

SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

Consultation Paper: Continuous Professional Development for Shariah Advisors



December 31, 2024

Preamble:

The SECP seeks stakeholder feedback on a proposal for mandatory Islamic finance certification for registered Shariah advisors. This initiative aims to strengthen professional standards in Islamic financial services, enhancing service quality and Shariah compliance. This paper outlines the objectives, rationale, and proposed execution plan for the certification and invites input on its strategy.

1. Introduction:

Shariah Advisors hold a pivotal role within Islamic financial institutions (IFIs), ensuring that their operations, products, and practices align with the principles of Islamic law (Shariah). Their responsibilities extend beyond mere Shariah approvals, as they serve as a bridge between classical Islamic jurisprudence and the dynamic realities of modern finance. With the global Islamic finance industry continuing to expand, driven by increasing demand for ethical financial solutions, the role of Shariah advisors has become more complex and multifaceted. This complexity arises from evolving legal and regulatory frameworks governing Islamic financial transactions, rapid advancements in financial technologies (fintech), the introduction of innovative financial instruments, and ethical considerations within the industry. As a result, the ability of Shariah advisors to effectively navigate these challenges is critical to maintaining the integrity and credibility of Islamic finance.

To meet these evolving demands, Shariah advisors must engage in continuous professional development (CPD). CPD ensures that advisors remain abreast of changes in financial markets, regulatory environments, and advancements in Islamic finance practices. It also equips them to offer sound, informed, and timely guidance. Such expertise is essential for ensuring the compatibility of financial innovations with Shariah principles and addressing the diverse needs of stakeholders, including regulators, investors, and consumers. A well-informed Shariah advisor is not only a valuable asset to their organization but also inspires greater confidence among external stakeholders. Investors, customers, and regulators are more likely to trust institutions that demonstrate a commitment to excellence through qualified advisors.

2. The Importance of Continuous Professional Development (CPD)

CPD serves as a cornerstone of excellence across all professional fields, and for Shariah advisors, its importance is particularly significant. The evolving nature of modern financial systems, combined with the need to uphold traditional Islamic jurisprudence, places unique demands on these professionals. CPD ensures that advisors remain current, refine their expertise, and respond effectively to the challenges posed by a dynamic financial landscape.

➤ Fully aware about the legal and regulatory framework

Understanding the legal and regulatory frameworks governing Islamic financial transactions is crucial for Shariah advisors registered with the SECP. These frameworks ensure that Islamic financial products comply not only with Shariah principles but also with national laws and regulatory requirements. By being well-versed in these frameworks, Shariah advisors can provide sound guidance, mitigate legal risks, and ensure that financial institutions operate transparently and ethically. This understanding also strengthens investor confidence and supports the sustainable growth of the Islamic finance industry within Pakistan's regulatory landscape.

➤ **Keeping Pace with Financial Market Trends**

Financial markets are continually evolving, introducing new trends, regulations, and financial products. CPD ensures that Shariah advisors remain well-informed, enabling them to navigate these changes effectively and make informed decisions regarding Shariah compliance.

➤ **Enhancing Competence Through Specialized Training**

CPD provides access to tailored training and certification programs, helping Shariah advisors develop the skills necessary to assess the compliance of increasingly complex financial instruments. This expertise is critical to ensuring that innovative products align with Shariah principles.

➤ **Risk Mitigation and Compliance**

With the continuous innovation of financial instruments, the risk of non-compliance with Shariah principles increases. CPD equips advisors with the tools to identify potential issues and mitigate risks, thereby safeguarding the institution's integrity and reputation.

3. Mandatory Certification Regime in Pakistan

Currently, mandatory certification requirements exist for various activities across the financial services industry including insurance, securities market, Modaraba and NBFC sectors. These requirements have been prescribed through various circulars issued by SECP under the respective laws¹. Recent regulatory developments in the field of Islamic finance, through the introduction of the Shariah Governance Regulations, 2023 ("Regulations"), have significantly raised the eligibility criteria for Shariah advisors while broadening their scope of responsibilities. These Regulations empower Shariah advisors to provide their expertise across a wide range of regulated sectors, including Modarabas, mutual funds, pension funds, non-banking financial companies (NBFCs), real estate investment trusts (REITs), non-profit organizations (NPOs), and Takaful.

Given this expanded scope, the Regulations mandate that Shariah advisors whether serving individually, or in company structure or as members of Shariah boards must complete mandatory training or certification programs. As outlined in Section 17(1)(j) of the Regulations, the SECP may require registered Shariah advisor to obtain certification. This requirement ensures that advisors remain up-to-date with evolving legal and regulatory framework, industry practices and maintain their registration status, thereby reinforcing the credibility and competency of Shariah advisory services in Pakistan.

¹ <https://www.secp.gov.pk/document/consultation-paper-on-certification-requirements-and-continuing-professional-education-cpe-for-professional-working-in-financial-services-sector/?wpdmdl=52199&refresh=676d2ffe978871735208958>

4. Proposed Certification Program

To comply with the Shariah Governance Regulations 2023, a mandatory certification program has been established, with its details outlined in Annexure-I. Currently, the Institute of Financial Markets of Pakistan (IFMP) offers an Islamic finance certification to meet the growing demand for Islamic finance professionals. However, the existing certification content needs revision to address the specific needs of Shariah advisors, who are the primary target audience for this program. The revised certification will focus on Islamic capital market proficiency, equipping Shariah advisors with comprehensive knowledge to provide expert guidance and support across Pakistan's Islamic finance ecosystem.

Shariah advisors are required to undergo this certification program one time, which is mandatory for all existing and newly registered advisors, except in cases where exemptions are specified by the Commission. Following this certification, Shariah advisors must engage in continuous professional development (CPD), completing a minimum of 24 hours of CPD annually (Criteria for calculating CPD hours is given as Annexure-II). The certification exam will be administered by the IFMP, which will also develop comprehensive course materials and guidebooks to support Shariah advisors in their preparation. Advisors may prepare for the certification through self-study using these materials or opt for in-person training sessions offered by institutions such as IFMP and Centers of Excellence in Islamic Finance (CEIFs).

The proposed certification program will be effective from 1st July, 2025, will include grandfathering provisions to facilitate a smooth transition for existing Shariah advisors. These provisions will recognize the qualifications, experience, and expertise of senior advisors, exempting them from specific certification requirements based on the following criteria:

- Shariah advisors serving as member of Shariah boards established under the SBP Shariah Governance Framework.
- Advisors with at least ten years of service to regulated financial institutions.
- Advisors holding a Ph.D. in Islamic finance.
- Advisors with extensive experience, as determined by the Commission on a case-by-case basis.

This approach ensures the maintenance of professional competency standards while recognizing and valuing the contributions of experienced Shariah advisors.

5. Stakeholder Consultation for Feedback

The proposed certification program aims to enhance the competency, credibility, and consistency of Shariah advisory services in Pakistan, aligning with international best practices while catering to local regulatory and market needs. By mandating annual certification and providing comprehensive study materials and training opportunities, the program seeks to establish a robust framework for professional development. The inclusion of grandfathering provisions reflects a

balanced approach, acknowledging the expertise of senior advisors while ensuring overall adherence to evolving standards.

To ensure the program's relevance and effectiveness, the SECP invites stakeholders to provide feedback on the following aspects:

- The appropriateness of the certification's scope, curriculum, and training requirements.
- The proposed exemption criteria for senior Shariah advisors.
- The suggested timeline and execution plan for implementing the certification requirement.
- Any additional recommendations for improving the certification program or supporting its implementation.

Stakeholders are requested to submit their comments by January 20, 2025, to the Islamic Finance Department. Feedback can also be shared electronically at islamic.finance@secp.gov.pk. Your valuable insights will play a critical role in refining and successfully implementing this initiative.



Annexure – I

| Module No. | Topic | Sub Topic |
|-------------------|--|--|
| Module I | Introduction to SECP Regulatory Framework | SECP Legal & Regulatory Framework |
| | | Brief Introduction on the regulated segments of SECP |
| | | Role of Islamic Finance Department |
| | Introduction to Islamic finance and economic system | Shariah Principles and rules for Islamic Finance framework |
| | | Comparison between Islamic Finance and Conventional Finance |
| | | Islamic Jurisprudence pertaining to Financial Matters |
| | Islamic Financial Contract | Islamic Law of Contract |
| | | AAOIFI Standard on Murabaha, Salam & Istisna |
| | | AAOIFI Standard on Musharkah & Modaraba |
| | | AAOIFI Standard on Ijarah |
| Module II | Introduction to Islamic Capital Market (Equities) | AAOIFI Standard on Monetization |
| | | Introduction to Islamic Capital Market |
| | | Equity Market: Shares Concept, AAOIFI Standard # 21 (Financial Papers) |
| | | Rules & regulations of Public offering |
| | Introduction to Islamic Capital Market (Fixed Income Securities) | Shariah Compliant Trading of stock - Screening criteria of stock - |
| | | Fixed Income Securities: Sukuk Vs Bond |
| | | AAOIFI Standard # 17 on Investment Sukuk |
| | | Sukuk Regulation by SECP |
| | | Sukuk offering documents |
| | Introduction to Non-banking Financial Sectors | Retail Sukuk, Sukuk Tokenization: Innovation and structuring Sukuk |
| | | Asset Management Companies: Mutual Funds |
| | | Modaraba Sector, applicable Modaraba law |
| | | Private Equity, Venture Capital |
| Module III | Shariah Governance & Compliance | Insurance Vs Takaful |
| | | Real Estate Investment Trust |
| | | Shariah Governance Regulations – 2023 |
| | | Case Studies on Shariah Compliant Securities |
| | | Case studies on Shariah Complaint Companies |
| | | Islamic Financial Services Guidelines, 2023; |
| | | Sukuk regulations, Regulated Securities Activities Licensing |

Annexure – II

To maintain a consistent and standardized approach, the following criteria will be used to calculate manhours for Continuous Professional Development (CPD) for Shariah advisors:

Eligible CPD Activities

| Sr. No | Activity | Criteria | CPD Hours |
|--------|---|--|--|
| 1. | Attending Trainings and Workshops | Participation in trainings, seminars, or workshops directly related to Shariah advisory, Islamic finance, or regulatory developments | Each hour of attendance is equivalent to 1 CPD manhour |
| 2. | Conducting Trainings or Workshops | Delivering training sessions or workshops on topics relevant to Shariah advisory or Islamic finance | Each hour of delivery is equivalent to 2 CPD manhours to account for preparation and delivery efforts. |
| 3. | Participating in Conferences or Panel Discussions | Active participation in conferences, forums, or panel discussions as a speaker, panellist, or attendee. | Attendance: 1 hour = 1 CPD manhour. Speaker/ Panelist: 1 hour = 2 CPD manhours. |
| 4. | Completing Online Courses or Webinars | Completion of online programs or webinars related to Shariah advisory, Islamic finance, or related topics. | Verified completion of content: 1 hour = 1 CPD manhour. |
| 5. | Publishing Research Articles or | Authoring or co-authoring research papers, articles, or publications on Shariah finance and advisory. | Equivalent to 8 CPD manhours. |

Verification and Documentation

- CPD activities must be supported with certificates of attendance, agendas, published work, or equivalent proof.
- By adhering to these criteria, Shariah advisors can ensure consistent professional development while meeting their regulatory requirements.