



CLARIFICATION NOTE FOR DIRECTIVE ON FINANCIAL REPORTING STANDARDS FOR LABUAN FINANCIAL INSTITUTIONS

1.0 Preamble

1.1 This clarification note is issued to clarify on the adoption of the accounting standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) **for Shariah-compliant transactions**, in addition to the accounting standards as permitted in the Directive on Financial Reporting Standards for Labuan Financial Institutions (the "Directive") issued on 18 March 2014.

2.0 Clarification

2.1 The accounting standards permitted for Labuan financial institutions are as specified in paragraph 3.1 (i)-(v) of the Directive. Notwithstanding this, the abovementioned accounting standards may not deal with certain specific characteristics of Islamic finance practices.

2.2 In this regard, Labuan financial institutions undertaking Shariah-compliant transactions **may adopt the accounting standards issued by AAOIFI for their Shariah-compliant transactions which are not dealt with by the permitted accounting standards** outlined in paragraph 3.1 of the Directive. The adoption of the AAOIFI accounting standards would therefore complement the permitted accounting standards.

2.3 Labuan financial institutions are required to make **appropriate and sufficient disclosures in their financial statements** on the Shariah-compliant transactions that have adopted the AAOIFI accounting standards.

Labuan Financial Services Authority
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