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**Circulars/Notifications - Islamic Banking Department****IBD Circular No. 02****March 25, 2008**

The CEOs/Country Heads  
Islamic Banks/  
Banks having Islamic Banking Branches

Dear Sir/Madam,

**INSTRUCTIONS AND GUIDELINES FOR SHARIAH COMPLIANCE IN  
ISLAMIC BANKING INSTITUTIONS**

State Bank is promoting and developing Islamic banking industry in Pakistan as a parallel system and this sector is witnessing tremendous growth and increased recognition from the stakeholders. In order to ensure effective Shariah compliance in the Islamic banking industry and maintain trust of the depositors and other stakeholders on the system, a proper Shariah compliance mechanism has been put in place by SBP.

2. In pursuance of its goal to further strengthen the Shariah compliance framework in the Islamic banking industry, 'Instructions and Guidelines for Shariah Compliance' have been finalized in consultation with various stakeholders which have also been reviewed and approved by the SBP Shariah Board. It may be noted that these Instructions and Guidelines for Islamic Banking Institutions (IBIs) are in addition to current Prudential Regulations, guidelines and other circulars and directives issued by different departments of SBP and are not replacing them by any means, unless specifically mentioned otherwise.

3. The 'Instructions for Shariah compliance in IBIs', enclosed herewith as Annexure-1, cover various areas related to appointment, removal and working of Shariah Advisors; conflict resolution in Shariah rulings; Shariah compliant modes; use of charity fund, introduction of new products and services and schedule of service charges etc. It may be noted that essentials of Islamic modes of financing, earlier issued by SBP through a press release on April 15, 2005, have now been augmented and made part of these instructions and appended as Appendix-A thereto.

4. Furthermore, in exercise of the powers conferred by clause (o), subsection (1) of section 7 of Banking Companies Ordinance, 1962, State Bank of Pakistan through these Instructions has specified Shariah-compliant modes of banking and finance for IBIs. Annexure-I of BCD Circular No.13 dated 20th June, 1984 shall stand replaced by section 'E' of these instructions insofar as it relates to IBIs. Further, as the requirements of IBD Circular No. 1 dated March 05, 2007 have been made a part of these Instructions, therefore the said circular shall stand withdrawn.

5. Failure to comply with the enclosed Instructions may invoke penal action under the provisions of Banking Companies Ordinance, 1962.

6. The 'Guidelines for Shariah compliance in IBIs' enclosed herewith as Annexure-2 are meant for providing guidance in areas like Shariah compliance, internal Shariah audit, investment in shares, policy for profit distribution with PLS account holders and financial reporting and general disclosure etc. Necessary flexibility has been provided in these guidelines and IBIs can set up the suggested systems and procedures keeping in view the size and scope of their operations. These guidelines are being issued on "comply or explain basis" and IBIs shall record reasons in writing for non-compliance with any of these guidelines.

7. These Instructions and Guidelines would be applicable with immediate effect.

8. Please acknowledge receipt.

**Encl:**

- 1. Annexure-1 - Instructions for Shariah Compliance**
- 2. Annexure-2 - Guidelines for Shariah Compliance**

Yours faithfully,

Sd/

(Pervez Said)  
Director

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