

## COMPARISON OF SHARIA GOVERNANCE MODEL IN ISLAMIC FINANCIAL INSTITUTIONS BETWEEN THE GCG AND ASIAN COUNTRIES

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### ABSTRACT

Sharia governance is one of the fundamental characteristics that differentiate Islamic and conventional financial institutions. Therefore, the understanding related to sharia governance in Islamic financial institutions such as Islamic banking becomes significant. By using a literature study approach, this paper aims to review and compare regulations related to Islamic financial governance in GCG and ASIA countries. The result shows that the GCC countries and the Asia model of Sharia Governance are a huge difference. The GCC countries use the minimalist model of Sharia governance whereas Asian countries still use the interventionist model. The similarity in this term is about the fundamental of the regulations, which are based on the Quran and Hadith.

**Keywords:** *sharia governance, GCG, Asian Countries*

### 1. INTRODUCTION

The collapse of the banking system in the years 1997 and 1998 has created in most ASEAN countries. However, this financial crisis was created mostly by the bank management, political interference, illegally, enormously excessive lending to companies, and a host of other activities which is the conflict between the shareholders and management. Therefore, need to develop good corporate governance to manage and maintain the interest of both parties.

After the collapse of the conventional banking systems, and also the collapse of corporate worldwide, it was a huge growth of Islamic financial systems worldwide. Since that time begins, it has been importantly needed of corporate governance according to Islamic principles. It must be done directly, administer or control the systems accurately. However, there are several models of sharia governance over the countries. In this paper, we will discuss and compare the ASEAN GCC countries' models.

In terms of Sharia Corporate Governance (SCG) models, it can be differentiated and identified as the importance and essentials of corporate governance. There were about who made the decision, for whom, and with what resources to do. Additionally, it latter governing to whom it due to the accountability. However, the most concern of this SCG with the western approach is the contrasting regulatory framework.

The nature aspects of Islamic corporate governance are Islamic law, which is included life, ethics, and social, and encompasses criminal as well as civil jurisdiction. Some ethical principles are defined such as truth, fairness, and justice, the nature of corporate responsibilities, the priorities to society, along with some specific governance standards. Second, in terms of providing the regulation of business ethics, Islamic economic and financial principles have a direct impact on corporate practices and policies. That must include zakat, prohibition of riba, speculation, and starting to develop a system of economics based on profit and loss sharing.

In this paper, we will discuss the models of sharia corporate governance which are used by the ASEAN and GCC countries, such as Malaysia, Indonesia, Pakistan, Bahrain, UAE, and Qatar. These countries started developing and managing the sharia governance models after their corporate collapsed and the starting point of the Islamic financial institutions.

According to the previous study about the sharia corporate governance in ASIA and the GCC countries, we can see that ASIA countries usually use the interventionist and proactive model of Sharia Governance for their Islamic Financial Institutions. On the other hand, the GCC countries, mostly use the model of minimalist. Sharia corporate governance, in the broadest terms, is the single most important current issue for Islamic financial institutions. The global financial system continues in a state of flux and is not without further threats and stresses. Therefore, it is needed to change the system works of infrastructure through the financial systems based on Islamic principles. At the same time, corporate governance used as governance codes and guidelines issued over the last 20 years. Regarding the development of Islamic financial institutions throughout the world, it is needed to develop and maintain corporate governance based on the

sharia principles. As a result, sharia corporate governance is needed by the Islamic financial institutions as legal and organizational structures that look after the internal integrity of a corporation.

This paper will only focus on the model of sharia corporate governance in ASEAN like Malaysia, Indonesia, and Pakistan and the GCC countries such as Bahrain, United Arab Emirates, Kuwait, Saudi Arabia, and Qatar. In addition, many of the previous study research focused on the model of sharia governance in GCC countries, Malaysia, and the United Kingdom. However, there are many ASEAN countries that developed the model of sharia governance for Islamic financial institutions, like Indonesia and Thailand. Therefore, differentiation in terms of the sharia corporate governance model will be more developed and introduced.

## **2. METHOD**

This paper uses the literature study method. The data collected comes from various kinds of literature and online data such as official websites related to the conceptual and foundational framework of corporate governance of the Western and Islamic models.

## **3. RESULT AND DISCUSSION**

### **3.1 Sharia Governance System Overview of GCC Region**

#### **3.1.1 Saudi Arabia**

In Saudi Arabia, Sharia is the main source of all aspects of life, including civil law. Therefore, the Sharia court is the final court in the jurisdiction system. But when it comes to the commercial sector, there is a special commercial court that functions as the highest court in all commercial matters including Islamic finance.

The Central Bank of Saudi Arabia, which is called the Saudi Arabia Monetary Agency (SAMA), was founded in 1952 by Royal Decree. The role of the SAMA includes the Issuance of the national currency, banks of government, management of foreign exchange reserves, service provider for commercial banks, conduction of monetary policy, etc. (SAMA, 2012). However, the Islamic Banks are not monitored by SAMA; instead, all IFIs are under the supervision of the Saudi Ministry of Commerce (Hasan, 2009). This means Islamic Banks are considered in nature with commercial companies.

Sharia governance in other GCC countries are attracted more attention from governments, for instance, Bahrain established National Sharia Board, but in Saudi Arabia, there is no such organization playing the role of the final Sharia Board Authority, instead, Banking Disputes Committee (BDC) which was launched in 1987 by SAMA as a specialized institution for solving banking sector disputes (Hasan, 2009). Although there is no specific law or guidelines by the government towards Islamic Finance, IFs have been growing in Saudi Arabia at a considerable speed. During the development of the Islamic Financial sector, the Sharia governance framework has been built by market force voluntarily and indirectly (Hasan, 2009).

#### **3.1.2 Qatar**

In Feb 2011, the Central Bank of Qatar issued a specific announcement asking conventional banks to terminate Islamic banking services windows before the end of 2011 (Qatar Central Bank, 2011). This means starting from the year 2012, conventional banks are not allowed to involve Islamic deposits and operation of Islamic finance. This is a significant step in the development of Islamic Finance which ensures a pure Islamic bank operation system in Islamic banking industries.

After its independence in 1971, Qatar Authority declared legislation system would be based on Sharia, and civil law would consider Sharia as the main source of legislation. Nevertheless, regarding the commercial sector, Sharia is accepted as only one of the sources, not the primary condition of the regulation (Hasan, 2009). Therefore, opposition exists between civil law and commercial regulation.

In 1975, the Qatar Monetary Agency started to intervene in determining the interest rate in a commercial transactions, which was later replaced by the Qatar Central Bank (QCB). This means charging interest on commercial loans in Qatar is allowed by civil law. Regarding banking disputes, all the disputes relating financial sector are put under civil court. The Qatar Financial Centre (QFC) was established in 2005 as a business and financial center to provide legal and business infrastructure for financial services. The Centre is operated by a commercial authority and a regulator – the QFC Authority and the Regulatory Authority

respectively. Both don't depend on each other and also are independent of the Qatar government (Qatar Embassy, 2006).

The Sharia governance framework in Qatar is regulated by Qatar Central Bank and Qatar Financial Centre respectively. The QCB issues prudential regulations, amendments, and explanations about the banking sector to facilitate banking business. In 2011, the QCB has released the 13th edition of the instructions book named "Instruction to Banks November 2011", which contains 13 parts aimed to regulate all banks including national banks (conventional and Islamic), branches of the foreign banks operating in Qatar, Islamic Banks (Qatar Central Bank, 2011).

The QFC also issues its own regulatory rules towards all financial sectors including banking, insurance, financial market. The QFC regulation rules include the activities of IFIs. For example, the QFC Regulatory Authority has released a rulebook to govern the activities of licensed companies involving Islamic financial industries. In this rulebook, QFC requires every authorized firm operating business in Islamic finance to establish a Sharia Supervisory Board, which should have three members at least. The rulebook also has requirements for Sharia board members, in which it is asked Sharia members to be selected from those who can perform their functions taking into account their qualifications and previous experience. And according to the rule book, perform their role according to every Islamic finance institution should establish systems and accounting controls to make sure its operations are always Sharia-compliant.

### 3.1.3 Bahrain

The Islamic banking sector has been expanding as a major part of the Islamic finance industry. The overall assets of the Islamic banking sector reached US\$25.4 billion by the end of August 2012 from US\$1.9 billion in the year 2000, which stands for 13.3 of the total banking assets of this country (Central Bank of Bahrain, 2012).

Sharia is the main source of legislation since its independence in 1971. Due to its interest-based economics system, Bahrain established its commercial-related law which makes charging interest on commercial loans permissible in business transactions. But according to Federal Law, the rate should be determined by the Bahrain Monetary Agency. The Bahrain Civil Court has stipulated a comprehended jurisdiction framework over commercial and civil matters, but Sharia-related disputes are not under civil court (Hasan, 2009).

Bahrain has established the National Sharia Advisory Board of the CBB to serve and verify the Sharia compliance of its products only as it does not have authority over the other IFIs. All the finance sectors of Bahrain, including banking, insurance, and capital market, are regulated and supervised by the Central Bank of Bahrain (CBB). The Central Bank of Bahrain has issued comprehended prudential and reporting guidelines rule books to clarify the particular concepts and the needs of Islamic insurance and banking (Central Bank of Bahrain, 2012).

The rulebook for Islamic banks includes aspects such as capital adequacy, licensing requirements, business conduct risk management, and reporting/disclosure requirements, financial crime. According to the Rule Book, the CBB requires all banks to set up an independent Sharia board and adopt AAOIFI's governance standards. Apart from that, the CBB allows all IFIs to establish a separate function of Sharia review for a purpose of ensuring Sharia compliance. No restriction for the member of the National Sharia Board to serve any financial institution, and also no limitation to serve only one institution. Likewise, the rulebook for insurance covers specific features of firms operating *takaful* and *re-takaful* businesses. Both rulebooks have a significant role to build the regulatory framework of Islamic finance business, which provided a comprehensive system to deal with Islamic Finance (Central Bank of Bahrain, 2012)

### 3.1.4 United Arab Emirate

In the UAE, Islamic banking assets have grown to 20 percent of the total banking sector in 2012 from an estimated 18 percent in 2011. The *Sukuk* market in UAE is the second largest market in the world followed by Malaysia. As the same with other GCC countries, Sharia is the main source of legislation in the UAE<sup>1</sup>, and charging interest in commercial transactions was prohibited until 1992. From the year of 1993, it is allowed to charge interest on commercial loans because it was considered as Necessity (Hasan, 2009). Financial matters including the banking sector are put under civil court in the current legislation system.

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<sup>1</sup> United Arab Emirates, known as UAE, is a federal union of Abu Dhubai, Sharjah, Ajman, Umm Al Quwain, Al Fujarah and Ras Al Khaima

Regarding Islamic finance industries in UAE, Dubai was entitled to a unique privilege to develop Islamic Finance across the region. The Dubai International Financial Center Law was passed in 1985, which aims to build an international financial center in Dubai. The other law- the Dubai Financial Services Authority Law was passed to ensure its unique position and privilege in the development of Islamic finance. All IFIs registered under the DIFC are put under the DIFC court and the DIFC Arbitration Center and also all these institutions are regulated by DIFC law.

Because of the special position of Dubai in the legislative framework in UAE, there are two Sharia governance systems in UAE, one of which is for UAE member Federals except for Dubai, and the other is adapted by Dubai. Sharia governance framework in UAE except Dubai is monitored by Federal Law. Under this law, higher Sharia authority was established to supervise and provide Fatwa on Islamic institutions including banks, investment companies, and financial institutions. It is governed by the Ministry of Justice and Islamic Affairs and is binding. In this Law, it is required that memorandum of association should cover the governance and manner of the Sharia board including duties, functions, appointments, and responsibilities. Another special requirement is that before the appointment, IFIs should submit a proposal to Higher Sharia Authority to be approved.

Regarding Islamic Firms registered under DIFC, they should be regulated by DIFC Services Authority and DIFC law. DIFC Services Authority has issued a Rulebook for IFIs, in which it is required for every IFIs to implement the AAOIFI Sharia Governance Standards. Apart from that, the Rulebook prescribes formation, conduct, appointment, and operation and also requires at least three members should be included in the Sharia board.

### **3.1.5 Kuwait**

As one of the most important Islamic finance institutions in Kuwait, Kuwait Finance House was allowed to provide Sharia-compliant banking services by the government in 1976, which was the first and only Islamic bank in Kuwait for many years. Now Kuwait Finance House became one of the leading Islamic financial institutions in the global Islamic finance market, with a total asset of US\$39.59 billion by the end of the third quarter of 2012 (KFH, 2012). Regarding the total Islamic banking assets in Kuwait, the share of Islamic banking assets was counted for 34.4% of the total banking industry, which is much higher than that in other GCC countries (Deloitte, 2012).

The legislation framework of Kuwait strongly adheres to Islamic Sharia Law, in which interest is prohibited in a commercial transaction. The Civil Law Code of Kuwait of 1981 prohibited charging interest on a commercial loan in a business transaction and declared such practice not permissible. But in the same year, the Kuwait Government issued a specific commercial code to exclude the commercial sector from the application of the Sharia code (Hasan, 2009). Under this specific legislation, interest on loans is legally permissible.

The Central Bank of Kuwait is the sole regulator of the monetary financial system in the State of Kuwait and supervises the financial institutions and matters in the organization of the banking business. The judicial system of Kuwait puts the civil court to have jurisdiction over commercial matters and includes banking and finance disputes. Regarding Islamic banking, CBK law grants the CBK authority to regulate and control the activities of IFIs.

After the legislation in 1976 allowed the establishment of the Kuwait Finance House, only until the year of 2004 did, the Kuwait government amend the law about Islamic finance, which allows Islamic financial institutions to operate in the same financial environment as conventional banks and settles the framework for Islamic banks including the requirement for the Islamic financial institutions to establish Sharia board (Wilson, 2009).

The amended CBK Law provides a legal basis for the regulations of the Sharia board. Article 93 requires all Islamic Finance Institutions to establish an independent Sharia board which shall be appointed by the bank's General Assembly. The law also requires Islamic finance institutions to stipulate specified documents to clarify the role, statutes, governance, and working of the Sharia board (Hasan, 2009).

There is no Sharia board under CBK to act as the highest Sharia authority in Islamic banking and finance. To address this issue the CBK Law recognizes the Fatwa Board in the Ministry of Awqaf and Islamic Affairs as the final authority for any Sharia dispute involving Islamic banking and business. This Fatwa Board is an external body to the Central Bank of Kuwait. The CBK Law provides the supremacy of Islamic

law where it states that IFIs shall be subject to the provision of the CBK Law but subject to the Islamic Sharia principles. This is a strong legal proviso that placed Sharia as the supreme law about Islamic banking and finance in Kuwait (Hasan, 2009).

### 3.2 Asian Sharia Governance Overview

Indonesia, Malaysia, and Pakistan operate parallel financial sectors in which conventional and Islamic systems coexist the countries such as there come Islamic banks and where conventional banks are allowed to open Islamic windows. (Hawkamah, 2011)

#### 3.2.1 Malaysia

Recently, the Islamic Financial industry has evolved rapidly in Malaysia by extending to other industries like the Islamic capital market which provides diverse financial instruments. It is reported that they have 17 full-fledged Islamic banks and 9 *Takaful* operators in the country. There are 957 stocks listed in the capital market and 89% of them are Sharia-compliant stocks. (Muhamed, 2012) In 2011, OIC reported that the volume of *Sukuk* issuance attained \$84.5 billion or around 69% amongst OIC member countries (Cooperation, 2012).

The first phase of the Islamic banking industry in Malaysia was started in 1983 by establishing Bank Islam Berhad and in the next development they set up the first Sharia board. The central bank of Malaysia called Bank Negara Malaysia (BNM) issued Islamic Banking Law named Islamic Banking Act (IBA). The law specified that banks registered under the act should not take operations that were not approved by the religion of Islam. Then the law was amended by new regulations in 1994. The BNM introduced a free-interest banking scheme in which conventional banks may offer Islamic banking products through their windows. The conventional banks which set up Islamic windows required to the appointment of selected Muslim Scholars to be a member of the Sharia board. Next, the highest Sharia authority was established in 1997 called Sharia Advisory Commission to harmonize the interpretations among Islamic banks, conventional banks that offered Sharia-compliant products, and *Takaful* operators in the country. (Hasan, 2010)

At the start of 2011, as the newest amendment Islamic banking law recommended the framework for Sharia Governance specified by BNM in detail guidelines such as the number of Sharia Board members appointed (consist of three members), the qualifications of the members, the duties and responsibilities of the boards, and their relationship with the Islamic Financial Institutions they serve. The framework also includes functions of risk management control, Sharia review, and Sharia audit function which provide an independent consideration of all sufficient policies and procedures. (Scott, 2011) In the capital market, the SC governs financial intermediaries like fund management companies, asset management companies, and financial securities. (Muhamed, 2012)

They regulate that the members of the Sharia Boards of Bank Negara and Securities Commission do not be permitted to be a member of Sharia committees in the same industries or same financial institutions. (Hasan A. b.). They may only serve on one board (Banking or *Takaful*). The restriction of multiple appointments of the scholars is to avoid an interesting conflict and for the reason of confidentiality.

In Malaysia's Sharia governance system only the Sharia Boards of Bank Negara and Securities Commission have the authority to issue a fatwa on all matters regarding Sharia contracts. In terms of disputes, and cases heard of Islamic banking institutions and customers, the matter is under the jurisdiction of the civil court. However, the BNM act 2009 affirmed that the SAC is the sole authoritative body on Sharia matters about Islamic banking and finance. Hence, the civil court or arbitrator is mandatory to refer and consult with the SAC members before deciding verdicts or for deliberation on any Sharia issues (Shaharuddin, 2011).

#### 3.2.2 Indonesia

The first Islamic banking system emerged in Indonesia when Bank Muamalat Indonesia was established in 1992 as the first bank operating in Islamic principles. It was regulated by the enactment of the Banking Act No.7/1992 then was amended in 1998 to provide an opportunity for conventional banks to open Islamic

windows. Next, in 1999 the National Sharia Board was formed by the Indonesian *Ulama* Council<sup>2</sup> as an independent body recognized by the central bank of Indonesia (Bank Indonesia) (Muhamed, 2012).

Article 32 of the Indonesian Sharia Banking Act in 2008 stated that Sharia Board must be established by *Takaful* companies, each Islamic bank, and all conventional banks offering Islamic financial products and services. The Sharia Board members are approved by the Indonesian *Ulama* Council but the nominees have to be approved by the general meeting of shareholders of the institution that they serve. (Wilson, 2011) While the internal Sharia Supervisory Board members (in each of the Islamic Financial Institutions) are recommended by Bank Indonesia and approved by the National Sharia Board (Hawkamah, 2011).

In Indonesia's Sharia governance system only the National Sharia Board formed by IUC has the authority to issue a fatwa on all matters regarding products and services of Islamic financial institutions offered. So Bank Indonesia issues regulations for Islamic banking products and services to comply with the fatwa issued by the NSB. Indonesia Ulama Council issued fatwa No.80 in 2011 about the application of Sharia Principles in Stocks Trading Mechanism and fatwa regarding the launch of Indonesia Sharia Stocks Index. There are reported 253 Sharia stocks in March 2012 listed or 49.3% of total stocks in the capital market. There is an 89.47% market share of the number *Sukuk* issuance. (Wulandari, 2012)

To adjudicate disputes concerning Islamic financial matters between the institutions and customers, the cases are handled in a religious court. Nevertheless, before being judged by the religious court, the first step is for the dispute case to be heard by religious scholars in a qualified body set up by the National Sharia Arbitration Body by creating an ad hoc tribunal known as “Basyarnas”<sup>3</sup>. (Muhamed, 2012)

### 3.2.3 Pakistan

In February 2012, the State Bank of Pakistan declared that the growth of the Islamic banking industry reaches Rs568 billion and with Rs463 billion of total deposits. (Akhtar Raza, 2012) In 2011, OIC reported that the volume of *Sukuk* issuance attained around 2% amongst OIC member countries (Cooperation, 2012). The State Bank of Pakistan established a Sharia Board role as the sole authority in a matter regarding Islamic finance. The Sharia governance in Pakistan is regulated by the State Bank of Pakistan's Sharia Board. In 2008 the State Bank of Pakistan (SBP) issued detailed guidelines for Sharia compliance in Islamic banking institutions. The guidelines require all Islamic finance institutions to establish Sharia Advisors to hire a minimum of five scholars to become their advisors (Wilson, 2011).

The Sharia Board member appointed may serve as a Sharia Advisor in more than one financial institution (difference from Malaysia's model). (Hasan A. b.) The Islamic financial sector is working to regulate and supervise the area of risk management, corporate governance, prudential regulation, accounting, Sharia, etc. (Alvi, 2005). Concerning conflict resolution in Sharia ruling where Sharia Advisors arise difference in opinions, the dispute will be referred to the Sharia Board of the State Bank of Pakistan. The board's decisions are binding as a final authoritative party. (Wilson, 2011)

**Table 1. Comparison of Sharia Governance Systems in Asia and GCC Countries**

	GCC	Asia
<b>legislation</b>	Sharia-based legislation	Civil law and Islamic law
<b>High court about Islamic banking</b>	<b>Saudi Arabia:</b> commercial court <b>Bahrain:</b> civil court <b>UAE:</b> civil court <b>Kuwait:</b> civil court, Fatwa Board(Sharia dispute) <b>Qatar:</b> civil court	<b>Malaysia:</b> Malaysia civil court <b>Indonesia:</b> Civil court <b>Pakistan:</b> -
<b>Regulatory framework(Islamic bank under which authority)</b>	<b>Saudi Arabia:</b> Saudi Ministry of Commerce <b>Bahrain:</b> Central Bank(sole) <b>UAE:</b> Central Bank& DIFC <b>Kuwait:</b> Central Bank(sole) <b>Qatar:</b> Central Bank & Qatar Financial Center	Malaysia, Indonesia, and Pakistan all similarly use the Central Bank of themselves.

<sup>2</sup> Indonesian *Ulama* Council is a state body which is in charge of all Islamic matters in the Indonesia called MUI (Majelis Ulama Indonesia).

<sup>3</sup>Basyarnas is **Badan Arbitrase Syari'ah Nasional** or the National Sharia Arbitration Body

<b>Highest Sharia board</b>	<p><b>Saudi Arabia:</b> No</p> <p><b>Bahrain:</b> National Sharia board under Central Bank</p> <p><b>UAE:</b> Higher Sharia Authority under the Ministry of Justice and Islamic Affairs</p> <p><b>Kuwait:</b> No higher Sharia Board, Sharia disputes are put under Fatwa Board</p> <p><b>Qatar:</b> Supreme Sharia Council under the Ministry of <i>Awqaf</i></p>	<p>Malaysia: SAC under Bank Negara Malaysia.</p> <p>Indonesia: Sharia board under Bank of Indonesia.</p> <p>Pakistan: Sharia Supervisory board under State Bank of Pakistan.</p>
<b>Guidelines (rulebook)</b>	<p><b>Saudi Arabia:</b> No</p> <p><b>Bahrain:</b> CCB Rule Book</p> <p><b>UAE:</b> Federal Law; DIFC: DFSA rule book</p> <p><b>Kuwait:</b> CBK Law</p> <p><b>Qatar:</b> Instructions to Banks(QCB),Islamic Finance Rule Book(QFC)</p>	<p>Malaysia: section 59 of the BNM Sct 2009.</p> <p>Indonesia: Indonesian Sharia Banking Act, article 32 of 2008.</p> <p>Pakistan:</p>
<b>Limitation of Sharia board</b>	<p><b>Saudi Arabia:</b> NO</p> <p><b>Bahrain:</b> at least 3 members</p> <p><b>UAE:</b> at least 3 members,</p> <p><b>Kuwait:</b> at least 3 members</p> <p><b>Qatar:</b> at least 2 members(QCB), at least 3 members (QFC)</p>	<p>Malaysia: 3 members.</p> <p>Indonesia: 3 members.</p> <p>Pakistan: no limitations on the number of members.</p>
<b>Standards (AAOIFI)</b>	<p><b>Saudi Arabia:</b> self-regulation</p> <p><b>Bahrain:</b> AAOIFI Standards required by CCB</p> <p><b>UAE:</b> Federal law, DIFC: AAOIFI standards required by DFSA</p> <p><b>Kuwait:</b> CBK Law</p> <p><b>Qatar:</b> AAOIFI standards</p>	<p>Malaysia: SAC and IFSB standard board.</p> <p>Indonesia and Pakistan: AAOIFI standard.</p>
<b>Statues of final Sharia board</b>	<p><b>Saudi Arabia:</b> depends on self-regulation</p> <p><b>Bahrain:</b> no authority upon other IFIs</p> <p><b>UAE:</b> to be binding</p> <p><b>Kuwait:</b> Fatwa Board is binding</p> <p><b>Qatar:</b> the government body</p>	<p>Malaysia, Indonesia, and Pakistan are all binding regulations for the Islamic banking act.</p>
<b>Appointment of Sharia board members</b>	<p><b>Saudi Arabia:</b> self-regulation</p> <p><b>Bahrain:</b> unspecified</p> <p><b>UAE:</b> appointed by BOD or AGM</p> <p><b>Kuwait:</b> General Assembly</p> <p><b>Qatar:</b> BOD</p>	<p>Malaysia: SAC.</p> <p>Indonesia: National Sharia board.</p> <p>Pakistan: Sharia board of the central bank.</p>

Source: compiled by the author

#### 4. CONCLUSION

There are some differences in terms of the Sharia Governance used in GCC countries and Asia. Like legislation, GCC countries are based on the Sharia, meanwhile, Asia is still in the mix of using civil law and Islamic law. The regulatory framework, highest Sharia board, guidelines, and limitations of the member of the Sharia board, there are quite the same between the two parts of comparison.

According to AAOIFI, Asia countries, like Indonesia, Malaysia, and Pakistan, there were applied the AAOIFI. On the other hand, the GCC countries, such as Bahrain and Qatar, use the standard made by AAOIFI. Saudi Arabia uses self-regulation. UAE and Kuwait, also have some regulations on their own, but still based on the AAOIFI standard board. Status of Sharia board in Indonesia, Malaysia, and Pakistan, they use the sole authority to settle the issue of Islamic financial products and services. On contrary, in Kuwait and UAE, there were to be binding. Qatar and Saudi Arabia are based on the government body. The last part comparison in our paper is about the appointment of Sharia board members. We can see that Indonesia,

Malaysia, and Pakistan have a similar pattern, the Sharia board is generally chosen by the Central Bank. However, it is very different happen in GCC countries. Almost they choose by the assembly that controls the role of the Sharia board.

To conclude, we can say that the GCC countries and the Asia model of Sharia Governance are a huge difference. The GCC countries use the minimalist model of Sharia governance whereas Asian countries still use the interventionist model. The similarity in this term is about the fundamental of the regulations, which are based on the Quran and Hadith.

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