

ACCOUNTING STANDARDS FOR ISLAMIC BANKS

PAPERS AND REPORTS OF COMMITTEES
FOR ACCOUNTING STANDARDS FOR
ISLAMIC BANKS

VOLUME 4

ISLAMIC DEVELOPMENT BANK (IDB)
JEDDAH

ACCOUNTING STANDARDS FOR ISLAMIC BANKS

VOLUME FOUR

PAPERS/REPORTS PREPARED BY PREPARATORY COMMITTEE FOR ACCOUNTING
STANDARDS FOR ISLAMIC BANKS, BETWEEN MARCH 1989 AND THE HEADS OF
ISLAMIC BANKS MEETING HELD IN JEDDAH ON 29 OCTOBER 1989

ISLAMIC DEVELOPMENT BANK (IDB)

DHU AL QADA 1410

JUNE 1990

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IN THE NAME OF

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FOREWORD

The remarkable growth of Islamic Banks and other financial institutions operating in conformity with Shariah in the last decade has led to the recognition that the development of financial accounting standards reflecting the unique features of Islamic Banking is imperative.

To sustain the momentum of their rapid expansion Islamic Banks need to maintain a high degree of credibility with those who rely on financial statements in making decisions affecting their relationships with those banks. Credibility requires that the financial statements of all Islamic Banks should contain information which is relevant, reliable and comparable and is perceived as such by those who use that information in making decisions. Therefore, the need is for accounting standards for Islamic Banks, their clients, auditors and regulatory agencies to assure the relevance, reliability and comparability of financial information.

The need for accounting standards for Islamic Banks was pointed out to the IDB Management by the IDB's auditor Br. Abdul Aziz Al-Rashed. The IDB referred this matter to the Islamic Banks' meeting on the occasion of the IDB's Board of Governors annual meeting in Istanbul in 1407H. With the encouragement and active involvement of the Islamic Banks, coordinated by the IDB, work in this important area has been ongoing for over three years.

Although the task has only begun, the various committees composed of Islamic bankers, practicing accountants, Shariah scholars, academicians and representatives of other relevant institutions have generated a considerable amount of research on the subject. In view of its topicality, relevance and growing interest from researchers, academicians, auditors, Islamic Banks and others it was considered desirable to publish the main papers and reports for wider usage.

Many institutions and individuals, too numerous to mention by name, have contributed generously to this effort. However, the IDB would like to take this opportunity to once again express its thanks to the members of the Steering Committee, Follow-Up Committee and Preparatory Committee for Accounting Standards for Islamic Banks who have given so generously of their time and effort. The work of this various committees would have been incomplete without the significant contributions of Br. Abdul Aziz Al-Rashed, Br. Abdul Gadir Banaga and Br. Samir T. Badawi who have been the driving force behind all the committees on Accounting Standards for Islamic Banks.

May Allah Almighty bestow success on us.

Dr. Ahmad Mohamed Ali
President
Islamic Development Bank

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Members of the Steering Committee:

- o Abdul Aziz Rashed Al-Rashed, Chairman
- o Dr. Siddiq Al-Darir Member
- o Dr. Abdul Halim Ismail "
- o Dr. Riffaat A. Abdul Karim "
- o Dr. Abdullah M. Al-Faisal "
- o Irtiza Hussain "
- o Abdelgadir Banaga "
- o Samir T. Badawi "
- o Dr. Khalid M. Boodai "
- o Dr. Abdul Monem Mahmood "
- o Dr. Sami Hamoud "
- o Shamshad Nabi "
- o Farooq Azam Coordinator

Consultants:

- o Dr. Sabry Heakal

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Members of the Follow-Up Committee:

o Abdul Aziz Rashed Al-Rashed	Chairman
o Abdel Gadir Banaga	Member
o Samir T. Badawi	"
o Dr. Khalid M. Boodaf	"
o Shamshad Nabi	"
o Dr. Ausaf Ahmed	"
o Irtiza Hussain	"
o Dr. Siddiq Al Darir	"
o Dr. Sami Hamoud	"
o Dr. Rifaat Abdul Karim	"
o Musa Abdul Aziz Shihadeh	"
o Ismail Hassan Mohammed	"
o Mohamed Towfiq	"
o Moncel Cheikh Rouhou	"
o Abdel Hamid Abu Musa	"
o Dr. Abdul Halim Ismail	"
o Dr. Ahmed Kamal A Al Magd	"
o Kazim Raza Awan	Coordinator

Consultants:

- o Dr. Sabry Heakal
- o Dr. Abdullah Bin Mohamed Al-Faisal
- o Dr. Abdul Rehman Ibrahim Al-Humaid

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Members of the Preparatory Committee:

o Ousmane Seck, Vice President-IDB	Chairman
o Abdul Aziz Rashed Al-Rashed	Member
o Samir Badawi	"
o Abdul Gadir Banaga	"
o Faisal Abdul Aziz Al Zamil	"
o Dr. Siddiq Al Darir	"
o Dr. Abdul Halim Ismail	"
o Irtiza Hussain	"
o Abdel Hamed Abu Musa	"
o Shamshad Nabi	"
o Dr. Hassan Mirghani	"
o Kazim Raza Awan	Coordinator

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Members of the Executive Committee:

o Ousmane Seck	Chairman
o Abdul Aziz Al-Rashed	Member
o Samir T. Badawi	"
o Abdulgadir Banaga	"
o Abdul Hamid Abu Musa	"
o Shamshad Nabi	"
o Kazim Raza Awan	Coordinator

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ACCOUNTING STANDARDS FOR ISLAMIC BANKS

**EXECUTIVE SUMMARY OF REPORT ON
"ESTABLISHING FINANCIAL ACCOUNTING STANDARDS
FOR ISLAMIC BANKS"**

Prepared by

**The Preparatory Committee for Accounting Standards
for Islamic Banks (PCASIB)**

JEDDAH: OCTOBER 1989

IN THE NAME OF

ALLAH

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1. Historical Background:

1.1 At the meeting with the Islamic Banks held in March 1987 on the occasion of the 11th Annual Meeting of the Islamic Development Bank (IDB) in Istanbul, a paper was presented by IDB on the need for setting up accounting standards for Islamic Banks and it was suggested that a Workshop on the subject be held to examine the subject and make recommendations to the Islamic Banks.

1.2 The Workshop on accounting standards for Islamic Banks was held on 7-8 September 1987 at the IDB Headquarters in Jeddah. The participants to the Workshop represented Bankers from Islamic Banks, Accountants, Auditors, representatives from Government regulatory agencies and experts on Shariah. The participants agreed that there was a need for accounting standards for Islamic Banks within the Shariah framework and formed a Steering Committee, whose members were from various disciplines.

1.3 The Steering Committee was assigned the responsibility of suggesting a framework for promulgating accounting standards for Islamic Banks including the accounting standards body. Their report was presented to the meeting with Islamic Banks on the occasion of the 12 Annual Meeting of IDB on 18 Rajab, 1408H (6 March, 1988) in Tunis.

1.4 The participants at the meeting with Islamic Banks on the occasion of the 12th Annual Meeting of IDB emphasized that the standards are badly needed. And although this report was well received, some participants raised points in the report which needed further examination. The Islamic Banks elected a new Follow-Up Committee of 18 members including several senior officials from Islamic Banks to study the subject further.

1.5 The Follow-Up Committee (FC) was given the following tasks:

i. To prepare a report comprising alternatives and options for setting Accounting Standards for Islamic Banks taking into consideration the observations and comments made by the Islamic Banks representatives in the Tunis meeting; and to submit a report to the Islamic Banks meeting in Rabat on the occasion of the 13th Annual Meeting of IDB on 23 February 1989.

ii. To convene a meeting in IDB Headquarters in Jeddah to be attended by IBs' representatives before the Rabat meeting to discuss the report and to identify one particular alternative agreeable to all.

1.6 i. A report was duly prepared incorporating the researches undertaken, results of questionnaires and field visits and alternatives for promulgating standards.

ii. This report was discussed at a seminar held at IDB Headquarters in Jeddah on 30 November 1988. About 40 participants, including a number of senior representatives from 15 Islamic Banks attended.

1.7 A comprehensive report was prepared including the results of the actions mentioned in item (1.6). This report was discussed by the Islamic Banks in the IDB's meeting with Islamic Banks held on the occasion of the 13 Annual Meeting of IDB on 17 Rajab 1409H (23 March 1989) in Rabat

1.8 The representatives of the Islamic Banks fully endorsed and approved the entire recommendations of the follow-up committee in Rabat. The Islamic Banks endorsed:

a. The creation of a Supervisory Committee which will be responsible for promotion and development of accounting standards for Islamic Banks in accordance with the statute and by laws of the Board. This Committee will consist of 17 members as follows:

- 6 Islamic Bankers;
- 5 Accountants in Public Practice;
- 1 Faqhi;
- 1 Academician;
- 2 Users of financial statements (Depositors, Investors, etc); and
- 2 Representatives of Regulatory Agencies (especially Central Banks).

b. Accounting Standards Setting Board consisting of 21 members which is to be assisted by a full time staff:

- 6 Islamic Bankers;
- 6 Accountants in practice;
- 3 Fuqaha;

- 2 Academicians;
- 2 Users of financial statements; and
- 2 Representatives of Regulatory Agencies.

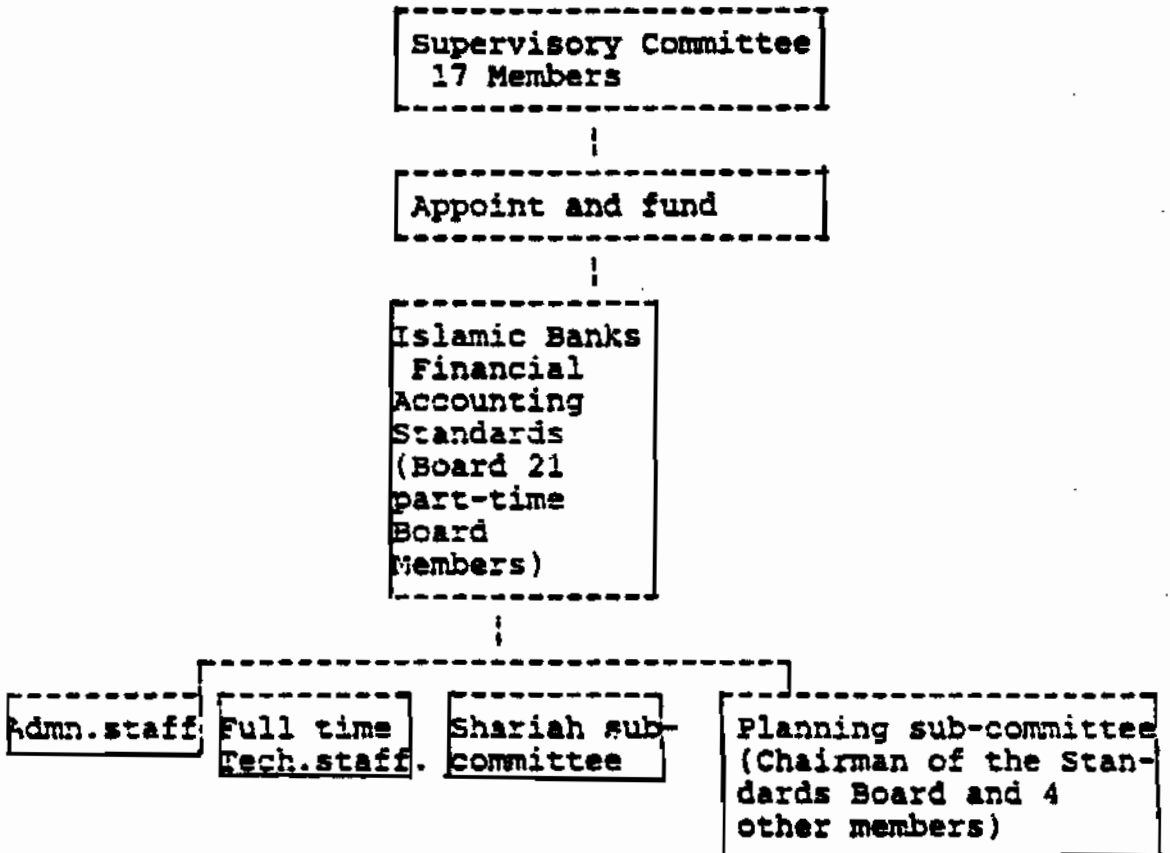
c. A Preparatory Committee consisting of 11 members with the following terms of reference:

- i. Nominate the Supervisory Committee members.
- ii. Prepare statute and by-laws for the Supervisory Committee and the Financial Accounting Standards Board.
- iii. Prepare 3-year budget and allocate sources of funds.
- iv. Presents its recommendations to a meeting of Heads of Islamic Banks within six months to review and approve.

Under the Chairmanship of Br. Ousmane Seck, Vice-President, IDB, the Preparatory Committee has fulfilled its charges, the culmination of which in this report.

2. Recommendations:

2.1 The proposed structure for the standards setting body is summarized in the following chart:



2.2 Representatives of Islamic Banks meeting in Jeddah on 29th October 1989 would select and appoint the first Supervisory Committee.

2.3 Following the formation of the First Supervisory Committee, vacancies would be filled and appointments would be made by a two-third majority vote of the remaining members of the Supervisory Committee.

- 2.4 The corner stone of the proposed recommendation is the establishment of the Supervisory Committee separate from any existing organization.
- 2.5 The Supervisory Committee would consist of six Islamic bankers, five accountants in public practice, one Faqhi, one academician, two representatives of regulatory agencies and two users of financial statements of Islamic Banks. Its main functions would be to appoint the members of the Islamic Banks' Financial Accounting Standards Board and to raise and allocate the funds for its operations.
- 2.6 Financial Accounting Standards for Islamic Banks would be established by a twenty one member part-time board assisted by full-time technical staff. The standards board would consist of six Islamic bankers, six accountants in Public Practice, three Fuqaha, two academicians, two users of financial statements of Islamic Banks and two representatives of regulatory agencies. The Standards Board would be headed by a Chairman selected by the Supervisory Committee from among the twenty one member of the Standards Board. The Standards Board would have two standing sub-committees as follows:
- (a) a Planning Sub-Committee to assist the Chairman on establishing priorities and other operational issues; and
 - (b) a Shariah Sub-Committee to advise the Board on compliance of proposed standards with Shariah requirements.
- 2.7 Funding of the operations of the Standards Board would be provided from a variety of sources. Board operations would be subject to annual review of the Supervisory Committee. The Supervisory Committee would publish Annual Audited Financial Statements for itself and the Standards Board.

- 2.8 The Standards Board would follow a due process that would require exposure of any proposed standard for comments. Any person would have the right to request a review or re-examination of any effective standard established by the Standards Board. Meetings of the Standard Board would be open for public observations.
- 2.9 The Preparatory Committee has short-listed names for the first Supervisory Committee and the first Financial Accounting Standards Board, these will be available in the Heads of Islamic Banks Meeting on October 29, 1989.

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3. Proposed Budget:3.1 BUDGET FOR THE FIRST YEAR WITH PROJECTIONS
FOR YEARS TWO AND THREE

	<u>U.S. DOLLARS</u>		
	<u>1st year</u>	<u>2nd year</u>	<u>3rd year</u>
<u>SUPERVISORY COMMITTEE</u>			
Cost of attending meeting (once a year)			
- Islamic Banks will meet their own expenses.	-	-	-
- 11 x 2500 including air fares and hotel expenses.	27,500	28,900	30,300
<u>STANDARD SETTING BODY</u>			
Cost of attending meetings			
- Islamic Banks will meet their own expenses.	-	-	-
- 15 x 2500 x 3 (3 meetings per year)	112,500	118,000	124,000
<u>FULL TIME STAFF</u>			
a. <u>SALARIES:</u>			
Director	75,000	75,000	75,000
Professional staff (1 first year, 2 second year and third year)	50,000	102,500	107,600
A Secretary.	25,000	26,250	27,540
An Admn. Assistant.	15,000	15,750	16,540
	-----	-----	-----
	165,000	219,500	226,680
b. <u>OTHER RELATED COSTS:</u>			
Housing	28,000	40,000	43,470
Transportation allow.	7,000	10,000	10,800
Other	12,000	15,000	15,750
	-----	-----	-----
	47,000	65,000	70,020
TOTAL: FULL TIME STAFF COSTS:	212,000	284,500	296,700

	<u>U.S. DOLLARS</u>		
	<u>1st year</u>	<u>2nd year</u>	<u>3rd year</u>
<u>OTHER COSTS:</u>			
Space Rent	20,000	21,000	22,000
Maintenance & Utilities.	15,000	15,700	16,050
Communication & Distribution.	30,000	31,500	33,070
Stationery	6,000	6,300	6,620
Library	4,000	4,200	4,410
Travel and meetings.	18,000	18,900	19,850
	-----	-----	-----
	93,000	97,600	102,000
<u>CONSULTANTS</u>			
	25,000	27,000	29,000
Printings, translations and other misc. costs.	20,000	40,000	42,000
	-----	-----	-----
	490,000	596,000	624,000
<u>CAPITAL EXPENDITURE</u>			
For office furnitures fixtures and fittings, etc.	50,000	-	-

3.2 SOURCE OF FUNDING FOR THE ACCOUNTING STANDARDS
SETTING BODY FOR ISLAMIC BANKS

*Total estimated costs for the first three years aggregate US.1,760,000.

*Possible source of funding are the following:

- Accounting firms.
- IDB.
- Other Islamic Banks.
- Users.
- Sale of Publications.
- Government support.

*While it is envisaged that the Supervisory Committee will tap all the possible sources indicated above and others for arranging funding for the Accounting Standards Setting Body for Islamic Banks in order to start the body on a firm base the IDB and Islamic Banks are requested to underwrite the estimated expenditure of the first three years at the meeting with Islamic Banks.

3.3 Basic assumption for the preparation of the budget for the first year and projection for years two and three for the Accounting Standards setting body.

1. Members of Islamic Banks both in the Supervisory Committee and in the Standards Setting Board will meet their own costs.

2. The Supervisory Committee Members and the Standard Setting Board Members will be used on a part time basis with no remuneration. However, costs incurred for attending meetings (other than for Islamic banks' representatives) will be covered by the Budget.

3. The Standard Setting Board will be supported by a full time staff. The number of staff will be dictated by the amount of work expected to be done during the 3 years plan.

4. Size of technical staff will be as follows:

One Director

*Two Professional Staff

One Secretary

One Administrative Assistant

* It is expected that one out of the two professional staff members will be recruited in the second year.

5. It is assumed that all Accounting Standards will be issued in both Arabic and English languages. Cost of translation and printing are reflected in the above costs.

6. In order to gain credibility it is expected that during the 3 year period 4 Accounting Standards will be published as a minimum.

A:01:

**A C C O U N T I N G S T A N D A R D S
F O R I S L A M I C B A N K S**

**REPORT ON
THE ESTABLISHING OF
FINANCIAL ACCOUNTING STANDARDS FOR ISLAMIC BANKS**

**PREPARED BY
THE PREPARATORY COMMITTEE FOR
ACCOUNTING STANDARDS FOR ISLAMIC BANKS (PCASIB)**

JEDDAH: OCTOBER 1989

IN THE NAME OF

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I. INTRODUCTION:

At the meeting of Islamic Banks held in Rabat on 17 Rajab 1409H (23 February 1989) on the occasion of the 13th Annual Meeting of IDB, a preparatory committee was formed and charged with:

1. Nominating the Supervisory Committee Members.
2. Preparing constitution for the Supervisory Committee and the Financial Accounting Standards Board.
3. Preparing first year budget and estimates for three years, and allocate sources of funds.
4. Presenting its recommendations to a meeting of the Heads of Islamic Banks within six months to review and approve.

This report has been prepared by the Preparatory Committee in fulfilment of these terms of references.

II. HISTORICAL BACKGROUND:

A. INCEPTION OF THE CONCEPT (March 1987).

The spread of multi branch Islamic Banks throughout the world; the diversity of their operations and the great volume of their assets have led to a reconsideration of conventional accounting systems; an assessment of their capability in measuring financial events, and reporting results of operations to interested users such as owners, depositors and others. This trend of thought coincides with the basic concept employed by Islamic Banks in their dealing with owners of funds on the one hand and areas concerned with the employment of those funds on the other. This concept is based on the principles of Shariah and is governed by the Islamic transactional jurisprudence, as contrasted to the concepts which govern the operations of traditional commercial banks which basically depend on western economic thought and locally oriented laws and regulations.

From this perspective it was felt that there is an immediate need for the establishment of accounting standards which would govern the functions of measurement, presentation and general disclosure in Islamic Banks. This need was apparent due to the fact that Islamic bank activities are significantly different from those of commercial banks, and, because the nature of relationship between parties concerned with funding the activities in Islamic Banks are different from those of western commercial banks.

This trend of thought had led the Islamic Development Bank to come up with the initiative of consulting the Islamic banks on the need for the establishment of an arrangement for the promulgation of Accounting Standards for Islamic Banks. The Islamic Development Bank (IDB) presented the subject at the meeting of Islamic Banks held on the occasion of the Annual Meeting of the IDB Board of Governors at Istanbul on the 27th of March 1987.

This initiative was discussed by participants in the meeting who agreed that a workshop should be convened to discuss the subject from all dimensions and to submit a proposal for further development.

B. FIRST WORKSHOP (September 1987).

In line with the resolution made by the meeting of the Islamic Banks at Istanbul held on 27th March 1987, a workshop was convened at the headquarters of the IDB on the 7th and 8th of September 1987 to discuss the subject.

The papers were presented at the workshop, as follows:

- i. The need and rationale for setting up accounting standards for Islamic Banks;
- ii. An approach to establishing Accounting Standards for Islamic Banks.

The workshop decided unanimously that there was an urgent need for Accounting Standards for Islamic Banks and appointed a steering committee. Members of the committee included Public Accountants, Islamic Bankers, academicians, and Shariah experts. The Steering Committee was requested to: (a) investigate the experience of other countries in establishing accounting standards; (b) consider alternative structures for the accounting standards setting process; and (c) recommend a structure for the promulgation of accounting standards for Islamic Banks. The IDB agreed to fund the work of the steering committee.

C. THE STEERING COMMITTEE (Until March 1988):

The first workshop defined the terms of reference for the Steering Committee as follows:

- a. Accounting standards for Islamic Banks should be established by an independent body.
- b. The constituents affected by the promulgated standards

- c. The body established to develop accounting standards must adopt a due process that is fair and is perceived as being fair.
- d. The body must be adequately funded.
- e. The authority of the body must be recognized by those who must comply with its pronouncements.

The Steering Committee proceeded to carry out its charge as follows:

- 1. A consultant was requested to prepare a comparative study on the accounting standards setting process in the United States, England and at the international level. The study was completed and presented to the Steering Committee.
- 2. The steering committee met with the consultant to:
 - a. Review the results of the comparative study; and
 - b. Identify the basic standard setting process issues for which alternative solutions must be identified and considered.
- 3. The consultant prepared a comprehensive list of issues and related alternatives and presented them to representatives of the Steering Committee to obtain their views.
- 4. Views of the Steering Committee on the Standard setting process issues were discussed with representatives of the committee and a tentative agreement was reached on the basic structure.
- 5. The consultant was requested to prepare recommendations for an accounting standards setting body for Islamic Banks based on the tentative agreement on the basic structure.
- 6. Recommendations were prepared by the consultant and submitted to the Steering Committee for review and consideration.
- 7. The Steering Committee met with the consultant to discuss and consider the recommendations. Several modifications were agreed to.
- 8. A final report titled "Establishing Accounting Standards for Islamic Banks" was prepared and sent to Islamic Banks.

9. The Steering Committee presented the final report to representatives of the Islamic Banks meeting held in Tunis on the occasion of the 12th Annual Meeting of the Board of Governors of IDB on the 6th of March 1988.
10. The Steering Committee ceased to exist as it has completed the task assigned to it by the workshop in Jeddah.

D. THE ISLAMIC BANKS' MEETING IN TUNIS (MARCH 1988):

Representatives of the Islamic Banks meeting held in Tunis on the occasion of the 12th Annual Meeting of the Board of Governors of IDB on the 6th of March 1988, were in full agreement about the need for establishing accounting standards for Islamic Banks. However, certain questions were raised regarding the Steering Committee's recommendations. Those questions centered around the need to consider alternative structures for promulgating accounting standards for Islamic Banks. Accordingly, representatives of the Islamic Banks at the Tunis meeting agreed to appoint a follow-up committee with the following charges:

1. To develop its own terms of reference in consultations with the Islamic Banks.
2. To prepare a report suggesting various alternatives and options duly incorporating all the observations and comments made by the representatives at the meeting in Tunis for submission to the Islamic banks.
3. To convene a meeting in Jeddah before the next Annual Meeting of Islamic Banks to discuss the report and to identify one particular option agreeable to all.

It should be noted that about 50% of the Follow-Up Committee members were chiefs or senior executives of Islamic Banks. In addition, several members of the previous Steering Committee were selected to serve on the Follow-Up Committee.

E. THE FOLLOW-UP COMMITTEE (UNTIL 29 NOVEMBER 1988):

In conformity with the recommendations of the Tunis meeting, the committee held several meetings in Jeddah and Riyadh and resolved to commission three experts to assist in the conduct of a study the findings of which would be presented to the Second Workshop on Islamic Bank Accounting Standards. The committee defined the following steps to proceed with this study:

1. Prepare a comprehensive questionnaire to solicit, among other things, the Islamic Banks views on (a) accounting standards, (b) the process of establishing accounting standards and (c) the Steering Committee recommendations.

2. Conduct a limited number of interviews with Islamic Banks to gain an in depth understanding of existing practices and the practical problems associated with establishing accounting standards.
3. Compile and analyse the results of the questionnaire.
4. Compile and analyze the results of the interviews.
5. Prepare a paper summarizing the results of the questionnaire and interviews.
6. Prepare discussion paper setting forth alternative structures for standard setting.
7. Convene a meeting in Jeddah of representative of Islamic Banks to discuss the results of the questionnaire and interviews and solicit their views on the alternatives identified in the discussion paper.
8. Prepare a report on the findings of the studies conducted by the Consultants for presentation at the second workshop of Islamic banks to be convened in Jeddah.

The follow-up committee held several meetings in Riyadh and Jeddah to discuss with the consultants the findings of their studies and the final draft of reports which were presented to the second workshop.

F. SECOND WORKSHOP (NOVEMBER 30, 1988):

A second workshop was held at the IDB headquarters in Jeddah. It was attended by members of the follow-up committee and a large number of representatives from Islamic Banks besides the Committee's commissioned consultants, who presented their report. After discussions and deliberations of the concepts presented, participants in the workshop resolved as follows:

1. Re-emphasise the need for Islamic Bank accounting standards.
2. Emphasise the necessity for a body incharge of establishing such accounting standards and their development.
3. Present specific recommendations to representatives of Islamic Banks at their upcoming meeting in Morocco on all aspects of forming such a body.

G. THE ISLAMIC BANKS' MEETING IN RABAT(23 FEBRUARY 1989):

As decided by the participants of the second workshop of 30 November 1988, the follow-up committee, with the help of its consultants, prepared a comprehensive report which was presented at the Islamic Bank's meeting in Rabat.

The representatives of Islamic Banks fully endorsed and approved the entire recommendations of the follow-up committee. The Islamic Banks endorsed:

- a. The creation of a Supervisory Committee which will be responsible for promotion and development of accounting standards for Islamic Banks in accordance with the statute and by-laws of the Board. This Committee will consist of 17 members as follows:
 - 6 Islamic Bankers
 - 5 Accountants in Public Practice
 - 1 Fuqaha
 - 1 Academician
 - 2 Users of financial statements
(Depositors, investors, etc).
 - 2 Representatives of Regulatory Agencies
(especially central banks)

- b. Accounting Standards setting Board consisting of 21 members which is to be assisted by a full time staff:
 - 6 Islamic Bankers
 - 6 Accountants in practice
 - 3 Fuqaha
 - 2 Academicians
 - 2 Users of financial statements
 - 2 Representatives of Regulatory Agencies.

- c. A Preparatory Committee consisting of 11 members with the following terms of reference:
 - i. Nominate the Supervisory committee members.
 - ii. Prepare statute and by-laws for the Supervisory Committee and the Financial Accounting Standards Board.
 - iii. Prepare 3-year budget and allocate sources of funds.
 - iv. Presents its recommendations to a meeting of Heads of Islamic Banks within six months to review and approve.

d. The meeting also endorsed the following composition of the Preparatory Committee:

1. IDB	IDB Vice President - Chairman
2. Al Baraka*	Mr. Mohammed Towfiq
3. Faiysal Group*	Mr. Nabeel Abdul Ellah Nasief/ Mr. Abdul Hamid Abu Musa
4. Kuwait Finance House	Mr. Faisal Al Zameel
5. Pakistan	Mr. Irtiza Hussain
6. Malaysia	Dr. Abdul Halim Ismail
7. North Africa**	
8. 3 persons from Follow-Up Committee	Mr. Abdul Aziz Al Rashed Mr. Abdul Kader Banaga Mr. Samir Badawi
9. Faqih	Sheikh Siddiq Al Darir

Under the Chairmanship of Mr. Ousmane Seck, Vice-President, IDB, the Preparatory Committee has fulfilled its charges, the culmination of which is this report.

III. RECOMMENDATIONS: ***

A. Supervisory Committee for Financial Accounting Standards for Islamic Banks

It is recommended that a new committee, to be called, the Supervisory Committee for the Islamic Banks' Financial Accounting Standards, be established, separate from all existing Islamic Banks, professional bodies and other organizations. It would be composed of seventeen members, whose principal duty would be to appoint members of a Financial Accounting Standards Board for Islamic Banks (see Recommendation B) and to raise the funds for its operations. Committee Members would be appointed for three-year terms with a possible renewal for a second term. The initial terms would need to be staggered to assure continuity.

Vacancies on the Supervisory Committee would be filled and appointments to it would be made by a two-third majority vote of the remaining committee following the appointment of the First Supervisory Committee. The Supervisory Committee would select their own Chairman. Their action would require a two-third majority of their total number except as stated in 3 below.

* Nominated at a later date. Faiysal Group has nominated alternate members.

** Nomination not received.

*** For more detailed explanation see Section I.IV "Commentary on Recommendations".

The Supervisory Committee would have the three important duties:

1. To appoint the Chairman and the members of the Islamic Banks' Financial Accounting Standards Board.
2. To raise and allocate the funds required to support the operations of the Supervisory Committee and the Financial Accounting Standards Board.
3. To review periodically the basic structure of the standard setting organization, including the size, composition and functions of the Financial Accounting Standards Board. Changes in these arrangements, fundamental in nature, would require an affirmative vote of at least two-thirds of the members of the committee.
4. The Supervisory Committee should not have any day-to-day operating responsibilities and they would serve without remuneration. They would however, be entitled to reimbursement of their expenses incurred in connection with attending the meeting.
5. The Supervisory Committee will consist of 17 members composed of:
 - 6 Islamic Bankers
 - 5 Accountants in Public Practice
 - 1 Faqih
 - 1 Academician
 - 2 Users of Financial Statements
 - 2 Representatives of Regulatory Agencies.

The Preparatory Committee has short-listed names for the first Supervisory Committee and the first Financial Accounting Standards Board, these will be available in the Heads of Islamic Banks' meeting on October 29, 1989.

a. Supervisory Committee:

Category | Names | Nationality | Resume

6 Islamic Bankers:**5 Accountants in Public Practice:**

Category	Names	Nationality	Resume
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1 Faghi:

1 Academician:

2 Users of Financial Statements:

Category	Names	Nationality	Resume
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2 Representatives of regulatory agencies:

B. FINANCIAL ACCOUNTING STANDARDS BOARD FOR ISLAMIC BANKS:

1. It is recommended that a financial accounting standards board be established with twenty one members. Members of the Board would be expected to serve without remuneration. However, non-Islamic Bank representatives would be entitled to reimbursement of their expenses incurred in connection with attending the meetings.

2. The function of the Standards Board would be to establish standards of financial accounting and reporting for Islamic Banks and Islamic financial institutions.

3. The Supervisory Committee of the Islamic banks' Financial Accounting Foundation would appoint members of the Standards Board and would also designate one of them to serve as Chairman at the Supervisory Committee pleasure.

4. Composition of the Board is as follows: six accountants in public paractice; six Islamic Bankers; two academicians; three Fugaha and two users of financial statements (e.g. investors, depositors, etc.) and two representatives of regulatory agencies.

5. The Supervisory Committee would see to it that standard board members other than practicing accountants be well versed in the problems of financial reporting. In addition, subject to availability of candidates with the requisite qualifications, the Supervisory Committee would endeavor to assure that all countries with significant Islamic Banking Institutions are represented on the Standards Board.

6. Members of the Standards Board would be appointed for a term of four years, with a possible renewal for a second term. A member would be removed from serving on the Board before the end of his term only for permanent disability, malfeasance or like causes. Appointments would be staggered so that no more than seven persons would retire in any one year.

7. In order to secure continuity and smooth rotation, initial terms would have to vary, as follows:

Seven appointments for two years.

Seven appointments for three years.

Seven appointments for four years.

8. For the consideration of the Heads of Islamic Banks' meeting, names have been short-listed for nominations to the Financial Accounting Standards Board for Islamic Banks:

Category	Names	Nationality	Resume
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6 Islamic Bankers:

6 Public Accountants:

Category	Names	Nationality	Resume
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3 Eughah:

2 Academicians:

2 Users:

2 Representatives of Regulatory Agencies:

C. A FINANCIAL ACCOUNTING STANDARDS BOARD PLANNING SUB-COMMITTEE

It is recommended that a Planning Sub-Committee headed by the Chairman of the Standards Board and consisting of four other Board members, selected by the Standards Board, be established. The function of the Sub-Committee would be to:

1. Establish priorities for the Standards Board and draw up its agenda;
2. Review and approve the technical staff plan for investigating and developing draft standards on matters on the Standards Board's agenda;
3. Monitor the progress of agenda items; and
4. Authorise the development of Practice Guides (see recommendation J).

Actions of the Planning Sub-Committee would be subject to approval by the Standards Board.

D. SHARIAH SUB-COMMITTEE:

It is recommended that a Shariah Sub-Committee consisting of two Fugaha members of the Standards Board and a member of the Technical staff be established. One of the Fugaha would be designated by the Standards Board as the Chairman of the Sub-Committee. The function of the Sub-Committee would be to review proposed statements of standards and practice guides specifically for their compliance with Shariah. The sub-committee's functions would be advisory to the Standards Board.

E. CHAIRMAN OF THE STANDARD BOARD:

It is recommended that the Standards Board would be headed by a Chairman, who would be appointed by and serve at the pleasure of the Supervisory Committee and presides at the Standards Board and its Planning Sub-Committee Meetings. The Chairman, subject to approval by the Standards Board, would be responsible for establishing operating procedures for the Standards Board, its technical staff, task forces, if any, and other committees and for implementing and directing their broad operating processes. The Chairman assisted by the Planning Sub-Committee would be responsible for:

1. Preparing short and long range operating and project plans for approval by the Standards Board;

2. Preparing the Standards Board annual budget in consultation with the Standards Board for approval by the Supervisory Committee and annual and quarterly reports with respect to the activities of the Standards Board and its progress with respect to its operating and project plans.

F. TECHNICAL STAFF:

It is recommended that the Standards Board be assisted by a full-time technical staff including a director.

The Planning Sub-Committee would be responsible for determining the technical staff requirements. The Standards Board upon recommendations of its Chairman would have authority to hire, retain and contract with staff members and to determine their duties and remuneration, in accordance with foundation policies, as well as to contract with any other persons or organizations with respect to research and other technical services to be performed by consultants or independent contractors. Staff members and other persons and groups retained or appointed by or at the direction of the Standards Board would serve at its pleasure or as otherwise provided in contracts made by or at its direction. It is essential that the Standards Board would be assisted by an adequate number of full-time technical staff members including a director.

The first year budget and three year estimates (see Section-III) are based on the assumption that the full-time technical staff will include the following:

One Director

* Two Professional staff

One Secretary

One Administrative Assistant

 * It is expected that one out of the two professional staff members will be recruited in the second year.

G. PRONOUNCEMENTS:

It is recommended that the Standards Board would issue two types of pronouncements as follows:

1. Statements of Financial Accounting Standards for Islamic Banks;
2. Financial Accounting Practice Guides for Islamic Banks.

H. STATEMENTS OF FINANCIAL ACCOUNTING STANDARDS FOR ISLAMIC BANKS

It is recommended that each Statement of Financial Accounting Standards for Islamic Banks and each exposure draft of a proposed statement, would include:

1. The actual or proposed standards of financial accounting and reporting.
2. The statement's actual or proposed effective date of application and method of transition.
3. Background information, including a brief summary of research undertaken in connection with the development of the statement or proposed statement.
4. The basis for the Board's conclusions, including its reasons (conceptual or otherwise) for accepting certain alternatives and rejecting others, and a summary of the more significant and relevant points of view communicated to the Board in written comments.

I. DUE PROCESS - STATEMENT OF STANDARDS:

It is recommended that the Standards Board would adopt the following due process with respect to Statements of Financial Accounting Standards:

1. Following the addition of the topic on the Standards Board agenda, the technical staff would conduct the necessary research. Research should generally be directed to specific issues associated with the topic and, as such, may be expected to have a problem solving orientation and to provide information about specific questions and the impact of alternative solutions;

2. The technical staff would prepare and submit to the Standards Board a discussion memorandum setting forth the specific issues that need to be considered, alternative solutions and preliminary conclusions;
3. The Standards Board would consider and vote on the technical staff preliminary recommendations. Approval of at least a majority of the Standards Board members would be required for an exposure draft of a proposed statement of standards to be released;
4. A proposed statement of standards would be exposed for a period of 90 days to all interested parties. Interested parties would be encouraged to submit written comments on the exposure draft;
5. The Standards Board would consider written comments received and instruct the technical staff to make any appropriate revisions in the proposed statement of standards;
6. The Standards Board would vote on the revised exposure draft. Approval of at least a majority of the Standards Board members would be required for issuing a Statement of Financial Accounting Standards;
7. A majority of the Standards Board members serving would constitute a quorum. Voting may be conducted at a meeting of the Standards Board or may be by a written ballot of its members; and
8. When a standard is adopted by the requisite majority it would be published without dissents.

J. FINANCIAL ACCOUNTING PRACTICE GUIDES FOR ISLAMIC BANKS:

It is recommended that the Standards Board would be authorized to issue, subject to the due process described in this section, Practice Guides intended to interpret effective standards and to resolve accounting issues not directly addressed in those standards on a timely basis. A practice guide would be issued if the financial accounting and reporting problem can be resolved within the following guidelines:

1. The guidance is not expected to cause a major change in accounting practices for a significant number of Islamic Banks;
2. The administrative cost that may be involved in implementing the guidance is not expected to be significant to most affected Islamic Banks; and
3. The guidance does not conflict with a broad fundamental concept or create a new accounting practice.

Generally, a statement of standards would be more appropriate to provide guidance than a practice guide if any one of those guidelines is not met.

The following due process would be followed for issuing Practice Guides:

1. An accounting or reporting problem that comes to the technical staff attention would be analyzed by the staff to determine whether the problem might be resolved by issuing a practice guide;
2. The Director of Technical Staff would submit to the Planning Sub-Committee a list of proposed Practice Guides;
3. If the Planning Sub-Committee approve the preparation of a practice guide, the technical staff would prepare an exposure draft and release it for exposure to all interested parties, including the Standard Board members, for a period of thirty days; and
4. Written comments would be analyzed and considered by the technical staff and a final draft of the practice guide would be prepared and issued subject to negative clearance by the Standards Board members and affirmative clearance by the Chairman of the Standards Board. A practice guide would not be issued if seven or more board members object to its issuance or if the Chairman of the Board does not authorize its issuance.

K. REVIEW PROCEDURES:

It is recommended that any individual or organization may request in writing that the Standards Board review or re-examine any effective Statement of Financial Accounting Standards or Practice Guide. Each such request should:

1. Identify the pronouncement, or portion of the pronouncement, that is the subject of the request.
2. State in sufficient detail the reason or reasons for the request.
3. Set forth specific proposals for solution with reasoning in support of such proposals.

Copies of each request for review or re-examination should be addressed to the Director of the Technical staff. All such requests should be circulated to members of the Planning Sub-Committee for consideration. In its considerations of such requests, the Planning Sub-Committee should seek to determine whether the information and reasoning submitted in support of the request was adequately

considered and dealt with by the Standards Board and/or the technical staff prior to issuance of the pronouncement in question, and whether events and circumstances coming to the Sub-Committee's attention are such as to warrant review or re-examination by the Standards Board. Where it determines that adequate consideration may not have been given previously to such information or reasoning or that events and circumstances are such as to warrant review or re-examination, the planning sub-committee would add the request to the agenda of the Standards Board together with recommendation as to the type of action that should be taken.

In all cases those submitting requests should receive responses, regardless of whether the request is added to the Standards Board agenda.

The Standards Board at any time may on its own initiative review or re-examine any pronouncement.

L. MEETINGS OF THE STANDARDS BOARD:

It is recommended that all meetings of the Standards Board would be open to public observation. For purposes of this recommendation, a "meeting" means the joint deliberations of at least a majority of the members of the Standards Board where such deliberations are intended or expected by the Chairman to involve matters related to establishing or improving standards of financial accounting and reporting for Islamic Banks. For this purpose, a meeting does not include discussion among Board members that involves the reporting of events or the consideration of administrative matters.

The Chairman of the Standards Board would preside at Board meetings. The Chairman would publicly announce the time, date and place of each Board Meeting, the agenda for the meeting and the extent (if any) to which the meeting is to be closed to public observation and the reason therefor. Such announcements would be made at least three weeks in advance. Significant changes in prior publicly announced information in respect of meetings would be publicly announced if and as practicable. All public announcements contemplated by this recommendation may be made by or at the direction of the Chairman of the Standards Board and would be sufficient if made in the Quarterly Newsletter of the Standards Board (see Recommendation M); provided that the Chairman may adjourn any meeting in whole or in part to reconvene it at another time, date or place without any announcement other than announcement at the meeting.

The Standards Board would maintain minutes of its meetings which would summarize the matters discussed and the votes taken.

M. PUBLIC ANNOUNCEMENTS:

It is recommended that the Chairman of the Standards Board be responsible for making public announcements of the following:

1. The time, date and place of each meeting of the Standards Board.
2. Additions and other changes to the Standards Board agenda of projects.
3. Issuance and availability of exposure drafts of Statements of Standards and Practice Guides and final Statements and Guides.
4. Completion of a significant phase of a project not otherwise publicly announced.
5. Determination by the Board to review or re-examine any effective statement of standards or practice guide.
6. Such developments in respect of the operations and activities of the Standards Board as he deems of importance to the public.

To facilitate public announcements and to maintain a means of communication with the public, it is recommended that the Standards Board would public a Quarterly Newsletter which would be distributed widely to all of its constituents. The Standards Board should endeavor to keep the public aware of its activities.

N. ANNUAL REPORTS:

It is recommended that audited financial statements of the Supervisory Committee and the Accounting Standards Board would be prepared and published. In addition, an annual review of the activities and accomplishments of the Standards Board should be conducted by the Supervisory Committee or a sub-committee constituted for this purpose and the results of that review should be published. The review should be focused on the effectiveness of the Standards Board operating procedures in addressing issues. The Supervisory Committee would appoint an external auditor to examine and report on the financial statements of the Supervisory Committee.

O. FUNDING:

The principal financial responsibility of the Supervisory Committee would be to raise the funds needed to cover the projected expenditures. It is recommended that the Supervisory Committee should endeavour to raise the funds needed from a wide variety of sources including, but not limited to, the following:

1. The Islamic Development Bank: In view of its charter obligation to promote Islamic banking, the Islamic Development Bank will contribute up to the maximum level possible under its Policies and Procedures. The contribution of the Islamic Development Bank may be partially in kind.
2. The Islamic Banks through an annual assessments as a percentage of each banks total assets.
3. Professional accounting organizations.
4. Central banks and other governmental institutions.
5. Charitable foundations.
6. Major shareholders and depositors of Islamic Banks.
7. Chambers of Commerce.
8. Other Financial Institutions.
9. Other sources.

Details of first year budget and three year estimates are given in Section-2.

P. PROPOSED TOPICS FOR THE STANDARDS BOARD AGENDA:

It is recommended that the Standards Board Agenda would include the following topics:

1. Objectives and basic concepts of financial accounting for Islamic banks.
2. Financial statements presentation and disclosure requirements for Islamic banks.
3. Murabaha transactions.
4. Leasing transactions.
5. Investment securities.
6. Deferred payments plans.
7. Al Mudaraba.
8. Foreign currency dealings.
9. Joint ventures.
10. Accounting for deposits.
11. Accounting for profit (Loss) distribution.
12. Foreign Trade Financing.

This list is not intended to be an all inclusive list. Rather, it is intended to reflect topics that should be given priority.

Q. AVAILABILITY OF PRONOUNCEMENTS AND OTHER PUBLICATIONS:

It is recommended that the Standards Board would make available on request, without charge, one copy of exposure drafts of Proposed Statements of Standards and Practice Guides. Additional quantities and all copies of final Statements and Practice Guides would be obtained upon payment of specified prices to be determined by the Planning Sub-Committee. Other publications of the Standards Board (e.g. the Quarterly Newsletter), except for the annual report, would be made available upon payments of specified prices to be determined by the Planning Sub-Committee.

It is recommended that pronouncements and other publications of the Standards Board be published in Arabic and English.

R. COMPLIANCE WITH PROMULGATED PRONOUNCEMENTS:

It is recommended that the Preparatory Committee would present and seek the adoption of a resolution by the Heads of Islamic banks meeting on October 29, 1989 in Jeddah endorsing the proposed standard setting body and recognizing the authority of its pronouncements. It is also recommended that the Supervisory Committee would seek to obtain recognition of the authority of those pronouncements from professional organizations of external auditors, licensing and regulatory authorities in countries with significant Islamic banking institutions. Finally, it is recommended that the Supervisory Committee would submit an annual report to the annual meeting of representatives of Islamic Banks assessing the degree of compliance with the promulgated pronouncements. This meeting may be part of the Islamic banks' meeting with the IDB during its annual Board of Governors meeting in the month of Rajab every year.

IV. COMMENTARY ON RECOMMENDATIONS:**1. THE PROPOSED STRUCTURE:****a. Separate Structure:**

It is implicit in the proposed structure that the Supervisory Committee and Standards Board, while they depend on existing organizations for financial support, have a separate existence of their own.

Interest in promulgated accounting standards is not limited to Islamic bankers. Accounting standards are the guidelines that bankers will use to reflect the affects of transactions, events and circumstances on the financial positions of Islamic Banks and the results of their operations. Yet, interest in the Islamic banks' financial positions and results of operations extends beyond the boundaries of the Islamic banks and includes investors, depositors, auditors, regulatory authorities, and the public at large. As a result, the responsibility for establishing accounting standards for Islamic Banks must not be the domain of one single group of interested parties. It is essential for the standard setting body to be perceived as independent from any one single group of interested parties in order for the standards to gain general acceptance. Accordingly, the standard setting body must have a separate existence of its own.

The comparative study (see Section-5) of the standard setting process in the United States, England and at the international level indicates that, in all of these cases, the standard setting bodies, in spite of some fundamental differences, have separate existence of their own for the same reason cited here. In addition, the experience of the United States, before the creation of the Financial Accounting Standards Board, suggests that when the standard setting process was dominated by the American Institute of Certified Public Accountants, published standards did not

achieve the level of general acceptance by other interested parties necessary to maintain a high degree of credibility in the financial reporting process.

b. Separation of Fund Raising from Standard Setting:

One essential element in the proposed structure is the separation, to the extent practicable, between the sources of funds needed to carry out the operations of the Standards Board and standard setting. The Standards Board must be perceived as independent from those who supply the funds for its operations. The proposed structure assigns the responsibility for fund raising to the Supervisory Committee. In addition, the proposed structure prohibits the Supervisory Committee from having any day to day or technical authority in respect to standard setting. This would allow the maximum degree of separation possible between fund raising and standard setting.

The comparative study indicates that in all cases, either through the creation of a Foundation (in the case of the USA) or by agreement between the founding organizations (England and International Accounting Standards Committee), sources of funds have, to a varying degree, been separate from standard setting. The degree of separation in each case has been, to a large extent, a function of differences in the legal environment.

c. Composition of the Supervisory Committee and Method of Selection: (see also Section-4).

In keeping with the concept that Accounting Standards for Islamic Banks are not the domain of any single group, the proposed composition of the Supervisory Committee is designed to assure that all major interested groups would be represented.

The proposed selection process recognizes that representatives of Islamic Banks represent the most legal group to be given the responsibility of selecting the members of the Supervisory Committee.

d. Functions of the Supervisory Committee.

The proposed functions of the Supervisory Committee are limited essentially to fund raising and selection of the Standards Board members and its Chairman. The recommendations prohibit the Supervisory Committee from having any day-to-day responsibility for standard setting. The Supervisory Committee does not approve or veto the promulgated standards. This is designed to assure an adequate degree of separation between fund raising and standard setting. This is consistent with the functions of the Board of Supervisory Committee of the Financial Accounting Foundation in the United States; the Consultative Committee of Accountancy Bodies in England; and the Council of the International Federation of Accountants in the case of the International Accounting Standards Committee.

e. Character, Size and Composition of the Standards Board:

1. Character of the board (full-time vs. part-time):

The alternative of a full-time board has several advantages including the following:

- a. A full-time board would be and would be seen to be free of any private interests which might conflict with the public interest.
- b. Because its members would serve full-time, the Standards Board would be able to devote undivided attention to its tasks and to move, expeditiously, when necessary to deal with urgent problems.
- c. A full-time board would be better able to supervise and monitor the essential research which should precede much of its work and to see to it that such research is performed expeditiously.

However, a full-time board has several disadvantages when one considers that : (a) Islamic Banks are not limited to one country, and (b) the potential for funding the standard setting process. Significant among those are the following:

- a. A full-time board carries with it a high price tag since board members would need to be fully remunerated. For example, the current annual compensation level for the Financial Accounting Standards Board in the United States is \$250,000 per member and \$300,000 for the Chairman of the Board. This does not include fringe benefits and other overhead costs that is necessary for a full-time board. It is submitted that the funding required to support a full-time board for Islamic Banks would be at a level not currently attainable.
- b. A full-time board for various reasons, not the least of which is cost, would be necessarily limited in number. This would not provide an opportunity for each country with significant Islamic banking institutions to be represented on the Standards Board. There are currently 15 such countries. Representation of all countries with significant Islamic banking institutions on the Standards Board enhances the likelihood of the general acceptance of and compliance with the promulgated standards. Islamic banks are not subject to one regulatory authority which could enforce their compliance with promulgated standards. Further, auditors of Islamic banks are not subject to one Code of Ethics of one licensing authority which could enforce their compliance with promulgated standards. Accordingly, compliance with promulgated standards for Islamic banks is likely to be a function of their quality and the good faith efforts of Islamic bankers and their auditors. Such good faith efforts are likely to be fruitful when a country has the opportunity to be represented on the standards setting board.
- A part-time board has disadvantages related mainly to the continuity of its focus, the timeliness with which it takes action and the objectivity with which it considers differing points of view. However, these

disadvantages can be overcome if the composition of the Board is such that no single interested group would dominate its actions and if it were supported by a strong full-time technical staff. Accordingly, we believe that the proposed part-time board when one considers the other recommendations should be an effective board.

The comparative study indicates that the Accounting Standards Committee in England and the International Accounting Standards Committee are part-time standard setting bodies. However, both standard setting bodies are not supported by full-time technical staff. The proposed Standards Board for Islamic banks, while part-time, would be supported by full-time technical staff. This is essential for more than one reason including:

- a. Islamic banking is a recent development. The search for accounting solutions for Islamic banking transactions will involve significant efforts since relevant accounting practices and conventions have not yet been fully developed or generally accepted; and
- b. experience of developed countries will most likely be irrelevant as a source of guidance in selecting appropriate solutions to accounting issues.

2. Size of the Board:

The main issues with respect to the size of the board have to do with:

- a. Its efficiency (e.g. the larger size the less efficient the board); and
- b. Its adequacy so that significant interested groups and countries affected by its pronouncements would be represented.

Experience with part-time standard setting boards in the United States, England and at the

international levels suggests that a board consisting of upto twenty one members seems to be small enough to be efficient and large enough to provide for a variety of views and backgrounds. Accordingly, a twenty one member board is being recommended for Islamic banks.

3. Composition of the Board:

In keeping with the concept that accounting standards are not the domain of any one single group, it is believed that the Standards Board should have a variety of views and backgrounds. However, different groups need not be represented proportionately as long as no single group would dominate the Board's actions. The recommendations intentionally provide that accountants in public practice and Islamic bankers would be the two groups with most representation on the board (6 members each). We think it essential at this time, in the interest of compliance with the Board's pronouncements by public accountants and Islamic bankers, that its composition should not be such as to endanger its acceptability to these two groups. Under the recommendations, academicians, Fuqaha and users of financial statements of Islamic banks would also be represented by enough members to assure that their points of view would be brought forward during Board deliberations. In selecting Standards Board members, it is recommended that the Supervisory Committee would adopt a mechanism to assure that every country with significant Islamic banking institutions would have the opportunity to be represented on the Standards Board. This is essential to enhance the prospect of the acceptability of the promulgated standards across boundary lines.

It is important to note that members of the Standards Board of each one of the three standard setting bodies covered by the comparative study include preparers and users of financial statements.

2. THE PROPOSED DUE PROCESS AND REVIEW PROCEDURES:

To enhance the prospect of acceptability of the promulgated standards by all interested parties, it is essential that the standard setting process be fair and be perceived as fair. To achieve this goal, the recommended due process assures that no standard or practice guide would be promulgated without being exposed in a proposal form for sufficient period of time. It is also required that written comments on the exposure drafts must be considered. In addition, issued standards must set forth background material, basis for conclusions and a summary of significant alternative views including reasons why some are adopted and others are rejected. Finally, the recommendations would give the right to any entity to request a review or re-examination of a published standard or a practice guide and would set forth certain procedures for handling those requests that would assure their adequate consideration.

We believe that the combination of the recommended due process and review procedures ought to assure the fairness of the standard setting process.

The recommended due process for statements of standards is similar in many respects to that used by the Financial Accounting Standards Board in the United States, the Accounting Standards Committee in England and the International Accounting Standards Committee. It differs, however, with respect to the following:

- a. In the United States, a discussion memorandum setting forth the issues to be addressed by the standards and the alternative views without any conclusion, is usually exposed for comments prior to the preparation of any exposure draft. In addition, public hearings are usually held following the release of a discussion memorandum or an exposure draft. The proposed due process does not require that any work prior to the

preparation of an exposure draft be exposed or that public hearings be held. The Steering Committee felt that those requirements would be impractical to implement in a multi-national set-up.

- b. The standards in England are not issued by the Accounting Standards Committee. Rather, they are issued by each of the member bodies that constitute the Consultative Committee of Accountancy bodies.

3. THE PROPOSED CHARACTER AND SIZE OF THE TECHNICAL STAFF:

The alternative of having the proposed Standards Board be assisted exclusively with part-time project committees was considered and rejected. We believe that the task before the proposed part-time Standards Board would be insurmountable without a full-time technical organization to assure timely and adequate identification of issues and alternatives (see Budget in Section-2 for specific details of proposed size of technical staff). The recommendations, however, does not prohibit the Standards Board from establishing technical committees or task forces to work with the full-time technical staff in identifying issues, alternatives and arriving at recommendations for consideration by the Board.

The size of the technical staff requires consideration of how active the Standards Board should be. We believe that it is essential for the Board to establish its presence immediately and continuously. This can only be accomplished if the Board were to be continuously active in identifying areas that require establishment of standards or other pronouncements. It is submitted that the Board should attempt to produce at least one or two relevant pronouncements every year for the first three years of its existence. This level of proposed activities calls for the board to be assisted by an adequate number of full-time technical staff.

The technical staff would be expected to assume responsibility for the following broad categories of activities:

- a. Suggest items to be added to the Board agenda for approval;
- b. Prepare a plan for each project from inception to completion;
- c. Prepare discussion memoranda for agenda items setting forth issues and alternative solutions for board considerations;
- d. Obtain preliminary views of Board members with respect to agenda items under considerations;
- e. Prepare preliminary exposure drafts based on preliminary views of Board members;
- f. Finalize exposure drafts based on Board's consideration of preliminary exposure drafts;
- g. Obtain and analyze comments received on the exposure drafts for Board considerations;
- h. Finalize pronouncements based on Board's considerations of comments received on the exposure drafts;
- i. Maintain adequate contacts with constituents of the standard setting body to identify implementation problems;
- j. Develop recommended solutions to implementation problems;
- k. Obtain Board approval to recommended solutions to implementation problems and publish solutions; and
- l. Maintain contact with other standard setting bodies.

Each agenda item should be assigned to a technical support staff who should act as the project monitor until the project is completed.

It is essential for the technical staff to be headed by a well qualified director preferably with prior experience in standard setting, who would among other things, assure the overall quality of the input provided to the Standards Board.

With respect to the quality of the staff, it is normal in other standard setting bodies to rely on project managers who have at least 6 to 10 years of relevant experience. For example, project managers at the FASB usually have prior experience in public accounting at least at the manager level. Should practical limitations (such as availability and/or cost) make this nonfeasible, more emphasis should be placed on recruiting and retaining a high caliber director for the technical staff.

4. PROPOSED TOPICS FOR STANDARDS BOARD AGENDA:

The proposed list of topics is not intended to be a comprehensive list of issues that need to be addressed by the Board throughout its existence. Rather, it is intended to represent a list of high priority issues that the Board would be expected to act upon within a reasonable period of time (e.g. three to five years from its formation).

Islamic banking transactions, events and circumstances are sufficiently unique to require careful consideration and identification of the objectives and fundamental concepts of accounting for Islamic banks. In addition, definition of objectives and fundamental concepts provides a necessary basis for the promulgation of relevant and consistent standards dealing with specific transactions, events and circumstances. Accordingly, we believe that it is essential for the Standards Board to consider immediately the objectives and fundamental concepts of financial accounting for Islamic banks. This is not an easy subject, however. Accordingly, the Board would not be expected to issue a pronouncement defining the objectives and fundamental concepts of financial accounting for Islamic banks in its first or second year of operations. With respect to other proposed topics, we believe that sufficient differences exist in accounting practices with regard to those topics to warrant immediate Board considerations.

5. THE PROPOSED FUNDING ARRANGEMENTS:

We believe that it is essential for the standard setting process not to be dominated or perceived to be dominated by any one single group or organization directly (through membership on the Standards Board) or indirectly (through funding arrangements).

The creation of the Supervisory Committee assures separation of the standard setting from funding sources. However, the creation of the Supervisory Committee will not achieve the intended objective if funding was concentrated in one source or if funding was perceived to be contingent upon the direction taken by the Standard Board. Accordingly, it is very important for the Supervisory Committee to seek to diversify the sources of the funds made available to the Standards Board. It is equally important, to the extent practicable, that the Supervisory Committee would attempt to establish annual assessments for funding sources based on objectivity determinable criteria such as the size of the entity as measured by its total assets.

Finally, to assure the long term continuity of the Standards Board operations, it will be necessary for the Supervisory Committee to obtain long term commitments of monetary contributions. We believe that it will be essential for contributors to be assured that there is accountability for the contributed funds. Accordingly, the recommendations require that the Supervisory Committee prepare and publish audited financial statements and conduct and publish an annual review of the Standards Board operating procedures. In addition, our recommendations require that the Chairman of the Standards Board publish periodic reports setting forth activities and accomplishments of the Standards Board.

6. STANDARDS BOARD AUTHORITY:

It is essential that the authority of the Standards Board pronouncements be recognized as soon as practicable. Two groups in particular need to be considered. These are:

(a) those who are responsible for the preparation of the financial statements of Islamic banks (i.e. management of the Islamic banks; and (b) external auditors.

With respect to the first group, the Head of Islamic Banks' meeting must adopt a resolution endorsing the proposed standard setting body and recognizing its pronouncements as being authoritative. It is important for the Supervisory Committee to use the annual IDB meeting with Islamic Banks to inform representatives of Islamic Banks of the activities and accomplishments of the Standards Board and the degree of compliance with its pronouncements. This proposed annual reminder to representatives of Islamic Banks serves to enforce the presence of the Standards Board and provides an opportunity for the Supervisory Committee to emphasize the importance of adequate compliance with the promulgated pronouncements.

With respect to the second group, i.e. the external auditors, we believe that the Supervisory Committee will need to work with licensing bodies, professional associations and regulatory authorities in each country with significant Islamic banking institutions to obtain recognition for the authority of the Standards Board pronouncements.

7. OTHER SIGNIFICANT RECOMMENDATIONS:

Several other recommendations warrants explanation. These can be classified and explained in the following fashion:

- a. Recommendations intended to enhance the likelihood that promulgated standards will achieve general acceptance.
 1. Board meetings are open to public observations.
 2. Keeping the public informed of status of projects under consideration.
 3. Standards are published without dissent.
 4. Review and re-examination procedures of published standards and practice guides.

5. Basis for conclusions are part of the statement of standards.
6. Recommendations intended to enhance the efficiency of the Standards Board operations:
 - a. The Planning Sub-Committee.
 - b. Voting requirements and procedurs.
 - c. Practice guides to deal expeditiously with implementation and emerging issues.

SECTION-2

I. PROPOSED BUDGET:

Based on the responsibilities of the Supervisory Committee and the Financial Accounting Standards Board outlined in the preceding pages the budgets of the Supervisory Committee and the Financial Accounting Standards Board are outlined below:

**BUDGET FOR THE FIRST YEAR WITH PROJECTIONS
FOR YEARS TWO AND THREE**

	<u>U.S. DOLLARS</u>		
	<u>1st year</u>	<u>2nd year</u>	<u>3rd year</u>
<u>SUPERVISORY COMMITTEE</u>			
Cost of attending meeting (once a year)			
- Islamic Banks will meet their own expenses.	-	-	-
- 11 X 2500 including air fares and hotel expenses.	27,500	28,900	30,300
<u>STANDARD SETTING BODY</u>			
Cost of attending meetings			
- Islamic Banks will meet their own expenses.	-	-	-
- 15 X 2500 X 3 (3 meetings per year)	112,500	118,000	124,000
<u>FULL TIME STAFF</u>			
a. <u>SALARIES:</u>			
Director	75,000	75,000	75,000
Professional staff (1 first year, 2 second year and third year)	50,000	102,500	107,600
A Secretary.	25,000	26,250	27,540
An Admn. Assistant.	15,000	15,750	16,540
	-----	-----	-----
	165,000	219,500	226,680

	<u>U.S. DOLLARS</u>		
	<u>1st year</u>	<u>2nd year</u>	<u>3rd year</u>
b. <u>OTHER RELATED COSTS:</u>			
Housing	28,000	40,000	43,470
Transportation allow.	7,000	10,000	10,800
Other	12,000	15,000	15,750
	-----	-----	-----
	47,000	65,000	70,020
TOTAL: FULL TIME STAFF COSTS:	212,000	284,500	296,700
 <u>OTHER COSTS:</u>			
Space Rent	20,000	21,000	22,000
Maintenance & Utilities.	15,000	15,700	16,050
Communication & Distribution.	30,000	31,500	33,070
Stationery	6,000	6,300	6,620
Library	4,000	4,200	4,410
Travel and meetings.	18,000	18,900	19,850
	-----	-----	-----
	93,000	97,600	102,000
<u>CONSULTANTS</u>	25,000	27,000	29,000
Printings, translations and other misc. costs.	20,000	40,000	42,000
	-----	-----	-----
	490,000	596,000	624,000
 <u>CAPITAL EXPENDITURE</u>			
For office furniture fixtures and fittings	50,000	-	-

**SOURCE OF FUNDING FOR THE ACCOUNTING STANDARDS
SETTING BODY FOR ISLAMIC BANKS**

***Total estimated costs for the first three years aggregate US.1,760,000.**

***Possible source of funding are the following:**

- Accounting firms.
- IDB.
- Other Islamic Banks.
- Users.
- Sale of Publications.
- Government support.

***While it is envisaged that the Supervisory Committee will tap all the possible sources indicated above and others for arranging funding for the Accounting Standards Setting Body for Islamic Banks in order to start the body on a firm base it is hoped that IDB and Islamic Banks will underwrite the estimated expenditure of the first three years at the meeting with Islamic Banks.**

II. BASIC ASSUMPTION UNDERLYING THE BUDGET:

1. Members of Islamic Banks both in the Supervisory Committee and in the standard setting board will bear their own costs.
2. The Supervisory Committee members and the standard setting board members will be used on a part-time basis. The Islamic Banks shall bear the expenses of their representatives, other members shall be reimbursed for actual expenses incurred.
3. The standard setting board will be supported by a full time staff. The exact number of the staff will be dictated by the amount of work expected to be done during the 3 years plan.
4. Size of the technical staff will be as under:
 - One Director
 - Two Professional qualified staff
 - One Secretary
 - One Administrative Assistant
5. The premises for meeting is to be determined by the meeting of the Heads of Islamic Banks on October 29, 1989. Depending on the location some changes in the estimates are envisaged.
6. It is assumed that all standards issued will be prepared in Arabic and English languages. Cost of translation will be involved.
7. Yearly budget plus three years plan.
8. At least to gain credibility, it is expected that during the initial period of 3 years objectives, concepts and 3 standards will be published as a minimum.

FUNDING CONSIDERATIONS:

1. Voluntary contributions.
 2. Subscription will be received from all Islamic Banks at a minimum level to be approved.
 3. Accounting practices in the Islamic World and Accounting Association will be invited to offer either cash or carry out research.
 4. IDB and their research and Training Institute will be requested to extend technical support.
 5. Sales of Publications.
 6. Users of Islamic Banks financial experts may be invited to make contributions towards the costs of the new body.
 7. Foundations whose aims are for Islamic Banking and education.
-

Note:

1. Necessity of segregation between the standard setting board and the Supervisory Committee who will be responsible for fund raising.
2. The need to avoid the appearance that the standard setting is under the control of one group or country.

SECTION-3

I. CONSTITUTION OF THE SUPERVISORY COMMITTEE
FOR FINANCIAL ACCOUNTING STANDARDS FOR ISLAMIC BANKS

ARTICLE-1
NAME AND ENTRY INTO FORCE

This Constitution shall be known as "The Constitution of the Supervisory Committee for Financial Accounting Standards for Islamic Banks" and shall come into force in accordance with Article-XXI hereof.

ARTICLE-II
DEFINITIONS

In this Constitution unless the context otherwise requires, the following words shall have the meaning shown against each of them hereunder:

The Committee:

The Supervisory Committee for Financial Accounting Standards for Islamic Banks set-up in accordance with the provisions hereof.

The Board:

The Islamic Banks' Financial Accounting Standards Board to be set-up by the Committee in accordance with the provisions hereof and the provisions of the Constitution of the Board.

The First Committee:

The Committee selected in accordance with the provisions hereof by the Representatives of the Islamic Banks at the Meeting of the Heads of Islamic Banks to be held in Jeddah on the 30th Rabial Awwal 1410H (29 October, 1989).

Regulatory Agency:

A Central Bank or a similar entity which regulates the financial reporting and monitoring and disclosure functions for Banks and financial institutions.

ARTICLE-III
COMPOSITION OF THE COMMITTEE

Section 3.01:

The Committee shall consist of Seventeen (17) members, including the Chairman.

Section 3.02:

Members of the Committee shall be drawn from the specializations, and as far as reasonably possible, shall satisfy the criteria herein below stipulated:

- A. Six Members shall be Islamic Bankers. A person eligible for Membership under this category shall preferably be:
- i. a promoter, founder or a senior executive of an Islamic Bank, and shall,
 - ii. have reasonable knowledge of:
 - a. The contents of the financial statements and the disclosure requirements,
 - b. the financial instruments commonly used by Islamic Banks, together with existing legislation governing those instruments in, at least, one country where Islamic banking is practiced,
 - c. existing accounting standards.
- B. Five members shall be Accountants in public practice. Preferably, a person eligible for Membership under this category shall:
- i. possess the necessary qualifications for practicing as a public accountant as may be required in his country of origin,
 - ii. be a partner or director of a reputable Accounting Firm,
 - iii. have expert knowledge of:
 - a. existing accounting standards as commonly applied,
 - b. existing legislation in some Islamic or other countries where Islamic Banks operate, and of the impact of such legislation on banks and financial instruments,

- c. Islamic banking and shall have, preferably, contributed to the literature on Islamic banking, and,
 - d. the accounting standards setting process,
- iv. have reasonable knowledge of Islamic economic concepts and, preferably, experience in an Islamic Bank or an International Financial Institution.
- C. Two Members shall be users of financial statements of Islamic Banks. A person eligible for membership under this category shall preferably:
- i. be a well-known customer who predominantly, but not exclusively, deals with one or more Islamic banks, either as a depositor or investor, or both,
 - ii. have:
 - a. an understanding of the basic concepts of Islamic banking,
 - b. and preferably a knowledge of financial statements of Islamic banks.
- D. Two members shall be officials of Regulatory Agencies. Preferably, a person eligible for Membership under this category shall:
- i. be in the senior managerial level of a Regulatory Agency,
 - ii. have a long practical experience in banking, and be well-acquainted with government policies and procedures, particularly legislation, pertaining to economic policies,
 - iii. have expert knowledge of existing financial instruments, and
 - iv. fair knowledge of:
 - a. existing accounting standards,
 - b. financial statements and the uses of applications thereof.
- E. One member shall be a renowned scholar of Shariah who shall preferably have:
- i. contributed to the literature on Islamic Banking through the publication of books, articles and papers on Islamic banking and related subjects,

- ii. experience in Islamic banking, preferably, through membership of a Shariah Supervisory Board.
- F. One member shall be a reputable scholar in accounting and finance at a distinguished university who shall preferably have:
- i. conducted and published research on Islamic banking,
 - ii. knowledge of:
 - a. use and application of financial statements and instruments,
 - b. existing accounting standards.

ARTICLE-IV
SELECTION OF THE FIRST COMMITTEE

Section 4.01:

Without prejudice to the provisions of Article-III hereof, the First Committee shall be selected in the following manner:

- i. Five members shall be selected for a period of one year from the date of selection,
- ii. six members shall be selected for a period of two years from the date of selection,
- iii. six members shall be selected for a period of three years from the date of selection.

Section 4.02:

Without prejudice to the generality of Article-IX hereof, the First Committee shall approve the Constitution of the Board and appoint the members of the First Board.

ARTICLE-V
APPOINTMENT OF MEMBERS TO FILL VACANCIES
IN THE COMMITTEE

Section 5.01:

Within a reasonable time before the expiry of the term of service of the particular group of members including members of the First Committee or upon the death, resignation, disability or removal of a member pursuant to Article-VIII hereof, the vacancy or vacancies which will occur or which have occurred shall be filled by the Committee as often as a vacancy or vacancies shall occur, provided that:

- (A) A member appointed to fill a vacancy in the Committee shall be appointed by the majority vote of the members of the Committee and shall be drawn from the same category of the outgoing member;
- (B) A member appointed to fill a vacancy resulting from the expiry of the term of service of a member, shall serve for a term which shall expire on December 31 of the Third Gregorian Year of his appointment;
- (C) A member appointed to fill a vacancy resulting from the death, resignation, disability or removal of a member, shall serve until the expiry of the original term of the member who is being replaced;
- (D) A member is eligible for reappointment for a second term provided that no member shall serve for more than two consecutive terms. For the purposes of this sub-section, a member appointed to continue a term of service of a member whose place has become vacant due to death, resignation, disability or removal shall be regarded as having served a term.

ARTICLE-VI
THE CHAIRMAN OF THE COMMITTEE

Section 6.01:

Upon the selection of the First Committee as herein provided for, the majority of the members of the Committee shall designate a member to serve as Chairman for the Committee, hereinafter referred to as "The Chairman of the First Committee". At the expiry of the term of service of the Chairman of the First Committee or upon his death, resignation, disability or removal before the expiry of his term, the Committee shall, after appointing the replacements for the group of members which includes the Chairman, or upon appointing a substitute member upon removal, resignation, disability or death of the Chairman, designate a member to be the Chairman of the Committee.

Section 6.02:

The Committee may designate one or two members to act as Vice-Chairmen for the Committee.

Section 6.03:

The Chairman of the Committee shall have power to do, perform and carry out such functions as the Committee shall deem necessary for the discharge of the objectives of the Committee.

ARTICLE-VII
RULES PERTAINING TO MEMBERSHIP

Section 7.01:

Without prejudice to the rights of the members to vote by proxy for the purposes of Article 8,14 and 16(3) hereof, Membership of the Committee shall be personal to the members thereof, and no member shall have power of substitution or delegation to a non-member.

Section 7.02:

No person can be a member both of the Committee and of the Board simultaneously.

Section 7.03:

A member eligible for reimbursement shall be reimbursed for expenses pertaining to his membership of the Committee in accordance with the basis established by the Committee.

ARTICLE-VIII
REMOVAL OF MEMBERS

A member of the Committee, including the Chairman, may be removed by the majority vote of, at least, two-thirds of the members for malfeasance or similar misconduct deemed by a majority of the members to be detrimental to the objectives or reputation of the committee, or the Board, or for any other reason as the Committee may deem fit.

ARTICLE-IX
POWERS AND FUNCTIONS OF THE COMMITTEE

Section 9.01:

The Committee shall have the functions, and be entrusted with the powers, as herein below stipulated:

- i. to set-up the Board and appoint its members, Chairman and Vice-Chairman in accordance with Articles X, XI, XII and XIII hereof, and remove such members in accordance with Article XIV hereof;
- ii. to arrange for the financing of the Board and to approve its annual budget;
- iii. to determine the basis for reimbursement of the members of the Committee and of the Board, other than the members referred to in clauses 3.02 (A) and 10.02 (B) hereof, respectively, in respect of expenses pertaining to their membership in the Committee or the Board, as the case may be.
- iv. to appoint an external auditor annually to examine and report to the Committee on the Annual Financial Statements of the Board;
- v. to prepare final consolidated accounts both for the Committee and for the Board within four months of the end of the financial year of the Committee and of the Board;
- vi. to prepare and publish annual audited financial statements of the Committee and of the Board;
- vii. to review periodically the activities, accomplishments, operating procedures and project plans of the Board and to publish the results of such review;
- viii. to review periodically the overall framework of establishing and improving standards of financial accounting and reporting to Islamic Banks;
- ix. to consider and approve a proposal for the amendment of the Constitution of the Board;
- x. to exercise all authority and power and perform all functions necessary for the achievement of the objectives of the Committee.

Section 9.02:

Notwithstanding any provision herein to the contrary, the Committee shall not, by virtue of or in the exercise of any of its powers of approval of the annual budget of the Board or in its review of the Board's operating and project plans, direct the Board to undertake, or to refrain from undertaking, any assignment, project or activity, or otherwise affect the exercise by the Board of its authority, functions or powers in respect of standards of financial accounting and reporting to Islamic banks.

ARTICLE-X
COMPOSITION OF THE BOARD

Section 10.01:

The Board shall consist of twenty-one members who shall be appointed by the majority of the members of the Committee.

Section 10.02:

Members of the Board shall be drawn from the specialisations herein below indicated and shall satisfy a reasonable set of criteria as the Committee may deem suitable for each specialization:

- (A) Six members shall be Certified Accountants;
- (B) Six members shall be Islamic Bankers;
- (C) Three members shall be renowned scholars of Shariah.
- (D) Two members shall be users of financial statements of Islamic Banks by virtue of being depositors of funds or investors in one or more Islamic Banks;
- (E) Two members shall be reputable scholars with teaching experience in Accounting and Finance;
- (F) Two members shall be representatives of Regulatory Agencies.

ARTICLE-XI
APPOINTMENT OF MEMBERS OF THE BOARD

Section 11.01:

Except for appointment to the First Board as provided for in Article-XII hereof, a member of the Board shall be appointed for a period which shall expire on December 31 of the Fourth Gregorian Year of his appointment.

Section 11.02:

A member, including a member appointed to the First Board pursuant to Article-XII hereof, shall be eligible for re-appointment for a second term provided that no member shall serve for more than two consecutive terms. For the purpose of this section, a member appointed to continue a term of service of a member whose place in the Board has become vacant due to death, disability resignation or removal, shall be regarded as having served a term

Section 11.03:

Upon the expiry of the term of service of the particular group of members of the Board, including members of the First Board, or upon the removal of a member pursuant to Article-XIV hereof, a vacancy or vacancies in the Board, as the case may be, shall be filled as often as the same shall occur by the appointment of members to replace the outgoing member or members, as the case may be, provided always that:

- (A) A member appointed to fill a vacancy in the Board shall be drawn from the same category as that of the outgoing member;
- (B) A member appointed to fill a vacancy resulting from the death, disability, resignation or removal of a member, shall serve until the expiry of the original term of the member who is being replaced.

ARTICLE-XIIAPPOINTMENT OF MEMBERS TO THE FIRST BOARDSection 12.01:

Without prejudice to the generality of Article-XI hereof, members of the First Board shall be appointed as hereinafter provided for:

- (A) Seven members shall be appointed for a period of two years from the date of their appointment;
- (B) Seven members shall be appointed for a period of three years from the date of their appointment;
- (C) Seven members shall be appointed for a period of four years from the date of their appointment.

ARTICLE-XIII
APPOINTMENT OF THE CHAIRMAN AND VICE-CHAIRMAN OF THE BOARD

Section 13.01:

Upon the appointment of the First Board as herein provided for the Committee shall appoint a Chairman for the Board from amongst the members thereof, hereinafter referred to as the Chairman of the First Board. Upon the expiry of the term of service of the Chairman of the First Board or upon his death, disability, resignation or removal before the expiry of his term, the Committee shall, after appointing the replacements for the group of members which includes the Chairman of the First Board or upon appointing a substitute member upon removal, disability, resignation or death of the Chairman, as the case may be, designate a member to be the Chairman of the Board.

Section 13.02:

The Committee may appoint one or more members as Vice-Chairmen to assist the Chairman in the discharge of his duties.

ARTICLE-XIV
REMOVAL OF MEMBERS OF THE BOARD

A member of the Board, including the Chairman, may be removed by the majority vote of two-thirds of the members of the Committee for malfeasance or other conduct deemed detrimental to the objectives or reputation of the Board.

ARTICLE-XV
SUB-COMMITTEES

The Committee may establish or set-up any number of sub-committees to exercise any or all powers, authority and functions of the committee. A sub-committee may consist of any number of members as the Committee deems fit.

ARTICLE-XVI
PROCEDURE

Section 16.01:

The Committee shall meet at least once a year. At the end of each meeting the Committee shall decide on the venue and date of the next meeting.

Section 16.02:

The presence of the majority of the members shall constitute a quorum for a meeting of the Committee.

Section 16.03:

Each member shall have one vote, whether given in person or by proxy, and all matters before the Committee may be decided by a majority of the members, except for the amendment of this Constitution which shall require the vote, whether given in person or by proxy, of at least, two-thirds of the members of the Committee.

ARTICLE-XVII
RESOURCES OF THE COMMITTEE

The Resources of the Committee shall consist of contributions of: Islamic Banks, users of financial statements, Accounting firms and of others as well as of the proceeds of sales of publications.

ARTICLE XVIII
THE FINANCIAL YEAR OF THE COMMITTEE

The financial year of the Committee shall commence on the First of January and end on 31 December of each Gregorian year, except for the First financial year of the First Committee which shall be determined by the members of the said Committee at the first meeting thereof.

ARTICLE-XIX
LANGUAGES

This Constitution shall be available in Arabic and English. The Arabic text shall be regarded as the authoritative text for both interpretation and deliberation.

ARTICLE-XX
INTERPRETATION

Without prejudice to Article XIX hereof, all matters concerning the interpretation and application of the provisions of this Constitution shall be decided and settled by the majority of the members of the Committee present at the particular meeting.

ARTICLE-XXI
ENTRY INTO FORCE

This Constitution shall come into force after its approval by the majority of the Representatives at the meeting of the Heads of Islamic Banks to be held in Jeddah on 30th Rabial Awal 1410H (October 29, 1989).

II. CONSTITUTION OF THE ISLAMIC BANKS'
FINANCIAL ACCOUNTING STANDARDS BOARD

ARTICLE-I

NAME AND ENTRY INTO FORCE

This Constitution shall be known as "The Constitution of the Islamic Banks' Financial Accounting Standards Board" and shall come into force in accordance with Article-XVI hereof.

ARTICLE-II

DEFINITIONS

In this Constitution, unless the context otherwise requires, the following terms shall have the meaning shown against each of them hereunder:

"The Board". The Islamic Banks' Financial Accounting Standards Board set-up in accordance with the provisions hereof and of the Constitution of the Committee.

"The Committee". The Supervisory Committee for Financial Accounting Standards set-up in accordance with its Constitution.

ARTICLE-III

COMPOSITION OF THE BOARD

Section 3.01:

The Board shall consist of twenty-one members, including the Chairman.

Section 3.02:

Members of the Board shall be appointed by the Committee and shall be drawn from the specializations, satisfy the criteria, serve for the term of service, and be removed, in accordance with such terms and conditions as may be provided for in the constitution of the Committee.

Section 3.03:

Eligible members of the Board may be reimbursed for expenses pertaining to their membership in the Board in accordance with the basis established by the Committee.

ARTICLE-IV**POWERS AND FUNCTIONS OF THE BOARD****Section 4.01:**

The function of the Board shall be to establish Standards of Financial Accounting and reporting for Islamic Banks and Islamic Financial Institutions.

Section 4.02:

In the discharge of its function hereunder the Board shall have power:

- (A) To issue, in accordance with the provisions of this Constitution or any other rules, regulations, by-laws or procedure consistent therewith, as the Board may deem necessary to establish, statements of Financial Accounting Standards and Practice Guides, and to disseminate the same to Islamic Banks and Islamic Financial Institutions;
- (B) To issue communications on Financial Accounting Standards and reporting, and to prepare and publish progress reports on its activities;
- (C) To issue a quarterly newsletter for the purpose of informing the public of the activities of the Board.

- (D) To establish or set-up sub-committees to exercise any or all powers, authority and function of the Board within the guidelines, regulations or procedure set by the Board,
- (E) To review or re-examine a statement of Financial Accounting Standards or Practice Guide either on its own initiative or on the recommendation of the Planning Committee which is set-up in accordance with the provisions of Article VI hereof,
- (F) To do, perform, and carry out any task and exercise any power consistent with this Constitution as the Board may deem necessary for discharging its function.

ARTICLE-V
POWERS AND FUNCTIONS OF THE CHAIRMAN

The Chairman of the Board shall be the principal officer of the Board and shall have the powers and carry out the functions as hereinafter stipulated:

- (A) To oversee the general discharge by the Board of its function;
- (B) To chair the meetings of the Board and of the Planning Committee;
- (C) To prepare the short and long term operating and project plans for the Board, including project priorities, and to submit the same for approval by the Planning Committee;

- (D) To prepare and annual reports on the activities of the Board, for approval by the Board, and thereafter to submit such reports for consideration by the Committee;
- (E) To prepare and issue the quarterly newsletter referred to in Article 4.02 (C) hereof and to issue public announcements therein, or in any other publications as he may deem necessary, pertaining to :
- i) the venue and date for every meeting of the Board;
 - ii) additions or other changes to proposed agenda for the Board;
 - iii) draft and final texts of practice guides;
 - iv) completion of a significant phase for project not otherwise publicly announced;
 - v) the intention of the Board to review or examine an effective statement of standards or practice guide.
- (F) To take any measure he deems necessary for ensuring that reports on the activities of the Board are available to the public after approval thereof by the Committee;
- (G) To prepare the budget of the Board with the assistance of the Planning Committee and to submit the same for approval by the Board;
- (H) To hire and contract the services of Technical Staff, other than the Director of the Technical Staff, for the purpose of performing technical duties to the Board and to fix their salaries and other financial benefits;

- (I) To consult with the Planning Committee and to obtain the approval of the Board for hiring the services of consultants or organizations to conduct research for, or perform technical assistance to, the Board;
- (J) To appoint non-members of the Board to task forces in consultation with the Planning Committee;
- (K) To prepare staff rules and rules and regulations pertaining to the setting up of ad hoc committees, task forces and procedure for meetings of the Board and to submit the same for approval by the Board;
- (L) To designate a member of the technical staff to act as Secretary to the Board;
- (M) To assign to members of the Board, sub-committees or task forces or to the Director of the technical staff, the performance of any particular function as the Chairman may deem fit;
- (N) To attend the meetings of the Committee and to participate in the discussion of any of its agenda as the Committee may require provided that he shall have no right of vote in such meetings;
- (O) To inform the Committee in writing, with a copy to the Board, of the expiry of the term of service of the relevant group of members of the Board, in sufficient time before the date of such expiry, and to furnish such particulars of such group of members as the Committee may require;
- (P) To do, perform and carry out such other functions as may be necessary for achieving the objectives of the Board.

ARTICLE-VI
SUB-COMMITTEES

Section 6.01:

Without prejudice to the generality of section 4.02(D) hereof, the Board shall have a planning sub-committee which shall be known as "The Planning Committee" and a Shariah Sub-Committee which shall be known as the Shariah Committee.

Section 6.02:

The Planning Committee shall consist of four members of the Board, other than the Chairman, who shall be appointed by the Board, and shall be chaired by the Chairman of the Board, or the Vice-Chairman, as the case may be.

Section 6.03:

The Planning Committee shall have the following functions:

- (A) To assist the Chairman in the preparation of the budget of the Board;
- (B) To prepare, plan and set the priorities of the Board and to submit the same for approval by the Board;
- (C) To review and approve the technical staff plan for investigating and developing draft standards on matters on the Board's agenda;
- (D) To follow-up the implementation of the resolutions of the Board;
- (E) To authorize the development of Practice Guides and to submit its recommendations thereon to the Board;
- (F) To appoint the Director of the Technical Staff.

Section 6.04:

the presence of two members of the Planning Committee in addition to the Chairman or the Vice-Chairman of the Board, as the case may be, shall constitute a quorum for any meeting of the Planning Committee.

Section 6.05:

At the meetings of the Planning Committee each member shall have one vote and all matters before the Planning Committee may be decided by the majority vote of the members.

ARTICLE-VII**THE SHARIAH COMMITTEE****Section 7.01:**

The Board shall appoint a Shariah Committee consisting of any two of the members referred to in Section 10.02(c) of the Constitution of the Committee, in addition to a member of the Technical Staff referred to in Section 5.(H) hereof.

Section 7.02:

The function of the Shariah Committee shall be to review the proposed statements of Financial Accounting Standards and Practice Guides and to advise the Board on the conformity of such statements or guides to the principles of Shariah.

ARTICLE-VIII**RULES PERTAINING TO STATEMENTS OF FINANCIAL ACCOUNTING
STANDARDS****Section 8.01:**

The objectives of Statements of Financial Accounting Standards shall be to establish, improve and explain the basis for the establishment and improvement of the standards of Financial Accounting and reporting to Islamic banks.

Section 8.02:

Before a statement of Financial Accounting Standards is issued, a draft thereof shall be circulated to Islamic Banks, at least, ninety days prior to the issuance thereof, provided that comments and observations of Islamic Banks on the drafts, as there may be, shall be made available to the Public.

Section 8.03:

Draft and final statements of Financial Accounting Standards shall include:

- (A) The actual or proposed standards of financial accounting and reporting;
- (B) The statements' proposed and actual date of effectiveness of application, together with the method of application thereof;
- (C) Background information including a summary of research results undertaken in connection with the development of the draft or final statement;
- (D) The basis for the Board's conclusions, including its reasons for the particular option and rejecting others, together with a summary of the more significant observations and comments communicated to the Board on the particular draft statement of Financial Accounting Standards.

ARTICLE-IX
PRACTICE GUIDES

Section 9.01:

The objective of Practice Guides shall be to interpret Accounting Standards or resolve accounting issues resulting therefrom.

Section 9.02:

A Practice Guide may not be issued unless the particular financial accounting and reporting problem sought to be resolved can be so resolved within the framework of the following restrictions:

- (A) The Guide is not likely to cause a major change in accounting practices for a significant number of Islamic Banks, nor is it likely to conflict with fundamental accounting concepts or create a new accounting practice;

(B) The administrative cost of implementing the Guide is reasonable.

Section 9.03:

Draft Practice Guides shall be prepared by the Technical Staff on the direction of the Planning Committee and shall be circulated to Islamic Banks, at least, thirty days prior to the issuance thereof by the Board.

Section 9.04:

No Practice Guide shall be issued by the Board unless the Guide shall have been cleared by the majority of the members of the Board including the Chairman of the Board.

ARTICLE-X
REVIEW PROCEDURE

Section 10.01:

Any person or entity may, in accordance with the provisions of this Article, request the Board in writing to review or re-examine an effective statement of Financial Accounting Standards or Practice Guide, provided that such request shall:

- (A) Identify the statement, or the relevant part thereof, which is the subject of the request;
- (B) State in sufficient detail the reason or reasons for the request;
- (C) Set forth specific alternative proposals or solutions.

Section 10.02:

A copy of the request for review or examination shall be addressed to the Director of the Technical Staff who shall circulate sufficient copies thereof to the members of the Planning Committee for consideration.

Section 10.03:

In considering a request for review or re-examination, the Planning Committee shall:

- (A) Ensure that the Board has been informed of the particular request for re-examination or review and of the justification for such request;
- (B) Consider whether:
 - i. the reasoning upon which the request is based had been considered by the Technical Staff prior to the issuance of the particular statement or Practice Guide sought to be reviewed or re-examined;
 - ii. events or circumstances attending the particular request are such as to warrant review or re-examination by the Board.

Section 10.04:

Where the Planning Committee is of the opinion that no adequate consideration has been given to the principle upon which the request is based by the Technical Staff, or that events or circumstances are such as to warrant review or re-examination, the Planning Committee shall add the request to the agenda of the Board together with a recommendation as to the necessary measure which may be taken by the Board.

Section 10.05:

Whether the request for review or re-examination is added to the agenda of the Board pursuant to section 10.04 of Article-X hereof, or is not so added as aforesaid, the Planning Committee shall reply in writing to the person or entity who has made the request as to the course of action which the Committee intends to take in respect of his or its request.

ARTICLE-XI
PROCEDURE

Section 11.01:

The Board shall meet, at least three times a year. Meetings of the Board shall be public and shall be held at such date and venue as may have been agreed upon by the majority of the members in the preceding meeting. Meetings of the Board shall be announced in the newsletter referred to in Articles 4.02 (C) and 5 (E) hereof.

Section 11.02:

Except in extra-ordinary circumstances where the situation so requires, adequate notice of the meeting and the proposed agenda thereof shall be furnished to all members of the Board in sufficient time before the meeting.

Section 11.03:

Meetings of the Board shall be chaired by the Chairman of the Board or the Vice-Chairman, as the case may be, and shall be properly documented by the Secretary to the Board and shall generally be regulated by such by-laws or procedure as the Board may approve.

Section 11.04:

Without prejudice to the generality of the foregoing, at the meetings of the Board:

- (A) The presence of the majority of the members shall constitute a quorum for any meeting of the Board;

- (B) Each member shall have one vote, and all matters before the Board, except as provided for in Section 9.04 and Article-XII hereof, may be decided by a majority vote of the members of the Board.

ARTICLE-XII
THE FINANCIAL YEAR OF THE BOARD

The Financial year of the Board shall commence on the First of January and end on 31 December of each Gregorian year, except for the first financial year of the first Board which shall be determined by the members of the said Board at the first meeting thereof.

ARTICLE-XIII
AMENDMENT OF THE CONSTITUTION

This Constitution may be amended by the vote, whether cast in person or by proxy, of at least, two-thirds of the members of the Board; provided always that before a proposal for amendment is considered, the proposal shall be communicated to, and be approved by, the Committee.

ARTICLE-XIV
INTERPRETATION

Without prejudice to Article XV hereof, all matters concerning the interpretation and application of the provisions of this Constitution shall be decided and settled by the majority of the members of the Board present at the particular meeting.

ARTICLE-XV
LANGUAGES

This Constitution shall be available in Arabic and English. The Arabic text shall be regarded as authoritative for both interpretation and deliberation.

ARTICLE-XVI
ENTRY INTO FORCE

This Constitution shall come into force after its approval by the Committee in accordance with the Constitution of the Committee.

SECTION-4

**I. CRITERIA FOR THE SELECTION OF THE MEMBERS
OF THE SUPERVISORY COMMITTEE FOR PROMOTION AND
DEVELOPMENT OF ACCOUNTING STANDARD FOR ISLAMIC BANKS**

GENERAL CONSIDERATIONS:

Members selected in all categories [preferably] should be:

- a. Committed to the cause of Islamic banking and must have a proven track record of positive and consistent contribution towards the cause.
- b. Prominent in their respective fields nationally or internationally.
- c. Commanding good standing or significant influence with the local law making and standard setting bodies should be an added advantage.
- d. Be capable of obtaining nomination and sustain confidence vote should there be an objection to their selection by any interested party.

Islamic bankers (6 members)

- a. A promoter, founder or a senior executive of an Islamic banks.
- b. Possess reasonable knowledge of the contents of the financial statements and the disclosure requirements.
- c. Have knowledge of the financial instruments commonly in use by Islamic banks and existing legislation governing those instruments in at least one Islamic country where Islamic banking is practiced.
- d. Know about the existence of accounting standards and is convinced that Islamic Banks need accounting standards.

Accountants in public practice (5 members)

- a. With a qualification acceptable to his country to enable him to have a certificate of practise as a public accountant.
- b. Reasonable knowledge of Islamic economic concepts and preferably with experience in Islamic Banking or finance institutions.
- c. At least, partners/directors of reputable firms of accountants.

- d. Must have reasonable knowledge of :
- i. existing accounting standards as commonly/predominantly applied.
 - ii. existing legislation in at least some of the Islamic and other countries where Islamic banks operate and their impact on banks and financial instruments.
 - iii. Islamic banking and should preferably have contributed to Islamic banking literature.
 - iv. exposure drafts and accounting standards setting process.

Faqhi (one member)

- a. Accredited and well known scholar on related Islamic jurisprudence.
- b. "Ahlia".
- c. Must have published papers, articles, books or delivered lectures on the concepts and practices of Islamic economies and Islamic banking.
- d. Previous experience in Islamic banks, e.g. member of an Shariah Supervisory Board of an Islamic Bank.

Academician (one member)

- a. Accredited and reputable scholar in accounting and finance from a well known university.
- b. Faculty membership of a reputable academic institution.
- c. Should have preferably done original research and have preferably published contributions in Islamic banking literature.
- d. Knowledge of:
 - i. Use of application of financial statements and financial instruments.
 - ii. existing accounting standards.

Users of financial statements (2 members)

- a. Well known customers of Islamic banks as depositors and/or investors who predominantly deal with Islamic banks (as against commercial banks).
- b. Have an understanding of the concepts of Islamic banking.
- c. Fair knowledge of:
 - i. accounting
 - ii. and financial statements of Islamic banks.

Regulatory agencies (2 members)

- a. Members of senior management currently employed by Central Bank and/or any other regulatory body.
- b. Long practical experience in banking, well acquainted with government policies and procedures and legislation governing present and future economic policies.
- c. Expert knowledge of existing financial instruments and their practical uses and limitations.
- d. Fair knowledge and awareness of:
 - i. existing accounting standards
 - ii. financial statements, their uses and applications.

SECTION - 5

**SUMMARY OF COMPARATIVE STUDY
OF
FINANCIAL ACCOUNTING STANDARDS SETTING BODIES
IN
THE UNITED STATES, ENGLAND AND INTERNATIONAL**

Elements of Comparison	Financial Accounting Standards Board (FASB)	Accounting Standards Committee (ASC)	International Accounting Standards Committee (IASC)
1) Previous standard setting body	American Institute of Certified Public Accountants' (AICPA), Committee on Accounting Procedures 1930 - 1959 AICPA Accounting Principles Board (APB) 1959 - 1973	Parliament (via the Department of Trade and Industry)	None
2) Reasons for formation of current standard setting body	The APB was perceived as lacking in authority, independence and having inadequate due process procedures.	Accounting "recommendations" were not mandatory, the English Institute members demanded action to bring about uniformity in accounting practice.	A common international approach for financial reporting was needed.
3) Date of formation	1972	1970	1973
4) Sources of funding	Funded by contributions through the Financial Accounting Foundation (FAF) by the private sector and sale of publications	Funded entirely by the member bodies of the Consultative Committee of Accountancy Bodies (CCAB)	Ten percent of annual budget provided by the International Federation of Accountants (IFAC). Remainder of the budget is borne by the countries or organizations represented on the IASC Board.
5) Organizational Structure			
o Number of Board or Committee Members	Seven	Twenty-one	Maximum of seventeen
o Method of Selection	Selected by Board of Trustees of FAF	Selected by the CCAB.	Selected by the Council of the IFAC. Board consists of up to thirteen member countries and up to four organizations having an interest in financial reporting.
o Terms	Five years with one additional five year term possible	Three years with one additional three year term possible.	Five years for member countries, no limitations for re-appointment. Terms for <u>organizations</u> which are members are determined by the Board at the time of appointment.
o Time commitment	Full-time	Voluntary/Part-time	Voluntary/Part-time
o Frequency of meetings	Weekly	Monthly	Three meetings in each of last three years
o Compensation	\$240,000 per Board member	None	None
o Tech. support staff	Approximately forty to fifty individuals employed on a full-time basis by the FASB	A planning sub-committee provides technical support. This sub-committee is composed of volunteers from the profession.	None. Board members refer for guidance to the appropriate accounting research committee in their own country organizations.

Element or Comparison	Financial Accounting Standards Board (FASB)	Accounting Standards Committee (ASC)	International Accounting Standards Committee (IASC)
6) Relationship to Constituents	All board members and staff are full-time employees of the FASB. Board members and staff are required to sever business relationships and avoid conflict of interest in fact or in appearance.	Committee members continue to be active in the practice of their profession. No requirement that they sever business relationships that may give rise to appearance of conflict of interest.	Board members are not required to sever business and professional relationships that may give rise to appearance of conflict of interest.
7) Authority	Recognized as authoritative by the Securities and Exchange Commission in Accounting Series Release No. 150. Designated as the standards setting body in the private sector under rule 203 of the AICPA Rules of Conduct.	The main sanction against enterprises which breach accounting standards is that they may suffer a qualified audit report.	The IASC has no authority to require compliance with the international standards, however member countries are requested to support the standards which have been set.
8) Support Committees	The Financial Accounting Standards Advisory Council is a group of approximately thirty to thirty-five influential people. The purpose of the Council is to advise the FASB on issues that exist in financial accounting and on the priorities that should be placed on resolving them. Task forces are selected to render advice on specific topics.	Working parties are formed to consider issues relating to a topic to be studied. The selection and size of the working party is determined by the planning sub-committee on the basis of the best person available with the knowledge and time.	Steering committees are formed to consider issues relating to a particular accounting topic. The committees are comprised of four members of which at least one is a board member.
9) Output (final pronouncement titles)	<ul style="list-style-type: none"> o Statements of Financial Accounting Standards o Statements of Financial Accounting Concepts o Interpretations o Technical Bulletins 	<ul style="list-style-type: none"> o Statement of Standard Accounting Practice u Statement of Recommended Practice o Franked Statement of Recommended Practice 	o Statement of International Accounting Standards
10) Underlying Methodology	A conceptual framework is used as a basis for developing standards. (Statements of Financial Accounting Concepts Nos. 1, 2, 3, 4, 5 and 6)	Case-by-case determination of what is useful without an integrated conceptual framework.	Harmonization of international accounting standards. Currently working on developing an international conceptual framework.

COMPARISON OF THE FASB, ASC AND IASC

Elements of Comparison	Financial Accounting Standards Board (FASB)	Accounting Standards Committee (ASC)	International Accounting Standards Committee (IASC)
11) Due Process	<ul style="list-style-type: none"> o Identification and selection of a topic o FASB staff and a task force study the topic o Discussion memorandum or invitation for comment prepared o Public written comments reviewed o Public hearing is held o Written and oral comments are analyzed o Exposure draft prepared and published o Public comments analyzed o Final standard is agreed upon by a majority of the seven member Board 	<ul style="list-style-type: none"> o Identification and selection of a topic o Research study commissioned and carried out o Working party formed o Initial feedback to ASC o Technical drafting and consultation o Consideration of draft by the ASC o Publication of exposure draft or other consultative document o Redrafting and further consultative meetings by working party o Consideration of draft standard by ASC o Sent to CCAB Councils o Draft standard considered and approved by six Councils o Standard issued by six Councils 	<ul style="list-style-type: none"> o Identification and selection of a topic o Steering Committee assigned to study topic o Steering Committee presents an outline on the subject to the Board o Initial feedback received from the Board o Steering Committee prepares a preliminary draft of proposed standard o Preliminary draft is circulated to all member bodies for their comments o Publication of exposure draft o Summary of comments and decision on future progress o Steering Committee then submits a revised draft to the Board for approval as an International Accounting Standard o Standard approved by at least three-quarters vote of the Board and is released to member bodies

Resolutions of the Meeting of Heads of Islamic Banks
on Accounting Standards for Islamic Banks held on R. Awal
30,1410H (October 29, 1989) at Islamic Development Bank.

The Heads of Islamic Banks at their meeting on R. Awal 30, 1410H (October 29, 1989) considered the Report of the Preparatory Committee for Accounting Standards for Islamic Banks which was constituted at the meeting of the Islamic Banks held in Rabat on 17, 1409H (February 22, 1989) on the occasion of the 13th Annual Meeting of the Board of Governors of the IDB.

The Heads of the Islamic Banks meeting thank the Preparatory Committee for completing their assignment which was given to them by the Islamic Banks meeting in Rabat 17, 1409H (February 22, 1989) as under:

- a. Nominating the Supervisory Committee members.
- b. Preparing the statute and by-laws (Constitution) for the Supervisory Committee and the Financial Accounting Standards Board.
- c. Preparing the first year budget and estimates of the expenditure for the first three years.

The Heads of Islamic Banks Meeting resolved as under:

1. The recommended body for the promulgation of Accounting Standards for Islamic Banks consisting of a 17 Members Supervisory Committee and a 21 Members Financial Accounting Standards Board be setup.

2. That the constitution for the body drafted by the Preparatory Committee be approved and the body registered subject to such amendments which the Supervisory Committee may consider appropriate at its first meeting.

3. The Supervisory Committee members are listed in attachment 1 for the approval of this meeting of the Heads of Islamic Banks. The names for the Financial Accounting Standards Board appear in attachment 2 as a recommendation for the consideration of the Supervisory Committee.

4. The selected members of the Supervisory Committee will be informed and invited by the IDB to the first meeting of the Supervisory Committee within one month. The agenda for this meeting will include:

- Location of the Accounting Standards for Islamic Banks body.
- Establishing the legal requirements for setting up this body.
- Approving the Constitution (by-laws) in its final form.
- Selecting the members of the Financial Accounting Standards Board.
- Selecting the Chairman and Vice-Chairman of the Financial Accounting Standards Board.
- Any other business.

5. That they will adopt and conform to all Accounting Standards promulgated by the Financial Accounting Standards Board for Islamic Banks.

6. The first year budget and estimates of expenditure for the first three years are approved in principle to be discussed in detail by the Supervisory Committee in their first meeting. It is understood that the funds will be made available from all sources listed in the report with the understanding that the IDB and the Islamic Banks will underwrite the estimated expenditure for the first three years.

7. The Supervisory Committee will be assisted in the implementation of the tasks necessary to convene the first Supervisory Committee meeting by the Executive Committee of the Preparatory Committee for Accounting Standards for Islamic Banks.

KRA/RESAS

Names short-listed by the Preparatory Committee
for Accounting Standards for Islamic Banks for the
Supervisory Committee and the
Financial Accounting Standards Board

Category | Names | Resume

SUPERVISORY COMMITTEE

6 Islamic Bankers

Chairman of Faisal Group of Islamic Banks
Chairman of Al-Baraka Group of Islamic Banks
Chairman of Kuwait Finance House
Managing Director of Al-Rajhi Banking and Investment Corp.
President, IDB
Managing Director, Bank Islam, Malaysia

5 Accountants in Public Practice

1. Dr. Abdul Aziz Hijazi
Accountant
Ex Prime Minister
and Finance Minister
of Egypt.
2. Mr. Ayub Sabri
Practicing Accountant
Previously Deputy
Minister, Ministry of
Finance, Saudi Arabia.
Ex Chairman, Credit
Bank, Saudi Arabia.
3. Mr. Mohamed Abdul Halim Mohamed
Auditor of Islamic
Banks in Sudan. Ex
Auditor of SAMA.
4. Mr. Ismail Mohamed Amin
Managing Partner
Ernest & Whinney
Middle East. 25 years
experience of
accounting. President
of Accountants Asso-
ciation - Bahrain.
5. Representative of North Africa

1 Fuqaha

Mr. Saleh Al-Hussayn
Renowned Scholar -
Member of several
Islamic Organizations

Category	Names	Resume
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1 Academician

Dr. Nejatullah Siddiqui

Professor of Islamic Economics, King Abdul Aziz University, Jeddah. Winner of King Faisal Prize for economics. Authority on Islamic Banking Theory and practice.

2 Users of Financial Statements

1. Dato Haji Hanafiah Haji Ahmed

Chairman of Pilgrims Management and Fund Board of Malaysia. Shareholder plus biggest user of Bank Islam, Malaysia.

2. Sheikh Abdullah Al Muttawah

Prominent businessman in Kuwait.

2 Representatives of regulatory agencies

1. Mr. Abdul Jaleel Gharabatti

Deputy Governor, Kuwait Central Bank, Board Member Kuwait Finance House.

2. Chairman, Pakistan Banking Council

Ex-officio, Pakistan Banking Council is the regulatory and supervisory body for all state owned Banks in Pakistan which operate in accordance with Shariah.

Category | Names | Resume

FINANCIAL ACCOUNTING STANDARDS BOARD

6 Islamic Bankers

1. Representative from Al-Faisal group of Islamic Banks
2. Representative from Al-Baraka group of Islamic Banks
3. Representative from Al-Rajhi
4. Representative from Kuwait
Finance House
5. Director, Islamic Banking -
Pakistan Banking Council
6. Representative of Islamic
Development Bank

6 Public Accountants

1. Mr. Abdul Aziz Al-Rashed - Saudi - Has his own auditing firm "Al-Rashed CPAs" in Saudi Arabia. Has previously worked with Saudi Government involved in fiscal policies. Auditor of Islamic Development Bank. Entrusted by the Ministry of Commerce, Saudi Arabia with the Development of Accounting Profession. Chairman of previous Accounting Standards Committees for Islamic Banks.
2. Mr. Samir T. Badawi - US National - Managing Partner, Jeddah Office of auditors Whinney, Murray. Auditors of several Islamic Banks. Members of all previous Accounting Standards Committees for Islamic Banks.
3. Mr. Abdul Gadir Banaga - Sudanese - Managing Partner, Jeddah office of auditors Baeshan and Banaga. With accounting background and experience. Auditor of Islamic Banks in Sudan and Saudi Arabia. Members of all previous Accounting Standards Committees for Islamic Banks.
4. Mr. Hazim Hasan - Egyptian - Practicing auditor of Islamic Banks, Egypt.
5. Mr. Ibrahim Al-Subeill - Saudi - Ex government official. Previous Director General of a Bank and Member of Saudi Accounting Association.
6. Representative from Turkey.

Category	Names	Resume
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3 Fugaha

1. Dr. Shaikh Siddiq Al-Darir - Sudanese - Member Shariah Board of Sudanese Islamic Bank. Professor of Shairah.
2. Sheikh Abdullah Bin Sulaiman Al-Maneea, Saudi - Retired High Court Judge, Member Religious Board and Faisal Islamic Bank, Bahrain.
3. Dr. Yousuf Al-Qardawi - Egyptian - Renowned Scholar.

2 Academicians

1. Dr. Rifaat Abdul Karim - Sudanese - Associate Professor in Accountancy in Kuwait University. Has written several papers on Islamic Banking.
2. Dr. Abdullah Al-Faisal - Saudi - Professor of Accounting, King Saud University.

2 Users

1. Dr. Umar Zubair Hafiz - Saudi - Ph.d in Economics. General Manager Shairah Al-Madinah Investment Co. Previously Director, Research Centre in Islamic Economics in King Abdul Aziz University, Jeddah.
2. Sheikh Shaheen Al Ghanim - Prominent Kuwaiti businessman.

2 Representatives for Regulatory Agencies

1. Irtiza Hussain - Pakistani - C.A. Scotland Institute of Chartered Accountants Previously Senior Partner. A.F. Ferguson & Co. Presently Chairman, Corporate Law Authority, Govt. of Pakistan Member of the I.A. Steering Committee of the International Accounting Standards Committee (U.K.) Also member of all previous Accounting Standards Committees for Islamic Banks.
2. Mr. Abdel Malik Al-Hamer, Governor, UAE Central Bank, Lecturer in Islamic Banking subjects.

A:03: