

# LEARNING OBJECTIVE

### At the end of the topic, you will be able to:

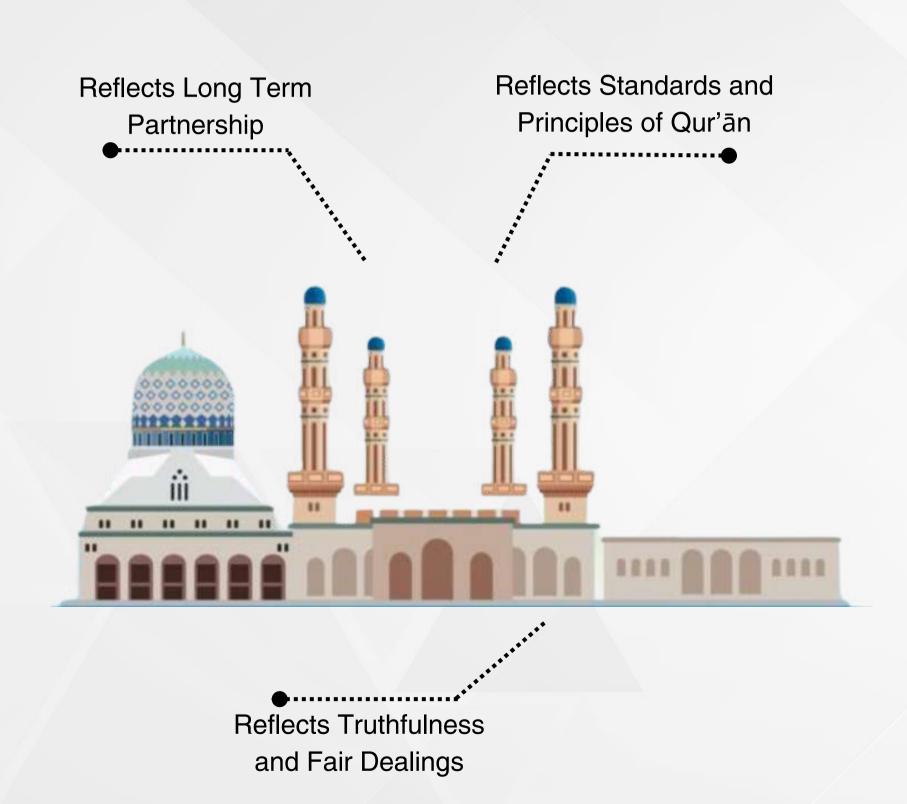
- Describe the principles and key elements in the implementation of Islamic ethics (*akhlaq*) in Islamic finance.
- Understand Islamic Financial Institution's duty on Shariah Compliance.
- Describe the establishment of justice and elimination of exploitation in Islamic finance.

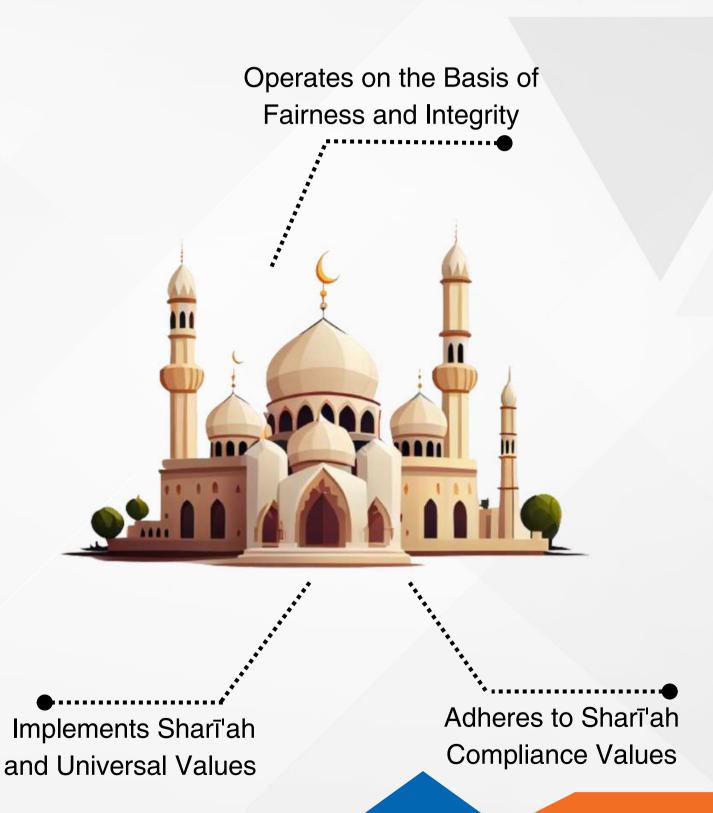




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Principles and Standards in the Implementation of Islamic Finance









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Reflects Standards and Principles of Quran



Every Muslim Must Follow the Quran in Every Aspect of their Lives

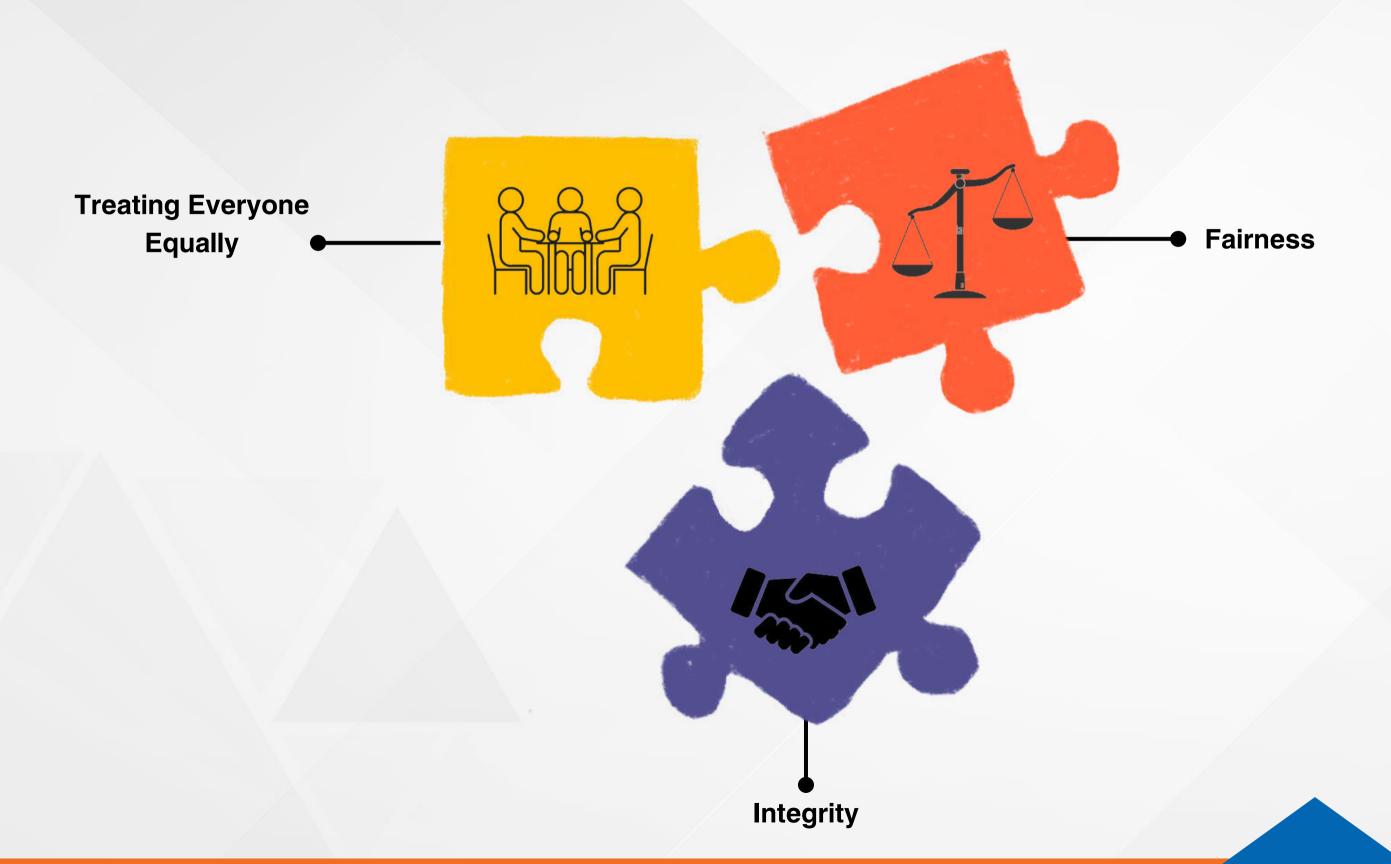
**Islamic Ethical System** 





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Operates on the Basis of Fairness and Integrity







Reflects Long Term Partnership

**Mutual Interest** 



A Spirit of Cooperation





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Reflects Truthfulness and Fair Dealings



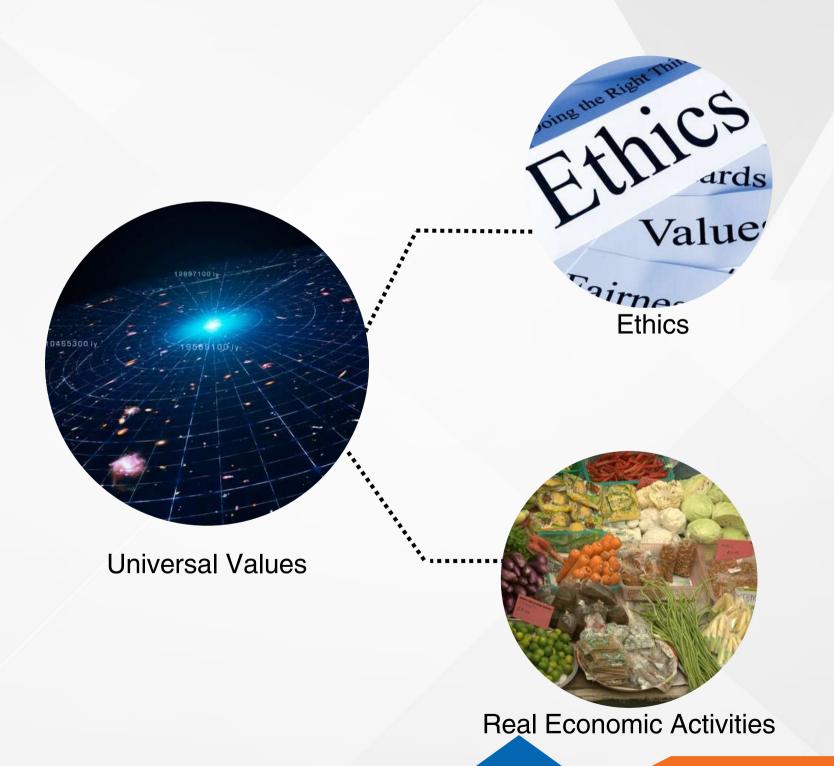




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Implements Shariah and Universal Values









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### Implements Shariah and Universal Values



Partnership/Trading



Governance

### Ethics

- Prohibition of unethical elements, practices and activities such as hoarding
- Prohibition of gambling (maysir), usury (riba'), oppression (zulm)
- Emphasize on fairness and justice
- Screening investment
- Tolerance for customers in difficulty





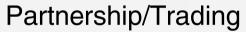




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### Implements Shariah and Universal Values







Governance

### Partnership / Trading

- Equity-based/debt-based
- Different contractual relationships
- Risk and reward sharing which helps ensure greater market discipline
- Visibly defined risk and profit-sharing features serve as additional built-in mechanisms.









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### Implements Shariah and Universal Values



Partnership/Trading



Governance

### Governance

- Greater transparency and disclosure (e.g. additional Shariah governance and unique risk specific to Islamic finance)
- Greater fiduciary duties and accountability
- Emphasis on clear documentation and contract add to soundness and stability





Real Economic Activities





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### Implements Shariah and Universal Values



Partnership/Trading



Governance

### **Real Economic Activities**

- Direct link to real economy
- Money is just a medium of exchange and not a commodity
- Certainty-supported by underlying activities (prohibition of *gharar* which involves uncertainty, ambiguity, misinformation or deceit and fraud)
- Prohibition of excessive leverage





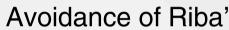
Real Economic Activities





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### Adheres to Shariah Compliance Values





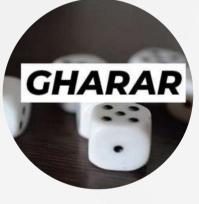
Avoidance of Maysir



Avoidance of Gharar

**Conclusion of Contract** 

by Mutual Consent



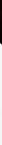
SAC Complied with

Shariah Compliance **Values** 





Avoidance of Transaction involving **Prohibited Activities** 





Shari'ah Complied with



SC Complied with





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Why Islamic Financial Institutions are More Resilient in Times of an Economic Crisis?



Economic Slowdown



Strong Economic Activities





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Why Islamic Finance Industry Prove to be Resilient in Economic Crisis?







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**Definition of Corporate Governance** 

# CORPORATE GOVERNANCE



Objectives for the company are set



Process of managing performance to achieve the objectives



Method of monitoring achievement of the objectives





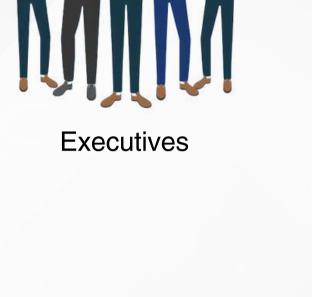
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Corporate Governance in Large Public Companies





Corporate Governance: Behavior of Large Public Companies





Board of Directors/ Senior Executives

### **Key Issues in Corporate Governance**

01	The Roles and Responsibilities
	of the Board of Directors

Transparency and Provision of Information to Stakeholders, particularly to Shareholders

The Structure and Composition of the Board of Directors

Reliability of the Published Financial Statements

The Responsibilities and Duties of Individual Directors

The Effectiveness of the Company's Systems of Internal Control and Risk Management

The Relationship between the Board of Directors and the Shareholders

Remuneration Incentives for Senior Executives





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The Roles of Corporate Governance







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### Code of Corporate Governance (MCGC) by Securities Commissions (SC)

The Board should ensure that financial statements of the company are reliable.

The Board should have policies and procedures to ensure the effectiveness of independent, nonexecutive directors (NEDs).



The Board should establish sound systems of risk management and internal controls.

The Board should strengthen the composition of its members and should have clear policies for the selection of new Board members.



The Board should establish clear roles for discharging its leadership function



The company should establish corporate disclosure policies to ensure timely disclosure of comprehensive and accurate information.



The Board should facilitate the ownership rights by shareholders





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### **BNM Guidelines on Corporate Governance**

"A process and structure used to direct and manage the business affairs of the banks and financial institutions towards enhancing business prosperity and corporate accountability, with the ultimate objective of realizing long term shareholder value whilst talking into account the interests of the stakeholders."





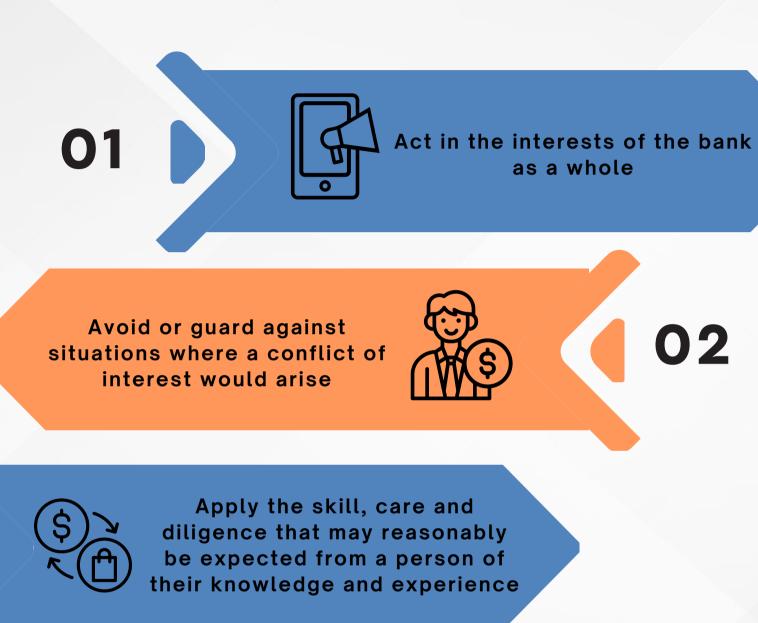




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**BNM Guidelines on Corporate Governance: Directors** 

Roles and
Responsibilities of
the Directors



Directors should abstain from any discussions or decision making by the board, where a conflict of interest or potential conflict of interest arises.

03



04



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**BNM Guidelines on Corporate Governance : Directors** 

Roles and
Responsibilities of
the Directors



The Board should strengthen its composition of members and should have clear policies for the selection of new Board members



02

03



The Board should have policies and procedures to ensure the effectiveness of independent non-executive directors (NEDs)

The Board should ensure that financial statement of the company are realiable



04



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BNM Guidelines on Corporate Governance: Board

Roles and
Responsibilities of
the Boards



The Board should establish procedures to avoid self-serving practices and conflicts of interest

\$

The Board should ensure that management implement policies that prevent conflict of interest situations, corruption, bribery, and providing of preferential treatment to related parties (such as close family members)



The Board should also approve a set of ethical corporate values, preferably in the form of a code of conduct, which is communicated throughout the bank. These values should stress the importance of accountability, professionalism and integrity



The Board must provide effective oversight of management.

Normally, this means that there should not be more than one executive director on the board of a bank or financial institution.

All other Directors should be Non-Executive Director and at least one-third of the board should consist of independent



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BNM Guidelines on Corporate Governance: Board

Roles and
Responsibilities of the Boards

The Board sh composition of me clear policies for the m

The Board should establish clear roles for discharging its leadership function

The Board should strengthen its composition of members and should have clear policies for the selection of new Board members

The Board should have policies and procedures to ensure the effectiveness of independent non-executive directors (NEDs)



The Board should ensure that financial statement of the company are reliable





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### Corporate Code of Conduct, Code of Ethics and Corporate Culture



Governs the ethical behavior of the employee (whether someone is watching or not)



Set of ethical values that characterizes a company or a part of company (department), that all employees tend to consider acceptable.

CORPORATE

CULTURE



# BANK NEGARA MALAYSIA'S SYARIAH GOVERNANCE POLICY



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Bank Negara Malaysia: Shariah Governance Policy for IFIs



Enhancing the role of the board, the Shari'ah Committee and the management in relation to Shari'ah matters



Enhancing the relevant key components in order to execute the *Shari'ah* compliance and research functions aimed at the attainment of a *Shari'ah*-based operating environment.



# BANK NEGARA MALAYSIA'S SYARIAH GOVERNANCE POLICY

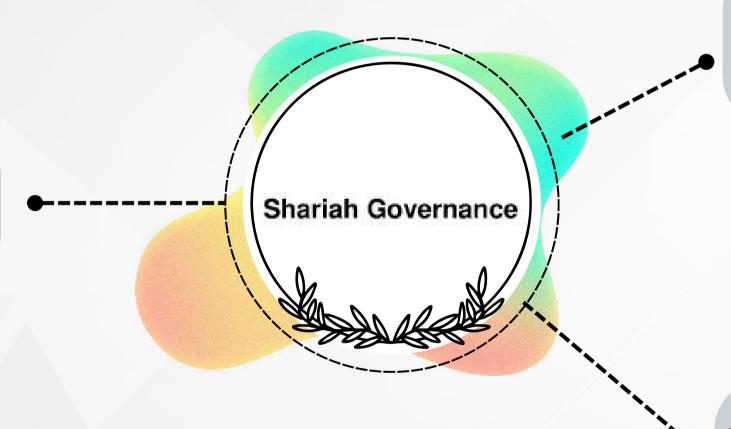


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Bank Negara Malaysia: Shariah Governance Policy for IFIs

Control functions under Shariah governance covering Shariah risk management, Shariah review and Shariah audit.





Comprehensive guidance to the Board, shariah Committee and the Senior Management of the IFIs in discharging duties relating to Shariah.

Strengthened expectations for effective
Shariah governance arrangements that are
well-integrated with business and risk
strategies of the Islamic financial
institutions.



### BANK NEGARA MALAYSIA'S SYARIAH GOVERNANCE POLICY



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Corporate Governance in Malaysia: Legalised Duties of IFIs

Ensure it aims, operations, business, affairs and activities are in compliance with Shariah at all times

Compliance with rulings of Shari'ah Advisory Council





Backed by comprehensive enforcement tool

**Islamic Financial Institutions (IFIs)** 

Report obligations on non-Shari'ah compliances imposed on Islamic financial institutions



Assess rectification plan to address non-compliances





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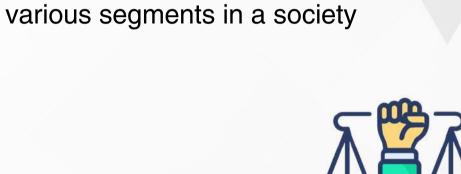
Justice from the Islamic Economic Perspective



Fair dealing with all and keeping a balance







Keeps people in their right places

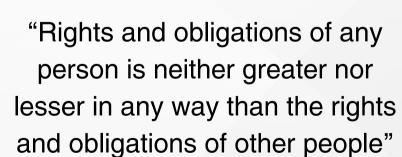
and cements force between







"Whoever believes in Allah SWT has to be just with everyone, even with enemies"









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Justice from the Islamic Economic Perspective

No one can take the property of others wrongfully



Business rights an obligations of any person is neither greater nor lesser in any way than the rights and obligations of other people

Inviolability of the rights of human beings in all the three categories: person, property and honour





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Justice According to the Quran



"... O you who have believed, be persistently standing firm for Allah, witnesses in justice..." (Quran, Surau al-Maidah, Verse 8)

"O you who have believed, be persistently standing firm in justice, witnesses for Allah, even if it be against yourselves or parents and relatives." (Quran, Surah an-Nisa', Verse 135)

"...And do not consume one another's wealth unjustly or send it (in bribery) to the rulers in order that (they might aid) you [to] consume a portion of the wealth of the people in sin, while you know [it is unlawful]." (Quran, Surah al-Baqarah, Verse 188)





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The Emphasis of Justice in Islamic History



Deep Sense of Justice and Equality

Norms and Good Practices Stem from the Overall Principles of Fair Play and Justice.







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Justice: Prohibitions, Ethics and Norms



