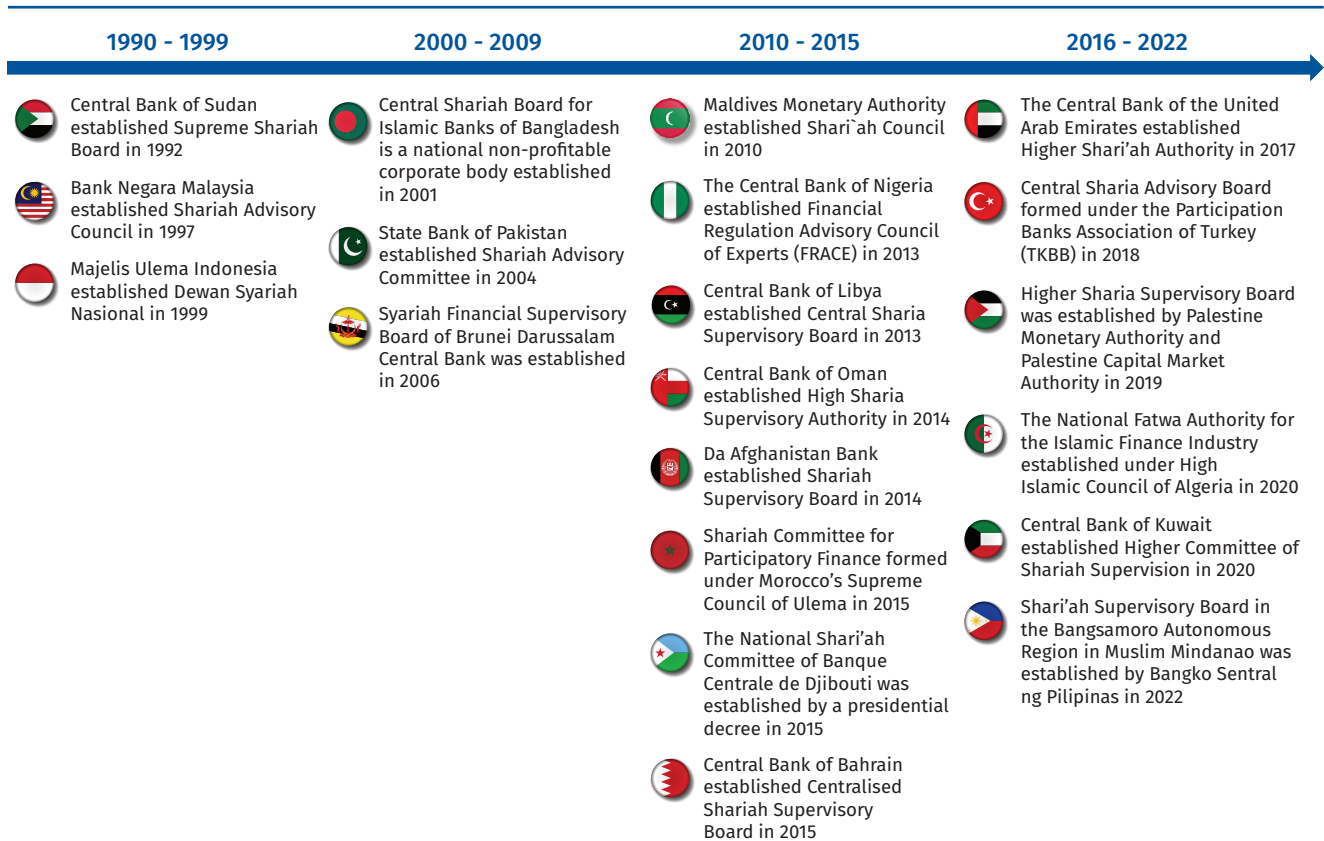


Fostering International Connectivity among Central Shariah Boards in Islamic Finance

Malaysia is one of the first countries in the world to establish a central Shariah board in Islamic finance in the central bank.¹ Since its formation in 1997, the Shariah Advisory Council of Bank Negara Malaysia (the SAC) has been instrumental in providing Shariah certainty for the Malaysian Islamic financial industry. Over the years, the Shariah rulings issued by the SAC have continued to play a key role in supporting the orderly development of the Islamic financial system in Malaysia – by encouraging innovation while promoting confidence in the integrity of financial solutions based upon Shariah tenets.

The important role of central Shariah boards in preserving the sanctity of Shariah and sustaining public confidence has gained more traction globally. From three pioneering countries in the 1990s, there are now 20 countries with central Shariah boards in Islamic finance (refer to Diagram 1). The institutional structures, roles and mandates of central Shariah boards vary across countries, reflecting the size and complexity of the Islamic finance industry as well as the local operating landscape in these countries.

Diagram 1: Countries with central Shariah board in Islamic finance



Sources: Bank Negara Malaysia and official website of respective financial regulatory authorities and central Shariah boards

¹ The central Shariah board in Islamic finance refers to the national-level Shariah board that is established to deliberate on Shariah matters in Islamic finance.

The evolving and more integrated global financial system calls for stronger connectivity among central Shariah boards

Looking ahead, Islamic finance holds significant untapped potential to support economic growth, empower trade and the digital economy, as well as build social and climate resilience. In tandem with this, Shariah issues have, and will continue to become more complex with implications beyond domestic borders. Against this backdrop, stronger connectivity among the central Shariah boards of various jurisdictions is needed to enable exchange and mutual recognition of best practices and formulation of well-founded Shariah solutions that can meet current and future economic and social needs.

In pursuit of greater connectivity and mutual recognition in Shariah, the inaugural Centralised Shariah Advisory Authorities in Islamic Finance (CSAA) meeting was held in 2018. The meeting marked the creation of an international networking platform among the central Shariah boards of various jurisdictions to deliberate current and emerging Shariah issues, with the aim of tapping into diverse perspectives and experience to support the sound and orderly development of Islamic finance globally.



The first CSAA meeting organised by the Bank in 2018. From left: Deputy Governor Abdul Rasheed Ghaffour, Tan Sri Dr. Mohd Daud Bakar, the former Chairperson of the SAC of the Bank and the late Sheikh Dr. Abdul Sattar Abu Ghuddah, the former Chairperson of the Centralised Shariah Supervisory Board of the Central Bank of Bahrain.



The fourth CSAA meeting hosted by the Central Bank of the United Arab Emirates (UAE) on 11 October 2022. The Bank's delegates led by Prof. Dr. Ashraf Md Hashim, the Chairperson of the SAC were among key presenters, sharing the Bank's recently published Discussion Paper on Hajah (exigent circumstances) that outlines proposed parameters for application of hajah by Islamic financial institutions. - Photo courtesy of the Central Bank of the UAE

In recent years, CSAA has helped strengthen the capacity of central Shariah boards in addressing emerging challenges via series of exchange of knowledge, experience and best practices. The discussions conducted by the CSAA seek to address:

- (a) common Shariah issues (for instance, the Shariah considerations in the implementation of assistance measures to reduce the financial hardships of the customers who were adversely affected by the pandemic - such as the application of the principle of fairness (*ʿadl*) and beneficence (*ihsan*)); and
- (b) critical Shariah policies with long-term developmental impact on Islamic finance growth, innovation and stability (refer to Diagram 2).

Diagram 2: The Nature of Discussions in the CSAA Meetings has Evolved to Meet the Current Needs of Participating Countries

2018	2020	2021	2022
			
<p>First Meeting 2 October 2018 Central Bank of Malaysia (Kuala Lumpur)</p>	<p>Second Meeting 11 May 2020 Central Bank of UAE (virtual)</p>	<p>Third Meeting 21 December 2021 Central Bank of Malaysia (virtual)</p>	<p>Fourth Meeting 11 October 2022 Central Bank of UAE (hybrid)</p>
<p>Exchange of knowledge and experience in the set-up of central Shariah board for Islamic finance</p> <ul style="list-style-type: none"> • Shariah governance framework • Reference (e.g. queries) from court and arbitrator 	<p>Exchange of views and Shariah rulings on regulatory measures taken by respective countries in addressing the impact of COVID-19 pandemic</p> <ul style="list-style-type: none"> • The regulatory measures include moratorium and the utilisation of dedicated funds to assist affected individuals 	<p>Discussion on the important role of central Shariah boards in mainstreaming Islamic finance, and a sound framework to ensure quality Shariah boards</p>	<p>Discussion on the importance of Shariah guide on <i>hajah</i> (exigent circumstances) to provide tools for Islamic financial institutions to manage risks and innovate continuously within evolving operating landscape, harmonisation and diversification of Shariah contracts and the role of the central Shariah board towards sustainability goals</p>

Source: Bank Negara Malaysia and the Central Bank of the UAE

Role of CSAA Moving Forward

The different Shariah practices across jurisdictions are attributable to several factors including the differences in scholarly opinions to account for the practicality and implementation of Shariah rulings in addressing the needs and interest (*maslahah*) of society.² Such differences are an accepted facet in Islamic jurisprudence. Through the CSAA, the central Shariah boards are envisioned to forge greater understanding, respect and acceptance of various Shariah practices to unlock the full potential of Islamic finance for the mutual benefit of the Islamic financial ecosystem globally. This is supported by continuing efforts to strengthen the mechanism and governance of CSAA to assume a more prominent role in the future. Shariah opinions generated through CSAA discussions would be another source of reference by financial regulatory authorities, global *fatwa*-issuing bodies and international standards-setting organisations.

It is envisaged that CSAA will continue to develop as a strong global networking platform supporting the sustainable growth of Islamic finance, anchored by a shared purpose and mind-set to harness the collective wisdom of the participating central Shariah boards. These are important pre-requisites to ensure both CSAA and the participating countries can effectively respond to emerging Shariah risks and optimise opportunities in Islamic finance. With stronger connectivity and collective stewardship, CSAA will be able to contribute towards strengthening the global Islamic finance ecosystem.

² For instance, in Malaysia, the mandatory inclusion of a rebate clause (*ibra'*) in Islamic financing agreements is allowed to preserve fairness and contractual certainty as well as to mitigate moral hazard. Such ruling safeguards consumers' interest especially in judicial proceedings.