

## Foreword by Shari'ah Board's Chairman

Praise be to Allah, Lord of the Worlds, and peace be upon our master Muhammad, the last-sent Prophet and the leader of Prophets, and on all his household and the companions, and those who follow their example in good conduct till the Day of Judgment.

As to what follows,

Islamic banking does considerably differ from its conventional counterpart in terms of principles, norms, values, and practices. The specialty of Islamic banking and the soundness of its transactions must be clearly reflected in accounting treatments so that no confusion arises, and no mistakes are committed in practice. Conventional accounting cannot serve the purpose, as it is based on a different set of norms and values. Therefore, it was vital that Islamic banks and financial institutions (IFIs) have their own accounting standards, rather than conventional ones. The development of the standards was and is still a gigantic task that draws on the great efforts exerted by Shari'ah scholars and professional experts alike. Since inception in 1411 A.H. (corresponding to 1991 A.D.), AAOIFI has been exerting a lot of efforts in the preparation of accounting standards for Islamic financial institutions and auspiciously the standards have been well received by the industry, especially in the area of Islamic banking where Islamic banks follow them on a mandatory basis or as guidance, based on regulatory enforcement by central banks in many countries around the globe. Subsequently, AAOIFI decided to issue Shari'ah standards in the same way it had issued its accounting standards, in order to provide a reference for Islamic banks and financial institutions to comply with Shari'ah in their transactions and products and to harmonize various Fatwas issued by different Shari'ah Supervisory Boards (SSBs). To that end, AAOIFI formed its Shari'ah Board in 1419 A.H. (corresponding to 1999 A.D.) consisting of Shari'ah scholars versed with *Fiqh al-Mua'amat* (Islamic commercial and financial jurisprudence), especially in the area

of Islamic banking. The Board, with Allah's Grace, has managed to issue more than 54 standards hitherto, covering a wide array of Shari'ah rules pertaining to financial transactions of Islamic financial institutions (IFIs). These standards have become a reliable reference for the Islamic banking industry, and an essential part of academic curricula in universities, colleges and schools offering education on Islamic banking.

The Board exerts due diligence to develop these standards through the due process which initiatives with commissioning of a consultant/scholar knowledgeable in the area relevant to the topic of the standard. An additional study will be conducted to take into consideration all relevant issues in light of the Noble Qur'an, the Sunnah, and major schools of Islamic Law, setting out Shari'ah basis and newly emerging matters along with contemporary Fiqh views. Then, an exposure draft is prepared for the prospective standard. The study and exposure draft will be submitted to a committee formed from amongst the Board members in addition to a number of external, specialized scholars. For that purpose, the Board formed four committees that convene to review the exposure draft and prepare it for submission to the Shari'ah Board. The Board used to convene every week and other week in Makkah Al-Mukarramah and Al-Madinah Al-Munawwarah, in turns. It currently convenes only four times a year at least, two in the Two Holy Cities, and two elsewhere.

Afterward, the exposure drafts reviewed by the committees are discussed line in line out in the Board's meetings in a deliberate and unhindered manner, until a standard is adopted based on consensus or the opinion of the majority. Thereafter, AAOIFI holds a public hearing to present and discuss the proposed standard with a host of scholars and practitioners who voice their views and opinions, whether in the form of deletions, additions, or amendment. The feedback will be presented to the Board again in its next meeting for discussion. This will represent an opportunity for the Board to discuss the standard for the last time before issuance, where it can add or delete or amend it as deemed appropriate after extensive discussions. At this stage, the due process completes and the standard is officially adopted and issued.

In this regard, two important facts are worth noting:

First, these standards are issued by the Board, not by an individual or an ad-hoc group of individuals. Hence, the rulings and provisions reached at in the standards shall not be attributed to a specific member in his personal capacity. The Board follows a professional methodology as do most similar international bodies. Its decisions are taken by the majority of members, while those members with opposing views or reservations will be referred to along with their views or reservations in the minutes of meetings. The decisions will be issued under the name of the Board and points of incongruity will not be mentioned. Most of the provisions in the standards issued by the Board are typically agreed on by all members. It is not unusual, however, that different points of view often emerge as to rulings developed on the basis of reasoning (*Ijtihad*), especially in relation to new occurrences and issues (*Nawazil*). If incongruity on some issues lingers on after open deliberations, the Board would take its decisions based on the majority of views, and the points of incongruity would be noted down in the minutes as is the usual procedure without referring thereto in the body of the standard.

Second, despite the above-mentioned steps followed by the Board in its keenness to take prudent measures in the process of standards issuance, this all remains a human endeavor that is fallible by nature, where mistakes and oversight are not completely ruled out, and infallibility only belongs to Prophets and Messengers (peace be upon them). Therefore, the Board formed a review committee to look into its existing standards. Should a mistake or oversight be pinpointed, or should there be any suggestion for improvement of the standards, we would be thankful to receive feedback from scholars (please address them to AAOIFI's General Secretariat, which will submit them in turn to the Board through the review committee, Allah's Willing).

Lastly, I would like to extend my appreciation to all Board members for their invaluable efforts and contributions to the realization of this splendid achievement, purely dedicated to Allah, and also for the spirit of understanding they exhibited during constructive scholarly deliberations. I would also like to thank AAOIFI for its remarkable initiative embodied in this

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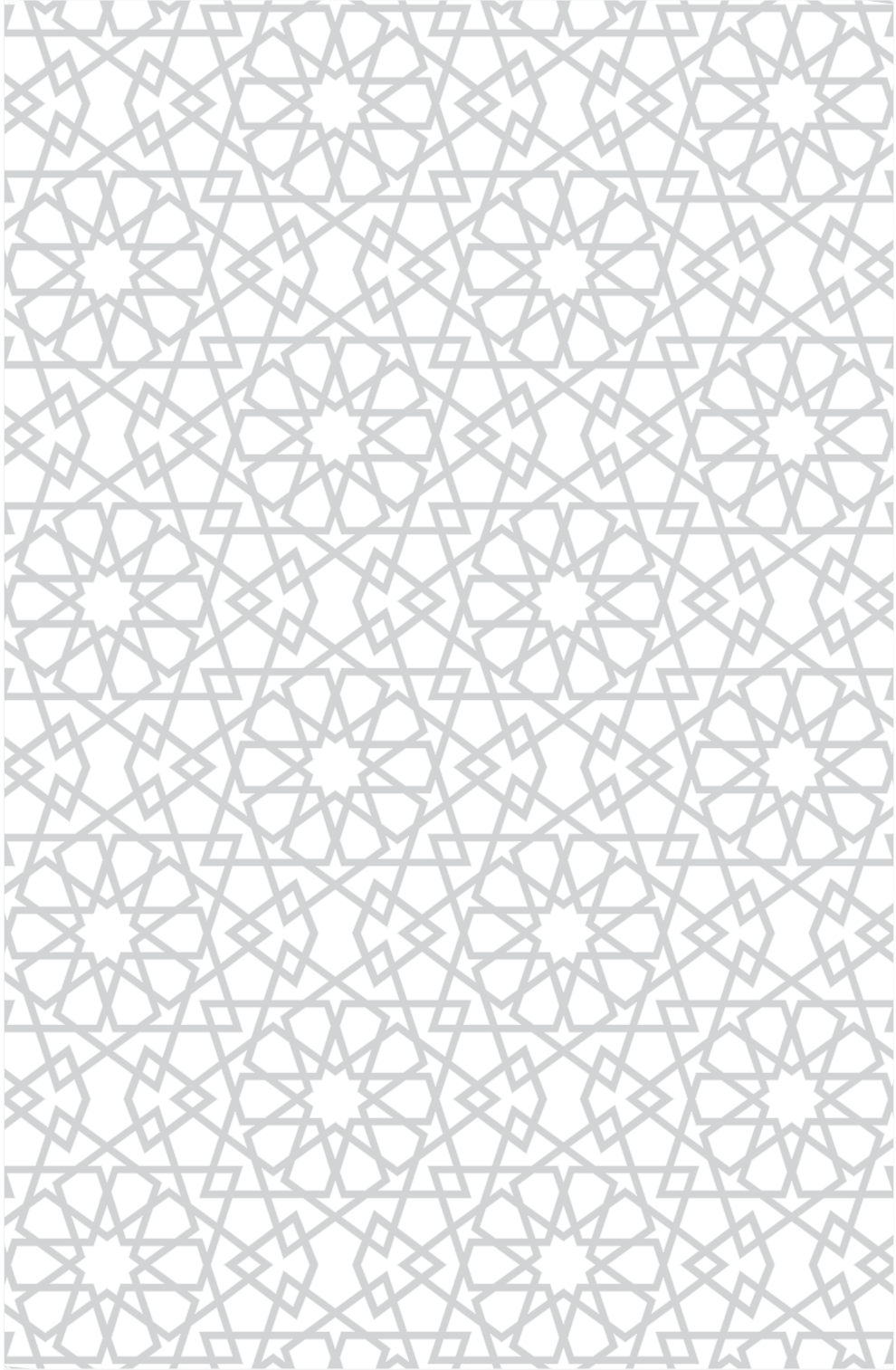
Foreword by Shari'ah Board's Chairman

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outstanding accomplishment and for its unwavering efforts to support and facilitate the errand of the Board as it saved no means to arrange the Board's meetings, to iron out all obstacles and difficulties, and to follow up on the Board's resolutions and communicate them to all parties concerned. I do supplicate to Allah to amply reward all those who sincerely contributed towards this work, and I pray that Allah accept it and extend its benefits to people everywhere.

And praise be to Allah, first and foremost,

***Muhammad Taqi Usmani***



# Table of Contents

<b>Subject</b>	<b>Page</b>
<b>Foreword by AAOIFI Secretary General .....</b>	<b>5</b>
<b>Foreword by Shari'ah Board's Chairman .....</b>	<b>10</b>
<b>Introduction .....</b>	<b>19</b>
Organizational Structure.....	26
<b>Shari'ah Standards</b>	
1. SS (1): Trading in Currencies .....	47
2. SS (2): Debit Card, Charge Card and Credit Card .....	67
3. SS (3): Procrastinating Debtor .....	83
4. SS (4): Settlement of Debt by Set-Off.....	103
5. SS (5): Guarantees .....	119
6. SS (6): Conversion of a Conventional Bank to an Islamic Bank .....	147
7. SS (7): Hawalah.....	171
8. SS (8): Murabahah.....	195
9. SS (9): Ijarah and Ijarah Muntahia Bittamleek .....	233
10. SS (10): Salam and Parallel Salam .....	267
11. SS (11): Istisna'a and Parallel Istisna'a.....	291
12. SS (12): Sharikah (Musharakah) and Modern Corporations .....	321
13. SS (13): Mudarabah.....	365
14. SS (14): Documentary Credit .....	391
15. SS (15): Ju'alah.....	421
16. SS (16): Commercial Papers.....	439
17. SS (17): Investment Sukuk .....	463
18. SS (18): Possession (Qabd).....	489
19. SS (19): Loan (Qard) .....	513
20. SS (20): Sale of Commodities in Organized Markets .....	535



## Table of Contents

21. SS (21): Financial Paper (Shares and Bonds).....	555
22. SS (22): Concession Contracts.....	583
23. SS (23): Agency and the Act of an Uncommissioned Agent (Fodooli) ..	605
24. SS (24): Syndicated Financing.....	629
25. SS (25): Combination of Contracts.....	647
26. SS (26): Islamic Insurance .....	673
27. SS (27): Indices.....	701
28. SS (28): Banking Services in Islamic Banks.....	719
29. SS (29): Stipulations and Ethics of Fatwa in the Institutional Frame- work .....	733
30. SS (30): Monetization ( <i>Tawarruq</i> ) .....	753
31. SS (31): Controls on Gharar in Financial Transactions .....	767
32. SS (32): Arbitration .....	789
33. SS (33): Waqf .....	809
34. SS (34): Hiring of Persons .....	839
35. SS (35): Zakah .....	865
36. SS (36): Impact of Contingent Incidents on Commitments.....	905
37. SS (37): Credit Agreement .....	921
38. SS (38): Online Financial Dealings.....	943
39. SS (39): Mortgage and its Contemporary Applications.....	963
40. SS (40): Distribution of Profit in Mudarabah-Based Investment Accounts.....	989
41. SS (41): Islamic Reinsurance.....	1013
42. SS (42): Financial Rights and How They Are Exercised and Trans- ferred.....	
43. SS (43): Insolvency.....	1061
44. SS (44): Obtaining and Deploying Liquidity.....	1083
45. SS (45): Protection of Capital and Investments .....	1097
46. SS (46): Al-Wakalah Bi Al-Istithmar (Investment Agency).....	1115
47. SS (47): Rules for Calculating Profit in Financial Transactions .....	1133
48. SS (48): Options to Terminate Due to Breach of Trust (Trust-Based Options.....	1145
49. SS (49): Unilateral and Bilateral Promise.....	1159

## Table of Contents

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50. SS (50): Irrigation Partnership (Musaqat) .....	1175
51. SS (51): Options to Revoke Contracts Due to Incomplete Performance..	1197
52. SS (52): Options to Reconsider (Cooling-Off Options, Either-Or Options, and Options to Revoke Due to Non-Payment).....	1213
53. SS (53): 'Arboun (Earnest Money) .....	1231
54. SS (54): Revocation of Contracts by Exercise of a Cooling-Off Option...	1245
<b>Overview: Publication Sponsor .....</b>	<b>1259</b>



