

**DA AFGHANISTAN BANK
(CENTRAL BANK OF AFGHANISTAN)**
**Guidelines on Product Transparency and Disclosure for Islamic
Financial Products**

***Guidelines on Product Transparency and Disclosure for
Islamic Financial Products***

Accountable Executive & Custodian	Islamic Banking Division
Policy Owner	Head of Islamic Banking Division

Approved by DAB Management:	Date
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ISLAMIC REPUBLIC OF AFGHANISTAN

**DA AFGHANISTAN BANK, GUIDELINES ON PRODUCT TRANSPARENCY
AND DISCLOSURE FOR ISLAMIC FINANCIAL PRODUCTS**

PART A: PREAMBLE

1. INTRODUCTION

- 1.1. These Guidelines on Product Transparency and Disclosure for Islamic Financial Products (hereinafter referred to as “the Guidelines”) is issued by the Da Afghanistan Bank (hereinafter referred to as “DAB”) which shall be adopted and become the guiding principles for Islamic Financial Institutions, Financial Institutions operating with an Islamic Window and Financial Institutions operating with an Islamic Unit (collectively referred to as “the Bank”) in the Islamic Republic of Afghanistan offering Islamic financial products.
- 1.2. Banking consumers are constantly challenged by the complexity in making informed decision on acquiring Islamic financial products and services. Consequently, there is a need to increase product specific transparency and disclosure whilst encouraging product innovation and maintaining flexibility.
- 1.3. Given the greater use of Islamic financial products and services in Afghanistan, consumers are entitled to relevant, timely, reliable and comparable information on Islamic products and services that enable them to make informed choices that best meet their financial circumstances and needs.

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2. OBJECTIVES

- 2.1. The Guidelines is to establish a consistent and comprehensive disclosure regime aimed at improving information disclosure on Islamic products and services offered by banks in Afghanistan.
- 2.2. The objectives of the Guidelines are to:
- a) Promote consumer awareness and understanding of Islamic financial products;
 - b) Facilitate consistency in disclosure of essential information on Islamic financial products to enable comparison;
 - c) Minimize misrepresenting of Islamic financial products and ensure that Islamic financial products in the market are appropriate to the needs and resources of the consumers; and
 - d) Promote informed decision-making by the consumer.
- 2.3. The Guidelines set out the timing and content on disclosure of information on Islamic financial products and services to the consumers.

3. APPLICABILITY

- 3.1. The Guidelines are applicable to the following banking and non-banking financial institutions:

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- a) All banks that are licensed under the Islamic Republic of Afghanistan's Banking Laws that were established by Da Afghanistan Bank (DAB).
- b) Islamic Banking Windows that are licensed under the Islamic Republic of Afghanistan's Banking Laws that were established by DAB.
- c) Non-banking financial institutions such as microfinance institutions that are licensed under the Islamic Republic of Afghanistan's Banking Laws that were established by DAB.
- d) Insurance companies that are licensed under the Islamic Republic of Afghanistan's Insurance Laws that were established by Ministry of Finance (MoF).

4. SCOPE OF COVERAGE

- 4.1 The Guidelines are applicable to Islamic products and services developed and offered by the banks, Islamic Banking Windows and non-bank financial institutions (collectively referred to as "the Bank") either directly or through their intermediaries, to individuals and small and medium-sized enterprises (SMEs) (collectively referred as "retail customer"). The Banks are encouraged to adopt similar disclosure standards to all other types of customers.
- 4.2 The Banks are required to comply with the Islamic product specific disclosure requirements. For example, if a bank offers Qard product to customer, the bank is required to comply with the disclosure requirements of Qard product set out in Qard Product Guide.
- 4.3 The Banks offering Islamic finance products and services is required to ensure compliance with Shariah requirements at all times.

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- 4.4 The Guidelines should be read in conjunction with other relevant guidelines or circulars issued by Da Afghanistan Bank from time to time.

5. DEFINITIONS

For purpose of the Guidelines, unless the context otherwise requires:

Advertisement	Refers to any communication directly or indirectly relating to Islamic financial service or product and intending to result in an eventual sale to customer, and shall include all forms of printed and published materials or any material using the print and/or electronic medium.
Customer	Refers to prospective and existing customer of the Bank, including financed parties and depositors.
Financial Group	Refers to entities within the group of the Banks (within Afghanistan), which are involved in the promotion, sale, delivery, and distribution of Islamic financial products and services.
Bank	Refers to all banks, Islamic Banking Windows, non-bank financial institutions such as microfinance institutions.
Intermediaries	Refers to both individuals (including the marketing staff of the bank) and institutions involved in the marketing and selling of Islamic financial products and services.

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PART B: POLICY AND PROCEDURES

6. BOARD AND SENIOR MANAGEMENT OVERSIGHT

- 6.1. DAB's executive level support and commitment is critical to the effective implementation of good disclosure practices. It is expected of the Shariah Supervisory Board ("SSB"), the office of the Governor of the DAB and the Supervisory Department of DAB to provide leadership, direction and oversight in order to ensure good disclosure practices for Islamic financial products and services throughout the banking system in Afghanistan.
- 6.2. DAB's senior management should articulate clear expectations for the adoption of the transparency and disclosure requirements by all banks that offer Islamic financial products and services.
- 6.3. There should be proper processes in place for the development and review of Islamic product disclosure materials.
- 6.4. It is important to ensure that all staff at DAB and the Banks that are involved in the development, selling and marketing of Islamic financial products and services are adequately trained in disclosure requirements.

7. DISCLOSURE REQUIREMENTS

All banks and non-bank financial institutions should consider the needs of the customer by adopting the following disclosure principles:

- a. timely;
- b. clear and concise;
- c. accurate and relevant;

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- d. highlight important information; and be
- e. consistent and comparable.

Product information should be disclosed to customers in written format, explained verbally and disseminated in printout and/or website.

7.1. Disclosure should be timely

7.1.1 In order for a customer to make sound decision on purchasing an Islamic product or service, the customer requires full information at an early stage in the buying process to assess suitability. As such, information provided to the customer must be timely and up-to-date, where applicable, to facilitate informed decision-making.

7.1.2 Disclosure must be adopted at each of the three stages of the contractual process: the pre-contractual stage, at the point of entering into a contract and during the term of the contract.

7.1.3 Customer notification by written notice or via electronic means is likely to achieve the objective of timely disclosure. However, where written notice or electronic means cannot be used, the Banks may adopt other effective alternatives or one or more of the following means of notification:

- a. newspaper, TV or radio advertisements;
- b. billboard display;
- c. prominent display at the bank; and
- d. post notices on bank's website

In disclosing information via these alternative modes, the Banks are required to ensure the information is delivered in a timely manner.

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7.2. Timing of Disclosure

Disclosure is effective when Islamic product information is given to the customer at a time that is most relevant to enable the customer to make informed decisions at each of the following three stages of the contractual process.

Pre-contractual disclosure

7.2.1 Information should be shared with customers at an early stage in the buying process. At the pre-contractual stage, i.e. information gathering stage before the point of sale, sufficient disclosure on a financial product should be made so that the consumer has a basic understanding of the product's features, benefits, risks, charges, rights and obligations before making a choice. Key features and costs applicable to the product or service must be clear and prominently displayed. The customer should not be deceived into buying any Islamic financial product or service due to omission of any important information or misled as a result of ambiguous or confusing disclosure.

7.2.2 Information that should be disclosed to customer includes but is not limited to:

- a. Key features of the financial product or service;
- b. Significant risks associated with the financial product;
- c. Benefits to which the customer will or may become entitled, the circumstances in which and times at which those benefits will or may be provided;
- d. Fees and charges that may be imposed; and
- e. Important terms and conditions.

Disclosure at the point of entering into a contract

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7.2.3 At the point of entering into contract the financial institution should highlight the key contractual terms and conditions before concluding a financial transaction. Information that should be disclosed to the customer includes but is not limited to:

- a. Rights and obligations of the customer and the financial institution;
- b. Fees and charges that will or may be payable by the customer after the acquisition, and the times at which those amounts will or may be payable;
- c. Cooling-off rights including its duration, if applicable;
- d. Liability for loss, if applicable; and
- e. Contact details of the financial institution and channels for feedback/enquiry.

7.2.4 All banks and non-bank financial institutions should help customers to read and understand the relevant contract/policy.

Disclosure during the term of the contract

7.2.5 Continuous disclosure has to be adopted during the term of the contract through the following methods:

- a. Notice of changes
Any change, including but not limited to the terms and conditions, features of financial products and the customer's rights and obligations should be communicated to the customer via adequate notices before the changes are introduced.
- b. Disclosure on statements
Statements or electronic statements, issued at regular intervals for financial products can be used as a means to communicate important information to the customer during the term of the contract.

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c. Disclosure following a specific request

All banks and non-bank financial institutions should provide relevant and reasonable information as and when requested by the customer during the term of the contract. Where a fee may be levied on the customer, banks and non-bank financial institutions should inform the customer of the charges and the basis for such charges at the time the customer requests.

7.3. Clear and concise disclosure

7.2.1 Disclosure must be concise and focused to serve its intended purpose; excessive information will be confusing to the customer. When necessary, reference should be provided to allow the customer to obtain additional relevant information.

7.2.2 Product and service information must be clear and easy to understand. Use short and direct sentences, bold key words, use tables, diagrams and bullet lists, where appropriate, to improve the clarity of the material. Banks may use alternative disclosure material for semi-illiterate and illiterate customers.

7.2.3 Clear fonts must be used in written material. Avoid the use of smaller than 8-point font size in all written materials.

7.2.4 Contracts, agreements and policy documents should be presented in plain language. These documents should be provided to the customer on the effective date of implementation and thereafter. Plain language avoids inflated vocabulary and convoluted sentence structure. The use of legal and technical jargon should be avoided, whenever possible. Where the use of legal and technical terminology cannot be avoided, the

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meaning of these terminologies should be explained or printed in a glossary for reference.

7.3. Accurate and relevant disclosure

7.3.1 Banks should disclose accurate product features, benefits and risks, fees and charges, contractual rights and obligations.

7.3.2 Where precise quantitative information cannot be quoted and an estimated figure is provided at the pre-contractual stage, it should be brought to the customer's attention that these figures are only estimates and more accurate information would be provided, when available.

7.3.3 The benefits of Islamic financial products and services should not be exaggerated. Disclosure of Islamic product risks should have equal prominence with information on product benefits. In particular, information on investment related products should be disclosed in an objective and unbiased manner. Prospective financial information must be relevant for consumer to make an informed decision of the product.

7.3.4 Banks should avoid using unrealistic assumptions to project future returns, which are likely to be misleading. Projected future returns should be accompanied by a prominent statement indicating that the information is predictive in nature and may be affected by the underlying assumptions. Where an opinion is expressed, there should be a reasonable basis for expressing the opinion and it should be unambiguously stated that it is a statement of opinion.

7.4. Highlight important information

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- 7.4.1 Draw customer's attention to key terms and features of Islamic financial products or services.
- 7.4.2 Clearly state the key features of Islamic products and services by including headings, key words, bullet points, tables and diagrams.
- 7.4.3 Highlight terms and conditions applicable to Islamic financial products or services such as penalties, restrictions, exclusions, consequences of early termination of contract and information pertaining to the customer's rights and obligations.
- 7.4.4 Display warnings on product details such as the risks associated with an Islamic financial product, where applicable.
- 7.4.5 Disclose the underlying assumptions and any specific circumstances or conditions that may affect future performance, where necessary.

7.5. Consistent and comparable

- 7.5.1 Disclosure should be made in a consistent manner to facilitate comparison between similar Islamic products and services offered by banks and non-bank financial institutions. A product disclosure sheet should be provided to the customer to facilitate comparison with similar products offered by other banks and non-bank financial institutions, i.e. product characteristics, risks and benefits, costs and returns.

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7A. SHARIAH DISCLOSURE REQUIREMENTS

- 1.1 Full disclosure shall be made in relation to the Shariah pronouncement issued by the Bank's Shariah Board in relation to a particular product/services. This disclosure requirement will provide reassurance to the customer that the said Bank has undertaken due process in developing the said product/services, and that the Shariah Board has reviewed the same and provided endorsement that the product/services conform to Shariah principles. It will also provide assurance to the customer that the Shariah Board has Shariah oversight over the products and services being offered by the Bank.
- 1.2 Customers shall have the right to inquire further on the Shariah pronouncement issued so as to ensure its authenticity and the Bank shall use its best endeavor to address any queries from the customer in this respect.
- 1.3 The Bank shall make full disclosure on zakat payment that it has undertaken including the channeling of the same to the relevant authorities designated to govern zakat money.
- 1.4 The Bank shall make full disclosure of any payments and/or channeling of any payment that it makes on behalf of the customer under a specific product, which forms part of the customer's obligation to make, but is delegated to the Bank. Such payments may include zakat payments and channeling of penalty amount paid by the customer due to late payment, to approved charities.

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8. DISCLOSURE OF CUSTOMER INFORMATION

- 8.1. All banks and non-bank financial institutions are not allowed to share customer information with third parties, unless legally permitted.
- 8.2. All banks and non-bank financial institutions that wish to share customer information with other companies within the financial group must inform the customer to whom the information may be disclosed to and the purpose for such disclosure. However, no information of any customer should be shared who has objected to such disclosure for purposes of cross-selling. For new customers, the banks and non-bank financial institutions must give the customer the opportunity to 'opt-out' for such disclosure for purpose of cross-selling. For existing customers, the banks and non-bank financial institutions should communicate on the discretion provided to the customer to 'opt-out' and provide the means for customers to do so.
- 8.3. All banks and non-financial institutions that wish to share customer information (excluding information relating to the affairs or account of customer) with third parties, such as strategic alliances for marketing and promotional purposes, must obtain the expressed consent of the customer. Banks and nonfinancial institutions must give the customer the opportunity to "opt in" or "opt on."
- 8.4. The requirements in subparagraphs 8.1 and 8.3 apply to all new customers as well as existing customers.

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9. DISCLOSURE REQUIREMENTS FOR ADVERTISEMENTS

All banks and nonfinancial institutions must have adequate internal procedures and systems to ensure that all advertising materials on its products and services comply with relevant laws, rules, guidelines and codes of practice in order to protect consumer from misleading advertisements and its unfair consequences. To achieve that, a higher standard of conduct should be applied.

9.1. Advertisement must be clear and not misleading

- a) The name of the banks and non-bank financial institutions must be clearly shown in all advertisements. Advertisement by intermediary should contain the intermediary's registered name and the banks and non-bank financial institutions that the intermediary is representing.
- b) An advertisement must be published in a manner that allows customer to immediately identify it as promotional material.
- c) Information disclosed in any advertisement or promotional material in any media should be presented in a manner that is clear and easily understood by customer.
- d) An advertisement should not be misleading. An advertisement is misleading if, in any way, its presentation deceives or is likely to deceive the person to whom it reaches. Misleading advertisements include, but are not limited to, those containing a false statement of fact, those which conceal important facts or those which create a false impression.
- e) An advertisement shall not describe a product or facility as “free” or “no cost” if any charges or conditions may be imposed during the term of the account or contract.

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- f) An advertisement shall also not describe a promotional gift as “free” if there are additional costs charged to the customers, or conditions attached to the promotional gifts.
- g) Important information should be highlighted. For print media advertisement, legible fonts should be used to bring customer’s attention to important information, such as pricing and charges.
- h) Where footnotes are used, the font size should be proportionate to the rest of the text to be easily readable. Font size of less than 8-point should be avoided. Any risk warning given in an advertisement must not be obscured or disguised in any way by the design or format of the advertisement.

9.2. Advertisements should disclose accurate and relevant information

- a) Information relevant to customer such as product’s features, risks, costs, and benefits must be accurate. Where rates are given in promotional materials, banks and non-bank financial institutions should disclose the effective financing rate or effective profit rates or historical profit rates for Islamic financing/deposit products to facilitate.
- b) An advertisement must not influence customer’s attitude to the advertised product or service by inaccuracy, ambiguity or omission.
- c) Benefits of a product should not be exaggerated. Any benefit such as projected future returns should also be accompanied by unambiguous statements indicating that the information is predictive in nature and may be affected by the underlying assumptions.
- d) An advertisement should not focus on the benefits without providing a balanced view of the risks involved. The level of detail required in the risks description will depend on the form of the advertisement materials and the complexity of the risks. The banks and non-bank financial institutions should ensure that statements on risks are clear and not disguised.

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- e) An advertisement should not claim an intention to offer products or services at a specified price when the banks and non-bank financial institutions do not intend to supply such products or services or does not have reasonable grounds for believing the products and services can be supplied at that price.
- f) An advertisement notifying customer of a new promotion should make known the duration of the promotional period and the terms and conditions which apply to that particular promotion.
- g) If an advertisement is short or general in its content, customer should be informed of the availability of explanatory material giving details of the financial product or service. All relevant information should be available on request.
- h) The banks and non-bank financial institutions should display warnings on product details, such as the risks associated with Islamic financial product, as a boxed warning statement, where applicable. The warning statement must be in a font size proportionate to the rest of the text and highlighted in bold print. For audio advertisements with no visual display, such warning statement should be clearly read out at the end of each broadcast.

9.3. Illustration of past and future performance

- a) The banks and non-bank financial institutions advertising the potential returns of a financial product should state that the forecast is for illustrative purposes only and is not indicative or construed as likely returns. Any statement or forecast should not mislead at the time it is made. Any assumption used should be clearly stated. The banks and non-bank financial institutions should not market an investment related product solely based on projected / expected return of the product.
- b) When presenting past performance of a product, the banks and non-bank financial institutions should use the returns of the immediately preceding 5 years (or the available period, if shorter). Such information

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must be actual and up to date. The information should be accompanied by a prominent statement to advise customer that past performance is not indicative of future performance. The source of data and period used in the illustration should also be clearly stated.

10. PRODUCT SPECIFIC DISCLOSURE REQUIREMENTS

10.1. Customers require different information for different products. Therefore, in addition to comply with the disclosure principles contained in the general policy requirements section, the banks and non-bank financial institutions are required to adhere to additional product specific disclosure requirements contained in the Schedules.

11. PRODUCT DISCLOSURE SHEET

11.1. Banks and non-bank financial institutions are required to provide product disclosure sheet (per the format provided in the Schedules) containing key information for customers to make informed decisions and to facilitate comparison between products.

11.2. The product disclosure sheet should be provided before the customer purchases a product or service, and at the point of entering into a contract, if there is a material change in the information. At the product renewal stage, the customer should also be given a copy of the product disclosure sheet, if there is a material change in the information. Information contained in the disclosure sheet should be customized to the customer's needs.

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- 11.3. In the event that it is not practical to provide the product disclosure sheet at the pre-contractual stage, particularly for direct marketing and telemarketing, a copy of the product disclosure sheet should be sent to the customer together with the policy document/agreement.
- 11.4. For Islamic financial products and services not set out in the Schedule, the banks and non-bank financial institutions are also required to provide a product disclosure sheet using a similar format.
- 11.5. Da Afghanistan Bank reserves the right to require the banks and non-bank financial institutions to make appropriate amendments if information contained in the disclosure document is found to be inaccurate or misleading.

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SCHEDULE
ISLAMIC BANKING PRODUCTS

12. FINANCING PRODUCTS

12.1. Pre-contractual stage

- a. Shariah concepts
 - i. Banks and non-bank financial institutions should explain briefly the Shariah concepts applicable to the financing facility. For example, financing facility under Murabahah concept is a method of sale with a mark-up price where customer pays a price over an agreed period of time.

- b. Profit charges
 - i. Banks and non-bank financial institutions should inform customers of the profit rate or/and mark-up which will be imposed on the financing facility. In disclosing this, the banks and non-bank financial institutions should inform customers whether the facility will be offered on a fixed rate or variable rate basis or a combination of fixed and variable rate basis. In addition, the banks and non-bank financial institutions should disclose the effective profit rate and total payment amount, to facilitate comparison by customer. For example, in a variable rate sale based financing product, effective profit rate refer to the profit rate that customer will effectively pay for the financing, based on the existing reference rate.
 - ii. The banks and non-bank financial institutions should also disclose how profit rates on the financing facility will be calculated, for example, on

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a daily or monthly rest basis. An example of how the methods work would give customer an appreciation of the different methods.

- iii. For variable rate financing, customers should be informed of the circumstances under which the profit rate may increase and the effect of a rate increase (for example, whether it would result in an increase in the number or amount of installments).
 - iv. Information on reference rates, if any, including the effective dates of these rates should be prominently displayed at the banks and non-bank financial institutions's business premises and websites.
 - v. For equity-based financing, the banks and non-bank financial institutions are required to disclose the profit and loss-sharing ratio.
- c. Tenure
- i. The customer should be informed of the duration of the financing facility.
- d. Collateral
- i. If collateral is required for a financing facility, this requirement should be disclosed by the banks and non-bank financial institutions.
- e. Fees and charges
- i. Customers should be informed of all fees and charges that are applicable to the financing facility.
 - ii. Disclosure of fees and charges should show clearly the types and basis of fees to be charged.
- f. Guarantor
- i. Banks and non-bank financial institutions should indicate any requirement for a guarantor and inform the guarantor of his rights and obligations as a guarantor.

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- g. Disclosure by intermediary
 - i. Banks and non-bank financial institutions's sales and marketing representatives contacting the customer must clearly identify the banks and non-bank financial institutions being represented.
 - ii. The sales and marketing representatives must describe to the customers the key terms, benefits, and risks of the financial product being offered.

12.2. At the point of entering into a contract

- a. Amount and terms of financing
 - i. Customers must be informed of the financing amount that includes the selling price or total rental, whichever is applicable, the terms and total installment at the end of the tenure, including the total amount of profit charges on the approved financing facility.
 - ii. In disclosing the total installment for variable rate financing, the banks and non-bank financial institutions must make known to the customer that the information is accurate only if the profit rate remains unchanged.
 - iii. The customer should also be informed of the timing when profit charges will be debited into the financing account, for example on a monthly basis or at agreed intervals.
- b. Payment schedule
 - i. Banks and non-bank financial institutions should provide the customer with a payment schedule containing the date of the first installment, the number of installments to be paid under the agreement, the frequency of payment and the amount to be paid for each installment payment.

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- ii. For variable rate financing, the customer should be made aware that the payment schedule is based on the profit rate that was in effect at the time the financing agreement is signed.
- c. Late fee charges
- i. Banks and non-bank financial institutions should inform the customer of the late fee charges for late payment of installments.
 - ii. Banks and non-bank financial institutions should state when late fee charges will be imposed and the rate of late fees to be imposed.
 - iii. Banks and non-bank financial institutions should also disclose to the customer the manner in which late fee charges will be computed.
- d. Lock-in period and early settlement
- i. Banks and non-bank financial institutions should make known to the customer any applicable lock-in period.
 - ii. Banks and non-bank financial institutions should indicate whether early settlement charges are payable if the financing facility is terminated before the end of the lock-in period, how the charges will be calculated and when they are payable.
- e. Pre-payment/Over-payment
- i. Banks and non-bank financial institutions should inform the customer whether pre-payment or over-payment of the monthly installment is allowed and the impact on the calculation of profit charges.
 - ii. Banks and non-bank financial institutions should alert the customer of the amount of any pre-payment charge that may be imposed.
- f. Right to set-off

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- i. It should be made transparent to the customer if the Banks have the right to set-off any credit balance in the customer's accounts against any debit balance in other accounts maintained with the Bank.

- g. Change of contact details
 - i. The customer should be informed of the importance of notifying the banks and non-bank financial institutions of any change in contact details.

12.3. During the term of the contract

- a. Financial statement
 - i. Banks and non-bank financial institutions should provide a financing statement to the customer at least once a year. The statement should indicate the outstanding balance at the beginning and end of the period covered by the statement, the amount credited and charged and the dates when those amounts were posted to the account.
 - ii. Financing statements should be mailed to the customer. However, the customer should be informed if there is an alternative to obtain the statement electronically or pick up from the bank or non-bank financial institution.

- b. Change in effective profit rates for variable rate financing
 - i. Any change or revision to effective profit rates that is consistent with the Islamic financing contract should be communicated to the customer at least 21 calendar days prior to the effective date of implementation.
 - ii. Banks and non-bank financial institutions should also provide the customer with revised particulars of installments or rental payable after each profit charges adjustment.

- c. Change to the terms and conditions

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- i. Should there be any change in the terms and conditions, the banks and non-bank financial institutions should provide at least 21 calendar days' notice to the customer before the new terms and conditions take effect.
 - ii. Any change in fees and charges applicable to the financing facility should be communicated to the customer at least 21 calendar days prior to the effective date of implementation.
 - iii. Communication should be done in writing or electronically to the customer.
- d. Intention to set-off
- i. If banks and non-bank financial institutions have the right to set-off any credit balance in the customer's accounts against any outstanding balance in the financing accounts, the customer should be informed at least 7 calendar days in advance on the banks and non-bank financial institutions's intention to set-off a credit balance in the customer's accounts against a debit balance in the financing accounts.
 - ii. Banks and non-bank financial institutions may concurrently earmark the available funds in the customer's accounts against the outstanding balance in the financing accounts upon the issuance of the notice to the customer.
- e. Delinquent accounts
- i. Banks and non-bank financial institutions should ensure that a delinquent customer is given sufficient reminders on the amount outstanding and charges incurred on the delinquent account. The customer should also be warned of possible actions the bank and non-bank financial institution might take if reminders to update the delinquent account are ignored.

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- ii. The customer should be informed at least 7 calendar days in advance if the collection of outstanding amount for a delinquent account is to be outsourced to a third party debt collection agency.
- iii. In the notice, the customer's rights and obligations should be clearly communicated after the account has been transferred to a debt collection agency or sold to a third party. A copy of the notice should also be sent to the guarantors.

13. DEPOSIT PRODUCTS

13.1. Pre-contractual stage

- a. Shariah concepts
 - i. Banks and non-bank financial institutions should explain briefly the Shariah concepts applicable to the deposit product, including the rights and obligations of the customer. For instance, the concept of Qard refers to an Islamic loan product, where the customer grants the bank with a loan from its deposit money allowing the banks to utilize the funds for whatever investment activities that it wishes to do provided always that the fund shall, at all time be available to the customer whenever he wishes to withdraw it. Therefore, banks and non-bank financial institutions guarantees the amount of the cash deposits and shall provide the cash upon request by the depositor.

- b. Shariah compliance
 - i. Banks and non-bank financial institutions must disclose that funds are invested and managed in accordance with Shariah requirements.

- c. Basic Banking Services

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- i. Banks and non-bank financial institutions are required to inform the customer of the availability of the basic savings account and basic current account as well as the key features.

- d. Deposit amount
 - i. Banks must disclose the initial deposit amount required to open an account and the minimum deposit to be maintained in the account.
 - ii. Customers should also be informed of the consequences of not maintaining a minimum deposit amount in the account, for example, the imposition of a monthly service fee.

- e. Profit sharing ratio
 - i. Customers should be informed of the profit sharing ratio by the banks for deposits under the Mudarabah concept, including the frequency of profit payment. For deposit products with fixed tenure, banks should disclose the historical profit rates to facilitate comparison by the customer.
 - ii. Banks should also inform customers if a minimum deposit amount is required for the account to be eligible for profit sharing. Information on profit sharing ratios, including the effective dates of these rates, should be displayed at all business premises and websites.

- f. Fees and Charges
 - i. Customers should be informed about all fees and charges on both standard and additional services applicable to the deposit account.
 - ii. If the bank's ATM card allows withdrawals from ATMs abroad, the relevant transaction fees and charges as well as the basis used in determining the conversion rate should be made transparent to the customer.

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13.2. At the point of entering into a contract

- a. Overdrawn on account
 - i. Customers should be informed of the applicable charges should the current account be overdrawn without a prior Islamic overdraft/cash financing arrangement or beyond the Islamic overdraft/cash financing limit when overdraft arrangement exists.
 - ii. If Banks reserve the right to set-off the shortfall from another deposit account of the customer, this must be made transparent to the customer.

- b. Right to set-off
 - i. Banks must inform customers if the Bank has the right to set-off any credit balance in the customer's deposit accounts against any debit balance in other accounts maintained with the Bank.

- c. Stop payment
 - i. Customers should be informed of any charge on any "stop payment" instruction received from the customer.

- d. Early closure of account
 - i. Banks should disclose any charge applicable to early closure of account within a specified time frame.

- e. Inactive account
 - i. Banks should highlight to the customer the circumstances under which an account will be considered as inactive.

- f. Change of contact details
 - i. Customers should be informed of the importance of notifying the Banks of any change in contact details.

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13.3 Disclosure during the term of the contract

- a. Account statement
 - i. Banks should provide a statement to the customer at least once a month and the frequency of the mailed statement should be made known.
 - ii. If the customer requests for additional statements, the Banks must inform the customer of the charges, if any, upon the request of such statements.
 - iii. For accounts for which statements are made available on-line, for example Internet banking, the Banks must ensure that the customer can still have access to hardcopy statements, if requested.

- b. Change in profit rates
 - i. Banks and non-bank financial institutions should notify customers of the prevailing profit rates declared.
 - ii. The change notice must be prominently displayed at the banks and non-bank financial institutions' business premises and website.

- c. Change to the terms and conditions
 - i. Should there be any change in the terms and conditions, banks and non-bank financial institutions should provide at least 21 calendar days' notice to the customer before the new terms and conditions take effect.
 - ii. Any change in fees and charges applicable to the deposit account should be communicated to the customer at least 21 calendar days prior to the effective date of implementation.
 - iii. Communication should be done in writing or electronically to the customer.

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14. Investment Accounts

Part 1. General disclosure requirements for investment accounts

14.1. Pre-contractual stage

- a. Shariah concepts
 - i. Banks and non-bank financial institutions should explain briefly the Shariah concepts applicable to the investment accounts including the rights and obligations of the customer. Banks and non-bank financial institutions must also inform the customer that any losses arising from the investment (other than losses caused by misconduct, negligence or breach of terms and conditions by the banks and non-bank financial institutions) must be borne by the customer.

- b. Shariah compliance
 - i. Banks and non-bank financial institutions should disclose that investment account funds are invested and managed in accordance with Shariah requirements.

- c. Investment amount
 - i. Banks and non-bank financial institutions must disclose the minimum amount required to open an investment account. The customer should also be warned of the consequences of premature withdrawal penalty of the investment account, including forfeiture of profits.

- d. Profit sharing ratio
 - i. Banks and non-bank financial institutions should disclose to the customer the profit sharing ratio that is agreed on investment accounts.
 - ii. Information on profit ratios should be displayed at all business premises and websites.

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- e. Crediting of profits
 - i. Banks and non-bank financial institutions should disclose to customers the timing when profits will be credited into the investment account.

- f. Key features
 - i. Customers should be informed of the key features of the account including investment strategy, investment options and allocation among various types of assets.

14.2. At the point of entering into a contract

- a. Renewal guidelines
 - i. Customers should be made aware of the renewal options available, if any.
 - ii. Customers should be informed of the banks and non-bank financial institutions' policy concerning automatic renewals of investment deposit accounts. If automatic renewals do not constitute an active transaction, the customer should be informed.

- b. Early withdrawal
 - i. Banks and non-bank financial institutions should inform customers of any applicable lock-in period.
 - ii. Banks and non-bank financial institutions should inform customers of any charge should the investment be withdrawal before the end of the minimum lock-in period.
 - iii. Banks and non-bank financial institutions should also inform customers on the implications of early withdrawal of an investment before the expiry of the maturity period such as forfeiture of share of profits and penalty fees.

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- c. Inactive account
 - i. Banks and non-bank financial institutions should highlight to the customer the circumstances under which an account will be considered as inactive.

- d. Change of contact details
 - i. Customers should be informed by banks and non-bank financial institutions of any change in their contact details.

14.3. During the term of the contract

- a. Option for renewal
 - i. Customers should be informed of the options for renewal when the investment account reaches its maturity date to enable the customer to decide whether to renew the investment or to redeem the investment.

- b. Changes in investment strategies
 - i. Customers should be informed of material changes in the banks and non-bank financial institutions' investment strategies that may affect the investment accounts.

Part II. Additional disclosure requirements

I. Pre-contractual stage

- a. Suitability

Banks and non-bank financial institutions should advise customers to assess the suitability of the investment choices by considering whether:

 - ii. the tenure of the investment account matches the customer's investment horizon.
 - iii. the type of financing and/or investment under the assets portfolio for the investment account matches the customer's investment objectives and risk appetite.

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iv. the customer understands the financial risks, potential losses and the investment strategy of the assets portfolio for the investment account.

b. Fees and charges

i. Banks and non-bank financial institutions should disclose and explain the nature, amount and frequency of payment of all applicable fees and charges.

II. At the point of entering into a contract

a. Risk and returns

i. Banks and non-bank financial institutions must provide clear and adequate explanation of all material risks of the investment, including potential loss of part or the entire principal sum invested if the product is not held to maturity, so that the customer could make an informed investment decision.

ii. In disclosing the benefits, Banks and non-bank financial institutions should provide a balanced view by highlighting the investment returns potential upside and downside. Key assumptions made should be clearly stated.

b. Illustration of past and future performance

i. When using past performance of the underlying instruments/assets (where applicable) to project future returns of investments, banks and non-bank financial institutions should use actual returns of the immediately preceding 5 years (or the available period, if shorter). Banks and non-bank financial institutions must clearly state that past performance is not indicative of future performance. Likewise, when using any forecast of the economic trends of the markets, banks and non-bank financial institutions should include a

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prominent warning that such forecast is not necessarily indicative of the return on investment in future returns.

- ii. In projecting future performance of investments, banks and non-bank financial institutions should include the bull (best case, where feasible), flat (moderate case) and bear (worst case) scenarios showing a range of potential gains or losses resulting from changes in the value of the underlying instruments/assets. The purpose is to enhance the customer's understanding of the impact of different scenarios. Banks and non-bank financial institutions should also limit the projections to 5 years. The assumptions used must be reasonable and should be clearly stated.
 - iii. Banks and non-bank financial institutions should ensure that information on future performance is not the most prominent feature in the communication materials.
 - iv. Any comparison of performance figures must be relevant and accurate, comparing "like for like" to ensure such presentation is not misleading.
 - v. Where an opinion is expressed, there should be a reasonable basis for including the opinion and it should be clearly stated that it is a statement of opinion.
- c. Risk warning statement
- i. Banks and non-bank financial institutions must highlight the following risk warning statement.

WARNING

THE RETURNS ON THIS INVESTMENT WILL BE AFFECTED BY THE PERFORMANCE OF THE UNDERLYING INSTRUMENTS/ASSETS. THE RETURNS ARE UNCERTAIN AND CUSTOMER RISKS EARNING NO RETURNS AT ALL. IF THE INVESTMENT IS REDEEMED EARLY, CUSTOMER MAY LOSE PART OR THE ENTIRE PRINCIPAL SUM INVESTED.

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- ii. in Arial 12-point font in bold capital letters, at the bottom of every page of any document released pertaining to an offer of the investment account;
 - iii. in Arial 24-point font in bold capital letters, as the first slide in any promotional soft copy slide presentation and/or hard copy print out; and
 - iv. in Arial font bold capital letters, on the first and last pages of any advertising material, in a font size no smaller than the font size of the content. The text must be capable of being read with reasonable ease.
- d. Early termination
 - i. For investment account where the principal sum invested is only guaranteed if held to maturity, banks and non-bank financial institutions must inform customers. Customers must be informed of the consequence, restrictions and procedures of terminating the investment before maturity. Banks and non-bank financial institutions should be transparent on the discretion to impose early termination charges.
- e. Capital guarantee
 - i. An investment account that merely adopts an investment strategy aimed at returning the customer's capital but is not guaranteed shall not be represented as a capital protected product or any other name that connotes a similar meaning.
- f. Cooling-off period
 - i. Banks and non-bank financial institutions should inform the customer if a cooling-off period is applicable to the investment account and the relevant conditions under

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which a cooling-off period is applicable. A cooling-off period allows the customer to terminate the contract within a specified period and obtain a full refund of money paid.

13. Custodian of the Document

These Guidelines shall be under the safe custody of the Islamic Banking Division (“IBD”) of DAB. Any changes to this Manual shall be made by the IBD with prior consultation with the SSB, as reviewed by the DAB Executive Board and upon approval by DAB Supreme Council. A copy of the amended Manual shall be made available to all stakeholders and SSB members for reference and implementation.

14. Effective Date of the Document

The Effective date of the Guidelines is the _____ day of _____ 20__