

Adoption of AAOIFI Shariah Standards Nos. 2, 5, 14, 18, 24 & 38

In order to standardize and harmonize Shariah practices in IBIs, AAOIFI Shariah Standards No. 2 – Debit Card, Charge Card and Credit Card, No. 5 – Guarantees, No. 14 – Documentary Credit, No. 18 – Possession (Qabd), No. 24 – Syndicated Financing and, No. 38 – Online Financial Dealings have been adopted. These Shariah Standards are applicable with the following clarification and amendments as mentioned against each clause(s) of respective Standard:

AAOIFI Shariah Standard No. 2 – Debit Card, Charge Card and Credit Card

1. **Clause 1:** The following is added as footnote to the clause:
The term ‘purchased’ for this clause means ‘acquired’.
2. **Clause 2/1/5:** The following is added as footnote to the clause:
The term ‘for goods and services’ is added at the end of the clause.
3. **Clause 3/2/2:** The following is added as footnote to the clause:
The SBP’s ‘Instructions for Profit & Loss Distribution and Pool Management for Islamic Banking Institutions’ shall be followed.
4. **Clause 4/4:** The following is added as footnote to the clause:
In case of Debit or Charge card, it is also permissible to purchase Gold, Silver and foreign Currency on deferred delivery basis.

AAOIFI Shariah Standard No. 5 – Guarantees

5. **Clause 1:** The following is added as footnote to the clause:
The term ‘Liability’ should be read as ‘indemnifiable assets (Mazmoonat)’.
6. **Clause 3:** The following is added as footnote to the clause:
In this clause, word ‘Personal’ shall be considered as deleted in the heading as well as in the text.
7. **Clause 4:** The following are added as footnotes to the clause:
The term ‘financial’ may be read as ‘valuable’.
The term ‘Rahn’ includes and covers mortgage, lien, charge, pledge, etc.
8. **Clause 6/5/2:** The following is added as footnote to the clause:
For this clause, reference may be made to AAOIFI Shariah Standard # 39 on Rahn.
9. **Clause 6/8/1:** The following is added as footnote to the clause:
For this clause, reference may be made to AAOIFI Shariah Standard # 39 on Rahn.

AAOIFI Shariah Standard No. 14 – Documentary Credit

10. **Clause 2/2/3:** The following is added as footnote to the clause:
The term 'buyer' should be read as 'seller'.
11. **Clause 3/1/1:** The following is added as footnote to the clause:
In this clause the text 'and the provision of institutional guarantee to the importer' should be read as 'and the provision of institutional guarantee for the importer.'
12. **Clause 3/3/1:** The following is added as footnote to the clause:
The first para of the clause should be read as follows: 'It is also permissible for the institution to charge a fee for providing the required services, whether such a fee is in the form of a lump sum or a certain percentage of the credit amount. This rule applies to services rendered for both import and export credit and amendments therein, except where the amendment is only rescheduling of the duration of the letter of credit/documentary credit and in this case, it is permissible for the institution to charge only the actual expenses incurred. It will be a definite sum and not a percentage.'
13. **Clause 3/3/1 (a & b):** The following is added as footnote to the clause:
The term 'credit facility' should be read as 'letter of credit/documentary credit'.
14. **Clause 3/4/2:** The following is added as footnote to the clause:
The clause should be read as follows: 'The interest bearing debt instruments (Shariah non-compliant) may be accepted up to the issued price (Ras-Ul- Maal) or face value, whichever is less, of the instrument'.
15. **Clause 3/5:** The following is added as footnote to the clause:
The clause 3/5 is also applicable in documentary credit issued on the basis of Musawamah.
16. **Clause 3/5/1:** The following is added as footnote to the clause:
The word 'not' is expunged before the word 'precede'.
17. **Clause 3/7/1:** The following is added as footnote to the clause:
The qualifying statement prescribed in this clause should preferably be included in the documentary credit or at least in letter of credit form.

AAOIFI Shariah Standard No. 18 – Possession (Qabd)

18. **Clause 3/6:** The following is added as footnote to the clause:
The term 'a tangible thing' should be read as 'an asset'.
19. **Clause 3/7:** The following is added as footnote to the clause:
This is not applicable for transactions where currency is involved.
20. **Clause 4/3:** The following are added as footnotes to the clause:
The clause 4/3 is restricted to the contract of Wadi'ah, which refers to a contractual arrangement in which one party places its asset with another party for safekeeping purpose.
The heading of the clause to be read as 'Expenses of possession in Wadi'ah' while the text of the clause should be read as: 'The expenses related to keeping of Wadi'ah or returning of it in the contract of Wadi'ah shall be borne by the owner of the Wadi'ah'.

21. **Clause 5/1:** The following is added as footnote to the clause:
Personal cheque means any instrument issued by the bank against which consideration is received.
22. **Clause 5/2:** The following is added as footnote to the clause:
The clause should be read as ‘Payments through a credit card are deemed constructive possession of such payments’.
23. **Clause 5/3:** The following is added as footnote to the clause:
The clause should be read as follows: ‘A deposit by or on behalf of a person (debtor/borrower) of an amount in a bank account of a creditor, upon his demand or with his consent, is deemed constructive possession irrespective of the deposit being by way of cash, by bank transfer or by cheque payable by drawee bank, and the depositor is absolved of liability when he is indebted to the extent of such amount’.

AAOIFI Shariah Standard No. 24 – Syndicated Financing

24. **Clause 4:** The following are added as footnotes to the clause:
Clause 4/1 should be read as ‘Sale through Musawama or Murabaha either deferred or on installments.’

Following is included to make the clause 4 consistent with Arabic text of AAOIFI Shariah Standards: ‘Clause 4/6 Musharakah and Diminishing Musharakah.’ Accordingly, serial number of existing Clauses 4/6 and 4/7 to be read as 4/7 and 4/8, respectively.

Following is added for clarity: ‘Clause 4/9 Any other mode(s) approved by Shariah Advisory Committee of State Bank of Pakistan.’
25. **Clause 5/3:** The following is added as footnote to the clause:
The clause should be read with reference to IBD Circular No. 3 of 2007 and also a self-contained Shariah Standard No. 12 pertaining to ‘Sharika (Musharaka) and Modern Corporations’ notified vide IBD Circular No. 1 of 2013. Consequently, the conventional bank, not having duly licensed Islamic Banking Division shall not act as lead arranger in a syndicated Islamic financing; it may however participate in the syndicate as partner.
26. **Clause 6/1:** The following is added as footnote to the clause:
The term ‘item 8/9’ is deleted.
27. **Clause 6/2:** The following is added as footnote to the clause:
*Following is inserted as Clause 6/2 to make the Clause 6 consistent with Arabic text of AAOIFI Shariah Standard No 24 – Syndicated Financing, due to omission in English version: ‘6/2 Mudarabah executed with the permission to Mudarib to commingle his capital in the Mudarabah investment. [see Shari’ah Standard No. (13) on Mudarabah, item 8/9]’. Accordingly, serial number of **existing** clauses 6/2 (Musharakah), 6/3 (Paid agency) and 6/4(Non-paid agency) will be changed to 6/3, 6/4 and 6/5, respectively.*
28. **Existing Clause 6/3 (Paid agency):** The following is added as footnote to the clause:
The clause should be read as follows: ‘With the condition that the agency contract is independent and the work to be done should be clearly defined, along with estimation of the period of agency. The agent shall become entitled to remuneration whether profit is actually materialized or not. Furthermore, the agent may be given a bonus as a lump sum amount or a share of profits above a certain limit without prejudicing the entitlement of the institution of its share in the profit, if any’.

29. **Existing Clause 6/4 (Non-paid agency):** The following is added as footnote to the clause:
The clause should be read as follows: 'The lead manager in this case undertakes to manage the operations for no reward, and the financing Institutions including the lead manager as per his ratio of investment, if any, share the profit'.
30. **Clause 7/1:** The following is added as footnote to the clause:
*The clause 7/1 may be read in consideration with **revised** clauses i.e. 6/4 (Paid agency) & 6/5 (Non-paid agency) along with changes.*
31. **Clause 7/2:** The following are added as footnotes to the clause:
The word 'Musharaka' is deleted.
The word 'Mudarabah' should be read as 'Murabahah'.
32. **Clause 10/2:** The following are added as footnotes to the clause:
The clause should be read as follows: '...if the physical assets, usufructs and financial rights of the company exceed its cash and debts. If the company's cash and debts are predominant, Shariah rulings on currency exchange and debt-related transactions should be referred to and applied'.
The term 'nominal value' should be read as 'face value' in the last sentence of Clause 10/2.

AAOIFI Shariah Standard No. 38 – Online Financial Dealings

33. **Clause 3/3:** The following is added as footnote to the clause:
The word 'necessary' shall be read as 'possible' in the clause.
34. **Clause 4/1/1:** The following is added as footnote to the clause:
The word 'disconnected' shall be read as 'unrelated' in the clause.
35. **Clause 7/3:** The following is added as footnote to the clause:
This is not applicable for transactions where currency is involved.
