

Development of Shariah Standards in Pakistan and role of the AAOIFI: A Comprehensive Review and Future Prospects

Umar Farooq, Muhammad Bilal Zafar

Minhaj University, Lahore, Pakistan

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Abstract:

The paper aims to review the development of Shariah standards in Pakistan and the role of Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). The document review method has been taken into consideration. The circulars, notifications, rules, laws and regulations issued by the regulators of Islamic finance in Pakistan, such that State Bank of Pakistan (SBP) and Securities and Exchange Commission of Pakistan (SECP) were collected. Since 2010, SBP has adapted twenty AAOIFI Shariah standards and issued three separate standards and SECP adapted seven. Both regulators have made extensive changes/amendments/clarifications in the adapted AAOIFI Shariah standards. SBP has amended 261 clauses of the AAOIFI out of 833; however, further research is needed to determine if these changes violate the spirit of AAOIFI Shariah standards or are acceptable. SBP has also issued separate Shariah standards and rulings on various matters, despite the availability of corresponding AAOIFI Shariah standards; therefore, a comparative study is needed to explore similarities and differences with AAOIFI corresponding standards. Moreover, there is also a conflict between both regulators regarding adaptation of AAOIFI Shariah standards which might be due to different Shariah governance frameworks of both regulators that also requires further consideration to explore. This review suggests potential areas for future research and will benefit Shariah board members, scholars, advisors, and auditors. Moreover, it also highlights the recommendations for the regulators and industry to streamline Shariah standards in Pakistan.

Keywords: Shariah standards, AAOIFI, Pakistan, Islamic banking, Islamic Finance

Corresponding Author: Muhammad Bilal Zafar, bilalezafar@gmail.com

1. Introduction

Islamic banking has an interesting history in Pakistan (Rammal & Parker, 2013). The founders of Pakistan had the intention to run the economy of the country on the Islamic principles which has not been translated into reality even after a long time (Khan & Bhatti, 2008). Initially, it remained under debate for a long time on how to convert the economy, and later in 1980s selective measures were taken to transform the banking system into Islamic (Akbar et al., 2023; SBP, 1984) which fell under great criticism due to Shariah issues in the measures, and the Federal Shariat Court (FSC) of Pakistan gave the comprehensive judgment in 1991 to amend all essential laws that are non-Shariah compliant and convert the economy according to the Islamic principles (Hassan, 2017) which was never enforced. Rather it was set-aside by the Supreme Court of Pakistan (SCP) in 2002, and a fresh hearing was directed to FSC on the matter (Zafar & Sulaiman, 2020). Recently, the FSC has again passed a judgment and has given the time frame till 2027 to transform the economy to make it Shariah compliant (Ghafoor, 2022).

The Islamic banking assets and deposits in Pakistan experienced significant growth in 2022 reaching Rs 7,229 billion and Rs 5,161 billion, respectively. This YoY growth rate of 29.6% for assets and 22.6% for deposits is the highest ever annual increase in the size of Islamic banking assets and deposits in a single year (SBP, 2022b). Despite global growth, Islamic banks in Pakistan face challenges such as Shariah compliance issues and lack of standardization. These issues make investors reluctant to invest in Islamic banking products, and customers may shift their accounts from Islamic banks to conventional interest-based banks if they perceive compliance issues (Saleem et al., 2022).

In 2002, the State Bank of Pakistan (SBP) allowed the dual banking system and started to give licenses to Islamic banks with the ambition to gradually transform the banking sector into Shariah-compliant (SBP, 2003). In 2003 SBP gave the policy for promotion of Islamic banking in Pakistan (SBP, 2003). In 2004, it provided guidelines and model agreements for Islamic modes of financing (SBP, 2004). In 2005, it further elaborated the guidelines for Islamic modes of financing and superseded the brief rules of 1984 (SBP, 1984) that it had issued earlier. In 2008, SBP provided its Shariah standards extending the earlier guidelines for modes of financing on Murabaha, Musawamah, Ijara, Salam, Musharka, Mudaraba, Istisna, and Diminishing Musharka, and provided the definitions of Qard, Wakalah, Assignment of Debt, Kafalah, and Tawarruq. In 2010, the SBP changed its strategy, besides issuing its own Shariah standards, (SBP, 2010a) it started adopting the Shariah standards of Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) by stating the following objective behind adaptation:

“To harmonize and standardize the Shariah practices and procedures of IBIs as per internationally recognized standards, it has been decided that AAOIFI Shariah Standards will be adapted in gradual manner, after a detailed review, keeping in view the local environment and needs of Islamic Banking Industry in Pakistan.”

AAOIFI, established in 1991, is the leading international not-for-profit organization responsible for developing and releasing standards for the global Islamic finance industry. It has issued more than

100 standards in Shariah, accounting, auditing, ethics, and governance. Supported by over 45 countries, it is followed by leading Islamic financial institutions and has introduced a progressive degree of harmonization of international Islamic finance practices (AAOIFI, 2020).

This paper aims to review the development of Shariah standards in Pakistan and the role of AAOIFI and will attract the attention of researchers/practitioners in relation to the changes and amendments made by SBP and SECP. This paper has three different sections including Adaptation of AAOIFI Shariah standards, Separate Shariah Standards of SBP/SECP, and Rulings on different matters by SBP followed by the conclusion and recommendations.

2. Adaptation of AAOIFI Shariah Standards

SBP started adaptation of AAOIFI Shariah standards in 2010 (SBP, 2010a). During the first stage, SBP adapted four AAOIFI standards in 2010 including SS 3: Default in Payment by Debtors, SS 8: Murabaha to the Purchase Orderer, SS 9: Ijarah & Ijarah Muntahia Bittamleek, and SS 13: Mudaraba (SBP, 2010a). Further, SBP in 2013 adapted two more Shariah standards that were SS 12: Sharika (Musharaka) and Modern Corporation (SBP, 2013a) and SS 17: Investment Sukuk (SBP, 2013c). In 2019, SBP again adapted six Shariah standards which are SS 2: Debit Card, Charge Card and Credit Card, SS 5: Guarantees, SS 14: Documentary Credit, SS: 18 – Possession (Qabd), SS: 24 Syndicated Financing, and SS 38: Online Financial Dealings (SBP, 2019).

After that in 2020, SBP further adapted three Shariah standards including SS 19: Loan (Qard), SS23: Agency and the Act of an Uncommission Agent (Fodooli), and SS28: Banking Services in Islamic Banks (SBP, 2020a), and in the same year SBP also adapted the SS49: Unilateral and Bilateral Promise (SBP, 2020b). In the year 2022, SBP further adapted four standards, SS10: Salam and Parallel Salam, SS11: Istisna'a and Parallel Istisna'a. SS25: Combination of Contracts, and SS50: Irrigation Partnership (SBP, 2022a).

As a whole, SBP has adapted twenty AAOIFI Shariah standards since 2010 vide seven notifications (SBP, 2010a, 2013a, 2013c, 2019, 2020a, 2020b, 2022a). SBP has made several types of clarifications and amendments in the clauses of the adapted Shariah standards. These changes can be classified into three groups, first SBP has just given the clarification, second extended the clauses of AAOIFI, and third made certain amendments which in some places contradict with the AAOIFI.

There are 833 clauses in the adapted twenty AAOIFI Shariah standards, and SBP has made clarifications / amendments in the 261 clauses corresponding to 31.33% changes (Table 01). There are five AAOIFI Shariah standards, given at Sr. 1-5 in Table 01, that have been revised by the AAOIFI later, while the SBP has not taken into the consideration the revised standards relayed on old versions of the standards. These standards are hence taken from the old book of the AAOIFI Shariah standards (AAOIFI, 2010) for the purpose of comparison.

The SBP has made clarifications / amendments in 47 clauses out of 49 of the AAOIFI SS: 11 Istisna'a and Parallel Istisna'a, comprising the change percentage of 95.92%. Then, the most clarifications / amendments are in the SS 25: clarifications / amendments that is 38 out of 42, 98.48% changes. Subsequently, 81.08%, 65% and 62.50% changes are made in the SS 10: Salam and Parallel Salam, SS

49: Unilateral and Bilateral Promise, and SS: 19 Loan (Qard), respectively. Conversely, SBP has adapted the SS: 13 Mudaraba as it without any change. SBP has made changes in one clause of the SS: 3 Default in Payment by a Debtor, and changes in three and four clauses of SS: 38 Online Financial Dealings and SS: 9 Ijarah & Ijarah Muntahia Bittamleek respectively.

Table 2.1: List of the Standards Adapted by SBP

Sr.	AAOIFI Shariah Standard	Issued by AAOIFI	Revised by AAOIFI (If any)	Adapted by SBP		Clauses in AAOIFI Standard	Clauses amended/clarified by SBP	Percent -age
1.	SS 3: Default in Payment by a Debtor	May, 2000	Jun, 2014	Jan, 2010	(SBP, 2010a)	17	1	5.88%
2.	SS 8: Murabaha to the Purchase Ordered	May, 2000	Nov, 2014	Jan, 2010	(SBP, 2010a)	62	6	9.68%
3.	SS 9: Ijarah & Ijarah Muntahia Bittamleek	May, 2000	Nov, 2014	Jan, 2010	(SBP, 2010a)	57	4	7.02%
4.	SS 13: Mudaraba	May, 2002	Jun, 2015	Jan, 2010	(SBP, 2010a)	41	0	0.00%
5.	SS 12: Sharika (Musharaka) and Modern Corporations	May, 2002	Jun, 2015	Apr, 2013	(SBP, 2013a)	98	12	12.24%
6.	SS 17: Investment Sukuk	May, 2003	--	Jul, 2013	(SBP, 2013c)	71	15	21.13%
7.	SS 2: Debit Card, Charge Card and Credit Card	May, 2000	--	Mar, 2019	(SBP, 2019)	33	4	12.12%
8.	SS 5: Guarantees	May, 2001	Jun, 2014	Mar, 2019	(SBP, 2019)	41	5	12.20%
9.	SS 14: Documentary Credit	May, 2003	Jun, 2015	Mar, 2019	(SBP, 2019)	37	8	21.62%
10.	SS 18: Possession (Qabd)	May, 2004	--	Mar, 2019	(SBP, 2019)	19	6	31.58%
11.	SS 24: Syndicated Financing	May, 2005	--	Mar, 2019	(SBP, 2019)	22	9	40.91%
12.	SS 38: Online Financial Dealings	Mar, 2009	--	Mar, 2019	(SBP, 2019)	37	3	8.11%
13.	SS 19: Loan (Qard)	May, 2004	--	Jan, 2020	(SBP, 2020a)	24	15	62.50%
14.	SS 23: Agency and the Act of an Uncommissioned Agent (Fodooli)	Apr, 2005	May, 2005	Jan, 2020	(SBP, 2020a)	64	30	46.88%
15.	SS 28: Banking Services in Islamic Banks	Jun, 2006	Jul, 2006	Jan, 2020	(SBP, 2020a)	20	6	30.00%
16.	SS 49: Unilateral and Bilateral Promise	Jan, 2013	--	Sep, 2020	(SBP, 2020b)	20	13	65.00%
17.	SS 10: Salam and Parallel Salam	May, 2001	Mar,2012	Jul, 2022	(SBP, 2022a)	37	30	81.08%
18.	SS 11: Istisna'a and Parallel Istisna'a	May, 2001	Mar,2012	Jul, 2022	(SBP, 2022a)	49	47	95.92%

19.	SS 25: Combination of Contracts	May, 2005	--	Jul, 2022	(SBP, 2022a)	42	38	90.48%
20.	SS 50: Irrigation Partnership (Musaqat)	Jan, 2013	--	Jul, 2022	(SBP, 2022a)	42	9	21.43%
Total						833	261	31.33%

Similarly, SECP has adapted a total of seven Shariah standards during 2016 and 2017 (SECP, 2016, 2017); the Table 02 provides the list of these standards. At its first stage, In January 2016, SECP adapted four Shariah standards including SS 3: Default in Payment by a Debtor, SS 8: Murabaha to the Purchase Orderer, SS 9: Ijarah and Ijarah Muntahia Bittamleek and SS 13: Mudaraba (SECP, 2016). The SECP adapted the old versions of these standards (AAOIFI, 2010) similar to SBP, while the same were revised by the AAOIFI in June, 2014 (AAOIFI, 2023). Furthermore, when the SBP had adapted these standards in 2010 (SBP, 2010a), the old versions of these standards were prevailing (AAOIFI, 2010), while SECP had adapted these standards in January 2016, and at that time the revised versions of these AAOIFI Shariah standards were prevailing (AAOIFI, 2023).

The SECP made similar changes to SBP in the AAOIFI SS 3: Default in Payment by a Debtor, SS 8: Murabaha to the Purchase Orderer, and SS 9: Ijarah & Ijarah Muntahia Bittamleek. SECP has made clarifications in one clause of SS 13: Mudaraba, while SBP has adapted this standard without any change or clarification.

In addition to these changes, the SECP has adapted three standards in 2017 (SECP, 2017) including SS 17: Investment Sukuk, SS 18: Possession (Qabd), and SS 23: Agency and the Act of an Uncommissioned Agent (Fodooli) without any clarifications or amendments to any clause of these standards, while the SBP has made clarifications / amendments in these standards (Table 01).

Table 2.2: List of the Standards Adapted by SECP

Sr.	AAOIFI Shariah Standard	Issued by AAOIFI	Revised by AAOIFI on (If any)	Adapted by SECP		Clauses in AAOIFI Standard	Clauses amended/ clarified by SBP	Percentage
1	SS 3: Default in Payment by a Debtor	May, 2000	Jun, 2014	Jan, 2016	(SECP, 2016)	17	1	5.88%
2	SS 8: Murabaha to the Purchase Orderer	May, 2000	Nov, 2014	Jan, 2016	(SECP, 2016)	62	6	9.68%
3	SS 9: Ijarah & Ijarah Muntahia Bittamleek	May, 2000	Nov, 2014	Jan, 2016	(SECP, 2016)	57	4	7.02%
4	SS 13: Mudaraba	May, 2002	Jun, 2015	Jan, 2016	(SECP, 2016)	41	1	2.44%
5	SS 17: Investment Sukuk	May, 2003	--	Nov, 2017	(SECP, 2017)	71	0	0.00%
6	SS 18: Possession (Qabd)	May, 2004	--	Nov, 2017	(SECP, 2017)	19	0	0.00%
7	SS 23: Agency and the Act of an Uncommissioned Agent (Fodooli)	Apr, 2005	May, 2005	Nov, 2017	(SECP, 2017)	64	0	0.00%

3. Separate Shariah Standards of SBP/SECP

Prior to start the adaptation of AAOIFI Shariah standards, in 2008, the SBP issued 08 detailed standards first time including Murabaha, Musawamah, Ijarah (leasing), Salam, Musharaka, Mudaraba, Istisna and Diminishing Musharaka (for Shrikatul-Milk), and definitions related to 05 contracts that are Qard, Wakalah, Assignment of Debt and Tawarruq. Before these standards and definitions of certain contracts, general guidelines on permissible modes and model agreements for Islamic modes of finance were prevailing (SBP, 1984, 2004, 2005).

These standards attract the corresponding AAOIFI Shariah standards such as SS 8: Murabaha, SS 9: Ijarah and Ijarah Muntahia Bittamleek, SS 10: Salam and Parallel Salam, SS 12: Sharikah (Musharakah) and Modern Corporations, SS 13: Mudarabah; SS 11: Istisnaa and Parallel Istisnaa; SS 19: Loan (Qard), SS 23: Agency and the Act of an Uncommissioned Agent (Fodooli), SS 7: Hawalah, SS 5: Guarantees, and SS 30: Monetization (Tawarruq). Later on, SBP adapted all these standards with clarification and amendments (SBP, 2010a, 2013a, 2019, 2020a, 2022a) except the SS 7: Hawalah and SS 30: Monetization (Tawarruq).

In 2010 and 2017, SBP issued separate standards related to conversion, one of the standards discusses the conversion of a conventional banking branch into an Islamic banking branch (SBP, 2010b), and another provides discussion on conversion of a conventional bank into an Islamic bank (SBP, 2017). Both these standards attract the AAOIFI SS 6: Conversion of a Conventional Bank to an Islamic Bank.

Furthermore, in 2012, SBP also issued separate standards on profit and loss distribution and pool management (SBP, 2012c) and later on also provided certain clarifications on it as well (SBP, 2013d). This SBP standard attracts the AAOIFI SS 40: Distribution of Profit in Mudarabah-Based Investment Accounts, and SS 47: Rules for Calculating Profit in Financial Transactions.

Despite the fact that SBP has adapted the AAOIFI SS 12: Sharika (Musharaka) and Modern Corporations (SBP, 2013a), it has given a separate standard on Sharikat ul Milk and Diminishing Musharakah (SBP, 2013b).

While, SECP has issued the Takaful rules in 2005 being the regulator of insurance companies in Pakistan (SECP, 2005), and later on has revised these rules (SECP, 2012) which attract the AAOIFI SS 26: Islamic Insurance and SS 41: Islamic Reinsurance.

There are four separate Shariah standards that have been issued by the SBP / SECP including conversion of conventional bank/branch, profit and loss distribution, Diminishing Musharakah under Sharikat ul Milk, and Islamic insurance (SBP, 2010b, 2012c, 2013d, 2013b, 2017; SECP, 2012). Moreover, there are two definitions that have also been provided by the SBP related to the contracts of Hawalah and Tawarruq (SBP, 2008). These standards and definitions of contracts attract the corresponding AAOIFI Shariah standards (Table 3.1).

Table 3.1: Separate Shariah Standards Issued by SBP / SECP

Sr.	Reference	Regulator	SBP / SECP Standards	Attract AAOIFI Standards
1.	(SBP, 2008)	SBP	Instructions and Guidelines for Shariah Compliance (SBP Shariah Standards; 1. Murabaha, 2. Musawamah, 3. Ijara, 4. Salam, 5. Musharka, 6. Mudaraba, 7. Istisna, 8. Diminishing Musharka, 9. Qard, 10. Wakalah, 11. Assignment of Debt, 12. Kafalah, 13. Tawarruq)	SS 8: Murabaha, SS 9: Ijarah and Ijarah Muntahia Bittamleek, SS 10: Salam and Parallel Salam, SS 12: Sharikah (Musharakah) and Modern Corporations, SS 13: Mudarabah, SS 11: Istisnaa and Parallel Istisnaa, SS 19: Loan (Qard), SS 23: Agency and the Act of an Uncommissioned Agent, SS 5: Guarantees, SS 7: Hawalah*, and SS 30: Monetization (Tawarruq)*
2.	(SBP, 2010b)	SBP	Criteria for Conversion of Conventional Banking Branches into Islamic Banking Branches	SS 6: Conversion of a Conventional Bank to an Islamic Bank
3.	(SBP, 2017)	SBP	Guidelines for Conversion of a Conventional Bank into an Islamic Bank	
4.	(SBP, 2012c)	SBP	Profit & Loss Distribution and Pool Management	SS 40: Distribution of Profit in Mudarabah-Based Investment bah-Based Investment Accounts, and SS 47: Rules for Calculating Profit in Financial Transactions
5.	(SBP, 2013d)	SBP	Clarifications on Profit & Loss Distribution and Pool Management	
6.	(SBP, 2013b)	SBP	SBP's Shariah Standard on Sharikat ul Milk and Diminishing Musharakah	SS 12: Sharika (Musharaka) and Modern Corporations
7.	(SECP, 2005)	SECP	Takaful Rules	SS 26: Islamic Insurance
8.	(SECP, 2012)	SECP	Revised Takaful Rules	SS 41: Islamic Reinsurance

* except SS 7: Hawalah and SS 30: Monetization (Tawarruq), SBP has adapted with changes the rest of the Shariah standards later on (SBP, 2010a, 2013a, 2019, 2020a, 2022a).

4. Rulings on Different Matters by SBP

There are some general rulings that have been also given by SBP on different matters of Islamic banking from time to time (Table 04). As a whole eight circulars have been issued by SBP on different stages to strengthen Shariah compliance and harmonize Islamic banking practices in Pakistan related to five different matters including collection of utility bills after due date (SBP, 2011), invoicing of Murabaha (SBP, 2012a), treatment of credit Murabaha (SBP, 2012b), free-of-cost priority banking (SBP, 2014a), Shariah compliant solutions for foreign bill discounting (SBP, 2014b, 2014c, 2015), and exemption from KIBOR benchmarking (SBP, 2016).

SBP issued a circular to Islamic banking regarding the collection of utility bills after due dates in line with the Supreme Court's suo-moto order No. 4 of 2006 (SBP, 2011). This general ruling of SBP attracts the AAOFI Sharia standards SS 19: Loan (Qard) and SS 59: Sale of Debt.

In 2012 SBP issued another circular on the “Invoice of Murabaha Transactions” that Islamic banks are required to obtain invoices in the name of the bank for Murabaha transactions. However, due to practical difficulties, the instructions have been revised to include suppliers' invoices in the name of the client. In cases where obtaining an invoice is not possible, the client's invoice may be acceptable subject to the approval of the Shariah Advisor / Board. In cases where obtaining a formal invoice is not possible, documents such as truck receipts, delivery notes, and inspection reports may be accepted in lieu (SBP, 2012a). This general ruling of SBP attracts the AAOFI Shariah standard; SS 8: Murabaha to the Purchase Ordered.

Likewise, in the same year in 2012, SBP issued another general circular about “Treatment of Credit Murabaha”. Credit Murabaha transactions involve Islamic banking purchasing goods on a supplier's credit and selling them on credit, as suppliers allow credit for a certain period. Currently, the rules only guide the normal Murabaha transactions, and the industry lacks standardization on credit Murabaha. SBP issued the instruction via this circular to standardize the recording and reporting of credit Murabaha transactions. These include recording payments to suppliers and receivables from customers against Murabaha, implementing capital adequacy requirements, and recognizing profits (SBP, 2012b). This general ruling of SBP also attracts the AAOFI Shariah Standard, SS 8: Murabaha to the Purchase Ordered.

Furthermore, SBP issued a circular in 2014 on the matter “Free-of-cost Priority Banking Services”. Islamic banks must provide free-of-cost priority banking services to both current and savings account holders ensuring Shariah practices are complied with. Promotional materials must explicitly state that these services are offered at the bank's discretion and Islamic banks may require a minimum balance for access (SBP, 2014a). This general ruling of SBP attracts the AAOFI Shariah Standard; SS 28: Banking Services in Islamic Banks.

Correspondingly in 2014, SBP again issued a general explanation in relation to “Shariah Compliant Solutions for Foreign Bill Discounting”. Salam of foreign currency is not preferred, but Islamic banks can execute it at the weighted average rate of the previous transactions. If the Qard-e-Hasanah cum Wakalah model is used for bill discounting, agency fees should be based on market fees and not tied to bill amount or tenor (SBP, 2014b).

In 2014 and 2015, SBP revised some general rulings based on the previously issued circular (SBP, 2014b) on “Shariah Compliant Solutions for Foreign Bill Discounting”, Salam of foreign currency is

not a preferred transaction, but some Islamic banks may execute it at the market rate of the day. The market rate refers to the exchange rate used for ready transactions of at least USD 50,000 or more. The Shariah Advisor of Islamic banks should ensure that the exchange rate applied in Salam transactions is consistent with the exchange rate applied for ready transactions. Moreover, SBP lowered the minimum limit for normal ready transactions from USD 50,000 to USD 25,000 or equivalent in foreign currencies with immediate effect (SBP, 2014c, 2015). All these three general rulings related to Shariah Compliant Solutions for Foreign Bill Discounting (SBP, 2014b, 2014c, 2015) attract the AAOFI Shariah standards including SS 14: Documentary Credits, SS 10: Salam and Parallel Salam, and SS 59: Sale of Debt.

Moreover, in 2016, SBP further issued a ruling on the matter “Exemption from KIBOR as Benchmark rate for Participatory and Wakalah Modes Based Products”. Islamic banks can exempt financing based on participatory (Musharakah and Mudarabah) and Wakalah (Agency) modes from using KIBOR as a benchmark rate. However, Islamic banks must take adequate measures to mitigate equity investment risk in participatory mode products and comply with minimum Shariah requirements for Mudarabah and Musharakah-based products. Islamic banks must submit details of Mudarabah, Musharakah, and Wakalah-based products for delinking with the KIBOR benchmark to the SBP including pricing mechanisms, agreements, Shariah Board approval, and criteria for selecting firms to execute Musharakah or Mudarabah contracts (SBP, 2016). This general ruling of SBP attracts the AAOFI Shariah standard SS 27: Indices, SS 12: Sharikah (Musharakah) and Modern Corporations, SS 13: Mudarabah, SS 46: Al-Wakalah Bi Al-Istithmar (Investment Agency) and SS 45: Protection of Capital and Investments.

Table 4.1: Rulings on Different Matters by SBP

Sr.	Reference	Description	Attract AAOIFI Standards
1.	(SBP, 2011)	Collection of Utility Bills After Due Date by Islamic Banking Institutions	SS 19: Loan (Qard) SS 59: Sale of Debt
2.	(SBP, 2012a)	Invoice of Murabaha Transactions	SS 8: Murabaha to the Purchase Ordered
3.	(SBP, 2012b)	Treatment of Credit Murabaha	
4.	(SBP, 2014a)	Free-of-cost Priority Banking Services	SS 28: Banking Services in Islamic Banks
5.	(SBP, 2014b)	Shariah Compliant Solutions for Foreign Bill Discounting	SS 14: Documentary Credit SS 10: Salam and Parallel Salam SS 59: Sale of Debt
6.	(SBP, 2014c)	Shariah Compliant Solutions for Foreign Bill Discounting	
7.	(SBP, 2015)	Shariah Compliant Solutions for Foreign Bill Discounting	
8.	(SBP, 2016)	Exemption from KIBOR as Benchmark rate for Participatory and Wakalah Modes Based Products	SS 27: Indices SS 12: Sharikah (Musharakah) and Modern Corporations SS 13: Mudarabah SS 46: Al-Wakalah Bi Al-Istithmar (Investment Agency) SS 45: Protection of Capital and Investments

5. Conclusion and Recommendations

Since 2010, SBP has adapted twenty AAOIFI Shariah standards different notifications (SBP, 2010a, 2013a, 2013c, 2019, 2020a, 2020b, 2022a) so far, while SECP has adapted seven AAOIFI Shariah standards (SECP, 2016, 2017). It is recommended as a future area of research to explore the process and institutional arrangements that SBP and SECP undertake to adapt the AAOIFI Shariah standards, and what are the key elements that have been taken into consideration during the adaptation of AAOIFI Shariah standards by these regulators. This area of research is one of the least explored areas, and it will further benefit the regulators of other jurisdictions to adapt similar kinds of practices. Moreover, AAOIFI Shariah standards are also adapted in the other jurisdictions as well, and a comparative study on this area will also be a valuable contribution to the literature.

SBP has issued three separate Shariah standards including conversion of conventional bank/branch, profit and loss distribution, Diminishing Musharakah under Sharikat ul Milk (SBP, 2010b, 2012c, 2013d, 2013b, 2017). In addition to these Shariah standards, SBP has also given the definitions related to the contract of Hawalah and Tawarruq (SBP, 2008); whereas, SECP has given rules / standards related to Islamic insurance / takaful (SECP, 2012). This is also an interesting area of research as to why the SBP has not adapted the AAOIFI Shariah standards while the corresponding standards were available (Table 03) and issued its own separate standards. More specifically, the standard related to Sharikat ul Milk, issued by the SBP, is distinct in nature; the AAOIFI considers the Diminishing Musharkah under the Sharikat ul Aqd; so a comparative study on this will also be interesting.

In addition to separate Shariah standards, SBP has also issued Shariah rulings related to different matters including collection of utility bills after due date (SBP, 2011), invoicing of Murabaha (SBP, 2012a), treatment of credit Murabaha (SBP, 2012b), free-of-cost priority banking (SBP, 2014a), Shariah compliant solutions for foreign bill discounting (SBP, 2014b, 2014c, 2015), and exemption from KIBOR benchmarking (SBP, 2016). These rulings also attract different AAOIFI Shariah standards (Table 04). So, a comparative study on these is required to further explore the similarities and differences between SBP and AAOIFI.

SBP and SECP have adapted the old versions of some AAOIFI Shariah standards (Sr. 1-5 Table 01, Sr. 1-4 Table 02). However, the AAOIFI has clearly mentioned:

“AAOIFI regularly updates its standards on the website. Hence, we would advise referring to this official website for all AAOIFI Standards. AAOIFI does not take responsibility of any other versions of the standard copy available in the industry.”

The SBP/SECP is recommended to revisit the adapted Shariah standards with reference to the revised versions of AAOIFI. Moreover, a comparative study on the old and revised versions of AAOIFI Shariah standard is another area which has not yet been much explored and is also recommended for further future research.

The SBP and SECP have made immense changes in the adapted AAOIFI Shariah standards such that in the case of the SBP, it has made changes in 261 clauses of the AAOIFI out of 833. So, this is also a question of concern that to further explore the nature of these changes, either these changes have violated the spirit of AAOIFI Shariah standards or the changes are minor in nature and are acceptable under the broader essence of AAOIFI Shariah standards. The nature of changes made by SBP and SECP in Shariah standards may be investigated further in future studies.

Moreover, it is evident that there is a lack of consensus among both regulators as well such that SBP adapted some AAOIFI Shariah standards with certain changes while the SECP adapted the same without any clarifications or amendments (Table 01, Table 02). This might be due to the different Shariah governance frameworks followed by both regulators (SBP, 2018; SECP, 2018). This area also requires further consideration to compare the Shariah governance mechanisms followed in the adaptation of AAOIFI Shariah standards by both regulators. In addition to this, it is also a question of future interest if the same Shariah standard has two different versions prevailing in regulations for banking and non-banking institutions. This would be pertinent as well as interesting to explore the potential hardships these institutions are facing due to the conflicting attitude.

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