17. Meeting expectations: the roles and responsibilities of Shari'ah scholars in Islamic finance

Mohamad Akram Laldin and Hafaz Furqani

INTRODUCTION

Islamic finance uses the Shari'ah as the backbone of its system. The Shari'ah not only contains the principles and foundations upon which the financial system is established, but also provides guidance for setting the industry’s direction. Practically speaking, it is the Shari'ah scholars, in their role as interpreters of the Shari'ah, who are charged with guiding the industry. They have a key role to play in maintaining the credibility and integrity of the industry by requiring Islamic financial institutions (IFIs) to adhere not only to the Shari'ah’s technical requirements but to its values and principles as well. Their participation is, thus, vital to the industry’s development.

Shari'ah scholars are faced with difficult challenges. In recognition of this state of affairs, we currently see a trend at local and international levels to develop standards and guidelines for the best practice of Shari'ah advisory and supervision. The framework of Shari'ah governance has been set up to meet that objective.

This chapter discusses the roles of Shari'ah scholars in the development of the Islamic finance industry and the responsibilities assigned to Shari'ah boards to ensure that the industry is moving in the right direction and to maintain its credibility and integrity. The recent developments in regulating the practices of Shari'ah supervision and institutionalizing the Shari'ah governance framework will also be discussed. The chapter ends by discussing some challenges faced by Shari'ah scholars and by Shari'ah governance practices.

ISLAMIC FINANCE AND SHARI'AH SCHOLARS

The existence of a specific group of scholars to supervise and monitor financial practices is a new development in the Islamic tradition. The phenomenon started with the establishment of Islamic financial