

# Shariah Governance Standards in Malaysia: A Systematic Policy Content Analysis of SGPD 2019, GP28 and AAOIFI

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## Abstract

Islamic finance in Malaysia continues to expand rapidly, supported by a structured Shariah governance framework designed to ensure that all institutional activities comply with Shariah principles. Through Bank Negara Malaysia (BNM), two Shariah governance standards have been issued for IFIs; the Shariah Governance Framework (SGF) in 2010 and superseded by the Shariah Governance Policy Document (SGPD) in 2019. In the cooperative sector, the Malaysia Cooperative Societies Commission (SKM) issued the Shariah Governance Guidelines known as GP28. This study conducts a systematic policy content analysis of SGPD 2019 and GP28, with reference to the international benchmark AAOIFI GS-1, to assess their alignment, similarities, and regulatory gaps. The findings show that SGPD 2019 is more comprehensive and technically detailed than GP28, particularly in governance structure, Shariah Committee responsibilities, and screening requirements, yet both standards lack clear definitions and stated objectives of Shariah governance, elements explicitly outlined in AAOIFI GS-1. The study highlights areas where Malaysian standards lead or lag global practices and offers recommendations to enhance the clarity, consistency, and robustness of Shariah governance across IFIs and cooperatives.

**Keywords:** Shariah Governance, SGF 2010, SGPD 2019, GP28 and AAOIFI

## 1. Introduction

### 1.1 Study Overview

With the fast growth of Islamic banking and finance (IBF), many financial sectors begin to incorporate Shariah-compliant elements into financial institutions. The basic concept of Islamic finance promotes equitable and fair treatment to all parties and prevent harm to the community. This concept will remain sustainable for the long run. IBF system performs in many sectors such as Islamic banks, takaful companies, and other Islamic financial institutions (IFIs). Beside Islamic banks and takaful companies, there are some other non-banking institutions that provide Islamic financial products and services based on Shariah principles such as Islamic cooperatives. Similar to Islamic banks, all Islamic financial operations and transactions in Islamic cooperatives are governed and managed by Shariah governance.

Shariah governance plays a very crucial role in ensuring Shariah-compliant implementation of financial transactions and operations in IFIs, including Islamic cooperatives. In other words, Shariah governance system is the means to achieve efficient and effective Shariah compliance. Shariah compliance is the foundation and the backbone of the existence of Islamic finance (Mizushima, 2013). The instrument for measuring and ensuring efficiency and competency of Shariah compliance in Islamic financial operations is a good Shariah governance (Hilmy, 2018). Effective Shariah governance practices are very important as they will enhance clients' confidence (Fawzer, 2018) and ensure the sustainability of Islamic financial goals (Markom, 2018). To ensure Shariah compliance, several Islamic Financial Bodies issued guidelines on Shariah governance; the Bank Negara Malaysia (BNM) through the Shariah Governance Framework (SGF) in 2010 which was superseded by the Shariah Governance Policy Document (SGPD) in 2019, the Accounting and Auditing Organization for Islamic Financial Institution (AAOIFI) through Shariah Standards in 2015, and several standards published by the Islamic Financial Services Board (IFSB) such as Guiding Principles on Shariah Governance Systems for Institutions offering Islamic Financial Services in 2009. IFIs needs to have these recognized Shariah governance guidelines in order to retain the confidence of stakeholders and the public. Malaysia is one of the best examples of that as the Central Bank of Malaysia or Bank Negara Malaysia (BNM) issued the latest standards on Shariah governance, the Shariah Governance Policy Document (SGPD) in 2019. Malaysia is a global leader in Islamic finance in many segments such as Islamic banking, Takaful (Islamic insurance), and Sukuk (Islamic bonds). The Malaysian Islamic banking has grown significantly with the assets amounting to 10.8% of the global share (Asri, et al, 2020). Malaysia, through Bank Negara Malaysia (BNM) and the Securities Commission Malaysia (SC), has developed a strong and comprehensive regulatory framework on Shariah governance for IFIs, SGF 2010 and SGPD 2019. In 2015, Malaysia has issued Shariah governance guidelines for cooperatives referred as GP28 and become one of the early countries that have Shariah governance guidelines for cooperatives. The issuance of GP28 was made by the Malaysian Cooperative Commission (SKM) to strengthen Shariah principles in the cooperatives (Surkery & Yaacob, 2019). As such, the study aims to compare these latest guidelines, GP28 and SGPD 2019.

## 1.2 Overview of Shariah Governance

Shariah governance is considered an extension from the corporate governance. Shariah governance functions not only to serve the stakeholders' interests but also to ensure that all activities and operations are complaint to the principles, conditions, and tenets of Shariah. The trust of people in the financial markets and credibility of Islamic finance activities are brought through an effective corporate governance and Shariah governance (BNM, 2010). With a rapid growth of Islamic finance globally, Shariah governance has demonstrated its importance to the Islamic financial industry. Shariah governance plays a very crucial role in creating and promoting the confidence of the stakeholders as it ensures all operations and implementations are in line with the requirements of Shariah (Hasan & Sabirzyanov, 2015). Shariah governance works as a component to corporate governance in the IFIs, including Islamic cooperatives. These institutions would not be successful without practicing a good Shariah governance in operation (Ginena & Hamid, 2015). The fundamental target of Islamic finance is to comply with the principles of Shariah law, which can be achieved through implementing an effective and sound Shariah governance framework (Hasan, 2007). In contrast, poor Shariah governance leads to lack confidence of the shareholders and creates many issues in the financial system. Here are a primary role of Shariah governance in the Islamic financial system; ensuring all businesses and operations are Shariah complaint, enhancing transparency and equity, increasing the level of confidence on clients and stakeholders, and addressing risks with proper solutions in the institution (Lahsasna & Saba, 2014). Most existing literature does not discuss the formal definition of Shariah governance. Nevertheless, some Islamic financial bodies discuss on Shariah governance. Even the AAOIFI GS. 1-5 does not define the definition of Shariah governance, but it provides the arrangements required for a sound Shariah governance in details (Alnofli, 2020). While the definition of Shariah governance made by IFSB is considered the ideal one (Aji Haqqi, 2014). IFSB-10 (2009) defines Shariah governance as "a set of institutional and organizational arrangements through which IFIs ensure that there is an effective independent oversight of Shariah compliance over the issuance of relevant Shariah pronouncements, dissemination of information, and an internal Shariah compliance review" (IFSA, 2009 & Dar Al Sharia, 2023). There are basically three important aspects that Islamic Financial Institutions (IFIs) need to observe on Shariah governance. First one is on the firm organ or body that is accountable and responsible on Shariah governance. The main bodies are Shariah Board, Board of Directors and Senior Management of the IFIs. Second one is on the Freedom of these bodies to exercise independently from other authority and conform with Shariah compliance aspects. Last one is that the IFIs must have internal process to make sure on Shariah compliance. This includes Shariah review and audit, Shariah pronouncement and dissemination of information on Shariah Governance (IFSA, 2013). There is no doubt that Shariah Governance framework is very important for Islamic cooperatives as the main objective of Islamic financial institutions is to achieve Shariah compliance and to fulfil the Ubudiyyah (Obedience) of Muslims to Almighty Allah. That can be done through implementing Shariah principles, ensuring Shariah compliance and demonstrating the adoption of Shariah measurement for financial and non-financial performance. As a result, it can be easy to monitor the functions and transactions of Islamic cooperatives. With Shariah governance, Islamic cooperatives can

become more efficient, effective, profitable and better performance and avoid the confusion in management, execution, and decision-making process. In addition, the core of the Islamic creed such as tawheed (Islamic monotheism) and Ikhlas (good intention) are taken from the Islamic main sources (Al Quran and Al Sunnah). Thus, the Shariah governance framework is strongly based on the teachings derived from the main Islamic sources which are Al-Quran and Al-Sunnah. As such, all matters in Muslim life must be derived from this, including the core concepts of Shariah governance for Islamic cooperatives. To guarantee Shariah compliance, various Islamic financial institutions have implemented directives pertaining to Shariah governance. For examples, The Shariah Governance Framework (SGF) 2010 and The Shariah Governance Policy Document (SGPD) 2019 for IFIs and GP28 for cooperatives which are explained below.

### *1.3 Shariah Governance Framework (SGF 2010)*

In October 2010, the Central Bank of Malaysia (BNM) has introduced a guideline referred as Shariah Governance Framework (SGF 2010) for IFIs. The prime objectives of this guideline are:

- i) To set out expectations of the Bank on an IFI's Shariah governance structures, processes and arrangements to ensure that all its operations and business activities are in accordance with Shariah.
- ii) To provide a comprehensive guidance to the board, Shariah Committee and management of the IFIs in discharging its duties in matters relating to Shariah, and
- iii) To outline the functions relating to Shariah review, Shariah audit, Shariah risk management and Shariah research.

The framework was effective initiating from 1 January 2011. Only 6 months were given to IFIs starting from the effective date of the SGF to fully comply with all the requirements of the SGF. At the end of 6 months, each IFI needed to confirm the compliant status of the institution with the issued framework.

Uddin (2015) states that the framework operates in alignment with Malaysia's dual-level Shariah Governance system, comprising the central Shariah advisory body of Bank Negara Malaysia (BNM) and the specific boards, committees, or advisories of each institution. While Hassan et al. (2013) argue that the SG framework has been implemented at a pivotal moment, as the industry is expressing concerns about the role and function of Shariah advisories. There is an ongoing debate about whether and to what extent Shariah advisory should be subject to regulation.

However, Omar et al. (2014) found that the introduction of Shariah audit and review function in SGF has enhanced the development of institution products and, moreover, the Shariah non-complaint issue has been reduced after BNM introduced SGF 2010. Similarly, Othman et al. (2012) found that the introduction of BNM SGF 2010 has been well received and practiced accordingly by IFIs in Malaysia. The implementation of SGF 2010 is believed to promote the confidence of stakeholders and enhance the integrity of the IFIs along with

weakening Shariah non-complaint risks and maintaining financial stability of Islamic Financial Industries for Malaysian future.

#### *1.4 Shariah Governance Policy Document (SGPD 2019)*

BNM has issued and released the policy document on Shariah Governance for IFIs on 20 September 2019, which supersedes the existing BNM SGF 2010. The purpose of policy document is to further enhance the effectiveness of implementation of Shariah governance and reinforce a closer integration of Shariah considerations into the business and risk strategies of IFIs. The policy document on SG took effective from 1 April 2020 (BNM, 2019). By following SGPD 2019, it is expected that the IFIs can perform better in promoting a strong Shariah-compliant risk culture. The development of this new framework has taken a significant period, beginning with the Shariah Governance Survey in April 2016, followed by the Shariah Governance Discussion Paper on November 15, 2016, and then an exposure draft issued by BNM on November 9, 2017. The aim of this fresh framework is to strengthen board supervision and duties related to Shariah governance while also enhance the criteria for Shariah Committees (SC) to offer objective and sound guidance to Islamic Financial Institutions (IFIs) (Yusof & Ali, 2021). Generally, there are six main parts of SGPD 2019, including: 1) the BOD, 2) SC, 3) Senior management, 4) Control function, 5) Shariah compliance culture, and 6) Transparency and disclosures (Kamaruddin et al., 2020). According to Kamaruddin (2020), SGPD 2019 well covered on Shariah governance with improving on the definition and objectives.

#### *1.5 Shariah Governance Guidelines (GP28)*

Cooperative sectors make a significant contribution to developing a country's economy. While governance plays very crucial role to ensure the accountability, responsibility, and effectiveness of conventional as well as Islamic cooperatives. Shariah governance must be complied with and implemented in cooperatives so that the financial transactions, financings and investments practiced in according to the Shariah compliance (Othman et al., 2022). As such, the Malaysia Cooperative Societies Commission (SKM) has issued the Shariah Governance Guidelines (GP28) to enhance the practices of Shairah governance in the cooperative sectors. In Malaysia, the regulatory body responsible for the movement and operation of cooperatives is Suruhanjaya Koperasi Malaysia (SKM). As of June 2019, the website of the SKM presented a total of 14,418 cooperatives registered in Malaysia. Undoubtedly, SKM constantly supports the development of cooperatives to be progressive, competitive, and promotes integrity and stimulates the cooperatives to get involved in the economic sector. SKM's governance and supervision division was formed to monitor the management and governance of cooperatives (Othman et al., 2022). In 2015, the SKM has issued guidelines on Shariah governance for Islamic cooperatives in Malaysia (GP28). For GP28 Part A, the purpose of GP28 is functioned as the formation of Shariah committees and Shariah governance for cooperatives. These guidelines fall under Section 86B of the Cooperative Societies Act 1993 (Act 502) with the purpose of regulating cooperatives based on Shariah principles. Basically, this GP28 applies to cooperatives that involve in financial intermediation activities based on Shariah rules, namely:

- 1) Banking functions
- 2) Credit function
- 3) Financing and
- 4) Ar-rahnu

Besides, GP28 Part B provides pertaining to the formation of the cooperative's Shariah committee. The Shariah committee is necessary to advise the cooperatives to conduct activities and business based on Shariah principles. According to GP28 (2015), cooperatives that function based on Shariah rule are required to establish a cooperative Shariah committee. They can have these three following options:

- 1) The establishment of an internal Shariah committee.
- 2) The establishment of a Shariah committee for a cooperative group; or
- 3) The appointment of an external Shariah committee that is recognized as Islamic Banking and Finance Institute Malaysia (IBFIM) and International Shariah Research Academy for Islamic Finance (ISRA).

The appointment of the Shariah committees shall be based on these qualifications:

- 1) Shariah committee members must be Muslim individuals.
- 2) The majority of Shariah committee members must at least have a Shariah Bachelor's Degree, including the study of Usul al-Fiqh or Fiqh al Mua'malat (The origins of jurisprudence or rulings governing commercial transactions) from a recognized higher education institution.
- 3) The majority of Shariah committee members must have a level of knowledge and fluency in spoken and written Arabic and have a good understanding of Bahasa Malaysia and English.
- 4) The Shariah Committee can consist of experts from various backgrounds related backgrounds such as finance and law, which can support Sharia discussions. However, these members shall not form the majority of the Shariah committee.
- 5) The Shariah Committee should ideally consist of members with diverse backgrounds in terms of qualifications, experience and knowledge.

In addition to that, to determine whether a person is qualified and suitable to hold a position as a Shariah committee member, attention should be paid to the following criteria:

- 1) Honesty, reputation and personal integrity – one should have personal excellence such as honesty, integrity, diligence and the reasonableness of the decision.
- 2) Ability and competence – one should have appropriate skills, experience, abilities and commitment to carry out responsibilities; and
- 3) Financial integrity – one must manage liabilities or his financial position prudently.

Nevertheless, there are only 179 cooperatives out of all registered cooperatives under SKM that have appointed Shariah committees to enhance the Shariah governance in their respective cooperatives in Malaysia (Azyan, 2019). GP28 cannot be completely practiced by cooperatives registered under SKM in Malaysia as they have several problems to follow the guidelines such as incomplete structure of Shariah governance, a lack of manpower and Shariah experts, and no enforcement of Shariah governance law (Othman et al., 2022). To ensure the smooth implementation of Shariah governance, cooperatives must establish the accountability and responsibility of each main function which includes:

#### 1.5.1 Board Committee

Basically, board committee or cooperative board has ultimate authority and responsibility over the whole governance and Shariah compliance of the cooperative on the advice of the Shariah committee members. According to GP28 (2015), board committee is responsible to create mechanism appropriate for implementing those responsibilities and implementing an effective Shariah governance and ensure that it is appropriate with the size and nature of the cooperative's business (GP28, 2015).

The ultimate responsibility and accountability for the Shariah compliance that follow the Islamic rules and principles depends on the board of director (AAOIFI, 2010; IFSB, 2009). Thus, understanding the role of board committee in its governance process is very important to determine level of cooperatives in adhering to the Shariah governance.

#### 1.5.2 Shariah Committee

Undoubtedly, Shariah committee plays a crucial role in ensuring the Shariah compliance of the products and services offered by Islamic cooperatives. The role of Shariah committee can result in a positive achievement of the Islamic financial institutions compared to advisory role (Mollah & Zaman, 2015). Shariah non-complaint risk can be avoided by formation of Shariah committee and ensure that they perform their role independently. Their role can have a tremendous effect in the trust of stakeholders, shareholders and the public. The prime role of this Shariah committee is to ensure that Islamic cooperatives adhere and follow the Shariah rules and principles in issuing products and services and ensure the Shariah compliance of operations.

The Shariah Committee must always be sensitive and responsible for all decisions, views and opinions regarding to Shariah matters. Although the cooperative Board has ultimate responsibility and accountability over the overall governance of the cooperative, the Board shall rely on the Shariah committee for all Shariah decisions, views and opinions related to the cooperative's business. Since Shariah decisions, views and opinions are binding on cooperative operations, the Shariah committee must discuss all issues in detail before making any decisions (GP28, 2015).

According to Hamza (2013), the integrity and independence of Shariah committee in performing their monitoring and supervision aligned with Shariah principles can lead to an efficient Shariah governance structure. This can maintain the confidence of the stakeholders and preserve the confidence of the institution. Therefore, Shariah committee should have

independence in conducting their role to ensure all Shariah affairs are in line with Shariah rulings and are free from internal and external interference.

### 1.5.3 Management Committee

Management committee has a fiduciary duty to manage the business of firm with consideration the interest of both shareholders and stakeholders (Schilling, 2001). The main interest and right of stakeholders are the compliance of the products, services and operations with Shariah rules. According to Alhabshi & Bakr (2009), the involvement of top management in Shariah matters will improve the Shariah governance framework for Shariah compliance.

The management committee of the cooperative is responsible for complying with and implementing the Shariah requirements and decisions made by the cooperative's Shariah committee. The management is also responsible for identifying and referring any Shariah issue to the Shariah committee to obtain decisions, views and opinions (GP28, 2015).

The accountability of a Shariah decision rests on the Shariah committee. Thus, the management committee must be transparent about every matter required clarification for the Shariah committee and immediately report accurate and comprehensive information to the Shariah committee.

### 1.5.4 Internal Audit Committee (IAC)

Another important division in Islamic cooperative is internal audit committee (IAC). This IAC plays significant role in ensuring a strong and effective internal control and risk management system and providing an independent assessment that can be an indication of Shariah compliance. According to GP28 (2015), IAC has the following responsibilities:

- 1) ensure that the management has and complies with policies and procedures regarding Shariah affairs as decided by the cooperative's Shariah committee.
- 2) monitor the implementation of recommendations made through remarks or views issued by the Syariah committee on administration, financial management and the course of cooperative activities.
- 3) investigate matters directed by the Sharia committee cooperatives.
- 4) inform the Shariah committee and the Board of any inconsistencies that occur in the administration, financial management and course of the cooperative's activities immediately.
- 5) examine the adequacy of the Sharia governance process, and
- 6) review and inform the Shariah committee of any dubious transactions.

Therefore, Islamic cooperatives shall have these four important divisions to ensure the cooperative compliance to the Shariah rules and maintain the confidence of stakeholders. Besides, former SKM Executive Chairman, Datuk Lamien bin Sawiyo on the introduction of GP28, mentioned that a clear understanding of the necessity and implementation of SG among cooperatives should be practiced in all cooperative governance components such as

members, SCs, internal audits, and management committees (Hassan et al., 2018). As such, GP28 is very significant for all cooperatives in Malaysia to develop Shariah practices and reinforce the progress of individual component of governance to be more advanced and competitive.

### 1.6 AAOIFI GS-1

AAOIFI Governance Standard No. 1 (GS-1), issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), is one of the earliest and most widely recognised international standards on Shariah governance. It provides a comprehensive framework for establishing, operating, and supervising the Shariah Supervisory Board (SSB) within Islamic financial institutions. The standard outlines definitions, objectives, and guiding principles for Shariah governance, emphasising the central role of the SSB in ensuring that all products, contracts, and operational activities comply with Shariah principles. GS-1 sets detailed requirements for the appointment, qualifications, independence, and responsibilities of SSB members, including the need for appropriate Shariah expertise, integrity, and the ability to issue informed Shariah opinions (Accounting and Auditing Organization for Islamic Financial Institutions, 2024).

The standard also lays out specific procedural requirements such as documentation of decisions, fatwa issuance processes, and the need for regular meetings and reporting. GS-1 highlights the importance of internal Shariah review and Shariah audit functions to maintain continuous oversight and compliance. It further stresses consistency in SSB rulings, transparent disclosure of fatwas, and effective communication with stakeholders. As one of the most authoritative global references, AAOIFI GS-1 serves as a benchmark for assessing national Shariah governance frameworks and is widely used across jurisdictions to enhance the credibility, standardisation, and robustness of Islamic finance practices.

This study aims to compare the most recent Shariah governance standard issued by Bank Negara Malaysia for Islamic financial institutions (SGPD 2019) with the Shariah governance guideline for cooperatives issued by the Malaysia Cooperative Societies Commission (GP28), and to assess both against the international benchmark provided by AAOIFI GS-1.

## 2. Methodology

This study uses a qualitative approach to examine and compare the two main Shariah governance guidelines currently applied in Malaysia, namely the Shariah Governance Policy Document (SGPD 2019) issued by Bank Negara Malaysia (BNM) for Islamic financial institutions (IFIs) and the Shariah Governance Guidelines (GP28) issued by the Malaysia Cooperative Societies Commission (SKM) for cooperatives. To provide a broader international perspective, the analysis also refers to AAOIFI Governance Standard No. 1 (GS-1), which serves as a global benchmark for Shariah governance practices. The study focuses on understanding how SGPD 2019 and GP28 outline the structure, responsibilities, and operational aspects of Shariah governance, and whether any gaps exist between these local standards and global expectations.

The comparison follows a systematic policy content analysis, where the researcher reviewed

all three guidelines and organised their content according to a set of predefined themes. A coding scheme was developed using both deductive and inductive approaches. Deductive themes were adapted from earlier work, particularly the framework proposed by Kamaruddin et al. (2020), while inductive themes emerged from detailed readings of SGPD 2019, GP28, and AAOIFI GS-1. These themes covered key areas such as the definition and objectives of Shariah governance, scope and purpose of the guidelines, interpretation of terms, governance structure, roles and responsibilities of the Shariah Committee (SC), competency, independence, disclosure and transparency, and operational procedures. The coding process was cross-validated by a second reviewer to ensure consistency and reliability.

Gaps were identified based on clear criteria: if SGPD 2019 contained a provision absent in GP28, if GP28 was vague where SGPD was detailed, or if either Malaysian guideline fell short of the requirements stated in AAOIFI GS-1. This comparative and gap-based analysis offers a structured and transparent approach to evaluating Malaysia's Shariah governance framework in the context of international standards.

### 3. Results

This section provides the comparative and gap analysis between three Shariah governance guidelines in Malaysia, namely Shariah Governance Policy Document (SGPD 2019), GP28 and AAOIFI GS-1. The comparative and gap analysis are divided into two aspects: (1) general analysis between SGPD 2019, GP28 and AAOIFI GS-1 (table 1) and (2) analysis on the responsibilities of Shariah committee (table 2).

Table 1. Comparative and Gap Analysis Between SGPD 2019, GP28 and AAOIFI GS-1

Discussion	SGPD 2019	GP28	AAOIFI GS-1
Definition of Shariah governance	Not provided	Not provided	Clarified
Objectives of Shariah governance	Not provided	Not provided	Clearly stated
Purpose of guideline	Not provided	Discussed: to regulate cooperatives through (a) the formation of Shariah committees and (b) Shariah governance of cooperatives.	Clarified
Scope of application	Discussed with including the IFI operating as foreign branch	Provided: (a) banking functions; (b) credit function; (c) financing; and (d) Ar-Rahnu.	Applies to all Islamic financial institutions
Date of enforcement	April 1, 2020	July 1, 2015	Effective since early AAOIFI issues
Interpretation of terms and expressions	Provided	Not provided	Provided
Structure of Shariah	Discussed – within IFI and	Discussed – within	Clear structure: Board,

governance	IFI to BNM (Tier 1 & 2)	cooperatives and cooperatives to SKM (Tier 1 & 2)	Shariah Supervisory Board (SSB), management
Control functions for Shariah governance	§ Shariah review § Shariah audit § Shariah risk management § Shariah research function merged with the secretariat to the SC – not classified under control functions	(a) Cooperative board. (b) Cooperative Shariah Committee. © cooperative management; and (d) Internal Audit Committee.	Shariah review + internal Shariah audit required
Responsibility of the BOD for Shariah governance	Discussed – including on continuous development of the BOD on Shariah knowledge	Discussed in detail	Oversight of Shariah compliance
Board interaction with SC	Discussed in detail	Discussed in general	Required coordination
Responsibility of the management for Shariah governance	Discussed – including on continuous development of the management on Shariah knowledge	Discussed	Ensure implementation of SSB decisions
Responsibility of the SC	Discussed	Discussed	Issue fatwas, supervise, oversee compliance
Independence of SC	Discussed	Discussed in general	Strong independence requirements
Competency of SC	Discussed	Discussed	Must have Shariah expertise
Confidentiality of SC	Discussed	Discussed in detail	Required
Consistency of SC	Discussed	Not provided	Required
Qualifications of SC	Provided: Muslim, met requirements, Shariah bachelors' degree and possess skills, knowledge and experience, fluent in Arabic, good either in Bahasa or English,	Provided: Muslim, Syariah Bachelor's degree, fluent in Arabic, good in Bahasa and English,	Clear Shariah-related qualifications
Appointment and cessation of SC	Discussed in detail – tenure not more than 9 years in the same IFI, not active in politics.	Discussed; submit form two months before appointment or reappointment, valid for 3 years	Clear procedures
Disqualification	Discussed	Discussed	Clearly defined
Restrictions on SC	Discussed	Discussed	Independence and conflict rules
Attributes of SC	Discussed	Discussed: (1) Honesty,	Integrity, competence,

		reputation and personal integrity, (2) Ability and competence and (3) Financial integrity	piety
Screening process for SC	Discussed in detail	Discussed: bankruptcy status, financial institution credit report (CCRIS) and cooperative credit report, if any	Fit and proper criteria
Secretariat to SC	Discussed: 1 officer	Discussed: at least 1 officer	Required to support SSB
Composition of SC	Discussed in detail – at least 5 members and 3 members if Islamic window or foreign branch	Discussed: at least 3 members	Minimum of 3 qualified scholars
SC Meetings	Discussed in detail: Once in every two months – concern on non-physical meetings	Discussed in detail: once in every four months	Required; must document decisions
Remuneration of SC	Discussed	Discussed	Allowed; transparency expected
Shariah compliance culture	Discussed	Discussed in detail under the duty of management	Emphasised strongly
Transparency and disclosures	Discussed – report on Shariah governance practices in annual report	Required to disclose sufficient information in the cooperative's annual financial report regarding the cooperative's Shariah compliance	Mandatory disclosures of fatwas & reports
Allocation for punishment	Not provided	Discussed under the duty of management	Not detailed (left to regulators)
Training and development	Discussed	Discussed	Encouraged
Operating Procedures of SC	Discussed in general	Discussed in detail	Clear processes for fatwa, review, audit

Source: researcher's own

Based on the comparative and gap analysis in Table 1, the main shortcomings for both SGPD 2019 and GP28 relate to the absence of a clear definition and objectives of Shariah governance, as neither guideline mentions them, while AAOIFI GS-1 clarifies both elements from the outset. In relation to the purpose of the guideline, SGPD 2019 does not discuss it, whereas GP28 states that its purpose is to regulate cooperatives through the formation of Shariah Committees and the establishment of Shariah governance for cooperatives. AAOIFI GS-1 provides a clear purpose for its governance standard. Both SGPD 2019 and GP28 specify their scopes of application, although SGPD 2019 also covers IFIs operating as foreign

branches and GP28 covers cooperatives offering banking, credit, financing, and Ar-Rahnu services. AAOIFI GS-1 applies broadly to all Islamic financial institutions. In terms of interpretation of terms and expressions, SGPD 2019 provides clear definitions, GP28 does not, while AAOIFI GS-1 offers defined terminology.

The structure of Shariah governance also differs: SGPD 2019 focuses on the relationship between IFIs and the SAC, while GP28 focuses on cooperatives and SKM. AAOIFI GS-1, meanwhile, specifies a clear governance structure centred on the Shariah Supervisory Board (SSB), board of directors, and management. On control functions, SGPD 2019 highlights Shariah review, Shariah audit, and Shariah risk management, while GP28 outlines four general governance organs. AAOIFI GS-1 emphasises Shariah review and internal Shariah audit as essential functions. Both SGPD 2019 and GP28 discuss responsibilities of management and the board, although SGPD gives more attention to continuous Shariah-related development; AAOIFI GS-1 similarly stresses responsibility of management and board oversight of Shariah compliance.

Both Malaysian guidelines discuss responsibility, independence, competency, confidentiality and consistency of the SC, although GP28 speaks generally about independence and provides no requirement on consistency of SC views. AAOIFI GS-1 requires independence, confidentiality and consistency, and clearly defines fit-and-proper criteria. Qualifications of SC members under both SGPD 2019 and GP28 share core features (Muslim, Shariah degree, language proficiency), but SGPD 2019 has stricter criteria, similar to AAOIFI GS-1 which specifies minimum Shariah expertise. Appointment and cessation procedures are more detailed in SGPD 2019, while GP28 applies a three-year term; AAOIFI GS-1 also provides clear procedures. For attributes, SGPD 2019 mentions them generally while GP28 specifies integrity, competence and financial integrity; AAOIFI GS-1 also requires integrity and competency. On screening, SGPD 2019 is detailed and GP28 includes basic checks; AAOIFI GS-1 includes fit-and-proper screening.

Regarding the secretariat, both SGPD 2019 and GP28 require at least one officer to support the SC, and AAOIFI GS-1 also requires a supporting function for the SSB. SGPD 2019 requires at least five SC members (three for Islamic windows), while GP28 requires at least three; AAOIFI GS-1 requires a minimum of three members. Meeting frequency differs, every two months for SGPD 2019 and every four months for GP28, while AAOIFI GS-1 requires regular documented meetings. Both Malaysian guidelines discuss remuneration and Shariah compliance culture, and AAOIFI GS-1 also recognises these. Transparency and disclosure are required under both SGPD 2019 and GP28, and AAOIFI GS-1 mandates disclosure of fatwas and SSB reports. Allocations for punishment appear only in GP28, as SGPD 2019 does not address it directly; AAOIFI GS-1 is not explicit on punitive measures. Both SGPD 2019 and GP28 highlight training and development, in line with AAOIFI GS-1, and SGPD 2019 mentions operating procedures, while GP28 provides more detail; AAOIFI GS-1 also sets out clear procedural requirements for Shariah governance processes.

Table 2. Comparative and Gap Analysis on the Responsibilities of Shariah Committee

Discussion	SGPD 2019	GP28	AAOIFI GS-1
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Responsibility and Accountability	Discussed	Discussed	Required
Advising Boards	Discussed	Discussed	Required
Certifying Shariah Policies and Procedures	Discussed	Discussed	Required
Certifying and Validating Related Documents	Discussed	Discussed	Required
Having charter and procedures	Discussed	Discussed	Required
Helping Related Parties Regarding Shariah Affairs	Discussed	Discussed	Required
Advice on Matters to be Referred to the Commission/SAC	Discussed: through Secretariat	Discussed	Clear escalation rules
Providing Written Sharia Opinions	Discussed	Discussed	Mandatory
Establishing a robust methodology to guide its decision-making process	Discussed in general	Not discussed	Required; must follow fiqh principles
Consistency of SC in providing his views	Discussed	Not discussed	Required
Developing a reasonable understanding of the business	Discussed	Discussed in general	Required

Source: researcher's own

Based on Table 2, SGPD 2019 and GP28 mostly cover the essential responsibilities of the Shariah Committee (SC), and many of these responsibilities are also consistent with what AAOIFI GS-1 requires for the Shariah Supervisory Board (SSB). Under all three frameworks, the SC/SSB must be accountable and responsible for the accuracy and soundness of any decision made on Shariah matters. Likewise, all guidelines require the SC to advise the board on Shariah issues and to certify Shariah policies and procedures after ensuring that no element contradicts Shariah principles. Similarly, the SC must certify and verify all relevant terms, contracts, documents and products to ensure Shariah compliance, which aligns closely with AAOIFI GS-1's emphasis on product oversight and Shariah review.

In addition, SGPD 2019 and GP28 both state that the SC should assist other parties such as auditors, consultants and legal advisors on Shariah matters through written opinions when necessary, and AAOIFI GS-1 also requires written fatwas and formal documentation of decisions. Regarding matters that must be referred to higher authorities, SGPD 2019 clearly states that unresolved issues should be escalated through the secretariat to the SAC, while GP28 does not specify the process. AAOIFI GS-1 also provides a clear referral mechanism, requiring SSB decisions to follow established fiqh principles and documented processes.

SGPD 2019 also discusses the need for a structured decision-making methodology, whereas GP28 does not address this element. AAOIFI GS-1, however, explicitly requires a proper methodology for issuing Shariah rulings. Furthermore, SGPD 2019 emphasises consistency in the views and decisions of the SC, while GP28 provides no similar requirement. AAOIFI

GS-1 again aligns with SGPD 2019 by requiring consistency, transparency and proper documentation of rulings. Lastly, SGPD 2019 stresses that the SC must develop a sound understanding of the institution's business activities, and while GP28 mentions this only in general terms, AAOIFI GS-1 also specifies that SSB members must understand the operations of the institution to perform their duties effectively.

Overall, the comparison shows that Malaysia's SGPD 2019 aligns more closely with global Shariah governance standards than GP28, and in several areas it even surpasses AAOIFI GS-1 in regulatory detail. SGPD 2019 leads global standards in aspects such as the depth of its governance structure, the frequency of Shariah Committee (SC) meetings, screening requirements, and the level of operational detail provided for appointments, cessation and internal responsibilities. However, both SGPD 2019 and GP28 lag behind AAOIFI GS-1 in several foundational areas, particularly the absence of a clear definition and stated objectives of Shariah governance, which AAOIFI explicitly provides. GP28, in particular, falls behind global benchmarks in decision-making methodology, consistency requirements, interpretive clarity, and detailed competency specifications for SC members. While SGPD 2019 is largely aligned with AAOIFI in key areas such as independence, accountability, documentation, and Shariah review functions, GP28 remains limited to broader administrative guidance and therefore lags significantly in its technical governance provisions. Taken together, Malaysia leads global standards in certain regulatory and structural elements under SGPD 2019 but still trails behind AAOIFI GS-1 in core conceptual definitions and specialised Shariah governance requirements, especially within the cooperative sector governed by GP28.

#### **4. Conclusion**

The overall purpose of a Shariah governance guideline is to ensure that all operations, transactions, and activities of Islamic financial institutions (IFIs) and cooperatives remain consistent with Shariah principles. This study examined the regulatory framework governing Shariah governance in Malaysia by analysing the Shariah Governance Policy Document (SGPD 2019) for IFIs and the Shariah governance guideline for cooperatives (GP28), and comparing both documents with each other and with international benchmarks. The findings show that SGPD 2019 and GP28 share many similarities in outlining the roles, responsibilities, and structural requirements of the Shariah Committee and in guiding institutions toward improved Shariah compliance. However, both Malaysian guidelines fall short in several foundational areas, most notably the absence of a clear definition and stated objectives of Shariah governance, elements that are explicitly articulated in global standards such as AAOIFI GS-1. SGPD 2019 provides stronger regulatory detail overall but does not mention the purpose of its issuance or include provisions for punitive measures, while GP28 states its purpose but lacks interpretive clarity, detailed decision-making requirements, and consistency expectations for Shariah Committee rulings.

When viewed against AAOIFI GS-1, SGPD 2019 demonstrates closer alignment and even exceeds global expectations in areas such as governance structure, screening procedures, meeting frequency, and operational processes. GP28, however, lags more significantly due to its broader administrative focus and limited technical depth. In light of these findings, it is

recommended that both SGPD 2019 and GP28 be strengthened by incorporating clear definitions and objectives of Shariah governance. SGPD 2019 would benefit from explicitly stating its purpose and addressing enforcement mechanisms, while GP28 should consider adding interpretive definitions, clearer methodological guidance, and provisions to ensure consistency in Shariah Committee decisions. Enhancing these elements would bring both guidelines closer to international best practice and reinforce the overall robustness of Shariah governance in Malaysia.

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