



SECURITIES AND EXCHANGE
COMMISSION OF PAKISTAN

CONSULTATION PAPER

**Promoting
Shariah-Compliant
Intermediaries
In Sectors Regulated
by SECP**

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1. Introduction

The Securities and Exchange Commission of Pakistan (SECP) has taken various initiatives for the development of Islamic finance in Pakistan. The Islamic finance industry, broadly covering the Islamic capital market, takaful industry, non-banking finance companies, and modaraba sector, is witnessing steady growth, with expectations of continued expansion. Moreover, the SECP has been actively promoting the implementation of policies and frameworks that would ensure the alignment of these sectors with Shariah principles.

In addition to sector-specific regulatory amendments, SECP has issued Guidelines for Offering Islamic Financial Services, 2023, enabling conventional entities to offer Shariah-compliant services. Similarly, the Guidelines for Shariah-Compliant Investing on Pakistan Stock Exchange (PSX) were issued in 2022 to facilitate the general public to invest in PSX while adhering to Shariah principles.

In this context, it is important to facilitate Shariah-compliant intermediaries, such as brokers, with the objective to incentivize the wider adoption of Islamic finance within the following sectors regulated by SECP:

1. Islamic capital market
2. Non-banking finance sector
3. Takaful industry

This consultation paper proposes certain measures to promote Shariah-compliant intermediaries in the above sectors. The following sections provide a brief overview of the recent performance of each of these regulated sectors, a discussion on Shariah-compliant intermediaries, and the proposed measures to promote these intermediaries.

2. Recent Performance of Regulated Sectors

2.1 Islamic Capital Market

The capital market plays a vital role in the financial system of a country, contributing to economic development and greater financial inclusion. In Pakistan, the Islamic capital market has expanded to become a substantial segment of the overall capital market.

Primary Market

In recent times, the primary market has witnessed an increasing trend in corporate sukuk issuance and more companies are now turning to short-term sukuk to meet their working capital requirements. For instance, during the period July 01, 2024 to December 31, 2024, SECP certified 23 Shariah structures of sukuk under the Shariah Governance Regulations, 2023, issued by multiple corporate issuers, with a cumulative issue size of PKR 115.42 billion. In addition to corporate sukuk, six-monthly sovereign sukuk issuances with a cumulative value of PKR 1.32 trillion have been recorded through Pakistan Stock Exchange (PSX) during the same period.

Secondary Market

In the secondary market, there are 271 Shariah-compliant securities, accounting for 51.1% of the total 530 securities listed at PSX as on December 31, 2024. These Shariah-compliant securities have a combined market capitalization of Rs. 8,059 billion, constituting 55.6% of total market capitalization valued at Rs. 14,494 billion. In addition, PSX has four Islamic indices namely KMI-All Shares, KMI-30, MZNPI (Meezan Pakistan Index) and MII30 (Mahaana Islamic Index).

The KMI-30 index, comprised of the 30 most liquid Shariah compliant companies listed on PSX, had a total trading turnover of 13.513 billion shares, translating into 15.6% of the total trading volume at PSX, during the six-month period July-December 2024. Similarly, its trading value of PKR 1,480 billion accounts for 42.4% of the total trading value at PSX during the same period.

2.2 Shariah-Compliant Non-Banking Finance Sector

The mutual fund industry plays a vital role in the development of capital markets, promoting financial inclusion, and supporting economic growth. To facilitate the expansion of the Shariah-compliant segment within this sector, a comprehensive regulatory framework has been established under the Non-Banking Finance Companies (NBFC) regime. This framework outlines the Shariah compliance requirements applicable to Asset Management Companies (AMCs). A significant number of AMCs currently offer Shariah-compliant Collective Investment Schemes (CIS), including equity, debt, and asset allocation funds, which are managed in accordance with the regulatory guidelines issued by the Securities and Exchange Commission of Pakistan (SECP) and the Pakistan Stock Exchange (PSX), and are overseen by the respective Shariah Supervisory Boards or Shariah Advisors of the AMCs.

As per Supervision Division's Sector Report for December 2024, the total Assets Under Management (AUMs) of the mutual fund industry stood at Rs.4,438.60 billion. Of this, 56.9% comprised conventional funds and 43.1% Shariah-compliant funds. Over the five-year period from June 2019 to December 2024, conventional funds witnessed a growth of 613.7%, while Shariah-compliant funds recorded a higher growth of 756.1%.

In managing Shariah-compliant CIS, AMCs have established dedicated Investment Committees (ICs) responsible for identifying eligible investment avenues such as KMI All Shares Index, KMI-30 Index constituents, Government Ijarah Sukuk, and other Shariah-compliant securities. Fund Managers, after a thorough evaluation and in consultation with their Shariah Advisors, execute trades through brokerage houses—regardless of whether the brokerage is conventional or Shariah-compliant.

2.3 Takaful Sector

The insurance industry contributes significantly to the national economy. In 2023, the sector generated approximately Rs. 59.9 billion in government revenues through income tax, sales tax, federal excise duty, stamp duty, and other levies. Moreover, the industry held 5.55% of Government of Pakistan marketable securities and 2.58% of listed equity securities, underscoring its position as a key institutional investor in the country's financial markets.

According to the Insurance Industry Statistics Report 2023, the life insurance sector invested a total of Rs. 193.8 billion in equity securities, while the non-life sector contributed Rs. 72.1 billion—further highlighting the industry's substantial participation in capital markets. These investments are executed through securities brokers, who act as intermediaries in such transactions. Takaful operators, being Shariah-compliant entities, also participate in capital markets by investing policyholders' funds in Islamic financial instruments.

The Takaful segment currently comprises 33 Takaful operators, including 4 dedicated family Takaful operators, 7 window family Takaful operators, 2 dedicated general Takaful operators, and 20 general window Takaful operators. Among the seven window family Takaful operators is the country's largest public sector life insurer—the State Life Insurance Corporation of Pakistan (SLIC). Meanwhile, Pakistan's sole reinsurer, the Pakistan Reinsurance Company Limited (PRCL), operates a re-Takaful window and underwrites risks on a Shariah-compliant basis.

As of 2023, the Takaful sector accounted for approximately 12% of the overall insurance industry's market share. Significantly, Takaful business accounted for 35% of the total premium generated by private sector insurers in 2023.

Despite its market presence, the growth trajectory of general Takaful has remained moderate over the years. In 2020, general Takaful's gross written premium stood at Rs. 12.64 billion, which rose to Rs. 25.28 billion in 2023. Notably, 100% of the general Takaful contributions in 2023 were underwritten by private sector insurers. In the family Takaful segment, contributions reached Rs. 48.04 billion in 2023, representing 12% of the total industry premium. Of this, 97.7% of family Takaful contributions were written by private sector entities.

3. Shariah-Compliant Intermediaries

Over the last two years, the market has witnessed the introduction of a new breed of Islamic financial institutions that include full-fledged Shariah-compliant asset management companies, non-banking finance companies, microfinance companies, housing finance and stock broking. In addition, many of the licensed persons are either voluntarily transitioning towards full-fledged Shariah-compliant financial services or planning to offer dedicated platforms to offer Shariah-compliant financial services. This growth has warranted implementation of a structured approach for promotion of Shariah-compliant intermediaries.

3.1 Benefits of Promoting Shariah-Compliant Intermediaries

The expected benefits of promoting Shariah-compliant beneficiaries in the capital market of Pakistan including the following:

- Growth of Islamic capital market through the establishment of new Shariah-compliant brokerage houses, thus fostering growth and competition in the sector.
- Increased investor participation in the capital market by addressing Shariah-related concerns of potential investors.
- Alignment with national goals by supporting the transition towards a riba-free economy.

3.2 Recent Measures to Promote Shariah-Compliant Intermediaries

In addition to issuing Guidelines for Offering Islamic Financial Services, 2023, which provide guiding principles for promoting Shariah-compliant intermediaries, the SECP approved amendments in the Securities Brokers (Licensing and Operations) Regulations, 2016 ("Securities Brokers Regulations") to facilitate the provision of Shariah-compliant brokerage services in the securities market. The amendments were introduced with the objective to create various avenues for new and existing brokers to provide brokerage services under Shariah principles. These avenues include providing Shariah-compliant brokerage services through:

1. Formation of Shariah-compliant window operations
2. Establishment of a Shariah-compliant subsidiary
3. Conversion of existing business to a fully Shariah-compliant broker.

Hence, in addition to establishing full-fledged Shariah-compliant brokerage houses, conventional brokers can easily offer Shariah-compliant services by establishing window operations. This is intended to encourage the brokers to offer these services in a structured and efficient manner without encountering any difficulties.

The securities brokers that opt for any of the preceding avenues must obtain a certificate of Shariah-compliant company in accordance with the Shariah Governance Regulations, 2023. They must also adhere to the Guidelines for Offering Islamic Financial Services, 2023. Securities Brokers Regulations also require such brokers to implement appropriate internal controls, adopt policies to address any conflict of interest, and protect customer interest. The new framework is aimed at streamlining the entry process for new entrants and facilitating existing brokers desiring to offer Islamic financial services.

3.3 The Need for Further Reform

While the SECP has rolled out numerous reforms as discussed in the previous section, it is essential to undertake further initiatives to ensure the establishment of a Shariah-compliant ecosystem.

In the global context, Malaysia has positioned itself as a prominent player in the realm of Islamic finance, with a growing interest in Shariah-compliant financial products and intermediaries among investors. Over the years, Malaysia's regulatory framework and significant investor demand have played a crucial role in the development of the Shariah brokerage sector. This change has also motivated brokerage firms to embrace advanced technologies that boost operational efficiency and adhere to compliance standards. To adapt to the shifting landscape of the Islamic finance sector, financial institutions are adopting cutting-edge post-trade platforms that integrate automation, risk management, and compliance features.

The growth potential of the Islamic capital market in Pakistan is constrained, partly due to the public's limited awareness regarding Shariah-compliant intermediaries and financial products. Although the majority of trading at the Pakistan Stock Exchange takes place in Shariah-compliant securities, so far, one brokerage house has obtained the licence of a fully Shariah-compliant securities broker. For organised development of the Islamic finance ecosystem, the Shariah-compliant intermediaries are expected to synchronise their efforts by supporting and promoting each other during the course of their regular business dealings. Hence, it is imperative to establish awareness and enhance greater visibility of various Shariah-compliant intermediaries, including brokerage houses, asset management companies, Takaful operators, and related intermediaries.

Shariah-compliant brokerage houses, which are restricted from engaging in futures markets, day trading, and leveraged financial products, act as intermediaries between investors and Islamic financial institutions. By promoting awareness of Shariah-compliant financial products, they educate stakeholders, build trust, and ensure that investors are well-informed about their options. This is particularly important in a market like Pakistan where the growth in the number of investors in the capital market remain a challenge despite a number of reforms introduced.

4. Proposed Measures to Promote Shariah - Compliant Intermediaries

The following measures may be considered to facilitate the provision of Shariah-compliant services by securities brokers.

4.1 Inclusion in Panel of Brokers

Institutional investors maintain a panel of brokers for conducting their transactions in the securities market. These brokers typically provide specific expertise in certain markets, sectors, and trading strategies, depending on the priorities of the investors.

Proposal: It is proposed that Shariah-compliant institutional investors under the regulatory domain of SECP (such as mutual funds, pension funds, private funds, Takaful operators, window Takaful operators, modarabas, Modaraba Management Companies, NBFCs, etc.) be required to route more of their business through Shariah-compliant brokers in a phased manner. This measure shall not only promote Shariah-compliant brokers but also provide the institutional investors access to greater expertise in Shariah-compliant investments.

In this regard, the board of directors of each Shariah-compliant institutional investor will develop a plan for routing business through Shariah-compliant brokers in a phased manner covering at least the following phases:

- Phase I – up till 31st December 2026: Internal policy/ measures for encouragement or facilitation for execution of transactions in Shariah-compliant instruments through Shariah-compliant brokers.
- Phase II – beginning 1st January 2027: Inclusion/Enlistment of at least one Shariah-compliant broker in their panel of approved brokers and routing at least a certain threshold of their overall business through Shariah-compliant brokers and increase in phased manner as per approved policy.
- Phase III – beginning 1st January 2028: Execution of transactions through Shariah-compliant brokers only and recording/retaining of documented justifications when transactions in Shariah-compliant instruments are routed, in exceptional circumstances, through Shariah non-compliant brokers.

It is important to ensure availability of a sufficient number of Shariah-compliant brokers to successfully implement the above strategy, ensure quality of brokerage services, and avoid concentration. Hence, proactive measures need to be taken for awareness, attracting new entrants, and facilitating provision of Shariah-compliant services by existing brokers.

Implications for Asset Management Companies

It is noted that AMCs take their own investment decision, have in place the measures to ensure Shariah compliance and settle their own trades. However, the proposed measure will encourage brokers to offer Shariah-compliant services by utilizing any of the allowable modes and create a conducive ecosystem for Shariah-compliant financial services, leading to a more structured approach, enhanced transparency, improved governance, and adherence to Shariah principles over all aspects and stages of investment and trading cycle. This will also contribute towards the objective of financial inclusion since investors will have more confidence and trust over Shariah-complaint financial services.

Implications for Takaful Operators

Presently, there is no regulatory mandate requiring Takaful operators to engage exclusively with Shariah-compliant securities brokers. However, under Rule 8(14)(j) of the Unit Linked Products and Funds Rules, 2015, insurance companies are required to appoint a diversified panel of securities brokers to mitigate the risk of over-concentration with any single broker. This panel may also include Shariah-compliant brokers, allowing for broader representation within the capital market ecosystem. Encouraging Takaful and window Takaful operators to engage with Shariah-compliant securities brokers for executing investment transactions approach would enhance the overall credibility and alignment of Takaful operations with Islamic financial principles.

4.2 Encouraging Business with Other Shariah-Compliant Intermediaries

Islamic financial institutions, including Islamic window operations, may be encouraged to utilize Shariah-compliant institutions and intermediaries (excluding securities brokers which are covered in section 4.1), in instances where they are not obligated to do so. This may include using Takaful services for their insurance needs and Shariah-compliant AMCs for investment purposes.

4.3 Greater Visibility for Shariah-Compliant Intermediaries

In addition to the preceding measures, it is proposed that greater visibility be provided to Shariah-compliant intermediaries by adopting the following measures:

- (i) Create a specific category/list for Shariah-compliant intermediaries on the Centralized Gateway Portal. This will facilitate investors in identifying Shariah-compliant intermediaries.
- (ii) Collaborate with the State Bank of Pakistan to develop a specific category for Shariah-compliant intermediaries on websites and mobile applications of Islamic banks, making it easier for Roshan Digital Account (RDA) clients to find fully Shariah-compliant investment options.
- (iii) Create a specific category/list for Shariah-compliant AMCs on EMLAAK Financials. This will facilitate investors of the mutual fund industry to readily identify Shariah-compliant mutual funds, AMCs, and intermediaries.

4.4 Shariah-Compliant Trading Mechanism

At present, the equity securities traded at PSX are settled on a T+2 basis, where the ownership of the security is transferred after two days of the actual trade date. Shariah scholars do not allow resale of shares until the delivery is tendered into the buyer's account, resulting in price risk for the buyer for two days i.e. between the trade date and settlement date. This may serve as a disincentive, not only for investors but also for Shariah-compliant brokers, since it can restrict potential gains from trading in stocks for both parties.

Proposal: It is proposed that a Shariah-compliant trading mechanism be developed to address this issue which is both in line with the underlying principles of Shariah and feasible at stock exchanges. This requires an effective operational flow developed through the consensus of all stakeholders involved. Securities brokers may also be encouraged to develop their own systems to facilitate Shariah-compliant trading. It is worth noting that PSX has already formed a working group for this purpose which includes industry experts and Shariah scholars.

International precedents can be found in this regard. For example, in Indonesia, Shariah-compliant securities transactions are conducted through the Shariah Online Trading System (SOTS) offered by various brokers, while Malaysia has established a dedicated Islamic securities exchange platform known as Bursa Malaysia-i.

Format for Sharing Feedback/Comments

Feedback on this consultation paper can be submitted within 15 days of its publication via email at islamic.intermediaries@secp.gov.pk using the below format:

Name			
Name of the related Entity			
Sr. No.	Subject /Section No.	Views/Proposed Changes	Rationale
Confidentiality			
If you wish to keep all or any part of your submissions and your identity confidential, please indicate the same. In all other cases, your provided comments can be made public, except your contact information.			



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