Financial Accounting Standard No. (16)

Foreign Currency Transactions and Foreign Operations

Contents

Preface

This Financial Accounting Standard for Foreign Currency Transactions and Foreign Operations is intended to set out the accounting rules for recognizing, measuring, presenting and disclosing foreign currency transactions and foreign operations that are undertaken by Islamic banks and financial institutions.[1]

Attached to the Standard are details of the juristic rules that are the basis for the accounting treatments.

(1) Referred to hereafter as Islamic bank or Islamic banks.

Statement of the Standard

1. Scope of the Standard

This Standard sets out the accounting rules for recognizing, measuring, presenting and disclosing transactions in various currencies other than the reporting currency of the Islamic bank, whether such transactions relate to assets, liabilities, off-balance sheet items, revenues, expenses, gains or losses in the financial statements.

The Standard also covers accounting for net investments in foreign operations of an Islamic bank which prepares its financial statements in a currency which is different from the reporting currency of the Islamic bank (foreign operations). Examples of such foreign operations are branches, subsidiaries which prepare their financial statements in a currency which is different from the reporting currency of the Islamic bank.

The Standard also applies to foreign currency transactions and foreign operations in the statement of changes in restricted investments.

Should the requirements of this standard be in conflict with the Islamic bank's charter or the laws and regulations of the country in which it operates, a disclosure should be made to that effect. (para. 1)

2. Accounting Treatment for Foreign Currency Transactions

2/1 Foreign currency transactions which are not based on Mudaraba or Musharaka contracts shall be recognised on the date of the transaction by translating (measuring) them into the reporting currency at the prevailing spot exchange rates. (para. 2)

2/2 Foreign currency transactions which are based on Mudaraba or Musharaka contracts shall be recorded as follows:

a) Recognizing the amounts by translating (measuring) them into the reporting currency at the prevailing spot exchange rate on the date of receipt of the foreign currency amount. (para. 3)

b) In case the transactions are executed in the reporting currency, the capital of the Mudaraba or Musharaka shall be remitted - after addition of profits or deduction of losses - in the reporting currency. (para. 4)

c) In case the transactions are executed in currencies other than the reporting currency, the gain or loss on such transactions shall be determined by retranslating Mudaraba or Musharaka assets into the reporting currency and any exchange gain or loss on such retranslations shall be credited/ charged against the Mudaraba or Musharaka fund. (para. 5)

In cases (b) and (c) above if the provider of funds in a Mudaraba or Musharaka asks the Islamic bank to retranslate the due amount back to the currency in which the Mudaraba or Musharaka capital was originally received, then any resultant translation gain or loss shall be credited/charged to the client. (para. 6)

2/3 If a foreign currency Murabaha to the Purchase Orderer transaction includes a grace period from the supplier or the source for part or all of the amount due, the Islamic bank shall execute the Murabaha transaction in the foreign currency. The transaction shall be measured by translating the amount of the foreign currency committed to the supplier into the reporting currency at the prevailing spot exchange rate at the time the transaction was concluded with the supplier. (para. 7)

2/4 Two situations may arise when the client settles the Murabaha to the Purchase Orderer receivable:

a) If the client settles the Murabaha receivable in the currency in which the transaction was executed, then the resulting profit of the transaction shall initially be recognised in the currency in which the transaction was executed, and shall be translated into the reporting currency at the prevailing spot exchange rate on the settlement date. Any gain or loss on the transaction will thus be recognised in the reporting currency in the Islamic bank's income statement. (para. 8)

b) If the client settles the Murabaha receivable in a currency other than the currency in which the Murabaha transaction was executed, then if the currency of settlement is not the reporting currency the amount paid by the client shall be translated into the reporting currency at the prevailing spot exchange rate on the settlement date. A foreign exchange gain or loss may arise if the exchange rate between the currency in which the transaction was executed and the currency used by the client in settlement, and hence their equivalents in the reporting currency, have changed since the contract date. Any resulting foreign exchange gain or loss on the Murabaha transaction shall be the responsibility of the Islamic bank and shall be recognised in its income statement. (para. 9)

2/5 If the Islamic bank is granted a grace period, as stated in item 2/3 above, for paying for the purchase of the items to be resold to the client on the basis of a Murabaha to the Purchase Orderer, and it was agreed by the two parties to cancel the Murabaha transaction and execute it on the basis of Musawama (a negotiated price) to be settled on a deferred basis and agreed upon at the time of contracting, then the amount of the client's settlement in the currency in which he is committed to pay the Islamic bank will reflect the agreed price at the time of contracting, but shall be translated into the reporting currency at the prevailing spot exchange rate on the settlement date. When payment is made by the Islamic bank of its obligation to the supplier, any resultant foreign exchange gain or loss on the Murabaha transaction shall be recognised in the Islamic bank's income statement. (para. 10)

3. Accounting Treatment for the Purpose of Preparing Financial Statements

3/1 Monetary assets and liabilities denominated in foreign currencies shall be translated (revalued) into the reporting currency at the prevailing spot exchange rates on the date of the financial statements. Any translation differences other than those resulting from net investments in foreign operations shall be recognised in the income statement. (para. 11)

3/2 The foreign exchange differences, whether unrealised gains or unrealised losses, resulting from the retranslation of the net investment in a foreign operation at the date of the financial statements shall be recognized as a separate component of equity in the statement of financial position. The portion of this separate component of equity relating to owners' equity shall be clearly separated from the portion relating to equity of unrestricted investment accountholders. In case of the disposal of a net investment in a foreign operation, the foreign exchange differences (including any prior period differences that have been included in the separate component of equity) shall be recognised on the date of the disposal as a gain or loss to the Islamic bank and reported as such in the Islamic bank's income statement, and the separate component of equity shall be debited or credited accordingly. (para. 12)

3/3 Accumulated unrealised gains resulting from the retranslation of a net investment in a foreign operation are credited in the first place against any accumulated unrealised losses of prior years that have been charged to the separate component of equity. If the balance, after they have been so credited, is an accumulated gain, this represents an increase in the carrying amount of the net investment in foreign operations, and should be adequately disclosed as such. (para. 13)

3/4 Translation losses arising in the case of severe devaluation or depreciation (other than temporary) of the currency of the net investment in a foreign operation, when the latter is translated at the prevailing spot exchange rate at the date of the financial statements, shall be recognised in the first place as a charge against any credit balance on the separate component of equity mentioned in 3/2 above, and any remaining amount of such a loss shall be recognised as a loss in the income statement. (para. 14)

3/5 If the receivables or liabilities denominated in a foreign currency are settled (fully or partially) in another currency, the Islamic bank shall measure the amount settled at the prevailing spot exchange rate on the date of settlement, and any translation difference shall be recognised as a currency exchange gain or loss in the bank's income statement. (para. 15)

3/6 At the date of the financial statements, all revenues and expenses of the Islamic bank's foreign operations shall be translated into the reporting currency using the weighted average method or any acceptable approximation to it. (para. 16)

3/7 **Zakah**

Zakah shall be calculated based on Financial Accounting Standard No. (9): Zakah at the end of the financial period, after translating all monetary assets and liabilities denominated in foreign currency into the reporting currency at the prevailing spot exchange rates at the end of the financial period. (para. 17)

4. Presentation Requirements

4/1 Foreign exchange differences resulting from transactions attributable to unrestricted investment accounts, whether gains or losses, shall be presented in the income statement under the heading "gain or loss on foreign currency transactions for unrestricted investment accounts", after "return on unrestricted investment accounts" and before deducting the Islamic bank's share as a mudarib. (para. 18)

4/2 Any difference, whether gain or loss, arising from revaluation (re-translation) of foreign currency monetary assets or liabilities attributable to owners' equity shall be presented in the income statement under "gain or loss on foreign currency translation" before "other revenues". This shall not include foreign currency gains or losses on net investments in foreign operations. (para. 19)

4/3 In case of the disposal of a foreign operation, any difference whether gain or loss arising on retranslation of the net investment in such an operation shall be presented as a separate item under "gain or loss on foreign currency translation". Where prior period unrealised gains or losses on retranslation of the net investment in such an operation have previously been recognised as a separate component of equity in accordance with 3/2 above, such gains or losses shall be recognised in the income statement in the period in which the disposal takes place. (para. 20)

5. Disclosure in the Notes to the Financial Statements

5/1 Disclosure shall be made if the reporting currency is different from the local currency in the Islamic bank's country. The reasons for using a different currency shall be provided. (para. 21)

5/2 If there is an important change in the nature of foreign operations (e.g., from long-term to short-term), disclosure shall be made of the following:

a) The nature of the change of the classification;
b) The reason for the change;
c) The effect of the change on equity of unrestricted investment accountholders and owners' equity;
d) The effect of the change on net income or loss for the comparative period with the current period, if the change occurred at the beginning of the current financial period. Consideration shall be given to the possibility of not implementing this paragraph in the first year of the implementation of the standard. (para. 22)

5/3 Separate disclosure shall be made of the accumulated unrealised gains and the accumulated unrealised losses on net investments in foreign operations that are included in the separate component of equity. This shall be appropriately designated as "Cumulative unrealised translation gains (losses) on net investment in foreign operations". (para. 23)

5/4 Disclosure shall be made of the differences arising from translating Mudaraba or Musharaka transactions held in foreign currencies into the reporting currency. (para. 24)

5/5 Disclosure shall be made of the differences, whether gain or loss, arising from retranslating unrestricted investment accounts, if material. (para. 25)

5/6 Disclosure shall be made of any foreign exchange differences, whether gain or loss, resulting from transactions in foreign currencies attributable to restricted investment accounts, such disclosure being made in the "statement of changes in restricted investment accounts". (para. 26)

5/7 Disclosure shall be made of the policies applied by the Islamic bank in translating foreign currencies in the financial statements and the policies applied by the Islamic bank in managing the risk relating to foreign currencies. (para. 27)

5/8 The disclosure requirements stated in Financial Accounting Standard No. (1): General Presentation and Disclosure in the Financial Statements of Islamic Banks and Financial Institutions, should be observed. (para. 28)

6. Effective Date

This Standard shall be effective for financial periods beginning 1 Muharram 1423 A.H. or 1 January 2002 A.D. (para. 29)

Adoption of the Standard

The standard of Foreign Currency Transactions and Foreign Operations was adopted by the Accounting and Auditing Standards Board in its meeting No. (21) held on 8 Safar 1422 A.H., corresponding to 2 May 2001 A.D.

Members of the Board

1. Abdul-Malik Yousef Al-Hamar	Chairman
2. Noorur-Rahman Abid	Deputy Chairman
3. Ibrahim Adam Habib	
4. Anwar Khalifa Sadah	
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9. Abdul-Hamid Abu Mousa	
10. Dr. Abdul-Samad Bin Hj. Alias	
11. Mohammed Alawi Thiban	
12. Musa Abdel-Aziz Shehadeh	
13. Dr. Yousif Mohammed Mahmood Qassim	

Appendix (A)
Brief History of the Preparation of the Standard

In its meeting No. (16) held in Jeddah in Saudi Arabia on 8-9 Ramadan 1419 A.H., corresponding to 26-27 December 1998 A.D., the Accounting and Auditing Standards Board decided to give priority to the preparation of a standard on Foreign Currency Transactions and Foreign Operations.

On 23 Rabi' I, 1420 A.H., corresponding to 6 July 1999 A.D., a consultant was commissioned to prepare a preliminary study on the accounting aspects of the standard. Another consultant was commissioned to prepare a study of the juristic aspects of the standard.

In its meeting No. (22) held in Jordan on 7-8 Muharram 1421 A.H., corresponding to 11-12 April 2000 A.D., the Accounting Standards Committee discussed the preliminary accounting study and necessary amendments were made. The Committee also discussed the revised accounting study and the exposure draft of the standard in its meeting No. (23) held in Bahrain on 3-4 Safar 1421 A.H., corresponding to 7-8 May 2000 A.D., and asked the consultants to make the necessary amendments in the light of the comments made by the members.

The revised exposure draft of the standard was discussed by the Accounting Standards Committee in both its meeting No. (24) held on 15 Rabi' I, 1421 A.H., corresponding to 17 July 2000 A.D., and its meeting No. (25) held in Bahrain on 23 Jumada II, 1421 A.H., corresponding to 21 September, 2000 A.D., and some necessary amendments were made to the exposure draft.

The exposure draft of the standard was discussed by the Shari'a Committee for Standards in its meeting No. (4) held in Bahrain on 2-3 Sha'ban 1421 A.H., corresponding to 30-31 October 2000 A.D., and some further amendments were made.

The amended exposure draft was discussed in the Accounting and Auditing Standards Board meeting No. (20) held in Bahrain on 24 Sha'ban 1421 A.H., corresponding to 20 November 2000 A.D. The Accounting and Auditing Standards Board made further amendments to the exposure draft and decided that it should be distributed to specialists and interested parties to obtain their comments on the exposure draft in order to discuss them in a listening session.

A listening session was held in Bahrain on 2-3 Dhul-Hajjah 1421 A.H., corresponding to 25-26 February 2001 A.D. The listening session was attended by more than 40 participants representing central banks, Islamic banks, accounting firms, Shari'a scholars, academics and others who are interested in this field. Members of the Accounting Standards Committee responded in the listening session to the written comments as well as to the oral comments that were expressed in the listening session.

The Accounting Standards Committee held a meeting on 3 Dhul-Hajjah 1421 A.H., corresponding to 26 February 2001 A.D. in Bahrain to discuss the comments made on the exposure draft. The Committee made the necessary amendments, which it deemed necessary in light of the discussions that took place in the listening session.

The revised exposure draft was reviewed and approved by the Shari'a Committee for Standards in its meeting No. (5) which was held in Bahrain on 13-14 Muharram 1422 A.H., corresponding to 7-8 April 2001 A.D., after making some changes to the draft.

The Accounting and Auditing Standards Board adopted the proposed standard in its meeting No. (21) held in Bahrain on 8 Safar 1422 A.H., corresponding to 2 May 2001 A.D.

Appendix (B)
Juristic Rules for Foreign Currency Transactions and Foreign Operations

The standard for Foreign Currency Transactions and Foreign Operations is based on the general Shari'a principle of revaluation by applying the prevailing spot exchange rate, which is a legitimate principle endorsed in circumstances in which similarity is unattainable. This principle is applicable in many areas of dispute, including financial obligations and a liability for indemnity in case of destruction of property. The Shari'a applications of the doctrine of revaluation are very numerous.(2)

The translation (revaluation) of one currency to another does not refer to a currency exchange transaction involving two currencies, either a spot transaction or a deferred or forward transaction. Instead, translation is an accounting procedure, the aim of which is to achieve an appropriate recognition and measurement of transactions and to ensure proper presentation of amounts designated in a particular currency.

If the Mudarib in a Mudaraba contract or the manager in a Musharaka contract enters into a transaction involving a different currency from that in which the capital of the Mudaraba or Musharaka was contributed, and there are no restrictions on the Mudarib or the manager requiring him to execute the transaction in the currency in which the capital of the Mudaraba or Musharaka was contributed, and an exchange gain or loss arises on the transaction, then any such exchange gain or loss should be borne by the Mudaraba or the Musharaka fund. This is because in cases of unrestricted Mudaraba or Musharaka, any exchange of currency is a legitimate right of the Mudarib or the manager. It is, moreover, not permissible to hold the

(2) See: "*Al-Mawsu'ah Al-Fiqhiyyah*", the terminology of "*Taqwim*", [12: 171-179]

Islamic bank (as Mudarib or manager of the Musharaka) liable for currency risk, because such a transfer of risk to the Mudarib or the manager of the Musharaka is not allowed in Shari'a. This is because capital in the custody of the Mudarib or the manager of the Musharaka is held on the basis of trust, and they are not liable for its loss unless the loss occurs as a result of their misconduct or negligence or violation of the contractual conditions.

It is permissible on the basis of Maslahah (consideration of public good or common need), to prepare financial statements in a currency other than that of a particular country in which the Islamic bank operates. According to Fuqaha, this applies to the choice, as a medium of revaluation, of a particular dominant currency that is commonly in use in the same country. However, the Islamic bank may prepare its financial statements using a currency other than the currency of the country of its operations only if there are no restrictions imposed by the law.

It is not permissible, for Murabaha to the Purchase Orderer transactions that involve a grace period and which are based on a foreign currency with future payment, to translate them into the reporting currency for the purpose of recording them. This is because Murabaha to the Purchase Orderer is a sale made on the basis of trust which makes it necessary that at the time of concluding the Murabaha to the Purchase Orderer contract both the time of payment and the currency in which payment to the supplier will be made should be clearly determined. However, this requirement cannot be met if the foreign currency amounts are recorded after translation into the reporting currency, because the payment to the supplier and the receipt of payment from the client will take place at a future date and the exchange rate on that date is unknown. This calls for the use of one of the two accounting methods (item 2/3 for Murabaha in a foreign currency or item 2/5 for an agreed exchange rate) that are mentioned in the standard. The two methods were mentioned in Al-Baraka seminar.[3]

Hence, it is not permissible, for the purpose of determining the cost in a Murabaha to the Purchase Orderer contract concluded in the reporting currency but where it has been agreed to pay the supplier of the subject-

(3) *"Fatwas of Al-Baraka"* No. (9/6).

matter of the contract in a foreign currency, to estimate the cost of the subject-matter based on an expected exchange rate applicable at the time when payment becomes due to the exporter in the currency in which it was agreed to pay him.

The effect of currency translation of liabilities is confined to the accounting treatment alone and does not affect the actual settlement of the obligation in terms of the currency in which the liability is designated, except in the case where the currency translation takes place at the time of, and in the amount of, a full or partial settlement of the liability. This is because the currency in which a liability is designated cannot be exchanged into another currency while the liability remains unsettled, as this would mean the rescheduling of the liability, potentially involving a change in the effective amount to be paid in lieu of time, which is Riba that is prohibited by Shari'a. However, if the translation from one currency to another takes place at the same time of the settlement of an obligation, then this is considered as a mutual set-off of liabilities. As a principle, possession through set-off is tantamount to actual possession. Hence, the process becomes a currency exchange by virtue of constructive possession that discharges the parties from liability.(4) The validity of this Shari'a ruling is confirmed by a resolution of the International Islamic Fiqh Academy.(5)

If a transaction is executed in a currency other than the reporting currency of the Islamic bank, the amount of the transaction should be translated at the spot exchange rate on the date of execution if settlement is due on that date. If, however, settlement is due at a future date, then there are two dates

(4) The hadith reported on the authority of Ibn Umar (may Allah be pleased with him) who said, *"I have met the Prophet (peace be upon him) at the house of Hafsah (may Allah be pleased with her) and I said to him, 'O Prophet of Allah, I would like to ask you: I sell a camel in Al-Baqi' for a price quoted in dinar but I take dirham, and I sell for a price quoted in dirham but I take dinars, I take this from this and I give from this'. The Prophet (peace be upon him) replied: There is no objection to your taking the other currency based on the price of the day, provided you do not leave each other with something remaining owed as a debt between you"*. The hadith has been related by Abu Dawud, Al-Tirmidhi, Al-Nasa'i, Ibn Majah and Al-Hakim. Al-Hakim deemed this hadith as being authentic, and Al-Dhahabi agreed with him. See, Al-Hafiz Ibn Hajar , *"Al-Talkhis Al-Habir"* [3: 26].

(5) The International Islamic Fiqh Academy Resolution No. (75) 6/8.

to be considered in the translation process: the date of execution of the transaction and the future date on which settlement is due. It is imperative that the transaction be recorded at the prevailing spot exchange rate on the date of execution, and it is not permissible for whatever reason to carry out the translation process using a future or forward exchange rate, as this would involve translating an obligation that will be settled in the future. Furthermore, if an obligation that was designated in a currency other than the reporting currency were then translated into another currency (such as the reporting currency) using a future exchange rate, this would result in an effective future currency exchange without any set-off of liabilities, which is not permitted by Shari'a.

The requirement that accounting translation from one currency to another should take place at the prevailing spot exchange rate is based on the principle that if there is a need for currency translation then this should be done according to the rate at which the item is currently valued. This is because, on the one hand, there is no justification for performing the currency translation based on a past exchange rate as this does not represent market reality. On the other hand, there is no justification for using a future exchange rate as a basis for the currency translation because this involves speculation as no one knows what the future rate will be. Hence, the use of spot exchange rates prevails. In general, Fuqaha do not apply the principle of presumption of continuity of a previous situation except where the reality of a particular event cannot be determined. It is only in this exceptional case that they refer to a previous situation to resolve a current novel issue, provided there is nothing contrary to this presumption.

Appendix (C)
Reasons for the Standard

The reasons for preparing this standard emanate from the following observations, which were revealed by the field study that was carried out on a sample of Islamic banks:

1. Islamic banks used different accounting policies to measure foreign currency transactions because of the lack of an accounting standard that governs the transactions undertaken by these banks. For example, some Islamic banks revalued monetary assets based on the historical rate at the time of contracting, while other Islamic banks used different accounting policies.
2. Some Islamic banks did not differentiate between differences resulting from foreign currency retranslation and differences resulting from transactions in foreign currencies. Both types of differences were pooled under “foreign currency revaluation differences” and recorded in the income statement. This treatment indicates that Islamic banks may benefit from profits or bear losses on transactions in foreign currencies, and without segregating the amounts that belong to investment accountholders from those that belong to shareholders. This highlights the need for a standard that provides an appropriate accounting treatment for such transactions, requiring the separation of profits or losses that relate to investment accountholders and shareholders, and setting out the required presentation and disclosure in the financial statements.
3. Some Islamic banks that have foreign branches or operations and deal in foreign currencies could incur translation or remeasurement losses on retranslating their investments in such operations. Such losses were booked as provisions and no adequate disclosure was provided in the financial statements as to why such provisions were created.

The field study also revealed that, in case of losses, these banks did not disclose whether such losses were due to temporary fluctuations in the exchange rate of the currency in which the investment was undertaken, or whether there had been a permanent devaluation or depreciation of the currency in question. Also, these banks did not disclose the period in which the losses were incurred. This resulted in that users of financial statements have not been provided with adequate and reliable information.

4. In preparing their financial statements, some Islamic banks have used the spot rate that was prevailing at the time of executing foreign currency transactions (historical rate), while other Islamic banks used the current spot exchange rate prevailing at the date of the financial statements. This diversity did not permit a faithful representation of the monetary assets and monetary liabilities, nor did it provide reliable information that helps in rendering the financial statements comparable.

Appendix (D)
Basis for Conclusions

The conclusions reached by this standard are mainly derived from the application of the objectives of financial reporting as specified in the previous Financial Accounting Statement No. (1): Objectives of the Financial accounting standards for the Islamic Financial Institutions (Statement of Objectives), and the concepts of financial accounting as specified in the previous Financial Accounting Statement No. (2): Concepts of Financial Accounting Standards for Islamic Financial Institutions (Statement of Concepts).

The standard requires that transactions in foreign currencies should be recognised at the spot exchange rate prevailing when the transactions are executed. However, transactions in foreign currencies that are governed by Mudaraba or Musharaka contracts should be recognised in terms of the currency paid to the Mudarib or the manager of Musharaka at the time the funds were contributed. This complies with the accounting recognition and measurement concepts stated in the previous Statement of Concepts, which define the basic principles that determine the timing of recognition of transactions and the measurement of assets and liabilities.

The Standard requires that the gains or losses resulting from translating foreign currency amounts that are attributable to the Islamic bank (shareholders) be separated from those that are attributable to investment accountholders. This gives a faithful representation of the rights and obligations of both the shareholders and investment accountholders. It also complies with the previous Statement of Concepts, which states that information should reflect a faithful representation of what it purports to represent.

The separate presentation of gains and losses on transactions in foreign currencies that are attributable to unrestricted investment accountholders and those that are attributable to owners' equity will more faithfully represent these transactions because each of the two parties will bear the gains and losses arising from transactions attributable to it. This complies with the previous Statement of Concepts. Furthermore, such a separation of gains and losses provides adequate disclosure, which helps users of financial statements to differentiate between the gains and losses on foreign currency transactions that relate to the two parties. This complies with the concept of adequate disclosure stated in the previous Statement of Concepts.

The standard requires that the Islamic banks should disclose whether the reporting currency in the financial statements is different from the local currency in the country of domicile of the bank, and the reasons for using a different currency. This complies with the accounting unit concept stated in the previous Statement of Concepts, where the monetary unit used for the purpose of preparing the financial statements is different from the unit disclosed as the currency of the country of domicile. Hence, the Standard requires disclosure of the currency used to prepare the financial statements. This complies with both the consistency concept and the comparability concept stated in the previous Statement of Concepts.

Disclosure of the policies applied by the Islamic bank in managing the risk related to transactions in foreign currencies provides users of its financial statements with information about the risk management methods used by the Islamic bank. This would provide relevant information to users of the financial statements that would help them in their decision making. This complies with the relevance concept in the previous Statement of Concepts.

Appendix (E)
Definitions

Exchange Rate

The rate at which different currencies are exchanged at a particular point in time.

Reporting Currency

The currency used in preparing and presenting the financial statements.

Foreign Currency

A currency other than the currency used to prepare the financial statements.

Foreign Operations

The operations relating to branches or subsidiaries in which the Islamic bank has an equity investment and which prepare their financial statements in a currency other than the Islamic bank's reporting currency.

Exchange Difference

A difference resulting from a change between two dates in the exchange rates used to translate specified amounts from one currency into another, for example in translating a foreign currency item into an Islamic bank's reporting currency at the transaction date and at a later settlement date, when the exchange rates on the two dates differ.

Forward Exchange Rate

A rate quoted currently for the exchange of two currencies on a specified future date.

Monetary Asset

The money held and assets to be received in fixed amounts of money.

Monetary Liabilities

The money held and liabilities to be paid in determinable amounts of money.

Net Investment in Foreign Operation

The reporting institution's share in the net assets of another entity

Prevailing Rate

The currency rate prevailing at the date the transaction was concluded.

Translation Difference (Measurement)

A remeasurement difference resulting from retranslating amounts designated in a foreign currency into the Islamic bank's reporting currency using different currency exchange rates at different times because the exchange rate has moved.