

Adoption of AAOIFI Shariah Standard No. 47

In order to standardize and harmonize Shariah practices in Islamic Banking Institutions (IBIs), AAOIFI Shariah Standard No. 47 – Rules for Calculating Profit in Financial Transactions, has been adopted. The Shariah Standard is applicable with the following clarifications and amendments as mentioned against each clause(s) of the Standard:

AAOIFI Shariah Standard No. 47 – Rules for Calculating Profit in Financial Transactions

1. **Clause 2:** The following clarification is added as a footnote to the clause:
*“This clause is not part of the Arabic text of this standard, however, it is part of the ‘Definitions’ provided as an appendix of the Arabic standard.
The S.No. 2 of English Standard is not mentioned in Arabic accordingly, S.No. 3 in English standard is S.No. 2 in Arabic standard and so on.”*
2. **Clause 6:** The following is added as a footnote to the clause:
*The heading may be read as “**Determining Profit in Amounts or Percentages/Ratios**”*
3. **Clause 7/1:** The following clarification is added as a footnote to the clause:
“The hurdle rate means ‘specific target rate based on principle amount’.”
4. **Clause 8:** The following is added as a footnote to the clause:
*The heading may be read as “**Profit Distribution in Deferred Transactions**”*
5. **Clause 8/1:** The following is added as a footnote to the clause:
*This clause may be read as follows:
“It is permissible to adopt customary accounting practices that are required by supervisory and/or regulatory bodies for calculating and distributing profit in deferred transactions across several financial periods, provided they are in accordance with Shari’ah.”*
6. **Clause 8/2:** The following is added as a footnote to the clause:
*This clause may be read as follows:
“When preparing their financial statements, institutions must avoid any misleading or deceptive methods of profit calculation or distribution.”*
7. **Clause 12:** The following is added as a footnote to the clause:
*This clause may be read as follows:
“Contractual relationship between the institution and its client is not affected by the method adopted for booking the profits in its internal records, as in separating the profit account from the expense account or considering the initial installments as profit. Institutions should regularly upgrade their systems and computer software in order to be consistent with Shari’ah standards and rulings.”*
