Ref. 1121/5244/MB
29th November 2021

Omar Mustafa Ansari
Secretary General
Accounting & Auditing Organization for Islamic Financial Institutions (AAOIFI)
Al Nakheel Tower
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Manama
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Dear Mr. Ansari,

السلام عليكم ورحمة الله وبركاته،،

CIBAFI Comments on the AAOIFI Exposure Draft on "Accounting for Takaful: Recognition and Measurement"

The General Council for Islamic Banks and Financial Institutions (CIBAFI) presents its compliments to the Accounting & Auditing Organization for Islamic Financial Institutions (AAOIFI) and takes this opportunity to express its appreciation of the work that the AAOIFI does to promote and enhance the Islamic financial services industry.

CIBAFI is the official umbrella for all Islamic financial institutions, whose services and products comply with the Shariah rules and principles. CIBAFI acts as the voice of the Islamic finance industry, and our members comprise more than 130 Islamic banks and non-bank financial institutions, both large and small, from 34 jurisdictions.

We welcome this opportunity to offer our comments and recommendations on the AAOIFI exposure draft (ED) on “Accounting for Takaful: Recognition and Measurement”. The comments contained in this letter represent the views of the CIBAFI Secretariat and feedback received from our members.

First: CIBAFI and its members noted that there are some points where the language of the ED cannot be easily understood, including places where the meaning can be quite hard to understand. Examples are the definition of ‘fair value of future cash flows’ in para 4 (c), where there appears to be at least one typographical error, and para 22. It would be helpful for the final standard to be read by an experienced English-speaking copy editor, familiar with the IFRS standards, and revised if needed. The language should be aligned with that of the IFRS to the extent possible without compromising the Islamic specificities.

Second: the ED, in para 4, defines some concepts for purpose of interpreting and applying to this standard. In para 4 (l), the definition of re-Takaful is explained where the standard mentioned about the term Tabarru and its role in the formation of re-Takaful PTF. A similar term has been used in some other sections of the standard. However, the term Tabarru is not clearly defined and therefore, for better understanding, it should be defined separately in the definition section of the standard to avoid any confusion.

Also, in para 4 (l), the term “avoidance” is used. This has a particular meaning in the insurance sector which is not appropriate in this context. In any event, the Takaful institution does not in any way diminish its liability to the contributor when it places re-Takaful; should the re-Takaful fail, the Takaful institution still retains that liability. It would be better to replace “avoidance” with “mitigation”.

The ED, in para 4 (u) and 4 (v), provided the definitions of Wakala (agency) and Wakala fee (agent’s remuneration), however, the definition does not include an explanation as noticed in the other definitions. That definition can include an explanation for further clarification.

Finally, we have noted in our comments on the ED on Takaful presentation and disclosures that regulators often require Qard Hasan to be paid down with the aim of ensuring that the PTF has resources sufficient to pay policyholder claims. They may require that assets (including the Qard Hasan paid down) exceed liabilities or may apply a capital adequacy test at the level of the PTF requiring assets to exceed liabilities by some defined amount. However, in the current ED para 13 says that the PTF shall repay the Qard Hasan when it next accrues a surplus (and/or has enough liquidity). This implies both that a capital adequacy requirement cannot be imposed and also that the money cannot be kept voluntarily within the PTF to sustain any growth within the business. The former is a constraint which regulators may not accept; the latter may be considered an unnecessary constraint on Takaful operators. We suggest that the final sentence of para 13 be deleted and that the final FAS should limit itself to specifying the accounting treatment of Qard Hasan remaining in the PTF, for whatever reason.

We would like to express our appreciation to AAOIFI for its great effort and commitment with respect to developing standards that accommodate the interest of the global Islamic finance industry.

We remain at your disposal should you need any further clarifications on the above.

The General Council for Islamic Banks and Financial Institutions takes this opportunity to renew to the Accounting & Auditing Organization for Islamic Financial Institutions (AAOIFI) the assurances of its highest respect and consideration.

Yours sincerely,

Dr. Abdelilah Belatik
Secretary General

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