

# **Code of Ethics for Islamic Finance Professionals**

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## Preface

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“بُعِثْتُ لِأَتَمِّمَ مَكَارِمَ الْأَخْلَاقِ”

Prophet Muhammad (peace be upon him) said: “I was sent to perfect good character.”<sup>1</sup>

- PR1 All human beings are blessed with an innate sense of right and wrong and the freewill to make a choice. This innate sense, duly augmented through divine guidance in the form of Holy Books and Allah’s messengers as role models, informs us that every individual is being tested on their choices made in this world, on which depends their ultimate success (or failure) in the hereafter.
- PR2 Islam regards ethical conduct as a pre-requisite for man’s ultimate success manifested through contentment in this worldly life and eternal bliss in the hereafter. In this world, unethical practices may lead to temporary gains, but will risk censure in this world and the next.
- PR3 Given that Prophet Mohammad (peace be upon him) was sent to ‘perfect good character’, it is appropriate to state that ethics is the spirit of Shari’ah. One cannot claim conformity to the letter and spirit of Shari’ah in the absence of good ethics. For an Islamic finance professional, it is essential to follow the ethical codes embedded in and set out by the Shari’ah and also follow the law.
- PR4 An effective way to conceptualize ethics is through the lens of Adl (justice) and Ihsaan (excellence), where the former is to be seen as mandatory conduct while the latter, highly recommended. Failure to achieve and maintain Adl results in Zulm (injustice). Such is the interplay between the concepts of Adl and Ihsaan that typically one cannot maintain Adl on continuing basis unless one pursues Ihsaan. This implies that constant pursuit of excellence in ethics is what is aspired in Islam, as opposed to a minimalist, checklist-based approach. One ought to make proper investment of time, effort and money to ensue ethical conduct at all times.

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<sup>1</sup> Hadith No. 21301 سنن الكبرى للبيهقي | Hadith No. 4421 مستدرک علی الصحیحین للحاکم

## Introduction

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### Overview

- IN1 Ethics is not just about doing the right thing; it is about doing the right thing with the right intention and the right mindset, in the right manner, even when not being observed and to the best of one's capability. Being ethical also involves reaching out to and engaging with others positively, in a prudent and effective manner, by encouraging them to behave ethically. In other words, ethics is about internalizing specific beliefs and virtues and externalizing them to exhibit certain behaviors.
- IN2 The executable and the operative part of the code is set out in two parts:
- part 'A' comprises of the Adl and Ihsaan equation, the ethical virtues, and the ethics protocols which together provide Islamic finance professionals the conceptual framework to understand what constitutes as ethics and how to make ethical decisions; and
  - part 'B' discusses how the conceptual framework shall be applied in real world. Islamic finance professionals shall uphold the proposed ethical virtues and achieve and maintain Adl as a mandatory requirement by avoiding violations of those virtues. The illustrative violations cover a broad spectrum including those related to transactions (e.g. conflict of interest), culture (e.g. backbiting), leadership or management (e.g. discrimination), interpersonal (e.g. harassment) and personal (e.g. disloyalty). (See Fig. 1).

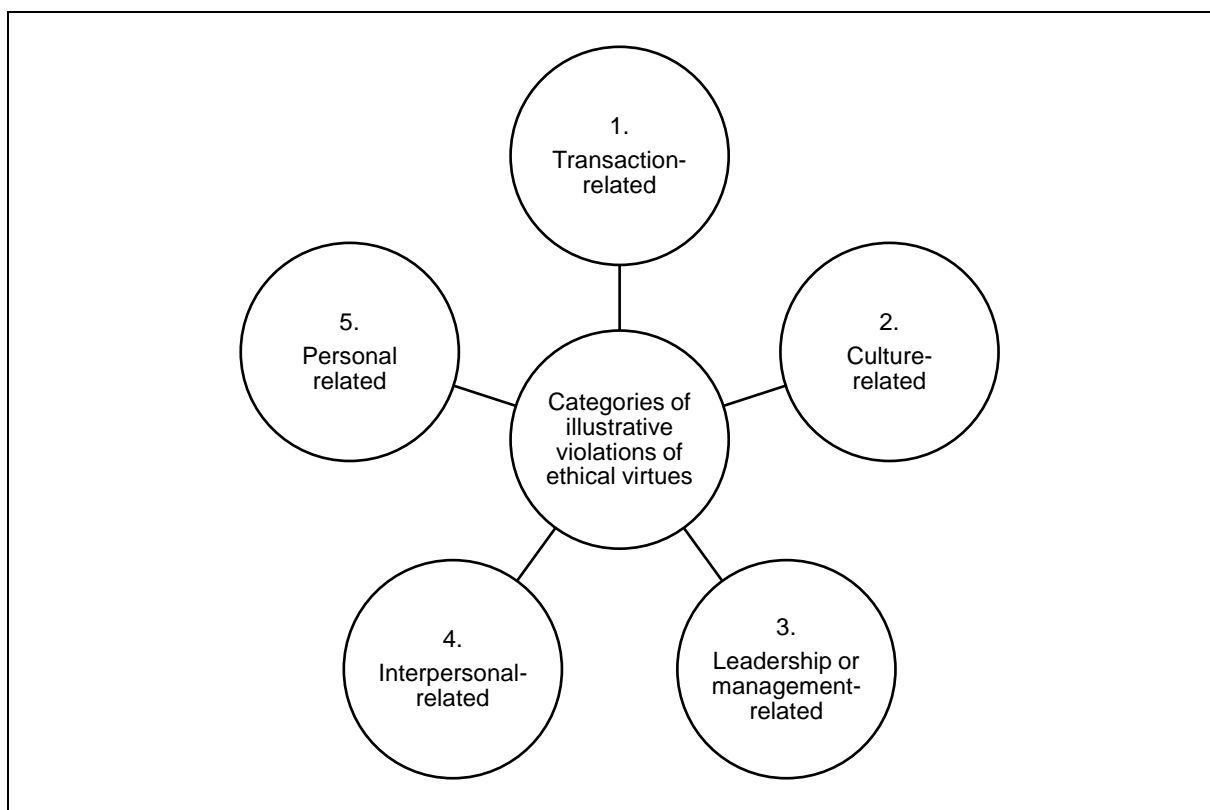


Fig. 1: Broad categorization of illustrative violations of ethical virtues

- IN3 The non-executable or the non-operative part of the code is also set out in two parts:
- a. part 'C' discusses the various proposed ideals within each of the given ethical virtues which an Islamic finance professional may aspire for as highly recommended conduct in their pursuit to achieve Ihsaan or excellence in ethics; and
  - b. this code is also accompanied with a 'Handbook'<sup>2</sup> which shall serve as supplementary reference material to explain the violations of the ethical virtues for enhanced understanding and improved application. It shall consist of the following sections:
    - i. the 'Worldview' underpinning the code;
    - ii. role-based 'Checklist' for voluntary self-evaluation;
    - iii. undertaking for self-accountability; and
    - iv. real-world and hypothetical case studies / examples to help the reader navigate through ethical dilemmas or difficulties effectively.
- IN4 The visual depiction of the code is in *Fig. 2*.

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<sup>2</sup> The development of the Handbook is in process and it will be made available shortly.

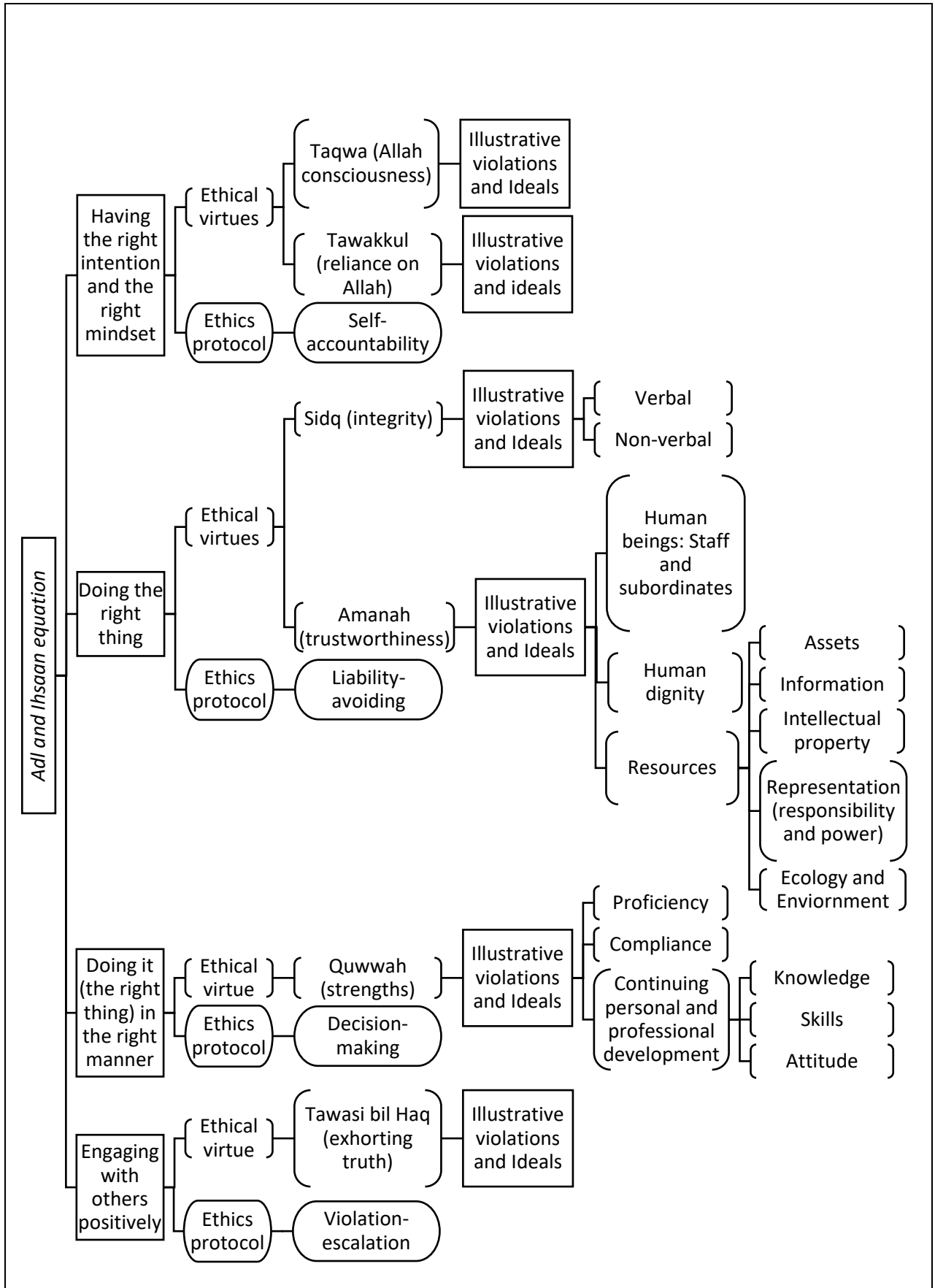


Fig. 2: Visual depiction of the code



## **Rationale for issuing this code**

- IN5 The previous codes of ethics issued by AAOIFI are over two decades old. Since then, the global Islamic finance industry had taken great strides in different directions and has also expanded geographically. There was a need to either update / revise the existing code or develop a new one to adequately address the ethical needs and challenges facing the industry today and to provide detailed guidance for ethical behavior to the Islamic finance professionals. It was decided that a new code of ethics should be developed after extensive industry consultation through primary research.
- IN6 AAOIFI decided to develop a separate “Islamic” code of ethics as opposed to adopting an existing conventional code (with or without minor tweaks). This was done in spite of the realization that a large common ground exists between Islamic and conventional ethics. The decision was taken in order to duly accommodate the vast implications imposed by some unique concepts grounded in revelation. For example, the belief in Akhira (hereafter) leads to the concept of a higher level of accountability beyond this world. It is difficult to imagine how a person can be motivated to act ethically even when not being observed or when the fear of being caught is non-existent, without such a concept. Similarly, Islamic ethical values such as earning income from Halal sources, moderation in spending and avoiding extravagance, refraining from social evils such as backbiting, slander, arrogance, excessive greed, etc. all contribute to the uniqueness of this code.

## **Significant changes from the previous codes**

- IN7 The new code of ethics for Islamic finance professionals is an attempt to improve upon the previous codes issued by AAOIFI in terms of:
- a. better and more comprehensive understanding of the concept of ethics;
  - b. structuring of the code in a simple and easy-to-understand format; and
  - c. inclusion of helpful guidance to facilitate its implementation.

# **AAOIFI Ethics**

## ***Code of ethics for Islamic finance professionals***

### **Objectives of this code**

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1. This code seeks to achieve the following key objectives. To:
  - a. help the Islamic finance industry and Islamic finance professionals achieve Barakah by aligning with Maqasid-e-Shari'ah (i.e. by following the letter and the spirit of Shari'ah);
  - b. assist Islamic finance professionals in understanding the demands of ethical conduct and choosing the right course of action in an ethical dilemma or a difficulty;
  - c. encourage Islamic finance professionals to pursue ethics voluntarily, stand up for truth and ethical practices, and become role models of ethical behavior for others;
  - d. reduce the operational risk of IFIs, in particular, by mitigating the Shari'ah non-compliance and reputational risks; and
  - e. enhance the confidence of the general public and other stakeholders in the Islamic finance industry.

### **Scope of this code**

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2. This code shall apply to the following professionals (collectively referred to as the Islamic finance professionals) who shall be held accountable for their ethical conduct in their respective individual capacities:
  - a. employees, directors, members of the Shari'ah Supervisory Board (or an equivalent body), and those of other committees / boards, employees and agents externally contracted or deputed on secondment basis for Shari'ah, accounting, marketing, sales, etc. functions of the IFI (such as banks, takaful companies, fund management companies, etc.), as well as those working in social finance institutions (such as Waqfs, Zakah and Qard-based microfinance institutions);
  - b. AAOIFI fellows and candidates, AAOIFI master trainers, and members of AAOIFI technical boards and working groups—irrespective of their professional affiliations;
  - c. Islamic finance academics / trainers, service providers, and consultants such as auditors, Shari'ah auditors, outsourced service providers, rating service providers and / or others as required by the relevant AAOIFI standards. The auditors, in addition to this code, shall also comply with the IESBA code of ethics; and
  - d. non-Muslims, insofar as the code does not conflict with any of their established religious beliefs; in case of such a conflict, that specific requirement would stand inapplicable on them.
3. The code principally applies to the professional life of Islamic finance professionals. However, any action or conduct which may reasonably be perceived or inferred as unbecoming of an Islamic finance professional shall be deemed to be a breach of this code.

4. While this code is primarily meant for Islamic finance professionals working in the financial sector, all the other key industry stakeholders such as the regulators, customers, investors or service providers (e.g. suppliers, consultants, brokers, etc.), and particularly those involved in Shari'ah-compliant or Halal businesses, may find it relevant and useful.
5. This code does not address the Shari'ah-compliance aspect of the IFIs' products, transactions, operations and policies, which is the subject of other standards issued by AAOIFI.
6. It must be emphasized that non-applicability of this code does not give a license to anyone to indulge in unethical conduct under any circumstances.

### **Authority of this code**

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7. In the event of a real or perceived conflict between the requirements and provisions of this code and any other applicable code(s) of ethics developed internally by the IFI, the local regulator, or those issued by international professional bodies or standard-setting institutions, etc. which the IFI has also adopted as the official code, all such codes shall be considered superseded by this code if:
  - a. they are less stringent in a given matter; and / or
  - b. they contravene or are inconsistent with the principles and rulings of Shari'ah as established by a recognized and relevant authority.
8. In the event of non-compliance to this code by the AAOIFI Fellows, the AAOIFI Education Board may subject the violator to disciplinary action after giving him due opportunity to explain if and why the violation occurred. The disciplinary action shall be proportionate to the nature, materiality, and frequency of the violation(s) committed. The violator shall have the right to appeal against the disciplinary action in which case the decision of the Ethics Committee of the AAOIFI Governance and Ethics Board shall be deemed final, conclusive and binding. The disciplinary action may include any or a combination of the following:
  - a. issuance of a letter of reprimand or warning letter;
  - b. compulsory passing of an ethics exam to be conducted by AAOIFI, failing which may lead to temporary or permanent revocation of the AAOIFI fellowship;
  - c. public censor;
  - d. temporary revocation of the fellowship; and / or
  - e. permanent revocation of the fellowship.
9. In case the law or applicable regulation prevents or prohibits the Islamic finance professional from complying with certain parts of this code, he shall comply with the other remaining parts.

### **Definitions**

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10. In this code certain words and expressions (in the context of dealing with others) are defined as follows:

- a. Adl – is the concept of minimum benchmark of ethics the conduct of which is mandatory. Literally, the term means or implies to put something or someone in its rightful place or position and which includes the meaning of justice, equity, fairness and equilibrium;
  - b. Barakah – is the increase in quantity and / or quality of Allah Almighty’s blessings via seen or unseen and predictable or unpredictable ways or a sign of His care for one’s life, time, health, possessions and / or income;
  - c. ethically defensible decision – is a decision which can be defended and justified as an ethical decision after meeting certain criteria as defined in paragraph 19;
  - d. IFI<sup>3</sup> – refers to Islamic Financial Institution(s) which covers all entities undertaking financial dealings and transactions in accordance with the principles of Shari’ah;
  - e. Ihsaan – is the concept of striving for excellence in ethics, which is highly recommended. The term ‘excellence’ means doing something in a manner which in given resources, constraints, and circumstances cannot be done better;
  - f. Islamic finance professional(s) or IFP– is as defined in paragraph 2;
  - g. law – is a system of binding rules which a particular country or community recognizes as regulating the actions of its members and which it enforces by the imposition of penalties and / or other means. The law of the land, unless contradictory to the basic Shari’ah principles and rulings, is endorsed by Shari’ah as binding; and
  - h. Zulm – is the absence of Adl in any form, degree, or scale, and is the opposite of Adl. It means violation, transgression, injustice, oppression, tyranny, immorality, etc. Literally, it means to put something or someone in a place or position other than its true or correct state.
11. All other terms used shall have the same meaning as assigned to them in respective AAOIFI standards.

## **Part A – Conceptual framework**

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### **AAOIFI Ethical Paradigm**

- 12. An IFP shall achieve Adl in all work activities at all times failure of which shall constitute as Zulm.
- 13. To achieve and maintain Adl, especially on a continuing basis, an IFP should target Ihsaan in all matters as a first step.

### **AAOIFI Adl and Ihsaan equation**

- 14. An IFP shall, to uphold the ethical paradigm, maintain all four elements of the AAOIFI Adl and Ihsaan Equation (*see Fig. 3*) as described below. He shall:
  - a. have the right intention and the right mindset by doing everything for the sake of Allah Almighty with the objective to gain His, and only His, pleasure and reward, and

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<sup>3</sup> See Framework for Financial Reporting by Islamic Financial Institutions, Basis of Conclusions, Accounting, Auditing, and Governance Standards (2015), AAOIFI

- to avoid His, and only His, wrath and punishment, as well as being positive and hopeful of Allah Almighty's will and decree concerning his life;
- b. do the right thing by doing all that is sanctioned to be good, virtuous, and ideal by Shari'ah and the law of the land;
  - c. do the right thing in the right manner i.e. proficiently, to the best of his capability, at the right time, and consistently, by:
    - i. pursuing and maintaining excellence in his field of expertise on an ongoing basis to ensure proficient execution of tasks to the best of his capability;
    - ii. doing it at the right time, especially in a bid to prevent a possible unethical situation from happening or to control a bad situation from turning worse and ultimately becoming a crisis; and
    - iii. doing it consistently, whether in public or in private, even when not being observed;
  - d. engage with others positively and try to influence the behavior of those within their circle of influence (such as colleagues and coworkers). This may involve persuading them wisely to do the right thing and avoid the wrong as well as presenting a role model through self-conduct. Choosing to remain silent with an attitude of neutrality or indifference towards gross violations of ethics is also a violation of this code.

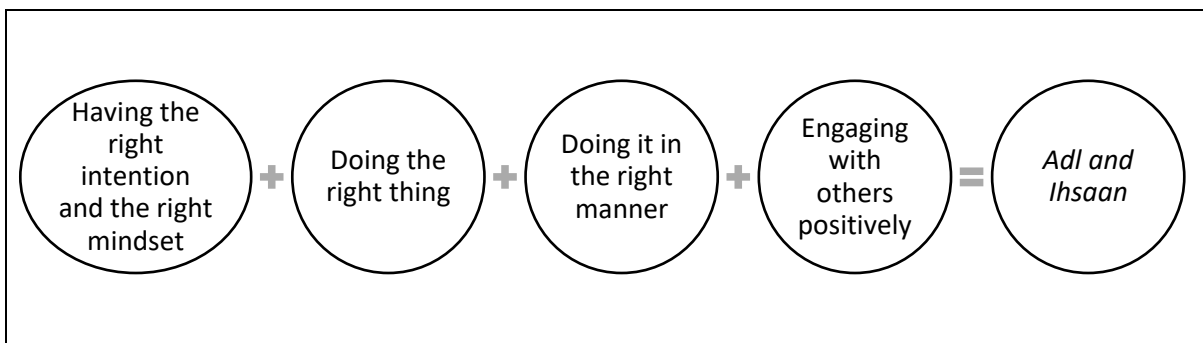


Fig. 3: The Adl and Ihsaan equation

### AAOIFI Ethical virtues

15. An IFP shall, while maintaining the four elements of the Adl and Ihsaan equation, uphold, in the context of his own roles and duties, the following six ethical virtues. The interplay between the Adl and Ihsaan equation and the ethical virtues is illustrated in Fig. 4.
  - a. Taqwa (Allah consciousness) – have consciousness and remembrance of Allah Almighty such that it results in His obedience and in an event of disobedience, immediate repentance;
  - b. Tawakkul (reliance on Allah Almighty) – trust Allah Almighty's will and decree and be content with the outcome after having optimally exhausted all available and accessible resources at hand, given the situational constraints, while striving for a stated desired goal;

- c. Sidq (integrity) – achieve consistency and persistence in, as well as, harmony between beliefs, intentions, words, and actions, while upholding and promoting truth;
- d. Amanah (trustworthiness) – honor and fulfill the duties, powers, and responsibilities associated with one’s role, rank, position, and status, including safeguarding the resources given in one’s command as trust;
- e. Quwwah (strengths) – have, on a continuing basis, the intellectual, psychological, and physical power, capacity, and capability at a level required for the fulfillment of a responsibility or execution of a task; and
- f. Tawasi bil Haq (exhorting truth) – encourage others to do good and avoid evil in a knowledgeable, positive, and prudent manner through the use of reasoning, influence, authority, etc.

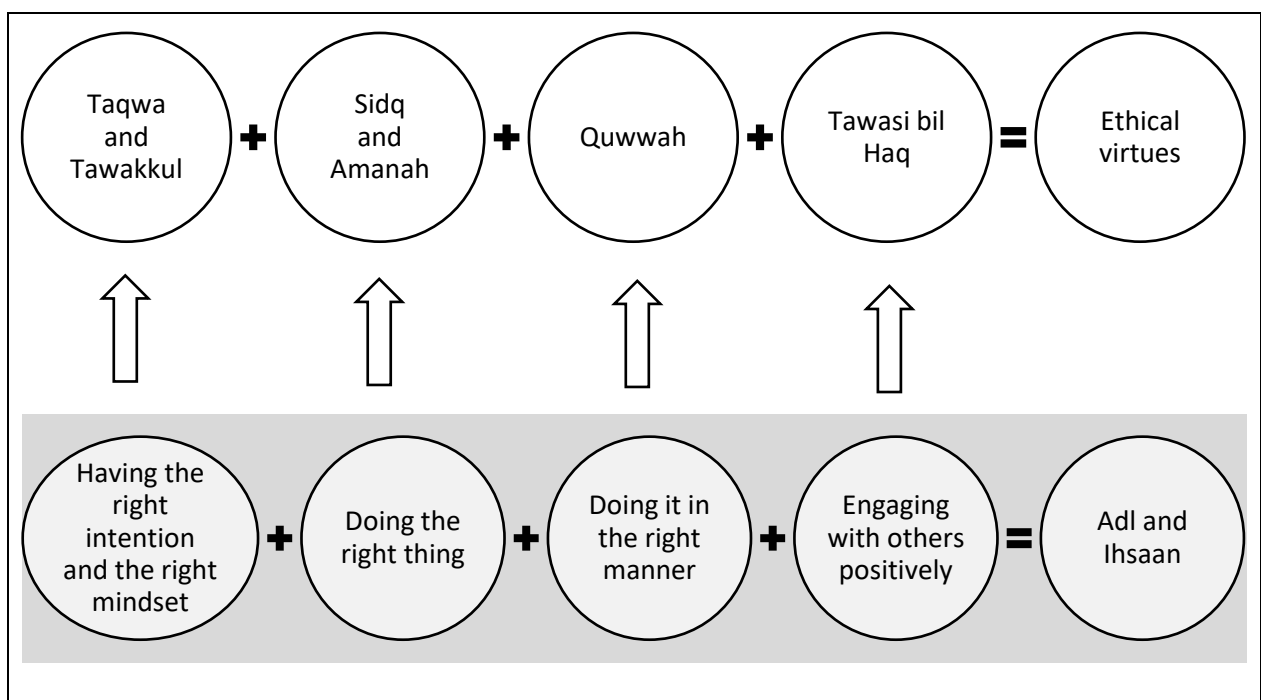


Fig. 4: The interplay of the Adl and Ihsaan equation with the ethical virtues

### AAOIFI Ethics protocols

- 16. An IFP shall, while maintaining the Adl and Ihsaan equation, uphold, in the context of his own roles and duties, the four ethics protocols as described in paragraphs 17 to 20. The interplay between the Adl and Ihsaan equation and the ethics protocol is illustrated in Fig. 7.
- 17. An IFP shall uphold the self-accountability protocol to atone for and self-purify, on a continual basis, of any unethical intention or act committed by fulfilling the following criteria. He shall:
  - a. repent – admit to and sincerely regret the violation (or the intent to violate), feel remorse, resolve not to repeat, and seek forgiveness from Allah Almighty for it; and
  - b. rectify – fully restore any rights which were infringed and, unless deemed unwise or inappropriate, seek forgiveness from the person who was wronged through an apology; and preferably

- c. perform a good deed – which may include an act of charity.
18. An IFP shall uphold the liability-avoiding protocol to safeguard and protect himself from becoming liable for an ethics violation committed by those reporting to him by fulfilling the following criteria. He shall:
- a. make ethically defensible decisions; and
  - b. use ‘due diligence’ defense by proving that he took reasonable steps, given available resources, to identify and mitigate potential risks by installing strong checks, balances, and controls, in matters of strategies, policies, and culture, which were strengthened on continuing basis, to deter or respond to ethics violation. One shall be held liable for acts of subordinates if he fails to initiate / adopt / implement such defense mechanisms.
19. An IFP shall uphold the decision-making protocol to make ethically defensible decisions by fulfilling the following criteria and as illustrated in *Fig. 5*. He shall:
- a. make decisions based on the AAOIFI Adl and Ihsaan equation compliant with the Shari’ah, the Law, the Code, and the policies of the IFI;
  - b. not pursue self-interest to the detriment of those that he has a duty to serve, i.e. the general public, the Islamic finance profession, the customer, the employer, etc. In case of a conflict between the interests of various stakeholders, public interest takes priority and precedence over all other interests, followed by the interests of the Islamic finance profession, the customer, and then the employer. Self-interest, in all cases, shall be subservient to the interests of others;
  - c. consult with the relevant authority or experts for guidance and build support and consensus instead of taking unilateral decisions. In case of soliciting external guidance, discretion and diligence should be used to safeguard confidential information belonging to and the reputation of the IFI; and
  - d. properly document and retain all the research involved in formulating the basis of conclusion and arriving at a decision for a reasonable time period, suggested being minimum two (2) years.

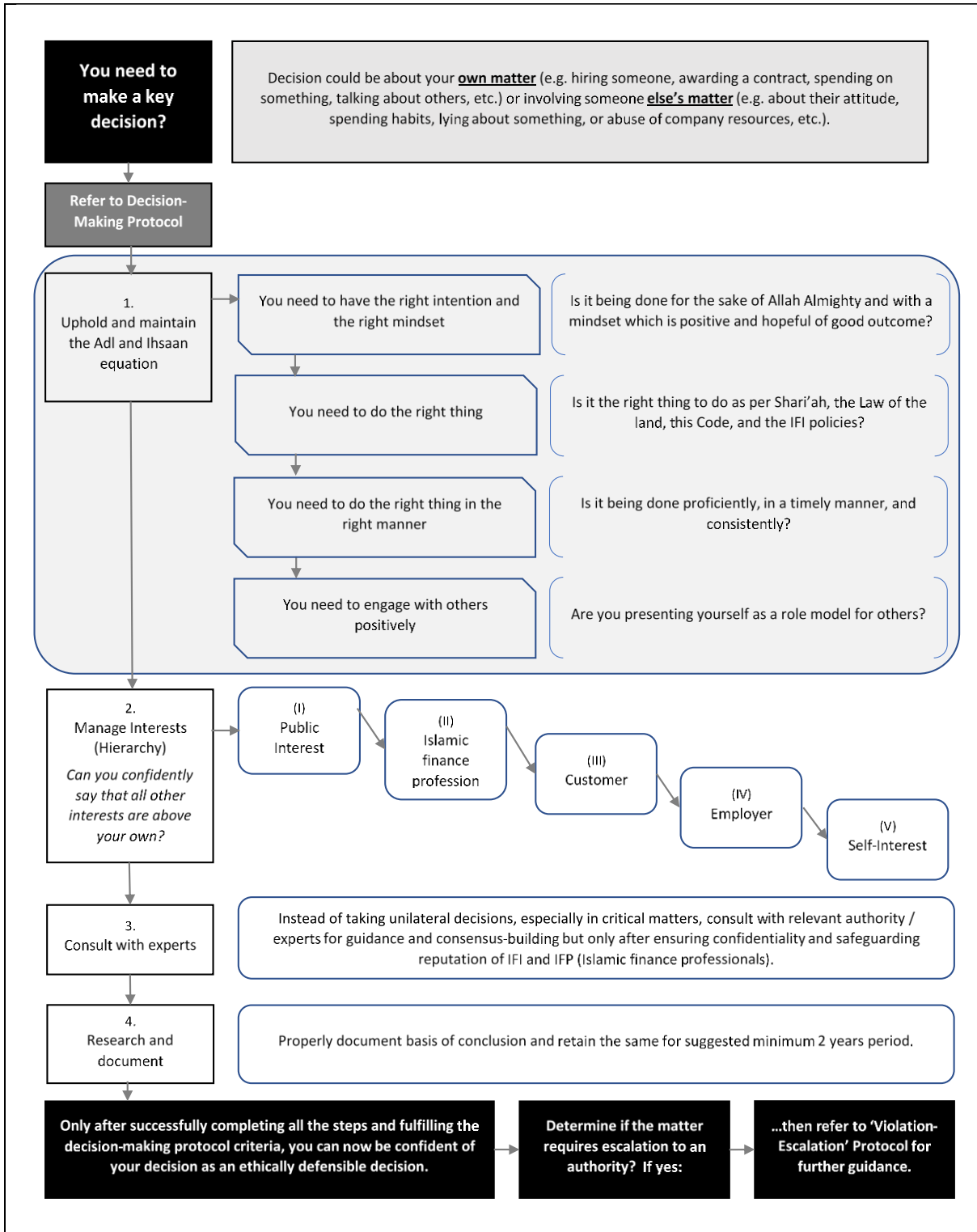


Fig. 5: Criteria for making an ethically defensible decision



20. An IFP shall uphold the violation-escalation protocol to wisely and prudently respond to an ethics violation committed by another IFP by fulfilling the following criteria and as illustrated in *Fig. 6*. He shall:
- a. conduct due diligence before reporting a violation, i.e. he shall:
    - i. establish and re-confirm the act of reporting of the violation as an ethically defensible decision;
    - ii. clearly identify and recognize the conduct as a violation of the law of the land, the Code, or any other code or policy, as applicable (in terms of specific paragraph and clause number). The violation could be of any nature, financial or non-financial, manifested through a policy or a practice and involving interests of any of the key stakeholders;
    - iii. gather and document sufficient and relevant proof or evidence of the violation which could be in the form of a document or media or even a logical and reasonable deduction; and
    - iv. seek advice or guidance from the relevant designated authority of the IFI in case of any ambiguity or uncertainty in the ethics reporting process or requirements.
  - b. follow the process when officially reporting the violation, i.e. after having performed the due diligence, he shall:
    - i. pursue informal resolution of the violation if the violation does not financially affect the IFI or a third party, does not lead to significant financial risk, is minor in severity, and the fear of retaliation from the accused or the management is low or non-existent. In such a case, the witness shall, in the first instance, take matters up directly with the accused, either personally or after involving a third party as an arbitrator with the permission of the accused. However, if the possibility of retaliation from the accused or the management is high or the matter remains unresolved or deteriorates further, the witness is duty bound to escalate and report the violation to the relevant designated authority;
    - ii. pursue formal resolution of the violation as per the IFI policy through the official violation reporting channels for matters financially affecting the IFI or a third party and / or being major in severity. The relevant authority may contact the witness and solicit further details or clarifications regarding the reported violation, if needed; and
    - iii. have the right to blow the whistle by contacting the regulator or any other relevant agency / authority. Whistleblowing is permitted only after having exhausted all available internal channels of reporting (unless there are reasonable grounds to believe that those channels are not working or compromised or where there is confirmation of a severe threat of retaliation).

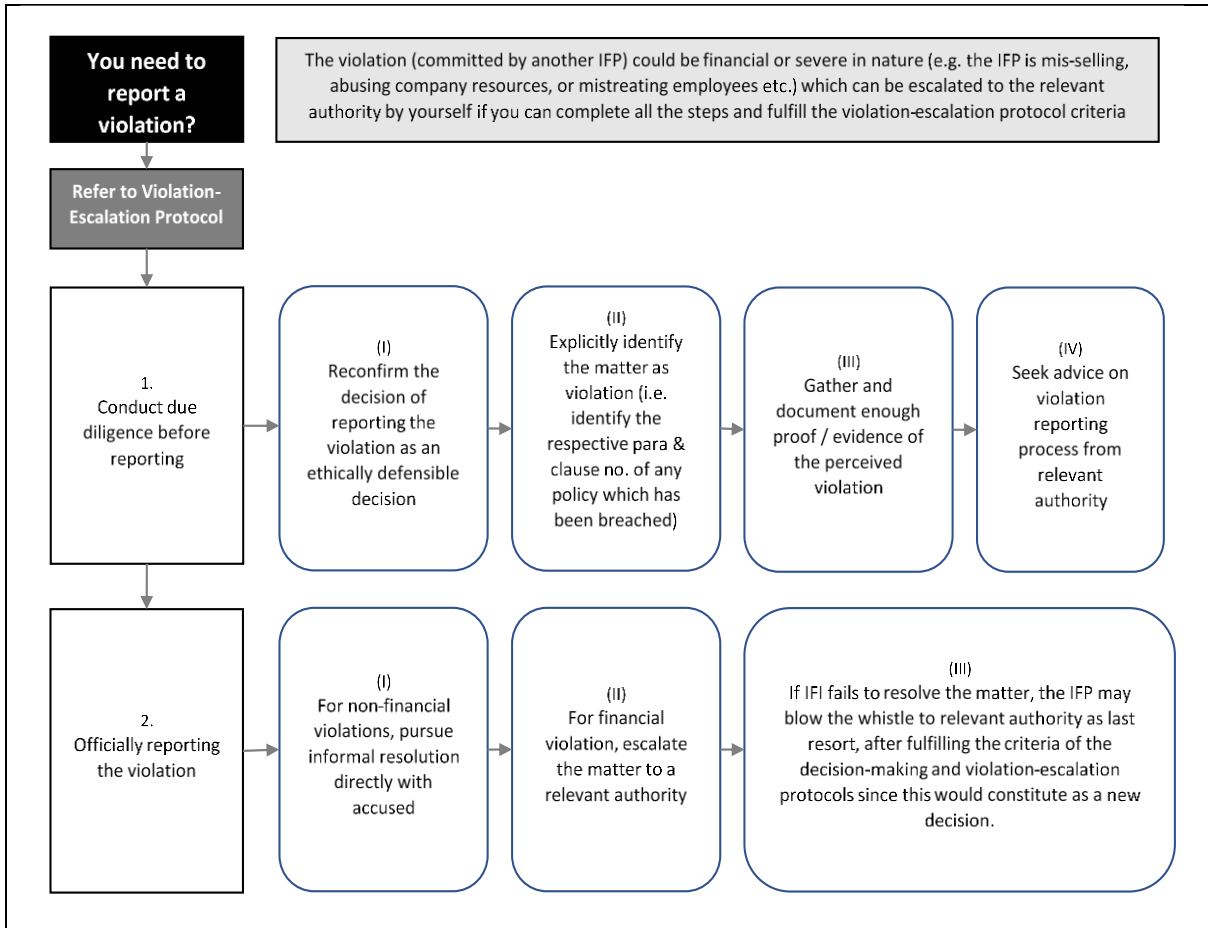


Fig. 6: Criteria for escalating any violation

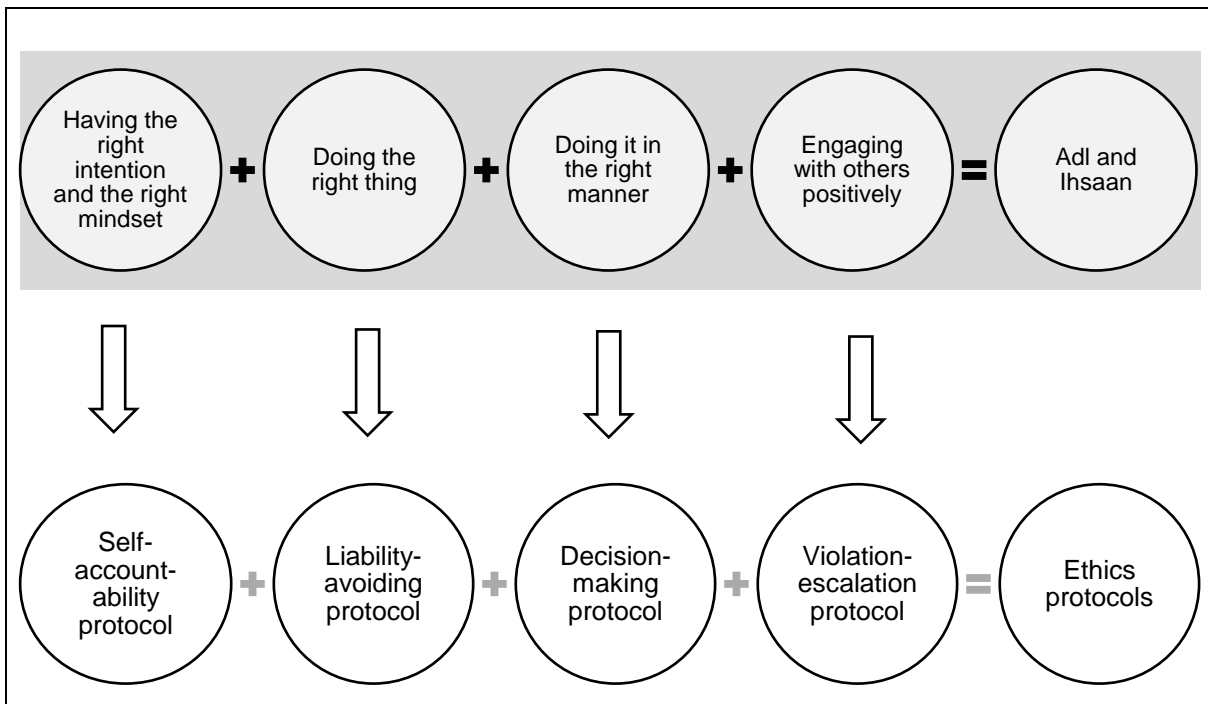


Fig. 7: The interplay of the Adl and Ihsaan equation with the ethics protocols

## **Part B – Illustrative violations**

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21. An IFP shall ensure, at all times, to uphold the ethical virtues as referred to in paragraph 15. Illustrative acts or events that may be considered a violation of the ethical virtues and which must be avoided are provided in paragraphs 22 to 41.

### **Taqwa**

22. An IFP shall not violate the ethical virtue of Taqwa. He shall maintain Adl by not indulging, for instance, in the following violations:
- a. ithm (sin) – willfully and intentionally performing acts of sin which are forbidden by Allah Almighty;
  - b. udwaan (transgression) – transgressing the limits of Shari’ah; and
  - c. ghafla (heedlessness) – consciously being unmindful and neglectful in the remembrance of Allah Almighty and the rights and duties owed towards Him, mainly due to excessive love of the world.

### **Tawakkul**

23. An IFP shall not violate the ethical virtue of Tawakkul. He shall maintain Adl by not indulging, for instance, in the following violations:
- a. belief in ‘end justifies the means’ mantra – believing that the desired result is so good or important that any method, even unethical or illegal, may be used to achieve it;
  - b. lack of perseverance – lacking in continued effort to do or achieve something, such as not taking projects to conclusion because of setbacks, difficulties, failure, opposition, or losing hope in Allah Almighty; and
  - c. misuse of resources – under- or over-utilizing available and accessible resources to achieve a stated desired goal.

### **Sidq**

24. An IFP shall not violate the ethical virtue of Sidq. He shall maintain Adl by not indulging, for instance, in the following verbal and non-verbal violations.

#### *Verbal violations*

25. An illustrative list of verbal violations of the Sidq virtue is mentioned below which an IFP shall avoid:
- a. lying – saying something which is not true with the intention to deceive the other;
  - b. exaggeration – mixing truth with falsehood such that it represents something as better or worse than it really is;
  - c. paltering – using truthful facts to deceive;
  - d. plagiarism – taking someone else’s work or ideas and passing them off as one’s own;
  - e. empty promises – making a promise knowing that it will not or cannot be carried out;

- f. leading statements – making manipulative statements to move the other person to agree to something without even them realizing it;
- g. putting words in someone else’s mouth – suggesting that someone said or meant something that he did not actually say or mean;
- h. false oath – the making of false statements knowingly and intentionally under oath;
- i. opining without knowledge – giving opinions and advice on matters outside of one’s knowledge;
- j. rumor mongering – disseminating news or story about someone or something without ascertaining its truthfulness;
- k. generalizing from a few examples – making something look or feel more widespread or widely acceptable by inferring from a few examples, all in a bid to deceive;
- l. quoting out-of-context – removing the contextual words or events that give something its complete, original or genuine meaning;
- m. making invalid comparisons – comparing one thing to another that is unrelated, in order to make one thing look more or less desirable than it really is;
- n. tilting – oversimplifying or overdramatizing to such an extent as to bring about distortion, misunderstanding, or error;
- o. slander – saying something substantially untrue about someone in their absence knowing that they would be distressed if they were to find out;
- p. mixing fact with opinion – intermingling of fact with opinion or viewpoint in such a manner that the two become indistinguishable; or posing opinions as facts;
- q. intentional ambiguity – being deliberately unclear about what one means when speaking (or writing) with the objective to deceive; and
- r. half-truth – making a statement that conveys only part of the truth while representing it, explicitly or implicitly, as the whole truth, to lead the other person to a false conclusion.

### *Non-verbal violations*

26. An illustrative list of non-verbal violations of the Sidq virtue is mentioned below which an IFP shall avoid:
- a. unfair discrimination – treating a person or a group of people less fairly than other similarly situated people or groups, only on the grounds of faith, race, nationality, marital status, gender, age, social or financial status, etc.;
  - b. stereotyping – holding an over-generalized belief about a category of people assuming it to be true for each individual person in the category;
  - c. hypocrisy – pretending to be what one is not; saying something that one does not believe in; or doing something that contradicts what one claims to believe or feel;

- d. misrepresentation – exercising authority beyond the scope, mandate or Terms of Reference (TOR); it may also involve gaining information under false pretenses and affecting the other party’s decision in agreeing to a contract or transaction. To avoid misrepresentation, consider the following check posts with illustration in *Fig. 8*:
- i. representation – establish whether the representation was actually made as either existent or non-existent where existent representation is typically in the form of words: written or oral. However, conduct may also be construed as representation in some cases;
  - ii. inducement – an existent representation must induce the other party to some action or inaction which results in a financial loss. Establish such inducement as either intentional or unintentional. Unintentional inducement can be as a result of gross negligence or honest mistake where the former is a case of misrepresentation while the latter is not. In the case of gross negligence, the party inducing could have done so believing that the representation was true but if he exhibited incompetence, lack of reasonable care or diligence he is still deemed guilty of misrepresentation. However, if due diligence was carried out and yet misrepresentation occurred, that should be construed as an honest mistake;
  - iii. falsity – establish whether the representation having intentional inducement is true or false. In case the representation is true, then there is no misrepresentation. False representation can be through words (written or oral) or by way of conduct; and
- [Explanation:
- I. speaking half-truth (i.e. by not disclosing all the important information which creates false or misleading impression in the mind of the other person based on which he takes a decision) or providing incomplete information or simply telling blatant lies is misrepresentation;
  - II. if a person says something which at the time of speaking is true but later the situation and circumstances change, rendering it false, and the other party is not informed or updated about it, then that may also constitute as misrepresentation especially if a duty to disclose exists;
  - III. typically, opinions are not considered as misrepresentation. However, if the other party is inexperienced, susceptible to misinterpretation of opinions as facts, or has reasonable grounds to assume that the person making the representation is stating facts and not opinions, then even though the person might be stating an opinion, it will nevertheless be treated as a fact, and considered misrepresentation. For example, if a lawyer or an investment specialist is giving advice to a layman, the professional is obligated to clearly separate facts from opinions; otherwise, his opinions may be treated as facts which could result in misrepresentation;

- IV. making predictions or future promises may also be treated as misrepresentation but only when the person doing so is in possession of certain past or present facts which clearly contradict the prediction or promise. Having superior or exclusive knowledge of those facts and yet making contrary statements could result in misrepresentation;
  - V. if a person conceals a fact or a truth, or prevents or hinders the other party from discovering it on his own, then such a conduct may also lead to misrepresentation even though not a single word was spoken or written;
  - VI. non-disclosure may also be problematic especially if the person has a duty to disclose (e.g. having fiduciary relationship) in which case there is an obligation to make full and fair disclosure in good faith to the other party, failure of which is misrepresentation. Moreover, if the person knows that the other party is grossly ignorant or grossly mistaken about basic material facts, then he has a duty to disclose, failure of which may be construed as misrepresentation; and
  - VII. if a person does not have the authority to enter into a deal, represent his organization, or make promises, etc. and yet he does so, then that would also be misrepresentation.]
- iv. materiality – a representation may be false but not necessarily be construed as misrepresentation until its materiality is determined as significant or trivial. Trivial or unrelated misrepresentation is ignored while discouraged. Significant materiality is one which serves as a primary or key influence or inducement for the other party to base their decision, in which case the act is deemed misrepresentation;

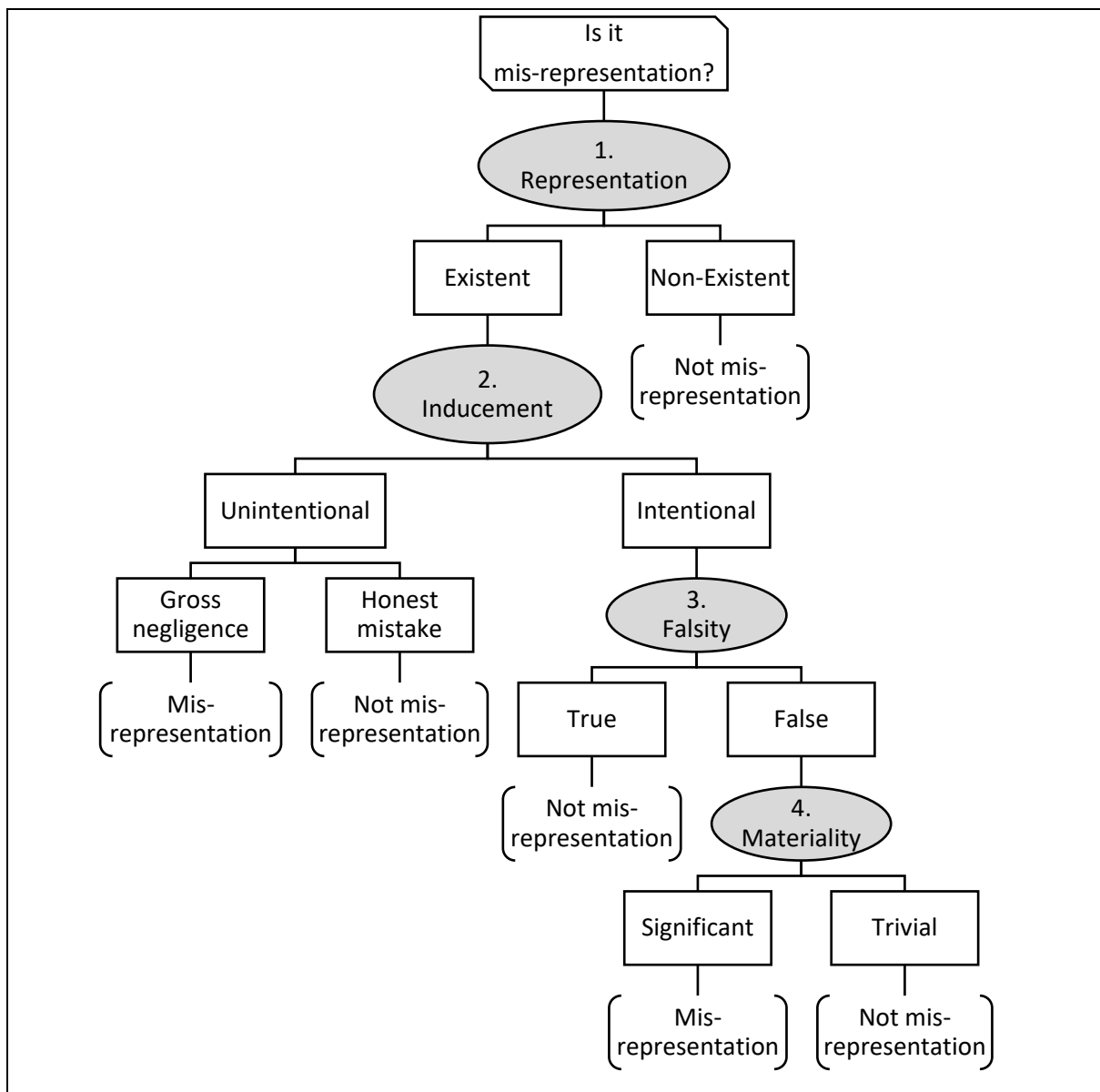


Fig. 8: Misrepresentation

- e. mis-selling – deliberately selling a financial product or a service to someone who does not understand / need / afford it, and as a result is likely to fail to make a rational, informed choice. To avoid mis-selling of financial products and / or services, consider the following check posts with illustration in Fig. 9:
  - i. suitability – establish the suitability of the financial product or service for the customer as either suitable or unsuitable, where suitable is one in which the investment strategy, after having considered all available alternatives, is appropriate to the customer’s risk / return objectives and financial situation. Suggesting a product that is clearly not in the best interests of the customer impairs the suitability criteria and renders the transaction as mis-selling;

- ii. integrity – establish the integrity of the information provided to the customer about the product or service as either compromised or uncompromised. Giving inaccurate and / or irrelevant information about the product, or accurate and relevant but partial information (e.g. emphasizing the strengths and not mentioning the weaknesses), compromises the integrity of the information and renders the transaction as mis-selling. Uncompromised integrity, on the other hand, is one in which all the relevant information such as the risk and reward associated with the product is accurately and fully disclosed to the customer in a timely manner; and
- iii. clarity – establish the degree of clarity in the information provided to the customer as either proper or improper, where proper clarity is one in which the product details are explained in simple, layman terms, in the preferred language of the customer, and the customer’s understanding of it is double-checked thereafter. To deliberately confuse the customer with technical jargon and magnify the complexity further would render the transaction as mis-selling;

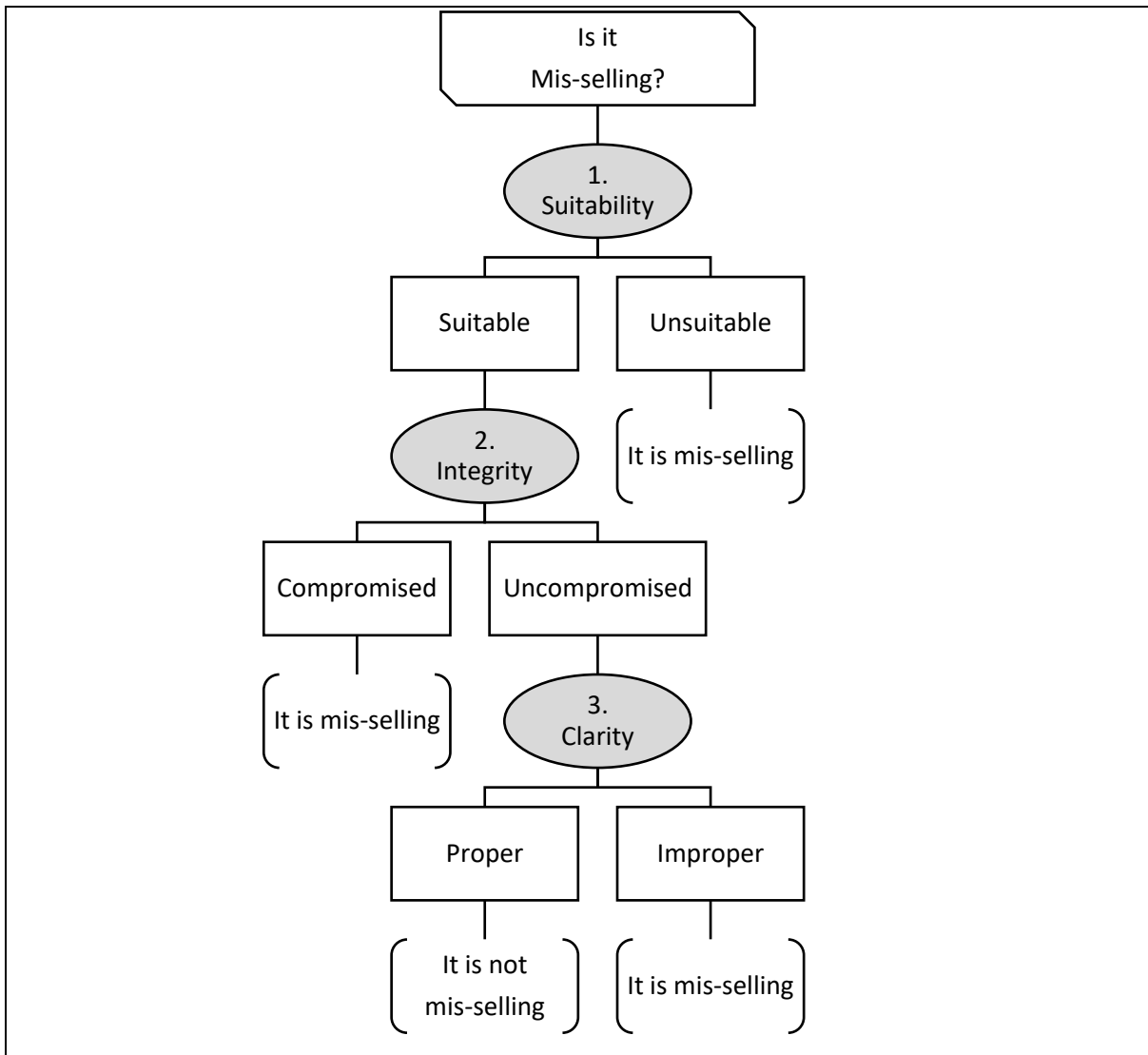


Fig. 9: Mis-selling



- f. lack of transparency – having hidden agendas and conditions or preventing others from gaining access to full information required for informed decision-making;
- g. evil assumption of others – believing that others are thinking negatively or conspiring against oneself without proof;
- h. scapegoating – shifting the blame from the guilty party to the innocent party; and
- i. cheating – acting dishonestly or unfairly in order to gain an advantage.

## **Amanah**

27. An IFP shall not violate the ethical virtue of Amanah which relates to his managing of fellow humans or other resources he is entrusted with (assets, information, intellectual property, responsibility, ecology and environment, etc.). He shall maintain Adl by not indulging, for instance, in the following violations:

### *Human beings: staff or subordinates*

28. An IFP shall not indulge in the violations of the Amanah virtue with respect to having command over staff members or subordinates as mentioned below (illustrative only):
- a. lack of empowerment – giving someone the responsibility without adequate power or resources for its proper execution (e.g. training, career progression opportunities, autonomy, feedback loop, etc.);
  - b. dehumanizing treatment – treating subordinates as sub-humans, machines, or as objects meant to be used merely to achieve a business and / or personal objective, without any regard for their well-being;
  - c. destroying work-life balance – destroying the state of equilibrium with respect to the demands of employees’ professional and personal lives;
  - d. triangulation – gaining advantage over perceived rivals by manipulating them into conflicts with each other; and
  - e. deliberate hiring of the inept – deliberately hiring someone who is inexperienced, unqualified, or otherwise unsuitable for the position with the intention to hijack his decision-making capacity.

### *Human dignity*

29. An IFP shall not indulge in the violations of the Amanah virtue with respect to having command over human dignity of others as mentioned below (illustrative only):
- a. violence – intentionally using physical or verbal force or power, whether threatened or actual, against another person or a group that either results in or has a high likelihood of resulting in injury, death, or psychological harm;
  - b. abuse – misuse of power by treating another person cruelly, unfairly, or violently, especially regularly or repeatedly. Abuse may take different forms:
    - i. humiliating publicly – making someone feel ashamed and foolish by injuring their dignity and pride, especially in a public space or setting;
    - ii. mobbing – deliberately attempting (as a group) to force someone out by humiliation, harassment, abuse and / or terror;

- iii. bullying – intimidating or aggressively dominating others;
  - iv. sabotaging – preventing others from getting work done or making them look bad;
  - v. assigning unmanageable workload – assigning workload which can only be managed with excessive additional workhours and / or resources such that work continually overwhelms one’s life;
  - vi. assigning inconsequential work – assigning work which does not substantially contribute towards or promote company strategy and key goals;
  - vii. assigning another person’s work or unrelated work – consistently making someone do another person’s work or assigning someone’s core area of work to another, or work which has negligible or no correlation with a person’s area of expertise, role and / or position;
  - viii. assigning personal work – assigning work which is personal or unofficial in nature, unrelated to the IFI;
  - ix. assigning no or menial work – assigning no work or work which is unbecoming of the knowledge and skill level of the employee;
  - x. trivializing serious issues or efforts – making something seem less important than it really is or treating a trivial matter as critical and serious;
  - xi. vulgarity – making or sharing offensive or racist words / comments, jokes, innuendos, gestures, photos, or videos; or cursing and swearing profanities; and
  - xii. sexual abuse – exhibiting undesired sexual behavior towards others in an aggressive and / or persistent manner;
- c. immodesty – exhibiting impropriety or indecency in speech, behavior, manner, or appearance;
- i. shamelessness – being shameless especially about something generally considered unacceptable;
  - ii. inappropriate attire – donning non-professional and / or provocative attire; and
  - iii. free intermingling of sexes – open mixing of genders without regard to the boundaries and rules set by Shari’ah.

*Resources: assets (money or property)*

30. An IFP shall not indulge in the violations of the Amanah virtue with respect to assets (in money or property form) as mentioned below (illustrative only):
- a. stealing – usurping, or helping someone to usurp, another person’s assets, without a legal right or the knowledge and permission of the asset’s owner;
  - b. misappropriation – obtaining assets by means of false or fraudulent pretenses, representations, or promises, particularly by someone acting in a fiduciary capacity;

- c. money laundering – concealing the source of illegally gotten money;
- d. tax evasion – not paying or underpaying the tax, illegally;
- e. Israaf (excessive spending) – spending or consuming money excessively or wastefully (more than what is supposed to or should be spent). The ruling on Israaf or extravagance differs and varies from person to person depending on a number of factors, making it difficult to quantify. Moreover, it can manifest in different forms such as in speech, mannerism, or consumption, etc. To avoid Israaf especially in the financial context consider the following check posts with illustration in *Fig. 10*:
  - i. legitimacy – establish the legitimacy of the purchase as either permissible or impermissible according to Shari’ah. Spending any amount, even small, on impermissible items (called as Tabzeer) is also considered as extravagance;
  - ii. motivation – establish the purchase as either necessary or unnecessary where unnecessary purchase is anything which appeals to sensual desires and / or unhealthy entertainment, is seemingly useless, or bought in order to boast, show-off, and compete with others in status and prestige. On the other hand, a necessary purchase is one which is useful and beneficial, relevant and required, and genuine to meet one’s legitimate needs and convenience;
  - iii. opportunity cost – establish the opportunity cost of the purchase as either acceptable or unacceptable where an unacceptable opportunity cost is one in which spending is not consciously prioritized. If the money could be spent to fulfill a more important need or a right or if the person spent it on something non-critical while other members of the society were in a state of famine, poverty, or impoverishment, then the purchase could be deemed as extravagant;
  - iv. utilization – establish the prospective utilization of the purchase as either full or partial where partial utilization is when the item is not utilized to its full potential and which results in wastage. Waste, if it cannot be recycled, can be construed as extravagance; and
  - v. norms – determine whether the norms of the society deem a purchase as moderate or excessive, where anything deemed excessive should be considered as extravagant;

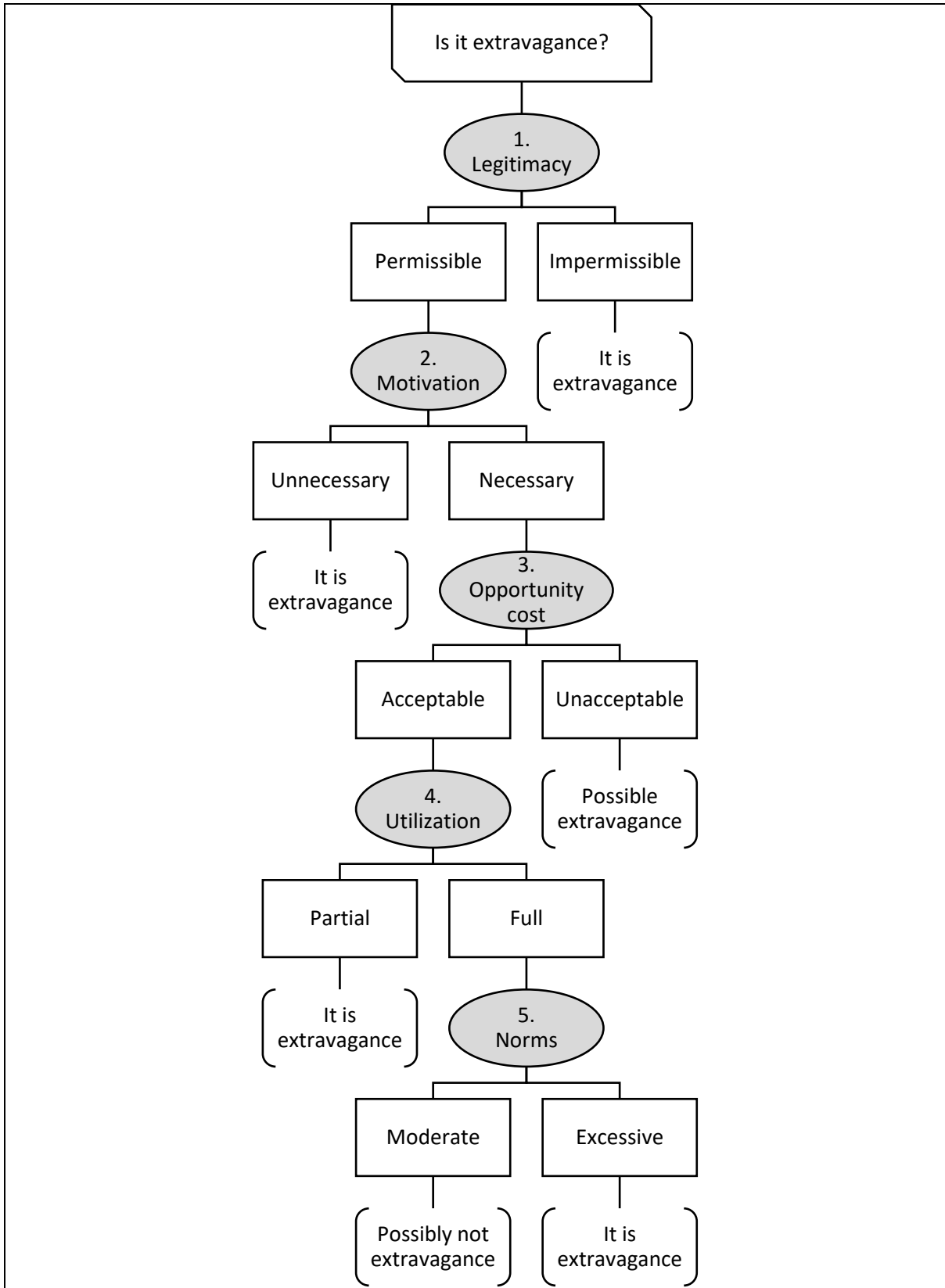


Fig. 10: *Israaf* or excessive spending

- f. stinginess – lacking in generosity or a general unwillingness and reluctance to part with money;

- g. excessive greed – having a very strong desire to continuously get more and more of something;
- h. bribery – promising or paying money (or other inducements) to influence the judgment or conduct of a person in a position of trust. It also includes offering, accepting, or soliciting material gifts, discounts, favors, travel, hospitality or donations, which may create a perception of conflict of interest and potentially diminish or impair independence and objectivity. A gift – defined as anything of value which the recipient does not pay for or pays only a negligible percentage of its fair market value – may potentially turn into a bribe. To avoid this, consider the following check posts with illustration in *Fig. 11*:
  - i. intention – inquire about the intention behind the gift and refuse to accept material gifts where the intention is distinctly to make the recipient feel obligated and / or to exert influence and extract compensation, advantage, or benefit in return, which could be financial or non-financial, major or minor. ‘Grease’ payments which induce the person to do or expedite what his job requires are also considered a bribe;
  - ii. value – in case of indistinct or purportedly pure intention, establish the value of the gift as either material or nominal. Nominal gifts are standard advertising and promotional items and offered indiscriminately, such as pens, diaries, mugs, USBs, and calendars, etc. which may be accepted;
  - iii. timing – in case of material gift, ascertain its timing and as a precaution, avoid accepting it, especially when it is being given during the initiation, negotiation, or finalization phases of any major agreement, transaction, or project; and
  - iv. manner – a material gift can only be accepted after ensuring that (i) it is not required to be kept a secret; (ii) it does not create conflict of interest; and (iii) a written clearance from the relevant authority is obtained;

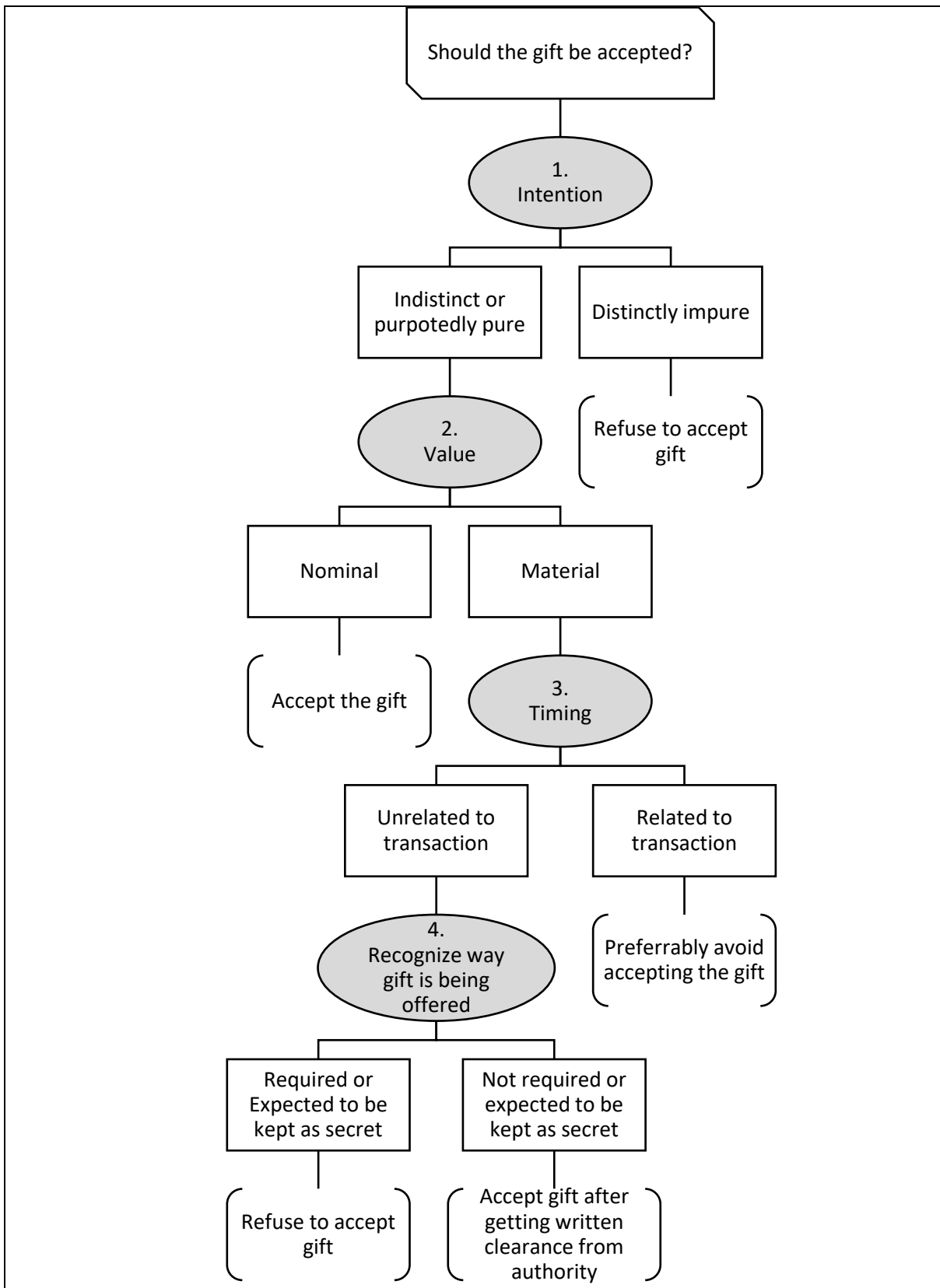


Fig. 11: Bribery disguised as a gift

- i. lacking in due diligence – lacking in actions which are considered reasonable for people to take in order to keep themselves or others and their assets safe; and

- j. unauthorized use – using another person’s assets without their approval (whether for legal or illegal purposes).

*Resources: information*

- 31. An IFP shall not indulge in the violations of the Amanah virtue with respect to treatment of or dealing with information as mentioned below (illustrative only):
  - a. financial misreporting / window dressing – altering financial reports either to mislead some stakeholders about the underlying financial performance or to influence contractual outcomes that depend on reported accounting numbers;
  - b. insider trading – trading, or inducing others to trade, in a security, on material nonpublic information to generate larger profits than any typical investor otherwise can. To avoid insider trading, consider the following check posts with illustration in *Fig. 12*:
    - i. availability – establish the information as either public or nonpublic information, where public information is that which is disseminated and made available to all market participants, by way of publishing of company report, issuance of press release, or making social posts, etc., and accessible with or without payment. Information available to only a group of investors or analysts is considered as nonpublic information;
    - ii. impact – establish the potential impact of the nonpublic information on the price of the security. If the price of the security is susceptible to alter (either increase or decrease) as a result of the use of nonpublic information, such information is to be treated as material and is not to be used for trading until it becomes public. Trading is, however, permitted on nonpublic information whose impact on the price of the security is immaterial. An effective way to confirm the materiality of the nonpublic information is to check if an analyst or an investor is willing to pay a reasonable amount to purchase the nonpublic information; and
    - iii. source – establish the strength of the source of the nonpublic information as either factual and reliable or speculative and unreliable. The closer the source is to the nonpublic information, the higher is the degree of its materiality. Conversely, the farther the source is to the nonpublic information, the lower is the degree of its materiality;

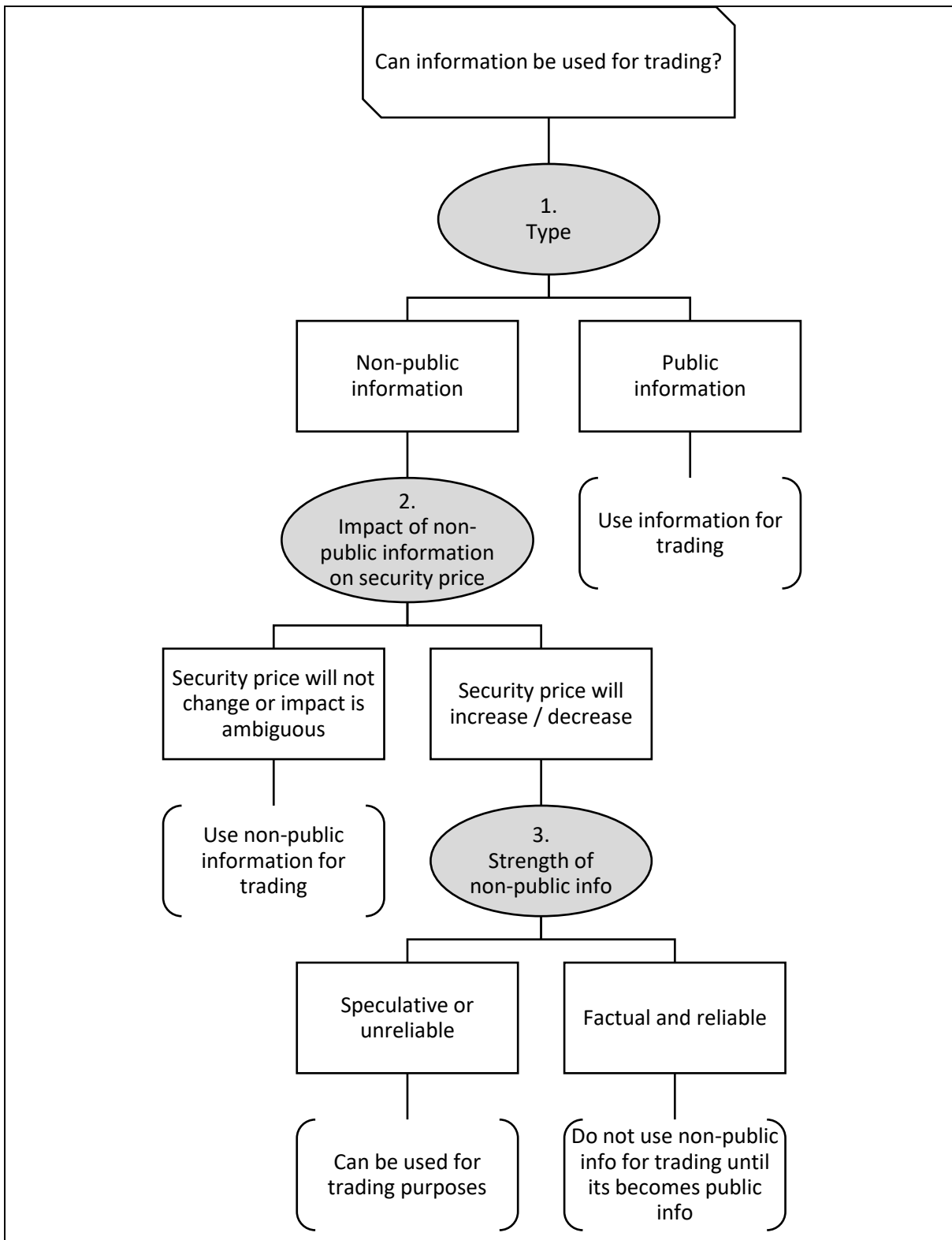


Fig. 12: Insider trading

- c. confidentiality breach – disclosing material nonpublic information or any other information, conversation, document, or record marked or identified as confidential, to an unauthorized person, without the consent of its owner or relevant authority;



- d. invasion of privacy – spying on one another to obtain unjustifiable access to someone’s personality or personal and private affairs without his permission and / or knowledge, especially when the person has a reasonable expectation of privacy;
- e. backbiting – revealing the true faults or weaknesses of a person in his absence knowing that the person would dislike hearing about it, when there is no legitimate need to mention them. To avoid backbiting and slander, consider the following check posts with illustration in *Fig. 13*:
  - i. type – establish the statement to be made about the target person as either positive and true or as negative. Positive and true statements about any person can be spoken with anyone at any time, even in the target person’s absence;
  - ii. recipient – identify the recipient of the negative statement as either the target person or a third person. Negative statements such as personal failings or deficiencies in truthfulness, trustworthiness, or competency, etc., can be uttered directly on the face of the target person either in privacy or in front of others, but not to a third person in absence of the target person. To speak ill of the target person in general terms without mentioning the target person’s name and ensuring his anonymity is acceptable. However, for such behavior to conclusively qualify as backbiting or slander, the authenticity of the negative statement and the motivation behind the utterance must be clearly established;
  - iii. authenticity – all negative statements about the target person, if untrue, and when spoken in his absence, are considered as slander. However, for the same to qualify as backbiting, the motivation behind the utterance must be clearly established; and
  - iv. motivation – establish the motivation or the purpose of uttering factual negative statements about the target person in his absence as either sincere or insincere. If the motivation is to inform, forewarn, or forbid a third person about the possible (and likely) harm that can be caused by the target person, or to lodge a formal complaint against the target person to relevant authority while seeking a resolution, such statements are not to be considered as backbiting. However, if the motivation is to sow and nurture seeds of discord amongst people, amuse, and entertain others, or seek revenge against the target person, such insincere behavior tantamount to backbiting;

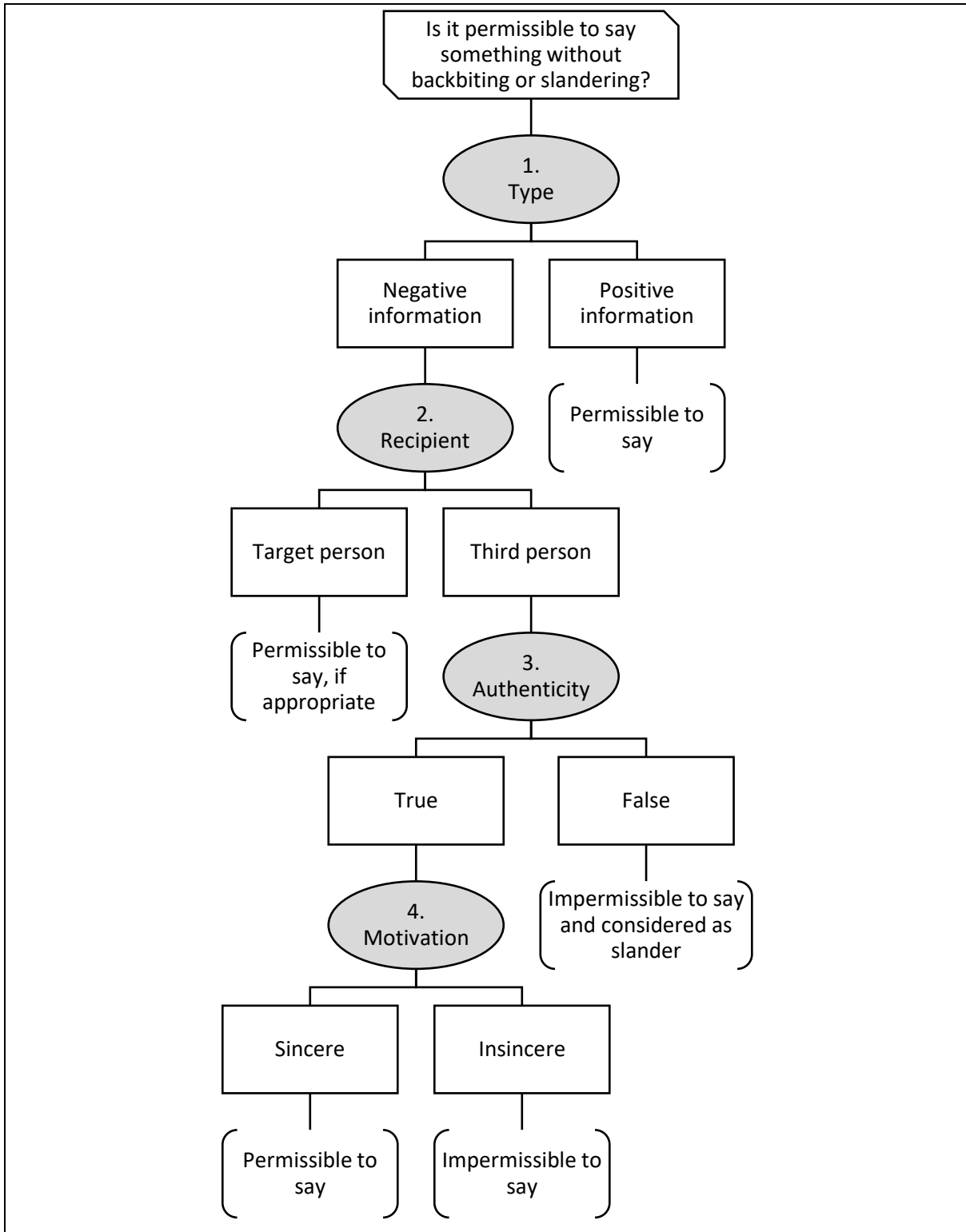


Fig. 13: Backbiting

- f. blackmailing – threatening another person with some form of punishment by disclosing a secret or damaging information if they do not offer some form of concession.

### *Resources: intellectual property*

32. An IFP shall not indulge in the violations of the Amanah virtue with respect to intellectual property as mentioned below (illustrative only):
- a. copyright and patent infringement – using works (by way of reproduction, distribution, display, or performance of protected work, or to make a derivative thereof) which is protected by copyright law without permission of the copyright holder;
  - b. trade secret infringement – using information, developed through the effort and expense of the IFI, which is contained in secrecy and has economic value because it is not generally known to or readily ascertainable by competitors;
  - c. data theft – act of stealing information stored on computers, servers or other devices. To avoid the accusation of and involvement in data theft and copyrights infringement, consider the following check posts with illustration in *Fig. 14*:
    - i. authorization status – establish whether the employee is authorized to access certain types of data. For example, an IT manager may gain unauthorized access to sensitive HR data related to senior management compensation. Similarly, some IFIs have a policy whereby an employee who has resigned is prevented from accessing client data. In such cases continued access by the employee may lead to data theft;
    - ii. data type – establish the type of data as either paper or electronic (such as any computer file) or other than paper or electronic (such as knowledge, skills, experience, insights, relationships, etc. developed or acquired during the course of employment). The latter category is the type of data which can be taken by the leaving employee and utilized to the benefit of the new employer without it being considered as data theft; and
    - iii. duty – establish whether the data was developed or acquired as a job requirement / duty to the employer. If so, and stored in paper or file, whether using personal equipment and premises or done after official working hours, the leaving employee cannot take it with him without being involved in data theft as the ownership and intellectual property rights belong to the IFI. On the contrary, if the work performed by the employee was not part of job requirement, then the ownership and intellectual property rights of that work belong to him;

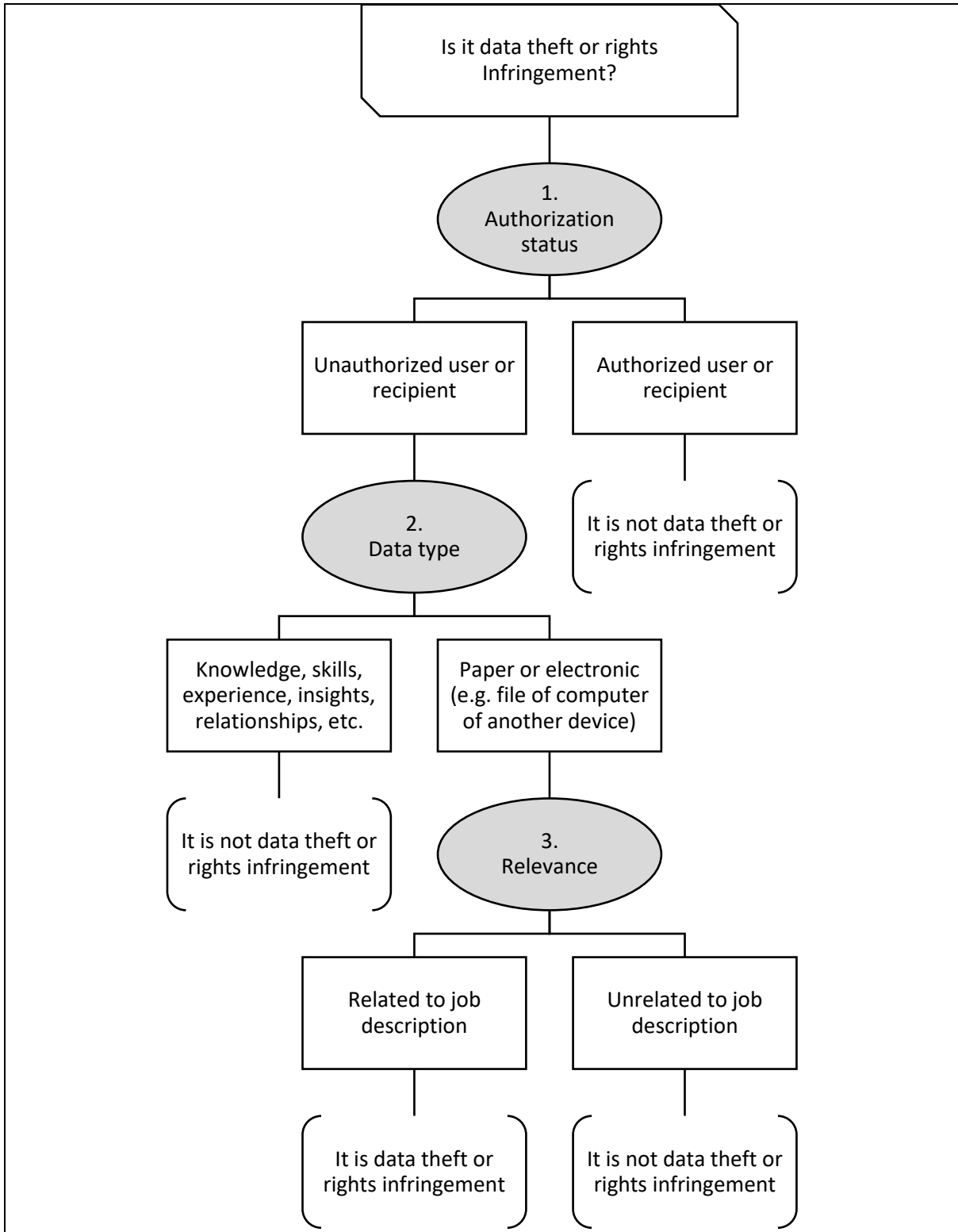


Fig. 14: Data theft and copyright infringement

*Resources: responsibility and power (representation)*

33. An IFP shall not indulge in the violations of the Amanah virtue with respect to responsibility and power (collectively referred to as representation) as mentioned below (illustrative only):
- a. neglect of duties – not fulfilling one’s obligations for which he is being compensated for;
  - b. poor decision-making – jumping to conclusions, rushing to judgment, and making key decisions without proper rationalization and supporting evidence. This also involves the failure to cross-check information before using it;
  - c. disloyalty – breaching fidelity, allegiance, devotion, obligation, or loyalty to someone to whom a duty of loyalty or care is owed;
  - d. breach of fiduciary duty – breaching obligation to act in the best interest of another party to whom one owes a duty of trust;
  - e. mis-governance – lacking in rules, practices, and processes used to govern the IFI, and / or poorly implementing those rules, practices and processes;
  - f. totalitarianism – requiring complete subservience from the other person or refusing, especially when requested, to provide basis of conclusion to decisions taken;
  - g. lack of or poor consultation – shunning or not seeking advice from the concerned and / or competent parties in critical matters which could have a strong financial or reputational impact;
  - h. unavailability and inaccessibility – being difficult to reach, approach, or understand thereby slowing down decision-making process and reducing the quality of output;
  - i. lack of self-accountability – feeling unobligated or be unwilling to accept responsibility and take ownership of one’s actions and their outcomes, and / or trying to find excuses for every failure;
  - j. not disclosing conflict of interest – hiding the conflict between one’s unofficial interests with that of the official interests of those to whom a duty of loyalty is owed e.g. employer or customer. To recognize and avoid a real, perceived, or potential conflict of interest, consider the following check posts with illustration in *Fig. 15*:
    - i. work relatedness – establish if the personal interests of an employee are related to an area that is the domain of the employer. For example, for an investment manager at an IFI to run his own investment consultancy business on the side is a clear conflict of interest because the manager is engaging in direct competition with the IFI;
    - ii. resources – establish whether the official resources at disposal such as confidential information, company property and equipment, trade secrets, official work hours and designation, etc. are being used to serve unofficial interests. For example, to spend hours on end to resolve a personal and / or private business issue during work hours (other than in case of an unavoidable emergency) is a conflict of interest;

- iii. representation – establish whether the official representation is intact or impaired due to external influence through offers of material gifts, entertainment, travel, etc. from third parties such as suppliers, customers and / or even colleagues. Representation may also be impaired in the event of lending and borrowing material amounts between employees;
- iv. association – establish the association with the third party as either close or distant / non-existent, where close association includes members of the family, relatives, friends or business partners. Decisions involving closely associated third parties impair objectivity and exacerbate conflict of interest;
- v. authority / influence – determine whether the authority and the influence one has by virtue of occupying a given official position and rank can be used in favor of unofficial interests at the cost of official interests. For example, to participate in the decision-making process involving a closely associated third-party is a conflict of interest due to misuse of position; and
- vi. motivation – when the basis of decision-making is anything other than furtherance of official interests it is improper motivation and will likely result in a conflict of interest;

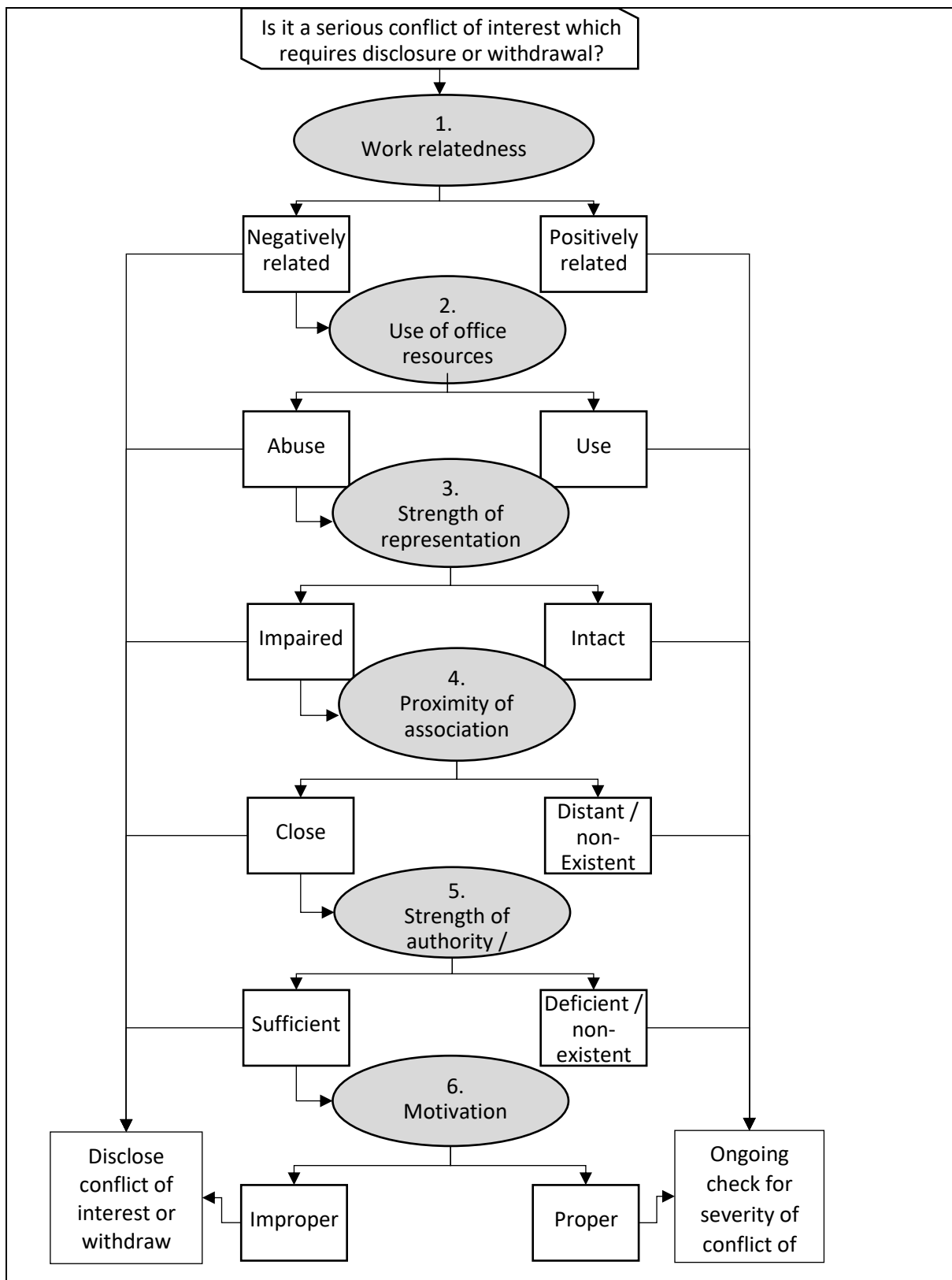


Fig. 15: Not disclosing conflict of interest

- k. covering up – preventing people from discovering the truth about a serious mistake or violation, and / or failing to report a violation. Inclusive in the meaning is the act of sabotaging the investigation process for an ethics violation.

### *Resources: ecology and environment*

34. An IFP shall not indulge in the violations of the Amanah virtue with respect to ecology and environment as mentioned below (illustrative only):
- a. overconsumption – consumption of goods and services to the point that it starts having detrimental effects on the consumer, the society, and/or the environment, and which is unsustainable in the long-term;
  - b. littering – indiscriminate throwing away of rubbish or waste or making a place or area untidy, especially a public area;
  - c. wastage – avoidable loss of something by expending or consuming thoughtlessly, extravagantly, or purposelessly; and
  - d. causing harm to environment – any action or inaction that results in unnecessary harm caused to animals, plant life, atmosphere, water bodies, etc.

### **Quwwah**

35. An IFP shall not violate the ethical virtue of Quwwah. He shall maintain Adl by not indulging, for instance, in the following violations related to proficiency, compliance, and continuing personal and professional development:

#### *Proficiency*

36. An IFP shall not indulge in the violations of the Quwwah virtue with respect to proficiency at work as mentioned below (illustrative only):
- a. ineptitude – continually lack in skill or ability required to perform the task for which the person was hired;
  - b. indolence – being lazy or idle or disliking work and avoiding activity or exertion;
  - c. poor work output – lacking in attention to detail or submitting or accepting sloppy or incomplete work;
  - d. improper record-keeping and incomplete documentation – failing to develop and maintain records and documentation of professional work, contracts, approvals, etc.;
  - e. procrastination – delaying something that must be done especially due to laziness and dislike for work;
  - f. indecisiveness – failing to make decisions, especially tough decisions, in a timely manner; and
  - g. unpreparedness – being habitually unprepared and ill-equipped for meetings, projects, or other tasks.

#### *Compliance*

37. An IFP shall not indulge in the violations of the Quwwah virtue with respect to compliance at work as mentioned below (illustrative only):
- a. insubordination – being openly defiant to authority, refusing to obey orders and policies; and



- b. illegal actions – not according to or unauthorized by law or undermining and subverting the law for vested interests.

*Continuing personal and professional development: knowledge*

38. An IFP shall not indulge in the violations of the Quwwah virtue with respect to seeking knowledge as part of continuing personal and professional development as mentioned below (illustrative only):
- a. not seeking religious knowledge – failing to continually broaden and deepen one’s knowledge about Islam, especially the rulings about commercial dealings in Islam (which is the basis of Islamic finance) and rights and obligations of various stakeholders (e.g. employer, employees, customers, investment account holders, suppliers, community, regulator, environment, society, etc.); and
  - b. not seeking professional knowledge – failing to continually broaden and deepen one’s knowledge and skills in the field of his professional expertise, especially involving:
    - i. ignorance about laws, rules, and regulations – being ignorant about the relevant and applicable laws, rules, and regulations, whether local or global, applicable in the respective work area; and
    - ii. ignorance about one’s area of expertise – failing to narrow the knowledge gap between what one knows and what is there to know in one’s area of expertise. A professional, irrespective of position and role, shall have in-depth knowledge of his core area of expertise (such as accounting, auditing, risk management, Shari’ah, etc.). In addition, he shall develop reasonable understanding of the following package of fundamental introductory Islamic concepts in order to do justice with his role as an employee of an IFI:
      - I. basic understanding of Islamic economics and Islamic financial system and how they differ from the conventional systems;
      - II. major prohibitions in Islamic finance (e.g. Riba, Gharar and Qimar / Maysir, etc.);
      - III. legal and regulatory environment of the jurisdiction with respect to Islamic finance; and
      - IV. knowledge of Islamic financial contracts (such as Murabaha, Mudaraba, Ijarah, etc.).

*Continuing personal and professional development: skills*

39. An IFP shall not indulge in the violations of the Quwwah virtue with respect to developing skills as part of continuing personal and professional development as mentioned below (illustrative only):
- a. not developing personal skills – failing to continually improve and enhance one’s personal skillset, especially with respect to:
    - i. mismanagement of time – mismanaging time resulting in delays and losses which could be due to poor planning, ineffective delegation of work, faulty prioritization, being disorganized, etc.;

- b. not developing professional skills – failing to continually improve and enhance one’s professional skillset, especially with respect to:
  - i. lack of teamwork – continually working in isolation, refusing to delegate without reason, not lending a helping hand to others, or becoming an impediment; and
  - ii. conflict mis-management – leaving conflicts and tensions unresolved, whether one’s own with others or between different people.

*Continuing personal and professional development: attitude*

40. An IFP shall not indulge in the violations of the Quwwah virtue with respect to improving attitude as part of continuing personal and professional development as mentioned below (illustrative only):

- a. not pursuing lifelong learning – giving up on the pursuit of personal and professional development and acquisition of relevant new skills;
- b. arrogance – being unpleasantly proud and behaving as if one is more important or knows more than other people. This may take different forms:
  - i. not admitting to one’s mistakes – failing to confess that what one said or did was wrong;
  - ii. monopolizing discussions – interrupting, interjecting, and / or not letting another person speak, argue or rebut;
  - iii. disrespecting and rude behavior – showing low regard for and undermining someone or something;
  - iv. hot or unjust temper – becoming angry easily and quickly without a justifiable reason;
  - v. jealousy – harboring resentment, ill-will, and malice against another person for having something that one wants or simply not wanting to see that person enjoy success or advantage; and
  - vi. vanity – seeking to impress people through pomp, showoff, grandeur, and pretentious display of wealth and/or power;
- c. ungratefulness – feeling or expressing ingratitude, nonappreciation, or thanklessness for a blessing, benefit or gesture;
- d. mercilessness – lacking in compassion or forgiveness towards someone whom it is within one’s power to punish or harm; and
- e. cowardliness – fearing to do or say what is right, good, or of help to others and /o r to oneself at the time of need.

**Tawasi bil Haq**

41. An IFP shall not violate the ethical virtue of Tawasi bil Haq. He shall maintain Adl by not indulging, for instance, in the following violations:

- a. impatience – showing irritability or restlessness when trying to behave ethically and in accordance with the applicable law;

- b. selfishness – lacking consideration for other people and instead being concerned chiefly with one’s own personal profit, benefit, or pleasure;
- c. indifference / neutrality – lacking in care, concern, or interest in something or someone important. It involves not standing up or taking a position when required or not intervening when needed;
- d. unethical-for-unethical – responding unethically in response to someone’s unethical behavior; and
- e. failure to cooperate in investigations – sabotaging the investigation process for an ethics violation either deliberately or through incompetence.

## **Part C – Illustrative ideals**

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42. An IFP shall ensure, at all times, to uphold the ethical virtues as referred to in paragraph 15. Illustrative acts or events that may be considered as ideals of the ethical virtues and which should be pursued are provided in paragraphs 43 to 55.

### **Taqwa**

43. An IFP should pursue excellence in the ethical virtue of Taqwa by striving for the following ideals (illustrative only):
- a. strive for higher levels of spirituality – achieve the state or quality of being dedicated to Allah Almighty and His religion;
  - b. be selfless – concern oneself more with the needs and wishes of others than of one’s own;
  - c. keep good company – choose friends who appreciate the significance of ethics and make it the primary concern of their lives;
  - d. maintain balance – pursue the middle path in all life roles and activities;
  - e. reduce clutter – adopt a minimalist approach to acquiring material objects in order to concentrate on the most important things in personal and professional lives, such as ethics; and
  - f. make tawba – frequently turn back to Allah Almighty in repentance.

### **Tawakkul**

44. An IFP should pursue excellence in the ethical virtue of Tawakkul by striving for the following ideals (illustrative only):
- a. preserve Shari’ah authenticity – withhold a controversial product that has dubious Shari’ah authenticity and instead trust Allah Almighty to compensate through other means;
  - b. be hopeful and positive – develop a strong belief that Allah Almighty looks out for one’s best interest and at all times;
  - c. make regular dua – regularly supplicate to Allah Almighty; and
  - d. defer gratification – exercise self-control by resisting the temptation of an immediate reward in preference for a later reward.

## **Sidq**

45. An IFP should pursue excellence in the ethical virtue of Sidq by striving for the following ideals (illustrative only):

### *Enhance transparency and openness*

46. An IFP should pursue the ideals of the Sidq virtue with respect to transparency and openness as described below (illustrative only):
- a. communicate intentions clearly – voluntarily and clearly communicate one’s intention to the other person(s) to lower the chances of misinterpretation of any action or decision;
  - b. put in writing and have witnesses – put statements, understandings, key decisions, and agreements in writing in the presence of witnesses not only to clarify communication and reduce the possibility of misunderstanding, but also to force vigilance in upholding and promoting the truth;
  - c. introspect bias and prejudice – be consciously aware of personal bias and prejudice which may unjustly impair behavior and decisions and actively seek for their elimination;
  - d. open information and dialogue – be candid and forthcoming in supplying information and engaging with others such that information becomes easily accessible, understandable, and usable for all concerned; and
  - e. avoid compromising situations – refrain from putting oneself in a situation or position which may lead to lying, cheating, or deception.

### *Detect and control unethical practices*

47. An IFP should pursue the ideals of the Sidq virtue in terms of detecting and controlling unethical practices at work as mentioned below (illustrative only):
- a. make flexible and accommodating rules – do not have too many rules, overly rigid policies, and inflexible and unaccommodating attitudes for one’s subordinates which are counterproductive for efficiency, motivation, and loyalty, and which typically forces dishonesty;
  - b. evaluate the means taken to achieve results – conduct periodic checks of the tools and techniques (e.g. financial incentives) and protocols, and processes used to achieve a result, especially when the result is exceptional;
  - c. seek stakeholder feedback – request others to provide honest feedback about one’s ethical behavior; and
  - d. disregard and discourage negative rumors – ignore rumors and where needed, dismantle them in a factual, well evidenced manner.

### *Build and strengthen communication*

48. An IFP should pursue the ideals of the Sidq virtue in terms of building and strengthening communication at work as mentioned below (illustrative only):
- a. remove fear of retribution – develop high tolerance for mistakes and keep the doors of criticism open for everyone, including those who are lower in rank, not only to benefit from the opportunity to self-improve but also to facilitate others to act honestly;
  - b. maintain high expectations – set high standards of honesty for oneself and hold similar high expectations from others; and
  - c. remind others of the implications of dishonesty – occasionally share with others information and motivational material about the negative consequences of dishonest behavior.

### **Amanah**

49. An IFP should pursue excellence in the ethical virtue of Amanah by striving for the following ideals (illustrative only):
- a. promote industry interests – utilize one’s position and rank, opportunity, and contacts, to lobby for, influence, and promote Islamic finance industry’s interests such as standardization of practices, human resource development, etc.; and
  - b. share resources – seek to share one’s personal time, money, and other resources for the broader cause of Islamic finance.

### **Quwwah**

50. An IFP should pursue excellence in the ethical virtue of Quwwah by striving for the following ideals (illustrative only):

### *Proficiency*

51. An IFP should pursue the ideals of the Quwwah virtue with respect to work proficiency as mentioned below (illustrative only):
- a. learn from everyone – leverage every interaction with another person as an opportunity to learn and improve oneself;
  - b. self-evaluate – systematically observe and analyze one’s own intention, behavior, attitude, abilities, aspirations, achievements, failures, strengths, and weaknesses, in order to identify areas of improvement, on a continuing basis;
  - c. establish an informal personal panel of mentors – identify persons whom one is inspired from and establish a diverse informal personal panel of mentors to seek advice, counselling, connections, and encouragement to achieve greater heights in one’s spiritual journey, ethical standing, career growth, and knowledge and skills; and
  - d. be organized – plan and develop a systematic life to coordinate and carry out activities in a highly optimized and sustainable manner.

### *Continuing personal and professional development: knowledge*

52. An IFP should pursue the ideals of the Quwwah virtue with respect to seeking knowledge as part of continuing personal and professional development as mentioned below (illustrative only):
- a. teach others – spread knowledge by teaching others what one knows; and
  - b. develop and practice critical thinking – develop a mode of thinking which is disciplined, clear, rational, open-minded, and informed by evidence to arrive at an answer or a conclusion.

### *Continuing personal and professional development: skills*

53. An IFP should pursue the ideals of the Quwwah virtue with respect to developing skills as part of continuing personal and professional development as mentioned below (illustrative only):
- a. communicate effectively – develop the ability to convey or share ideas and feelings effectively; pay attention to other people in order to understand their perspective properly;
  - b. work at relationship management – strive to develop and foster productive relationships with and between different parties;
  - c. develop leadership skills – assume responsibility for the subordinates and inspire and transform them to realize their true potential while emphasizing on their welfare and long-term success;
  - d. excel at project management – develop the ability to initiate, plan, execute, control, and close a project as per the pre-determined criteria; and
  - e. collaborate – partner, pool resources, and work with others to achieve a common aim.

### *Continuing personal and professional development: attitude*

54. An IFP should pursue the ideals of the Quwwah virtue with respect to developing attitude as part of continuing personal and professional development as mentioned below (illustrative only):
- a. remain curious – develop curiosity, inquisitiveness, and the urge to know more about something or to learn new things especially by stepping out of one’s comfort zone;
  - b. embrace responsibilities wholeheartedly – embrace responsibilities, commitments and obligations enthusiastically, viewing them as an opportunity for self-improvement and as a means to make a difference; and
  - c. redefine the concept of competition – encourage intrinsically motivated competition wherein one competes in terms of excellence at work, innovation, creativity, and ethical behavior, rather than merely for status, position, influence and / or material benefits.

## **Tawasi bil Haq**

55. An IFP should pursue excellence in the ethical virtue of Tawasi bil Haq by striving for the following ideals (illustrative only):
- a. understand others – take time out and make the effort to genuinely know about, understand, connect with, relate to, and care for others at a personal level, starting by remembering their names;
  - b. empathize – put oneself in others’ shoes and understand and appreciate their perspectives while having genuine care for their welfare and interests;
  - c. pursue altruism – be selfless and willing to put oneself in harm’s way to alleviate the suffering of others or to promote their well-being;
  - d. be a role model and a mentor – voluntarily share knowledge, skills, expertise, and wisdom; take personal interest in others’ success; provide guidance and feedback when requested;
  - e. become a facilitator – make things easy for people whether by forgiving and being merciful, having a sense of humor and / or by resolving differences between colleagues and coworkers as an arbitrator;
  - f. be humble – while remaining fully aware of one’s strengths, have a modest opinion or estimate of one’s own importance, rank, etc.; and
  - g. stand up for the truth – have the courage to stand up for the truth even if it means negative consequences for one’s own interests and those closely associated.

## **Effective date**

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56. This code is effective on IFP (as defined in Paragraph 2) for the periods beginning on or after 01 January 2021.

## **Amendments to other codes**

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57. This code supersedes the following two codes of ethics previously issued by AAOIFI:
- a. code of ethics for accountants and auditors of Islamic financial institutions; and
  - b. code of ethics for the employees of Islamic financial institutions.

## APPENDICES

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### Appendix A: Adoption of the code

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This code was presented for approval in the AAOIFI Governance and Ethics Board's (AGEB) meeting No. 13 held on 01 Safar, 1441H corresponding to 01 October 2019 and was duly approved and adopted. After due process of incorporation of instructions of AGEB, the code was issued on 28 Rabi Al-Thani 1441H, corresponding to 26 December 2019.

#### Members of the board

1. Dr. Ishrat Husain – Chairman
2. Sh. Esam Ishaq – Deputy Chairman
3. Dr. Abdulbari Mashal
4. Dr. Abdurrahman Habil
5. Mr. Ahmad Mishari Al Faris
6. Mr. Ebrahim Sidat
7. Mr. Fawad Laique
8. Dr. Gaffar Abdalla Ahmed Khalid
9. Mr. Hasan Gul
10. Dr. Hussein Said Saifan
11. Mr. Kazi Mohammad Mortuza Ali
12. Mr. Mohammad Farrukh Raza
13. Dr. Mohammad Mahdy Mohammad Radwan
14. Mr. Sohaib Umar
15. Dr. Walid Hegazy

#### Reservations

This code was adopted unanimously.

#### Working group

1. Mr. Sohaib Umar – Chairman
2. Dr. Aida Othman
3. Mr. Almir Colan
4. Dr. Hatim El Tahir
5. Mr. Muhammad Nadeem Aslam
6. Dr. Omar Farooq
7. Mr. Shadab Fariduddin
8. Sheikh Irshad Ahmad Aijaz
9. Mr. Sohail Nadeem
10. Mr. Waleed Hegazy

#### Project lead

Farhan Noor (AAOIFI, Secretariat)



## **Executive team**

1. Mr. Omar Mustafa Ansari (AAOIFI)
2. Ms. Zahra Jassim ALSairafi (AAOIFI)

## Appendix B: Basis for conclusions

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### General Approach

- BC1 The Board has adopted the various Islamic terminologies such as Adl, Ihsaan, Taqwa, Tawakkul, Sidq, Amanah, Quwwah, and Tawasi bil Haq, etc. in their Arabic forms, instead of the proposed English equivalents. This was despite knowing that the language might pose a challenge in some countries in terms of lack of familiarity, understandability and readability. The final decision was based on the notion that translating the Islamic (Arabic) terminologies to English, or to any other language, may dilute or sometimes distort their intended meaning and impact. Additionally, a precedent already exists in the industry with the use of Arabic names for the various Islamic contracts such as Murabaha and Musharaka instead of their English equivalents (declared cost plus profit and partnership, respectively).
- BC2 The Board decided that the faith-based nature of the Islamic finance industry warrants that besides the financial aspect, the code should also cover those non-financial aspects of ethical violations which can lead to a financial impact and/or result in damaging the reputation of the IFI or the industry.
- BC3 The Board decided to have a separate governance standard to address the implementation mechanism of the code by the IFI.

### Objective

- BC4 The Board deliberated upon the overarching objective of the code to inspire all IFPs towards its adoption. It was agreed that seeking Barakah (roughly translated as divine goodness, growth, blessing, long-term good) is the core objective, as it encompasses success and sustainable growth in this world and next, and emphasizes the quality of growth and not just quantity. The concept of Barakah in its various shades, together with similar concepts such as Falah and Hasanah, is mentioned numerous times in the Quran and Hadith. Having Barakah would allow an IFP to achieve more than the his/her natural capacity or available resources. Prophet Muhammad (pbuh) explained how ethical behavior leads to Barakah. He said:

“Beware of taking oaths a great deal when selling, for it may help you to make a sale but it destroys the blessing.”<sup>4</sup>

“The two parties to a transaction have the choice (to cancel the transaction) so long as they have not separated. If they are honest and open, their transaction will be blessed, but if they tell lies and conceal anything, the blessing of their transaction will be lost.”<sup>5</sup>

### Scope

- BC5 The Board deliberated for a long time about the target audience of the code. While the Muslims working in IFIs in Muslim majority countries certainly form the largest segment of the IFPs, some members felt that the code should take into consideration the sensitivities of

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<sup>4</sup> Sunan an-Nasa'i 4460; Vol. 5, Book 44, Hadith 4465

<sup>5</sup> Sunan an-Nasa'i 4457; Vol. 5, Book 44, Hadith 4462

other segments such as non-Muslims working in IFIs or Muslims working in IFIs in non-Muslim countries. After much discussion the Board ultimately subscribed to the view that the primary target audience of the code is the largest segment i.e. Muslim IFPs in Muslim majority countries. Since ethics have universal appeal it is expected that code would generally be well received by the IFPs of all backgrounds and faiths. However, a provision was specifically included in the code allowing non-Muslims the flexibility to opt-out on an issue that conflicted with their established religious beliefs.

- BC6 Another point which attracted a lot of discussion was the question of whether the code is applicable on an IFP outside of official working hours and days (i.e. their private life). It was eventually decided that the code ought to encompass one's professional life which is not confined to working hours but one's presence in public spaces is also included. How an IFP conducts himself in front of the public outside of working hours can have a bearing on the IFI and the industry at large. Thus, the code would be applicable on both the professional and public-private spheres of an IFP's life.

#### Ethical paradigm

- BC7 The ethical paradigm is the starting point of all thought processes and allows a person to understand 'how ethics work' and subsequently, how to perceive reality, make sense of it and interact with it in terms of ethics. It is inspired by the following Quranic injunction.

"Indeed, Allah orders justice (Adl) and kindness (Ihsaan), and giving to relatives, (and He) forbids immorality, bad conduct and oppression (collectively we refer to it as Zulm); He admonishes you that perhaps you will be reminded."<sup>6</sup>

#### Adl and Ihsaan equation

- BC8 The first element of the equation is having the right intention and the right mindset.

- a. In Islam an action is considered ethical not because of its outcome but because of the intention one had and the effort one expends when performing that action. Prophet Muhammad (pbuh) said in a famous Hadith: "The deeds are considered by the intentions, and a person will get the reward according to his intention..."<sup>7</sup>

In Islam, intention is considered as an act. According to Prophet Muhammad (pbuh), Allah Almighty said: "Whosoever intended to perform a good deed, but did not do it, then Allah writes it down with Himself as a complete good deed. And if he intended to perform it and did perform it, then Allah writes it down with Himself as from ten good deeds up to seven hundred times, up to many times multiplied. And if he intended to perform an evil deed, but did not do it, then Allah writes it down with Himself as a complete good deed. And if he intended it [i.e., the evil deed] and then performed it, then Allah writes it down as one evil deed."<sup>8</sup>

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<sup>6</sup> 16:90; Surah An-Nahl, Al-Quran. Ibn Masood (RA) describes this verse as the most comprehensive in the Quran because the entire range of Islamic teachings is condensed within this verse.

<sup>7</sup> Sahih al-Bukhari Book 1 Number 1; Sahih Muslim Book 20 Number 4692

<sup>8</sup> 40 Hadith Nawawi 37 (Hadith Qudsi); Sahih al-Bukhari 6491

The code encourages the IFP to work in the Islamic finance industry with the intention to seek Allah’s pleasure and reward. In this regard, Allah Almighty says: “And among men there is one who sells his very soul to seek the pleasure of Allah, and Allah is very kind to His servants.”<sup>9</sup>

- b. Regarding having the right mindset—which involves being positive and hopeful of Allah Almighty’s will and decree concerning one’s life—consider the following Hadiths:

“Allah says: ‘I (i.e. Allah) am as My slave thinks of Me, and I am with him when he calls upon Me.’”<sup>10</sup>

“No one of you should die except thinking positively of Allah.”<sup>11</sup>

“Tie her and trust in Allah.” (in response to a question a man posed to the Prophet about whether he should tie his camel and trust Allah or leave the camel untied and trust Allah).<sup>12</sup>

- BC9 The second element of the equation is doing the right thing which is anything that is sanctioned to be good, virtuous or ideal by the Shari’ah and the law of the land (if not in violation of the Shari’ah). Allah Almighty says:

“O you who believe, obey Allah and obey the Messenger and those in authority among you. Then, if you quarrel about something, revert it back to Allah and the Messenger...”<sup>13</sup>

- BC10 The third element of the equation is doing the right thing in the right manner, in terms of proficiency, timeliness and consistency. Prophet Muhammad (pbuh) said:

“Verily Allah has prescribed Ihsaan (proficiency, perfection) in all things...”<sup>14</sup>

“Hasten to do good deeds before you are overtaken by one of the seven afflictions...”<sup>15</sup>

- BC11 The fourth element of the equation is to engage with others positively to encourage them towards ethical behavior. This may involve influencing them with words and actions, preferably by presenting a role model through self-conduct. Allah Almighty says:

“There is indeed a good model for you in the Messenger of Allah - for the one who has hope in Allah and the Last Day, and remembers Allah profusely.”<sup>16</sup>

The code mandates the IFP to engage with others in a positive manner. One of the ways to achieve this is through the use of Hikmah (roughly translated as ‘wisdom’) as Allah Almighty commands:

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<sup>9</sup> 2:207; Surah Al-Baqarah, Al-Quran

<sup>10</sup> Jami` at-Tirmidhi 2388; Vol. 4, Book 10, Hadith 2388

<sup>11</sup> Sunan Ibn Majah, Vol. 5, Book 37, Hadith 4167

<sup>12</sup> Sunan al-Tirmidhi, 2517; Hasan according to Albani

<sup>13</sup> 4:59; Surah An-Nisa, Al-Quran

<sup>14</sup> Sahih Muslim 1955 a; Book 34, Hadith 84

<sup>15</sup> At-Tirmidi, Book 1, Hadith 93

<sup>16</sup> 33:21; Surah Al-Ahzab, Al-Quran

“Invite (people) to the way of your Lord with wisdom and good counsel. And argue with them in the best of manners...”<sup>17</sup>

### **Ethical virtues**

BC12 The code calls upon the IFP to uphold the ethical virtue of Taqwa (Allah consciousness) to instill and strengthen his resolve to fulfill all his responsibilities. The profound consciousness of the fact that Allah Almighty is ever watchful of all his thought and action, and he will be held accountable one day, is what spiritually encourages him to act wisely under all circumstances. Allah Almighty says:

“O you who believe, have Taqwa, and be in the company of the truthful.”<sup>18</sup>

Prophet Muhammad (pbuh) said, “I order you to have Taqwa of Allah...”<sup>19</sup>

BC13 The code calls upon the IFP to uphold the ethical virtue of Tawakkul (reliance on Allah Almighty) to instill and strengthen his consciousness of the fact that Allah Almighty is fully on his side – in good times and bad – as long as he does the right thing. Allah Almighty mandates:

“...once you have taken a decision, place your trust in Allah (i.e. have Tawakkul). Surely, Allah loves those who place their trust in Him.”<sup>20</sup>

BC14 The code calls upon the IFP to uphold the ethical virtue of Sidq (integrity). It is an extremely important virtue as both in Quran and Hadith there is great emphasis on being truthful. Allah Almighty says:

“Believers, fear Allah and speak the truth”<sup>21</sup>

“The messenger of Allah was asked, ‘Can a believer be a coward?’ He said, ‘Yes.’ He was asked, ‘Can a believer be a miser?’ He said, ‘Yes.’ He was asked, ‘Can a believer be a liar?’ He said, ‘No.’”<sup>22</sup>

Prophet Muhammad (pbuh) said, “You must be truthful, for truthfulness leads to righteousness and righteousness leads to paradise. A man will keep on speaking the truth and striving to speak the truth until he will be recorded with Allah as truthful (Siddiq). Beware of telling lies, for lying leads to immorality and immorality leads to hellfire. A man will keep telling lies and striving to tell lies until he is recorded with Allah as a liar.”<sup>23</sup>

BC15 The code calls upon the IFP to uphold the ethical virtue of Amanah (trustworthiness), also an extremely important virtue with multiple implications on an IFP’s conduct. Amanah can be

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<sup>17</sup> 16:125; Surah An-Nahl, Al-Quran

<sup>18</sup> 9:119; Surah At-Tawbah, Al-Quran

<sup>19</sup> Jami` at-Tirmidhi, Vol. 5, Hadith 2676

<sup>20</sup> 3:159; Surah Al-Imran, Al-Quran

<sup>21</sup> 33:70; Surah Al-Ahzab, Al-Quran

<sup>22</sup> Muwatta Imam Malik, Book 56, Hadith 1832

<sup>23</sup> Muslim, 4721

thought of as a commitment to fulfill a promise, a contract or a covenant, with Allah Almighty, with self and/or with others, failure of which may lead to misconduct, betrayal or treason. Allah Almighty says:

“O you who believe, do not betray the trust of Allah and the messenger, and do not betray your mutual trusts, while you know.”<sup>24</sup>

Prophet Muhammad (pbuh) said, “There is no faith for one who cannot be trusted (lacks Amanah). There is no religion for one who cannot keep a promise.”<sup>25</sup>

He also said, “There are four characteristics, whoever has them all is a pure hypocrite, and whoever has one of them has one of the characteristics of hypocrisy, until he gives it up. (These are) when he makes a covenant he betrays it, when he speaks he lies, when he makes a promise he breaks it, and when he disputes he resorts to obscene speech.”<sup>26</sup>

BC16 The code calls upon the IFP to uphold the ethical virtue of Quwwah (strengths). It can be said that without Quwwah, it is difficult to achieve Adl, let alone Ihsaan, in any act. Allah Almighty says:

“One of the two women said, ‘Dear father, hire him; the best man you can hire is someone who is strong (i.e. who has Quwwah), trustworthy (i.e. having Amanah).’”<sup>27</sup>

BC17 The code finally calls upon the IFP to uphold the ethical virtue of Tawasi bil Haq (exhorting truth) to bring attention to the fact that an IFP’s responsibility is not limited to his own self but also others, especially those in his circle of influence. Allah Almighty says in the Quran:

“By time, indeed mankind is in loss. Except for those who have believed and done righteous deeds and advised each other to the truth and advised each other to patience.”<sup>28</sup>

“You are the best community that has been raised up for mankind. You enjoin what is right and forbid what is wrong/evil and you believe in Allah.”<sup>29</sup>

“...help each other in righteousness and piety, and do not help each other in sin and aggression. Fear Allah. Surely, Allah is severe at punishment.”<sup>30</sup>

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<sup>24</sup> 8:27; Surah Al-Anfal, Al-Quran

<sup>25</sup> Musnad Ahmad, 11975

<sup>26</sup> Bukhari, 34 and Muslim, 58

<sup>27</sup> 28:26; Surah Al-Qasas, Al-Quran. The same combination of power/strength and trust/integrity has been used in the Quran on two other occasions; Surah An-Naml, 39 “A powerful one from among the jinn said (to Sulaiman), “I will bring it to you before you rise from your place, and indeed, I am for this [task] strong and trustworthy” and Surah Yusuf, 55 “[Yusuf] said, “Appoint me over the treasures of the land. Indeed, I am a knowledgeable guardian (Hafeez, Aleem).”

<sup>28</sup> 103: 1-3; Surah Al-Asr

<sup>29</sup> 3:110; Surah Al-Imran, Al-Quran

<sup>30</sup> 5:2; Surah Al-Ma'idah, Al-Quran

Prophet Muhammad (pbuh) said, "Indeed, each of you is a shepherd and all of you will be questioned regarding your flock..."<sup>31</sup>

He also said, "Whoever amongst you sees an evil should change it with his hand. If he is unable to do that then with his tongue. If he is unable to do that, then with his heart, and that is the weakest level of faith."<sup>32</sup>

BC18 The Board took the view that instead of prescribing a comprehensive list of ethical virtues for the IFP, only the most important ones shall be adopted which anyway cover almost all the important aspects of an IFP's conduct. These select virtues are explained in detail for clarity and comprehension.

### **Ethics protocols**

BC19 The self-accountability protocol mandates the IFP to repent for his unethical actions. Repentance can be in any form, be it a resolve never to reanimate the act or promptly following up the evil with doing of a good. Allah Almighty says in the Quran:

"Whoever acts evil or wrongs himself, then seeks forgiveness from Allah, shall find Allah Most-Forgiving, Very-Merciful."<sup>33</sup>

"...Surely, good deeds erase bad deeds..."<sup>34</sup>

If the unethical action was a breach of another's right, then the expiation for that sin involves rectifying the act.

"Whoever has wronged his brother, should ask for his pardon (before his death)..."<sup>35</sup>

BC20 The liability-avoiding protocol suggests that the IFP is responsible and accountable for the actions of those who are subordinate to him or over whom he has significant influence. Please refer to point no. 17 above.

BC21 The decision-making protocol suggests that an IFP can make just decisions by fulfilling the given criteria. Allah Almighty says:

"... Consult them in the matter and, once you have taken a decision, place your trust in Allah. Surely, Allah loves those who place their trust in Him."<sup>36</sup>

BC22 The violation-escalation protocol states that an IFP should, wisely and prudently, respond to any unethical action. Allah Almighty says:

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<sup>31</sup> Jami` at-Tirmidhi, Vol. 3, Hadith 1705

<sup>32</sup> Muslim, 49

<sup>33</sup> 4:110; Surah An-Nisa, Al-Quran

<sup>34</sup> 11:114; Surah Hud; Al-Quran

<sup>35</sup> Sahih al-Bukhari 6534; Book 81, Hadith 123

<sup>36</sup> 3:159; Surah Al-'Imran, Al-Quran

“O you who believe, be upholders of justice - witnesses for Allah, even though against (the interest of) your selves or parents and relatives.”<sup>37</sup>

### **Concept of mentorship**

BC23 The concept of Tarbiyah (roughly described as systematic character building of an IFP through mentorship) was much deliberated by the Board members and included in the code as an ideal for the ethical virtue of Quwwah. They contended that IFP who are occupying managerial positions should become committed mentors by getting actively involved in the ethical nurturing of those reporting to them. Moreover, the IFPs—in their personal capacities—are also encouraged to establish an informal personal panel of mentors who can provide them with advice, counselling, constructive critique and encouragement in their professional lives.

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<sup>37</sup> 4:135; Surah An-Nisa, Al-Quran



## **Appendix C: Ethics interview questionnaire**

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Following is the questionnaire used to conduct face-to-face interviews of stakeholders from different fields of expertise and jurisdictions. In total, 59 such interviews were conducted in Bahrain, Pakistan, Turkey and Oman (and one from Bangladesh). It took an average of 1 hour and 15 minutes to complete one interview.

Given the sensitivity of the topic, and to allow the interviewee to speak his mind freely, interview responses were not audio recorded barring a few where explicit permissions was given upfront.

1. What comes to your mind when you think about Islamic Banks and / or Islamic Banking?
2. What, in your view, are the compelling rationales or objectives for Islamic Banking and Finance?
3. What does the word 'Ethics' mean to you? What is your understanding of Ethics?
4. Do you think there is any difference between conventional ethics and Islamic ethics? Yes? No? Why?
5. Do you think Islamic Banks are conscious about ethics in their policy-making and day-to-day decision-making and other practices? Yes? No? Why?
6. Is there any published Code of Ethics that you follow out of professional obligation? If yes:
  - a. What is the name of that Code?
  - b. Who issued it?
  - c. Does that Code have a significant impact on you so much so that your actions are governed by it? Yes? No? Why? Why not?
  - d. What do you like and dislike about that Code?
7. Do you think Islamic banking professionals actually follow a published "Code of Ethics"? Yes? No? Why?
8. Can you provide some examples of good workplace ethics from your own experience or experiences of others?
  - a. What do you think compels or persuades people to conduct themselves in an ethical manner?
9. Can you provide some examples of bad workplace ethics from your own experience or experiences of others?
  - a. What do you think leads people to conduct themselves in an unethical manner?
10. Who would you hold responsible if the culture and practices of an Islamic Bank are ethically questionable? Name of that person. Why?
11. What are some of the main ethical issues in your line of profession?
12. What, in your opinion, are some of the main ethical issues involving the following? And how do you think those ethical issues you just identified can be addressed?
  - a. Board of Directors
  - b. Shari'ah Scholars

- c. CEO
  - d. Industry regulators
  - e. Accounting and finance department
  - f. Product development department
  - g. Sales department
  - h. Human resources department
  - i. Marketing / PR / Corporate Communications department
  - j. Shari'ah Auditing, Compliance, Review department
  - k. Administration department
  - l. IT department
  - m. Employees of IFI
13. What motivates you to be ethical and to remain ethical at all times? Please explain in terms of i) internal thought processes and ii) external factors keeping you ethical?
  14. What is the biggest ethical challenge that you face on an ongoing basis while working in the Islamic Finance industry?
  15. What, in your opinion, should an Islamic Banking professional do when his/her supervisor pressures him/her to do something unethical?
  16. What measures are available in your institution to deal with unethical behavior?
  17. What should an Islamic Banking professional do when he/she sees his/her co-worker doing something unethical?
  18. Do you believe ethics could be sacrificed in some situations? Yes? No? In what situations?
  19. What is your perception of an ethical person?
  20. What is your perception of an ethical Islamic Bank?
  21. What do you think can be done to make Islamic Banks more ethical?
  22. What would you do to transform the AAOIFI Code of Ethics from being just a mere paper into an effective document?

## **Appendix D: Brief history of the preparation of the code**

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- H1 The newly formed AAOIFI Governance and Ethics Board (AGEB) held its first meeting on 21 Jumada II 1437H, corresponding to 30 March 2016, at Ramee Grand Hotel, Seef District, Kingdom of Bahrain. In this meeting, the need for a new / revised code of ethics was discussed and approved.
- H2 AGEB directed the AAOIFI Secretariat to create a working group for Ethics which was formed on 02 Rabi Al-Thani 1438H, corresponding to 01 January 2017, comprising of 10 members. The first meeting of the group was held on 09 Jumada Al-awal 1438H, corresponding to 06 February 2017, during which the preliminary study, developed internally by AAOIFI, was discussed and finalized.
- H3 The working group met again on 02 Dhul-Qa'dah 1438H, corresponding to 26 July 2017, to discuss the need for and plan the conduct of primary research. It was decided that, in order to accommodate and reflect the ethical needs and concerns of the industry in the code, personal interviews of minimum 125 industry stakeholders representing diverse positions and roles from at least 12 different countries or jurisdictions should take place, subject to availability of financial resources. The countries included in the list were Bahrain, Oman, Kuwait, UAE, Saudi Arabia, Pakistan, Malaysia, UK, Indonesia, Turkey, Sudan, and Egypt, respectively.
- H4 Due to financial constraints, a total of 59 interviews were conducted in Bahrain, Pakistan, Turkey, and Oman. To compensate for the shortcoming, a condensed version of the questionnaire was set up online on the AAOIFI website in December 2018 to maximize the reach to stakeholders.
- H5 The AAOIFI Secretariat compiled and categorized all the interview and questionnaire responses and prepared the consultation notes which was approved during the third meeting of the working group held on 07 Jumada Al-Thani 7 1440H, corresponding to 13 Feb 2019, as well as by the AGEB in its 10<sup>th</sup> meeting held on 14 Jumada Al-Thani 1440H, corresponding to 20 February 2019.
- H6 The AAOIFI secretariat then undertook the task of developing the exposure draft on the code of ethics. The working group finalized the draft in its fourth meeting held on 22 Sha`ban 1440H, corresponding to 28 April 2019. The AGEB discussed the exposure draft at length in its 11<sup>th</sup> meeting held on 26 Shaban 1440H, corresponding to 01 May 2019 and continued the discussions to the 12<sup>th</sup> meeting held on 07 Dhul-Qa`dah 1440H, corresponding to 10 July 2019, and later approved the code by way of email circulation.
- H7 Upon the issuance of exposure draft on the code of ethics for Islamic finance professionals, four public hearings were conducted in the following cities: London, UK (22 August 2019); Muscat, Oman (04 September 2019); Kingdom of Bahrain (19 September 2019); and Karachi, Pakistan (24 September 2019), respectively. The AAOIFI Secretariat received comments by way of email all of which were collated and made subject of discussion in the fifth meeting of the working group held on 30 Muharram, 1441H, corresponding to 29 September 2019. The AGEB reviewed and finalized the changes suggested by the working group in its 13<sup>th</sup>

meeting held on 01 Safar, 1441H, corresponding to 01 October 2019, and approved it for issuance as a final code subject to clearance by the Shari'ah Committee. The Shari'ah Committee reviewed the code during its 9<sup>th</sup> meeting held on 10 Rabi Al-Thani, 1441H, corresponding to 08 December 2019, and approved it by way of email circulation for public issuance on 23 Rabi Al-Thani, 1441H, corresponding to 21 December 2019.

H8 The code of ethics for Islamic finance professionals was issued as a final code for industry adoption on 28 Rabi Al-Thani, 1441H, corresponding to 26 December 2019, after duly completing all the stages of the standards development process.