

Corporate Governance in Islamic Banks in Bangladesh: Issues and Challenges

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Foreword

As part of the ongoing dissemination of BIBM research outputs, the present research monograph contains the findings of the research project: “*Corporate Governance in Islamic Banks in Bangladesh: Issues and Challenges*.” This publication examines the current status of corporate governance in Islamic Banks and identifies the issues & challenges for ensuring effective corporate governance in Islamic Banks in Bangladesh and suggests actions for policy implications. It gives me great pleasure, on behalf of BIBM, to offer this important resource to the practitioners of the banks, as well as to the academics and common readers. I hope this monograph will be a useful reference point for financial institutions involved in providing financial services in Bangladesh. We do encourage feedback from our esteemed readers on this issue which certainly would help us improve upon our research activities in the years to come.

Md. Akhtaruzzaman, Ph.D.
Director General, BIBM

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CORPORATE GOVERNANCE IN
ISLAMIC BANKS IN BANGLADESH:
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Abbreviations

AAOIFI	Accounting and Auditing Organization for Islamic Financial Institutions
ACIA	ASEAN Comprehensive Investment Agreement
ADB	Asian Development Bank
AIC	Arab Investment Court
ALA	Alternative Liquidity Approaches
ALC	Asset Lease Company
ASEAN	Association of Southeast Asian Nations
ATM	Automated Teller Machine
AuM	Asset under Management
BBTA	Bangladesh Bank Training Academy
BCBS	Basel Committee on Banking Supervision
BGIIB	Bangladesh Government Islamic Investment Bond
BIBF	Bahrain Institute of Banking and Finance
BNM	Bank Negara Malaysia
BRPD	Banking Regulation and Policy Department
BSAS	Bursa Suq Al Sila
BSP	Bangko Sentral ng Pilipinas
CAGR	Compound Annual Growth Rate
CAR	Capital Adequacy Ratio
CBMA	Central Bank of Malaysia Act
CDCS	Certified Documentary Credit Specialist
CDO	Collateralized Debt Obligation
CDS	Credit Default Swap
CMB	Capital Markets Board of Turkey
CRR	Cash Reserve Ratio
CSBIB	Central Shariah Board for Islamic Banks of Bangladesh
CSR	Corporate Social Responsibility
DBI	Department of Banking Inspection
DIB	Diploma in Islamic Banking
DOS	Department of Off-site Supervision
ETF	Exchange Traded Fund
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GHOS	Governors and Heads of Supervision
GI	Gross Income
GN	Guidance Note
G-SIBs	Global-Systemically Important Banks

G-SIFIs	Global-Systemically Important Financial Institutions
G-SIIs	Global-Systemically Important Insurers
HLA	Higher Loss Absorbency
HLGs	High-Level Goals
HNWI	High-Net-Worth-Individuals
HPMM	Hire Purchase Musharaka Mutanaqisa
HPSM	Hire Purchase under Shirkatul Meelk
HQLA	High Quality Liquid Asset
IA	Investment Account
IADI	International Association of Deposit Insurers
IAG	Inter-Agency Group on Economic and Financial Statistics
IAH	Investment Account Holder
IAIGs	Internationally Active Insurance Groups
IAIS	International Association of Insurance Supervisors
IASB	International Accounting Standards Board
IBBL	Islami Bank Bangladesh Limited
IBF	Islamic Banking and Finance
IBIS	Islamic Banks and Financial Institutions Information System
ICIS	Islamic Collective Investment Schemes
ICM	Islamic Capital Market
ICMTF	Islamic Capital Market Task Force
ICPs	Insurance Core Principles
ICS	Insurance Capital Standard
ICSID	International Centre for Settlement of Investment Disputes
IDB	Islamic Development Bank
IDIC	Indonesian Deposit Insurance Corporation
IFC	Irving Fisher Committee
IFDI	Islamic Finance Development Indicator
IFI	Islamic Financial Institution
IFSA	Islamic Financial Services Act
IFSB	Islamic Financial Services Board
IFSI	Islamic Financial Services Industry
IFSI	Islamic Financial Services Industry
IIFM	International Islamic Financial Market
IIFM	Inter-bank Islami Fund Market
IIFS	Institutions Offering Islamic Financial Services
IILM	International Islamic Liquidity Management Corporation
IIMM	Islamic Interbank Money Market

IIRA	International Islamic Rating Agency
ILAAP	Internal Liquidity Adequacy Assessment
IMF	International Monetary Fund
INCEIF	International Centre for Education in Islamic Finance
IOSCO	International Organization of Securities Commissions
IRB	Internal-Ratings Based
IRTI	Islamic Research and Training Institute
ISFD	Islamic Solidarity Fund for Development
ISLM	Islamic Finance Platform
ISRA	International Shariah Research Academy
KFHR	Kuwait Finance House Research Limited
LCR	Liquidity Coverage Ratio
LNG	Liquefied Natural Gas
LOB	Lines of Business
LOLR	Lender of Last Resort
MDBs	Multilateral Development Banks
MDIC	Malaysia Deposit Insurance Corporation
MENA	Middle East and North Africa
MiFID	Markets in Financial Instruments Directive
MMoU	Multilateral Memorandum of Understanding
MoU	Memorandums of Understanding
MPB	Mudaraba Perpetual Bond
MPI	Murabaha Post Import
MSD	Mudaraba Savings Deposits
MSMEs	Micro, Small, and Medium-Sized Enterprises
MSND	Mudaraba Short Notice Deposits
MTD	Mudaraba Term Deposits
MTP	Medium-Term Plan
NBK	National Bank of Kazakhstan
NBNI	Non-Bank or Non-Insurer
NKEA	National Key Economic Area (Malaysia)
NMPIs	Non-Mainstream Pooled Investments
NPFs	Non-Performing Financing/Facilities
NPLs	Non-Performing Loans
NSFR	Net Stable Funding Ratio
NSOs	National Statistical Offices
NSSs	National Statistical Systems
OECD	Organisation for Economic Co-operation and Development

OIC	Organisation of Islamic Cooperation
OPEC	Organization of Petroleum Exporting Countries
OPHI	Oxford Poverty and Human Development Initiative
PER	Profit Equalization Reserve
PGI	Principal Global Indicators
POS	Point of Sale
PRC	People's Republic of China
PRIIPs	Packaged Retail and Insurance-Based Investment Products
PSE	Philippine Stock Exchange
PSEs	Public-Sector Entities
PSIA	Profit Sharing Investment Account
PSIFIs	Prudential and Structural Islamic Financial Indicators
QE	Quantitative Easing Programme
QIS	Quantitative Impact Study
RAM	Risk Assessment Matrix
RCAP	Regulatory Consistency Assessment Programme
REIT	Real Estate and Investment Trust
REPI	Real Estate Price Index
RIB	Revenue-Indexed Bond
ROA	Return on Assets
ROE	Return on Equity
ROSCs	Reports on the Observance of Standards and Codes
RPSIA	Restricted Profit-Sharing Investment Account
RSAs	Regulatory and Supervisory Authorities
RSF	Required Stable Funding
S&P	Standard & Poor's
SALR	Short-term Asset–Liability Ratio
SAPR	Self-Assessment and Peer Review
SBP	State Bank of Pakistan
SCDIS	Shariah-Compliant Deposit Insurance Schemes
SDDS	Special Data Dissemination Standards
SESRIC	Statistical, Economic and Social Research and Training Center for Islamic Countries
SHF	Shareholders' Fund
SIBs	Systemically Important Banks
SIFI	Systemically Important Financial Institution
SIG	Supervision and Implementation Group
SKRA	Strategic Key Result Area
SLOLR	Shariah-compliant Lender of Last Resort

SLR	Statutory Liquidity Requirement
SLRP	Supervisory Liquidity Review Processes
SMC	SESRIC Motion Charts
SME	Small and Medium Enterprise
SNA	System of National Accounts of the United Nations
SPFO	Strategic Plan and Financial Outlook
SPP	Strategic Performance Plan
SRI	Socially Responsible Investing
STA	Statistics Department
TA	Technical Assistance
TC	Technical Committee
TORF	Takaful Operators' Risk Fund
TR	Trust Receipt
TSA	The Standardised Approach
TSM	Total Stock Market
UAE	United Arab Emirates
UCIS	Unregulated Collective Investment Schemes
UCITS	Undertakings for Collective Investment in Transferable Securities Directive
UCPDC	Uniform Customs and Practice for Documentary Credit
UNDP	United Nations Development Programme
UNSD	United Nations Statistics Division
UNWTO	United Nations World Tourism Organization
UPSIA	Unrestricted Profit-Sharing Investment Accounts
US	United States
USD	United States Dollar
VE	Vulnerability Exercise
WB	World Bank
WG	Working Group
WHO	World Health Organization
WP	Working Paper

Executive Summary

The Islamic banking sector in Bangladesh is gaining popularity over the decades. Considering this growth and large volume of Islamic banking activities in Bangladesh, it has become necessary to examine the status of corporate governance practices in this sector. The concept of corporate governance does not differ much from the Islamic perspective as the main objective is to protect all stakeholders' interest. There are four principles governing Islamic shari'ah governance which are i.e. extension the principle of justice, the principle of productive engagement of resources in social welfare and the principle of economic activities and recursive intention amongst the above stages. All of these principles are the main premises of the Islamic corporate governance where the shari'ah rules embedded in al-Quran and al-Sunnah make the Islamic corporation viable. The stakeholders' model for Islamic corporate governance is preoccupied by two fundamental concepts of Shari'ah principles which is property rights and contractual frameworks. The state and nature of Corporate Governance (CG) in Bangladesh are guided by several factors: a) company law, b) Bangladesh Bank's (BB) guidelines, c) BSEC requirements, and d) pressure from buyers or peer.

The supervision of Islamic banks is as important as that of the conventional banks. In most countries, Islamic banks are put under the supervision of the central bank of the country and are given the same treatment as given to normal commercial banks. In some countries, special laws have been introduced to facilitate Islamic banking, while in others no such laws have been introduced. One of the most important concerns of regulators and supervisors of Islamic banks is how to apply internationally recognized standards to these institutions while, simultaneously, enabling them to operate in conformity with the Shariah. Several recent reports on Islamic banking highlights major challenges, both micro and macro, in establishing a global Shariah governance framework. The philosophical foundation of corporate governance in Islam requires an additional layer of governance for the purpose of Shariah compliance. Shariah governance is a unique kind of governance in financial architecture as it is concerned with the religious aspects of the overall activities of Islamic Financial Institutions.

One of the important governance organs in an Islamic bank is the presence of Shariah Supervisory Committee/ Council. The committee/ council is governed by the bye-laws approved by the Board. The committee gives opinion and guidelines to implement and comply with the Shariah principles in all activities of the bank and provide a clearance of Shariah compatibility of all products. It oversees the activities of the bank from Shariah perspective and ensures that the profit has been derived without violating the Shariah rulings. The committees of the Islamic banks also evaluate performance of the officials in terms of their Shariah compliance and conducts Shariah inspection to ensure that the Shariah principles are being implemented.

In order to develop Shariah governance index, the fifty key principles for best Shariah governance practices which are formulated by IRTI have been used for survey of the sampled

Islamic banks in Bangladesh. Shariah governance requires accurate and true disclosure and transparency as a prerequisite to accountability. The fundamental concept of governance in Shariah is accountability and hence it requires Islamic banks to make true disclosures and to provide accurate and necessary information to all stakeholders.

As a whole banking industry is facing different forms of malpractices. Malpractices take the forms of non-compliance of regulation and fraudulent activities. Sharia compliance is an additional challenge of Islamic banks. The necessary component of an effective *Shariah* framework is more or less absent in Bangladesh. In this respect Malaysia can be as a model for Bangladesh.

Islamic banking comes across great challenges due to lack of awareness about Islamic banking amongst its customers. Maintaining a capable and active Shariah Committee/ Council with adequate scholars and experts is a critical need for banks. Moreover, Islamic banks do not get adequate customers/ counterparty to invest under PLS arrangement (mudaraba/ musharaka). For improving efficiency of the Islamic banking in the country, there are scopes of using internationally recognized Islamic banking standards like AAOIFI and IFSB's standards. In addition, trained personnel in the area of Shariah audit is a critical need of the industry

Corporate Governance in Islamic Banks in Bangladesh: Issues and Challenges

1. Introduction

1.1 Background of the Study

Recently the issue of corporate governance has become the cause of concern since there has been more corporate failures and corporate frauds due to ineffective and unsound governance. Corporate governance which attracts a lot of debate on its concept and definition is one of the vital elements in any corporation irrespective of financial and non-financial. Still today, there is no consensus on the definition and concept of corporate governance. This is due to the different understandings of the goals of corporations with respect to different models of corporate governance as well as large number of distinct economic systems. The meaning of Corporate Governance (CG) can be categorized into two senses- narrower sense and broader sense. In a narrower sense, it is a formal system of accountability between the shareholders and their agent, such as the Board of Directors (BOD) and senior management whereas in a broader sense, it refers to the entire network of formal and informal relations involving a large group of stakeholders in the firm, such as shareholders, management, employees, the community and the environment. The Organization for Economic Co-operation and Development (OECD), has defined CG in the following way: “Corporate governance involves a set of relationships between a company’s management, its board, its shareholders and other stakeholders”. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined. Good corporate governance should provide proper incentives for the board and management to pursue objectives that are in the interests of the company, its shareholders and should facilitate effective monitoring.

The presence of an effective corporate governance system, within an individual company and across an economy as a whole, helps provide a degree of confidence that is necessary for the proper functioning of a market economy. The company brings the cost of capital at lower level and firms are encouraged to use resources more efficiently, thereby underpinning growth.

At present the banking sector of Bangladesh is comprised of 57 scheduled banks under four different categories of which are 6 State-owned Commercial Banks (SOCBs), 2 are State-owned Development Financial Institutions (DFIs), 40 are Private Commercial Banks (PCBs) including Islamic banks and the rest 9 are Foreign Commercial Banks (FCBs). The Islamic banking system has started its journey in 1983 along with the

conventional interest-based banks. As per Bangladesh Bank, out of 57 banks in Bangladesh, 8 PCBs operate as full-fledged Islamic banks, and 17 conventional banks (including 3 FCBs) are involved in Islamic banking through Islamic banking branches and windows in FY 2016. It is evident from the Bangladesh Bank report that the Islamic banking industry continued to show strong growth since its inception in 1983 to December 2015, as reflected by the increased market share of the Islamic banking industry in terms of assets, financing and deposits of the total banking system (Appendix-1). In December 2015, the percentage of total deposit of the Islamic banking sector was 18.8 percent of deposits of the total banking system, whereas, the percentage of total credit of the Islamic banks and the Islamic banking branches of the conventional banks was 21.6 percent of credit of the total banking system of the country. Thus, it can be mentioned that the Islamic banking sector in Bangladesh is gaining popularity over the decades. Considering this impressive growth and large volume of Islamic banking activities in Bangladesh, it has become necessary to examine the status of corporate governance practices in this sector. The concept of corporate governance does not differ much from the Islamic perspective as the main objective is to protect all stakeholders' interest. There are four principles governing Islamic shari'ah governance which are i.e. extension the principle of justice, the principle of productive engagement of resources in social welfare and the principle of economic activities and recursive intention amongst the above stages. All of these principles are the main premises of the Islamic corporate governance where the shari'ah rules embedded in al-Quran and al-Sunnah make the Islamic corporation viable. The stakeholders' model for Islamic corporate governance is preoccupied by two fundamental concepts of Shari'ah principles which is property rights and contractual frameworks.

The governance of any corporation in Islam is ruled by shari'ah where all the stakeholders including the shareholders, the management, other stakeholders such as the employees, the suppliers, the depositors and the community are involved. Several standards specifically related with the shari'ah corporate governance have been issued by the Accounting and Auditing Organization for Islamic Financial Institution (AAOIFI).

Since the governance of Islamic banks is at the intersection of national and shari'ah law, so the purpose of corporate governance in Islamic financial institution is different from the purpose of corporate governance of other firms. Habib and Chapra (2002) consider the corporate governance of Islamic financial institutions as a mechanism which allows ensuring fairness to all stakeholders through greater transparency and accountability towards shari'ah principle. According to Ibrahim (2006), the corporate governance of Sharia compliant business would first look at the transactional structure to see whether the transaction involves elements that invalidate gains or profits, since Sharia is concerned not only with the substance but also with the form of the business. In effect,

corporate governance for Islamic financial institutions stems from two main elements: faith based approach that mandates conduct of the business in harmony with Islamic law and profit-motive that recognizes business and investment transactions and maximization of shareholder's wealth etc. (Akhtar, 2006). According to Arif (1988), Conventional Banking and Islamic Banking differs in that while the Conventional Banking follows conventional interest-based principle and the Islamic Banking is based on interest free principle & principle of Profit-and-Loss (PLS) sharing in performing their businesses as intermediaries. According to Archer *et al.* (1998), in comparison to Conventional Banking, Islamic Banking needs more corporate governance to omit the weaknesses of the past and to increase the transparency by monitoring the financial activities (Archer *et al.*, 1998). The state and nature of Corporate Governance (CG) in Bangladesh are guided by several factors: a) company law, b) Bangladesh Bank's (BB) guidelines, c) SEC requirements, and d) pressure from buyers or peer pressure. The cumulative impact of these factors results in a corporate behavior which is followed differently by Islamic Banks and Conventional Banks in Bangladesh. Improving transparency, better disclosure of financial information, enhanced regulatory oversight and stronger corporate governance, including measures to improve accountability and better align shareholder and manager interests are necessary for better functioning of the banks.

As the banking sector has diversified its products and services, increased its overseas representation with complex risk, so it requires a sound framework of regulation and good governance. Though a large number of research papers have already been published on the various context of corporate governance across the world but no research work on corporate governance in Islamic Banks in Bangladesh has yet been undertaken. Therefore, considering the present substantial volume of Islamic banking business and its tremendous future growth potential in Bangladesh, the research team has undertaken this research work to know the current status, issues and challenges of corporate governance of Islamic Banks in Bangladesh.

1.2 Objectives of the Study

The objectives of the study are : (i) to demonstrate the current status and practice of Corporate Governance (CG) in Islamic Banking sector of Bangladesh; (ii) to appraise the shari'ah Governance Framework of Islamic Banks of Bangladesh through the formulation of shari'ah governance index; (iii) to compare shari'ah Governance Framework of Islamic Banks of Bangladesh with that of some selected countries, and (iv) to identify the issues and challenges for ensuring effective corporate governance in Islamic Banks in Bangladesh and suggest actions for policy implications.

1.3 Data and Methodology

Both primary and secondary data have been used to achieve the objectives of the study. Primary data have been collected by using three semi-structured questionnaires from the Islamic commercial banks of Bangladesh. Both open-ended and close-ended questions were incorporated in the questionnaires for the survey. A total of 19 commercial banks (6 full-fledged Islamic banks and 13 conventional banks with Islamic banking branches or windows) have been selected as sample. The secondary data have been collected from different journals, annual reports of commercial banks, annual reports of Bangladesh Bank and various publications related to Islamic banking practices in global economies and in the country. The samples (Islamic banks and selected branches of the conventional banks) are determined purposively based on three considerations: *one*, Islamic banking practices of banks of the country should be brought under the survey; *two*, branches of the conventional banks that are involved in Islamic banking transactions should be covered by the study;

and *three*, practices of the windows of a few conventional banks should be covered by the study. A survey on the Shariah governance and Shariah Governance Disclosure was conducted by Islamic Research Training Institute (IRTI) in the year 2013. A questionnaire on the Principles of Shariah Governance and Shariah Governance Disclosure was devised based on the finding of IRTI (2013) as a reference for this study. Fifty Principles of Shariah Governance and thirty Shariah Governance Disclosure requirements were furnished in the questionnaire. A total of 25 questionnaires were sent to the Islamic banks, out of which 21 respondents returned the filled up questionnaire. Some of the responses were incomplete. Therefore, 19 responses are summarized in the paper. Simple financial and statistical tools have been used to find out more concrete findings. Graphical approach has also been used for better presentation.

1.4 Organization of the Report

The report has been organized under nine sections: after an introductory section with the background, objectives and methodological issues, Section-2 deals with the conceptual framework of corporate governance from an Islamic perspective. Section-3 discusses Shariah governance system for Islamic banks. Section-4 deals with regulatory framework of shariah governance system. Governance of Islamic banks in Bangladesh is placed in Section-5. Section-6 depicts the system of shariah governance practices of Islamic banks in Bangladesh. Section-7 demonstrates the Shariah Governance Disclosures in Islamic Banks. Section-8 displays Shariah Governance challenges of Islamic banks in Bangladesh whereas Section-9 presents concluding remarks.

1.5 Limitations of the Study

Although the study covers corporate governance in Islamic banks in Bangladesh. But the driving mechanism of Islamic banks is Shariah Governance in which corporate governance is integrated. This is why more emphasis is given on Shariah governance of Islamic banks in Bangladesh in this study.

2. Conceptual Framework of Corporate Governance from an Islamic Perspective

The concept of corporate governance from an Islamic perspective does not differ much from the conventional definition as it refers to a system by which companies are managed, directed and controlled with the purpose of achieving the corporation's objective by protecting all the stakeholders' interests and rights. Uniquely, the context of corporate governance within the Islamic paradigm presents certain exceptional characteristics and features. Choudhury and Hoque (2006) discuss the faith-based theoretical framework of corporate governance in Islam and they consider it as a theory pertaining to decision making processes that employ the premise of the Islamic socio-scientific epistemology of *Tawhld*. The practical implications of the Islamic idea of corporate governance are immense, especially when they are related to transaction cost minimisation in decision-making environments and achieving the aims and objectives of the corporation within the boundary of *Shari'ah* rules and principles (Choudhury and Hoque 2006). Therefore, it is essential to understand and refine the conceptual definition of corporate governance from an Islamic point of view in order to enlighten any further discussion on the subject of Shari'ah governance. From an Islamic perspective, corporate governance can be defined as a set of organisational arrangements as to how a corporation is directed, managed, governed and controlled, which provides the governance structure through which all stakeholders' interests are protected, the company's objective is achieved, social responsibility is upheld and the principles of Shari'ah are complied with. This is in parallel with the definition of corporate governance in IFIs of the *Guiding Principles on Corporate Governance for Institutions Offering Only Islamic Financial Services* (hereafter termed IFSB-3). IFSB-3 defines corporate governance as “a set of relationships between a company's management, its BOD, its shareholders, and other stakeholders which provides the structure through which the objectives of the company are set; and the means of attaining those objectives and monitoring performance are determined”. In addition, IFSB-3 further characterises corporate governance in IFIs to encompass “a set of organizational arrangements whereby the actions of the management of IIFS are aligned, as far as possible, with the interests of its stakeholders; provision of proper incentives for the organs of governance such as the BOD,

Shari'ah board, and management to pursue objectives that are in the interests of the stakeholders and facilitate effective monitoring, thereby encouraging IFIs to use

resources more efficiently; and compliance with Islamic *Shari'an* rules and principles". (IFSB 2006b; p. 33) This definition concludes that there are two main elements of corporate governance in IFIs, namely the governance structure and framework through which all stakeholders' interests and rights are protected and the requirement of compliance with the *Shari'ah* rules and principles.

2.1 Role of Corporate Governance in Islamic Banks

With several corporate failures of IFIs, such as the closures Ihlas Finance House in Turkey, the Islamic Bank of South Africa and the Islamic Investment Companies of Egypt, and corporate difficulties, as in the case of the Dubai Islamic Bank and Bank Islam Malaysia Berhad, the need for a good and efficient governance system is considered as a crucial part of corporate governance. All these cases indicate that IFIs are not immune from crisis and failures due to governance issues. The role of corporate governance in IFIs is to promote corporate fairness, transparency and accountability. In the context of IFIs, the requirement of *Shari'ah* compliance as part of its corporate governance framework signifies the essence of maintaining the relationship between the different stakeholders as well as the relationship with God. In this aspect, IFIs require the additional framework of *Shari'ah* to safeguard and maintain not only the relationship with God but to include other human beings and the environment. Basically, there are three main roles of corporate governance that are exclusive to IFIs. Firstly, corporate governance plays a role to reassure stakeholders that their activities are fully compliant with *Shari'ah* principles. Secondly, the stakeholders also need to be assured that IFIs aim to maintain and improve growth and are able to prove their efficiency, stability and trustworthiness (Grais and Pellegrini 2006b; p. 2). Corporate governance therefore has the role of harmonizing these two functions so as to meet the requirement of *Shari'ah* and to satisfy the natural aim of the corporation of maximizing profit without violating stakeholders' rights and interests.

Thirdly, corporate governance in IFIs is important as a means to address risk, particularly governance risk. Iqbal and Mirakhor (2007; pp. 227-50) define governance risk as 'the risk arising from failure to govern the institution, negligence in conducting business and meeting contractual obligations and from a weak internal and external environment'. They further classify the governance risk into operational risk, fiduciary risk, transparency risk, Shariah risk and reputation risk (Iqbal and Mirakhor 2007; pp. 242-6). With the complexity and some exclusive characteristics of risks in IFIs, unlike their conventional counterparts, a sound and efficient corporate governance system must be in place in order to mitigate those kinds of risk. The special characteristic of IFIs of needing to comply with *Shari'ah* rules and principles in all their activities requires a specific kind of governance. IFIs should avoid any involvement with all kinds of *Shari'ah* prohibitions, such as *riba* (interest), *gharar* (uncertainty), speculation and *maysir* (gambling), stay away

from investing in any unlawful activities, and observe the principles of Islamic morality or the Islamic ethical code. In this respect, corporate governance in Islam is an obligation not only to IFIs to foster and gain the confidence of the stakeholders but also to the general public that all products, operations and activities adhere to Shariah rules and principles.

2.2 The Development of Corporate Governance in Islamic Banks

This section briefly discusses the development of corporate governance in IFIs by revisiting the historical development of financial institutions from the early stages of Islam until today. This paper classifies the development of corporate governance in IFIs into two main phases, namely pre- twentieth century and post-twentieth century. The second phase is further subdivided into two stages: the first stage (pre-1970s) and the second stage (post-1970s).

Phase-I (pre-twentieth century): absence of corporate governance in traditional IFIs.

The term 'bank' is alien to the early Muslim period where the term bayt al-mal is extensively used. Bayt at-mal could be considered a state-owned bank; it played the role of an agricultural credit bank, commercial bank and clearing house for merchants to facilitate commercial activities from the time of Umayyad (Imamuddin 1997a; p. 132). In the eighth and ninth centuries, financiers were known as sarraf and jahbadh and functioned as modern bankers in pre-modern Islam. Sarraf provided financing facilities primarily on the basis of *mudharabah* and *mushdrakah*, negotiable instruments and trade facilities by cashing cheques, and issued promissory notes and letter of credits (Chapra and Ahmed 2002; p. 3). They also provided banking facilities to the public as well as the private sector, while *jahbadh* served mainly the public sector.

Sarraf as financiers were owned by the individual, family or tribe, whereas *jahbadh* were owned by the state. Neither institution, however, was a bank, as they did not receive deposits or issue cheques as normal modern banks do. Corporate governance was not an issue at all in sarraf or jahbadh, since neither institution was classified as a corporate legal entity.

Phase-II (post-twentieth century): the emergence of corporate governance in modern IFIs.

Stage-I: pre-1970s.

At the end of the nineteenth century, the Muslim role in sarraf business was radically reduced by the increase in non-Muslim *sarraf* families and the emergence of modern banks, established largely by Europeans and by Armenian and Greek *sarraf* such as such as the Deutsche Orient Bank, the Deutsche Bank, the Credit Lyonnais and the Banque Ottomane (Saeed, 2002). The colonisation of the majority of Muslim countries further affected the existing Islamic financial system and hence it was replaced with Western

modern banking, an interest-based financial system. Not until the 1950s were there efforts to establish IFIs, such as in Pakistan, on the notion of inserting a clause to ban interest into the constitution and the establishment of a local Islamic bank that provided financing mainly for the poor. This was followed by the opening of the Mitr Ghams Savings Bank on 23 July 1963 and the Nasser Social Bank in 1972.

The success of the earlier Islamic banks, although a partial breakthrough, was discussed extensively by many scholars, particularly the aspects of operations, procedures, activities, performance, nature of financing facilities and socio-legal matters. Nevertheless, corporate governance was not given due concern and there was no specific discourse or initiatives on it. This is because all of those Islamic banks were incorporated in the form of either cooperative societies or social banks. The modes of financing activities were also very limited and only attempted to redress social and small community needs. Corporate governance is less relevant to this kind of business organization.

Stage-II: post-1970S

The period between 1975 and 1990 was the most crucial period in the development of the Islamic financial sector. The establishment of several Islamic banks, in the form of corporations such as the Dubai Islamic Bank, Faisal Islamic Bank and the Kuwait Finance House including the Islamic Development Bank in Jeddah, triggered the need for a specific corporate governance system. Due to several corporate failures and difficulties of IFIs in the 1990s and 2000s, a few international infrastructure institutions were established with the purpose of supporting the Islamic financial sector to enhance and strengthen the corporate governance framework; these include the Accounting and Auditing Organization for IFIs (AAOIFI), the International Islamic Financial Market (IIFM), the International Islamic Rating Agency (IIRA) in Bahrain, the General Council of Islamic Banks and Financial Institutions (CIBAFI) and Islamic Financial Services Board (IFSB) in Malaysia. The AAOIFI and IFSB were established to address issues relating to corporate governance in IFIs by issuing governance standards and guidelines of best practice. To date, the AAOIFI has issued seven governance standards: Shari'ah Supervisory Board: Appointment, Composition; Shari'ah Review; Internal Shari'ah Review; Audit and Governance Committee for IFIs; Independence of Shari'ah Supervisory Board; Statement on Governance Principles for IFIs; and Corporate Social Responsibility (AAOIFI). Similarly, the IFSB has issued seven guidelines on governance, disclosure and supervisory review processes for IFIs.

2.3 Global Efforts on Regulatory Set up and Governance Standards for Islamic Banking

One of the most important developments for the nascent Islamic finance industry has been the establishment and the work of industry bodies to address the challenges of regulation, accounting, and Shariah rules. Responding to the call for greater harmonization, standardization, and predictability, various international organizations, standard-setting bodies and authorities have designed numerous approaches and made pervasive efforts to create clarity, consistency, and alleviate concerns (OIC, 2016).

Supranational organizations focused on standardization in Islamic finance are (in no particular order of importance): the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), the Islamic Financial Services Board (IFSB), the International Islamic Financial Market (IIFM), and the Organization of Islamic Cooperation Fiqh Academy (OICFA).

However, despite their commendable efforts, challenges in terms of issuing as well as implementing any new Shariah standards still remain. Alongside these standards-setters, regulators are also keen on standardization as they want to roll out a predictable regulatory framework that is closely aligned with international best practices to ensure stability of the industry, sustainable growth, and a structure that supports regulatory oversight (ISRA and Thompson Reuters, 2016).

The supervision of Islamic banks is as important as that of the conventional banks. In most countries, Islamic banks are put under the supervision of the central bank of the country and are given the same treatment as given to normal commercial banks. In some countries special laws have been introduced to facilitate Islamic banking, while in others no such laws have been introduced. One of the most important concerns of regulators and supervisors of Islamic banks is how to apply internationally recognized standards to these institutions while, simultaneously, enabling them to operate in conformity with the Shariah. Islamic banks are generally supervised within the framework of the prevailing international commercial banking supervisory systems, and thus regulatory standards of the Basel Committee are also necessary for Islamic banks, because, there are systemic considerations. For Islamic banking, it is also necessary to ensure the faithful compliance of banks with the teachings of the Shariah. Such conformity cannot be ensured until all the outstanding Fiqhi (Islamic Jurisprudence) issues related to finance have been satisfactorily resolved. It is also necessary to specify clearly the specific roles of the Shariah board, the central bank, and the chartered auditing firms in ensuring that the banks do not violate the teachings of the Shariah. Since capital adequacy is now internationally considered to be the core of systemic safety and hence supervisory concerns, the fulfillment of this crucial requirement help enhance the credibility and growth of Islamic banking worldwide. The establishment of capital adequacy standards

by the AAOIFI has helped crystallize the differences between the capital of Islamic and conventional banks. However, the compliance with the standards of AAOIFI has not yet fully materialized (Ernst and Young, 2013). The situation demands greater importance of regulation and supervision in an Islamic financial system (IFSB, 2015).

Shariah governance framework acts as a yardstick for Islamic Financial Institutions (IFIs). Over the last few decades, several models of Shariah governance have been introduced, which capitalize on the best practices of corporate governance set by international standards setters such as the Organization for Economic Co-operation and Development (OECD), IFSB, and AAOIFI. The sophistication of these Shariah governance models depends very much on the relative newness of the Islamic finance market and the strategic economic plans across countries.

As the industry has matured and gained experience, and seen its own corporate governance failures, Shariah scholars as well as other stakeholders have come to understand and appreciate the importance of Shariah governance in the broader framework of corporate and oversight matters, so that the running of IFIs is in line with the Shariah principles. Pursuant to that, AAOIFI and IFSB issued standards and guidelines on Shariah governance in their endeavor to establish a robust Shariah governance system for the Islamic finance industry.

Several recent reports on Islamic banking highlights major challenges, both micro and macro, in establishing a global Shariah governance framework. Today, the market has therefore various models and approaches in implementing Shariah governance, namely one, two-tier “centralized model” with a Shariah advisory committee at the level of the central bank and individual Shariah committees at the market level in each IFI, two, “centralized model” with a Shariah advisory body at the central bank only, and three, “non-centralized model” with Shariah committees at the financial institution level only. The establishment of an International Shariah Convention, which share the same spirit of the New York Convention (i.e. Convention on the Recognition and Enforcement of Foreign Arbitral Awards), might be a viable solution as an arbitrator for all matters pertaining to Islamic finance business worldwide (ISRA and Thompson Reuters, 2016).

3. Shariah Governance System for Islamic Banks

The philosophical foundation of corporate governance in Islam requires an additional layer of governance for the purpose of Shariah compliance. With this aspiration, corporate governance in Islamic banks needs a set of institutional arrangements to oversee the Shariah compliance aspect of their business and operations. In the absence of a specific model of corporate governance in Islamic literatures, the Shariah governance system was introduced to complement the existing corporate governance framework in IFIs. In this regard, a Shariah governance system is peculiarly exclusive and unique to the

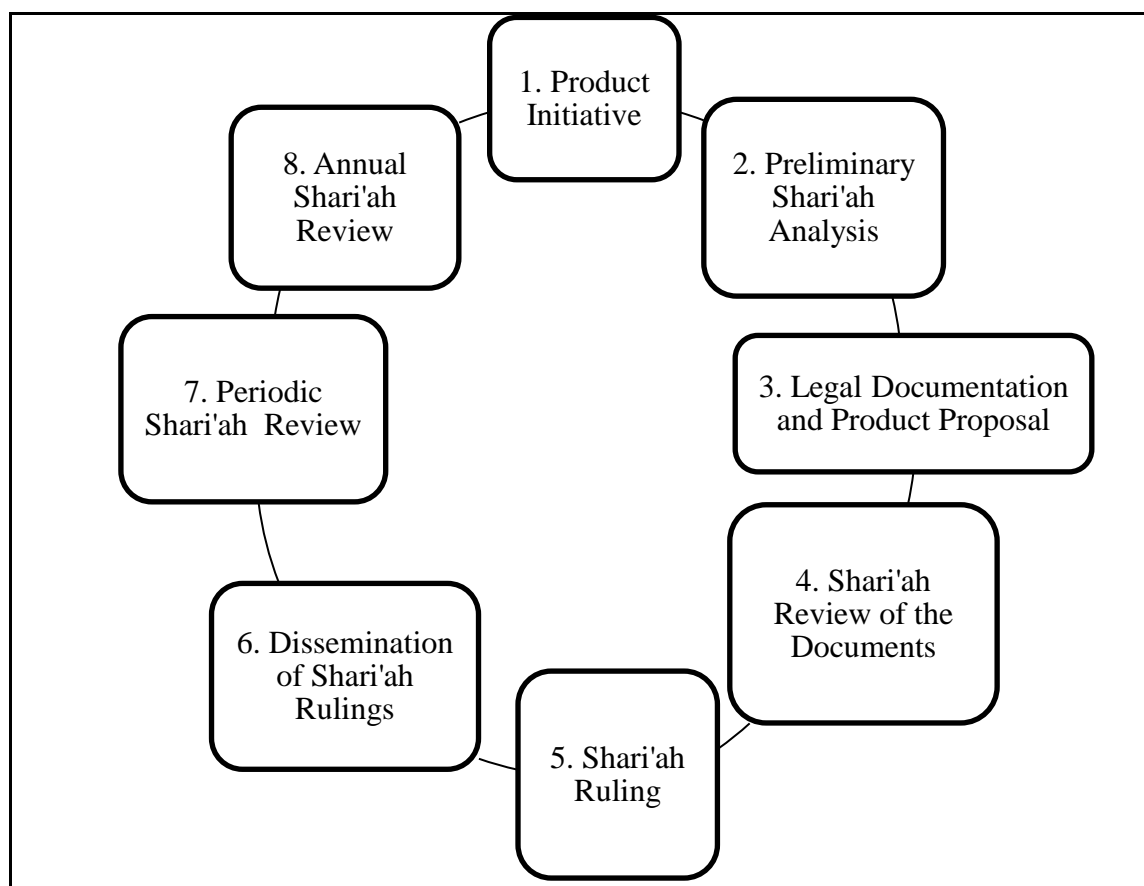
corporate governance framework in IFIs, unlike their conventional counterparts (Dusuki, 2011). The best definition of Shariah governance can be found in IFSB-10 (Appendix-2). IFSB-10 defines the Shariah governance system as “a set of institutional and organizational arrangements through which IFIs ensure that there is effective independent oversight of Shariah compliance over the issuance of relevant Shariah pronouncements, dissemination of information and an internal Shariah compliance review”. (IFSB 2009a; p. 2). This definition implies that the institution of the Shariah board is crucial to the Shariah governance system: as an authoritative body to ensure Shariah compliance in IFIs. The AAOIFI Governance Standard No.1 defines a Shariah board as 'an independent body entrusted with the duty of directing, reviewing and supervising the activities of IFIs for the purpose of Shariah compliance and issuing legal rulings pertaining to Islamic banking and finance' (AAOIFI). In carrying out this duty, the Shariah board needs a clear framework and structure to ensure its effectiveness, particularly with respect to its independence, the binding force of its rulings, its objectivity and its full mandate. On this basis, any formal or informal arrangement as to how the Shariah board is directed, managed, governed and controlled for the purpose of Shariah compliance is also part of the Shariah governance system. Shariah governance is a unique kind of governance in financial architecture as it is concerned with religious aspects of the overall activities of IFIs.

Shariah governance is a unique kind of governance in financial architecture as it is concerned with the religious aspects of the overall activities of IFIs. The existing standard setting agencies such as the Organisation of Economic Cooperation and Development (OECD), the International Organisation and Securities Commission (IOSCO) and the Basel Committee on Banking Supervision (BCBS) have issued numerous guidelines on governance and risk management for financial institutions.

The OECD has issued Guidelines on Corporate Governance, the IOSCO on capital market and the BCBS on Basel Accord I, II and III. Nevertheless these standards and guidelines failed to address specific issues of Islamic finance (Dusuki, 2011). As the nature and model of Islamic finance are different with the conventional counterparts, the need for a standard-setting agency specifically for the Islamic finance was crucial and hence, with the initiative of several IFIs and regulatory authorities, the AAOIFI and the IFSB were established in 1992 and 2004, respectively. The AAOIFI has issued five governance standards while the IFSB has issued three Prudential Standards and one guiding principles on the governance in IFIs. The difference between the IFSB Prudential Standards and the AAOIFI Governance Standards is that the IFSB approach is more concerned towards regulators while the AAOIFI, to individual IFIs (Dusuki, 2011).

Figure-1 illustrates the scope of the Shariah governance framework in IFIs. It involves a systematic process and requires involvement of numerous organs of governance.

Figure 1: Scope of Shari'ah Governance Framework



Source: IRT

3.1 Objectives of the Shariah Governance System

The objectives of the Shariah governance system lie in the very reason for its existence, that is for the sake of Shariah compliance as inspired by its philosophical foundation. It involves numerous processes and procedures which require involvement of various organs of governance in Islamic financial products. In view of the numerous issues involved in this process, such as the independence, qualifications, reporting structure, accountability and transparency of the *Shari'ah* board, the Shariah governance system is very important to maintain the credibility of the *Shari'ah* board as well as to ensure the legitimacy of the products. The Shariah governance system is also important in promoting moderation and justice in financial transactions (Wilson 2009b; p. 61) and, therefore, enhancing public confidence in IFIs in the aspect of compliance in its application of Shariah principles. The objective of IFIs is not to satisfy the shareholders alone but to inculcate the confidence and trust of the public and community, who rely on

the services provided by them. In the absence of any control mechanism of governance system, public confidence in the legitimacy and legality of the products may be impaired.

4. Regulatory Framework of Shariah Governance System

The Shariah Governance system as defined by IFSB-10 refers to a set of institutional and organisational arrangements to oversee Shariah compliance aspects in IFIs. In this regard, the majority of IFIs have established their own Shariah boards and some of them have even set up a dedicated internal Shariah review unit or department to support the Shariah board in performing its function. This indicates a positive development in the Shariah governance systems of IFIs. Looking at the different frameworks and styles of Shariah governance in various legal environments and diverse banking models, it is worth examining the regulatory framework of the Shariah governance system in different jurisdictions. This chapter focuses on the regulatory framework of the Shariah governance system in Malaysia, GCC countries and the UK as the case studies. Uniquely, Significant differences are a prerequisite of the Shari'ah governance system, in particular from the regulatory overview, as Malaysia represents a model in a mixed legal jurisdiction, GCC in an Islamic and mixed legal environment and the UK in a non-Islamic legal environment. This section concludes with a brief review of the legal backgrounds.

4.1 The Shariah Governance Model from a Regulatory Perspective

The existing framework of Islamic finance in various jurisdictions demonstrates the diverse practices and models of the *Shari'ah* governance system. Some jurisdictions prefer greater involvement of regulatory authorities and some countries favour otherwise. To date, it is still debatable whether the former or the latter is more prevalent and appropriate for possible adoption. To illustrate these diverse approaches, five *Shari'ah* governance models have been identified in the context of their regulatory perspective.

4.1.1 Reactive Approach

This model is more prevalent in non-Islamic legal environment countries such as the UK and Turkey. Although several Islamic banking licences have been issued to IFIs, the regulatory authority is silent on the Shari'ah governance framework. Like conventional banks, IFIs are required to comply with the existing legislation and regulations. On top of that, IFIs have a duty to make sure that all their business operations and products are Shari'ah compliant. There is no specific legislation governing IFIs or any directive from the regulatory authorities specifying Shari'ah governance requirements. At the moment, the regulators will only react and intervene in Shari'ah governance matters if there is any significant issue involved which may affect the finance sector. For instance, the UK Financial Services Authority only sees the role played by the Shari'ah boards of IFIs as being advisory and supervisory.

4.1.2 Passive Approach

This approach is exclusive to the Shari'ah governance model in Saudi Arabia. The Saudi Authority Monetary Agency (SAMA) treats IFIs as equal to their conventional counterparts. SAMA has yet to issue legislation pertaining to Islamic finance and guidelines on a Shari'ah governance system. There is no national Shari'ah advisory board, nor are any institutions the sole authoritative body in Islamic finance. The existing Shari'ah governance system, as practised by IFIs in the kingdom, is a product of self-initiative rather than a regulatory requirement or at a regulator's direction.

4.1.3 Minimalist Approach

This model is mainly practised by GCC countries, with the exceptions of Oman and Saudi Arabia. Unlike the reactive approach, the minimalist model allows slight intervention on the part of regulatory authorities. The regulatory authorities expect IFIs to have a proper Shari'ah governance system without specifying the requirements in detail. There is no restriction on multiple appointments of the Shari'ah board to sit for various institutions at one particular time. Some jurisdictions in GCC countries, such as Bahrain, the UAE and Qatar, favour the adoption of the AAOIFI governance standards. The minimalist approach prefers the market to develop its own Shari'ah governance system rather than have greater intervention on the part of regulators.

4.1.4 Proactive Approach

This model is favoured by the Malaysian regulatory authority. The proponents of this model have strong faith in the regulatory-based approach to strengthen the Shari'ah governance framework. With this motivation, the Malaysian regulator initiates a comprehensive Shari'ah governance framework from regulatory and non-regulatory aspects. There were several laws passed and amended by the parliament such as the Islamic Banking Act 1983 (IBA), the Banking and Financial Institutions Act 1989 (BAFIA), the Takaful Act 1984 (TA) and the Securities Commission Act 1993. The CBA confirms the status of the SAC as the sole authoritative body in Islamic finance. To complement this, the BNM issued the BNM/GPSI in 2004 as well as a Shari'ah governance framework for IFIs in 2010, and the SC issued the Registration of Shari'ah Advisers Guidelines in 2009, which set the criteria for the registration of a Shari'ah advisor in the capital-market sector.

4.1.5 Interventionist Approach

While the passive approach is exclusive to Saudi Arabia, the interventionist model is unique to the Shari'ah governance model of Pakistan. The interventionist model allows third-party institutions to make decisions on Shari'ah matters pertaining to Islamic finance. In the case of Pakistan, the Shari'ah Federal Court is the highest authority in matters involving Islamic finance, despite the establishment of a Shari'ah board at the State Bank of Pakistan level.

5. Governance of Islamic Banking in Bangladesh

Governing Board, formed as per laws and regulations prevailing in the country and Bangladesh Bank Guidelines, is responsible for governing the banks whether it is Islamic or conventional. Board set and approve overall policy and strategy; monitor progress toward corporate objectives; and ensure accountability of the management protect stakeholders' right. One of the important governance organs in an Islamic bank is the presence of Shariah Supervisory Committee/ Council. The committee/ council is governed by the bye-laws approved by the Board. The committee gives opinion and guidelines to implement and comply with the Shariah principles in all activities of the bank and provide a clearance of Shariah compatibility of all products. It oversees the activities of the bank from Shariah perspective and ensures that the profit has been derived without violating the Shariah rulings. The committees of the Islamic banks also evaluate performance of the officials in terms of their Shariah compliance and conducts Shariah inspection to ensure that the Shariah principles are being implemented.

The Shariah Supervisory Committees/ Councils of Islamic banks are generally comprised of Islamic Economists/ Fakihs/ Islamic Scholars/ Muftis who are well-versed in Qur'an and Sunnah. In addition, ex-officials with Islamic banking experience may also be included within the committee. The number of members (including The Chairman) ranges from Three (03) to Ten (10). Bangladesh Bank has a guideline to select members of the committee. Though AAOIFI standard does not encourage membership of board directors and managing directors in the Shariah Committee/ Council on the ground of ensuring independence, in Bangladesh however, such instances are there. Islamic banks' Shariah Supervisory Councils are commonly supported by a Secretariat.

Box 1: Activities of Shariah Supervisory Committee/ Council-as Identified in the Survey

Organizing necessary Shariah meetings; perusing the Shariah Inspection in different branches; and Reviewing the matters/ circulars/ policies from time to time; providing deliberate views, decisions, necessary instructions and proper guidelines as per Shariah norms on different issues; providing Opinion and decision on yearly Zakat while ensuring proper calculation of such amount to be disbursed; arranging various training and workshops on Shariah Issues; developing awareness among employees of the bank about compliance with Shariah; undertaking motivational Initiatives to enhance awareness among clients as well as employees; publication of Circulars on Shariah related issues; innovate and opine about new products; Conducting and Evaluating Shariah audit report.

Source: Survey Data

As per the BB guideline (2009), the conventional banks which have Islamic banking branches or windows must have Islamic banking division in their respective head offices and these Islamic banking divisions are required to coordinate their Islamic banking activities with the central bank to ensure proper compliance of various rules and regulations. As per the survey observation, all conventional banks have such divisions.

Like conventional banks, Islamic banks have Executive Committee, Risk Management Committee, Asset-Liability Committee (ALCO), and Audit Committee to play similar roles. Audit committee is also responsible for Shariah compliance issues alongside the rules and standards of Bangladesh Bank. All the core risk management guidelines of the BB are equally relevant for the Islamic and conventional banks of the country. In addition, Shariah Audit is performed under Shariah supervisory board to ensure Shariah complaint activities. Thus, it can be observed that the Islamic banks are to comply with some additional requirements than that of the conventional banks.

Box 2: Central Shariah Board for Islamic Banks of Bangladesh (CSBIB)

Central Shariah Board for Islamic Banks of Bangladesh (CSBIB) is an Islamic non-profitable organization for the Islamic banks and Islamic banking branches/windows of Bangladesh. The objective of CSBIB is to give the Shariah-based directions and opinions for the Islamic banking industry of Bangladesh. It is also entrusted with advising and giving directives as to whether all functions of the Islamic banks including investment procedures are being carried out in accordance with Shariah. The CSBIB was established on August 16, 2001 as per direction of Bangladesh Bank. Currently, it has twenty one members and 68 honourable members. In 2015, a new committee has been elected: Chairman, Vice- Chairman & Secretary General of Central Shariah Board for Islamic Banks of Bangladesh for the tenure 2015-2019.

Source: CSBIB.

As part of Shariah governance, a Central Shariah Board for Islamic Banks of Bangladesh (CSBIB) has been formed in 2001 as per the direction of the Bangladesh Bank with the objective to offer the Shariah-based directions and opinions for the Islamic banking industry of Bangladesh. CSBIB is supposed to play the role of guardian of the Shariah Committees of Islamic Banks. It is now a kind of association of the Shariah Committees of all Islamic banks/ branches/ windows. The Central Shariah Committee is represented by the chairman and member secretary of Shariah committee/ council of a bank; and MDs and chairmen of member banks. There are evidences of seeking opinions of the CSBIB by the BB on several Shariah issues in recent time. Banks suggested several ways for improving the performance of CSBIB (Table-1). For mutual cooperation of Islamic

banks and relevant academic activities, Islamic Bank Consultative Forum (IBCF) has also been playing roles (Box-3).

Box 3: Islamic Banks Consultative Forum (IBCF)

Islamic Banks Consultative Forum (IBCF) started its operation on 11 October, 1995 with the objectives to establish effective interaction among all Islamic banks and banks having Islamic Branches/ windows to foster and strengthen the bond of unity and co-operation and relationship among Islamic Banks in the country based on Shariah. It is a non-profit voluntary and welfare organization of mutual trusts. Currently it has 12 members. It is to pursue the common interests of Islamic banks with Bangladesh Bank, government, semi-government and non-government agencies at home and abroad based on laws of the land. It is also working to guide/support the establishment of Islamic money market in collaboration with all Islamic Banks based on the Shariah.

Table 1: Suggestion to Improve the Role of CSBIB

Suggested Measures	% of Banks
To increase procure, preserve, publish and translate books, periodicals, journals on Islamic Banking	100
To conduct more Shariah related training and research works with a view to implementing Shariah principles in the operation of the member banks	100
To play more fruitful and active steps to increase awareness among the people regarding financial transaction according to Principles of Islamic Shariah	100
Strong inter-connectivity of the Islamic Banks in Shariah Issues	80
Conducting research to solve various difficult issues, especially new Shari'ah compliant Banking products to meet the requirements of the clients	80
CSB should have regulatory power	60
Shariah based solution of the new challenges faced by Islamic Banks	60
Proper initiative to sketch a way out for practicing real model of Islamic Banking operations	60
To employ highly skilled Islami Bankers for the development of Islamic banking practice and product	40

Source: Survey Data

6. The State of Shariah Governance Practices in Islamic Banks in Bangladesh

The compliance level of Islamic banks in Bangladesh with Shariah has been assessed based on the standards of Shariah governance system of AAOIFI. The Islamic banks of Bangladesh has been classified into three categories, such as: (i) A1: full-fledged Islamic Banks, (ii) A2: banks which are not full-fledged Islamic but operate Islamic banking through some Islamic bank branches, and (iii) A3: banks operate Islamic banking through some windows.

The study used ‘content analysis’ to assess compliance with five standards of AAOIFI on Shariah governance of Islamic banks Bangladesh. It has been observed that there are 18 required issues, of the five standards of Shariah governance system of AAOIFI, to comply by the Islamic banks (Appendix Table-2). Table-2 represents the Shariah compliance levels of A1 banks. The average compliance level is 83 per cent. The highest compliance level is 89 per cent, which is achieved by only two out of six banks. On the other hand, the lowest compliance level is 78 per cent.

Table 2: The Level of Compliance with Shariah Governance Standards of AAOIFI in A1 Banks

AAOIFI Standard No.	Required Issues in Standard (No.)	Compliance Level of the Banks						Mean	Standard Deviation
		A11	A12	A13	A14	A15	A16		
1	5	5	5	5	5	4	4	4.67	0.52
2	3	3	3	3	3	3	3	3.00	0.00
3	6	6	6	6	6	6	6	6.00	0.00
4	2	0	0	0	0	0	0	0.00	0.00
5	2	2	2	1	1	1	1	1.33	0.52
Total Compliance (No.)	18	16	16	15	15	14	14	15.00	0.89
Compliance %		89	89	83	83	78	78	83	5

Source: Annual Reports, 2014 & 2015 of Respective Banks

Table-3 depicts the compliance levels of A2 banks. Like A1 banks, all A2 banks also comply more or less with the requirements of all standards but standard 4 only.

The average compliance level is 79 per cent and the highest compliance level is 83 per cent. Both of these are less than that of A1 banks. But the lowest compliance level is same. However, the highest level is achieved by only three out of seven banks. On the other hand, the lowest level is complied with by four banks.

**Table 3: The Level of Compliance with Shariah Governance
Standards of AAOIFI in A2 banks**

AAOIFI Standard No.	Required Issues in Standard (No.)	Compliance Level of the Banks							Mean	Standard Deviation
		A21	A22	A23	A24	A25	A26	A27		
1	5	4	4	5	5	4	4	4	4.28	.52
2	3	3	3	3	3	3	3	3	3.00	0.0
3	6	6	6	6	6	6	6	6	6.00	0.0
4	2	0	0	0	0	0	0	0	0.00	0.0
5	2	1	2	1	1	1	1	1	1.00	.41
Total Compliance (No.)	18	14	15	15	15	14	14	14	14.28	.55
Compliance %		78	83	83	83	78	78	78	79	3

Source: Annual Reports, 2014 & 2015 of Respective Banks

One can understand the compliance levels of A3 banks reading Table-4. All banks do not comply with all the standards. The average compliance level is 59 per cent, which is less than those of both the banks A1 and A2. The highest compliance level is 72 per cent. and the lowest compliance level is 28 per cent. All compliance levels i.e. highest, lowest and average of A3 banks are less than those of the banks A1 and A2.

**Table 4: The Level of Compliance with Shariah Governance
Standards of AAOIFI in A3 Banks**

AAOIFI Standard No.	Required Issues in Standard (No.)	Compliance Level of the Banks						Mean	Standard Deviation
		A31	A32	A33	A34	A35	A36		
1	5	3	4	2	4	5	3	3.50	1.05
2	3	0	3	3	3	3	3	2.50	1.22
3	6	0	6	5	4	4	5	4.00	2.10
4	2	0	0	0	0	0	0	0.00	0.00
5	2	2	1	1	1	1	1	1.17	0.41
Total Compliance (No.)	18	5	11	11	12	13	12	10.67	2.88
Compliance %		28	61	61	67	72	67	59	16

Source: Annual Reports, 2014 & 2015 of Respective Bank

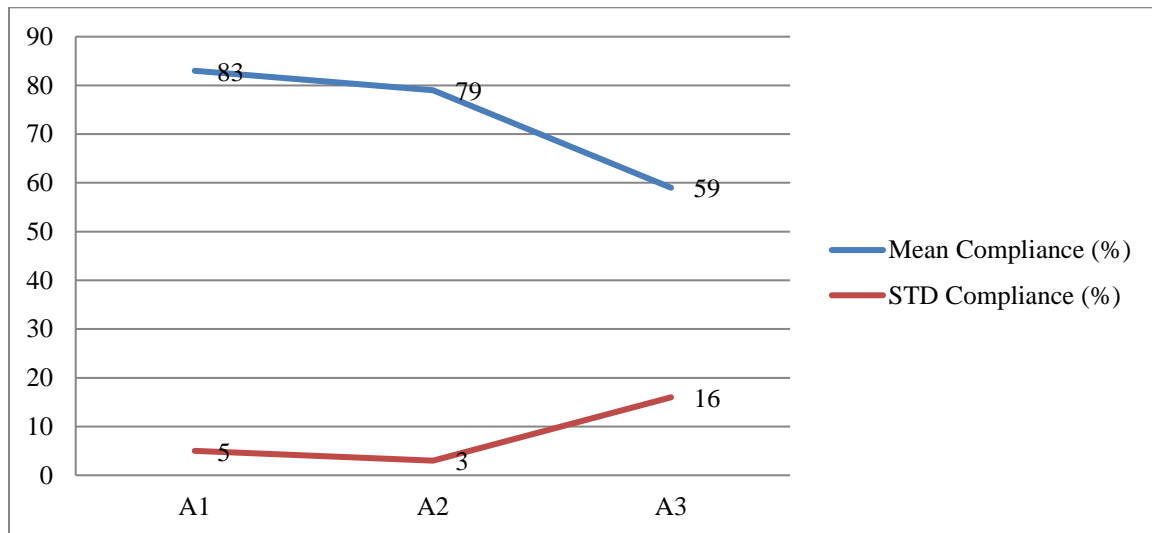
Table-5 shows comparative levels of the banks A1, A2 and A3. Figure-1 shows that the average level is highly decreased in case of A3 banks. The analysis of Standard Deviation (STD) shows that the volatility of the level of A3 banks have also been increased i.e. compliance level of the A3 banks has not been developed like banks A1 and A2. On the other hand, there is a little difference between banks A1 and A2 against both mean and standard deviation.

Table 5: Comparative Compliance Levels of Banks A1, A2 and A3

Category of Banks	Mean			Standard Deviation
	Total Compliance (No.)	Total Compliance (%)	Total Compliance (No.)	Total Compliance (%)
A1	15	83	.89	5
A2	14.28	79	.55	3
A3	10.67	59	2.88	16

Source: Table-1, 2 and 3

Figure-2: Compliance (%) with Shariah Governance Issues in A1, A2 and A3 Banks



Source: Table-5

6.1 Shari'ah Governance Index of Islamic Banks

In order to develop Shariah governance index, the fifty key principles for best Shariah governance practices which are formulated by IRTI have been used for survey of the sampled Islamic banks in Bangladesh. The fifty key principles for best Shariah governance practices are divided into six sections: approach to Shariah governance (seven indicators); regulation and internal framework of Shariah governance (four indicators); roles of Shariah board (five indicators); attributes of Shariah board with respect to competence (eight indicators), independence (five indicators), transparency and confidentiality (four indicators); operational procedures (twelve indicators); and assessment of Shariah board (five indicators). These fifty indicators represent the key principles of best practice of *Shari'ah* governance as promoted in the AAOIFI governance standards and IFSB-10, including the existing literature pertaining to Shariah governance. The overall key principles of best Shariah governance practices are summarised in Appendix Table-2. Based on the fifty key principles of Shariah governance, this paper ranks Islamic banks into five levels of Shariah governance practice. Islamic banks that score 1-15 key principles of Shariah governance are ranked

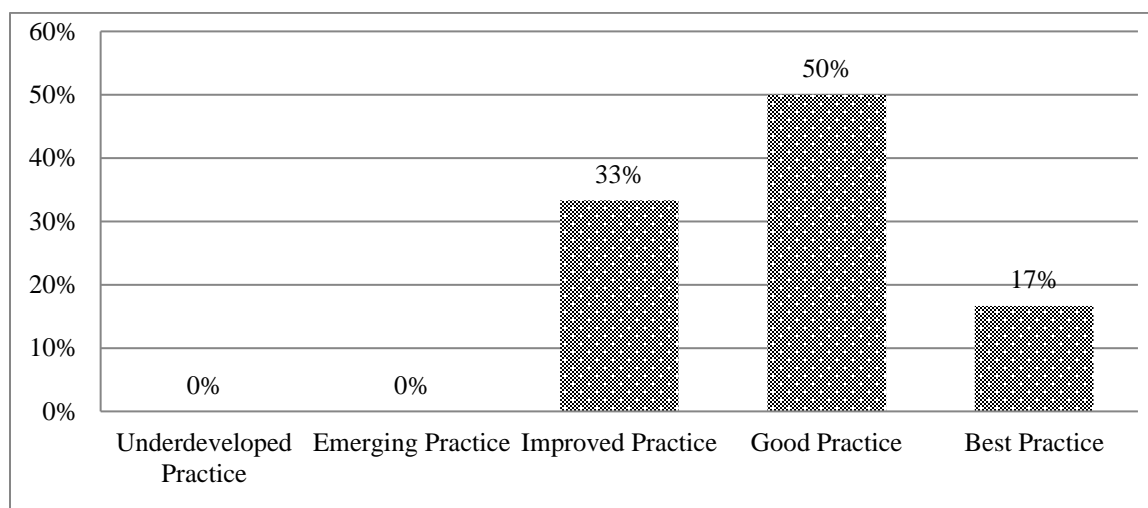
as 'under-developed practice', 16-25 as 'emerging practice', 26-35 as 'improved practice', 36-45 as 'good practice' and 46-50 as 'best practice'. The ranking process and scoring method is further explained in Table-6.

Table 6: Shari'ah Governance Scoring Method

<i>Level of Practice</i>	<i>Score</i>	<i>Explanation</i>
Underdeveloped	1-15	IFIs that have a minimal Score of best Shari'ah governance practices and need immediate reform
Emerging Practice	16-25	IFIs that have a minimal score of best Shari'ah governance practices but indicate positive development
Improved Practice	26-35	IFIs that have a fair score of best Shari'ah governance practices and indicate strong improvement
Good Practice	36-45	IF Is that have a good score of best Shari'ah governance practices and generally adhere to most of its key principles
Best Practice	46-50	The ideal IFIs that represent the best practice of Shari'ah governance

6.2 The Overall Score of Shari'ah Governance in Bangladesh

Figure 3: The Overall Score of Shari'ah Governance



Source: Survey Data

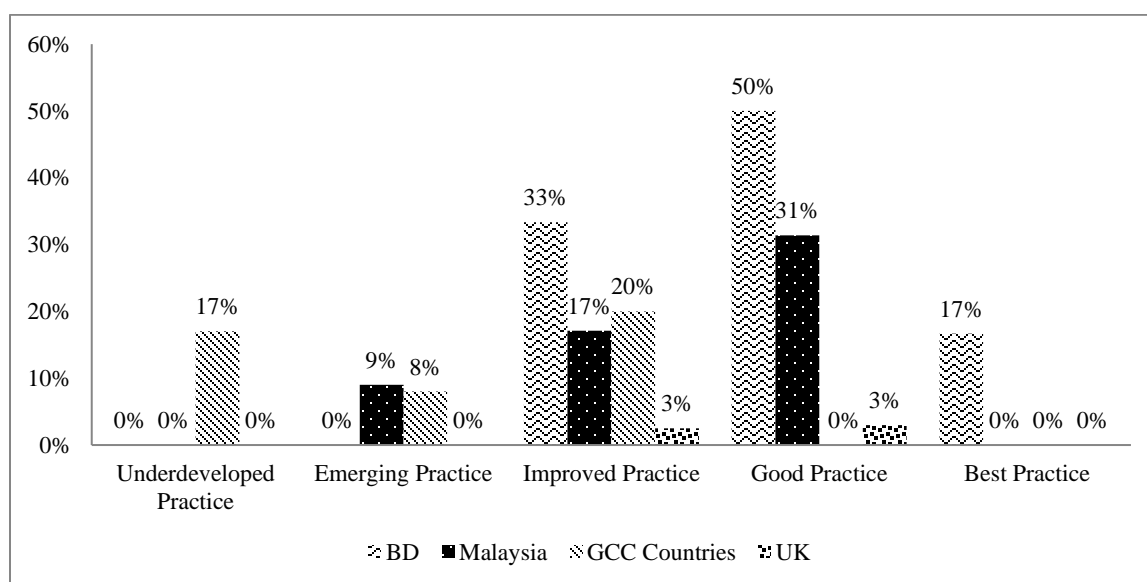
The overall scores of Shariah governance in Bangladesh depicts that the majority of Islamic banks (50%) fall into the 'good practice' category, while 33 per cent of Islamic banks fall into the 'improved practice' category and 17 per cent into 'best practice' category. This finding indicates a better shariah compliance for Islamic Banks operating in Bangladesh.

6.3 Shariah Governance Scores for Islamic Banks in Bangladesh, Malaysia, GCC Countries and the UK

The overall scores of Shariah governance in Bangladesh, Malaysia, GCC countries and the UK are shown in Figure-4. This illustration provides an overview of the extent of Shariah governance practices in IFIs of the globe. The IRTI survey reveals that significant numbers of IFIs in Malaysia, GCC countries and the UK do not have an adequate framework of the best or ideal *Shari'ah* governance practices as laid down by the AAOIFI governance standards and IFSB-10. The IRTI survey reveals that around 31 per cent IFIs in Malaysia 'good practice' category. In comparison to IFIs of Malaysia, GCC countries and the UK, the Islamic banks in Bangladesh have performed better in Shariah governance practice.

Around 17 per cent banks of Bangladesh are in the 'best practice' category whereas no IFIs of Malaysia, GCC countries and the UK are in 'best practice' category.

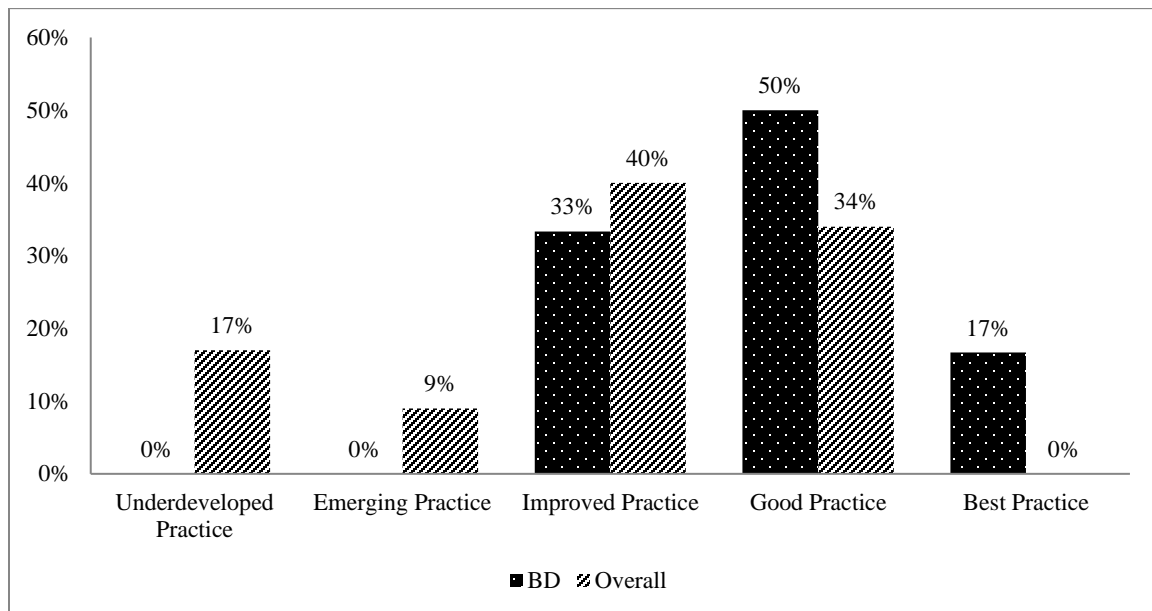
Figure 4: Comparative Overview of Shari'ah Governance



Source: Survey Data and IRTI Survey

Figure-5 illustrates the level of Shariah governance of Islamic banks of Bangladesh and IFIs of the rest of the world. A total of 17 per cent of Islamic banks of Bangladesh are ranked in the 'best practice' category, whereas no IFIs of the rest of the world are in 'best practice' category. Again, 50 per cent of Islamic banks of Bangladesh are ranked in the 'good practice' category, whereas only 32 per cent IFIs of the rest of the world are in 'good practice' category. This indicates that Islamic banks of Bangladesh are in better position in the level of Shariah governance than that of the rest of the globe.

Figure 5: Comparative Overview of Shari'ah Governance



Source: Survey Data and IRTI Survey

7. Shariah Governance Disclosures in Islamic Banks

Shariah governance requires accurate and true disclosure and transparency as a prerequisite to accountability. The fundamental concept of governance in *Shariah* is accountability and hence it requires Islamic banks to make true disclosures and to provide accurate and necessary information to all stakeholders. This is in line with the spirit of *al Qur'an* as mentioned in *Surah al Baqarah* verse 282 about the importance of recording and putting in writing any business dealing and transaction in a very transparent way. In the context of *Shariah* governance, Islam promotes greater transparency in *Shariah* - *related* information in order to foster accountability and to strengthen the credibility of IFIs. This section demonstrates the level of disclosure and transparency of *Shariah* governance in Islamic banks in Bangladesh, Malaysia, GCC countries and UK. This is in line with IFSB-4 that provides guidelines for greater disclosure and transparency for IFIs

7.1 The State of Shariah Governance Disclosure Practices

In order to develop *Shariah* governance disclosure index, the thirty key disclosure indicators which are formulated by IRTI have been used for survey of the sampled Islamic banks in Bangladesh. These thirty disclosure indicators are divided into six sections: commitment to good *Shariah* governance, *Shariah* board information, *Shariah* report, *Shariah* pronouncements, *Shariah* review, and products and services information.

We think that these thirty indicators represent the best practice of disclosure for *Shariah* governance-related information. The indicators are also able to adequately provide

a measure of quantitative and qualitative aspects of *Shari'ah* governance disclosure and transparency in Islamic banks.

Table-7 illustrates the overall indicators of Shariah governance disclosure practices. The disclosure indicators classify the Islamic banks into five categories of *Shari'ah* governance disclosure practices: 'underdeveloped practice', 'emerging practice', 'improved practice', 'good practice' and 'best practice'.

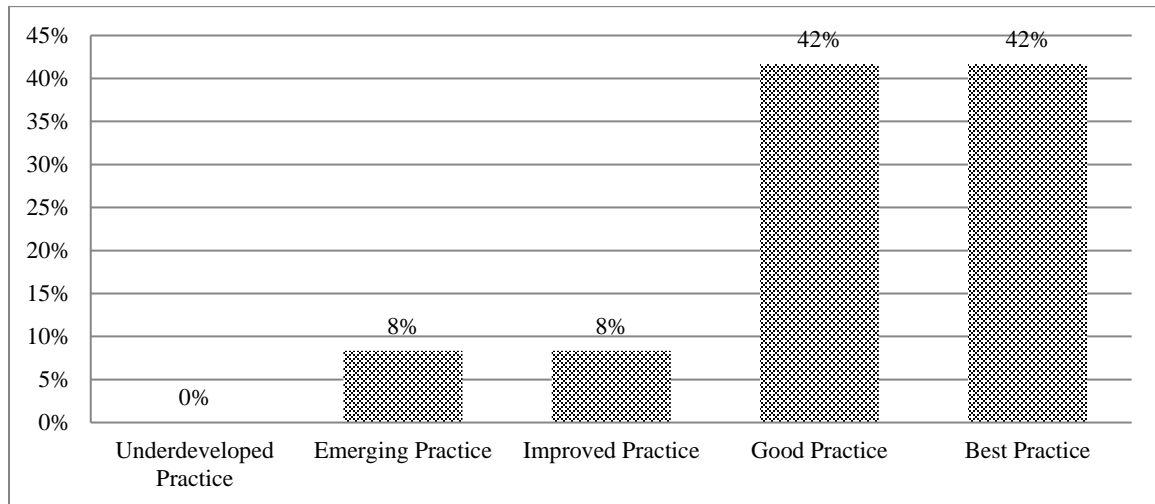
Table 7: Shari'ah Governance Disclosure Scoring Method

<i>Level of Practice</i>	<i>Score</i>	<i>Explanation</i>
Underdeveloped practice	1-5	IFIs that have a very minimal score of Shari'ah governance disclosure and need immediate reform
Emerging practice	6-10	IF Is that have a minimal score of Shari'ah governance disclosure but indicate positive development
Improved Practice	11-15	IFIs that have a fair score of Shari'ah governance disclosure and indicate strong improvement
Good practice	16-23	IFIs that have a good score of Shari'ah governance disclosure and generally adhere to key elements of good disclosure practice
Best practice	24-30	The ideal IFIs that represent the best practice of Shari'ah governance disclosure

As a general rule, Islamic banks that have more transparent disclosure practices are more highly regarded and valued not only by investors but also by the public at large. Islamic banks that score 24-30 are ranked as a 'best practice' and represent the ideal and best practice of *Shari'ah* governance disclosure. Islamic banks that fall into the 'good practice' category indicate a good score of *Shari'ah* governance disclosure while Islamic banks that have a fair score but show some positive improvements are classified as an 'improved practice'.

The 'underdeveloped practice' category refers to Islamic banks that have a very minimal score that represents very weak Shariah governance disclosure practice. This is followed by Islamic banks that have a minimal score of 6-10, which are ranked in the 'emerging practice' category.

Figure 6: Shari'ah Governance Disclosure in Islamic banks in Bangladesh



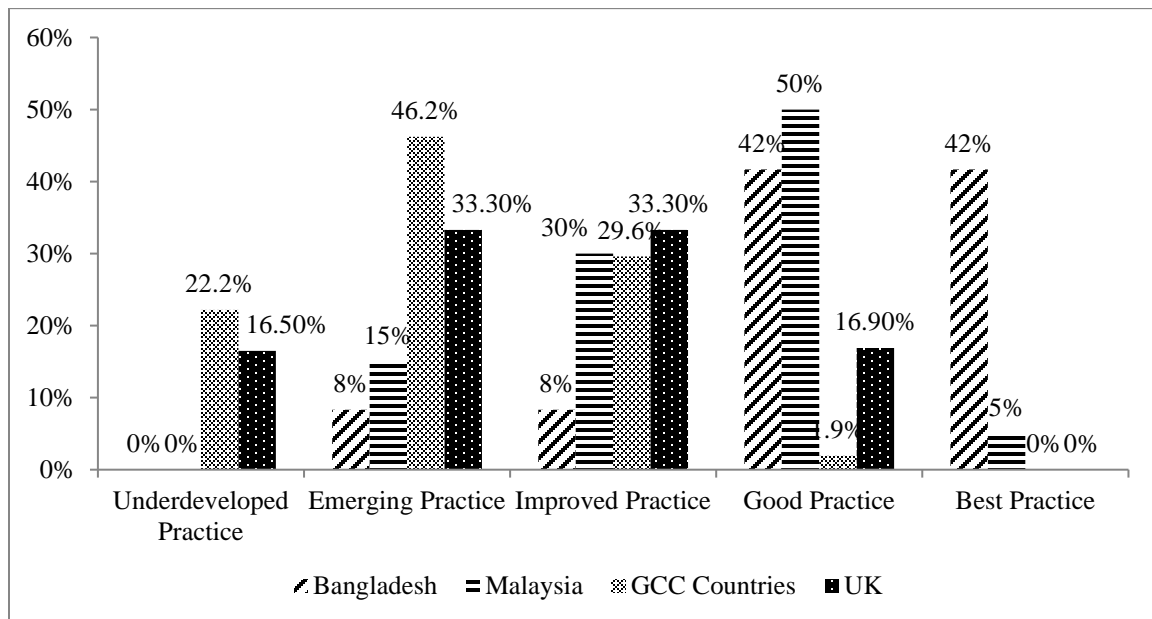
Source: Survey Data

The overall scores of Shari'ah governance disclosure in Bangladesh depicts that the majority of Islamic banks (42%) fall into the 'good practice' and 'best practice' category, while 8 per cent of Islamic banks fall into the 'improved practice' category and also 8 per cent into 'emerging practice' category (Figure-6). This finding indicates a better shariah governance disclosure for Islamic Banks operating in Bangladesh.

7.2 Shari'ah Governance Disclosure in Bangladesh, Malaysia, GCC Countries and the UK

The overall scores of Shari'ah governance disclosure in Bangladesh, Malaysia, GCC countries and the UK are shown in Figure-7. This illustration provides an overview of the extent of Shari'ah governance disclosure practices in IFIs of the globe. The IRTI survey reveals that significant numbers (50%) of IFIs in Malaysia 'good practice' category. In comparison to IFIs of Malaysia, GCC countries and the UK, the Islamic banks in Bangladesh have performed better in Shari'ah governance disclosure. Around 42 per cent banks of Bangladesh are in the 'best practice' category whereas only 5 per cent IFIs of Malaysia, GCC countries and the UK are in 'best practice' category.

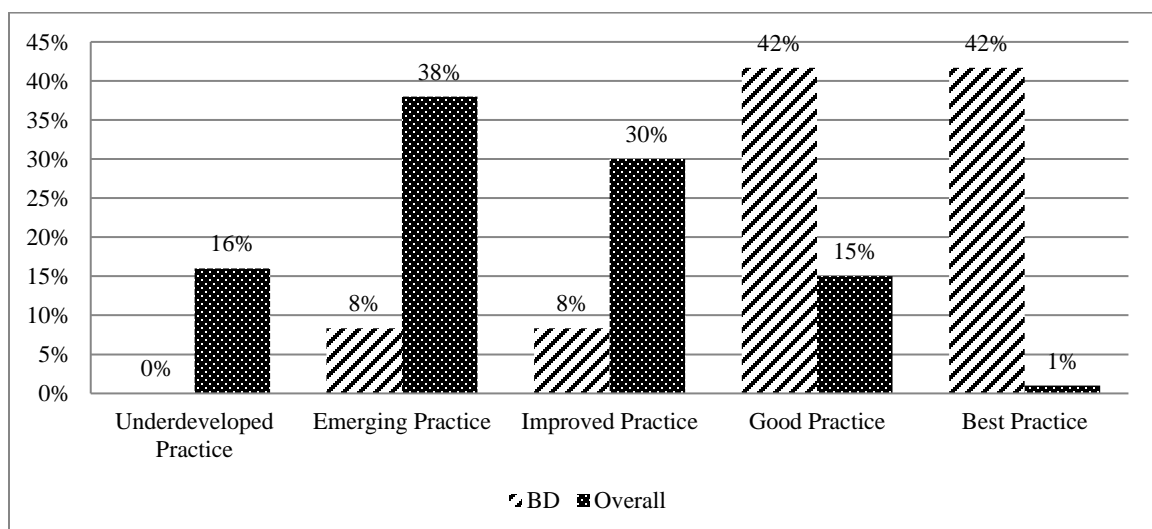
Figure 7: Comparative Shari'ah Disclosure



Source: Survey Data and IRTI Survey

Figure-8 illustrates the level of disclosure of Islamic banks of Bangladesh and IFIs of the rest of the world. A total of 42 per cent of Islamic banks of Bangladesh are ranked in the 'best practice' category, whereas only 1 per cent IFIs of the rest of the world are in 'best practice' category. Again, 42 per cent of Islamic banks of Bangladesh are ranked in the 'good practice' category, whereas only 1 per cent IFIs of the rest of the world are in 'good practice' category. This indicates that Islamic banks of Bangladesh are in better position in Shari'ah governance disclosure than that of the rest of the globe.

Figure 8: Comparative Shari'ah Disclosure



Source: Survey Data and IRTI Survey

8. Shariah Governance Challenge for Islamic Banking in Bangladesh

The necessary component of an effective *Shariah* framework is more or less absent in Bangladesh. In this respect Malaysia can be as a model for Bangladesh. Both countries started Islamic banking in 1983, and the market share of Islamic finance is around 20% in both countries. But while Malaysia has the most complete and elaborate *Shariah* framework in the Muslim world, Bangladesh still has to install such a framework. The governance of Islamic finance and banking is at the intersection of national and Shariah law which creates a variety of interpretations in different jurisdictions. These differences have implications for the legal and regulatory framework under which IFIs operate and thereby it creates considerable variations in Islamic banking practices within a country and across the globe. The AAOIFI and the IFSB are the two international standard setters which are working relentlessly for ensuring worldwide harmonization, homogenization and standardization of Islamic financial practices and contracts. In this respect a case on English Common Law rulings on Islamic financial disputes is given in the Box-4.

Box 4: English Common Law Rulings on Islamic Financial Disputes

Most cross-border contracts in Islamic finance are governed by English Common Law. The first litigation heard in the English courts involved the case of the Shamil Bank of Bahrain versus Beximco Pharmaceuticals Limited in 2004. Beximco had obtained trade financing from the Shamil Bank through a *murabaha* contract whereby Beximco agreed to purchase goods from the bank on a deferred payments basis, which previously the bank had purchased on its behalf. The dispute arose when Beximco defaulted on the *murabaha* contract by failing to make the agreed payments, which resulted in the Shamil Bank issuing formal court proceedings by making an application to the High Court in London for a summary judgment.

Beximco's defence lawyers argued that under the governing law clause of the *murabaha* contracts, the finance agreements were enforceable only if they were valid and enforceable both in accordance with the principles of *Shari'ah* and in accordance with English law. Beximco's defence team argued that the contract was not *Shari'ah* compliant as the payments amounted to interest which was prohibited under Islamic law. Therefore, there was no justification for the payment being made.

The High Court did not accept the argument that the payments from Beximco could not be enforced. The judges argued that: Subject to the principles of the Glorious *Shari'ah*, this Agreement shall be governed by and construed in accordance with the laws of England.

In other words, the agreement could be enforced under English Common Law, as there could only be one law governing the contract. The High Court was not qualified to

judge whether the agreement was *Shari'ah* compliant or not, as that was a matter for the *Shari'ah* scholars. However, *Shari'ah* principles were not laws as recognized by the English courts, and therefore the validity of the *murabaha* contract was assessed under English Common Law. Hence, Beximco was judged liable to make the payments stipulated in the contract which its chief executive officer had signed.

Beximco appealed against the judgement by the High Court, and the Court of Appeal in London examined the High Court's decision and the explanation given by the judge. It subsequently upheld the judgement which has created an important precedent under English Common Law that will be referred to by those involved in future disputes regarding Islamic financial contracts.

Source: Wilson, 2012

8.1: Challenges of Shariah Compliance and Malpractices

As a whole banking industry is facing the problem of different forms of malpractices. Malpractices take the forms of non-compliance of regulation and fraudulent activities. Sharia compliance is an additional challenge of Islamic banks. The following cases reveal some instances of non-performance and non-compliance on the part of the clients and bankers of Islamic banks.

Box 5: Investment Disbursed Creating Fake Bai-Murabaha TR Investment Deal

An amount of BDT 850,000 was disbursed by Mr. X of a bank branch by creating fake Bai-Murabaha TR investment deal using password of another official. The full digit of password of another official was memorized in 15 days with 01 digit per day. No physical voucher was prepared. The investment amount was transferred to another account with a remote branch through online, and was withdrawn.

Note: Bank Source.

Box 6: Signature of the Bond Holder was Forged to Withdraw Money

A Mudaraba Savings Bond of BDT 2.054 Crore was issued by XX Bank in the absence of a person (bond holder). Subsequently, the bond account was made lien with a third bank and obtained 90 percent of the bond amount by one of his relative. Bond holder was in London. No application and telephonic confirmation were made by the originating bank. Actually, the signature of the bond holder was forged, and now loan with the third bank has fallen overdue.

Note: Bank Source.

Box 7: Murabaha Investment became Classified

A bank allowed Murabaha investments for totaling BDT47.00 million to the investment clients without confirming the genuineness of the business establishment/showroom/ sales centers. And Murabaha investment was disbursed to the clients without receiving murabaha goods under bank's control, which exposed the bank to huge financial loss and uncertainty to recover the outstanding amount (overdue/classified).

Note: Bank Source

Box 8: Fund Diversion under HPSM Mode

A real estate company approached a bank for allowing BDT 1.20 crore for completion of its housing project. For completion of the project, a total amount of 2.00 crore was required. In this case, the bank provided BDT 1.20 crore and the client was to contribute 0.80 crore under HPSM mode of Investment. After completion of 30 percent of the said project, the client diverted the fund to another project. Thus no rent or installment was realized from the said Investment.

Note: Bank Source

In connection with common irregularities/lapses in complying Shariah, opinion survey came up with several key points. It has been observed that due to violation of Shariah, the Islamic banks losses their income as doubtful income. This sort of income actually goes to the foundation's account for charitable purposes. To save the leakage of income the lapses or irregularities should be avoided. Some of the common lapses or irregularities in connection with Shariah compliance are summarized in Box-9.

Box 9: Instances of Lapses in Shariah Compliance

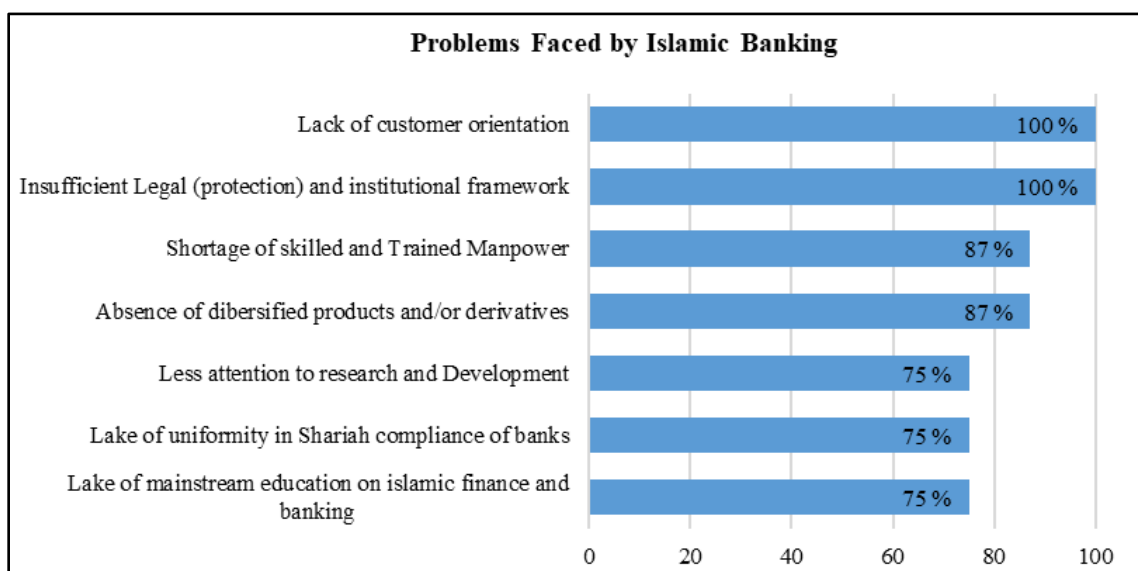
- Providing cash facility to the client instead of buying and selling of goods
- Adjustment of old investment deals by creating new deals
- Receiving goods by the client directly from the seller (vendor) instead of receiving from bank
- Non-execution/ improper execution of documents specially the "Agreement" for investment
- Non-execution of documents for Buying Agent (where applicable) complying procedure set by the Head Office
- Non-obtaining of "Letter of Authority" for operation under MPI and dealership business
- Creation of double deals, MIB and MPI under same transaction for MPI investment
- Realization of lump-sum profit instead of actual share in Musharaka/ Mudaraba operation
- Realization of profit/ rent beyond contract/ agreement

Source: Survey data

8.2 Outcome of the Opinion Survey on Challenges of Islamic Banking and Suggestion

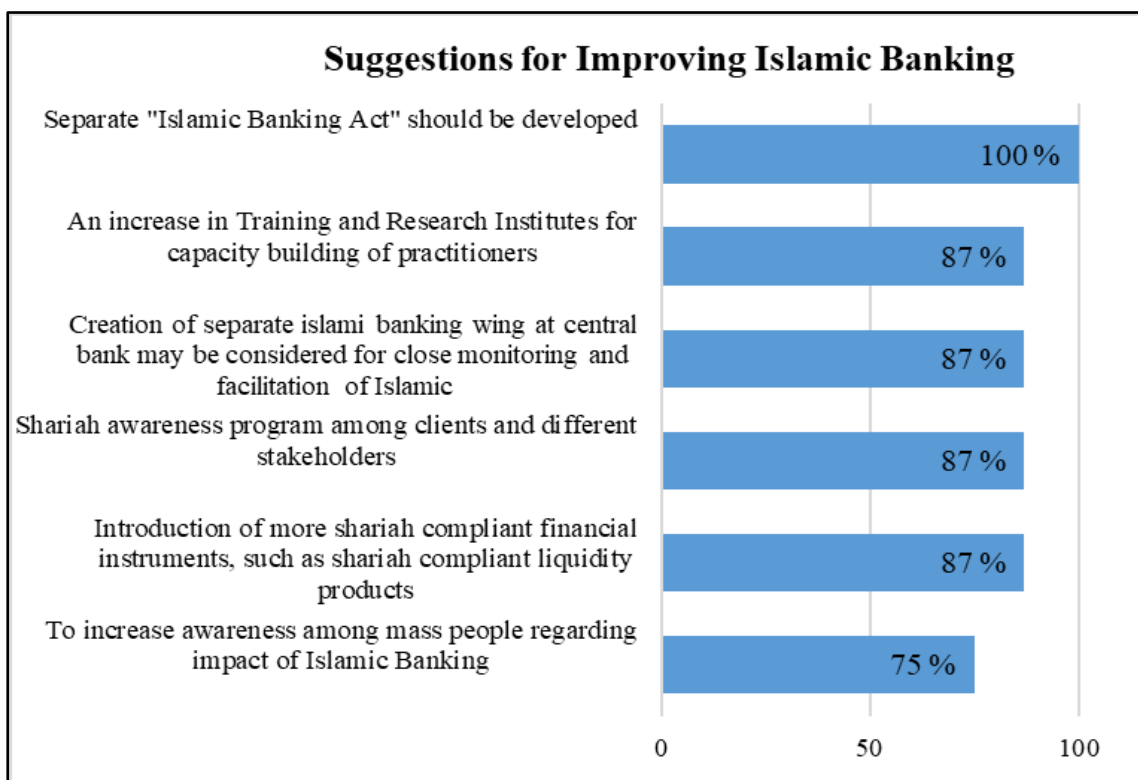
The summary of the opinion survey on common problems and suggestions are placed in the following figures (Figures-9 and 10).

Figure 9: Problems Faced in Islamic Banking in Bangladesh



Source: Survey Data

Figure 10: Suggestions to Improve Islamic Banking in Bangladesh



Source: Survey Data

9. Concluding Remarks

As opined in the survey, while operating in conventional environment, Islamic finance requires a different legal and supervisory framework appropriate to its nature of business. Islamic banking comes across great challenges due to lack of awareness about Islamic banking amongst its customers. Maintaining a capable and active Shariah Committee/Council with adequate scholars and experts is a critical need for banks. Moreover, Islamic banks do not get adequate customers/counterparty to invest under PLS arrangement (mudaraba/ musharaka). For improving efficiency of the Islamic banking in the country, there are scopes of using internationally recognized Islamic banking standards like AAOIFI and IFSB's standards. In addition, trained personnel in the area of Shariah audit is a critical need of the industry. Considering these, the study came up with the following recommendations for improving the governance of the Islamic banking activities of banks.

One, For ensuring Shariah compliance, Shariah /BoardCommittee is required to be independent. Any intervention of CEO, Managing Director or Director of the respective banks should be discouraged to have any intervention in the affairs of the Shariah Supervisory Committee. Proper execution of decisions by the Shariah Supervisory Council should be considered more seriously. For introducing/launching any new deposit or investment product, respective Islamic banks should obtain prior concurrence from their Shariah Committee/Council.

Two, currently, there is no Act or separate regulation to guide Islamic banking activities. The central bank has a guideline for Islamic banks. Practically it is the need of the time now to introduce more comprehensive guidelines to bring greater transparency and accountability to the industry. Recently, the World Bank has undertaken a project to review the existing Islamic banking regulation for possible legal changes. It is expected that a considerable legal change in Islamic banking regulation will occur as an outcome of the project. Furthermore, Bangladesh Bank is planning to form a committee to review and update the existing Islamic Banking Guidelines. However, in some areas integrated rules would be workable like standards related to prudential regulation, internal controls, risk management and greater transparency.

Three, Central Shariah Board could perform appreciable jobs in the area of greater Shariah compliance and uniform compliance standards in the country. A regular review on the compliance issues by a capable team formed by the board may offer invaluable inputs to all Islamic banks. A common platform like the Central Shariah Board with well-versed professionals and scholars in both the Shariah and modern finance and having adequate research facilities may perhaps be a very effective supportive forum.

Four, According to Basel-III, corporate governance determines the allocation of authority and responsibility by which the business and affairs of a bank are carried out by its board and senior management. The banking industry of Bangladesh is lagging behind in this context. Publicized banking scams clearly demonstrated the frequent intervention of the board members in the day to day credit decisions of banks of the country. Thus, management was unable to apply professional judgment in many lending decisions. Lending criteria was also compromised in many instances. Therefore, distorted corporate practices affected bank credit quality in the recent times. Banks should improve their corporate governance practices to a level that will promote bank credit quality and sound credit practices in line with Basel-III.

Five, What is also needed is the establishment of a number of shared institutions to enable the Islamic banking system to operate effectively. If these institutions do not get established, even banks with the best corporate governance may not be able to avoid crises.

Six, They indicate that Islamic banks operate in an unfriendly environment and some of their difficulties are perhaps the result of this. Since these banks have not yet been able to make a significant headway towards the Profit-and-Loss Sharing (PLS) mode of financing, the regulators do not see any significant difference in the risks involved in Islamic and conventional banking. This has become reflected in the regulatory and supervisory environment.

Seven, The foundational dimension of Islamic corporate governance is rooted in the stakeholder-oriented approach, in which its governance style aims at protecting the rights and interests of all stakeholders rather than maximizing the shareholders' profit, as in the shareholder value orientation. The adoption of the stakeholder-oriented approach would enhance the corporate governance dimension of Islamic banks, where all stakeholders, including the shariah board, the BOD, the shareholders, the depositors and the managers, play significant roles in ensuring the realisation of the corporation's goal and fulfilling the maqasid shariah. Islamic banks in Bangladesh can think over implementing maqasid shariah.

Eight, In view of the infancy of the Islamic finance industry and the numerous challenges that may impede the development of Islamic finance, it is strongly recommended that a Shari'ah governance system be systematically regulated. In outlining the appropriate legal framework for Islamic finance, a study by the IMF on prudential and supervision issues in Islamic finance laid down three important key points pertaining to governance in IFIs, namely a legal foundation for supervision of IFIs must be in place, all kinds of risk must be dealt with, and there must be adequate Information disclosure.

Nine, The ideal Shari'ah governance system requires a proper structure for the Shari'ah board. It is good practice to have two layers of Shari'ah board structure, that is, Shari'ah boards at both 'micro' and 'macro' levels. The establishment of a Shari'ah board at the 'macro' (or national) level is strongly recommended as it may become the highest authority in Islamic finance in a country and may resolve any issues raised by the Shari'ah boards within Islamic banks. The setting up of a national Shari'ah board is expected to build and maintain the confidence of various stakeholders in IFIs.

Ten, Islamic banks in Bangladesh are complying AAOIFI shariah standards on its own initiatives. Yet, Bangladesh Bank Guidelines for Islamic Banking may be aligned with the Shariah Governance System of AAOIFI.

Eleven, At present, most Islamic banks have their own Shariah Boards. Questions have been raised about the autonomy and powers of these Boards. Shariah Boards of different banks could issue different rulings on similar practices which may raise doubts in the minds of clients. Sometimes it has been found that there is a conflicting ruling given by different Shariah Boards of different Islamic banks. In view of these considerations, it is proposed that an autonomous Shariah Board for supervising the Shariah side of Islamic banks may be constituted. In Bangladesh, there is a Central Shariah Board for Islamic Banks of Bangladesh. To get desired result, de-facto autonomy of this Board needs to be ensured.

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Appendices

Appendix Table 1a: Islamic Banking Activities of Bangladesh-2015
(Upto 31 December - 2015)

(Taka in Crore)

Sl. No.	Types of Banks	No. of Bank	No. of Bank Branch (with SME)	Islamic Branch/ Window	Total Manpower Structure	Total Capital	Total Deposit	Total Invest	Equity Profit
01	Fully Islamic Bank (A1)	8	863	863	25,535	13502	134134	125953	2408
02	Islamic Bank Branches (A2)	9	872	19	315	-	6749	6178	187
03	Islamic Bank Window (A3)	8	2852	24	146	-	1622.53	1103.81	29
04	Total No. of Banks =	25	4587	43	25,996	13502	1,42506	133236	2624

Source: Bangladesh Bank

Notes: * Excluding Union Bank Ltd.

**Excluding HSBC & Bank Al-Falah Ltd.

Appendix Table 1b: Islamic Banking Activities of Bangladesh -2015
(Upto 31 December - 2015)

(Taka in Crore)

Sl. No.	Name of Banks	Year of Established	No. of Branch (with SME)	Total Manpower Structure	Total Capital	*Total Deposit	*Total Invest	*Total Import	*Total Export	*Equity Profit
01	Islami Bank Bangladesh Ltd.	1983	304	13246	4846	61578	65700	34366	22424	1808
02	ICB Islamic Bank Ltd.	1987	33	566	664.70	1,110.37	918.85	4.98	8.50	25.62
03	Al-Arafa Islami Bank Ltd.	1995	119	2649	1725.62	17602.76	15502.65	10124.47	7584.39	613.44
04	Social Islami Bank Ltd.	1995	111	2112	1514.74	13,874.73	12,959.11	8,490.29	6,428.39	428.69
05	Shahjalal Islami Bank Ltd.	2001	93	2156	1,347.90	10,925.87	9,683.47	8595.87	8257.11	235.00
06	EXIM Bank Ltd.	2004*	103	2,696	2,843.28	22,288.49	19,154.20	15,579.64	14,579.64	649.80
07	First Security Islami Bank Ltd.	2009*	148	2,820	678.87	23,127	18,768	4,850	792	246.59

Source: BB

Note: * Converted Fully Islamic Banking

Appendix Table 1c: Islamic Bank Branches of Conventional Banks

Sl. No.	Name of Banks	Year of Established in Islamic Banking	No. of Bank Branch (with SME)	No. of Islamic Branch	Total Manpower Structure	*Total Deposit	*Total Invest	*Total Import	*Total Export	*Equity Profit
01	Prime Bank Ltd.	1995	145	05	110	1,429.4	1,121.50	1049.15	796.90	72.50
02	Dhaka Bank Ltd.	2003	84	02	24	732.06	474.56	259.43	300.78	0.52
03	Jamuna Bank Ltd.	2003	102	02	48	332.05	329.71	315.02	81.70	15.84
04	Southeast Bank Ltd.	2003	122	05	112	2,201.79	1,237.08	512.99	910.21	79.71
05	Premier Bank Ltd.	2003	95	02	35	397.17	576.65	122.84	85.17	23.25
06	City Bank Ltd.	2003	121	01	25	11.07	16.59	65.04	9.80	27.34
07	AB Bank Ltd.	2005	100	01	22	638.70	381.90	417.68	0.88	14.88
08	Standard Chartered Bank Ltd.		26	01	06	647.30	453.10	-	-	5.19

Source: BB

Appendix Table 1d: Islamic Bank Window of Conventional Banks

Sl. No.	Name of Banks	Year of Established in Islamic Banking	Total No. of Branch (with SME)	No. of Islamic Banking Window	Total Manpower	*Total Deposit	*Total Investment	*Total Import	*Total Export	*Equity Profit
01	Trust Bank Ltd.	2008	107	05	28	1,238.06	884.75	764.49	406.39	35.81
02	Bank Asia Ltd.	2008	104	05	52	602.78	453.92	397.93	117.62	13.39
03	Standard Bank Ltd.	2009	104	02	9	26.54	18.74	-	-	0.64
04	Sonali Bank Ltd.	2010	1207	05	15	33.33	34.78	-	-	0.7842
05	Agranin Bank Ltd.	2010	928	05	36	206.99	58.51	5.60	0.00	4.27
06	Pubali Bank Ltd.	2010	444	02	18	90.00	38.38	11.50	83.02	1.04

Source: BB

Appendix 1: Legal Framework of Some Countries Which have Islamic Finance Industry

- **Bahrain**
 1. Anti Money Laundering Law 2001
 2. Central Bank of Bahrain and Financial Institutions Law 2006
 3. Commercial Companies Law 2001
 4. Commercial Law 1987
 5. Companies Registration Act 1983
 6. Financial Trust Law 2006
 7. Law of Civil and Commercial Procedure 1971
 8. Law on the Establishment of the Bahrain Monetary Agency 1973
 9. Stock Exchange Law 1987
- **Kuwait**
 1. Central Bank of Kuwait Law No. 32 of 1968 as Amended by Law No. 130 of 1977
 2. Civil Code Law 1980
 3. Commercial Code 1981
 4. Commercial Companies Law 1980
 5. Kuwaiti Constitution 1962
- **Lebanon**
 1. The Establishment of Islamic Banks in Lebanon Law No. 575 of 2004
- **Malaysia**
 1. Banking and Financial Institutions Act 1989 (Act 372)
 2. Central Bank of Malaysia (Amendment) Act 2003 (Act A1213)
 3. Central Bank of Malaysia Act 2009 (Act 701)
 4. Federal Constitution 1957
 5. Islamic Banking Act 1983 (Act 276)
 6. Securities Commission Act 1993 (Act 498)
 7. Takaful Act 1984 (Act 312)
- **Qatar**
 1. Civil and Commercial Procedure Code Law No. 13 of 1990
 2. Qatar Financial Centre Law No. 7 of 2005
 3. Qatar Financial Market Authority Law No. 33 of 2005
- **Saudi Arabia**
 1. Banking Control Law 1966
 2. Basic Law of Rule of 1992
 3. Capital Markets Law 2003
- **United Arab Emirates**
 1. Civil Court Procedures Law of Abu Dhabi No. 4 of 1987
 2. Civil Procedure Law of Abu Dhabi No. 3 of 1970
 3. Dubai International Financial Centre Law No. 13 of 2004
 4. Federal Law No. 10 of 1973
 5. Federal Law No. 6 of 1985
 6. Federal Law No. 11 of 1992
 7. Federal Law No. 18 of 1993
 8. Union Law No. 10 of 1980
- **United Kingdom**
 1. Companies Act 2002

Appendix Table 2: Required Issues of the AAOIFI Shariah Governance Standards for IFIs

AAOIFI Standards	Required issues of the Standards	Total
The Governance Standard for IFIs No. 1: Shari'ah Supervisory Board: appointment, composition and Report:	a. The Shariah board is an independent body of jurists specialised in fiqh mu'amalat; b. Experts in the field of Islamic finance; c. Direct, review and supervise the activities of IFIs; d. Affirms the binding authority of the Shariah board upon the IFIs; and e. The directors or shareholders of the IFIs cannot be appointed as shariah board members even if they are qualified to do so.	5
Governance standard for IFIs No. 2: Sahriah review	a. The Shariah board's authority to access all necessary information for the Shariah review b. The Shariah board is only responsible for forming and expressing opinions on the extent of shariah compliance c. The shariah review will be read at the AGM and issued to the management	3
Governance standard for IFIs No. 3: Internal Shariah review	a. The internal Shariah review carried out by an independent department or part of internal audit division b. The management and the BOD gave full and continuous support to the internal shariah reviewers c. Head of internal shariah reviewers is accountable to BOD d. The internal shariah reviewer is proficient and have appropriate academic background and necessary training relevant to shariah review, particularly proficiency in shariah and fiqh muamalat. e. The head of the internal shariah review to discuss the findings with the management and the final report must be addressed to the BODs and copied to the shariah board and management. f. In the event of disputes between management and internal shariah reviewers, they are referred to the shariah board for determination.	6
Governance standard for IFIs No. 4: Audit and governance committee	a. There is an audit and governance committee (AGC) at the board level b. The AGC would consist of a minimum of three members appointed by the BODs from its non-executive and independent board members who have knowledge about the affairs of the institution, applicable regulation and laws, including shariah rules and principles.	2
Governance standard for IFIs No. 5: independence of the Shariah board	a. The shariah board do not comprise employees of the same IFI who are involved in managerial decisions and operational responsibilities. b. Upon assessment, the shariah board conducts continued assessment with the IFIs and does all things necessary to resolve any issues of independence impairment.	2

Source: AAOIFI (2005)

Appendix Table 3: Key Principles of Shari`ah Governance

Key Principles of Shari`ah Governance	Indicators
Approach to Shari`ah Governance	7
P1. IFIs that adopt the AAOIFI governance standards.	
P2. IFIs that are sensitively aware of the development of Shari`ah governance such as IFSB-10.	
P3. IFIs that have standards or guidelines for Shari`ah governance.	
P4. IFIs that develop standard processes for Shari`ah compliance, audit and review of the Shari`ah board's legal rulings.	
P5. IFIs that have a professional code of ethics for the Shari`ah board.	
P6. IFIs that have an internal Shari`ah board.	
P7. IFIs that have at least three Shari`ah board members.	
Regulatory and Internal Framework of Shari`ah Governance	4
P8. IFIs that have specific rules and policies concerning Shari`ah governance.	
P9. IFIs that have written policies or by-laws specifically referring to the conduct of the Shari`ah board.	
P10. IFIs that have good understanding of types of dispute settlement to redress legal matters concerning Islamic finance.	
P11. IFIs that have good understanding of the legal position of the Shari`ah board's rulings.	
Roles of Shari`ah Board	5
P12. IFIs that provide clear advisory and supervisory authority to their Shari`ah board	
P13. IFIs whose Shari`ah board performs ex ante and ex post Shari`ah governance processes.	
P14. IFIs that grant authority to the Shari`ah board.	
P15. IFIs whose Shari`ah board performs the Shari`ah audit function.	
P16. IFIs that delegate Shari`ah review functions to the internal Shari`ah compliance unit to assist the Shari`ah board.	
Attributes of Shari`ah Board (Competence)	8
P17. IFIs that have policies on the fit and proper criteria for the members of the Shari`ah board.	
P18. IFIs that put conditions of academic qualification, experience and track record on their Shari`ah board members.	
P19. IFIs that put requirements of being specialized in muamalat, Islamic jurisprudence and knowledge of Arabic and English in terms of academic qualifications on their Shari`ah board members.	
P20. IFIs that put requirements on their Shari`ah board members of understanding of Shari`ah and general banking law as well as the impact of Shari`ah rulings in terms of experience and exposure.	
P21. IFIs that put requirements of good character and competence and diligence in terms of track record.	
P22. IFIs that allow non- Shari`ah- background individuals as members of the Shari`ah board who are well-versed in law, economy and finance.	
P23. IFIs that organize adequate training for the Shari`ah board.	
P24. IFIs that have proper assessment of the Shari`ah board.	
Attributes of Shari`ah Board (Independence)	5
P25. IFIs that appoint the Shari`ah board through their shareholders.	
P26. IFIs that appoint the Shari`ah board on a contractual basis	

Key Principles of Shari`ah Governance	Indicators
P27. IFIs that determine the Shari`ah board's remuneration through the BOD but subject to the approval of shareholders.	
P28. IFIs that have a mechanism in place to mitigate conflict of interest in relation to Shari`ah scholars sitting on various boards.	
P29. IFIs that clearly provide full mandate and authority to the Shari`ah board.	
Attributes of Shari`ah Board (Transparency and Confidentiality)	4
P30. IFIs that have a written policy in respect to the preparation and dissemination of Shari`ah information.	
P31. IFIs that grant full authority to Shari`ah board to have access to all documents, information and records.	
P32. IFIs that publish the Shari`ah pronouncement and ensure they are available to the public.	
P33. IFIs that ensure their Shari`ah board is fully aware of the issue of confidentiality and sensitive information obtained in the course of performing their duties.	12
Operational Procedures	
P34. IFIs that have standard operational procedures for their Shari`ah board.	
P35. IFIs that hold a Shari`ah board meeting at least once a month.	
P36. IFIs that have a requirement of at least three as their quorum for the Shari`ah board meeting.	
P37. IFIs that have a requirement of a simple majority as a basis for the decisions of Shari`ah board meetings.	
P38. IFIs that do not grant voting rights to non- Shari`ah- background members of the Shari`ah .	
P39. IFIs that ensure their agenda is prepared and distributed at least a week in advance of Shari`ah board meetings.	
P40. IFIs that set up a Shari`ah department/unit/division to coordinate the Shari`ah governance process.	
P41. IFIs that require the attendance of management or directors in the Shari`ah board meeting.	
P42. IFIs that require their Shari`ah board to review the previous rulings.	
P43. IFIs that have a mandatory requirement for a Shari`ah report.	
P44. IFIs that detail the contents of the Shari`ah report to include information on duties and activities, Shari`ah pronouncements and a declaration of Shari`ah compliance.	5
P45. IFIs that set up independent organizational arrangements for the internal Shari`ah audit.	
Assessment of Shari`ah Board	
P46. IFIs whose Shari`ah board demonstrates effective organizational accountability.	
P47. IFIs whose Shari`ah board communicates effectively with other organs of governance, including the BOD, management and auditors.	
P48. IFIs whose Shari`ah board properly identifies and evaluates the organization's exposure to Shari`ah non-compliance risk and reputational risk, and effectively communicates that risk information to appropriate bodies in the organization.	
P49. IFIs whose Shari`ah board promotes Islamic ethics and values within the organization.	
P50. IFIs whose Shari`ah board promotes continuous improvement of an organization's Shari`ah control processes.	

Appendix Table 4: Disclosure Indicators

	Disclosure Indicators	Numbers of Indicators
	Disclosure of Commitment to Shari'ah Governance	3
D1.	The existence of guidelines/charter on Shari'ah governance	
D2.	The existence of fit and proper criteria for the Shari'ah board	
D3.	Statement of Shari'ah compliance	
	Disclosure of Shari'ah Board Information	15
D4.	Method of appointment	
D5.	Organization chart of Shari'ah board structure on the website	
D6.	The list of Shari'ah board members (names)	
D7.	Details about Shari'ah board members other than name and title	
D8.	Details about other employment and position	
D9.	When each Shari'ah board member joined the board	
D10.	A named chairman of Shari'ah board listed	
D11.	Details about the chairman , other than name and title	
D12.	Details about role of the Shari'ah board	
D13.	Shari'ah board performs the Shari'ah review	
D14.	Board size id no fewer than three	
D15.	Shari'ah board members sit on more than three other IFIs	
D16.	Attendance record of Shari'ah board meetings	
D17.	Board meets more than four times a year	
D18.	Tenure of appointment	
	Disclosure of Shari'ah Board Remuneration	2
D19.	Who determines the Shari'ah board's remuneration	
D20.	The specifics of the Shari'ah boards' pay	
	Disclosure of Shari'ah Report	4
D21.	Shari'ah report published in the annual report	
D22.	Information on duties and services	
D23.	Shari'ah board activities	
D24.	Declaration of Shari'ah compliance	
	Disclosure of Shari'ah Pronouncements	3
D25.	Shari'ah pronouncements are made known to the public via website, etc.	
D26.	Shari'ah resolution only	
D27.	Shari'ah resolution with detailed Shari'ah explanation	
	Disclosure of Shari'ah Compliance Review	1
D28.	IFIs undertake Shari'ah review	
	Disclosure of Information on Products and Services	
D29.	List of Shari'ah-compliant products and services	
D30.	Shari'ah concepts and principles of products and services	
	Total Indicators	30

Appendix Table 5: Disclosure Indicator

	Disclosure Indicator	Percentage (%)	Average	Percentage (%)	Average
	Disclosure of Commitment to Shari'ah Governance				
D1.	The existence of guidelines/charter on Shari'ah governance	75%		25%	
D2.	The existence of fit and proper criteria for the Shari'ah board	92%		8%	
D3.	Statement of Shari'ah compliance	83%		17%	
			83.33%		17%
	Disclosure of Shari'ah Board Information	Percentage (%)	Average	Percentage (%)	Average
D4.	Method of appointment	75%		25%	
D5.	Organization chart of Shari'ah board structure on the website	50%		50%	
D6.	The list of Shari'ah board members (names)	83%		17%	
D7.	Details about Shari'ah board members other than name and title	75%		25%	
D8.	Details about other employment and position	67%		33%	
D9.	When each Shari'ah board member joined the board	42%		58%	
D10.	A named chairman of Shari'ah board listed	75%		25%	
D11.	Details about the chairman , other than name and title	75%		25%	
D12.	Details about role of the Shari'ah board	67%		33%	
D13.	Shari'ah board performs the Shari'ah review	83%		17%	
D14.	Board size id no fewer than three	50%		50%	
D15.	Shari'ah board members sit on more than three other IFIs	58%		42%	
D16.	Attendance record of Shari'ah board meetings	83%		17%	
D17.	Board meets more than four times a year	50%		50%	

	Disclosure Indicator	Percentage (%)	Average	Percentage (%)	Average
D18.	Tenure of appointment	83%		17%	
			68%		32%
	Disclosure of Shari'ah Board Remuneration				
D19.	Who determines the Shari'ah board's remuneration	67%		33%	
D20.	The specifics of the Shari'ah boards' pay	67%		33%	
			67%		33%
	Disclosure of Shari'ah Report				
D21.	Shari'ah report published in the annual report	83%		17%	
D22.	Information on duties and services	75%		25%	
D23.	Shari'ah board activities	83%		17%	
D24.	Declaration of Shari'ah compliance	75%		25%	
			79%		21%
	Disclosure of Shari'ah Pronouncements				
D25.	Shari'ah pronouncements are made known to the public via website, etc.	25%		75%	
D26.	Shari'ah resolution only	58%		42%	
D27.	Shari'ah resolution with detailed Shari'ah explanation	58%		42%	
			47%		53%
	Disclosure of Shari'ah Compliance Review				
D28.	IFIs undertake Shari'ah review	67%		33%	
			67%		33%
	Disclosure of Information on Products and Services				
D29.	List of Shari'ah-compliant products and services	100%		0%	
D30.	Shari'ah concepts and principles of products and services	100%		0%	
			100%		0%

Appendix 2: Standards Published by Islamic Financial Services Board (IFSB)

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

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

Guidance Notes of IFSB

GN-1: Guidance Note in Connection with the Capital Adequacy Standard: Recognition of Ratings by External Credit Assessment Institutions (ECAIs) on *Sharî'ah*-Compliant Financial Instruments

GN-2: Guidance Note in Connection with the Risk Management and Capital Adequacy Standards: Commodity *Murâbahah* Transactions

GN-3: Guidance Note on the Practice of Smoothing the Profits Payout to Investment Account Holders

GN-4: Guidance Note in Connection with the IFSB Capital Adequacy Standard: The Determination of Alpha in the Capital Adequacy Ratio for Institutions (other than Insurance Institutions) offering only Islamic Financial Services

GN-5: Guidance Note on the Recognition of Ratings by external Credit Assessment Institutions (ECAIS) on *Takâful* and *ReTakâful* Undertakings

GN-6: Guidance Note on Quantitative Measures for Liquidity Risk Management in Institutions Offering Islamic Financial Services [Excluding Islamic Insurance (*Takâful*) Institutions and Islamic Collective Investment Schemes]

Appendix 3: Survey Questionnaire on ‘Corporate Governance of Islamic Banks in Bangladesh; Issues and Challenges’

Board of Directors Related

1. What is your comment about the professional skill of the directors?
a) Professional skilled b) Partially skilled c) you do not want to comment
2. Are there specific demarcation of responsibilities and authorities between management and Board in bank's affairs in the policies and procedure?
Yes ☐ No ☐
3. What is opinion about the interference of the board members in the day to day activities of the bank?
a) Do not interfere at all b) Sometimes interfere c) Interfere frequently
4. Are the directors involved in the administrative affairs including recruitment, promotion, transfer etc.?
a) Always involved b) Sometimes involved c) Never involved
5. Does the board record the following items for the supervisors
a) meeting minutes b) summaries of matters reviewed c) recommendations
d) decisions taken and dissenting opinions e) all of the above f) Please specify a. b.
6. Has the board framed policies for risk management?
Yes ☐ No ☐
7. Are the policies relating to recruitment, promotion, transfer, disciplinary and punitive measures, human resources development and service rule framed and approved by the board?
Yes ☐ No ☐
8. Is annual budget and statutory financial statement is prepared with the approval of the board?
Yes ☐ No ☐

9. Are bank's income, expenditure, liquidity, non-performing assets, capital adequacy, maintenance of provision, recovery of defaulted loans monitored quarterly by the board?

Yes ☐ No ☐

10. Does the board review whether ALCO has been formed in line with the guidelines of BB?

Yes ☐ No ☐

11. Has the Board set KPIs for CEO and senior executives?

Yes ☐ No ☐

12. Are the Policies, procedures, strategies in respects of appraisal of loan proposal, sanction, disbursement, recovery, rescheduling and write-off made with board approval under the purview of existing law, rules and regulations? Yes ☐ No ☐

13. Has the Board delegated power of sanctioning loan among CEO and other executives?

Yes ☐ No ☐

14. Does any director interfere directly or indirectly into the loan approval process?

Yes ☐ No ☐

15. Does the board monitor the compliance of internal and external audit report and inspection report of Bangladesh bank?

Yes ☐ No ☐

16. Does the board consult the supervisors when assessing senior management?

Yes ☐ No ☐

17. Does the board self-assess periodically?

Yes ☐ No ☐

18. Has the board stated its business objectives?

Yes ☐ No ☐

19. Does the board monitor financial performance of the bank?

Yes ☐ No ☐

20. Do the directors attain proper formal training on banking laws, rules and regulations?

Yes ☐ No ☐

Board Committee Related

21. Has the board formed EC committee, Audit committee and Risk Management Committee?

Yes ☐ No ☐

22. Do the members of the EC committee have sufficient knowledge on banking and risk management?

a) have sufficient knowledge b) have insufficient knowledge c) you do not want to comment

23. Are the decisions taken by the EC ratified in the next board meeting?

Yes ☐ No ☐

24. What is the form of audit committee of your bank

- a) Distinct from other committees
- b) Audit committee member have experience in audit practices, financial reporting and accounting
- c) Audit committee chair who is independent and is not the chair of the board or of any other committee
- d) All of the above
- e) Please specify a. b. etc.

25. The audit committee of your bank is responsible for

- a. overseeing the financial reporting process?
- b. providing oversight of and interacting with the bank's internal and external auditors
- c. reviewing and approving the audit scope and frequency
- d. all the above
- e. none of the above
- e. please specify

26. Does the Audit Committee ensure that audits are risk based and comprehensive?

Yes ☐ No ☐

27. Does the Audit Committee monitor management and staff compliance with policies, laws, regulations and guidelines?

Yes ☐ No ☐

28. Did the Audit Committee review last year's financial statements and issue a report to the board before the statements was approved?

Yes ☐ No ☐

29. How many times did the audit committee have formal meeting with the board regarding the compliance of findings mentioned in the inspection report of BB

a) Four times b) Twice c) Never d) Please specify time if any

30. Assessment of minimization of which of the following risks are monitored by RMC (please put tick marks)

- a. Credit risk
- b. Foreign Exchange risk
- c. Internal control and compliance risk
- d. Money laundering risk
- e. Information and communication risk
- f. Operational risk
- g. Interest rate risk
- h. Liquidity Risk
- i. None

31. Does the RMC monitor maintenance of required capital and provision against the risks?

Yes ☐ No ☐

Senior Management Related

32. Does the senior management regularly and adequately inform the following principles to the board

- a. Changes in business strategy, risk strategy/risk appetite
- b. The bank's performance and financial condition;
- c. Internal control failures;
- d. Legal or regulatory concerns;
- e. All the above
- f. Please specify

33. Does the senior management allow deviation from relevant laws, rules and regulations

a) Allows always b) Allows sometimes c) Never allows d) No comment

34. Does the senior management include violations of laws, rules and regulations while presenting memos to the board or board committees.

Yes ☐ No ☐

35. Does the senior management recruit and promote all staffs of bank, except two tiers bellow him, in accordance with the approved service rules or takes suggestion/ recommendation from board?

- a) Allows takes suggestion from the board b) Does these independently
c) Sometimes takes suggestion from the board d) No comment

Risk Management Function

36. What are the CRO's (chief risk officer) primary responsibility?

- a. Overseeing the development and implementation of the bank's risk management function
b. Increase revenue generation
c. Conducting audit
d. All the above

37. Is there any risk management policy in your bank stating clear segregation of duties?

Yes ☐ No ☐

38. If yes, is this policy updated every year?

Yes ☐ No ☐

39. Do the risks identified by the CRO encompass the following issues?

- a. All material risks to the bank
b. On- and off-balance sheet and on a group-wide
c. Portfolio-wise and business-line level
d. All of the above
e. None of the above

40. Does the corporate governance framework of your bank contain the following set of rules?

- a. Efficient allocation of resources
b. Consistent with the rule of law
c. Support effective supervision and enforcement
d. Division of responsibilities among different authorities clearly articulated and designed to serve the public interest.
e. All of them above

41. Which of the following materials are distributed to directors for the Board meeting?

- a) Meeting agenda
- b) Explanations of each agenda item
- c) Minutes of the previous Board meeting
- d) Financial statements for reporting period
- e) Updates on key performance indicators
- f) Drafts on decisions to be approved
- g) None

Shareholders Right

42. What percentage of shareholders attended the last annual general meeting of shareholders?

- a) 50% or less
- b) 51% to 65%
- c) 66% to 75%
- d) 76% to 85%
- e) More than 86%

43. Who is in charge to evaluate the performance of the CEO/MD and Senior Management?

- a) Chairman of the Board
- b) Board of Directors
- c) Audit Committee
- d) Internal Audit Department
- e) Others

44. Please indicate what type of information is provided to shareholders when they are notified about the General Meeting of Shareholders

- a. Time and place
- b. Agenda
- c. Additional information on the agenda items
- d. Annual Report
- e. Financial Statements
- f. Proxy voting instructions
- g. External Auditor's Report
- h. None of the above

45. Have the shareholders any opportunity to ask question to the board on the following issues:

- a. Annual external audit
- b. Place items on the agenda of general meetings
- c. Propose resolutions
- d. All of them
- e. None of them

46. Does your corporate governance framework protect and facilitate the exercise of shareholders' rights and ensure the equitable treatment of all shareholders, including minority?

Yes ☐ No ☐

47. Do the Shareholders have the opportunity to ask questions to the board, including questions relating to the annual external audit, to place items on the agenda of general meetings, and to propose resolutions, subject to reasonable limitations.

Yes ☐ No ☐

Bank's Transparency and Disclosure

48. Does the bank disclose its Profit and Loss Account within 4 months at the end of the financial year?

Yes ☐ No ☐

49. Does the bank have a clearly disclosed dividend policy?

Yes ☐ No ☐

50. Does the board consult the shareholders when deciding on activities which will influence them?

Yes ☐ No ☐

Status of Corporate Governance of your bank

51. How would you rate the current status of corporate the governance in your Bank?

- a. Excellent
- b. Satisfactory
- c. Needs improvement
- d. Poor
- e. Other (please specify)

Comments

52. What are the problems faced by your management to implement corporate governance in your organization?

53. What are the suggestions should you recommend to establish effective corporate governance in your bank?

Questionnaire for Shari'ah Governance System

(Please tick (✓) in an appropriate box)

H1: General Framework for Shari'ah Governance

		Yes	No	Comment
Q1. Is the AAOIFI Governance Standards adopted as the guidelines?		<input type="checkbox"/>	<input type="checkbox"/>	
Q2. Are you aware of the recent exposure draft of the IFSB Shari’ah governance guiding principles?		<input type="checkbox"/>	<input type="checkbox"/>	
Q3. Are there any standards for Shari’ah governance set for Islamic financial institutions (IFIs)?		<input type="checkbox"/>	<input type="checkbox"/>	
Q4. Are IFIs required to provide any guidelines for Shari’ah governance?		<input type="checkbox"/>	<input type="checkbox"/>	
Q5. Does your institution develop standard processes for Shari’ah compliance, audit and review of the Shari’ah boards’ legal ruling?		<input type="checkbox"/>	<input type="checkbox"/>	
Q6. Does your institution have a professional code of ethics and conduct for members of the Shari’ah board?		<input type="checkbox"/>	<input type="checkbox"/>	
Q7. What is the organizational arrangement for Shari’ah governance?	Internal Shari’ah board	<input type="checkbox"/>	<input type="checkbox"/>	
	Shari’ah Advisory Firm	<input type="checkbox"/>	<input type="checkbox"/>	
	Others (Please Specify)	<input type="checkbox"/>	<input type="checkbox"/>	

H2: Regulatory Framework

		Yes	No	Comment
Q8. Are there separate rules and regulations concerning Shari'ah governance?		<input type="checkbox"/>	<input type="checkbox"/>	
Q9. Does the bank have any written policies or by-laws specifically referring to the conduct of the Shari'ah board?		<input type="checkbox"/>	<input type="checkbox"/>	
Q10. What type of dispute settlement is there to redress legal matters concerning Islamic finance (e.g. conflict of laws)	Civil Court	<input type="checkbox"/>	<input type="checkbox"/>	
	Shari'ah Court	<input type="checkbox"/>	<input type="checkbox"/>	
	Arbitration	<input type="checkbox"/>	<input type="checkbox"/>	
	Shari'ah authority of the central bank or the ministry of religious affairs	<input type="checkbox"/>	<input type="checkbox"/>	
	Others (Please Specify)	<input type="checkbox"/>	<input type="checkbox"/>	
Q11. What is the legal position of the Shari'ah board's rulings?	Binding	<input type="checkbox"/>	<input type="checkbox"/>	
	Persuasive	<input type="checkbox"/>	<input type="checkbox"/>	
	Non-binding	<input type="checkbox"/>	<input type="checkbox"/>	
	Others (Please Specify)	<input type="checkbox"/>	<input type="checkbox"/>	

H3: The Role of Shari'ah Board

		Tick (√)	Comment
Q12. What are the roles of the Shari'ah board?	Advisory	<input type="checkbox"/>	
	Supervisory	<input type="checkbox"/>	
	Executive	<input type="checkbox"/>	
	Others (Please Specify)	<input type="checkbox"/>	
Q13. Do the functions of the Shari'ah board include?	Shari'ah pronouncements?	<input type="checkbox"/>	
	Shari'ah review or audit?	<input type="checkbox"/>	
	Endorsing and validating documentations pertaining to the products and services, as well as the internal policies, manuals and marketing advertisements, etc.?	<input type="checkbox"/>	
	Endorsement of Shari'ah compliance?	<input type="checkbox"/>	
	Overseeing the computation	<input type="checkbox"/>	
	Examining any enquiries referred to by the IFIs?	<input type="checkbox"/>	
	Developing Shari'ah-approved instruments?	<input type="checkbox"/>	
	Acting as the Shari'ah highest authority pertaining to Islamic finance?	<input type="checkbox"/>	
	Approving model agreements of Islamic modes of financing?	<input type="checkbox"/>	
	Achieving harmonization in the concepts and applications amongst the Shari'ah boards?	<input type="checkbox"/>	
	Others (Please Specify)	<input type="checkbox"/>	
Q14. Does the Shari'ah board perform the Shari'ah audit?	Yes	<input type="checkbox"/>	
	No	<input type="checkbox"/>	
Q15. Does the Shari'ah board have the power to delegate some of its functions to the internal Shari'ah compliance unit?	Yes	<input type="checkbox"/>	
	No	<input type="checkbox"/>	

H4: Mechanism of Shari'ah Governance System

H4.1: Competence

		Yes	No	Comment
Q16. Does your institution have policies on the fit and proper criteria for the members of the Shari'ah board?		<input type="checkbox"/>	<input type="checkbox"/>	
Q17. If yes, what are those criteria?	Academic qualification	<input type="checkbox"/>	<input type="checkbox"/>	
	Experience and exposure (knowledge and skills in financial services industry)	<input type="checkbox"/>	<input type="checkbox"/>	
	Track record	<input type="checkbox"/>	<input type="checkbox"/>	
	Others (Please Specify)	<input type="checkbox"/>	<input type="checkbox"/>	
Q18. What are the requirements in terms of academic qualifications?	Specialised in muamalat	<input type="checkbox"/>	<input type="checkbox"/>	
	Specialised in Islamic jurisprudence	<input type="checkbox"/>	<input type="checkbox"/>	
	Knowledge of Arabic and English	<input type="checkbox"/>	<input type="checkbox"/>	
	Others (Please Specify)	<input type="checkbox"/>	<input type="checkbox"/>	
Q19. What are the requirements in terms of experience and exposure?	Understanding of Shari'ah rules and principles	<input type="checkbox"/>	<input type="checkbox"/>	
	Understanding of general legal and regulatory framework	<input type="checkbox"/>	<input type="checkbox"/>	
	Understanding of the impact of the Shari'ah pronouncements?	<input type="checkbox"/>	<input type="checkbox"/>	
	Skills in the financial services industry	<input type="checkbox"/>	<input type="checkbox"/>	
	Others (Please Specify)	<input type="checkbox"/>	<input type="checkbox"/>	
Q20. What are the requirements in terms of track record?	Good character	<input type="checkbox"/>	<input type="checkbox"/>	
	Competence, diligence, capability and soundness of judgment	<input type="checkbox"/>	<input type="checkbox"/>	
	Others (Please Specify)	<input type="checkbox"/>	<input type="checkbox"/>	
Q21. In the event your institution allows a non-Shari'ah-background individuals as a member of the Shari'ah board, what is the qualification for such appointment	Well-versed in law	<input type="checkbox"/>	<input type="checkbox"/>	
	Well-versed in economy	<input type="checkbox"/>	<input type="checkbox"/>	
	Well-versed in finance	<input type="checkbox"/>	<input type="checkbox"/>	
	Others (Please Specify)	<input type="checkbox"/>	<input type="checkbox"/>	
Q22. Do the Shari'ah board members receive adequate training to understand their role in the internal control?		<input type="checkbox"/>	<input type="checkbox"/>	
Q23. Is there any evaluation of the Shari'ah board?		<input type="checkbox"/>	<input type="checkbox"/>	

		Tick (√)	Comment
Q24. Who has the power to approve the appointment and dismissal of the Shari'ah board?	Shareholders in the Annual General Meeting	<input type="checkbox"/>	
	BOD	<input type="checkbox"/>	
	Management	<input type="checkbox"/>	
	Government	<input type="checkbox"/>	
	Others (Please Specify)	<input type="checkbox"/>	
Q25. How long is the tenure of the appointment?	One year	<input type="checkbox"/>	
	Two years	<input type="checkbox"/>	
	Permanent	<input type="checkbox"/>	
	Others (Please Specify)	<input type="checkbox"/>	
Q26. What do you think is the appropriate body for the Shari'ah board to be accountable to?	Shareholders	<input type="checkbox"/>	
	BOD	<input type="checkbox"/>	
	Management	<input type="checkbox"/>	
	Others (Please Specify)	<input type="checkbox"/>	
Q27. Who determines the Shari'ah board's remuneration?	Shareholders	<input type="checkbox"/>	
	BOD	<input type="checkbox"/>	
	Management	<input type="checkbox"/>	
	Others (Please Specify)	<input type="checkbox"/>	
Q28. What mechanisms are in place to mitigate conflict of interest in relation to Shari'ah scholars sitting on various boards?	Restriction on multiple appointment	<input type="checkbox"/>	
	Disclosure on Shari'ah board's information	<input type="checkbox"/>	
	Declaration in writing	<input type="checkbox"/>	
	Others (Please Specify)	<input type="checkbox"/>	
Q29. Is the power and authority of the Shari'ah board clearly mentioned in the following documents?	Article of Association	<input type="checkbox"/>	
	Memorandum of Association	<input type="checkbox"/>	
	Letter of appointment	<input type="checkbox"/>	
	Others (Please Specify)	<input type="checkbox"/>	

H4.2: Independence

H4.3: Transparency and Confidentiality

	Yes	No	Comment
Q30. Does the Shari'ah board have written policy in respect to the preparation and dissemination of Shari'ah information?	<input type="checkbox"/>	<input type="checkbox"/>	
Q31. Does the Shari'ah board have access to all documents, information, records, etc.?	<input type="checkbox"/>	<input type="checkbox"/>	
Q32. Are the Shari'ah pronouncements published and made known to the public?	<input type="checkbox"/>	<input type="checkbox"/>	
Q33. Is the Shari'ah board fully aware of the issue of confidentiality and sensitive information obtained in the course of performing their duties?	<input type="checkbox"/>	<input type="checkbox"/>	

H5: Operational Procedure

		Tick (√)	Comment
Q34. Is there any standard operational procedure for the Shari'ah board?	Yes	<input type="checkbox"/>	
	No	<input type="checkbox"/>	
Q35. Does the Shari'ah board hold its meeting regularly?	Weekly	<input type="checkbox"/>	
	Monthly	<input type="checkbox"/>	
	Quarterly	<input type="checkbox"/>	
	Biannually	<input type="checkbox"/>	
	Others (Please Specify)	<input type="checkbox"/>	
Q36. What is the quorum for the Shari'ah board meeting?	Three	<input type="checkbox"/>	
	Five	<input type="checkbox"/>	
	Seven	<input type="checkbox"/>	
	Others (Please Specify)	<input type="checkbox"/>	
Q37. On what basis are decisions made at the Shari'ah board meeting?	Simple majority	<input type="checkbox"/>	
	Two-thirds majority	<input type="checkbox"/>	
	Consensus	<input type="checkbox"/>	
	Others (Please Specify)	<input type="checkbox"/>	
Q38. In the event of the Shari'ah board including non-Shari'ah-background members, do they have the right to vote?	Yes	<input type="checkbox"/>	
	No	<input type="checkbox"/>	
Q39. Is an agenda prepared and distributed in advance of Shari'ah board meetings?	A week in advance	<input type="checkbox"/>	
	Two weeks in advance	<input type="checkbox"/>	
	A month in advance	<input type="checkbox"/>	
	Others (Please Specify)	<input type="checkbox"/>	
Q40. Who is responsible for dealing with the organization of the Shari'ah board meetings?	Internal Shari'ah office	<input type="checkbox"/>	
	Company secretary	<input type="checkbox"/>	
	Head of product development	<input type="checkbox"/>	
	Head of the legal department	<input type="checkbox"/>	
	Others (Please Specify)	<input type="checkbox"/>	
Q41. Besides the Shari'ah board, who attends meeting?	Representative from the internal Shari'ah compliance unit	<input type="checkbox"/>	
	Representative from risk management department	<input type="checkbox"/>	
	Representative from legal department	<input type="checkbox"/>	
	Representative from product department	<input type="checkbox"/>	
	Representative from an external legal firm	<input type="checkbox"/>	
	Representative from the IFIs (Example, in the case of Shari'ah board at the regulatory level)	<input type="checkbox"/>	
	Others (Please Specify)	<input type="checkbox"/>	
Q42. Are the Shari'ah pronouncements reviewed	Yes	<input type="checkbox"/>	
	No	<input type="checkbox"/>	

whenever necessary?			
Q43. Is the Shari'ah board required to submit a Shari'ah report?	Yes	<input type="checkbox"/>	
	No	<input type="checkbox"/>	
Q44. What are the contents of the Shari'ah report?	Information on duties and services of the Shari'ah board	<input type="checkbox"/>	
	Shari'ah pronouncements	<input type="checkbox"/>	
	Shari'ah board activities	<input type="checkbox"/>	
	Declaration of Shari'ah compliance	<input type="checkbox"/>	
	Others (Please Specify)	<input type="checkbox"/>	
Q45. What is the organizational arrangement for the internal Shari'ah review?	Independent division/department	<input type="checkbox"/>	
	Part of the internal audit department	<input type="checkbox"/>	
	Others (Please Specify)	<input type="checkbox"/>	

H6: General Assessment of the Shari'ah Board.

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
Q46. The Shari'ah board has demonstrated effective organizational accountability.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Q47. The Shari'ah board has communicated effectively with other organs of governance, including the BOD, management and auditors.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Q48. The Shari'ah board has properly identified and evaluated the organization's exposure to Shari'ah non-compliance risk and reputational risk, and effectively communicate that risk information to appropriate bodies in the organization.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Q49. The Shari'ah board promotes Islamic ethics and values within the organization.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Q50. The Shari'ah board promotes continuous improvement of the organization's Shari'ah control processes.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Shari'ah Governance Disclosure

	Disclosure Indicators	Yes	No
	Disclosure of commitment to Shari'ah governance		
D1.	The existence of guidelines/charter on Shari'ah governance		
D2.	The existence of fit and proper criteria for the Shari'ah board		
D3.	Statement of Shari'ah compliance		
	Disclosure of Shari'ah board information		
D4.	Method of appointment		
D5.	Organization chart of Shari'ah board structure on the website		
D6.	The list of Shari'ah board members (names)		
D7.	Details about Shari'ah board members other than name and title		
D8.	Details about other employment and position		
D9.	When each Shari'ah board member joined the board		
D10.	A named chairman of Shari'ah board listed		
D11.	Details about the chairman , other than name and title		
D12.	Details about role of the Shari'ah board		
D13.	Shari'ah board performs the Shari'ah review		
D14.	Board size id no fewer than three		
D15.	Shari'ah board members sit on more than three other IFIs		
D16.	Attendance record of Shari'ah board meetings		
D17.	Board meets more than four times a year		
D18.	Tenure of appointment		
	Disclosure of Shari'ah board remuneration		
D19.	Who determines the Shari'ah board's remuneration		
D20.	The specifics of the Shari'ah boards' pay		
	Disclosure of Shari'ah report		
D21.	Shari'ah report published in the annual report		
D22.	Information on duties and services		
D23.	Shari'ah board activities		
D24.	Declaration of Shari'ah compliance		
	Disclosure of Shari'ah pronouncements		
D25.	Shari'ah pronouncements are made known to the public via website, etc.		
D26.	Shari'ah resolution only		
D27.	Shari'ah resolution with detailed Shari'ah explanation		
	Disclosure of Shari'ah compliance review		
D28.	IFIs undertake Shari'ah review		
	Disclosure of information on products and services		
D29.	List of Shari'ah-compliant products and services		
D30.	Shari'ah concepts and principles of products and services		
	Total Indicators		

Appendix 4: Discussion Summary at the Seminar on “Corporate Governance in Islamic Banks in Bangladesh: Issues and Challenges”

Bangladesh Institute of Bank Management (BIBM) organized a Seminar on “Corporate Governance in Islamic Banks in Bangladesh: Issues and Challenges” on November 30, 2016. The seminar was chaired by Dr. Toufic Ahmad Choudhury, the then Director General, BIBM. Mr. S.A. Chowdhury, Former A. K. Gangopadhaya Chair Professor, BIBM was present in the seminar as the Chief Guest. Mr. Md. Fariduddin Ahmed, Former Managing Director & CEO, Islami Bank Bangladesh Ltd. and Former Managing Director & Advisor of EXIM Bank of Bangladesh Limited and Professor M. Muzahidul Islam, Department of Banking and Insurance, University of Dhaka were present in the seminar as designated discussants. A good number of participants from different banks and financial institutions, faculty members of BIBM, and journalists attended the seminar.

Mr. Md. Alamgir, Associate Professor, BIBM presented the seminar paper. Other members of the team were Mr. Nur Al Faisal, Lecturer, BIBM, Mr. Md. Abdul Halim, Lecturer, BIBM, and Ms. Nahid Rahman, Joint Director, Bangladesh Bank. Discussion, observation and relevant suggestions offered by the chief guest, learned discussants, and other participants in the seminar are summarized below.

Mr. S.A. Chowdhury, Chief Guest and former A. K. Gangopadhaya Chair Professor, BIBM

According to Mr. SA Chowdhury, the origin of Islamic banking is not based on religion but as an alternative mode of finance. The purpose of the mode is to human welfare. The paper should include the regulatory framework of Islamic banking and he emphasized more and more on disclosure of Islamic banking. The Islamic banks should develop more market oriented products compatible with the sustainable development goals. He concluded with the expectation that Bangladesh Bank should also strengthen his capacity on Islamic banking.

Mr. Helal Ahmed Chowdhury, the then Supernumerary Professor, BIBM

In his speech, Mr. Chowdhury highlighted uniformity of Sariah compliance among all the Islamic banks in Bangladesh and emphasized the spreading of Islamic banking knowledge among all level of people. According to Mr. Ahmed, some of Islamic banks in Bangladesh are deviated from the standard Islamic banking practice. The market of Islamic banking is being widespread all over the world including Bangladesh.

Mr. Md. Fariduddin Ahmed, Former Managing Director & CEO, Islami Bank Bangladesh Limited and Former Managing Director & Advisor of EXIM Bank of Bangladesh Limited

The concept of corporate governance of Islamic banks is not only bound to Sariah compliance. It is a wider concept. The minimum corporate governance standard rules set

by the central bank should be monitored. The deposit rule, profit sharing rules, etc. of Islamic banks should be disclosed to customers. After the 34 years of Islamic banking in Bangladesh, we still have no separate law for the Islamic banking. The Shariah compliance have to ensure not only for investment products but also for other products such as trade financing services. He stated that there is some deviation of practice of Shariah compliance in the Islamic bank. Mr. Fariduddin Ahmed also emphasized on the need of Islamic banking rating agencies in Bangladesh.

Professor M. Muzahidul Islam, Department of Banking and Insurance, University of Dhaka added that other issues of corporate governance should be addressed besides with Shariah compliance. The risk sharing issue of Islamic bank is conflicting with the central bank laws, so there is a need of separate laws of Islamic banking. The Islamic banks follow the rules and features of conventional banks in the product design as well as in the profit target. There is a huge scope of development in the Islamic deposit products and loan products.

Mr. Yasin Ali, the then Supernumerary Professor, BIBM also indicated some non-compliance issues of Islamic banking in Bangladesh.

In the concluding remarks, **Dr. Toufic Ahmad Choudhury, the then Director General, BIBM** stated that Islamic banks should more emphasize on the Basel compliance simultaneously with shariah compliance

Comments from the Participants

- The uniform operation manual should be introduced for all Islamic banks in Bangladesh.
- Islamic banking course curriculum should be included to the nation level course curriculum.
- The Central Shariah Board of Bangladesh should introduce a Shariah based standard disclosure for the Islamic banking.
- Bangladesh Bank should play more proactive role in ensuring corporate governance in the banking sectors.

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