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Omar Mustafa Ansari

Secretary General

Accounting & Auditing Organization for Islamic Financial Institutions (AAOIFI)

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Dear Mr. Ansari,

السلام عليكم ورحمة الله وبركاته،،

**CIBAFI Comments on the AAOIFI Exposure Draft on “Financial Reporting for
Islamic Financial Services Offered by Conventional Financial Institutions”**

The General Council for Islamic Banks and Financial Institutions (CIBAFI) presents its compliments to the Accounting & Auditing Organization for Islamic Financial Institutions (AAOIFI) and takes this opportunity to express its appreciation of the work that the AAOIFI does to promote and enhance the Islamic financial services industry.

CIBAFI is the official umbrella for all Islamic financial institutions, whose services and products comply with the Shariah rules and principles. CIBAFI acts as the voice of the Islamic finance industry, and our members comprise more than 130 Islamic banks and non-bank financial institutions, both large and small, from 34 jurisdictions.

We welcome this opportunity to offer our comments and recommendations on the AAOIFI exposure draft (ED) on the revised FAS 18: “Financial Reporting for Islamic Financial Services Offered by Conventional Financial Institutions”. The comments contained in this letter represent the views of the CIBAFI Secretariat and feedback received from our members.

First: the ED, in para 4, provides several definitions of terms used in the standard. One definition, in para 4 (a), sets the scope of the conventional institutions to which it applies. These include capital markets institutions, and we consider that this is, at least at present, too broad an extension of scope. Many capital markets institutions, for example brokers or financial advisers, function as intermediaries, and the Islamic financial services they offer – for example dealing on behalf of clients wishing to invest in Sukuk – would not be readily susceptible to this accounting treatment. Furthermore, AAOIFI does not have (yet) a set of accounting standards for such activities which could appropriately be applied.

Also, in para 4 (b), the ED defines “Islamic finance window”. In this definition, a reference is made to the term “virtual entity” as one of the natures of the Islamic finance window. Paragraph BC6 makes clear that this terminology was much debated, and we consider that it remains unclear. It is unclear whether it refers to services provided solely through a digital platform and services provided (even if physically) without there being a single organisational entity (e.g., an Islamic banking division) responsible for them. It is recommended to consider alternative terminology or to explain the term in the main body of the standard.

Second: in para 5, the ED highlights the financial reporting models for Islamic finance windows. A conventional financial institution having an Islamic finance window will need to opt for one of these models. It is recommended to provide further guidance to identify which of the models is most suitable for the conventional bank to choose.

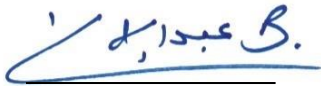
Finally, CIBAFI and its members notice that the ED, in para 8, introduces the concept of materiality in the selection and application of accounting policies and refers to both quantitative and qualitative characteristics. This would most naturally be read as referring to the discussion of these concepts in AAOIFI's Conceptual Framework for Financial Reporting. However, in that context they refer to the provision of information on individual items, transactions, etc. It is difficult to apply them to the selection of accounting policies. A cross-reference to the Conceptual Framework and some further discussion of its relevance to the selection of accounting policies for windows might be appropriate.

We would like to express our appreciation to AAOIFI for its great effort and commitment with respect to developing standards that accommodate the interest of the global Islamic finance industry.

We remain at your disposal should you need any further clarifications on the above.

The General Council for Islamic Banks and Financial Institutions takes this opportunity to renew to the Accounting & Auditing Organization for Islamic Financial Institutions (AAOIFI) the assurances of its highest respect and consideration.

Yours sincerely,



Dr. Abdelilah Belatik
Secretary General