

**ANALYSIS OF IMPLEMENTATION OF SHARIAH GOVERNANCE FRAMEWORK IN
 PERMODALAN NASIONAL BERHAD**

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Abstract	<p><i>This paper attempts to study about PNB Groups Shariah Governance Framework which is issued by Permodalan Nasional Berhad. Permodalan Nasional Berhad is Government Linked Investment Companies which are not required to have a set of Shariah Governance Framework in their daily operation. Regarding IFIs in Malaysia, the Central Bank of Malaysia mandates that all Islamic Financial Institutions create an Shariah Governance Framework in order to ensure that their operations adhere to Shariah principles. The objective of this paper is to analyse the implementation of Shariah Governance Framework in Permodalan Nasional Berhad, interviews and document analysis methods are used for data collection. The author concludes this study emphasizes the significance of the Shariah governance system in ensuring compliance with Islamic law within the Islamic financial system. It highlights the integration of good corporate governance principles with the concept of Shariah compliance to enable the smooth operation of Islamic financial activities. Furthermore, the study mentions the alignment of the Shariah governance framework with the objectives of Maqasid Shariah, particularly in strengthening the viability of Islamic financial institutions and promoting transparency especially in Permodalan Nasional Berhad Groups.</i></p> <p>Keywords: <i>PNB, GLIC, Shariah, Governance, Framework.</i></p>
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INTRODUCTION

The development of Islamic Financial Institutions (IFIs) around the world is seen as a sign that Islam is inseparable from the economy (Nawal Kasim et. al, 2013). As an Islamic based organization, IFI comes up with a different approach from Conventional Financial Institutions especially in terms of goals, organizational governance as well as a unique framework to ensure that IFI operates in accordance with shariah principles holistically. Islamic management strategy is a basic thing for an Islamic based institution. In contrast to conventional institutions, its management strategy is more focused on the goal of seeking profit alone (Asiah & Dziauddin, 2018). This means that conventional institutions do not consider the halal and haram in their transactions and business activities such as matters involving usury, gambling, fraud and so on. Therefore, the parties who are aware of the importance of ensuring shariah compliance in their business activities have begun to take steps to implement shariah governance in their institutions to ensure that the operations and business activities and services they offer are always shariah compliant. Among them are Islamic financial institutions (IFI), Islamic Capital Market, Government Linked Investment Companies (GLIC), Cooperatives, Hotels, Ar-Rahnu and others.

To realize the Malaysian government's intention to promote Malaysia as an international Islamic financial center, the shariah governance system for Islamic banking has been linked to a strong legal platform so that the industry is always looking-forward, competent and competitive in meeting the financial needs of customers in financial institutions. As a complement to the shariah governance system, the Shariah Advisory Council at Bank Negara Malaysia was established in 1996. As time went on and the changing Islamic banking landscape, the powers and role of the Shariah Advisory Council continued to be streamlined through the Central Bank of Malaysia Act 2009 and the Islamic Financial Services Act 2013. Efforts towards raising the level of shariah compliance in Islamic Financial Institutions were further enhanced when Bank Negara Malaysia introduced the 2 Shariah Governance Framework 2010. The Shariah Advisory Council functions as the sole authoritative body to coordinate and set the standards for Islamic banking facilities and regulate to ensure shariah compliance in the overall operations and activities of Islamic banking institutions. Today, it is recognized as a sole authority for the assurance of Islamic law for the purpose of Islamic banking business.

PERMODALAN NASIONAL BERHAD ORGANISATIONAL STRUCTURE

Shariah Management Department Structure

The establishment of SMD in PNB starts in 2008. During this time, there is only PNB's Shariah Advisory Board that monitor all the businesses and activities for PNB and the subsidiaries to ensure accordance with Shariah compliance. On top of that, in 2010, PNB decided to set up Special Project (Islamic) to aid PNB's Shariah Advisory Board on the collaboration with other institutions including PNB's subsidiaries and to increase conformity other institutions in investment according to Shariah compliant with PNB. After 7 years of establishment of the Special Project (Islamic), PNB decided to rebrand the Special Project (Islamic) into Shariah Management Department in 2017. This would give new insight to the PNB's to increase their brand image as well as reputation towards public including investors around the world.

Therefore, various effort has been taken by SMD to increase awareness of public on the status of investment of PNB including conducting the religious program that can increase the understanding of public by conducting seminar and workshop. Primarily, this department is responsible to ensure all the business activities of PNB are accordance to Shariah compliance. This department is located at the 38th floor of PNB Tower. Head of the department is Dr. Ahmad Basri Ibrahim that is assist by one Assistant Vice President, two Managers, two Associate Managers and three Associates and one Executive. Basically, any project or task will be submitted directly to President and Group Chief Executive. Besides that, this department also become a reference to the other department when it comes to Shariah matters.

Shariah Management Department (SMD) is headed by Vice President, Dr. Ahmad Basri. The department also consists of 11 employees.

Mission and Vision

Upholding Shariah principles in every facet of PNB Group's business operations and activities. Permodalan Nasional Bhd (PNB) remains committed to sustaining Shariah-compliant investments in Malaysia and bolstering its position as an investment institution by offering products that adhere to Shariah principles. Through the continued implementation of these actions to promote the stability and growth of the Islamic investment business in Malaysia, it intends to make further strides in achieving greater success.

OBJECTIVE

Monitoring and ensuring PNB Group's business dealings and activities conform to Shariah-compliant requirements. In accordance with this objective, PNB is committed to delivering sustainable returns for its stakeholders, at the same time, also actively preserving public

trust in its shariah-compliant investment activities. In addition, PNB has proved this objective by implement syariah advisory committee in this organization. PNB also has its own syariah advisory committee to supervise its investments and those of Amanah Saham Nasional Bhd unit trust funds.

SHARIAH COMPLIANT PRODUCTS

Based on Annual Reports 2021 by PNB, the products listed below which are being managed by ASNB, a wholly owned unit trust management company of PNB, conform to the requirements of Shariah, based on Maqasid Al-Syariah principles.

1. Fixed Price Funds
 - a. Amanah Saham Bumiputera (ASB)
 - b. Amanah Saham Bumiputera 2 (ASB 2)
 - c. Amanah Saham Bumiputera 3-Didik (ASB 3 Didik)
 - d. Amanah Saham Malaysia (ASM)
 - e. Amanah Saham Malaysia 2 Wawasan (ASM 2 Wawasan)
 - f. Amanah Saham Malaysia 3 (ASM 3)

2. Variable Priced Funds
 - a. Amanah Saham Nasional (ASN)
 - b. ASN Equity 2
 - c. ASN Equity 3
 - d. ASN Equity 5
 - e. ASN Equity Global
 - f. ASN Imbang (Mixed Asset Balanced) 1, (ASN Imbang 1)
 - g. ASN Imbang (Mixed Asset Balanced) 2, (ASN Imbang 2)
 - h. ASN Imbang (Mixed Asset Balanced) 3 Global, (ASN Imbang 3 Global)
 - i. ASN Sara (Mixed Asset Conservative) 1, (ASN Sara 1)
 - j. ASN Sara (Mixed Asset Conservative) 2, (ASN Sara 2)

Amanah Saham Bumiputera (ASB)

Amanah Saham Bumiputera (ASB) was established in 1990 with the purpose of promoting savings and capital ownership among Bumiputra Muslims. ASB is a fixed price unit trust fund with the investment goal of generating long-term, consistent, and competitive returns for unit holders while preserving capital with a minimum risk tolerance. Mutual funds, usually referred to as unit trust funds, are the investment vehicle developed by asset management firms specializing in pooling the money of retail and/or institutional investors (Tayib, W. M. 2019).

ASB is a part of the unit trust funds managed as a fund manager by Amanah Saham Nasional Berhad (ASNB) and Permodalan Nasional Berhad (PNB). PNB in its capacity as fund manager or investment manager, will consolidate the funds from ASB and invest them in Malaysia's diverse asset classes. As a return, the unitholder of ASB will obtain the income distribution at the end of each fiscal year, or on December 31st of each year, contingent upon the performance of the fund. For instance, Permodalan Nasional Bhd (PNB) has declared an income distribution of 5.00 sen per unit and a bonus of 0.50 sen per unit for Amanah Saham Bumiputera (ASB) for the year-end of 2019, despite a 7.2% year-to-date decline in Bursa Malaysia's FBM KLCI (BERNAMA, 2019).

Amanah Saham Malaysia (ASM)

Amanah Saham Malaysia (ASM) is an investment instrument suited for individuals who comprehend the risks and potential benefits of investing and who anticipate long-term growth. In accordance with its objectives, the primary investment strategy and policy of ASM is to invest in various asset and equity portfolios and other instruments permitted by the Act, based on the current economic climate, stock market, and interest rate fluctuations.

The ASM Fund also emphasizes investing in a mixed equity portfolio through sectoral allocation.

Amanah Saham Malaysia (ASM) also offer unit holders a long-term investment opportunity that generates consistent and competitive returns via a diverse portfolio of investments. The fund strives to achieve its purpose by investing at least 95% of the value of the fund in shares and at least 5% in other capital market instruments, including liquid assets. In addition to preserving the fund's capital over the long term, the investment strategy will strive to generate income from the fund's investments (Bakar et al., 2015).

Amanah Saham Nasional (ASN)

Amanah Saham Nasional (ASN) was established in 1981 with a fixed price. Furthermore, it was changed into a variable price, in 1991. ASN was the first fund offered by Permodalan Nasional Berhad (PNB) and was restricted to Malaysian citizens. The purpose of the fund is to generate a reasonable level of income distribution and capital appreciation for Shareholders through a diverse portfolio of investments. ASN was initially introduced with RM1.00 per unit, but in 1991, the unit price was adjusted according to the market price conditions (Yahaya et al., 2009).

In addition, ASN is listed on the Bursa Malaysia. Malaysia's stock exchange, and its price is dependent on the market performance of the shares invested. Therefore, this new pricing structure compels investors to regularly monitor the unit trust's and the stock market's share price fluctuations. Its unit holders have come to embrace this new pricing structure because the capital appreciation of the unit trust via price increase provided more profits for them whenever they sold their shares at a higher price than when they purchased them. Consequently, unit holders might get two types of income which is an annual dividend and capital gains (Bakar et al., 2015).

This report is made based on the information provided and disclosed every quarter entitled Status Pelaburan PNB dan Dana Unit Amanah Dalam Sekuriti Patuh Syariah Atas Dasar Maqasid Al-Syariah during the SAC meetings held in 2021.

BASIS OF SHARIAH REFFERENCE IN PERMODALAN NASIONAL BERHAD

Shariah Advisory Committee

The Shariah Advisory Committee (SAC) was established to provide advice, opinions, and direction on Shariah compliance concerns related to PNB's investments, and to assist PNB in adhering to Shariah principles at all times. The Shariah Advisory Committee (SAC) meets once every three months to evaluate the current state of PNB's investments, as well as to discuss and approve on any proposals that must comply with Shariah regulations.

Based on Annual Report PNB 2021 the Shariah Advisory Committee (SAC) comprises the following members:

MEMBERS OF THE BOARD	STATUS
Tan Sri Dr. Mohd Daud bin Bakar (Chairman)	Independent Non-Executive
As-Sheikh Dato' (Dr.) Haji Nooh bin Gadot	Independent Non-Executive
Professor Emeritus Dato' Paduka Dr. Mahmood Zuhdi bin Haji Ab. Majid	Independent Non-Executive
S.S. Dato' Haji Mohamad Shukri bin Mohamad	Independent Non-Executive
Dr. Aida binti Othman	Independent Non-Executive
Encik Wan Abdul Rahim Kamil bin Wan Mohamed Ali	Independent Non-Executive
Professor Dr. Mohamad Akram bin Laldin	Independent Non-Executive
Dato' Idris bin Kechot (Retired with effect from 9 March 2021)	Independent Non-Executive
Tan Sri Dato' Seri (Dr.) Haji Harussani bin Haji Zakaria (Passed away on 30 May 2021)	Independent Non-Executive

PNB's SAC Commitments

PNB adheres to Shariah principles in all facets of its operations and business endeavors. After obtaining the permitted or "Harus" fatwa from all State Fatwa Councils in 2017, PNB has consistently implemented further Shariah measures over the years, including the current fiscal year.

Shariah Initiatives 2021

PNB is eager to go forward with more amazing accomplishment by adopting various Shariah measures aim to promote comprehensive Shariah compliance and to ensure the integrity and sustainability of Islamic investment business in Malaysia. Supported by these aims, the organization is committed to delivering sustainable returns for its stakeholders while at the same time actively performing its part in sustaining public confidence in its Shariah-compliant investing operations.

PNB maintains Shariah principles in all facets of its operations and business activities through the establishment and expansion of Shariah compliance criteria inside the organization. PNB is dedicated to maintaining Shariah compliance of all ASNB unit trust funds in accordance with Shariah principles and the SAC-approved Shariah screening methodology. National State Fatwa Council and the State Fatwa Councils have classed all funds as 'Harus' or lawful. According to the SC's Shariah screening methodology, more than 77% (2020: 75% of PNB's investments will be Shariah-compliant) of PNB's investments were Shariah-compliant throughout the reviewed period. The remaining 23% of the company's total investments are Shariah-compliant, according the company's Maqasid Al-Syariah screening technique. This accomplishment bolsters PNB's standing as a reputable investment firm in Malaysia offering Shariah-compliant products.

Continuous Involvement

PNB's commitment to stakeholder engagement is predicated on the belief that knowledge-sharing, broadening of experiences, and adopting a learner mindset will enable the company to comprehend the needs of the Muslim investing communities, as well as measure the impact of its programs and then make the necessary improvements. PNB actively engages with all its stakeholders, including regulatory bodies, States' religious institutions, Government agencies, Government-linked investment companies (GLICs), and other related institutions, in order to enhance its Shariah-compliant products by gaining a deeper understanding of the respective stakeholders' requirements. Among the engagement sessions held in 2020 including:

1. Regulatory bodies and States' religious institutions
 - Majlis Agama Islam Wilayah Persekutuan (MAIWP);
 - Jabatan Wakaf, Zakat dan Haji (JAWHAR);
 - Jabatan Mufti Negeri Selangor;
 - Majlis Fatwa Negeri Selangor; and
 - Lembaga Zakat Negeri Kedah (LZNK).
2. Government agencies, GLICs, Financial Institutions and other associations
 - Bursa Malaysia Berhad;
 - Bank Islam Malaysia Berhad (BIMB);
 - The Association of Shariah Advisors in Islamic Finance (ASAS); and
 - Lembaga Hasil Dalam Negeri (LHDN).
3. Higher Educational Institutions
 - Universiti Teknologi Mara (UiTM);
 - Universiti Sains Islam Malaysia (USIM); and
 - Universiti Selangor (UNISEL).

PNB Group's Shariah Governance Framework

A concept of corporate governance from Islamic perspective place great emphasis on strong corporate governance structure and ethical values, transparency, disclosure of information and strict adherence to Shariah principles. This PNB Group's Shariah Governance Framework ("Framework") is a set of organisational arrangements through which Permodalan Nasional Berhad Group shall ensure effective oversight, responsibility, and accountability of the Board of Directors ("BOD") of PNB, Senior Management and

Shariah Advisory Committee

Pursuant to the approval of the Shariah Manual by the Shariah Advisory Committee on 22 February 2019, it was agreed that investments undertaken by PNB Groups and the unit trust funds that PNB manages ("Unit Trust Funds") shall adhere to the Shariah Manual. Following thereto and notwithstanding that there is no requirement for PNB Group to implement any Shariah governance framework, PNB Group as a publicly known institution whose investments are Shariah-compliant, should adopt this Framework to further enhance its Shariah compliant investment processes systematically. A comprehensive compliance with Shariah-compliant investments will strengthen the public's confidence in the credibility of PNB Group investment operations.

The establishment of this Framework is to ensure that the objectives and business operations of PNB Group always adhere to the Shariah Manual and PNB's Shariah Advisory Committee's resolutions.

As stated in PNB Group's Shariah Governance Framework, the objective of this framework is to strengthen the process of decision-making, accountability and independence of the Shariah governance of PNB Group. Second objective is to enhance the Shariah compliance functions, whereby an internal Shariah audit review process will be introduced, supported by Shariah non-compliance risk management and Shariah research capability. Third objective of this framework is to further strengthen the functions of the Board of Directors of PNB and Shariah Advisory Committee. This framework applies to all investments undertaken by PNB Group, Unit Trust Funds and any other Shariah-related matters to ensure that all operations, investments, business, affairs and activities comply with the Shariah Manual and Shariah-Advisory Committee's resolutions.

Shariah Manual

Shariah manual was established in 2018 in Permodalan Nasional Berhad. The purpose of the implementation of Shariah Manual as a guidance for all departments in PNB especially in Shariah Management Department. In addition, The PNB Shariah Manual has been authorized by the PNB Shariah Advisory Committee to be implemented. In compliance with Shariah principles, investment instruments in Permodalan Nasional Berhad are governed by a Shariah manual produced based on existing Shariah standards around the world.

Recognizing the importance of attaining strong shariah governance, PNB underlines its unwavering dedication to ensuring shariah compliance and control are implemented. The establishment of the PNB Shariah Governance Framework (PNB SGF) ultimately contributes to the enhancement and protection of PNB value; while adhering to this company's policies to make sure that all investment opportunities made by the organization and the unit trust funds under its management comply with the PNB Shariah manual.

The objective of the PNB Shariah Manual is to provide staff members, across all roles and responsibilities, with instructions to assist them in achieving and maintaining compliance with all applicable rules and regulations when conducting investment activities. The Manual also specifies the expectation that management, workers, and agents of PNB will conduct themselves in conformity with shariah law and all applicable corporate rules, procedures, and standards.

CONCLUSION

This study concludes that the shariah governance system is the most important and main mechanism to ensure the sustainability of compliance with Islamic law in every operation of the Islamic financial system. The shariah governance system is a harmonization of two interrelated concepts, namely the philosophy of good corporate governance and also the concept of shariah compliance. The principle of corporate governance is a general principle while the concept of shariah compliance is the main basic principle to enable Islamic financial activities to operate in Islamic financial institutions.

Next, for parallelism of Shariah governance framework with maqasid Shariah. Maqasid As-Shariah is a discipline of knowledge that studies and details the main objectives of Islamic Shariah which is to preserve the religion, life, intellect, lineage and property for the welfare of all human beings (Ar-Raysuni, 1991; Kamali M. H., 2012). According to Ahmad, A. A. (2020) specific maqasid in relation to shariah governance is to strengthen Islamic financial institutions' viability and to encourage transparency.

Lastly, for the operation of Shariah Governance Framework in Permodalan Nasional Berhad, researcher had compared the PNB Group's Shariah Governance Framework with Shariah Governance Framework 2010 and Shariah Governance Policy Document 2019. The researcher had compared the objectives of Shariah Governance, structure of Shariah Governance, responsibility of the Board of Directors for shariah governance, responsibility of the Shariah Committee, responsibility of the management for shariah governance and control functions for shariah governance.

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