T.C.

Social Sciences University of Ankara

Institute for Islamic Studies

Islamic Economics and Finance Department

TOWARDS A CODE OF CONDUCT FOR SHARIAH GOVERNANCE IN TURKEY

Master Thesis

Onur Ünlütürk

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ABSTRACT

The main objective of this study is to improve the Islamic banking industry in Turkey by designing a proposed code of conduct to control the behaviour of Shariah Boards practising Shariah governance. As Islamic banking is a fast-growing sector in Turkey, the researcher believes that the regulations related to shariah governance are insufficient to keep pace with the growth of the sector. The study focused on shariah governance and analyzed shariah governance frameworks around the world and in particular in Turkey to track good and non-good behaviours that were monitored by the study. This study seeks to contribute to building ethical standards within the proposed code of conduct.It is noticeable that shariah governance frameworks vary from one country to another, so it was necessary to identify good behaviours in practice and point out those behaviours that are not described as good. The researcher collected secondary data from participating banks in Turkey, The Association of Participation Banks in Turkey and other academic studies.

The study was based on the analyses of international and local standards related to shariah governance.Moreover, the researcher evaluated the practical practice of shariah governance in Turkey, monitored good behaviour and carried out the process of evaluating compliance with shariah governance in Turkey, using the scoring method that was proposed in this study.

The final endeavour of this study was to develop a proposed code of conduct by considering the evaluation of participating banks and the extent of compliance with shariah provisions to improve the Islamic banking sector as well as to contribute to the development of ethical standards for Islamic finance about shariah governance.This study also made proposals to improve the participation banking industry in Turkey, the most important of which was activating the good behaviours stipulated in the regulations and strengthening them with additional good behaviours to maintain their effectiveness and adequacy.

Key words: Code of Conduct, Shariah Governance, Participation Banking, Regulatory Framework, Shariah Boards

ÖZET

Bu çalışmanın temel amacı katılım bankalarında ki şer'i yönetimi uygulayan danışma kurullarının davranışlarını kontrol etmek için önerilen bir davranış kuralları tasarlayarak Türkiye'deki Islami bankacılık endüstrisini geliştirmektir. Araştırmacı, Islami bankacılık Türkiye'de hızla büyüyen bir sektör olduğundan, katılım bankalarında ki şer'i yönetim ile ilgili düzenlemelerin bu sektörün büyümesine ayak uydurmak için yetersiz olduğunu düşünüyor. Çalışma tarafından araştırılan iyi ve iyi olmayan davranışları izlemek için dünya çapında ve özellikle Türkiye'deki katılım bankalarının şer'i yönetim çerçeveleri analiz ediliyor. Islami finansta Şer'i yönetim çerçevelerinin bir ülkeden diğerine değiştiği gözlemlenmiştir, bu nedenle uygulamada iyi davranışları belirlemek ve iyi olarak tanımlanmayan davranışları belirtmek gerekli görülmüştür. Araştırmacı, Türkiye'deki katılım bankalarından, Participation Banks Association of Türkiye'den ve diğer akademik çalışmalardan ikincil veriler toplamıştır. Çalışma, katılım bankalarında şer'i yönetim ile ilgili uluslararası ve yerel standartların analizine dayanıyor.

Ayrıca araştırmacı, bu çalışmada önerilen puanlama yöntemini kullanarak Türkiye'de katılım bankalarında şer'i yönetimin pratikte uygulanmasını değerlendirmiş, iyi davranışları izlemiş ve Türkiye'de bankacılıkta şer'i yönetime uygunluğu değerlendirme sürecini yürütmüştür.

Bu çalışmanın nihai çabası, katılım bankalarının değerlendirmesini ve katılım bankaları için varolan şer'i hükümlerine uygunluk derecesini dikkate alarak önerilen bir davranış kuralları geliştirmek, Islami bankacılık sektörünü iyileştirmek ve Islami finans için danışma kurullarının etik standartlarının geliştirilmesine katkıda bulunmaktır. Bu çalışma ayrıca Türkiye'de katılım bankacılığı sektörünün geliştirilmesine yönelik önerilerde bulunmuştur ki bunların en önemlisi düzenlemelerde öngörülen iyi davranışların etkinleştirilmesi ve bunların etkinlik ve yeterliliğinin korunması için ilave iyi davranışlarla güçlendirilmesidir.

Anahtar kelimeler: Davranış Kuralları, Şer'i yönetim, Katılım bankacılığı, Danışma komitesi, Düzenleyici çerçeve

Table of Content

LIST OF FIGURES

LIST OF TABLES

List of Abbreviations

AAOIFI : Accointing and Auditing Organization for Islamic Financial Instutions

AGEB : AAOIFI Governance and Ethics Board

BNM : Bank Negara Malaysia

BOD : Board of Directors

BRSA : Banking Regulation and Supervision Agency

CMB : The Capital Markets Board of Turkey

COMCEC : The Standing Committee for Economic and Commercial Cooperation

DSN : The National Shariah Board – Dewan Syariah Nasional

IDB : Islamic Development Bank

IFSA : Islamic Financial Services Act 2013

IFSB : Islamic Financial Services Board

IFI : Islamic Financial Institution

IIFS : Institutions Offering Islamic Financial Services

IIRA : Islamic Internaonal Rating Agency

ISRA : The International Shariah Research Academy for Islamic Finance

OJK : Financial Services Authority of Indonesia

PBAT : Participation Banks Association of Turkey

RSA : Regulatory and Supervisory Authority

RSGF : Revised Shariah Governance Framework for Institutions Offering Islamic Financial Services

SGF : Shariah Goverment Framework

SSB : Shariah board

TBB : The Banks Association of Turkey

UK : The United Kingdom

USA : The United States of America

INTRODUCTION

The growth that Islamic finance has shown is tremendous especially in the past few decades but the growth also causes some problems as it comes. People in the industry such as scholars, academicians, researchers and other contributors are studying hard to get the problems done and solve the problems yet the problems are still around and there are still some blurry areas in Islamic finance which still considered uncertain. Shariah governance is one of the crucially important areas that are problematic in some ways in Islamic finance. Shariah boards' roles and responsibilities cause most of the issues because of the gaps in the field(COMCEC, Improving Shariah Governance,2021). Two of the international standard-setters come forward as adopted by many Islamic institutions all around the world and specifically the two standard setters are examined in this study. These standard setters are listed below;

1- The Accounting and Auditing Organization for Islamic Financial Institutions(AAOIFI).
2- Islamic Financial Services Board(IFSB).

The standard-setters listed above have published standards to regulate Islamic financial institutions and some(AAOIFI Governance Standards, IFSB Governance standards) of the standards published by the international standard setters are related to shariah boards

This study especially focused on the code of conduct for shariah boards and shariah governance framework for shariah boards. This study aims to reveal the extent to which financial institutions adhere to ethical standards related to standards for forming shariah governance and ethical standards. Code of conduct can not be divided from ethics in other viewpoints of a Muslim’s day-to-day life and that is why code of conduct is so an important subject for Islamic financial institutions(Musa, 2015, p.2). The lack of literature on Islamic finance implementing ethics in Islamic financial institutions and the major problem is implementing the code of ethics for Islamic financial industry. Most of the problems are anyhow related to implementing a code of conduct for Islamic financial institutions. Implementing a code of conduct accurately would ensure that Islamic financial institutions avoid most of the problems related to implementing a code of conduct to the reputation of Islamic financial institutions.

RESEARCH OBJECTIVE

The main objectives of this study are listed below;

1. Exploring code of conduct as a concept,
2. Analyzing code of conduct in IFI(Islamic Financial Institution)’s around the world,
3. Looking closely at the shariah governance framework,
4. Explaining the Code of conduct for shariah boards,
5. Examines and measures the gap between theory and practice regarding compliance with ethical standards(code of conduct) by IFI,
6. Evaluation of the practice of participation banking institutions in Turkey based on ethical standards with regard to shariah governance,
7. Recommendation for the sector to improve.

RESEARCH QUESTIONS

The focal questions of this thesis are listed below;

1. Is there any specific code of conduct regarding shariah boards?
2. Is there an ambiguous point on the code of conduct for shariah boards?
3. Is there a specific standard regarding the code of conduct for shariah boards?

4. Do Islamic finance institutions in Turkey adhere to ethical standards regarding shariah boards?
5. To what extent is shariah boards to adhere ethical princible?

METHODOLOGY OF RESEARCH

This study focuses primarily on the gaps and deficiencies in the code of conduct for shariah boards and sheds light on the ethical code of conduct for shariah boards in international financial institutions in general and then focuses on practice in Turkey. Secondary data has been used in this thesis. A literature review was the main source for this study. It is worth noting the scarcity of similar studies on this field in Turkey.

AAOIFI and IFSB are the two international standard-setters that have undertaken the task of setting shariah standards for Islamic financial institutions and both institutions are important sources for this study. The Accounting and Auditing Organization for Islamic Financial Institutions(AAOIFI) and The Islamic Financial Services Board(IFSB) have published shariah standards for Islamic financial institutions and these standards are still not binding for many Islamic financial institutions, while standards related to shariah governance are the focus of this thesis, so these standards were examined and analyzed in this study.

LITERATURE REVIEW

In the Report of COMCEC, Improving Shariah Governance Framework (2020), Shariah Governance Framework is examined in detail by giving examples from several countries. Shariah boards have also been researched in the report examining their roles and responsibilities. COMCEC Report also mentions the lack of standardization in shariah governance framework in some assignments and universally causes every IFI to conduct its own shariah governance framework separately from any mostly recognized industry standard. Considering the code of conduct for shariah boards, conducted survey in the COMCEC report shows that the Islamic financial institutions in surveyed countries' rating of getting a written coverage on shariah evaluation procedures, pleasant assurance, and reporting is relatively better than the other problems. The report also states that the international / conventional code of conduct appears to have some problematic areas regarding code of conduct implementation(COMCEC, 2020, P.47).

Elements Constituting the Best Practice of Shariah Governance in Islamic Finance, Musab(2015) has discussed best practices that exist in Shariah governance in Islamic financial institutions. Musab(2015) stated that shariah governance models have an important role in governing institutions because Islamic institutions' success is much dependent on strong and efficient shariah governance so best practices of shariah governance have been examined in the study. As much as best practices of shariah governance's important, undisclosed practices are crucial. The undisclosed details of shariah governance especially for shariah boards are not examined in this study.

Professional Ethics and Participation Banking: Comparison of Turkish Banking Ethics Principles and AAOIFI standards, Polat (2018) has compared the development of code of conduct in Islamic institutions for AAOIFI standards and PBAT(Participation Banks Association of Turkey) ethical principles, TBB(The Banks Association of Turkey) ethical principles. Polat has mentioned that ethical principles adopted by participation banks in turkey emphasize participation finance values less than AAOIFI standards. In the conclusion, he stated that participation banks should improve the code of conduct and implementation of the code of conduct to be more efficient. Polat (2018) has also compared the ethical principles applied by PBAT and AAOIFI standards eventually he stated that ethical principles PBAT accepted do not emphasize enough to Islamic principles and rules. This paper does not have further study on the code of conduct for shariah boards.

The Evaluation of the Advisory Boards of Participation Banks as a Corporate Governance element, Dinç (2016) stated that analyzing and implementing AAOIFI standards for participation banks in turkey would contribute to IFI's working efficient and productive. He says that theoretically there is no central shariah board but every Islamic bank in Turkey employs mostly the same board member and this is harmful to source waste so this needs to be fixed by centralizing shariah boards. Dinç also stated that it is crucially important to get to the world standard of advisory boards to contribute to

Turkey's financial growth. The study has just shown Turkey's side of shariah boards' standards so it is limited for Turkey.

How does the Academic Pattern of Business Ethics progress?, Akdeve & Köseoğlu (2013) has mentioned that there is a lack of the literature on the code of ethics in Turkey but did not mention the details and there is no further study on Shariah governance specifically.

Participation Banks and Supervision Problem, Çelik (2016) talked about international standard setters and domestic supervisory boards remaining incapable of identifying, implementing, and analyzing the standards. He also suggested that considering the common accounting and auditing compliance information performance reviews should be announced on the sites of the relevant participation banks by working with AAOIFI, IFSB, and IIRA. He additionally stated that Islamic banks in Turkey are subject to almost the same laws as conventional banks except for Islamic banks' activities explained in law no.4 about banks and this situation causes BRSA (Banking Regulation and Supervision Agency) and PBAT(Participation Banks Association of Turkey) to prevent executing audit duty effectively. The difference between Celik(2016)'s study and the thesis is that there is no specific study for code of conduct for Shariah Boards in Celik(2016) study.

According to the Banking Law and AAOIFI rules Comparison of Financial reports and Participation Banking Legislation Proposal, Çetin,(IJAFR, June 2020), It has been stated that when translating the international standards there have been some translation mistakes and accounting confusions. It is pointed out that it is needed for participation banks to have their own legislation in the charette of BRSA and PBAT in 2013. There is no further study on the Shariah boards' Code of Conduct.

Reviving the Ethics of Islamic Finance, Mabid, (MPRA, 2015), Author suggested that Banking regulators should add to their supervisory functions of Islamic banks shariah auditing and said that this can be done by appointing experienced shariah auditors and it is also suggested that members of shariah boards must be certified by IFSB. There is no further study on financial rewards received by shariah board members.

Defining Ethics in Islamic Finance: Looking Beyond Legality, (Ahmed, 2003) mentioned the position of legal guidelines and morals in defining the moral practices of

Islamic banks. This study also pointed out that even as Islamic regulation and ethics seem like intently linked, instances can also additionally rise up while the practice of Islamic banks can produce unethical outcomes even if contracts are legitimate. As much as this study defines Islamic ethics there is no specific study on the Shariah Boards' code of ethics.

Ethical Decision-Making in Islamic Financial Institutions in light of Maqasid Al-Shariah: A Conceptual Framework, Alziyadat, and Ahmed, 2019, they stated that shariah has legal and ethical connotations and IFI's have much more focused on legal compliance so they have been criticized for neglecting the ethical aspects of shariah. This study talks about the importance of the Shariah framework but there is no further study on Shariah boards.

The Compliance with Shariah Governance System of AAOIFI: A Study on Islamic Banks Bangladesh, Ahmed, and Khatun, 2013. This study focuses on that mainly two suggestions that have been made and first one is Islamic banks should form shariah supervisory committees at the board level, the second one is that Islamic banks in Bangladesh obligate with the shariah governance system of AAOIFI for banking guidelines. There is no study on the rewards of shariah boards in this study. However, this study did not provide any ethical standards related to shariah supervisory bodies, as well as a code of conduct.

The Shariah board: Does it Influence Corporate Social Responsibility Disclosure by Islamic Banks, El Hussein, 2018, Shariah boards' responsibilities have been discussed and the importance of the independence of the shariah boards has been reported. It has been stated in the study that it is crucial for Islamic banks to have an independent shariah board to have social responsibility. There is no study on the financial details of shariah boards' rewards and financial receives.

(Governance, religious assurance, and Islamic banks: Do Shariah boards effectively serve?, Journal of Management and Governance, 2018). It has been examined that the quality of governance and religious assurance given by shariah boards while undertaking the vital compliance review required in fulfilling the expected ethical and social legitimacy of Islamic banks. However, this study did not provide any ethical standards related to shariah supervisory bodies, as well as a code of conduct.

(To Appoint Shariah board member as an independent non-executive director of Islamic banks in Malaysia: Issues and Challenges, International Review of Management and Marketing, 2016). It has been stated that appointing a member of the shariah board as a member of the Board of Directors is an effective approach that could work as a bridge between the board of directors and the shariah board of the institution. The study found the suggestion to solve the gap between the board of directors and the shariah board ensuring shariah compliance. There is no further study on the financial benefits of Shariah board members.

(Composition and Working of the Shariah boards in Bahrain's Islamic Banks, Economy Journal, 2019). The lack and inconsistency in practices among banks concerning reporting of benefits and remuneration offered to shariah board members, independence of shariah board, and lack of standardization in shariah rulings continue to be considered contemporary challenges stated in the study. There is no study on the rewards of Shariah board members.

(Islamic Business Ethics & Finance: An Exploratory Study of Islamic Banks in Malaysia, Musa, 2015) has stated that Islamic banks should make an effort to undertake the hints with the aid of using the IFSB and AAOIFI of their published Guiding Principles and Conduct of Business for establishments presenting Islamic monetary offerings and the code of ethics for the personnel of the IFIs.

The evaluation of previous literature;

After this review of the most important findings of the previous literature; it is clear that a code of conduct for ethical standards of shariah governance was missing. Most of the studies on the importance of this topic indicated a lack of literature on the code of conduct for shariah boards. In my thesis, I will endeavor to supplement this deficiency by designing a code of conduct for shariah bodies to raise their efficiency.

As you can see from the previous literature, there are some problems with code of conduct and their application in Islamic banks and Islamic financial institutions. There are undisclosed financial details related to the remuneration and wages received by members of the shariah board and most of the studies reviewed do not examine further disclosed details. Previous literature has not provided a code of conduct that covers the lack of details regarding legitimate bodies also in terms of a member's academic requirements and work experience, the procedure for appointing, renewing, and removing a member, the maximum time for being a member of the board and the financial remuneration that members seek is what this thesis suggests. It also provides a guide to the Code of Conduct for Shariah Boards.

CHAPTER 1

1.1. PARTICIPATION BANKING IN TURKEY

At the end of the 1800s, just a few banks existed in the Ottoman empire and every bank was owned by foreigners exist on Ottoman soil. There were only a few laws to regulate the banking industry and the Ottoman empire had no national central bank until the foundation of the Republic of Turkey at the beginning of the 1900s. Turkey's banking system has demonstrated massive upgrowth. The Turkish economy has received vast capital from different parts of the world but middle eastern countries had to stood out in capital invested in Turkey and that is why Turkish government launched the legal framework for the Islamic banking industry in Turkey to operate in 1983. Special finance houses were the name of the regulatory frameworks. Islamic banks had some vying drawbacks in Turkey due to the fact that the Islamic banks weren't supported by Turkey's central bank's insurance scheme and also Islamic banks did not have the license to invest in valuable papers of the Turkish government until 1999 and 2001, drawbacks have gone and regulations for Islamic banks in Turkey improved by sequential banking practices(Belge, Egresi, 2016).

Participation banks in Turkey have signified frequent accretion because of the new regulations published in 2001 and participation banks happened to be more competitive against conventional banks. Participation banks also get included in the same banking law and regulations(5411.) as conventional banks(Ustaoglu, 2014).

The Participation Banks Association was founded in 2001 by the banking law no. 2001/3138 but its name was The Association of Special Finance Houses at the time. The Association accepted its current title The Participation Banks Association of Turkey due to the Banking Law no.5411 in 2005(PBAT). PBAT has published ethical principles to look out for the public interest and avoid harmful wrongdoings. PBAT has established an ethical committee and identified its formation, responsibilities, and code of conduct. These ethical principles and ethical committees set an example for Islamic banking to follow.

1.2. INTERNATIONAL STANDARD SETTERS

International accounting standards were not suitable for Islamic finance so Islamic finance institutions were facing some difficulties in implementing accounting procedures. As a solution, Islamic finance institutions have started to establish foundations to publish Islamic shariah standards. It was needed for the standards to be more universal because of the globalization of Islamic banking. For this reason, AAOIFI and IFSB have been established to publish universal regulations and standards to help Islamic finance institutions to be shariah compliance. AAOIFI and IFSB have published standards throughout the years.

1.2.1. AAOIFI

AAOIFI has founded in Bahrein in 1991 and it is one of the biggest and most known international non-profit organizations focusing on the global Islamic finance industry. AAOIFI's main mission is to develop and publish standards for Islamic finance. Its working area contains accounting, auditing, ethics, and institutional governance which also reflects Islamic values. These standards published by AAOIFI have been implemented in other countries' central banks and Islamic institutions (AAOIFI,2019).

In 2020, COMCEC Report (Improving Shariah Governance Framework in Islamic Finance) has summarized the main objectives and key elements of AAOIFI's 10 standards; Standard No.1 summarized as addresses variety of problems relevant to Shariah boards(SSB). The standard begins with an explanation of Shariah boards and then clarifies the dismissal, composition, appointment, and selection of the Shariah board members. The standard coming to an end by giving guidance for shariah boards' specialist decisions and rulings. Standard number 2 clarifies the review of shariah and the principles of shariah and its objectives, and responsibilities on shariah compliance. Standard number 3 explains domestic shariah review considering its objectives pursued by independence, requirements, and neutrality. Standard number 4 shows the importance of the audit and governance committee for Islamic financial institutions. Standard number 5 states that shariah boards' independence is very important and the importance of independence for SSBs is also explained elaborately inside the Code of ethics for personnel in IFIs in AAOIFI. Standard number 6 provides information on the basis of establishing a shariah governance framework, for instance, business model, social responsibilities, increasing confidence, the interest of shareholders, and culture. Standard 6 ends by explaining elaborately the governance structure and principles. Standard number 7 clarifies the issues about responsibilities of social corporate, and disclosures Islamic values. Standard number 8 unfolds the central shariah board's importance to manage and supervise, and advise regulators on Islamic financial matters. Standard 8 sets a framework for shariah board members' appointment, dismissal, and composition, and their code of conduct. Standard number 9 clarifies the value for the function of shariah compliance. It also addresses the key responsibilities of IFIs. Standard number 10 concentrate on the issues related to shariah compliance and ratings of fiduciary for Islamic financial institutions. Standard 10 also indicates shariah compliance requirements for international rating foundations and the framework for the consideration of IFIs.

The shariah standards which AAOIFI published are published by the shariah board of AAOIFI and those standards(AAOIFI Standards) are published to determining the shariah compliance of Islamic financial institutions. AAOIFI standards are majorly related to Islamic law and fiqh. AAOIFI standards are divided into two groups: the first is shariah standards and the second is ethics and governance.

The main objectives of AAOIFI's ethics and governance standards are to help professionals of Islamic finance in comprehension the demands of ethical conduct and choosing the right decision when coming across an ethical dilemma. AAOIFI's ethics and governance standards are also published to be role models of ethical behaviors for others(AAOIFI Governance standards). These standards also provide a guide for Islamic financial institutions around the world to become more efficient and trustworthy while auditing the compliance of the shariah.

Some of the countries implementing the shariah standards as an obligation for example Bahrein, Omani, Pakistan, Sudan, and Syria, and additionally some of the countries around the world implementing shariah standards voluntarily such as the United Kingdom, Africa, United Arab Emirates, South Africa, Qatar, Saudi Arabia, Lebanon, Kuwait, Jordan, France, Dubai and Brunei(Anemon, 2018).

Islamic finance and conventional finance have essential differences in auditing, and accounting so Islamic financial institutions needed to establish their own accounting and auditing and reporting system that is why AAOIFI has established accounting standards. The accounting standards of AAOIFI have been clarified and published by the Accounting Committee of AAOIFI(Anemon, 2018).

The standards of AAOIFI related to Audit, Governance and Ethics were established as advice to IFIs not as obligatory. Islamic finance institutions implement these standards voluntarily and this thesis' focus is more on ethical standards related to shariah governance and their implementation in Islamic institutions especially in Turkey.

AAOIFI has published standards(AAOIFI Standards) related to shariah boards as governance standards and gave information on appointing members. AAOIFI has also published a code of ethics for Islamic finance professionals(AAOIFI Code of Ethics for Islamic Finance Professionals) but the ethics published by AAOIFI lacks some details on the financial rewards that shariah board members get and the practical experience of the members.

1.2.2. IFSB

IFSB is an international standards-setting organization primarily founded on the third of November in 2002 and initiated its operations on 10 March 2003. IFSB supports and improves the durability and consistency of services conducted by Islamic financial institutions by emitting global discreet standards and leading principles for IFIs. The standards prepared by IFSB follow a strict worthy process as summarized in its guidelines and procedures for the preparation of standards. The process includes many working group meetings, organizing public hearings and reviews by the IFSB's Shariah Board and Technical Committee. IFSB works also very closely with relevant international, regional, and national organizations, market players, and educational institutions(IFSB,2018).

It has been mentioned that from the begining of the standard-setting agency until this day IFSB has issued 22 standards for the IFIs. Starting from IFSB-1 to IFSB-5 standards has emphasized the necessity for an extensive shariah governance framework. From IFSB-6 to IFSB_10 standards concentrate more on other subjects, meanwhile sometimes touching upon shariah governance engaged issues. IFSB-10 gives an extensive shariah governance framework. It supplies an overall approach to the shariah governance mechanism. It mentions the main sufficiency of employees which is part of the shariah governance framework. It also postulates that the supervisory role of shariah boards should be acted strongly and freely(IFSB Standards).

The difference between the two standard-setting agencies the IFSB prudential standards and the AAOIFI governance standards is that the IFSB technique is greater interested by regulators at the same time as the AAOIFI is greater interested by individual IFI (Dusuki,2011).

1.3. CODE OF CONDUCT AS A CONCEPT

A code of conduct is a set of rules around behavior for the employees to follow inside an organization. The code's duty is to act as a standard for employees to pursue so that they can know how to work more efficiently and what is expected from them. A code of conduct can define the company mission, set standards and expectations for staff to follow about their behavior, and inform customers about the company's values. Establishing a code of conduct helps employees to know how to act for the company for the company's well-being(Wentworth,2020).

Code of conduct have been established by the corporations throughout the last century, it is not a new concept for the institutions but the subject has attracted more attention after the 1970s. The national commission on Fraudulent Financial Reporting (Treadway Commission,1987) proposes that all companies have to set up effective and written codes of conduct in promoting honorable behavior through corporations. Corporations comprehend the establishment of codes of conduct as succeeding several aims and these aims are listed below; fostering their corporate moral principles and values, communicating and monitoring their ethical expectations to employees, demonstrating their commitment to ethical values, providing legitimacy for possible legal actions, helping individuals resolve ethical dilemmas (Montaya and Richard, 1984). Even though it is hard to track down the beginning of the code of conduct, in 1958's, it has been discovered that there were 103 companies in the USA(United States of America) which has rules under the meaning of principles(Benson,1989). In the mid of 1970s, the USA was the leading country where big companies use business ethics in their operations(Farrell & Cobbin, 2002). Even though the code of ethics has been developed mostly in the USA, towards to end of the 20. Century it has seen a growth in the world especially because of the issues in the capital markets(Polat,2018).

Muslims treat Islam as a manner of life and not solely a religion. This is why business ethics cannot be divided from ethics into the other aspects of a muslim’s regular life(Beekun&Badawi,2005). The importance of ethics for Islamic finance makes it obligatory for Islamic institutions to become a pioneer in business ethics and code of conduct and to ensure this goal Islamic institutions should follow AAOIFI and IFSB standards for the code of conduct.

International standard setters AAOIFI and IFSB have set out standards but the standards are not sufficient enough to control the behavior of shariah boards and their members. For financial details, the financial rewards are not clarified in the standards entitled by shariah board members. For example how much would it be appropriate for a board member to claim.

1.4. IMPORTANT ELEMENTS

Preparing a code of conduct is crucial for a company. The issues about the code of conduct can cause harmful problems for a company to deal with and it also can help a company to overcome the issues. A Code of conduct can be very useful so it should be prepared carefully. Considering the importance of a code of conduct for Islamic finance, it is a fundamental element for Islamic finance institutions. Code of conduct is also important for all businesses to ensure that employees of the company are informed of the mission. It provides employees a framework of rules which explains how to act in the gray areas of value-based ethics that are not clear from a regulatory and law standpoint(Leonard,2019). Code of Conduct must have some qualities; Reliability, institutions should perform customer services on time and they should do it clearly, trustworthy, and with facts for all of the services and operations. In transparency, institutions inform their customers about the rights of products and services and matters such as liabilities, benefits, and risks. Considering the public interest and respect for the environment(Pekcan,2006).

CHAPTER 2

2.1. CODE OF CONDUCT FOR SHARIAH BOARD

One of the main factors in the Islamic banking industry is the code of conduct for shariah boards. Contributors in the industry such as scholars, and academicians have been pointing out the gaps in the code of conduct prepared for shariah boards but there are still undisclosed issues for shariah boards.

Differently from conventional banking, Islamic banking is liable to another kind of supervision that is SSBs. Code of conduct for Islamic finance has particular differences from the code of conduct for conventional finance. One of the major differences is that human-made values are subject to conventional banking's code of conduct and conventional banks keep apart religion from ethics. On the contrary, the code of conduct for Islamic financial institutions grounded its values on the relationship between man and his creator which is why the code of conduct in Islamic finance is not temporary or biassed(Islamic Business Ethics Journal, 2019).

In the study of the International Journal, the Authors analyzed the problems Islamic financial institutions face regarding the theoretical approach to roles and responsibilities of shariah boards. Shariah board as a managing body of the IFI makes sure that the financial services which IFIs serve have to be shariah compliance to consist of the nature of Islamic finance(Ahmed, Amran & Islam, 2018).

Shariah board members are specialists in the field of shariah specially and the members of shariah board are competent to issue guarantees that services and products offered by IFI's are correlative to the aspects of shariah(ISRA; Ahmed & Zuqibeh, 2013). Islamic institutions that are subject to AAOIFI standards should have considered the definition below of governance standard in relation to shariah board of an IFI as follows;

"specialized jurists, particularly in Fiqh Muamalat and Islamic Finance, entrusted with the duty of directing, reviewing, and supervising the activities related to Islamic finance in order to ensure that they are in compliance with Shariah rules and principles."

The liabilities and responsibilities that are carried out by shariah board of IFIs are essential for the job and the outcomes of their decisions. Operations of IFI's and services, and products they serve need to be shariah compliance thus shariah board members deliver a substantial job by ensuring operations carried out by IFI's are shariah compliance. In this regard, AAOIFI has established Governance standards for Islamic financial institutions and the regulations are advice rather than obligatory. The analysis of AAOIFI standards is diligently examined below;

-Governance Standard for Islamic Financial Institutions No.1: First standard is titled 'Shari'a Supervisory Board: Appointment, Composition, and Report' so it is starting with defining Shari'a Supervisory Board and continuing with appointing shari'a supervisory board members. Appointing part has a short explanation of how to appoint shari'a supervisory board members. The standard just says that Shari'a supervisory board to be appointed by the shareholders, the shari'a supervisory board and the Islamic financial institution should agree on the terms of the engagement, and the shari'a supervisory board shall appoint from amongst its participants or every other man or women to assist it in appearing its duties. Then mentions about Composition, selection, and dismissal of shariah board(AAOIFI Standards).

-Governance Standard No.2: Second standard titled 'Shariah Review' is to ensure compliance with shari'a rules and principles. The objective of a shari'a review is to make sure that the practices carried out by an Islamic financial institution do not contravene the shari'a(AAOIFI Standards).

-Governance Standard No.3: Third standard titled 'Internal Shari'a Review' provides guidance on the internal shari'a review in Islamic financial institutions which conduct business in suitability with shari'a rules and principles. The standard suggests that an internal shari'a review should be performed through an impartial branch or a part of the inner audit department(AAOIFI Standards).

-Governance Standard No.4: Fourth standard titled Audit and Governance Committee for Islamic Financial Institutions is to identify the role and responsibilities of an Audit and Governance Committee for an Islamic Financial Institution(IFI). This Standard also emphasizes the requirements to set up a committee for IFIs(AAOIFI Standards).

-Governance Standard No.5: Independence of Shari'a Supervisory Board. Standard No.5's purpose is to provide guidance on adapting SSBs(Shari'a Supervisory Board) to its independence and guidance on how to fix problems related to independence. Standard No.5 also explains the importance of the independence of SSB members for Islamic Financial Institutions(AAOIFI Standards).

-Governance Standards No.6 Statement on Governance Principles for Islamic Financial Institutions. Standard No.6 explains why it is a necessity to establish a 'Statement' in order to support the development of solemn governance practices in IFIs(Islamic Financial Institutions). The Standard clarifies 12 principles of governance.

-Governance Standard No.7 Corporate Social Responsibility, Conduct and Disclosure for Islamic Financial Institutions. Standard No.7 aims to set up standards at the definition of Corporate Social Responsibility for Islamic Financial Institutions(AAOIFI Standards).

-Governance Standard No.8 Central Shari'ah Board. Standard No.8 gives a detailed explanation of the Appointment, Composition, and Dismissal of Central Shari'ah Board members(AAOIFI Standards).

-Governance Standard No.9 Shari'ah Compliance Function. This Standard underlines the importance of the shari'ah compliance function and continues by explaining its framework. It sets out the roles and obligations of the shari'ah compliance department. It also underlines the responsibilities of various organs of governance related to shari'ah compliance(AAOIFI Standards).

-Governance Standard No.10 Shari'ah Compliance and Fiduciary Ratings for Islamic Financial Institutions. This Standard underlines the performance of Shari'ah compliance and Fiduciary ratings by setting out principles. Additionally, it is also written to enhance the transparency of the compliance of IFIs with the standards, regulations, and practices(AAOIFI Standards).

-Governance Standard No.11 Internal Shari'ah Audit Standard aims to add to the previous standards and extend guidance on the Internal Shari'ah Audit function in IFI's(AAOIFI Standards).

-Governance Standard No.12 Sukuk Governance. This standard was published to set out a framework for the governance of Sukuk issuances.

-Governance Standard No.13 Waqf Governance. This standard provides the main principles of governance applicable to waqf and waqf-based institutions. It maintains key elements for setting up waqf, key responsibilities, and principles for establishing the different organs of the waqf(AAOIFI Standards).

Code of Ethics for Islamic Finance Professionals; AAOIFI published the Code of Ethics for Islamic Finance Professionals because it has been over two decades that the previous one was published. This code pursues to achieve to assist Islamic finance industry and Islamic finance specialists obtain Barakah via considering the letter and the spirit of Shari’ah(Maqasid-e-Shari'ah), to help Islamic finance professionals to understand the ethical conduct’s demends and choose the proper movement in an moral dilemma, inspire Islamic finance specialists to keep up with ethics willingly and be good examples for others. AAOIFI has divided the code into two parts; The Executable or the operative and The Non-executable or the non-operative. The executable part is set out in two parts; Part A and Part B. Part A provide Islamic finance professionals the conceptual framework to understand what forms ethics and teaches them to make ethical decisions. Part B discusses applying the conceptual framework in the real world. The non-executable part also consists of two parts; Part C and Part D. Part C discusses various ideals within each of the given ethical virtues. Part D explains the violations of the ethical virtues for enhanced understanding and improved application.

Figure 1: The Visual depiction of the code.

Şekil 1

Adl and Ihsaan equation	Having the right intention and the right mindset	Ethical virtues	Taqwa (Allah consciousness)	Illustrative violations and Ideals		
			Tawakkul (reliance on Allah)	Illustrative violations and Ideals		
		Ethics protocol	Self-accountability			
	Doing the right thing	Ethical virtues	Sidq (integrity)	Illustrative violations and Ideals	Verbal	
					Non-verbal	
			Amanah (trustworthiness)	Illustrative violations and Ideals	Human beings: Staff and subordinates	
					Human dignity	
					Resources	Assets
						Information
						Intellectual property
						Representation (responsibility and power)
						Ecology and Environment
		Ethics protocol	Liability-avoiding			
	Doing it (the right thing) in the right manner	Ethical virtue	Quwwah (strengths)	Illustrative violations and Ideals	Proficiency	
					Compliance	
					Continuing personal and Professional development	Knowledge
						Skills
						Attitude
		Ethics protocol	Decision-making			
	Engaging with others positively	Ethical virtue	Tawasi bil Haq (exhorting truth)	Illustrative violations and Ideals		

		Ethics protocol	Violation-escalation

Source:The Visual depiction of the code(AAOIFI Standards).

Code of conduct is not just doing the right thing for Islamic finance institutions it is also doing the right thing with a good manner and good intention.

The AAOIFI and IFSB collectively issued an exposure draft of “IFSB - AAOIFI Revised Shariah Governance Framework for Institutions Offering Islamic Financial Services (RSGF)”, this exposal draft of the collaboration international standard-setting institutions was approved respectively by the AAOIFI Governance and Ethics Board (AGEB / The Board) and the Technical Committee of IFSB. When the Standard is finalized, it will replace fully or partially, certain earlier standards issued previously by both institutions. The final standard will be issued after the process of reviews and approvals by both institutions is finished(IFSB-AAOIFI Revised Shariah Governance Framework for Institutions Offering Islamic Financial Services, 2022).

The standard is issued in two sections, the first section explains the background of the standard and objectives of the standard. The Second section clarifies the guiding principles for Shariah Governance Framework in 14 sub-principle;

1- Institutions Offering Islamic Financial Services(IIFS) must have a comprehensive Shariah Governance Framework.

2- The Regulatory and Supervisory authorities shall have an adequate understanding of Shariah non-compliance risks.

3- Regulatory and Supervisory Authority(RSA)’s and Governments are strongly recommended to establish and empower Central Shariah Boards to harmonize Islamic finance and banking practices in the jurisdiction in line with Shariah ethics and regulations.

4- Principle four sets out the organs that IIFSs must have at the minimum and these are; a)Shariah board, b)Shariah Compliance Function, c)Internal Shariah Audit Function, and d)Independent External Shariah Audit.

5- Principle five expresses that IIFSs should clearly define the duties and amenabilities of their Board of Directors, Senior Management, and other organs.

6- An IIFS must have in place an independent, competent, empowered, and adequately resourced Shariah board.

7- An IIFS must have a Shariah Compliance function that is competent, empowered, and adequately resourced to perform its duties.

8- An IIFS must have an Internal Shariah Audit function that is competent, empowered, and adequately resourced to perform its duties.

9- An IIFS should be subject to an Independent External Shariah Audit.

10- Islamic windows of Conventional financial institutions must have a suitable Shariah governance framework to ensure effective Shariah compliance of its operations.

11- Similar to principle number 10, An Islamic Subsidiary/Affiliate of a conventional financial institution must have a suitable Shariah governance framework to ensure effective Shariah compliance of its operations.

12- IIFSs are responsible for any other considerations or exceptional circumstances towards implementation of the principles of this standard.

13- The provisions of this standard can be implemented using the proportionality criteria for different sectors of the Islamic finance industry.

14- It's been suggested that An IIFS should be transparent in its Shariah governance to its customers, shareholders, other relevant stakeholders, and market participants.

2.2. THE EXISTENCE CODE OF CONDUCT IN PARTICIPATION BANKS FROM SELECTED COUNTRIES AROUND THE WORLD

2.2.1. Turkey

Corporate governance principles for Participation banks in Turkey are specified with the banking law No.5411 on its sub-regulations. In addition, participation banks that have issued issuances are liable to the corporate governance principles determined by the Statement serial IV No.56 on the Determination and Implementation of Corporate Governance Principles published in the Official Gazette dated 30/12/2011 and numbered 28158 by the Capital Markets Board (CMB). Participation banks in the first degree reference the Banking law No.5411 and its regulations on corporate governance. Matter 22 of the Law establishes the infrastructure for sub-regulation such as “the structure and processes related to corporate governance and the principles regarding them are determined by the Banking Regulation and Supervision Agency by taking the opinion of the CMB and the association of institutions”. BRSA has issued the Regulation on Corporate Governance Principles of Banks, which was published in the Official Gazette dated November 1. 2006, and based on article numbered 26333. Evaluation of advisory committees as an element of corporate governance becomes legal only if it is designed as a board committee. An important element of the regulations of the principles of corporate governance by CMB regarding the board of directors is related to the independent member to be included in the board of directors(Dinç, 2016).

PBAT published a Code of Ethics in 2014. PBAT has assigned 6 members for each participation bank in Turkey. The Introduction part of the principles explains the importance of ethics and why it is needed in the industry. The second part General Provisions is divided into 3 parts; Purpose and Scope, Legal Grounds, and General Principles. The first part explains the purpose of the principles and relations between participation banks in Turkey and their customers, shareholders, employees, or each other. The second part explains the legal base of the principles. The third part explains general principles detailed which are; Integrity, Neutrality, Reliability, Transparency, Supervision of Public Benefits and Respect for the Environment, Fight against Laundering of Proceeds of Crime and Combat Against Financing of Terrorism, and Information Abuse. Principles continue with explaining Relations of Banks with Public Entities and Organizations, Interbank Relations, Relations of Banks with Their Customers, Professional Rules and Ethical Principles to be Followed by Bank Employees, Application Procedures and Principles, and ends with Determination and Sanctions of Breaches and Other Provisions.

PBAT has also published a Communique on the Formation, Duty, Working Procedures and the Principles of the Advisory Board. It was accepted by the decision of the PBAT Board of Directors under the date of 02.04.2018 and the number of 253.

The Formation of the Advisory Board clarified in 8 matters;

1- It is disclosed that the Advisory Board consists of 7 members which appointed by the Board of Directors for 5 years and whose time is ended can be elected over again.
2- The Advisory Board elects a chairperson among the members to perform the duties and elects a vice-chairperson to perform the chairperson's duties when the chairperson is absent.
3- It is mandatory for the members of The Advisory Board 3 of them out of 5 to have a Ph.D. degree in Islamic sciences, one of the candidates advised by the Presidency of Religious Affairs between the members of the High Board of Religious Affairs and one of them has undergraduate or graduate degree in business, economics, finance, banking, law and equivalent branches, and at least 7 years of managerial experience in the participation banking industry.
4- A majority number of full-time or part-time personnel are appointed by the Board of Directors so as to assure that the activities of The Advisory Board are carried out effectively to conduct research activities.
5- Requirements of those who were appointed as members and personnel of the Advisory Board are listed;

a) Not to be deprived of public rights,
b) Not to have been sentenced to prison for 1 year or more for an intentional crime,
c) Not to have any relation left with the military service,

d) Not to have any security investigation about them.

6- Personnel and members of the Advisory Board can not have qualified shares, have duties, directly or indirectly provide services to the institutions in the range of the field of the agency.

7- Advisory Board members and personnel's financial and social rights are specified by the Board of Directors every year. Advisory Board's expenses are covered by the annual budget of the Association.

8- Advisory Board members can not be discharged for any reason before their time ends in the office but the Board of Directors can discharge members who are unable to work because of serious illness or disability. The Board of Directors can also discharge members who do not attend three meetings without any excuse in a year or who are convicted of their crimes. The Board of Directors can replace the member who was dismissed within a month.

Working Procedures and the Principles of Advisory Board are explained in 7 matters in the Communique; (1) The Advisory Board convenes at least once a month when considered worthy by Chairperson. (2) The meeting's details are determined by the chairperson and notified to members at least three business days before the meeting date. (3) If it is needed, Representatives of a relevant institution or experts in the field can attend the Advisory Board meeting. (4) The Advisory Board convokes with at least 4 members and takes decisions with the unanimous vote of at least 3 members. Decisions are written on their sharia basis. (5) Members who do not sign the decisions or do not notice the reasons for the opposing vote within the time limit are deemed not to attend the meeting without an excuse. (6) The standards and professional principles specified by the Advisory Board are published on the Association's website. (7) The Advisory Board does not make any consideration on works and transactions whose legal process is ongoing(PBAT,2018)

Duties of the Advisory Board are explained in 7 matters: (1) First matter explains the duties that Advisory Board conducts in five sub-matters; Determining the professional principles and standards which must be adopted by participation banks by following standards published by international standard setters, Making general decisions to eliminate the implementation differences among participation banks, Making reviews related to the compliance of the works and transactions of the participation banks, Giving opinions on interest-free financing activities to other institutions, Regulating programs for the promotion or training of participation banking professional principles and standards.(2) Participation banks' Boards of directors are accountable for the implementation of the decisions taken.(3) The Board of Directors decides on the payment and the fees to be collected for expressing an opinion.(4) Disputes between participation banks and their customers on matters covered by professionals' principles and standards are resolved by the relevant participation bank. The Association can be consulted about the decisions taken by the participation banks on the dispute.(5) The Advisory Board explains all activities in the annual report and sends it to the Board of Directors and the Board of Directors sends it to the agency each year.(6) The Advisory Board carries out the duties assigned to it within the scope of the communique under its own responsibility, impartially and independently.(7) An executive or administrative duty can not be assigned to the Advisory Board within the scope of the activities of the association(PBAT,2018)

The last part of the Communique explains the attitude toward Bank and customer secrets, Detection of non-conformities and sanctions, Validity, and Execution(PBAT,2018).

External and Internal Bodies in Turkey, Central Advisory Body was founded in 2018 by PBAT to specify principles of the work and standards for Islamic finance for participation banks in Turkey. After the establishment of the central advisory body, "Declaration on Compliance with Principles and Standards of Interest-Free Banking" became posted in the Official Gazette by BRSA on 2019 September 14(No: 30888), the declaration designates the basis of the shariah boards in the banks(COMCEC, 2020, p.73). An internal shariah body is a form of auditing committee that inspects the shariah compliance of the IFIs' products and services. The internal body must have permitted to access all the information and documents about the IFI. The internal body must prepare a report and the report must contain all the issues in IFI. The internal body should not face any pressure from the IFI's management to present an effective and transparent report.

2.2.2. Malaysia

One of the advanced Islamic financial industries in the earth is Malaysia, especially for its Sukuk market domination. Malaysia implements a different way of the implementation of Islamic finance in the country which contains contributions from stakeholders such as BNM, Securities Commission (SC) Malaysia, Independent advisory governmental bodies, financial institutions, and accountants, in addition to the customers. One of the most important evolvement in Islamic banking and finance in Malaysia was introducing the Islamic Financial Services Act 2013 (IFSA) which provides BNM with necessary supervisory roles to fulfill its essential authorization. The development of Shariah Governance in Malaysia started with the Shariah governance framework for IFIs in 2010. It is stated that Shariah governance fulfills three main objectives and these are;

1- Every Islamic finance company must adhere to the central bank's criteria by establishing shariah governance processes, structures, and arrangements, to guarantee that their business activities and operations are compliant with shariah principles,
2- When the Board of Directors, Islamic financial institution management and the Shariah board successfully carry out their responsibilities on Shariah matters,
3- The tasks related to Shariah Audit, Shariah research, Shariah review, and Shariah risk management are completed(BNM,2010).

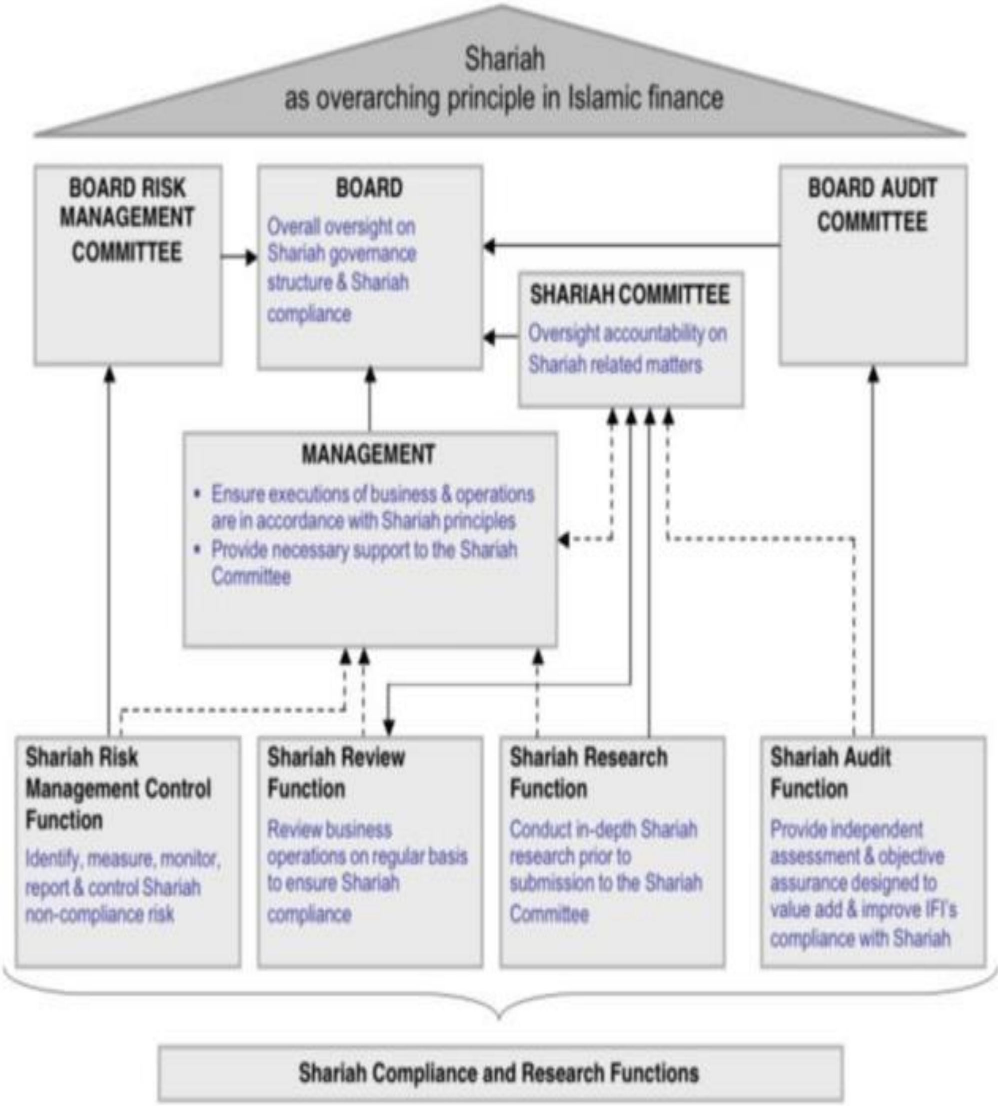
The BNM accepts an existing framework of shariah governance with a two-stage. These two tiers are BNM as the centralized Shariah supervisory body at the central bank level and the Internal Shariah board which is established in every Islamic financial institution(IFSA,2013). It has been stated that there is a consensus on Malaysia is playing a crucial part in the global Islamic financial sector(COMCEC Report,2020). Bank Negara Malaysia has published a few legislation and regulations to manage the Shariah governance framework and crucial points of the framework were detailed between Section 30 to Section 36. Section 30 is explaining the Establishment of the Shariah board in 3 matters;

1- A licensed individual must form a Shariah board to provide guidence on how to ensure that their operations, affairs, and actions comply with Shariah.
2- If a financial organization has more than one licensed individual, one of the licensed individuals may request from the Bank the creation of a single Shariah board for the financial institution.
3- The bank may require an approved person of a designated payment system to establish a Shariah board for purpose of advising the approved person of the designated payment system in ensuring their business, affairs and activities are compliant with Shariah(IFSA,2013).

Section 31 explains the Appointment of a Shariah board Member by saying that No person shall be appointed, reappointed, or accept any appointment as a member of a Shariah board unless such person meets the requirements as set out in any standards. Section 32 explains the Duties of Shariah board and Its Members which is that A Shariah board and every member of the Shariah board shall have such duties and functions set out in any standards. Section 33 explains Cessation as a Member of Shariah board with 5 main objectives. Objective 1and 2 explains when a member of a Shariah board shall cease, objective 3 says that An institution cannot remove a member of its Shariah board from their position without first receiving the Bank's prior written approval, objective 4 clarifies that when a Bank may dismiss a member of Shariah board, objective 5 says that the removal of a member of shariah board under objective 4 needs to be lawful and valid. Section 34 states that when a member of Shariah board gets cease the institution must notify the bank in writing and explain the reason for the cease in fourteen days at most and the institution shall assign a new member of its Shariah board. Section 35 is about information to be provided to Shariah board and it states that An institution and any director, officer, or controller should provide any document or information obtained by it or him. Section 36 titled Qualified Privilege and Duty of Confidentiality states that any member of a Shariah board should not be liable for a violation of a duty(BNM,2011).

Figure 2: Shariah Governance Framework Model in Malaysia

Şekil 2



Source: Bank Negara Malaysia

2.2.3. Indonesia

Islamic finance governance in Indonesia is influenced by the civil law system which Indonesia's legal system is based. The Financial Services Authority(Otoritas Jasa Keuangan – OJK) is the government body that is setting the standards in the financial services sector and the OJK is still actively being part of various forums and collaborates with international bodies. There are 2 different Shariah Supervisory Bodies which are; 1- The SSBs in IFIs and also in conventional banks' Islamic windows, 2- The National Shariah Board (Dewan Syariah Nasional – DSN). There are a few important elements related to SSBs in IFIs;

1- IFI's fully-fledged windows must establish SSBs,
2- SSB should be appointed by the general meeting of shareholders,
3- SSB has to give advice and recommendation to the BOD and supervise the IFIs' activities in terms of Shariah Compliance(COMCEC,2020).

The Assignment process of the SSB members starts with IFI appointing the SSB member. An appointed member should have a recommendation from the DSN. The DSN gives recommendations to those who have a Shariah audit certificate issued by the DSN. To become an SSB member officially, the appointed member should apply to OJK. OJK interviews the applicant to investigate the applicant's documents and financial situation to clarify this information. The problem with Indonesia's Shariah governance framework is that there is no Shariah audit body in the IFIs in Indonesia because there are no Shariah audit standards put in regulation yet(COMCEC, 2020).

2.3. THE LACK OF DISCLOSURE

The SSB framework changes everywhere in the world and this brings uncertainty to the governing Islamic institutions. The international standard-setters AAOIFI and IFSB's standards are not adopted by some of the Islamic institutions around the world so the code of conduct for Shariah boards variable country to country. The details disclosed by IFIs in a country are not disclosed in another country.

One of the most important issues is financial rewards received by Shariah board members it is not disclosed by the IFI. IFIs should disclose the financial amounts to be transparent. On the other hand, the financial rewards need to be paid by a central institution, not an institution that controls the Shariah board. Rewards received by Shariah Board members should be clarified in the code of conduct.

Primarily, there are three types of frameworks for Shariah governance; Centralized SSBs, Decentralized SSBs or Combine SSBs. The practice of Shariah governance in the Islamic finance industry faces several important difficulties. Most of the issues are linked to the roles and responsibilities of the SSB's operating at the national level besides at the institutional level. Some of the important challenges of Shariah governance can be summarized; (i) the lack of legislative and regulatory environments for IFIs, (ii) standardization and consistency among IFIs, (iii) regulatory and standardization challenges(COMCEC, 2020, p.40).

SSBs have to be independent at the national and institutional levels. The current practice of appointing an SSB member by IFI's management raises doubts about its independents. Appointing SSB members by IFIs' managers may create a potential conflict of interest between SSB members and shareholders, the problem is that SSB members may accept suspicious processes to ensure their reappointment in theory(COMCEC, 2020, p.43).

CHAPTER 3

3.1. TOWARD A MORE SPECIFIC CODE OF CONDUCT FOR SHARIAH BOARD

Code of Conduct has a vital impact on Shariah governance and Islamic finance. Differently from conventional financial institutions, there are much more restrictions in Islamic financial institutions and it makes the code of conduct more inevitable for Islamic finance to be effectively implemented. As mentioned above, there are multiple different Shariah governance frameworks around the world. Even though there are a few international standard setters, there is no obligatory to follow the standards for Islamic finance institutions and that makes it harder to set up standards that would be accepted by every institution.

Studies conducted on the code of conduct for Shariah boards have shown that there is a lack of literature and there are some problems with the implementation of the code of conduct. The undisclosed details for Shariah boards should be analyzed and studied to form a better code of conduct for shariah boards for Islamic financial institutions to adapt and implement effectively.

One of the most important in existence of the code of conduct for Shariah boards is undisclosed financial details. Financial details should be clarified in the code of conduct. For example, who is going to pay for the members' fees should be explained in the code of conduct. It causes problems when the fees are paid by the institutions because of reliability. Transparency is also a prime element of Shariah boards. There should be standards regarding the transparency of Shariah boards in the code of conduct.

Many issues that stand in the gray area with regard to the practical experience of shariah governance such as the number of committees that shariah scholars are allowed to participate in, the financial rewards they receive, disclosure and publication of reports issued by shariah boards, the qualifications of members, the extent of their independence, avoidance of cross interests, other issues this study seeks to clarify and develop specifications for good behavior through the code of conduct for shariah governance, which will be one of the most important additions to this study.

One of the challenges while forming a specific code of conduct for shariah boards is that there are not many studies on this subject. A few respectful studies have been conducted to examine the existing code of conduct for shariah boards and researchers which forming up a guide code of conduct to improve respectfully the existent code of conduct to help Islamic financial institutions to work effectively.

Appointing a Shariah board member differs from country to country or even institution to institution. Appointing a member of Shariah board should be standardized to make the process reliable.

3.2. THE GOOD BEHAVIOURS EXIST

The practice of Islamic financial institutions has brought out diverse shariah governance models so there are no centralized shariah governance standards and the standards to control shariah boards are changing from institution to institution. This thesis' main aim is to determine and propose standards related to shariah boards. There are undisclosed details as well as there are disclosed details which are studied as good behaviors exist.

The success of an institution substantially depends on strong and efficient corporate governance(Musab, 2015). Forming an efficient and strong corporate governance has significant importance for institutions to become successful. Before forming efficient and strong governance standards it is crucially important to study best practices of shariah governance for Islamic financial institutions.

Musab(2015) has unclosed some of the best practices which are explained in 6 different topics;

-Harmonization of Fatwa

The financial products offered by Islamic financial institutions are Shariah Compatible from one region to another or maybe in the same region so the researchers at IFSB and IDB(Islamic Development Bank) met in the same sense that shariah opinion is a lasting specialty of the Islamic financial service industry and it mostly depend on the politics' climate, country's laws, supervisory and regulatory framework. Researchers of IFSB and IDB have concluded that such a harmonization should be taken into consideration by permitting the variety in practice instead of principle. By permitting the variety, shariah governance at the regional and international levels can be enhanced.

- "Fit and Proper" Test

IFSB Standards number 3 and number 10 refer that the sufficiency of shariah governance's effectiveness needs to set out the criteria for appointing shariah board members in accordance with professional training, experience, qualification, and system of mentoring hereupon better-experienced members can hand over their knowledge to beginner and mostly younger member. This way of implementation will increase the confidence in shariah board members and in general shariah scholars in shariah boards.

-Stronger internal bonding

Shariah governance is a subsidiary part of corporate governance so IFSB Standard no.10 suggests that the liability of ensuring sound and efficient shariah governance should not be restricted to the shariah board members only instead all of the stakeholders in IFI should take responsibility. It is achievable by advancing the mechanism and cooperation for acquiring rulings from shariah scholars just as IFSB Standard no.3, 3.1. recommended to implement it.

-Transparency and public disclosure

IFSB3 focuses on the issues related to transparency and public disclosure especially in part four and principle 3.2. IFSB needs IFIs to comply with shariah compliance ruling and make it accessible for the people together with making relevant information on investment accounts adequate and timely disclosure. The same idea is also emphasized in IFSB 10.

-Interdisciplinary board members

Appointing an Interdisciplinary board member can contribute much more to achieving the elements mentioned above for preferable shariah governance. Due to the fact that the interdisciplinary board members will launch a much more reasonable fatwa and complete the specialization gaps also transparency of the issues become improved.

-Coordination and cooperation between international standard providers

Considering regulatory and legal circumstances, the shariah boards can be supervisory or advisory and just the globally excepted shariah statements have been taken into consideration to be obligatory and accomplishable. After all, the problem can be overcome by improving coordination and cooperation between the international standard providers such as AAOIFI, Fiqh Academy, and IFSB as each of the standard setters praises the other.

3.3 THE GOOD BEHAVIOURS NONE EXISTENCE

As much as there are good behaviours which are exist in previous standards or are in use for IFIs, there are also none existence good behaviours which are not in use for IFIs. Non existed good behaviors are based on the gaps in the literature in the shariah governance and the gaps in the standards which are established by international standard setters mentioned above. This study focused especially on the lack of shariah governance standards for mainly shariah boards to improve the efficiency of the standards and improve the effectiveness of shariah boards by forming a newly designed proposed shariah governance standards for shariah boards. Before setting a proposed shariah governance standards it is highly important to review good behaviours that are in existance but it is more important to review and form the none existence good behaviours to build a new one.

Begin with the financial rewards that shariah board members receive are undisclosed in the existing standards and the uncertainty of financial rewards causes a lack of transparency on financial details. Another good behavior related financials of shariah board members is who is going to pay for the board members' service. If it is paid by the institution which the board members managing the shariah compliance then it could cause untrustworthy opinions so this is why it is commonly recommended by other studies on this subject and also by this study that financial rewards must be paid by a centralized institution.

In Addition, there are no specific criteria explanation for reports that shariah boards prepare. Reports are the most important element that shariah boards contribute to the work so the criteria regarding the reports are majorly important for IFIs. There is no standard related to the criteria of reports in any standard setters.

None existance good behaviours are also in the table of extent standards below with more issues related to shariah boards standards.

CHAPTER 4

4.1. THE IMPLEMENTATION REGARDING CODE OF CONDUCT FOR SHARIAH BOARD

The document below is prepared to point out issues in standards related to shariah boards of participation banks in Turkey. The document will help IFIs to improve and implement standards for shariah boards. BRSA published a paper called ‘Declaration on Compliance with Principles and Standards of Interest-Free Banking (No:30888)’ in 2019 and the paper organizes the working system of the Advisory Committee within the participation banks in Turkey. There are 15 main matters in the standards and 48 sub-matters. First standard clarifies the main objective why these standards are published, second standard clarifies the legal basis of the standards, third standard explains the abbreviations mentioned in standards, fourth standard clarifies appointments, dismissal, duty term, duties and responsibilities, fifth standard clarifies the qualifications and requirements of the shariah board, sixth standard mentions the independency of the shariah board, seventh standard explains the duties and authorities of the shariah board, eighth standard explains the working methods and principles of the shariah board, ninth standard clarifies the compliance activities of Islamic banks, tenth standard clarifies the audit activities of Islamic banks, eleventh standard clarifies the requirements for personnel working for shariah board, twelfth standard explains the individual applications and informations, fourteenth standard explains the responsibilities for Board of Directors, fifteenth standard gives information on development and investment banks(Official Gazette, No:30888). Every participation bank in Turkey has to apply these standards. In the following table designed by the researcher, which the study calls the document of the code of conduct for shariah governance and this document is one of the most important contributions of this study.

Tablo 1

Table1: "Code of Conduct Document for Shariah Governance"

Issues	Indicators	Standards	Good Behaviours
Number of Members	0-1 Very Poor 1-2 Poor 2-3 Average 3-4 Good 4-5 Excellent	1-Shariah Board consists of at least 3 members(Official Gazette, No:30888). 2-Shariah Boards must consist of at least 3 members(AAOIFI Standards).	-SSB should contain a few different experts in their field such as monetary and financial economics, and shariah scholar and every member of an SSB must have a higher degree of academic education(COMCEC, 2020, p.35). The good behaviour of these standards is that there should be more than 3 members and the members should be experts in their fields.
Qualifications -Academic -Research	0-1 Very Poor 1-2 Poor 2-3 Average 3-4 Good 4-5 Excellent	1-At least 2/3 of members must have at least a bachelor's degree in Islamic studies or related majors or have a master's degree or doctoral degree in Islamic finance (Official Gazette, No:30888).	-Shariah board members have to have a doctorate degrees in Islamic finance and/or economics. There is no information on the members' research qualifications and as I analyzed previous studies on the subject I can recommend that members should have at least 1 article published in an internationally known journal.
Experience	0-1 Very Poor 1-2 Poor 2-3 Average 3-4 Good	1-2/3 of the members must have at least 3 years of experience in Islamic finance (Official Gazette, No:30888).	-Considering practical experience it is essential for shariah board members to have at least 5 years of

	4-5 Excellent		practical experience in financial institutions.
Appointment	0-1 Very Poor 1-2 Poor 2-3 Average 3-4 Good 4-5 Excellent	1-Banks appoint their own advisory committee and the committee conduct their activities attached to the board of management (Official Gazette, No:30888). 2-Shareholders of the IFIs appoint Shariah boards considering the recommendation of the board of directors(AAOIFI Standards).	-The good practice when appointing shariah board members should be handled by the general assembly of the institution to preserve specially independence of the shariah board.
Renew and Dismissal Method	0-1 Very Poor 1-2 Poor 2-3 Average 3-4 Good 4-5 Excellent	1-Shariah board members serve 3 years and dismissal terms are the expiration of the serving time, death, fatal disease, incapacity to work due to disability, loss of appointment requirements, voluntarily resign, and joint decision of 2/3 of the board of management. Members whose term has expired can be reappointed (Official Gazette, No:30888). 2-The dismissal of a board member has to require the recommendation of the board of directors and needs to be approved by shareholders(AAOIFI Standards).	-The good practice of dismissal and renewal for members of shariah board also should depend on the voting of the general assembly, this is also for the preservation of independence. It is not advised to renew the membership of the board for more than 3 years and this system is to prevent dependence because the authority of the general assembly is not subject to the force of the Board of Directors.
Remuneration and Rewards	0-1 Very Poor 1-2 Poor 2-3 Average 3-4 Good	1-There is no specific Financial rewards standard but in Official Gazette it is stated that Shariah Boards receive	-The good practice for advisory board members to receive their remunerations and financial rewards is

	4-5 Excellent	their fees from the bank they work for (Official Gazette, No:30888). 2-The Audit and Governance committee members' remuneration may be based on a recommendation by the board of directors to the general assembly meeting(AAOIFI Standards).	that it is suggested here to assure independence and integrity, a central body should undertake this responsibility and the remunerations and all the financial rewards must be announced in the annual report of the IFI.
Number of Meetings	0-1 Very Poor 1-2 Poor 2-3 Average 3-4 Good 4-5 Excellent	1-Shariah board meetings must take place at least 2 times a month (Official Gazette, No:30888). 2-Meetings can be held online by the attendings of board members(Official Gazette, No:30888). 3-At least 2/3 of the members must attend the meetings to take place(Official Gazette, No:30888).	-The good practice of the advisory board meetings is that they should meet at least 4 times a year. Each member of advisory board has to attend the meetings and members should not miss any meeting except for 1 meeting if they have an urgent excuse.

Duties / Responsibilities	0-1 Very Poor 1-2 Poor 2-3 Average 3-4 Good 4-5 Excellent	1-To Analyze the implementation of participation banking principles and standards, to approve the bank's goods and services regarding compliance with principles and standards, to report decisions made by the board to the management, to inform the management about the activities held by the shariah board during the term and evaluation of the compliance of bank's activities with principles and standards, the shariah board can not take decisions contrary to the principles and standards determined by the advisory board (Official Gazette, No:30888).	-The SSB's main objective is shariah compliance of an IFI, SSBs should behave to implement social responsibility standards and assuring the interest of the all stakeholder not just part of the stakeholders, SSB's should establish a system to uncover illegal income(COMCEC, 2020, p.35). The good behavior suggested is that SSBs should make their decisions without any influence of the board of directors, SSB must research every aspect of the IFI without any pressure and publish the report publicly and transparently.
To Avoid Conflict of Interest	0-1 Very Poor 1-2 Poor 2-3 Average 3-4 Good 4-5 Excellent	1-Shariah board takes decisions independently and away from the influence of senior management and all relevant parties, banks should take precautions to avoid conflict of interest. 2-Members of Shariah board must have not been a member of the executive board of the bank and/or subsidiaries and consolidations, Not have qualified shares in the bank and/or its partnerships and consolidations, Not have qualified shares in commercial	-The appointment of SSB members by IFI's managers can generate a possible conflict of interest among SSB members and shareholders, in theory, the concern is that SSB members can approve questionable transactions to make sure they will be reappointed (COMCEC, 2020, p.43). -The good behaviour is that there should be no conflict of interest between shariah board members and

		organizations that have significant debit/credit relations with the bank and/or subsidiaries and consolidations, Not being a member of the executive board of directors or a manager with an executive unit attached to it. 3-Shariah board members should not be a spouse or relative by blood or beech up to the second degree of the bank's controlling shareholder, members of the board of directors, or the general manager. 4-Except for the fees shariah board members receive for their duty, board members should not get any other remuneration or similar income from the bank or partnerships or under any name based on their profitability. 5-Shariah board members' children or spouses should not be a general manager, assistant general manager, or an equivalent manager in the bank and/or its partnerships (Official Gazette, No:30888).	managers. Managers of the IFI should not have any influence on shariah board members. -As previous standards suggested, there should not be any close relationship between shariah board members and the board of directors or any other managers of the IFI or its subsidiaries.
Report Criteria	0-1 Very Poor 1-2 Poor 2-3 Average 3-4 Good 4-5 Excellent	1-There are no Report Criteria in Turkey's Official Gazette Standards. 2-There should be basic elements in the report such as;	-The good behaviour is that Shariah board members should refer to all of the issues they encounter in the IFI, Report should contain

		Title, Address, opening paragraph, paragraph of scope for the work has done, Opinion paragraph which contains the expression on the compliance of the IFI with shariah rules and principles, date of report, shariah board's signature(AAOIFI Standards).	unbiased opinions of the shariah board members. -Report should also be transparent and publicly accessible to inform parties involved in the IFI.
Number of Committees a member can sit on	0-1 Very Poor 1-2 Poor 2-3 Average 3-4 Good 4-5 Excellent	1-A member can sit maximum 2 bank's advisory boards(Official Gazette, No:30888).	-As for good behavior, a member should only sit on one committee in order to preserve the confidentiality and privacy of the financial institutions.

CHAPTER 5

5.1. EVALUATION OF THE EXPERIENCE OF THE PARTICIPATION BANKS IN TURKEY WITH REGARD TO THE COMPLIANCE OF SHARIAH GOVERNANCE

This part of the study mainly focuses on the participation banks in Turkey and their shariah governance with regard to shariah boards. Shariah boards of the participation banks in Turkey were analyzed based on the issues mentioned in the table1. Considering the issues on the shariah governance standards, a point-scoring system was conducted among the participation banks in Turkey. By conducting a point scoring system, we can compare the participation banks' adaptation to shariah governance standards and to the good behaviours of the standards. Indicators of the point-scoring system are explained in the "Code of Conduct Document for Shariah Governance Standards" table in the Indicators column. After the total points examination, we can see the evaluation of the experience of the participation banks in Turkey regarding shariah compliance. It is obligatory to apply the standards published by BRSA "Communique on Compliance with the Principles and Standards of Interest-Free Banking" for participation banks in Turkey that is why implementations of the banks are mostly based on the BRSA standards.

Tablo 2

Table 2: "The Extent to which Participation Banks in Turkey adhere to Compliance of Shariah Governance"

Participation Banks in Turkey	**Implementation**	**Issues**	**Points**
Albaraka Türk Katılım Bankası A.Ş. Board Members; 1)Yousef Hassan Khalawi 2)Prof. Dr. Hamdi Döndüren 3)Prof. Dr. Necmettin Kızılkaya	Albaraka Türk has 3 Shariah Board members(albaraka, 25 Mayıs 2022).	Number of Members	3 Points- Average
	1/3 of the member has a bachelors degree, and 2/3 of has doctorate degrees. 1/3 of members have worked international companies and specialized in comparative fiqh, international investment and also working at AAOIFI, and 2/3 of members have internationally and locally published articles(albaraka, 25 Mayıs 2022).	Qualifications -Academic -Research	4 Points- Good
	All of the members have more than 5 years of experience in Islamic finance and law(albaraka, 25 Mayıs 2022).	Experience	5 Points- Excellent
	The Board of Directors appoints members and submits to General Assembly's	Appointment	3 Points- Average

	approval(Official Gazette, No:30888).		
	As BRSA standards on the subject advised dismissal and renewal of the members handled by Board of Directors and it is okay to renew the members' duty term(Official Gazette, No:30888).	Renew and Dismissal	2 Points- Poor
	The Common practice in Turkey is that Shariah board members receive their remunerations and rewards from bank's themselves.	Remuneration and Rewards	1 Points- Very Poor
	As BRSA standards suggest participation banks' shariah boards should meet 2 times a month(Official Gazette, No:30888).	Number of Meetings	5 Points- Excellent
	Participation Banks in Turkey adapt the standards about duties and responsibilities established by BRSA.	Duties/ Responsibilities	3 Points- Average
	As BRSA standards suggest there should not be any close relationship between shariah board members and the bank's management but considering that the board of directors is	To Avoid Conflict of Interest	2 Points- Poor

	responsible for appointment, dismissal, and remunerations received by members paid by the bank's themselves, it is not good behavior.		
	There are no specific report criteria for the report prepared by shariah board.	Report Criteria	1 Point- Very Poor
	As BRSA standards states, members can sit a maximum of 2 banks' advisory board. Albaraka Turk's advisory board's 2 members are in also another bank's committee.	Number of committees a member can sit on	1 Point- Very Poor
	Total		30/55
Kuveyt Türk Katılım Bankası A.Ş. Board Members; 1)Prof. Dr. M. Abdurrezzak Tabatabai 2)Assoc. Prof. Dr. Abdullah Durmuş 3)Halil Günenç 4)Assoc. Prof. Dr. Anwar Shuaib Alabdulsalam	Kuveyt Türk has 6 shariah board members(kuveytturk, 25 Mayıs 2022).	Number of Members	5 Points- Excellent
	5/6 of members has doctorate degrees, 1/6 has a master's degree and now studying for a doctorate degree and has studies on Fıqh. All of the members have publications locally and internationally(kuveytturk, 25 Mayıs 2022).	Qualifications -Academic -Research	4 Points- Good
	All of the members has more than 5 years of	Experience	5 Points- Excellent

5)Prof. Dr. Mubarek Alharbi 6)Mehmet Odabaşı	experience in Fıqh, Islamic finance, and Islamic law(kuveytturk, 25 Mayıs 2022).		
	Members are appointed by the Board of Directors and submitted to the approval of the General Assembly(Official Gazette, No:30888).	Appointment	3 Points- Average
	BRSA standards say that the Board of Directors is responsible for renewal and dismissal of shariah board members. Members can be reappointed after their working period is done(Official Gazette, No:30888).	Renew and Dismissal	2 Points- Poor
	Participation banks in Turkey pay for remuneration and financial rewards of shariah board members, it is a common practice.	Remuneration and Rewards	1 Points- Very Poor
	As Suggested in BRSA standards, Shariah boards should meet at least 2 times a month(Official Gazette, No:30888).	Number of Meetings	5 Point- Excellent
	BRSA standards are in practice for the duties	Duties/ Responsibilities	3 Points- Average

	and responsibilities of shariah board members of participation banks in Turkey.		
	There is no information on taking precautions to avoid conflict of interest between shariah board members and bank's management. On the other hand, it is an important issue because board members can be influenced by the board of directors of the bank and it would generate a conflict of interest.	To Avoid Conflict of Interest	2 Points- Poor
	There is no information on the report criteria published by the bank.	Report Criteria	1 Point- Very Poor
	Kuveyt Turk's 1 committee member also sits on another bank's committee.	Number of Committees a member can sit on	2 Points- Poor
	Total		33/55
Türkiye Emlak Katılım Bankası A.Ş. Board Members; 1)Prof. Dr. Hamdi Döndüren 2)Prof. Dr. Mehmet Saraç	Emlak Katılım has 4 shariah board members(emlakkatilim, 25 Mayıs 2022).	Number of Meetings	4 Points- Good
	All of the shariah board members have doctorate degrees in Islamic law, law, Finance, Islamic Finance, and Islamic Banking and because	Qualifications -Academic -Research	5 Points- Excellent

3)Prof. Dr. Servet Bayındır 4)Prof. Dr. Şevket Topal	of their academic career, all of the board members have research published on Islamic law, Islamic finance, Islamic banking subjects(emlakkatilim, 25 Mayıs 2022).		
	All of the board members has more than 5 years of academic experience(emlakkatilim, 25 Mayıs 2022).	Experience	5 Points- Excellent
	Appointment of shariah board members taken care of by the Board of Directors and subject to the General Assembly for approval(Official Gazette, No:30888).	Appointment	3 Points- Average
	The Board of Directors handles the renewal and dismissal of shariah board members(Official Gazette, No:30888).	Renew and Dismissal	2 Points- Poor
	Participation Banks are responsible for remunerations and rewards of shariah board members because it is a common practice.	Remuneration and Rewards	1 Point- Very Poor
	Shariah Boards must arrange meetings at least 2 times a month(Official Gazette, No:30888).	Number of Meetings	5 Points- Excellent

	BRSA standards for Duties and Responsibilities of shariah board adapted by participation banks in Turkey.	Duties/ Responsibilities	3 Points- Average
	Participation banks in Turkey have no extra regulations to avoid conflict of interest even though there are a few BRSA standards on avoiding conflict of interest it is not fully enough to avoid conflict of interest cause the Board of Directors are responsible for the appointment and dismissal of shariah board members as BRSA standards said and this system may cause a conflict of interest between shariah board members and the board of directors.	To Avoid Conflict of Interest	2 Points- Poor
	There is no specific criterias set by the bank's itself or BRSA but there should be a lot of criterias for the report that shariah boards prepares. For example, all the issues should be on the report	Report Criteria	1 Point- Very Poor

	without any restrictions that shariah board comes across.		
	Only 1 Committee member of Emlak Katılım's advisory board sits also on another bank's committee.	Number of Committees a member can sit on	2 Points- Poor
	Total		33/55
Türkiye Finans Katılım Bankası A.Ş. Board Members; 1)Prof. Dr. İsak Emin Aktepe 2)Prof. Dr. Hayrettin Karaman 3)Prof. Dr. Vecdi Akyüz	Türkiye Finans has 3 shariah board members(turkiyefinans, 25 Mayıs 2022).	Number of Members	3 Points- Average
	All of the board members has doctorate degrees and also because of their academic career they have publications on Fıqh, Islamic law, and Islamic Banking(turkiyefinans, 25 Mayıs 2022).	Qualifications -Academic -Research	5 Points- Excellent
	3/3 members have more than 5 years of academic experience(turkiyefinans, 25 Mayıs 2022).	Experience	5 Points- Excellent
	Appointments of shariah board members of participation banks in Turkey are handled by the Board of directors and submit to the general assembly's approval(Official Gazette, No:30888).	Appointment	3 Points- Average

	Renew and dismissal of shariah board members are controlled by the board of directors(Official Gazette, No:30888).	Renew and Dismissal	2 Points- Poor
	It is a common practice for participation banks in Turkey to handle the remunerations and rewards of shariah board members.	Remuneration and Rewards	1 Point- Very Poor
	Participation Banks in Turkey adapt BRSA standards on the number of meetings which says shariah board meets at least 2 times a month(Official Gazette, No:30888).	Number of Meetings	5 Points- Excellent
	Duties and responsibilities are explained in BRSA standards implemented by also Türkiye Finans as other participation banks in Turkey.	Duties/ Responsibilities	3 Points- Average
	Türkiye Finans also implements BRSA standards on Conflict of Interest and The standards about avoiding conflict of interest on BRSA standards are not advanced enough to	To Avoid Conflict of Interest	2 Points- Poor

	truly avoid conflict of interest		
	No specific report criteria exist on neither BRSA standards nor participation banks' own regulations.	Report Criteria	1 Point- Very Poor
	2/3 members of Türkiye Finans' advisory board sits also on another bank's committee.	Number of Committees a member can sit on	1 Point- Very Poor
	Total		31/55
Vakıf Katılım Bankası A.Ş. Board Members; 1)Prof. Dr. Mürteza Bedir 2)Prof. Dr. İsak Emin Aktepe 3)Prof. Dr. Hayrettin Karaman	Vakıf Katılım has 3 shariah board members(vakifkatilim, 25 Mayıs 2022).	Number of Members	3 Points- Average
	Members of shariah board in Vakıf Katılım all have doctorate degrees in Fıqh, Law, and Islamic banking and members also have lots of publications on law, Islamic law, and fıqh(vakifkatilim, 25 Mayıs 2022).	Qualifications -Academic -Research	5 Points- Excellent
	All the shariah board members of Vakıf Katılım have more than 5 years of academic experience(vakifkatili m, 25 Mayıs 2022).	Experience	5 Points- Excellent
	Appointment of shariah board members is handled by Board of Directors because of the BRSA standards	Appointment	3 Points- Average

	adapted by the participation banks in Turkey and subject to General Assembly’s approval(Official Gazette, No:30888).		
	Dismissal and Renew of shariah board members managed by the board of directors of the bank(Official Gazette, No:30888).	Renew and Dismissal	2 Points- Poor
	Remuneration and rewards for shariah board members paid by Bank’s itself, it is a common practice in Turkey.	Remuneration and Rewards	1 Point- Very Poor
	Shariah Boards of participation banks in Turkey meet at least 2 times a month(Official Gazette, No:30888).	Number of Meetings	5 Points- Excellent
	BRSA standards are implemented by Vakıf Katılım as other paticipation banks in Turkey.	Duties/ Responsibilities	3 Points- Average
	BRSA standards on avoiding conflict of interest between shariah board members and bank’s management were implemented in Vakıf Katılım but it is not enough to avoid conflict of interest.	To Avoid Conflict of Interest	2 Points- Poor

	No specific regulations of standards were implemented by the bank for report criteria.	Report Criteria	1 Point- Very Poor
	2/3 members of Vakıf Katılım's advisory board also sit on another bank's committee.	Number of Committees a member can sit on	1 Point- Very Poor
	Total		31/55
Ziraat Katılım Bankası A.Ş. Board Members; 1)Mehmet Odabaşı 2)Prof. Dr. Necmettin Kızılkaya 3)Prof. Dr. Süleyman Kaya	Ziraat Katılım has 3 shariah board members(ziraatkatilim, 25 Mayıs 2022).	Number of Members	3 Points- Average
	1/3 of the members studying for his doctorate degree, and 2/3 of the members have doctorate degrees in Islamic law, Islamic law and Economy, Members also have several publications on Islamic law, and Islamic economy(ziraatkatilim, 25 Mayıs 2022).	Qualifications -Academic -Research	4 Points- Good
	2/3 of the members have more than 5 years of academic career, and 1/3 of the members have consultancy experience(ziraatkatili m, 25 Mayıs 2022).	Experience	5 Points- Excellent
	The Board of directors of the participation banks is responsible for the appointment of the	Appointment	3 Points- Average

	shariah board members(Official Gazette, No:30888).		
	Renew and Dismissal of shariah board members are also handled by the Board of directors as an appointment(Official Gazette, No:30888).	Renew and Dismissal	2 Points- Poor
	Financial rewards and remuneration of shariah board members are provided by participation bank's itself as it is a common practice.	Remuneration and Rewards	1 Point- Very Poor
	Shariah board members must meet at least 2 times a month as BRSA standards suggested(Official Gazette, No:30888).	Number of Meetings	5 Points- Excellent
	BRSA standards on duties and responsibilities implemented by Ziraat Katılım Bankası.	Duties/ Responsibilities	3 Points- Average
	BRSA standards are not enough on avoiding conflict of interest as it just suggests that there should not be any relation between the bank's management and shariah board members(Official Gazette, No:30888).	To Avoid Conflict of Interest	2 Points- Poor

	There are no specific regulations or standards implemented by the bank.	Report Criteria	1 Point- Very Poor
	2/3 of the Ziraat Katılım's advisory committee also sits on another banks' committee.	Number of Committees a member can sit on	1 Point- Very Poor
	Total		30/55

Number of Members; As you can see from the table above prepared by the researcher, most of the participation banks in Turkey have 3 shariah members and only Kuveyt Turk has 6 shariah board members. Having at least 5 shariah board members would make the board more efficient in my opinion but members should be experts on different fields such as Islamic law, Islamic finance, Fıqh, and Islamic banking. Kuveyt Turk makes a good example among the participation banks in Turkey in regards to the number of members and therefore Kuveyt Turk is the only bank that gets the highest point on the number of members.

Qualifications; Qualifications of shariah board members approached in two sub-topics; Academic, Research. Firstly, in Academic qualifications, it is better for shariah board members to have doctorate degrees in their fields and mostly shariah board members of participation banks in Turkey have a doctorate degree, the matter of fact members are mostly professors. Only 3 participation banks' shariah board has 1 person that does not have a doctorate degree yet but studying for a doctorate degree. The other member with no doctorate degree has bachelor's degree. Secondly, in Research qualifications, it is better to have publications on Islamic banking, fıqh, Islamic law for shariah board members. Because almost all of the shariah board members of participation banks in Turkey are academicians, most of them have publications in their field.

Experience; BRSA standards indicate that 2/3 of the shariah board members must have at least 3 years of experience(Official Gazette, No:30888) and nearly all of the shariah board members have more than 5 years of experience because of their academic career. Having at least 5 years of experience makes board members’ decisions more reliable that is why it is a good behavior to have at least 5 years of experience for shariah board members.

Appointment; BRSA standards state that the Board of Directors of the participation banks is responsible for the appointment of the shariah board members(Official Gazette, No:30888). It is not a good idea to appoint shariah board members by the board of directors for conflict of interest. As mentioned before, the Appointment of shariah board members must be handled by the general assembly to maintain the independence of shariah board.

Renew and Dismissal; Renew and Dismissal of shariah board members are also conducted by the board of directors and can be reappointed after the 3 years of serving time as BRSA standards stated(Official Gazette, No:30888). It is strongly suggested that renewal and dismissal of shariah board members must be handled by the general assembly to prevent the independence of shariah board and board members can not be reappointed after 3 years of serving time.

Remuneration and Rewards; Remuneration and rewards received by shariah board members are paid by participation banks’ itself as a common practice but it is recommended that a central body should undertake the responsibility of remuneration and financial rewards and the information should be in the annual report to assure integrity and independence of shariah board.

Number of Meetings; Members of Shariah board members should meet at least 2 times a month(Official Gazette, No:30888). All the participation banks got 5 Points-Excellent because it is a good behaviour to have meeting at least 4 times a year and thanks to BRSA standards, all of the shariah boards of participation banks in Turkey holds at least 2 meetings a month. BRSA standards state that the minimum number is 2/3 of shariah board members to hold a meeting(Official Gazette, No:30888), but it is good behaviour for all the members to attend the meetings.

Duties / Responsibilities; BRSA standards on responsibilities and duties of shariah board are lacking. There should be more standards related shariah compliance and independence of shariah board. Shaiah board's main duty is to check the IFI's services on shariah compliance and also make sure that all the issues shariah board comes across must be on the report.

To Avoid Conflict of Interest; Avoiding conflict of interest between the management of the bank and shariah board is one of the most important issues in the code of conduct for shariah boards. Existing code of conduct for shariah boards lacks on establishment of enough standards to avoid conflict of interest. For example, BRSA standards only have 8 sub-matters on avoiding conflict of interest, briefly; shariah board members can not be previous personnel of the bank, and members can not be in a business with the bank or its subsidiaries, members can not be related to the management of the bank(Official Gazette, No:30888). Standards on avoiding conflict of interest are not efficient enough to avoid conflict of interest while the appointment and dismissal of shariah board members are handled by the board of directors so all of the banks got a low score on avoiding conflict of interest.

Report Criteria; There is no specific standard on report criteria and what it should contain on international standards or BRSA standards. As a good behaviour, it is mostly suggested that reports prepared by shariah board must contain all the issues they faced during the examination without any pressure or influence specially from the board of directors.

Number of Committees a Member can sit on; As in the number of committees, a member can sit on, almost all of the members also sit on another bank's committee. Other than Kuveyt Turk and Emlak Katılım participation banks, all of the banks' committee members have 2 members which sit also another banks' committee, and Kuveyt Turk and Emlak Katılım have only 1 committee member who sits also another banks' committee.

1141 board positions from 28 different countries were tracked and the study showed that there is an average board size of 3.33 scholars per board and the study also shows the graphic of the number of shariah scholar involvements in standard setter bodies, government entities, foundations and unions and there are more than 20 scholars who are sitting on more than 14 different shariah board of Islamic financial institutions while 2 of them are sitting in 85 different board(Unal,2010). As the study shows there are too many scholars who sit on more than 2 shariah boards even though it is suggested as bad behavior. The good behaviour for a shariah board member is to sit on only one shariah board with the intent to preserve the confidentiality and privacy of the financial institution.

Overall scoring of the participation banks are very close to each other because all the banks adapt BRSA standards. There are small differences between the banks such as the number of members, and qualifications of members. Kuveyt Türk and Emlak Katılım participation banks got the highest score and the reason is that Kuveyt Türk has 6 shariah board members as suggested as good behavior and most of the members have doctorate degrees in related fields, Emlak Katılım has 4 shariah board members its more than other banks except Kuveyt Türk and all of the board members has doctorate degrees in related academic majors.Albaraka Türk, Türkiye Finans, Vakıf Katılım and Ziraat Katılım has 3 shariah board members that is why these banks got 3 point on the issue of number of members.

5.2. PROPOSED CODE OF CONDUCT

Examining international standards regarding shariah boards and BRSA standards on shariah boards made it clear to understand the lackings and inexistent good behaviors about the standards especially for shariah boards. After analyzing the code of conduct in different countries and all of the participation banks' implementations of the code of conduct for shariah boards in Turkey, it can be clearly seen that the deficiencies in the implementation of the standards and shariah compliance. This study's essential purpose is to form an effective and improved code of conduct for shariah boards with regard to considering the implementations of existing standards and inexistent good behaviours.

Proposed Code of Conduct;

1- Shariah Board of a Participation Bank must have at least 3 members and more members suggested.

Standard number 1 is for the number of shariah board members, there should be at least 3 members but more members are better and members must be experts in different fields.

2- Shariah Board members must have Doctorate degrees in their fields and publishings in the field of expertise.

Standard number 2 is for the academic and research requirements of shariah board members. A Doctorate degree to have for a member is to be sure that the member is an expert on their field and publishings show that member studied the field before. The fields of study for members must be related fields such as; Islamic finance, Islamic economics, Islamic law, and Islamic banking.

3- All of the members must have at least 5 years of experience in Islamic finance.

Standard number 3 is for the experience requirement for shariah board members. It is very important to have experience for the board member to learn the essentials of Islamic finance.

4- Appointment of shariah board members must be handled by General Assembly.

Standard number 4 is for the appointment system of shariah board members. Appointment of a board member must be done by general assembly to preserve independence of shariah board.

5- Dismissal and Renew of shariah board members must be managed by the General Assembly of the IFI and it is not suggested to renew the membership for more than 3 years.

Standard number 5 is to explain the responsibility for dismissal and renewal of a shariah board member. It must be the general assembly's duty to dismiss the board members to also preserve the independence of shariah board because the general assembly does not depend on the board of directors' influence.

6- Remuneration and Rewards must be paid by a Central Body and The Details of Remuneration and rewards must be on the annual report.

Standard number 6 clarifies that the remuneration and rewards must be handled by a Central body to preserve independence because as a common practice bank itself pays for remuneration and rewards of shariah board members. All the details of financials, remuneration, and rewards must be included in the annual report of the bank to be more transparent and responsible to the public.

7- Shariah board members must meet at least 4 times a year and all the members must attend the meetings. Only one time members can have permission to not attend the meeting for an urgent excuse.

Standard number 7 explains the minimum number of required meetings to be more efficient shariah board must at least meet 4 times a year. All the board members must attend the meetings to contribute to the report except for one time for an emergency excuse.

8- Duties and Responsibilities of Shariah Board;

-Shariah board must ensure shariah compliance of an IFI,

-Shariah board must make their decisions without any influence or pressure from the management of the IFI,

-Shariah board should implement social responsibility standards,

-Shariah board must analyze all the details and report the issues of an IFI,

-Shariah board must evaluate and approve the products and services of the IFI in terms of interest-free banking principles and standards,

-Shariah board must prepare a report that contains all the issues shariah board faced during the examination.

9-IFIs must take precautions and form regulations to avoid conflict of interest by,

-Not being subject to any influence or pressure from management of the IFI,

-Shariah board members should not receive any payment or remuneration from the IFI they serve,

-Shariah board's report should not be restricted by the management,

-There should not be any kind of relationship between shariah board members and management of the IFI,

-Shariah board members should not be in any business activity with the IFI or its subsidiaries,

-Shariah board members should not be a shareholder of the IFI,

-Shariah board members should not be a shareholder in IFI’s management’s other business ventures.

10-Report of Shariah Board must contain all the issues that board members faced and it also must be unbiased and transparent.

Standard number 10 clarifies the details of the report prepared by shariah board. It is good behavior for the report to be transparent, accessible by the public, and clear. The report also must contain unbiased opinions of board members to be trustworthy.

CONCLUSION

The participation banking industry in Turkey growing rapidly and the growth brings some difficulties with itself by generating deficiencies. One of the most important problems is the compliance of shariah in Islamic banking. There are different ways of governance in IFIs around the world and it is hard to define which one is better. Even though there are international standard-setters, it is IFI’s own decision to adapt international standards, and still there is a lack of standards on specially for shariah boards.

This study focuses on forming a proposed code of conduct for shariah boards by evaluating the experience of the participation banks in Turkey with regard to the compliance of shariah governance by using a point scoring system and appointing a score to every participation bank in Turkey based on their compliance of shariah governance regarding good behaviors. Kuveyt Türk and Emlak Katılım got the most points because their number of members is higher and their members have a higher level of research and academic background. Albaraka Türk, Türkiye Finans, Vakıf Katılım and Ziraat Katılım has got slightly lower point because of their number of board members and members' academic and research backround. The study found that all the participation banks in Turkey lack good ethical behaviors in terms of shariah governance and more precise words, the board of directors is the one who appoints the members of the shariah boards, who decides their rewards, and who decides to renew their membership or dismiss them and all these behaviours are classified they are behaviours that violate the standard of independence that shariah boards should have. For this purpose, the researcher prepared a code of conduct for shariah governance in an effort to promote the participation banking industry.

The standards prepared above are mainly try to solve the issues on existence or inexistence standards. There are major problems with existing standards, for example, remuneration and financial rewards received by shariah board members paid by the bank itself, appointment-dismissal-renew issues, requirements on member's academic or research background, report criteria, and avoiding conflict of interest. The proposed code of conduct is prepared to solve the issues and improve the existing standards.

Policy Recommendations

Recommendations and Suggestions for the issues revealed by revealed by this study are listed below;

Tablo 3

Table 3: Policy Recommendation

Authority	Issues	Recommendations
Goverment	Governance Framework	- Goverment should take Participation banking more seriously and establish regulatory framework for participation banking

		industry to fulfil its needs and requirements to be more efficient.
Participation Banks	Regulatory Issues	- Participation banks must establish effective and reliable standards specifically for shariah boards.
	Management Issues	- Management of participation banks must not put pressure on shariah board members. - Appointment, Dismissal and Renew of Shariah board members must be done by General Assembly not by the Board of directors to avoid conflict of interest.
	Transparency Issues	- The report of shariah board must contain all the details of issues they faced. - The remuneration and rewards received by board members should be on the annual report of the bank.

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