EXCLUSIVE INTERVIEW

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Mr. Tariq Naseem, FCMA
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ICMA: What are the main objectives and functions of the Islamic Finance Department at SECP, and how does it support the growth of Islamic finance in Pakistan?

Tariq Naseem: Let me first explain the mandate of the Securities and Exchange Commission of Pakistan (SECP) for regulating Islamic finance. One can notice that the SECP has a relatively vast regulatory mandate covering the capital market, insurance, non-banking finance companies, pension funds, and the corporate sector. The Islamic financial services that we regulate include (a) Islamic institutions like Modarabas, Takaful operators, Islamic NBFIs, Shariah-compliant businesses, and Shariah advisors; (b) Islamic instruments like Shariah-compliant securities, Sukuk, and Islamic commercial papers (ICPs); and (c) Islamic collective investment schemes like Islamic mutual funds, Islamic exchange-traded funds (ETFs), and Shariah-compliant real estate investment trusts (REITs). Non-profit organisations are also being registered and governed in the area of social development that includes Islamic social finance, in accordance with the provisions of the Companies Act, 2017.

The SECP has strengthened its Islamic Finance Department to spearhead the drive of legal and regulatory development, promotion of new Shariah-compliant institutions, markets and financial products, capacity building, international collaboration, and innovation. Apart from serving as Registrar for the Modaraba Sector, I am also responsible for leading Islamic finance-related initiatives that include Shariah certification of securities including Sukuk, mutual funds, REITs schemes, etc.; Shariah certification of companies including NBFCs, securities brokers, listed companies, etc.; registering Shariah advisors; administration of Shariah Governance Regulations, 2023; assisting all regulated sectors for transition in accordance with Shariah principles in light of SECP's guidelines for offering Islamic financial services, 2023; and arranging capacity building and advocacy activities for promotion of Islamic finance.

ICMA: What steps have been taken to improve the regulatory framework for Islamic financial services in Pakistan?

Tariq Naseem: In my view, a regulatory framework is the key for the development of Islamic finance in Pakistan. We noted that Pakistan's non-bank financial sector has undergone a legal and regulatory overhaul in recent years, but it mainly covers the conventional market. Therefore, there is great need to focus more on the development of clear, comprehensive and effective regulations for Islamic financial services. Further, the growth and potential of Islamic financial institutions, assets, and services in the non-bank sector indicate the need for better regulations.

The 26th constitutional amendment inter alia requires complete elimination of Riba by January 1, 2028, and earlier, the Federal Shariat Court of Pakistan (FSC) has already declared challenged laws have no effect and has directed the government to amend laws by December 2027. In order to comply with the constitution and the FSC judgement, we have already revamped our Shariah Governance Regulations in 2023 and are now working to make a dedicated law for all financial services, excluding those regulated by the SBP. For Islamic banking, SBP has already rolled out a comprehensive transformation plan that includes legal and regulatory developments. It is expected that the proposed law will establish a structure for the Islamisation of financial markets, institutions, products, and services within the regulatory ambit of the SECP. This initiative also aims to introduce a primary balance between legal rigour, Shariah compliance, and market realities. The process for the development of this law prioritises alignment with Shariah, collaboration among stakeholders, growth, financial stability, investor protection, transparency, accountability, innovation, harmonisation with national and international legal requirements, and effective fiduciary responsibility. The proposed law will also cover all aspects of Islamic financial services, products, markets, and intermediaries, with detailed provisions covered through subsidiary legislation. The 'principle of proportionality' aims to strike a balance between risk, cost, and efficiency in conducting business.

In November last year, we published a comprehensive concept paper following many consultative sessions with stakeholders, and now we have started drafting a new primary law. The proposed law will consolidate all the relevant provisions into one piece of legislation while serving as a reference point for the development of case laws in the judicial system. It will reduce legal risk for Islamic financial services and enable standardisation in Shariah-related matters across all regulated sectors in the Islamic financial services industry.

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ICMA: How can Sukuk contribute to sustainable development, particularly in infrastructure and social sectors?

Tariq Naseem: Sukuk are the most important and essential financial instruments for corporates and governments alike to raise capital for sustainable development. We have seen major developments and progress in Pakistan’s sukuk market, in terms of both sovereign sukuk issuances and corporate sukuk issuances. The Government of Pakistan and companies are now issuing both sovereign and corporate sukuk, respectively, using various Shariah structures based on the issuer's needs, objectives, and business plans. As of December 2024, the sovereign sukuk market is around PKR 7.6 trillion, while the corporate sukuk market is around PKR 870 billion.

Existing sovereign sukuk in Pakistan are structured using the Ijarah concept, a sale and leaseback structure. For the last year, the sovereign sukuk have now been issued and listed through the Pakistan Stock Exchange, expanding the investor universe and enabling ordinary individual investors to participate in the sovereign sukuk market. Pakistan’s sovereign sukuk are really important for infrastructure, as multiple such sukuk have already been issued for the construction of dams and power projects. In the corporate sector, a number of companies are now issuing short-term sukuk using the Shirkat-ul-Aqad structure to fund working capital needs. These sukuks are privately placed with institutional investors, with repeat multiple issuances after redemption every six months. These kinds of sukuk are popular among Islamic income funds and Islamic money market funds due to their tradability and transferability features.

Corporates are also using the sukuk market to fund their infrastructure development needs. For example, Jazz Pakistan issued an innovative airtime-based Sukuk of PKR 15 billion last year, becoming the first and largest short-term unsecured Sukuk by a telecom operator in Pakistan. This was to fund the expansion of 4G networks wherein the underlying assets were airtime, quantified through bundled voice calls, SMS, and data services, which were purchased by Sukuk investors at a discounted price and sold through the telecom operator to franchises over a six-month period.

Last year, the SECP released two concept papers on sovereign and corporate sukuk aimed at enhancing the short-term sukuk market. The proposed measures to simplify the issuance process for short-term listed sukuks included introducing new structures for introducing short-term tradable sovereign sukuk and introducing a condensed version of the Shelf Prospectus or Abridged Prospectus to facilitate repeat issuers of sukuk by accelerating regulatory approval timelines. Now our focus is making the regulatory process robust so the simple listing process is simplified and cost and time for issuances for sukuk are reduced. We are focusing on developing secondary markets for Sukuk to enhance liquidity and attract more participants.

Coming back to your specific question, I agree that Sukuk are increasingly being recognised as a powerful tool for sustainable development, particularly in infrastructure development, in both the private and public sectors. Sukuk are contributing to sustainable development due to their alignment with ethical and sustainable principles enshrined in Shariah structures. Green and Social Sukuk are also being used to finance environmentally friendly projects, renewable energy initiatives, and social infrastructure. There are many examples in national and international markets of using sukuk to fund infrastructure development and social projects, and the Pakistani sukuk market is now ready to serve these needs in a suitable manner.

ICMA: What role do Shariah-compliant financial instruments play in Pakistan's capital markets?

Tariq Naseem: As I explained earlier, there is a variety of instruments in the Islamic capital market that play a pivotal role in the financial development and economic growth of the country. Apart from sukuk, Shariah-compliant securities of listed companies are another type of financial instrument being used by the companies to raise funds and investors to make investments. In the Pakistan Stock Exchange (PSX), there are 271 (51.13%) Shariah-compliant securities out of a total of 530 listed securities at PSX, with a market capitalisation of PKR 8,059 billion (55.60%) out of a total market capitalisation of PKR 14,494 billion as of December 31, 2024.

PSX has four Islamic indices, namely KMI-All Shares, KMI-30, MZNPI (Meezan Pakistan Index) and MII30 (Mahaana Islamic Index), that comprise a total of 251, 30, 12 and 30 underlying Shariah-compliant securities, respectively, as of December 31, 2024. During Jul-Dec 2024, a total trading turnover of 47.92 billion shares, 13.51 billion shares, 5.86 billion shares and 14.28 billion shares in the aforementioned indices, respectively, were recorded; that translates into 55.24%, 15.58%, 6.75% and 16.46%, respectively, of total trading volume at the PSX. Similarly, trading values of PKR 2,505.88 billion, PKR 1,479.72 billion, PKR 955.12 billion and PKR 1,345.12 billion were recorded during the same period, which translates into 71.71%, 42.35%, 27.33% and 39.3% of total trading value at PSX. From these statistics, one can see that the majority of trading at PSX is conducted in Shariah-compliant securities.

In 2023-24, the SECP developed a comprehensive regulatory framework for the Shariah screening process that includes introducing regulations for the conduct of Shariah screening of securities and the construction of Islamic indices, notification of acceptable tolerance levels for Shariah screening, and revision of disclosure requirements for listed companies under the Companies Act, 2017, to make the Shariah screening process clearer and more transparent.

In the Pakistani capital market, we have a mature Islamic collective schemes industry that includes mutual funds, pension funds, real estate investment trusts (REITs), exchange-traded funds (ETFs) and private funds. The size of Islamic mutual funds is PKR 1,914.55 billion as of December 31, 2024, which represents a share of 43.13% of overall mutual fund assets. The size of voluntary pension fund schemes is PKR 62.40 billion as of December 31, 2024, which constitutes 65.32% of the total pension fund industry of Pakistan. The size of Shariah-compliant REITs is PKR 169.17 billion as of December 31, 2024, which is around 96% of the total industry. Finally, we have modarabas in our capital market that are unique collective investment vehicles and the pioneer Islamic financial institutions in Pakistan. The Modaraba sector, in particular, has the ability to play an important role in serving SME financial needs and collaborating with other ventures as partners. As of December 31, 2024, we have twenty (20) Modarabas which are currently operational and listed on PSX, with total assets of the Modaraba sector amounting to PKR 56.78 billion.

ICMA: What are the goals of the Islamic Capital Market Development Committee (ICMDC), and how will it shape the future of Islamic finance in Pakistan?

Tariq Naseem: You know after the FSC judgement, the Federal Government has constituted a high-level steering committee under the patronage of the Minister for Finance and Revenue.

The purpose of this steering committee is providing strategic guidance regarding the implementation of the judgement. The steering committee proposed a transformation plan for the conversion of conventional banking into Islamic banking and a governance structure to smooth the transformation, including a dedicated committee for the capital market and the takaful industry.

In order to assist the said steering committee and to drive the Islamisation of the regulated sectors, SECP has created a multi-layered governance structure, including: (1) a Shariah-Advisory Committee to provide guidance and advise the SECP on the Shariah-related matters; (2) an Apex Islamic Finance Committee to guide implementation of the FSC judgement; and (3) an Islamic Capital Market Development Committee (ICMDC) to engage industry leaders and scholars for addressing practical issues and challenges.

The ICMDC comprises market professionals, including nominees of ICMAP, working on a pro bono basis and serves as a think tank, providing valuable input and feedback on policy and developmental initiatives. The objective of the ICMDC is to promote, develop, and facilitate the growth of the Islamic capital market while ensuring alignment with Shariah principles while fostering innovation, inclusivity, and sustainability in the Islamic finance landscape.

The terms of reference focus on promoting the development and integration of Islamic finance by fostering dialogue and collaboration with key stakeholders such as financial institutions, Shariah scholars, and market experts. The mandate includes supporting the introduction of innovative Shariah-compliant financial products and services, enhancing market connectivity, and identifying and addressing bottlenecks in the Islamic capital market. It also involves reviewing and recommending improvements to the regulatory and legal frameworks in alignment with Shariah principles and international standards, including implementing the Federal Shariat Court's judgement. Additionally, the terms emphasise the importance of research and development, adoption of global best practices, and the promotion of education, awareness, and capacity building through collaborations with academic and international institutions. It is also helping us to identify potential bottlenecks and opportunities for the development of Islamic finance in the capital market.

Since its inception, the ICMDC and its sub-groups have been playing an instrumental role in deliberating critical issues and proposing viable options, organising capacity-building and awareness activities, roundtables and conferences. Especially, it also contributed significantly to resolving critical issues in the stock screening process, reviewing the Shariah governance framework, developing a strategy for the adoption of global standards on Islamic finance, proposing the Islamic Financial Services Law, etc.

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As an active think tank, I believe that the ICMDC will continue to play its role in shaping the future of Islamic finance in Pakistan.

ICMA: How does SECP ensure that innovation in Islamic finance stays in line with Shariah principles while promoting market growth?

Tariq Naseem: Fostering innovation within the Islamic finance sector while ensuring strict adherence to Shariah principles is one of the key pillars of our strategy. One of the key initiatives in this regard is the SECP's Regulatory Sandbox, which provides a controlled environment for financial institutions and fintech startups to test innovative Islamic finance products and services. Within this framework, participants can experiment with Shariah-compliant solutions such as digital crowdfunding and peer-to-peer (P2P) financing under the close supervision of the SECP. This approach not only promotes innovation but also safeguards the integrity of Islamic financial principles during the early stages of product development.

To provide further clarity and ensure consistency in the market, the SECP has issued Guidelines for Offering Islamic Financial Services. These guidelines set out the regulatory expectations for financial institutions looking to offer Shariah-compliant services, including the requirements for obtaining Shariah certification, ensuring transparency, and maintaining robust Shariah governance frameworks. This ensures that all new offerings are in line with both domestic regulations and global Islamic finance standards.

Recognising the rapid growth of digital financial services, we have also proposed the issuance of a Guidebook for Digital Islamic Finance. This guidebook aims to serve as a comprehensive reference for industry participants, outlining the regulatory, operational, and Shariah-related considerations in developing and offering digital Islamic financial products. It is intended to provide guidance on emerging business models, such as mobile wallets, digital investment platforms, and Islamic fintech applications, thereby encouraging responsible innovation in the sector.

Additionally, the Islamic Finance Department of the SECP, along with the Shariah Advisory Committee of the SECP, provides ongoing support and guidance for the development of technology-driven Islamic financial solutions. Their input is particularly valuable in structuring models such as digital P2P financing, ensuring these platforms comply with Shariah principles related to risk-sharing, prohibition of interest (Riba), and ethical investment. Through deliberations and conducting Shariah reviews, we try to help bridge the gap between innovation and compliance, fostering a trustworthy and vibrant Islamic financial ecosystem in Pakistan.

ICMA: What challenges do you see in expanding Islamic finance in Pakistan, and how can they be addressed?

Tariq Naseem: At the SECP, our transformation strategy for promoting Islamic finance across regulated sectors has been carefully crafted to ensure that it supports innovation and inclusivity—without causing disruption to ongoing business activities. Our approach has focused on building an enabling environment where industry participants are empowered to transition at a manageable and sustainable pace.

One of the foundational steps we took was conducting a "comprehensive diagnostic review of Islamic finance within the non-bank financial sector". This in-depth assessment, which culminated in a published report in 2023, helped us identify key gaps, challenges, and opportunities within the system. The findings provided a clear understanding of where interventions were most needed and laid the groundwork for targeted reforms.

Building on that, we developed a "strategic action plan for 2024–2026", with input from a broad range of stakeholders, including financial institutions, Shariah scholars, and market experts. This plan outlines a time-bound roadmap for enabling Islamic finance across all regulated sectors. It's not just a policy document—it's a living strategy that's currently in implementation, guiding institutions on how to adopt Islamic finance models gradually and effectively.

To further reinforce our efforts, we have also placed a strong emphasis on global collaboration. We have established a joint Research and Development Centre with AAOIFI, which is a major step toward aligning our regulatory practices with internationally recognised standards. In addition, we're working on joint research projects with the Islamic Development Bank Institute (IsDBI) and have initiated collaboration with the Islamic Financial Services Board (IFSB). These international partnerships are instrumental in ensuring that Pakistan's progress in Islamic finance is recognised and aligned with global principles and best practices.

Overall, our goal is to create a well-regulated, inclusive, and forward-looking Islamic finance ecosystem that meets both local needs and international expectations. However, this is a big task, and therefore there are many challenges. This includes, among other things, limited public awareness; a shortage of qualified Shariah scholars and professionals in the non-banking financial services industry; regulatory and legal challenges for Islamic financial services due to inconsistencies in financial services laws, taxation laws and other administrative legislation; and underdeveloped market infrastructure for Shariah-compliant products.

Additionally, there is often hesitation among conventional institutions to transition due to operational complexities and lack of technical expertise. As mentioned earlier, the absence of dedicated primary law for Islamic financial services, the structuring of Shariah-compliant financial products for digital financing, especially for micro, nano and agri financing, the prescribing of Islamic accounting, disclosures and auditing standards and requirements, and the engaging of all stakeholders for synergising efforts for developing an inclusive Islamic finance ecosystem in Pakistan are some identified specific challenges.

To address these issues, we advocate for a gradual and collaborative approach involving capacity building, public education campaigns, regulatory reforms, and enhanced industry engagement. Strengthening partnerships with international Islamic finance bodies and local professional institutions, encouraging innovation through initiatives like the regulatory sandbox, and providing clear guidelines and strategic action plans are also central to creating a robust and inclusive Islamic financial ecosystem in Pakistan.

*The Editorial Board thanks **Mr. Tariq Naseem, FCMA, Head of Islamic Finance Department, Securities and Exchange Commission of Pakistan (SECP)** for sparing from his precious time to give exclusive interview for Chartered Management Accountant Journal.*