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AAOIFI to perform temporary watchdog role

By: Staff Writer

The Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) intends to monitor Islamic financial products in the absence of a sector watchdog.

AAOIFI stated it plans to 'screen products and services offered by the industry for Shari'ah compliance'. According to Mohamad Nedal Alchaar, Secretary General of the organisation, the move would help to 'homogenise the market'.

"Although AAOIFI is not taking on a permanent role of industry watchdog, there exists a current huge gap in the market relating to credible Shari'ah compliance screening of products and services," stated Alchaar.

Currently, the Islamic financial industry must rely on different standard-setting bodies, such as AAOIFI in Bahrain and the International Financial Services Board (IFSB) in Malaysia, which recently issued new governance and capital adequacy guidelines (NewHorizon, April-June 2009). The guidance of individual, qualified Shari'ah scholars also plays an important role, as do national governments in countries which practice Islamic finance.

An example of the difficulties facing the industry came with comments from Shaikh Muhammad Taqi Usmani, head of the Shari'ah committee of AAOIFI, pronounced in February 2008 that many Sukuk issues up to that point were not Shari'ah-compliant. This resulted in a sharp drop in new issues of Sukuk, despite having doubled every year since 2004 (NewHorizon, October-December 2008).

As well as preparing accounting, governance, ethics and Shari'ah standards for Islamic banking and financial institutions, AAOIFI already provides product and auditing standards which are mandatory in seven countries across the Islamic world (Dubai, Bahrain, Jordan, Lebanon, Qatar, Syria and Sudan). Alchaar stated that AAOIFI wants to screen products of all institutions, not just those which are members of AAOIFI, and not just those in the seven countries listed. "It will be market-wide, regardless of the geographic distribution of products," he said.

AAOIFI plans to submit a proposal to this effect to its board of trustees by the end of 2009.

