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A Comparative Analysis of Shariah Governance Framework of Islamic Bank in Malaysia and Pakistan

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ABSTRACT

The aim of this paper is to investigate the differences between the contemporary Shariah governance frameworks of Malaysia and Pakistan. The study also examines the ways in which the Shariah governance frameworks of both countries can complement each other. This research concludes that the SGF principles of both countries under discussion abide by the AAOIFI and IFSB guidelines regarding SGF. Many aspects of the SGF of Malaysia are similar to the SGF of Pakistan. For example, both structures need to further develop the ethical aspect. While the similarities are plentiful, a few differences can be found between the two as well. This research provides insights to policy makers, regulators, and practitioners on approaches in governance policy and an assessment of the governance scope adopted by Malaysia and Pakistan via their respective SGFs. The SGFs have also been assessed for their conformance to international standards, including the AAOIFI and the IFSB.

Keywords:
AAOIFI, IFSB, Kerangka Tata Kelola Syariah

ABSTRAK

Analisis Komparatif Kerangka Tata Kelola Syariah Bank Islam di Malaysia dan Pakistan. *Penelitian ini menyelidiki perbedaan antara kerangka tata kelola syariah kontemporer di Malaysia dan Pakistan. Studi ini juga mengkaji bagaimana kerangka tata kelola syariah kedua negara dapat saling melengkapi. Penelitian ini menyimpulkan bahwa prinsip-prinsip SGF kedua negara yang dibahas mematuhi pedoman AAOIFI dan IFSB tentang SGF. Banyak aspek SGF Malaysia mirip dengan SGF Pakistan. Misalnya, kedua struktur perlu mengembangkan elemen etika lebih lanjut. Meskipun banyak kesamaan, beberapa perbedaan juga dapat ditemukan di antara keduanya. Penelitian ini memberikan wawasan kepada pembuat kebijakan, regulator, dan praktisi tentang pendekatan dalam kebijakan tata kelola dan penilaian ruang lingkup tata kelola yang diadopsi oleh Malaysia dan Pakistan melalui SGF masing-masing. SGF juga telah dinilai kesesuaiannya dengan standar internasional, termasuk AAOIFI dan IFSB.*

INTRODUCTION

Islamic Financial Institutions (IFIs) have been deemed a total equivalent of the modern financial system and exhibit impressive development worldwide. During their fifty years of service to around one hundred countries, Islamic Financial Institutions have intensely concentrated on moral and ethical perspectives. Its consistent growth has persisted through the turmoil and application of the most recent global financial crisis and has demonstrated its magnificent moral application (Zeti, 2009). This is because it is founded on ethical grounds.

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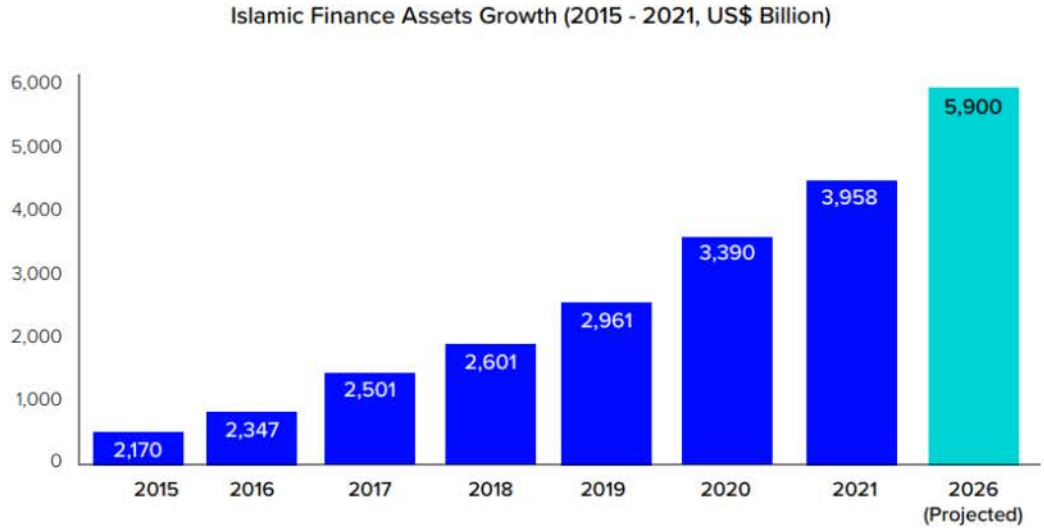
According to the Islamic economic development report (2022), global Islamic finance assets were valued at $4.0 trillion in 2021 and are projected to increase to USD 5.9 trillion by 2026.

Islamic banking is based on the principles of the Shariah. Islamic banks are distinguished from their conventional counterparts by their stringent adherence to Shariah rules. For this reason, a solid Shariah governance framework (SGF) is necessary to reduce the likelihood of non-compliance. A systematic strategy for addressing Shariah non-compliance risks is essential to maintain public trust in the Shariah compliance of Islamic banking products. The Islamic banking industry is expected to continue to expand as customers, particularly devout Muslims, continue to support Islamic financial institutions. Different countries have different SGFs. To supervise and monitor the governance structures, processes, and arrangements of their local Islamic banking institutions, countries including Bahrain, the United Arab Emirates (UAE), Saudi Arabia, Kuwait, Indonesia, Pakistan, and Malaysia have formed their own Shariah governance frameworks (Shaharuddin, 2011).

The reason for selecting Pakistan and Malaysia is due to the importance of both countries in terms of Islamic finance scope, potential, and expansion as stated by Kasim et al. (2013) that Malaysia has taken drastic initiatives to become the Islamic banking and finance hub specifically for Southeast Asia countries.

Similarly, considering the updated version of the SGF of Islamic banks of Pakistan, which was recently issued in 2018, and the large size of Islamic finance in Malaysia, motivates this study.

For the last two decades, Islamic banks have rapidly grown and developed globally. As can be seen in the chart below:



Source: Thomson Reuters, Islamic finance development report 2022

However, Islamic banks, as part of the Islamic business organizations, must ensure Shariah-compliant activities in their operations. This can only be done with a robust Shariah governance framework. The term "governance" is frequently used to refer to a company's management, oversight, and accountability. Because "governance" encompasses many economic events, no agreed-upon definition exists. According to encyclopedias and textbooks on business, it is "the body of rules, regulations, and other variables by which a company's activities are governed" (Rezaee, 2009). The term "corporate governance" was coined in the December 1992 report of the Cadbury Committee (Cadbury Committee, 1992).

Shariah Governance refers to the corporate governance rules that govern Islamic financial institutions. Shariah governance is defined by the Islamic Financial Services Board

(IFSB) as the system of checks and balances in place to ensure that Islamic financial services, such as Islamic banking products and operations, are conducted in line with Shariah principles (Muneeza, 2013). To promote honesty, integrity, transparency, accountability, and responsibility among all members of an organization, excellent corporate governance within the Islamic paradigm is currently regarded as crucial. Since many of the ideas in use today originate from Islamic law, there has been an increase in the popularity of Islamic corporate governance (Hassan, Shanmugam, & Perumal,2005).

Shariah governance is the framework to ensure that Islamic financial organizations adhere to the religious law governing monetary transactions (Ginena & Hamid, 2015). These mechanisms are essential for establishing the rule of law and the administration of justice in an Islamic financial system, maintaining market discipline, promoting standardization, and enacting laws that take Shariah considerations into account. Compliance with Shariah principles is ensured in Islamic banks via sound Shariah governance. This highlights one of the key distinctions between traditional corporate governance and Shariah governance. Therefore, a Shariah board or committee is necessary for Shariah governance, with the duty of directing, supervising, and reporting on the bank's Shariah compliance.

Previous research has been done on SGF and its element of Shariah review and Shariah audit (Bahari & Baharudin, 2016), and another research has been conducted on the practices of SGF in Islamic banks (Fatmawati et al., 2022). However, this study covers the comparative investigation of the Shariah governance framework of Pakistan and Malaysia. After a critical assessment of the SGF of both countries, the study will put forward a valuable suggestion and contribute to the literature on Islamic finance on this crucial aspect. The reason for selecting Pakistan and Malaysia is due to the importance of both countries in terms of Islamic finance scope, potential, and expansion. Similarly, considering the updated version of the SGF of Islamic banks of Pakistan, which was recently issued in 2018, and the large size of Islamic finance in Malaysia, motivates this study.

The remaining part of the paper is structured as follows: Section 2 presents the literature review of the facts of governance and Shariah governance. Section 3 describes the governance principles of AAOIFI. Section 4 covers the SGF of Malaysia and its principles and presents the illustration of SG under IFSB. Section 5 comprises the SGF of Pakistan and its principles. Section 6 analyses the differences both the SGFs. Section 7 contains the discussion, and section 8 covers the conclusion.

LITERATURE REVIEW

A brief overview is provided in this section to highlight the fact of the governance and Shariah governance. It also describes the four pillars of Shariah governance: management and supervision, advisory board, compliance and review, transparency, and disclosure. There is significant literature available on the subject. However, comparative study has yet to be done between Pakistan and Malaysia's contemporary Sharia governance framework (Alam et al., 2021).

Aziz and Faizal (2012) define governance as an organization's framework to protect its mechanisms and ensure that they adhere to the established rules, standards, strategies, and processes. Good governance is characterized by the presence of a reliable risk management system, as well as by other desirable characteristics such as openness, fairness, responsibility, accountability, and independence. When a company is run, regulated, and managed under well-thought-out risk management policies, processes, corporate regulations, rules, and laws, we call this "good governance" or "corporate governance."

Since the advent of Islamic banking, Shariah law has become increasingly universal. However, businesses that show signs of expansion and concern the public good need to abide by certain norms and regulations. Because of Islamic finance's rapid development, IFIS must be subject to rules based on clear, enforceable standards that can trigger red flags when there's a risk of Shariah violation. In addition to protecting investors' and other stakeholders' interests, the standard of Shariah governance is essential for retaining the confidence of customers of Islamic financial institutions in the IBF. A genuine and solid Shariah governance model based on Islamic law principles is necessary for Islamic financial institution regulators to address the Shariah regulatory concerns essential for the industry to reach a particular level of maturity (Chowdhury & Shaker, 2015).

A Shariah-compliant Islamic financial institution (IFI) is the only legal justification for its existence; hence Shariah governance applies to IFIs. The four pillars of Shariah Governance will be covered in the following sections of this article. Shariah governance is supervised by a Shariah board or a specialized internal Shariah review department reporting to the board of directors (Alam et al., 2019).

According to the IFSB exposure draft of guiding principles on the Shariah governance system 2009 (IFSB-10), an IFI's Shariah governance system is its institutional and organizational framework for monitoring Shariah compliance (Hasan, 2009). Islamic finance is based on Shariah principles and is practiced by the tenets, conditions, and regulations set out by Shariah. The general public and the financial markets would feel more comfortable with Islamic finance practices if they were in full accordance with Shariah. Bank Negara Malaysia places a premium on observing Shariah in all aspects of the Islamic financial sector (BNM,2010). As a result, on January 1, 2011, the Central Bank of Malaysia (Bank Negara Malaysia) implemented the "Shariah Governance Framework for Islamic Financial Institutions" (SGF). The recommendations serve as a road map for Islamic financial institutions (IFIs) to establish a strong Shariah governance and to reinforce regulators' high standards for IFIs' governance structures (Mihajat, 2019).

It is widely held that political backing is the primary factor in promoting Islamic finance in any country. To succeed, Shariah governance must be supported by an open and inclusive regulatory and supervisory structure. One could reasonably refer to Shariah governance as the Islamic financial sector's "brain" (Aziz & Faizal, 2012). It's a comprehensive framework for ensuring economic dealings adhere to Islamic law. Shariah governance is necessary to ensure that an Islamic financial system and markets function as intended. The following are considered to be the four cornerstones of a complete Shariah-based form of government:

1. Management and supervision

Management is the first pillar of Shariah Governance and Board of directors (BOD) comes first in the management. BOD, senior management and organizational structure show complete set of behavior within the organization. The success of any entity, specifically the IFI, entirely depends on willingness of the management to adopt and implement Islamic principles in the organization. The provision of adequate resources, system procedures, infrastructure and code of ethics for acceptance of business and its legitimacy according to Shariah governance entirely depends on the management. Providing proper policies and system will be inadequate if they are not implemented and supervised positively. For better results, bare minimum requirements for management may be prescribed by the regulators, which may include fit and proper criteria for the BOD and senior management, Duties and responsibilities of the Shariah Board/Advisors, Shariah risk management policies containing a systematic approach to identify, measure, treat and monitor Shariah non-compliance risk.

2. Shariah Advisory Board

3. The second tenet of Shariah governance is appointing an independent Shariah advisory board or advisor. Ideally, the Shariah Board will have two levels: one at the regulatory level, the central Shariah Advisory Body, and another at the internal status of the IFI, the In-house Shariah Advisor/Board.
4. Shariah Compliance and Review

The third essential component of the Shariah Governance Model is ensuring and reviewing adherence to Shariah principles. The adequacy of internal controls is regularly reviewed from a Shariah perspective. With the goals of ensuring compliance and cultivating a culture of knowledge about the risks associated with noncompliance with Shariah, an internal Shariah audit department is to be established under the internal audit committee of the Board.

5. Transparency and Disclosure

In the Shariah Governance Model, transparency and disclosure are the fourth and fifth pillars. The cost of financing, a company's reputation, the decisions of investors, and the value of its stock are all significantly impacted by its level of openness and disclosure. People who have a financial stake in a firm, such as shareholders and the general public, want accurate and up-to-date information about it so they may make informed investment decisions. There are two main categories of data: financial and non-financial. When the public has access to accurate information about the company's operations, its stock price rises, and it becomes easier for the company to raise money from the public or financial institutions (Arshad et al., 2020).

The SGF applies to all Shariah committee members, licensed banks, licensed investment banks, licensed takaful operators, licensed re-takaful operators, licensed Islamic banks, licensed takaful operators, licensed banks, licensed investment banks, and authorized re-takaful operators. The significance of the board of directors in recognizing the Shariah Committee's independence is highlighted, as is the importance of the Committee's independence in assuring the quality of Shariah-compliant decision-making. Maintaining public faith in the stability and reliability of the Islamic financial sector is the ultimate objective of this system (Malaysia, BNM 2017).

Since adhering to Shariah principles is essential, Islamic financial institutions must have a robust Shariah compliance system to reassure customers that their goods and services align with Shariah principles. The State Bank of Pakistan (SBP) is dedicated to preserving Shariah compliance in Islamic Banking Institutions' (IBIs) activities. Using its IBD Circular No. 2 from 2008, the State Bank of Pakistan issued detailed guidelines and procedures for ensuring Shariah compliance. In light of recent developments in the Islamic banking sector, however, the rules and regulations governing the industry have been revised, and a comprehensive Shariah Governance Framework was first established in 2015 before being subjected to a thorough assessment in the present day (Nordin et al., 2020). All Islamic financial institutions (IBIs), including standalone Islamic banks, Islamic banking arms of conventional banks, and Islamic banking subsidiaries, will find relevance in the Outline. The agenda's primary purpose is to bolster IBIs' general Shariah compliance climate by outlining the duties of various IBI structures, such as the Board of Directors, the Executive Management, the Shariah Board, the Shariah Compliance Department, Product Development, Internal Auditors, and External Auditors (SBP,2018).

The Board of Directors, Board Risk Management Committee, Board Audit Committee, Management, and Shariah Committee are the essential stakeholders in Shariah Governance. To back them up, there are four critical operations: the Shariah Risk Management Control Function, the Shariah Review Function, the Shariah Research Function, and the Shariah Audit Function. To this end, the Shariah Committee is crucial in advising the Board of Directors on matters of Shariah compliance, including those on policy and operations. The Shariah Committee relies on input from all departments, and the other major parties are expected to

consult it when making Shariah-compliant decisions (Muhammad, 2018). There needs to be research comparing the modern (2018) Shariah governance frameworks in Pakistan and Malaysia.

METHODOLOGY

The exploratory research method is applied within Islamic banking and finance to assess the Shariah Governance Framework of Malaysia and Pakistan based on the study of (Chowdhury & Shaker (2015). In this regard, numerous relevant articles are reviewed featuring Shariah governance practices by Islamic financial institutions, which is also discussed in the literature review. However, a comparative study method is also applied in this study (Della Porta, 2008) to understand the differences between the Shariah governance practices of Islamic banks in Malaysia and Pakistan. After conducting a comparative analysis of both countries' Shariah governance frameworks (SGFs), their results are used to conclude the differences in the approaches to SGFs in Malaysia and Pakistan. The information was also obtained from the official circulars and the statement on Shariah governance issued by the central banks of Malaysia and Pakistan.

Additionally, in this paper, general, specific, classical, and modern texts are also used. General texts refer to primary sources, such as scholars' classical and scholarly works. The particular texts refer to the opinions and views of contemporary scholars, academic articles, and papers.

THE GOVERNANCE PRINCIPLES OF AAOIFI

AAOIFI claims that good governance standards are crucial for a company's safe and secure operation. Having little faith in the financial system can have far-reaching consequences for the economy and society. The public has more faith in a financial organization that has developed solid governance standards, and this confidence is reciprocated by the equity holders, investors, and anybody else who deals with the institution. More robust Shariah compliance frameworks are anticipated to result from improved governance procedures within IFIs. Presented in the table1 are the AAOIFI-established guidelines for corporate leadership.

Table 1: Principles of Governance Set by AAOIFI

No	Principle	Description
1	Effective Shariah compliance structures.	An Islamic financial institution must put in place a reliable system to guarantee adherence to Shariah principles. The effectiveness of the Board of Directors, the Shariah Supervision Board, management, and auditors in ensuring Shariah compliance should all be addressed within such a framework.
2	Fair treatment of equity holders	In order for equity holders to make informed decisions about their investment in an IFI, the institution must grant them voting rights, give them ample opportunity to have a dialogue with the institution, allow them to select members of the governing BOD and SSB, and ensure fair disclosure of financial and banking practices adopted.

3	Equitable treatment of fund providers and other significant stakeholders.	It is important for an IFI to treat its investors, creditors, and other stakeholders fairly and impartially, as well as to supply them with sufficient financial and non-financial data to make informed decisions about their dealings with the IFI.
4	Fit and proper conditions for board and management	An IFI should establish guidelines for the selection of board members, supervisory board members, and senior management.
5	Effective oversight	The Board of Directors (BOD) shall promote a culture inside the IFI that is Shariah-compliant through effective leadership, direction, and monitoring of the implementation of its policies.
6	Audit and governance committee	Financial reporting, internal controls, internal audit oversight, external audit oversight, and Shariah compliance should all fall under the purview of an IFI's audit and governance committee, whose role and responsibilities should be specified in appropriate terms of reference.
7	Risk management	Boards of Directors of IFIs need to be involved in determining risk tolerance and implementing methods and procedures to monitor and control exposure to danger.
8	Avoidance of conflicts of interest	An IFI's Board of Directors (BOD), Supervisory Boards (SSBs), management and employees, and all third parties (including external auditors, rating agencies, and other parties with extensive transactions with it) should have adequate governance mechanisms in place to prevent conflicts of interest.
9	Appropriate compensation policy oversight	An IFI's Board of Directors, Supervisory Compensation Board, and management team all need to be compensated fairly. It is important that compensation policies be created in an impartial and open manner.
10	Public disclosures	Maintaining high levels of transparency and market discipline is essential for an IFI to gain the trust of shareholders and other stakeholders. This includes owners, investment account holders, other counterparties, regulatory, Zakah, and other associated organizations. Measures of financial and non-financial performance should be reported as accurately, adequately, quickly, and fairly as possible.
11	Code of conduct and ethics	To encourage a high standard of ethics and accountability among its Board of Directors, Supervisory Board, management, and staff, an IFI should implement policies and processes in line with Shariah.
12	Appropriate enforcement of governance principles and standards	The principles and standards on governance should be adhered to and monitored by a system within the IFI.

Source: Shariah standards for Islamic financial institutions AAOIFI (2017)

SHARIAH GOVERNANCE FRAMEWORK OF MALAYSIA

Common law and Shariah are recognized inside the Malaysian legal system, making it a hybrid (Hasan, 2009). The civil court uses the concepts of common law in practically all cases. In contrast, Islamic law is solely applied in Shariah courts and concerns itself exclusively with questions of family and inheritance.

The SAC's influence has been expanded because of a change to the Central Bank of Malaysia Act 2009. Numerous contentious court decisions involving IFIs prompted the BNM to initiate the CBA's passage in July 2009. Shariah is the basis for the SAC's governance structure, outlined in Section VII, Sections 51–58. With the passage of this new law, the SAC's position as the supreme authority in Islamic banking, finance, and Takaful is solidified. Also, it makes it clear that both the court and arbitration must adhere to the SAC's rulings and Shariah pronouncements. This crucial change has clarified the status of the Shariah judgment as the binding force in Islamic banking, finance, and Takaful affairs (Hasan, 2009).

Despite the new change in the law, it is essential to remember that the Shariah board of the Securities Commission remains beyond the purview of the CBA. Under Article 377 of the Capital Markets and Services Act 2007, the Securities Commission of Malaysia published the Registration of Shariah Advisers Guidelines in August 2009. The Securities Commission is responsible for regulating and supervising the financial services industry, and this Guideline details the regulations and procedures for registering Shariah advisers in this capacity (SC, 2009). IFSB illustrate the Shariah governance system as presented in table 2:

Table 2: Shariah Governance System Illustrated by IFSB

FUNCTIONS	TYPICAL FINANCIAL INSTITUTION	ADDISTIONS IN IIFS (Institutions offering Islamic financial services)
Governance	Board of directors	Shariah board
Control	Internal auditor External auditor	ISRU (Internal Shariah Review Unit)
Compliance	Regulatory and financial compliance offices, unit or department	ISCU (Internal Shariah Compliance Unit)

Source: IFSB. (2009). Guiding principles on Shariah governance systems for institutions offering Islamic financial services.

Coming back to the SGF issued by BNM, SGF states the following principles to implement a Shariah Governance Framework at an Islamic financial institution which are presented in table 3 (Mizushima, T., 2014). Corporate Governance and Shariah Governance at Islamic Financial Institutions.

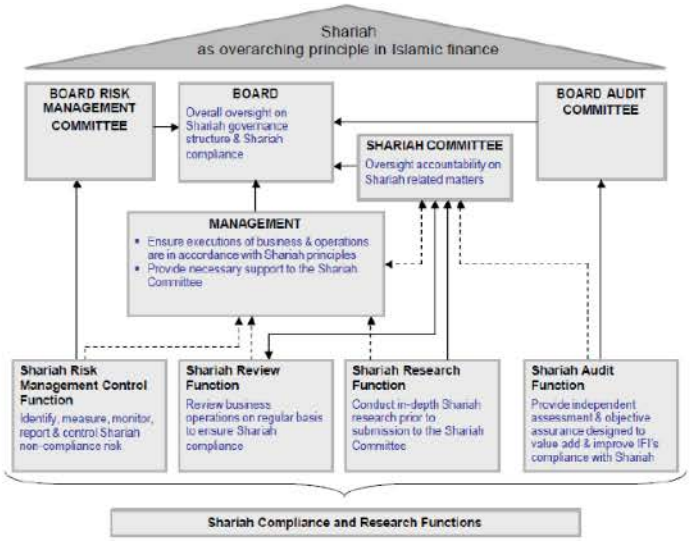
Table 3: Principles to Implement a SGF Issued by BNM

Principle 1	An IFI has the responsibility and duty to establish a robust Shariah governance framework, with special focus on the certification of the effective application of the Shariah governance outline's essential features.
Principle 2	When implementing a Shariah governance framework, an IFI must define the roles and responsibilities of all essential personnel.
Principle 3	The Shariah Committee must be allowed to function independently at all times so that it can make fair and impartial decisions.
Principle 4	Those charged with carrying out duties under an IFI's Shariah governance structure need to be knowledgeable and skilled in the relevant areas of Shariah law and practice, as well as up-to-date on the latest developments in Islamic finance.
Principle 5	Members of the Shariah Committee have an obligation to maintain the confidentiality of and not misrepresent any proprietary or secret information they may obtain in the course of their duties.
Principle 6	Consistency with Shariah law requires the highest levels of professionalism, discretion, and ethics.
Principle 7	A risk management control procedure and in-house research capability will be necessary for a robust Shariah compliance function that includes evaluation and review functions.

Source: Mizushima, T. (2014). Corporate Governance and Shariah Governance at Islamic Financial Institutions.

The following diagram, provided by BNM's SGF, overviews the prerequisites mentioned above. The graphic demonstrates how Shariah governance is a superior concept for operating Shariah banks and a comprehensive one. The Shariah framework of governance ensures that the bank is responsible before God Bank (Negara Malaysia 2010).

Figure 1. Shariah Governance Framework Model for Islamic Financial Institutions



Source: Bank Negara Malaysia (2010)

Each of the four subcommittees depicted in the preceding diagram—the Shariah committee, the board risk management committee, Management, and the board audit committee—reports directly to the BOD. The Shariah Review (SR) must report to the Shariah Committee and Management. Both the audit and Shariah committees of the board should be updated on the results of the Shariah audit (SA). The Shariah committee and Management should get updates from the Shariah research function. Lastly, the Shariah risk management control function will update Management and the board's risk management committee. Based on the existing state of affairs, it is clear that the Shariah Governance Framework Model (SGFM) is an all-encompassing system that will guarantee all Islamic financial institutions in Malaysia operate under Shariah.

Overall, Bank Negara Malaysia is in charge of policing the country's banking sector, while another agency known as the Securities Commission (SC) keeps an eye on and controls the country's stock exchange. Additionally, the Financial Services Act of 2013 (FSA 2013) governs conventional banks, while the Islamic Financial Institutions Act of 2013 (IFISA 2013) governs Islamic financial institutions. In addition, the Shariah Advisory Council (SAC) at the Bank Negara Malaysia (BNM) is the country's highest authority on Shariah matters about Islamic finance. A separate body, the Shariah Committee, advises Islamic financial institutions on their day-to-day business practices.

SHARIAH GOVERNANCE FRAMEWORK OF PAKISTAN

Pakistan was an early adopter of Islamic banking at the national level in the 1970s; nevertheless, the industry has grown slowly due to consumer doubts about its legitimacy, which regulators now appear eager to address. However, the central bank has released a five-year strategy that includes legislation reforms, product incentives, and directives for market participants to promote Islamic finance. To achieve this goal, the State Bank of Pakistan drafted new governance regulations outlining the responsibilities of Islamic bank management and Shariah experts in determining whether or not the bank's actions and products align with Islamic law (Hamza, 2013).

To maintain Shariah governance, Pakistan's primary regulatory body, the State Bank of Pakistan, established a national Shariah board in 2003. There is a legal need in Pakistan for Islamic financial institutions to hire a Shariah expert to oversee their operations. The Shariah advisory board of an Islamic bank now has access to the appropriate standards set by SBP. Regarding Shariah compliance in Islamic financial institutions, SBP released comprehensive instructions and guidelines in 2008. These instructions and policies cover every aspect of a strong compliance strategy. These principles have been expanded to include the fundamentals of Islamic financial practices. In addition, AAOIFI Shariah standards may be used in place of SBP necessities when they are not readily available (Akbar, 2014).

For Islamic financial institutions, God's approval is paramount, hence the importance of Shariah governance. Shariah compliance is the primary focus of the principles of Shariah governance. The best way to implement a Shariah governance system is to establish an internal control mechanism to ensure Shariah observance. Scholars must now meet central bank-established qualifying standards before being appointed to a bank's Shariah board, where they will serve renewable three-year terms. They can work for up to three Islamic banks in Pakistan simultaneously. Islamic financial institutions' management must comply with Shariah boards' rulings, and conflicts must be taken to the central bank's Shariah board for settlement. Shariah board members must reside in Pakistan and can only advise one Islamic bank. A yearly Shariah audit of the bank's operations is also needed, along with a report written in a format established in cooperation with the Institute of Chartered Accountants of Pakistan (Fatmawati et al., 2022).

The primary goal of the Framework is to strengthen the overall Shariah compliance environment of IBIs by defining the roles and responsibilities of the various organs of IBIs, such as the Board of Directors (BOD), Executive Management (EM), Shariah Board (SB), Shariah Compliance Department (SCD), Product Development (PD), internal auditors, and external auditors, regarding Shariah compliance.

The State Bank of Pakistan's SGF provides a basic set of guidelines for establishing a Shariah Governance Framework within an Islamic bank, (SBP, 2018). Shariah Governance Framework for Islamic Banking Institutions. As outlined in Table 4.

Table 4: Principles to Implement SGF Issued by State Bank of Pakistan

Principle 1	A reliable process by which the BOD can monitor the Islamic Banking Institute's (IBI) adherence to Shariah standards.
Principle 2	Accountability of IBI leadership and personnel for carrying out the Framework.
Principle 3	A Shariah board (SB) is an independent and operative SB selected as per Fit and Proper Criteria (FAPC) set out in Annexure-A of this Framework, with one of its members occupied as Resident Shariah Board Member (RSBM) to supervise the actions and processes for implementation.
Principle 4	It is the job of a SCD to help an SB and act as a go-between with the IBI's administration.
Principle 5	The SB and BOD of the IBI developed a Shariah compliance evaluation system to evaluate the efficacy of the framework's implementation.
Principle 6	Internal Shariah Audit Unit (ISAU), which, according on the IBI's size, may be a part of the internal audit department or a separate unit.
Principle 7	Product development (PD) is a division or team tasked with creating novel and useful goods and services.
Principle 8	In addition to the IBI's annual audit, an external Shariah audit will also be conducted.

Source: SBP, (2018). Shariah Governance Framework for Islamic Banking Institutions

DIFFERENCES BETWEEN SGF OF PAKISTAN AND MALAYSIA

The differences found in the Shariah Governance Framework of both countries are presented in Table 5. It shows that Malaysian IBIs held SGF board meetings once every month. However, the IBIs of Pakistan held SGF board meetings quarterly. Furthermore, regarding the responsibility for Shariah compliance, the board has ultimate responsibility for the IFI's adherence to Shariah in Malaysia; however, in Pakistan, it is the board of directors' duty to guarantee that all Islamic banks' activities strictly follow Islamic law.

Table 5: Comparative Analyses of SGF

Particular	Malaysia	Pakistan
Accountability for the implementation of SGF	Accountability and responsibility of every key functionary. (Section II, principle 2)	Accountability of management and staff of the IBI. (clause ii, page 1)
Shariah Audit Unit	Regular Shariah audit (Section 1.3, clause v)	An independent Internal Shariah Audit Unit (Section 7 clause i, page 9)
Responsibility of Shariah compliance	The board has ultimate responsibility for the IFI's adherence to Shariah and the effectiveness of its Shariah governance framework. (Section II, 2.1)	Overall, it is the Board of Directors' duty to guarantee that all IBI activities adhere strictly to Islamic law. (Section 1, clause i, page 2)
Meetings of Shariah committee/Sharia board	Once in every two months. (Appendix 5: 2)	Meet at least on a quarterly basis. (Section 3 C, clause i)
Implementation of framework	Management is responsible for implementing Shariah governance framework. (Section II, 2.11)	It is the responsibility of the IBI's executive management to see that the Framework is put into effect. (Section 2, clause i, Page 2)
Shariah board/Sharia committee	A majority of the members of every IFI's Shariah Committee must have relevant Shariah expertise. (Part 2, 1.3, clause ii)	At least three Shariah scholars, selected by the BOD, shall make up the SB of each IBI. (Section 3 A, clause i, page 3)
Role of Shariah board/Shariah Committee	All decisions, perspectives, and opinions reached by the Shariah Committee on matters of Shariah are final and binding. (Section ii, 2.7)	The SB will review, decide, and oversee IBI Shariah matters. SB decisions, judgements, and fatawa are binding on the IBI, however SB is accountable for Shariah-related decisions. (Section 3 B, clause i, page 4)
Independence of SC/SB	The board shall recognize the independence of the Shariah committee. (Section III, clause 3.1)	The SB shall discharge its duties independently and objectively. (Section 3 D, page 6)
Shariah authority in IFI	Shariah Committee (Section II, 2.7)	Shariah Board (Section 3 B, clause i)
Shariah authority in central bank	Shariah Advisory Council (part 1, 1.3)	Shariah Board (Section 3 B, clause i)
Shariah body	Shariah committee (part 1, 1.2)	Shariah board (Section 3, i)

Source: Author's own research

DISCUSSION

Islamic banks in Malaysia and Pakistan have structured internal Shariah Governance policies that provide a unique corporate flavor to the application of the national SGFs. These may be more conservative than the SGFs, but not less conservative since the national SGFs form the minimum requirements for practice. Therefore, although the differences between the two SGFs may not be that significant, the banks' internal policies in each of these countries have more detailed differences and are outside the scope of this study.

However, there are specific issues that need to be more adequately covered in both these frameworks. First, the definition of Shariah governance must be provided clearly in both these frameworks. This can create ambiguity in the framework's understanding, scope, and application. This may also undermine the overall enforceability of the frameworks and leave room for interpretation by Islamic banks when supervised or examined.

Second, the role of BOD has been emphasized in both countries. However, in practice, the understanding of the BOD in Shariah-related matters is often limited as they are either not trained or not inclined as they are from alternate specializations. How can the ultimate responsibility of the Shariah be upon the BOD without mechanisms that require upgrading knowledge and skills related to the practice of Shariah at Islamic financial institutions? This is a significant challenge as there may often be a misunderstanding between BOD and Shariah boards as their objectives are significantly different: BOD is concerned with maximizing shareholder wealth, whereas Shariah boards are focused on compliance with Islamic law. This requires Shariah board members to upgrade their business and banking skills, which is noted in the SBP guidelines under Fit & Proper requirements. However, the Pakistani framework does not cover the need for increasing skills at the BOD level.

Conversely, Malaysia has initiated a compulsory executive program for board members of all Islamic banks and conventional banks that offer Islamic banking. However, this program is also limited in its scope, and developments in Islamic finance require periodic programs such as these to maintain capacity at the BOD level. This is particularly relevant for BODs of conventional banks that offer Islamic banking through windows, as the need for non-contamination of funds is more crucial.

Furthermore, using the leveraging model at Windows requires the respective BODs to understand the philosophy and principles driving Islamic finance. If this is not clearly explained, the risk of window abuse becomes more probable. Qatar, for example, was quick to react to this risk and prohibited window operations.

Third, regarding the competency of Shariah board members, both cover Fit & proper requirements. However, the prescriptive nature of the SBP approach identifies only a group of scholars with particular skills. Although these skills are most certainly required, a significant portion of Shariah board members in Pakistan come from a specific Islamic seminary in Karachi. While this is laudable and may represent the quality of the graduates from this seminary, it also indicates that the skills stipulated in the framework may be designed around the graduates of this seminary. Furthermore, the concentration of such graduates also limits possibilities for innovation in the industry and drives forward a particular brand of Islamic finance in Pakistan. This may negate other contemporary views and force the public to opt for a single approach to Islamic banking in the country. This may also contribute to the fact that Islamic banking assets have not exceeded 16% of total banking assets in a country with between 95 and 98% Muslim population. Similar countries such as Sudan (100% Islamic finance) and Saudi Arabia (56% Islamic finance) have far exceeded Pakistan, even though attempts were made in 1988 to ban interest in Pakistan altogether.

This indicates that there are specific gaps in both frameworks and, if not addressed, may significantly impact the growth of Islamic finance in both countries.

CONCLUSION

For Islamic financial institutions, God's approval is paramount, hence the importance of Shariah governance. Shariah compliance is the primary focus of the principles of Shariah governance. The best way to implement a Shariah governance system is to establish an internal control mechanism to ensure Shariah observance.

The Islamic banking business has a solid grounding in the Shariah governance framework established by the Central Bank of Malaysia and the State Bank of Pakistan. It provides detailed instructions on how Shariah committees, the internal Shariah department, and the review should perform their crucial functions. These rules form the foundation of Islamic banking in Malaysia and Pakistan, which adheres to Shariah law.

This research is done to see the differences between the Shariah governance frameworks of Malaysia and Pakistan and to examine how they can complement each other. After analyzing both countries' Shariah governance principles and framework, the study says that most of the principles of both countries' SGF align with the SGF principle of AAOIFI. The SGFs of Malaysia and Pakistan complement each other on many regulations. However, there are some differences between both countries' SGFs. In Malaysia, Members of SAC cannot serve IFI. In Pakistan, Members of SB can serve IFI. One SA can only do one IFI in the same category (banking and takaful) in Malaysia. However, in Pakistan, one SA can only serve one IFI (no type mentioned). The Shariah governance framework of Pakistan has some new things that need to be included in the SGF of AAOIFI and Malaysia. Following are the new things in SGF for Pakistan.

The Shariah governance framework of Pakistan has some new things that need to be included in the SGF of AAOIFI and Malaysia. In the SGF of Pakistan, it is stated that to ensure maximum compliance with the Shariah framework, the Islamic banking institution must have a mechanism that provides for management and staff accountability. In addition, an IBI's management must have a Shariah compliance department to help the SB and act as a bridge between the SB and the administration of the IBI. An independent internal shariah audit unit (ISAU) is another helpful element; this unit may be a subset of the internal audit department or a separate entity, depending on the scope of the IBI. With these measures in place, an annual audit of the IBI, and an external Shariah audit, the IB would fully comply with Shariah law.

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