SHARED RISK & REWARD

Improving Transparency in Shari'ah Governance

There have been some significant moves recently to introduce voluntary standards for Shari'ah scholar accreditation and managing potential conflicts of interest. There has been less progress getting these changes introduced in practice, and a lot of that has to do with their voluntary nature and lack of standardization of the proposals across borders in an increasingly global industry.

The focus recently on these issues is great, but it must have follow through to ensure it continues to progress towards implementation. When I was reviewing my past writing on the subject, I found a newsletter from 2010 about a proposal from ISRA that recommended creating a global Shari'ah adviser platform. I was supportive of that effort then, and I remain supportive, but it has not made measurable progress towards implementation in the 2+ years since it was proposed.

As far as actual proposals for the areas where regulations around Shari'ah scholars' work, Murat Unal of Funds@Work wrote a short article ([pdf](#)) that proposes a few areas that I think are important (these are paraphrased):

- Central, transparent database of Shari'ah scholars' assignments
- Separation of Shari'ah audit and other consulting/advisory roles
- Requirement for Shari'ah boards to have at least two younger Shari'ah scholars
- Rotation of chairmen and Shari'ah board members and clear rules on keeping minutes (including voting records) of the meetings and publication of fatawa
- Potential conflict caused by Shari'ah scholars serving on many boards and also on the boards of the standards-setting bodies

There has been a lot of focus on the governance aspects of these recommendations to ensure proper qualification of Shari'ah scholars (primarily assessing qualification in financial and contractual knowledge).

Less attention has focused on the areas where transparency can be introduced into the Shari'ah approval process, which I think is equally important. Understanding the process by which scholars decide the merits of a particular product are important for people not involved in the industry directly (e.g. potential consumers) to get a greater understanding about what makes different products Shari'ah-compliant.

Until next week,
Blake Goud