GUIDELINES TO BANKS

GUIDELINES NO. REG1/G-1/2026/26

ISLAMIC WINDOW OPERATIONS

CONTENTS

1. INTRODUCTION

1.1. Islamic Window Operations is defined[1] as being part of a conventional financial institution (which may be a branch or dedicated unit of that institution, but not a separate legal entity) that offers Syariah-compliant products and services.

1.2. These Guidelines are issued pursuant to section 126 of the Banking Act (Chapter 95) and applies to a bank in Brunei Darussalam licensed under the aforesaid Act and approved to conduct Islamic Window Operations (hereinafter referred to as “Host Bank”).

1.3. These Guidelines set forth the Authority’s expectations for the Islamic Window Operations based on international standards and best practices.

1.4. These Guidelines should be read together with other relevant Notices and Guidelines issued from time to time by the Authority including, but not limited to:

Notice

1.4.1. Notice on Islamic Window Operations for Banks (Notice No. REG1/N-1/2026/79);

Guidelines

1.4.2. Guidelines on Fitness and Propriety for Syariah Advisory Bodies (Guidelines No. SYAFI/G/01/2023);

1.4.3. Guidelines on Internal Syariah Audit Framework for Financial Institutions and Banks Offering Islamic Financial Products and Services in Brunei Darussalam (Guidelines No. IFAU/G/3/2018);

1.4.4. Guidelines on Fit and Proper Criteria for Financial Institutions’ Frontline Staff (Guidelines No. FCI/G1/2018/1);

1.4.5. Guidelines on Advertisement of Banking Products and Services for Islamic Banks (Guidelines No. BU/G-4/2017/8) and its ANNEX A; and

1.4.6. Guidelines on Product Transparency and Disclosure for Islamic Banks (Guidelines No. FCI/G1/2019/1);

as well as other notices, directives or guidelines which the Authority may issue from time to time.

[1] by the Islamic Financial Services Board (IFSB)

1.5. The broad principles and standards under these Guidelines are aligned with standards issued by the IFSB such as the following:

1.5.1. IFSB-30: Revised Guiding Principles on Corporate Governance for Institutions Offering Islamic Financial Services (Banking Segment) (December 2023); and

1.5.2. IFSB-31: Guiding Principles for Effective Supervision of Shariah Governance (July 2025)

1.6. These Guidelines are not exhaustive and subject to revision from time to time as deemed necessary by the Authority.

1.7. These Guidelines take immediate effect.

2. DEFINITIONS

2.1. For the purpose of these Guidelines, the following terms have the following meanings, except where the context otherwise requires:

2.1.1. "**Authority**" means Brunei Darussalam Central Bank established under section 3(1) of the Brunei Darussalam Central Bank Order, 2010;

2.1.2. "**Board**" means:

a) for banks incorporated in Brunei Darussalam - the Board of Directors of the Host Bank; or

b) for banks registered in Brunei Darussalam - the group, regional or its equivalent oversight function responsible for the operations in Brunei Darussalam, together with its senior management in Brunei Darussalam;

2.1.3. "**Host Bank**" refers to a bank licensed under the Banking Act (Chapter 95), which is approved by the Authority to conduct Islamic Window Operations;

2.1.4. "***Hukum Syara'***" has the same meaning assigned to it under Section 2 of the Syariah Financial Supervisory Board Act (Chapter 295);

2.1.5. "**Islamic Banking Business**" has the same meaning under Section 2 of the Islamic Banking Act (Chapter 168);

2.1.6. "**Islamic Window Operations**" refers to an Islamic Banking Business that is approved by the Authority in writing with the approval of the Minister pursuant to the definition of "banking business" in section 2(1) of the Banking Act (Chapter 95) conducted by a Host Bank;

2.1.7. "**Key Responsible Person**" refers to a senior person that is accountable or responsible for the management and oversight of the Host Bank of which they may hold controlled functions in executive positions;

2.1.8. "**Syariah Advisory Body**" or "**SAB**" means a body established by a Host Bank, which is responsible for reviewing, advising, providing opinions on and approving its Islamic products and Islamic services and ensuring any of its Syariah-related operations and activities are in accordance with *Hukum Syara'*;

2.1.9. "**Syariah Control Function**" refers to a function that is independent from business lines and is responsible to provide objective assessment, reporting and assurance on the effectiveness of the Islamic Window Operations, and its compliance with legal and regulatory obligations. This includes the Syariah risk management function, Syariah review function and Syariah audit function;

2.1.10. "**Syariah Financial Supervisory Board**" or "**SFSB**" means the Syariah Financial Supervisory Board established pursuant to section 3 of the Syariah Financial Supervisory Board Act, Chapter 295.

3. CORPORATE GOVERNANCE

Board of Directors

3.1. The Board should be accountable for the effective implementation of Islamic Window Operations.

3.2. The Board is ultimately responsible for the oversight of Syariah governance and compliance in relation to the Islamic Window Operations. The Board should ensure that Syariah governance considerations are appropriately integrated into the Host Bank's business and risk strategies, having regard to the size, complexity, nature and risk profile of the Islamic Window Operations.

3.3. The Board remains responsible for the effective oversight of the Islamic Window Operations, including where any responsibilities are delegated to the Syariah Advisory Board. Such responsibilities, include, but are not limited to, the following:

3.3.1. Establishing and institutionalising a robust Syariah Governance Framework;

3.3.2. In consultation with its SAB, establishing policies relating to governance structure and reporting requirements arrangements, Syariah policies, Syariah risk management and other areas that are material to the effective management of Syariah governance.

3.3.3. Ensuring that the mandate, scope of delegated authority and operating procedures of the Board and SAB are clearly documented in their respective terms of reference;

3.3.4. Establishing appropriate reporting arrangements to ensure that the Board is kept informed of the SAB's activities, key deliberations and decisions on delegated matters;

3.3.5. Overseeing the effectiveness of Syariah governance and compliance arrangements for the Islamic Window Operations; and

3.3.6. Remaining fully accountable for the decisions made under any delegated authority, and any consequences arising from such delegation.

Key Responsible Person (KRP)

3.4. The KRP is responsible for overseeing the sound and prudent day-to-day management of the Islamic Window Operations, including the execution and oversight of Syariah-compliant activities.

3.5. The KRP should report directly to the Chief Executive Officer or such senior management committee of the Host Bank as may be approved by the Board. The reporting arrangement should ensure that the KRP has sufficient authority, access to senior management, resources, and oversight channels to effectively discharge his or her responsibilities in respect of the Islamic Window Operations.

3.6. Where the KRP concurrently holds other senior management responsibilities, including responsibility for the Host Bank's conventional banking operations, the Host Bank should ensure that appropriate governance and oversight arrangements are in place. These should include, at a minimum:

3.6.1. Clear segregation of the KRP's responsibilities in respect of the Islamic Window Operations and conventional banking operations;

3.6.2. Adequate time commitment and capacity to discharge the KRP's responsibilities effectively;

3.6.3. Appropriate escalation and reporting arrangement to senior management and where appropriate, the Board;

3.6.4. Effective management of any potential conflict of interest; and

3.6.5. Appropriate operational and organisational support arrangement.

3.7. The KRP should continuously develop and strengthen his or her knowledge and understanding of Islamic finance, and remain informed of developments that may impact the Islamic Window Operations.

3.8. The Host Bank should ensure that the KRP has access to suitably qualified personnel and subject matter experts, to support the effective discharge of his or her responsibilities in relation to Islamic Window Operations.

4. SYARIAH GOVERNANCE

Syariah Advisory Body (SAB)

4.1. The SAB is responsible for providing objective and sound advice to the Islamic Window Operations to ensure that its businesses, affairs and activities are in accordance with *Hukum Syara'*. The responsibilities of SAB include:

4.1.1. Providing decision or advice to the Islamic Window Operations on the implementation of any rulings of the Syariah Financial Supervisory Board (SFSB) that are applicable to the businesses, affairs and activities of the Islamic Window Operations;

4.1.2. Providing decision or advice on matters which require a reference to be made to the SFSB;

4.1.3. Providing a decision or advice on the business, affairs and activities of the Islamic Window Operations, which may trigger a Syariah non-compliant event;

4.1.4. Deliberating and affirming Syariah non-compliant finding(s) by any relevant functions;

4.1.5. Endorsing rectification measure to address Syariah non-compliant findings; and

4.1.6. Vetting, reviewing and approving relevant documents, SOPs and internal policies.

4.2. The SAB is responsible and accountable for all Syariah views, opinions, rulings and decisions issued in relation to the Islamic Window Operations. Such responsibility does not diminish the accountability of the Board for overseeing the Islamic Window Operations and ensuring compliance with applicable Syariah requirements.

4.2.1. The Board should have due regard to the views, opinions, rulings and decisions of the SAB on matters relating to Syariah compliance within the Islamic Window Operations.

4.2.2. The Board should establish appropriate procedures for the escalation, resolution and documentation of any differences in views between the Board and the SAB on matters relating to Syariah compliance.

4.3. The SAB should have a term of reference that sets out its mandate, responsibilities and procedures including matters reserved for its decision or advice.

4.4. Where the SAB delegates any of its responsibilities to any function, the SAB should ensure that:

4.4.1. the mandate, scope of delegated authority and operating procedures are clearly documented in the SAB's terms of reference;

4.4.2. appropriate reporting arrangements are established to ensure that the SAB is kept informed of the work performed, key deliberations and decisions on delegated matters; and

4.4.3. the SAB remains ultimately responsible and accountable for the exercise of the delegated authority and any decisions arising therefrom.

Syariah Officer

4.5. The Syariah Officer is responsible to perform in-dept research and studies on Syariah issues, including day-to-day Syariah advice and consultancy to relevant parties. In undertaking research, advice and input from persons with the relevant experience and expertise, whether internally or externally, on technical matters may be sought to ensure comprehensiveness and completeness in ensuring sound understanding of the relevant concepts and approaches.

4.6. In terms of its advisory and consultancy roles, Syariah research should assist and provide advice to relevant parties based on decisions of the SAB.

4.7. The Syariah Officer is also responsible for assisting the SAB in discharging its roles and responsibilities including administrative and secretarial functions to support the SAB.

Syariah Control Functions

4.8. The Syariah control functions comprise of:-

4.8.1. Syariah review;

4.8.2. Syariah audit; and

4.8.3. Syariah risk management.

4.9. The functions may be performed through dedicated functions, integrated within existing control functions of the Host Bank, or supported by group entities or external service providers, provided that appropriate independence, competency, governance and reporting arrangements are maintained.

Syariah Review

4.10. The Syariah review function is responsible to perform regular assessment of Syariah compliance within the Islamic Window Operations.

4.11. The Syariah review function involves the examination and evaluation of the Islamic Window Operation's level of compliance to Syariah. Consultation with the SAB may be done prior to the conduct of any review.

4.12. The scope of Syariah review function should cover the Islamic Window Operation's overall products and services, including the end-to-end product development process and product implementation process.

4.13. The Syariah review function, at a minimum, should:

4.13.1. Identify, assess and monitor the compliance of the Islamic Window Operations with *Hukum Syara'*;

4.13.2. Report to the Board and SAB on Syariah non-compliance issues and findings;

4.13.3. Inform and provide updates to the Board and SAB on the latest developments in legal and regulatory requirements in Islamic finance; and

4.13.4. Ensure adequate training and guidance are provided to the officers of the Islamic Window Operations on relevant Syariah requirements governing its operations, business, affairs and activities.

Syariah Audit

4.14. The Syariah audit function is responsible to provide an independent and periodical assessment, conducted from time to time, to provide objective assurance designed to add value and improve the degree of compliance of Islamic Window Operations, with the main objective of ensuring a sound and effective internal control system for Syariah compliance.

4.15. The Syariah audit function may consult the Syariah officer in the course of performing the audit exercise as long as the objectivity of the audit is not compromised.

4.16. The Host Bank should refer to the Guidelines on Internal Syariah Audit Framework (Guidelines No. IFAU/G/3/2018) when determining the scope and process of its Syariah audit.

Syariah Risk Management

4.17. The Syariah risk management function is responsible to systematically identify, measure, monitor and report Syariah non-compliance risk in the Islamic Window Operations.

4.18. The Syariah risk management function, at a minimum, should:

4.18.1. Integrate Syariah non-compliance risk considerations with enterprise-wide risk management;

4.18.2. Identify material and emerging Syariah non-compliance risks in the Islamic Window Operations and activities;

4.18.3. Assess the Syariah non-compliance risks and measure the potential impact of the risk exposure to the Islamic Window Operations;

4.18.4. Establish appropriate risk mitigation measures;

4.18.5. Monitor the risk-taking activities and align the Syariah non-compliance risk exposures with the board-approved risk appetite and risk limits;

4.18.6. Report to the Board and SAB on the Syariah non-compliance risk exposures; and

4.18.7. Influence or challenge decisions that may give rise or material Syariah non-compliance risks.

5. OPERATIONAL SEGREGATION AND CONTROLS

5.1. The Host Bank should establish and maintain adequate policies, processes, systems and controls to ensure segregation and identification of Islamic Window Operations and to prevent the commingling of Islamic and conventional funds. Where operational resources, infrastructure or personnel are shared between the Host Bank and its Islamic Window Operations, the Host Bank should ensure that appropriate controls, governance arrangements and audit trails are in place to maintain Syariah compliance and operational integrity.

5.2. As part of approval or supervisory review process, the Authority may, where deemed necessary having regard to the nature, scale, complexity or risk profile of the Islamic Window Operations, require the Host Bank to obtain an independent assessment of the adequacy and effectiveness of its systems, processes and controls to support the Islamic Window Operations, including their ability to cater for the unique requirements of Islamic contracts and products.

Visibility and Customer Communication

5.3. The Host Bank should prominently display appropriate signage or notices at branches offering Islamic Window Operations to inform customers of the availabiliy of Islamic banking services.

5.4. The Host Bank should provide clear and up-to-date information on its Islamic Window Operations through its website and other customer communication channels, where applicable.

Advertisements

5.5. The Host Bank should put in place internal policies in relation to advertisements pertaining to its Islamic Window Operations.

5.5.1. The Islamic Window Operation should not use marketing materials, advertisements or promotional contents that may be inconsistent with *Hukum Syara'* or adversely affect public confidence in, or the reputation of, the Islamic Window Operations.

5.5.2. Any promotional event or occasion, including those organised jointly with its Host Bank, should not be involve, promote, sponsor or be associated with activities, products or services that are not in accordance with *Hukum Syara'*.

6. CAPACITY BUILDING

6.1. To ensure effective implementation of Syariah governance and the ongoing assurance of Syariah-compliant business and activities within the Islamic Window Operations, the Host Bank should establish and maintain a comprehensive training programme for personnel involved in, supporting, overseeing or providing assurance over the Islamic Window Operations.

6.2. Such training programme should be commensurate with the nature, scale and complexity of the Islamic Window Operations, as well as the roles and responsibilities of the personnel concerned. The Host Bank should periodically assess the adequacy and effectiveness of such training and address any identified competency gaps. The training program should address the following:

6.2.1. Specifics of the functions performed by the personnel, and equip such personnel with information, knowledge and skills necessary to discharge their responsibilities in a manner that supports compliance with Syariah requirements, taking into account the nature of their respective roles; and

6.2.2. The general banking and business risks associated and encountered with that function as well as any Syariah non-compliance risks.

MANAGING DIRECTOR
BRUNEI DARUSSALAM CENTRAL BANK

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