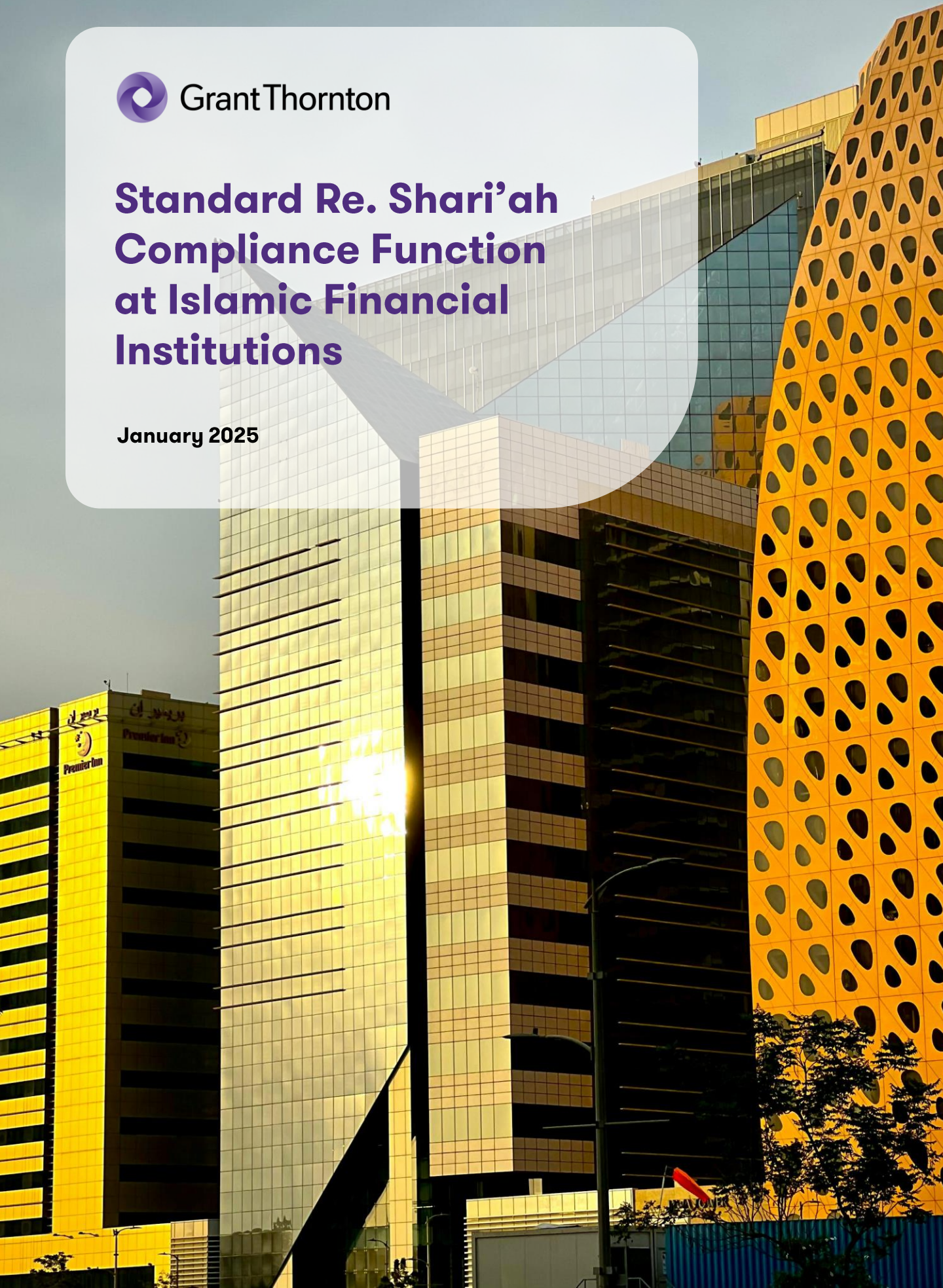




Standard Re. Shari'ah Compliance Function at Islamic Financial Institutions

January 2025



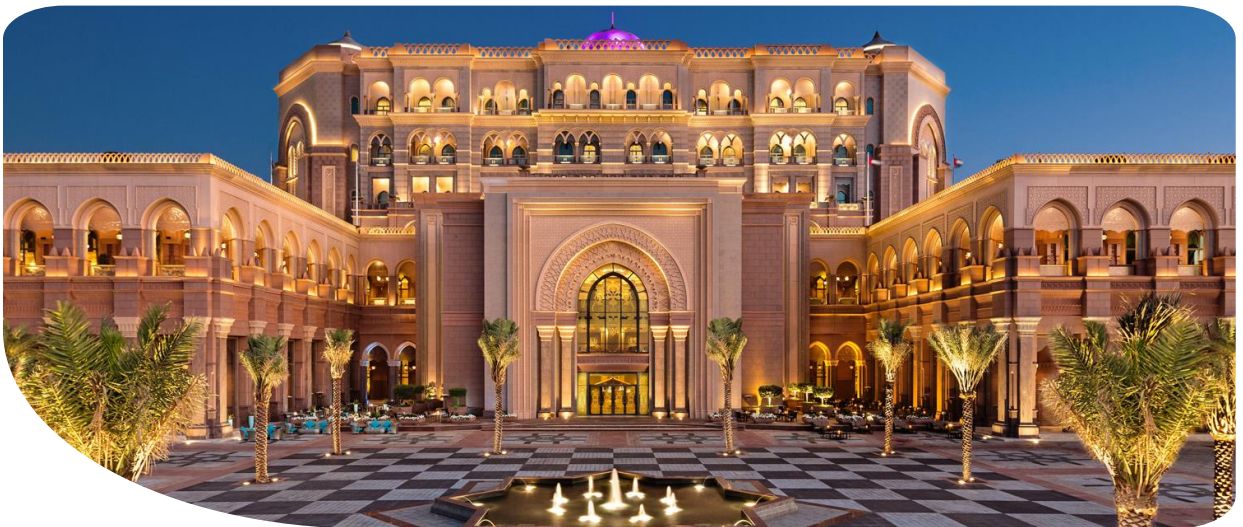
Introduction

The Central Bank of the UAE ("CBUAE") recently introduced the Standard Re. Shari'ah Compliance Function ("SCF") in April 2024, continuing its commitment towards a robust Islamic Finance regulatory regime. Given the importance of the Shari'ah Compliance Function within the Internal Shari'ah Control Division ("ISCD") in Islamic Financial Institutions, the standards highlights the regulatory and supervisory expectations of the Function, emphasising compliance management, continuous monitoring and assurance across the organisation in accordance with the resolutions of the Higher Shari'ah Authority ("HSA") and the Internal Shari'ah Supervisory Committee ("ISSC").

This Standard applies to all Islamic Financial Institutions ("IFIs") regulated by the CBUAE and each institution must comply based on its size, business nature, and complexity, ensuring a tailored implementation. The CBUAE mandates adherence to the Shari'ah Compliance Function standard by April 2025, focusing on the robust application and implementation of the standard by Islamic Financial Institutions.

The Standard outlines that institutions must create a comprehensive annual compliance plan and establish an independent Shari'ah compliance function tasked with monitoring non-compliance risks. It also mandates active collaboration between the Shari'ah compliance team and other departments across the institution with a particular focus on the institution's overarching Compliance department, ensuring a streamlined approach across the board.

For example, the institution-wide Compliance Monitoring and Assurance plan should define a clear approach and methodology when it comes to testing incidents of Non-Shari'ah Compliance. The approach should take into consideration both inherent and residual risks to arrive at measurable testing results.



While Shari'ah Governance and Compliance have been an existing concept in the UAE Islamic Financial Services market for decades, the delta the standard introduces is summarised in the following manner:

- Establishing a stand-alone Shariah Compliance Function with a direct reporting line to the institution's Internal Shariah Control Department, while having a dotted reporting line to the institution's Compliance Department to ensure alignment;
- Establishing clear differentiation between the roles and responsibilities of the Shariah Compliance Function and Internal Shariah Audit – whereby the Compliance Function would only test transactions that are live or products under development, while Internal Shariah Audit will continue to test transactions post closure;
- Providing specific guidelines to Islamic Financial Institutions around the overarching approach of Shariah Compliance, such as the establishment of an annual plan, coverage within field testing and issuance of reports to the relevant governing bodies.

Furthermore, the standard requires IFIs to create internal procedures and policies that support the SCF's review activities. To ensure an effective operating model, the procedures and policies should align with the wider Compliance framework of the institution.



While the concept is not new, institutions may have various questions to ask around the establishment of this new function within their wider Compliance framework, to ensure meeting the regulatory mandate and ensuring robust management of Shariah Non-Compliance Risk. Grant Thornton UAE works with the majority of Islamic financial institutions in the UAE as well as the regulators and we have extensive experience in this area. We can support you in this journey through our team of specialized experts, using various potential solutions, such as conducting gap assessments and supporting you with process remediations.

For more information, please don't hesitate to get in touch with us.



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Sources:

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Guidance: <https://rulebook.centralbank.ae/en/rulebook/guidance-note-re-shari%E2%80%99ah-compliance-function-islamic-financial-institutions>

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