



SECURITIES AND EXCHANGE  
COMMISSION OF PAKISTAN

# STRATEGIC ACTION PLAN 2024-26

Development of Islamic Finance in  
Non-bank Financial Sector



November 29, 2024

**ISLAMIC FINANCE DEPARTMENT**

Securities and Exchange Commission of Pakistan, Islamabad





# ACRONYMS

AAOIFI	Accounting and Auditing Organization for Islamic Financial Institutions
ADB	Asian Development Bank
AMCs	Asset Management Companies
CII	Council of Islamic Ideology
CIVs	Collective Investment Vehicles
CDC	Central Depository Company of Pakistan
CDNS	Central Directorate of National Savings
CEIF	Centre of Excellence for Islamic Finance
CMC	Collateral Management Company
DIFD	Department for International Development
DMO	Public Debt Management Office
DFI	Development Finance Institutions
ETFs	Exchange Traded Funds
EWR	Electronic Warehousing Receipt
ESG	Environmental, Social, and Governance
FSC	Federal Shariat Court
FDI	Foreign Direct Investment
GoP	Government of Pakistan
GDP	Gross Domestic Product
IFD	Islamic Finance Department – SECP
IFAAS	Islamic Finance Advisory and Assurance Services
IFSB	Islamic Financial Services Board
HBFC	House Building Finance Company Limited
IILM	The International Islamic Liquidity Management Corporation
IsDB	Islamic Development Bank
ICAP	The Institute of Chartered Accountants of Pakistan
IAP	Insurance Association of Pakistan
ICPs	Islamic Commercial Papers
IBIs	Islamic Banking Institutions
IFMP	The Institute of Financial Markets of Pakistan
IFIs	Islamic Financial Institutions
IBA	Institute of Business Administration
KIBOR	Karachi Interbank Offered Rate
KMI-30	KSE Meezan Index
MSF	Murabaha Share Financing
MoL	Ministry of Law, Justice

MoF	Ministry of Finance
MUFAP	Mutual Funds Association of Pakistan
NA	National Assembly of Pakistan
NBMFI	Non-banking microfinance institution
NBFCs	Non-banking finance companies
NCCPL	National Clearing Company of Pakistan Limited
NCMCL	Naymat Collateral Management Company Limited
NIT	National Investment Trust Limited
LUMS	Lahore University of Management Sciences
PSX	Pakistan Stock Exchange Limited
PMEX	Pakistan Mercantile Exchange
PE	Private Equity
P2P	Peer-to-Peer
PIBs	Pakistan Investment Bonds
REITs	Real Estate Investment Trusts
Rs.	Pak Rupee
SBP	State Bank of Pakistan
SECP	Securities and Exchange Commission of Pakistan
SAC	Shariah Advisory Committee
SMEs	Small and Medium Enterprises
SPD	Special Primary Dealer
TA	Technical Assistance
T-bills	Treasury Bills
USSD	Unstructured Supplementary Service Data
VC	Venture Capital
Y-o-y	Year-on-year

# TABLE OF CONTENTS

Message from the Chairman SECP	05
Message from the Commissioner of Islamic Finance at SECP	07
Executive Summary	09
Introduction	10
Islamic finance diagnostic review	12
Strategic Action Plan 2024-26	14
Strategic Verticals (SVs)	15
SV-01: Accelerate the Growth of Islamic Finance in Regulated Sectors	15
SV-02: Achieve Greater Standardization in the Islamic Financial Industry	17
SV-03: Improve the Quality of Islamic Financial Institutions' Operations	18
SV-04: Strengthen the Legal and Regulatory Framework for Islamic Finance	19
Roadmap to execute strategic action plan 2024-26	20



## MESSAGE FROM THE CHAIRMAN SECP



Islamic finance with its unique proposition of inclusiveness and sustainability, has emerged as a competitive component of the overall financial ecosystem, complementing the existing financial system as a conduit of economic growth and development. Pakistan, being a Muslim majority country, has experienced heightened demand for Islamic financial services over the years, especially after the recent judgement of the Federal Shariat Court of Pakistan (FSC)<sup>1</sup>, which has concluded that “Riba or interest is prohibited in Islam, including relating to banking transactions” and decreed that the federal as well as provincial governments to complete the necessary legislative amendments in the impugned laws in order to bring such laws or provisions of the laws in conformity with the injunctions of Islam.

The Securities and Exchange Commission of Pakistan (SECP), in line with its mandate has been playing an instrumental role in developing conducive environment for sustainable growth of Islamic finance in the non-bank financial sector of the country. In addition to laying sound regulatory environment, SECP has also been facilitating the industry through multifaceted strategy of innovation, gradual transformation, standardization, capacity building and awareness creation. In order to spur the sustained growth of Islamic financial industry, SECP has provided proactive guidance through issuance of Guidelines for Offering Islamic Financial Services, 2023<sup>2</sup>.

In this background, along with concentrated efforts for financial inclusion through Islamic Fintech, the significance of Islamic finance in non-bank financial sector cannot be accentuated. This roadmap is prepared in light of the policy recommendations made in the “Diagnostic Review of Islamic Finance in the Non-Bank Financial Sector of Pakistan” conducted by the SECP<sup>3</sup>. The roadmap, prepared in consultation with major stakeholders, consists of four verticals.

The envisaged target of 15 percent growth in the share of Islamic finance in the non-bank financial sector and capital market by the year 2026, requires capitalizing the potential of Islamic financial industry through enabling regulatory environment while ensuring its stability through sound legal and regulatory footings. Acknowledging the dire need of developing the Shariah compliant products for capital market, microfinance, microinsurance, P2P financing and liquidity management, the roadmap enumerates recommendations focusing on Islamic finance under the SECP Regulatory Sandbox, increasing the issuance of retail Sukuk, revamping commodity Murabaha, digital microfinancing and increasing the floatation of Modarabas and innovation on NBFC and fund management industry by encouraging the Islamic finance industry and market players. This will enable the Islamic finance industry to achieve the target of 10-15 percent growth in the size of Islamic liquidity market, Shariah compliant digital financing and Islamic microfinance by 2025.

<sup>1</sup> <https://www.federalshariatcourt.gov.pk/Judgments/S-P%2030-L1991%20Riba%20Case-28.04.2022.pdf>

<sup>2</sup> <https://www.secp.gov.pk/document/guidelines-for-offering-islamic-financial-services-2023/?wpdmdl=46632&refresh=656d5563d608c1701664099>

<sup>3</sup> <https://www.secp.gov.pk/document/secp-diagnostic-review-of-islamic-finance-in-the-non-bank-financial-sector-of-pakistan-2023/?wpdmdl=46996&refresh=656d55c9b27a81701664201>

To promote the growth of Islamic finance in the non-bank and capital market, it is also crucial to prioritize capacity building and awareness creation. SECP, being acquainted of the fact, has been actively supporting and encouraging stakeholders to develop their skills and expertise in Islamic finance. Through collaborations with organizations such as IFMP and CEIFs, the SECP is working to make a significant impact by prioritizing widespread awareness creation efforts in the Islamic finance space. By including this focus in the SVs of the roadmap, we are reaffirming our ongoing dedication to this cause and our expectations for market players to follow the suit.

I firmly believe, this strategic action plan and future roadmap has the potential to promote the expansion of Islamic finance within the non-bank sector and capital markets, while also ensuring that all stakeholders benefit and contributing to the development of a fair and inclusive economic system.

Akif Saeed  
Chairman

## MESSAGE FROM THE COMMISSIONER OF ISLAMIC FINANCE AT SECP



As the Commissioner of Islamic Finance at SECP, it is with great honour and pleasure that I present the 'Strategic Action Plan 2024-2026' for the promotion of Islamic finance. This action plan aims to steer the growth of the Islamic financial services industry under SECP's regulatory domain, in line with the dynamics of the domestic financial landscape and international developments. It stands as a testament to SECP's proactive approach in assessing and developing the Islamic financial sector, with the goal of establishing it as a robust parallel financial system that aligns with our constitutional mandate to serve the masses.

As part of this strategy, SECP conducted a thorough diagnostic review of Islamic finance in the non-banking financial sector of Pakistan, identifying key impediments and proposing policy changes. Based on this diagnostic review and the FSC's ruling for the elimination of Riba, a multi-layered governance mechanism was put in place to devise a roadmap for the development of Islamic finance. This includes 'SECP's Apex Committee for providing strategic guidance regarding the implementation of the FSC judgement and 'SECP's Committee for the Promotion of Islamic Finance' with inclusion of industry leaders and Islamic finance experts.

Over the past two years, several regulatory reforms have been undertaken under the guidance of these committees. During this period, SECP enhanced the regulatory framework for Islamic financial institutions through the promulgation of Shariah Governance Regulations, 2023, the revamping of Modaraba Regulations, 2021, and the issuance of Guidelines for Shariah-compliant Investing on PSX and Guidelines for Offering Islamic Financial Services, 2023. Additionally, a standardized mechanism of Shariah screening of stocks has been implemented along with significant reduction in application requirement for certification of Shariah compliant securities.

As a result of these reforms, several immediate outcomes have been achieved, indicating an upward trend in the market. Notable developments in the sector include consistent growth in the Islamic capital market, collective investment schemes, and the Takaful segments. Furthermore, the enablement of Islamic finance in all regulated segments has attracted renewed interest, leading to the establishment of the first-ever Islamic financial institutions, including Islamic brokerage, Islamic mutual funds, Islamic Buy-now-pay-later services, and Islamic microfinance companies.

Now that Islamic finance has been enabled and the regulatory framework has been strengthened, there is a dire need to usher the growth of Islamic finance in Pakistan. Consequently, this strategic action plan has been developed after rigorous stakeholder consultations. During the consultation



process, international scholars, industry experts from PSX, CDC, NCCPL, PMEX, and heads of policy departments at SECP collaborated to prioritize targets of significant importance and delegate time-bound responsibilities to the relevant stakeholders.

This time-bound strategic action plan will serve both as a guiding document and target roadmap for the industry. It not only prioritizes goals but also fosters collaboration to achieve targets, providing stakeholders and investors with clarity on market direction.

In conclusion, I want to express my utmost appreciation and commendation to my team at the Islamic Finance Department for their hard work and dedication in developing this action plan. I also appreciate the commitment, support, and input of scholars, Islamic finance practitioners, teams at capital market infrastructure institutions, and all policy departments at SECP involved in this process. I firmly believe that together we will be able to consolidate our achievements so far and reach new heights in the development of Islamic finance.

Mujtaba Ahmed Lodhi  
Commissioner



## EXECUTIVE SUMMARY

Given its potential towards ensuring broad based economic growth and development, Islamic finance in the non-bank sector and capital market is among the top priority areas of the SECP. This is reflected through SECP's dedication and commitment for laying sound foundations for sustainable growth of Islamic financial industry in the Pakistan. Owing to the facilitative role of SECP, the industry has shown significant annual growth. In case of Islamic capital markets, as of June 30, 2024, there are 270 (51 percent) Shariah-compliant securities out of total of 528 listed securities at the Pakistan Stock Exchange (PSX), with a market capitalization of Rs. 5,788 billion (56 percent) out of a total market capitalization of Rs. 10,373 billion. Assets valuing Rs. 1,311 billion (48 percent) under management of mutual funds schemes, and Rs. 4,918 billion (65) percent under management of pension fund schemes are Shariah-compliant as of June 30, 2024.

The Takaful sector in Pakistan is marking its ground in line with the increasing demand for the Shariah-compliant solutions for risk management. Presently, the sector consists of 32 Takaful operators including 2 Dedicated General Takaful operators, 20 General Window Takaful operators, 7 Window Family Takaful Operators and 3 Dedicated Family Operators. In terms of insurance premium, takaful market share is 12 percent of the total size of the insurance market as of December 31, 2023.

The notable progress experienced by the Islamic finance sector in Pakistan can be ascribed, in part, to the significant contributions made by the SECP in fostering a conducive environment. SECP has not only developed a regulatory and supervisory framework that fosters growth, but also proactively engaged in promotion, training and capacity building of the industry.

The Islamic finance industry is rapidly growing and facing new challenges. To fully realize its potential, a comprehensive approach is needed, encompassing development of an enabling regulatory framework, developing more Shariah-compliant products, standardizing practices, and increasing awareness. Technology can be a valuable tool for achieving these goals, particularly in promoting transparency and providing insights into the industry.

The envisaged target of 15 percent increase in the existing share of Islamic finance in the non-bank financial sector and capital market by the year 2025, requires capitalizing the potential of Islamic financial industry through enabling regulatory environment while ensuring its stability through sound legal and regulatory footings. Acknowledging the dire need of developing the Shariah compliant products for capital market, microfinance, microinsurance, P2P financing and liquidity management, the roadmap enumerates the recommendations to focus on development of Islamic finance in all regulated sectors by encouraging the Islamic finance industry and market players. This will enable the Islamic finance industry to achieve the target of 10-15 percent growth in the size of Islamic liquidity market, Shariah compliant digital financing and Islamic microfinance by 2025.

## INTRODUCTION

Pakistan's commitment to Islamic finance is constitutionally grounded in Article 38(f), which mandates the elimination of Riba, a goal reinforced by the 26th Constitutional Amendment setting a deadline of January 1, 2028. Furthermore, article 227 stipulates that all existing laws shall be brought into conformity with the injunctions of Islam as laid down in the Holy Quran and Sunnah, and no law shall be enacted that is repugnant to such injunctions. In addition to Riba, there are other impermissible elements, including Gharar (uncertainty), Maisir (gambling), and the production and distribution of impermissible products and services. So as and when existing laws are in conformity with the injunction of Islam, these impermissible elements will be eliminated, enabling the establishment of a complete Islamic economic and financial system.

The Federal Shariat Court (FSC), vide its judgement dated April 28, 2022, has held that the challenged laws or provisions of the laws have been declared to have no effect after June 1, 2022, while the entire economy has to be transformed by December 2027. The judgement specifically held that every loan that extracts any additional amount upon the principal from the debtor is Riba; hence, any transaction that contains Riba, even at a slightest level, falls within the category of Riba thus prohibited. The federal government and provincial governments have been directed to complete the necessary legislative amendments to the impugned laws in order to bring such laws or provisions of the laws into conformity with the injunctions of Islam.

In light of the said judgement, a high-level steering committee, under the patronage of the Minister for Finance and Revenue, was constituted on December 23, 2022, for the purpose of providing strategic guidance regarding the implementation of the judgement. The steering committee proposed a transformation plan for the conversion of conventional banking into Islamic banking and a governance structure to smooth the transformation, including a dedicated committee for the capital market and the takaful industry.

It has been envisaged to formulate a strategy for the transformation of regulated sectors, and accordingly, the Chairman SECP constituted an Apex Islamic Finance Committee to provide strategic guidance regarding the implementation of the FSC's judgement on Riba and also expanded the scope of the functional committee on Islamic finance to include legal and regulatory developments. The Apex Islamic Finance Committee has considered this strategic plan as part of the overall strategy for the transformation of regulated sectors, with the aim of creating an enabling environment for industry players to initiate the conversion plans to implement the FSC judgement in its true letter and spirit. It has also been envisaged to consider outlining the developmental pathway for Islamic finance in regulated sectors for the next ten years, in light of country assessment programs being initiated by the Islamic Financial Services Board, Malaysia (IFSB), the Accounting and Auditing Organization for Islamic Financial Institutions, Bahrain (AAOIFI), the Islamic Development Bank (IsDB), and other international agencies. The said master plan is also expected to cover, in detail, the conversion of regulated markets, institutions, products, and services in accordance with Shariah principles and rules.

The process of Islamizing Pakistan's financial system began in 1977-78 in light of the reports submitted by the Council of Islamic Ideology (CII), followed by the promulgation of the Modaraba Ordinance, 1980 and the grant of the first license to an Islamic commercial bank in 2002. The SECP, in line with its mandate, as entrusted to it under the SECP Act, 1997, has been playing an instrumental role in developing conducive environment for sustainable growth of Islamic finance in the country. A dedicated Islamic finance Department was formed in 2015 to spearhead and lead SECP's efforts for development and promotion of Islamic finance in all its regulated sectors. The SECP drive its mandate



for Islamic financial service under section 20 of the SECP Act, 1997 for regulating and facilitating the growth of Shariah-compliant financial products in the financial services market except for the financial products regulated by the State Bank of Pakistan. Accordingly, the SECP is working towards achieving the constitutional objective of Islamization of economy and implementation of the decision of the FSC for transformation of financial system in accordance with principles laydown by the Quran and Sunnah.

The SECP, with a vast regulatory mandate covering the capital market, insurance, non-banking finance companies, pension funds, and corporate sector, has several touchpoints for the Islamic finance. These include; (a) Islamic institutions like Modarabas, Takaful operators, Islamic NBFIs, Shariah-compliant businesses, and Shariah advisors, (b) Islamic instruments like Shariah-compliant securities, Sukuk, Islamic commercial papers (ICPs), and (c) Islamic collective investment schemes like Islamic mutual funds, Islamic exchange traded funds (ETFs), Shariah-compliant real estate investment trusts (REITs). Non-profit organizations are also being registered and governed in the area of social development that include Islamic social finance, in accordance with the provisions of the Companies Act, 2017.

Along with laying sound regulatory environment, SECP has also been facilitating the industry through multi-pronged strategy of capacity building and awareness raising. According to a report by Fitch Rating, the size of the Pakistani Islamic finance industry is estimated to have crossed USD 53 billion at end 2023<sup>4</sup>. With a 55 percent share in total assets, Islamic banks dominate the Islamic finance industry. However, Sukuk only represents 38 percent of the outstanding amount, Islamic non-bank financial institutions constitute 7 percent of total assets, and takaful constitutes 0.5 percent of the total assets. Overall, Islamic finance constitutes 36 percent of the total industry assets of the non-bank financial sector, indicating its growing systemic importance.

SECP has been facilitating the sustainable growth of Islamic finance in Pakistan, which is a practicing Muslim-majority country and a potential market of faith-based products. The Shariah objectives for Islamic finance, that SECP is pursuing for accomplishment include; (1) protection, circulation, and halal augmentation of wealth; (2) justice and fairness in return distribution; (3) actual economic activities; and (4) societal well-being enhancement. Its vision is to spur a sustainable and resilient growth of Islamic finance in non-bank financial sector that creates value for all stakeholders and contributes in attaining an equitable and inclusive financial system. Its mission is to foster a sustainable and resilient growth of Islamic finance in non-bank financial sector, conducive regulatory framework, achieve greater standardization, sustainable market development, and promotion and awareness.

<sup>4</sup> <https://www.fitchratings.com/research/non-bank-financial-institutions/pakistans-islamic-finance-prospects-positive-on-government-push-30-01-2024>



# ISLAMIC FINANCE DIAGNOSTIC REVIEW

As per the mandate, and for the promotion of Islamic finance within SECP's regulated sectors, a diagnostic review was initiated with an aim to identify key issues and challenges and develop a cohesive action plan to address such issues and challenges. A diagnostic review was conducted using a self-assessment and consultative approach. A number of stakeholders were involved in the cross-industry engagements and an assessment of the present state of development of Islamic finance in regulated sectors was carried out, while global trends in the Islamic financial services industry were also considered. As a result, a diagnostic review report on Islamic finance in the non-bank financial sector of Pakistan was prepared and published which mainly covers the following:

- 1) **The financial landscape and evolution of Islamic finance in the Pakistan:** In order to capture vantage, key stats and information was provided regarding the current state of affairs of Pakistan economy. Summary of the updated synopsis is tabulated below:

GDP at current market prices FY 2023	Rs. 84,657.9 billion
Per capita income FY 2023	\$1,568 (compared to \$1,765 last year)
Real GDP growth FY 2023	0.29%
Current Account deficit (Jul – Sept) FY 2023	\$ 985 million
Fiscal deficit (Jul-Sept) FY2023	PKR 9,62.801 billion (0.9% of GDP)
Financial sector assets (CY22)	Rs.46,393 Billion ( 54% of GDP) Banking Rs. 35,796 billion (77%) , CDNS Rs. 3,390 billion (7%), Insurance Rs. 2,460 (5%), NBFI Rs. 2,563 (5%), MFBs and DFIs Rs. 2,184 (4%)
Total market capitalization (FY 23)	Rs.6,108.17 Billion ( 7%) of GDP and 17% of total banking assets)

- 2) **An overview of Islamic capital market, non-bank Islamic finance sector and Takaful sector in the Pakistan:** The Islamic Financial Services Industry (IFSI) has grown to a sizable portion in Pakistan. Despite the fact that the asset size of Islamic finance in the banking sector overshadows the non-banking sector, however, in terms of the number of institutions and diverse nature of activities, the scope of Islamic finance in the SECP regulated sectors is much broader than that of Islamic banking. The following latest key figures signify Islamic finance's substantial presence in the non-bank financial sector:

- Shariah-compliant securities comprise of 270 (51%) with a market cap of Rs.5,788 billion (56%) as on June 30, 2024 [total 528 listed securities with market cap of Rs. 10,373billion];
- Domestic Ijarah Sukuk of Rs.4,650 billion issued by GoP till June 30, 2024;
- Shariah-compliant CIS represent 48% of total mutual funds AUMs and 65% of pension fund AUMs as on June 30, 2024;
- Takaful market share is 12% of the total size of the insurance market premium as of December 31, 2023;

- 3) **Global Islamic finance landscape including Islamic finance global bodies and leaders:** Islamic finance with its unique proposition of inclusiveness and inherent ability to promote economic maximization, has marked its presence in the global arena with the size of USD 3.38 trillion industry as of 2023<sup>5</sup>. As per the Islamic Finance Development Indicator, Malaysia is the most developed country in Islamic finance followed by Saudi Arabia, Indonesia, Bahrain and UAE. The global Islamic finance bodies include the AAOIFI, IFSB, IsDB and others. Sub-heading 3.1 of the diagnostic review report may be referred for the further details;
- 4) **Key issues and challenge identified in regulated sectors:** These include macro level issues pertaining to undocumented economy, low saving rate, smaller number of investors, and lack of financial literacy and public confidence. The specific issues listed in para 4.2 of diagnostic review report include inadequate legal and regulatory framework, limitation in Shariah-compliant products, under developed intermediaries, and outreach and capacity building challenges.
- 5) **Policy Recommendations:** In order to address the identified issues and challenges, specific policy recommendations have been provided covering legal and regulatory developments, innovation and new models for delivery of Islamic financial products and services, improving capacity and capabilities of intermediaries and stakeholders, and building stakeholder confidence through awareness. The recommendations have been clustered into four areas and are being made part of the strategic action plan.

This diagnostic report was published in February 2023 and is available on SECP's website ([www.secp.gov.pk](http://www.secp.gov.pk)). Paragraph No. 187 of the diagnostic report specifically recommended the formulation of an action plan to achieve various policy actions in above-mentioned four-key objectives. This action plan being provided now is setting short-term, medium-term, and long-term action objectives, along with the identification of stakeholders required to perform each action set.

<sup>5</sup> <https://www.ifsb.org/wp-content/uploads/2024/09/IFSB-Stability-Report-2024-8.pdf>



# STRATEGIC ACTION PLAN 2024-26

This strategic action plan presents a unified initial agenda and approach to elevate the industry to the next level of progress and advancement. It places significant emphasis on encouraging Islamic financial institutions to utilize innovative products incorporating Shariah-based features to serve under developed sectors, which are essential for the country's economic growth, the efficient execution of the plan's objectives in each area will depend heavily on the involvement of all stakeholders. The strategy for advancing Islamic finance in Pakistan prioritizes four key areas, which include enabling regulatory framework, achieving greater standardization, sustainable market development, and promotion and awareness.

## Roadmap for development of Islamic finance in the Non-Banking Islamic Finance Industry 2024-26 – Snapshot





# STRATEGIC VERTICALS (SVs)

Four strategic verticals have been included in the roadmap as a route towards achieving the vision of a sustainable and resilient growth of Islamic finance in non-bank financial sector. These contains its objectives and related activities.

## SV-01: Accelerate the Growth of Islamic Finance in Regulated Sectors

Islamic finance has gained significant traction in recent years, with more and more investors seeking to invest their money in a socially responsible manner. The SECP plays a crucial role in regulating the financial sector in Pakistan along with the development of Islamic finance in the non-bank financial sector. In order to provide appropriate solutions to satisfy financial needs of providers of funds (investors, liquidity providers, financiers, etc.), users of funds (companies, entrepreneurs, government, customers, etc.) and intermediaries connecting the two, availability of suitable financial products that are not only Shariah-compliant but also capable of serving the desired needs in efficient and effective manner, is inevitable. With the advent of technology, new ways and means have to be explored for offering innovative products.

The focus on Islamic finance in the capital market will be intensified through various initiatives, including the rejuvenation of non-bank Islamic financial institutions and Islamic collective schemes. Ongoing efforts shall be made to encourage listed companies to obtain a Shariah-compliant declaration, enhance shariah disclosures, and adopt policies for conversion in accordance with the decision of the FSC. Various initiatives for the promotion of innovative sukuk structures for sovereign and corporate sukuk and the listing of sukuk for increased retail participation have been envisaged under the plan. Revitalizing the potential of the Takaful industry through innovation, aiming to increase penetration, is another focused area. These initiatives will collectively contribute to the growth and development of Islamic finance, fostering a more inclusive and equitable financial system. Accordingly, the SECP aims to accelerate the growth of Islamic finance in regulated sectors through following initiatives:

### 1.1 Focus on Islamic finance in securities market through following initiatives:

- (a) Embrace Islamic finance within the apex regulator and infrastructure institutions.
- (b) Promote retail sovereign and corporate Sukuk issuances and listings at the stock exchange.
- (c) Improve and strengthen the Shariah stock screening process and the construction of Islamic indices.
- (d) Enable and promote Shariah-compliant trading at PSX by licensing new Shariah-compliant brokers.
- (e) Promote Islamic financial services within the stock brokerage business through issuing guidelines for Shariah-compliant trading and other related practices.



(f) Enable and introduce mechanisms and systems for instant settlement of trades in Shariah-compliant securities.

(g) Expand the collateral management regime and electronic warehousing by connecting with the agriculture sector.

(h) Expand the GoP Sukuk universe by allowing asset-light Sukuk structures.

(i) Explore the possibility of creating an Islamic liquidity market through commodities. Murabaha platform

## 1.2 Rejuvenate the potential of non-bank Islamic financial institutions and Islamic collective schemes by following initiatives:

(a) Invigorate the Modaraba sector by floating new Modarabas, their listing on the GEM board, and advocating a favorable tax regime.

(b) Allow Islamic social finance through the institution of waqf through legal and regulatory platforms.

(c) Develop Shariah-compliant digital financing products and platforms.

(d) Promote Islamic NBFCs and NBFCs offering Shariah-compliant products through regulatory enablements.

(e) Allow Islamic crowdfunding for resource mobilization.

(f) Promote Islamic private funds to facilitate venture investment.

(g) Support the development of new Shariah-compliant collective investment schemes for underserved segments.

## 1.3 Revitalize potential of Takaful industry through innovation for increased penetration

(a) Synchronize the Shariah governance framework for Takaful operators.

(b) Diversify Takaful distribution channels through the adoption of technology.

(c) Promote agri-takaful products to create a real impact.



(d) Promote alternate models of banca takaful products.

(f) Promote Islamic products for every segment of the insurance industry.

#### 1.4 Other initiatives

1.4 Initiate a campaign to encourage listed companies to get declared as Shariah-compliant companies.

1.5 Promote and facilitate the issuance of Shariah-compliant securities.

1.6 Promote effective collaboration with stakeholders for innovative product development.

### SV-02: Achieve Greater Standardization in the Islamic Financial Industry

The reputation and credibility of Islamic financial institutions rely on their ability to adhere to Shariah injunctions. Globalization and internationalization in Islamic finance have accentuated the need to create standardization and harmonization in Shariah practices, their accounting treatments, and governance in an integrated framework across the globe. Consistency in Shariah practices and their accounting treatments is instrumental in strengthening the trust of the general public and paving the way for positive public perception. At the moment, the focus of standardization is limited to the adoption of Shariah standards on a need basis. Over the period of experimentation and regulatory interventions around the globe, it has been found that this strategy for adoption deployed to bring standardization to Islamic financial institutions is less effective and marginally efficient. The existing strategy lacks comprehensiveness as it largely relies on the adoption of shariah standards only. It further ignores the integration between Shariah, governance, and accounting standards, which is necessary for the credible functioning of Islamic financial institutions. Lastly, this strategy offers a very passive and less interactive process of adoption regarding industry feedback and doesn't effectively contribute to the industry's readiness for standardization to its true potential. A paradigm shift in the strategy for adoption of global standards, is therefore, inevitable. A holistic approach for adoption consisting of a full range of relevant shariah, accounting, and governance standards deployed in line with global best practices is desired. The adoption will be attempted in an integrated framework to ensure the smooth operation of Islamic financial institutions with increased confidence and credibility. Considering the maturity level of the Islamic finance industry within regulatory domain of SECP and to address practical difficulties in implementation of standards, a staggered approach, is required to be developed and implemented.

The plan, therefore, envisages the development and implementation of a comprehensive strategy to adopt global standards and principles, aiming to increase the adoption of AAOIFI's standards and IFSB's principles. This will also involve exploring suitable options for adopting accounting and auditing standards for Islamic financial transactions, as well as developing sample Shariah structures and agreements for the issuance of Shariah-compliant securities. Additionally, efforts will be made to enhance market capacity for understanding and implementing AAOIFI's Shariah standards and IFSB Principles, promoting consistency and best practices in Islamic finance. Accordingly, the SECP aims to achieve greater standardization in the Islamic financial industry through following initiatives:



- 2.1 Implement a strategy for the gradual adoption of all relevant Shariah standards issued by the AAOIFI.
- 2.2 Adopt the Core Principles for the Islamic Capital Market, Takaful undertakings, and non-bank financial institutions issued by the IFSB.
- 2.3 Develop a cohesive strategy to adopt accounting and auditing standards for Islamic financial transactions.
- 2.4 Develop illustrative Shariah structures and agreements for the issuance of Shariah-compliant securities.
- 2.5 Increase market capacity for understanding and implementing AAOIFI's Shariah standards.

### SV-03: Improve the Quality of Islamic Financial Institutions' Operations

Islamic financial institutions within the regulatory ambit of SECP are not mature enough when compared to the Islamic banking institutions in the country. The Modarabas, Mutual Funds and Takaful sectors are relatively mature; however, other institutions interested in offering Islamic financial services under the NBFC and capital market regimes must proceed gradually. This is critical for the development of these institutions in accordance with their overall goals, such as improving the quality of their operations and expanding the services they provide. The goal here is to develop an enabling regulatory environment for sustainable, practical, and self-regulated operations of Islamic financial institutions within the regulatory ambit of SECP.

Under the roadmap, the SECP will include Islamic finance in its Innovation Office initiative in addition to promoting it through the regulatory sandbox initiative, fostering a culture of innovation and growth. Additionally, a series of capacity-building and awareness sessions will be arranged to enhance market capacity and educate stakeholders about Islamic finance in regulated areas, enhancing understanding and adoption. A foundational framework will also be developed to ensure a structured mechanism for ongoing monitoring and compliance of Islamic financial institutions, ensuring their operations align with Shariah principles. Accordingly, the SECP aims to improve the quality of Islamic financial institutions' operations through following initiatives:

- 3.1 Encourage innovative ideas for the development of Islamic financial products and services under the SECP's regulatory sandbox initiative.
- 3.2 Support innovators and provide assistance for the refinement of ideas for the development of Islamic financial products and services under the SECP's innovation office initiative.
- 3.3 Arrange and conduct capacity-building activities for the industry in collaboration with domestic and international partners.



- 3.4 Hold awareness and advocacy sessions on Islamic finance in regulated areas on a regular basis.
- 3.5 Develop a foundational framework for the ongoing monitoring and compliance of Islamic financial institutions.
- 3.6 Publish, periodically, sectoral development data on Islamic finance in regulated sectors.

#### SV-04: Strengthen the Legal and Regulatory Framework for Islamic Finance

A robust legal and regulatory framework for Islamic finance is essential for the development of Islamic finance in the non-bank financial sector, as presently, with the exception of the Modaraba sector, all other regulated sectors are governed through laws and regulations with a primary focus on the needs of conventional finance and enabling provisions for Islamic finance that are limited, restrictive, or in many cases absent altogether. In order to strengthen the legal and regulatory framework for Islamic finance, a dedicated primary law for Islamic financial services will be promulgated, providing a comprehensive and tailored regulatory environment. Additionally, the Modaraba Ordinance, 1980, will be updated to align with contemporary needs and best practices. Apart from introducing similar Shariah governance requirements in all regulated sectors, consistency in adherence to Shariah principles will be achieved. Furthermore, the concept of Tier-I and Tier-II capital will be introduced for all non-bank Islamic financial institutions, enhancing their financial resilience. Finally, an alternate dispute resolution mechanism will be introduced for Islamic finance contracts, providing a more efficient and Shariah-compliant approach to resolving disputes. Accordingly, the SECP aims to strengthen the legal and regulatory framework for Islamic finance through following initiatives:

- 4.1 Introduce statutory provisions within SECP's existing laws to enable Islamic financial products and services.
- 4.2 Support innovators and provide assistance for the refinement of ideas for the development of Islamic financial products and services under the SECP's innovation office initiative.
- 4.3 Update the Modaraba Ordinance, 1980, through the promulgation of the Modaraba Ordinance (Amendments) Act.
- 4.4 Harmonize the regulatory framework of all regulated sectors governing Islamic financial products and services.
- 4.5 Introduce the concept of Tier-I and Tier-II capital for all non-bank Islamic financial institutions.
- 4.6 Introduce an alternate dispute resolution mechanism for Islamic finance contracts.



# ROADMAP TO EXECUTE STRATEGIC ACTION PLAN 2024-26

All key action identified, their expected outcome, its timeline and responsible stakeholders are summarized in the below matrix.

S. No	Action	Expected Outcome	Responsible Stakeholder	Timeline
<b>SV-01: Accelerate the Growth of Islamic Finance in Regulated Sectors</b>				
<b>1.1</b>	Focus Islamic finance in securities and futures markets through the following initiatives	Developed Islamic finance ecosystem in securities and futures market		
	(a) Embrace Islamic finance within the institution by (i) creating Islamic finance section/department/establishment, (ii) create business relationships with Islamic financial institutions, in case of business needs; and (iii) prioritize human resource capacity building in the field of Islamic finance	Strengthened institutional infrastructure to develop and promote Islamic finance	– SECP – PSX, NCCPL, CDC	Dec-2025
	(b) Promote retail sovereign and corporate Sukuk listing at the stock exchange and enable Sukuk tokenization	Executed a comprehensive Sukuk listing program by the exchange covering legal and regulatory synchronization, listing facilitation, incentives and preference, and secondary trading	– PSX, DMO – PMAD-SMD	June-2025
	(c) Improve and strengthen the Shariah stock screening process and the construction of Islamic indices.	Refined Shariah stock screening process with enhanced quality and transparency.	– SECP – PSX	Jun-2025
	(d) Enable and promote Shariah-compliant trading at PSX by licensing new Shariah-compliant brokers	Enabled and streamlined institutional arrangement for Shariah conscious investors	– PSX, NCCPL and CDC – PRDD-SMD	Dec-2025
	(e) Promote Islamic financial services within the stock brokerage business through issuing guidelines for Shariah-compliant trading and other related practices	Standardized Shariah-compliant trading and other related practices in the stock brokerage industry	– PSX, NCCPL and CDC – PRDD-SMD	June-2025
	(f) Enable and introduce mechanisms and systems for instant settlement of trades in Shariah-compliant securities	Increased investor outreach through facilitation of Shariah conscious individual and institutional investors	– PSX, NCCPL and CDC – PRDD-SMD	Dec-2025
	(g) Expand collateral management regime and electronic warehousing by connecting with agriculture sector	Increased financial inclusion and developed agri-financing ecosystem	– PMEX, CMC, CDC, PSX, – PRDD-SMD	Dec-2025

	(h) Expand GoP Sukuk universe by allowing Asset-Light Sukuk structures including short-term tradeable structures	Expanded Sovereign Sukuk market and increased investor penetration	<ul style="list-style-type: none"> <li>– DMO, SBP, PSX</li> <li>– IFD, PMAD-SMD</li> </ul>	Dec-2025
	(i) Explore possibility of creating Islamic liquidity market through commodity Murabaha platform	Created a regulated market to serve liquidity needs of Islamic financial institution including Islamic banks	<ul style="list-style-type: none"> <li>– PMEX, CMC, CDC, PSX,</li> <li>– PRDD-SMD</li> </ul>	Jun-2026
<b>1.2</b>	Rejuvenate the potential of non-bank Islamic financial institutions and Islamic collective investment schemes by leveraging technology through the following initiatives	Increased share of Islamic NBFCs and Islamic CIS in Islamic financial landscape	<ul style="list-style-type: none"> <li>– Lending &amp; PF Department</li> <li>– Fund Management Department</li> <li>– MUFAP, NBFI and Modaraba Association of Pakistan</li> </ul>	2024-26
	(a) Invigorate modaraba sector by (i) flotation of new modarabas with innovative business models (ii) facilitating listing of Modarabas on GEM board; and (iii) advocating restoration of favorable tax regime for Modarabas	Floated and listed at least one new modaraba in each year.	<ul style="list-style-type: none"> <li>– NBFI &amp; Modaraba Association</li> <li>– IFD</li> </ul>	June-2025
	(b) Allow Islamic social finance through the institution of Waqf through legal and regulatory reforms	Enabled legal and regulatory framework to allow Waqf asset managements by asset management companies	<ul style="list-style-type: none"> <li>– MUFAP</li> <li>– PRDD-SCD</li> </ul>	Dec-2025
	(c) Develop Shariah-compliant digital financing products and platforms for connect real retail trading	Introduced and approved digital finance products and platforms	<ul style="list-style-type: none"> <li>– NBFI &amp; Modaraba Association</li> <li>– PRDD-SCD</li> </ul>	Dec-2025
	(d) Promote Islamic NBFCs and NBFCs offering Shariah-compliant products through regulatory entablments including introduction of new licensing regime	Increased share of Islamic NBFCs and Shariah-compliant products	<ul style="list-style-type: none"> <li>– Lending and NBFI Department</li> <li>– NBFI &amp; Modaraba Association</li> </ul>	Jun-2025
	(e) Allow Islamic crowdfunding for resource mobilization	Introduced legal and regulatory framework for Islamic crowdfunding	<ul style="list-style-type: none"> <li>– IFD, PMADD-SMD</li> </ul>	Jun-2026
	(f) Promote Islamic private funds to facilitate venture investments	Islamic private funds established	<ul style="list-style-type: none"> <li>– Lending and NBFI Department</li> </ul>	Jun-2025
	(g) Support the development of new Shariah-compliant collective investment	Introduced targeted plans to enhance financial inclusion of underserved segments	<ul style="list-style-type: none"> <li>– MUFAP</li> <li>– PRDD-SCD</li> </ul>	Dec-2025



<b>1.3</b>	Revitalize potential of Takaful industry through innovation for increased penetration and	Increased share of Takaful within insurance industry of Pakistan	– Insurance Division – IAP	2024-26
	(a) Synchronize Shariah governance framework for Takaful operators	Consistency in Shariah-compliance practices within all the regulated sectors	– Insurance Division	Jun-2025
	(b) Promote diversification of takaful distributional channels through adoption of technology	Enabled digital distribution of all takaful products	– Insurance Division	Dec-2025
	(c) Promote agri-takaful products to create a real-impact	Ensured wide-range of product available for the agri-businesses	– Insurance Division	Dec-2025
	(d) Promote alternate models of banca takaful products	Resolved high impact cost and mis selling issues by allowing alternate model	– IAP – PRDD-Insurance – Islamic Banks	Dec-2025
	(e) Promote Islamic products for every segment of insurance industry	Enabled complete takaful ecosystem	– Insurance Division – IAP	Dec-2026
<b>1.4</b>	Initiate a campaign to encourage listed companies to get declared as Shariah-compliant companies	Number of certified Shariah compliant companies increased to 30	– Listed companies, PSX – IFD	Dec-2025
<b>1.5</b>	Promote and facilitate issuance of Shariah-compliant securities	Reduced average turnaround time for approval to three business days	– Issuers – IFD	June-2025
<b>1.6</b>	Promote effective collaboration with stakeholders for innovative product development	Fully functional CEIF Alliance for research and development in ICM, takaful and non-banking financial services industry	– CEIF Alliance – IFD	June-2025
<b>SV-02 Achieve greater standardization in the Islamic financial industry</b>				
<b>2.1</b>	Implement a strategy for the gradual adoption of all relevant Shariah standards issued by the AAOIFI	Increased implementation of AAOIFI Shariah standards to ensure consistent practices in industry	– IFD	Jun-2025
<b>2.2</b>	Adopt the Core Principles for the Islamic Capital Market, Takaful undertakings, and non-bank financial institutions issued by the IFSB	Improved regulatory framework in line with international standards and best practices	– IFD	Dec-2026
2.3	Develop a cohesive strategy to adopt accounting and auditing standards for Islamic financial transactions	New Islamic financial accounting standards has been notified upon recommendation of ICAP	– ICAP, ICMAP – SBP – IFD	Jun-2026
2.4	Develop illustrative Shariah Structures and agreements for issuance of Shariah compliant securities	Templates are been published to facilitate documentation process and to reduce time and efforts	– IFD	Dec-2025

2.5	Increase market capacity for understanding and implementing AAOIFI's Shariah standards	Completed a compressive campaign and series of capacity building events in collaboration with stakeholders.	<ul style="list-style-type: none"> <li>– IFD</li> <li>– All regulated persons</li> </ul>	Dec-2025
<b>SV-03 Improve the quality of Islamic financial institutions' operations</b>				
3.1	Encourage innovative ideas for the development of Islamic financial products and services under the SECP's regulatory sandbox initiative	Introduced new Shariah compliant models for financial products and services in the regulated sectors	<ul style="list-style-type: none"> <li>– RSB Committee</li> <li>– IFD</li> </ul>	Dec-2026
3.2	Support innovators and provide assistance for the refinement of ideas for the development of Islamic financial products and services under the SECP's innovation office initiative	Started conducted sessions with potential innovators to encourage innovation in Islamic Finance	<ul style="list-style-type: none"> <li>– NICs</li> <li>– Innovation Office</li> <li>– IFD</li> </ul>	Dec-2026
3.3	Arrange and conduct capacity-building activities for the industry in collaboration with domestic and international partners	Completed series of capacity building events in collaboration with stakeholders.	<ul style="list-style-type: none"> <li>– IFD</li> <li>– All regulated persons</li> </ul>	Dec-2025
3.4	Hold awareness and advocacy sessions on Islamic finance in regulated areas on a regular basis	Completed a compressive campaign in collaboration with stakeholders.	<ul style="list-style-type: none"> <li>– IFD</li> <li>– All regulated persons</li> </ul>	Dec-2025
3.5	Develop a foundational framework for the ongoing monitoring and compliance of Islamic financial institutions	A clear monitoring and compliance mechanism for Islamic financial institutions and Shariah advisors and Shariah compliant companies has been put in place	<ul style="list-style-type: none"> <li>– Supervision Division</li> <li>– IFD</li> </ul>	June-2025
<b>SV-04 Strengthen the legal and regulatory framework for Islamic finance</b>				
4.1	Introduce statutory provisions within SECP's existing laws to enable Islamic financial products and services.	Amendments in existing SECP laws and regulations for providing enabling regulatory environment for introduction of Islamic financial products and services.	<ul style="list-style-type: none"> <li>– All policy departments of SECP</li> </ul>	Jun-2026
4.2	Promulgate a dedicated primary law for Islamic financial services	Draft of Islamic financial services act has been prepared to provide enabling statutory legal support to regulated sectors	<ul style="list-style-type: none"> <li>– IFD</li> </ul>	Jun-2026
4.3	Update the Modaraba Ordinance, 1980	Modaraba Ordinance (Amendment) Act promulgated addressing key challenges in existing laws and paving the way for further development of Modarabas	<ul style="list-style-type: none"> <li>– IFD</li> </ul>	Jun-2026
4.4	Harmonize the regulatory framework of all regulated sectors governing Islamic financial products and services	Provided consistent regulatory framework for all regulated sectors	<ul style="list-style-type: none"> <li>– All policy departments</li> <li>– IFD</li> </ul>	Jun-2025
4.5	Introduce the concept of Tier-I and Tier-II capital for all non-	Introduced the concept through regulatory amendments allowing	<ul style="list-style-type: none"> <li>– IFD</li> <li>– PRDD-SCD</li> </ul>	Dec-2025



4.5	Introduce the concept of Tier-I and Tier-II capital for all non-bank Islamic financial institution	Introduced the concept through regulatory amendments allowing alternate ways to meet regulatory capital requirements	<ul style="list-style-type: none"> <li>- IFD</li> <li>- PRDD-SCD</li> <li>PRDD-Insurance</li> </ul>	Dec-2025
4.6	Introduce alternate dispute resolution mechanism for Islamic finance contracts	Introduced the concept of out-of-court settlement through alternative dispute resolution mechanisms, including mediation, arbitration, and neutral evaluation.	<ul style="list-style-type: none"> <li>- IFD</li> <li>- Legal Advisory Department (LAD)</li> </ul>	Jun-2026

**Abbreviations:** Pakistan Stock Exchange (PSX), National Clearing Company of Pakistan Ltd (NCCPL), Central Depository Company (CDC), Islamic finance Department (IFD), Policy, Regulation and Development Department (PRDD), Primary Market Approvals and Development Department (PMADD), Specialized Companies Division (SCD), Securities Market Division (SMD), Insurance Association of Pakistan (IAP), Mutual Funds Association of Pakistan (MUFAP)



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