[Exposure Draft (F2/2021) v8.0 of the]

Financial Accounting Standard __

Accounting for Takaful: Recognition and Measurement

Contents

AAOIFI Financial Accounting Standard (FAS) __ "Accounting for Takaful: Recognition and Measurement" is set out in paragraphs 1-124. All the paragraphs have equal authority. The revised Conceptual Framework for Financial Reporting is an integral part of AAOIFI accounting standards; therefore, this standard shall be read in its context. It shall be read in conjunction with [ED of] FAS __ "Presentation and Disclosures in the Financial Statements of Takaful Institutions".

All AAOIFI FASs shall be read in conjunction with the definitions, Shari'ah principles and rules and key considerations provided by AAOIFI Shari'ah standards (SSs) in respect of such products and matters, particularly SS 26 "Islamic Insurance" and SS 41 "Islamic Reinsurance".

Preface

PR1 The AAOIFI Accounting Board (AAB / the board) is in constant endeavour to make the financial statements of the Islamic financial institutions transparent, fair, understandable and comparable. The objective is to align the accounting treatments and the reporting requirements of various types of Islamic financial institutions including the Takaful institution(s) to the maximum possible extent with the generally accepted accounting principles.

PR2 AAOIFI had previously issued four specific Financial Accounting Standards (FASs) applicable on Islamic insurance / Takaful, between the years 1999 to 2003. The Takaful industry, during the last two decades, has developed significantly along with considerable enhancement to the regulatory environment. Concurrently, other international accounting standard setting bodies completed multiple projects related to insurance accounting. The then AAOIFI Accounting, Auditing and Governance Standards Board initiated a comprehensive revision project for FASs on Takaful in 2013.

PR3 The work was paused in 2016 by the newly formed board considering the fact that Takaful regulations were being enhanced in many jurisdictions and the projects by international accounting standard setters related to the insurance accounting were nearing completion. The board also agreed that the ongoing project of revision of the AAOIFI Conceptual Framework for Financial Reporting and [ED of] and FAS 1 (Revised 2021) "General Presentation and Disclosures in the Financial Statements" shall have priority as certain parts and terminologies will be used by later standards, and eventually it was decided that the common requirements for general presentation and disclosure shall be contained in [ED of] FAS 1 (Revised 2021) "General Presentation and Disclosures in the Financial Statements"

PR4 Later, AAB initiated a comprehensive revision project for FASs on Takaful in 2018 under the recommendation of the "AAOIFI Financial Accounting Standards (FAS) review and revision project". Earlier [ED of] FAS __ "Presentation and Disclosures in the Financial Statements of Takaful Institutions" has already been issued as a first work-product of this comprehensive project.

PR5 This standard is the second part of the project covering mainly the accounting treatments and other relevant financial reporting requirements for the Takaful arrangements.

Introduction

Overview

IN1 This standard sets out the principles for the recognition and measurement of Takaful arrangements and ancillary transactions for the Takaful institutions. It aims to ensure that the Takaful institutions faithfully present the information related to these arrangements to the relevant stakeholders according to the contractual relationship between the parties and the business model of the Takaful business in line with the Shari'ah principles and rules. The requirements of this standard are duly aligned with the international best practices of financial reporting for insurance business.

IN2 This standard provides principal requirements for the financial reporting (aligned with the global best practices) for Takaful arrangements as applicable to the participants Takaful fund (PTF), as well as, principles of recording and reporting other ancillary matters e.g., transactions between the PTF and the Takaful institution itself.

IN3 This standard is a part of a broader project for Takaful accounting and has been developed in alignment with and shall be read in conjunction with [ED of] FAS __ "Presentation and Disclosures in the Financial Statements of Takaful Institutions".

IN4 This standard supersedes the following FASs:

a. FAS 13 "Disclosure of Bases for Determining and Allocation Surplus or Deficit in Islamic Insurance Companies";

b. FAS 15 "Provisions and Reserves in Islamic Insurance Companies"; and

c. FAS 19 "Contributions in Islamic Insurance Companies".

Rationale for issuing this standard

IN5 The AAOIFI Accounting Board (AAB / the board) considered various factors while initiating the comprehensive project for the revision of FASs on Takaful, which in turn mandated development of a comprehensive FAS on the accounting treatments and ancillary financial reporting matters relating to the Takaful arrangements. Such factors include, but are not limited to, the following:

a. developments in international best practices, global generally accepted accounting principles and regulatory requirements with regard to the conventional insurance accounting considering the fact that the last AAOIFI FAS on Takaful was issued in 2003;

b. gaps were identified in accounting treatments in respect of Takaful arrangements as defined in earlier FASs which were communicated to AAOIFI from time to time by various market participants and experts;

c. there was an identified need to standardise the structural relationship between the Takaful institution and the different funds, from the financial reporting perspective, and to provide accounting treatments for different transactions, balances and contracts under these relationships;

d. different accounting requirements were scattered in different FASs which, at times, were not easy to comprehend, therefore the need was felt for a comprehensive standard; and

e. existing FASs on Takaful accounting did not address certain ancillary issues, particularly with regard to the accounting for transactions and balances between different stakeholders of the Takaful institution and the accounting for the investment component.

Significant changes from previous standard

IN6 This standard (FAS __) brings significant changes from its predecessor standards (FAS 13 "Disclosure of Bases for Determining and Allocation Surplus or Deficit in Islamic Insurance Companies", FAS 15 "Provisions and Reserves in Islamic Insurance Companies" and FAS 19 "Contributions in Islamic Insurance Companies"). Certain principal changes from the predecessor standards, inter alia, are enumerated as below:

a. necessary impacts of the "AAOIFI Conceptual Framework for Financial Reporting (Revised 2020)", as well as, the [ED of] FAS 1 (Revised 2021) "General Presentation and Disclosures in the Financial Statements" have been incorporated;

b. alignment of treatments, presentation and terminology has been performed with the earlier issued [ED of] FAS __ "Presentation and Disclosures in the Financial Statements of Takaful Institutions";

c. the principal accounting treatments in respect of the Takaful arrangements have been aligned with the global generally accepted accounting principles and the newer regulatory requirements (where applicable);

d. new accounting treatments have been introduced in respect of the matters which were not addressed by the superseded standards or were not in line with the global best practices, particularly with regard to the accounting for provision (or liability, as appropriate) for the Takaful arrangements and the accounting treatment and presentation for the investment component;

e. the accounting treatments defined in the standard have been mapped with the Shari'ah principles and rules relating to Takaful including the rights and obligations of respective stakeholders of the Takaful arrangements;

f. new definitions for the accounting terms in respect of the newly brought in accounting treatments, as well as, improved definitions for earlier used terms have been incorporated; and

g. the accounting treatments have been introduced with respect to the ancillary transactions particularly the transactions and balances between various stakeholders of the Takaful institution e.g., accounting for Wakala fee, Qard Hasan etc..

[Exposure Draft (F2/2020) v8.0 of the]
AAOIFI Financial Accounting Standard ___
Accounting for Takaful: Recognition and Measurement

Objective of the standard

1. This standard sets out the principles for the recognition and measurement of Takaful arrangements and ancillary transactions with the objective to faithfully present the information related to these arrangements to the relevant stakeholders. It shall be read in conjunction with [ED of] FAS ___ "Presentation and Disclosures in the Financial Statements of Takaful Institutions".

Scope

2. This standard shall be applicable to the Takaful institutions and their managed Participants' Takaful Fund (PTF) and managed Participants' Investment Fund (PIF) in respect of:

   a. Takaful arrangements, including re-Takaful arrangements issued;

   b. re-Takaful arrangements held;

   c. investment contracts, with or without discretionary features that are issued along with, and being part of, the Takaful arrangements; and

   d. ancillary transactions related to Takaful operations.

3. A Takaful institution shall not apply this standard to:

   a. guarantee contracts unless the issuer has specified them to be in the nature of Takaful arrangements; and

   b. the Takaful arrangements where the Takaful institution is the participant or the policyholder, unless those arrangements are re-Takaful in nature.

Definitions

4. For the purpose of interpreting and applying this standard, the following short definitions are relevant:

   a. Contribution – is the gross amount that a participant undertakes to pay in respect of a Takaful arrangement issued by a PTF;

   b. Entitlement period – is the period during which the PTF provides entitlements for benefits to the participants. This period includes the entitlements for benefits that relate to all contributions and investment components, where applicable, within the boundary of the Takaful arrangement;

   c. Fair value of future cash flows – in the specific context of this standard, of an asset or provision (not being an established debt), is the estimated value equivalent to the fair value of an otherwise permissible exchange of an asset of liability, having similar cash flows, with a knowledgeable willing party on an arm's length basis [Explanation: For avoidance of doubt, it is clarified that the estimate of such value may take into account the considerations applied in similar transactions, including discounting of cash flows to arrive at the fair value acceptable to such counter party];

d. Financial risk – in the specific context of this standard, is the risk affecting the fair value of future cash flows arising through a possible future change in one or more of a specified benchmark rate, investments / assets price, commodity price, currency exchange rate, index of prices or rates, credit rating or credit index or other variable, provided that any non-financial variable amongst such factors is not specific to a party to the Takaful arrangement;

e. Liability for incurred claims – is the obligation to investigate and pay valid claims for benefits against events that have already occurred and other incurred Takaful costs;

f. Onerous arrangement – is a Takaful arrangement where the unavoidable costs of meeting the obligations under the Takaful arrangement exceed the economic benefits expected to be received under the Takaful arrangement;

g. Participants' (also referred to as, policyholders') investment fund (PIF) – is the fund managed by the Takaful institution on behalf of participants collectively with the objective of making investments and earning returns thereon, based on Mudaraba or Al-Wakala Bi Al-Istithmar (investment agency);

h. Participants' (also referred to as, policyholders') Takaful fund (PTF) – is the fund created by the participants with the objective of sharing risk, whose management has been undertaken by the Takaful institution. The fund is entitled to the contributions and returns, is subject to direct costs, provisions and reserves related to the Takaful operations and the surplus (or deficit) arising thereon;

i. Provision for remaining entitlement period – is the obligation to investigate and pay valid claims for benefits under existing Takaful arrangements for events that have not yet occurred (i.e., the obligation that relates to the unexpired portion of the entitlement period);

j. Qard [also referred to as Qard Hasan] – is an interest-free loan intended to allow the borrower to use the loaned funds, with or without prescribing a period of time, with the understanding that the same amount of the loaned funds (in the original nature of funds e.g., same currency) would be repaid when due, or when demanded (in case the period is not prescribed) [Explanation: In the specific context of this standard, it refers to the interest-free loan extended by the Takaful operator to the PTF to temporarily finance the funding deficit in the PTF];

k. Reinsurance – is a (conventional) contract according to which an insurance company cedes (transfers) part of the risks of its insurance commitments to a reinsurance company. The insurance company, therefore, undertakes to pay to the reinsurance company part of the insurance premium paid by the policyholders, against commitment of the reinsurance company to bear part of the claims as per an agreement between the two parties;

l. Re-Takaful – refers to the arrangement among Takaful institutions, on behalf of their respective PTFs under management, to devise a mechanism for the avoidance of part of the risks which the PTFs may encounter. On the basis of such arrangement, a re-Takaful PTF, which has a distinct juristic personality and independent financial liability, is formed through making contributions out of the PTFs as a part of the contributions paid by their respective participants on the basis of Tabarru. The re-Takaful PTF, thus formed, assumes the task of covering part of the risks encountered by the PTFs [Explanation: Re-Takaful is the Shari'ah compliant alternative to the conventional reinsurance having the distinctive characteristic of being based on the same principles of Takaful and mutuality as indicated in SS 26 "Islamic Insurance" and SS 41 "Islamic Reinsurance", instead of exchange of reinsurance premiums. The need for re-Takaful may arise in respect of a Takaful institution due to lack of sufficient capacity to take risks or because of regulatory requirements of risk sharing with regard to the magnitude of the risk in question] [Note: For the purpose of this standard, the term re-Takaful, wherever the context suggests, may include (conventional) reinsurance in line with the prevailing practices of the Takaful institution in case of dire need (subject to Shari'ah principles and rules), with adequate disclosures in respect of the same];

m. Risk adjustment for non-financial risk – is the sustainability margin the PTF needs to maintain for bearing the uncertainty about the amount and timing of the cash flows that arises from non-financial risk as the PTF fulfils Takaful arrangements;

n. Takaful[1] – is a process of agreement among a group of persons to handle the losses resulting from specific risks to which all of them are vulnerable. A process, thus initiated, involves payment of contributions as donations, and leads to the establishment of a Takaful fund that enjoys the status of a legal entity (from Shari'ah perspective) and has independent financial liability. The resources of this fund are used to indemnify any participant who encounters injury, subject to a specific set of rules and a given process of documentation. The fund is managed by either a selected group of participants, or a joint stock company that manages the Takaful operations and invests the assets of the fund, for an agreed fee;

o. Takaful acquisition cash flows – arise from the costs borne by the PTF directly attributable to first time acquisition of a Takaful arrangement [Explanation: These may include costs initially borne by the PTF e.g., surveyor's costs, initial medical costs, documentation / legal charges, tracker or other security devices costs etc. but does not include (i) Wakala fee or (ii) commission (because it is generally borne by the Takaful institution against Wakala fee, in line with the Shari'ah principles and rules, as well as, regulatory requirements[2]) or (iii) directly related taxes (as these do not constitute part of contributions and are to be recorded directly as a liability)];

p. Takaful acquisition service costs – are the costs borne by the Takaful institution directly attributable to first time acquisition of a Takaful arrangement which are not part of Takaful acquisition cash flows (see paragraph 4(o)) [Explanation: These may include costs such as commission, documentation charges (which are not recovered from the participant) etc.];

[1] Definition adapted from SS 26 "Islamic Insurance"
[2] In such case it may be a part of the Takaful acquisition service cost

q. Takaful arrangement – is a combination of non-commutative (non-exchange), investment and / or service contract(s) entered into mutually by the participants of a PTF of a Takaful institution in order to provide mutual Takaful entitlement for benefits and ancillary services (some of which may be with the Takaful institution as the service provider);

r. Takaful fulfilment cash flows – is an explicit, unbiased and probability-weighted estimate (i.e., the expected value) of the fair value of the future cash outflows minus the fair value of the future cash inflows that will arise as the PTF fulfils Takaful arrangements, including a risk adjustment for non-financial risk [Explanation: Wakala fee to be paid by the PTF to the Takaful institution is part of the future cash outflows for such purpose and hence is included in the Takaful fulfilment cash flows];

s. Takaful institution – is an entity possessing the license of practicing Takaful (at times referred to as Islamic insurance) business in line with the requirements of Shari'ah principles and rules. The institution undertakes its operation based on a remunerated Wakala (agency) contract. In addition to managing the Takaful operations, the institution also assumes the responsibility of investing the assets of the fund through Mudaraba or investment agency [Explanation: For the purpose of this standard, a Takaful institution includes a Takaful window operation[3]. The notion Takaful institution, unless the context suggests otherwise, includes the Takaful operator and the participants' funds];

t. Takaful residual margin – is the component of the carrying amount of the asset or liability for Takaful arrangements (or a group of Takaful arrangements) representing the unearned surplus or, at times, unrecognised net cost (applicable in case of re-Takaful contracts held only) the PTF will recognise as it provides benefits under the Takaful arrangements [Explanation: the Takaful residual margin in a risk sharing Takaful business is, from accounting perspective, quite similar to contractual service margin under the conventional risk transfer based insurance business];

u. Wakala (agency) – is the act of one party delegating the other to act on its behalf in what can be a subject matter of delegation. Its basic elements comprise the form, the subject matter of agency, and the two parties to the contract (the principal and the agent); and

v. Wakala fee (agent's remuneration) – includes the fixed fee and variable remuneration, including performance incentives (if applicable).

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[3] Takaful window operation shall apply this standard in conjunction with the requirements of the respective standard applicable on Shari'ah compliant window operations, presently being FAS 18 "Islamic Financial Services Offered by Conventional Financial Institutions", particularly paragraphs 3, 6 and 7 thereof.

Part A: Structure of Takaful

Takaful institution

5. The Takaful institution manages Takaful operations based on a remunerated Wakala (agency) contract. The Takaful institution may also assume the responsibility of investing the assets of the participants' Takaful fund (PTF) and participants' investment fund (PIF) through Mudaraba or investment agency (Al-Wakala Bi Al-Istithmar).

6. The relationship between the Takaful institution and the PTF is principal-agent in nature. The Takaful institution exercises powers over the PTF in fiduciary capacity as an agent and does not assume the risks or rewards related to the Takaful (underwriting) operation (particularly, the net underwriting results, which in entirety relate to the participants).

7. The Mudarib's share or performance incentives accruing to the Takaful institution out of the investment results, or a lack thereof, are in the nature of Wakala fee and cannot be construed as variable returns for the purpose of determining control. The Takaful institution is not entitled to any surplus arising in the PTF. In case where the PTF incurs a loss, the Takaful institution is not obliged to absorb that loss. Nevertheless, the Takaful institution may be obligated, through regulation or market practice or through its constitution documents, to temporarily support the PTF by providing Qard Hasan (interest-free loan).

8. Takaful institution, PTF and PIF are distinct reporting entities, although in most cases, the PTF and / or PIF are virtual entities.

Participants' Takaful fund (PTF)

9. The participants or members desirous of sharing risk in a Shari'ah compliant manner make contributions in the form of donation (Tabarru), being a non-commutative, non-exchange contract, to the PTF. The PTF by its very nature is a virtual entity that maintains separate accounting records and is subject to financial reporting separately.

10. PTF's activities and investments are managed under fiduciary capacity by the Takaful institution. For the management activity, a Wakala fee for management services is paid by PTF to the Takaful institution, whereas additionally a Mudarib's share or Wakala fee (with or without incentives) is paid by the PTF to the Takaful institution for investment management activity.

11. PTF is obligated to pay benefits to and on behalf of the participants according to their membership rights / entitlements for benefits, to which they become eligible under the Takaful arrangement.

12. PTF shall accrue a surplus or deficit at the end of the reporting period that shall be attributable to the participants in its entirety and shall in no case be passed on to the Takaful institution.

13. The Qard Hasan, where received from the Takaful institution, is a liability for the PTF that needs to be paid back. The PTF shall pay back the Qard Hasan whenever it accrues the next surplus (and / or has enough liquidity).

Participants’ investment fund (PIF)

14. The PIF, where applicable, is the investment fund (in form of a virtual entity) where the participants’ investment component (which is a component of the overall Takaful arrangement, normally under a separate agreement) is maintained and managed. The participants of the PTF are the investment account holders of the PIF. The PIF shall maintain separate accounting records in respect of each of the investing participants.

15. The Takaful institution usually has a Mudaraba contract of sharing profits or an investment agency (Al-Wakala Bi Al-Istithmar) contract (normally with incentives) with the PIF.

Part B: Accounting for Takaful arrangements – under general approach

Combining and separating components of the Takaful arrangements

Unbundling of non-Takaful components

16. A Takaful arrangement may contain one or more non-Takaful components such as investment or service component (normally in form a separate contract), or a promise to provide a good or service. The Takaful institution shall separate (unbundle) the various components when they are distinct and measurable.

17. Where different components are unbundled, the Takaful institution shall ensure appropriate attribution to the PTF, the PIF and the front-end fee, if any, charged to the participant. Such unbundling of non-Takaful components shall occur before the Takaful component is recognised in the books of PTF.

18. The accounting treatment of non-Takaful components shall be made according the respective FASs, as applicable (see paragraph 164 of [ED of] FAS 1 (Revised 2021) "General Presentation and Disclosures in the Financial Statements" and paragraph 7 of "AAOIFI Conceptual Framework of Financial Reporting (Revised 2020)").

Accounting for a group of Takaful arrangements

19. The Takaful institution may elect to present a set or series of Takaful arrangements, especially with the same or a related participant(s), as one whole arrangement after determining that the rights, obligations, risks and rewards, as well as, eligibility for surplus distribution are similar in nature. This election shall be made once the Takaful institution has made an assessment that combining the Takaful arrangements will faithfully present the accounting treatments and the overall commercial effect after ensuring that the combination is not in conflict with Shari'ah principles and rules.

Level of aggregation of Takaful arrangements

20. A Takaful institution shall aggregate the Takaful arrangements into distinct portfolios that are subject to similar risks and are managed together. Arrangements within a product line are expected to be in the same portfolio if they are managed together, whereas arrangements in different product lines are expected not to have similar risks even when managed together.

21. The Takaful institution shall divide a portfolio of issued Takaful arrangements into groups (at the minimum) of:

    a. arrangements that are onerous at initial recognition;

    b. arrangements that have no significant possibility of subsequently turning into onerous; and

    c. the remaining arrangements in the portfolio.

22. A set of arrangements shall be determined to be onerous or have no significant possibility of subsequently becoming onerous when the Takaful institution makes an assessment for the set of arrangements based on reasonable and supportable information.

23. If reasonable and supportable information is not available for the complete set of arrangements, then the determination of the group to which the Takaful arrangements belong to, shall be based on assessment of individual arrangements.

24. Where general approach is applied, the Takaful institution shall make an assessment whether arrangements are onerous at initial recognition or have no significant possibility of subsequently turning onerous. The assessment shall be based on:

    a. the likelihood that any change in assumptions, which if occurred, would result in the Takaful arrangement turning onerous; and

    b. the estimates provided by the Takaful institution's internal reporting system.

25. When the Takaful institution is making an assessment whether the Takaful arrangements referred to in paragraph 24 are not onerous at initial recognition but have a significant possibility of subsequently turning onerous, the information collected by the Takaful institution's internal reporting system shall be considered and the Takaful institution is not required to gather any additional information.

Subdivision of groups

26. A Takaful institution may subdivide the groups based on different levels of profitability or the different possibilities of arrangements turning onerous after initial recognition.

27. Arrangements shall not be included in the same group if they are issued more than one year apart.

Initial recognition

Timing of initial recognition

28. A Takaful institution shall recognise a Takaful arrangement it issues, in the books of PTF, at the earlier of:

    a. the date when a participant becomes member of the PTF (and accordingly becomes entitled to the Takaful benefits in form of sharing of risks) which may be evidenced through either the payment of contribution or issuance of Takaful arrangement documents; or

    b. the date when the Takaful arrangement, being part of a group or an unavoidable commitment to the Takaful arrangement, becomes onerous (even if it happens before the date applicable as per paragraph 24(a)).

Measurement of the provision for a Takaful arrangement at initial recognition

29. At initial recognition, the provision for a Takaful arrangement shall be measured at the total of the following estimates:

    a. Takaful fulfilment cash flows comprising of:

        i. an estimate of future cash flows related to Wakala fee (see paragraphs 111-113) – at fair value;

        ii. an estimate of other future cash flows – at fair value;

iii. deferred cost being the difference between total future cash flows (including Wakala fee and other future cash flows) and the fair value of future cash flows (which includes adjustment related to the financial risks);

iv. risk adjustment for the non-financial risks; and

b. the Takaful residual margin.

30. The Takaful institution shall include all future cash flows within the boundary of a Takaful arrangement for the measurement described in paragraph 29. Such a measurement shall:

a. incorporate all reasonable and supportable information available, without undue cost or effort, about the amount and timing by using a probability-weighted means of the full range of expected outcomes;

b. be reflective of the market variables and is consistent with the observable market prices for those variables;

c. reflect the current conditions at the measurement date; and

d. explicitly not include the financial and non-financial risks, unless the most appropriate measurement technique implicitly includes financial risks and the effect is inseparable.

31. The cash flows arising from substantive rights and obligations existing at the reporting date shall be considered within the boundary period. This shall be the period in which the Takaful institution can compel the participant to pay the contribution or in which the PTF has a substantive obligation to provide benefits to the participants.

32. A substantive right to provide benefits ends when the Takaful institution is able to reassess the risks of the particular participants and can set or reset the price or the level of benefits according to the reassessment, if so allowed under Shari'ah principles and rules.

33. A liability or an asset shall not be recognised relating to an expected contribution or expected claim for benefits that is outside the boundary of the Takaful arrangement. Such amounts relate to future Takaful arrangements.

34. A Takaful institution shall adjust the estimate of the fair value of the future cash flows to reflect the sustainability margin for the PTF for bearing the uncertainty about the amount and timing of the cash flows that arises from non-financial risk.

35. It needs to be clarified that:

a. Mudarib's share or Wakala fee (including incentives, if any) for investment management for PTF's investments (excluding PIF's investments) shall be considered a part of Takaful fulfilment cash flows and shall be adequately disclosed; and

b. surplus distribution, if any, and waiver of Qard Hasan, if any, shall not be part of the fulfilment cash flows.

Initial recognition of Takaful residual margin

36. The Takaful residual margin is a component of the provision (or net cost, in case of certain re-Takaful arrangements held) for a Takaful arrangement that represents the unearned surplus (or deficit) that will be recognised over the period of (and where appropriate, according to the pattern of) the participant's entitlement for benefits under the Takaful arrangement.

37. The Takaful residual margin shall be measured as the difference of:

    a. the amount of Takaful fulfilment cash flows (including all its components as described in paragraph 29(a)) that was initially recognised; and

    b. any cash flows arising from the Takaful arrangement at that date.

Initial recognition of onerous arrangements

38. A Takaful arrangement is onerous at the date of initial recognition if the Takaful fulfilment cash flows, any previously recognised Takaful acquisition cash flows and any cash flows arising from the Takaful arrangement at the date of initial recognition in total are a net outflow. Applying paragraph 21, such Takaful arrangement shall be separately classified from the Takaful arrangements that are not onerous.

39. A loss in the statement of financial activities of the managed PTF for the net outflow for onerous arrangements shall be recognised, resulting in the carrying amount of the provision being equal to the Takaful fulfilment cash flows and the Takaful residual margin being zero.

40. A significant number of onerous arrangements, depending on the business realities, may imply an act of potential negligence of the Takaful institution, in its capacity as an agent of the PTF. This may particularly be more relevant where the Wakala fee is excessive. In rare circumstances, in line with the relevant Shari'ah principles and rules or regulatory requirements, such situations may require recording of a receivable from the agent. Such receivable shall form part of the Takaful fulfilment cash flows.

41. In line with the requirements of paragraph 19, the Takaful institution may identify a group of onerous arrangements as a set, instead of individual arrangements.

Subsequent measurement

Subsequent measurement of the provision for a Takaful arrangement

42. The carrying amount of the provision for a Takaful arrangement at the end of each reporting period shall be the sum of:

    a. the provision for remaining entitlement period comprising of:

        i. the Takaful fulfilment cash flows related to future benefits allocated to the Takaful arrangement at that date;

        ii. the Takaful residual margin of the Takaful arrangement at that date; and

    b. the liability for incurred claims, comprising of Takaful fulfilment cash flows related to the past benefits allocated to the Takaful arrangement at that date.

43. The income and expenses shall be recognised in the statement of financial activities of the managed PTF for the following changes in the carrying amount of the provision for remaining entitlement period:

a. revenue representing the reduction in the provision for remaining entitlement period because of benefits provided during the period;

b. expenses representing losses (and any reversal of losses) on onerous arrangements;

c. amortisation of deferred cost (including any experience adjustment and financial risk elements); and

d. amortisation of the Takaful residual margin over the period, and any adjustment thereon (also see paragraphs 47(e) and 48).

44. The income and expenses shall be recognised in the statement of financial activities of the managed PTF for the following changes in the carrying amount of the liability for incurred claims:

a. expenses representing the increase in liability because of claims and expenses incurred in the period; and

b. expenses representing subsequent changes in Takaful fulfilment cash flows relating to incurred claims and expenses.

45. Subsequent measurement shall take into account any experience adjustments, if any, that may arise:

a. in respect of the receipts of contribution (and any related cash flows such as Takaful acquisition cash flows and directly related taxes) – being the difference between the estimate at the beginning of the period of the amounts expected for the period and the actual cash flows during the period; or

b. in respect of the Takaful costs (excluding Takaful acquisition cash flows and Wakala adjustments, if any) – being the difference between the estimate at the beginning of the period of the amounts expected for the period and the actual costs incurred during the period.

Subsequent measurement of Takaful residual margin

46. The Takaful residual margin at the end of the reporting period represents the surplus in the Takaful arrangements that has not yet been recognised in the statement of financial activities of the managed PTF because it relates to the future benefits to be provided under the Takaful arrangement.

47. The carrying amount of the Takaful residual margin of a Takaful arrangement at the end of the reporting period equals the carrying amount at the start of the reporting period adjusted for:

a. the effect of any new arrangements added, in case of accounting being performed collectively for a group;

b. the amortisation of deferred Takaful residual margin over the entitlement period – through a systemic method reflecting the pattern of utilisation of entitlement for benefits;

c. the changes in Takaful fulfilment cash flows relating to future benefits, except:

   i. the increases in the Takaful fulfilment cash flows that exceed the carrying amount of the Takaful residual margin, giving rise to a loss; or

   ii. the decreases in the Takaful fulfilment cash flows that are allocated to the loss component of the provision for remaining entitlement period.

d. the effect of any currency exchange differences on the Takaful residual margin; and

e. the amount recognised as revenue in the statement of financial activities of the managed PTF because of the provision of benefits in the period, determined by the allocation of the Takaful residual margin remaining at the end of the reporting period (before any allocation) over the current and remaining entitlement period (also see paragraph 43(d)).

48. Some changes in the Takaful residual margin offset changes in the Takaful fulfilment cash flows for the provision for remaining entitlement period, resulting in no change in the total carrying amount of the provision for remaining entitlement period. To the extent that changes in the Takaful residual margin do not offset changes in the Takaful fulfilment cash flows for the provision for remaining entitlement period, the income and expenses for the changes shall be recognised in the statement of financial activities of the managed PTF.

49. The amortisation of the Takaful residual margin shall be taken to the statement of financial activities of the managed PTF and presented as a separate line item.

Subsequent changes in onerous arrangements

50. A Takaful arrangement becomes onerous (or more onerous) on subsequent measurement if the carrying amount (unamortised) of the Takaful residual margin is less than the unfavourable changes in the Takaful fulfilment cash flows allocated to the Takaful arrangement relating to future benefits.

51. After the recognition of loss on an onerous arrangement, the subsequent changes in the estimates of Takaful fulfilment cash flows for remaining entitlement period shall be allocated on a systematic basis between:

a. the loss component of the provision for remaining entitlement period; and

b. the provision for remaining entitlement period, excluding the loss component.

52. Any subsequent decrease in Takaful fulfilment cash flows arising from changes in estimates of future cash flows relating to future benefits and any subsequent increases in the PTF's share in the fair value of the underlying assets shall be allocated solely to the loss component until that component is reduced to zero. Applying paragraphs 53-55 a Takaful institution shall adjust the Takaful residual margin only once the loss component has been reduced to zero.

53. The loss component for the purpose of paragraphs 51 and 52 shall be the amount equivalent to the total amount recognised in the statement of financial activities of the managed PTF to date, on

initial recognition or subsequent measurement of the Takaful arrangement as onerous (net of any already recognised reversals).

54. The subsequent changes in the Takaful fulfilment cash flows for remaining entitlement period to be allocated are:

   a. estimates of the fair value of the future cash flows for claims and expenses released (i.e., the difference between the opening estimate against the closing estimate) from the provision for remaining entitlement period because of incurred Takaful benefit costs;

   b. changes in the risk adjustment for non-financial risk recognised in the statement of financial activities of the managed PTF because of release of risk; and

   c. amortisation of deferred cost – through a systemic method reflecting the pattern of utilisation of entitlement for benefits, as applicable.

55. The systematic allocation required by paragraph 51 shall result in the total amounts allocated to the loss component in accordance with paragraphs 53 and 54 being equal to zero by the end of the entitlement period of the Takaful arrangements.

Part C: Accounting for Takaful arrangements – under contribution allocation approach

Application criteria for contribution allocation approach

56. A simplified approach namely contribution allocation approach may be used to recognise, measure and report a Takaful arrangement, if at inception of the Takaful arrangement either of the following condition is met:

    a. it is a reasonable expectation that such simplification would produce a measurement of the provision of remaining entitlement period for the Takaful arrangement would not differ materially from the one produced by applying the requirements of part B "Accounting for Takaful arrangements – under general approach"; or

    b. the entitlement period of each Takaful arrangement (including the entitlement for benefits arising in respect of all contributions) is one year or less.

57. It is a presumption that the criteria in paragraph 56 are not met, if at the inception of the Takaful arrangement, the Takaful institution expects significant variability in the Takaful fulfilment cash flows that would affect the measurement of the provision for remaining entitlement period. Variability in the Takaful fulfilment cash flows increases with:

    a. the extent of future cash flows relating to the Takaful arrangement; and

    b. the length of the entitlement period of the Takaful arrangements.

Initial recognition

Assessment for onerous or potentially (in future) onerous arrangements

58. Where contribution allocation approach is applied, the Takaful institution shall generally consider the whole portfolio at the time of initial recognition as not being onerous. However, if it is apparent (or there exists a significant risk) based on the facts and circumstances, then the Takaful institution shall perform an assessment in respect of:

    a. such arrangement(s) in the portfolio that are onerous in nature; and / or

    b. such arrangement(s) in the portfolio have a significant possibility of subsequently turning onerous.

59. On initial recognition, the provision for remaining entitlement period is measured under the contribution allocation approach as follows:

    a. the contribution, if any, received (or receivable) at initial recognition;

    b. less: Wakala fee;

    c. less: any Takaful acquisition cash flows at that date, unless these are recognised as expense applying paragraph 60(a); and

    d. add or less: the amount arising from the derecognition at the date of the asset or liability recognised for Takaful acquisition cash flows.

60. In applying the contribution allocation approach, a Takaful institution:

a. may choose to recognise any Takaful acquisition cash flows as expenses when it incurs those costs, provided that the entitlement period of each Takaful arrangement at initial recognition is not more than one year; and

b. shall measure the liability for incurred claims for the Takaful arrangements and the Takaful fulfilment cash flows relating to incurred claims, applying paragraphs 42 and 44. However, the Takaful institution is not required to adjust future cash flows for the difference between the total cash flows and the fair value of those cash flow if those cash flows are expected to be paid or received in one year or less from the date the claims are incurred.

61. In case the cash outflows are spread over a period more than one year and the difference between the total expected cash outflows and their fair value is material, a Takaful institution shall adjust the carrying amount of the provision for remaining entitlement period to its fair value and shall record such difference initially as deferred cost.

Subsequent measurement

62. At the end of each subsequent reporting period, the carrying amount of the provision for remaining entitlement period is:

a. the carrying amount at the beginning of the reporting period;

b. add: the contributions received during the period;

c. less: Takaful acquisition cash flows, unless they are recognised as expense;

d. add: amortisation of Takaful acquisition cash flows recognised as expense (if applicable);

e. less: amortisation of any deferred cost, if such deferred cost is recognised in line with the requirements of paragraph 60(a);

f. add: the amount recognised as earned Takaful contributions against the entitlement for benefits attributable to that period; and

g. less: any investment component (from PIF) paid or transferred to the liability for incurred claims.

Onerous arrangements

63. If at any time during the entitlement period, facts and circumstances indicate that a Takaful arrangement is onerous, a Takaful institution shall perform a computation of excess / shortfall of the following:

a. the carrying amount of the provision for remaining entitlement period; and

b. the Takaful fulfilment cash flows that relate to remaining entitlement period of the Takaful arrangement.

64. In case of shortfall of the carrying amount of the provision for remaining entitlement period against Takaful fulfilment cash flows relating to the remaining entitlement period of the Takaful arrangement, the Takaful institution shall recognise a loss in the statement of financial activities of the managed PTF and increase the provision for remaining entitlement period by such amount of shortfall.

Part D: Accounting for re-Takaful arrangements held by the PTF

General approach for re-Takaful arrangements held

65. A Takaful institution shall divide a re-Takaful arrangement held by applying the requirements of part B "Accounting for Takaful arrangements – under general approach" except that the references to onerous arrangements therein shall be replaced by reference to arrangements on which there is a net gain on initial recognition. [Explanation: Such gain shall compensate for losses arising in PTF on account of the onerous arrangements.]

Initial recognition

66. Instead of applying paragraph 28, a PTF shall recognise an asset (or provision, as the case may be) for re-Takaful arrangements held:

    a. if the re-Takaful arrangements held provide proportionate entitlement period – at the beginning of the entitlement period of the re-Takaful arrangement held or at the initial recognition of any underlying Takaful arrangement (whereby in case of underlying onerous arrangement the corresponding effect shall be immediately recognised), whichever is the later; and

    b. in all other cases – from the beginning of the entitlement period of the re-Takaful arrangement held.

67. A re-Takaful arrangement held that provides proportionate coverage against underlying Takaful arrangements shall not be initially recognised until the date that any underlying Takaful arrangement(s) is initially recognised, if that date is later than the beginning of the entitlement period of such re-Takaful arrangement.

68. If the net cost of acquisition of re-Takaful arrangements has benefit entitlement relating to events that have already occurred, such cost shall be immediately recognised in the statement of financial activities of the managed PTF.

69. In case a loss is recognised on initial recognition of an onerous underlying Takaful arrangement (or on addition of an onerous underlying Takaful arrangement to a group), the Takaful residual margin of a related re-Takaful arrangement held (to such extent) shall be immediately recognised in the statement of managed financial activities of the managed PTF.

70. In case where a Takaful institution has applied paragraph 69, when such losses are recovered in a subsequent period, a loss-recovery component of an asset for the remaining entitlement period shall be correspondingly reversed.

Subsequent measurement

71. In applying the measurement requirements of paragraphs 42-45 to re-Takaful arrangements held, the PTF shall apply consistent assumptions to measure the estimates of the fair value of the future cash flows for such re-Takaful arrangements held and the estimates of the fair value of the future cash flows for the underlying Takaful arrangements. [Explanation: This requirement shall not be applied in case the underlying Takaful arrangements are not accounted for in line with the requirements of the referred paragraphs.]

72. In respect of the re-Takaful arrangements held, the PTF shall also include the risk of non-performance by the re-Takaful provider (including effects of collateral and losses from disputes) in the estimate of the fair value of the future cash flows.

73. Instead of applying paragraph 34, a PTF shall determine the risk adjustment for non-financial risk so that it represents the amount of risk being transferred by the holder of the re-Takaful arrangements to the issuer of those re-Takaful arrangements.

74. Application of paragraphs 36 and 37 relating to determining the Takaful residual margin on initial recognition, in respect of re-Takaful arrangements held, shall be subject to the following modifications:

   a. the PTF shall recognise any net cost or net gain [instead of unearned margin] on acquisition of the re-Takaful arrangements held, as a Takaful residual margin measured at an amount equal to the sum of the Takaful fulfilment cash flows, the amount derecognised at that date of any asset or liability previously recognised for cash flows related to the re-Takaful arrangements held and any cash flows arising at that date; unless

   b. the net cost of acquiring re-Takaful entitlement relates to events that occurred before the acquisition of the re-Takaful arrangements, in which case, notwithstanding the requirements of paragraph 36, such a cost shall immediately be recognised in the statement of financial activities of the managed PTF as an expense.

75. Instead of application of paragraph 47, the Takaful residual margin at the end of the reporting period in respect of re-Takaful arrangements held, shall be computed as the carrying amount determined at the start of the reporting period, adjusted for:

   a. the effect of any new arrangements;

   b. amortisation of deferred cost added back to the carrying amount of the Takaful residual margin;

   c. changes in the Takaful fulfilment cash flows to the extent that the change:

      i. relates to the future benefits entitlement; unless

      ii. it results from a change in the Takaful fulfilment cash flows allocated to underlying Takaful arrangement that does not adjust the Takaful residual margin for the underlying Takaful arrangement.

   d. the effect of any currency exchange differences arising on the Takaful residual margin; and

   e. the amount recognised in the statement of financial activities of the managed PTF because of benefits received in the period, determined by the allocation of the Takaful residual margin remaining at the end of the reporting period of the re-Takaful arrangements held.

76. Changes in the Takaful fulfilment cash flows that result from changes in the risk of non-performance by the issuer of a re-Takaful contract held do not relate to future benefits and shall not adjust the Takaful residual margin.

77. A re-Takaful arrangement held cannot be onerous under the requirements of this standard.

Contribution allocation approach for re-Takaful arrangements held

78. A Takaful institution may use the contribution allocation approach set out in paragraphs 58-62 (adapted to reflect the features of re-Takaful arrangements held that differ from Takaful arrangements issued, for example the generation of expenses or reduction in expenses rather than revenue) to simplify the measurement of re-Takaful contracts held, if at the inception of the Takaful arrangement:

    a. the Takaful institution reasonably expects the resulting measurement would not differ materially from the result of applying the requirements in paragraphs 66-77; or

    b. the entitlement period of each of the re-Takaful arrangements held (including entitlement for benefits from all contributions within the Takaful arrangement boundary determined at that date applying paragraph 31) is one year or less.

79. A Takaful institution cannot meet the condition in paragraph 78, if at the inception of the Takaful arrangement, it expects significant variability in the Takaful fulfilment cash flows that would affect the measurement of the asset for remaining entitlement for benefits during the period before a claim is incurred. Variability in the Takaful fulfilment cash flows increases with, for example:

    a. the extent of future cash flows relating to the Takaful arrangement; and

    b. the length of the coverage period of the re-Takaful arrangements held.

Part E: Accounting for the Takaful institution and significant issues related to business model of Takaful

Separation of accounting records

80. The assets, liabilities, and owners' equity, as well as, income and expenditure, gains and losses of the Takaful institution shall be recorded and reported separately and distinctly from the assets, liabilities and surplus / deficit, and related income and expenditure, gains and losses of the managed PTF or the managed PIF.

Recognition of initial seed money paid to the PTF

81. The Takaful institution at times provides the initial seed money to set up the PTF. The seed money so paid is in the nature of Hiba (gift). The Takaful institution does not have any remaining rights on the seed money given to the PTF, even at the time of liquidation of the PTF.

In the books of the Takaful institution

82. The Takaful institution shall recognise in its books the initial seed money as an expense, at the earlier of:

    a. payment of seed money to the PTF; and

    b. making an irrevocable commitment for such payment.

In the books of the PTF

83. The PTF shall recognise the initial seed money received / receivable from the Takaful institution as PTF equity[4] at the same time as provided in paragraph 82.

Transfer of assets between various funds

84. At times there is a need to transfer assets (including cash, investments or other assets) between the Takaful institution and the PTF or PIF managed by the Takaful institution for routine business operations.

85. There is a rebuttable presumption that such assets, in line with the Shari'ah principles and rules, are transferred between the Takaful institution and any of the managed funds or between two of the managed funds at fair value (considering these are arms' length transactions).

86. A Takaful institution shall apply, in respect of all such transfers of assets, the disclosure requirements in line with FAS 21 "Disclosure on Transfer of Assets". In addition, if the basis of valuation applied for transfer of such assets is other than the fair value of such assets as of the date of transfer, the Takaful institution shall disclose the difference in the value applied with the fair value, as well as, the reasons for applying the value other than the fair value.

[4] In case of a PTF based on Waqf, such equity shall be treated as Waqf corpus in line with the Shari'ah principles and rules as applicable to Waqf.

Surplus / deficit determination and surplus distribution

Surplus / deficit determination

87. Takaful surplus or Takaful deficit shall be determined as the net surplus or deficit for the reporting period appearing in the statement of financial activities of the managed PTF, in line with the requirements of this standard read with the requirements of [ED of] FAS ___ "Presentation and Disclosures in the Financial Statements of Takaful Institutions", after due transfers from / to the technical reserves.

88. In case a Takaful institution determined surplus / deficit in respect of a PTF in a manner different from the requirements of paragraph 87, the basis of determination of the same along with rationale for the same shall be disclosed.

89. In case of deficit, the Takaful institution generally provides a Qard Hasan (see paragraphs 98-101).

90. A Takaful institution shall disclose the accumulated amounts of deficit and its projections (at least for 5 years) with regard to the probable surplus in future periods to compensate for such deficits.

Risk reserves in PTF: created out of Takaful surplus

91. The Takaful surplus is distributable to the participants in line with the Shari'ah principles and rules, as well as, the contractual arrangements with the participants. However, at times a Takaful institution creates / set-aside risk reserves in the PTF out of determined Takaful surplus for the reporting period. This is intended for managing the investment risk volatility, surplus / deficit volatility or any other suitable risk factors in the greater mutual benefit, in line with the requirements of Shari'ah principles and rules, as well as, contractual arrangements with the participants.

92. Such risk reserves, where applicable, and any transfer thereto / therefrom from / to the Takaful surplus shall be accounted for and disclosed in line with requirements of FAS 35 "Risk Reserves".

Adequate level of risk reserves

93. Adequate level of risk reserves in respect of PTF shall be determined by the management considering the overall guidance provided in paragraphs 15 and 16 of FAS 35 "Risk Reserves" suitably adapted to the nature of operations and investments held, as well as, risks specific to the Takaful operations.

Takaful surplus distribution

94. A Takaful institution shall disclose the amounts of surplus due to be distributed to the participants at the end of the reporting period, along with the reasons for delay in such distribution and details in respect of upcoming distribution of the same (in terms of periodic amounts and the distribution methodology).

95. A Takaful institution shall disclose the approach followed for allocation of the Takaful surplus amongst participants with necessary quantitative information, as appropriate. The common allocation approaches, in line with Shari'ah principles and rules, may generally, but not necessarily, include:

a. allocation of surplus to all participants, regardless of whether they have made claims or not, during the reporting period[5];

b. allocation of surplus only amongst participants who have not made any claims during the reporting period; and /or

c. allocation of surplus amongst those who have not made any claims and among those who have made claims of amounts less than their contributions, whereby the latter category of participants receives only the difference between their contributions and their claims during the reporting period.

Risk reserves in PIF

96. At times a Takaful institution creates / set-aside risk reserves in the PIF for managing the investment risk volatility, rate of return / profit volatility or any other suitable risk factors in the greater mutual benefit, in line with the requirements of Shari'ah principles and rules, as well as, contractual arrangements with the investing participants.

97. Such risk reserves, where applicable, and any transfer thereto / therefrom shall be accounted for and disclosed in line with requirements of FAS 35 "Risk Reserves".

Qard Hasan – recognition and measurement in the books of the PTF

98. In case of a deficit (or liquidity shortfall), the Takaful institution may decide to give a Qard Hasan to the PTF. This Qard Hasan has the nature of a temporary, interest-free loan that shall be payable when the PTF accrues a surplus (and / or generates sufficient liquidity).

Initial recognition

99. The PTF shall recognise the Qard Hasan received from the Takaful institution as a liability, at the par value of the amount received.

Subsequent measurement

100. The PTF shall subsequently measure the liability for Qard Hasan at par value, accounting for any payments / repayments / adjustments during the period.

Waiver of Qard Hasan

101. Where the Takaful institution waives off its right to receive the Qard Hasan from the PTF, according to regulatory requirements or otherwise, the PTF shall immediately derecognise the liability and record the amount as its income for the period.

Hiba

102. In rare circumstances, the Takaful institution may contribute cash or another asset as Hiba (gift) to the PTF, subject to the Shari'ah principles and rules and the relevant legal and regulatory requirements.

[5] In line with the Shari'ah principles and rules, this method is preferred unless the Takaful arrangement or the bye-laws prescribe any alternate method.

In the books of the Takaful institution

103. The Takaful institution shall recognise a Hiba in its books as an expense, at the earlier of:

a. payment of cash or transfer of other assets to the PTF; and

b. making an irrevocable commitment for such payment or transfer.

104. In case of Hiba of an asset other than cash, the same shall be valued at fair value and any difference from carrying value shall be recognised immediately as income or expense in the statement of income of the Takaful institution.

In the books of the PTF

105. The PTF shall recognise any Hiba received from the Takaful institution as income at the same time as provided in paragraph 103.

106. In case of Hiba of an asset other than cash, the same shall be recognised at fair value.

Qard Hasan – recognition and measurement in the books of the Takaful institution

Initial recognition

107. The Takaful institution shall recognise the Qard Hasan extended to the PTF as a receivable, at the par value of the amount received.

Subsequent measurement and expected credit losses

108. The Takaful institution shall subsequently measure the receivable against Qard Hasan at par value, accounting for any payments / repayments / adjustments during the period.

109. Qard Hasan receivable from the PTF shall be subject to a periodic testing for expected credit losses in line with the requirements of FAS 30 “Impairment, Credit Losses and Onerous Commitments”, whereby an allowance for expected credit losses, if any, shall be maintained against such receivable. The Takaful institution shall consider, in particular, the deficit in the PTF and the PTF’s projections (at least for 5 years) with regard to the probable surplus in future periods to compensate for such deficits (or liquidity shortfalls) in line with the requirements of paragraph 90.

Waiver / write-off of Qard Hasan

110. When the Takaful institution decides to write-off the Qard Hasan, the receivable shall be derecognised and a corresponding expense shall be recorded in the books of the Takaful institution.

Recognition of Wakala fee earned from PTF in the books of the Takaful institution

111. Takaful institution earns revenue in the form of Wakala (management) fee in different forms and under various contracts. This fee may be fixed or variable in nature.

112. The Wakala fee charged by the Takaful institution to the PTF is generally against performance obligations for various services / costs (excluding the investment management function) to be classified and the relevant revenue recognition shall commensurate with the relevant services as follows:

a. services initially or already delivered – hence, related proportion of Wakala fee to be recognised immediately – including marketing services for Takaful products, initial administrative services (both, before and at the time of issuance of Takaful arrangement) and Takaful acquisition service costs including commissions and incentives etc.;

b. services delivered over time – hence, related proportion of Wakala fee to be recognised over such time in a systematic manner – including support services during the Takaful entitlement period such as accounting and book-keeping services, administrative services related to benefits ascertainment and payment and administrative services related to re-Takaful acquisition and benefits management etc.; and

c. probable refund of Wakala fee against cancelled or discontinued Takaful arrangements (if so provided for in the Wakala contract between the Takaful institution and the PTF) – hence, the estimated effect to be recorded as a provision for Wakala fee refund and shown as a deduction from the total Wakala fee.

113. The Takaful institution shall develop accounting policies to separate the different components of Wakala fee in line with the approach provided in paragraph 112 applying an appropriate methodology for ascertaining and assessing the same. The accounting policies shall also include the bases for recognition of each component of Wakala fee and the corresponding costs.

Takaful acquisition service cost – in the books of the Takaful institution

114. The Takaful acquisition service costs (or gain) including the allocation charges (see paragraphs 119 and 120) related to a Takaful arrangement that are received (or receivable) and paid (or payable) before the Takaful arrangement is recognised and shall be recorded as either:

a. an asset or liability in the books of the Takaful institution to be amortised over a period which commensurate with the corresponding flow of economic benefits – provided that:

i. any such asset shall be subject to testing for impairment on a periodic basis; and

ii. in case of cancellation of the respective Takaful arrangement, the liability may be extinguished and asset may be fully impaired immediately; or

b. as an expense or income in the books of the Takaful institution immediately.

Takaful institution's investment management fee / share of investment income from PIF and PTF

Mudarib's share

115. The Takaful institution shall recognise the Mudarib's share arising out of investment profits from the PTF and PIF after adjusting for any risk reserves, as per contractual arrangements in line with the Shari'ah principles and rules, as its revenue, at the end of each reporting period.

Wakala fee: fixed, variable and performance incentive

116. The Takaful institution shall recognise the fixed Wakala fee, as well as, any variable Wakala fee which is not in form of performance incentive, as its revenue in line with the contractual arrangements as it establishes right on such revenue and the same may be measurable with reasonable certainty.

117. The Takaful institution shall recognise the variable element of the Wakala fee, which is in form of performance incentive, at the end of each reporting period. However, if such incentive is contractually determined a later stage, the same shall be recognised once it is determined.

Corresponding recognition by the PTF and PIF

118. The PTF and PIF shall recognise corresponding costs for the items provided in paragraphs 115-117, at the same time as the Takaful institution recognises its revenue.

Allocation charges

119. The Takaful institution shall recognise the allocation charged (including, Wakala fee charges / front-end fee etc., by whatever name called) charged to the participants in respect of the investment made in PIF as a part of net Takaful acquisition service cost (or gain) in line with the requirements of paragraph 116.

120. The allocation charges shall be disclosed by the Takaful institutions separately from other Wakala fee.

Taxation for PTF and PIF

121. Unless the PTF and / or PIF is considered exempt from income taxes, the Takaful institution shall ensure that any tax benefit or expense (including related deferred tax effect) pertaining to the PTF and / or PIF is passed on to the respective fund.

Effective date

122. This standard shall be effective on the financial statements of the Takaful institutions beginning on or after 01 January 2024. Early adoption of the standard is permitted, if adopted alongside the [ED of] FAS __ “Presentation and Disclosure in the Financial Statements of Takaful institutions”.

Transitional provisions

123. A Takaful institution, at the time of first time adoption of this standard, shall follow one of the following approaches:

a. a full retrospective approach – whereby the effects of transition shall be incorporated from the beginning of the earliest period presented in the financial statements, however, the disclosure of the effect of such adoption in respect of each line item and to the basic and diluted earnings per share shall not be mandatory; or

b. a modified retrospective approach – whereby the effects of transition shall be taken to the retained earnings of the Takaful institution, as well as, accumulated surplus / deficit in the respective Takaful funds at the beginning of the current financial period; or

c. a fair value approach – whereby the Takaful residual margin or loss component of the provision for remaining entitlement period, at the transition date (beginning of the current period) shall be determined as the difference between the fair value of the Takaful arrangements at that date and the fair value of the fulfilment cash flows measured at that date, and the corresponding effects shall be adjusted in the retained earnings of the Takaful institution, as well as, accumulated surplus / deficit in the respective Takaful funds.

Amendments to other standards

124. This standard supersedes:

    a. FAS 13 “Disclosure of Bases for Determining and Allocation Surplus or Deficit in Islamic Insurance Companies”;

    b. FAS 15 “Provisions and Reserves in Islamic Insurance Companies”; and

    c. FAS 19 “Contributions in Islamic Insurance Companies”.

Appendices

Appendix A: Adoption of the standard

This standard was presented for the approval in the AAOIFI Accounting Board's meeting No. ___ held on ______ corresponding to __________ and was duly approved.

Members of the board

1. Mr. Hamad Abdulla Al Oqab – chairman
2. Mr. Syed Najmul Hussain – deputy chairman
3. Mr. Abdelhalim Elsayed Elamin
4. Mr. Abdulmalik Alsuwayni
5. Dr. Abdulrahman M. Alrazeen
6. Ms. Amal Al Masri
7. Dr. Bello Lawal Danbatta
8. Mr. Firas Hamdan
9. Mr. Hondamir Nusratkhujaev
10. Mr. Imtiaz Ibrahim
11. Mr. Irshad Mahmood
12. Dr. Muhammad Beltagi
13. Mr. Samet Arslan
14. Mr. Saud Al Busaidi
15. Mr. Yusuf Ibrahim Hassan

Reservation

The standard was approved unanimously.

Working group members

1. Mr. Irshad Mahmood – chairman
2. Mr. Omer Morshed – deputy chairman
3. Mr. Abdulla Ghazwan
4. Mr. Abdul Moid Ahmed Khan
5. Sheikh Ali Musleh Ali Sartawi
6. Sheikh Dr. Faizal Ahmad Manjoo
7. Mufti Hassan Kaleem
8. Ms. Intan Natasha Putri
9. Mr. Jamil Ahmed Shaikh
10. Mr. Kashif Siddiqui
11. Mr. Kazi Mortuza Ali
12. Dr. Luqyan Tamani
13. Mr. Mohamed Awad
14. Mr. Mohammed Hammad
15. Mr. M. Venkatesan
16. Mr. Rohail Asghar
17. Dr. Shahnawaz Khan
18. Dr. Sulaiman Aljewisser
19. Dr. Zakir Hossen Shaikh

Executive team

1. Mr. Omar Mustafa Ansari (AAOIFI)
2. Mr. Mohammad Majd Bakir (AAOIFI)
3. Mr. Haroon Tabraze (Senior Consultant-Researcher)
4. Ms. Farida Cassim (AAOIFI)

Appendix B: Basis for conclusions

Applicability of the basis for conclusions of the [ED of] FAS ___ "Presentation and Disclosures in the Financial Statements of Takaful Institutions]

BC1 The two standards i.e., this standard and the [ED of] FAS ___ "Presentation and Disclosures in the Financial Statements of Takaful Institutions" were developed as part of the same project of revision of earlier AAOIFI FASs on Takaful. Hence, several discussions and deliberations at the working group and the board have equal impact on both standards. Accordingly, such discussions are not repeated unless considered extremely necessary. The "basis for conclusions" for the two standards shall be read in conjunction with each other.

Applicability to different Takaful models

BC2 There are various models of Takaful prevalent in different jurisdictions. These are primarily based on Wakala, Mudaraba or a combination of both. The board considered four of the most common models of Takaful that are used globally and decided to develop the standard on the Wakala model in line with the AAOIFI SSs. The Wakala-Waqf model, although not specifically prescribed by the AAOIFI SSs, is only a variant of the same model and hence is considered to be in compliance with the AAOIFI SSs, therefore the same is also covered in this standard.

BC3 On the contrary, the board concluded that the Mudaraba model and the cooperative model are not considered in accordance with the AAOIFI SSs, and hence are not included in this standard. The board further considered that certain conclusions reached e.g., the principal-agent relationship for the Takaful model, may not be similarly applicable to these two models and hence these were considered to be irrelevant to this standard.

Accounting for managed PTF and application of insurance accounting model on the PTF only, instead of the Takaful institution

BC4 In the Wakala model or the Wakala-Waqf model, the relationship between the Takaful institution and the Takaful funds usually takes form of a principal and agent relationship. Such relationships shall be presented according to FAS 31 "Investment Agency (Al-Wakala Bi Al-Istithmar)", as well as, the "AAOIFI Conceptual Framework for Financial Reporting (Revised 2020)" (the conceptual framework) as off-balance-sheet assets under management. The board considered that although the Takaful institution has power, such power is exercisable in a fiduciary capacity as an agent only, and in its nature, does not result in variable returns to the institution itself. The board also agreed the risks and rewards with regard to the Takaful operations does not lie with the Takaful institution. The Takaful institution may be eligible to receive performance incentives in the capacity of the agent, being in a fiduciary capacity, and these cannot be considered as variable returns as the Takaful institution is not exposed to risk of sharing a loss. It was concluded that such funds are considered to be off-balance-sheet assets under management, and therefore distinct from the Takaful institution.

BC5 It is also worthwhile to note that the Takaful institution is not entitled to any surplus arising in the PTF. Where the PTF incurs a deficit, the Takaful institution may be obligated to temporarily support it through a Qard Hasan. The board agreed that the Qard Hasan, by its very nature, is to be paid back to the Takaful institution, therefore it does not tantamount to entitlement of variable returns.

BC6 In view of the above, the board further contemplated applicability of accounting treatments related to the insurance / underwriting business on the Takaful institution and the PTF. It was considered that the Takaful institution acts in the capacity of an agent. On the contrary, in the structure of Takaful, the risk of sharing losses is assumed by the PTF only, and hence the equivalent to the conventional term “insurer” in the Takaful perspective is the PTF, and not the Takaful institution. In view of the same, it was concluded that primarily the PTF, and not the Takaful institution, shall be subject to the accounting requirements of this standard, which is equivalent to the conventional financial reporting standard on insurance.

Terminologies used in this standard and their conventional equivalents

BC7 The board considered that various terms used in the generally accepted accounting principles reflect the nature of the insurance as a combination of a risk transfer and service business (both being in form of a commutative contract) therefore cannot faithfully represent the mutually shared risk-bearing nature of Takaful. Commutative contracts (at times referred to as exchange contracts) are such contracts in which what is done, given or promised by one party is considered same as the other or in consideration of what is done, given or promised by the other.

BC8 The board concluded that a Takaful arrangement is not a commutative contract and hence may not attract the same accounting treatment (see paragraphs BC4-BC6). Accordingly, the board agreed that certain terms used in conventional insurance and related financial reporting standards are not suitable for the Takaful business and hence shall be replaced with more suitable terms for the purpose of this standard.

BC9 The following table summarises the significant modified terms that are used in this standard or were introduced in [ED of] FAS ___ “Presentation and Disclosures in the Financial Statements of Takaful Institutions.”

BC10

<table>
<tr><th></th><th>Conventional term</th><th>Term used in this standard</th><th>Difference in accounting, if any.</th></tr>
<tr><td rowspan="2">1.</td><td>Insurance “contract”</td><td>Takaful “arrangement”</td><td>Takaful is a risk sharing non-commutative contract, whereas insurance is a commutative contract. Takaful arrangement, at times, refers to a combination of multiple contracts which may not be combined in one contract in line with the Shari’ah principles and rules.</td></tr>
<tr><td colspan="3">Rationale: The term contract does not faithfully present the nature of Takaful and its structural relationships. According to Shari’ah, a Takaful arrangement is established using two or three separately identified relationships / agreements / documents defining the rights and responsibilities of the parties, in different Takaful structures.</td></tr>
<tr><td rowspan="2">2.</td><td>Premium (and the derivative terms)</td><td>Contribution</td><td>Takaful is a risk sharing non-commutative contract, whereas insurance is a commutative contract.</td></tr>
<tr><td colspan="3">Rationale: The term contribution reflects the Tabarru contract where participants agree to make a donation to the PTF for mutual sharing of risk.</td></tr>
</table>

<table>
<tr><td rowspan="2">3.</td><td>Coverage (and derivative terms)</td><td>Benefits entitlement</td><td>A conventional insurance contract creates a coverage for the insured person.</td></tr>
<tr><td colspan="3">Rationale: A Takaful arrangement entitles the participants to get benefits in the case of a loss through a mutuality arrangement, and hence, the term more suited to the same is “benefits entitlement” instead of “coverage”.</td></tr>
<tr><td>4.</td><td>Contractual Service Margin (CSM)</td><td>Takaful Residual Margin (TRM)</td><td>CSM represents the unearned profit the entity will recognise as it provides insurance contract services under the insurance contracts in the group.</td></tr>
<tr><td></td><td colspan="3">Rationale: Insurance is a for-profit business, while PTF is a not-for-profit (mostly virtual) entity. The objective of insurance business is to earn profits, while PTF surplus, if any, are distributed back to the participants, after maintaining necessary reserves. Moreover, the service provider in the context of the Takaful business is the Takaful institution which provides services to the PTF and where necessary to the participants (e.g., investment management). Furthermore, as discussed above, the term “contract” is replaced with the term “arrangement” in the context of Takaful. Considering all of these factors, it was considered more appropriate to coin a new term which reflects the true nature of Takaful business and the financial reporting model in line with the requirements of this standard.</td></tr>
<tr><td>5.</td><td>Acquisition cash flows</td><td>Takaful acquisition cash flows

Takaful acquisition service cost</td><td>See BC13-BC15.</td></tr>
</table>

Impermissibility of discounting of established receivables and payables

BC11 The conceptual framework prohibits discounting of established monetary receivables and payables, in line with the Shari’ah principles and rules. However, discounting may be used, as part of an estimation / computation method while making an estimate of fair value, a potential liability or a provision, a reserve or may be used to amortise an already earned (but deferred) profit for the purpose of recognition in the respective period for just and equitable attribution to different stakeholders.

BC12 The board considered various aspects of insurance accounting in line with the generally accepted accounting principles in view of the same, and accordingly concluded that any established receivables and payables (e.g., incurred claims, due contributions etc.) shall not be subject to any discounting and shall be carried at par value. On the contrary, any estimates for provisions and reserves (e.g., contributions receivable in the future or claims to be lodged in future and other future cash flow estimates) may be accounted for on a discounted basis by creating deferred costs and deferred profits and amortising them over the respective period.

Takaful acquisition cash flow vs. Takaful acquisition service cost

BC13 The issue of accounting for acquisition cash flows in line with the generally accepted accounting principles and its suitability for the Takaful business was discussed at length by the board and the working group. It was particularly considered that due to the unique nature of the Takaful business some of such costs are attributable to the PTF, while on the other hand, major part of such costs are to be borne by the Takaful institution being part of services being provided to the PTF by the Takaful institution under the contract of Wakala.

BC14 After due deliberation, it was decided that the costs attributable to the PTF shall be termed as "Takaful acquisition cash flow" and its accounting treatment within PTF shall be similar to the accounting treatment of similar costs in the conventional insurance contracts in line with the generally accepted accounting principles.

BC15 On the contrary, it was decided that the costs attributable to the Takaful institution are in the nature of a service cost against the Wakala fee earned from the PTF. A new term namely, "Takaful acquisition service cost" was coined for such costs. The same shall be recognised immediately, or over a period of time in the statement of income of the Takaful institution, matching with the recognition of relevant Wakala fee.

Surplus / deficit / Takaful residual margin

BC16 The board discussed the treatment of surplus arising in the participants' Takaful fund. It was agreed that according to the Wakala (and Wakala-Waqf) model for Takaful, the surplus shall be determined and distributed to the participants, therefore should not be part of the Takaful fulfilment cashflows. It was observed that surplus may be unearned and recognised over a period of time, but deficit is onerous and shall always be recognised immediately. To clarify, a negative Takaful residual margin shall not arise as it will turn onerous.

BC17 The board discussed that the generally accepted accounting principles prescribe accounting treatments for insurance on group basis, whereas this standard is based on treatments for individual arrangements however, grouping similar arrangements is allowed under this standard. Where such grouping is applied, in line with the requirements of this standard, the surplus, deficit and / or Takaful residual margin shall be determined on the group basis.

Grouping into distinct portfolios

BC18 The board noted that the regulators may prescribe the distinct portfolios i.e., marine, fire etc. that are to be managed together according to the industry needs. However, it was clarified that when such a prescription is available, the Takaful arrangements would still be required to be divided under paragraph 21 into arrangements that are onerous, arrangements that have no significant possibility of subsequently turning into onerous, and the remaining arrangements.

Long-term contracts

BC19 The board discussed the cases where the Takaful institution shall be using the contribution allocation approach. The general Takaful operations usually comprise of arrangements that are not for a term of more than one year. In this case, where the Takaful institution does not have long-term contracts (of a period more than one year) it may follow the (simplified) contribution allocation approach, instead of the (more complicated) general approach.

BC20 The board further concluded that, in line with the generally accepted accounting principles, the long-term contracts shall not to be clubbed together if they are more than one year apart. This is due to the reason that the Takaful residual margin needs to be computed for each year's group separately and amortised to such group's remaining period.

BC21 The board was of the view that keeping each year's arrangements separate will provide transparency as readers of the financial statements can identify profitability of each year separately, as well as, will ensure that the groups which are onerous are accounted for immediately, rather than being merged with the profitable groups and hence effectively being amortised over the remaining period.

Recognition of provisions and liabilities

BC22 The board contemplated as to when the Takaful institution shall recognise a liability for cash outflows related to the benefits. It was observed that Takaful is based on mutuality; therefore, recognition of a provision of an estimated potential outflow shall be required, at the time when the arrangement is entered into, whether the contribution is received or not. Similarly, the recognition of the Takaful arrangement shall also entail a simultaneous recognition of a liability from PTF to the Takaful institution in relation to the Wakala fee (unless the contractual arrangements require otherwise).

BC23 Recognition of provision on day one is permissible in Shari'ah, although not being an established liability. However, this recognition cannot happen before the PTF assumes the risk arising from the Takaful arrangement. It is clarified that a Takaful institution may indicate assumption of the risk to the participant before entering into a formal arrangement, including hold cover or provisional cover. Further, in case where accounting is being done on a group basis, the group will be recognised on the day of the first arrangement.

BC24 The board further concluded that due to inherent uncertainties, the incurred but not reported (IBNR) claims are not established liabilities and are by nature provisions.

Accounting nature of contribution received from participants

BC25 A question was raised as to whether the contribution is revenue or equity for the PTF, as there is the concept of sharing and mutuality in this model. After due deliberation, it was concluded by the board that in the context of the PTF, any contribution from participants shall be in the nature of revenue (earned or unearned) and the PTF shall charge the benefits provided to participants as expenses in the statement of financial activities of the managed PTF.

BC26 The board was of the view that a crucial characteristic of equity is permanence, which is not present in this situation. On the contrary, the seed capital given is in the nature of equity, whereas Tabarru (non-commutative arrangement) is revenue for a Waqf. The undistributed surplus (or any reserves maintained out of such surplus) may be termed as equity till the time the same is distributed to the participants' or used to pay benefits in the future years.

BC27 The investment part shall be separated (unbundled) from the contribution at the time of initial recognition, in line with the contractual arrangements, and considered as equity of the participants in the books of the PIF (which are considered off-balance-sheet managed assets for the Takaful institution).

Recognition of profits and losses

BC28 The board discussed the differences in accounting of profit between conventional insurance and Takaful arrangements. The board observed that profit for the shareholders is the difference between the Wakala fee charged by the institution and cost incurred on the management of the participants' funds. The board particularly noted the perceived anomaly in accounting whereby in a conventional insurance institution, profit will be recognised over a period of time through amortisation of CSM, whereas in case of a Takaful institution it will be recognised immediately in line with the requirements of this standard.

BC29 The second anomaly exists when the PTF may be in a loss and the Takaful institution may have a profit because of (probably) the higher Wakala fee, which should not happen generally in case of an insurance company because of consolidated determination of underwriting results. Similarly, in certain cases, the Takaful arrangements may turn onerous at inception (in the books of the PTF) if a higher Wakala fee is charged by the Takaful institution.

BC30 After due deliberations, the board decided that these differences in accounting are justified due to the application of a different business model and the stakeholders of the Takaful institution are different from the stakeholders of PTF. Having said that, the board considered it important to have impairment testing of the Qard Hasan to ensure that excessive losses in the PTF and profits in the Takaful institution on an ongoing basis may be avoided (as it will address partially the accounting mismatch issue).

The boundary of a Takaful arrangement

BC31 The board considered a question as to what shall constitute the boundary of a Takaful arrangement for accounting purpose and as to whether the same shall have different connotations as compared to the boundary of an insurance contract. This issue arose because contrasting to an insurance contract, the Takaful arrangement may comprise of multiple contracts with different stakeholders, in different capacities. Hence, the determination of the boundary may be different in this context.

BC32 After due deliberations, the board concluded that the boundary of a Takaful arrangement shall be similar, from an accounting perspective, to the boundary of an insurance contract. Both shall be determined in line with the substantive rights and obligations that exist during the reporting period in which the policyholder or the participant may be compelled to pay the premiums / contributions or in contrast, the period in which the insurance company / the Takaful institution (on behalf of the PTF) has a substantive obligation to provide the policyholders / participants with insurance contract services / entitlement for benefits. Having said that, the difference shall remain in the context of the multiple contracts / arrangements being part of a Takaful arrangement, which for the purpose of determining a boundary shall all be considered together.

Initial seed money

BC33 The board discussed the nature of the seed money, if any, provided by the Takaful institution to set up the PTF. The board contemplated to recognise it as capital or a liability. After deliberation, it was concluded that the nature of such seed money in the books of the PTF is equity, that is not to be paid back to the Takaful institution.

BC34 The board further concluded that the same shall be charged as an expense in the books of the Takaful institution as the institution loses control over this fund as soon as the same is paid (including e.g., the right to get it back even in case of liquidation or to earn a return thereon).

Qard Hasan

BC35 The board discussed the nature of Qard Hasan at length. It was noted that the Takaful institution does not have any obligation according to Shari'ah principles and rules to make up the losses arising in the PTF. It was observed that the contractual model of Takaful, the regulatory requirements or the market practices may compel the Takaful institution to provide a temporary loan to the PTF which is allowed under Shari'ah principles and rules as a temporary interest-free loan only.

BC36 The board concluded, in view of the same that Qard Hasan shall be initially recorded as receivable and payable in the books of the Takaful institution and the participants' fund, respectively.

BC37 The board further considered that like any other receivable, the Qard Hasan at each reporting date, shall be tested for impairment in the books of the Takaful institution in line with the relevant AAOIFI FASs (also see paragraph BC33 for further explanation on the rationale for such impairment testing).

Recognition of Wakala fee

BC38 The recognition of Wakala fee poses unique challenges in the Takaful business. It is in the nature of agent's commission and setting the level of such fee is the prerogative of the Takaful institution (operator), although at times the same is subject to certain governance and regulatory restrictions. It is worthwhile to note that the accounting aspect of Wakala fee is restricted to faithful reporting, whereas determination of Wakala fee and mechanisms of its disbursements are related to governance.

BC39 The board agreed that Wakala fee should be recognised at the inception as an expense of the PTF and an income of the Takaful institution, even if it turns the Takaful arrangement onerous, especially in the first year of such an arrangement (unless contractual arrangement for Wakala fee requires otherwise).

BC40 Due to apparent difference in nature, it was further decided that Wakala fee should not be aggregated with other expenses or outgoes of the PTF e.g., the re-Takaful contributions or direct costs.

BC41 Certain members were of the view that in case where the Wakala fee is amortised in the PTF, it should also be amortised on similar basis by the Takaful institution according to the matching principle. However, after due deliberation the board decided that accounting for Wakala fee's in the books of the Takaful institution shall be commensurate with the corresponding costs and performance obligations and not with the manner in which the same is recognised as an expense in the books of the PTF. Accordingly, such performance obligations and the matching costs (within the income statement of the Takaful institution) were briefly described in the standard.

Income taxes related to PTF and PIF, if any

BC42 The board considered whether or not the PTF and PIF are subject to income taxes. It was noted that generally under the doctrine of mutuality these should not be subject to income tax. However, the market practices suggest that normally Takaful institutions submit a combined return of the entity which includes profits and losses attributable to the PTF and / or PIF.

BC43 In view of the same the board considered it to be just and fair for the stakeholders having ownership interest in the PTF and PIF, that the tax benefits or expenses as attributable to them shall be passed on to them. Accordingly, the total tax expense (net) shall not be recorded in the Takaful institutions income statement which pertains to the shareholders only.

Appendix C: Brief history of the preparation of the standard

H1 The FAS on Takaful revision project first output exposure draft was issued on 13 Jumada II 1442H, corresponding to 26 January 2021. Immediately thereafter the secretariat commenced work on the second output of the revision project. (Also see Appendix D of [ED of] FAS ___ "Presentation and Disclosures in the Financial Statements of Takaful Institutions).

H2 The 9th working group meeting, being the first meeting to focus on the accounting treatments for Takaful in line with the global best practices, was held on 15 Jumada II 1442H, corresponding to 28 January 2021. In this meeting members engaged in discussions of the revised scope and updates of newer requirements in international conventional comparable standards on insurance and its Shari'ah implications on Takaful institutions.

H3 The 10th working group meeting was held on 23 Rajab 1442H, corresponding to 7 March 2021 where the members continued with discussions from the previous meeting on the overview of international conventional comparable standards on insurance with regards to the commonalities and areas where Shari'ah issues might arise.

H4 The 11th working group meeting was held on 3rd Ramadan, 1442H corresponding to 15 April 2021 where the members discussed the first version of the draft standard and suggested recommendations on core principles were incorporated.

H5 The 12th working group meeting was held on 10 Shawwal 1442H, corresponding to 22 May 2021 where the second version of the draft was discussed after incorporating necessary changes from the previous meeting.

H6 The 13th working group meeting was held on 17 Shawwal 1442H, corresponding to 29 May 2021 where the third version of the draft was discussed. After making necessary changes the standard was recommended to the board.

H7 The draft standard was presented to the AAB in its 24th meeting held on 18-19 Shawwal 1442H, corresponding to 30-31 May 2021. In this meeting the board reviewed the draft and recommendations made by the working group. After due deliberations, the exposure draft was approved for issuance.

H8 After incorporation of board comments and an additional round of review via circulation by the working group, the exposure draft was issued on 18 Muharram 1443H, corresponding to 26 August 2021.