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INDONESIAN GENERAL GUIDELINE FOR SHARIA ENTITY GOVERNANCE (PUG-ESI)

Coordinating Ministry for Economic Affairs
National Committee on Governance Policy 2023

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FOREWORD
COORDINATING MINISTER FOR ECONOMIC AFFAIRS

Assalamualaikum warohmatullahi wa barokatuh.

Let us say all the praise and gratitude to Allah, the Most Merciful God, who has bestowed His grace upon us, and our selawat may always be deliver to our Prophet Muhammad SAW.

In the last decade, the Islamic economy, which is reflected, among others, through sharia finance, has become one of the fastest growing sectors in the global financial industry, outpacing conventional financial markets. The Global Islamic Economic Report (2020) estimated that the value of sharia financial assets increased by 13.9 percent in 2019, from $2.52 trillion to $2.88 trillion. Furthermore, in 2021, in line with the increasing global trends, sharia finance in Indonesia grew positively during the pandemic. From the banking side, in May 2021, sharia banking assets grew 15.6 percent (year-on-year) reaching IDR 598.2 trillion. The significant growth rate observed implies an increasing inclination among diverse entities to conduct their operations within the framework of the Sharia-compliant economy.

The government of Indonesia is aware of the important role of the sharia entities in the affairs of the Indonesian people, who are predominantly Muslim. For this reason, support for sharia entities needs to be ensured so that they can grow and develop like conventional business entities. Hence, the Coordinating Ministry for Economic Affairs appreciates the initiative undertaken by the KNKG to introduce the Indonesian General Guideline for Sharia Entity Governance (PUG-ESI). This guideline is poised to serve as a crucial tool in bolstering the governance of Sharia entities, facilitating their growth, and fostering their development into robust, contemporary, and sustainable entities adhering to Sharia principles.

PUG-ESI is expected to become a reference regarding the governance of sharia entities, both sharia commercial entities and sharia social/non-profit entities. PUG-ESI was prepared not only by identifying the environment in Indonesia, but also reflects the practice of governance of sharia entities in various countries. I express my highest appreciation to the National Committee on Governance Policy for issuing this PUG-ESI and making it align with the development and practices of sharia entity governance at the international level.

This PUG-ESI should be a reference for sharia entities in Indonesia in preparing and implementing sharia-based governance according to the needs of the entities, while complying with the prevailing laws and regulations in Indonesia.

This PUG-ESI is also expected to become one of the organizational instruments

to be implemented by sharia entities in Indonesia so that they can play an optimal role in the national economy.

May Allah SWT always bless and bestow His grace on all our efforts in developing sharia entities in Indonesia to be better.

Wassalamualaikum wa rohmatullahi wa barokatuh.

Jakarta, March 29th, 2023

COORDINATING MINISTER FOR ECONOMIC AFFAIRS OF THE REPUBLIC OF INDONESIA



Airlangga Hartarto

FOREWORD
CHAIRMAN OF THE NATIONAL COMMITTEE ON GOVERNANCE POLICY

Assalamualaikum warohmatullahi wa barokatuh.

Let us say all the praise and gratitude to Allah SWT.

The contribution of sharia economy to the Indonesian economy in the development of various sectors is increasing, both in the commercial sector and the social or non-profit sector, at various scales. This certainly strengthens economic development and social and community welfare in general. For this reason, it is necessary to have general guidelines for governance so that the management of these sharia entities will develop in the right direction.

The implementation of good governance of sharia entities is driven from two sides, namely ethical and regulatory. Ethical drivers come from the awareness by industry players and stakeholders of the need to carry out governance practices that prioritize the achievement of goals and the long-term survival of the entity. On the other hand, regulatory drivers "force" entities to comply with governance practices that are required in applicable laws and regulations. Both of these approaches have their own strengths and limitations, and should complement each other in order to create a healthier economic and social environment.

Sharia entity governance is needed in directing and managing sharia commercial and social/non-profit activities to achieve good progress and accountability, so that the goals and needs of stakeholders can be fulfilled. To be able to keep up with the developments and to meet the industry's need for comprehensive governance guidelines, the National Committee on Governance Policy undertook an initiative to update the Sharia Business Good Governance, which was issued in 2011, with Indonesian General Guideline for Sharia Entity Governance (PUG-ESI), which was issued this year. PUG-ESI is intended to establish governance practices with global standards that are recommended for entities that are based on Islamic sharia as well as entities that are not based on sharia yet but intend to manage their organization by following sharia principle. This guideline encompasses all types of commercial and social/non-profit entities, including those structured as foundations and associations.

PUG-ESI is a general guideline for sharia entities to implement governance by combining general guidelines for corporation governance (PUG-KI 2021) and general guidelines for non-profit organization governance (PUG-ONI 2022) that have been issued. Therefore, PUG-ESI 2023 is expected to be comprehensive and integrated with the guidelines for commercial and social/non-profit entity governance.

PUG-ESI consists of (8) eight principles which are divided into three groups of principles: (1) **the first group of principles** govern roles, composition and cooperation between the Board of Directors, Board of Commissioners and Sharia Supervisory Board (DPS); (2) **the second group of principles** govern processes and outcomes related to ethical and responsible conduct, risk management, internal control and compliance, as well as disclosure and transparency; and (3) **the third group of principles** govern stakeholders including beneficiaries of the implementation of governance.

The principles in PUG-ESI along with the recommendations and guidelines are inspired by the four pillars of corporate governance; ethical behavior, accountability, transparency, and sustainability. The reflection of the four pillars in the principles of good governance is expected to be able to encourage the creation of sustainable value increases in the long term

PUG-ESI was prepared by enriching several governance guidelines for sharia institutions in Indonesia as well as countries which already have and implement governance guidelines, the Indonesia Islamic Economic Masterplan 2019-2024, governance guidelines of Accounting and Auditing Organizations for Islamic Financial Institutions (AAOIFI), and Islamic Financial Services Board (IFSB) governance guidelines. PUG-ESI has also received input from the Expert Council from the Financial Services Authority (*Otoritas Jasa Keuangan* - OJK), Bank Indonesia, and the Indonesian Ulema Council (*Majelis Ulama Indonesia* - MUI), as well as input from participants in the limited public hearing which was held on 10 February 2023. On this occasion, the National Committee on Governance Policy wishes to extend its sincere appreciation to all individuals who have contributed valuable insights.

The preparations for PUG-ESI 2023 were carried out by the Sharia Commission formed by the National Committee on Governance Policy. On this occasion, the National Committee on Governance Policy expressed its highest gratitude and appreciation to Sigit Pramono, Sidharta Utama, Jeffrey Siregar, the members of the Commission; and Mulya E. Siregar, Muh. Anwar Basori, Dadang Muljawan, Fadilah Kartikasasi, Nyimas Rohmah, Mohammad B. Teguh, Arief Hartawan, Kris Ibnu Roosmawati, Trisman, and Asadulloh Sefnado, the Expert Council; as well as Evony Silvino Violita, the drafter.

Hopefully this PUG-ESI will be a valuable and meaningful contribution to improve sharia entity governance in Indonesia.

Wassalamualaikum wa rohmatullahi wa barokatuh.

Jakarta, March 28th, 2023

National Committee on Governance Policy
Chairman



Mardiasmo

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CHAPTER 1 INTRODUCTION

BACKGROUND

1. Sharia Economic Philosophy

Indonesia is currently trying to accelerate the development of a robust sharia economic ecosystem. The government continues to increase its focus on the sharia economy. Not only is the depth of its focus being increased, the government is also expanding their attention and encouragement to an expansion in all sectors in the sharia economy. This increase is very important so that the sharia economy can increasingly contribute to the Indonesian economies optimalization, given the large existing potential. This increased role needs to be accompanied by increased compliance with sharia in the activities of each sector.

For this reason, it is necessary to establish governance guideline for entities that carry out their operations based on sharia principles to ensure overall compliance with sharia principles. This is in line with the Indonesia Islamic Economic Masterplan which places governance as one of the basic strategies for sharia economy development. Likewise with the Quran and Hadith, which have provided a basis for the implementation of governance and contain guidelines for the implementation of an entity's activities, both commercial and social.

The development of sharia economic governance cannot be separated from the Islamic worldview which forms the philosophical basis of sharia economics. The Islamic worldview begins with the monotheism sentence (shahada) which has implications for all of life's activities, including science, trade, social relations, the natural environment, purpose of life, and all other aspects of life.

Sharia economics is a manifestation of Islamic teachings in economic behavior. The role of religion to be a way of life which becomes a set of beliefs, provisions and moral guidelines. The relationship between religion and economic behavior can be understood from *aqidah*, sharia, and morals which are interrelated in the design and construction of sharia economics. Aqidah is the foundation for the implementation of sharia economics. Economic activity will have religious value if it is based on faith. Sharia serves as a control for every human behavior that can be used as a guideline with a series of instruments. Aqidah and sharia will encourage moral economic behavior as part of the reflection of *akhlakul karimah*. Entity activities carried out based on *akhlakul karimah* are aimed to create and maintain a benefit for all stakeholders and the environment, namely the realization of blessings and safety for the universe *(rahmatan lil 'alamin)* which is the final goal *(maqashid)* of human function as *khalifa*.

In carrying out the function as *khalifa*, humans are guided by the guidance of Allah SWT in the Quran and the role models from Rasulullah SAW, in the form of sharia in words, deeds, and decree (hadith). Sharia is not only interpreted as a legal system, but more deeply as an understanding, a way of life, and a perspective based on Islamic values. Entities must be managed by taking into account Islamic values both at strategic and operational levels, so that organizational goals are prepared based on Islamic values and the entity's activities are also carried out in accordance with Islamic values. One of the main keys in carrying out entity's activities is noble character *(akhlakul karimah)* which guides organizational ethics.

2. Business in the Islamic Perspective

Islam is a religion that attaches importance to every productive activity in various forms, both commercial and social. Islam includes the words "good deed" which covers business activities in a broad sense, including both commercial and social businesses. Good deeds and philanthropic activities are a form of business with the expectation of returns from Allah SWT. Meanwhile, the Quran also places commercial business *(tijarah)* in an important position.

Allah SWT created humans as khalifa in order to prosper the earth based on the guidance of Allah SWT (QS Al Baqarah: 30). The duty of humans as *khalifa* to prosper the earth obliges them to bring goodness and prosperity in a balanced way for themselves, their families, mankind, and the natural environment. The existence of rules and guidelines makes it possible to ascertain whether the activities carried out have met the stated condition and objectives. Each activity within the entity must be accounted for either in an explicit contract with humans/ organizations or in an implicit contract with Allah SWT for the mandate given (QS As-Shofat: 2-4).

3. Values and Basic Principles of Sharia Economy

Values are standards or norms used to measure whether something is right or wrong, good or bad. Sharia economy has values which are an inclusive concept dedicated to all walks of life and groups of people. The inclusive concept of sharia economic values reflects that Islam is a blessing for the universe which upholds justice, togetherness and balance in managing the resources given by Allah SWT. These sharia economic values are based on the foundations of *aqidah*, sharia, and morals. Sharia economic values include 1) ownership, 2) fairness in business, 3) cooperation in goodness, and 4) balanced growth.

- **Ownership.** In essence, absolute ownership of all things belongs to Allah SWT (QS An-Najm: 31). The role of humans is merely as *khalifa*, ordained and entrusted to manage everything that has been provided by Allah SWT. Islam respects the relative right of private ownership of assets while maintaining a balance between the relative rights of individuals, collective and state.

- **Fairness in Business.** In the Islamic concept, humans are encouraged to utilize the resources provided by Allah SWT. However, humans have a tendency to glorify wealth and this may lead to the excessive accumulation of wealth. Islam has a way of controlling this by instructing its followers to give zakat as an obligation, so that there is a distribution of some of the wealth from those who have excess wealth to those who are lacking. Apart from that, they are also ordered to give *infaq*, *sadaqah*, and *waqf* as a voluntary distribution of wealth. The existence of ZISWAF *(zakat, infaq, sadaqah, waqf)* will bring fairness in society. Instigation to provide voluntary *infaq*, *sadaqah*, and *waqf* are also highly appreciated, so that the existence of ZISWAF instrument plays a role in encouraging economic fairness in society. (QS Al Hadid: 7)

- **Cooperate in Goodness.** Individual and communal economic activities are permitted in Islam, but communal economic activities are preferred based on cooperation and the spirit of helping in goodness. Meanwhile, competition is carried out in a positive form, namely competition with the spirit of competing in goodness. (QS Al- Maidah: 2)

- **Balanced Growth.** In Islam, economic growth is in line with the purpose of human existence in the world, namely worshiping Allah SWT and providing as much benefits as possible to humans and the universe in the corridor of balance between spiritual and natural preservation. (QS Al-Qashash: 77)

These sharia economic values are formulated into seven guiding principles of the sharia economy. The guiding principles of a sharia economy refer to the Quran and hadith which comprehensively guide all human activities to achieve *falah* or happiness in the world and the hereafter. The guiding principles of sharia economics are the basis for carrying out activities in economic life. These sharia economic principles contain rules which, if fulfilled, will guarantee the balance and effectiveness in the implementation of sharia economics. These guiding principles include:

- **Wealth Management**, which directs wealth to be managed and flow productively. In this concept, some parts of it should be distributed to given to the poor. With this principle, accumulated wealth will be distributed and flow into economic activity;

- **Wealth and Income Distribution**, the distribution of wealth and income from people with excess wealth to people in need. The distribution aims to safeguard public purchasing power amongst all levels of society in meeting their basic consumption needs;

- **Business Optimization and Risk Sharing**, This principle promotes optimal

business activities, such as investment and trade. It is directly linked to the concept of interest or riba in conventional economics. *Riba* will stifle all potential economic activity below the *riba* level. The higher the level of *riba*, the more businesses potential is stifled. *Riba* will transfer the risk from the lender to the loan recipient. *Riba* is forbidden in order to nurture risk-sharing business activities;

- **Productive Investment**, which encourage investment activities in the real sector, in order to increase productivity;

- **Social Participation in the Public Interest**, which is carried out through *zakat*, *infaq*, *sadaqah*, and *waqf* (ZISWAF) mechanisms. Raising ZISWAF funds will increase public resources to stimulate economic activity in the public interest;

- **Transactions on the basis of fairness**, transparency, not endangering health, not committing unjust acts, and not containing haram substances;

- **Adaptive** to technological and ecosystem developments, in which the sharia economy is developed in an adaptive manner to technological developments, so that the underlying principles can be applied effectively in accordance with the current developments.

These values and principles complement each other seamlessly and align with diverse objectives within the international economic landscape, as formulated by the United Nations (UN) in the Sustainable Development Goals (SDGs) to maintain the preservation and continuity of life for the world community as a whole.

4. The Role of Governance in Sharia Economy

A good corporate governance culture will create a healthy and sustainable entity environment if accompanied by activities that are guided by spirituality and ethics. A healthy entity environment will provide benefits not only for investors, but also for all stakeholders, people and the natural environment.

Governance guidelines regulate entities to eliminate the tendency of their behavior that rules out sharia in the preparation and implementation of their strategy and operational activities.

A good governance culture is required for both commercial and social entities. For the governance of commercial entities, Rasulullah SAW exemplifies the need for rules and supervision with the hope of realizing business activities based on *akhlakul karimah*. Thus, it is hoped that it will provide goodness and benefit, and avoid disadvantage. Meanwhile, in social entities, governance is needed in the framework of accountability for social funds that have been donated by donors,

so that their distribution is in accordance with the rules. Even though donors make donations sincerely, professionalism is important in building public trust.

DEFINITION OF INDONESIAN GENERAL GUIDELINE FOR SHARIA ENTITY GOVERNANCE

Governance is a structure and process to direct and manage entities in order to achieve entity objectives and accountability to create value and sustainability of the entity. In general, sharia governance is the structure and process in the sharia economic sector to ensure compliance with sharia laws and principles. Specifically, sharia governance can be interpreted as institutional and organizational arrangements through which entities can ensure the implementation of effective independent management/supervision of sharia compliance.

Sharia entity governance regulates the rights and responsibilities as well as the relationship among the stakeholders in a balanced manner. Governance focuses on managing the structure and internal processes of the entity while taking into account its relationship with other related parties.

Sharia entity governance includes governance bodies in the form of entity management, entity monitoring system, and sharia supervision. Entity management can be in the form of a board of directors (in entities), or other forms of management according to the type of the entity. The entity monitoring system can be in the form of a Board of Commissioners (in corporate entities), or other forms of supervision according to the type of the entity. The sharia supervisory board is the supervisor of sharia compliance, both compliance in the management and operational aspects as well as product (goods or services) aspects.

PURPOSE OF IMPLEMENTING INDONESIAN GENERAL GUIDELINE FOR SHARIA ENTITY GOVERNANCE

The principles, recommendations and guidelines are intended to determine the recommended global standard practice of sharia entities governance for entities within the scope of sharia economic in order to achieve long-term sustainable benefits.

The Indonesian General Guideline for Sharia Entity Governance (PUG-ESI) is a guideline for entities within the scope of sharia economy in developing an entity governance system in order to achieve entity objective and sharia compliance, in fulfilling the interests of all stakeholders.

This PUG-ESI contains recommendations as minimum standards to be followed and detailed in sectoral guidelines. This PUG-ESI can be used as a reference for

entities within the scope of sharia economy in preparing guidelines for entity governance. In its implementation, operational technical guidelines are needed which are adjusted to the operational environment, nature, size and complexity of each entity.

This PUG-ESI can be used as a reference for regulators in compiling and establishing rules or guidelines for the implementation of sharia entity governance. The principles of governance in this guideline are recommendations for governance practices so that entities implementing sharia principles can develop and grow in a sustainable manner.

The recommendations contained in this guideline are not mandatory but are intended to encourage the best practice of entity governance according to the needs of the entity in order to create sustainable value.

BRIEF EXPLANATION OF THE PRINCIPLES OF INDONESIAN SHARIA ENTITY GOVERNANCE

The Principles of Indonesian Sharia Entity Governance contain the rights of stakeholders and their fulfillment, basic rules on the management or administration, and supervision as well as management of sharia entities in Indonesia, including aspects of ethics, risk management and disclosure.

The Principles of Indonesian Sharia Entity Governance comprise eight principles categorized into three groups : (1) the first three principles are a group of principles governing the management and supervisory functions of sharia entities, i.e. the Board of Directors, the Board of Commissioners, and Sharia Supervisory Board for sharia entities, as well as the Executive Board, Supervisor/Governing Board, and Sharia Supervisors for non-profit organizations; (2) a group of principles governing the processes and outputs delivered by the administrators of sharia entity governance; and (3) a group of principles governing resource owners/providers, who will primarily receive benefits from the implementation of sharia entity governance. The principles along with the recommendations and guidelines are inspired by the four pillars of governance: ethical behavior, accountability, transparency, and sustainability. The reflection of the four pillars in the principles of Indonesian sharia entities governance will encourage the creation of sharia entities values in the long-term.

The Sharia Supervisory Board (*Dewan Pengawas Syariah* - DPS) is a governance body that plays a very important role in realizing sharia compliance by entities that are committed to making sharia as their operating principle. Therefore, DPS needs to have a strong position in relation to sharia supervision, which is equivalent to the supervisory position of the Board of Commissioners. The basis for DPS

action must refer to sharia principles which refer to fiqh muamalah. In order to have a formal basis, the rules that are used as guidelines are those that have been determined and regulated by the Indonesian Ulema Council (Majelis Ulama Indonesia - MUI) which is based nationally (central).

STRUCTURE AND IMPLEMENTATION OF INDONESIAN GENERAL GUIDELINE FOR SHARIA ENTITY GOVERNANCE

The concept of sharia governance basically includes generally accepted sharia values as well as sharia values that are related to aspects of compliance with sharia principles and other sharia characteristics. Governance for matters related to activities and procedures that are general in nature and not specific to sharia, refers to the governance guidelines that have been regulated by the relevant regulator.

The implementation of the Principles of Sharia Entity Governance is based on an "apply or explain" principle. Entities are encouraged to apply each of the Principles, Recommendations, Guidelines in an appropriate manner for sharia entities. The basis of "apply or explain" is intended to encourage entities to apply the Principles of Sharia Entity Governance in a comprehensive and substantive manner to the activities of entities for the benefit of achieving sharia objectives *(maqashid sharia)* in the long term.

The recommendations and guidelines contained herein are global standard sharia entity governance practices that complement the mandatory practices to be implemented based on applicable laws and regulations. Accordingly, the sharia entity governance practices that are required by laws and regulations are not covered in this guideline. The laws and regulations are used as the basis for establishing the recommended Recommendations and Guidelines.

Recommendations and Guidelines are intended to promote the best sharia economic governance practices according to the needs of the entity in order to create sustainable value. The application of the Recommendations and Guidelines is more than just complying with the principles of governance in the form of preparing a set of internal entity rules. The application is carried out in substance, which includes shifts in mindset, culture, as well as business models, and is not just a checklist approach. For this reason, the Board of Directors / Executive Board, the Board of Commissioners /Supervisor/Governing Board, and the Sharia Supervisory Board should study and understand this Guideline so that it can be applied in a way that is consistent to the long-term needs and interests of the entity. The Board of Directors ensures that employees and administrators fully understand and appreciate the benefits of good sharia entity governance, processes and procedures through strong training and communication programs.

SCOPE OF IMPLEMENTATION OF INDONESIAN GENERAL GUIDELINE FOR SHARIA ENTITY GOVERNANCE

PUG-ESI is intended to serve as a guideline for the implementation of governance for entities within the sharia economic environment in Indonesia, and not to regulate the Indonesian sharia economic system. Entity means any entity of both commercial and social, which is intended to be managed according to sharia principles. Sharia economy in the Indonesia Islamic Economics Masterplan is defined as an economic system based on sharia principles.

Therefore, PUG-ESI covers all entities in a more integrated manner:
1. Sharia Commercial Entities,
2. Sharia Social/Nonprofit Entities.

Entities falling under the purview of the Sharia economy can take various forms, including individually owned entities, partnerships, corporations, or non-profit organizations, all of which declare their adherence to Sharia principles. The aforementioned social/non-profit entity is in the form of a legal entity, both foundation or association. This guideline also serves as a reference for entities that have not/do not declare themselves as sharia-compliant entities, but have the intention of implementing sharia principles in their entities. Entities may adopt different governance guidelines and practices as needed, by taking into account the operational environment, size and complexity of the entity, and the nature of the risks and challenges.

UPDATE TO THE INDONESIAN GENERAL GUIDELINE FOR SHARIA ENTITY GOVERNANCE

The National Committee on Governance Policy is obliged and committed to reviewing PUG-ESI at least every two years based on developments in domestic and international governance and making necessary adjustments.

CHAPTER 2 PRECONDITIONS FOR THE IMPLEMENTATION OF INDONESIAN SHARIA ENTITY GOVERNANCE

BASIC PRECONDITIONS

Governance with integrity and ethics will be created from the sincere intentions and desires of the entity's leadership. Thus, governance is not only oriented to comply with the rules, but also with a more noble intention to create an environmental entity that brings benefits to society and the natural environment. For this reason, it is necessary to build preconditions and awareness for the parties who are obliged to realize governance in the entity. The entity not only gauges success based on financial performance but also considers spiritual and social success as integral measures. This holistic approach is believed to bring blessings to every undertaken activity.

Governance with integrity and ethics can be realized if the organizers of the entity have a commitment to piety. This commitment to piety shall bring blessings from heaven and earth as promised by Allah SWT in Surah Al A'raf: 96. This blessing will not only bring goodness to the entity, but also to the environment.

Sharia financial governance can operate well if it is supported by the strong pillars of sharia economy, i.e., the State, Ulema, Sharia Economic Actors, and Society. Each pillar mutually reinforces the function of governance so that it can support the development of a sustainable sharia economy.

The following are the functions of each pillar of the sharia economy:

- **State**; is the holder of the highest authority in making rules, enforcing rules, and providing infrastructure in order to create a healthy economic climate and keep abreast of developments. Each entity must comply with the rules set by the state as also ordered in the Quran (QS An-Nisaa':59).
- **Ulema**; are parties who understand sharia, which makes them the main resource so that sharia can be carried out in accordance with the guidance of the Quran and Sunnah. The fatwas of the Ulama also serve as a guide after the Quran and Sunnah. The Quran regulates the rules and laws in economic activity, and this knowledge is studied by the Ulema. This is in line with the command of Allah SWT to ask people who are knowledgeable about something (an-Nahl: 63), in this case is the Ulema.
- **Sharia Economic Actors**; are individuals or entities (commercial and social) carrying out sharia economic activities. Sharia economic actors have a very important role in upholding sharia economy governance since the good faith of economic actors in carrying out sharia-compliant activities is one of the

main keys to the implementation of sharia principles. Sharia economic actors, both commercial and social entities, must demonstrate professional behavior and uphold Islamic morals in managing entities, both at the strategic and operational levels. This is very necessary in order to gain the trust of all stakeholders.

- **Society**; has a supervisory role over matters carried out by the entity. A strong and critical society can help entities not deviate from sharia principles. Another role of the society as consumers of entities can also strengthen the implementation of governance by entities that must meet consumer demands.

PRINCIPAL GUIDELINES FOR IMPLEMENTATION

Spiritual Preconditions; The preconditions for the implementation of this governance require guidance so that the provided precondition recommendations are more concrete and can be implemented.

Spiritual preconditions are the requirements of piety that must be owned by the leadership of the entity in upholding governance within the entity to fully comply with sharia principles. This piety is manifested in the form of a) intention, b) professionalism and competence, 3) sincerity, and d) consistency in carrying out the principles of governance.

- **Intention**; Islam places great importance on intention. The value and results of work are based on the intention to carry out an activity. One deed/ activity is judged based on its intention. Intention also means a goal, so that the achievement of an activity is also measured based on the intention. The intention to carry out governance in accordance with applicable regulations that aim to achieve benefits is a guide for the heads of entity in carrying out their activities and making decisions.
- **Professionalism and competence**; The heads of the entity can carry out good governance if they can understand the goals and implementation of the governance, as well as measuring its success. With good competence, governance can be carried out in a professional manner.
- **Sincerity**; Islam places great importance on striving *(jihad)*, or carrying out something with sincerity. Sincerity in carrying out good governance and striving to implement it to success is one of the keys to realizing good governance. Sincerity also means holding on tightly to the law of Allah SWT. This means that the head of the entities understand the objectives of sharia and carry out their activities in accordance with sharia.
- **Consistency**; Consistency *(istiqamah)* is the key to the success of a deed and the sustainability of its benefits. Without consistency in the implementation of governance, the benefits will not be achieved both substantially and

sustainably, it may even be impossible to achieve them. Consistency also means to stand firm, trying the best you can to carry out one's beliefs in a sustainable manner.

Operational Preconditions; Operational preconditions are conditions that can support the implementation of governance in the form of rules and guidelines that enable the realization of governance. This can be achieved with the existence of the four pillars of the sharia economy which mutually reinforce one another's functions.

STATE

The role of the State in the preparation and development of systems and legislation in the implementation of sharia economic governance:

a. drafting and improving legislation related to the sharia economy based on Islamic law and aligning them with the national legal system.
b. involving the ulema, society and sharia economic actors in the drafting and improving laws and regulations.
c. creating a healthy political and legal system to support the development of a sustainable sharia economy.

The role of the State in the implementation, guidance and dissemination of sharia economic governance, in the form of:

a. implementing laws and regulations related to economic activities;
b. providing guidance and education to sharia economic actors;
c. regulating authority and coordination between institutions in order to support the creation of a healthy climate for the implementation of sharia economic governance;

The role of the State in the supervision and enforcement of laws and regulations related to sharia economic governance:

a. supervising the implementation of laws and regulations related to sharia economic governance;
b. enforcing the law in a fair, consistent and appropriate manner, in order to realize a sense of justice, certainty and the benefits of sharia economic law in society.

ULEMA

a. The role of the ulema in preparing fatwas is to issue fatwas as guidance for the implementation of sharia principles in entities carrying out sharia economic activities.
b. The role of the ulema in the preparation of sharia economic governance is to provide input so that the general guideline for sharia economic governance is in accordance with sharia principles.

c. The role of the ulema in guidance and education is to provide explanations and consultations on various matters related to sharia economic activities, including ethical and moral aspects.
d. The role of the ulema in supervision entails overseeing the implementation of Sharia principles in economic activities by entities and other actors within the Sharia economy.

SHARIA ECONOMIC ACTORS

Sharia economic actors play a role in implementing sharia economic governance as follows:

a. prepare entities to have strong commitment in implementing general guideline for sharia economic governance;
b. providing input to regulators in order to develop regulations that will cover all sectors and support the development of economic sectors in a sustainable manner.
c. implementing good governance in the entity.

SOCIETY

The role of society in sharia economic governance is:

a. provide input to regulators in drafting regulations
b. providing input to the Indonesian Ulema Council in the preparation of fatwas

The implementation and supervision roles are:

a. complying with and implementing applicable regulations related to sharia economic activities.
b. carrying out sharia economic activities in an ethical manner in order to encourage the creation of a healthy sharia economic environment.
c. supervising sharia economic activities.
d. increasing public awareness through education and literacy on sharia economics.

CHAPTER 3 THE GOVERNANCE PRINCIPLES OF INDONESIAN SHARIA ENTITY

PRINCIPLE

The principle of governance of Indonesian sharia entities is a basis and reference in making decisions for every aspect of commercial and social entity activities. Every entity within the scope of the sharia economy must ensure that every aspect and activity is based on the principles of PUG-ESI governance.

The Sharia economy is basically an economic activity whose achievements lead to the achievement of sharia goals *(maqasid sharia)*. This sharia goal is carried out by applying sharia values and principles so that the benefits and goals of sharia can be achieved. The determination of the suitability of sharia economic activities is based on basic values and principles of sharia economics which include 3 dimensions: a) Product Dimension, which requires the halal-ness of carried out activities, products, transactions and operations (b) Sources of Financing Dimension, which require sources of financing to be free from elements of usury *(riba)*, and (c) Behavioral Dimension, which pays attention to ethics, social care, and natural environment.

With these three dimensions, the definition of sharia economic activity will inherently contain added value from the production of entity activities in addition to its financial elements. This is the characteristic as well as the uniqueness of sharia economic activity which is the interrelations between the real sector and the sharia financial sector which is a commercial sector, as well as sharia social sector. The overall application of the dimensions in measuring the activities of sharia-based entities can reflect holistically in achieving *maqashid sharia*.

SPIRITUAL PRINCIPLES

In order to obtain blessings, the activities of sharia entities must be based on faith and piety which are manifested in the form of a commitment to two basic principles, i.e. halal and *thayyib*.

Halal principle. Allah SWT commands people to do what is lawful (halal) and forbids what is wrong *(bathil)* in the activities of entities. Halal includes two things, i.e. halal in terms of substances and halal in the process of acquiring and implementing business activities. In the Quran, activities that are prohibited in the Islamic law *(muamalah)* include:

a. *Riba* (increment/ziyadah), means interest of excess in an exchange for goods *(riba fadhl)* or an increment on principal of the debt in exchange for an absolute deferral of payment (riba nasi`ah);

b. *Maysir* (speculation/gambling), means every contract made with unclear objectives, and careless calculations, speculation, or luck;
c. *Gharar*, means uncertainty in a contract, both regarding the quality or quantity of the object of the contract as well as regarding the delivery;
d. *Zulm* (unjust), means something that contains elements of injustice, imbalance, and harms other parties;
e. *Dharar*, means actions that can cause harm or loss to other parties;
f. Tadlis, means the act of concealing defects in the object of contract carried out by the seller to trick the buyer as if the object of the contract is not defective
g. *Tabdzir*, means spending assets that are not in accordance with the designation of the assets or are not necessary under sharia law;
h. *Risywah*, means a gift given by a person/party to another person/party (official) with the intention to approve an invalid act (not lawful under sharia law);
i. *Maksiat*, means every act that is prohibited by Allah SWT. Based on the *fiqh* rules agreed upon by many ulema, everything is basically permissible unless there is an argument that forbids it *(al-ashlu fi al-mu'amalah al-ibaahah illaa an-yadulla daliilaan 'alaa tahriimihaa)*.

Thayyib principle. *Thayyib* includes all good values which are the added value of halal things in the context of achieving sharia goals *(maqashid sharia)*, i.e. the security and welfare for the wider community *(mashlahah al-'ammah)*. *Thayyib* includes two aspects, *ihsan* and *tawazun*.

a. Ihsan, means doing or giving the best and avoiding destructive behavior.
b. Tawazun, means keeping balance in the macro sense which includes, among others, the balance between spiritual and material, exploration and conservation, the financial sector and the real sector, risks and returns, and individual and collective interests.

OPERATIONAL PRINCIPLES

Operationally, sharia economic activity refers to two principles. The first principle is the characteristic and behavior of the prophets and apostles in their activities, i.e. siddiq, fathonah, amanah, and tabligh. The second principle is the principle used in entities in general, i.e. ethical behavior, accountability, transparency and sustainability. These two operational principles are necessary to achieve sustainability by taking into account the interests of stakeholders.

BASIC GUIDELINES FOR IMPLEMENTATION

Guidelines for Implementation as exemplified by the Prophet Muhammad

The practice of managing entities as exemplified by the Prophet Muhammad, describing his characteristic and behavior, as agreed by ulema, i.e. *siddiq*, *fathonah*, *amanah*, and *tabligh*. These four characteristics are:

a. *Siddiq* (truthful), means always declare and carry out the truth and honesty wherever and to whomever. The implication of this characteristic in managing entities is upholding honesty and avoiding all forms of fraud, embezzlement and deceitful behavior.
b. *Fathonah* (wisdom), means being able to think clearly and rationally and making decisions quickly and precisely. In managing entities, this *fathonah* characteristic is used to identify and determine things and/or activities that are halal, *thayyib*, *ihsan* and *tawazun*.
c. *Amanah* (trustworthy), means maintaining the trust given by Allah SWT and others. In managing entities, this characteristic is manifested in various forms of responsibility and accountability for the activities of the entity.
d. *Tabligh* (conveying), means conveying the Message from Allah SWT about the truth that must be upheld on earth. In managing entities, this characteristic is manifested in the form of disclosure and transparency of entity activities to the stakeholders.

These four qualities are essential to each other and represent a fundamental unity that embodies piety and faith.

GENERALLY APPLICABLE IMPLEMENTATION GUIDELINES

From the four characteristics of prophets and apostles, the principles of sharia economic governance, which are also in line with the generally accepted pillars of governance within entities, can be derived. The four pillars of governance are ethical behavior, accountability, transparency, and sustainability:

a. Ethical Behavior
   In carrying out its activities, a sharia entity always value honesty, treats all parties with respect, honor the commitments, consistently builds and maintains ethical values and beliefs. The sharia entity respects the interests of shareholders and other stakeholders in accordance with the principle of fairness, and each entity body is managed independently so it will not dominate other bodies or be interfered with by other parties. With independence, the leaders receive information and make the best decision according to their conscience without pressure from any party (QS Az-Zumar: 18)
b. Accountability
   Accountability is an important principle in sharia economics which is also stated in the Qur'an. Hearing, eyesight and the heart, all these will be held accountable. Responsibility for human actions is carried out both in this world and in the hereafter. Sharia economic actors must be accountable for their performance in a transparent and fair manner. As such, the sharia economy must be managed appropriately, measurably and in line with the interests of stakeholders and society in general. Accountability is the prerequisite to achieve sustainable performance. (QS. Al Baqarah: 282-284, HR. Bukhari: Hadith No. 844)

c. Transparency
To maintain objectivity in conducting business, the sharia entity provides material and relevant information in a manner that stakeholders can easily access and understand. The sharia entity takes the initiative to disclose not only matters required by laws and regulations, but also matters that are important for shareholders, creditors and other stakeholders in making decision. Sharia requires transparency and presentation of information in an honest manner (QS. Al Baqarah: 283).

d. Sustainability
The sharia entity complies with laws and regulations and is committed to carrying out responsibilities towards society and the environment in order to contribute to sustainable development by working with all relevant stakeholders to improve their lives and future generations in a way that is consistent with business interests and the sustainable development agenda (QS. An-Nisa: 9).

CHAPTER 4 SUMMARY OF THE PRINCIPLES OF INDONESIAN SHARIA COMMERCIAL ENTITY GOVERNANCE

The Principles of Indonesian Sharia Commercial Entity Governance consist of eight principles which are divided into three groups of principles: (1) the principles governing the bodies of entity governance, (2) the principles governing the processes and outcomes generated by the aforementioned bodies, and (3) the principles governing the beneficiaries of the implementation of entity governance.

The principles of the first group are stated in principles 1 to 3. The principles of the second group are stated in principles 4 to 6. The principles of the third group are stated in principles 7 and 8.

Principle 1: Roles and Responsibilities of the Board of Directors, Board of Commissioners, and Sharia Supervisory Board
The Board of Directors, the Board of Commissioners, and Sharia Supervisory Board carry out their roles and responsibilities independently to create sustainable value for the long-term best interests of the entity and its shareholders, taking into account the interests of the stakeholders.

Principle 1 relates to the roles and responsibilities of the Board of Directors in managing the entity and the roles and responsibilities of the Board of Commissioners in supervising the management of the entity by the Directors, *as well as the roles and responsibilities of Sharia Supervisory Board in ensuring sharia economic entities carry out sharia-compliant management*. In addition, this Principle governs the performance evaluation of the Board of Directors, the Board of Commissioners, and Sharia Supervisory Board as well as their respective members, the handling of conflicts of interest arising among members of the Board of Directors, members of the Board of Commissioners, and members of the Sharia Supervisory Board, as well as increasing the competencies of members of the Board of Directors, Board of Commissioners, and Sharia Supervisory Board.

Principle 2: Composition and Remuneration of the Board of Directors, Board of Commissioners, and Sharia Supervisory Board
Members of the Board of Directors, the Board of Commissioners, and Sharia Supervisory Board are selected and appointed in such a way that the composition of the Board of Directors as the management body and the composition of the Board of Commissioners and Sharia Supervisory Board as a supervisory body is diverse and each consists of Directors, Commissioners, Supervisors who have the commitment, knowledge, ability, experience and expertise necessary to properly perform the management role of the

Board of Directors and the supervisory role of the Board of Commissioners and Sharia Supervisory Board.

The remuneration is designed to effectively align the interests of members of the Board of Directors, the Board of Commissioners and Sharia Supervisory Board with the long-term interests of the entity and sustainable value creation.

Principle 2 requires the selection and appointment of members of the Board of Directors, Board of Commissioners, and Sharia Supervisory Board in such a way so that they will have the knowledge, abilities, and expertise required in accordance with their respective roles as management and supervisory bodies. In addition, this Principle emphasizes the importance of remuneration policies to encourage members of the Board of Directors, Board of Commissioners, and Sharia Supervisory Board to prioritize the long-term interests of the entity based on the principle of sustainability, and requires the disclosure of remuneration policies and information received by the Board of Directors, Board of Commissioners, and Sharia Supervisory Board in a transparent and accountable manner.

Principle 3: Work Relationship between the Board of Directors, the Board of Commissioners, and Sharia Supervisory Board

The Board of Directors, Board of Commissioners, and Sharia Supervisory Board have a close, open, constructive, professional and mutual trusting work relationship for the best interests of the entity.

Principle 3 emphasizes the importance of a close, open, constructive, professional, mutual trusting work relationship between the Board of Directors, Board of Commissioners, and Sharia Supervisory Board in achieving the best interests of the entity. Principle 3 also addresses the need for the Board of Commissioners and Sharia Supervisory Board to access complete information and the importance for members of the Board of Directors, Board of Commissioners, and Sharia Supervisory Board to understand the implications of the entity ownership structure for carrying out their roles.

Principle 4: Ethical Behavior and Responsible

The sharia commercial entity has a commitment to act in an ethical behavior and responsible to uphold the values and culture of the organization.

Principle 4 requires sharia entity to make periodic statements regarding their commitments not only to comply with applicable laws and regulations, but also commitments to act in ethical behavior and be responsible.

Principle 5: Risk Management, Internal Control and Compliance

The sharia commercial entity carries out entity governance practices that are integrated with the implementation of internal control and risk management systems, as well

as an effective compliance management system in order to support the achievement of entity's goals, vision, mission, objective and performance targets in running the business with integrity.

Principle 5 requires the Board of Directors to implement governance, internal control and risk management systems, as well as compliance management system in integrated manner as part of the strategies, management tools, and practices carried out by corporations in running responsible business as good corporate citizens. The Board of Commissioners monitors and provides input on the effectiveness of the implementation of governance, internal control and risk management systems, as well as the entity compliance management system which is implemented in an integrated manner by the Board of Directors. The Sharia Supervisory Board supervises and provides input on the compliance of the Board of Directors in managing entities by implementing sharia principles.

Principle 6: Disclosure and Transparency
The sharia commercial entity makes accurate and timely disclosures regarding all material matters concerning the entity.

Principle 6 requires entity to have a governance framework than can provide assurance of accurate and timely disclosure of all material matters concerning the entity, which includes among others financial condition and performance, ownership of the entity, and entity governance.

Principle 7: Rights of Shareholders
A sharia-compliant business entity guarantees equitable treatment for all shareholders, including minority shareholders, and safeguards and enables the exercise of shareholder rights. Every shareholder has the right to pursue appropriate compensation for any infringements on their rights.

Principle 7 addresses the fulfillment of shareholder rights and equitable treatment for shareholders, how active collaboration between entity and their shareholders is carried out and the effective exercises of some shareholder rights through the GMS.

Principle 8: Rights of Stakeholders
The sharia commercial entity recognizes the rights of its stakeholders as stipulated by law or agreement entered into by the entity and encourages active cooperation with stakeholders in creating wealth, jobs, and the sustainability of financially sound entity.

Principle 8 addresses the role of the Board of Directors, Board of Commissioners and Sharia Supervisory Board in integrating sustainability in the entity business model, carrying out stakeholder engagement, and ensuring the protection of the rights of stakeholders. The Board of Commissioners monitors the integration mentioned above by the Board of Directors.

CHAPTER 5 EIGHT PRINCIPLES OF INDONESIAN SHARIA COMMERCIAL ENTITY GOVERNANCE

1. ROLES AND RESPONSIBILITIES OF THE BOARD OF DIRECTORS, BOARD OF COMMISSIONERS AND SHARIA SUPERVISORY BOARD

The Board of Directors, Board of Commissioners, and Sharia Supervisory Board carry out their roles and responsibilities independently in creating sustainable value for the best long-term interests of the entity and its shareholders, taking into account the interests of stakeholders.

The Board of Commissioners in carrying out its supervisory role and providing advice to the Board of Directors, as well as the Board of Directors in carrying out its management role, must carry out their fiduciary responsibilities in good faith and in prudence based on relevant and complete information for the best long-term interests of the entity.

All members of the Board of Directors, members of the Board of Commissioners, and members of Sharia Supervisory Board shall avoid conflicts of interest and acts of pursuing personal interests in making a decision. As a form of accountability for carrying out their roles, the performance of the Board of Commissioners, Sharia Supervisory Board, Board of Directors and each member shall be evaluated. The Board of Directors, Board of Commissioners, and Sharia Supervisory Board shall create competency development programs for their members in order to ascertain whether the Commissioners', Sharia Supervisor's, and Directors' competencies meet the needs of the entity.

1.1 Roles and Responsibilities of the Board of Directors

Recommendation

1.1.1 To achieve sustainable value creation, the Board of Directors carries out its leadership role and strives for the following governance outcomes:
- a. competitive and focused on long-term performance;
- b. ethical and responsible in running the business;
- c. contribute positively to society and the environment; and
- d. ability to survive and grow (corporate resilience)

Guidance

1.1.1.1 The Board of Directors embodies high standards of business ethics and ensures the implementation of code of ethics that creates a culture of integrity

1.1.1.2 The Board of Directors promotes an entity culture that ensures the

employees understand their responsibility to act in accordance with entity values and high standards of business ethics.

1.1.1.3 The Board of Directors ensures the fulfilment of entity social and environmental responsibilities. The Board of Directors has a clear strategic plan in carrying out entity social and environmental responsibilities.

1.1.1.4 The Board of Directors ensures that the entity is financially strong and operationally agile.

Recommendation

1.1.2 The Board of Directors ensures that the entity mission, vision, goals, objectives, strategies, annual and mid-term plans are consistent with long-term goals, by utilizing the latest innovation and technology effectively.

Guidance

1.1.2.1 In developing strategies and plans, the Board of Directors promotes innovation and the use of cutting-edge technology to increase competitiveness, respond to stakeholder concerns and expectations, and fulfill social and environmental responsibilities.

1.1.2.2 The Board of Directors prioritizes and promotes an entity culture that includes innovation and integrates the innovation into entity strategy, operational development plans, and operational control.

1.1.2.3 The Board of Directors encourages innovation that enhances long-term value creation for businesses in a changing environment. Such innovation may include designing innovative business models, products and services, promoting research, improving production and operations processes, and collaborating with partners.

Recommendation

1.1.3 The Board of Directors ensures that the entity implements an appropriate and effective risk management and internal control system that is aligned with the entity vision, mission, goals, objectives and strategies and complies with applicable laws, regulations, and standards.

1.1.4 The Board of Directors ensures the integrity of the entity accounting and financial reporting system and the timely and accurate disclosure of all material information about the entity.

Guidance

1.1.4.1 The Board of Directors ensures that everyone involved in the preparation and disclosure of entity information has relevant knowledge, skills and experience, as can be reflected from relevant professional certification issued by a reputable institution. In addition, the Board of Directors also ensures the availability of adequate resources (including employees).

1.1.4.2 In approving the disclosure of information (including periodic disclosure

of financial information), the Board of Directors considers all of the following factors:

a. The evaluation results of the soundness of the design and the effectiveness of the implementation of internal control system
b. Opinion of external auditor on financial statements, observations on the internal control system, and other observations through other sources
c. Opinion of the Audit Committee
d. Consistency with goals, strategies and policies.

1.1.4.3 The Board of Directors submits a report commenting on the Quarterly Financial Statements and publishes it together with the Quarterly Financial Statements for the benefit of investors and analysts who will review the fundamentals and financial performance of the entity.

Recommendation

1.1.5 The Board of Directors ensures that the sustainability report is properly prepared.

Guidance

1.1.5.1 Sustainability reports are prepared based on a reporting framework that is appropriate to the size and complexity of the entity and meets national and/or global standards.

1.1.5.2 Entity sustainability reports reflect entity practices that support sustainable value creation.

Recommendation

1.1.6 The Board of Directors establishes entity information technology (IT) governance framework that is in line with entity business needs and priorities, promotes business opportunities and performance, strengthens risk management, and supports entity goals and strategies.

Guidance

1.1.6.1 The Board of Directors ensures that the entity has an IT resource allocation policy that ensures adequate and optimal investment and allocation of IT resources.

1.1.6.2 IT risk management is a component of entity risk management, that needs to be guaranteed by the Board of Directors.

1.1.6.3 The Board of Directors ensures that the entity has IT security policies and procedures, including the protection of data security and confidentiality.

Recommendation

1.1.7 The Board of Directors has the duty and responsibility of implementing PUG-ESI to achieve sustainable performance and compliance with sharia

principles. The Board of Directors builds a reliable sharia entity governance framework that is appropriate to the size, nature and complexity of the entity.

1.1.8 The Board of Directors is responsible for operation, cooperation and other activities in accordance with sharia principles.

1.1.9 Members of the Board of Directors constantly seek to increase their comprehension and expertise in sharia principles.

Guidance

1.1.9.1 In order to fulfill this responsibility, the Board of Directors:

a. creates an organizational structure and reporting structure that provides a clear scope of accountability between business lines and internal control functions in managing sharia compliance risk;
b. implements effective sharia governance policies, procedures and practices in accordance with the directions of the Board of Commissioners and Sharia Supervisory Board;
c. implements suggestions and input from Sharia Supervisory Board;
d. carries out activities and effective communication of sharia activities with other sharia financial institutions and reports these activities to the Board of Commissioners and Sharia Supervisory Board;
e. carries out regular assessments to evaluate the quality of operational support provided to Sharia Supervisory Board;
f. provides transparent, accurate and timely reports on the implementation of sharia compliance as well as conditions for potential or occurrence of sharia violations to the Board of Commissioners and Sharia Supervisory Board.

Recommendation

1.1.10 The Board of Directors provides adequate facilities and human resources to support the implementation of Sharia Supervisory Board work.

Guidance

1.1.10.1 The Board of Directors provides facilities and human resources in accordance with the nature and size of the entity.

1.1.10.2 The Board of Directors facilitates the implementation of work related to sharia reviews and audits.

1.1.10.3 The Board of Directors provides full access to Sharia Supervisory Board and sharia auditors for information and documents at all managerial levels.

1.1.10.4 The entity ensures that the Sharia Supervisory Board is properly informed of the work, considerations and decisions made by the individuals/units that are delegated;

Recommendation

1.1.11 The Board of Directors needs to ensure the authority and availability

of adequate supporting tools so that the Sharia Supervisory Board can carry out its role effectively.

1.1.12 The Board of Directors Charter is reviewed periodically. The charter includes, among others, the division of the roles between each director as determined in the Board of Directors Charter or by a decree of the Board of Directors.

1.1.13 The Board of Directors has a policy regarding the resignation of its members if they are involved in a financial crime and proven guilty.

1.2 Performance Assessment: Board of Directors and its Members

Recommendation

1.2.1 The Board of Commissioners conducts an objective and independent annual formal evaluation to determine the effectiveness of the Board of Directors and each individual director.

Guidance

1.2.1.1 The Board of Commissioners establishes a self-assessment policy for the Board of Directors to assess their performance. The results of the self-assessment are submitted to the Board of Commissioners to be evaluated and if needed, be adjusted to the Board of Commissioners' assessment.

1.2.1.2 Self-assessment policies or other assessment policies are based on benchmarks that are specific, measurable, achievable, relevant and in accordance with those determined by the Board of Commissioners based on the consideration of the Nomination and Remuneration Committee, and serve as the basis for assessing the accountability of the Board of Directors in relation to the extend the entity achieves its performance targets. The selected benchmarks are included in the work agreement between the Board of Directors and the Board of Commissioners.

1.2.1.3 The shareholders must approve the compensation plan before shares can be awarded to employees, board of directors, and board of commissioner members..

1.2.1.4 The reappointment of members of Board of Directors' term of office is based on the results of a satisfactory performance evaluation of their contribution.

Recommendation

1.2.2 The Board of Commissioners is responsible for determining performance evaluation criteria and assessing the performance of the President Director and other members of the Board of Directors taking into account consideration of the Nomination and Remuneration Committee.

Guidance

1.2.2.1 The Board of Commissioners ensures that the performance evaluation of the President Director is based on predetermined criteria that have been communicated in advance. Performance criteria or evaluation should provide incentives for the President Director to carry out the role in supporting the achievement of entity goals and creating sustainable value.

1.2.2.2 The Board of Commissioners conducts an annual performance evaluation of the President Director taking into account consideration of the Nomination and Remuneration Committee. The Board of Commissioners or the Chair of the Nomination and Remuneration Committee, appointed by the Board of Commissioners, communicates the results (including development areas) of performance evaluation to the President Director.

1.2.2.3 The Board of Commissioners approves the performance evaluation criteria for other members of the Board of Directors taking into consideration of the Nomination and Remuneration Committee. The Board of Commissioners ensures that the President Director evaluates the performance of other members of the Board of Directors objectively and accurately based on predetermined performance evaluation criteria.

1.3 Roles and Responsibilities of the Board of Commissioners

Recommendation

1.3.1 The Board of Commissioners reviews the entity strategy at least annually and approves the entity mission, vision and strategy formulated by the Board of Directors. The Board of Commissioners also reviews, provides advice and approves business plans and long-term financial plans and entity short-term financial plans. The Board of Commissioners provides advice and monitors the Board of Directors in managing its implementation. The Board of Directors and Board of Commissioners are involved in decisions that are critical for the entity and are regulated in the articles of association of the entity.

1.3.2 Types of decisions that require an approval of the Board of Commissioners are disclosed in the annual report.

1.3.3 The Board of Commissioners proposes to, and to be decided by, the GMS the appointment and/or dismissal of members of the Board of Directors, members of Sharia Supervisory Board and members of the Board of Commissioners, by taking into account the recommendations of the Nomination and Remuneration Committee. In proposing the above, the Board of Commissioners pays attention to diversity, non-discriminatory elements and provides equal opportunities regardless of ethnicity, religion, race, class and gender. The Board of Commissioners ensures that the process

of nominating and selecting members of the Board of Directors, members of Sharia Supervisory Board and members of the Board of Commissioners is formal and transparent.

1.3.4 The Board of Commissioners or the Committee carrying out the nomination function formulates a succession policy in the process of nominating members of the Board of Directors. Every year the Board of Commissioners reviews the report on the implementation of the development and succession plans submitted by the President Director.

1.3.5 The Board of Commissioners a) submit the amount of remuneration for members of the Board of Directors, members of Sharia Supervisory Board and members of the Board of Commissioners to the GMS, which may be preceded by recommendations from the Committee that carries out the remuneration function, in line with sustainable entity development and the long-term interests of the entity and shareholders; b) periodically reviews the remuneration system for the Board of Directors, Sharia Supervisory Board and Board of Commissioners.

1.3.6 The Board of Commissioners supervise the effectiveness of entity governance policies and their implementation and proposes changes as necessary.

Guidance

1.3.6.1 The Board of Commissioners ensures that the implementation of the entity governance policies is regularly evaluated independently or by independent external consultants.

Recommendation

1.3.7 The Board of Commissioners monitors and directs the entity to implement appropriate and effective risk management, as well as internal control systems that are aligned with entity goals, objectives and strategies, and to comply with laws and regulations, codes of conduct and applicable standards.

Guidance

1.3.7.1 The Board of Commissioners understands the nature and scope of the major entity risks, and periodically reviews and approves the entity risk appetite.

1.3.7.2 The Board of Commissioners monitors and provides feedback to ensure that:

a. the establishment and implementation of risk management policies are consistent with the objectives, goals, strategies and risk appetite of the entity,

b. the risk management policies can provide early warning signals for material risks,

c. the risk management policies are reviewed periodically, e.g., annually.

1.3.7.3 The Board of Commissioners monitors and provides input so that the main risks are identified through consideration of internal and external factors.

1.3.7.4 The Board of Commissioners monitors and provides feedback to ensure that the impact and likelihood of risk has been assessed, and that appropriate risk mitigation strategies and plans are in place

1.3.7.5 The Board of Commissioners regularly monitors the effectiveness of risk management and the internal control system

Recommendation

1.3.8 The Board of Commissioners carries out supervision and provides directions in order to achieve the integrity of the accounting and entity financial reporting systems, as well as the independence of the internal and external audit functions.

Guidance

1.3.8.1 Prior to approving the financial statements, the Board of Commissioners receives statements from the President Director and the Entity Finance Director, that in their opinion, the financial records have been properly managed and the financial statements have been prepared in accordance with applicable accounting standards and fairly present the position and the financial performance of the entity and that their opinion is based on a properly designed and effectively implemented risk management and internal control system.

Recommendation

1.3.9 The Board of Commissioners monitors, reviews and approves the annual reports and entity sustainability reports and ensures their integrity, as well as oversees the disclosure and communication processes.

1.3.10 The Board of Commissioners Charter is periodically reviewed.

1.3.11 The Board of Commissioners has a policy regarding the resignation of their members if they are involved in financial crime and proven guilty.

1.3.12 Independent Commissioners are strongly expected to be able to contribute to honest, objective, active and constructive discussions at Board of Commissioners meetings.

Guidance

1.3.12.1 If the President Commissioner is not an Independent Commissioner, then the Board of Commissioners shall appoint an Independent Commissioner or senior Independent Commissioner (if there are more than one Independent Commissioner) to carry out the role of the President Commissioner for duties that have a potential conflict of interest

with affiliated parties. The criteria for appointing a senior Independent Commissioner are: a) able to convey opinions/arguments constructively to the President Commissioner; b) compared to other commissioners, has more knowledge about the entity, including its performance, market and stakeholders; c) able to provide balanced views/thoughts on issues and concerns from majority shareholders.

1.3.12.2 In carrying out the role as a member of the Board of Commissioners, an independent Commissioner must:

a. Act in the best interests of the entity;
b. Monitor conflicts of interest between entity and members of the Board of Directors, Sharia Supervisory Board, and Board of Commissioners or controlling shareholders;
c. Pay attention independently to the views of minority shareholders and other stakeholders; and
d. Encourage dialogue between management, shareholders and other stakeholders.

1.3.12.3 The entity will disclose the reasons for the termination of Independent Commissioner before the expiration of the term of office.

Recommendation

1.3.13 The President Commissioner acts as the coordinator of the Board of Commissioners and ensures its effectiveness. The President Commissioner promotes a culture of openness and constructive dialogue that allows a variety of views to be expressed, including coordinating the setting of appropriate board meeting agendas and ensuring the availability of sufficient time to discuss all agenda items. In addition, there should also be an opportunity for the Board of Commissioners to meet with the Board of Directors and Sharia Supervisory Board.

Guidance

1.3.13.1 Details of the duties of the President Commissioner are disclosed in the annual report and entity website.

1.3.13.2 The President Commissioner coordinates the distribution of supervisory roles among members of the Board of Commissioners, chairs the meetings of the Board of Commissioners and represents the Board of Commissioners in dealings with parties outside the Board of Commissioners.

1.3.13.3 Former President Director and members of the Board of Directors who are selected as members of the Board of Commissioners cannot be directly appointed as the President Commissioner. There needs to be a gap of 2 (two) years to be re-appointed as the President Commissioner. If the Board of Commissioners decides that the former President Director/member of the Board of Directors needs to become the President Commissioner, the Board of Commissioners will provide the

reasons and explanations in Annual Report.

Recommendation

1.3.14 The Board of Commissioners as a body of the company has the duty and responsibility of supervising and providing advice to the Board of Directors and ensuring that Entities have implemented PUG-ESI, as part of the duties of the Board of Commissioners in supporting sustainable growth and compliance with sharia principles. The Board of Commissioners builds a sharia entity governance framework that is appropriate to the size, nature and complexity of the entity

1.3.15 Members of the Board of Commissioners always improve their understanding and knowledge in relation to sharia principles so that their duties and responsibilities in relation to sharia compliance can be properly carried out. The supervisory and advisory functions of the Board of Commissioners include preventive, corrective and punitive actions.

Guidance

1.3.15.1 The Board of Commissioners provides approval regarding governance structure and reporting, risk management of non-compliance with sharia principles, and other matters that may affect the implementation of effective sharia governance in the entity.

1.3.15.2 Ensure that the Board of Directors has implemented decisions, suggestions, directions, opinions, and supervision results from Sharia Supervisory Board, including the implications that arise from this implementation.

1.3.15.3 Supervise the implementation of internal control related to sharia principles to prevent sharia non-compliance practices.

1.3.15.4 Supervise the performance of the directors and units assigned to implement sharia governance in order to achieve sharia governance objectives.

1.3.15.5 Encourage an entity culture that reflects the importance of implementing sharia principles through activities, products, transactions and operations, as well as other aspects to achieve sharia compliance.

1.4 Establishment of the Committee

Recommendation

1.4.1 The entity has committees under the Board of Commissioners consisting of at least: the Audit Committee, the Nomination and Remuneration Committee and the Risk Management Monitoring Committee.

Guidance

1.4.1.1 For Committees that are not required by law, if the entity does not have

the Committee, this fact needs to be disclosed as well as the process used to ensure that the function of the Committee is properly carried out by the Board of Commissioners.

Recommendation

1.4.2 The Board of Commissioners ensures that all members of the Audit Committee are independent and the majority of other committees established by the Board of Commissioners are independent parties, and all committee members are competent, committed and have sufficient authority to carry out their roles effectively and independently.

Guidance

1.4.2.1 The Committee has a charter which clearly defines its role and grants the necessary authority to carry out its role. This authority includes, among other things, the right to obtain information, meet with relevant parties in relation to the performance of their duties (with or without the presence of management), and seek advice from independent external consultants/experts if the committee deems necessary.

Recommendation

1.4.3 To ensure objective and independent monitoring of the implementation of Audit Committee duties, the President Commissioner may not become the chair of Audit Committee, except in extraordinary circumstances which must be explained in the annual report

1.5 Performance Assessment: Board of Commissioners and its Members

Recommendation

1.5.1 The Board of Commissioners conducts an objective annual formal evaluation to determine the effectiveness of the Board, its committees, and each individual commissioner.

Guidance

1.5.1.1 The Board of Commissioners may have a self-assessment policy to assess the performance of the board as a whole.

1.5.1.2 The self-assessment policy or other assessment policy is based on benchmarks or assessment criteria that are specific, measurable, achievable, and relevant and in accordance with those determined by the Board of Commissioners.

1.5.1.3 The reappointment of the commissioners is based on the results of a satisfactory performance evaluation of their contribution.

1.5.1.4 The Board of Commissioners engages an independent external consultant on a regular basis at least once in their term of office, to facilitate an

objective and honest evaluation of the performance of the Board of Commissioners.

1.6 Roles and Responsibilities of Sharia Supervisory Board

Recommendation

1.6.1 The Sharia Supervisory Board has a strong position in relation to sharia supervision in order to carry out its functions effectively.

Guidance

1.6.1.1 The Sharia Supervisory Board has supporting bodies to carry out its duties properly.

Recommendation

1.6.2 To help with the task of monitoring sharia compliance, the Sharia Supervisory Board has established a Sharia Audit Committee

1.6.3 The Sharia Supervisory Board works with clear responsibilities. The Sharia Supervisory Board is responsible for providing objective and reliable advice, directions, opinions and supervision to ensure that sharia economic entities have carried out activities, products, transactions and operations in compliance with sharia principles.

Guidance

1.6.3.1 The Sharia Supervisory Board has a charter which clearly defines the duties and responsibilities as well as procedures in terms of making decisions, suggestions, directions, opinions, supervision, and procedures for resolving differences of opinion.

1.6.3.2 In the event that the Sharia Supervisory Board believes that there are sharia issues that might affect the health and sustainability of the entity as well as compliance with sharia principles, the Sharia Supervisory Board shall immediately convey this matter to the Board of Commissioners.

1.6.3.3 The duties and obligations of the Sharia Supervisory Board are as follows:

a. Supervise the entity's products and business activities to comply with sharia provisions and principles;
b. Make sharia opinions on requests/questions and/or findings in the institutions they supervise; and
c. Supervise and provide advice and suggestions to the Board of Directors regarding matters that are in accordance with sharia provisions and principles.
d. Conduct periodic reviews of the implementation of sharia provisions and principles.
e. Maintain the confidentiality of company documents, data and

information that is supervised and advised.

f. Support companies and utilize on behalf of supervised entities in discussion with the fatwa-making authorities.
g. Provide a statement of sharia conformity/opinion on the product or service of the entity it supervises.
h. Participate in advanced education programs and/or activities organized by regulators in order to increase the competence of Sharia Supervisory Board.
i. Organize regular Sharia Supervisory Board meetings in accordance with the applicable laws and regulations.
j. Ensure effective, precise and fast decision-making and able to act independently, not having interests that could interfere with their ability to carry out tasks independently.

1.6.3.4 In order to carry out the duties and responsibilities effectively, the Sharia Supervisory Board has the authority to:

a. Provide advice and suggestions to the Board of Commissioners and Board of Directors regarding matters related to sharia aspects;
b. Give warnings to the Board of Directors to make efforts to stop any sharia irregularities; and is authorized to report it to the authorities.

1.6.3.5 In the event that the Sharia Supervisory Board believes there are sharia issues that might affect the health and sustainability of the entity as well as compliance with sharia principles, then the Sharia Supervisory Board shall immediately convey this matter to the Board of Commissioners.

Recommendation

1.6.4 The Sharia Supervisory Board bears responsibility for decisions, recommendations, guidance, viewpoints, and oversight concerning excellence, precision, and dependability.

Guidance

1.6.4.1 The Sharia Supervisory Board determines a reliable method in the process of making decisions and providing advice. Decisions, suggestions, directives, opinions and monitoring results are made by taking into account relevant business practices and risks.

1.6.4.2 The Sharia Supervisory Board may request assistance from professional parties such as legal experts, accounting experts, financial experts, or economic experts at the expense of sharia economic entities, whenever needed, so that it can carry out their functions effectively.

1.6.4.3 The Sharia economic entity appoint internal sharia compliance unit staff to assist Sharia Supervisory Board in carrying out its duties. The internal sharia compliance unit staff who assist the Sharia Supervisory Board is also the Sharia Supervisory Board secretariat. The Sharia Supervisory Board can delegate certain tasks to individuals or units within the entity.

In this case, then:

a. mandates, delegated tasks, authorities, and implementation procedures are clearly stated;
b. The entity keeps the Sharia Supervisory Board well informed of the work, considerations and decisions made by the individuals/units that are delegated;
c. The Sharia Supervisory Board remains fully responsible for the decisions and implications of the decisions and delegated work.

Recommendation

1.6.5 The Sharia Supervisory Board meeting is chaired by the Chairman of Sharia Supervisory Board. The meeting is attended by the members of Sharia Supervisory Board and relevant invitees.

Guidance

1.6.5.1 The Sharia Supervisory Board meeting is chaired by the Chairman of The Sharia Supervisory Board. In the event that the chairman of The Sharia Supervisory Board is unable to attend, the present members shall choose one of them to chair the meeting.

1.6.5.2 Sharia Supervisory Board meetings may invite the Board of Directors or the Board of Commissioners to convey the views of the entity, but cannot participate and do not have voting rights in making decisions and are not counted in the meeting quorum.

1.6.5.3 Sharia Supervisory Board meetings may invite professionals such as legal experts, financial experts, or economic experts to provide opinions and input, but cannot participate and do not have voting rights in making decisions and are not counted into the meeting quorum.

Recommendation

1.6.6 Sharia Supervisory Board meetings are recommended to be attended by representatives of the sharia compliance unit, internal audit unit and risk management unit.

1.6.7 The Sharia Supervisory Board makes regular reports and submits them to the Board of Commissioners and related authorities. The report should be able to reflect the independence of the Sharia Supervisory Board from the management of the entity. The report is also issued for management consulting activities that require Sharia Supervisory Board recommendations and opinions and submitted to management, the Board of Commissioners or related authorities.

Guidance

1.6.7.1 In each consultation provided by the Sharia Supervisory Board to sharia economic entities, the Sharia Supervisory Board may issue the following

reports:

a. annual sharia compliance report;
b. internal sharia review/audit reports on products offered to consumers (ex-post);
c. reports related to product design and development (ex-ante), reported to the Board of Directors and Board of Commissioners;

1.6.8 Fact-finding reports in relation to certain cases, shall be submitted to the Board of Directors/Board of Commissioners.

1.7 Performance Assessment – Sharia Supervisory Board and its Members

Recommendation

1.7.1 The Sharia Supervisory Board conducts an objective annual formal evaluation to determine the effectiveness of the Board and each member of the Sharia Supervisory Board.

Guidance

1.7.1.1 The Sharia Supervisory Board may have a self-assessment policy to assess the performance of the board as a whole.

1.7.1.2 The self-assessment policy or other assessment policy is based on benchmarks or assessment criteria that are specific, measurable, achievable, and relevant and in accordance with those determined by the Sharia Supervisory Board.

1.7.1.3 The reappointment of the Sharia Supervisors is based on the results of a satisfactory performance evaluation of their contribution.

1.7.1.4 The Sharia Supervisory Board engages an independent external consultant on a regular basis at least once in their term of office, to facilitate an objective and honest evaluation of the performance of the Sharia Supervisory Board.

1.8 Conflict of Interest

Recommendation

1.8.1 Members of the Board of Directors who have concurrent positions outside the entity, must obtain approval from the Board of Commissioners. A Commissioner shall notify the Board of Commissioners and the chair of the committee carrying out the nomination function, prior to accepting a new appointment as director, sharia supervisor, commissioner, other directorship or other position with a significant time commitment.

Guidance

1.8.1.1 The Board of Commissioners ensures the clear policies and guidelines for the members of the Board of Directors or members of Sharia

Supervisory Board who serve or wish to serve as directors or commissioners or members of Sharia Supervisory Board in other entity. The policy should specify appointments that are permitted and the number of entities in which they are permitted to simultaneously serve as directors, commissioners, or sharia supervisor.

Recommendation

1.8.2 The Board of Commissioners monitors and manages potential conflicts of interest of management, members of the Board of Directors, Board of Commissioners, Sharia Supervisory Boards, and shareholders, including misuse of entity assets and abuse in related party transactions. Commissioners or sharia supervisory who have conflicts of interest shall not participate in monitoring and making decisions on potential conflicts of interest involving the Commissioners, affiliates of Commissioners, or Sharia Supervisor concerned.

Guidance

1.8.2.1 The Board of Commissioners has procedures to ensure that members of the Board of Directors, members of the Board of Commissioners, and members of the Sharia Supervisory Board who have conflicts of interest do not participate in making decisions (abstaining) related to the conflict of interest.

1.8.2.2 Each member of the Board of Commissioners or Sharia Supervisory Board shall immediately inform the Board of Directors, Board of Commissioners, and the Sharia Supervisory Board if there is a potential conflict of interest, including as a result of their position as a consultant or official at customer company, supplier, creditor or other business partner.

1.8.2.3 All members of the Board of Directors shall immediately disclose their potential conflict of interest to the Board of Commissioners and other members of the Board of Directors and do not participate in decision making in the event that the person concerned has a conflict of interest.

1.8.2.4 In its report, the Board of Commissioners or Sharia Supervisory Board shall inform the GMS regarding a material conflict of interest that occurs, along with its treatment. A material conflict of interest that is not temporary can result in termination as a member of the board.

1.9 Competency Improvement of Members of the Board of Directors, Board of Commissioners and Sharia Supervisory Board

Recommendation

1.9.1 The Board of Commissioners ensures that the members of the Board of Directors, Board of Commissioners, and Sharia Supervisory Board

understand their roles and responsibilities, characteristics and operations of the entity, relevant laws and regulations as well as standards and other applicable obligations. The Board of Directors through the entity secretary supports all members of the Board of Directors, Board of Commissioners, and Sharia Supervisory Board in updating and refreshing their skills and knowledge necessary to carry out their roles on the Board.

Guidance

1.9.1.1 The Board of Directors ensures that newly appointed members of the Board of Directors, Board of Commissioners, and Sharia Supervisory Board receive a formal and adequate induction program as well as all information relevant to their roles and responsibilities.

1.9.1.2 Members of the Board of Directors, Board of Commissioners, and Sharia Supervisory Board regularly receive relevant, adequate and continuing training and knowledge development programs.

1.9.1.3 Members of the Board of Directors, Board of Commissioners, and Sharia Supervisory Board regularly receive an accurate, timely and clear information regarding the latest developments in laws and regulations as well as relevant standards, other applicable obligations, risk factors and the entity business environment

2. COMPOSITION AND REMUNERATION OF THE BOARD OF DIRECTORS, BOARD OF COMMISSIONERS AND SHARIA SUPERVISORY BOARD

Members of the Board of Directors, Board of Commissioners, and Sharia Supervisory Board are selected and appointed in such a way that the composition of the Board of Directors, Board of Commissioners, and Sharia Supervisory Board is diverse and each consists of Directors, Commissioners, and Sharia Supervisors who have the commitment, knowledge, abilities and expertise necessary to properly perform the management role of the Board of Directors and the supervisory role of the Board of Commissioners and Sharia Supervisory Board.

Remuneration is designed to effectively align the interests of members of the Board of Directors, members of the Board of Commissioners, and members of Sharia Supervisory Board with the long-term interests of the entity and sustainable value creation.

The Board of Commissioners shall prepare; a). a composition and nomination process for the members of the Board of Directors, members of the Board of Commissioners, and members of Sharia Supervisory Board and b). policies and criteria required in the process of nominating candidates for the members of the Board of Directors, members of the Board of Commissioners,

and members of Sharia Supervisory Board. Correspondingly, the Board of Commissioners is required to develop a remuneration structure, remuneration policy and remuneration amount for the members of the Board of Directors, Board of Commissioners, and Sharia Supervisory Board.

2.1 Composition of the Board of Directors, Board of Commissioners and Sharia Supervisory Board

Recommendation

2.1.1 The Board of Commissioners, through the Nomination and Remuneration Committee, does not rely solely on recommendations from the Board of Commissioners, management, or major shareholders in determining Director, Commissioner, and Sharia Supervisor candidates. The Board of Commissioners, through the Nomination and Remuneration Committee, can use independent sources to determine eligible candidates.

2.1.2 The Board of Commissioners ensures that the criteria in selecting members of the Board of Directors include at least the knowledge, abilities, and expertise necessary to properly perform the role of the Board of Directors and pay attention to the diversity of the Board of Directors.

Guidance

2.1.2.1 Information about candidates for the Board of Directors should be disclosed in the election/re-election process and shall be available from the date of notice of GMS to the date of GMS and can be downloaded through Public Company website and/or e-GMS, including:

a. identity of the candidate and reasons for appointment;
b. core competencies, qualifications, and professional background;
c. current position in other entity, as well as important roles in non-profit/ charity organizations;
d. factors that affect independence, including the relationship with the controlling shareholder;
e. length of term of office;
f. attendance at Board of Directors meetings (except for new Directors); and
g. share ownership in the entity

2.1.2.2 The composition of the Board of Directors must be formed in such a way that its members as a group reflect the diversity in terms of abilities, expertise, knowledge, experience, age, cultural background, and gender to properly perform the role of the Board of Directors.

2.1.2.3 The determination of the number of members of the Board of Directors takes into account the condition of the entity as well as its effectiveness in decision making.

2.1.2.4 At least one director has previous experience in the main sector in which the entity operates.

2.1.2.5 Members of the Board of Directors in charge of accounting or finance shall have expertise and/or knowledge in the field of accounting, reflected among others from professional certifications issued by accounting professional associations that are recognized by the government and registered as members of those professional associations.

Recommendation

2.1.3 Entity policies regarding diversity in the Board of Directors, Board of Commissioners, and Sharia Supervisory Board are disclosed in the Annual Report.

Guidance

2.1.3.1 The entity shall state the current diversity of the Board of Directors, Board of Commissioners, and Sharia Supervisory Board in the Annual Report, the measurable composition targets and progress achieved in achieving these targets. The information should include references to how diversity is achieved through proper succession planning in the Board of Directors, the Board of Commissioners, and Sharia Supervisory Board.

Recommendation

2.1.4 The Board of Commissioners ensures that the policies and procedures for the selection and nomination of Commissioners and Sharia Supervisory Board are clear and transparent in order to achieve the desired composition of the Board. The Board of Commissioners uses independent sources to determine qualified candidates.

Guidance

2.1.4.1 Information about candidates for commissioners and sharia supervisors must be disclosed in the election/re-election process and must be available from the date of notice of GMS to the date of GMS and can be downloaded through Public Company website and/or e-GMS, including:

a. identity of the candidate and reasons for appointment;
b. core competencies, qualifications, and professional background;
c. current position in other entity;
d. factors that affect independence, including the relationship with the controlling shareholder;
e. length of term of office;
f. attendance at Board of Commissioners and committee meetings (except for new commissioners) and Sharia Supervisory Board; and
g. share ownership in the entity.

2.1.4.2 If the Board of Commissioners and Sharia Supervisory Board use an independent external consultant in the nomination process, relevant information regarding the independent external consultant shall be disclosed in the annual report, including information regarding independence and conflicts of interest.

Recommendation

2.1.5 The Board of Commissioners/Committee that performs the nomination function establishes nomination procedures and criteria that are consistent with the Board of Commissioners' expertise matrix that has been approved by the Board of Commissioners and ensures that the candidate profile meets the requirements set out in the expertise matrix and nomination criteria.

2.1.6 The composition of the Board of Commissioners must be formed in such a way that its members as a group reflect the diversity in terms of abilities, expertise, knowledge, experience, age, cultural background, and gender to properly perform the role of the Board of Commissioners.

Guidance

2.1.6.1 At least one Commissioner has prior experience working in the entity's primary industry.

2.1.6.2 The determination of the number of members of the Board of Commissioners takes into account the condition of the entity.

Recommendation

2.1.7 To enable the Board of Commissioners to provide independent advice and supervision to the Board of Directors, and for functions with potential conflicts of interest, the Board of Commissioners shall consist sufficient number of Independent Commissioners with limited and disclosed term of office, as well as the disclosure of their independence from an entity point of view.

Guidance

2.1.7.1 Former President Director/members of the Board of Directors may become the members of Board of Commissioners as Independent Commissioner only under extraordinary circumstances and there must be a gap of at least 2 (two) years between these positions.

2.1.7.2 Former Independent Commissioners can be reappointed as Independent Commissioners only under extraordinary circumstances and there must be a gap of at least 2 (two) years between these positions.

2.1.7.3 The term of office of an Independent Commissioner may not exceed 9 (nine) years. For entity with a term of 5 (five) years, the term may not exceed 10 (ten) years. After nine/ten years, an Independent Commissioner

may continue to serve only as a commissioner.

Recommendation

2.1.8 To improve the trust of stakeholders and investors and enable the Board of Directors, Board of Commissioners, and Sharia Supervisory Board to operate in an efficient manner, the Nomination and Remuneration Committee ensures that there is a formal, rigorous and transparent process for the nomination and appointment of members of the Board of Directors, Board of Commissioners, and Sharia Supervisory Board.

Guidance

2.1.8.1 The responsibilities and roles of the Nomination and Remuneration Committee include but are not limited to:

a. Develop guidelines to ensure that all commissioners allocate sufficient time to the entity in order to carry out their responsibilities effectively. These guidelines include, among others:
   - The Nomination and Remuneration Committee drafts a description of the job requirements, including the time commitment that also calls for commitment during a crisis, before selecting the President Commissioner. Any other significant commitments outside the entity should be disclosed to the Board of Commissioners prior to appointment and shall be disclosed in the annual report. Changes in commitment must be reported immediately to the Board of Commissioners and the impact should be described in the next annual report.
   - In the appointment of commissioners, the Nomination and Remuneration Committee determines the terms and conditions for the appointment of commissioners. These terms and conditions are available for inspection. The expected time commitment is stated in the letter of appointment of the commissioners and the commissioners must have sufficient time to fulfil the expected time commitments. Any other significant commitments outside the entity should be disclosed to the Board of Commissioners prior to the appointment, along with an indication of the time commitment required and the Board of Commissioners should be notified of any changes to these commitments.

b. Proactively leads and is responsible for the development, implementation, and ongoing review of the succession planning of the Board of Directors, Board of Commissioners, and Sharia Supervisory Board.

c. Upholds the principle of independence in dealing with conflicts of interest (and potential conflicts of interest) among committee members in carrying out the duties of the Committee.

d. Considers and be responsible for appointing independent consultants, including the selection and requirements of the assignment, as well as disclosing the identity and costs of consulting services.

Recommendation

2.1.9 The Sharia Supervisory Board consists of a minimum of 3 (three) members and one of them is appointed as Chairman. In the event that the management of the entity is still small, the minimum number of Sharia Supervisory Board members can be 2 (two) people

2.1.10 Sharia Supervisory Board membership and requirements refer to related regulations issued by MUI regarding Sharia Supervisory Board. Among Sharia Supervisory Board members, there shall be at least 1 (one) member who has expertise in the field of muamalah fiqh and at least 1 (one) member who has expertise in the field of sharia economics.

2.1.11 The Sharia Supervisory Board may not be appointed from the management or controlling shareholder of the entity concerned.

2.1.12 The members of the Sharia Supervisory Board carry out their duties in a focused manner and do not have conflicts of interest with other entities. Sharia Supervisory Board membership in other entities is limited to ensure the availability of time and the effectiveness of carrying out tasks to avoid conflicts of interest.

2.1.13 The appointment and termination of Sharia Supervisory Board members is carried out on the recommendation of the Board of Commissioners and obtains approval from the GMS and is reported to the DSN-MUI.

Guidance

2.1.13.1 The members of the Sharia Supervisory Board have a written agreement agreed upon by the parties.

2.1.13.2 The Sharia Supervisory Board is chaired by a chairman who is responsible for the effectiveness of the Sharia Supervisory Board function. The Chairman of the Sharia Supervisory Board;

a. ensures that there are adequate procedures to be able to carry out sharia governance functions effectively;
b. acting as a Sharia Supervisory Board representative in its relationship with the Board of Commissioners and Board of Directors in order to achieve a good understanding;
c. ensures that Sharia Supervisory Board decisions, suggestions, directives, opinions and supervision have been made reliably and based on adequate information and used reliable decision-making methods;
d. encourages the creation of healthy discussions, participation and contributions, and that all opinions have been expressed openly;
e. ensures that meeting discussions in the process of reaching decisions,

suggestions, directions, opinions, and supervision have been well documented.

2.1.13.3 Information about the Sharia Supervisory Board must be disclosed in the election/re-election process, which includes;

a. identity of the candidate and reasons for appointment,
b. core competencies, qualifications, and professional background,
c. current position in other entity, as well as important roles in non-profit/ charity entity,
d. factors that affect independence,
e. length of term of office,
f. attendance at Sharia Supervisory Board meetings (except for new members), and
g. share ownership in the entity.

2.1.13.4 The composition of the Sharia Supervisory Board must be formed in such a way that its members as a group reflect the diversity in terms of abilities, expertise, knowledge and experience required to properly perform the role of the Sharia Supervisory Board.

2.1.13.5 If a member of the Sharia Supervisory Board has the duty of being a Sharia Supervisory Board member in another entity, then the person concerned must be able to ensure that she/he has sufficient time and attention to carry out his/her duties properly and in accordance with the limitations on concurrent positions as Sharia Supervisory Board members as stated in the laws and regulations.

Recommendation

2.1.14 The members of the Sharia Supervisory Board work with adequate capabilities and have qualification of fiqh muamalah maliah, sharia financial/ business competencies and sharia supervisory professional competencies.

Guidance

2.1.14.1 Specialization and expertise are proven by Sharia Supervisory Board certification documents from the Professional Certification Institution of MUI and related documents according to professional expertise.

2.1.14.2 The chairman of the Sharia Supervisory Board and the majority of its members have qualifications in fiqh muamalah.

2.1.14.3 The members of the Sharia Supervisory Board have and always improve their understanding of the entity's business and operations, as well as follow market developments and relevant rules.

Recommendation

2.1.15 The Sharia Supervisory Board is independent from the Entity and makes sharia-related decisions fairly, honestly, and without any conflict of interest.

2.1.16 The Sharia Supervisory Board and business entities have a written agreement agreed by both parties.

2.1.17 Proposals for the appointment and/or replacement of Sharia Supervisory Board members are submitted by the Board of Commissioners to the GMS by taking into account the recommendations of the Nomination and Remuneration Committee.

Guidance

2.1.17.1 The Sharia Supervisory Board is designated and appointed officially and in written form with clear terms of reference.

2.1.17.2 The Sharia Supervisory Board carries out its duties based on recommendations from the MUI. The Sharia Supervisory Board provides views, advice, directions, suggestions, opinions, and the results of its supervision consistently based on the fatwas of MUI.

2.2 Remuneration for the Board of Directors, Board of Commissioners and Sharia Supervisory Board

Recommendation

2.2.1 The remuneration policy for members of the Board of Directors consists of a remuneration structure towards sustainable development of entity and encourages the achievement of long-term goals. The remuneration of the Board of Directors shall be proposed through the Nomination and Remuneration Committee by the Board of Commissioners to be decided by the GMS. The amount of remuneration proposed to the GMS is determined by taking into account the role of each member of the Board of Directors and the economic condition as well as the performance of the entity.

Guidance

2.2.1.1 The remuneration policy is reasonable and fair, both in structure and size, and is determined in the context of entity values, internal reward structures, and encourages competition while remaining sensitive to stakeholder expectations and societal norms.

2.2.1.2 The entity has a performance-based remuneration policy for members of the Board of Directors and in line with the achievement of the long-term interests of the entity, such as the following performance measures: share ownership options, deferred bonuses, provision for returning part or all of bonuses/incentives that have been paid (clawback).

2.2.1.3 The Board of Directors shall not receive other facilities other than the facilities that have been provided based on the General Meeting of Shareholders.

Recommendation

2.2.2 The remuneration policy for members of the Board of Commissioners and Sharia Supervisory Board consists of a remuneration structure towards sustainable development of entity and encourages the achievement of long-term goals. The amount of remuneration proposed by the Board of Commissioners and Sharia Supervisory Board to the GMS is determined by considering the role of each member of the Board of Commissioners and the economic condition and performance of the entity. In addition, the position as the President Commissioner and chairman, as well as membership in the committees must also be considered.

Guidance

2.2.2.1 The remuneration for the Board of Commissioners and Sharia Supervisory Board must be in the form of fixed remuneration. If members of the Board of Commissioners and Sharia Supervisory Board are given performance-related remuneration, the basis for this must be related to the long-term development of the entity and different from members of the Board of Directors.

2.2.2.2 Independent Commissioners and the Sharia Supervisory Board shall not receive share ownership options, performance-related shares, or bonuses.

Recommendation

2.2.3 To ensure that the remuneration package is determined based on the achievements, qualifications and competencies of the directors, commissioners, and sharia supervisors with due regard to the entity operating performance, individual performance and market conditions, the Nomination and Remuneration Committee ensures that there are fair and transparent procedures for establishing remuneration policies for members of the Board of Directors, Board of Commissioners and Sharia Supervisory Board.

Guidance

2.2.3.1 In carrying out its role, the Nomination and Remuneration Committee:

a. Determine the proper and balanced proportion between fixed and performance-related remuneration components, directly paid or deferred remuneration components. Performance indicators, including non-financial indicators, are ensured to be relevant and designed to support the achievement of long-term entity performance. Remuneration incentives are ensured in accordance with entity risk policies. In addition, there is an upper limit for remuneration that is disclosed in the annual report,

b. Consider whether directors and commissioners are eligible for annual bonuses and/or benefits under a long-term incentive scheme.

c. Carefully consider the compensation obligations (including pension contributions and all other components) to which the directors/commissioners/sharia supervisors are entitled if they were dismissed early. The goal is to avoid rewarding poor performance.
d. Consider the consequences of pension obligations and other long-term benefits for directors, commissioners, and sharia supervisors for the entity, including the impact of the increase in employee benefits and other changes, especially for directors and commissioners who are about to retire.
e. Uphold the principle of independence in dealing with conflicts of interest (and potential conflicts of interest) among committee members in carrying out the duties of the Committee.
f. Consider and be responsible for appointing independent remuneration consultant, including the selection and requirements in the assignment, as well as disclosing the identity and costs of consulting services.

Recommendation

2.2.4 The entity discloses information on remuneration policies in the report on the implementation of governance.

Guidance

2.2.4.1 The entity discloses information regarding the basis of consideration in determining the scheme and amount of remuneration for the Board of Commissioners, Sharia Supervisory Board and Board of Directors in the report on the implementation of governance.

2.2.4.2 The entity discloses the scheme and amount of remuneration for the Board of Commissioners, Sharia Supervisory Board and Board of Directors in the report on the implementation of governance.

3. WORK RELATIONSHIP BETWEEN THE BOARD OF DIRECTORS, THE BOARD OF COMMISSIONERS AND SHARIA SUPERVISORY BOARD

The Board of Directors, Board of Commissioners, and Sharia Supervisory Board have a close, open, constructive, professional and mutual trusting work relationship for the best interests of the entity.

3.1 Nature of Work Relationship

Recommendation

3.1.1 There is an open discussion between the Board of Directors, Board of Commissioners, and Sharia Supervisory Board and between members of the Board of Directors, members of the Board of Commissioners, and members of Sharia Supervisory Board. However, it is still important

to maintain the confidentiality of information so that confidential information does not leak.

3.1.2 In accordance with their respective duties and roles, the Board of Directors cooperates with the Board of Commissioners and Sharia Supervisory Board in formulating entity missions, visions and strategies and regularly discusses their implementation.

3.1.3 The Corporate Secretary has an important role in supporting the effectiveness of the work relationship between the Board of Directors, Board of Commissioners, and Sharia Supervisory Board, encouraging the implementation of good corporate governance practices, including effective communication with shareholders and other stakeholders.

Guidance

3.1.3.1 The roles and responsibilities of the Corporate Secretary include, but are not limited to;

a. Ensuring effective communication between the Board of Commissioners and the Committees, the Board of Directors, and the Sharia Supervisory Board with respect to information flow,
b. monitoring the development of entity governance, including ensuring that the charter of the Board of Commissioners, Sharia Supervisory Board, Board of Directors and Committees is fully implemented, assisting and providing advice to the Board of Directors, Sharia Supervisory Board, and Board of Commissioners in implementing entity governance practices to meet stakeholder expectations,
c. managing all meetings of Board of Commissioners, Sharia Supervisory Board, Board of Directors, Committees formed by the Board of Commissioners, attending and recording the minutes of all meetings and facilitating communication between the Board of Directors, the Board of Commissioners and Sharia Supervisory Board, including ensuring that the discussions and decisions of the Board of Directors, Board of Commissioners, and Sharia Supervisory Board accurately recorded in the minutes,
d. organizing and facilitating orientation of new directors/commissioners/Sharia Supervisory Board/committee members and professional development of directors/commissioners/Sharia Supervisory Board/committee members,
e. managing investor relations to maintain and improve communication between entity and shareholders/investors, both domestic and international.

3.1.3.2 Each director, commissioner, and Sharia Supervisory Board can communicate directly with the corporate secretary and vice versa.

3.1.3.3 The Board of Commissioners provides advice to the Board of Directors regarding the appointment and dismissal of Corporate Secretary.

Recommendation

3.1.4 The Board of Commissioners takes into account the decisions, suggestions, directions and opinions which are the results of Sharia Supervisory Board supervision of the entity's business, operations, cooperation and activities.

3.1.5 The Board of Commissioners has a policy that prevents undue influence on the Sharia Supervisory Board, so that the Sharia Supervisory Board can carry out its functions and duties professionally and independently.

3.1.6 The Board of Commissioners maintains good and effective communication with the Sharia Supervisory Board regarding the implementation of sharia principles.

Guidance

3.1.6.1 The Board of Commissioners pays attention to the facts, rationale and basis of decisions, suggestions, directions and opinions which are the results of Sharia Supervisory Board supervision of the entity.

3.1.6.2 The Board of Commissioners makes reasonable considerations of decisions, suggestions, directions and opinions which are the results of Sharia Supervisory Board supervision and has a solution mechanism in the event of disagreements with the Sharia Supervisory Board.

3.1.6.3 The Board of Commissioners issues a written policy to identify, assess and manage conflicts of interest that may arise from additional activities or services provided by the members of the Sharia Supervisory Board to entities and consumers.

3.1.6.4 The Board of Commissioners reviews the frequency and quality of meetings and consultations with the Sharia Supervisory Board.

Recommendation

3.1.7 The Board of Directors establishes good and effective communication with the Sharia Supervisory Board regarding the implementation of sharia principle.

3.1.8 The Board of Directors has policies that support the Sharia Supervisory Board so that Sharia Supervisory Board can carry out its functions and duties professionally and independently.

Guidance

3.1.8.1 The Board of Directors and Sharia Supervisory Board work together and support each other in realizing the achievement of implementing sharia-compliant business activities.

3.1.8.2 The Board of Directors reviews the frequency and quality of meetings and consultations with the Sharia Supervisory Board.

Recommendation

3.1.9 The Board of Directors establishes a resolution mechanism if there are any differences of opinion between the Board of Commissioners, Sharia Supervisory Board and Board of Directors.

Guidance

3.1.9.1 The Board of Directors makes guidelines and effective communication between the Board of Commissioners, Sharia Supervisory Board and Board of Directors.

3.2 Access to Information for the Board of Commissioners and Sharia Supervisory Board

Recommendation

3.2.1 The Board of Directors is responsible for ensuring that the Board of Commissioners and Sharia Supervisory Board gets access to accurate, relevant and timely information. The Board of Commissioners and Sharia Supervisory Board themselves ensure that they obtain sufficient information. The Board of Directors provides information to the Board of Commissioners and Sharia Supervisory Board regularly, without delay, and comprehensively on all matters relevant to the entity. The Board of Commissioners and Sharia Supervisory Board may request the Board of Directors to provide additional information from time to time.

Guidance

3.2.1.1 The Board of Commissioners and Sharia Supervisory Board have a process that allows members of the Board of Commissioners, including Independent Commissioners, to have access to the Board of Directors and relevant senior management.

3.2.1.2 The President Director or Corporate Secretary immediately informs the Board of Commissioners and Sharia Supervisory Board of any major material and important events regarding the condition and performance and management of the entity. If necessary, a Board of Commissioners and Sharia Supervisory Board meeting will be held to discuss the event.

3.2.1.3 In the Board meetings, the Board of Commissioners and Sharia Supervisory Board communicate regularly with the Board of Directors so that they can be kept informed of entity developments that need the attention of the Board of Commissioners and Sharia Supervisory Board in order for the Board of Commissioners and Sharia Supervisory Board to carry out their duties more effectively.

3.3 Responsibilities of the Board of Directors, Board of Commissioners and Sharia Supervisory Board on the Impact of Ownership Structure on Entities

Recommendation

3.3.1 Impact of the ownership structure on the entity.
The Board of Directors, the Board of Commissioners, and Sharia Supervisory Board consider their responsibilities in the context of the share ownership structure and relationships between entity shareholders which may impact the management and operations of the entity.

Guidance

3.3.1.1 The Board of Directors, Board of Commissioners, and Sharia Supervisory Board understand the structure of shareholder ownership and the relationship between entity shareholders, and consider the impact on control over the entity, including written and unwritten agreements of family as the controlling shareholder, agreements between shareholders, or business group policies where entity is part of it.

3.3.1.2 The Board of Directors, Board of Commissioners, and Sharia Supervisory Board ensure that the shareholder ownership structure and relations between entity shareholders do not affect the implementation of the roles and responsibilities of the Board of Directors, Board of Commissioners, and Sharia Supervisory Board (including the succession plan of the Board of Directors) for the best interests of the entity.

3.3.1.3 The Board of Commissioners monitors and the Board of Directors ensures that the information is properly disclosed when there are conditions that impact control over the entity.

4. ETHICAL AND RESPONSIBLE BEHAVIOR

The sharia commercial entity is committed to act in ethical behavior and be responsible, uphold the values and culture of the entity.

The sharia economic entity shall have, socialize and enforce a code of ethics that applies to members of the Board of Directors, Board of Commissioners, and Sharia Supervisory Board as well as the employees. The entity is required to disclose the code of ethics, values and entity culture.

Sharia ethical behavior is the principle to regulate the activities of sharia economic entities to provide protection for (a) stakeholders and (b) the integrity of the sharia economy. Sharia economic entity owns, socializes and enforces a code of ethics that applies to members of the Board of Directors, Board of Commissioners and Sharia Supervisory Board as well as the employees. The sharia economic entity discloses the code of ethics, values

and culture of the entity.

Sharia ethical behavior originates from sharia principles as stated in the Quran and Hadith. The application of sharia ethical behavior is a principle-based approach, meaning that sharia economic entities are encouraged to develop systems and internal controls, risk management and governance according to their respective business/activity models, without compromising these ethical principles.

4.1 Code of Conduct and Ethics

Recommendation

4.1.1 This statement is set forth in the Code of Conduct and Ethics which should clearly state the entity expectation that each member of the Board of Directors, Board of Commissioners, and Sharia Supervisory Board as well as the employees will:

a. Act in the best interests of the entity;
b. Act honestly and with a high standard of integrity;
c. Exemplifying the characteristic and behavior of the Prophet, i.e., *siddiq* (truthful), *fathonah* (wisdom), *amanah* (trustworthy), and *tabligh* (conveying).
d. Be independent and act on full information, in good faith, with due diligence and prudence.
e. Comply with laws and regulations that apply to entity and its operations;
f. Avoid actions that will violate laws and regulations or unethical actions based on entity ethics guidelines.
g. Not be involved in or participating in any activities that will cause a conflict of interest with the best interests of the entity or which will have a negative impact on the reputation of the entity.
h. Not taking advantage of property or information owned by the entity, ownership of other assets or its customers for personal gain or that causes harm to the entity and its customers.
i. Not taking advantage of his/her position or the opportunities generated by his/her position for personal gain.
j. Avoid the act of requesting or receiving any payments, gratuities or other benefits from third parties for him/herself or for others that will cause conflicts of interest/provide benefits to third parties in violation of laws and regulations.
k. Respect the differences of opinion and rights of each member of the Board of Directors, Board of Commissioners, Sharia Supervisory Board and employees.
l. Ensure complete, fair, accurate, timely and understandable disclosure in reports and documents submitted by entity to regulators and in

other public communications.

4.1.2 The Board of Directors establishes policies and practices on anti-money laundering and terrorism financing, anti-bribery, anti-corruption, anti-fraud, involvement in politics referring to national or international standards regarding anti-money laundering, anti-bribery, anti-corruption, anti-fraud or other related standards.

Guidance

4.1.2.1 The Board of Directors develops and establishes a system that can be used as an effort to prevent money laundering and terrorism financing, anti-corruption, offering or receiving bribes and payments or other inducements to commit acts that will violate laws and regulations or are unethical.

4.1.2.2 The Board of Directors communicates anti-money laundering, anti-bribery and anti-corruption policies by providing training to staff and trying to expand anti-money laundering, anti-bribery and anti-corruption efforts to stakeholders.

4.1.2.3 Any material violation of anti-money laundering, anti-bribery, anti-corruption policies must be reported to the Board of Directors, Board of Commissioners, Sharia Supervisory Board, or Committees of the Board of Commissioners.

4.1.2.4 The Board of Directors establishes and regularly reviews a transparent policy on political engagement, which includes lobbying and donations for candidate or political causes if permitted by laws and regulations, and ensures that the benefits and risks of the approach taken are understood, monitored and reviewed regularly by the Board of Commissioners.

Recommendation

4.1.3 The Sharia economic entity strive to achieve the highest standards of honesty, fairness, trustworthiness, and kindness in all its economic activities. Sharia economic entities issue procedures so that leaders and employees carry out their duties and responsibilities based on business behavior that requires honesty, fairness, trustworthiness, and kindness.

Guidance

4.1.3.1 The Sharia economic entity may not, either intentionally or through negligence, issue information that has the potential to mislead stakeholders.

4.1.3.2 The Sharia economic entity may not engage in monopolistic, monopsony, market domination, and collusion practices.

4.1.3.3 The Sharia economic entity establish procedures to carry out its duties and responsibilities fairly and honestly.

4.1.3.4 The Sharia economic entity treats stakeholders in an honest, fair, trustworthy (*amanah*) and kind (*ihsan*) manner.

4.1.3.5 The sharia economic entity issues a statement that it will deliver products and provide services in an honest, fair, trustworthy (*amanah*) and kind (*ihsan*) manner.

4.2 Organizational Values and Cultures

Recommendation

4.2.1 The sharia economic entity articulates, maintains and expresses entity culture and values

Guidance

4.2.1.1 The sharia economic entity maintains entity culture ensuring all members of the Board of Directors, members of the Board of Commissioners, and members of Sharia Supervisory Board and all employees understand and are committed to carrying out their responsibilities to act according to code of conduct and ethics.

4.2.1.2 Adequate training and socialization are available at the level of the Board of Directors, Board of Commissioners, and Sharia Supervisory Board as well as all entity employees mentioned above for all aspects related to entity culture, values and ethics.

4.2.1.3 Assessment and monitoring program are available so that the Board of Directors, Board of Commissioners, and Sharia Supervisory Board, as well as all employees understand the relevant code of ethics and apply it effectively to avoid entity involvement in inappropriate behavior.

Recommendation

4.2.2 The sharia economic entity carries out the principles of prudence and diligence in their operations for the best interests of stakeholders while still complying with sharia principles. Sharia economic entity has proper protection against the occurrence of behavior that results from lack of caution and negligence.

Guidance

4.2.2.1 The sharia economic entity obtains and uses funds in accordance with sharia rules both regarding contracts and instruments, in order to avoid practices that are prohibited by sharia principles.

4.2.2.2 The sharia economic entity obtains and places funds by considering the risks and complexity of management for the benefit of stakeholders.

4.2.2.3 The sharia economic entity carries out business activities in accordance with sharia guidelines.

4.2.2.4 The sharia economic entity carries out efforts to provide protection for product users/consumers due to lack of caution and negligence.

Recommendation

4.2.3 The sharia economic entity is able to prove that its operations are managed in accordance with sharia governance and conduct its business in a responsible manner and comply with all sharia principles.

Guidance

4.2.3.1 The sharia economic entity understands and fully implements sharia governance.

4.2.3.2 The sharia economic entity complies and ensures the existence of effective sharia compliance mechanisms and procedures.

4.2.3.3 The sharia economic entity shall aware of compliance with sharia principles in conducting socially responsible business.

4.2.3.4 The sharia economic entity provides information on sharia compliance carried out by the entity.

4.2.3.5 The sharia economic entity establishes a resolution mechanism in the event of a violation of sharia compliance

4.3 Communication and Enforcement of the Code of Ethics, Values and Culture

Recommendation

4.3.1 The entity code of conduct and code of ethic is communicated effectively to the Board of Directors, Board of Commissioners, Sharia Supervisory Board and all employees, integrated into entity strategy and operations including risk management system and remuneration structure, and is enforced.

Guidance

4.3.1.1 The sharia economic entity has guidelines for reporting violations that can be used to encourage reporting the behavior that violates laws and regulations or is unethical, and which also includes a guideline on how entity protects whistle-blowers who are in good faith.

4.3.1.2 The sharia economic entity ensures that the Board of Commissioners, Committees, and Sharia Supervisory Board are immediately notified if there are material violations on code of conduct and ethics.

4.3.1.3 The sharia economic entity ensures that the Board of Commissioners, Committees, and Sharia Supervisory Board are immediately notified if any material incident is reported under the violation reporting policy.

4.3.1.4 The Board of Directors ensures that violations of the guidelines will result in disciplinary action, including dismissal. If there is a violation, the Board of Directors is required to take preventive action so that the violation does not recur.

5. RISK MANAGEMENT, INTERNAL CONTROL AND COMPLIANCE

The sharia economic entity carries out entity governance practices that are integrated with the implementation of internal control and risk management systems, as well as an effective compliance management system in order to support the achievement of entity goals, objectives, and performance targets in running a business with integrity.

The sharia economic entity shall implement an internal control and risk management system and disclose at least: a) an overview and description of the internal control and risk management system; b) types of risks and how to manage them; c) financial and operational control, as well as compliance with applicable laws and regulations, d) sharia compliance and e) review of the effectiveness of the internal control and risk management system.

The entity implements governance in an integrated manner with risk management and compliance management system so that a) the arrangement of the entity governance system adapts to the compliance demands of stakeholders, both with respect to applicable regulatory provisions, sharia, industry standards, engagement clauses, as well as existing norms and ethics, and at the same time also adjusting to what is needed in the context of internal control and risk management, b) the entity consistently carries out practices in accordance with the principles and systems of entity governance in implementing internal control and risk management as well as entity compliance when running its business and operations.

5.1 Risk Management

Recommendation

5.1.1 Strategy and risk management are an integral part, disclosed in a transparent manner, included in the implementation of the duties and responsibilities of the Board of Directors, Board of Commissioners, and Sharia Supervisory Board, as well as in discussions at the meetings of the Board of Commissioners, Sharia Supervisory Board, and Board of Directors.

Guidance

5.1.1.1 The Board of Directors leads the implementation of risk management to be utilized by all levels of management in creating and protecting value for the entity, by setting an example and being an example in terms of risk control and management in business and operational activities in order to instill, strengthen, and develop a risk-aware culture based on compliance and effective internal control.

5.1.1.2 The Board of Directors discloses a) the main risks faced by entities and

their management; and b) whether there is a material exposure to environmental or social risks and, if applicable, how to manage or intend to manage those risks.

5.1.1.3 The Board of Directors ensures the suitability of internal control system and risk management framework with the characteristics of the needs and business processes of the entity so that the process of internal control and risk management for all types of risks faced by the entity, including communication and risk reporting, risk management, inspection, and its effectiveness, can be carried out effectively in line with the expectations of stakeholders.

5.1.1.4 The Board of Directors ensures risk governance processes in Information Technology including disruption, cyber security, disaster recovery, to ensure that all major risks are identified, managed, and reported to the Board of Commissioners.

Recommendation

5.1.2 The Risk Management Monitoring Committee supports the fulfillment of the Board of Commissioners' responsibilities by establishing a transparent, focused, and independent mechanism to oversee the risk management of the entity.

Guidance

5.1.2.1 The role of the Risk Management Monitoring Committee includes among others;

a. monitoring entity performance against the risk management framework, including monitoring whether the entity operates within a risk appetite approved by the Board of Commissioners,
b. Supervising controls pertaining to critical risks, including significant financial reporting risks and the risk of fraud,
c. reviewing any material incidents involving fraud or significant weaknesses in entity risk control, as well as lessons learned to prevent the recurrence,
d. obtaining reports from internal auditors on the results of the review on the adequacy of entity risk management process,
e. obtaining reports from management on sources of new and emerging risks as well as risk control and mitigation measures that have been taken by the Board of Directors to deal with these risks,
f. preparing recommendations to the Board of Commissioners related to changes that must be made to the risk management framework or risk appetite approved by the Board of Commissioners; and
g. overseeing the entity insurance program, taking into account the entity business and insurable risks.

5.1.2.2 The number of members of the Risk Management Monitoring Committee is sufficient and the majority are independent; the members have the necessary technical knowledge and sufficient understanding of the industry in which the entity operates, to be able to carry out the committee's mandate effectively.

Recommendation

5.1.3 Effective governance management is supported by the integration of risk management, internal control and compliance systems that are structured to achieve the objectives of the entity. Risk management is managed by integrating all risks in the form of credit risk, market risk, liquidity risk, operational risk, legal risk, strategic risk, compliance risk, reputation risk, yield risk and investment risk.

Guidance

5.1.3.1 To ensure compliance with sharia principles, the entity carries out risk management on an ongoing basis by establishing and carrying out the following functions:

a. Sharia risk management;

b. Sharia review;

Sharia review is the entity's governance body to ensure that the entity's management has carried out its responsibilities in implementing sharia rules and principles, as well as requirements (ex-ante) in the form of applicable fatwas, rules and guidelines. Identify, assess and monitor the compliance of the entity's operations and activities with sharia requirements.

c. Internal sharia audit.

Internal sharia audit is an entity's governance body to ensure that the entity carries out its responsibilities related to the implementation of sharia principles and rules. Inspect and/or audit post-activity (ex-post). Sharia audit refers to the function that provides independent assessment of the quality and effectiveness of the entity's internal control, risk management system, governance process, and the compliance of all entity operations, businesses, agreements and activities, with sharia principles and rules.

5.1.3.2 Management manages sharia compliance through the control function within the sharia governance framework, in order to clearly carry out sharia compliance responsibilities.

5.1.3.3 The entity provides adequate resources for control in terms of the number of members as well as competence.

5.1.3.4 The control function is independent from the line of business and is not involved in the revenue generation process.

Recommendation

5.1.4 Risk management systematically identifies, measures, monitors, mitigates, and reports sharia compliance risks in activities, products, transactions, and operations in sharia entities.

Guidance

5.1.4.1 The sharia entity applies sharia risk management which;

a. integrating sharia compliance with entity risk management,
b. identifying sharia compliance in the entity's operations and activities,
c. assessing sharia compliance and measuring the potential impact of the risk exposure on the entity,
d. issuing appropriate risk mitigation efforts,
e. monitoring sharia compliance risk and its effectiveness against risk mitigation measures,
f. providing reports on sharia compliance risk to the Board of Commissioners and Sharia Supervisory Board,
g. providing constructive input on decisions that may lead to increased compliance risk.

5.1.4.2 The management responsible for risk management is responsible for sharia compliance risk management which will be integrated with the entity's risk management.

5.1.4.3 The sharia economic entity ensures that staff in the risk management function have adequate knowledge of sharia related to the entity.

5.2 Internal Control and Compliance

Recommendation

5.2.1 The Board of Directors conducts regular reviews of the design accuracy and operational effectiveness of the governance system, risk management, internal control and entity compliance, and reports the implementation and results of the review to shareholders through the annual report.

Guidance

5.2.1.1 Periodic reviews conducted by the Board of Directors specifically consider:

a. The changes since the last periodic review regarding the nature and scope of significant risks and the entity's ability to respond to changes in its business and external environment.
b. The scope and quality of ongoing monitoring of risks and internal control systems, the role of internal audit function and other assurance service providers.
c. The scope and frequency of communication of monitoring results to the Board of Commissioners (or to the Audit Committee)

which enables the Board of Commissioners to thoroughly assess the condition of internal control and its effectiveness in managing risk.

d. The occurrence of failures or deficiencies in internal control and the extent of contingent impacts that have or may occur in the future, which have a material impact on the condition or financial performance of the entity, and

e. The effectiveness of internal controls relating to financial reporting and compliance with applicable laws and regulations.

5.2.1.2 The Board of Directors ensures that the entity has a function that plays a role in following changes in various applicable laws and regulations, which are related to the business and laws and regulations in general and has a system to ensure entity compliance with applicable laws and regulations and entity internal regulations.

Recommendation

5.2.2 The sharia economic entity builds a culture of sharia compliance by building sharia compliance behavior. The sharia compliance culture begins with the Board of Directors communicating the importance of sharia compliance and integrating sharia governance into business strategies, policies and internal guidelines.

Guidance

5.2.2.1 The Board of Directors ensures the application of effective communication in Sharia governance.

5.3 Integration of Governance, Risk Management and Compliance

Recommendation

5.3.1 The Board of Directors builds an integrated governance, risk management and compliance (GRC) system, by handling various uncertainties in an integrated manner and with high integrity, to ensure that the entity can achieve its goals.

Guidance

5.3.1.1 The Board of Directors ensures coordination and capacity building among the main GRC systems which include governance systems, strategic management, performance management, risk management, compliance management and internal audit systems so that the entity stays on the right track in achieving its goals.

5.3.1.2 The Board of Directors ensures that the division in charge of the compliance function does not concurrently carry out functions that have the potential to cause a conflict of interest.

5.4 Internal Audit

Recommendation

5.4.1 The Board of Commissioners through the Audit Committee monitors and ensures that the internal audit function helps the entity to achieve its objectives by bringing an objective and disciplined approach to evaluate and improve the effectiveness of risk management, internal control, and entity governance.

Guidance

5.4.1.1 Internal audit is carried out objectively and independently from the entity management and the function it audits. Thus, Internal Audit is functionally responsible and reports to the Board of Commissioners through the Audit Committee, it has direct access to the Audit Committee and Board of Commissioners, and can communicate and meet directly with the Audit Committee and the Board of Commissioners with or without the presence of the Board of Directors.

5.4.1.2 The Board of Commissioners through the audit committee ensures that the internal audit function has sufficient authority, resources and access to information to carry out its role effectively.

5.4.1.3 The Audit Committee recommends the appointment and dismissal of the Head of Internal Audit, scope of work, and budget for Internal Audit function to the Board of Commissioners.

5.4.1.4 The Audit Committee reviews the effectiveness of internal audit implementation and evaluates the performance of the Internal Audit every year and submits the results to the Board of Commissioners. Once every three years, the Board of Commissioners appoints an independent external consultant to review the performance of Internal Audit by taking into account the recommendations of the Audit Committee.

5.4.1.5 Internal audit prepares an audit plan, which involves the President Director and the Board of Commissioners with the consideration of the Audit Committee. The internal audit plan is submitted to the Board of Directors and the Board of Commissioners for approval.

5.4.1.6 The Audit Committee ensures that the internal audit is carried out in accordance with applicable internal audit professional standards and by upholding the professional code of ethics and the entity's code of ethics.

Recommendation

5.4.2 Periodic sharia reviews are conducted to assess the entity's compliance with operations and activities according to sharia requirements. The Board of Directors submits the results of the review in the annual report.

Guidance

5.4.2.1 Sharia review includes:

a. identification, assessment, and monitoring of operational and activity compliance with sharia,
b. regular reports on the results and findings of reviews,
c. inform and update the latest information and developments related to laws and regulations to the management and Sharia Supervisory Board,
d. provide adequate guidance and training on relevant governance requirements for staff carrying out the review.

5.4.2.2 The official in charge of compliance is responsible for conducting sharia reviews as part of the entity's compliance responsibilities.

5.4.2.3 The staff carrying out the review function have adequate qualifications and competence to carry out the compliance function and understand the sharia related to the entity.

Recommendation

5.4.3 Internal sharia audits are conducted to provide assurance on the quality and effectiveness of internal controls, risk management systems, and sharia governance and compliance processes in activities, products, transactions and operations.

Guidance

5.4.3.1 Sharia audit includes:

a. issue audit methods to assess the risk profile and vulnerability of each audit area,
b. make an audit plan on the audit assignment,
c. issue a clear audit program as a guideline for internal auditors in terms of obtaining information, audit procedures, and audit assessments,
d. report audit results to the Board of Directors and Sharia Supervisory Board, provide detailed explanations and recommendations for action plans.

5.4.3.2 The management responsible for the internal audit is responsible for conducting the sharia audit as part of the audit plan and responsibilities.

5.4.3.3 Internal auditors who carry out internal audits have sufficient qualifications and competence to carry out sharia audits of the entity.

6. DISCLOSURE AND TRANSPARENCY

The sharia economic entity makes accurate and timely disclosures regarding all material matters concerning the entity.

The entity shall disclose material events or facts as soon as possible. The entity also shall submit annual report and sustainability report to the public.

6.1 Disclosure Policy

Recommendation

6.1.1 The sharia economic entity has disclosure and transparency policies, as well as procedures that ensure the disclosure of information and safeguard sensitive information and entity secrets.

6.1.2 The right of shareholders to obtain relevant material information regarding the entity regularly and timely must be fulfilled.

Guidance

6.1.2.1 The sharia economic entity has and discloses a written policy in continuously carrying out information disclosure based on applicable regulations.

Recommendation

6.1.3 Sharia economic entity makes relevant and timely disclosures related to sharia compliance.

Guidance

6.1.3.1 Sharia economic entity discloses information on sharia governance policies and activities which include:

a. statement by the Board of Directors on their accountability for the implementation of sharia governance;
b. statement by the Sharia Supervisory Board on responsibilities related to sharia governance and opinion on the entity's compliance with sharia.

6.1.3.2 The sharia economic entity ensures that the disclosure has stated the roles, responsibilities and accountability of the Board of Directors and Sharia Supervisory Board.

6.2 Financial and Sustainability Reports

Recommendation

6.2.1 The sharia economic entity discloses a system and procedure to ensure that interim financial statements that are not audited or reviewed by external auditors are accurate, complete, and provide investors with appropriate information to make informed investment decisions.

Guidance

6.2.1.1 The disclosure of the system and procedure shall at least include:

a. internal control over financial statement, including interim financial statement,
b. the role of the risk management/compliance/management oversight function and the internal audit function in ensuring the integrity of

interim financial statement,

c. the role of the Audit Committee in reviewing the interim financial statement to be published.

Recommendation

6.2.2 The Audit Committee ensures the audit quality of financial statements carried out by the external auditor. This activity includes recommending the appointment, reappointment and, if necessary, the termination and remuneration of the external auditor.

Guidance

6.2.2.1 The process of selecting an external auditor through a transparent tender is conducted, allowing shareholders the opportunity to observe and monitor the proceedings if they wish.

6.2.2.2 The Audit Committee ensures that there is no clause in the contract with the auditor that may interfere with the independence or competence of the auditor in carrying out audit of financial statements.

6.2.2.3 The Audit Committee conducts adequate dialogue with external auditor in the absence of management and monitors the interaction between management and the external auditor, including reviewing the management letter provided by the external auditor and overseeing management's response;

6.2.2.4 The Board of Commissioners, or the Audit Committee, ensures that the external auditor immediately informs all findings and significant problems that the external auditor finds during the audit.

6.2.2.5 The Audit Committee reviews non-audit services provided by external auditor and its affiliates and related fees, to ensure that the service does not interfere with the independence of the auditor.

Recommendation

6.2.3 Sustainability reports shall be prepared and disclosed accurately and prepared in accordance with national or international sustainability reporting frameworks.

Guidance

6.2.3.1 The sustainability report is provided with assurance by an independent and competent external party.

Recommendation

6.2.4 The sharia economic entity publishes an integrated annual report that puts historical performance into context and describes the risks, opportunities and future prospects of the entity, thereby helping shareholders and stakeholders understand the strategic objectives of

the entity and its progress in creating sustainable value.

6.3 Information Dissemination

Recommendation

6.3.1 Information dissemination channels should provide users with equitable, timely, and relatively inexpensive access to relevant information.

Guidance

6.3.1.1 The sharia economic entity regularly holds meetings with financial analysts.

6.3.1.2 The sharia economic entity utilizes information technology effectively and more broadly in addition to websites as a medium for information disclosure.

6.3.1.3 The sharia economic entity ensures that the information disseminated is protected and secured.

Recommendation

6.3.2 The sharia economic entity ensures that an annual statement on the implementation of the Indonesian General Guideline for Sharia Entity Governance, including an explanation of the application of each Recommendation and Guidance is available on the website for a minimum period of five years.

6.3.3 For an entity listed on the capital market in jurisdictions other than the jurisdiction of origin, the applicable laws and regulations on entity governance must be clearly disclosed. In the case of cross listing, the criteria and procedures of cross listing, the criteria and procedures for recognizing the listing requirements for the primary listing must be transparent and documented.

7. PROTECTION OF THE RIGHTS OF SHAREHOLDERS

The sharia economic entity protects and facilitates the exercise of shareholder rights and ensure equitable treatment of shareholders, including minority shareholders. The entity ensures that shareholders have the opportunity to obtain effective redress for violations of their rights in accordance with applicable laws and regulations.

The basic rights of shareholders must be protected and their exercise must be facilitated by the entity. The basic rights of the shareholders include the right to: (a) obtain relevant material information about the entity regularly and in a timely manner; (b) participate and vote in the GMS; (c) appoint and dismiss members of the Board of Commissioners, Sharia Supervisory Board, and Board of Directors; and (d) obtain a share of entity profits.

The protection of minority shareholders and the interests of the entity requires safeguarding against any detrimental actions perpetrated by or for the benefit of controlling shareholders or management. Controlling shareholders and entity management must avoid abusing their majority power or control.

7.1 Rights of Shareholders

Recommendation

7.1.1 The sharia economic entity has a communication policy that facilitates and encourages shareholder or investor participation

Guidance

7.1.1.1 Shareholders, including institutional shareholders, are allowed to consult with one another on the issue of the basic rights of shareholders as set out in this Principle, but this should not be abused.

7.1.1.2 The entity encourages constructive dialogue between shareholders (especially institutional investors) and management. The entity responds to requests from shareholders to engage in dialogue to support sustainable growth and increase entity value in medium and long term.

7.1.1.3 The entity provides a platform or platforms for constructive dialogue between all shareholders and management.

7.1.1.4 The entity promptly discloses all new facts to the public that are available to financial analysts and other similar parties.

7.1.1.5 The entity discloses entity communication policies with shareholders or investors in websites and reports.

Recommendation

7.1.2 The sharia economic entity, which is the parent entity, ensures that its entity governance policies apply to subsidiaries and entities under common control in which the entity investment is significant.

Guidance

7.1.2.1 Entity governance framework and policies in subsidiaries, including written policies, are regarding:

a. The authority to appoint commissioners, Sharia Supervisory Board, and directors. Generally, for a relatively large subsidiary, the Board of Commissioners needs to be involved in the appointment of management in the subsidiary. For smaller subsidiaries, the Board of Directors is authorized to do so;

b. The effectiveness of internal control system and compliance with applicable laws and regulations; and

c. Timely and accurate disclosure of material information of subsidiaries,

including financial information, transactions with related parties and other material information.

d. If the entity owns/forms a legal entity other than a limited liability company, the entity ensures that its governance policies apply to that entity in accordance with the context of the type of legal entity.

7.1.2.2 For investments in subsidiaries that are significant but below the majority (such as ownership of between 20 percent to 50 percent of the shares), the Board of Directors ensures that there is a shareholder agreement or other agreement that allows the entity to monitor the performance and participate in management, including for significant transactions approval and decisions. This is necessary, among others, to ensure that the entity has adequate, accurate, and timely information regarding its subsidiaries.

Recommendation

7.1.3 The sharia economic entity has rules and procedures governing acquisitions, takeovers, and extraordinary transactions such as mergers and sales of substantial entity assets to ensure transactions occur transparently and under fair conditions and protect the rights of all shareholders.

Guidance

7.1.3.1 The entity clearly discloses the rules and procedures so that investors understand their rights and the right to compensation.

7.1.3.2 Anti-take-over devices shall not be used to protect management and the Board of Commissioners from accountability.

7.2 Fair Treatment of Shareholders

Recommendation

7.2.1 The sharia economic entity has rules and procedures that ensure a) all shareholders of the same series in one class of shares must be treated equally, b) disclosure of said rules and procedures as well as disclosure of capital structure and arrangements that allow certain shareholders to gain influence or control that is disproportionate to their share ownership.

Guidance

7.2.1.1 To ensure the transparency of shareholders' rights to have share in profits, the entity discloses a measurable dividend policy, such as a target dividend ratio/dividend per share.

7.2.1.2 The investors obtain information about the rights attached to all series and classes of shares before they purchase them. Any changes in the economic value of the shares or voting rights are subject to the approval

of the class of shares negatively affected.

7.2.1.3 In order for shareholders to know the beneficial owner of an entity with significant ownership, the entity discloses the beneficial owner in share ownership through major and controlling shareholders as well as the beneficial owner in share ownership of at least 5% (five percent).

7.2.1.4 The entity discloses: a) agreement between shareholders, b) voting cap, c) multiple voting rights, d) other agreements that allow certain shareholders to have voting rights over their ownership in the entity.

7.2.1.5 The entity provides mechanisms/procedures that enable shareholders to have the opportunity to obtain effective compensation for violations of their rights in accordance with applicable laws and regulations at a reasonable cost and without undue delay.

Recommendation

7.2.2 The entity has rules and procedures that ensure related party transactions are approved and executed in such a way to ensure that conflicts of interest are properly addressed and protect the interests of the entity and shareholders.

Guidance

7.2.2.1 The entity has standard operating policies and procedures that transactions with related parties are carried out in such a way to ensure that transactions are fair and reasonable (arm's length transaction).

7.2.2.2 Material related transactions, including consulting service agreements and other services or work between directors/commissioners and their affiliates with entity must obtain approval in accordance with applicable laws and regulations. In addition to what has been approved in the laws and regulations, material related transactions shall obtain the approval from the Board of Commissioners. Commissioner who has conflicts of interest do not participate in granting approvals.

7.2.2.3 The entity has a policy that transactions that bring harm to public/minority shareholders are prohibited. Example of such transaction is financial assistance/subsidies to entities other than entities that are wholly owned by the entity.

7.2.2.4 The Board of Commissioners discloses the policy process for approving, reviewing and monitoring related party transactions and any inherent conflicts of interest.

7.2.2.5 The conclusions of the Audit Committee's review on the related party transactions/significant conflicts of interest are disclosed in the Annual Report.

Recommendation

7.2.3 The sharia commercial entity has and discloses policies to prevent insider

trading. The entity has clear rules regarding any trading in entity stock carried out by directors, commissioners, sharia supervisor, and insiders to ensure that no one can benefit directly or indirectly from information that is not/not yet available in the market.

7.3 General Meeting of Shareholders (GMS)

Recommendation

7.3.1 The sharia economic entity conducts invitation to the GMS with the agenda and material for the GMS as completely and as early as possible (at least 28 days prior the GMS) to provide sufficient time and material for shareholders to properly study the meeting agenda. Meeting invitations and all GMS information are disclosed through electronic means such as the entity website

Guidance

7.3.1.1 In the material of GMS agenda, the entity provides relevant and complete information required in decisions making, including explanations and justifications (rationale) for the proposed decisions to be approved at the GMS.

Recommendation

7.3.2 The sharia commercial entity has and discloses rules and procedures that will facilitate shareholders in participating and voting effectively at the GMS.

Guidance

7.3.2.1 The sharia commercial entity provides infrastructure that allows the attendance of all domestic and international shareholders, including institutional investors at the GMS.

7.3.2.2 All members of the Board of Directors, members of Sharia Supervisory Board, and members of the Board of Commissioners attend the Annual GMS.

7.3.2.3 The Chair of the Audit Committee, Nomination and Remuneration Committee, Risk Management Monitoring Committee, and other committees should be ready to provide meaningful responses to questions addressed to them in the GMS.

7.3.2.4 Shareholders have the opportunity, within reasonable limits, to:

a. ask questions at the GMS, including questions related to the results of the annual external audit,
b. include an event on the agenda of GMS, and
c. submit a resolution proposal.

7.3.2.5 The sharia commercial entity has methods or technical procedures for voting that promote independence and the interests of shareholders:
a. GMS location that is easily accessible to most shareholders.
b. Closed voting (poll-voting), not by showing of hands.
c. Ensure that there are no terms and procedures of the GMS that hinder shareholders from participating in decision-making.

7.3.2.6 The sharia commercial entity puts its best effort to use electronic voting procedures and takes steps to build infrastructure that enables electronic voting or use existing infrastructure in the ecosystem for voting.

7.3.2.7 Each vote in the GMS is only for one decision, there is no combining several decisions into the same resolution (bundling).

7.3.2.8 The sharia economic entity appoints an independent party (supervisor/inspector) to count and/or ratify the votes in the GMS and disclose it in the minutes of the GMS.

7.3.2.9 If the resolution approved by the controlling shareholder is contrary to the majority of the votes of the non-controlling shareholders, then after the GMS, the entity shall disclose what actions are taken to understand and respond to the concerns of the non-controlling shareholders that caused them to have a different vote than the controlling shareholders.

Recommendation

7.3.3 Shareholders participate effectively in determining the appointment of members of the Board of Directors, Sharia Supervisory Board, and Board of Commissioners

Guidance

7.3.3.1 The Board of Commissioners, through the Nomination and Remuneration Committee, conducts an in-depth examination of the candidates for Board of Directors, Sharia Supervisory Board, and Board of Commissioners and conveys all material information regarding the candidates to shareholders in the process of selecting members of the board. The information disclosed includes information regarding the positions of the Directors, Sharia Supervisory Board, or Commissioners in other entities, and whether they are considered independent from the entity's point of view

7.3.3.2 Directors, Sharia Supervisory Board, and Commissioners are nominated for election at least once every three years or five years for certain entity with regulations that require it to be five years. It would be better if the nomination is conducted once a year.

7.3.3.3 Shareholders shall vote separately for each candidate for Directors, Sharia Supervisors, and Commissioners.

Recommendation

7.3.4 The sharia economic entity ensures the transparency and accountability of external auditor at the GMS.

Guidance

7.3.4.1 In the invitation to the GMS, the entity identifies and informs the prospective external auditor who will be appointed or reappointed at the GMS.

7.3.4.2 The entity ensures that the external auditor will attend the GMS and is obliged to answer questions from shareholders related to the audit of the financial statements.

Recommendation

7.3.5 Submission of voting results and a summary of the minutes of the GMS will be announced to the public on the next working day.

Guidance

7.3.5.1 The minutes of the GMS are notified to shareholders no later than 30 working days after the GMS.

7.3.5.2 The minutes of the GMS contain the questions raised by the shareholders and the answers given by the chair of the meeting or the answering party.

7.3.5.3 The GMS, along with all meeting materials, reports and related documents which include, among others, the annual report and voting results, including the agenda for the relevant meeting, is published on the official website or digital media of entity communications and is available for at least 10 (ten) years.

8. STAKEHOLDERS RECOGNITION AND REWARDS

The entity governance framework recognizes the rights of stakeholders as stipulated by law or mutual agreement agreed by the entity with various stakeholders and encourage active cooperation in creating wealth, jobs, and the sustainability of financially sound entity.

The sharia commercial entity shall carry out social and environmental responsibilities, i.e., the commitment to participate in sustainable economic development in order to improve the quality of life and the environment that is beneficial, both for the entity itself, the local community, and society in general. The implementation of this obligation needs to involve stakeholders and integrated with entity business processes by ensuring the protection of stakeholders.

8.1 Stakeholder Engagement

Recommendation

8.1.1 The sharia commercial entity, through Corporate Secretary, carries out regular, transparent and effective communication with key stakeholders and involves them to understand their expectations and complaints and the impact of the entity on them.

Guidance

8.1.1.1 The sharia commercial entity discloses the process for identifying and selecting key stakeholders that will be engaged.

8.1.1.2 The sharia commercial entity discloses its approach and activities in addressing key stakeholder engagement including the frequency by type and key stakeholder group.

8.1.1.3 The sharia commercial entity provides channels through which key stakeholders (e.g., customers, suppliers, general public, etc.) can provide their opinions and input, voice their complaints and/or complaints regarding possible violations of their rights.

8.1.1.4 The sharia commercial entity discloses the views, inputs and significant complaints raised by key stakeholders that are obtained from key stakeholders' engagement, including:
a. entity response, and
b. key stakeholder groups that provide views and input.

8.2 Integration of Sustainability in Business Models

Recommendation

8.2.1 The Board of Commissioners together with Sharia Supervisory Board and Board of Directors are responsible, accountable and transparent in relation to sustainability governance, including establishing entity sustainability strategies, priorities and targets. The Board of Directors, Sharia Supervisory Board, and Board of Commissioners incorporate sustainability considerations in carrying out their roles, including developing and implementing entity strategies, business plans, key action plans and risk management.

Guidance

8.2.1.1 The Board of Directors ensures that the entity sustainability strategies, priorities and targets as well as performance against these targets are communicated to stakeholders.

8.2.1.2 The Board of Directors, Sharia Supervisory Board, and the Board of Commissioners stay abreast with and understand the relevant sustainability issues for the entity and its business.

8.2.1.3 Performance evaluation of the Board of Directors, Sharia Supervisory Board, and Board of Commissioners includes their performance in monitoring and dealing with significant risks and opportunities regarding entity sustainability.

8.2.1.4 The Board of Directors appoints a person in management who has a special role in strategically managing sustainability, including integrating sustainability considerations into entity activities.

8.3 Protection of Stakeholders

Recommendation

8.3.1 The Board of Directors ensures and discloses that the operations of the entity reflect the implementation of high ethical, social and environmental standards throughout the entity and ensures that appropriate policies and procedures are implemented to respect and comply with the rights of stakeholders.

Guidance

8.3.1.1 The sharia commercial entity implements and discloses policies on entity responsibility to customers including considering the security of customer information, the sales ethics and behavior, after-sales service according to product age/service period and following up on customer satisfaction levels to improve product and service quality. Advertising and public relations must promote responsible consumption and carried out responsibly, including avoiding misleading the customers, or causing misunderstandings about the products and services offered by the entity.

8.3.1.2 The sharia commercial entity implements and discloses policies that include criteria for supplier selection, transparent procurement mechanisms, efforts to increase supplier capacity, and fulfilment of rights related to suppliers. The entity also has policies that encourage and monitor suppliers to respect human rights, carry out social and environmental responsibilities, treat their employees, staff and workers fairly, and ensure that suppliers have implemented sustainable and value-based business policies and procedures.

8.3.1.3 The sharia commercial entity carries out and expresses social responsibility by applying entity business knowledge and experience to develop and produce social responsibility activities that will provide added value to society, including encouraging community self-reliance.

8.3.1.4 The sharia commercial entity carries out and discloses environmental responsibilities by preventing, reducing and managing negative environmental impacts from all aspects of entity operations, including the use of;

a. raw material,

b. energy,
c. water usage,
d. utilization of renewable resources
e. utilization and rehabilitation of biodiversity, waste management and reduction of the impact of greenhouse gases and carbon emissions.

8.3.1.5 The sharia commercial entity implements and discloses a fair competition policy by prioritizing ethical business behavior and not engaging in anti-competitive practices to gain or protect market position.

8.3.1.6 The Board of Directors has a policy to protect the rights of creditors.
a. The Board of Commissioners supervises and the Board of Directors monitors the liquidity and solvency of entity's finances.
b. The Board of Directors ensures that risks to financial position or financial difficulties are immediately identified, managed, mitigated and reported. The Board of Commissioners monitors the Board of Directors' handling of financial risks or difficulties and receives regular reports.

Recommendation

8.3.2 The Board of Directors encourages employees to work for the long-term interests of the entity and prioritizes sustainability.

Guidance

8.3.2.1 The sharia commercial entity has a policy of providing long-term incentives to employees, which promotes sustainable value creation.

8.3.2.2 Performance-related remuneration for employees shall take into account the element of risk, including measuring risk-adjusted returns, to ensure that no incentives are provided for undesired risk-taking.

8.3.2.3 The Board of Directors properly manages conflicts of interest that may arise between employees as beneficiaries of pension funds with the entity as the manager of pension funds.

8.3.2.4 The Board of Directors ensures that the entity has an effective human resource management and development program to ensure that the entity has a sufficient number of employees who are knowledgeable, skilled and experienced.

8.3.2.5 In filling managerial positions in the entity, the Board of Directors considers the element of diversity, non-discriminatory, and provides equal opportunities to all candidates regardless of ethnicity, religion, race, class, and gender. The diversity policy is complemented by measurable goals

Recommendation

8.3.3 The sharia commercial entity ensures that the products and services offered are in accordance with consumer needs and do not conflict with

sharia principles.

Guidance

8.3.3.1 The sharia commercial entity conducts research on consumers in order to understand consumer needs and understand potential sharia violations that occur so that they can anticipate related mitigation efforts.

8.3.3.2 The sharia commercial entity recognizes its customers for money laundering and the prevention of terrorism financing.

8.3.3.3 The sharia commercial entity understands the consumer's business and provide financing alternatives that do not conflict with sharia principles according to these needs.

8.3.3.4 The sharia commercial entity understands consumers in order to strive to fulfil consumer needs while still complying with sharia principles.

CHAPTER 6 SUMMARY OF THE PRINCIPLES OF INDONESIAN SHARIA SOCIAL/NON-PROFIT ENTITY GOVERNANCE

The governance principles of PUG-ESI basically do not differ from the governance principles of PUG-KI and PUG-ONI. The principles consist of one general principle and eight specific principles which are divided into three groups of principles: (1) the principles governing the bodies of entity governance, (2) the principles governing the processes and outcomes generated by the aforementioned bodies, and (3) the principles governing the beneficiaries of the implementation of entity governance.

The principles of the first group are stated in principles 1 to 3. The principles of the second group are stated in principles 4 to 6. The principles of the third group are stated in principles 7 and 8.

Principle 1: Roles and Responsibilities of Supervisory Board and Executive Board

The Supervisor/Governing Board and the Executive Board carry out their roles and responsibilities independently to create sustainable value for the long-term best interests of the entity. Supervision of the entity's compliance with sharia is carried out by the Sharia Supervisor (in the non-profit sector, the term Sharia Supervisory Board (*Dewan Pengawas Syariah* - DPS) is not used, instead the term Sharia Supervisor is used).

Principle 1 relates to the roles and responsibilities of the Executive Board in managing the entity and the roles and responsibilities of the Supervisory Board in supervising the management of the entity by the Executive Board. In addition, this Principle governs the performance evaluation of Supervisor/Governing Board, Sharia Supervisors, and Executive Board, the handling of conflicts of interest arising among members of the Executive Board and Supervisory Board as well as increasing the competencies of Executive Board and Supervisory Board.

Principle 2: Composition and Remuneration of Supervisory Board and Executive Board

The Supervisory Board and Executive Board are selected and appointed in such a way that the composition of the Executive Board as administration and management body and the composition of the Supervisory Board as supervisory body is diverse and each consists of members who have the commitment, knowledge, ability, experience and expertise necessary to properly perform the management or supervisory role.

The remuneration given to the Executive Board should comply with the provisions of the applicable laws and regulations, designed to effectively align the interests of the

Executive Board with the long-term interests of the entity and sustainable value creation. Bodies that have the function to carry out development for the entity, do not receive remuneration in any form whatsoever.

Principle 2 requires the selection and appointment of members of the Supervisory Board and Executive Board in such a way so that they will have the knowledge, abilities, and expertise required in accordance with their respective roles.

In addition, this principle emphasizes the importance of remuneration policies to encourage members of the Executive Board to prioritize the long-term interests of the entity based on the principle of sustainability, and requires the disclosure of remuneration policies and information received by the Executive Board in a transparent manner.

Principle 3: Work Relationship between Supervisory Board and Executive Board

The Supervisory Board and Executive Board have a close, open, constructive and mutual trusting work relationship for the best interests of the entity. Principle 3 emphasizes the importance of a close, open, constructive, mutual trusting work relationship between the Supervisory Board and Executive Board in achieving the best interests of the entity. Principle 3 also addresses the need for the Supervisory Board to access correct, accurate and complete information on all aspects of entity activities, as well as the importance for members of the Supervisory Board and Executive Board to understand the implications of the asset ownership structure on the implementation of their roles.

Principle 4: Ethical Behavior

The entity has a commitment to act in an ethical behavior and responsible to uphold the adopted values and culture. Principle 4 encourages the entity to make statements regarding their commitments not only to comply with applicable laws and regulations, but also commitments to act in ethical behavior and be responsible.

Principle 5: Risk Management, Internal Control and Compliance

The entity carries out an appropriate and effective risk management and internal control system that encourages, among other things, compliance with applicable laws and regulations, and is integrated into the entity's governance system, which is aligned with the goals, objectives and strategies of the entity.

Principle 5 encourages the Executive Board to implement a coordinated strategy in managing governance, risk management, internal control systems and entity compliance with the requirements of the applicable laws and regulations in an integrated manner. The Supervisory Board monitors the implementation of the strategy and risk management, as well as internal control system implemented by the Executive Board.

Principle 6: Disclosure and Transparency

The entity makes accurate and timely disclosures regarding all material matters concerning the entity and its activities. Principle 6 encourages the entity to have a governance framework than can provide assurance of correct, accurate, not misleading, and timely disclosure of all material matters concerning the entity, which includes among others financial condition and performance, asset ownership and entity governance.

Principle 7: Rights of Members and/or Beneficiaries

The entity protects and facilitates the exercise of member rights (for entities based on a membership or Association system) and/or beneficiaries, and ensures fair treatment of members and/or beneficiaries, including minority members and/or beneficiaries. All members and/or beneficiaries have the opportunity to obtain effective redress for violations of their rights in accordance with the provisions of the applicable laws and regulations.

Principle 7 addresses the fulfilment of members and/or beneficiaries rights and equitable treatment for members and/or beneficiaries, how active collaboration between the entity and their members and/or beneficiaries is carried out and the effective exercises of some members and/or beneficiaries rights through the general meeting of members or meeting of Supervisory Board and Executive Board.

Principle 8: Recognition and Rewards of Stakeholders

The entity recognizes the rights of its stakeholders as stipulated by law or agreement entered into by the entity, and encourages active cooperation with stakeholders in creating empowerment and increasing entity capability in carrying out its non-profit mission, jobs, and the sustainability of financially sound entity.

Principle 8 addresses the role of the Supervisory Board and Executive Board in integrating sustainability in the entity business model, carrying out stakeholder engagement, and ensuring the protection of the rights of stakeholders. The Supervisory Board monitors the integration mentioned above by the Executive Board.

CHAPTER 7 EIGHT GOVERNANCE PRINCIPLES OF INDONESIAN SHARIA SOCIAL/NON-PROFIT ENTITY IN THE FORM OF FOUNDATIONS

The legal reference for non-profit organizations in the form of legal foundation is Law Number 16 of 2001 concerning Foundations, which has been amended by Law Number 28 of 2004 concerning Amendments to Law Number 16 of 2001 concerning Foundations. In this reference, a foundation is defined as a legal entity consisting of separated assets and intended to achieve certain goals in the social, religious and humanitarian fields, which do not have members.

According to Law Number 16 of 2001 regarding Foundations, as amended by Law Number 28 of 2004, the organizational structure of a foundation includes the Governing Board, Supervisory Board, and Executive Board.

1. ROLES AND RESPONSIBILITIES OF GOVERNANCE BODIES

1.1 Position, Roles and Responsibilities of Governing Board

Governing Body of the Foundation is the governance bodies of non-profit organizations legally incorporated as Foundations, which function as executors and supervisors and guardians of the dignity and values of the organization, in accordance with the aims and objectives of the establishment of the organization. Referring to Law Number 16 of 2001 concerning Foundations, which has been amended by Law Number 28 of 2004 concerning Amendments to Law Number 16 of 2001 concerning Foundations, Governing Body of a Foundation has the highest position in the organization, and according to the Law or the Articles of Association of the Foundation, has the authority that is not delegated to the Executive Board or Supervisory Board.

Referring to these laws and regulations, the Governing Board of Foundation has the following authority:

a. Decision on changes to the Articles of Association.
b. Appointment and dismissal of Executive Board, Supervisory Board and Sharia Supervisory Board.
c. Determination of general policies of the Foundation based on the Articles of Association of the Foundation.
d. Approval of the work program and the draft of annual budget of the Foundation.
e. Determination of decisions regarding the merger or dissolution of the Foundation.

Referring to the matter above, PUG-ESI provides recommendations and guidance regarding the position, role and responsibilities of the Governing Board.

Recommendation

1.1.1 To achieve sustainable value creation, the Governing Board carries out its governance role and strives for the following governance outcomes:
   a. Competitive and focused on long-term performance.
   b. Ethical and responsible in running the activities.
   c. Contribute positively to society and the environment.
   d. Ability to survive and grow.

1.1.2 The Governing Board approves and determines the direction and strategy of the organization on a regular basis, by approving the mission, vision and organization strategy formulated by the Executive Board and reviewed by the Supervisory Board. The Governing Board also approves activity plans and long-term financial plans, as well as organization short-term financial plans, which has been prepared by the Executive Board and reviewed by the Supervisory Board.

1.1.3 The Governing Board approves and determine the appointment and/or dismissal of Executive Board, Supervisory Board, and Sharia Supervisory Board. In approving and determining the above, the Governing Board pays attention to diversity, non-discriminatory elements and provides equal opportunities regardless of ethnicity, religion, race, class and gender.

1.1.4 The Governing Board approves and determine the amount of remuneration for the Executive Board, Supervisory Board, and Sharia Supervisory Board, which is proposed by the Supervisory Board. In approving and determining the amount of remuneration for the Executive Board, Supervisory Board, and Sharia Supervisory Board, the Governing Board must still pay attention to the alignment of the remuneration amount with the sustainable development of the organization and the long-term interests of the organization and its members and/or beneficiaries of the organization's existence.

Guidance

1.1.4.1 Referring to the applicable laws and regulations, matters relating to the position, authority, roles and responsibilities of the Governing Board can be clearly stated in the Articles of Association of the organization.

1.1.4.2 In order to complete the provisions regarding the position, authority, roles and responsibilities of the Governing Board, it is highly recommended that non-profit organizations with the legal status as Foundations have guidelines for implementing the duties and functions of governance bodies. Implementation guidelines (the term board manual or board

charter or other equivalent terms can be used) provide guidelines or regulate various matters related to the position, authority, roles and responsibilities of the Governing Board, Executive Board, Supervisory Board, and Sharia Supervisory Board, which includes among others:

a. Position, duties, responsibilities and authorities of each governance body (Governing Board, Executive Board, Supervisory Board, and Sharia Supervisory Board).
b. Internal communication in each governance body, as well as communication between the Governing Board, Executive Board, Supervisory Board, and Sharia Supervisory Board.
c. Decision-making mechanism at the level of the Governing Board.

1.2 Roles and Responsibilities of Supervisory Board

Recommendation

1.2.1 The Supervisory Board has the duty of supervising and providing advice to the Executive Board and ensuring that the organization has implemented PUG-ESI, as part of the duties of the Supervisory Board/Sharia Supervisory Board/Governing Board in supporting sustainable growth and compliance with sharia principles. The Supervisory Board/Sharia Supervisory Board/ Governing Board builds a sharia governance framework that is appropriate to the size, nature and complexity of the organization.

1.2.2 The Supervisory Board always improve their understanding and knowledge in relation to sharia principles so that their duties and responsibilities in relation to sharia compliance can be properly carried out. The supervisory and advisory functions of the Supervisory Board include preventive, corrective and punitive actions.

Guidance

1.2.2.1 Provide approval regarding governance structure and reporting, risk management of non-compliance with sharia principles, and other matters that may affect the implementation of effective sharia governance in the organization.

1.2.2.2 Ensure that the Executive Board has implemented decisions, suggestions, directions, opinions, and supervision results from the Sharia Supervisory Board, including the implications that arise from this implementation.

1.2.2.3 Supervise the implementation of internal control related to sharia principles to prevent sharia non-compliance practices.

1.2.2.4 Supervise the performance of Executive Board and units assigned to implement sharia governance in order to achieve sharia governance objectives.

1.2.2.5 Encourage an organization culture that reflects the importance of implementing sharia principles through strategies and operational

activities to achieve sharia compliance.

Recommendation

1.2.3 The Supervisory Board reviews the organization strategy at least annually and approves the organization mission, vision and strategy formulated by the Executive Board. The Supervisory Board also reviews and approves activity plans and long-term financial plans, as well as organization short-term financial plans. The Supervisory Board provides considerations and monitors the Executive Board in managing its implementation. The Executive Board, Supervisory Board, and Sharia Supervisory Board must be involved in decisions that are critical for the organization and are regulated in the articles of association of the organization.

Guidance

1.2.3.1 Types of decisions that require the approval of the Supervisory Board are disclosed in the annual report.

Recommendation

1.2.4 The Supervisory Board proposes to, and to be decided by the Governing Board, the appointment and/or dismissal of members of the Executive Board, Sharia Supervisory Board, and Supervisory Board. In proposing the above, the Supervisory Board pays attention to diversity, non-discriminatory elements and provides equal opportunities regardless of ethnicity, religion, race, class and gender.

Guidance

1.2.4.1 The Supervisory Board ensures that the process of nominating and selecting members of the Executive Board, Supervisory Board, and Sharia Supervisory Board is formal and transparent.

1.2.4.2 The Supervisory Board or the Committee carrying out the nomination function, formulates a succession policy in the process of nominating members of the Executive Board. Every year the Supervisory Board reviews the report on the implementation of the development and succession plans submitted by Head of Executive Board.

Recommendation

1.2.5 The Supervisory Board submits the amount of remuneration for the Executive Board, Supervisory Board, and Sharia Supervisory Board to the Governing Board, which may be preceded by recommendations from the Committee that carries out the remuneration function, in line with sustainable organization development and the long-term interests of the organization and its members and/or beneficiaries;

Guidance

1.2.5.1 The Supervisory Board periodically reviews the remuneration system for the Executive Board, Supervisory Board, and Sharia Supervisory Board.

Recommendation

1.2.6 The Supervisory Board supervise the effectiveness of organization governance policies and their implementation and proposes changes as necessary.

Guidance

1.2.6.1 The Supervisory Board monitors and ensures that the organization's governance framework and policies reach out and are accepted by the subsidiary organizations and other businesses in which the organization has significant involvement or equity participation.

Recommendation

1.2.7 The Supervisory Board monitors and directs the organization to implement appropriate and effective risk management, as well as internal control systems that are aligned with organization goals, objectives and strategies, and to comply with laws and regulations, codes of conduct and applicable standards.

Guidance

1.2.7.1 The Supervisory Board understands the nature and scope of the main and substantial organization risks, and approves the organization risk appetite.

1.2.7.2 The Supervisory Board monitors and provides feedback to ensure that:

a. The establishment and implementation of risk management policies are consistent with the objectives, goals, strategies and risk appetite of the organization.
b. The risk management policies can provide early warning signals for material risks.
c. The risk management policies are reviewed periodically, e.g., annually.

1.2.7.3 The Supervisory Board monitors and provides input so that the main and substantial risks are identified through consideration of internal and external factors.

1.2.7.4 The Supervisory Board monitors and provides feedback to ensure that the impact and likelihood of risk has been assessed, and that appropriate risk mitigation strategies and plans are in place

1.2.7.5 The Supervisory Board regularly monitors the effectiveness of risk management and the internal control system of the organization.

Recommendation

1.2.8 The Supervisory Board carries out supervision and provides directions

in order to achieve the integrity of the accounting and organization financial reporting systems, as well as the independence of the internal and external audit functions.

Guidance

1.2.8.1 Prior to approving the financial statements, the Supervisory Board receives statements from the Head of Executive Board and the member of Finance Management, that in their opinion, the financial records have been properly managed and the financial statements have been prepared in accordance with applicable accounting standards and fairly present the position and the financial performance of the organization and that their opinion is based on a properly designed and effectively implemented risk management and internal control system.

Recommendation

1.2.9 The Supervisory Board monitors, reviews and approves the annual reports and organization sustainability reports and ensures their integrity, as well as oversees the disclosure and communication processes.

1.2.10 The Supervisory Board Charter is periodically reviewed.

1.2.11 The Supervisory Board has a policy regarding the resignation of members of the Supervisory Board if they are involved in financial crime.

1.2.12 The supervisors are strongly expected to be able to contribute to honest, objective, active and constructive discussions at Supervisory Board meetings.

Guidance

1.2.12.1 The term of membership of the Supervisory Board and its independence from an organizational point of view are disclosed in the annual report.

Recommendation

1.2.13 The Head of Supervisory Board acts as the coordinator of Supervisors and ensures its effectiveness. The Head of Supervisory Board promotes a culture of openness and constructive dialogue that allows a variety of views to be expressed, including coordinating the setting of appropriate Supervisory and Executive Board meeting agendas and ensuring the availability of sufficient time to discuss all agenda items. In addition, there should also be an opportunity for the supervisors to meet with the Executive Board and senior executives.

Guidance

1.2.13.1 Details of the duties of the Head of Supervisory Board are disclosed in the annual report and organization website.

1.2.13.2 The Head of Supervisory Board coordinates the distribution of supervisory

roles among supervisors, chairs the meetings of the Supervisory Board and represents the supervisors in dealings with external parties.

1.3 Performance Assessment – Supervisory Board

Recommendation

1.3.1 The Supervisory Board conducts an objective annual formal evaluation to determine the effectiveness of the Executive Board, Supervisory Board, Sharia Supervisor, committees, and each individual supervisor.

Guidance

1.3.1.1 The Supervisory Board may have a self-assessment policy to assess the performance of the Executive Board, Supervisory Board, and Sharia Supervisor as a whole.

1.3.1.2 The reappointment of the term of office of the supervisors is based on the results of a satisfactory performance evaluation.

1.3.1.3 The Supervisory Board engages an independent expert at least every three years, to facilitate objective and honest evaluation of supervisor performance.

1.4 Roles and Responsibilities of Supervisory Board

Recommendation

1.4.1 The Supervisory Board has a strong position in relation to sharia supervision in order to carry out its functions effectively.

Guidance

1.4.1.1 The Supervisory Board has governance bodies to carry out its duties properly.

Recommendation

1.4.2 The Supervisory Board works with clear responsibilities. The Supervisory Board is responsible for providing objective and reliable advice, directions, opinions and supervision to ensure that the organization has carried out its activities in compliance with sharia principles.

Guidance

1.4.2.1 The Supervisory Board has a charter (Sharia Supervisory Charter) which clearly defines the duties and responsibilities as well as procedures in terms of making decisions, suggestions, directions, opinions, supervision, and procedures for resolving differences of opinion. The Sharia Supervisory Charter is approved by the Supervisory/Governing Board.

1.4.2.2 In the event that Sharia Supervisory Board believes that there are sharia

issues that might affect the health and sustainability of the organization as well as compliance with sharia principles, the Sharia Supervisory Board shall immediately convey this matter to the Supervisory/Governing Board.

1.4.2.3 The duties and obligations of the Sharia Supervisory Board are as follows:

a. Supervise the activities of organization to comply with sharia provisions and principles;
b. Make sharia opinions on requests/questions and/or findings in the organization they supervise; and
c. Supervise and provide advice and suggestions to the Executive Board regarding matters that are in accordance with sharia provisions and principles.
d. Conduct periodic reviews of the implementation of sharia provisions and principles.
e. Maintain the confidentiality of organization documents, data and information that is supervised and advised.
f. Assist organizations or representing supervised organization in discussions with fatwa-making authorities.
g. Provide a statement of sharia conformity/opinion on the activities of the organization they supervise.
h. Participate in advanced education programs and/or activities organized by regulators in order to increase the competence of Sharia Supervisory Board.
i. Organize regular Sharia Supervisory Board meetings in accordance with the applicable laws and regulations.
j. Ensure effective, precise and fast decision-making and able to act independently, not having interests that could interfere with their ability to carry out tasks independently.

1.4.2.4 In order to carry out the duties and responsibilities effectively, the Sharia Supervisory Board has the authority to:

a. Provide advice and suggestions to the Supervisory/Governing Board and Executive Board regarding matters related to sharia aspects;
b. Give warnings to the Executive Board to make efforts to stop any sharia irregularities; and is authorized to report it to the authorities.

1.4.2.5 In the event that the Sharia Supervisory Board believes there are sharia issues that might affect the health and sustainability of the organization as well as compliance with sharia principles, then the Sharia Supervisory Board shall immediately convey this matter to the organization Supervisory Board.

Recommendation

1.4.3 The Sharia Supervisory Board is responsible for ensuring the quality, accuracy, and reliability of its decisions, recommendations, directives,

opinions, and supervisory activities.

Guidance

1.4.3.1 The Sharia Supervisory Board determines a reliable method in the process of making decisions and providing advice. Decisions, suggestions, directives, opinions and monitoring results are made by taking into account relevant business practices and risks.

1.4.3.2 The Sharia Supervisory Board may request assistance from professional parties such as legal experts, accounting experts, financial experts, or economic experts at the expense of sharia organizations, whenever needed, so that it can carry out their functions effectively.

1.4.3.3 The Sharia Supervisory Board can delegate certain tasks to individuals or units within the organization. In this case, then:

a. Mandates, delegated tasks, authorities, and implementation procedures are clearly stated.
b. The organization keeps the Sharia Supervisory Board well informed of the work, considerations and decisions made by the individuals/units that are delegated.
c. The Sharia Supervisory Board remains fully responsible for the decisions and implications of the decisions and delegated work.

Recommendation

1.4.4 The Sharia Supervisory Board is responsible for ensuring the quality, accuracy, and reliability of its decisions, recommendations, directives, opinions, and supervisory activities.

Guidance

1.4.4.1 The Sharia Supervisory Board meeting is chaired by the Head of Sharia Supervisory Board. In the event that the Head of Sharia Supervisory Board is unable to attend, the present members shall choose one of them to chair the meeting.

1.4.4.2 The Sharia Supervisory Board meetings may invite the Executive Board and/or Supervisory/Governing Board of the organization to convey the views of the organization, but cannot participate and do not have voting rights in making decisions and are not counted in the meeting quorum.

1.4.4.3 The Sharia Supervisory Board meetings may invite professionals such as legal experts, financial experts, or economic experts to provide opinions and input, but cannot participate and do not have voting rights in making decisions and are not counted into the meeting quorum.

1.4.4.4 The Sharia Supervisory Board meetings are recommended to be attended by representatives of the sharia compliance unit, internal audit unit and risk management unit.

Recommendation

1.4.5 The Sharia Supervisory Board makes regular reports and submits them to the Governing Board. The report should be able to reflect the independence of The Sharia Supervisory Board from the Executive Board. The report is also issued for management consulting activities that require The Sharia Supervisory Board recommendations and opinions and submitted to Governing Board.

Guidance

1.4.5.1 In each consultation provided by the Sharia Supervisory Board to the organization, the Sharia Supervisory Board may issue the following reports:

a. annual sharia compliance report;
b. internal sharia review/audit reports on products offered to consumers (ex-post);
c. reports related to product design and development (ex-ante), reported to the Governing Board and Executive Board;

1.4.5.2 Reports on fact-finding pertaining to specific cases must be presented to the Governing/Executive Board.

1.5 Performance Assessment – Sharia Supervisory Board

Recommendation

1.5.1 The Sharia Supervisory Board conducts an objective annual formal evaluation to determine the effectiveness of sharia compliance implementation.

Guidance

1.5.1.1 The Sharia Supervisory Board may have a self-assessment policy to assess the performance of the Sharia Supervisory Board as a whole.

1.5.1.2 The self-assessment policy or other assessment policy is based on benchmarks or assessment criteria that are specific, measurable, achievable, and relevant and in accordance with those determined by the Sharia Supervisory Board.

1.5.1.3 The reappointment of the term of office of the Sharia Supervisory Board is based on the results of a satisfactory performance evaluation.

1.6 Roles and Responsibilities of Executive Board

Recommendation

1.6.1 The Executive Board has the duty of implementing PUG-ESI to achieve sustainable performance and compliance with sharia principles. The Executive Board builds a reliable sharia organization governance

framework that is appropriate to the size, nature and complexity of the organization.

1.6.2 The Executive Board is responsible for operation, cooperation and other activities in accordance with sharia principles.

1.6.3 The Executive Board always improve their understanding and knowledge related to sharia principles so that they can properly carry out their duties and responsibilities related to sharia compliance.

Guidance

1.6.3.1 In order to fulfil this responsibility, the Executive Board:

a. issues an organizational structure and reporting structure that provides a clear scope of accountability and internal control functions in managing sharia compliance risk;
b. implements effective sharia governance policies, procedures and practices in accordance with the directions of the Supervisory Board/Sharia Supervisory Board/Governing Board;
c. implements suggestions and input from Sharia Supervisory Board;
d. carries out activities and effective communication of sharia activities with other sharia financial institutions and reports these activities to the Governing Board and Sharia Supervisory Board;
e. carries out regular assessments to evaluate the quality of operational support provided to Sharia Supervisory Board;
f. provides transparent, accurate and timely reports on the implementation of sharia compliance as well as conditions for potential or occurrence of sharia violations to the Supervisory Board/Sharia Supervisory Board/Governing Board.

Recommendation

1.6.4 To achieve sustainable value creation, the Executive Board carries out its leadership role and strives for the following governance outcomes:

a. Competitive and focused on long-term performance.
b. Ethical and responsible in running the activities.
c. Contribute positively to society and the environment.
d. Ability to survive and grow.

Guidance

1.6.4.1 The Executive Board exemplifies elevated standards of ethics and conduct, overseeing the enforcement of a code of ethics designed to cultivate a culture of integrity.

1.6.4.2 The Executive Board promotes an organization culture that ensures the employees understand their responsibility to act in accordance with organization values and high standards of ethics and behavior.

1.6.4.3 The Executive Board ensures the fulfilment of entity social and

environmental responsibilities. The Executive Board has a clear strategic plan in carrying out organization social and environmental responsibilities.

Recommendation

1.6.5 To carry out organization activities in order to achieve its goals and objectives, the Executive Board, with the approval from the Governing Board, may appoint an Implementing Body or Executive Committee who are given the duties and responsibilities of carrying out organization activities.

1.6.6 The Executive Board ensures that the appointment of Implementing Body or Executive Committee still pays attention to and does not violate the Articles of Association of the Organization, and also clearly defines the Limits of duties and responsibilities that can be delegated to the Implementing Body or Executive Committee.

Guidance

1.6.6.1 When proposing the establishment of an Implementing Body or Executive Committee, along with the nomination of the personnel, the Executive Board first establishes an Executive Charter which contains the duties and responsibilities delegated to the Implementing Body or Executive Committee, as well as matters relating to work relations and reporting to the Governing Board.

1.6.6.2 In the nomination and appointment of personnel for the Implementing Body or Executive Committee, the Executive Board determines personnel competency requirements policies.

1.6.6.3 The personnel appointed to be on the Implementing Boady or Executive Committee shall accept and sign the Executive Charter determined by the Governing Board.

Recommendation

1.6.7 The Executive Board ensures that the organization mission, vision, goals, objectives, strategies, annual and mid-term plans are consistent with long-term goals, by utilizing the latest innovation and technology effectively.

Guidance

1.6.7.1 In developing strategies and plans, the Executive Board promotes innovation and the use of cutting-edge technology to increase competitiveness, respond to stakeholder concerns and expectations, and fulfil social and environmental responsibilities.

1.6.7.2 The Executive Board prioritizes and promotes an innovation culture and includes innovation into organization strategy, operational development plans, and operational control.

1.6.7.3 The Executive Board encourages innovation that enhances long-term value creation for organization activities in a changing environment. Such innovation may include designing innovative operational activities, benefits, research, improving effectiveness of activities, and collaborating with partners.

Recommendation

1.6.8 The Executive Board has the duty of implementing PUG-ESI to achieve sustainable performance and compliance with sharia principles. The Executive Board builds a reliable sharia organization governance framework that is appropriate to the size, nature and complexity of the organization.

1.6.9 The Executive Board is responsible for operation, cooperation and other activities in accordance with sharia principles.

1.6.10 The Executive Board always improve their understanding and knowledge related to sharia principles so that they can properly carry out their duties and responsibilities related to sharia compliance.

Guidance

1.6.10.1 In order to fulfil this responsibility, the Executive Board:

a. issues an organizational structure and reporting structure that provides a clear scope of accountability and internal control functions in managing sharia compliance risk;
b. implements effective sharia governance policies, procedures and practices in accordance with the directions of the Supervisory Board/Governing Board;
c. implements suggestions and input from the Sharia Supervisory Board;
d. carries out activities and effective communication of sharia activities with other sharia financial institutions and reports these activities to the Supervisory Board and Sharia Supervisory Board;
e. carries out regular assessments to evaluate the quality of operational support provided to the Sharia Supervisory Board;
f. provides transparent, accurate and timely reports on the implementation of sharia compliance as well as conditions for potential or occurrence of sharia violations to the Supervisory/Governing Board and Sharia Supervisory Board.

Recommendation

1.6.11 The Executive Board provides adequate facilities and human resources to support the implementation of Sharia Supervisory Board work.

Guidance

1.6.11.1 The Executive Board provides facilities and human resources in accordance with the nature and size of the organization.

1.6.11.2 The Executive Board facilitates the implementation of work related to sharia reviews and audits.

1.6.11.3 The Executive Board provides full access to the Sharia Supervisory Board and sharia auditors for information and documents at all managerial levels.

Recommendation

1.6.12 The Executive Board ensures that the organization implements an appropriate and effective risk management and internal control system that is aligned with the organization vision, mission, goals, objectives and strategies and complies with applicable laws, regulations, and standards.

1.6.13 The Executive Board ensures the integrity of the organization accounting and financial reporting system and the timely and accurate disclosure of all material information about the organization.

Guidance

1.6.13.1 The Executive Board ensures that everyone (including Treasurers, Accountants, Internal Auditors, Secretaries, Personnel who handle relationships with fund providers) involved in the preparation and disclosure of organization information has relevant knowledge, skills and experience, as well as the availability of adequate resources (including employees).

1.6.13.2 In approving the disclosure of information (including periodic disclosure of financial information), the Executive Board considers all of the following factors:

a. The evaluation results of the soundness of the design and the effectiveness of the implementation of internal control system
b. Opinion of external auditor on financial statements, observations on the internal control system, and other observations through other sources
c. Consistency with goals, strategies and policies.

1.6.13.3 The Executive Board ensures that the disclosure of information (including financial statements and annual reports) accurately and fairly reflects the organization's financial position and performance. The Executive Board prioritizes the inclusion of Management Discussion and Analysis (D&AM) into quarterly financial statements to provide fund providers or donors with more complete and accurate information about the actual financial position, performance and condition of the organization.

Recommendation

1.6.14 The Executive Board ensures that the sustainability report is properly prepared.

Guidance

1.6.14.1 Sustainability reports are prepared based on a reporting framework that is appropriate to the size and complexity of the organization and meets national and/or global standards.

1.6.14.2 Organization sustainability reports reflect organization practices that support sustainable value creation.

Recommendation

1.6.15 The Executive Board establishes organization information technology (IT) governance framework that is in line with organization activities and priorities, promotes organization opportunities and performance, strengthens risk management, and supports organization goals.

Guidance

1.6.15.1 The Executive Board ensures that the organization has an IT resource allocation policy that ensures adequate and optimal investment and allocation of IT resources.

1.6.15.2 The Executive Board ensures the existence of IT risk management.

1.6.15.3 The Executive Board ensures that the organization has IT security policies and procedures.

1.6.15.4

1.7 Performance Assessment – Executive Board

Recommendation

1.7.1 The Executive Board has a self-assessment policy to assess the individual and collegial performance of the Executive Board.

Guidance

1.7.1.1 The self-assessment policy to assess the performance of Executive Board is disclosed on the annual report

Recommendation

1.7.2 The Supervisory Board is responsible for determining performance evaluation criteria and assessing the performance of the Head of Executive Board.

Guidance

1.7.2.1 The Supervisory Board ensures that the performance evaluation of the

Head of Executive Board is based on predetermined criteria that have been communicated in advance. Performance evaluation criteria should provide incentives for the Head of Executive Board to carry out the role in supporting the achievement of organization goals and creating sustainable value.

1.7.2.2 The Supervisory Board (or delegated to a committee it establishes) conducts an annual performance evaluation of the Head of Executive Board. The Supervisory Board or Head of Committee, appointed by the Supervisory Board, communicates the results (including development areas) of performance evaluation to the Head of Executive Board.

1.7.2.3 The Supervisory Board (or delegated to a committee it establishes) approves the performance evaluation criteria for other members of the Executive Board. The Supervisory Board ensures that the Head of Executive board evaluates the performance of other members of the Executive Board objectively and accurately based on predetermined performance evaluation criteria.

1.7.2.4 The criteria and process for evaluating the performance of the Head of Executive Board and other members are disclosed in the annual report.

1.8 Competency Improvement of Members of the Supervisory Board, Sharia Supervisory Board, and Executive Board

Recommendation

1.8.1 The Supervisory Board ensures that the Supervisory Board, Sharia Supervisory Board, and Executive Board understand their roles and responsibilities, characteristics and operations of the organization, relevant laws and regulations as well as standards and other applicable obligations. The Executive Board shall support all members of the Supervisory Board, Sharia Supervisory Board, and Executive Board in updating and refreshing their skills and knowledge necessary to carry out their roles as the Supervisory Board, Sharia Supervisory Board, and Executive Board.

Guidance

1.8.1.1 The Executive Board ensures that newly appointed members of the Executive Board have received a formal and adequate induction program as well as all information relevant to their roles and responsibilities.

1.8.1.2 The Supervisory Board regularly receive relevant, adequate and continuing training and knowledge development programs.

1.8.1.3 The Supervisory Board regularly receive accurate, timely and clear information regarding the latest developments in laws and regulations as well as relevant standards, other applicable obligations, risk factors and the organizational activity environment.

Recommendation

1.8.2 The Sharia non-profit organization ensures that the Supervisory Board, Governing Board, Sharia Supervisory Board, and Executive Board have adequate competencies and skills in carrying out their duties. Sharia non-profit organization carries out its activities in a responsible manner.

Guidance

1.8.2.1 The Sharia non-profit organization has adequate systems and procedures so that Supervisory Board, Governing Board, Sharia Supervisory Board, and Executive Board have the knowledge and skills required to carry out their duties.

1.8.2.2 The Sharia non-profit organization has the necessary systems and procedures so that Supervisory Board, Governing Board, Sharia Supervisory Board, and Executive Board understand the rules and principles of sharia as well as applicable rules from related regulators.

Recommendation

1.8.2.3 The members of the Sharia Supervisory Board work with adequate capabilities and have qualification of fiqh muamalah maliah, sharia financial/business competencies and sharia supervisory professional competencies.

Guidance

1.8.2.4 Specialization and expertise are proven by the Sharia Supervisory Board certification documents from the Professional Certification Institution of MUI and related documents according to professional expertise.

1.8.2.5 The chairman of the Sharia Supervisory Board and the majority of its members have qualifications in fiqh muamalah.

1.8.2.6 The members of the Sharia Supervisory Board have and always improve their understanding of the organization's business and operations, as well as follow market developments and relevant rules.

2. COMPOSITION AND REMUNERATION OF THE GOVERNING BOARD, SUPERVISORY BOARD, SHARIA SUPERVISORY BOARD, AND EXECUTIVE BOARD

The Governing Board, Executive Board, Supervisory Board, and Sharia Supervisory Board are selected and appointed in such a way that the composition is diverse and each of them have the commitment, knowledge, abilities and expertise necessary to properly perform the governance role.

The remuneration structure is crafted to strategically align the interests of both the Executive Board and the Supervisory Board members with the organization's long-term goals and the sustainable creation of value.

2.1 Composition of the Governing Board

As a governance body that functions to maintain the dignity and values of the organization, the membership and composition of the Governing Board are important matters that require guidance.

Recommendation

2.1.1 The composition of the membership and the requirements for the members of the Governing Board are determined by the Governing Board as outlined in the membership provisions and requirements in the articles of association of the organization.

2.1.2 Although the requirements for membership of the Governing Board will be determined by the current ones, it is necessary to determine who has the right to nominate candidates for members of Governing Board, such as the current ones, founders, both in the form of bodies or individuals.

2.1.3 The composition of the Governing Board shall be formed in such a way that its members reflect diversity in terms of abilities, skills, knowledge, experience, age, cultural background and gender in order to properly fulfill the role of the Governing Board.

Guidance

2.1.3.1 The Governing Board can propose membership requirements and the composition of the Board, which includes among others:

a. The origination of the submission of the candidate, whether from existing ones, or from the founders' proposals, both in the form of bodies and individuals.
b. Core competencies, qualifications and professional background of the proposed candidate.
c. Current position in other organization, as well as important roles in other non-profit organizations;
d. Factors that affect independence, including the relationship with the Supervisory Board and Executive Board;
e. Length of term of office;
f. Appointment mechanism;
g. The composition of the Governing Board reflects diversity, and explains the minimum and maximum number of members in a reasonable manner.

2.1.3.2 Based on the agreement and decision of the Governing Board, the requirements for membership and composition can be stated in the articles of association.

2.2 Composition of the Supervisory Board

Recommendation

2.2.1 The Supervisory Board ensures that the policies and procedures for the selection and nomination of Supervisory Board are clear and transparent in order to achieve the desired composition of the Board. The Supervisory Board uses independent sources to determine qualified candidates.

Guidance

2.2.1.1 Information about candidates for the Supervisory Board shall be disclosed in the election/re-election process, including:

a. Identity of the candidate and reasons for appointment;
b. Core competencies, qualifications, and professional background;
c. Current position in other organization, as well as important roles in other non-profit organizations;
d. Factors that affect independence, including the relationship with the members and/or controlling beneficiaries;
e. Length of term of office;
f. Attendance at Supervisory Board and Committee meetings (except for new Supervisors).

2.2.1.2 If the Supervisory Board use a consultant in the nomination process, relevant information regarding the consultant shall be disclosed in the annual report, including information regarding independence and conflicts of interest.

Recommendation

2.2.2 The Supervisory Board/Committee that performs the nomination function establishes nomination procedures and criteria that are consistent with the Supervisory Board's expertise matrix that has been approved by the Supervisory Board and ensures that the candidate profile meets the requirements set out in the expertise matrix and nomination criteria.

2.2.3 The composition of the Supervisory Board must be formed in such a way that its members as a group reflect the diversity in terms of abilities, expertise, knowledge, experience, age, cultural background, and gender to properly perform the role of the Supervisory Board.

Guidance

2.2.3.1 At least one Supervisor has previous experience in the main sector in which the organization operates

2.2.3.2 The determination of the number of members of the Supervisory Board takes into account the condition of the organization.

Recommendation

2.2.4 To enable the Supervisory Board to provide independent advice and supervision to the Executive Board, and for functions with potential conflicts of interest, the Supervisory Board shall consist sufficient number of Independent Supervisors.

Guidance

2.2.4.1 The former Head of the Executive Board or the members of the Executive Board who are selected as members of the Supervisory Board cannot be directly appointed as the Head of Supervisory Board. If the Supervisory Board decides that the former Head of Executive Board or the members of Executive Board needs to become the Head of Supervisory Board, the Supervisory Board will provide the reasons and explanations in Annual Report.

2.2.4.2 The former Head of the Executive Board or the members of the Executive Board may become the members of Supervisory Board as Independent Supervisor only under extraordinary circumstances and there must be a gap of at least 2 (two) years between these positions.

2.3 Composition of the Sharia Supervisory Board

Recommendation

2.3.1 The Sharia Supervisory Board consists of a minimum of 3 (three) members and one of them is appointed as Chairman. In the event that the management of the organization is still small, the minimum number of the Sharia Supervisory Board members can be 2 (two) people and one of them is appointed as Chairman.

2.3.2 The Sharia Supervisory Board membership and requirements refer to related regulations issued by MUI regarding the Sharia Supervisory Board. Among the Sharia Supervisory Board members, there shall be at least 1 (one) member who has expertise in the field of *fiqh zakat* and *waqf*.

2.3.3 The Sharia Supervisory Board may not be appointed from the Executive Board or Supervisory Board.

2.3.4 The members of the Sharia Supervisory Board carry out their duties in a focused manner and do not have conflicts of interest with other organizations. Sharia Supervisory Board membership in other organizations is limited to ensure the availability of time and the effectiveness of carrying out tasks to avoid conflicts of interest.

2.3.5 The termination of Sharia Supervisory Board members is carried out on the recommendation of the Executive Board and obtains approval from the Supervisory Board of the organization.

Guidance

2.3.5.1 The members of the Sharia Supervisory Board have a written agreement agreed upon by the parties.

2.3.5.2 The Sharia Supervisory Board is chaired by a chairman who is responsible for the effectiveness of the Sharia Supervisory Board to:

a. ensure that there are adequate procedures to be able to carry out sharia governance functions effectively;
b. act as a Sharia Supervisory Board representative in its relationship with the Executive Board of the organization in order to achieve a good understanding;
c. ensure that Sharia Supervisory Board decisions, suggestions, directives, opinions and supervision have been made reliably and based on adequate information and used reliable decision-making methods;
d. encourage the creation of healthy discussions, participation and contributions, and that all opinions have been expressed openly;
e. ensure that meeting discussions in the process of reaching decisions, suggestions, directions, opinions, and supervision have been well documented.

2.3.5.3 Information about the Sharia Supervisory Board must be disclosed in the contract and election/re-election process, which includes:

a. identity of the candidate and reasons for appointment;
b. core competencies, qualifications, and professional background;
c. current position in other organizations, as well as important roles in non-profit/social organization;
d. factors that affect independence;
e. length of term of office;
f. attendance at Sharia Supervisory Board meetings (except for new members).

2.3.5.4 If a member of the Sharia Supervisory Board has the duty of being a Sharia Supervisory Board member in another organization, then the person concerned must be able to ensure that s/he has sufficient time and attention to carry out his/her duties properly and in accordance with the limitations on concurrent positions as Sharia Supervisory Board members as stated in the laws and regulations.

Recommendation

2.3.6 The members of the Sharia Supervisory Board work with adequate capabilities and have qualification of *fiqh muamalah maliah*, sharia financial/business competencies and sharia supervisory professional competencies.

Guidance

2.3.6.1 Specialization and expertise are proven by Sharia Supervisory Board certification documents from the Professional Certification Institution of MUI and related documents according to professional expertise.

2.3.6.2 The chairman of the Sharia Supervisory Board and the majority of its members have qualifications in fiqh muamalah.

2.3.6.3 The members of the Sharia Supervisory Board have and always improve their understanding of the organization's activities and operations, as well as follow market developments and relevant rules.

Recommendation

2.3.7 The Sharia Supervisory Board is independent from the organization and makes sharia-related decisions fairly, honestly, and without any conflict of interest.

2.3.8 The Sharia Supervisory Board and organization have a written agreement agreed by both parties.

2.3.9 Proposals for the appointment and/or replacement of Sharia Supervisory Board members are submitted by the Executive Board of the organization to the Supervisory/Governing Board.

Guidance

2.3.9.1 The Sharia Supervisory Board is designated and appointed officially and in writing with clear terms of reference.

2.3.9.2 The Sharia Supervisory Board carries out its duties based on recommendations from the MUI. The Sharia Supervisory Board provides views, advice, directions, suggestions, opinions, and the results of its supervision consistently based on the fatwas of MUI.

2.4 Composition of the Executive Board

Recommendation

2.4.1 The Supervisory Board does not rely solely on recommendations from the Supervisory Board or its members and/or majority beneficiaries in determining Executive Board candidate. The Supervisory Board can use independent sources to determine eligible candidates.

2.4.2 The Supervisory Board ensures that the criteria in selecting members of the Executive Board include at least the knowledge, abilities, and expertise necessary to properly perform the role of the Executive Board and pay attention to the diversity of the Executive Board.

Guidance

2.4.2.1 Information about candidates for the Executive Board shall be disclosed in the election/re-election process, including:

a. Identity of the candidate and reasons for appointment;
b. Core competencies, qualifications, and professional background;
c. Current position in other organizations, as well as important roles in non-profit/charity organizations;
d. Factors that affect independence, including the relationship with the Governing Board;
e. Length of term of office;
f. Attendance at Executive Board meetings (except for new ones).

2.4.2.2 The composition of the Executive Board must be formed in such a way that its members as a group reflect the diversity in terms of abilities, expertise, knowledge, experience, age, and background.

2.4.2.3 The determination of the number of members of the Executive Board takes into account the condition of the organization as well as its effectiveness in decision making.

2.4.2.4 At least one member of the Board has previous experience in the main sector in which the organization operates.

Recommendation

2.4.3 Organization policies regarding diversity at the managerial level, Supervisory Board and Executive board are disclosed.

Guidance

2.4.3.1 The organization shall state the current diversity of the Supervisory Board and Executive Board, the measurable composition targets and progress achieved in achieving these targets. The information should include references to how diversity is achieved through proper succession planning in the Supervisory Board and Executive Board.

2.5 Remuneration of Supervisory Board

Recommendation

2.5.1 The remuneration of the Supervisory Board shall be proposed by the Supervisory Board to be decided by the Governing Board. The amount of remuneration proposed to the Governing Board is determined by taking into account the role of each member of the Supervisory Board and the economic condition as well as the performance of the organization. In addition, the position as Chairman of the Supervisory Board and the membership in committees also need to be considered

Guidance

2.5.1.1 The remuneration for the Supervisory Board must be in the form of fixed remuneration. If members of the Supervisory Board are given performance-related remuneration, the basis for this must be related

to the long-term development of the organization and different from members of the Executive Board.

2.6 Remuneration of Sharia Supervisory Board

Recommendation

2.6.1 The remuneration policy for members of the Executive Board consists of a remuneration structure towards sustainable development of organization and encourages the achievement of long-term goals. The remuneration of the Executive Board shall be proposed by the Executive Board to be decided by the Supervisory/Governing Board. The amount of remuneration proposed to the Supervisory/Governing Board is determined by taking into account the role of each member of the Executive Board and the economic condition as well as the performance of the organization.

Guidance

2.6.1.1 The remuneration policy is reasonable and fair, both in structure and size, and is determined in the context of organization values, internal reward structures, and sensitive to stakeholder expectations and societal norms.

2.6.1.2 The sharia non-profit organization has a performance-based remuneration policy for members of the Executive Board and in line with the achievement of the long-term interests of the organization.

2.6.1.3 The Executive Board shall not receive other facilities other than the facilities that have been provided based on the policies of Supervisory/ Governing Board.

Recommendation

2.6.2 The sharia non-profit organization discloses information on remuneration policies in the report on the implementation of governance.

Guidance

2.6.2.1 The sharia non-profit organization discloses information regarding the basis of consideration in determining the scheme and amount of remuneration for the Supervisory Board, Governing Board, Sharia Supervisory Board and Executive Board in the report on the implementation of governance.

2.6.2.2 The sharia non-profit organization discloses the scheme and amount of remuneration for the Supervisory Board, Governing Board, Sharia Supervisory Board and Executive Board in the report on the implementation of governance.

2.7 Remuneration of Executive Board

Recommendation

2.7.1 The remuneration policy for members of the Executive Board consists of a remuneration structure towards sustainable development of organization and encourages the achievement of long-term goals. The remuneration of the Executive Board shall be proposed by the Supervisory Board to be decided by the Governing Board. The amount of remuneration proposed to the Governing Board is determined by taking into account the role of each member of the Executive Board and the economic condition as well as the performance of the organization.

Guidance

2.7.1.1 The remuneration policy is reasonable and fair, both in structure and size, and is determined in the context of organization values, internal reward structures, and encourages competition while remaining sensitive to stakeholder expectations and societal norms.

2.7.1.2 The organization has a performance-based remuneration policy which is in line with the achievement of the long-term interests of the organization.

3. WORK RELATIONSHIP BETWEEN THE SUPERVISORY BOARD, SHARIA SUPERVISORY BOARD, AND EXECUTIVE BOARD

The Supervisory Board, Sharia Supervisory Board, and Executive Board have a close work relationship for the best interests of the entity.

a. The Executive Board cooperates with the Supervisory Board and Sharia Supervisory Board in formulating organization missions, visions and strategies and regularly discusses their implementation.

b. For transactions that requires approval from the Governing Board, Supervisory Board and Sharia Supervisory Board, based on the Articles of Association, then it must be carried out after obtaining the approval from the Governing Board, Supervisory Board and Sharia Supervisory Board. This includes decisions or plans which fundamentally change the condition of assets, financial or profits of the organization.

c. Provision of sufficient information for Governing Board, Supervisory Board and Sharia Supervisory Board is a joint responsibility of Supervisory Board, Executive Board and Sharia Supervisory Board.

d. Good governance requires open discussion between the Executive Board, Supervisory Board and Sharia Supervisory Board. However, maintaining confidentiality is a very important thing.

e. The Supervisory Board, Executive Board, and Sharia Supervisory Board act in accordance with the principle of prudence and for the benefit of the organization. If they do not carry out this principle, then they

can be held responsible for the losses of the organization. Executive Board and/or Supervisory Board and/or Sharia Supervisory Board are not considered responsible if their decisions are based on sufficient information for the best interest of the organization.

f. The Supervisory Board, Executive Board and Sharia Supervisory Board report the implementation of organizational governance in the Annual Report. The report also includes an explanation of non-compliance or implementation of principles that are different from PUG-ESI, complete with the reasons.

3.1 Nature of Work Relationship

Recommendation

3.1.1 There is an open discussion between the Executive Board, Supervisory Board, and Sharia Supervisory Board and between members of the Executive Board, Supervisory Board, and Sharia Supervisory Board. However, it is still important to maintain the confidentiality of information so that confidential information does not leak.

Guidance

3.1.1.1 The Executive Board cooperates with the Supervisory Board in formulating organization missions, visions and strategies and regularly discusses their implementation.

3.2 Interaction of Supervisory Board and Sharia Supervisory Board

Recommendation

3.2.1 The Supervisory Board takes into account the decisions, suggestions, directions and opinions which are the results of Sharia Supervisor Board supervision of the business, operations, cooperation and activities of the organization.

3.2.2 The Supervisory Board has a policy that prevents undue influence on the Sharia Supervisory Board, so that the Sharia Supervisory Board can carry out its functions and duties professionally and independently.

3.2.3 The Supervisory Board maintains good and effective communication with the Sharia Supervisory Board regarding the implementation of sharia principles.

Guidance

3.2.3.1 The Supervisory Board pays attention to the facts, rationale and basis of decisions, suggestions, directions and opinions which are the results of Sharia Supervisory Board supervision of the organization.

3.2.3.2 The Supervisory Board makes reasonable considerations of decisions,

suggestions, directions and opinions which are the results of Sharia Supervisory Board supervision and has a solution mechanism in the event of disagreements with the Sharia Supervisory Board.

3.2.3.3 The Supervisory Board issues a written policy to identify, assess and manage conflicts of interest that may arise from additional activities or services provided by the members of the Sharia Supervisory Board to the organization and consumers.

3.2.3.4 The Supervisory Board reviews the frequency and quality of meetings and consultations with the Sharia Supervisory Board.

3.3 Interaction of Executive Board and Sharia Supervisory Board

Recommendation

3.3.1 The Executive Board establishes good and effective communication with the Sharia Supervisory Board regarding the implementation of sharia principles.

3.3.2 The Executive Board has a policy to support the Sharia Supervisory Board to carry out its functions and duties professionally and independently.

Guidance

3.3.2.1 The Executive Board and Sharia Supervisory Board work together and support each other in realizing the achievement of the implementation of social funds/assets management activities that are in accordance with sharia.

3.3.2.2 The Executive Board reviews the frequency and quality of meetings and consultations with Sharia Supervisory Board.

Recommendation

3.3.3 The Executive Board establishes a resolution mechanism if there are differences of opinion between the Supervisory Board, Governing Board, Sharia Supervisory Board and Executive Board.

Guidance

3.3.3.1 The Executive Board makes guidelines and effective communication between the Boards and has a solution mechanism in the event of disagreements between the Supervisory Board, Governing Board, Sharia Supervisory Board and Executive Board.

3.4 Access to Information for the Supervisory Board and Sharia Supervisory Board

Recommendation

3.4.1 The Executive Board is responsible for ensuring that the Supervisory Board and Sharia Supervisory Board gets access to accurate, relevant and timely information. The Supervisory Board and Sharia Supervisory Board themselves ensure that they obtain sufficient information.

3.4.2 The Executive Board provides information to the Supervisory Board and Sharia Supervisory Board regularly, without delay, and comprehensively on all matters relevant to the organization. The Supervisory Board and Sharia Supervisory Board may request the Executive Board to provide additional information from time to time.

Guidance

3.4.2.1 The Supervisory Board and Sharia Supervisory Board have a process that allows members of the Supervisory Board, including Independent Supervisors, to have access to the Executive Board and relevant senior management.

3.4.2.2 The Head of the Executive Board or the Secretary immediately informs the Supervisory Board and Sharia Supervisory Board of any major material and important events regarding the condition and performance and management of the organization. If necessary, a Supervisory Board and Sharia Supervisory Board meeting will be held to discuss the event.

3.4.2.3 In the meetings of the Executive Board-Supervisory Board, Executive Board-Sharia Supervisory Board, and Supervisory Board-Sharia Supervisory Board, they maintain regular contact with the Executive Board, in particular, the Head of the Executive Board or designated Spokesperson, to discuss issues of strategy, organizational development, risk situation, risk management and organizational compliance

3.5 Conflict of Interest

Recommendation

3.5.1 Members of the Executive Board who have concurrent positions outside the organization, must obtain approval from the Supervisory Board. The Executive Board shall notify the Supervisory Board and the chair of the committee carrying out the nomination function, prior to accepting a new appointment as members of Executive Board or Supervisory Board from an organization, other directorship or other position with a significant time commitment.

Guidance

3.5.1.1 The Supervisory Board ensures clear policies and guidelines for members of the Executive Board who serve or wish to serve as members of Executive Board or Supervisory Board in other organization. The

policy should specify appointments that are permitted and the number of organizations in which they are permitted to simultaneously serve as Executive Board or Supervisory Board.

Recommendation

3.5.2 The Supervisory Board monitors and manages potential conflicts of interest of the Executive Board, Sharia Supervisory Board, Supervisory Board and members and/or beneficiaries. Supervision also includes the potential for misuse of organizational assets and abuse of authority in related party transactions. The members of the Supervisory Board who have conflicts of interest shall not participate in monitoring and making decisions on potential conflicts of interest involving the Supervisory Board or affiliates of supervisors concerned.

Guidance

3.5.2.1 The Supervisory Board has procedures to ensure that members of the Executive Board, Supervisory Board, and Sharia Supervisory Board who have conflicts of interest do not participate in making decisions (abstaining) related to the conflict of interest.

3.5.2.2 Each member of the Supervisory Board shall immediately inform the Supervisory Board, Sharia Supervisory Board, and Executive Board if there is a potential conflict of interest, including as a result of their position as a consultant or members of Executive Board, beneficiaries, fund providers, suppliers, or other partners.

3.5.2.3 All members of the Executive Board shall immediately disclose their potential conflict of interest to the Supervisory Board, Sharia Supervisory Board, and other members of Executive Board and do not participate in decision making in the event that the person concerned has a conflict of interest.

3.5.2.4 In its report, the Supervisory Board, Sharia Supervisory Board and Executive Board shall inform the Governing Board regarding a material conflict of interest that occurs, along with its treatment. A material conflict of interest that is not temporary can result in termination as a member of the Supervisory Board, Sharia Supervisory Board and Executive Board.

Recommendation

3.5.3 The Sharia Supervisory Board plays a strong and independent role in the organization in carrying out objective policies in relation to sharia. No parties can influence the decision-making by the Sharia Supervisory Board. Each member of the Sharia Supervisory Board ensures that the judgments and decisions are not influenced by other parties or other considerations. The members of the Sharia Supervisory Board must avoid situations that

may reduce their professional objectivity.

3.5.4 In the event that there is an unavoidable conflict of interest, the member concerned shall make a written statement regarding the non-independence to the organization. In the event that there is a conflict of interest, the member of the Sharia Supervisory Board who has the conflict of interest cannot participate in decision-making or relevant actions. The statement on conflict of interest is recorded and kept by the assigned staff.

3.5.5 The Sharia Supervisory Board shall not be involved in managerial decision-making and operational responsibilities.

Guidance

3.5.5.1 In order to be able to carry out their duties with integrity and reliability, the Sharia Supervisor Board:

a. makes judgments independently without undue influence from the Executive Board;

b. acts independently in demeanor and appearance.

3.5.5.2 The sharia non-profit organization needs to have transparent resolution procedures in the event that there are differences of opinion between the Executive Board and the Sharia Supervisory Board. If disagreements cannot be resolved easily, then MUI can play a role in resolving the problems that occur.

3.5.5.3 The sharia non-profit organizations develop guidelines regarding membership of Sharia Supervisory Board in other organizations taking into account the time commitment given to the organization.

3.5.5.4 The Sharia Supervisory Board carries out periodic assessments internally, and also uses external parties on their independence towards the organization.

4. ETHICAL AND RESPONSIBLE BEHAVIOR

The organization shall have, socialize and enforce a code of ethics that applies to members of the Governing Board, Executive Board, Supervisory Board, Sharia Supervisory Board, as well as the employees and other stakeholders. In relation to this matter, the organization is required to disclose the values and culture of the organization.

Sharia ethical behavior is the principles to regulate the activities of sharia social finance organizations to provide protection for (a) stakeholders and (b) the integrity of the sharia economy.

Sharia ethical behavior originates from sharia principles as stated in the Quran and Hadith. The application of sharia ethical behavior is a principle-based approach, meaning that sharia non-profit organizations are encouraged to develop systems and internal controls, risk management and governance

according to their respective activity models, without compromising these ethical principles.

4.1 Code of Conduct and Ethics

Recommendation

4.1.1 This statement is recommended to be included in the Code of Conduct and Ethics which should clearly state the organization expectation that each member of the Governing Board, Executive Board, Supervisory Board, Sharia Supervisory Board as well as the employees will:

a. Act in the best interests of the organization.
b. Act honestly and with a high standard of integrity.
c. Exemplifying the characteristic and behavior of the Prophet, i.e., *siddiq* (truthful), *fathonah* (wisdom), *amanah* (trustworthy), and *tabligh* (conveying).
d. Be independent and act on full information, in good faith, with due diligence and prudence.
e. Comply with laws and regulations that apply to organization and its operations.
f. Avoid actions that will violate laws and regulations or unethical actions based on organization ethics guidelines.
g. Not involved or participating in any activities that will cause a conflict of interest with the best interests of the organization or which will have a negative impact on the reputation of the organization.
h. Not taking advantage of property or information owned by the organization or its beneficiaries for personal gain or that causes harm to the organization and its beneficiaries.
i. Not taking advantage of his/her position or the opportunities generated by his/her position for personal gain.
j. Avoid the act of requesting or receiving any payments or other benefits for him/herself or for others that will provide benefits to third parties in violation of laws and regulations.

4.1.2 The Executive Board establishes policies and practices on anti-corruption, anti-fraud and anti-bribery in all organizational activities, and applies to all members of Executive Board, employees, suppliers, beneficiaries, and other stakeholders.

Guidance

4.1.2.1 The Executive Board develops and establishes a system that can be used as an effort to prevent offering or receiving bribes and payments or other inducements to commit acts that will violate laws and regulations or are unethical.

4.1.2.2 The Executive Board communicates anti-corruption policies by providing

training to staff and trying to expand anti-corruption efforts to stakeholders.

4.1.2.3 Any material violation of anti-corruption policies must be reported to the Supervisory Board, Sharia Supervisory Board, and Executive Board, or Supervisory Committees.

4.1.2.4 The Executive Board establishes and regularly reviews a transparent policy on political engagement, which includes lobbying and donations for candidate or political causes if permitted by laws and regulations, and ensures that the benefits and risks of the approach taken are understood, monitored and reviewed regularly by the Supervisory Board.

Recommendation

4.1.3 The sharia non-profit organization strives to achieve the highest standards of honesty, fairness, trustworthiness, and kindness in all their economic activities. Sharia non-profit organization issues procedures so that the Board and the employees carry out their duties and responsibilities based on business behavior that requires honesty, fairness, trustworthiness, and kindness.

Guidance

4.1.3.1 The organization may not, either intentionally or through negligence, issue information that has the potential to mislead stakeholders.

4.1.3.2 The organization may not engage in monopolistic, monopsony, market domination, and collusion practices.

4.1.3.3 The organization establishes procedures to carry out its duties and responsibilities in an honest, fair, trustworthy (*amanah*) and kindness (*ihsan*) manner.

4.1.3.4 The organization treats stakeholders in an honest, fair, trustworthy (*amanah*) and kindness (*ihsan*) manner.

4.1.3.5 The organization issues a statement that it will provide services in an honest, fair, trustworthy (*amanah*) and kindness (*ihsan*) manner.

4.2 Organizational Values and Cultures

Recommendation

4.2.1 The organization articulates, maintains and expresses organization culture and values

Guidance

4.2.1.1 The organization maintains organization culture ensuring all members of the Executive Board, Supervisory Board, Sharia Supervisory Board, members/beneficiaries, and all employees understand their responsibilities to act according to code of conduct and ethics.

4.2.1.2 Adequate training and socialization are available at the level of the Supervisory Board, Sharia Supervisory Board, Executive Board, as well as all members of the organization as mentioned above for all aspects related to organization culture, values and ethics.

4.2.1.3 Due diligence and monitoring program are available so that all members of the organization understand the relevant code of ethics and apply it effectively to avoid organization involvement in inappropriate behavior.

Recommendation

4.2.2 The organization carries out the principles of prudence and diligence in their operations for the best interests of stakeholders while still complying with sharia principles. Sharia non-profit organization has proper protection against the occurrence of behavior that results from lack of caution and negligence.

Guidance

4.2.2.1 The organization obtains and uses/allocates funds/assets in accordance with sharia rules in order to avoid practices that are prohibited by sharia principles.

4.2.2.2 The organization obtains and uses/allocates funds/assets by considering the risks and complexity of management for the benefit of stakeholders.

4.2.2.3 The organization carries out its operations in accordance with sharia guidelines.

4.2.2.4 The organization carries out efforts to provide protection for lack of caution and negligence.

Recommendation

4.2.3 The organization is able to prove that its operations are managed in accordance with sharia governance and conduct its business in a responsible manner and comply with all sharia principles.

Guidance

4.2.3.1 The organization understands and fully implements sharia governance.

4.2.3.2 The organization complies and ensures the existence of effective sharia compliance mechanisms and procedures.

4.2.3.3 The organization shall aware of compliance with sharia principles in conducting socially responsible business.

4.2.3.4 The organization provides information on sharia compliance carried out by the organization.

4.2.3.5 The organization establishes a resolution mechanism in the event of a violation of sharia compliance

4.3 Communication and Enforcement of the Code of Ethics, Values and Culture

Recommendation

4.3.1 The organization code of conduct and code of ethic is communicated effectively and integrated into organization strategy and operations including risk management system and remuneration structure, and is enforced.

Guidance

4.3.1.1 The organization has a system that can be used to process the handling of conflicts of interest, both for potential conflicts and those that have occurred.

4.3.1.2 The organization has guidelines for reporting violations (whistleblowing system) that can be used to encourage reporting the behavior that violates laws and regulations or is unethical, and which also includes a guideline on how entity protects whistle-blowers who are in good faith.

4.3.1.3 The organization ensures that the Supervisory Board and Committees are immediately notified if there is a material violation of the code of ethics and conduct

4.3.1.4 The organization ensures that the Supervisory Board and Committees are immediately notified if any material incident is reported under the violation reporting policy.

5. RISK MANAGEMENT, INTERNAL CONTROL AND COMPLIANCE

The organization implements a risk management and internal control system that is effective, appropriate and encourages compliance with applicable laws and regulations, integrated into the organization's governance system, which is aligned with the goals, objectives and strategies of the organization.

The organization shall implement an internal control and risk management system and disclose at least: a) an overview and description of the internal control and risk management system; b) types of risks and how to manage them; c) financial and operational control, as well as compliance with applicable laws and regulations, and d) review of the effectiveness of the internal control and risk management system.

5.1 Integration of Governance, Risk Management and Compliance

Recommendation

5.1.1 The Executive Board builds an integrated governance, risk management and compliance (GRC) system, by handling various uncertainties in an

integrated manner and with high integrity, to ensure that the organization can achieve its goals.

Guidance

5.1.1.1 The Executive Board ensures coordination and capacity building among the main GRC systems which include governance systems, strategic management, performance management, risk management, compliance management and internal audit systems so that the organization stays on the right track in achieving its goals.

Recommendation

5.1.2 Effective governance management is supported by the integration of risk management, internal control and compliance systems designed to achieve the goals of the organization.

Guidance

5.1.2.1 The Supervisory Board, Governing Board, Sharia Supervisory Board and Executive Board manage sharia compliance through the control function within the sharia governance framework, in order to carry out responsibilities for sharia compliance.

5.1.2.2 To ensure compliance with sharia, the organization carries out risk management on an ongoing basis by establishing and carrying out the following functions;

a. sharia risk management,
b. internal sharia review,
c. internal sharia audit.

5.1.2.3 The organization provides adequate resources for control in terms of the number of members as well as competence.

5.1.2.4 The control function is independent from the operations and is not involved in the activities governing process.

5.2 Risk Management

Recommendation

5.2.1 Strategy and risk are an integral part, disclosed in a transparent manner and included in the implementation of the duties and discussion between the Supervisory Board, Sharia Supervisory Board, and Executive Board.

Guidance

5.2.1.1 The Executive Board exercises its leadership by giving example and maintaining an effective risk and compliance culture that encourages openness and challenges for constructive considerations and assumptions.

5.2.1.2 The Executive Board discloses:

a. Main/key risks faced by the organization and their management.
b. If there is any material exposure to environmental or social risks and, if so, how to manage or the intention to manage those risks.

5.2.1.3 The Executive Board ensures governance processes on IT issues including disruption, cyber security, disaster recovery, to ensure that all major risks are identified, managed and reported to the Supervisory Board.

Recommendation

5.2.2 Risk management systematically identifies, measures, monitors, mitigates, and reports sharia compliance risks in operations, business activities, collaborations, and activities in sharia non-profit organizations.

Guidance

5.2.2.1 The organization applies sharia risk management which;
a. integrates sharia compliance with organization risk management,
b. identifies sharia compliance in the organization's operations and activities,
c. assesses sharia compliance and measuring the potential impact of the risk exposure on the organization,
d. issues appropriate risk mitigation efforts,
e. monitors sharia compliance risk and its effectiveness against risk mitigation measures,
f. provides reports on sharia compliance risk to the Executive Board,
g. provides constructive input on decisions that may lead to increased compliance risk.

5.2.2.2 The Executive Board responsible for risk management is responsible for sharia compliance risk management.

5.2.2.3 The organization ensures that staff in the risk management function have adequate knowledge of sharia related to the organization.

Recommendation

5.2.3 The Supervisory Board, Sharia Supervisory Board, Governing Board, and Executive Board of sharia non-profit organizations are actively involved in developing risk appetite and ensuring the availability of appropriate systems and policies to identify, measure, analyze, report and mitigate the risks.

Guidance

5.2.3.1 The Supervisory Board, Sharia Supervisory Board, Governing Board, and Executive Board understand their roles in risk management and are responsible for assessing and managing organizational risks.

5.2.3.2 The Supervisory Board, Sharia Supervisory Board, Governing Board, and Executive Board develop strategies and risk level tolerances, and issue

management frameworks for risks in operational activities.

5.2.3.3 The Supervisory Board, Sharia Supervisory Board, Governing Board, and Executive Board understand the relationship between sharia risk and the organization's activities, as well as internal and external risks that may hinder the achievement of the organization's goals.

5.3 Internal Control and Compliance

Recommendation

5.3.1 The Executive Board conducts regular reviews of the design accuracy and operational effectiveness of the governance system, risk management, internal control and organization compliance, and reports the implementation and results of the review to the members and/or beneficiaries.

5.3.2 The Executive Board ensures that the organization has a function that plays a role in following changes in various applicable laws and regulations, which are related to the business and laws and regulations in general, and has a system to ensure organization compliance with applicable laws and regulations as well as organization internal regulations.

Guidance

5.3.2.1 Periodic reviews conducted by the Executive Board specifically consider:

a. Any changes since the last periodic review of the nature and scope of significant risks and the organization's ability to respond to changes in its external environment.
b. The scope and quality of ongoing monitoring of risks and internal control systems, the role of the internal audit function and other assurance service providers.
c. The scope and frequency of communication of the monitoring results to the Supervisory Board (or the Audit Committee) which enables the Supervisory Board to assess the overall condition of internal control and its effectiveness in managing risks.
d. The occurrence of failures or deficiencies in internal control found in the period under review and the extent of contingent impacts that have or may occur in the future, which have a material impact on the condition or financial performance of the organization.
e. The effectiveness of internal controls related to financial reporting and regulatory compliance.

Recommendation

5.3.3 Periodic sharia reviews are conducted to assess the organization's compliance with operations and activities according to sharia requirements. The Executive Board submits the results of the review in the annual report.

Guidance

5.3.3.1 Sharia review includes:

a. Identification, assessment, and monitoring of operational and activity compliance with sharia;
b. Regular reports on the results and findings of reviews;
c. Inform and update the latest information and developments Related to laws and regulations to the organization and Executive Board;
d. Provide adequate guidance and training on relevant governance requirements for staff carrying out the review.
e. The staff in charge of compliance is responsible for conducting sharia reviews as part of the organization's compliance responsibilities.
f. The staff carrying out the review function have adequate qualifications and competence to carry out the compliance function and understand the sharia related to the organization.

Recommendation

5.3.4 Internal sharia audits are conducted to provide assurance on the quality and effectiveness of internal controls, risk management systems, and sharia governance and compliance processes in activities and operations.

Guidance

5.3.4.1 Sharia audits include;

a. audit methods to assess the risk profile and vulnerability of each audit area,
b. making an audit plan on the audit assignment,
c. issuing a clear audit program as a guideline for internal auditors in terms of obtaining information, audit procedures, and audit assessments,
d. reporting audit results to the Executive Board and Sharia Supervisory Board, provide detailed explanations and recommendations for action plans.

5.3.4.2 The staff responsible for the internal audit are responsible for conducting the sharia audit as part of the audit plan and responsibilities.

5.3.4.3 Internal auditors who carry out internal audits have sufficient qualifications and competence to carry out sharia audits of the organization.

Recommendation

5.3.5 The organization builds a sharia compliance culture by developing sharia compliance behavior. The culture of sharia compliance starts from the Executive and Supervisory Board, Sharia Supervisory Board, and Governing Board who communicate the importance of sharia compliance and integrate sharia governance in internal policies and guidelines.

Guidance

5.3.5.1 The Executive Board ensures that effective communication has been implemented in sharia governance.

6. DISCLOSURE AND TRANSPARENCY

The organization makes accurate and timely disclosures regarding all material matters concerning the organization. The organization shall disclose material events or facts as soon as possible. The organization also shall submit annual report and sustainability report.

6.1 Disclosure Policy

Recommendation

6.1.1 The organization has disclosure and transparency policies, as well as procedures that ensure the disclosure of information and safeguard sensitive information and organization secrets.

6.1.2 The right of the members and/or beneficiaries to obtain relevant material information regarding the organization regularly and timely must be fulfilled.

Guidance

6.1.2.1 The organization has and discloses a written policy in continuously carrying out information disclosure/transparency based on applicable regulations.

Recommendation

6.1.3 The organization makes relevant and timely disclosures related to sharia compliance.

Guidance

6.1.3.1 The organization discloses information on sharia governance policies and activities which include:

a. Statement by the Executive Board on their accountability for the implementation of sharia governance.

b. Statement by the Sharia Supervisory Board on responsibilities related to sharia governance and opinion on the organization's compliance with sharia.

6.1.3.2 The organization ensures that the disclosure has stated the roles, responsibilities and accountability of the Executive Board and Sharia Supervisory Board.

6.1.3.3 Disclosures are made in compliance with the determined disclosure standards.

6.1.3.4 The organization publishes quantitative and qualitative information

related to the performance of the organization, social fund/asset collection, fund/asset use/allocation activities, accounting policies, and amil governance.

Recommendation

6.1.4 The organization makes periodic reports on the management of social funds/assets to the public and donors/*muzakki*/waqif.

Guidance

6.1.4.1 The Executive Board issues and publishes financial statements and reports on the results of sharia reviews to the public and donors/*muzakki*/waqif.

6.1.4.2 The Executive Board ensures that the reports have been made in accordance with accounting standards and practices and are valid and acceptable to the public and have been properly audited by external auditors.

6.2 Financial and Sustainability Reports

Recommendation

6.2.1 The organization discloses a verification process to ensure the integrity of published interim financial reports, which have not been audited or reviewed by external auditors.

6.2.2 Sustainability reports are prepared and disclosed accurately and in accordance with national or international sustainability reporting frameworks.

6.2.3 The organization may issue integrated report that includes historical performance into context, and describe the risks, opportunities and prospects for the organization in the future, helping members and/or beneficiaries and stakeholders understand the strategic objectives of the organization and its progress towards sustainable value creation.

Guidance

6.2.3.1 The sustainability report is assessed by an independent and competent external party.

6.3 Information Dissemination

Recommendation

6.3.1 Information dissemination channels should provide users with equitable, timely and relatively inexpensive access to relevant information.

Guidance

6.3.1.1 The organization regularly holds meetings with financial analysts.

6.3.1.2 The organization utilizes information technology effectively and more broadly in addition to websites as a medium for information disclosure.

7. RIGHTS OF THE MEMBERS AND/OR BENEFICIARIES

The organization protects and facilitates the exercise of the rights of the members (for organizations based on a membership or association system) and/or beneficiaries and ensures fair treatment of members and/or beneficiaries, including minority members and/or beneficiaries. All members and/or beneficiaries are given the opportunity to obtain effective redress for violations of their rights in accordance with applicable laws and regulations.

Principle 7 describes the fulfilment of the rights of members and/or beneficiaries and fair treatment for the members and/or beneficiaries, how active cooperation between organization and members and/or beneficiaries is carried out and the effective implementation of some of the rights of the members and/or beneficiaries through a General Meeting of Members or Supervisory Board and Executive Board meetings.

8. STAKEHOLDERS RECOGNITION AND REWARDS

8.1 Stakeholders Engagement

Recommendation

8.1.1 The organization carries out regular, transparent and effective communication with the stakeholders and involves them to understand their expectations and complaints and the impact of the organization on them.

Guidance

8.1.1.1 The organization discloses the process for identifying and selecting stakeholders that will be engaged.

8.1.1.2 The organization discloses its approach and activities in addressing stakeholder engagement including the frequency by type and stakeholder group.

8.1.1.3 The organization provides channels through which stakeholders can provide their opinions and input, voice their complaints and/or complaints regarding possible violations of their rights.

8.1.1.4 The organization discloses the views, inputs and significant complaints raised by the stakeholders that are obtained from key stakeholders' engagement, to the organization's response, and from direct submission of views and input.

8.2 Protection of Stakeholders

Recommendation

8.2.1 The Executive Board ensures that the operations of the organization reflect the implementation of high ethical, social and environmental standards throughout the organization and ensures that appropriate policies and procedures are implemented to respect and comply with the rights of stakeholders.

Guidance

8.2.1.1 The organization implements the policies on organization responsibility to beneficiaries including considering the security of beneficiary's information, the sales ethics and behavior, after-sales service according to product age/service period and following up on beneficiary satisfaction levels to improve the quality of the benefits delivered by the organization. Advertising and public relations must promote in responsible manner and carried out responsibly, including avoiding misleading the beneficiary, or causing misunderstandings about the benefits offered by the organization.

8.2.1.2 The organization implements the policies that include criteria for supplier selection, transparent procurement mechanisms, efforts to increase supplier capacity, and fulfilment of rights related to suppliers. The organization also has policies that encourage and monitor suppliers to respect human rights, carry out social and environmental responsibilities, treat their employees, staff and workers fairly, and ensure that suppliers have implemented sustainable and value-based activities policies and procedures.

8.2.1.3 The organization carries out its social responsibility by applying organization activities knowledge and experience to develop and produce social responsibility activities that concretely provide added value to society.

8.2.1.4 The organization carries out its environmental responsibilities by preventing, reducing and managing negative environmental impacts from all aspects of organization operations, including the use of:

a. Raw material.
b. Energy.
c. Water usage
d. Utilization of renewable resources.
e. Utilization and rehabilitation of biodiversity and waste management.
f. Reduction of the impact of greenhouse gases and carbon emissions.

8.2.1.5 The organization implements a fair competition policy by prioritizing ethical business behavior and uphold the cultural values of the organization.

a. The Executive Board has a policy to protect the rights of fund providers or donors.
b. The Supervisory Board supervises and the Executive Board monitors

the liquidity and solvency of organization's finances.

8.2.1.6 The Executive Board ensures that risks to financial position or financial difficulties are immediately identified, managed, mitigated and reported. The Supervisory Board monitors the Executive Board's handling of financial risks or difficulties. For this reason, the Supervisory Board needs to receive regular reports.

Recommendation

8.2.2 The Executive Board encourages employees to work for the long-term interests of the organization and prioritizes sustainability.

Guidance

8.2.2.1 The organization has a policy of providing long-term incentives to employees, which promotes sustainable value creation.

8.2.2.2 Performance-related remuneration for employees shall take into account the element of risk, including measuring risk-adjusted returns, to ensure that no incentives are provided for undesired risk-taking.

8.2.2.3 The Executive Board properly manages conflicts of interest that may arise between employees as beneficiaries of pension funds with the organization as the manager of pension funds.

8.2.2.4 The Executive Board ensures that the organization has an effective human resource management and development program to ensure that the organization has a sufficient number of employees who are knowledgeable, skilled and experienced.

8.2.2.5 In filling managerial positions in the organization, the Executive Board considers the element of diversity, non-discriminatory, and provides equal opportunities to all candidates regardless of ethnicity, religion, race, class, and gender. The diversity policy is complemented by measurable goals.

CHAPTER 8 EIGHT GOVERNANCE PRINCIPLES OF INDONESIAN SHARIA SOCIAL/NON-PROFIT ENTITY IN THE FORM OF ASSOCIATIONS

The legal reference for sharia non-profit organizations in the form of legal association, until now, as long as there are no laws and regulations that specifically regulate it, is *Staatsblad* 1870 Number 64 concerning Associations as Legal Entities.

In the Regulation of the Minister of Law and Human Rights Number 3 of 2016 (PerMenkumHAM No. 3 of 2016) concerning Procedures for Submitting Applications for Legal Entity Authorization and Approval of Amendments to the Association's Articles of Association, Article 1 point 1, association is defined as a legal entity consisting of assets that are separated and intended to achieve certain goals in the social, religious and humanitarian fields, which do not have members.

Both *Staatsblad* 1870 Number 64 concerning Associations as Legal Entities and PerMenkumHAM No. 3 of 2016 do not mention in detail the bodies of governance in the non-profit organization legally incorporated as Associations. Therefore, the guidelines for the governance of non-profit organizations incorporated as associations adopt the best practices derived from the governance of non-profit organizations incorporated as foundations, and also refined with the distinctive characteristics of organizations incorporated as associations, i.e., having members, which are different from non-profit organizations incorporated as foundations.

1. ROLES AND RESPONSIBILITIES OF GOVERNANCE BODIES

1.1 Members and General Meeting of Members

The fundamental rights of members must be protected and facilitated by the association organization. The fundamental rights of the members include the right to: (a) obtain benefits from the organization's activities; (b) obtain relevant information about the organization regularly and in a timely manner; and (c) participate and vote in the General Meeting of Members.

Members and the interests of the organization must be protected from harmful actions committed by, or for the benefit of, other members, Executive Board, or Supervisory Board. All members, Supervisory Board, Sharia Supervisory Board, and Executive Board must avoid abuse of their rights.

Recommendation

1.1.1 The organization has a communication policy that facilitates and encourages

the participation of its members.

Guidance

1.1.1.1 The members are allowed to consult with each other on issues regarding their rights as set out in this Principle, but this should not be abused.

1.1.1.2 The organization encourages constructive dialogue between members and the Executive Board. The organization responds to requests from members and/or beneficiaries to engage in dialogue to support sustainable growth and increase organizational value in the medium to long term.

1.1.1.3 The organization immediately discloses to the public all material new facts made available to financial analysts and other similar parties.

1.1.1.4 The organization discloses the organization's communication policy with its members in websites and reports.

Recommendation

1.1.2 The members have the opportunity to participate and vote effectively at General Meetings of Members.

Guidance

1.1.2.1 The remuneration scheme given to the members of Executive Board, members of Supervisory Board, members of Sharia Supervisory Board, and the employees is approved by the members.

1.1.2.2 Members have the opportunity, within reasonable limits, to:

a. Ask questions at the General Meeting of Members, including questions related to the results of the annual external audit,
b. Include an event on the agenda of General Meeting of Members, and
c. Submit a resolution proposal.

1.1.2.3 The organization has methods or technical procedures for voting that promote independence and the interests of the members:

a. Voting is possible to be held electronically (e-voting).
b. The location of general meeting of members that is easily accessible to most members.
c. Closed voting (poll-voting), not by showing of hands.
d. Ensure that there are no terms and procedures of the general meeting of members that hinder the members from participating in decisions making.

1.1.2.4 The organization puts its best effort to use electronic voting procedures and takes steps to build infrastructure that enables electronic voting.

1.1.2.5 Each vote in the General Meeting of Members is only for one decision, there is no combining several decisions into the same resolution (bundling).

1.1.2.6 The organization appoints an independent party (authority/inspector)

to count and/or ratify the votes in the General Meeting of Members and disclose it in the minutes of the General Meeting of Members.

1.1.2.7 All Executive Board, Supervisory Board, Sharia Supervisory Board shall attend the Annual General Meeting of Members.

Recommendation

1.1.3 The members effectively participating in determining the appointment of Executive Board, Supervisory Board, and Sharia Supervisory Board.

Guidance

1.1.3.1 The Supervisory Board carry out in-depth examination of candidates for Executive Board, Supervisory Board, and Sharia Supervisory Board, and convey all material relevant information about candidates to the members in the selection process. The disclosed information includes information regarding the position as members of Executive Board and Supervisory Board in other organizations, and whether they are considered independent from the perspective of the organization.

1.1.3.2 The Executive Board, Supervisory Board, and Sharia Supervisory Board are nominated for election at least once every three years, or five years for organizations whose regulations require five years. It would be better if the nomination is conduction once a year.

1.1.3.3 The candidates for Executive Board, Supervisory Board, and Sharia Supervisory Board can be from external sources or use professional services.

1.1.3.4 The members vote separately for each candidate for Executive Board, Supervisory Board, and Sharia Supervisory Board.

Recommendation

1.1.4 The organization ensures the transparency and accountability of the external auditor at the General Meeting of Members.

Guidance

1.1.4.1 In the summons for the General Meeting of Members, the organization informs the prospective external auditor who is appointed or reappointed at the General Meeting of Members.

1.1.4.2 The organization ensures that the external auditor attends the General Meeting of Members and is obliged to answer questions from members regarding the audit of financial statement.

Recommendation

1.1.5 Submission of the results of the General Meeting of Members is carried out in a timely and complete manner.

Guidance

1.1.5.1 Voting results are announced to the public on the following working day.

1.1.5.2 The minutes of the General Meeting of Members are notified to members no later than 30 working days after the General Meeting of Members.

1.1.5.3 The minutes of the General Meeting of Members contain questions raised by members and answers given by the chairman of the meeting or by the answering party.

1.1.5.4 The General Meeting of Members, along with all meeting materials, reports and related documents which include, among others, the annual report and voting results, including the agenda for the meeting concerned, is published on the organization's official website or digital communication media and is available for at least 5 (five) year.

1.2 Roles and Responsibilities of Supervisory Board

Recommendation

1.2.1 The Supervisory Board has the duty of supervising and providing advice to the Executive Board and ensuring that organization has implemented PUG-ESI, as part of the duties of the Supervisory Board and Sharia Supervisory Board in supporting sustainable growth and compliance with sharia principles. The Supervisory Board builds a sharia governance framework that is appropriate to the size, nature and complexity of the organization.

1.2.2 The Supervisory Board always improve their understanding and knowledge in relation to sharia principles so that their duties and responsibilities in relation to sharia compliance can be properly carried out. The supervisory and advisory functions of the Supervisory Board include preventive, corrective and punitive actions.

Guidance

1.2.2.1 The Supervisory Board provides approval regarding governance structure and reporting, risk management of non-compliance with sharia principles, and other matters that may affect the implementation of effective sharia governance in the organization.

1.2.2.2 Ensure that the Executive Board has implemented decisions, suggestions, directions, opinions, and supervision results from Sharia Supervisory Board, including the implications that arise from this implementation.

1.2.2.3 Supervise the implementation of internal control related to sharia principles to prevent sharia non-compliance practices.

1.2.2.4 Supervise the performance of Executive Board and units assigned to implement sharia governance in order to achieve sharia governance objectives.

1.2.2.5 Encourage an organization culture that reflects the importance of implementing sharia principles through strategies and operational activities to achieve sharia compliance.

Recommendation

1.2.3 The Supervisory Board reviews the organization strategy at least annually and approves the organization mission, vision and strategy formulated by the Executive Board. The Supervisory Board also reviews and approves activity plans and long-term financial plans, as well as organization short-term financial plans. The Supervisory Board provides considerations and monitors the Executive Board in managing its implementation. The Supervisory Board, Sharia Supervisory Board, and Executive Board must be involved in decisions that are critical for the organization. This is regulated in the articles of association of the organization.

Guidance

1.2.3.1 Types of decisions that require the approval of the Supervisory Board are disclosed in the annual report.

Recommendation

1.2.4 The Supervisory Board proposes to, and to be decided by the General Meeting of Members, the appointment and/or dismissal of members of the Executive Board and Supervisory Board. In proposing the above, the Supervisory Board pays attention to diversity, non-discriminatory elements and provides equal opportunities regardless of ethnicity, religion, race, class and gender.

Guidance

1.2.4.1 The Supervisory Board ensures that the process of nominating and selecting members of the Executive Board, Supervisory Board, and Sharia Supervisory Board is formal and transparent.

1.2.4.2 The Supervisory Board or the Committee carrying out the nomination function, formulates a succession policy in the process of nominating members of the Executive Board. Every year the Supervisory Board reviews the report on the implementation of the development and succession plans submitted by Head of Executive Board.

Recommendation

1.2.5 The Supervisory Board submit the amount of remuneration for Executive Board, Supervisory Board, and Sharia Supervisory Board to the General Meeting of Members, which may be preceded by recommendations from the Committee, in line with sustainable organization development

and the long-term interests of the organization and its members and/or beneficiaries;

Guidance

1.2.5.1 The Supervisory Board periodically reviews the remuneration system for Executive Board, Supervisory Board, and Sharia Supervisory Board.

Recommendation

1.2.6 The Supervisory Board supervise the effectiveness of organization governance policies and their implementation and proposes changes as necessary.

Guidance

1.2.6.1 The Supervisory Board monitors and ensures that the organization's governance framework and policies reach out and are accepted by the subsidiary organizations and other businesses in which the organization has significant involvement or equity participation.

Recommendation

1.2.7 The Supervisory Board monitors and directs the organization to implement appropriate and effective risk management, as well as internal control systems that are aligned with organization goals, objectives and strategies, and to comply with laws and regulations, codes of conduct and applicable standards.

Guidance

1.2.7.1 The Supervisory Board understands the nature and scope of the main and substantial organization risks, and approves the organization risk appetite.

1.2.7.2 The Supervisory Board monitors and provides feedback to ensure that:

a. The establishment and implementation of risk management policies are consistent with the objectives, goals, strategies and risk appetite of the organization.
b. The risk management policies can provide early warning signals for material risks.
c. The risk management policies are reviewed periodically, e.g., annually.

1.2.7.3 The Supervisory Board monitors and provides input so that the main and substantial risks are identified through consideration of internal and external factors.

1.2.7.4 The Supervisory Board monitors and provides feedback to ensure that the impact and likelihood of risk has been assessed, and that appropriate risk mitigation strategies and plans are in place

1.2.7.5 The Supervisory Board regularly monitors the effectiveness of risk

management and the internal control system of the organization.

Recommendation

1.2.8 The Supervisory Board carries out supervision and provides directions in order to achieve the integrity of the accounting and organization financial reporting systems, as well as the independence of the internal and external audit functions.

Guidance

1.2.8.1 Prior to approving the financial statements, the Supervisory Board receives statements from the Head of Executive Board and the member of Finance Management, that in their opinion, the financial records have been properly managed and the financial statements have been prepared in accordance with applicable accounting standards and fairly present the position and the financial performance of the organization and that their opinion is based on a properly designed and effectively implemented risk management and internal control system.

Recommendation

1.2.9 The Supervisory Board monitors, reviews and approves the annual reports and organization sustainability reports and ensures their integrity, as well as oversees the disclosure and communication processes.

1.2.10 The Supervisory Board Charter is periodically reviewed.

1.2.11 The Supervisory Board has a policy regarding the resignation of members of the Supervisory Board if they are involved in financial crime.

1.2.12 The supervisors are strongly expected to be able to contribute to honest, objective, active and constructive discussions at Supervisory Board meetings.

Guidance

1.2.12.1 The term of membership of the Supervisory Board and its independence from an organizational point of view are disclosed in the annual report.

Recommendation

1.2.13 The Head of Supervisory Board acts as the coordinator of Supervisors and ensures its effectiveness. The Head of Supervisory Board promotes a culture of openness and constructive dialogue that allows a variety of views to be expressed, including coordinating the setting of appropriate Supervisory and Executive Board meeting agendas and ensuring the availability of sufficient time to discuss all agenda items. In addition, there should also be an opportunity for the supervisors to meet with the Executive Board and senior executives.

Guidance

1.2.13.1 Details of the duties of the Head of Supervisory Board are disclosed in the annual report and organization website.

1.2.13.2 The Head of Supervisory Board coordinates the distribution of supervisory roles among supervisors, chairs the meetings of the Supervisory Board and represents the supervisors in dealings with external parties.

1.3 Performance Assessment – Supervisory Board

Recommendation

1.3.1 The Supervisory Board conducts an objective annual formal evaluation to determine the effectiveness of the Executive Board, Supervisory Board, Sharia Supervisor, committees, and each individual supervisor.

Guidance

1.3.1.1 The Supervisory Board may have a self-assessment policy to assess the performance of the Executive Board, Supervisory Board, and Sharia Supervisor as a whole.

1.3.1.2 The reappointment of the term of office of the supervisors is based on the results of a satisfactory performance evaluation.

1.3.1.3 The Supervisory Board engages an independent expert at least every three years, to facilitate objective and honest evaluation of supervisor performance.

1.4 Roles and Responsibilities of Supervisory Board

Recommendation

1.4.1 The Supervisory Board has a strong position in relation to sharia supervision in order to carry out its functions effectively.

Guidance

1.4.1.1 The Supervisory Board has governance bodies to carry out its duties properly.

Recommendation

1.4.2 The Supervisory Board works with clear responsibilities. The Supervisory Board is responsible for providing objective and reliable advice, directions, opinions and supervision to ensure that the organization has carried out its activities in compliance with sharia principles.

Guidance

1.4.2.1 The Supervisory Board has a charter (Sharia Supervisory Charter) which clearly defines the duties and responsibilities as well as procedures in

terms of making decisions, suggestions, directions, opinions, supervision, and procedures for resolving differences of opinion. The Sharia Supervisory Charter is approved by the Supervisory Board/General Meeting of Members.

1.4.2.2 In the event that the Sharia Supervisory Board believes that there are sharia issues that might affect the health and sustainability of the organization as well as compliance with sharia principles, the Sharia Supervisory Board shall immediately convey this matter to the Supervisory Board/General Meeting of Members.

1.4.2.3 The duties and obligations of the Sharia Supervisory Board are as follows:

a. Supervise the activities of organization to comply with sharia provisions and principles;
b. Make sharia opinions on requests/questions and/or findings in the organization they supervise; and
c. Supervise and provide advice and suggestions to the Board regarding matters that are in accordance with sharia provisions and principles.
d. Conduct periodic reviews of the implementation of sharia provisions and principles.
e. Maintain the confidentiality of organization documents, data and information that is supervised and advised.
f. Assist organizations or representing supervised organization in discussions with fatwa-making authorities.
g. Provide a statement of sharia conformity/opinion on the activities of the organization they supervise.
h. Participate in advanced education programs and/or activities organized by regulators in order to increase the competence of Sharia Supervisory Board.
i. Organize regular Sharia Supervisory Board meetings in accordance with the applicable laws and regulations.
j. Ensure effective, precise and fast decision-making and able to act independently, not having interests that could interfere with their ability to carry out tasks independently.

1.4.2.4 In order to carry out the duties and responsibilities effectively, the Sharia Supervisory Board has the authority to:

a. Provide advice and suggestions to the Supervisory Board/General Meeting of Members and Executive Board regarding matters related to sharia aspects;
b. Give warnings to the Executive Board to make efforts to stop any sharia irregularities; and is authorized to report it to the authorities.

1.4.2.5 In the event that the Sharia Supervisory Board believes there are sharia issues that might affect the health and sustainability of the organization as well as compliance with sharia principles, then the Sharia Supervisory

Board shall immediately convey this matter to the organization Supervisory Board.

Recommendation

1.4.3 The Sharia Supervisory Board is accountable for decisions, suggestions, directions, opinions and supervision in terms of quality, accuracy and reliability.

Guidance

1.4.3.1 The Sharia Supervisory Board determines a reliable method in the process of making decisions and providing advice. Decisions, suggestions, directives, opinions and monitoring results are made by taking into account relevant business practices and risks.

1.4.3.2 The Sharia Supervisory Board may request assistance from professional parties such as legal experts, accounting experts, financial experts, or economic experts at the expense of organization, whenever needed, so that it can carry out their functions effectively,

1.4.3.3 The Sharia Supervisory Board can delegate certain tasks to individuals or units within the organization. In this case, then;

a. mandates, delegated tasks, authorities, and implementation procedures are clearly stated,
b. the organization keeps the Sharia Supervisory Board well informed of the work, considerations and decisions made by the individuals/units that are delegated,
c. the Sharia Supervisory Board remains fully responsible for the decisions and implications of the decisions and delegated work.

Recommendation

1.4.4 The Sharia Supervisory Board holds meetings chaired by the Head of Sharia Supervisory Board. The meeting is attended by the members of Sharia Supervisory Board and relevant invitees.

Guidance

1.4.4.1 The Sharia Supervisory Board meeting is chaired by the Head of Sharia Supervisory Board. In the event that the Head of Sharia Supervisory Board is unable to attend, the present members shall choose one of them to chair the meeting.

1.4.4.2 The Sharia Supervisory Board meetings may invite the Executive Board and/or Supervisory Board/General Meeting of Members to convey the views of the organization, but cannot participate and do not have voting rights in making decisions and are not counted in the meeting quorum.

1.4.4.3 The Sharia Supervisory Board meetings may invite professionals such as legal experts, financial experts, or economic experts to provide opinions

and input, but cannot participate and do not have voting rights in making decisions and are not counted into the meeting quorum.

1.4.4.4 The Sharia Supervisory Board meetings are recommended to be attended by representatives of the sharia compliance unit, internal audit unit and risk management unit.

Recommendation

1.4.5 The Sharia Supervisory Board makes regular reports and submits them to the general Meeting of Members. The report should be able to reflect the independence of the Sharia Supervisory Board from the Executive Board. The report is also issued for management consulting activities that require the Sharia Supervisory Board recommendations and opinions and submitted to the Supervisory Board and General Meeting of Members.

Guidance

1.4.5.1 In each consultation provided by the Sharia Supervisory Board to the organization, the Sharia Supervisory Board may issue the following reports;

a. annual sharia compliance report,
b. internal sharia review/audit reports,
c. reports related to product design and development (ex-ante), reported to the Supervisory Board and General Meeting of Members.

1.4.5.2 Fact-finding reports in relation to certain cases, shall be submitted to the Supervisory Board and General Meeting of Members.

1.5 Performance Assessment – Sharia Supervisory Board

Recommendation

1.5.1 The Sharia Supervisory Board conducts an objective annual formal evaluation to determine the effectiveness of sharia compliance implementation.

Guidance

1.5.1.1 The Sharia Supervisory Board may have a self-assessment policy to assess the performance of the Sharia Supervisory Board as a whole.

1.5.1.2 The self-assessment policy or other assessment policy is based on benchmarks or assessment criteria that are specific, measurable, achievable, and relevant and in accordance with those determined by the Sharia Supervisory Board.

1.5.1.3 The reappointment of the term of office of the Sharia Supervisory Board is based on the results of a satisfactory performance evaluation.

1.6 Roles and Responsibilities of Executive Board

Recommendation

1.6.1 The Executive Board has the duty of implementing PUG-ESI to achieve sustainable performance and compliance with sharia principles. The Executive Board builds a reliable sharia organization governance framework that is appropriate to the size, nature and complexity of the organization.

1.6.2 The Executive Board is responsible for operation, cooperation and other activities in accordance with sharia principles.

1.6.3 The Executive Board always improve their understanding and knowledge related to sharia principles so that they can properly carry out their duties and responsibilities related to sharia compliance.

Guidance

1.6.3.1 In order to fulfil this responsibility, the Executive Board:

a. issues an organizational structure and reporting structure that provides a clear scope of accountability and internal control functions in managing sharia compliance risk;
b. implements effective sharia governance policies, procedures and practices in accordance with the directions of the Supervisory Board/General Meeting of Members;
c. implements suggestions and input from the Sharia Supervisory Board;
d. carries out activities and effective communication of sharia activities with other sharia financial institutions and reports these activities to the Supervisory Board and General Meeting of Members;
e. carries out regular assessments to evaluate the quality of operational support provided to Sharia Supervisory Board;
f. provides transparent, accurate and timely reports on the implementation of sharia compliance as well as conditions for potential or occurrence of sharia violations to the Supervisory Board/General Meeting of Members and Sharia Supervisory Board.

Recommendation

1.6.4 To achieve sustainable value creation, the Executive Board carries out its leadership role and strives for the following governance outcomes:

a. Competitive and focused on long-term performance.
b. Ethical and responsible in running the activities.
c. Contribute positively to society and the environment.
d. Ability to survive and grow.

Guidance

1.6.4.1 The Executive Board embodies high standards of ethics and behavior and ensures the implementation of code of ethics that creates a culture of integrity

1.6.4.2 The Executive Board promotes an organization culture that ensures the employees understand their responsibility to act in accordance with organization values and high standards of ethics and behavior.

1.6.4.3 The Executive Board ensures the fulfilment of entity social and environmental responsibilities. The Executive Board has a clear strategic plan in carrying out organization social and environmental responsibilities.

Recommendation

1.6.5 The Executive Board provides adequate facilities and human resources to support the implementation of Sharia Supervisory Board work.

Guidance

1.6.5.1 The Executive Board provides facilities and human resources in accordance with the nature and size of the organization.

1.6.5.2 The Executive Board facilitates the implementation of work related to sharia reviews and audits.

1.6.5.3 The Executive Board provides full access to the Sharia Supervisory Board and sharia auditors for information and documents at all managerial levels.

Recommendation

1.6.6 The Executive Board ensures that the organization mission, vision, goals, objectives, strategies, annual and mid-term plans are consistent with long-term goals, by utilizing the latest innovation and technology effectively.

Guidance

1.6.6.1 In developing strategies and plans, the Executive Board promotes innovation and the use of cutting-edge technology to increase competitiveness, respond to stakeholder concerns and expectations, and fulfil social and environmental responsibilities.

1.6.6.2 The Executive Board prioritizes and promotes an innovation culture and includes innovation and inclusion into organization strategy, operational development plans, and operational control.

1.6.6.3 The Executive Board encourages innovation that enhances long-term value creation for organization activities in a changing environment. Such innovations may include designing models of organizational activities, innovations from the benefits delivered, promoting research, improving production and operations processes, and collaborating with partners.

Recommendation

1.6.7 The Executive Board ensures that the organization implements an appropriate and effective risk management and internal control system that is aligned with the organization vision, mission, goals, objectives and strategies and complies with applicable laws, regulations, and standards.

1.6.8 The Executive Board ensures the integrity of the organization accounting and financial reporting system and the timely and accurate disclosure of all material information about the organization.

Guidance

1.6.8.1 The Executive Board ensures that everyone including Treasurers, Accountants, Internal Auditors, Secretaries, Personnel who handle relationships with fund providers, involved in the preparation and disclosure of organization information has relevant knowledge, skills and experience, as well as the availability of adequate resources (including employees).

1.6.8.2 In approving the disclosure of information (including periodic disclosure of financial information), the Executive Board considers all of the following factors:

a. The evaluation results of the soundness of the design and the effectiveness of the implementation of internal control system
b. Opinion of external auditor on financial statements, observations on the internal control system, and other observations through other sources
c. Consistency with goals, strategies and policies.

1.6.8.3 The Executive Board ensures that the disclosure of information (including financial statements and annual reports) accurately and fairly reflects the organization's financial position and performance. The Executive Board prioritizes the inclusion of Management Discussion and Analysis (D&AM) into quarterly financial statements to provide fund providers or donors with more complete and accurate information about the actual financial position, performance and condition of the organization.

Recommendation

1.6.9 The Executive Board ensures that the sustainability report is properly prepared.

Guidance

1.6.9.1 Sustainability reports are prepared based on a reporting framework that is appropriate to the size and complexity of the organization and meets national and/or global standards.

1.6.9.2 Organization sustainability reports reflect organization practices that

support sustainable value creation.

Recommendation

1.6.10 The Executive Board establishes organization information technology (IT) governance framework that is in line with organization activities and priorities, promotes organization opportunities and performance, strengthens risk management, and supports organization goals.

Guidance

1.6.10.1 The Executive Board ensures that the organization has an IT resource allocation policy that ensures adequate and optimal investment and allocation of IT resources.

1.6.10.2 The Executive Board ensures that the organization's risk management includes IT risk management.

1.6.10.3 The Executive Board ensures that the organization has IT security policies and procedures.

1.7 Performance Assessment – Executive Board

Recommendation

1.7.1 The Executive Board has a self-assessment policy to assess the individual and collegial performance of the Executive Board.

Guidance

1.7.1.1 The self-assessment policy to assess the performance of Executive Board is disclosed on the annual report

Recommendation

1.7.2 The Supervisory Board is responsible for determining performance evaluation criteria and assessing the performance of the Head of Executive Board.

Guidance

1.7.2.1 The Supervisory Board ensures that the performance evaluation of the Head of Executive Board is based on predetermined criteria that have been communicated in advance. Performance evaluation criteria should provide incentives for the Head of Executive Board to carry out the role in supporting the achievement of organization goals and creating sustainable value

1.7.2.2 The Supervisory Board (or delegated to a committee it establishes) conducts an annual performance evaluation of the Head of Executive Board. The Supervisory Board or Head of Committee, appointed by the Supervisory Board, communicates the results (including development

areas) of performance evaluation to the Head of Executive Board.

1.7.2.3 The Supervisory Board (or delegated to a committee it establishes) approves the performance evaluation criteria for other members of the Executive Board. The Supervisory Board ensures that the Head of Executive board evaluates the performance of other members of the Executive Board objectively and accurately based on predetermined performance evaluation criteria.

1.7.2.4 The criteria and process for evaluating the performance of the Head of Executive Board and other members are disclosed in the annual report.

1.8 Competency Improvement of Members of the Supervisory Board, Sharia Supervisory Board, and Executive Board

Recommendation

1.8.1 The Supervisory Board ensures that Supervisory Board and Executive Board understand their roles and responsibilities, characteristics and operations of the organization, relevant laws and regulations as well as standards and other applicable obligations. The Executive Board shall support all members of the Supervisory Board and Executive Board in updating and refreshing their skills and knowledge necessary to carry out their roles as the Supervisory Board and Executive Board.

Guidance

1.8.1.1 The Executive Board ensures that newly appointed members of the Executive Board have received a formal and adequate induction program as well as all information relevant to their roles and responsibilities.

1.8.1.2 The Supervisory Board regularly receive relevant, adequate and continuing training and knowledge development programs.

1.8.1.3 The Supervisory Board regularly receive accurate, timely and clear information regarding the latest developments in laws and regulations as well as relevant standards, other applicable obligations, risk factors and the organizational activity environment.

Competency

1.8.2 The organization ensures that the Supervisory Board, Sharia Supervisory Board, and Executive Board have adequate competencies and skills in carrying out their duties. Sharia non-profit organization carries out its activities in a responsible manner.

Guidance

1.8.2.1 The organization has adequate systems and procedures so that Supervisory Board, Sharia Supervisory Board, and Executive Board have the knowledge and skills required to carry out their duties.

1.8.2.2 The organization has the necessary systems and procedures so that the Supervisory Board, Sharia Supervisory Board, and Executive Board understand the rules and principles of sharia as well as applicable rules from related regulators.

Recommendation

1.8.3 The members of the Sharia Supervisory Board work with adequate capabilities and have qualification of fiqh muamalah maliah, sharia financial/business competencies and sharia supervisory professional competencies.

Guidance

1.8.3.1 Specialization and expertise are proven by the Sharia Supervisory Board certification documents from the Professional Certification Institution of MUI and related documents according to professional expertise.

1.8.3.2 The chairman of the Sharia Supervisory Board and the majority of its members have qualifications in fiqh muamalah.

1.8.3.3 The members of the Sharia Supervisory Board have and always improve their understanding of the organization's activities and operations, as well as follow market developments and relevant rules.

2. COMPOSITION AND REMUNERATION OF THE SUPERVISORY BOARD, SHARIA SUPERVISORY BOARD, AND EXECUTIVE BOARD

The Executive Board, Supervisory Board, and Sharia Supervisory Board are selected and appointed in such a way that the composition is diverse and each of them have the knowledge, abilities and expertise necessary to properly perform the governance role.

Remuneration is designed to effectively align the interests of members of the Executive Board and Supervisory Board with the long-term interests of the organization and sustainable value creation.

2.1 Composition of the Supervisory Board

Recommendation

2.1.1 The Supervisory Board ensures that the policies and procedures for the selection and nomination of Supervisory Board are clear and transparent in order to achieve the desired composition of the Board. The Supervisory Board uses independent sources to determine qualified candidates.

Guidance

2.1.1.1 Information about candidates for the Supervisory Board shall be

disclosed in the election/re-election process, including.

a. Identity of the candidate and reasons for appointment.
b. Core competencies, qualifications, and professional background.
c. Current position in other organization, as well as important roles in non-profit/social organizations.
d. Factors that affect independence.
e. Length of term of office.
f. Attendance at Sharia Supervisory Board meetings (except for new Supervisors).

2.1.1.2 If the Supervisory Board use a consultant in the nomination process, relevant information regarding the consultant shall be disclosed in the annual report, including information regarding independence and conflicts of interest.

Recommendation

2.1.2 The Supervisory Board/Committee that performs the nomination function establishes nomination procedures and criteria that are consistent with the Supervisory Board's expertise matrix that has been approved by the Supervisory Board and ensures that the candidate profile meets the requirements set out in the expertise matrix and nomination criteria.

2.1.3 The composition of the Supervisory Board must be formed in such a way that its members as a group reflect the diversity in terms of abilities, expertise, knowledge, experience, age, cultural background, and gender to properly perform the role of Supervisory Board.

Guidance

2.1.3.1 At least one Supervisor has previous experience in the main sector in which the organization operates

2.1.3.2 The determination of the number of members of the Supervisory Board takes into account the condition of the organization.

Recommendation

2.1.4 To enable the Supervisory Board to provide independent advice and supervision to the Executive Board, and for functions with potential conflicts of interest, the Supervisory Board shall consist sufficient number of Independent Supervisors.

Guidance

2.1.4.1 Former Head of Executive Board or the members of the Executive Board who are selected as members of the Supervisory Board cannot be directly appointed as the Head of Supervisory Board. If the Supervisory Board decides that the former Head of Executive Board or the members of Executive Board needs to become the Head of Supervisory Board,

the Supervisory Board will provide the reasons and explanations in Annual Report.

2.1.4.2 Former Head of Executive Board or the members of the Executive Board may become the members of Supervisory Board as Independent Supervisor only under extraordinary circumstances and there must be a gap of at least 2 (two) years between these positions.

2.2 Composition of the Sharia Supervisory Board

Recommendation

2.2.1 The Sharia Supervisory Board consists of a minimum of 3 (three) members and one of them is appointed as Chairman. In the event that the management of the organization is still small, the minimum number of Sharia Supervisory Board members can be 2 (two) people and one of them is appointed as Chairman.

2.2.2 The Sharia Supervisory Board membership and requirements refer to related regulations issued by MUI regarding Sharia Supervisory Board. Among Sharia Supervisory Board members, there shall be at least 1 (one) member who has expertise in the field of fiqh zakat and waqf.

2.2.3 The Sharia Supervisory Board may not be appointed from the Executive Board or Supervisory Board.

2.2.4 The members of Sharia Supervisory Board carry out their duties in a focused manner and do not have conflicts of interest with other organizations. Sharia Supervisory Board membership in other organizations is limited to ensure the availability of time and the effectiveness of carrying out tasks to avoid conflicts of interest.

2.2.5 The termination of Sharia Supervisory Board members is carried out on the recommendation of the Executive Board and obtains approval from the Supervisory Board of the organization.

Guidance

2.2.5.1 The members of the Sharia Supervisory Board have a written agreement agreed upon by the parties.

2.2.5.2 The Sharia Supervisory Board is chaired by a chairman who is responsible for the effectiveness of the Sharia Supervisory Board to;

a. ensure that there are adequate procedures to be able to carry out sharia governance functions effectively,
b. act as a Sharia Supervisory Board representative in its relationship with the Executive Board of the organization in order to achieve a good understanding,
c. ensure that Sharia Supervisory Board decisions, suggestions, directives, opinions and supervision have been made reliably and based on adequate information and used reliable decision-making methods,

d. encourage the creation of healthy discussions, participation and contributions, and that all opinions have been expressed openly,
e. ensure that meeting discussions in the process of reaching decisions, suggestions, directions, opinions, and supervision have been well documented.

2.2.5.3 Information about the Sharia Supervisory Board must be disclosed in the contract and election/re-election process, which includes;
a. identity of the candidate and reasons for appointment,
b. core competencies, qualifications, and professional background,
c. current position in other organizations, as well as important roles in non-profit/social organization,
d. factors that affect independence,
e. length of term of office,
f. attendance at Sharia Supervisory Board meetings (except for new members).

2.2.5.4 The composition of the Sharia Supervisory Board must be formed in such a way that its members as a group reflect the diversity in terms of abilities, expertise, knowledge, and experience necessary to properly perform the role of the Sharia Supervisory Board.

2.2.5.5 If a member of the Sharia Supervisory Board has the duty of being a Sharia Supervisory Board member in another organization, then the person concerned must be able to ensure that s/he has sufficient time and attention to carry out his/her duties properly and in accordance with the limitations on concurrent positions as Sharia Supervisory Board members as stated in the laws and regulations.

Recommendation

2.2.6 The members of the Sharia Supervisory Board work with adequate capabilities and have qualification of fiqh muamalah maliah, sharia financial/ business competencies and sharia supervisory professional competencies.

Guidance

2.2.6.1 Specialization and expertise are proven by Sharia Supervisory Board certification documents from the Professional Certification Institution of MUI and related documents according to professional expertise.

2.2.6.2 The chairman of Sharia Supervisory Board and the majority of its members have qualifications in fiqh muamalah.

2.2.6.3 The members of Sharia Supervisory Board have and always improve their understanding of the organization's activities and operations, as well as follow market developments and relevant rules.

Recommendation

2.2.7 The Sharia Supervisory Board is independent from the organization and

makes sharia-related decisions fairly, honestly, and without any conflict of interest.

2.2.8 The Sharia Supervisory Board and organization have a written agreement agreed by both parties.

2.2.9 Proposals for the appointment and/or replacement of Sharia Supervisory Board members are submitted by the Executive Board of the organization to the Supervisory Board/General Meeting of Members.

Guidance

2.2.9.1 The Sharia Supervisory Board is designated and appointed officially and in writing with clear terms of reference.

2.2.9.2 The Sharia Supervisory Board carries out its duties based on recommendations from the MUI. Sharia Supervisory Board provides views, advice, directions, suggestions, opinions, and the results of its supervision consistently based on the fatwas of MUI.

2.3 Composition of the Executive Board

Recommendation

2.3.1 The Supervisory Board does not rely solely on recommendations from the Supervisory Board, management or its members and/or majority beneficiaries in determining Executive Board candidate. The Supervisory Board can use independent sources to determine eligible candidates.

2.3.2 The Supervisory Board ensures that the criteria in selecting members of the Executive Board include at least the knowledge, abilities, and expertise necessary to properly perform the role of the Executive Board and pay attention to the diversity of the Executive Board.

Guidance

2.3.2.1 Information about candidates for the Executive Board shall be disclosed in the election/re-election process, including:

a. Identity of the candidate and reasons for appointment;
b. Core competencies, qualifications, and professional background;
c. Current position in other organizations, as well as important roles in non-profit/social organizations;
d. Factors that affect independence;
e. Length of term of office;
f. Attendance at Sharia Supervisory Board meetings (except for new members).

2.3.2.2 The composition of the Executive Board must be formed in such a way that its members as a group reflect the diversity in terms of abilities, expertise, knowledge, experience, age, and background.

2.3.2.3 The determination of the number of members of the Executive Board

takes into account the condition of the organization as well as its effectiveness in decision making.

2.3.2.4 At least one member of the Board has previous experience in the main sector in which the organization operates.

Recommendation

2.3.3 Organization policies regarding diversity at the managerial level, Supervisory Board and Executive board are disclosed.

Guidance

2.3.3.1 The organization shall state the current diversity of the Supervisory Board and Executive Board, the measurable composition targets and progress achieved in achieving these targets. The information should include references to how diversity is achieved through proper succession planning in the Supervisory Board and Executive Board.

2.4 Remuneration of Supervisory Board

Recommendation

2.4.1 The remuneration of the Supervisory Board shall be proposed by the Supervisory Board to be decided by the General Meeting of Members. The amount of remuneration proposed to the General Meeting of Members is determined by taking into account the role of each member of the Supervisory Board and the economic condition as well as the performance of the organization. In addition, the position as Chairman of the Supervisory Board and the membership in committees also need to be considered

Guidance

2.4.1.1 The remuneration for the Supervisory Board must be in the form of fixed remuneration. If members of the Supervisory Board are given performance-related remuneration, the basis for this must be related to the long-term development of the organization and different from members of the Executive Board.

2.5 Remuneration of Sharia Supervisory Board

Recommendation

2.5.1 The remuneration policy for members of the Executive Board consists of a remuneration structure towards sustainable development of organization and encourages the achievement of long-term goals. The remuneration of the Executive Board shall be proposed by the Executive Board to be

decided by the Supervisory Board/General Meeting of Members. The amount of remuneration proposed to the Supervisory Board/ General Meeting of Members is determined by taking into account the role of each member of the Executive Board and the economic condition as well as the performance of the organization.

Guidance

2.5.1.1 The remuneration policy is reasonable and fair, both in structure and size, and is determined in the context of organization values, internal reward structures, and sensitive to stakeholder expectations and societal norms.

2.5.1.2 The organization has a performance-based remuneration policy for members of the Executive Board and in line with the achievement of the long-term interests of the organization.

2.5.1.3 The Executive Board shall not receive other facilities other than the facilities that have been provided based on the policies of Supervisory Board/General Meeting of Members.

Recommendation

2.5.2 The organization discloses information on remuneration policies in the report on the implementation of governance.

Guidance

2.5.2.1 The organization discloses information regarding the basis of consideration in determining the scheme and amount of remuneration for the Supervisory Board/General Meeting of Members, Sharia Supervisory Board and Executive Board in the report on the implementation of governance.

2.5.2.2 The organization discloses the scheme and amount of remuneration for the Supervisory Board/General Meeting of Members, Sharia Supervisory Board and Executive Board in the report on the implementation of governance.

2.6 Remuneration of Executive Board

Recommendation

2.6.1 The remuneration policy for members of the Executive Board consists of a remuneration structure towards sustainable development of organization and encourages the achievement of long-term goals. The remuneration of the Executive Board shall be proposed by the Supervisory Board to be decided by the General Meeting of Members. The amount of remuneration proposed to the General Meeting of Members is determined by taking into account the role of each member of the Executive Board and the economic condition as well as the performance

of the organization.

Guidance

2.6.1.1 The remuneration policy is reasonable and fair, both in structure and size, and is determined in the context of organization values, internal reward structures, and encourages competition while remaining sensitive to stakeholder expectations and societal norms.

2.6.1.2 The organization has a performance-based remuneration policy which is in line with the achievement of the long-term interests of the organization.

3. WORK RELATIONSHIP BETWEEN THE SUPERVISORY BOARD, SHARIA SUPERVISORY BOARD, AND EXECUTIVE BOARD

The Supervisory Board, Sharia Supervisory Board, and Executive Board have a close work relationship for the best interests of the entity. Therefore:

a. The Executive Board cooperates with the Supervisory Board and Sharia Supervisory Board in formulating organization missions, visions and strategies and regularly discusses their implementation.

b. For transactions that requires approval from the General Meeting of Members, Supervisory Board and Sharia Supervisory Board, based on the Articles of Association, then it must be carried out after obtaining the approval from the General Meeting of Members, Supervisory Board and Sharia Supervisory Board. This includes decisions or plans which fundamentally change the condition of assets, financial or profits of the organization.

c. Provision of sufficient information for General Meeting of Members, Supervisory Board and Sharia Supervisory Board is a joint responsibility of Supervisory Board, Executive Board and Sharia Supervisory Board.

d. Good governance requires open discussion between the Executive Board, Supervisory Board and Sharia Supervisory Board. However, maintaining confidentiality is a very important thing.

e. The Supervisory Board, Executive Board, and Sharia Supervisory Board act in accordance with the principle of prudence and for the benefit of the organization. If they do not carry out this principle, then they can be held responsible for the losses of the organization. Executive Board and/or Supervisory Board and/or Sharia Supervisory Board are not considered responsible if their decisions are based on sufficient information for the best interest of the organization.

f. The Supervisory Board, Executive Board and Sharia Supervisory Board report the implementation of organizational governance in the Annual Report. The report also includes an explanation of non-compliance or implementation of principles that are different from PUG-ESI, complete with the reasons.

3.1 Nature of Work Relationship

Recommendation

1.3.1 There is an open discussion between the Executive Board, Supervisory Board, and Sharia Supervisory Board and between members of the Executive Board and Sharia Supervisory Board. However, it is still important to maintain the confidentiality of information so that confidential information does not leak.

Guidance

1.3.1.1 The Executive Board cooperates with the Supervisory Board in formulating organization missions, visions and strategies and regularly discusses their implementation.

3.2 Interaction of Supervisory Board and Sharia Supervisory Board

Recommendation

3.2.1 The Supervisory Board/General Meeting of Members takes into account the decisions, suggestions, directions and opinions which are the results of Sharia Supervisor Board supervision of the business, operations, cooperation and activities of the organization.

3.2.2 The Supervisory Board/General Meeting of Members has a policy that prevents undue influence on the Sharia Supervisory Board, so that the Sharia Supervisory Board can carry out its functions and duties professionally and independently.

3.2.3 The Supervisory Board/General Meeting of Members maintains good and effective communication with the Sharia Supervisory Board regarding the implementation of sharia principles.

Guidance

3.2.3.1 The Supervisory Board/General Meeting of Members pays attention to the facts, rationale and basis of decisions, suggestions, directions and opinions which are the results of Sharia Supervisory Board supervision of the organization.

3.2.3.2 The Supervisory Board/General Meeting of Members makes reasonable considerations of decisions, suggestions, directions and opinions which are the results of Sharia Supervisory Board supervision and has a solution mechanism in the event of disagreements with the Sharia Supervisory Board.

3.2.3.3 Supervisory Board/General Meeting of Members issues a written policy to identify, assess and manage conflicts of interest that may arise from additional activities or services provided by the members of Sharia Supervisory Board to the organization and consumers.

3.2.4 Supervisory Board/General Meeting of Members reviews the frequency and quality of meetings and consultations with Sharia Supervisory Board.

3.2.5

3.3 Interaction of Executive Board and Sharia Supervisory Board

Recommendation

3.3.1 The Executive Board establishes good and effective communication with Sharia Supervisory Board regarding the implementation of sharia principles.

3.3.2 The Executive Board has a policy to support the Sharia Supervisory Board to carry out its functions and duties professionally and independently.

Guidance

3.3.2.1 The Executive Board and Sharia Supervisory Board work together and support each other in realizing the achievement of the implementation of social funds/assets management activities that are in accordance with sharia.

3.3.2.2 The Executive Board reviews the frequency and quality of meetings and consultations with Sharia Supervisory Board.

Recommendation

3.3.3 The Executive Board establishes a resolution mechanism if there are differences of opinion between the Supervisory Board/General Meeting of Members, Sharia Supervisory Board and Executive Board.

Guidance

3.3.3.1 The Executive Board makes guidelines and effective communication between the Boards and has a solution mechanism in the event of disagreements between the Executive Board, Supervisory Board, and Sharia Supervisory Board.

3.4 Access to Information for the Supervisory Board and Sharia Supervisory Board

Recommendation

3.4.1 The Executive Board is responsible for ensuring that the Supervisory Board and Sharia Supervisory Board gets access to accurate, relevant and timely information. The Supervisory Board and Sharia Supervisory Board themselves ensure that they obtain sufficient information.

3.4.2 The Executive Board provides information to the Supervisory Board and Sharia Supervisory Board regularly, without delay, and comprehensively on all matters relevant to the organization. The Supervisory Board and

Sharia Supervisory Board may request the Executive Board to provide additional information from time to time.

Guidance

3.4.2.1 The Supervisory Board and Sharia Supervisory Board have a process that allows members of the Supervisory Board, including Independent Supervisors, to have access to the Executive Board and relevant senior management.

3.4.2.2 The Head of Executive Board or the Secretary immediately informs the Supervisory Board and Sharia Supervisory Board of any major material and important events regarding the condition and performance and management of the organization. If necessary, a Supervisory Board and Sharia Supervisory Board meeting will be held to discuss the event.

3.4.2.3 In the meetings of the Executive Board-Supervisory Board, Executive Board-Sharia Supervisory Board, and Supervisory Board-Sharia Supervisory Board, they maintain regular contact with Executive Board, in particular, the Head of Executive Board or designated Spokesperson, to discuss issues of strategy, organizational development, risk situation, risk management and organizational compliance

3.5 Conflict of Interest

Recommendation

3.5.1 Members of the Executive Board who have concurrent positions outside the organization, must obtain approval from the Supervisory Board. The Executive Board shall notify the Supervisory Board and the chair of the committee carrying out the nomination function, prior to accepting a new appointment as members of Executive Board or Supervisory Board from an organization, other directorship or other position with a significant time commitment.

Guidance

3.5.1.1 The Supervisory Board ensures clear policies and guidelines for members of the Executive Board who serve or wish to serve as members of Executive Board or Supervisory Board in other organization. The policy should specify appointments that are permitted and the number of organizations in which they are permitted to simultaneously serve as Executive Board or Supervisory Board.

Recommendation

3.5.2 The Supervisory Board monitors and manages potential conflicts of interest of Executive Board, Supervisory Board and members and/or beneficiaries. Supervision also includes the potential for misuse of

organizational assets and abuse of authority in related party transactions. The members of Supervisory Board who have conflicts of interest shall not participate in monitoring and making decisions on potential conflicts of interest involving the Supervisory Board or affiliates of supervisors concerned.

Guidance

3.5.2.1 The Supervisory Board has procedures to ensure that members of the Executive Board, Supervisory Board, and Sharia Supervisory Board who have conflicts of interest do not participate in making decisions (abstaining) related to the conflict of interest.

3.5.2.2 Each member of the Supervisory Board shall immediately inform the Supervisory Board and Executive Board if there is a potential conflict of interest, including as a result of their position as a consultant or members of Executive Board, beneficiaries, fund providers, suppliers, or other partners.

3.5.2.3 All members of the Executive Board shall immediately disclose their potential conflict of interest to the Supervisory Board and other members of Executive Board and do not participate in decision making in the event that the person concerned has a conflict of interest.

3.5.2.4 In its report, the Supervisory Board and Sharia Supervisory Board shall inform the General Meeting of Members regarding a material conflict of interest that occurs, along with its treatment. A material conflict of interest that is not temporary can result in termination as a member of the Supervisory Board and Executive Board.

Recommendation

3.5.3 The Sharia Supervisory Board plays a strong and independent role in the organization in carrying out objective policies in relation to sharia. No parties can influence the decision-making by the Sharia Supervisory Board. Each member of the Sharia Supervisory Board ensures that the judgments and decisions are not influenced by other parties or other considerations. The members of Sharia Supervisory Board must avoid situations that may reduce their professional objectivity.

3.5.4 In the event that there is an unavoidable conflict of interest, the member concerned shall make a written statement regarding the non-independence to the organization. In the event that there is a conflict of interest, the member of Sharia Supervisory Board who has the conflict of interest cannot participate in decision-making or relevant actions. The statement on conflict of interest is recorded and kept by the assigned staff.

3.5.5 Sharia Supervisory Board shall not be involved in managerial decision-making and operational responsibilities.

Guidance

3.5.5.1 In order to be able to carry out their duties with integrity and reliability, the Sharia Supervisor Board:

a. make judgments independently without undue influence from the Executive Board;
b. act independently in demeanor and appearance.

3.5.5.2 The sharia non-profit organization needs to have transparent resolution procedures in the event that there are differences of opinion between the Executive Board and the Sharia Supervisory Board. If disagreements cannot be resolved easily, then MUI can play a role in resolving the problems that occur.

3.5.5.3 The sharia non-profit organizations develop guidelines regarding membership of Sharia Supervisory Board in other organizations taking into account the time commitment given to the organization.

3.5.5.4 The Sharia Supervisory Board carries out periodic assessments internally, and also uses external parties on their independence towards the organization.

4. ETHICAL AND RESPONSIBLE BEHAVIOR

The organization shall have, socialize and enforce a code of ethics that applies to members of the Executive Board, Supervisory Board, Sharia Supervisory Board, as well as the employees and other stakeholders. In relation to this matter, the organization is required to disclose the values and culture of the organization.

Sharia ethical behavior is the principles to regulate the activities of sharia social finance organizations to provide protection for (a) stakeholders and (b) the integrity of the sharia non-profit organization.

Sharia ethical behavior originates from sharia principles as stated in the Quran and Hadith. The application of sharia ethical behavior is a principle-based approach, meaning that sharia non-profit organizations are encouraged to develop systems and internal controls, risk management and governance according to their respective activity models, without compromising these ethical principles.

4.1 Code of Conduct and Ethics

Recommendation

4.1.1 This statement is recommended to be included in the Code of Conduct and Ethics which should clearly state the organization expectation that each member of the Executive Board, Supervisory Board, Sharia Supervisory Board as well as the employees will:

a. Act in the best interests of the organization;
b. Act honestly and with a high standard of integrity;
c. Exemplifying the characteristic and behavior of the Prophet, i.e., *siddiq* (truthful), *fathonah* (wisdom), *amanah* (trustworthy), and *tabligh* (conveying).
d. Be independent and act on full information, in good faith, with due diligence and prudence.
e. Comply with laws and regulations that apply to organization and its operations;
f. Avoid actions that will violate laws and regulations or unethical actions based on organization ethics guidelines;
g. Not involved or participating in any activities that will cause a conflict of interest with the best interests of the organization or which will have a negative impact on the reputation of the organization;
h. Not taking advantage of property or information owned by the organization or its beneficiaries for personal gain or that causes harm to the organization and its beneficiaries.
i. Not taking advantage of his/her position or the opportunities generated by his/her position for personal gain.
j. Avoid the act of requesting or receiving any payments or other benefits for him/herself or for others that will provide benefits to third parties in violation of laws and regulations.

4.1.2 The Executive Board establishes policies and practices on anti-corruption, anti-fraud and anti-bribery in all organizational activities, and applies to all members of Executive Board, employees, suppliers, beneficiaries, and other stakeholders.

Guidance

4.1.2.1 The Executive Board develops and establishes a system that can be used as an effort to prevent offering or receiving bribes and payments or other inducements to commit acts that will violate laws and regulations or are unethical.

4.1.2.2 The Executive Board communicates anti-corruption policies by providing training to staff and trying to expand anti-corruption efforts to stakeholders.

4.1.2.3 Any material violation of anti-corruption policies must be reported to the Supervisory Board, Sharia Supervisory Board, and Executive Board, or Supervisory Committees.

4.1.2.4 The Executive Board establishes and regularly reviews a transparent policy on political engagement, which includes lobbying and donations for candidate or political causes if permitted by laws and regulations, and ensures that the benefits and risks of the approach taken are understood, monitored and reviewed regularly by the Supervisory

Board and Sharia Supervisory Board.

Recommendation

4.1.3 The sharia non-profit organization strives to achieve the highest standards of honesty, fairness, trustworthiness, and kindness in all their economic activities. Sharia non-profit organization issues procedures so that the Board and the employees carry out their duties and responsibilities based on business behavior that requires honesty, fairness, trustworthiness, and kindness.

Guidance

4.1.3.1 The organization may not, either intentionally or through negligence, issue information that has the potential to mislead stakeholders.

4.1.3.2 The organization may not engage in monopolistic, monopsony, market domination, and collusion practices.

4.1.3.3 The organization establishes procedures to carry out its duties and responsibilities in an honest, fair, trustworthy (*amanah*) and kindness (*ihsan*) manner.

4.1.3.4 The organization treats stakeholders in an honest, fair, trustworthy (*amanah*) and kindness (*ihsan*) manner.

4.1.3.5 The organization issues a statement that it will provide services in an honest, fair, trustworthy (*amanah*) and kindness (*ihsan*) manner.

4.2 Organizational Values and Cultures

Recommendation

4.2.1 The organization articulates, maintains and expresses organization culture and values

Guidance

4.2.1.1 The organization maintains organization culture ensuring all members of the Executive Board, Supervisory Board, Sharia Supervisory Board, members, beneficiaries, and all employees understand their responsibilities to act according to code of conduct and ethics.

4.2.1.2 Adequate training and socialization are available at the level of the Supervisory Board, Sharia Supervisory Board and Executive Board, as well as all members of the organization as mentioned above for all aspects related to organization culture, values and ethics.

4.2.1.3 Due diligence and monitoring program are available so that all members of the organization understand the relevant code of ethics and apply it effectively to avoid organization involvement in inappropriate behavior.

Recommendation

4.2.2 The organization carries out the principles of prudence and diligence in their operations for the best interests of stakeholders while still complying with sharia principles. Sharia non-profit organization has proper protection against the occurrence of behavior that results from lack of caution and negligence.

Guidance

4.2.2.1 The organization obtains and uses/allocates funds/assets in accordance with sharia rules in order to avoid practices that are prohibited by sharia principles.

4.2.2.2 The organization obtains and uses/allocates funds/assets by considering the risks and complexity of management for the benefit of stakeholders.

4.2.2.3 The organization carries out its operations in accordance with sharia guidelines.

4.2.2.4 The organization carries out efforts to provide protection for lack of caution and negligence.

Recommendation

4.2.3 The organization is able to prove that its operations are managed in accordance with sharia governance and conduct its business in a responsible manner and comply with all sharia principles.

Guidance

4.2.3.1 The organization understands and fully implements sharia governance.

4.2.3.2 The organization complies and ensures the existence of effective sharia compliance mechanisms and procedures.

4.2.3.3 The organization shall aware of compliance with sharia principles in conducting socially responsible business.

4.2.3.4 The organization provides information on sharia compliance carried out by the organization.

4.2.3.5 The organization establishes a resolution mechanism in the event of a violation of sharia compliance.

4.3 Communication and Enforcement of the Code of Ethics, Values and Culture

Recommendation

4.3.1 The organization code of conduct and code of ethic is communicated effectively and integrated into organization strategy and operations including risk management system and remuneration structure, and is enforced.

Guidance

4.3.1.1 The organization has a system that can be used to process the handling of conflicts of interest, both for potential conflicts and those that have occurred.

4.3.1.2 The organization has guidelines for reporting violations (whistleblowing system) that can be used to encourage reporting the behavior that violates laws and regulations or is unethical, and which also includes a guideline on how entity protects whistle-blowers who are in good faith.

4.3.1.3 The organization ensures that the Supervisory Board, Sharia Supervisory Board, and Committees are immediately notified if there is a material violation of the code of ethics and conduct

4.3.1.4 The Organization ensures that the Supervisory Board, Sharia Supervisory Board, and Committees are immediately notified if any material incident is reported under the violation reporting policy.

5. RISK MANAGEMENT, INTERNAL CONTROL AND COMPLIANCE

The organization implements a risk management and internal control system that is effective, appropriate and encourages compliance with applicable laws and regulations, integrated into the organization's governance system, which is aligned with the goals, objectives and strategies of the organization.

The organization shall implement an internal control and risk management system and disclose at least: a) an overview and description of the internal control and risk management system; b) types of risks and how to manage them; c) financial and operational control, as well as compliance with applicable laws and regulations, and d) review of the effectiveness of the internal control and risk management system.

5.1 Integration of Governance, Risk Management and Compliance

Recommendation

5.1.1 The Executive Board builds an integrated governance, risk management and compliance (GRC) system, by handling various uncertainties in an integrated manner and with high integrity, to ensure that the organization can achieve its goals.

Guidance

5.1.1.1 The Executive Board ensures coordination and capacity building among the main GRC systems which include governance systems, strategic management, performance management, risk management, compliance management and internal audit systems so that the organization stays on the right track in achieving its goals.

Recommendation

5.1.2 Effective governance management is supported by the integration of risk management, internal control and compliance systems designed to achieve the goals of the organization.

Guidance

5.1.2.1 The Supervisory Board, Sharia Supervisory Board and Executive Board manage sharia compliance through the control function within the sharia governance framework, in order to carry out responsibilities for sharia compliance.

5.1.2.2 To ensure compliance with sharia, the organization carries out risk management on an ongoing basis by establishing and carrying out the following functions;

a. sharia risk management,
b. internal sharia review,
c. internal sharia audit.

5.1.2.3 The organization provides adequate resources for control in terms of the number of members as well as competence.

5.1.2.4 The control function is independent from the operations and is not involved in the activities governing process.

5.2 Risk Management

Recommendation

5.2.1 Strategy and risk are an integral part, disclosed in a transparent manner and included in the implementation of the duties and discussion between the Supervisory Board, Sharia Supervisory Board, and Executive Board.

Guidance

5.2.1.1 The Executive Board exercises its leadership by giving example and maintaining an effective risk and compliance culture that encourages openness and challenges for constructive considerations and assumptions.

5.2.1.2 The Executive Board discloses:

a. Main/key risks faced by the organization and their management.
b. If there is any material exposure to environmental or social risks and, if so, how to manage or the intention to manage those risks.

5.2.1.3 The Executive Board ensures governance processes on IT issues including disruption, cyber security, disaster recovery, to ensure that all major risks are identified, managed and reported to the Supervisory Board.

Recommendation

5.2.2 Risk management systematically identifies, measures, monitors, mitigates, and reports sharia compliance risks in operations, business activities,

collaborations, and activities in sharia non-profit organizations.

Guidance

5.2.2.1 The sharia risk management:

a. integrates sharia compliance with organization risk management,
b. identifies sharia compliance in the organization's operations and activities,
c. assesses sharia compliance and measuring the potential impact of the risk exposure on the organization,
d. issues appropriate risk mitigation efforts,
e. monitors sharia compliance risk and its effectiveness against risk mitigation measures,
f. provides reports on sharia compliance risk to the Executive Board,
g. provides constructive input on decisions that may lead to increased compliance risk.

5.2.2.2 The Executive Board responsible for risk management is responsible for sharia compliance risk management.

5.2.2.3 The organization ensures that staff in the risk management function have adequate knowledge of sharia related to the organization.

Recommendation

5.2.3 The Supervisory Board, Sharia Supervisory Board, and Executive Board of sharia non-profit organizations are actively involved in developing risk appetite and ensuring the availability of appropriate systems and policies to identify, measure, analyze, report and mitigate the risks.

Guidance

5.2.3.1 The Supervisory Board, Sharia Supervisory Board, and Executive Board understand their roles in risk management and are responsible for assessing and managing organizational risks.

5.2.3.2 The Supervisory Board, Sharia Supervisory Board, and Executive Board develop strategies and risk level tolerances, and issue management frameworks for risks in operational activities.

5.2.3.3 The Supervisory Board, Sharia Supervisory Board, and Executive Board understand the relationship between sharia risk and the organization's activities, as well as internal and external risks that may hinder the achievement of the organization's goals.

5.3 Internal Control and Compliance

Recommendation

5.3.1 The Executive Board conducts regular reviews of the design accuracy and operational effectiveness of the governance system, risk management,

internal control and organization compliance, and reports the implementation and results of the review to the members and/or beneficiaries.

5.3.2 The Executive Board ensures that the organization has a function that plays a role in following changes in various applicable laws and regulations, which are related to the business and laws and regulations in general, and has a system to ensure organization compliance with applicable laws and regulations as well as organization internal regulations.

Guidance

5.3.2.1 Periodic reviews conducted by the Executive Board specifically consider:

a. Any changes since the last periodic review of the nature and scope of significant risks and the organization's ability to respond to changes in its external environment.
b. The scope and quality of ongoing monitoring of risks and internal control systems, the role of the internal audit function and other assurance service providers.
c. The scope and frequency of communication of the monitoring results to the Supervisory Board (or the Audit Committee) which enables the Supervisory Board to assess the overall condition of internal control and its effectiveness in managing risks.
d. The occurrence of failures or deficiencies in internal control found in the period under review and the extent of contingent impacts that have or may occur in the future, which have a material impact on the condition or financial performance of the organization.
e. The effectiveness of internal controls related to financial reporting and regulatory compliance.

Recommendation

5.3.3 Periodic sharia reviews are conducted to assess the organization's compliance with operations and activities according to sharia requirements. The Executive Board submits the results of the review in the annual report.

Guidance

5.3.3.1 Sharia review includes:

a. Identification, assessment, and monitoring of operational and activity compliance with sharia;
b. Regular reports on the results and findings of reviews;
c. Inform and update the latest information and developments Related to laws and regulations to the organization and Executive Board;
d. Provide adequate guidance and training on relevant governance requirements for staff carrying out the review.
e. The staff in charge of compliance is responsible for conducting sharia reviews as part of the organization's compliance responsibilities.

f. The staff carrying out the review function have adequate qualifications and competence to carry out the compliance function and understand the sharia related to the organization.

Recommendation

5.3.4 Internal sharia audits are conducted to provide assurance on the quality and effectiveness of internal controls, risk management systems, and sharia governance and compliance processes in activities and operations.

Guidance

5.3.4.1 Sharia audit includes;

a. issue audit methods to assess the risk profile and vulnerability of each audit area,
b. make an audit plan on the audit assignment,
c. issue a clear audit program as a guideline for internal auditors in terms of obtaining information, audit procedures, and audit assessments,
d. report audit results to the Executive Board and Sharia Supervisory Board, provide detailed explanations and recommendations for action plans.

5.3.4.2 The staff responsible for the internal audit is responsible for conducting the sharia audit as part of the audit plan and responsibilities.

5.3.4.3 Internal auditors who carry out internal audits have sufficient qualifications and competence to carry out sharia audits of the organization.

Recommendation

5.3.5 The organization builds a sharia compliance culture by developing sharia compliance behavior. The culture of sharia compliance starts from the Executive Board, Sharia Supervisory Board, and Supervisory Board who communicate the importance of sharia compliance and integrate sharia governance in internal policies and guidelines.

Guidance

5.3.5.1 The Executive Board ensures that effective communication has been implemented in sharia governance.

6. DISCLOSURE AND TRANSPARENCY

The organization makes accurate and timely disclosures regarding all material matters concerning the organization. The organization shall disclose material events or facts as soon as possible. The organization also shall submit annual report and sustainability report.

6.1 Disclosure Policy

Recommendation

6.1.1 The organization has disclosure and transparency policies, as well as procedures that ensure the disclosure of information and safeguard sensitive information and organization secrets.

6.1.2 The right of the members and/or beneficiaries to obtain relevant material information regarding the organization regularly and timely must be fulfilled.

Guidance

6.1.2.1 The organization has and discloses a written policy in continuously carrying out information disclosure/transparency based on applicable regulations.

Recommendation

6.1.3 The organization makes relevant and timely disclosures related to sharia compliance.

Guidance

6.1.3.1 The organization discloses information on sharia governance policies and activities which include:

a. Statement by the Executive Board on their accountability for the implementation of sharia governance;
b. Statement by the Sharia Supervisory Board on responsibilities related to sharia governance and opinion on the organization's compliance with sharia.

6.1.3.2 The organization ensures that the disclosure has stated the roles, responsibilities and accountability of the Executive Board and Sharia Supervisory Board.

6.1.3.3 Disclosures are made in compliance with the determined disclosure standards.

6.1.3.4 The organization publishes quantitative and qualitative information related to the performance of the organization, social fund/asset collection, fund/asset use/allocation activities, accounting policies, and amil governance.

Recommendation

6.1.4 The sharia non-profit organization makes periodic reports on the management of social funds/assets to the public and donors/*muzakki*/waqif.

Guidance

6.1.4.1 The Executive Board issues and publishes financial statements and

reports on the results of sharia reviews to the public and donors/*muzakki*/ waqif.

6.1.4.2 The Executive Board ensures that the reports have been made in accordance with accounting standards and practices and are valid and acceptable to the public and have been properly audited by external auditors.

6.2 Financial and Sustainability Reports

Recommendation

6.2.1 The organization discloses a verification process to ensure the integrity of published interim financial reports, which have not been audited or reviewed by external auditors.

6.2.2 Sustainability reports are prepared and disclosed accurately and in accordance with national or international sustainability reporting frameworks.

6.2.3 The organization may issue integrated report that includes historical performance into context, and describe the risks, opportunities and prospects for the organization in the future, helping members and/or beneficiaries and stakeholders understand the strategic objectives of the organization and its progress towards sustainable value creation.

Guidance

6.2.3.1 The sustainability report is assessed by an independent and competent external party.

6.3 Information Dissemination

Recommendation

6.3.1 Information dissemination channels should provide users with equitable, timely and relatively inexpensive access to relevant information.

Guidance

6.3.1.1 The organization regularly holds meetings with financial analysts.

6.3.1.2 The organization utilizes information technology effectively and more broadly in addition to websites as a medium for information disclosure.

7. RIGHTS OF THE MEMBERS AND/OR BENEFICIARIES

The organization protects and facilitates the exercise of the rights of the members (for organizations based on a membership or association system) and/or beneficiaries and ensures fair treatment of members and/or beneficiaries, including minority members and/or beneficiaries. All members and/or beneficiaries are given the opportunity to obtain effective redress for violations of their rights in accordance with applicable laws and regulations.

Principle 7 describes the fulfilment of the rights of members and/or beneficiaries and fair treatment for the members and/or beneficiaries, how active cooperation between organization and members and/or beneficiaries is carried out and the effective implementation of some of the rights of the members and/or beneficiaries through a General Meeting of Members or Supervisory Board and Executive Board meetings.

8. STAKEHOLDERS RECOGNITION AND REWARDS

8.1 Stakeholders Engagement

Recommendation

8.1.1 The organization carries out regular, transparent and effective communication with the stakeholders and involves them to understand their expectations and complaints and the impact of the organization on them.

Guidance

8.1.1.1 The organization discloses the process for identifying and selecting stakeholders that will be engaged.

8.1.1.2 The organization discloses its approach and activities in addressing stakeholder engagement including the frequency by type and stakeholder group.

8.1.1.3 The organization provides channels through which stakeholders can provide their opinions and input, voice their complaints and/or complaints regarding possible violations of their rights.

8.1.1.4 The organization discloses the views, inputs and significant complaints raised by the stakeholders that are obtained from the stakeholders' engagement, to the organization's response, and from direct submission of views and input.

8.2 Protection of Stakeholders

Recommendation

8.2.1 The Executive Board ensures that the operations of the organization reflect the implementation of high ethical, social and environmental standards throughout the organization and ensures that appropriate policies and procedures are implemented to respect and comply with the rights of stakeholders.

Guidance

8.2.1.1 The organization implements the policies on organization responsibility to beneficiaries including considering the security of beneficiary's

information, the sales ethics and behavior, after-sales service according to product age/service period and following up on beneficiary satisfaction levels to improve the quality of the benefits delivered by the organization. Advertising and public relations must promote in responsible manner and carried out responsibly, including avoiding misleading the beneficiary, or causing misunderstandings about the benefits offered by the organization.

8.2.1.2 The organization implements the policies that include criteria for supplier selection, transparent procurement mechanisms, efforts to increase supplier capacity, and fulfilment of rights related to suppliers. The organization also has policies that encourage and monitor suppliers to respect human rights, carry out social and environmental responsibilities, treat their employees, staff and workers fairly, and ensure that suppliers have implemented sustainable and value-based activities policies and procedures.

8.2.1.3 The organization carries out its social responsibility by applying organization activities knowledge and experience to develop and produce social responsibility activities that concretely provide added value to society.

8.2.1.4 The organization carries out its environmental responsibilities by preventing, reducing and managing negative environmental impacts from all aspects of organization operations, including the use of:

a. Raw material.
b. Energy.
c. Water usage
d. Utilization of renewable resources.
e. Utilization and rehabilitation of biodiversity and waste management.
f. Reduction of the impact of greenhouse gases and carbon emissions.

8.2.1.5 The organization implements a fair competition policy by prioritizing ethical business behavior and uphold the cultural values of the organization.

a. The Executive Board has a policy to protect the rights of fund providers or donors.
b. The Supervisory Board supervises and the Executive Board monitors the liquidity and solvency of organization's finances.

8.2.1.6 The Executive Board ensures that risks to financial position or financial difficulties are immediately identified, managed, mitigated and reported. The Supervisory Board monitors the Executive Board's handling of financial

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