



SECURITIES & EXCHANGE COMMISSION OF PAKISTAN

PRESS RELEASE

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Islamic Financial Service Law proposed in consultation paper published by SECP.

Proposal will support recent 26th constitutional amendment seeking riba free financial services by 2028

ISLAMABAD, October 30, 2024: The Securities and Exchange Commission of Pakistan (SECP) has published a comprehensive consultation paper proposing promulgation of a dedicated law for promoting and developing Islamic financial services within its regulatory ambit. The SECP intends to consult the experts and the general public for drafting the Islamic Financial Services Act so as to provide an enabling legal framework for Islamic financial services. The proposed legislation aims to create a comprehensive primary law on Islamic finance, revamp the existing framework for financial services, address legal uncertainty and risk, and standardize Shariah-related matter across all SECP's regulated sectors in the Islamic financial services industry.

The SECP emphasized that the legal and regulatory frameworks are crucial for the development of the Islamic finance industry. Pakistan's non-bank financial sector has undergone a legal and regulatory overhaul, but it mainly covers the conventional market. The Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980, is the only primary legislation dedicated to Islamic finance. The growth of Islamic financial institutions, assets, and services in the non-bank sector indicates the need for better regulations and Islamic financial services.

Specifically, the 26th constitutional amendment inter alia requires complete elimination of Riba by January 1, 2028. Prior to this, the Federal Shariat Court of Pakistan (FSC) has already declared challenged laws have no effect, and has directed the government to amend laws by December 2027. In order to comply with the constitution and the FSC judgment, it has been envisaged to make a dedicated law for all financial services, excluding those regulated by the SBP, for which, SBP has already rolled out a comprehensive transformation plan that includes legal and regulatory developments.

It is expected that the proposed law will establish a structure for the Islamization of financial markets, institutions, products, and services within the regulatory ambit of the SECP. This initiative also aims to introduce a primary balance between legal rigor, Shariah compliance, and market realities. The process for the development of this law prioritizes alignment with Shariah, collaboration among stakeholders, growth, financial stability, investor protection, transparency, accountability, innovation, harmonization with national and international legal requirements, and effective fiduciary responsibility. The proposed law will also cover all aspects of Islamic financial services, products, markets, and intermediaries, with detailed provisions covered through subsidiary legislation. The 'principle of proportionality' aims to strike a balance between risk, cost, and efficiency in conducting business.

The consultation paper available on SECP's official website may be accessed through the following link: <https://www.secp.gov.pk/document/consultation-paper-islamic-financial-services-law-30-oct-2024/?wpdmdl=54393&refresh=67208ceadb6c1730186474> and comments/ feedback may be provided through email at Islamic.finance@secp.gov.pk by November 30, 2024.