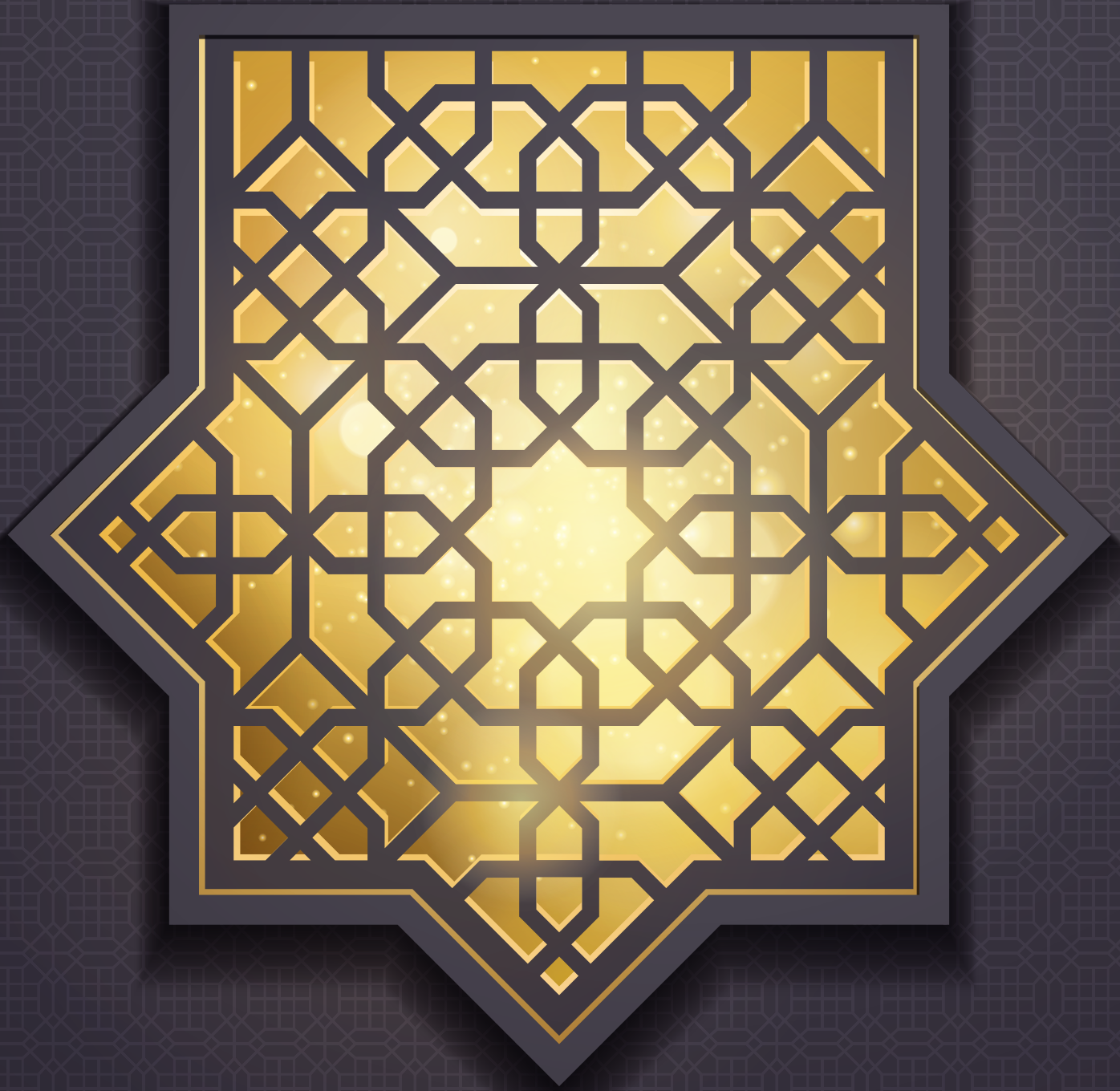




مصرف الإمارات العربية المتحدة المركزي
CENTRAL BANK OF THE U.A.E.



Shari'ah Governance Framework

For Islamic financial institutions in the United Arab Emirates

The governance mechanisms and standards used to ensure that the financial products and services provided by Islamic financial institutions comply with Shari'ah rules and principles, both within and outside the institutions.

1. Islamic financial institutions ensure that all activities- from initial licensing to the offering of financial products and services-comply with Shari'ah rules:

The demand for financial products and services that comply with Shari'ah rules and principles is increasing. Islamic financial institutions aim to provide products and services (such as financing, payments, and investments) that satisfy the financial needs of individual and institutional customers. At the same time, they strive to record profits free from interest (riba) and ambiguity (gharar), as well as any practices prohibited by Shari'ah rules.

To ensure that customers are protected while institutions adhere to their public commitment to comply with Shari'ah rules, the Central Bank of the United Arab Emirates (CBUAE) has developed legal and regulatory frameworks. These frameworks establish controls that begin with the licensing of Islamic financial institutions, continue through the implementation of their operations and activities, and regulate their relationships with customers.

The Central Bank licenses two types of Islamic financial institutions:

1. Fully-fledged Islamic financial institutions	These are institutions whose entire business and activities are Shari'ah-compliant; this includes Islamic banks, Takaful insurance companies, and finance companies.
2. Conventional financial institutions housing Islamic Windows	These refer to a group of activities and operations that are Shari'ah-compliant within a financial institution. They are kept separate and independent from the financial institution's remaining business activities to ensure full compliance with Islamic Shari'ah and prevent mixing with other transactions. These include Islamic windows within conventional banks or Takaful windows within insurance companies.

The regulations and standards issued by the Central Bank and the Higher Shari'ah Authority ensure that the business activities of institutions licensed by the Central Bank remain compliant with Islamic Shari'ah at all times, a commitment reinforced by robust Shari'ah governance frameworks and mechanisms.

Shari'ah governance is the system that ensures the compliance of the Islamic financial institutions with the purposes and provisions of Shari'ah in all of their activities, from financing to investment and Takaful insurance.

2. How do the regulations and standards issued by the Central Bank and the Higher Shari'ah Authority ensure that the business activities of the institutions licensed by the Central Bank are compliant with Islamic Shari'ah at all times?

2.1 Licencing

Before licensing an Islamic financial institution or Islamic window, the Central Bank ensures that the entity can comply with Shari'ah requirements at all times. This is achieved by confirming that the licensing requirements are reflected in the institution's articles of association, securing the commitment of the board of directors and executive management to ensure compliance, and verifying the presence of sufficient internal Shari'ah governance frameworks.

2.2 Standardization and the Establishment of a Central Authority

To standardize Shari’ah applications and strengthen governance, the Higher Shari’ah Authority (HSA) was established at the Central Bank as the supreme Shari’ah reference in the UAE’s financial sector. The Shari’ah standards and controls issued by the HSA are binding and final for all Islamic financial institutions. The Shari’ah governance frameworks ensure that institutions comply with these mandatory standards at all times..

The Higher Shari’ah Authority

It is an independent authority established by a Cabinet Resolution and Federal Decree-Law No. (6) of 2025 Regarding the Central Bank, Regulation of Financial Institutions and Activities, and Insurance Business. This Authority is concerned with standardizing Shari’ah practices across Islamic financial institutions, developing rules, standards, and general principles for Islamic finance business, and providing support and guidance to Internal Shari’ah Supervision Committees.

2.3 Shari’ah Governance Frameworks

- A. The institution shall form an internal Shari’ah supervision committee through the general assembly. This committee is composed of competent scholars who possess Shari’ah and technical knowledge relevant to the institution’s business. The qualifications of the committee members shall be examined by the Central Bank, and their appointment must be approved by the Higher Shari’ah Authority. The members of these committees shall remain independent from the institution. The Committee is responsible for issuing Fatwas regarding the institution’s business activities, monitoring its compliance with Islamic Shari’ah, and correcting any errors that may occur during the conduct of transactions..

- B. An internal Shari’ah control department should be established within the institution, functioning as a second line of defense. This department monitors the compliance of the institution and its various departments, provides guidelines for adherence to Islamic Shari’ah, and reviews transactions conducted both before and after their implementation. It also ensures that the executive departments (which are considered the first line of defense) have sufficient capacity and knowledge, in addition to strict controls, to ensure their business is carried out in accordance with Islamic Shari’ah. Furthermore, this department shall submit reports to the Executive Management and the Internal Shari’ah Supervision Committee regarding any errors that may be committed during transactions so that they can be corrected.

First Line of Defence	Second Line of Defence	Third Line of Defence
Executive Management	Internal Shari’ah Control Department	Internal Shari’ah Audit Department
It is responsible for conducting financial transactions and activities and their compliance with Islamic Shari’ah	Monitoring compliance and review during and after executed transactions in order to ensure their compliance with Islamic Shari’ah	Conducting independent Shari’ah audit to ensure full compliance with Shari’ah at all stages and recommending improvements, if any

The three-line defence model is an international model to distribute the control roles to ensure transparency and compliance

- C. An internal Shari'ah audit department should be established within the institution, functioning as a third line of defense. It regularly ensures the institution's compliance with Islamic Shari'ah by examining the business activities carried out during the year. Furthermore, this department shall submit reports to the Board of Directors and the Internal Shari'ah Supervision Committee regarding any mistake took place so that they can be corrected.
- D. Conducting an external Shari'ah audit is an optional requirement that the institution may undertake to gain further confirmation of its compliance with Islamic Shari'ah.

Importance of Shari'ah Governance

- A. Protecting customers' funds from entering into transactions that are not compliant with Islamic Shari'ah.**
- B. Enhancing the confidence of customers and investors in Islamic financial institutions.**
- C. Support the sustainability of financial institutions through operational and ethical discipline.**
- D. Making the Islamic financial environment more transparent, stable and credible.**

2.4 Annual Shari'ah Report

To ensure transparency and accountability before regulatory bodies, shareholders, and the public, the Internal Shari'ah Supervision Committee shall issue an annual Shari'ah report. This report is presented to the general assembly and published within the institution's final accounts. The report details the business activities conducted within the Shari'ah governance framework and the extent of the institution's compliance to Islamic Shari'ah during that financial year.

2.5 Shari'ah Examination by the Central Bank

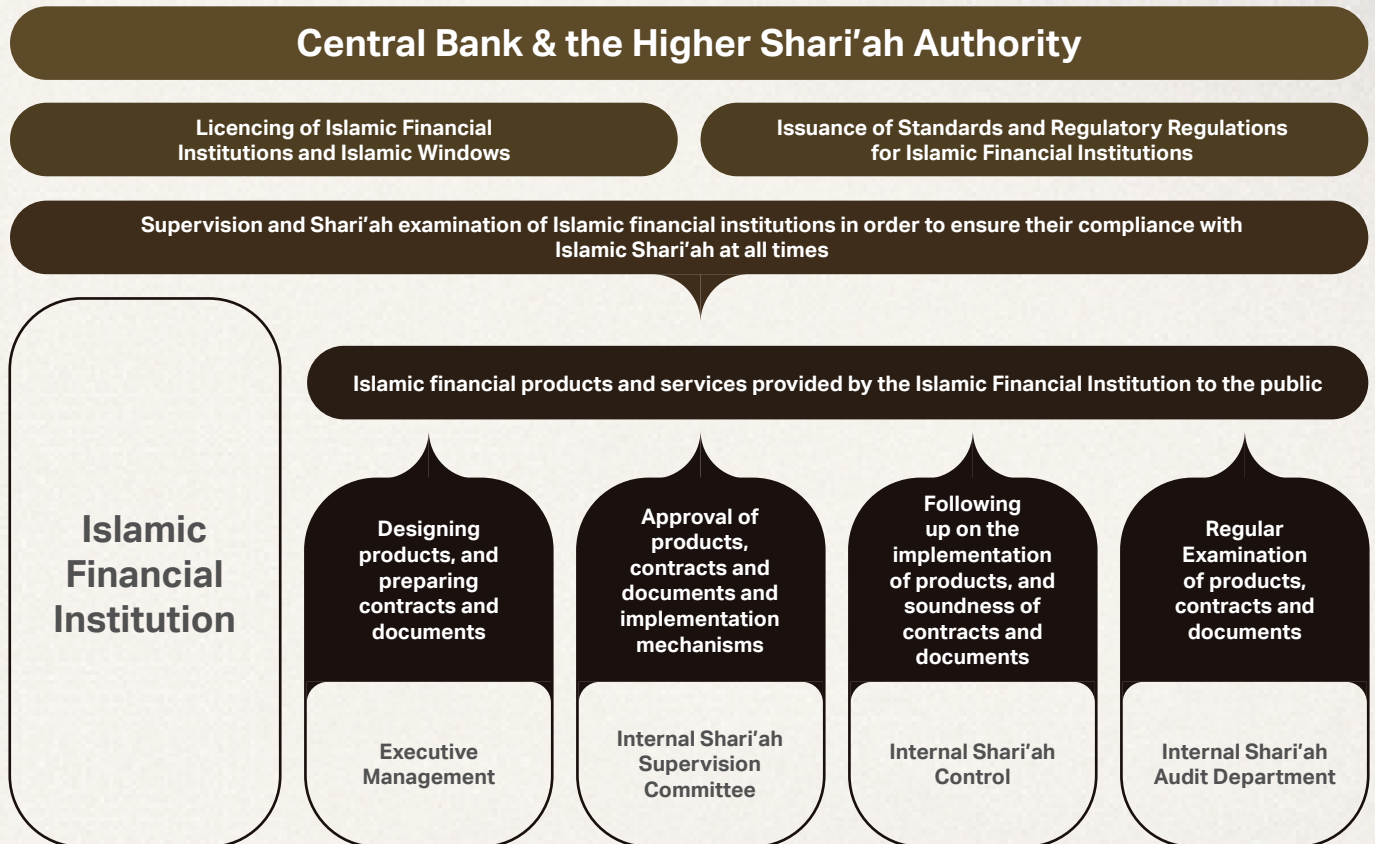
The Central Bank has established a specialized examination team to conduct additional examinations on Islamic financial institutions to ensure their compliance with the principles and rules of Islamic Shari'ah. The Central Bank reviews the effectiveness of the Shari'ah governance framework and the accuracy and soundness of the Shari'ah reports issued by the relevant departments. If violations are found, the Central Bank requires the institution to rectify them and may impose penalties if the violations are serious.

2.6 Financial Transactions of Islamic Financial Institutions with the Central Bank

The Higher Shari'ah Authority approves the monetary instruments and financial products issued by the Central Bank for Islamic financial institutions for liquidity management. This ensures that all transactions of Islamic financial institutions are in accordance with Islamic Shari'ah.

3. Practical Example

When a new financing product is launched, it is designed by the Executive Management (first line of defense), reviewed by the Internal Shari’ah Supervision Committee and the Internal Shari’ah Control Department (second line of defense), and audited later by the Internal Shari’ah Audit Department (third line of defense). The new products may also be approved by the Higher Shari’ah Authority to provide additional assurance of compliance with Islamic Shari’ah.



Shari’ah governance framework maintains the credibility of the institution. Responsibility for this framework begins with the board of directors and executive management and extends to every employee within the institution.

4. Customers’ Rights Regarding Shari’ah Governance:

A. The Right to Conduct Transactions in accordance with the Provisions of Shari’ah rules

All provided financial products and services must be Shari’ah-compliant.

B. The Right for Transparency

The customer must be provided with clear and sound information about the nature of the products, their related contracts, and Shari’ah Fatwas. Additionally, an annual Shari’ah report regarding compliance with the provisions of Islamic Shari’ah must be made available.

C. The Right to be Protected from non-compliant Transactions

The customer’s funds must be protected from entering into activities or transactions that violate Shari’ah. Any transactions in which errors occurred shall be disposed of or corrected.

D. The Right in a Continuous Shari’ah Supervision

Customer funds and transactions must be subject to the supervision of independent internal Shari’ah supervision committees that ensure continuous compliance with Shari’ah.

Shari'ah governance in the UAE is not just a regulatory obligation, but an institutional culture based on integrity, transparency, and responsibility.

Through this integrated framework—extending from the Higher Shari'ah Authority to the Internal Shari'ah Supervision Committees and Shari'ah control and audit departments—the UAE has become a global model for enhancing confidence in Islamic finance..

List of Legislation related to Islamic Finance:

Laws:

Federal Decree-Law No. (6) of 2025 Regarding the Central Bank, Regulation of Financial Institutions and Activities, and Insurance Business.

Federal Decree by Law No. (50) of 2022 Concerning Promulgating the Commercial Transactions Law

Regulations & Standards:

Regulation Regarding Takaful Insurance

Standard Regarding Regulatory Requirements for Financial Institutions Housing an Islamic Window

Standard Regarding Shari'ah Governance for Islamic Financial Institutions

Standard Regarding Shari'ah Governance for Takaful Insurance Companies

Guidance Note Re Charter of Internal Shari'ah Supervision Committee

Standard Regarding Charter of Internal Shari'ah Supervision Committee for Takaful Insurance Companies

Guidance Note Regarding Annual Shari'ah Report of Internal Shari'ah Supervision Committee

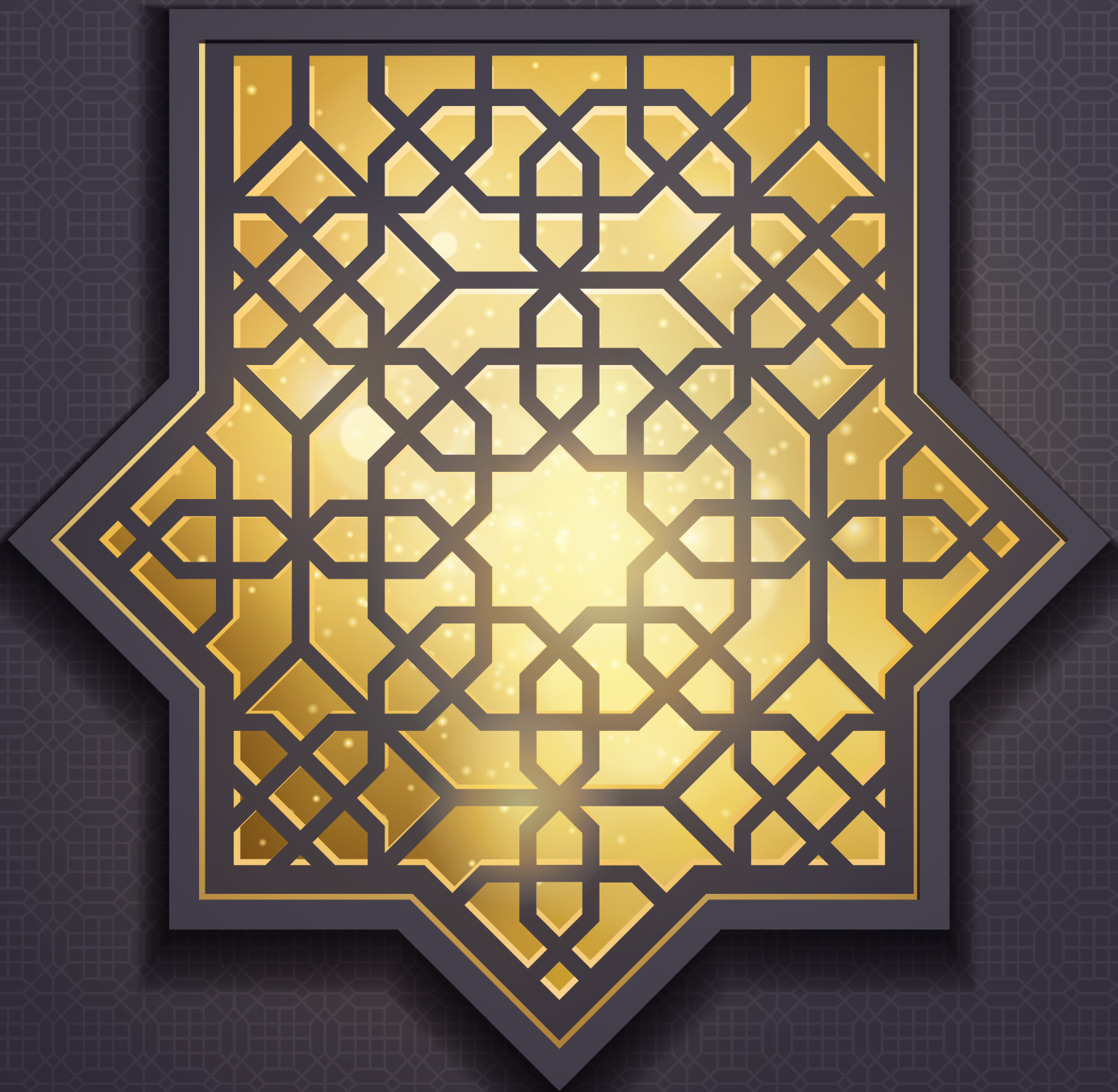
Standard Regarding Annual Shari'ah Report of Internal Shari'ah Supervision Committee for Takaful Insurance Companies

Standard Regarding Shari'ah Compliance Function at Islamic Financial Institutions

Guidance Note Regarding Shari'ah Compliance Function At Islamic Financial Institutions

Standard Regarding External Shari'ah Audit for Islamic Financial Institutions

Standard Regarding External Shari'ah Audit for Takaful Insurance Companies



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