

Shariah Governance Regulations enforced

ISLAMABAD: The Securities and Exchanges Commission of Pakistan (SECP) has enforced Shariah Governance Regulations 2018 mandating all new Sharia-based financial products and companies to seek commission's approval.

Shariah-compliant corporate sector, capital markets, securities and Islamic financial institutions will fall under the jurisdiction of these regulations.

Announcing the regulations, SECP spokesperson on Friday said that once enforced, no Shariah-compliant business can be launched without SECP's approval. He said the regulations were imminent after various modaraba scandals surfaced across the country.

"It is a major breakthrough to lay the foundation for a true Islamic financial and economic system," he added. These regulations are a leap forward towards developing of a long-term, sustainable Islamic financial market, corporate sector and capital market.

Due to a lack of central body to regulate Shariah business activity, the practice of arbitrary Shariah-interpretation and the discretionary labelling of businesses as Shariah-compliant were widespread across the country.

The SECP has said that the regulations will help deepen Shariah-compliant businesses and financing and will set the momentum for an all-embracing use of Shariah-compliant securities for Shariah-compliant investments and financings as the regulations provide opportunity to every business irrespective of its size or line of business to become Shariah-compliant or to issue Shariah-compliant security listed or unlisted.

The regulations have been introduced inculcating all governance elements necessary to execute compliance and uphold the sanctity of Shariah in business and financial dealings and operational practices.

The regulations include certification for Shariah-compliant companies and securities, a comprehensive screening methodology for listed as well as unlisted companies, internal and external audit, advisory, compliance, income purification and charity distribution mechanism.

The SECP said the regulations will help achieve standardisation, harmonisation, and transparency in the business practices and operational aspects of Shariah-compliant businesses and Islamic financial institutions, implement uniform screening mechanism, and enforce compliance-driven governance.

At the same time, the regulations will make data collection and analysis on corporate sector's conformity with Shariah easier and enable the commission to gauge Shariah compliance and assess the Shariah compliant businesses' universe in the corporate sector and capital markets of Pakistan.

The concepts of Shariah-compliant company and security were introduced through landmark provisions through Section 451 incorporated in The Companies Act, 2017.

In order to put a robust and holistic Shariah governance framework for effective regulation and supervision of compliant business activities in place, the SECP's Islamic Finance Department (IFD) reviewed similar frameworks in Malaysia, Indonesia, UAE, Bahrain, and Iran.

The IFD held a number of consultation sessions with the business community after these regulations were issued for public consultation in March.

Kalbe Ali