

[Exposure Draft (AGEB 5/2023) of the]  
AAOIFI Governance Standard (GS)\_\_\_  
**Shari’ah Supervisory Board: Review and Report**

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[ED of] AAOIFI Governance Standard (GS) \_\_\_\_ “Shari’ah Supervisory Board: Review and Report” is set out in paragraphs 1-25.

Where the context so requires, the use of the masculine gender shall include the feminine gender and the singular shall include the plural and vice versa and the word “person” shall include any institution, corporation, firm, partnership, body corporate or other forms of association. The table of contents and headings do not form part of the text of the standard and are for the purpose of convenience and ease of understanding and may, at times, help in the interpretation of text only.

## Preface

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- PR1 This standard is one of the outcomes of the comprehensive Shari’ah governance framework project, which aims to establish the guiding principles and rules, as well as, best practices for a sound and effective Shari’ah governance framework for Islamic financial institutions (IFIs / the institutions).
- PR2 One of the unique organs of the Shari’ah governance framework is the Shari’ah supervisory board (SSB), which oversees an institution’s compliance with Shari’ah principles and rules. To fulfil its mandate, it is pertinent that the SSB issues a periodic report to the stakeholders expressing its assessment of the institution’s state of compliance with Shari’ah principles and rules. In doing so, the SSB plays an essential role in fostering transparency and accountability within, and confidence in, the institution and the industry as a whole.
- PR3 This standard describes certain requirements related to principle 6 “Shari’ah supervisory board (SSB)” as prescribed by [ED of] GS \_\_\_\_ “Shari’ah Governance Framework”.
- PR4 This standard, along with the [ED of] GS \_\_\_\_ “Shari’ah Supervisory Board: Appointment and Composition”, supersedes GS 1 “Shari’ah Supervisory Board: Appointment, Composition and Report” and GS 2 “Shari’ah Review”.

## Introduction

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### Overview

- IN1 This standard requires the Shari’ah supervisory board (SSB) of an Islamic financial institution (IFI / the institution) to prepare and submit an annual report to the stakeholders regarding its opinion with regard to the state and extent of the institution’s compliance with Shari’ah principles and rules. It also aims to establish a framework for the preparation, presentation and contents of the SSB’s report, and the basic requirements with regard to conducting a review on which such report shall be based.

### Rationale(s) for issuing this standard

- IN2 The AAOIFI Governance and Ethics Board (AGEB / the board) decided to revise certain AAOIFI Governance Standards (GSs) including GS 1 “Shari’ah Supervisory Board: Appointment, Composition and Report” and GS 2 “Shari’ah Review”, as a part of its comprehensive Shari’ah governance framework project. Such decision, inter alia, was based on the premise that these were issued over two decades ago, and hence, significant improvements are required to address the current needs and challenges of the industry, taking into account that the global Islamic finance industry, as well as, the global best practices of governance and Shari’ah governance have significantly evolved and matured.
- IN3 Considering the significance of the SSB’s report, and its close linkage with the SSB’s review process, the board decided to split GS 1 “Shari’ah Supervisory Board: Appointment, Composition and Report” into two separate standards<sup>1</sup>. This standard emphasises on and addresses the requirements related to the SSB’s report and the relevant requirements applicable to the SSB’s review, as they are mutually dependent and interlinked.
- IN4 This standard also aims to enhance the consistency, clarity and completeness of the SSB’s report and, in turn, enhance the confidence of the stakeholders on the Islamic finance industry as a whole.

### Significant changes from the previous standard

- IN5 This standard improves upon the previous standard by:
- prescribing more comprehensive and detailed contents of SSB’s report, along with an improved illustrative template of the same;
  - the reporting requirements earlier contained in GS 1 “Shari’ah Supervisory Board: Appointment, Composition and Report” and the review requirements contained in GS 2 “Shari’ah Review” have also been clarified, aligned and compiled in form of one standard;
  - clarifying the scope of SSB’s report and its respective focus on design part of the transactions and possibly placing reliance on organs of governance and management with regard to implementation part of transactions; and

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<sup>1</sup> [ED of] GS \_\_\_\_ “Shari’ah Supervisory Board: Appointment and Composition” and [ED of] GS \_\_\_\_ “Shari’ah Supervisory Board: Review and Report”

- d. clarifying the requirements related to SSB's review along with the respective roles and responsibilities and removing the ambiguities and overlapping requirements between Shari'ah review<sup>2</sup> and external Shari'ah audit<sup>3</sup>.

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<sup>2</sup> As per the requirements of GS 2 "Shari'ah Review"

<sup>3</sup> As per the provisions of AAOIFI Standard on Auditing and Assurance (SOAA) 6 "External Shari'ah Audit"

# **[Exposure Draft (AGEB 5/2023) of the]**

## **AAOIFI Governance Standard (GS) \_\_\_\_**

### **Shari’ah Supervisory Board: Review and Report**

#### **Objectives of the standard**

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1. The objectives of this standard include:
  - a. to establish a framework for the preparation and presentation of the Shari’ah supervisory board’s (SSB’s) report on the state of compliance of an Islamic finance institution (IFI / the institution) with Shari’ah principles and rules;
  - b. to standardise the minimum requirements with regard to the contents of a SSB’s report; and
  - c. eventually, to enhance the confidence of the stakeholders in the Islamic finance industry.

#### **Scope**

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2. This standard applies to all IFIs, including Islamic windows, across all sectors. Regulatory and supervisory authorities (RSAs) may choose to apply this standard to other institutions in their jurisdictions as appropriate. This standard shall also be applied, insofar as practicable, by institutions other than IFIs adopting AAOIFI GSs, including social finance institutions.
3. This standard shall also apply to all other institutions (including Waqf and other social finance institutions) adopting AAOIFI GSs and SSBs established for Sukuk and other structures, as and to the extent, required by the relevant AAOIFI GSs.

#### **Relationship with other standard(s)**

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4. This standard shall be read, understood and applied in conjunction with [ED of] GS \_\_\_\_ “Shari’ah Governance Framework”, [ED of] GS \_\_\_\_ “Shari’ah Supervisory Board: Appointment and Composition”, [ED of] GS \_\_\_\_ “Shari’ah Supervisory Board: Functions and Operations” and GS 5 “Independence of Shari’ah Supervisory Board”.

#### **Definitions**

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5. For the purpose of interpreting and applying this standard, the following short definitions are relevant:
  - a. Islamic financial institution (IFI / the institution)<sup>4</sup> – is a financial institution that operates in line with Shari’ah principles and rules performing banking, insurance / Takaful, capital markets and similar activities and include the stand-alone branches, divisions and windows of conventional financial institutions that offer products and services in line with Shari’ah principles and rules;

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<sup>4</sup> AAOIFI GS 12 “Sukuk Governance”



- b. Shari’ah non-compliance risk<sup>5</sup> – is a risk that arises from an IFI’s failure to comply with Shari’ah principles and rules. It is a sub-set of operational risk and may in certain circumstances result in legal, financial or reputational risk;
- c. Shari’ah principles and rules<sup>6</sup> – comprise “the Shari’ah principles and rules defined by the following hierarchy, as appropriate:
  - i. the Shari’ah standards issued by Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI);
  - ii. the regulations issued by the respective jurisdiction’s regulator insofar as these entail the regulatory Shari’ah requirements;
  - iii. the rulings of the central Shari’ah board for the respective jurisdiction [if there is one];
  - iv. the requirements of the applicable financial accounting standards (FASs) as issued by AAOIFI insofar as these entail Shari’ah related requirements; and
  - v. the approvals and rulings given by the Shari’ah supervisory board of the institution; and
- d. Shari’ah supervisory board (SSB) – is an independent body of specialised jurists in Fiqh Al-Muamalat (Islamic commercial jurisprudence). In addition, the SSB may preferably include advisors (referred to as “SSB advisors”) who are experts in areas such as finance, economics, accounting or law, and have reasonable knowledge of Shari’ah principles and rules. The SSB is entrusted with the duty of reviewing and supervising the activities of an institution in order to ensure that it operates in compliance with Shari’ah principles and rules. The Fatwas and rulings (related to Shari’ah matters) of the SSB are binding on the institution.

### **SSB’s reporting requirements**

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- 6. The SSB of an institution shall annually submit a report to the shareholders (and other stakeholders, as applicable) expressing an opinion on the state of the institution’s compliance with Shari’ah principles and rules. Such report shall be published as part of the annual report of the institution.

### **SSB’s review**

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- 7. The SSB’s report shall be prepared based on a thorough review, in line with the requirements of this standard. The SSB’s review shall be considered among the responsibilities of the SSB, and in no manner whatsoever, shall be considered as an alternative, or equivalent, to internal Shari’ah audit or external Shari’ah audit as required in line with the requirements of relevant AAOIFI GSs.

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<sup>5</sup> AAOIFI GS 11 “Internal Shari’ah Audit”

<sup>6</sup> AAOIFI FAS 40 “Financial Reporting for Islamic Finance Windows”

## **SSB's review procedures**

8. The SSB's review shall generally encompass the following stages:

- a. planning and designing review procedures;
- b. executing review procedures;
- c. preparation and review of working papers; and
- d. documenting conclusions and reporting.

### *Planning and designing review procedures*

9. The SSB's review procedures shall be planned so that the review is completed in an effective and efficient manner. The plan shall be adequately developed to include a complete understanding of the institution's operations in terms of products, size of operations, locations, branches, subsidiaries and divisions. The planning shall include obtaining a list of all Fatwas, rulings and guidelines issued by the SSB.
10. Understanding the activities, products and management's awareness and attitude towards compliance with the Shari'ah principles and rules is essential. This has a direct effect on the nature, extent and timing of the SSB's review procedures.
11. The plan shall be properly documented including the sample selection criteria and sizes, taking into consideration complexity and frequency of transactions.
12. The review procedures shall be designed based on the above input. The review procedures shall cover all activities, products and locations. These procedures shall ascertain whether the SSB-approved transactions and products have been undertaken and all related conditions have been met.

### *Executing the SSB's review procedures*

13. At this stage, all the planned review procedures are executed. The SSB's review procedures shall normally include:
  - a. obtaining an understanding of the management's awareness, commitment and control procedures for adherence to the Shari'ah principles and rules;
  - b. reviewing of contracts and agreements;
  - c. re-ascertaining whether transactions entered into during the year were for products authorised by the SSB;
  - d. reviewing other information and reports such as circulars, minutes, operating and financial reports, policies and procedures;
  - e. consultation / co-ordination with advisors and external auditors; and
  - f. discussing findings with the institution's management.

14. The SSB's primary scope of review is related to the Shari'ah compliance in the design and structure of transactions, products and services, and hence, it may need to utilise the work of other organs of Shari'ah governance to support its review process. For this purpose, the SSB may use the staff of the SSB secretariat (or the Shari'ah compliance department (SCD) in its absence) to carry out the review procedures under supervision of the SSB, with regard to the implementation of the Shari'ah principles and rules.
15. The SSB may also use / rely on the work carried out, and the reports issued, by the internal Shari'ah audit function and the external Shari'ah auditors (where applicable), in order to support its conclusions.

#### *Preparation and review of working papers*

16. The execution of the above review procedures shall be documented in working papers, which shall be complete, adequate and cross-referenced to the respective review procedures.

#### *Documenting conclusions and reporting*

17. The SSB shall document its conclusions and prepare its report to the shareholders (and other stakeholders, as applicable) of the institution based on the work conducted and discussions held.
18. The SSB's report shall be read at the annual general meeting of the institution.
19. A detailed report, when considered necessary, shall also be issued to an institution's those charged with governance (TCWG), including the following:
  - a. significant weaknesses identified in Shari'ah compliance and controls;
  - b. significant Shari'ah non-compliance issues identified but resolved amicably, hence not reported in the SSB's report; and
  - c. significant areas requiring improvements.

#### *Quality assurance*

20. The SSB shall implement adequate quality control policies and procedures to ensure that the review was conducted in accordance with the requirements of this standard.
21. Quality control procedures may include review of all working papers to ensure that review procedures were properly understood and executed. Additional discussions may be held with the institution's management, if required, to ensure that all significant matters were covered during the review.

#### **Contents of the SSB's report**

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22. The SSB's report shall, at minimum, contain the following basic elements:
  - a. title;
  - b. addressee;
  - c. opening or introductory paragraph;

- d. opinion paragraph containing an expression of opinion on the compliance of the institution with Shari’ah principles and rules, categorised into:
  - i. primary opinion;
  - ii. exceptions;
  - iii. limitations; and
  - iv. additional opinions;
- e. responsibilities paragraph describing the nature of the work performed, including:
  - i. hierarchy of Shari’ah principles and rules as applicable to the institution;
  - ii. functions relied upon;
  - iii. inherent limitations of the SSB function and its report; and
  - iv. a declaration of SSB’s independence and ethical considerations;
- f. responsibilities of the management and TCWG;
- g. other significant reporting matters, including:
  - i. key Shari’ah non-compliance risks with weak controls;
  - ii. significant instances of Shari’ah non-compliance, identified and later resolved;
  - iii. key Shari’ah non-compliance issues in matters which are not part of primary scope;
  - iv. specific considerations related to the segregation of funds and operations, as applicable, in the case of Islamic finance windows;
  - v. key observations on the overall governance and control mechanism; and
  - vi. key differences between Shari’ah principles and rules applicable to the parent entity and those applied by subsidiaries due to application of a different regulatory regime;
- h. report approval and authentication (including dissenting opinion if any);
- i. signatures of the SSB members; and
- j. date and place of the report.

23. An illustrative template of the SSB’s report is provided in Appendix B.

## **Effective date**

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24. This standard shall be effective on or after 1 July 2025. Earlier application is encouraged.

## **Amendments to other standards**

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25. This standard, along with the [ED of] GS \_\_\_\_ “Shari’ah Supervisory Board: Appointment and Composition”, supersedes GS 1 “Shari’ah Supervisory Board: Appointment, Composition and Report” and GS 2 “Shari’ah Review”.

## Appendices

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### Appendix A: Adoption of the standard

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This standard was presented for the approval in the AAOIFI Governance and Ethics Board's meeting No. \_\_\_\_\_ held on \_\_\_\_\_ H, corresponding to \_\_\_\_\_ and was duly approved.

#### Members of the board

1. Mr. Farrukh Raza (chairman)
2. Dr. Walid Hegazy (deputy chairman)
3. Dr. Abdulbari Mashal
4. Mr. Abdullah AlMoqbel
5. Dr. Abozer Magzoub
6. Dr. Ahmet AlBayrak
7. Dr. Ali Sartawi
8. Ms. Ibtihal Al-Shamali
9. Dr. Mohammad Kabir Hassan
10. Mr. Mohammad Shoaib
11. Mr. Moosa Khoory
12. Mr. Muzammil Kasbati
13. Mr. Sohaib Umar
14. Mr. Wael Merza
15. Dr. Zahid ur Rehman Khokher

#### Reservation

The standard was approved unanimously.

### **Working group members**

1. Dr. Walid Hegazy (chairman)
2. Dr. Abdulbari Mashal
3. Mr. Abdulla AlMoqbel
4. Mr. Ebrahim Sidat
5. Mr. Farrukh Raza
6. Mr. Firas Hamdan
7. Mr. Sohaib Umar

### **Executive team**

1. Mr. Omar Mustafa Ansari (AAOIFI)
2. Ms. Zahra Jassim (AAOIFI)
3. Ms. Alyaa Adel (AAOIFI)
4. Mr. Farhan Noor (AAOIFI)
5. Ms. Merjan Abid (Consultant-researcher)

## Appendix B: Illustrative SSB's report template

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بسم الله الرحمن الرحيم [In the name of Allah, the Most Gracious, the Most Merciful]

### **Shari'ah supervisory board's report to the shareholders and participatory stakeholders of XYZ Institution on the state of compliance of XYZ Institution with Shari'ah principles and rules during the year ended \_\_\_\_\_ 20XX**

السلام عليكم ورحمة الله وبركاته [Assalamoalaikum Wa Rahmatullah e Wabarakatuhu]

#### **Introduction**

We, collectively, having been appointed by the shareholders [or other appointing authority] as the Shari'ah supervisory board (SSB) of XYZ Institution (the institution) have fulfilled our responsibilities in respect of ensuring the institution's compliance with Shari'ah principles and rules, and are pleased to issue this report.

#### **Opinion**

##### *Primary opinion*

Based on our:

- a. oversight and supervision of the institution's affairs related to Shari'ah compliance; and
- b. a period specific review of the activities performed;

We report that in our opinion, [except for the effect of the exceptions and limitations reported in the paragraphs immediately following], in all material respects the institution's financial arrangements, contracts and transactions with its customers, other financial institutions and stakeholders for the year ended \_\_\_\_\_ 20XX were in compliance with Shari'ah principles and rules.

##### *Exceptions*

[Provide exceptions, if any, including instances of material non-compliances with Shari'ah principles and rules, which could not be resolved / settled].

##### *Limitations*

[Provide limitations or constraints, if any, e.g., missing data, record-keeping deficiencies or missing or unreliable documents, that restrict the ability of the SSB to conclude with reasonable certainty about the state of compliance of the institution with Shari'ah principles and rules].

##### *Additional opinions*

We further report that in our opinion:

- a. any income earned from impermissible sources, along with any charity amounts received from customers / other stakeholders, have been adequately accounted for as impermissible income and have been paid / are earmarked for payment within the next 12 months (duly segregated from the institution's own funds) by the management for the purposes and the parties approved, on a timely basis, in line with the overall policy approved by the SSB;
- b. Zakah applicable on different stakeholders has been adequately computed and accounted for and / or disclosed, as appropriate, and the Zakah has been paid by the management for



- the purposes and the parties approved, on a timely basis, in line with the overall policy approved by the SSB;
- c. the institution has complied with its fiduciary responsibilities, including in particular the profit and / or loss sharing with various participating stakeholders (including investment accounts holders (IAHs), Sukuk-holders) by applying just and equitable treatment to such stakeholders in line with the relevant contracts, applicable Shari'ah and financial accounting standards and the institution's policies;
- d. the institution has followed the principles of financial reporting, and has reflected the true nature and characteristics of the transactions in line with Shari'ah principles and rules and has not committed any non-compliance with Shari'ah, in particular regarding revenue and liability recognition, profit and loss computation, determination of counterparty balances and reporting of monetary balances, among others;
- e. the institution has established an appropriate mechanism for the assessment of Shari'ah non-compliance risk commensurate with the nature and size of its operations and has established necessary mitigating measures to manage such risk; and
- f. [for Islamic finance windows] the funds of the Islamic finance window have been properly segregated from the funds of the conventional parent.

## **Our responsibilities**

Our responsibilities in respect of the institution's compliance with Shari'ah principles and rules include providing supervision, Shari'ah rulings on the products, services and operations of the institution, particularly regarding the design of the transactions (including approval of contracts, related documents, and process flows). We are also responsible for supervising and providing our input, where needed, on the execution of such transactions and implementation of our decisions. We are also required to perform a period specific review of the state of compliance of the institution with Shari'ah principles and rules.

We confirm that we have fulfilled our responsibilities in respect of the current year. We further confirm that the management of the institution has provided us all the information and support that we considered necessary for the purpose of fulfilling our responsibilities, including, in particular, those that enable us to form our opinion and to issue our report.

### ***Shari'ah principles and rules as applicable to the institution***

The institution's compliance with Shari'ah principles and rules denotes compliance of the institution's financial arrangements, contracts and transactions for the year ended \_\_\_\_\_ 20XX with Shari'ah principles and rules, as determined in line with the hierarchy provided below [or as otherwise specified by the respective RSA]:

- a. the Shari'ah standards issued by Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI);
- b. the regulations issued by the respective jurisdiction's regulator insofar as these entail the regulatory Shari'ah requirements;
- c. the rulings of the central Shari'ah board for the respective jurisdiction (if there is one);
- d. the requirements of the applicable financial accounting standards (FASs) as issued by AAOIFI insofar as these entail Shari'ah related requirements; and
- e. the approvals and rulings given by the Shari'ah supervisory board of the institution.

### *Responsibility for the subsidiaries [where applicable]*

The scope of our report for the purpose of determining our opinion includes the subsidiary(ies) that are consolidated in the financial statements of the institution. In respect of the subsidiaries that have a different SSB or where different regulatory Shari'ah requirements are in place, for the purpose of forming our opinion, we have performed a review of the overall state of compliance with Shari'ah principles and rules. [Any differences arising due to a different regulatory Shari'ah requirement shall be reported under the other significant matters].

### *Functions relied upon*

For the purpose of forming our opinion and preparing this report, particularly for being able to conclude on the execution of contracts and transactions and implementation of Shari'ah principles and rules in day-to-day operations, we have relied extensively on the following (after due deliberation on the quality and independence of the respective functions and their reports):

- a. the report of the external Shari'ah auditor (if any);
- b. the report of the external auditor on the financial statements of the institution;
- c. the internal Shari'ah audit function and its reports as relevant to the period; and
- d. the Shari'ah compliance department's reports and other communication to the SSB.

### *Inherent limitations of the SSB function and its report*

The function of the SSB and, consequently, our report has certain inherent limitations which the readers of this report should know before forming their conclusions. These, inter alia, include:

- a. the SSB's involvement with the affairs of the institution is in an independent capacity and it has significant constraints with regard to time and resource availability. Due to this, the SSB has to place significant reliance on various functions and reports in its assessment of compliance with Shari'ah principles and rules in the day-to-day operations of the institution; and
- b. the SSB's main function is limited to the design of contracts and transactions (including Fatwa, overall approval of the documents, and process flows), while the implementation of contracts and transactions is the management's responsibility.

### *SSB's independence and ethical considerations*

We confirm that we have complied with all ethical and independence requirements, as applicable to us, during the period of report, until the date of issuance of this report [except for \_\_\_\_\_]. These requirements include those specified in relevant AAOIFI GSs<sup>7</sup> and AAOIFI Code of Ethics for Islamic Finance Professionals.

## **The responsibilities of TCWG and the management**

### *The responsibilities of TCWG*

TCWG of the institution has an oversight responsibility to ensure that an effective and robust Shari'ah compliance environment and culture exists in the institution. TCWG is responsible for the establishment of a

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<sup>7</sup> See [ED of] GS \_\_ "Shari'ah Supervisory Board: Appointment and Composition", [ED of] GS \_\_ "Shari'ah Supervisory Board: Review and Report", [ED of] GS \_\_ "Shari'ah Supervisory Board: Functions and Operations", and GS 5 "Independence of Shari'ah Supervisory Board"

good governance and control framework for the institution, the development of a strategy for compliance with Shari'ah principles and rules, and the oversight of the management in implementing the same and in achieving the desired objectives.

### ***Responsibilities of the management***

Management has the responsibility to implement the Shari'ah governance framework and to ensure that Shari'ah compliance is embedded in the day-to-day functioning of the institution. The management is responsible for ensuring that the financial arrangements, contracts and transactions having Shari'ah implications, entered into by the institution with its customers and other stakeholders, and related policies and procedures, are, in substance and in their legal form, in compliance with the requirements of Shari'ah principles and rules. Management is also responsible for the design, implementation and maintenance of appropriate internal control procedures with respect to such compliance and maintenance of relevant accounting records.

### **Other significant reporting matters**

In connection with this report, we believe that the following matters need to be brought to the attention of the stakeholders. However, these do not impact our overall opinion regarding the state of compliance of the institution with Shari'ah principles and rules. [To be judgmentally reported by the SSB, if applicable.]

#### ***Key Shari'ah non-compliance risks with weak internal controls***

- a. \_\_\_\_\_;
- b. \_\_\_\_\_.

#### ***Significant instances of Shari'ah non-compliance, identified and later resolved***

- a. \_\_\_\_\_;
- b. \_\_\_\_\_.

#### ***Key Shari'ah non-compliance issues in matters that are not part of the primary scope [e.g., administration, culture and marketing]***

- a. \_\_\_\_\_;
- b. \_\_\_\_\_.

#### ***Specific considerations related to the segregation of funds and operations, as applicable, in the case of Islamic finance windows***

- a. \_\_\_\_\_;
- b. \_\_\_\_\_.

#### ***Key observations on the overall governance and control mechanism***

- a. \_\_\_\_\_;
- b. \_\_\_\_\_.

#### ***Key differences between Shari'ah principles and rules applicable to the parent entity and those applied by subsidiaries due to the application of a different regulatory regime***

- a. \_\_\_\_\_;
- b. \_\_\_\_\_.

## Report approval and authentication

This report is duly approved and signed by all the members of the SSB, as follows. The report has been approved unanimously except for the dissenting opinion(s) provided below.

We beg Allah the Almighty to keep us on the right path and to grant us success.

	Name	Designation	Signature
1.	Sh. ABC	Chairman	_____
2.	Sh. MNO	Member	_____
3.	Sh. XYZ	Member	_____

### *Dissenting opinion [if any]*

I, \_\_\_\_\_, agree with the SSB's report in all matters (as evidenced by my signature affixed above), except for dissent based on my personal opinion with respect to the following matter(s):

- a. \_\_\_\_\_;
- b. \_\_\_\_\_.

Name and signature: \_\_\_\_\_

## Date and place of issuance of the report

[Date]

[City], [Country]

والسلام عليكم ورحمة الله وبركاته

[Note: In the event that the SSB identifies material non-compliances of Shari'ah principles and rules by the institution, the primary opinion paragraph shall be suitably modified. An illustration of the same may include the following:

Some of the contracts, transactions and dealings entered into by the institution during the year ended \_\_\_\_\_ 20XX that we have reviewed are not in compliance with Shari'ah principles and rules. These are listed below:

- a. contract X: brief summary, list of Shari'ah non-compliances, rectification or resolution;
- b. transaction Y: brief summary, list of Shari'ah non-compliances, rectification or resolution;
- c. process Z: brief summary, list of Shari'ah non-compliances, rectification or resolution; and
- d. the allocation of profit and charging of losses relating to investment accounts: brief summary, list of Shari'ah non-compliances, rectification or resolution.

On account of the above non-compliances with Shari'ah principles and rules, we cannot provide an opinion as to whether the institution's financial arrangements, contracts and transactions with its customers, other financial institutions and stakeholders for the year ended \_\_\_\_\_ 20XX were in compliance with Shari'ah principles and rules.]

## **Appendix C: Basis for conclusions**

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BC1 [To be updated later]

## Appendix D: Brief history of the preparation of the standard

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- H1 AAOIFI and Islamic Financial Services Board (IFSB) agreed to collaborate and cater to the growing needs of the global Islamic finance industry, in various areas of mutual interest. One of the significant collaboration efforts was in the area of standardisation and harmonisation of Shari’ah governance practices across the globe. The institutions collaborated to issue the exposure draft of “IFSB-AAOIFI Revised Shari’ah Governance Framework for Institutions Offering Islamic Financial Services” on 16 Ramadan 1444H, corresponding to 7 April 2022 after completing the due process.
- H2 Based on extensive feedback received from stakeholders and considering the mandates of each organisation, both the institutions mutually agreed to separately review and, where necessary, issue relevant guidance / standards on Shari’ah governance within their respective areas of focus.
- H3 AAOIFI Governance and Ethics Board (AGEB / the board) in its 32<sup>nd</sup> meeting on 12 Safar 1445H, corresponding to 28 August 2023, via video conferencing, approved the formation of a working group and the initiation of the development process of exposure drafts of six individual governance standards, primarily containing the requirements of the joint exposure draft, which were not covered elsewhere in the existing governance standards.
- H4 Following the board's approval, two working group meetings were held to discuss the draft standards on 25 Rabi’ II 1445H, corresponding to 9 November 2023 and 2 Jumada I 1445H, corresponding to 16 November 2023, respectively. The members of the working group agreed on conceptual issues and recommended the draft standards for the approval of AGEB.
- H5 AGEB held its 34<sup>th</sup> meeting on 13-14 Jumada I 1445H, corresponding to 27-28 November 2023 in Bahrain, and approved the issuance of exposure drafts of six governance standards, including this standard. The board directed the secretariat to incorporate the necessary changes in light of the comments of the AGEB members and the discussions during the meeting. The board further approved a fast track due process for finalisation and issuance of these standards duly taking into account the effort and stakeholders’ feedback already incorporated in these standards.
- H6 After incorporating the board’s comments and necessary changes, this exposure draft was issued on 12 Jumada II 1445H, corresponding to 25 December 2023.