

Adaption of the Shariah Standards of AAOIFI in the Islamic Finance Industry of Pakistan: An Exploratory Study

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Abstract

This study analyses the clarifications and amendments made by the State Bank of Pakistan (SBP) to the AAOIFI Shariah Standards, particularly on Shariah Standard 19: Loan (s). Interviews were conducted with Shariah Board members, academics, and industry experts to assess these amendments' need for and impact. Most of the changes introduced by the SBP are to simplify the language, improve terminology, and align the standards with Pakistan's local market and legal framework. Some significant amendments have been made, such as requiring a return to the original currency or asset to repay the loan and prohibiting any financial benefit for the lender beyond the original amount. The SBP has also introduced relaxation or waiver options for loan repayment in sync with humanitarian traditions. However, these amendments have been criticized, with concerns about complications and ambiguity in practical application. Specific terms such as "locker services" and Hiba (gift) issues have raised questions about transparency and clarity. The SBP, as a critical player, often makes these amendments to adapt global Shariah standards to local financial realities, striking a balance between Shariah compliance and the practical challenges of the Pakistani financial system. Research has also highlighted the need for the SBP to provide detailed explanations and background on these amendments and clarifications. This need is crucial as it ensures that these amendments can be better understood and applied uniformly, promoting transparency and understanding in the industry. The study emphasizes the significant role of local regulatory bodies, in collaboration with the SBP, in interpreting and implementing Shariah standards. This collaboration provides reassurance and confidence in the system, ensuring that the principles of Shariah are upheld in the Pakistani financial

system and that the system is robust and reliable. The study recommends that scholars and financial experts regularly consult on Shariah principles and provide clear explanations in Urdu and English.

Keywords: Islamic banking, AAOIFI Shariah Standards, SBP amendment, Loan.

Introduction

Islamic finance, a system guided by the principles of Shariah, is distinct in its prohibition of usury, uncertainty, gambling, and immoral investment. It places a strong emphasis on risk-sharing, ethical investing, and the avoidance of exploitation. One of its key features is using an interest rebate, which replaces the concept of interest with a profit or markup price division. These unique features set Islamic finance apart from conventional finance systems. (Harahap et al., 2023). Financial transactions are linked to tangible assets or services to promote actual economic activities. Further, agreements between Mudarabah and Musharakah are standard, where profit and loss are divided according to a predetermined ratio. There should be no uncertainty, and contracts must be clear and transparent (Maghfiroh, 2023). Islamic finance has made significant strides in the past few decades, particularly in developing financial products and Islamic insurance (Takaful) through Islamic banks. These alternatives to the traditional financial system are based on Shariah principles and aim to promote financial inclusion and ethical principles in economic matters (Qudah et al., 2023).

The global Islamic financial services industry in 2023 reached \$3.38 trillion at a worldwide growth rate of 4% per annum amid a challenging macroeconomic environment marked by inflationary pressures, geopolitical tensions, and banking sector stress. Islamic banking remained the most significant part of the Islamic financial service industry (IFSI), making up 70.21% of the total global IFSI norms in 2023, while shock standing. Islamic funds combined accounted for 29.08%, and the Islamic insurance segment accounted for 0.71%. Regarding regional distribution, the Gulf Cooperation Council region recently accounted for the bulk of global Islamic financial services norms, accounting for over 52.50 percent, followed by the East and Central Pacific, which added 21.80 percent. East and North Africa (excluding GCC) accounted for 12.70%, Europe and Central Asia 8.30%, South Asia 3.10%, Sub-Saharan Africa 0.70%, and other regions combined 0.90% (IFSB, 2024).

At the end of March 2024, the Islamic Banking Industry's (IBI) assets increased by PKR 241 billion to reach PKR 9,235 billion in Pakistan. Similarly, IBI's deposits continued to move upwards, increasing by PKR 126 billion to reach PKR 6,875 billion. The annual growth of IBI's assets and deposits stood at 22.6 percent and 28.5 percent, respectively. Finance (net) grew by 1.0 percent year-on-year to reach PKR 3,259 billion, while investment (net) grew by 41.3 percent to reach PKR 4,405 billion (SBP, 2024).

Regarding market share, IBI's assets and deposits were present in the banking industry at 19.9 percent and 23.2 percent, respectively. IBI's market share of finance (net) and investment (net) in the banking industry stood at 28.0 percent and 16.3 percent, respectively, at the end of March 2024. The number of IBI branches increased to 5,101, with a promising growth of 15.2 percent per annum. While the number of Islamic Banking Windows (IBWs) stood at 1,916, reflecting an annual increase of 4.6 percent (SBP, 2024).

Moreover, in 2010, the SBP started adapting the AAOIFI Shariah standards to integrate and streamline Shariah practices and procedures in the Islamic banking industry (SBP, 2010). Further, in 2020, the SBP adapted three Shariah standards, including “SS 19: Loan (Qard), SS 23: Agency and the Act of an Uncommissioned Agent (Fodooli), and SS 28: Banking Services in Islamic Banks” (SBP, 2020). The adaptation process of these three Shariah standards has included changes/amendments to the original AAOIFI standards. These changes can be classified into three groups: first, the SBP has just clarified; second, it extended the clauses of AAOIFI Shariah standards; and third, it made certain amendments, which in some places contradict the AAOIFI Shariah standards (Farooq & Zafar, 2024).

Considering the above-mentioned financial developments by the SBP, the current research is being done to know the nature of the changes and amendments made by the SBP while adapting the AAOIFI Shariah standards and their implications. This article critically examines the changes and amendments made by the SBP to adapt Shariah standards in Pakistan. It highlights conflicting clauses with AAOIFI Shariah standards and incorporates interviewees' suggestions, providing an in-depth understanding of their impact on the Islamic banking industry.

Table 01: List of the 03 Shariah standards adapted by SBP

	AAOIFI Shariah	Issued	Revised	Adapted	Clauses	Clauses	Percentage
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	Standard	by AAOIFI	by AAOIFI (If any)	by SBP	in AAOIFI Standard	amended/clarified by SBP	
1	SS 19: Loan (Qard)	May, 2004	--	(SBP, 2020)	24	15	62.50%
2	SS 23: Agency and the Act of an Uncommissioned Agent (Fodooli)	Apr 2005	May, 2005	(SBP, 2020)	64	30	46.88%
3	SS 28: Banking Services in Islamic Banks	Jun, 2006	Jul 2006	(SBP, 2020)	20	6	30.00%

Source: (SBP, 2020)

Problem Statement

In 2020, the SBP adapted three Shariah standards, including “SS 19: Loan (Qard), SS 23: Agency and the Act of an Uncommissioned Agent (Fodooli), and SS 28: Banking Services in Islamic Banks”. The purpose of these standards was to improve the regulatory framework for Islamic banking in Pakistan; however, in the process, clarifications, extensions, and amendments have been added to the original Shariah standards of AAOIFI. These changes confuse researchers, especially amendments that contradict AAOIFI's original Shariah standards and raise questions about Shariah compliance. Moreover, the SBP has not explained or justified these amendments or changes, leading to significant flaws in understanding their background.

This research addresses whether the SBP amendments are disrupting Shariah Compliance with the original standards and the impact these changes could have on Pakistan's Islamic banking industry. In addition, this study highlights the SBP's lack of explanation for these changes and the research confusion that arises from them. Identifying and analyzing these potential conflicts provide essential insights into the regulatory challenges of national adoption of international Shariah standards.

Research Objective

To explore and analyze the changes/amendments and contradictions made by the SBP to the SS 19: Loan (Qard) while adapting the AAOIFI Shariah standards.

Research Question

What changes/amendments have the SBP made to the SS 19: Loan (Qard) while adapting the AAOIFI Shariah standards?

Research Limitation

This research is limited to the one AAOIFI Shariah standard, 19: Loan (Qard), one of the three adapted Shariah standards by the SBP in Pakistan in 2020.

Review of the literature

Loan (Qard)

The words used in this context in the Qur'an, Hadith, and Fiqh are debt, salaf, and Dayn. The first two terms (loan and salaf) refer to giving or receiving a loan, while religion comes into being because of any agreement or borrowing. The literal meaning of the word "loan" is "to cut," and it is so called because when the lender gives something from his property, he is temporarily separated from it. Legally, a loan means giving away any valuable thing in someone else's possession so that he can benefit from it, with the condition that the same thing or an equal amount of it is returned at a fixed time or on demand (Ayub, 2012).

Ayub (2012) Discuss that a qard is a loan given for the borrower's benefit, and the lender can ask for it back at any time. The ownership of the borrowed items is transferred to the borrower, who can use, buy, sell, or donate them like his other items. Salaf is used for a fixed-term loan; in this sense, it is closer to religion, as both are obligations arising for a fixed period due to credit dealings. A loan can consist of anything of value, and its equivalent or substitute is due immediately or on demand in the case of a loan, while in the case of Salf and Dayan, it is payable on time. The loan should not be conditional on any other agreement, such as a lien.

Ahmed & Bukhari (2019) According to the Hanafi school of thought, the subject of the loan agreement should be known and tangible wealth (sold in the market). In contrast, other scholars think that debt is permissible in everything that can become the subject of Salam. It is also debatable among scholars whether a loan can be deferred by fixing the time of repayment. Most Shariah scholars believe that the loan cannot be deferred and that the

creditor has the right to demand the return of the loan at any time. In contrast, Imam Malik believes that the loan can be deferred, and if someone does not return the loan, legal action can be taken against him.

Ahmed & Bukhari (2019) further mentioned that current accounts are accepted based on debt recourse; the loan principles of Shariah shall apply to non-remunerative current accounts. The principal amount will be guaranteed, and the bank must fully return the borrowed amount. AAOIFI has also made it mandatory for the bank to return the equivalent amount on demand in case of current deposits. Moreover, since it is a loan, no additional money, material gifts, financial incentives, or services will be offered to the current account owner. AAOIFI also exempts credit card, transfer, and deposit box charges in this category (AAOIFI, 2023). The SBP has also made similar observations regarding value-added services provided by Islamic banks to current account holders; however, the SBP says these services are allowed if provided to all account holders on a relationship basis without discrimination (SBP, 2020).

Research Methodology

In view the objective of the study, that is to explore the changes that have been made by the SBP while adapting the AAOIFI Shariah standards in two aspects: first, the nature of the changes, and second, the implications of the changes, in-depth interviews have been conducted. The nature of the SBP's changes to the 01 AAOIFI-adapted Shariah standards was the subject of the questions. Both the clauses have been discussed with the respondents, the original clause of AAOIFI Shariah standard and the corresponding changed clause by the SBP, and the following opinions have been sought in either case scenario basis.

1. If changing is just clarifying, is it a general clarification or a further extension of the AAOIFI clause?
2. On the other hand, if the changes concern amendments to AAOIFI clauses, what is the potential reason behind these amendments?
3. If the potential reason is to meet the requirements of the local industry, then due to this amendment, is there any contradiction with the general principles of Islamic finance or not, and what is his/her opinion on it?

Respondents to the in-depth Interviews

The study included five key respondents who provided valuable perspectives on the amendments and clarifications regarding the three AAOIFI Shariah Standards. The first respondent was a prominent member of a Shariah board with deep expertise in Shariah compliance and Islamic finance. His insights help us understand the convergence or deviation of the SBP amendments from the traditional views of Shariah. Another respondent was an academic researcher specializing in Islamic finance and Shariah law. His educational background provides the theoretical framework for analyzing the impact of the SBP changes and their impact on scholarly interpretations of Shariah standards. The third respondent, a Shariah Board of the SBP member, provided a unique perspective on the amendments' regulatory and operational aspects. His involvement in the decision-making process in the SBP helped us understand the logic behind the revisions and clarifications.

Furthermore, an industry expert with extensive experience in Islamic finance offers practical insights into how the SBP's amendments impact the industry's operational practices and the implementation of Shariah standards. These respondents collectively reviewed the SBP's practices, encompassing normative, educational, shariah, and practical approaches. Their insights supported a thorough analysis for research purposes.

Sample Size and Protocol of In-depth Interviews

A sample of five respondents was selected for the study to comprehensively analyze the amendments to the SBP's adapted AAOIFI Shariah Standard SS 19: Loan (Qard). Each respondent was chosen based on their specific and diverse expertise. A Shariah Board member provides insight on Shariah compliance, an academic researcher offers a theoretical perspective, the SBP Shariah Board member explains regulatory decisions, and an industry expert sheds light on practical implications. This diverse representation ensures that the SBP changes are understood from different angles, making the sample size suitable and sufficient to meet the research objectives effectively. Some interviews were conducted in person, and some via Zoom. All interviews were recorded with the participant's permission and later added to the text. Ethical principles such as confidentiality and consent of the participants were fully considered during the study.

Results and Discussion

AAOIFI Shariah Standard No. SS 19: Loan (Qard)

The SBP has made specific amendments/clarifications towards the AAOIFI Shariah Standard No. 19, which deals with loan (Qard). The total number of clauses in the AAOIFI Shariah standard loan is 24, but SBP clarified the 15 Clauses of the AAOIFI Shariah standard (SBP, 2020).

AAOIFI Clause 3/2

“The legal capacity for making a donation is stipulated for the lender”.

Clarification/amendment by SBP

"The following is added as footnote to the clause:

The term ‘legal capacity’ may be read as ‘legally capable’."

Interviewees remarks

Interviewee 1 remarks, “This is a clarification. The original AAOIFI clause used the term "legal capacity," and the SBP added a margin. To clarify how the term should be understood in the local context. "Legitimate competence" can be read as "Legitimate competence" from the statement that the SBP is not changing the content of the original clause but is providing an interpretation of it to guide its implementation”.

Interviewee 2 remarks, “This is a clarification. The SBP has changed it to "Legally Qualified" to make the concept more inclusive and applicable to the local context. This term includes not only formal legal qualifications. It also considers practical aspects, such as ensuring that the individual is mentally sane and not under any coercion. This broad interpretation provides more flexibility in determining who is eligible to donate, reflecting the diverse situation of Pakistan's legal and social environment”.

Interviewee 3 remarks, “This is a clarification because both terms are interchangeable. Another difference may be that Arabic is the language of the standards because it is the primary language of these Shariah standards. That is why the Arabic version will be considered. Further, in the local courts of Pakistan, the term “legally capable” is more acceptable. Eventually, due to this change, no material difference occurs”.

Interviewee 4 remarks, “This is a clarification as per the legal requirement in the environment of Pakistan”.

Interviewee 5 remarks, “The change was made to the Arabic version. So, this is a clarification.”

It is agreed in all interviews that the change made by the SBP to the AAOIFI standard clause is a clarification, not a significant change. Some interviewees say the change aligns with local legal and social conditions. So that words like "legally qualified" can be better explained (e.g., interviews 1 & 2). This includes formal legal qualifications and practical aspects, such as mental health and being free from coercion. Some have pointed out that the Arabic version is the original, so the change should be seen as a clarification (Interviews 3 and 5). Overall, these changes attempt to better adapt to Pakistan's local legal system, although the flexibility indicated by Interview 2 may point to more testing in the future.

AAOIFI Clause 3/3

“The legal capacity to undertake transactions is stipulated for the borrower.”

Clarification/amendment by SBP

The following is added as footnote to the clause:

“The term ‘legal capacity’ may be read as ‘legally capable’.”

Interviewees remarks

Interviewee 1 remarks, “This is an explanation, not a correction. The margin that SBP has added So that "legal capacity" is understood as "legally qualified," it is intended to further interpret the existing provision. without altering the original text or requirements”.

Interviewee 2 remarks, “The reason for defining SBP is probably to understand the term "legal capacity" as per practical and local conditions. The definition has been broadened from what is defined as "legally qualified" to So that it includes not only the formal legal status but also the practical capacity. It considers such circumstances. Where the borrower has the necessary skills or understanding but does not meet the legal criteria”.

Interviewee 3 remarks, “This is a clarification because both terms are interchangeable. Another difference may be that Arabic is the language of the standards because it is the primary language of these Shariah standards. That is why the Arabic version will be considered. Further, in the local courts of Pakistan, the term “legally capable” is more acceptable. Eventually, due to this change, no material difference occurs”.

Interviewee 4 remarks, “This is a clarification as per the legal requirement in the environment of Pakistan”.

Interviewee 5 remarks, “The change was made to the Arabic version. So, this is a clarification.”

Although all interviewees see it as a clarification, different perspectives emerge on its impact. Interviews 1 and 2 highlight their interpretative nature, which creates flexibility in the practical context. Interviews 3, 4, and 5 consider it a minor change according to the Arabic version and as a legal requirement. This different approach makes it clear that the amendment extends the practice but does not significantly affect the original standard.

AAOIFI Clause 3/4

“It is stipulated for the subject-matter of the contract that it be known fungible (Mithli) marketable wealth.”

Clarification/amendment by SBP

“The following is added as footnote to the clause: The clause shall be read as follows: It is stipulated for the subject-matter of the contract shall be **Maal-e-Mutaqawwam (valuable, and permissible from Shariah perspective) known, and fungible (mithli).**”

Interviewees remarks

Interviewee 1 remarks, “It can be called an extension of the original clause. The SBP emphasizes the relevance and value of "Maal-e-Mutaqawwam," Shariah expands the original definition and adds new criteria, not just defining or interpreting existing terminology.”

Interviewee 2 remarks, “By incorporating "Maal-e-Mutaqawwam," SBP ensures that the property is not only saleable and exchangeable but also legitimate and valuable as per the laws of Shariah. It ensures conformity with Shariah principles and that the goods meet ethical and legal standards”.

Interviewee 3 remarks, “As per Arab scholars, some things are fungible but not maal mutaqawwam, and they allow the trading of these fungible items. As for the Hanafi fiqh, they are not tradeable until these should be Maal mutaqawwam. So, this is a clarification and extension in a clause due to the difference of both fiqhs”.

Interviewee 4 remarks, "In Fiqh Maal has two types of fungibles (Mithli) and non-fungibles (Qiyami). The SBP further clarified that in the case of loan, it should be Maal-e-Mutaqawwam".

Interviewee 5 remarks, "This is a general clarification as per the Arabic version of the AAOIFI".

From the interviews, it can be concluded that the SBP's addition of "assets" is an extension and clarification of the original clause of AAOIFI. Interviewer 1 saw this as an extension in which the SBP has added new criteria to the original definition, not just interpreting pre-existing terms. According to Interview 2, by including "possessions," the SBP ensures that the property is legitimate and valuable according to Shariah laws and adheres to Shariah's moral and legal standards. On the other hand, Interview 3 pointed out the difference in jurisprudence, in which Arab scholars consider some items to be tradeable. Even if they are not money, according to Hanafi jurisprudence, they are only tradable at that time. When they are possessions, therefore, it is both a clarification and an extension. Interview 4 combined the description of the SBP with the condition of assets in the form of a loan. In contrast, Interview 5 described it as a general clarification of the Arabic version of AAOIFI. Overall, the interviewees agree that the change clarifies jurisdictional differences and is consistent with Pakistan's legal and operational requirements.

AAOIFI Clause 3/4/2

"The applicable rule is the return of an amount similar to the loan amount at the place where it was delivered."

Clarification/amendment by SBP

"The following is added as footnote to the clause: The word 'applicable' may be read as 'principal.'"

Interviewees remarks

Interviewee 1 remarks, "This is a clarification. Defining "applicable" to be treated as "principal" by the SBP defines what the refund amount should be".

Interviewee 2 remarks, "The AAOIFI clause says that the principle is that an amount equal to the loan amount will be returned, which means the commensurate value will be returned.

The SBP definition changes this and specifies that "applicable" should be read as "principal," that is, the principal loan amount should be returned, and not just the par value".

Interviewee 3 remarks, "This is a clarification. The word applicable includes all rules, but the word principal includes specific rules because many have no impact. That is why the SBP does not consider the word principal".

Interviewee 4 remarks, "This clarifies the SBP's choice of the appropriate word for a better understanding of the clause."

Interviewee 5 remarks, "This is a clarification".

It is clear from the interviews that the SBP's change of "applicable" to "principal" is a clarification with no significant changes. According to Interview 1, this clarification clarifies the refund amount as the actual loan amount. At the same time, Interview 2 emphasized that the AAOIFI clause talks about the amount of money returned being equal to the amount of the loan. Still, the definition of the SBP restricts it to the actual amount. Interviewer 3 stated that "applicable" involves several rules, while "principal" indicates special rules, so the SBP preferred the last word. On the other hand, Interviewer 4 praised the SBP's clarification of the term choice, which helped better understand the clause. At the same time, Interviewer 5 stated that it is a general explanation. Overall, the interviewees agree that this change of the SBP specifies the amount to be returned and aims to ensure the correct interpretation of the return obligations by Shariah principles. All of this reflects that the purpose of the SBP amendment is to provide clarity, thereby removing potential ambiguities.

AAOIFI Clause 4/1

"The stipulation of an excess for the lender in loan is prohibited, and it amounts to Riba, whether the excess is in terms of quality or quantity or whether the excess is a tangible thing or a benefit, and whether the excess is stipulated at the time of the contract or while determining the period of delay for satisfaction or during the period of delay and, further, whether the stipulation is in writing or is part of customary practice."

Clarification/amendment by SBP

“The following is added as footnote to the clause: The text “determining the period of delay for satisfaction or during the period of delay and, further, whether” may be read as “extending the repayment period or during the credit period, regardless”.

Accordingly, the clause 4/1 will be read as, “The stipulation of an excess for the lender in loan is prohibited, and it amounts to Riba, whether the excess is in terms of quality or quantity or whether the excess is a tangible thing or a benefit, and whether the excess is stipulated at the time of the contract or while extending the repayment period or during the credit period, regardless the stipulation is in writing or is part of customary practice.”

Interviewees remarks

Interviewee 1 remarks, “This is an amendment. The marginal insertion by the SBP changes the text of the original clause from “during the period of satisfaction or delay” to “during the period of extension of payment or period of credit,” which changes the scope and applicability of prohibition of extension.”

Interviewee 2 remarks, “This is an amendment. The AAOIFI clause prohibits any addition to the credit for the debtor, whether it is in additional quality or quantity, or whether it is a physical thing or a benefit, and whether it is determined at the time of the additional contract, during the payment period or the delay, and whether it is in writing or as part of a routine process. The definition of SBP changes this and replaces “during the period of satisfaction or delay” with “during the period of extension of payment or credit period.” This makes it clear that any extension of the repayment period or any additional amount settled during the credit period is also covered under Riba”.

Interviewee 3 remarks, “Here, the approach of the AAOIFI is generalized, and the SBP approach is specified so that no one can take undue advantage. The SBP clarified that any settlement during the credit period will be considered interest”.

Interviewee 4 remarks, “The AAOIFI's generalized approach is outlined, while the SBP's specific approach ensures no undue advantage, clarifying that settlements during the credit period are considered interest”.

Interviewee 5 remarks, “This is a clarification”.

In the interviews, the change made by the SBP to the original clause is an amendment, not just a clarification, which brings significant changes regarding its scope

and the prohibition of extensions. In Interview 1, it is stated that the SBP's change of the words "during past satisfaction or delay" to "during payment extension or credit period" widens the scope of the prohibition of extension. Interview 2 explained that the AAOIFI clause prohibits any increase for the borrower. At the same time, the definition of the SBP includes the additional amounts fixed during the repayment period and clarifies that such operations fall under the rebate category.

Furthermore, Interview 3 and Interview 4 emphasized a shift from the general approach of AAOIFI to the specific approach of the SBP to avoid any potential benefits. According to them, the settlement made during the credit period will be considered as interest. Interviewer 5 called the change only a clarification. Still, the rest of the interviewees believe that the SBP's changes represent an essential modification, which affects the interpretation of their relationship with Riba regarding extensions and settlements. The change reflects an effort to eliminate any potential loopholes to ensure compliance with Shariah principles, leading to a stricter interpretation of the prohibition of interest in financial transactions.

AAOIFI Clause 4/2

"It is permissible to stipulate the **satisfaction (repayment)** of Qard at a place other than that where the loan was made."

Clarification/amendment by SBP

"The following is added as footnote to the clause:

The text '**the satisfaction**' and brackets around the word '**repayment**' shall be **omitted**."

Interviewees remarks

Interviewee 1 comments, "This is a clarification. The parentheses around "repayment" and "the satisfaction" in the margin of the SBP have been deleted, clarifying the clause more straightforward without changing the original content."

Interviewee 2 comments, "This is a clarification. The provision of AAOIFI says that the loan can be made at a place different from where the loan is given, which means the

repayment can be made at a different place. The parentheses around "repayment" and "satisfaction" have been deleted in the SBP specification, meaning that only "repayment" is being addressed without any additional context or restrictions.”

Interviewee 3 remarks, “The SBP utilized the word repayment because repayment is for the actual amount. This is a minor amendment because AAOIFI’s approach is minimal here; for example, the word satisfaction includes the place of returning the payment. It should be in US dollars, and you will give the complete amount, which is not logical. So, satisfaction will be considered if these three conditions are fulfilled, as repayment can be done anywhere. So, the SBP removed the ambiguity to change the word satisfaction with repayment, which is more aligned”.

Interviewee 4 remarks, “The AAOIFI provision allows loan repayments to be made at a different location, and the additions around "repayment" and "satisfaction" have been removed from the SBP specification, focusing only on "repayment" without any additional context or restrictions.”

Interviewee 5 remarks, “This is a clarification”.

It is clear from the interviews that the changes made by the SBP come primarily as clarifications, not as any significant modifications. The removal of parentheses has simplified the definition of "payment" and "satisfaction," shifting the focus to just "payment" and providing flexibility in terms of space. This change is closer to practical reality, as using "payment" rather than "satisfaction" reduces ambiguity and highlights the need to meet specific payment conditions. Interviewees agree that the SBP's amendments are intended to make the language of the clause more transparent, increasing clarity and practicality while retaining the original principles set out in the AAOIFI Guidelines.

AAOIFI Clause 5/2

“An excess over Qard is permissible in terms of quantity or quality, or offering of tangible property or extending of a benefit, at the time of **satisfaction** when it is not stipulated or is part of custom, irrespective of the subject-matter of Qard being cash or kind.”

Clarification/amendment by SBP

“The following is added as footnote to the clause: The word ‘**satisfaction**’ may be read as ‘**repayment**.’”

Interviewees remarks

Interviewee 1 comments, "This is a clarification. The margin of the SBP has not changed the basic meaning or terms of the original clause; rather, it has replaced "satisfaction" with "repayment" to clarify the term. To ensure a better understanding of the clause".

Interviewee 2 comments, "The AAOIFI clause allows that an additional amount or benefit can be given on a loan (loan hasana), whether it is in quantity, quality, physical object, or benefit, provided that the increase is not stipulated in the contract, or it is part of custom, and it can be given at that time. When the loan is repaid at the time of satisfaction, the word "satisfaction" has been replaced by "repayment" in the SBP specification, which focuses specifically on the loan repayment process rather than a broader definition of "satisfaction."

Interviewee 3 remarks, "This is a clarification by the SBP on the base of the nature."

Interviewee 4 comments, "The AAOIFI clause permits additional loan benefits, regardless of the amount or nature of the increase, if it is not explicitly stated in the contract or customary and can be given at the time of satisfaction. The SBP specification now uses "repayment" instead of "satisfaction" for loan repayment."

Interviewee 5 remarks, "This is a clarification due to the local norms".

An overall review of the interviews shows that the SBP's changes mainly define the terms used in the loan clauses. The SBP has improved the clarity by replacing "satisfaction" with "payment," while the basic meaning of the original clause remained unchanged. The AAOIFI clause allows for additional benefits, but the SBP specification focuses explicitly on the loan repayment process, consistent with local traditions. These changes simplify the context and clarify the intent behind the loan repayment to provide clear guidelines without fundamentally altering the principles of AAOIFI.

AAOIFI Clause 6

"Stipulation of a Period in Qard"

Clarification/amendment by SBP

"The following is added as footnote to the clause:

The text 'return its substitute (badal)' may be read as 'repay.'"

Interviewees remarks

Interviewee 1 comments, “This is a clarification. The margin of the SBP has replaced "return its substitute (badal)" with "repay," making the clause more straightforward and more transparent, without changing its basic meaning or terms”.

Interviewee 2 comments, “This is a clarification. In the AAOIFI clause "return its substitute (badal)" means that the borrower should return the equivalent value of the loan. The SBP specification replaces it with "repay," which focuses directly on the withdrawal process”.

Interviewee 3 remarks, “by the SBP as the SBP restricted the word repay because AAOIFI term substitute may create a dispute, but the SBP utilized repay to remove the ambiguity. “This is a clarification”.

Interviewee 4 remarks, “This is a clarification”.

Interviewee 5 remarks, “This is a clarification due to the local norms”.

It is clear from the interviews that the SBP's change has been made primarily to provide clarity, not to make any significant changes to the original clause. Interview 1 states that the language has been simplified by replacing "return" with "payment," increasing clarity without changing the meaning. Interview 2 confirmed that the original sentence called for the return of the fair value of the loan, while the SBP's choice of "repayment" focuses on the process of repaying the loan. In Interview 3, it is stated that the SBP has tried to eliminate possible conflicts arising from the word "replacement" by using "payment," which further adds to the clarity. Interview 4 and Interview 5 also agreed that these changes align with local traditions and clarify understanding of the loan repayment process. Overall, it is clear from the interviews that the SBP's amendments are intended to make the clause clearer and simpler without changing the original intent.

AAOIFI Clause 8

“Stipulation of a Reward for Raising Loans for **Another**.”

Clarification/amendment by SBP

“The following are added as footnotes to the clause: The word ‘**another**’ may be read as ‘**others**.’

The term ‘stratagem’ may be added within brackets with term ‘**Hilah**’ to read as

“(stratagem/Hilah).” The text ‘dealings among institutions’ may be read as ‘collusion with institutions.’

Interviewees remarks

Interviewee 1 comment, “This is an amendment. SBP changes the terms and sentences in the clause. To broaden the scope, clarify terminology, and highlight specific perspectives”.

Interviewee 2 comment, “This is an amendment. First, the scope has been widened by replacing "another" with "others." So that more than one party can be involved, not just one person, better to incorporate the issues of rewards for the loan. Second, the inclusion of "stratagem" with "hilah" in parentheses clarifies the specific nature of "hilah," which refers to a particular type of tactic or legal maneuver in Islamic finance. Thirdly, "dealings among institutions" has been changed from "collision with institutions" to emphasize the negative and deliberate action taken in conjunction with institutions, which possibly points to unethical behavior or manipulation. These changes have been made to improve the interpretation of the clause, clarify its terminology, and highlight potential problematic attitudes to provide clear guidance by Shariah principles”.

Interviewee 3 remarks, “This is a clarification by the SBP because the word another may be utilized for someone else or another loan. The SBP limited it to both parties to avoid ambiguity”.

Interviewee 4 remarks, “This is a clarification for the better understanding of the sentence structure”.

Interviewee 5 remarks, “This is a clarification to read it more understandable”.

It is clear from the interviews that the SBP amendments consist of significant changes aimed at improving the clarity of the original clause and expanding its scope. Interview 1 states that the changes do not only change specific terms. It also highlights a particular point of view. Interview 2 illustrates that replacing "another" with "others" enables the involvement of multiple parties, further expanding the debate regarding loan rewards. Furthermore, adding "stratagem" to "hilla" defines legal strategies in Islamic finance. At the same time, the conversion of "dealings among institutions" to "collusion with institutions" promotes ethical behavior rather than negative connotations. Interview 3 supports that limiting the word "another" helps to avoid ambiguity regarding the parties.

Whereas Interview 4 and Interview 5 emphasize that these amendments are meant to clarify sentence structure and improve overall understanding. The interviews indicate that the SBP is committed to improving the provision and enhancing its interpretative clarity under the principles of Shariah.

AAOIFI Clause 9/1

“It is permissible to a lending institution to charge for services rendered in loans equivalent to the actual amount directly spent on such services. It is not permissible to the institution to charge an amount in excess of such a service charge. All charges in excess of the actual amount spent are prohibited, and it is necessary to ensure precision in the determination of the actual charges so that they do not lead to an excess that can be deemed a benefit. The fundamental rule is that each loan bears its own specific charges, unless this becomes difficult as in the case of a group or common loan, in which case there is no restriction in the way of bearing direct collective charges for all the loans on the basis of the entire sum. It is necessary that the method of determining the charges be laid down by the Shariah Supervisory Board of the institution in detail, and this is to be done by distributing the expenses incurred among all the loans and each loan is to bear its share proportionately. An explanation of such circumstances is to be presented before the Board along with suitable documents.”

Clarification/amendment by SBP

“The following are added as footnotes to the clause: The Islamic Banking Institutions shall refer to Shariah Governance Framework and amendments therein as notified by State Bank of Pakistan from time to time. The text ‘in consultation with the accounting department’ shall be added after the text “...Shariah Supervisory Board of the institution in detail,” to reflect the complete Arabic translation. The accounting and relevant department(s) shall facilitate Shariah Board of the institution in validating the methods for determining the charges.”

Interviewees remarks

Interviewee 1 comment, “It is both clarification and amendment. The SBP has provided clarification that Islamic banking institutions should follow the Shariah governance framework, and the accounting department should be included in the decisions of the

Shariah Supervisory Board. Amending the original AAOIFI clause, the SBP has added the condition of involving the accounting department in the consultation process with the Shariah Supervisory Board to make the methods of determining the fee for services correct and fair. This change not only clarifies the original clause. However, it also adds some additional responsibilities, which can be explained and modified”.

Interviewee 2 commented, “The SBP aims to strengthen transparency, financial accountability, and Shariah governance in Islamic banking. It mandates the consultation of the accounting department with the Shariah Supervisory Board. So that no additional charges are levied while determining the service fee. The amendment also obliges Islamic banks to adhere to the Shariah governance framework. To ensure full compliance with Shariah principles and financial laws. Thus, SBP aims to establish strong governance and discipline in Islamic banking”.

Interviewee 3 remarks, “This is an amendment as AAOIFI just restricted to the Shariah standards, but the SBP referred it to the Shariah Governor framework and accounting standards because charges are also linked with all the system, not just to the Shariah.”

Interviewee 4 remarks, “This is a clarification; further, the SBP referred to the Shariah governance framework.”

Interviewee 5 remarks, “This is a clarification to read it more understandable”.

It is clear from the interviews that the SBP amendments constitute both clarifications and amendments aimed at improving the framework of Shariah rule in Islamic banking. Interview 1 states that while the SBP specifies the principles of Shariah rule to be followed for Islamic banking institutions, it also amends the original AAOIFI clause to include the condition of including the accounting sector in the consultative process of the Shariah Supervisory Board. The change also imposes additional responsibilities to make fee-fixing practices fairer and fairer for services. In Interview 2, it is stated that the SBP aims to strengthen transparency, financial accountability, and the rule of Shariah in Islamic banking. It calls for the involvement of the accounting sector in the consultation process. So that no additional charges are levied while determining the service fee. Interview 3 also states that the SBP's changes go beyond the

scope of AAOIFI's Shariah Standards, including the Shariah Governance Framework and Accountability Standards. Interview 4 and Interview 5 emphasized that these amendments are meant to enhance clarity and improve understanding of the framework of Shariah rule. Overall, the interviews indicate that SBP is committed to establishing a robust governance system to ensure the principles of Shariah are followed in Islamic banking practices.

AAOIFI Clause 10/1/1

“The **reality** of current accounts is that these are loans **and not deposits**. Thus, the institution comes to own the amounts and a liability to repay the amount is established against it.”

Clarification/amendment by SBP

“The following are added as footnotes to the clause: The text ‘**and not deposits**’ shall be **deleted**.”

The word ‘**reality**’ may be read as ‘**nature**’.”

Interviewees remarks

Interviewee 1 comment, “It is both clarification and amendment. Deleting the text "No Deposits" by the SBP does not align with the principles of Shariah. According to Shariah, viewing current accounts as loans, not deposits, is necessary to avoid interest and additional benefits. Deleting this passage may lead to ambiguity like current accounts and potentially violate Shariah's principles, prohibiting usury and unfair advantages.

According to Shariah principles, such as the Quran's prohibition of interest and the description of debts in Surah al-Baqara (2:275) and Surah al-Ma'idah (5:3), this change can lead to difficulties in harmonizing with Shariah. Current accounts need to be defined as loans to uphold the principles of Islamic finance. “

Interviewee 2 commented, “Deleting the "no deposits" clause in the SBP amendment may dilute this distinction, potentially leading to misunderstandings regarding the nature and ownership of current accounts under Shariah principles. This change may create a potential conflict in conformity with the principles of Shariah”.

Interviewee 3 remarks, “This is a clarification because here in Pakistan, deposit means all deposits, both current and saving accounts, compared to Arab countries. Further, the word nature is more suitable than the word reality”.

Interviewee 4 remarks, "Here, the SBP clarified that the Shariah status of the current account is loan, not deposit. Although the word deposit is utilized in financial matters, it means Amanah. When any current account holder submits the amount to the Islamic bank, the bank becomes the owner, invests it further, and gets all the profit. If the deposit will be treated as Amanah, then Islamic bank cannot invest the amount and cannot get the profit on the deposited amount".

Interviewee 5 remarks, "This is an amendment as per the industrial norms."

An analysis of the interviews concludes that deleting the "No Deposits" clause by the SBP is not to the principles of Shariah. Interview 1 states that this change may weaken the need to view current accounts as debt, which is very important according to the principles of Islamic finance. If current accounts are not described as debt, this could violate the principles of interest and create an unfair advantage. Interview 2 also states that deleting this clause may lead to misunderstandings about the nature and ownership of existing accounts, which may contradict the principles of Shariah. On the other hand, Interview 3 states that "deposit" in Pakistan means both current and savings accounts, and the term "nature" is more appropriate in this context. Interview 4 emphasized that the SBP has clarified that the current account's status in Shariah is that of a loan, not a deposit. If the deposit is considered a trust (Amanah), the Islamic bank cannot invest the money, which leads to the absence of their profit. This change in Interview 5 has been considered an amendment to industry standards. Thus, these interviews explain the impact of the SBP amendments and emphasize the need to be guided by the traditions of Islamic finance.

AAOIFI Clause 10/1/2

"It is permissible for the institution to **demand wages** for services rendered to the holders of the current accounts."

Clarification/amendment by SBP

"The following is added as footnote to the clause: The words '**demand wages**' may be read as '**charge fee**.'"

Interviewees remarks

Interviewee 1 comment, "This is clarification. The clarification given by the SBP to replace "demand wages" with "charge fee" is not against the principles of Shariah, as it retains the

right to charge a fair fee in return for services. The fee is in exchange for real services and includes no unfair or usurious element". Interviewee 2 comment, "This is a clarification. The SBP has suggested replacing "demand wages" with "charge fee" just to clarify the terminology. This does not change the original principle or procedure but only simplifies and standardizes the interpretation of words".

Interviewee 3 remarks, "There is no specific difference between wages and fees; in Arabic, the word ujah is utilized for both wages and fees. The only significant difference between demand and charge is that demands are made when a person asks for payment with permission, but for the word charge, there is no need to take permission. So, this is an amendment because both words have different meanings. So, the SBP is treated through unilateral promise, but the AAOIFI approach is bilateral promise".

Interviewee 4 remarks, "This is a clarification because charge fee is the more suitable word as per the local markets."

Interviewee 5 remarks, "This is an amendment".

Most interviews (Interviewees 1, 2, and 4) have considered the SBP's shift from "demand wages" to "charge fees" as a clarification, which aligns with Shariah principles and is suitable for local markets. However, some interviewees (3, 5) called it an amendment because, to them, the words "demand" and "charge" have different meanings, especially about permissions and contractual commitments. Overall, it has been seen as descriptive, but there are differing opinions on its impact, emphasizing semantic meaning and contractual distinction.

AAOIFI Clause 10/1/3

"It is permissible for the institution to render services related to deposits and withdrawals to the owners of the current accounts with or without compensation like cheque books and ATM cards and the like. There is no restriction on the institution if it distinguishes between owners of current accounts with respect to what relates to deposits and withdrawals, like exclusive booths for receiving the owners of some accounts, or like distinguishing between the types or cheques."

Clarification/amendment by SBP

“The following are added as footnotes to the clause: The text ‘owners of the current accounts’ may be read as ‘current account holders. The text ‘receiving the owners of some current accounts’ may be read as ‘some current account holders. This clause may be read with IBD Circular No. 1 of 2014 and any amendments therein as notified from time to time.”

Interviewees remarks

Interviewee 1 comment, “This is a clarification. This clarification is made to clarify terminology and to align with current regulations, not to make any fundamental changes to the rule or content of the clause”.

Interviewee 2 commented, “This is a clarification. The specification mentions the inclusion of IBD Circular No. 1 of 2014. This combines the practical details of the provision with the existing banking regulations”.

Interviewee 3 remarks, “This is a clarification. There is no significant difference because the owner and current account holder have the same meaning. Anyhow, the approach of the SBP is more flexible because it is impossible to dig out the details of the account owner, which is why the SBP utilized the word account holder. The bank knows the account holder bank does not know the account's real owner; therefore, current holder is a more suitable word”.

Interviewee 4 remarks, “This is a clarification by the SBP because, in Pakistan, the term account holder is being utilized.”

Interviewee 5 remarks, “This is an amendment as per the local environment”.

Most interviewees see the SBP's change from "owner" to "account holder" as a clarification intended to harmonize terminology according to current banking regulations and local traditions. Interviewers 1, 2, and 4 say the change only defines language and does not fundamentally change the rule. In contrast, interviewer 3 emphasizes that "account holder" is a more practical and flexible term because the bank does not know the actual owner's details but only the account holder's information. However, five interviewees described it as a modification according to the local environment. Most people have considered this an explanation, although one opinion suggests it could also be a significant change due to local needs.

AAOIFI Clause 10/2

“Perquisites for Qard, it is not permitted to the institution to present to the owners of current accounts, in lieu of such accounts, **material gifts**, financial incentives, services or benefits that are not related to deposits and withdrawals. Among these are exemptions from charges in whole or in part, like exemption from credit card charges, deposit boxes, transfer charges and letters of guarantee and credit. The perquisites and incentives that are not specific to current accounts are not governed by this rule.”

Clarification/amendment by SBP

The following is added as footnote to the clause:

“This clause may be read as follows: “It is not permitted to the institution to present to the current account’s **holders**, in lieu of only such accounts, **tangible gifts**, financial incentives, services or benefits that are not related to deposits and withdrawals. Among these are exemptions from charges in whole or in part, like exemption from credit card charges, lockers, transfer charges and letter of guarantee and letter of credit. The perquisites and incentives that are not specific to current accounts are not governed by this rule.”

Interviewees remarks

Interviewee 1 commented, “In short, the SBP’s clarification has clarified the terminology and better defined the scope of the prohibition, but it has not changed the basic prohibition of the original AAOIFI clause.”

Interviewee 2 commented, “This is a clarification. Changes have been made to clarify and standardize terms in the SBP specification, such as changing "owners" to "holders" and changing "deposit boxes" to "lockers".

Interviewee 3 remarks, “This is an amendment linked with practicality because the SBP approach is about evidence. If there is evidence, then it will be considered riba”.

Interviewee 4 remarks, “This is a clarification as per the local economic environment of Pakistan”.

Interviewee 5 remarks, “This is an amendment”.

In summary, most interviewees describe the SBP’s changes as clarifications rather than amendments. Interviewees 1, 2, and 4 say these changes have been made only to clarify

the terms. (e.g., replacing "owners" with "holders" and "deposit boxes" with "lockers"), Moreover, no fundamental changes were made to the original AAOIFI Shariah principle. These are in sync with the local traditions and economic conditions of Pakistan. However, interviewers 3 and 5 called it an amendment, with interviewer 3 linking the change to practical grounds, saying Riba would be determined based on the evidence. Most people consider it a clarification, but various opinions suggest possible practical application and interpretation changes.

AAOIFI Clause 10/3/2

“It is necessary that the charges imposed on credit cards for cash withdrawals from bank teller machines be **an amount** that is certain within the limits of reasonable charges excluding profit from Qard. It is not permissible to link the charge to the amount withdrawn. It is not permissible to the institution to slice the withdrawals as a device for obtaining repeated charges just as it is not permissible (for this purpose) to consider the period of repayment of the amount withdrawn. Where there is a difference in currencies, the application of the rate for the prevailing currency is stipulated. [see also item 4/5, Shariah Standard No. (2) on Credit and Charge Cards]”.

Clarification/amendment by SBP

The following are added as footnotes to the clause:

“This clause may be read as follows: “It is necessary that the charges imposed on credit cards for cash withdrawals from bank teller machines be a **lump sum amount** within the limits of reasonable charges (Ujrat ul Misl) that do not lead to making profit on qard. It is not permitted to link the charge to the amount withdrawn. It is not permitted for the institution to set slabs for withdrawals, as a device for obtaining repeated charges. (While determining the withdrawal charges) It is also not permissible to consider the repayment of the amount withdrawn. Where there is a difference in currencies, the prevailing exchange rate shall be applied. See also item 4/5 of Shariah Standard No. 2 pertaining to Credit and Charge cards.”The clause to be read with applicable Foreign Exchange Rules and Regulations/ Directions/ Instructions issued by the State Bank of Pakistan from time to time.” Interviewee 3 remarks, “This is a clarification because there is no major difference due to this change.”

Interviewees remarks

Interviewee 1 commented, "This is a clarification. The SBP has replaced "certain" with "gross amount" and "Ujrat ul misl" to emphasize the reasonableness and fairness of the fee. These changes are only terminological, and no fundamental changes have been made to the original principle."

Interviewee 2 commented that this is a clarification. "The SBP has added "lump sum amount" and "Ujrat ul Misl" To emphasize that the charges should be a fixed and fair fee, without profiting from the loan (Qard)."

Interviewee 3 remarks, "This is a clarification because there is no major difference due to this change."

Interviewee 4 remarks, "This is a clarification because there is no major difference due to this change."

Interviewee 5 remarks, "This is a simple clarification".

All interviewees consider the SBP's changes primarily clarifications, not substantive revisions. Interviewees 1, 2, 3, 4, and 5 all agree that the changes, such as replacing "an amount" with "lump sum amount" and adding "ujrat ul misl" and "lump sum amount," are primarily terminological, made to emphasize the reasonableness and fairness of the fee. According to them, changes do not change the basic principles of the original guidelines but clarify them. Overall, it is agreed that these changes improve terminology while maintaining the original objective of fairness in the fee structure without any significant changes.

Conclusion and recommendations

Most of the changes made by the SBP in its interpretations of the AAOIFI Shariah Standards are clarifications; some are significant changes or amendments. The clarification mainly focuses on simplifying the language, improving terminology, and making the Shariah standard more understandable in Pakistan's local market. The original principles of Shariah, which are preserved in the AAOIFI standards, remain in place. At the same time, the changes reflect the SBP's effort to ensure clarity and consistency and be consistent with Pakistan's existing legal framework. Further, SBP has made some critical amendments to the loan standard. One significant modification is that the loan will always be repaid in the same currency or asset in which the loan was taken. This amendment sets out the

procedure for loan repayment by the principles of Shariah so that further agreements or conditions can be added in case of repayment in a different currency or asset. In addition, the borrower should not receive any additional financial benefit instead of the loan. This amendment not only prohibits interest. Instead, it emphasizes preventing the lender from any direct or indirect benefit.

At the same time, to facilitate loan repayment, the SBP has also included the possibility of relaxation in loan installments or partial or complete waiver of loans for individuals facing financial difficulties. The move is in line with humanitarian and Shariah principles, with an emphasis on helping those in need. Additionally, extra conditions have been added for loans given as charity so that Islamic financial institutions can ensure the provision of loans without interest and better facilities can be provided to the needy. The amendments aim to harmonize the principles of Shariah and the local financial system. Some critics of the amendments made by the SBP. These changes have made a slight difference in the spirit of Islamic financial principles. Although these changes have been introduced for clarity, they have led to complications and ambiguity in practical application. For example, the term "locker services" in the case of a loan can be considered a departure from the traditional concepts of Islamic finance. Such changes have been made in technical and straightforward language, creating a need for more clarity in interpreting financial principles. Similarly, the Hiba (gift) issue has also been raised, where creditors may face ambiguity regarding what is given in the form of Hiba. This could reduce the transparency of the loan agreement and require more clarity in the loan fee structure. Despite including regulatory references such as IBD Circular No. 1, 2014, its practical application is still unclear and requires complete alignment with Islamic financial principles. So that Shariah standards can be better implemented.

Therefore, it is recommended that the SBP continue to ensure that the interpretation of Shariah standards is consistent with local practices. At the same time, the principles of Shariah are strictly followed, and regular consultations should be held with Shariah scholars and financial experts for future clarifications and amendments so that local changes do not cause deviations from the original standards. Further, providing these clarifications in Urdu and English would be beneficial so that all concerned parties,

including financial institutions and consumers, can better understand them. Finally, training and awareness programs should be conducted for the financial institutions concerned to ensure better implementation of these standards. Moreover, future studies may be conducted to explore the clarifications and amendments done by the SBP on the remaining two Shariah standards, which are SS 23: Agency and the Act of an Uncommissioned Agent (Fodooli) and SS 28: Banking Services in Islamic Banks”.

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