of risk charges.

Operational Policy Approval

All operating manuals require SSB approval to ensure Shariah alignment across every operational aspect.



Contribution Processing

Manual for handling member and employer contributions.



Investment Procedures

Guidelines for executing Shariah-compliant investments.



Member Onboarding

Process for enrolling new members compliantly.



Marketing Guidelines

Standards for ethical member communication.



Purification Policy

Methodology for cleansing non-compliant income.



Complaint Handling

Fair resolution procedures for member concerns.

Manual Compliance Standards

The SSB ensures each operational manual meets three critical standards:

- 1** Structural Match
Aligns with approved Shariah structure
- 2** Ethical Practice
Avoids riba, gharar, and unethical practices
- 3** Workflow Clarity
Clear processes consistent with fatwa



Marketing & Communication Oversight

The Shariah Board reviews and endorses all member-facing materials to ensure ethical and accurate representation.

Materials Requiring Approval

- Brochures and benefit illustrations
- Website content and digital materials
- Advertisement scripts and campaigns
- Member statements and projections



Communication Compliance Principles



No Misleading Promises

All communications must be truthful and avoid unrealistic expectations about returns or benefits.

No Guaranteed Returns

Materials cannot promise fixed returns, as benefits depend on actual investment performance.

No Interest References

Avoid any indirect or direct reference to interest-based concepts in all member communications.

Correct Terminology

All Shariah terminology must be accurate and properly explained to members.



The SSB's Strategic Role

Pre- Launch Review

Rigorous examination of all structural elements before scheme activation.

Operational Approval

Validation of mechanisms ensuring Shariah compliance in daily operations.

Continuous Oversight

Ongoing monitoring to maintain adherence to approved Islamic structures.

Shariah-Compliant Pension Models



Wakalah (Agency)

Operator acts as agent managing contributions for a pre-agreed fee covering administrative and investment services.



Mudharabah

Operator serves as Mudarib with pre-agreed profit-sharing ratio. Losses borne by participants except in cases of negligence.



Hybrid Models

Combines Wakalah for management, Mudharabah for profit-sharing, and Tabarru' for risk coverage.



Trust Deed & Scheme Rules

Must Include

- Shariah-compliant investment principles
- Clear fee deduction structures
- Defined Shariah roles (SSB, audit, compliance)

Must Avoid

- Guaranteed returns
- Interest-based top-ups
- Ambiguous contractual terms

Member Participation Agreement

Contribution Payment Terms

Clear schedule and methods for member contributions to the pension scheme.

Rights & Obligations

Detailed explanation of member rights and responsibilities under the scheme.

Investment Options

Transparent disclosure of available Shariah-compliant investment vehicles and strategies.

Purification Process

Treatment and disposal of any non-halal income according to Shariah principles.

Governance Framework



Conflict of Interest

Policies ensuring transparency and ethical conduct in all operations.



Disclosure Standards

Comprehensive reporting requirements aligned with international guidelines.



Investment Ethics

Guidelines ensuring all investments meet Shariah compliance standards.

Contribution Structure Approval



Collection Method

How contributions are gathered from members.



Pool Distribution

Allocation to investment pools and risk funds.



Eligibility Rules

Criteria for participation and benefits.



Fee Deductions

Administrative, management, and Takaful charges.



Key Contribution Requirements

No Interest Earnings

Contributions cannot earn interest or be invested in interest-bearing assets under any circumstances.

Float Money Treatment

Must be kept in Shariah-compliant current accounts with no interest accrued during holding periods.

Late Contributions

Clear policies for handling missed or delayed contributions without penalty interest.



Shariah Compliance Certification Process

A comprehensive framework ensuring pension schemes meet rigorous Shariah standards through systematic review, certification, and continuous monitoring.

Certificate Distribution & Visibility



Public Access

Certificate is made publicly available to ensure transparency and build stakeholder confidence.



Scheme Documents

Attached to all official pension scheme documentation for regulatory compliance.



Regulatory Sharing

Shared with financial regulators to demonstrate adherence to Shariah principles.



Digital Presence

Displayed prominently on website and integrated into all marketing materials.

The Certificate's Strategic Importance

Trust Building

Establishes credibility with Muslim investors seeking Shariah-compliant investment options.

Regulatory Compliance

Demonstrates adherence to both financial regulations and Islamic jurisprudence requirements.

Market Differentiation

Distinguishes the pension scheme in the growing Islamic finance marketplace.



Continuous Monitoring

Shariah compliance is not a one-time achievement—it requires ongoing vigilance and periodic re-approval to maintain certification integrity.



Periodic SSB Approval Requirements



Revised Investment Policies

Any changes to investment strategies or portfolio allocation must receive SSB approval before implementation.



New Asset Classes

Introduction of new investment vehicles or asset categories requires thorough Shariah review and certification.



Updated Marketing Materials

All promotional content must be reviewed to ensure accurate representation of Shariah compliance.



Operational Changes Requiring Approval

Operational Manuals

New or revised procedures must align with Shariah.

Fee Structures

Changes in fees or deductions must be Shariah-compliant.

Scheme Rules

Any modifications to governing rules require SSB review.

System Changes

Technology updates affecting Shariah need approval.

The Re-Approval Process



Change Identification

Proposed modifications are documented and submitted to SSB.



Shariah Review

SSB conducts thorough analysis against IShariah principles.



Approval & Implementation

Upon approval, changes are implemented with updated documentation.

Non-Compliance Consequences

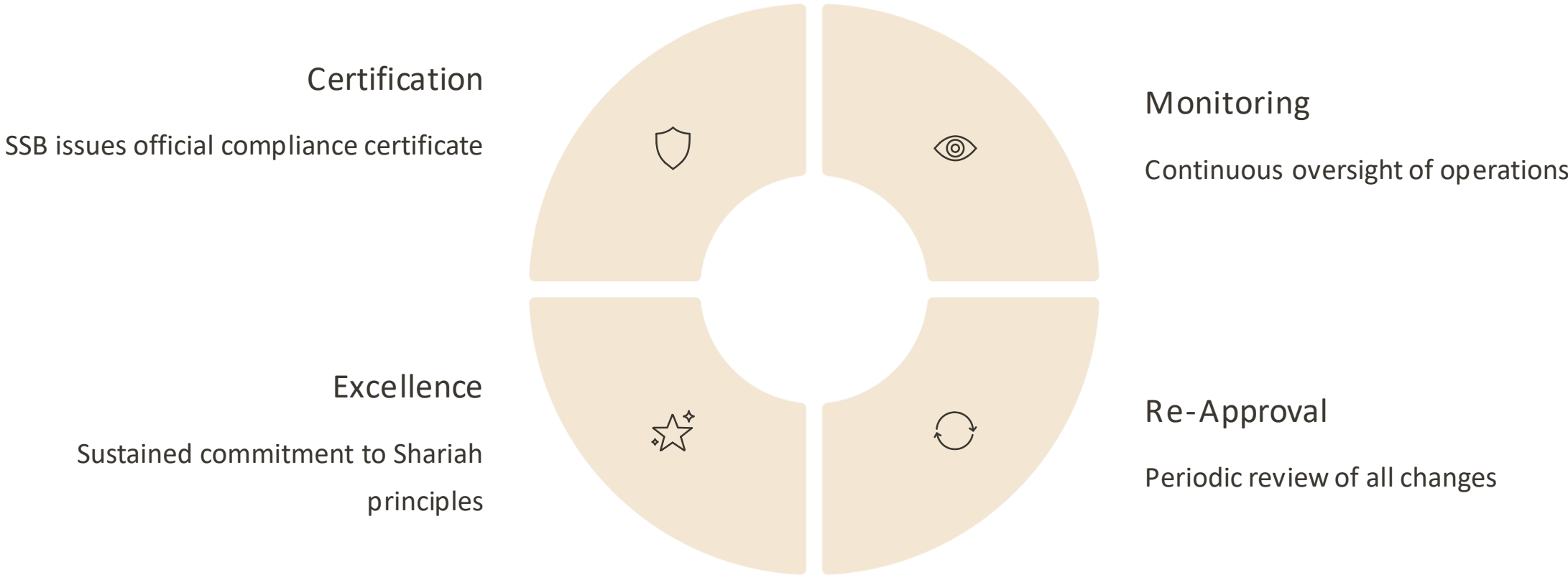
Critical Requirement

Any unapproved change is considered a Shariah non-compliance event.

Unauthorized modifications—regardless of intent—constitute violations of Shariah compliance standards. This strict policy ensures the integrity and authenticity of the certification process, protecting both the scheme and its participants.



Maintaining Excellence in Shariah Compliance



A robust framework ensuring pension schemes remain fully compliant with Shariah standards through systematic certification, transparent communication, and rigorous ongoing monitoring.

Dispute Resolution Between Management & the Shariah Board

Disagreements may occur when management and the Shariah Board differ on product approval, operational processes, marketing materials, or interpretation of Shariah rulings. A structured mechanism maintains harmony, compliance, and institutional integrity.



Step 1: Internal Discussion & Clarification

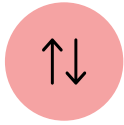
Direct Engagement

Begin with dialogue between management and the Shariah Board to clarify misunderstandings and share evidence.

Most issues are resolved at this stage through open communication.



Step 2: Escalation to Senior Leadership



Escalation Path

Matter is escalated to CEO or top executive leadership when disagreement persists.

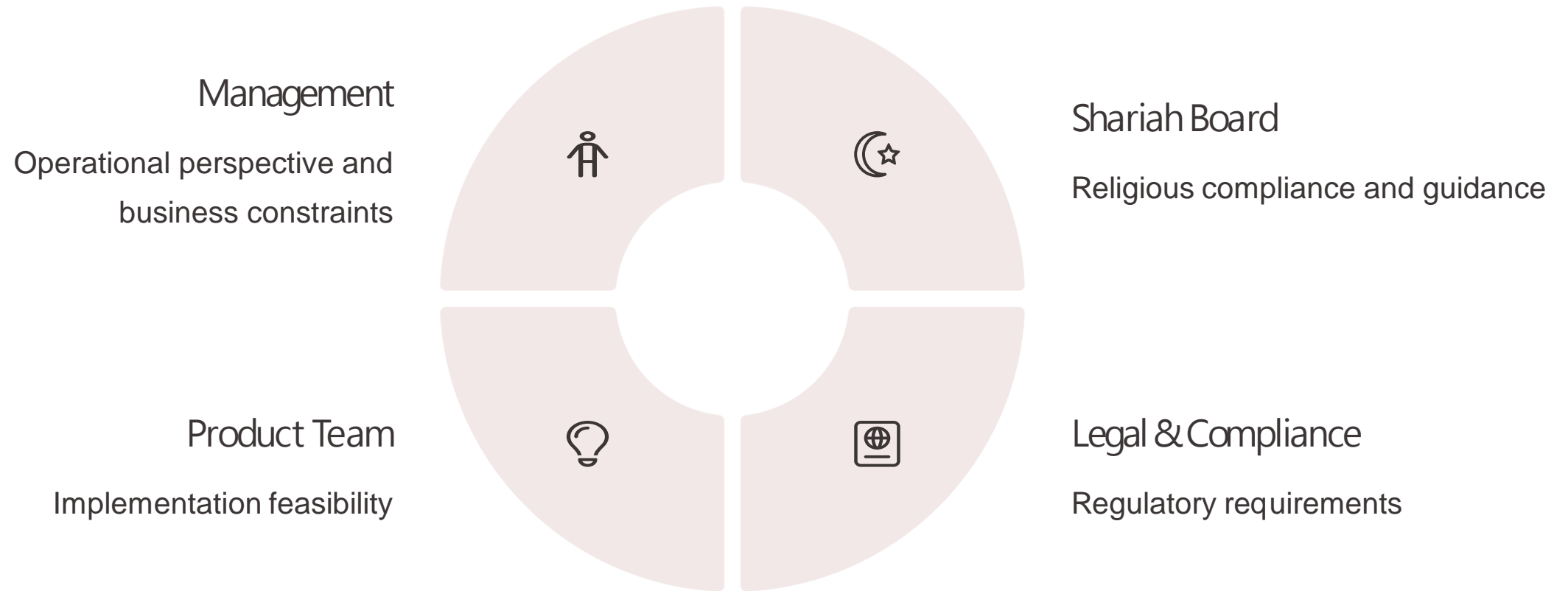


Purpose

Facilitate balanced discussion, ensure alignment with institutional strategy, and uphold Shariah compliance.



Step 3: Joint Review & Decision



Joint sessions focus on reviewing Shariah concerns, examining operational constraints, and identifying acceptable alternatives to build consensus.

Arbitration or Neutral Mediation

When Used

- Significant disputes remain unresolved
- High governance or compliance risk
- Need for independent perspective

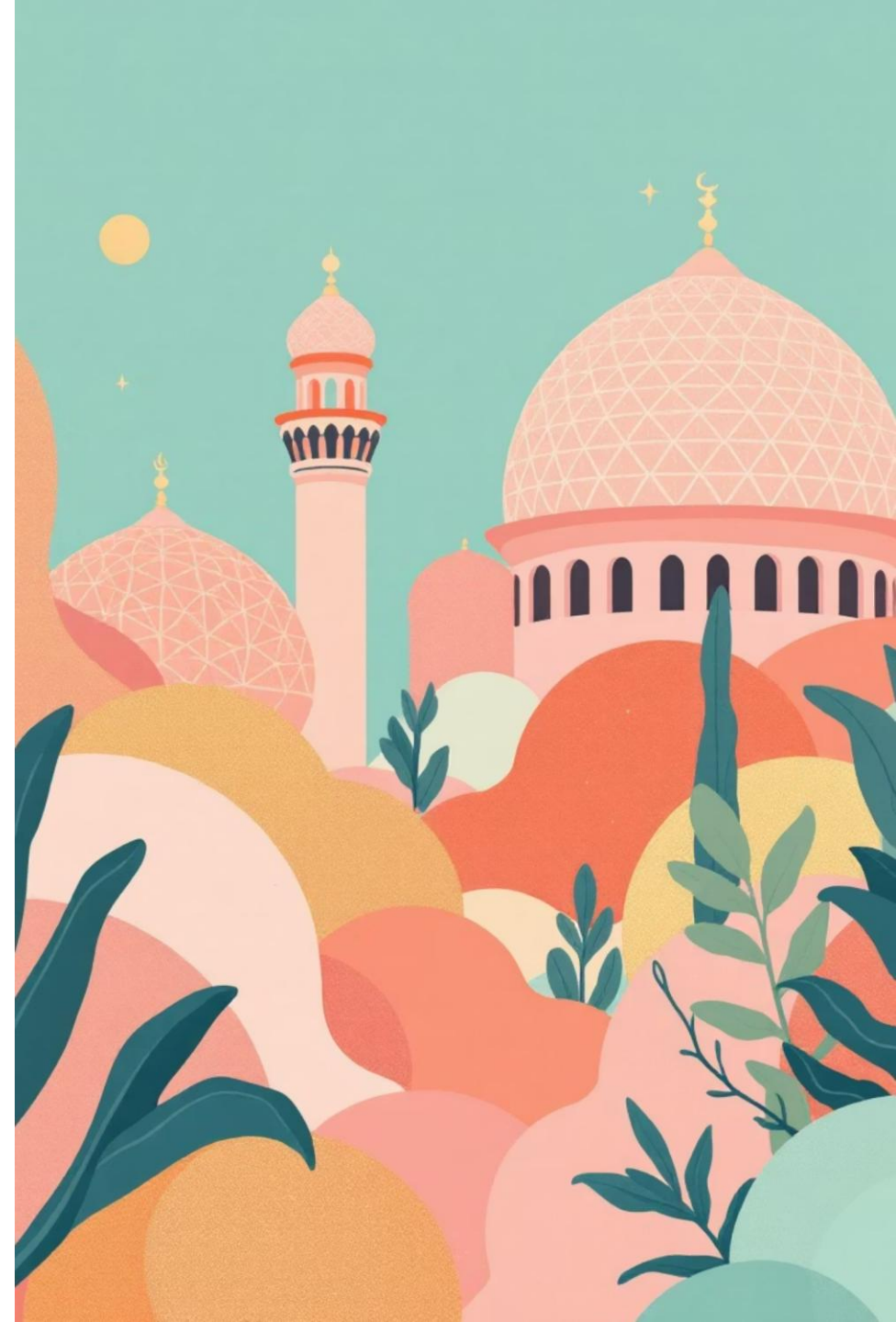
Benefits

- Ensures fairness and transparency
- Mitigates institutional risk
- Provides neutral resolution



Shariah Compliance Prevails

In Islamic financial institutions, Shariah compliance overrides commercial preference. Final decisions must uphold Shariah principles to maintain legitimacy, public confidence, and regulatory compliance.



The Resolution Process Flow



THE END

