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GLOBAL SHARI'AH MAJLIS 2023

'Faith and Sustainability'

1ST NOVEMBER 2023
VIRTUAL AND PHYSICAL
(SOFITEL DUBAI DOWNTOWN)

GLOBAL SHARI'AH MAJLIS 2023

'Faith and Sustainability'

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FOREWORD

Standard Chartered is proud to present the report on the 2nd Global Shari'ah Majlis 2023. The Global Shari'ah Majlis seeks to advance thought leadership in the Islamic banking industry and raise public awareness of current trends in the sector. The 2nd Global Shari'ah Majlis was hosted in a hybrid format, by Standard Chartered's Islamic Banking Division in Dubai, on the Wednesday, 1st November 2023. At a time of increased focus on climate change, water scarcity and youth unemployment, among others, this prestigious gathering brought together global Shariah scholars from eight countries for an engaging dialogue on this year's theme of 'Faith and Sustainability'.



As the UAE prepares to host the 28th Conference of the Parties to the UN Framework Convention on Climate Change (COP28), the Global Shari'ah Majlis event featured thought-provoking panel discussions garnering the attention of over 150-plus physical and 1,000-plus virtual attendees on the topics of:



1. Sustainability: Greater than the sum of parts?
2. Islamic Finance 2.0: Is Sustainability the missing piece?
3. Embedding Sustainability in Islamic Financial Institutions
4. Accelerating the Paradigm Shift through Innovation.

The following pages share key highlights from the insightful discussions that took place among scholars, mapping out dialogue and collaboration on the critical intersection of Islamic finance and sustainability.

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WELCOME ADDRESS

By Khurram Hilal, CEO Group Islamic Banking, Standard Chartered Bank



It gives me immense pleasure to welcome you all to the 2nd Global Shari'ah Majlis.

We are extremely privileged here at Standard Chartered Saadiq to have access to some of the most renowned and respected Shari'ah scholars from around the world by virtue of our various Shari'ah boards.

Global Shari'ah Majlis is a platform where we bring together all of these great 'Shari'ah minds' and hear their thoughts on some of the most pressing issues facing the global Islamic finance industry.

This being the year of COP28 [2023 United Nations Climate Change Conference] in the UAE, our Shari'ah Majlis today will focus on the broader topic of 'Faith and Sustainability'.

When we look at the original sources of Shari'ah with law No.1 being the Holy Quran, we find that every chapter of the Quran (with one technical exception) begins with the words "Bismillah Ar Rahman Ar Raheem", i.e., "In the name of Allah the most kind and the most merciful". When we flip through the pages, we see this common recurring theme that requires a believer to be just, equitable, fair and ethical in everything they do in life.

When we look at the second-most important source of Shari'ah law which is the Hadith or the practices and sayings of Prophet Muhammad (peace and blessings be upon him), we find numerous examples of the same. We find him admonishing a companion for wasting water while doing 'Wudu' (the ritual purification) he said: "Even if you are at a running stream." And we find him warning a trader in Madina and saying, "Whoever deceives his customers is not one of us". And why would it not be when he was given the certificate of "And we have not sent you O Muhammad except as a mercy for the universe." A mercy to all human beings. A mercy to the animals. A mercy to the trees and plantations. A mercy to all of God's creation.

This is a special year for us at Standard Chartered Saadiq as we celebrate our 30 years of global Islamic banking, having started our first business in 1993 in Malaysia. But when I look at the industry in the last 30 years, I do feel that some of these foundational concepts of Shari'ah are not as pronounced as we would want them to be and there is much room for us to do more in this space.

This event is an effort by Standard Chartered Saadiq to create more awareness on this important issue and hopefully ignite enough interest that leads to a meaningful change in the broader Islamic finance industry.

Once again, I welcome you all to today's event and hope that you benefit from the insights of our esteemed speakers.

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KEYNOTE ADDRESS

By Rola Abu Manneh, CEO, Standard Chartered Bank UAE

Ladies and gentlemen, distinguished guests.

Thank you for joining us today at the Global Shari'ah Majlis forum.

As we gather here, we are privileged to have with us 14 eminent Shari'ah scholars from eight different countries, all sharing a resolute commitment to exploring the profound synergy between faith and sustainability.

This year's selected theme, 'Faith and Sustainability,' serves as a reminder of the strong connection between our ethical values and our duties toward our planet, our communities and the generations to come.

In a world where every action has a far-reaching impact on the environment, where global challenges demand global solutions, and where our faith and ethics guide our choices, this forum assumes a truly profound significance.

As you know, the year 2023 has been designated as the 'Year of Sustainability' by the UAE, a nation celebrated for its visionary leadership and unwavering dedication to a sustainable future.

As we stride forward in this pivotal year, it is imperative that we recognize the urgency of addressing the challenges that stand before us, to ensure a brighter and more sustainable tomorrow.

Over the course of this forum, our discussions will span a wide spectrum of topics related to sustainability within the broader Islamic banking and finance sphere.

Faith and sustainability are two pillars that share common values and principles.

Both encourage us to be stewards of our planet and to act with responsibility, equity and compassion.

In the context of faith and sustainability, it is crucial that we consider how we can align our financial practices with our ethical and moral compass.

Today, sustainability is not a mere trend, but an absolute necessity for our survival and the well-being of the generations yet to come.

It is a universal responsibility that transcends borders, uniting us all in a collective purpose.

Standard Chartered embraces this responsibility.

As a global bank with a unique footprint in the world's most dynamic markets and the only international bank offering Islamic banking in Asia, Africa and the Middle East, with unparalleled Shari'ah credentials, we believe that we are well positioned to make a positive difference and facilitate a rapid, yet just, transition to net zero.

Our aim is to support both the urgent need to reduce carbon emissions and the need to support ongoing economic development in the markets we call home.

On this note, I'd like to conclude by thanking the team for putting together this forum.

I sincerely hope that it will serve you well as a platform that stimulates debate and spurs innovation within the sustainability space.

Once again, thank you for being with us today and I look forward to hearing the panel discussions from our distinguished panellists.

Thank you.



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SESSION ONE

Sustainability: Greater than the sum of parts?



The planet is in dire straits. The world has never been hotter (at least not in the last 100,000 years): the average temperature of the Earth's surface is about 1.1 degrees Celsius warmer than it was in the 1800s, before the Industrial Revolution. The last decade was the warmest on record, according to the UN's Intergovernmental Panel on Climate Change, and each of the last four decades has been warmer than any previous decade since 1850.

The World Bank has estimated that climate change could force 216 million people to migrate within their own countries by 2050, with hotspots of internal migration emerging as soon as 2030. The World Health Organization has declared that climate change is the most significant threat the world faces.

It does not come as a surprise then that sustainability is one of the most pressing agendas of governments and institutions across the world. The overarching question posed to this panel is whether sustainability goals are in line with the teachings of Islam?

"There is a specific Arabic terminology for sustainability — Al Istidamah — but we do not find this in classical books. However, the crux and parameters of sustainability do appear in the Quran and Sunnah," said Dr. Mufti Irshad Ahmad Aijaz, a Shari'ah board member of Standard

Chartered Bank Pakistan. The parameters include: the preservation of resources, no wastage of resources and the avoidance of unnecessary spending.

Dr. Mufti Irshad explained that there are two parts to sustainability within the context of Islam: the first being from a Shari'ah compliance perspective and the other relates to administration and governance.

Going beyond SDGs

On the other hand, sustainability as a concept itself is multilayered, according to Dr. Hakimah Yaacob, a Shari'ah board member of Standard Chartered Bank Malaysia. The first, or the baseline or main foundation of ESG, is to preserve life on land and water. The second is the protection of society, which includes matters relating to human rights, eradication of poverty and hunger, among others; while the third is economic growth, which covers innovation, industry goals, etc.

"They are interconnected — we cannot achieve economic growth without taking care of the first layer, and similarly, we cannot look at eradicating hunger or poverty without first looking at the first layer," shared Dr. Hakimah.

This interdependency and ESG values are enshrined in Islamic teachings, expounded Dr. Hakimah. For example,

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the teachings of Prophet Muhammad (peace and blessings be upon him) discuss doing good as charity and the best charitable act is to give water, which is in line with SDG 6. The religion also discusses manners to eradicate poverty which not only include efficient management of resources to minimize waste but also redistribution of wealth.

"The teachings of the Prophet and Islam actually go beyond the 17 SDGs," opined Dr. Hakimah.

Revising the profit equation

It is agreed that Islamic finance has long espoused the tenets of sustainability even before the SDGs were announced in September 2015.

"In my opinion, that announcement is an official global endorsement of the failure of profit maximization in capitalism," remarked Dr. Ahcene Lahsasna, the chairman of the international Shariah Supervision Committee of Standard Chartered Bank UAE and the Shariah Board of Standard Chartered Malaysia. "This SDG movement brings back the concept of the Triple P into the picture and put revisions to the equation which is much closer to the teachings of the Quran and the Sunnah."

The equation being rather than focusing on a single P (profit) to determine pricing of financial instruments and services, profits or pricing must also consider the cost on the people and the planet.

"Islamic finance institutions should develop a checklist that would benefit from the sustainability guidelines issued by CIBAFI (General Council for Islamic Banks and Financial Institutions) for customers to be sustainability compliant," recommended Dr. Ahcene.

Acknowledging that Islamic finance was the pioneer in screening equities based on ethical dimensions, even prior to the ESG movement taking off, Sheikh Nizam Yaquby, a member of Standard Chartered Bank's global Shariah Supervisory Committee, also drove home the message: "What we have now is this movement emphasizing non-financial gains. We encourage this by all means, provided they are genuine."

Sheikh Nizam also said: "We hope that ESG is not used as an advertising tool because when something becomes a trend, everybody wants to ride the wave but when we look into the reality of the matter, we sometimes find that things are not as they claimed."

Audience's thoughts

An audience poll was conducted during the panel asking them to vote on the most critical Islamic principle in furthering the triple bottom line agenda. The results: 41% believe it should be prohibition of interest-based financing, 31% voted for moral and spiritual uplifting while 17% agreed it should be Islamic philanthropy and social capital.

The outcome showed that the prohibition of interest is the baseline when it comes to Shariah compliance, said Bilal Parvaiz, the executive director and head of Islamic corporate commercial and institutional banking at Standard Chartered Saadiq.

Bilal further observed: "The Islamic finance industry is endeavouring to move toward any area beyond Shariah compliance or the sanctity of the commercial transaction from a purely interest prohibition perspective. Meaning, it is looking at it from the perspectives of real economic change, positive social impact and environmental impact."

Moderator:

BILAL PARVAIZ

Executive Director and Head Islamic Corporate Commercial & Institutional Banking, Standard Chartered Saadiq



SHEIKH NIZAM YaqUBY

Global Shariah Supervisory Committee Member, Standard Chartered Bank



DR. MUFTI IRSHAD AHMAD AIJAZ

Shariah Board Member, Standard Chartered Bank Pakistan



DR. AHCENE LAHSASNA

Chairman Internal Shariah Supervision Committee, Standard Chartered Bank UAE and Shariah Board SCB Malaysia



DR. HAKIMAH BINTI HAJI YAACOB

Shariah Board Member, Standard Chartered Bank Malaysia



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SESSION TWO

Islamic Finance 2.0: Is sustainability the missing piece?



Critics of Islamic finance often question the ability of the industry to deliver the impact it claims it can generate through Shariah compliant instruments. Even the purity and faithfulness of these instruments to Islamic teachings are questioned, and the concerns are valid, given that the industry seems to be playing catch-up with its conventional counterpart when it comes to product development.

Dr. Mohamed Ali Elgari, a member of the global Shariah Supervisory Committee of Standard Chartered Bank, recounted the days in the 1960s when the industry unsuccessfully attempted to establish a bank based on the Quran and Sunnah as well as financial intermediation activities (devoid of borrower-lender relationships) during the Islamic Golden Age to solve the wealth inequality problems perpetuated by a debt-based banking system. The next decade saw the setting-up of what he characterized as "Halal banks" whose approach is to "sterilize existing products by removing Haram elements but the system is the same".

"Don't get me wrong; I'm not saying what we have now is Haram," emphasized Dr. Mohamed. "I'm saying that what

we have is second best; and this is where sustainability comes in ... I think we have a God-given opportunity to revise, revisit and redesign [the industry] as the world is now obsessed with sustainability."

Dr. Aznan Hasan, also a member of the global Shariah Supervisory Committee, concurred and added: "We have to first acknowledge that Islamic finance has done tremendous work for the Muslim society and the world. We have put out an alternative, it may not be the best alternative, but it is something workable for the time being ... when it is a human invention, it is always open for improvement from time to time."

The industry also faces the dilemma on the best way to reconcile the conflict between profit and sustainability. Dr. Salim Al-Ali, a member of Standard Chartered Bank UAE's Internal Shariah Supervision Committee, demonstrated this challenge with a hypothetical question: Should Islamic banks reject auto financing applications for petrol or diesel cars as they pollute the environment?

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"We are not at that stage of discussion yet and Islamic finance will move gradually as life and society grow and develop. So, if we are at that stage, the industry would accommodate this request in compliance with rules and regulations," opined Dr. Salim.

Closer to reality is allowing energy-intensive companies such as oil and gas companies to raise funds using Islamic finance such as Sukuk and Islamic syndication. Dr. Salim said due to the vital role the hydrocarbon sector has on the economy and society, such companies would continue to be allowed to raise 'Islamically' until an alternative is presented.

Maqasid-led

How can the industry set itself apart from mainstream finance and deliver meaningful impact?

The panel of experts believe the answer lies in the Maqasid Shariah.

"The primary objective of the Maqasid is to benefit people and to prevent harm to individuals, the society and the economy," explained Mufti Muhammad Sarfaraz Nihal, a resident Shariah board member of Standard Chartered Bank Pakistan. This is essentially the basis of the sustainability movement.

"How we understand and approach sustainability should be guided by the Maqasid Shariah otherwise we would lose our grip on how to move the Islamic finance industry forward," believes Dr. Aznan.

A prime example of how Maqasid Shariah is being used to drive the sustainability environment is through Bank Negara Malaysia's Value-based Intermediation (VBI) Framework, which sets guidance on practices, offerings and conduct that generate positive and sustainable impact to the economy, community and environment, consistent with shareholders' sustainable returns, through the lens of Maqasid Shariah.

"VBI is one of the best things to happen to the Islamic finance industry in a very long time, especially coming from a central bank," said Dr. Mohamed. "It is going to succeed where everyone else has failed when it comes to sustainability."

Dr. Mohamed said one reason why the ESG movement is seen by some as failing is because it is marketed as

profitable. This is where the VBI could make a change as it is based on faith, and key performance indicators are based on impact rather than solely on profits.

Dr. Aznan echoed the sentiments, adding his belief that Malaysia's VBI initiative could be replicated around the world. "If we look at how it is implemented, we can see clearly the intention of VBI is to preserve the profits of the banks but without affecting the three P's — people, planet and prosperity."

To extend the reach of Maqasid-based sustainability initiatives, Dr. Mohamed said it rests on two main factors: "We need to succeed — if impact is generated as envisioned, then definitely, it will be followed by the rest of the world. Secondly, we need impact ratings to assess the impact generated through the VBI, etc."

Moderator:

USTAZAH FAEZAH ABDULLAH

Head Shariah, Standard Chartered Bank Malaysia



DR. MOHAMED ALI ELGARI

Global Shariah Supervisory Committee Member, Standard Chartered Bank



DR. AZNAN HASAN

Global Shariah Supervisory Committee Member, Standard Chartered Bank



DR. SALIM AL-ALI

Internal Shariah Supervision Committee Deputy Chairman, Standard Chartered Bank UAE



MUFTI MUHAMMAD SARFARAZ NIHAL

Resident Shariah Board Member, Standard Chartered Bank Pakistan



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SESSION THREE

Embedding sustainability in Islamic financial institutions



Islamic finance is ideally positioned to lead the sustainability agenda. While this is a sentiment many Islamic finance practitioners hold, arguably not much is being implemented on the ground level. The panellists of the 'Embedding Sustainability in Islamic Financial Institutions' panel session at the Standard Chartered Global Shari'ah Majlis 2023 event tackled this issue from a Shariah-centric perspective head on.

The basis of Islamic sustainability

The conventional view of Shariah compliance often centres on contractual formalities and transactional processes. However, an evolving perspective calls for a broader understanding, one that transcends literal interpretations and encompasses the broader essence, which formed part of the discussion.

While the Haram side of the Halal-Haram equation is binary, there are degrees of permissibility within the Halal

side, with some activities being preferred, some neutral and some disliked while still technically within the boundaries of permissibility.

"We have to stick to the rules of Shariah, but to widen our perspective to include the degrees of Halal ... This should be embedded, not only in the mandate of the Shariah committee, but also in the work of the Shariah committee to meet the sustainability expectations of society," Dr. Mohamed Ali Elgari, a global Shariah supervisory committee member of Standard Chartered Bank, remarked.

In addition to moving toward an emphasis on what is preferred within the Halal side and avoiding what is disliked while permissible, Dr. Mohamed noted that governments also play a unique role in promoting activities for the benefit of society.

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While the government cannot make what is Halal Haram and vice versa, it does have a basis to prohibit things based on the Maqasid Shariah if they bring harm to society, as is the case with non-sustainable activities.

The onus of responsibility

As scholars are increasingly tasked with taking sustainability considerations into account when deriving verdicts and recommendations, the question of who bears the brunt of the responsibility for the sustainability standing of an Islamic financial institution's activities arises. The limitations of a Shariah scholar's expertise may also be a hindrance in their ability to make sustainability considerations.

"When we [give Shariah rulings], it should be guided by other factors. One of the factors is the sustainability considerations of the industry. It should come from the practitioners in guiding us in giving opinions," Dr. Aznan Hasan, a global Shariah supervisory committee member of Standard Chartered Bank, shared.

Mufti Muhammad Abdul Mubeen, the group head of the Shariah department of Standard Chartered Bank and a Shariah board member of SCB Pakistan and Malaysia, pointed to the management of Islamic financial institutions.

"The management of the bank also, when they have two options, they should prefer the option that is aligned with the Maqasid Shariah and sustainability," Mufti Muhammad remarked.

Dr. Zurina Shafii, a Shariah board member of Standard Chartered Bank Malaysia, concurred, opining that: "[The] board is the party that has the influence and a greatest responsibility to have the oversight on the Maqasid implementation and the VBI [value-based intermediation] implementation within the institution."

This could take the form of the board of directors establishing a policy on the implementation of Maqasid Shariah within an Islamic financial institution. According to Dr. Zurina, one of the Malaysian development banks she works with already has a policy measuring the impact of its activities on national development. The same can be applied for Maqasid Shariah.

The point of reference

While the general compatibility of Islamic finance and sustainable finance has been continuously highlighted, the

issues of convergence and referencing non-Islamic-based sustainability objectives have been the topic of heated debate.

"We need to do our own thing ... Trying to meet the [goals] set by the UN or following the west including the IMF and the World Bank are destined to fail," Dr. Mohamed warned.

According to Dr. Aznan, convergence in itself is not an issue, so long as Islamic finance is staying true to its principles.

"The important thing is how we can use sustainability, not to be a follower but to become a driver, shaker and mover in the industry ... We have to approach sustainability not within the purely conventional western framework but within the framework of Maqasid."

Moderator:

MUFTI MOHAMMED VALLI

Director CFCC – Islamic Banking, Standard Chartered Bank DIFC



DR. MOHAMED ALI ELGARI

Global Shariah Supervisory Committee Member, Standard Chartered Bank



DR. AZNAN HASAN

Global Shariah Supervisory Committee Member, Standard Chartered Bank



MUFTI MUHAMMAD ABDUL MUBEEN

Group Head of Shariah Department Standard Chartered Bank and Shariah Board, Member SCB Pakistan and Malaysia



PROFESSOR DR. ZURINA BINTI SHAFII

Shariah Board Member, Standard Chartered Bank Malaysia



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SESSION FOUR

Accelerating the paradigm shift through innovation



Innovation has been a long-standing driver in the finance space. This is arguably truer still in the Islamic sustainable finance sector. The panellists of the 'Accelerating the Paradigm Shift through Innovation' panel session at the Standard Chartered Global Shari'ah Majlis 2023 event examined the approach to Islamic sustainable finance innovation across different jurisdictions.

While innovation is welcomed in the space, several factors are holding it back, regulatory challenges being one such limitation, the scholars agreed.

According to Sheikh Nizam Yaquby, a global Shariah supervisory committee member of Standard Chartered Bank, this is especially true for retail banks due to the combined effects of higher regulatory requirements and the limited types of Islamic contracts they can use.

Sheikh Nizam also noted that many of the criticisms directed at retail banks are misguided. While it is preferable for retail banks to contribute to macro issues like poverty alleviation and wealth redistribution, they are not within the mandate of these institutions per se.

"So, the real area for innovation for Islamic finance is in the scope of Islamic investment banks. And in these areas, I think the movement for innovation is very high," Sheikh Nizam identified.

According to Mufti Yousuf Sultan, a Shariah board member of Standard Chartered Bank Malaysia, we also need to take a broader approach to sustainability than that taken by the west.

"If we look from the lens of Shariah, one very important piece is missing here, which is basically faith ... There has to be substance in implementing that agenda and that comes from sincerity, that comes from the belief, the faith that we have to be answerable for every action that we do in this world," Mufti Yousuf shared.

With Islamic finance spanning across multiple jurisdictions, the approach taken to innovation varies. Pakistan has taken a more radical approach to Islamic finance while the UAE is adopting a guided approach. Separately, Malaysia is hoping to drive sustainable finance through Shariah-based innovation.

Pakistan's unique position

The Federal Shariat Court of Pakistan has given a five-year timeline starting from 2022 for the country to fully convert its financial system to be Shariah compliant. According to Dr. Mufti Irshad Ahmad Aijaz, a Shariah board member of Standard Chartered Bank Pakistan, the conversion of Pakistan's financial system is intimately related to the sustainability agenda.

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"For an Islamic country, one of the core and basis of sustainability requirements for the sustainability of an Islamic country with Islamic values is to eliminate anything that is repugnant to Shariah from their economic system, from their taxation and from their monetary policy," Dr. Mufti Irshad shared.

With the position that the stakeholders of the Pakistani financial system find themselves in, difficult decisions are going to have to be made, including whether they should approach the conversion from the banking sector or through the capital market. The question of what to do about the country's long-term interest-based debts also looms, the scholar noted.

On a more granular level, Pakistan's approach to sustainability is centred around the role of microfinance, poverty alleviation schemes and reforms in corporate farming to generate employment, Dr. Mufti Irshad explained.

The UAE's guided approach

In a drastically different environment from Pakistan, the innovation in Islamic sustainable finance in the UAE has been driven by top-down sustainability efforts. These, notably, have been ramped up as we approach the 28th United Nations Climate Change Conference of the Parties, or COP28.

According to Dr. Amin Fateh, an internal Shariah supervision committee member of Standard Chartered Bank UAE, the top-down efforts including the establishment of the Ministry of Climate Change and Environment and the issuance of the UAE Sustainable Finance Framework in 2021 have facilitated the growth of the sustainable finance space in the region.

While the space has seen a boost from government initiatives, demand is still lacking, Dr. Amin noted. "I still see that there is a lack of the sustainable demand that we don't see ... We are still at the early stage of bringing awareness on sustainable finance to the market."

Malaysia's Shariah innovation

With just transition being at the centre of the ongoing discussions in the sustainable finance milieu, Malaysia is being looked to as an example of innovation being driven by Shariah. A prime example of this was the launch of the Bursa Carbon Exchange as the world's first Shariah compliant voluntary carbon market in late 2022 by Bursa Malaysia.

According to Professor Dr. Ashraf Md Hashim, an internal Shariah supervision committee member of Standard Chartered Bank UAE and the chairman of Bursa Malaysia's Shariah committee, the verdict on the Shariah treatment of carbon credits as an asset or 'Maal' was a product of extensive deliberation.

"We are not going from the Jualah perspective or Ijarah or Wakalah, but we say that since the certificate [of the carbon credit] is legally recognized by the law of the country, it is an intangible asset by itself recognized from a Shariah perspective and therefore can be traded in the exchange," Professor Dr. Ashraf explained.

Moderator:

DR. ALAA ALAABED

Associate Director, Islamic Products, Standard Chartered Bank DIFC



SHEIKH NIZAM YAQUBY

Global Shariah Supervisory Committee Member, Standard Chartered Bank



DR. MUFTI IRSHAD AHMAD AIJAZ

Shariah Board Member, Standard Chartered Bank Pakistan



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Shariah Board Member, Standard Chartered Bank Malaysia





