

Financial Accounting Standard No. (25)

**Investment in Sukuk, Shares
and Similar Instruments**



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Preface

This standard aims at setting out principles for the recognition, measurement, presentation and disclosure of investment in Sukuk, shares and other investments that exhibit characteristics of debt and equity instruments made by Islamic financial institutions.⁽¹⁾

(1) Referred to hereafter as institution, institutions or entity.

Statement of the Standard

1. Scope of the Standard

- 1/1 This standard shall apply to an entity's investment, whether in the form of direct investments, investments through structured products, investment funds or investment portfolios, Sukuk, other debt-type instruments or shares. (para. 1)
- 1/2 This standard shall not be applied for accounting of:
- a) Investment in entity's own equity instruments;
 - b) Investment that requires special accounting treatment such as consolidation of investments in subsidiaries and equity accounting of investment in associates;
 - c) Investment in real estate;
 - d) Investment in contracts with insurance and discretionary participation features; and
 - e) Contracts and transactions covered by Financial Accounting Standard No. (3): Mudaraba Financing, Financial Accounting Standard No. (4): Musharaka Financing, Financial Accounting Standard No. (7): Salam and Parallel Salam, and Financial Accounting Standard No. (10): Istisna'a and Parallel Istisna'a. (para. 2)
- 1/3 Should the requirements of this standard be in conflict with the entity's charter or the laws and regulations of the country in which it operates, a disclosure should be made of the conflict. (para. 3)

2. Classification

- 2/1 For the purposes of this standard, each investment is segregated as investment in debt-type instruments and equity instruments. (para. 4)
- Debt-type instruments are investments that have terms providing fixed or determinable payments of profits and capital to the holder of instrument. (para. 5)

Equity-type instruments are investments that do not exhibit features of debt-type instruments and include instruments that evidence a residual interest in the assets of an entity after deducting all its liabilities. (para. 6)

- 2/2 Investment in debt-type instruments shall be classified under the following categories:
- Investment at fair value through income statement; and
 - Investments carried at amortised cost. (para. 7)
- 2/3 Investment in equity-type instruments shall be classified under the following categories:
- Investments at fair value through income statement; and
 - Investments at fair value through equity. (para. 8)
- 2/4 On initial recognition, an investment may be classified as 'fair value through income statement' consistent with the entity's documented investment strategy. Investments at fair value through income statement comprise:
- Investments held for trading purposes; and
 - Investments designated at fair value through income statement. (para. 9)
- 2/4/1 An investment is classified as held for trading if acquired or originated principally for the purpose of generating a profit from short-term fluctuations in price or dealer's margin. Any investments that form part of a portfolio where there is an actual pattern of short-term profit taking are also classified as 'held for trading'. (para. 10)
- 2/4/2 An investment shall be designated at fair value through income statement only if:
- a) Such designation eliminates an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or
 - b) Investment is managed and its performance is evaluated internally by the management on a fair value basis. (para. 11)

2/5 A debt-type investment shall be classified and measured at amortised cost if the following conditions are met:

- a) Instrument is managed on a contractual yield basis;
- b) Instrument is not held for trading and has not been designated at 'fair value through income statement'. (para. 12)

At inception, a debt-type instrument, that is managed on a contractual yield basis, can only be designated at fair value through income statement if it eliminates an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases. (para. 13)

2/6 On initial recognition, equity-type instruments that are not designated at fair value through the income statement shall be classified as investments at fair value through equity. (para. 14)

3. Measurement

3/1 After initial recognition, all investments shall be subsequently measured in accordance with the initial classification of the investment; i.e., at fair value or amortised cost. (para. 15)

Initial recognition

3/2 All investments shall be recognized on the acquisition date and shall be recognised initially at their fair value plus, except for investments at fair value through income statement, transaction costs. Transaction costs relating to investments at fair value through income statement are charged to the income statement when incurred. (para. 16)

Subsequent measurement

Investments carried at amortised cost:

3/3 At the end of each financial reporting period, investments classified at amortised cost shall be re-measured as such using the effective profit rate method. All gains or losses arising from the amortisation process and those arising from derecognition or impairment of the investment, are recognised in the income statement. (para. 17)

- 3/4 Investments carried at amortised cost shall be tested for impairment at each reporting period. An impairment loss shall be recognised when there is objective evidence of impairment and the carrying value exceeds the expected recoverable amount of the investment. Subsequent recovery of impairment losses are recognised through the income statement to the extent of previously recognised impairment losses. (para. 18)

Investments at fair value through income statement:

- 3/5 Investment held for trading and designated at fair value through income statement shall be re-measured at their fair value at the end of each reporting period. The resultant re-measurement gain or loss, if any, will be the difference between the book value (or carrying amount) and the fair value and shall be recognized in the income statement. All other gains or losses arising from these investments shall be recognised in the income statement. (para. 19)
- For investment held for trading purposes, gains/losses shall be recognised taking into consideration the split between the portion related to owners' equity and the portion related to the equity of investment accountholders for trading investments. (para. 20)

Investments designated at fair value through equity:

- 3/6 Investment designated at fair value through equity shall be re-measured at their fair value at the end of each reporting period. The resultant re-measurement gain or loss, if any, will be the difference between the book value (or carrying amount) and the fair value shall be directly recognized in equity under "Investments fair value reserve", taking into consideration the split between the portion related to owners' equity and the portion related to the equity of investment accountholders. (para. 21)
- 3/7 In those circumstances, where the entity is unable to determine a reliable measure of fair value of equity instruments on a continuing basis, the investments shall be measured at cost. If on a subsequent date, a reliable measure of fair value is determinable, the investment shall be accounted in accordance with para (3/6). (para. 22)

- 3/8 An entity shall assess at the end of each reporting period whether there is any objective evidence that an investment carried at fair value through equity is impaired. Among other factors that may be considered for impairment, a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost is also an objective evidence of impairment. (para. 23)
- 3/9 The unrealised re-measurement gain or loss shall be recognised as a component of equity (of owners' and investment accountholders) until the investment is derecognised or an impairment loss is recognised. At that time the gain or loss previously recognised in equity is transferred to the income statement taking into consideration the split between the portion related to owners' equity and the portion related to the equity of investment accountholders. Impairment losses recognised in income statement for an equity investment shall be reversed directly through equity. (para. 24)
- 3/10 At the end of each reporting period, investments in equity instruments that are carried at cost in the absence of a reliable measure of fair value shall be tested for impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the impairment loss is measured as the difference between the carrying amount of the investment and its expected recoverable amount. All impairment losses are recognised in the income statement. Impairment losses recognised in income statement for such equity investments shall not be reversed. (para. 25)

Realized gains/losses and dividends:

- 3/11 The realised gains or losses resulting from the sale of any investment shall be measured as the difference between the book value (or carrying amount) and the net cash proceed from the sale (or at maturity for debt-type instruments) of each investment. The resulting gains or loss together with the available balance on the "Investments fair value reserve" account for investments designated at fair value through equity shall be recognized in the income

statement for the current financial period, taking into consideration the split between the portion related to owners' equity and the portion related to investment accountholders. (para. 26)

- 3/12 Dividends from investments shall be recognized in the income statement according to their declaration date, taking into consideration the split between the portion related to owners' equity and the portion related to investment accountholders. (para. 27)

4. Reclassification

- 4/1 After the initial designation, investments in debt-type securities shall not be reclassified into or out of the fair value and amortised cost categories. (para. 28)
- 4/2 After the initial designation, investments in equity-type securities shall not be reclassified into or out of the fair value through income statement and equity categories. (para. 29)

5. Presentation Requirements

- 5/1 At the end of the financial period, investments shall be presented separately as a line item on the assets side of the statement of financial position. Disclosure shall be made of the significant components of each type of investments either on the face of the statement of financial position or in the notes to the financial statements. (para. 30)
- 5/2 Income and gains/losses from all types of investments shall be presented in the income statement under "Income or Gains/Losses from Investments" taking into consideration the split between the portion related to owners' equity and the portion related to investment accountholders. Disclosure shall be made of the income and gains/losses from the main components of each type of investment in the notes to the financial statements, if material. (para. 31)

6. Disclosure Requirements

- 6/1 Disclosure shall be made of the accounting policies adopted for classification, recognition and measurement (including impairment) of investments. (para. 32)
- 6/2 Disclosure shall be made of the investments that are financed from owners' equity, equity of investment accountholders' or from both sources, separately. (para. 33)

- 6/3 Disclosure shall be made of any restrictions on investments, their profits or sale, if any. (para. 34)
- 6/4 Disclosure shall be made of the classification of investment portfolio in the following categories:
- a) Investments carried at amortised cost.
 - b) Investments carried at fair value through income statement (showing separately the investments held for trading and designated at fair value through income statement).
 - c) Investment at fair value through equity. (para. 35)
- 6/5 For each category of investment, the entity shall also disclose the details of the nature of investments in its portfolio (i.e., in the form of debt-type Sukuk, other debt type instruments, equity investments, equity Sukuk, investment in funds, units etc.). In case of debt-type instruments, an entity shall also provide the details and amounts of investment that are rated. (para. 36)
- 6/6 Disclosure shall be made of the “Investments fair value reserve” indicating the balance at the beginning of financial period, changes during the period and the balance at the end of financial period. (para. 37)
- 6/7 For investments carried at cost in the absence of reliable measure of fair value, the entity shall disclose:
- a) Reasons for not being able to determine a reliable measure of fair value;
 - b) Market for such instruments; and
 - c) Information on how the entity intends to dispose of the investment. The entity shall disclose the gain/loss on sale/disposal of investments carried at cost. (para. 38)
- 6/8 For changes during the period from equity investment carried at cost to investments at fair value through equity, an entity shall disclose the carrying amount of investment re-measured, fair value gain recognized during the period and the basis of change. (para. 39)
- 6/9 Disclosure shall be made of the movement in impairment allowances during the period for investment carried at cost and amortised cost. (para. 40)

6/10 For investments measured at fair value:

6/10/1 Disclosures shall be made by category of investments of the basis of determination of fair value in the following hierarchy that reflects the significance of the inputs used in measuring fair values:

- a) Fair values measured using quoted prices in active markets for identical instruments;**
- b) Fair values measured using directly or indirectly observable inputs; and**
- c) Fair values measured using inputs that are not based on observable market data. (para. 41)**

6/10/2 Disclosures shall be made of the amount of unrealised gains/ losses included in the income statement and changes in equity during the period for each level of valuation discussed above. (para. 42)

6/10/3 Disclosures shall be made of the transfers between levels of basis of determination of fair value (6/10/1) during the period, if any. (para. 43)

6/10/4 In addition, changes in valuation techniques from one period to another, including the reasons therefor, shall be disclosed for each category of investments. (para. 44)

6/10/5 For investments valued using inputs that are not based on observable market data, disclosure shall be made for significant estimates and judgments used in determination of fair value including effect on the valuation due to possible changes in key variables used for valuation. (para. 45)

6/11 For investments carried at amortised cost, the entity shall also disclose the fair values of the investments in a way that permits it to be compared to the carrying amounts. (para. 46)

6/12 Disclosure requirements stated in Financial Accounting Standard No. (1): General Presentation and Disclosure in the Financial Statements of Islamic Banks and Financial Institutions shall be observed. (para. 47)

7. Effective Date

This Standard shall be effective for financial periods beginning 1 Muharram 1432 A.H. or 1 January 2011 A.D. Earlier application is permitted. If the standard is applied in an earlier reporting period, the financial statements shall disclose that the standard has been early adopted. (para. 48)

8. Transitional Provisions

- 8/1 This standard shall be applied retroactively in accordance with the requirements stated in Financial Accounting Standard No. (1): General Presentation and Disclosure in the Financial Statements of Islamic Banks and Financial Institutions. (para. 49)
- 8/2 On the date of initial application, the classification of investments should be reassessed as per this standard on the basis of the facts and circumstances that existed at the date of initial application. That classification shall be applied retroactively. (para. 50)
- 8/3 If it is impracticable to apply retroactively the effective profit method or the impairment requirements for investments carried at amortised cost, the amortised cost of the investment or any impairment shall be determined in each period presented on the basis of the fair value of the investment at the end of each comparative period. If an impairment loss is recognised using that approach or if it is impracticable to apply the effective profit method, the fair value of the investment at the date of initial application shall be the new amortised cost of the investment at the date of initial application of this standard. (para. 51)
- 8/4 The entity shall disclose the effect of implementing this standard in the financial statements for the financial period in which this standard is applied for the first time. (para. 52)
- 8/5 The effect of change in accounting policy on investment accounts and the effect on their share of income/loss from investments for the current period and for each prior period presented should be disclosed. (para. 53)

Adoption of the Standard

The standard of Investment in Sukuk, Shares, and Similar Instruments was adopted by the Board in its meeting No. (37) held on 10 Sha'ban 1431 A.H., corresponding to 22 July 2010 A.D.

Members of the Board

- | | |
|---|--|
| 1. Mr. Muhammad Said Abdul-Wahab | Chairman |
| 2. Mr. Hamad Abdullah Eqab | Deputy Chairman |
| 3. Sheikh. Dr. Abdul-Sattar Abu Ghuddah | |
| 4. Sheikh. Essam Mohammed Ishaq | |
| 5. Mr. Fawad Laique | |
| 6. Mr. Jamil A Darras | |
| 7. Dr. Nordin Mohd Zain / Mr. Aly El Azhary | |
| 8. Mr. Firas S Hamdan | |
| 9. Mr. Michael Zamorski | |
| 10. Dr. Hussein Said Saifan | |
| 11. Mr. M Faiz Azmi / Mr. Madhukar Shenoy | |
| 12. Mr. MurtadaKhidr Mohamed Abuzaid | |
| 13. Mr. Prakash Pathmanathan | |
| 14. Mr. Qudeer Latif | |
| 15. Mr. Oliver Agha | |
| 16. Mr. Jalil Al-Aali | |
| 17. Dr. Mohamad Nedat Alchaar | Member/ Secretary General/
Rapporteur |

Appendix (A)

Brief History of the Preparation of the Standard

In its meeting No. (34) held in Manama, Kingdom of Bahrain on 14 Dhul-Qa'dah 1429 A.H., corresponding to 12 November 2008 A.D., the Accounting and Auditing Standards Board decided to develop a new Standard on Investment in Sukuk, Shares, and Similar Instruments.

Subsequently, a consultant was commissioned to prepare a preliminary study and exposure draft of the Standard on Investment in Sukuk, Shares, and Similar Instruments. Preparation of the preliminary study and exposure draft was overseen by the Accounting and Auditing Standards Board.

The preliminary study and exposure draft were discussed by the Accounting and Auditing Standards Board through a series of meetings and telephone conference calls.

The preliminary study and exposure draft were deliberated by Accounting and Auditing Standards Board in its meeting No. (35) held on 6 Rabi' II, 1430 A.H., corresponding to 2 April 2009 A.D. Subsequent exposure draft was also deliberated by Accounting and Auditing Standards Board in its meeting No. (36) held on 27 Dhul-Qa'dah 1430 A.H., corresponding to 16 October 2009 A.D.

Listening session of the exposure draft was convened in Manama, Kingdom of Bahrain on 22 Rabi' I, 1431 A.H., corresponding to 8 March 2010 A.D., to gather comments from the Islamic finance industry as well as accounting and auditing professions.

The exposure draft was revised in light of the comments made in Accounting and Auditing Standards Board meeting No. (36) and the listening session.

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The Accounting and Auditing Standards Board adopted the Standard on Investments in Associates at its meeting No. (37) held on 10 Sha'ban 1431 A.H., corresponding to 22 July 2010 A.D.

Appendix (B)

Reasons for the Standard

Investment accounting and reporting is a key component of the financial statements of Islamic Financial Institutions (IFI's). The previous Financial Accounting Standard No. (17) on Investments was first issued in 2002 A.D. and laid the initial foundation for accounting and reporting of investments. Since then, over the years, with the constant progression and innovation in the Islamic banking industry, new forms of complex and hybrid Shari'a compliant investment products have been launched and the current standards were seen to be very basic to address the needs and requirements of the various users and preparers of financial statements. Further, the recent global market crisis and its effect on financial reporting has forced most of the standard setters and regulators to revisit the financial reporting aspects of investments and how improvements in financial reporting could help enhance investor confidence in financial markets.

In response to various requests received by AAOIFI for revisions to the previous FAS No. (17) and considering the current developments in global financial markets and standard setting activities, the Accounting and Auditing Standards Board then developed a revised standard.

Appendix (C)

Definitions

Sukuk

Investment Sukuk are certificates of equal value representing undivided shares in ownership of tangible assets, usufruct and services or (in the ownership of) the assets of particular projects or special investment activity, however, this is true after receipt of the value of Sukuk, closing of subscription and employment of funds received for the purpose for which the Sukuk were issued.

(The above definition is taken from Shari'a Standard No. (17) on Investment Sukuk).

Investments Held for Trading Purposes

An investment is held for trading if acquired or originated principally for the purpose of generating a profit from short-term fluctuations in price or dealer's margin. Any investments that form part of a portfolio where there is an actual pattern of profit taking are also classified as 'held for trading'.

Amortised Cost

The amortised cost of an instrument is the amount at which the financial asset is measured at initial recognition minus capital/redemption repayments, plus or minus the cumulative amortisation using the effective profit rate method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

The effective profit rate method is a method of calculating the amortised cost of a financial asset and of allocating the finance income over the relevant period. The effective profit rate is the rate that exactly equates the

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estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the asset. When calculating the effective profit rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument, but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective profit rate, transaction costs, and all other premiums or discounts.

Fair Value

Fair value is the amount for which an asset could be exchanged or an obligation settled between well informed, willing parties (seller and buyer) in an arm's length transaction.

Appendix (D)

Basis for Conclusions

Scope

The previous version of the standard (i.e. the previous FAS No. 17) was narrow and covered investment in Sukuk, equity shares and investment in real estate. Given the significant diversity in the accounting requirements of investment in financial instruments and real estate, there was a need for separation of the accounting standards for these investments. It was concluded that accounting for investment in real estate shall be addressed through a separate and more detailed accounting standard. Further, the existing standard did not address all types of investments that were currently being made by entities.

This revised standard enhances the scope of the standard by introducing investments in debt-type and equity-type investments rather than limiting the scope to investment in equity and Sukuk. Further, the standard specifically excludes investments covered under existing FASs and certain investment which have special accounting requirements (e.g., investment in subsidiaries, associates etc.). The title of the standard includes the term 'similar instruments' as it intends to cover certain instruments which may not be in the form of shares or Sukuk (e.g., units in funds, limited partnership, certain structured notes etc.).

The Accounting and Auditing Standards Board members also specifically discussed the exclusion of real estate investments from the scope of the standard. A question was raised as to whether indirect investment in real estate through Sukuk or fund structures would be considered to be excluded from the scope of the standard. The Board clarified that it was the intention to cover all financial instruments that exhibit debt-type and equity characteristics irrespective of the sector exposure they may lead to.

Hence, only direct holdings of real estate which do not represent investment in financial instruments shall be excluded from the scope of the standard. For investments in real estate through structured vehicles, the Board noted that the assessment would be made at each level of financial statements; i.e., separate as well as consolidated financial statements.

Classification And Measurement Approach

It was the objective to make the basis of classification and measurement of investment based on the characteristic of each instrument and the intention of the entity for management of the investment. The existing classification categories also did not address all investment activities and objectives of an entity (e.g. private equity and venture capital organisations, mutual funds etc.). Given the various forms and structures of investments currently used by entities, the approach of the Board was to first determine the nature of the instrument.

The standard requires each investment to be segregated as debt-type instruments and equity instruments. A debt-type investment would represent a periodic payment of profit and capital which is either fixed or determinable under the terms of the contract. All other investments would exhibit the characteristics of an equity investment.

The debt type-instrument which is managed on an effective yield basis should be measured consistent with the management's intention; i.e., at amortised cost using the effective profit rate so as to reflect a constant return over the period of the investment. For all other investments it was considered that fair value would provide a more reliable presentation of the financial position of an entity. Hence, the standard includes two broad categories of classification and measurement of investments: amortised cost and fair value.

However, in relation to minority unquoted equity investments, the Board also noted the issues in relation to practicability and reliability of information that may be available for fair valuation and decided to retain the cost option, as an exception, for investments where fair value could not be determined reliably. The Board was of the view that this option may be exercisable only in exceptional circumstances as in general, it would not be

considered prudent for an entity to make material investments for which fair value is not reliably determinable. However, the Board emphasised that if on a subsequent date a reliable measure of fair value can be determined on a continuing basis for such equity investments, such investments shall be re-measured to fair value with changes routed through equity. This would make the financial reporting more reliable and relevant for users. The standard provides for detailed disclosure requirements for such investments to enable the readers to understand the nature and impact of such investments on the financial statements of the entity.

While in principle, it was agreed that all re-measurement of gains/losses should be routed through the income statement, the Board noted that some equity instruments may be purchased for strategic purposes and are not held with the primary objective of realising a profit from increases in the value of the instrument. Therefore, the Board decided to permit an entity, on initial recognition of investments in equity instruments that are not held for trading but are held for purposes other than realising direct investment gains, to make an irrevocable election to present changes in the fair value of those investments in equity.

Jointly Financed Investments

The previous standard required separate classification requirements for the portion of investment jointly financed by the investment accountholders. The Board noted that this conceptually created two basis of accounting for the same investment. The Board noted that the accounting for the funding provided by the investment accountholders is governed by the previous Financial Accounting Standard No. (6) on Equity of investment accountholders and their equivalent and this standard should only focus on providing a single basis of recognition and measurement for each investment irrespective of its mix of funding. Hence, it was concluded that this standard shall not provide different classification or measurement criteria for investments based on its source of funding. However, the Board noted that consistent with the requirements of FAS No. (1), each entity should provide the disclosures of the sources of funding of its assets.

Further, the Board considered concerns where different accounting policies followed by different entities for similar jointly financed investments may lead to different basis of profit allocation and distributions to investment accountholders. The Board noted that the basis and policies of distribution to investment accountholders is developed by each entity separately based on the guidance provided by its Shari'a Supervisory Board and applicable local regulations. From a financial reporting perspective, an entity is required to provide appropriate disclosures on its profit allocation and distribution policies as per the previous Financial Accounting Standard No. (5) on Disclosure of Bases for Profit Allocation between Owners' Equity and Investment Accountholders.

Impairment Assessment

Investments carried at cost and amortised cost would be subject to impairment testing on each reporting period. Impairment assessment shall be carried out on both individual and collective basis (for investments with similar credit characteristics). The Board was of the view that the international guidance available on determination and measurement of impairment for each type of investment was adequate and separate guidance was not required under the revised standard.

Reclassification

As the classification of the investment is based on intention and management of the investment, the revised standard does not permit reclassification of investments after initial designation. No subsequent reclassification into or out of the fair value and amortised cost category shall be permitted.

Disclosures

The revised standard includes disclosures which would provide additional qualitative and quantitative information on the investment portfolio. The previous detailed investment-wise disclosure requirements for Sukuk and equity investments have been amended considering the issues relating to practicability and relevance of providing such information.

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Transition Guidance

The revised standard shall be applicable on a retroactive basis and provides for certain exemptions on amortised cost measurement based on practicability considerations. The revised standard provides a window for entities to re-assess and re-designate their investments on the date of application of the revised standard.

Appendix (E)

Application Guidance

Classification of Debt-type Instruments

The basic features of debt-type instruments include contractual terms that give rise on specified dates to cash flows that are payments of capital and profits computed based on the capital outstanding. The payments may be either fixed or determinable. Other contractual features that result in cash flows that are not payments of capital and profits are not basic features of debt-type instruments.

For a debt-type instrument to be carried at amortised cost, the investment must be managed on a contractual yield basis. Investments are managed on a contractual yield basis only if they are managed, and their performance evaluated by the entity's key management personnel, on the basis of the contractual cash flows.

Explanation of the Definition of Fair Value

Underlying the definition of fair value is a presumption that an entity is a going concern without any intention or need to liquidate, curtail materially the scale of its operations or undertake a transaction on adverse terms. Fair value is not, therefore, the amount that an entity would receive or pay in a forced transaction, involuntary liquidation or distress sale.

When a financial instrument is traded in an active and liquid market, its quoted market price provides the best evidence of fair value. When current bid and offer prices are unavailable, the price of the most recent transaction may provide evidence of the current fair value provided that there has not been a significant change in economic circumstances between the transaction date and the reporting date.

When there is infrequent activity in a market, the market is not well established or small volumes are traded relative to the number of trading units of a financial instrument to be valued, quoted market prices may not be indicative of the fair value of the instrument. In these circumstances, as well as when a quoted price is not available, estimation techniques may be used to determine fair value with sufficient reliability to satisfy the requirements of this standard. Techniques that are well established in financial markets include reference to the current market value of another instrument that is substantially the same. In determining the fair value, the entity should take into account the cost which will be incurred in exchanging or settling a financial instrument.

When it is not practicable to determine a single amount representing the fair value, the entity should disclose a range of values within which the fair value is believed to be. When disclosure of fair value information is omitted because it is not practicable to determine fair value with sufficient reliability, the entity should disclose all relevant information to assist the financial information users in making their own judgments about the extent of possible differences between the carrying amounts of the related assets and their fair values.

In the absence of an active market quote, fair value assessment remains to be subjective and in case additional guidance is required, an entity should refer to the latest guidance provided by other international accounting standard setters.

Foreign Exchange Differences

In case of equity investments (non-monetary assets) designated at fair value through equity, the foreign exchange differences forming part of the fair value changes shall be recognised directly in equity and shall not be recognised in the income statement. In accordance with FAS No. (16) on Foreign Currency Transactions and Foreign Operations, exchange gain/loss on re-measurement of debt type instruments (monetary assets) shall be recognised in the income statement.



