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Shariah Supervisory Committees in Bangladesh: Practices, Issues, and Policy Recommendations

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Abstract

This paper evaluates the effectiveness of Shariah Supervisory Committees (SSCs) in Islamic Banks and Finance Companies (IBFCs) in Bangladesh, including full-fledged Islamic banks as well as Islamic branches and windows of conventional banks. SSCs are mandated to ensure Shariah compliance; however, recent crises among several IBFCs have raised questions about whether they are effectively fulfilling this role. Using content analysis of regulatory requirements from Bangladesh Bank and semi-structured interviews with SSC members, boards of directors (BoD), Shariah secretariat officials, senior bankers, and regulators, the study benchmarks practices against international standards (AAOIFI and IFSB) and triangulates findings with feedback from seminars and peer discussions. The research focuses on SSC composition, independence, meeting frequency, Shariah audit coverage, remuneration, disclosure practices, and member contributions. It finds that while SSCs are formally embedded in governance structures, significant variations and challenges persist, including limited independence and weak deliberations and disclosures. Theoretically, the study contributes by applying agency theory and institutional theory to explain how board oversight, independence, and regulatory pressures shape SSC effectiveness. Empirically, it documents gaps that may undermine Shariah compliance and stakeholder trust. Policy recommendations are provided, including independence safeguards, structured remuneration, external Shariah audit, centralized guidance, and Continuous Professional Development (CPD), to align Shariah governance of IBFCs in Bangladesh with international best practices and strengthen their credibility. Given the evolving nature of the Shariah governance framework (SGF) in Bangladesh, the data collection, findings, and analysis reflect the institutional and regulatory context up to March 10, 2025.

Keywords: Islamic Bank, Shariah Governance, Shariah Supervisory Committee (SSC)
JEL Classification: G21, G28, K23

1. Introduction

Islamic Banks and Finance Companies (IBFCs) operate under Shariah principles, which prohibit interest (Riba), excessive uncertainty (Gharar),

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gambling (Maysir), and dealings in unethical or harmful products and services, and require adherence to Shariah principles in contract execution. To ensure compliance with these principles, IBFCs establish Shariah Supervisory Committees or Councils (SSCs), also referred to as Shariah Supervisory Boards (SSBs), Shariah Advisory Committees or Councils (SACs), or simply Shariah committees. This governing body plays a crucial role in ensuring that all financial transactions, products, and services align with Shariah. SSCs are involved in both pre-operational and post-operational stages. As a mandatory component of the Shariah Governance Framework (SGF), SSCs serve as a key pillar of IBFCs' overall corporate governance structure.

The effectiveness of SSCs is critical in maintaining the integrity and ethics of IBFCs. They are regarded as the highest authority at the institutional level concerning Shariah-related decisions. Their primary function is to provide guidance on Shariah compliance, review Product Program Guidelines (PPGs) and other documents, and oversee the implementation of Shariah in financial transactions. Given their authoritative role, SSCs significantly influence the strategic direction of IBFCs, ensuring that business operations align with Islamic ethical and legal standards.

A well-structured and effective SGF is essential for sustaining the growth and stability of IBFCs. Proper governance mechanisms not only enhance credibility but also build public trust, which is vital for an institution's long-term success. However, ensuring the effectiveness of SSC functions requires several key factors: appropriate committee composition, adequate authorization from the board of directors (BoD), strong management support, and a well-defined operational framework. The absence of these elements may result in inefficiencies, non-compliance risks, and reputational damage for the respective institution.

Despite the significant role of SSCs in IBFCs, questions remain about their effectiveness in ensuring compliance with Shariah. The effectiveness of SSCs depends on their independence, expertise, decision-making power, and ability to address contemporary financial challenges while adhering to Islamic values. In Bangladesh, where Islamic banking has been expanding over the years,

evaluating the effectiveness of SSCs is particularly important. As demand for Shariah-compliant financial products increases, a robust and functional SSC becomes essential to upholding the credibility of Islamic finance practices.

The primary objective of this study is to evaluate the role of SSCs in IBFCs in Bangladesh. This research aims to assess their role in governance, identify key challenges they face, and explore ways to enhance their performance. By examining their operational structures, decision-making processes, and impact on Shariah compliance, this study provides insights into how SSCs contribute to the stability and growth of IBFCs. The findings are instrumental in shaping policies that strengthen Shariah governance in the country's Islamic banking and finance sector.

1.2 Research Methodology

The study adopts a qualitative, multi-source research design. First, a content analysis of international and domestic Governance Standards (GSs), namely AAOIFI GSs, IFSB 10, IFSB 30, and Bangladesh Bank guidelines, is conducted to develop the assessment benchmark. Second, semi-structured interviews are conducted with a cross-section of stakeholders, including SSC members, BoD members, Shariah secretariat officers, senior Islamic bankers, academics, and central bank officials, to capture practices, constraints, and enabling factors.

Participants are selected through purposive sampling based on the relevance of their roles, with a minimum of three years of experience in Shariah governance, and representation from full-fledged Islamic banks, Islamic windows and branches, and finance companies. The interviews follow a structured guide aligned with the assessment benchmark, covering key dimensions such as composition, independence, meeting practices, Shariah audit, disclosure, remuneration, and CPD. Third, the study triangulates findings through peer feedback from a national seminar and an academic conference where earlier versions of the paper were presented. Additionally, secondary data are collected from national and international publications, including the IBFC Islamic Banking and Finance Report Bangladesh (IiBFRBD), central bank publications, and relevant institutional websites. Given the evolving nature of the SGF in

Bangladesh, the data collection, findings, and analysis reflect the institutional and regulatory context up to March 10, 2025.

To preserve confidentiality, findings are reported in aggregated form. The study is primarily descriptive and interpretive and does not aim to establish causal relationships. Key limitations include: (i) incomplete public disclosures in some institutions, (ii) potential response bias in interviews, and (iii) the absence of formal inferential statistical analysis. To mitigate these limitations, the study employs cross-verification from multiple sources, document triangulation, and seeks convergent validity across different stakeholder groups.

Future research may extend this work through quantitative analysis using advanced analytical tools and by incorporating stakeholder perceptions through survey-based approaches. Further studies could also explore other segments of Islamic finance, including takaful, Islamic funds, sukuk, and Islamic social finance.

2. Conceptual Framework and Literature Review

2.1 Theoretical Framing and Recent Evidence

The agency theory predicts that when SSC monitoring is weak or compromised by conflicts of interest, managers may underinvest in Shariah compliance; therefore, stronger board oversight and an independent SSC should improve outcomes (Safiullah et al., 2024). Conversely, institutional theory posits that regulatory, normative, and mimetic pressures shape how SSC practices are adopted and enacted, with the strength and coherence of these pressures explaining cross-bank variation. Islamic banks face pressures from administrations, regulators, and government in carrying out their activities and functions (Alam & Miah, 2024). Empirically, SSC attributes, including size, expertise, and multiple appointments, have been linked to risk-taking. However, SSCs appear less effective in reducing IBFCs' risk-taking in Bangladesh (Islam et al., 2021). Educational backgrounds in economics or finance and Islamic law, as well as the experience of SSC members, are associated with lower risk; however, higher levels of education may also encourage directors to take on more risk (Mukhibad & Setiawan, 2022).

SSCs can promote social reporting practices among Islamic banks and enhance accountability and transparency through disclosure, as they are central to Islamic governance (Wijayanti & Setiawan, 2022). An Islamic bank's level of Shariah compliance depends on its governance structure. Rahman et al. (2024) show that there is no significant difference in Shariah compliance levels between full-fledged and non-full-fledged Islamic banks. Similar to the BoD, SSCs play a crucial role in overseeing and monitoring Islamic bank management, making them an integral part of good corporate governance in Islamic banks (Simanjuntak et al., 2025). The Shariah governance system in Bangladesh is largely voluntary rather than regulatory, highlighting the need for regulatory strengthening (Alam et al., 2019).

SSCs play a crucial role in ensuring the credibility of Islamic banks by overseeing Shariah compliance. According to AAOIFI GS 1, Para 2, an SSC is an independent body of specialized jurists in fiqh al-muamalat (Islamic commercial jurisprudence). As per the AAOIFI standard, SSCs are responsible for directing, reviewing, and supervising the activities of Islamic financial institutions (IFIs) to ensure compliance with Shariah principles and rules (AAOIFI, 1998). Similarly, IFSB 10 defines the Shariah governance system as a set of institutional and organizational arrangements through which an institution offering Islamic financial services (IIFS) ensures Shariah compliance. SSCs typically consist of a panel of Shariah scholars who serve as special advisers to IFIs (IFSB, 2009).

There is no direct equivalent of an SSC within Western governance structures; some comparisons are made to non-executive directors or external auditors due to their independent role in validating Shariah compliance. At the level of individual Islamic banks, these committees oversee micro-level Shariah governance processes, including ex ante (pre-approval) and ex post (post-approval) responsibilities. In contrast, their macro-level responsibilities include developing Shariah standards and promoting uniformity in regulatory governance practices.

SSC members are expected to remain independent, but their financial ties with the institution may compromise objectivity. As noted in a World Bank

Policy Research Working Paper (Working Paper 4054), where SSC decisions may limit profitability, management may attempt to influence them, leading to practices such as 'fatwa shopping' (Grais & Pellegrini, 2006).

The establishment of SSCs has become a normative practice for Islamic banks globally, although this practice has evolved over time. For instance, the Islamic Development Bank (IsDB) and Dubai Islamic Bank (DIB), both founded in 1975, initially lacked formal SSCs and instead consulted Shariah scholars until their committees were formally established in 2003 and 1999, respectively (INCEIF University, 2023). Faisal Islamic Bank of Egypt is notable for being the first Islamic bank to institutionalize a formal SSC comprising Shariah scholars in 1976, paving the way for others, such as Jordan Islamic Bank and Kuwait Finance House, to follow. Notably, SSCs operate not only in Islamic jurisdictions but also in secular environments such as the UK and the US, where each Islamic bank typically establishes its own committee. In the US context, some institutions consult the Assembly of Muslim Jurists of America or similar bodies, and the appointment of Shariah advisory firms is also common, particularly for Islamic capital market products (INCEIF University, 2023).

2.2 Functions and Responsibilities of SSC

SSCs serve two primary functions: advising Islamic banks on Shariah compliance and supervising the practical application of Shariah principles. The specific roles may differ depending on the responsibilities assigned by relevant regulatory standards. In some regions, advisory roles may take precedence over supervisory ones, particularly where SSCs lack strong regulatory support. IFSB 30 classifies SSC activities into two parts: ex ante and ex post.

In the ex ante phase, the core responsibilities of an SSC include approving all documentation related to products and services, such as contracts, agreements, and promotional materials, to ensure alignment with Shariah principles. In addition, all internal policies and procedures must be reviewed and approved for Shariah compliance. In the ex post phase, oversight of profit and loss calculations and distributions to Investment Account Holders (IAHs) is essential to ensure fairness and transparency. The committee also reviews and approves, from a

Shariah perspective, the accounting treatments for products and services, verifies zakat calculations on behalf of shareholders annually, and examines reports from the Shariah compliance function, as well as internal and external audits, where applicable, to provide constructive feedback. Finally, the committee specifies how to manage earnings derived from prohibited sources, ensuring that these funds are directed toward appropriate charitable purposes while systematically working to minimize noncompliant income in future operations.

2.3 Appointment of SSC Members

The appointment of SSC members varies considerably across jurisdictions, reflecting diverse regulatory requirements. The process typically involves the BoD or shareholders at the Annual General Meeting (AGM), in accordance with local legislation and regulations. The BoD may appoint SSC members; alternatively, shareholders may approve them at the AGM on the BoD's recommendation. Such appointments often require prior approval from relevant regulatory authorities, such as central banks. According to AAOIFI GS 1, Para 3, these appointments should be ratified by shareholders at the AGM, taking into account local customs and regulations.

In Malaysia, the Bank Negara Malaysia (BNM) Shariah Governance Policy Document (BNM-SGPD) empowers the BoD to appoint SSC members, subject to the submission of a written application to BNM at least three months before the anticipated commencement of a candidate's duties. For reappointments, the application must be submitted three months before the incumbent's term expires, and written approval from BNM is required for the board's appointment of committee members.

In Pakistan, the State Bank of Pakistan (SBP)'s SGF (SGF-SBP) mandates that the BoD appoint the SSC, which provides guidance on Shariah matters and assists in establishing a robust compliance framework. The board is also responsible for approving the committee's terms of reference and remuneration. For foreign banks operating Islamic banking branches, the authority to appoint the committee rests with the country manager or chief executive officer (CEO), subject to prior written approval from the SBP.

In Saudi Arabia, the Saudi Central Bank's SGF (SCB-SGF) stipulates that the BoD is responsible for forming the SSC and appointing its members based on recommendations from the nomination and remuneration committee. This process requires obtaining a written non-objection from the Saudi Central Bank. In addition, internal bank policy may allow the general assembly to approve the appointment of SSC members.

2.4 Composition of SSC

The composition of the SSC is governed by AAOIFI GS 1 and the IFSB 10. The committee must consist of at least three specialized jurists in Islamic commercial jurisprudence. While the inclusion of other relevant experts from fields such as finance, banking, accounting, economics, and law is permissible, specialized jurists must constitute the majority, and the chairman must also be a specialized jurist. Independence is a critical requirement; hence, directors, significant shareholders, or employees of the Islamic Financial Institution (Islamic bank) are not eligible for membership. Furthermore, diversity is encouraged, suggesting that members should represent different schools of thought and possess a range of expertise, including both senior and junior scholars.

In Malaysia, an SSC must consist of at least five members, predominantly Shariah-qualified, while Islamic windows require at least three members. Each member may serve on only one institution within the same industry segment for a maximum of nine years. Additionally, committee members are prohibited from holding substantial shareholdings or serving as executive directors or senior officers of the Islamic financial institution (Islamic bank) or its affiliates. Active politicians are also excluded from membership. It is advisable for a member of the SSC to also serve on the BoD to enhance Shariah governance in business and risk strategies.

In Pakistan, the SSC must consist of at least three Shariah members, while expert members, such as legal and accounting professionals, serve in advisory roles without voting rights. One member is designated as the Resident Shariah Board Member (RSBM), who is employed full-time. Members may hold positions on up to three SSCs of Islamic banking institutions; however, the RSBM and at least two

other members must not serve on any other committees to ensure distinct memberships. Importantly, members are prohibited from engaging in the operational management of the Islamic bank, and each is appointed for a three-year term, with appointments requiring approval from the SBP.

In Saudi Arabia, the SSC must consist of a minimum of three and a maximum of five members, with the chairman being an independent member and at least two-thirds of the committee composed of independent members. Members may serve on only one SSC for Islamic banks in the country, and they must possess sufficient Shariah knowledge and the ability to understand financial statements.

2.5 Resident Shariah Board Member (RSBM) in Pakistan

The RSBM has several responsibilities, including providing clarifications to management and staff on operational Shariah issues and products, drawing on previous SSC rulings. This role ensures that management disseminates comprehensive information to foster a clear understanding of the Shariah permissibility of the Islamic bank's offerings. Additionally, the RSBM guides the compliance department in reviewing key business areas in accordance with Shariah standards and oversees responses to client inquiries about Shariah compliance submitted by the compliance department. The RSBM is also responsible for supporting training related to Shariah compliance, promoting developmental activities, and submitting quarterly reports to the SSC on operational Shariah matters for ratification.

2.6 SSC Meeting

In an SSC meeting, members discuss various Shariah issues related to new and existing financial products, investment portfolios, operational documentation, compliance matters, and other critical aspects relevant to their roles within the Islamic financial institution. These discussions are essential to ensure that all activities comply with Islamic law and ethical standards. Governance frameworks established by regulatory authorities prescribe different minimum requirements for the frequency of these meetings, emphasizing the importance of regular oversight.

According to the BNM-SGPD, Islamic banks are required to hold SSC meetings at least once every two months. This requirement ensures ongoing oversight and the timely adaptation of Shariah-compliance policies. Islamic windows and foreign branches must hold meetings at least twice a year. Additionally, the SBP-SGF and SCB-SGF specify that these meetings should occur at least quarterly. Despite variations in minimum frequency across frameworks, regular meetings remain essential. The SSC should convene as needed to make critical decisions and effectively fulfill its responsibilities while adapting to emerging issues and market conditions.

To facilitate effective decision-making, SSC members should receive all relevant documents at least one week prior to the scheduled meeting. This preparation includes financial reports, compliance updates, and proposals for new or modified products. Allowing sufficient time for review enables members to analyze information thoroughly and prepare for informed discussions.

Ideally, decisions made during these meetings are reached unanimously to reflect collective agreement. However, in cases of dissent, resolutions are determined by majority vote, ensuring that diverse perspectives are considered. Voting requirements vary across frameworks; some require votes only from Shariah scholar members, while others permit voting by all committee members. For example, the BNM-SGPD, Para 11.8, states that decisions should be made by a simple majority without distinction among member types. In contrast, the BNM-SGF requires a majority of votes from members with recognized Shariah backgrounds, underscoring the importance of expertise in sensitive decisions.

The deliberations, key rationales, and any dissenting opinions are carefully documented in the meeting minutes. These minutes are critical as they serve as a reference for future discussions and decisions. They are subsequently submitted to the BoD to inform management and relevant divisions within the organization of necessary actions. In accordance with BNM-SGPD Para 10.8, Islamic financial institutions are required to submit records of SSC decisions, including any dissenting views, to BNM. Similarly, the SBP-SGF mandates the submission of meeting minutes to the SBP within 15 days after the meeting, thereby ensuring accountability and transparency.

Physical attendance at SSC meetings is typically required to facilitate open discussions and dynamic exchanges of ideas. However, virtual attendance is permitted under certain circumstances, particularly given evolving business practices. The BNM-SGF recognizes the need for temporary virtual participation through video or telephone conferencing, allowing greater flexibility in attendance.

The COVID-19 pandemic significantly altered traditional business practices, including SSC meetings. The requirement for physical presence shifted from the standard to an exception as members adapted to prolonged virtual meetings. This shift highlighted the need for flexibility in participation methods, enabling the committee to continue its essential functions despite restrictions. It also emphasized the importance of maintaining confidentiality and ensuring the smooth conduct of meetings.

2.7 Independence of the SSC

The discourse on the independence of SSCs is characterized by potential conflicts of interest, primarily because Islamic banks remunerate committee members. This situation raises concerns regarding the legitimacy of their rulings. Despite these concerns, many argue that SSC members are guided by Islamic principles that emphasize honesty and truthfulness. These members consider themselves accountable to Allah (SWT) and adhere to the Islamic code of ethics. There is a need to establish regulations to enhance professionalism and integrity within SSCs.

The credibility of Islamic banks depends heavily on the perceived independence of their SSCs. To ensure genuine independence, members should not hold managerial responsibilities within Islamic banks and should not be closely related to employees of the same institution. Furthermore, AAOIFI GS 5 requires the ongoing assessment of relationships to confirm independence.

2.8 Time Commitment of SSC Members

SSC members often hold permanent positions in other institutions, raising concerns about their time commitment and ability to manage multiple responsibilities. Additionally, these members may face conflicting regulatory obligations due to their various roles. In Malaysia, SSC members must comply with

the IFSA 2013 and BNM-SGPD, as well as the Companies Act 2016, in their capacity as board members. Legal implications arising from breaches of duty could affect their ability to fulfill responsibilities across different roles, particularly when a breach under one legal framework impacts their position on the SSC.

Historically, it has been common for scholars to serve on multiple SSCs across different Islamic banks, often with minimal restrictions. In some countries, such as Saudi Arabia, Kuwait, and the UAE, there are no limits on memberships, creating potential conflicts of interest. In contrast, Malaysia and Oman have introduced limitations on membership to mitigate such risks; for example, Malaysia prohibits members from serving on competing Islamic banks. The pressure to serve multiple institutions may compromise the depth and quality of Shariah rulings, raising concerns about due diligence and the risk of superficial evaluations when managing multiple roles.

2.9 Performance Assessment of SSC

The BNM-SGPD advocates annual performance assessments of both the committee and individual members. Key areas of assessment include organizational accountability, communication with governance bodies, and the identification and evaluation of Shariah compliance risks. Key performance indicators for committee members include attendance, meaningful contributions, and overall integrity. There is a strong emphasis on continuous self-improvement and contextual awareness in decision-making. IFSB 10 also requires a systematic assessment of the SSC's performance and the contributions of its members separately.

2.10 Competency Requirements for SSC

Members must possess comprehensive knowledge of both Shariah principles and the operational aspects of Islamic banks. Regulators have established frameworks outlining the required competencies for directors and SSC members. To support these competencies, the BNM-SGPD mandates ongoing professional development for directors, emphasizing targeted training on the dynamics of Islamic finance to enhance their understanding of Shariah principles and their practical implications for business. IFSB 10 also emphasizes continuous professional development (CPD) and training.

2.11 Legal Status of Shariah Pronouncements

The binding nature of rulings issued by SSCs varies significantly across jurisdictions. In some regions, regulators enforce these rulings within Islamic banks. For instance, in Malaysia, the BNM-SGPD requires board members to ensure compliance with Shariah rulings. In addition, certain jurisdictions, such as Kuwait, provide explicit legal frameworks for centralized decision-making, granting final authority on Shariah matters.

To improve the enforceability of these rulings, arbitration is often recommended as an alternative to traditional court systems. Legislative measures should strengthen the binding nature of Shariah rulings to enhance the governance of Islamic finance.

3. SSC within Corporate and Shariah Governance

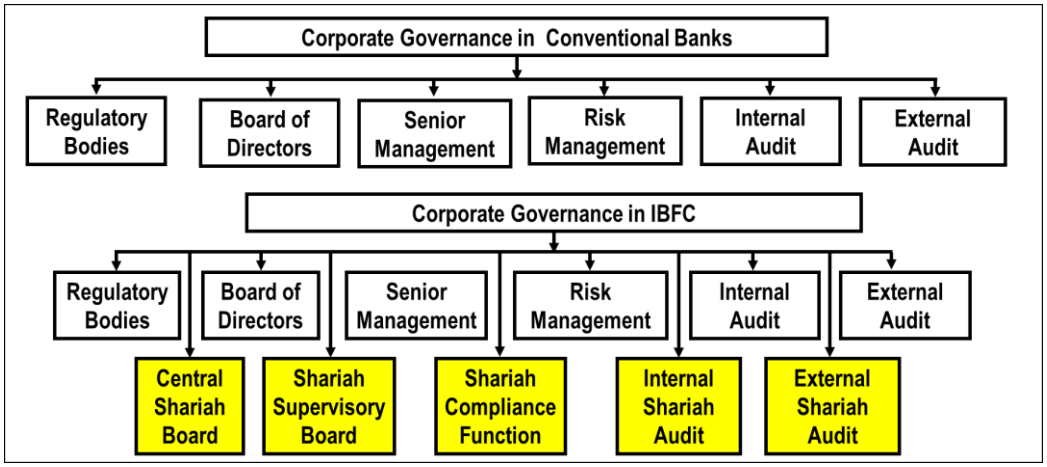
In an IBFC, corporate governance serves as a robust framework essential to ensuring ethical, sound operations. Vigilant regulators play a pivotal role in overseeing adherence to rules and regulations and safeguarding stakeholders' interests. An active BoD provides strategic direction and oversight, fostering accountability and transparency in decision making. The senior management team ensures compliance by translating board directives into actionable strategies that align with corporate objectives, regulatory requirements, and Shariah. Risk management plays a crucial role in ensuring that the IBFC effectively identifies, assesses, and mitigates risks while adhering to Shariah principles.

Independent internal audits, as a third line of defense, play a key role in evaluating internal controls, identifying risks, and enhancing operational efficiency. They serve as an additional layer of oversight for stakeholders. Rigorous external audits further reinforce transparency and accountability by validating financial statements and ensuring compliance with auditing standards. Together, these corporate governance components function cohesively to uphold the principles of good governance, strengthen stakeholder confidence, and promote the long-term sustainability of IBFCs.

Beyond the corporate governance structure, specific components ensure Shariah compliance within IBFCs. At the national level, the Central Shariah Board (CSB) provides guidance and oversight, ensuring that financial activities align with Shariah. At the institutional level, the SSC oversees and guides IBFC operations to maintain adherence to Shariah. Internally, IBFCs establish functions such as internal Shariah audit and Shariah compliance units, which are responsible for monitoring operations and ensuring Shariah compliance at every stage of decision making and implementation. In addition, external Shariah audits serve as independent verification mechanisms, assuring stakeholders that the institution's practices comply with Shariah requirements. Collectively, these components form a comprehensive governance framework that fosters trust among stakeholders and ensures Shariah compliance within IBFCs.

A collaborative effort among all corporate and Shariah governance organs is essential for achieving good governance in any IBFC. Each component plays a critical role, and inefficiencies in any one of them can compromise the institution's sustainability. Therefore, effective coordination among regulators, boards of directors, management teams, internal auditors, external auditors, and Shariah compliance functions is imperative. Figure-1 summarizes the key components of corporate and Shariah governance in IBFCs.

Figure 1: Key Components of Corporate and Shariah Governance

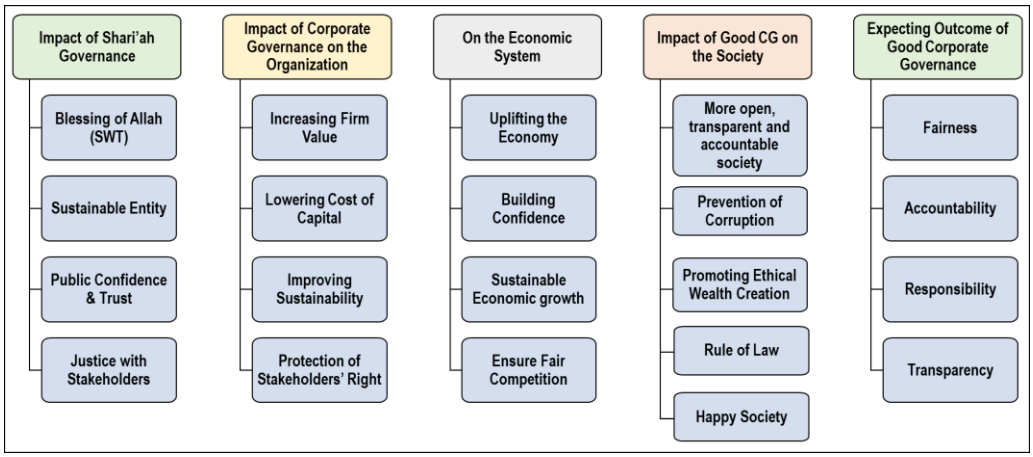


Source: Compilation by the authors

The importance of sound Shariah governance in IBFCs cannot be overstated. It is essential for attaining the blessing of Allah (SWT), as adherence to Shariah principles is fundamental to Islamic finance. This compliance not only ensures religious adherence but also enhances public confidence and trust in IBFCs, as stakeholders can be assured that financial practices are conducted in accordance with Shariah.

Furthermore, strong Shariah governance safeguards the interests of all stakeholders, including depositors, investors, customers, and employees, by promoting fairness and equity. It also reinforces the role of corporate social responsibility, ensuring that IBFCs contribute positively to society by addressing social, economic, and environmental concerns in line with Islamic values. In addition, it fosters a culture of ethics and values within the institution, guiding decision-making and overall conduct. Figure-2 presents the impact of good corporate and Shariah governance on IBFCs.

Figure 2: Importance and Impact of Good Shariah Governance



Source: Compilation by the Authors

3.1 International Governance Framework: AAOIFI Standards

Shariah governance, according to AAOIFI standards, encompasses various dimensions to ensure compliance with Islamic principles. The SSC is integral to this framework and oversees the institution's adherence to Shariah. The SSC must consist of at least three members. Its comprehensive report, signed by all

members, should be included in the annual report, along with an annual fatwa to inform stakeholders about compliance.

The Shariah review process involves examining documents and activities such as contracts, agreements, policies, and financial statements. The review must have unrestricted access to records to ensure thorough oversight. While management holds primary responsibility for compliance, the SSC reviews and verifies this compliance, documenting its findings in a report presented at the AGM to maintain transparency and inform shareholders.

An internal Shariah review, conducted by an independent department or the internal audit function, assesses adherence to Shariah and the rules set by the SSC. This review, which requires proficiency in Shariah and Islamic commercial jurisprudence, is conducted under SSC supervision and in accordance with the AAOIFI Code. The findings are reported to the BoD, SSC, and management. The appointment of reviewers requires SSC consent, and their responsibilities must be clearly separated from operational roles.

The Audit and Governance Committee (AGC) plays a key role in corporate governance by ensuring the integrity of financial reporting and protecting shareholder interests. It is responsible for reviewing internal controls, including Shariah audit, and should possess an adequate understanding of Shariah. The AGC reports to the BoD and management, supporting transparency and accountability.

Independence in Shariah governance is critical. SSC members should not be employees of the institution or involved in managerial decision-making. A cooling-off period of three years is required for former officers or employees. Continuous assessment of relationships is necessary to safeguard independence. Any issues relating to independence should be documented and reviewed internally, with unresolved matters leading to resignation and notification to the general assembly.

Robust governance structures are essential for maintaining customer trust, ensuring Shariah compliance, and protecting stakeholder interests. Effective compliance frameworks, clear leadership criteria, strong oversight mechanisms, sound risk management practices, avoidance of conflicts of interest, fair

compensation policies, transparent public disclosures, and adherence to ethical standards are all critical for accountability and transparency.

AAOIFI also recommends establishing a CSB for Islamic finance. The CSB, composed of scholars in Islamic commercial jurisprudence and banking experts, provides Shariah guidance to promote uniformity in financial products and practices. The CSB typically serves a term of three to five years and includes diverse membership, primarily Shariah scholars. Its responsibilities include advisory functions, issuance of fatwas, and regulatory support, with decisions that may be applied across jurisdictions. There are both national and regulatory CSBs, with membership requirements varying across industry segments.

3.2 International Governance Framework: IFSB Guidelines

The IFSB has established a governance framework for IBFCs to ensure effective Shariah compliance and corporate governance. This framework emphasizes tailoring the governance structure to the IBFC's size and complexity, with clear terms of reference and operating procedures for the SSC. It also highlights the need for competence among individuals overseeing the system, requiring them to meet fit-and-proper criteria and advocate for CPD. A formal assessment of SSC effectiveness is recommended to ensure overall efficacy.

The IFSB standards stress the importance of SSC independence, ensuring its ability to make objective judgments without undue influence. Timely and comprehensive information is essential for the SSC to perform its oversight role effectively. The standards also emphasize the need for SSC members to maintain confidentiality regarding internal information and highlight the importance of understanding and adhering to the legal and regulatory frameworks governing Shariah pronouncements, promoting consistency and alignment within the IBFC's operating jurisdiction.

The IFSB guidelines for performance measures outline several key criteria to assess the effectiveness of the SSC within an IBFC. These include evaluating organizational accountability, communicating with other governance bodies such as the BoD, management, and auditors, and identifying and assessing exposure to Shariah noncompliance and reputational risks. Additionally, the guidelines

emphasize promoting appropriate ethics and values within the organization and fostering continuous improvement in Shariah control processes. These measures aim to ensure the SSC's central role in upholding Shariah compliance and ethical standards within the IBFC.

The guidelines also assess the individual contributions and conduct of each SSC member. Members are evaluated based on their ability to actively contribute to discussions during meetings, demonstrating integrity, honesty, and a commitment to continuous self-improvement. They are expected to discharge responsibilities with diligence, maintain a diplomatic and culturally sensitive approach, and consider contextual factors in decision-making. Rational and logical reasoning, openness to learning, and an inquisitive mindset that raises relevant questions are emphasized as essential qualities. These criteria collectively aim to ensure the SSC's competence, integrity, and effectiveness in fulfilling its responsibilities within the IBFC.

3.3 SGF: Bangladesh Perspective

The Bangladesh Securities and Exchange Commission (BSEC) introduced a Corporate Governance Code in 2018. It requires a BoD comprising 5 to 20 members, with at least one-fifth serving as independent directors, and mandates separate roles for the Chairperson and the managing director (MD) or CEO. Key appointments, including the MD, chief financial officer (CFO), and Company Secretary, must be clearly defined. The Board is also required to establish an Audit Committee with at least three members and an independent chair, responsible for overseeing internal controls and audits. The committee reports to the Board, BSEC, and shareholders, ensuring transparency and compliance with governance standards. However, this code does not address Shariah compliance aspects of IBFCs.

On February 11, 2024, Bangladesh Bank issued BRPD Circular No. 02/2024, outlining policies on the formation, composition, and responsibilities of banks' BoDs. In addition, Bangladesh Bank introduced the Prudential Regulation for Banks: Selected Issues (2024) and a Code of Conduct for Banks and Non-Bank Financial Institutions in 2017. Earlier, Bangladesh Bank issued the Guidelines on Internal Control and Compliance (ICC) in Banks (2016) and corporate governance guidelines

in 2013 (BRPD Circular No. 11 dated October 27, 2013). The ICC Guidelines 2016 include a requirement for internal Shariah audit in Islamic banks.

The responsibilities of the BoD include overseeing the Internal Control System (ICS). The Audit Committee of the Board (ACB) must consist of at least five members, including two independent directors. Members of the ACB should possess qualifications that enable them to make effective contributions. The ACB's role covers internal control, financial reporting, internal audit, external audit, and ensuring compliance with applicable laws and regulations. However, these regulations do not include specific provisions related to a Shariah governance framework.

Guidelines for Islamic Banking were issued by Bangladesh Bank in 2009 (BRPD Circular No. 15 dated November 09, 2009). These guidelines include certain provisions related to Shariah governance in Islamic banks, including the requirement to establish an SSC. However, overall responsibility for Shariah compliance remains vested in the BoD. The guidelines also specify the fit-and-proper criteria for selecting SSC members.

Box-1 provides a compilation of AAOIFI governance standards, selected IFSB standards, and other relevant regulations, which serve as benchmarks for assessing the effectiveness of the governance framework in IBFCs.

Box 1: List of International Governance Standards

AAOIFI Governance Standards
GS #1: Shariah Supervisory Board- Appointment, Composition and Report
GS #2: Shariah Review
GS #3: Internal Shariah Review
GS #4: Audit and Governance Committee for IFIs
GS #5: Independence of Shariah Supervisory Board
GS #6: Statement on Governance Principles for IFIs
GS #7: CSR, Conduct, and Disclosure for IFIs
GS #8: Central Shariah Board
GS #9: Shari'ah Compliance Function
GS #10: Shari'ah Compliance and Fiduciary Ratings for Islamic Financial Institutions
GS #11: Internal Shari'ah Audit
GS #12: Sukuk Governance

GS #13: Waqf Governance and Guidance Note on Waqf Governance

GS #14: Islamic Crowdfunding Governance

GS #15: Syndicated Financing

GS # 16: Institutional framework for implementation of ethics

GS # 17: Shari'ah Compliance and Fiduciary Ratings of Sukuk and Other Islamic Finance Instruments

Selected IFSB Governance Standards

IFSB 1: Guiding Principles of Risk Management 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 (Takâful) Institutions and Islamic Mutual Funds), Replaced by IFSB 30.

IFSB 6: Guiding Principles on Governance for Islamic Collective Investment Schemes.

IFSB 9: Guiding Principles on Conduct of Business for Institutions offering Islamic Financial Services.

IFSB 10: Guiding Principles on Sharî`ah Governance Systems for Institutions offering Islamic Financial Services.

IFSB 16: Revised Guidance on Key Elements In The Supervisory Review Process of Institutions Offering Islamic Financial Services (Excluding Islamic Insurance (Takāful) Institutions and Islamic Collective Investment Schemes).

IFSB 17: Core Principles for Islamic Finance Regulation (Banking Segment).

IFSB 22: Revised Standard on Disclosures to Promote Transparency and Market Discipline for Institutions Offering Islamic Financial Services [Banking Segment].

IFSB 30: Revised Guiding Principles on Corporate Governance for Institutions Offering Islamic Financial Services (Banking Segment).

Other Governance Standards

Internal Control–Integrated Framework (2013) of the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

G20/OECD Principles of Corporate Governance (2023) of the Organisation for Economic Co-operation and Development (OECD).

Corporate Governance Principles for Banks (2015) of the Basel Committee on Banking Supervision (BCBS).

The internal audit function in banks (2012) of BCBS.

Global Internal Audit Standards (2024) of the Institute of Internal Auditors (IIA).

International Code of Ethics for Professional Accountants (ICEPA) of the International Federation of Accountants (IFAC®).

Guidelines on Internal Control & Compliance in Banks (2016) of Bangladesh Bank.

Prudential Regulation for Banks: Selected Issues (2024) of Bangladesh Bank.

Corporate Governance Code (2018) of BSEC.

Guidelines for Islamic Banking (2009) of Bangladesh Bank.

Source: Compilation by the Authors

4. Findings of the Study

This section presents the study's findings based on secondary data from publicly available sources, primary data collected through interviews, and insights from the seminar. The findings reveal that, despite the existence of SSCs within IBFCs in Bangladesh and adherence to regulatory requirements, there remain areas for improvement to enhance their effectiveness.

4.1 SSC in Full-Fledged Islamic Banks

Table-4.1 presents basic information on SSCs in 10 full-fledged Islamic banks in Bangladesh. All banks have an SSC, although a few are designated as Shariah Boards. Some banks include expert members in the SSC, while others do not. In some cases, the Chairman of the BoD, Managing Director, or Chief Executive Officer, and/or Deputy Managing Director are included as members of the SSC. The number of SSC members in full-fledged Islamic banks ranges from 4 to 10.

Table 4.1: SSC in Full-Fledged Islamic Banks of Bangladesh

Islamic Banks	Year of Establishment	IB Starting	No. of SSC Members	Business Expert
Islami Bank Bangladesh PLC	1983	1983	10	N/A
ICB Islamic Bank Ltd.	1987	1987	4	2
Social Islami Bank PLC	1995	1995	8	2
Al-Arafah Islami Bank PLC	1995	1995	7	1 (Chairman of BoD)
Shahjalal Islami Bank PLC	1997	1997	5	N/A
Export Import Bank of Bangladesh PLC	1999	2004	8	3 (Including CEO)
First Security Islami Bank PLC	1999	2009	8	1
Union Bank PLC	2013	2013	5	N/A
Standard Bank PLC	1999	2021	7	3 (Including CEO and DMD)
Global Islami Bank PLC	2013	2021	6	N/A

Source: Based on the websites of the respective banks, accessed on March 10, 2025

4.2 SSC in Islamic Banking Branches and Windows of Conventional Banks

Table-4.2 highlights the composition of SSCs in conventional banks offering Islamic banking services through dedicated branches or windows in Bangladesh.

While these banks have established SSCs, some committees include both Shariah scholars and business experts, whereas others do not. In certain cases, non-Faqih members have been appointed as chairpersons, and in some banks, the proportion of Faqih members is lower than that of non-Faqih members. The number of SSC members ranges from 4 to 8. Additionally, some banks fail to disclose detailed information about SSC members, including their names. Owing to limited disclosure, it was not possible to compile a complete dataset for the table.

Table 4.2: SSC in Dual Banks of Bangladesh

No.	Banks with Islamic Branches &/ Windows	Type of IB	Year of Estab.	IB Starting	No. of SSC Members	Business Expert
1	United Commercial Bank PLC	Branch+ Window	1983	2020	5	N/A
2	ONE Bank PLC	Branch+ Window	1999	2020	7 (A Non-Faqih Chairman)	5 (Including Chairman of BoD and MD)
3	The Premier Bank PLC	Branch+ Window	1999	2003	5	2
4	Prime Bank PLC	Branch	1995	1995	7	4 (Including Chairman of BoD, MD, and Head of IB)
5	Dhaka Bank PLC	Branch	1995	2003	7 (A Non-Faqih Chairman)	4 (Including MD and Head of IB)
6	Southeast Bank PLC	Branch	1995	2003	8	5 (Including Chairman and Members of BoD, and MD)
7	Jamuna Bank PLC	Branch	2001	2003	7	2 (Including MD and Head of IB)
8	City Bank PLC	Branch+ Window	1983	2003	8	N/A
9	Bank Alfalah	Branch	2005	2005	5	N/A
10	AB Bank PLC	Branch+ Window	1982	2006	6 (A Non-Faqih Chairman)	2 (Including MD)
11	NRB Bank PLC	Branch+ Window	2013	2021	5	N/A
12	National Credit and Commerce Bank PLC	Branch	1993	2022	5	N/A
13	Standard Chartered Bank	Window	1948	2004	4	N/A

No.	Banks with Islamic Branches &/ Windows	Type of IB	Year of Estab.	IB Starting	No. of SSC Members	Business Expert
14	Trust Bank PLC	Window	1999	2008	5	2 (Including MD and Head of IB)
15	Bank Asia PLC	Window	1999	2008	5	N/A
16	Pubali Bank PLC	Branch+ Window	1983	2010	7	2
17	Sonali Bank PLC	Window	1972	2010	7	4 (Including Member of BoD and MD)
18	Agrani Bank PLC	Window	1972	2010	6	3 (Including Head of IB)
19	Meghna Bank PLC	Window	2013	2020	5	2
20	Mutual Trust Bank PLC	Window	1999	2020	8	3 (Including MD and Head of IB)
21	Mercantile Bank PLC	Branch+ Window	1999	2020	6	N/A
22	Midland Bank PLC	Window	2013	2020	5	3 (Including Member of BoD and MD)
23	NRBC Bank PLC	Window	2013	2020	8	6 (Including Chairman and Members of BoD)
24	SBAC Bank PLC	Window	2013	2021	8	N/A
25	Bangladesh Commerce Bank	Branch	1998	2022	N/A	N/A
26	Padma Bank PLC	Window	2019	2023	2	N/A
27	Rupali Bank PLC	Window	1972	2023	8	2 (Including MD and DMD)
28	Bengal Commercial Bank PLC	Branch	2020	2021	7	4 (Including Chairman, Members of BoD, and MD)
29	IFIC Bank PLC	Branch	1983	2024	7	N/A
30	Eastern Bank PLC	Window	1992	2024	3	N/A

Source: Based on the websites of the respective banks, accessed on March 10, 2025

4.3 SSC in Finance Companies of Bangladesh

Table-4.3 presents the status of SSCs in Islamic finance companies in Bangladesh. The data reveal that all finance companies have established SSCs. The number of members in these committees ranges from 4 to 8. In one instance, a non-Faqih member serves as the chairman of an SSC.

Table 4.3: SSC in Finance Companies of Bangladesh

No.	Institution Name	Type	Year of Establishment	IB Starting	No. of SSC Members	Business Expert
1	Islamic Finance and Investment PLC	Full-Fledged	2001	2001	8	2 (Including MD and Head of Shariah)
2	Hajj Finance Co. Ltd.	Full-Fledged	2006	2006	7 (A Non-Faqih Chairman)	3 (Including Chairman of BoD and MD)
3	Aviva Finance Co. Ltd.	Full-Fledged	1996	2020	5	1
4	DBH Finance PLC	Window	1996	2023	7	5 (Including MD and Head of IF)
5	Bangladesh Finance Ltd.	Window	1996	2021	6	3 (Including MD and Head of IF)
6	SFIL Finance PLC	Window	1999	2022	5	2 (Including Chairman and Member of the BoD)
7	IDLC Finance PLC	Window	2020	2024	5	2
8	Bangladesh House Building Finance Corporation, a Specialized Financial Institution	Products	1952 (1973)	2021	4	1 (Head of the Unit)

Source: Based on the websites of the respective institutions, accessed on March 10, 2025

4.4 Meeting of SSC and Shariah Awareness Program SSC in Full-Fledged Islamic Banks

Table-4.4 highlights the varying levels of activity among full-fledged Islamic banks regarding SSC meetings and Shariah awareness programs in 2023. Some banks demonstrate a proactive approach by holding multiple SSC meetings and organizing regular Shariah awareness programs for both employees and clients. However, others exhibit limited engagement, with instances of missing or incomplete data on their activities. Additionally, they typically hold quarterly SSC meetings. Due to limited disclosure, it was not possible to compile a complete dataset for the table.

Table 4.4: Meetings of SSC in Full-Fledged Islamic Banks in 2023

Name of the Bank (Alphabetical order)	No. of Meetings of SSC	No. of Shariah Awareness Programs
Al-Arafah Islami Bank PLC	04	-
EXIM Bank Ltd.	06	-
First Security Islami Bank PLC	Data not found	
Global Islami Bank PLC	05	-
ICB Islamic Bank Ltd.	Data not found	
Islami Bank Bangladesh PLC	10	16
Shahjalal Islami Bank PLC	05	-
Social Islami Bank PLC	07	04
Standard Bank PLC	08	-
Union Bank PLC	Data not found	

Source: IBFC-Thrive with Shari'ah. (2024)

4.5 SSC Meeting Fees of Full-Fledged Islamic Banks

As illustrated in Table-4.5, there is a noticeable variation in the growth rates of SSC fees and expenses among full-fledged Islamic banks in Bangladesh during 2022 and 2023. Some banks recorded significant increases in their SSC fees, with one bank reporting an exceptional growth rate of 95%. On the other hand, several banks experienced declines in SSC expenses of up to 38%, potentially indicating cost-cutting measures. Overall, the growth rates for SSC fees and expenses range from a 38% decrease to a 95% increase, reflecting the diverse strategies and approaches adopted by different banks in managing their Shariah compliance costs.

Table 4.5: SSC Fee and Expense of Full-fledged Islamic Banks

Bank Name	2023	2022	Growth
Al-Arafah Islami Bank PLC	491,793	455,970	8%
EXIM Bank Ltd.	624,600	640,100	(2%)
First Security Islami Bank PLC	307,000	466,000	(34%)
Global Islami Bank PLC	338,653	278,760	21%
ICB Islamic Bank Ltd.	152,000	96,000	58%
Islami Bank Bangladesh PLC	15,56,000	17,13,265	(9%)
Shahjalal Islami Bank PLC	10,73,245	619,587	73%
Social Islami Bank PLC	867,376	444,666	95%
Standard Bank PLC	562,824	492,085	14%
Union Bank PLC	334,800	541,800	(38%)

Source: IBFC-Thrive with Shari'ah. (2024)

4.6 Shariah Audit in Full-Fledged Islamic Banks

In 2023, the Shariah audit activities of full-fledged Islamic banks reveal significant differences in audit coverage across branches, sub-branches, and agent outlets. While some banks have achieved complete Shariah audit coverage for their branches, notable gaps persist in the auditing of sub-branches and agent outlets. Additionally, instances of insufficient information regarding Shariah audit activities suggest potential shortcomings in reporting or disclosure practices. These inconsistencies underscore that, although branch audits are generally thorough, there is an urgent need to expand Shariah audit practices to ensure more comprehensive coverage of all operational units. Table-4.6 provides an overview of the Shariah audit activities of full-fledged Islamic banks. It is noted that some data were missing from the original source.

Table 4.6: Shariah Audit Activities of Full-fledged Islamic Banks

Name of the Bank (Alphabetical order)	No. of working units as of 31.12.2023			No. of working units covered under the Shariah audit		
	Branch	Sub Branch	Agent Outlets	Branch	Sub Branch	Agent Outlets
Al-Arafah Islami Bank PLC	215	18	100	215	Data not found	
EXIM Bank Ltd.	151	68	10	137	Data not found	
First Security Islami Bank PLC	205	172	105	Data not found		
Global Islami Bank PLC	101	136	20	Data not found		
ICB Islamic Bank Ltd.	33	0	0	Data not found		
Islami Bank Bangladesh PLC	394	237	2,771	394	16	192
Shahjalal Islami Bank PLC	140	4	119	140	Data not found	
Social Islami Bank PLC	179	236	0	179	10	-
Standard Bank PLC	138	0	26	Data not found		
Union Bank PLC	114	54	0	Data not found		

Source: IBFC-Thrive with Shari'ah. (2024)

4.7 Summary Outcome of Interviews and Seminar

To achieve the study's objectives, semi-structured interviews were conducted with various stakeholders, including SSC members, BoD members, Shariah secretariat officials, academics, senior Islamic bankers, and central bank officials.

In addition, insights were gathered from presenting the draft paper at a national seminar. This section of the paper summarizes the outcomes of these interviews and the views expressed.

Presence of Governance Components

The governance framework for IBFCs comprises various components, all of which are essential for ensuring effective Shariah compliance and operational integrity. As highlighted in AAOIFI GS 6 and IFSB 30, these components must be fully operational and integrated into the governance structure. In Bangladesh, most of these governance components are present in IBFCs. However, one critical element—external Shariah audit—has yet to be established in the country. This gap has been widely recognized, and most respondents have expressed strong support for introducing an external Shariah audit mechanism in Bangladesh to enhance transparency, accountability, and compliance.

Appointment and Dismissal of SSC Members

According to AAOIFI GS 1, SSC members should be appointed at the AGM upon the recommendation of the BoD. In Bangladesh, however, SSC members are appointed by management or the board, rather than in accordance with AAOIFI standards. Most respondents believe that practices in Bangladesh should align with international best practices, particularly by elevating the SSC's status within the organizational structure. That said, a small number of respondents do not view the current practice as problematic.

Naming of the SSC

In line with international standards, the apex Shariah governance body is referred to as the SSB. However, in Bangladesh, it is commonly termed the SSC. Some Shariah scholars argue that the term SSB carries greater authority and aligns more closely with global best practices, as outlined in AAOIFI GS 1 and IFSB 30. They recommend renaming the SSC to SSB to better reflect its importance and ensure consistency with international standards. However, some respondents do not consider this naming distinction to be a significant issue.

Shariah Review of Documents and Contracts

The scope of responsibilities of SSCs encompasses both ex-ante and ex-post activities, as outlined in AAOIFI GS 2 and IFSB 30. This includes the thorough review and vetting of all documents, contracts, and advertising content to ensure compliance with Shariah principles and prevent violations. However, it has been observed that certain contract forms, PPGs, and advertising materials are sometimes published without proper vetting by the SSC, leading to Shariah non-compliance. To address this issue, respondents strongly recommend that bank management ensure all documents and materials undergo a detailed review and approval by the SSC before being made public.

Independence of SSC

Ensuring the true independence of the SSCs is crucial for their effectiveness, as outlined in AAOIFI GS 5 and IFSB 10. However, evidence suggests that some IBFCs have included members of the BoD, senior management, or heads of Islamic banking and finance within their SSCs. Both the central bank and Islamic finance professionals strongly oppose this practice, as it undermines the SSC's independence. Nevertheless, a small number of respondents argue that including the chairman or MD in the SSC could facilitate the timely and smooth implementation of SSC decisions. It is important to recognize that mere independence on paper is insufficient; de facto independence must be ensured, whereby all SSC members have the freedom to make decisions solely on the basis of Shariah compliance, without external influence.

Composition of SSC Confirming Fit and Proper Criteria

Both domestic regulations (e.g., Bangladesh Bank guidelines) and international standards, such as AAOIFI GS 1 and GS 6, and IFSB 10 and IFSB 30, provide criteria for selecting SSC members. These criteria emphasize the importance of expertise, integrity, and independence in ensuring effective Shariah governance. It is widely recognized that a deep understanding of business processes is essential for making informed and prudent Shariah decisions. Therefore, a competent SSC should comprise a majority of Shariah experts alongside business professionals to ensure a balanced and effective decision-

making process. Such a composition would enable the SSC to perform its duties more effectively and contribute significantly to the institution's Shariah compliance. However, in Bangladesh, many IBFCs do not constitute their SSCs with an appropriate combination of expertise. This issue has been highlighted as a serious concern by several Islamic finance professionals, who stress the need for greater adherence to fit-and-proper criteria in the selection of SSC members.

Composition of BoD with Proper Knowledge of Islamic Finance

The effectiveness of the SSC is heavily dependent on the support and cooperation it receives from the BoD. To ensure this, the BoD should be composed in a balanced manner, with members possessing relevant knowledge of Islamic financial services. Both the BCBS Corporate Governance Principles (2015) and IFSB 30 emphasize the importance of a well-composed BoD. In line with these standards, Bangladesh Bank has issued guidelines requiring IBFCs to include members with Shariah knowledge on their BoDs. In line with international standards and local regulations, the BoD is responsible for ensuring Shariah compliance within the institution. Therefore, it is argued that the effectiveness of the SSC largely depends on the proper composition and relevant expertise of the BoD in an IBFC. A well-informed and supportive BoD can significantly enhance the SSC's ability to fulfill its responsibilities.

The tone at the top, as well as the perception and support of the BoD and Senior Management Team (SMT) toward the SSC, may be influenced by their level of knowledge. A similar observation applies to the composition of the Audit and Governance Committee (AGC) of the BoD and its support for Shariah compliance, as outlined in AAOIFI GS 4.

Adequate and Proper Disclosure and Transparency

The importance of adequate disclosure and transparency is strongly emphasized in international standards, including AAOIFI GS 1, GS 2, and GS 6, IFSB 30, the BCBS Corporate Governance Principles (2015), the OECD Principles of Corporate Governance (2015), and the Internal Control–Integrated Framework (2013) of the Committee of Sponsoring Organizations of the Treadway Commission (COSO). These frameworks highlight that a proper and

timely flow of accurate information is a fundamental prerequisite for an effective governance system.

In the context of IBFCs, it is essential to ensure that SSC fatwas and decisions are regularly published and made accessible to stakeholders. This practice aligns with the recommendations of AAOIFI GS 1 and GS 2, which advocate transparency in Shariah governance to build trust and credibility. By adhering to these principles, IBFCs can enhance accountability, foster stakeholder confidence, and ensure compliance with both Shariah principles and regulatory requirements. However, the regular publication of fatwas remains uncommon in practice. Therefore, most respondents strongly emphasize the need to address this issue.

Objective Assessment of the Performance of SSC and Its Members

Every governance component must be accountable for its activities and responsibilities to ensure the institution's overall benefit. The contributions of SSCs and their members to their respective entities are crucial in this regard. To establish a structured evaluation framework, IFSB 10 outlines objective criteria for assessing the effectiveness of both SSCs as a whole and their individual members. This approach is strongly supported by the central bank and the respondents, as it promotes transparency, accountability, and improved governance within IBFCs.

CPD and Training of SSC Members

The requirement for CPD and training of SSC members is emphasized in IFSB 10. Without up-to-date knowledge and ongoing training, SSC members may struggle to make meaningful contributions to Shariah governance and compliance. Recognizing its importance, Bangladesh Bank is planning to introduce CPD requirements in its upcoming SGF. This practice is already well established in Malaysia, ensuring that SSC members remain informed about the latest Shariah rulings, regulatory updates, and industry best practices, thereby enhancing the effectiveness of Islamic financial institutions.

Internal Shariah Review (Audit) and Its Reporting Line

An independent internal Shariah audit is a critical component of an effective SGF, serving as the 'third eye' of the SSC. The internal Shariah audit conducts ex-post reviews of activities within IBFCs to assess Shariah compliance. As stated in AAOIFI GS 3 and IFSB 30, the internal Shariah audit should maintain clear reporting lines with the SSC, BoD, and SMT. However, in Bangladesh, the BoD often shows limited interest in leveraging this mechanism to address Shariah-related issues. As a result, the SMT faces minimal pressure from the BoD to act on the internal Shariah audit's observations. Consequently, there is no direct communication channel between the internal Shariah audit and the BoD. To address this gap, some stakeholders advocate for establishing a direct reporting line between the internal Shariah audit and the BoD, thereby ensuring greater accountability and a more effective resolution of Shariah compliance concerns.

Regular Interaction among BoD, SMT and SSC

Regular interaction among the BoD, SMT, and SSC is a highly effective practice for ensuring the SSC remains vibrant and impactful. As recommended in IFSB 30, such interactions enable the BoD and SMT to assess whether the SSC is operating in a conducive environment. Additionally, they provide the SSC with an opportunity to communicate key messages, recommendations, and concerns directly to the BoD, thereby facilitating prompt decision-making and corrective actions. However, respondents have noted that such structured interactions are not practiced in Bangladesh, highlighting a significant gap in the governance framework that needs to be addressed to strengthen Shariah compliance and oversight.

SSC Roles, Engagement, and Remuneration

It is widely argued that the remuneration package for SSC members should align with their roles and responsibilities, a principle strongly emphasized in AAOIFI GS 1 and GS 6. In line with international best practices, SSC members are expected to perform both ex-ante and ex-post responsibilities within the IBFC. In some jurisdictions, SSC members receive a regular monthly honorarium in addition to meeting attendance fees. However, in the current context, SSC

members in Bangladesh are compensated only through meeting attendance fees (approximately BDT 8,000 per meeting), which is considered inadequate. To address this, market participants and the central bank are exploring introducing a separate monthly remuneration package, in line with the provisions applicable to independent directors on the board. That said, without enhancing SSC members' capacity and expertise, merely increasing the honorarium will not yield meaningful benefits.

Limiting the Maximum Number of Engagements for SSC Members

In some jurisdictions, regulatory restrictions limit the number of SSCs an individual can join to ensure quality engagement. However, no such restrictions exist in Bangladesh, leading to a common practice of overlapping SSC memberships. When an individual serves on multiple SSCs, their ability to dedicate sufficient time and contribute effectively to each committee may be significantly compromised. Recognizing this issue, Bangladesh Bank is considering introducing a regulatory provision to cap the maximum number of SSCs an individual can join, aligning with international best practices. However, some Shariah experts oppose this move, arguing that the total number of SSC meetings held annually is relatively low, making it feasible for members to manage multiple engagements effectively.

Frequency and Duration of SSC Meetings in Relation to Agenda

In some IBFCs, the number of SSC meetings held annually is severely limited, sometimes as few as 1 or 2. In certain instances, an excessive number of agenda items is covered in a single meeting, with insufficient time for thorough discussion. Observations indicate that limited time is devoted to meaningful deliberations, as substantial portions of meetings are taken up by prayer breaks, lunch breaks, or social interactions. Additionally, some SSC members regularly arrive late to meetings and, in some cases, do not fully engage in discussions.

These inefficiencies severely undermine the SSC's effectiveness. A lack of adequate preparation by SSC members further diminishes the quality of discussions and decision-making. Given these challenges, several respondents suggest adopting international best practices regarding the frequency and

structure of SSC meetings. Ensuring that all members participate actively and allocating sufficient time for each agenda item would significantly enhance the SSC's effectiveness in maintaining Shariah compliance within IBFCs.

Meeting Minutes and Reporting to Bangladesh Bank

Maintaining detailed records of SSC meeting minutes is crucial for transparency and accountability. However, in current practice, individual members' opinions are not recorded with attribution, making it difficult to assess individual contributions. Additionally, some SSC members do not actively participate in discussions, and there is no formal mechanism to evaluate their contributions.

Several respondents and central bank officials support adopting a system of submitting SSC meeting minutes to the central bank to enhance oversight and governance. Ensuring a conducive environment for active participation in SSC meetings is also essential for improving their effectiveness and upholding Shariah compliance within IBFCs.

5. Conclusion and Way Forward

The role of SSCs in IBFCs in Bangladesh is influenced by multiple governance factors, regulatory frameworks, and institutional practices. While the presence of key governance components ensures a structured approach to Shariah compliance, critical gaps remain, particularly in SSC independence, competency, and regulatory alignment with international standards.

The study highlights the need to strengthen SSCs by ensuring their de facto independence, aligning appointment processes with international best practices, and enhancing the knowledge base of both SSC and BoD members. A well-composed and knowledgeable BoD is essential to support SSC functions and ensure Shariah compliance.

Furthermore, the study underscores the importance of transparency and accountability in Shariah governance. The publication of fatwas and decisions, structured performance evaluations of SSC members, and improved disclosure practices are vital to fostering trust and regulatory compliance. Additionally, CPD

and structured training programs are necessary to keep SSC members informed of evolving Shariah and financial regulations.

To enhance SSC contributions, it is recommended to ensure adequate time allocation for meetings. Strengthening internal Shariah audits and establishing direct reporting lines with the BoD would further reinforce governance and compliance frameworks.

Several recommendations and ways forward are presented below:

- Establish a Central Shariah Supervisory Board (CSSB) under Bangladesh Bank to issue binding guidance, harmonize practices, and review institutional SSC minutes and fatwas.
- Prohibit CEOs/BoD members from serving on SSCs, require conflict-of-interest declarations, and limit multiple concurrent SSC appointments.
- Mandate internal Shariah audit reporting to the BoD or audit committee and introduce external Shariah audit for independent assurance.
- Ensure at least quarterly SSC meetings, pre-circulation of papers (≥7 days), recording of dissenting opinions, and regular publication of fatwas and decisions.
- Strengthen fit-and-proper criteria with periodic assessments, mandate CPD hours, and introduce performance evaluations of SSCs and their members.
- Adopt a mixed remuneration structure (meeting fees plus monthly retainers) tied to role scope and performance, benchmarked to independent directors.
- Include standardized SSC disclosures in annual reports (charter, composition, attendance, key rulings, audit coverage, and handling of non-compliance).
- Encourage practitioner-academic collaborations and develop datasets to evaluate links between SSC attributes and outcomes.

In conclusion, addressing existing challenges through regulatory enhancements, governance reforms, and capacity-building initiatives will be crucial to ensuring the long-term effectiveness of SSCs. By aligning with global best practices and reinforcing independent oversight mechanisms, Bangladesh can significantly strengthen the Shariah governance landscape in its Islamic banking and finance sector.

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