

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