

# What You Need to Know About FRC Integration of Non-Interest Finance Reporting Standards

## 1. What is Non-interest finance?

Non-interest finance is a way of providing financial services **without charging interest**. Instead, it uses:

- Profit and loss sharing
- Asset-backed financing
- Leasing arrangements
- Partnership-based investments

All transactions follow ethical and commercial principles.

## 2. Is Non-interest (Islamic) finance new in Nigeria?

No. It is **not new**. Non-interest finance has been part of Nigeria's financial system since 2011, with:

- Licensed Islamic banks
- Takaful (Islamic insurance) operators
- Sukuk (Islamic bonds)

## 3. How has non-interest finance contributed to Nigeria's economy?

It has made clear contributions, including:

- **Sukuk bonds** funding roads and bridges nationwide
- **Takaful insurance** expanding ethical insurance options
- **Islamic banks** supporting small and medium-sized businesses

Today, the sector is worth about **₦2.5 trillion** and continues to grow.

## 4. Why did the Financial Reporting Council (FRC) take interest in this sector?

As the sector expanded, the FRC identified reporting challenges.

Many non-interest finance transactions do not fit neatly into

**interest-based accounting models**, which can affect:

- Accuracy
- Transparency
- Comparability of financial statements

## 5. What is the problem with using only IFRS for non-interest finance?

IFRS is mainly designed for **interest-based finance**. Non-interest finance involves:

- Profit sharing instead of interest
- Risk sharing between parties
- Asset-backed and lease-based transactions

Using only IFRS can sometimes **misrepresent the true nature of these transactions**.

## 6. What solution did the FRC adopt?

After reviewing global best practices, the FRC adopted standards issued by the **Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI)** for Islamic finance institutions and services operating in Nigeria.

## 7. What is AAOIFI?

AAOIFI is an internationally recognised standard-setting body for Islamic finance. Its standards cover:

- Financial reporting
- Auditing and assurance
- Shari'ah governance
- Ethics and professional conduct

They are widely used in countries with developed Islamic finance markets.

## 8. Does adopting AAOIFI standards replace IFRS or IPSAS in Nigeria?

No.

The adoption of AAOIFI standards **does not replace or override IFRS or IPSAS**. Instead, AAOIFI standards **complement existing frameworks** by providing **specific guidance for Islamic finance transactions** where conventional standards may not be sufficient.

- **IFRS** remains for conventional private-sector entities
- **IPSAS** remains for public-sector reporting
- **AAOIFI** applies only to Islamic finance transactions

All three frameworks work **side by side**.

## 9. Who will be affected by the adoption of AAOIFI standards?

The standards apply mainly to:

- Islamic banks
- Takaful operators
- Sukuk issuers
- Other non-interest finance institutions

Conventional banks and businesses are **not affected**.

## 10. Is this a religious policy or an attempt to change Nigeria's identity?

No.

Nigeria remains a **secular, multi-religious country**.

This is a **technical financial reporting decision**, not a religious, political, or constitutional change.

## 11. Do other non-Islamic or secular countries use similar standards?

Yes. Many secular and multi-religious countries accommodate Islamic finance within their financial systems, including:

- United Kingdom
- United States
- Switzerland
- Turkey
- South Africa
- Malaysia
- United Arab Emirates

This approach helps them attract capital and maintain high reporting standards.

## 12. What are the benefits of integrating AAOIFI standards?

The integration will:

- Improve **transparency and consistency** in reporting
- Better reflect the **economic substance** of transactions
- Strengthen **investor protection**
- Enhance **international credibility** of Nigerian Islamic finance
- Support **financial inclusion and market discipline**

## 13. How does this help Nigeria attract investment?

Globally, Islamic finance is a multi-trillion-dollar market.

Using internationally accepted standards:

- Reduces uncertainty for investors
- Builds confidence
- Makes Nigerian Islamic finance products easier to understand and accept internationally

This supports investment in infrastructure, manufacturing, and enterprise development.

## 14. Is the FRC engaging stakeholders and the public?

Yes.

The FRC remains committed to:

- Transparency
- Stakeholder engagement
- National cohesion

The adoption of AAOIFI standards is **professional, market-driven, and investor-focused**.

## 15. Where can stakeholders get more information or clarification?

Stakeholders and members of the public can contact the **Financial Reporting Council of Nigeria** through its **official communication channels** for accurate and up-to-date information.