AAOIFI Financial Accounting Standard 1

General Presentation and Disclosures in the Financial Statements

Version 2.0 issued on 17 October 2022

Contents

AAOIFI Financial Accounting Standard (FAS) 1 "General Presentation and Disclosures in the Financial Statements" is set out in paragraphs 01-175. All the paragraphs have equal authority. This standard should be read in the context of its objective and the Conceptual Framework for Financial Reporting as endorsed by AAOIFI.

All AAOIFI FASs shall be read in conjunction with the definitions, Shari'ah principles and rules and key considerations provided by AAOIFI Shari'ah Standards (SS) in respect of such products and matters.

Preface

PR1 The AAOIFI Accounting Board (AAB / the board) is in constant endeavour to make the financial statements of all institutions transparent, fair, understandable and comparable. The objective is to align the accounting treatments and the reporting requirements for the Islamic financial institutions (the institution(s) or IFIs and other institutions following its standards) to the maximum possible extent with the generally accepted accounting principles without compromising on Shari'ah requirements and nature of Islamic financial transactions and institutions.

PR2 The board decided to revise the AAOIFI Financial Accounting Standard (FAS) 1 "General Presentation and Disclosures in the Financial Statements of Islamic Banks and Financial Institutions" and the "Conceptual Framework for Financial Reporting by Islamic Financial Institutions" (the conceptual framework) in its first meeting held in 2016. However, the board kept both the revisions on hold, until certain other standards identified in the FAS review and revision project and issued or revised as the case may be, on priority basis were complete. The decision was based on the observation that the other standards may have an impact on the reporting requirements prescribed in FAS 1, so the same must be dealt with earlier.

PR3 The board understands that the Islamic banking and finance industry has grown exponentially in the last decade. Simultaneously, the reporting requirements prescribed by the generally accepted accounting principles have become more stringent, partly due to increased regulatory requirements. To cater to the growing information needs of users of financial statements, AAOIFI has been issuing and revising standards at a quick pace. The new standards and revisions necessitated that AAOIFI FAS 1 is revised to conform to the reporting requirements prescribed in the newer AAOIFI FASs. The revised AAOIFI FAS 1 has been formulated to aid both Islamic financial institutions and other institutions who are desirous to adopt the AAOIFI FASs for accounting and reporting purposes.

PR4 This revised standard supersedes the existing FAS 1 "General Presentation and Disclosures in the Financial Statements of Islamic Banks and Financial Institutions".

Introduction

Overview

IN1 The revised FAS 1 "General Presentation and Disclosures in the Financial Statements" describes and improves the overall presentation and disclosure requirements prescribed in line with the global best practices and supersedes the earlier FAS 1. It is applicable on all the Islamic financial institutions and other institutions following AAOIFI FASs

IN2 The revision of FAS 1 "General Presentation and Disclosures in the Financial Statements" is in line with the modifications made to the "AAOIFI Conceptual Framework for Financial Reporting" (Revised 2020) (the conceptual framework).

Rationale for issuing this standard

IN3 The board issued a number of new AAOIFI FASs in the recent years and observed that the definitions and treatments prescribed in the newly issued AAOIFI FASs may not completely align with the reporting requirements prescribed in the earlier FAS 1 issued in 1993. The board also took note of the developments in the generally accepted accounting principles in the last decade or so. Consequently, the board included the revision of FAS 1 and revision of the conceptual framework to be placed on a priority basis on its agenda in line with the conclusion of the FAS review and revision project in 2018.

IN4 The board agreed that both FAS 1 and the conceptual framework are interlinked. Therefore, the board concluded it to be relevant and timely to revise both pronouncements simultaneously, to ensure consistency in presentation and treatments.

IN5 The revised FAS 1 will assist preparers to produce financial statements that are clear, transparent and understandable, and in turn will aid the users to take better economic decisions.

Significant changes from previous standard

IN6 This standard (FAS 1 "General Presentation and Disclosures in the Financial Statements") brings significant changes from its predecessor standard (FAS 1 "General Presentation and Disclosures in the Financial Statements of Islamic Banks and Financial Institutions"), inter-alia, in the following aspects:

a. the revised conceptual framework is now an integral part of the AAOIFI FASs. The conceptual framework shall assist in better interpretation and understanding of the AAOIFI FASs. However, the conceptual framework is not a standard in itself and cannot override any requirement of an AAOIFI FAS;

b. definition of quasi-equity is introduced as a broader concept that will include the "unrestricted investment accounts", and other transactions under similar structures. Similarly, the wider term of "off-balance-sheet assets under management" is now being used, instead of "restricted investment accounts", as it may also include investment agency (Al-Wakala Bi Al-Istithmar) and other assets under management. It is expected that the new terminologies would better reflect the nature of the information provided to the user of the financial statements;

c. definitions have been modified and improved to align them with the recently issued AAOIFI FASs and the conceptual framework;

d. concept of comprehensive income has been introduced, with the option to prepare one statement that is a combination of statement of income and statement of other comprehensive income, or to prepare the two statements separately;

e. institutions other than banking institutions are now allowed to use the current and non-current distinction for assets and liabilities to make their financial statements comparable with similar institutions;

f. disclosures for Zakah, charity and Qard funds have been relocated to the notes to the financial statements, thereby reducing the number of primary financial statements;

g. a true and fair override has been introduced to facilitate the institutions in presenting information fairly to the users of their financial statements;

h. the sections for accounting policies and accounting estimates have been improved. Treatments have been introduced for change in accounting policies and estimates, and correction of errors;

i. disclosures for related parties, subsequent events and going concern and other good reporting requirements have been improved;

j. certain sections have been included on general financial reporting requirements such as currency, segment reporting and relevant FASs have been superseded;

k. the presentation and disclosure requirements for the financial statements have been divided into three parts. Part 1 is applicable to all institutions, Part 2 is applicable only to Islamic banks and similar IFIs and Part 3 prescribes the authoritative status, effective date and amendments to other AAOIFI FASs; and

l. the illustrative financial statements will not be part of the standard and instead be issued separately.

AAOIFI Financial Accounting Standard 1
General Presentation and Disclosures in the Financial Statements

Objective of the standard

1. The Islamic financial institutions (the institution(s) or IFIs) are required to publish periodic financial statements to satisfy the common information needs of the users, as described in the conceptual framework. This standard sets out the overall requirements for presentation of financial statements, the minimum requirements for the contents of the financial statements and a recommended structure of financial statements that facilitate faithful presentation in line with Shari'ah principles and rules and comparability with the institution's financial statements of previous periods, and the financial statements of other institutions.

Scope

2. This standard shall be applicable to the financial statements of the institutions desirous to prepare information for Shari'ah compliant products and services to meet the information needs of the users of such statements. These institutions include the Islamic banks and similar IFIs (who are the primary subject of this FAS) and additionally, Takaful companies, Waqf institutions, Islamic collective investment schemes and special purpose vehicles (SPVs) associated with these institutions.

3. This standard prescribes the primary statements and disclosures as applicable to:

   a. Islamic banks and similar IFIs; and

   b. other types of institutions.

4. The requirements related to other types of institutions prescribed in this standard are general in nature. Specific requirements for each of the other types of institutions are prescribed in their respective AAOIFI FASs (also see paragraph 27). However, in the absence of specific guidance in the respective AAOIFI FASs, requirements of this standard shall apply to such institutions as well.

5. This standard is applicable to all institutions (and entities) desirous to prepare information for Shari'ah compliant products and services regardless of their legal form, country of incorporation or size. However, Part 2 of the standard shall be applicable only to Islamic banks and similar IFIs.

6. This standard is equally applicable to the institutions that are presenting consolidated financial statements, or the stand-alone or separate financial statements.

7. This standard does not apply to the structure and content of condensed or summarized financial statements prepared for interim financial reporting.

Part 1: Applicable to all institutions

Definitions

8. For the purpose of interpreting and applying this standard, the following short definitions are relevant:

   a. Asset – is a present economic resource controlled by an institution as a result of a past transaction, other event or condition and gives it a future economic benefit. [Explanation: Assets include those attributable to quasi-equity];

   b. Cash and cash equivalents – include, for the purpose of statement of cash flows, local and foreign currency and deposits with banks and other similar financial institutions, which the institution can withdraw in full on demand (subject to the underlying contracts). For this purpose, cash and cash equivalents do not include gold, silver or other precious metals;

   c. Control – an institution controls an asset or business, when it has substantially all risks and rewards incidental to ownership of such asset or business, duly meeting both of the following conditions:

      i. it is directly exposed to, or has rights to, variable returns (negative or positive, respectively) from its involvement with such assets or business; and

      ii. it has the ability to affect those returns through its power over the assets or business;

   d. Expense (including loss) – is gross decreases in assets or increases in liabilities or a combination of both during the period covered by the financial statements of the institution, excluding investment by (or distribution to) owners or investment (or withdrawal) by quasi-equity holders;

   e. Historical cost – the purchase price or the cost of acquisition of an asset plus any other costs incurred by the institution e.g., customs duties and other taxes on purchases, transport and loading charges, Takaful and any other expenses directly related to the asset;

   f. Income – with due consideration of the requirements of paragraphs 17 to 21, income depicts:

      i. the transfer of promised goods or services to customers in an amount that reflects the consideration to which the institution expects to be entitled in exchange for those goods or services; and

      ii. gross increases in assets or decreases in liabilities or a combination of both during the period covered by the financial statements resulting from investment, trading, rendering of services and other profit-oriented activities of the institution like investment management of off-balance-sheet assets under management;

   g. Islamic Financial Institutions (institutions or IFIs) – are financial institutions that operate in line with Shari'ah principles and rules performing banking, Takaful / insurance, capital markets and similar activities and include the stand-alone branches, divisions and windows of conventional financial institutions and special purpose vehicles (SPVs) associated with these institutions that offer products and services in line with Shari'ah principles and rules;

h. Liability – is a present obligation (legal or constructive) other than quasi-equity, that is enforceable against the institution resulting in outflow of economic resources. A liability results from a past transaction, other event or condition. A future commitment is not considered a present obligation for the purpose of this definition, unless it is considered onerous;

i. Owners' equity – is the residual interest in the assets of the institution after deducting all the liabilities and the quasi-equity;

j. Quasi-equity – is an element of the financial statements that represents participatory contributions received by an institution on a profit sharing or participation basis. It has:

   i. primary characteristics of equity i.e., in case of loss (unless negligence / misconduct / breach of the contractual terms is proved), the institution is not liable to return the lost funds to the fund providers and the fund providers share the residual interest in the underlying assets or business;

   ii. certain characteristics of a liability i.e., it has a maturity or a put option of redemption / liquidation; and

   iii. certain specific features i.e., the rights of the fund providers are limited only to the underlying assets or business and not on the whole of the institution, as well as, they do not have certain rights associated only with owners' equity;

k. Shari'ah principles and rules[1] – comprise the Shari'ah principles and rules defined by the following hierarchy, as appropriate:

   i. the Shari'ah standards issued by Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI);

   ii. the regulations issued by the respective jurisdiction's regulator insofar as these entail the regulatory Shari'ah requirements;

   iii. the rulings of the central Shari'ah board for the respective jurisdiction (if there is one);

   iv. the requirements of the applicable Financial Accounting Standards as issued by AAOIFI insofar as these entail Shari'ah related requirements; and

   v. the approvals and rulings given by the Shari'ah supervisory board of the institution;

l. Special Purpose Vehicle (SPV) [also referred to as Special Purpose Entity (SPE)] – is a legal entity (corporate entity, trust or limited partnership, etc.) created to fulfil narrow, specific or temporary financial objectives;

[1] AAOIFI GS 9 "Shari'ah Compliance Function"

m. 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; and

n. Zakah – is a right[2] (a religious responsibility on a Muslim) which becomes due in certain types of wealth, and disbursable to specific categories of recipients in the current annual period. Subject to different institutions' legal environment, it may be required to be paid by the institution or may be an obligation of the individual stakeholders.

Confirmation of compliance with AAOIFI FASs

9. The financial statements shall include an explicit statement confirming that AAOIFI FASs have been followed while preparing the financial statements, in their entirety.

10. In the case where the institution is not following the AAOIFI FASs in their entirety, such as due to overriding requirements of local laws and regulations, the institution shall not provide the explicit statement of compliance. In this case, the institution shall disclose the significant departures and deviations from the AAOIFI FASs accordingly (see paragraphs 29-32).

Elements of financial statements

11. Financial statements provide information about the financial position, financial performance and cash flows of an institution to the users of the financial statements to enable them to make economic decisions. Financial statements have the following elements:

Assets

12. An asset is a present economic resource controlled by an institution as a result of a past transaction, other event or condition and gives it a future economic benefit. [Explanation: Assets include those attributable to quasi-equity].

Liabilities

13. Liability is a present obligation (legal or constructive) other than quasi-equity, that is enforceable against the institution resulting in outflow of economic resources. A liability results from a past transaction, other event or condition. A future commitment is not considered a present obligation for the purpose of this definition, unless it is considered onerous.

Quasi-equity

14. Quasi-equity is an element of the financial statements that represents participatory contributions received by an institution on a profit sharing or participation basis. It has:

a. primary characteristics of equity i.e., in case of loss (unless negligence, misconduct or breach of the contractual terms is proved), the institution is not liable to return the lost funds to the

[2] Being a specific and conditional right for the eight specific categories of beneficiaries (defined in Al-Quran, at-Tauba:60) on the wealth of Muslims

fund providers and the fund providers share the residual interest in the underlying assets or business;

b. certain characteristics of a liability i.e., it has a maturity or a put option of redemption; and

c. certain specific features i.e., the rights of the fund providers are limited only to the underlying assets or business and not on the whole of the institution, as well as, they do not have certain rights associated only with owners' equity.

Owners' equity

15. Owners' equity is the residual interest in the assets of the institution after deducting all the liabilities and the quasi-equity.

16. An instrument other than common ownership shares, including Sukuk, shall be classified and accounted for as equity in the books of the institution if, and only if, the following conditions are met:

a. the instrument is participatory in nature i.e., risks and rewards of the underlying assets or business are shared by the holders of the instrument;

b. the instrument is either perpetual or convertible in nature or a combination of both; and

c. the instrument is subordinate to all liabilities and quasi-equity instruments of the institution.

Income

17. Income depicts:

a. the transfer of promised goods or services to customers in an amount that reflects the consideration to which the institution expects to be entitled in exchange for those goods or services; and

b. gross increases in assets or decreases in liabilities or a combination of both during the period covered by the financial statements resulting from investment, trading, rendering of services and other profit-oriented activities of the institution like investment management of off-balance-sheet assets under management.

18. Income as a result of transfer of goods or services shall be recognised based on the following five-step model:

a. identify the contract(s) with a customer that has been approved by the parties to the contract, containing each party's rights and obligations, the performance obligations[3] and the payment terms for the goods and services;

b. identify the performance obligations in the contract at the inception of the contract that are distinct, or substantially the same, with a similar pattern of transfer;

[3] The performance obligation denotes the responsibility of the seller / service provider to transfer goods or services explicitly stated in a contract and becomes obligation for the promising party.

c. determine the transaction price to which the institution expects to be entitled in exchange for goods and services;

d. allocate the transaction price to the performance obligations in the contract by reference of their stand-alone selling price or, where stand-alone price is not available, the estimated selling price; and

e. recognise income when (or as) the institution satisfies a performance obligation and transfers the control, either at a point in time or over a period of time.

19. The institution recognises income over time, if any of the following criteria is met:

a. the customer simultaneously (correspondingly) receives and consumes all of the benefits provided by the institution;

b. the institution's performance creates or enhances an asset that the customer controls as the asset is created; or

c. the institution's performance does not create an asset with an alternative use to the institution and it has an enforceable right to payment for performance completed to date.

20. If an institution does not satisfy its performance obligation over time, it satisfies it at a point in time.

21. To be considered income, the gross increases in assets or the gross decreases in liabilities should not be the result of investment by (or distribution to) owners or investment (or withdrawals) by quasi-equity holders.

Expenses

22. Expenses (including losses) represent gross decreases in assets or increases in liabilities or a combination of both during the period covered by the financial statements of the institution, excluding investment by (or distribution to) owners or investment (or withdrawals) by quasi-equity holders.

Complete set of financial statements

23. A complete set of financial statements shall comprise of various statements to enable the user to take economic decisions.

24. The complete set of financial statements shall include the following:

a. statement of financial position as at the end of the financial reporting period (also known as balance sheet);

b. statement of income and other comprehensive income for the financial reporting period (or statement of income and statement of other comprehensive income) (see paragraph 25);

c. statement of income and attribution related to quasi-equity for the financial reporting period (where applicable)[4];

d. statement of changes in owners' equity for the financial reporting period;

e. statement of cash flows for the financial reporting period;

f. statement of changes in off-balance-sheet assets under management for the financial reporting period; and

g. notes, comprising significant accounting policies and other explanations.

25. An institution may present a single statement of income and other comprehensive income, or a statement of income and a statement of other comprehensive income, presented as two separate statements.

26. The sources and application of Zakah and charity and the sources and uses of funds in the Qard fund shall be disclosed as separate notes to the financial statements, or as prescribed in the generally accepted accounting principles as applicable in the jurisdiction of the institution.

27. Institutions requiring special considerations, such as Takaful, Waqf, collective investment schemes and investment funds shall refer to their respective AAOIFI FASs for preparation of financial statements. These entities may replace certain statements referred to in paragraph 24 or provide additional statements according to the requirements of the respective AAOIFI FASs.

True and fair presentation

28. The financial statements shall give a true and fair presentation of the financial position, financial performance and cash flows of the institution. True and fair presentation means faithful representation of the transactions, other events or conditions in line with the definitions and recognition criteria of assets, liabilities, quasi-equity, income and expenses set out in the conceptual framework.

True and fair override

29. An institution, whose financial statements comply with the AAOIFI FASs, shall make an explicit and unreserved statement of such compliance in the notes to the financial statements as described in paragraph 9. If the institution is unable to comply with certain requirements of AAOIFI FASs due to local laws and regulations, the institution shall not provide the explicit statement of compliance, in line with the requirements of paragraph 10.

30. In the extremely rare situations where management of an institution makes an assessment that compliance with the requirements of any AAOIFI FAS will result in misleading information that would make the user of the financial statements take an erroneous decision, the management may decide to depart from the requirement of the FAS.

[4] This standard shall be always applicable on Islamic banks and similar IFIs (see paragraph 148) and shall be applicable on the institution depending on materiality, relevance and regulatory requirements, if any

31. In case of departure described in paragraph 30, the management shall disclose the basis of the management's assessment for departure and the treatment, presentation and effect on profit that would be presented had the requirements of the FAS had been met.

32. The departure described in paragraph 30 shall not be made on any of the Shari'ah principles and rules and shall require a consent from the respective Shari'ah supervisory board.

Accounting policies and estimates, changes thereto and correction of errors

Accounting policies and estimates

33. Accounting policies are the specific principles, bases, conventions, rules, methods and practices of recognition, valuation and measurement that are adopted by an institution's management for the preparation and presentation of the financial statements. The accounting policies are determined in line with the hierarchy defined in paragraph 165.

34. Accounting estimate is an approximation of the amount, for an item contained in the financial statements, for which no precise means of measurement is available. Accounting estimates are usually based on specialized knowledge and professional judgment. An example of accounting estimate could be approximation of useful life of an asset or its residual value.

35. An accounting policy shall be considered inappropriate if it is:

    a. not in accordance with AAOIFI FASs;

    b. a departure from Shari'ah principles and rules; or

    c. not reflective of the economic nature of the transaction.

36. Application of an inappropriate accounting policy cannot be rectified by making the disclosure of the accounting policy in the financial statements, or through providing explanatory notes to the financial statements.

Disclosure of significant accounting policies

37. The financial statements shall describe the significant accounting policies used for the preparation and publication of the financial statements in a concise manner. The disclosure of accounting policies shall include, as a minimum:

    a. the accounting policies that represent a choice among acceptable alternative accounting methods;

    b. the accounting policies adopted by the management of the institution for income, gain or loss recognition;

    c. the accounting policies adopted by the institution's management for the recognition and determination of impairment and credit losses and the polices of writing off debts;

    d. the policies, bases and methods adopted by the institutions management for the revaluation of assets, liabilities and managed assets, where applicable;

e. the use of historical cost as a basis of determining quasi-equity accounts, off-balance-sheet assets under management or their equivalents when the revaluation of assets, liabilities and reinvestments is not mandatory; and

f. the policies adopted by the institution’s management for the consolidation of the financial statements of subsidiaries, if any.

38. Significant accounting policies shall be disclosed under one single note in the financial statements, preferably presented at the beginning of the notes to the financial statements.

Change in accounting policy

39. If the management of the institution decides to change an accounting policy, the new policy shall be applied retrospectively by restating the financial statements for the last period presented unless it is not practicable to obtain the data necessary for the restatement or the data is not available.

40. The following are not considered changes in accounting policies:

a. the adoption of a new accounting policy because of a clear difference in the substance of transactions, other events or conditions compared to similar transactions and events in the past;

b. the adoption of a new accounting policy because of transactions, other events or conditions that are occurring for the first time or have occurred in the past but were immaterial; and

c. changes in the classification of items in the financial statements of the current period compared to their classification in prior period financial statements. However, items in prior period financial statements, when presented for comparison purposes, shall be reclassified to conform to their current classifications.

41. If the data necessary for restating one or more of the prior periods financial statements is not available or not practicable to obtain, the restatement shall take place on a modified basis.

42. In case of modified restatement approach, the retained earnings as of the beginning of the current or a prior period, as appropriate (in accordance with the extent of data available), shall be restated to reflect the cumulative effect of the change in the accounting policy on the prior periods which are not restated.

43. The effects of multiple changes in accounting policies shall not be off-set against each other and shall be disclosed separately.

Change in accounting estimate

44. The effect of a change in accounting estimates shall be reflected in:

a. the period of the change if the effect of the change is limited to that period; or

b. the period of the change and future periods if the change affects the current and future periods.

Correction of an error in prior period financial statements

45. An error in prior period financial statements shall be corrected retrospectively by restating the financial statements for all prior periods presented which have been affected by the error.

46. Disclosure shall be made as to whether such an error affects the rights and obligations of the institution towards others.

47. Retained earnings at the beginning of the first period presented shall be adjusted to reflect the cumulative effect of the correction of the error on the periods which are not presented but which were affected by the error. That cumulative effect shall be disclosed appropriately.

Disclosure requirements

48. A change in accounting policy shall be disclosed even when its effect is not material either in the current or prior periods, when it is expected to have a material effect on future periods.

49. The financial statements shall disclose the nature and effects of the following accounting changes:

    a. change in an accounting policy, including:

        i. the description of the change and its justification;

        ii. the effects of the change on net income for the current period and any prior period presented for comparison purposes; and

        iii. the effects on retained earnings as of the beginning of the first period shall also be presented for comparison purposes;

    b. change in accounting estimate, including:

        i. the description of the change and its justification; and

        ii. the effects of the change on net income or profits (losses);

    c. correction of an error in prior period, including:

        i. nature of the error and the prior period(s) affected by the error;

        ii. the effects of the error correction on net income or profits (losses) from the period(s) affected by the error and the current period; and

        iii. the effects on retained earnings as of the beginning of the first period shall also be presented for comparison purposes.

50. The effect of the change in an accounting policy and correction of an error relating to quasi-equity accounts and the owners' share in income (loss) from investments and on net income (loss) for the current period and for each prior period presented shall be disclosed.

Contractual and Shari'ah requirements

51. The effects of changes in accounting policy or correction of an error to the quasi-equity and other stakeholders shall be based on both the contractual and Shari'ah requirements. The institution shall

disclose the effect of any change in accounting policy or correction of an error on the quasi-equity and owners' equity respectively for the current and prior periods.

52. For the purpose of the requirements of paragraph 51, any changes to the current period balances of different stakeholders due to a prior period event, transaction or condition shall be as per the Shari'ah principles and rules (determined as per the hierarchy defined in paragraph 8(k)), as well as, the contractual requirements (also see paragraphs 91-97).

53. The institution shall present a third statement of financial position in cases where requirements of paragraph 111 are being met.

54. Where the Shari'ah principles and rules are not available, the management shall assume constructive liquidation with creation of or charge to a reserve. If the adjustment relates to impairment or loss to investments or Islamic financing assets, the management may decide to charge it to the investment risk reserve or any other directly attributable reserve. Other adjustments may be charged to the profit equalization reserve or to any other available reserve, or in their absence, recorded as a negative balance to respective equity.

General presentation for all institutions

Basic information

55. The financial statements shall disclose all material information that is necessary to make those financial statements adequate, relevant and reliable for their users.

56. The financial statements shall disclose the following information about the institution, wherever applicable:

a. the name of the institution;

b. the country of incorporation;

c. formation date and legal form;

d. the country(ies) of headquarters and where branches of the institution operate and preferably the total assets in each country, as well;

e. the nature of the activities the institution is authorized to carry out by its constitution documents with listing of the major financial and other services it provides;

f. the names of the institution's subsidiaries, whether or not consolidated with those of the institution's, the countries of their incorporation, the institution's ownership percentage in each subsidiary, the nature of the activities of such subsidiaries and where applicable, the reasons for excluding their financial statements from the consolidated financial statements of the institution;

g. the governance framework applicable on the institution (e.g., the requirements of AAOIFI Governance Standards) and a brief of the Shari'ah governance structure in the absence of an established governance framework;

h. Shari'ah principles and rules, in case different from those defined in this standard duly considering the hierarchy being referred to in paragraph 8(k);

i. the agency responsible for supervising the institution's activities and the agency responsible for supervising the holding entity;

j. pages containing the financial statements and the related notes shall be numbered consecutively;

k. notes to the financial statements shall be given clear and distinct titles and shall be cross referenced to the related items in the financial statements;

l. the notes shall be set forth immediately after the last page containing a financial statement and the following statement shall appear on the bottom of every page containing a financial statement "Notes to the financial statements from number ____ to number ____ are an integral part of the financial statements";

m. amounts presented in the financial statements and related notes maybe rounded to the nearest monetary unit in a manner that would ease the understanding of the users of financial statements;

n. the institution's responsibility towards Zakah; and

o. the tax treatment of the institution in the country of incorporation and in other countries where the institution has operating branches or subsidiaries (in case of consolidated financial statements). If the institution enjoys a tax holiday in the country of incorporation and / or in other countries, the period of the tax holiday and the remaining period thereof shall also be disclosed.

Disclosures for sources and application of Zakah[5]

57. The disclosure for sources and application of Zakah shall be provided as a note to financial statements. The note shall disclose the period covered by the sources and application of Zakah.

58. The disclosure shall distinguish:

a. between the Zakah obligation of the institution and the voluntary obligation assumed by the institution, if any; and

b. the Zakah collected on behalf of customers as an agent for subsequent disbursement according to Shari'ah requirements.

59. Disclosure shall be made of the amounts paid by the institution from the Zakah during the period and the balances available at the beginning and the end of the period.

[5] Maybe in the form of a fund or otherwise

Disclosures for sources and application of charity[6]

60. The disclosure for sources and application of charity shall be provided as a note to financial statements. The note shall disclose the period covered by the sources and application of charity.

61. Disclosure shall be made of the:

  a. significant sources of charity funds;

  b. amounts paid by the institution from the charity during the period;

  c. balances available at the opening and the end of the period; and

  d. corporate social responsibility (CSR) perspective of the charity payments, if any.

62. The institution may also use this mechanism for disbursement of charity from its own funds. The other sources of inflows to the charity and their application shall be disclosed separately.

Disclosures for sources and uses of funds in the Qard fund

63. The sources and uses of funds in the Qard fund shall be disclosed in the notes to the financial statements. The period covered by the note for sources and uses of funds in the Qard fund shall be disclosed.

64. The following disclosures shall be provided:

  a. balances of Qard outstanding and funds available at the beginning of the period, by type;

  b. the amounts and sources of funds contributed to the Qard fund during the period, by source;

  c. the amounts and uses of funds during the period, by type; and

  d. the balances of Qard outstanding and funds available at the end of the period, by type.

Currency

65. Functional currency is the primary currency for the economic environment in which the institution operates, whereas the financial statements shall be presented in presentation currency.

66. The financial statements shall disclose the presentation currency used for measurement, if not otherwise evident from the contents of the financial statements. An institution shall disclose the functional currency, if different from presentation currency.

67. A transaction in a foreign currency shall be:

  a. initially recorded at the rate of exchange applicable at the date of the transaction; and

  b. subsequently measured at the rate of exchange applicable at the reporting date, in case of monetary assets and liabilities.

[6] Including the amounts and balances related to Shari'ah non-compliant income

68. Non-monetary items carried at historical cost shall be subsequently reported at the exchange rate applicable at the date of initial recording and non-monetary items carried at fair value shall be subsequently reported at the exchange rate applicable at the reporting date.

69. Exchange differences arising from settlement or translation at rates that are different from those at the time of initial recognition shall be reported in the statement of income of the institution, distinguishing between the items jointly financed by quasi-equity and the owners' equity, and those financed entirely by the owners' equity.

70. Paragraph 69 shall not be applicable to report institution's investment in a foreign operation while preparing consolidated financial statements. Gains or losses on such investment shall be accounted for in line with the requirements of the relevant AAOIFI FASs.

Segment reporting

71. Segment information shall be presented for each of the parent, subsidiary or associate's separate financial statements. However, where both the consolidated financial statements of an institution, or its subsidiary or associate, and the separate financial statements are presented together, segment information need only to be presented on the basis of consolidated financial statements.

72. An operating segment is a distinguishable component of an institution:

   a. that engages in business activities earning income and incurring expenses (including income and expenses relating to transactions with other components of the same institution);

   b. whose operating results are regularly reviewed by the institution's decision makers and those charged with governance, usually the board of directors;

   c. whose functions are managed by a dedicated segment management; and

   d. for which discrete financial information is available.

73. Two or more segments may be combined together if they are substantially similar and disclosing their separate results would not add significant value to the users of the financial statements.

74. An institution shall report information about separate segments when:

   a. the segment's income is 10% or more of the total income;

   b. the segment's result (profit or loss) is 10% or more of the combined result of all segments; or

   c. the segment's assets are 10% or more of the total assets.

75. Where the segment is identified for the first time, or the institution changes the identification of the segment in a manner that causes a change in composition, the corresponding information shall be presented and reclassified accordingly for comparison purposes.

Disclosure requirements for segments

76. Segment income and segment expense, as well as, segment results (profit or loss) shall be disclosed for each separate reportable segment, classified according to headings in the statement of income.

77. The nature and items of any extraordinary items of segment income or expense shall be reported.

78. The institution shall present a reconciliation between the information presented for each separate reportable segment and the aggregate information presented in the statement of income.

79. In addition to operating segments, geographical segment-based information at times is relevant for understanding the nature of operations and risks faced by the institution. In this context, necessary information shall be presented e.g., the operations within the primary jurisdiction and outside or as per suitable regional distribution.

Shari’ah non-compliant transactions and Shari’ah non-compliance risk

80. The financial statements shall disclose the amount and nature of earnings that have been realised from sources or means that are not compliant with Shari’ah principles and rules, along with the reasons for entering into such transactions.

81. Disclosures shall also be made of the amount and nature of expenditures for purposes that are not compliant with Shari’ah principles and rules.

82. The institution shall also disclose how it intends to dispose of the assets generated by the Shari’ah non-compliant earnings or acquired through Shari’ah non-compliant expenditures.

83. The institution shall disclose the amount marked out of these Shari’ah non-compliant activities for charity in line with the Shari’ah principles and rules (also see paragraphs 60-62).

84. The institution, considering the disclosures required by paragraphs 80-83, shall also identify and disclose the significant aspects of Shari’ah non-compliance risks and the corresponding risk mitigation techniques.

Classification of assets

85. The financial statements shall disclose the classification of assets in accordance with their respective periods to maturity, or expected periods to cash conversion, from the statement of financial position date.

86. The institution shall differentiate between cash and other assets in the presentation of the financial statements. The institution shall use the maturity or conversion periods for other assets on a consistent basis. Any modification to the maturity periods shall also be disclosed.

Compensating balances

87. Disclosure shall be made in the financial statements of any amounts that the institution is obligated to deposit with other entities as compensating balances.

88. The net assets (or net liabilities) shall be disclosed, by type of foreign currency, as of the statement of financial position date, that are denominated in foreign currency.

Contingencies and commitments

89. Disclosure shall be made in the financial statements of contingencies existing as at the end of the financial reporting period, including those resulting from the issuance of guarantees, documentary credit or similar instruments.

90. The nature and amounts of significant financial commitments that the institution cannot cancel without significant cost or penalty and that are outstanding as of the statement of financial position date, shall be disclosed.

Subsequent events

91. Subsequent events are the events and changes in conditions that happen between the date of the statement of financial position and the date when the financial statements are approved.

92. Adjusting subsequent events are the subsequent events happening after the date of the statement of financial position for which evidence or conditions existed at the date of statement of financial position.

93. The institution shall make necessary adjustments to reflect the adjusting events in the financial statements.

94. Non-adjusting subsequent events are the events that happened after the date of the statement of financial position for which evidence or condition did not exist at the date of the statement of financial position.

95. The institution shall not adjust the amounts to reflect non-adjusting subsequent events in the financial statements of the current financial reporting period.

96. The financial statements shall disclose the events subsequent to the date of the statement of financial position that are considered adjusting by the management, along with the effect on the financial statements, identified separately for owners' equity and quasi-equity.

97. The disclosure for subsequent events shall be made after due consideration to any regulatory requirements imposed by the supervisory agencies.

Restricted or encumbered assets

98. Disclosure shall be made in the financial statements of the nature and amounts of any assets that are restricted (encumbered) for a particular use or marked as a collateral for the institution's obligations.

Related party transactions

99. Related party transactions, outstanding balances and other commitments with other entities within a group shall be disclosed in the institution's financial statements. An institution shall have a proper policy of determining related parties in accordance with best practices and local regulations.

100. Related parties include the following:

a. members of the institution’s board of directors (and / or those charged with governance), members of its Shari’ah supervisory board and its senior management personnel;

b. immediate family (spouse and dependent children) and close family (parents, non-dependent children, siblings and other dependent relatives) of those mentioned in paragraph 100(a) when there is vested interest between the two parties;

c. any natural person, or close or immediate family members of the natural person, or entity that directly or indirectly owns a significant holding of the institution’s voting ownership units (including a parent entity);

d. any entity in which the institution or any person described in paragraphs 100(a), (b) or (c), either directly or indirectly, owns the significant holding of its voting ownership units, or is a member of its board of directors;

e. other affiliates of the institution; and

f. any entity in which the institution, directly or indirectly, owns a sufficient holding of its voting ownership units to enable the institution to influence the operations of the entity.

Disclosure of related party transactions

101. The institution shall provide adequate disclosures of significant transactions with related parties in accordance with the global best practices and local regulations.

102. Disclosure of related party transactions shall include the following:

a. the nature of the relationship between the institution and the related party;

b. the nature and amount(s) of the transaction(s) consummated with the related party during the period; and

c. balances due from or due to the related party as of the statement of financial position date.

103. An institution, in control, joint control or under significant influence of a government is not required to make additional disclosures about transactions with the government that an entity has to make in normal course of business such as payment of taxes, fines and penalties.

Going concern

104. The financial statements shall be prepared on a going concern basis, unless there is an intention to liquidate the institution, or cease its business, or when the management assesses there is no alternative but to do so.

105. The management of an institution shall assess the institution’s ability to continue as a going concern at the end of each financial reporting period. The assessment shall be made using all available information, for at least the next twelve months, from the end of the financial reporting period.

106. When the management assesses that there are material uncertainties that may cast significant doubt upon the institution’s ability to continue as a going concern, the uncertainties shall be disclosed.

107. When the financial statements are not prepared on the going concern basis, the fact along with the reasons, shall be disclosed. The financial statements shall also disclose the alternative basis that is being used to prepare financial statements.

108. The management may decide not to carry out a detailed analysis when the institution has a history of profitable operations and has ready access to financial resources to pay all its obligations.

Corresponding figures

109. An institution shall provide corresponding figures in the financial statements that shall include, as a minimum, the information of the immediately preceding period. The presentation method and disclosures in published financial statements shall enable the user to differentiate between actual changes in the institution's financial position, the result of its operations and cash flows and the changes in off-balance-sheet assets under management between the current and the preceding period.

110. Information, at a minimum, for the two consecutive periods shall be provided in each of the financial statements referred in paragraph 24.

111. An institution shall present a third statement of financial position as at the beginning of the preceding period in addition to the statements for two periods identified in paragraph 110, if:

a. an accounting policy is retrospectively applied, to restate or reclassify items in the financial statements or a prior period error is corrected; and

b. the retrospective application has a material effect on the information in the statement of financial position at the beginning of the preceding period.

Presentation and disclosure in primary statements of all institutions

112. Financial statements shall faithfully present the financial position, financial performance and cash flows of the institution. This part contains the presentation and disclosure requirements prescribed to be included in primary statements of all institutions, whereas Part 2 prescribes specific / additional disclosures to be made by the Islamic banks and similar IFIs.

Statement of financial position

113. The following matters shall be considered while preparing the statement of financial position of an institution:

a. the date of the statement of financial position shall be disclosed on its face;

b. the statement of financial position shall include the institution's assets, liabilities, quasi-equity (where applicable) and owners' equity;

c. assets shall not be set-off against liabilities and liabilities shall not be set-off against assets, unless there is a FAS or a Shari'ah requirement or a legally enforceable right for the set-off;

d. significant items of assets, liabilities, quasi-equity (where applicable), or owners' equity shall not be combined on the face of the statement of financial position;

e. the amount of any allowance established to cover expected losses or amount of impairment shall be disclosed;

f. assets and liabilities shall be combined into groups, for better understanding, in accordance with their nature and those groups shall be presented in the statement of financial position in the order of the relative liquidity of each group;

g. the statement of financial position shall present sub-totals for assets, liabilities, quasi-equity and owners' equity; and

h. assets and liabilities shall be classified between current and non-current if required by the local regulator or is practiced in the jurisdiction.

114. Disclosure shall be made on the face of the statement of financial position or the notes to the financial statements of the following assets with separate disclosure of assets jointly financed by the owners' equity and quasi-equity, and those exclusively financed by the owners' equity:

a. cash balances, distinguishing between cash in hand and balances with banks;

b. receivables – trade-based modes, distinguishing between products such as Murabaha, Salam, Istisna'a and other receivables;

c. Ijarah Muntahia Bittamleek, distinguishing between Ijarah assets and Ijarah receivables;

d. participatory investments differentiating between Mudaraba, permanent and running Musharaka, diminishing Musharaka and investment agency (Al-Wakala Bi Al-Istithmar);

e. investments in associates and joint ventures;

f. investments in real estate;

g. investments in Sukuk, shares and other securities (providing appropriate disclosure distinguishing between measured at amortised cost and measured at fair value through equity or at fair value through statement of income);

h. assets acquired for future delivery;

i. property, plant and equipment with disclosure of significant types and related accumulated depreciation;

j. right-of-use assets;

k. Intangible assets; and

l. other assets with disclosure of significant types.

115. The net realisable value of an asset shall be disclosed if such value is less than the asset's carrying value. However, impairment and expected losses shall be recognised only when they are reasonably measurable.

116. Disclosure shall be made of the historical cost of assets or the historical amounts of liabilities when the assets and liabilities are carried at revalued amounts in the statement of financial position.

117. The movement in the allowance for impairment and credit losses during the period shall be disclosed as follows:

a. allowance or provision charged to the statement of income during the period;

b. receivables written-off during the period;

c. receivables collected during the period which were previously written-off; and

d. the balance of the allowance for impairment and credit losses as of the beginning and end of the period.

118. Disclosure shall be made on the face of the statement of financial position or the notes to the financial statements of the following liabilities:

a. due to other counterparties;

b. Sukuk – liability type; and

c. provisions, accruals and other liabilities, including:

i. declared but undistributed profits;

ii. Zakah obligation, distinguishing between legal and voluntary;

iii. taxes payable, distinguishing between current and deferred; and

iv. other payables.

119. A consolidated statement of financial position shall disclose the non-controlling interest as a separate item after owners' equity.

120. Disclosure shall be made on the face of the statement of financial position or in the notes to the financial statements, of the following:

a. authorized, subscribed and paid-in capital;

b. number of authorized shares (ownership units), number of issued shares, number of outstanding shares, par value per share and premiums on issued shares;

c. legal reserve and discretionary reserves at the beginning and end of the period and changes therein during the period;

d. retained earnings at the beginning and end of the period and amount of retained earnings resulting from the revaluation of assets and liabilities, where applicable, and changes therein during the period including distribution to owners and transfers to or from reserves;

e. number of treasury shares held by the institution;

f. other changes in owners' equity during the period; and

g. any restrictions imposed on the distribution of retained earnings to owners.

Statement of income and other comprehensive income

121. The institution, in line with the option provided in paragraph 25, may choose to prepare either:

a. a statement of income and other comprehensive income; or

b. a statement of income and a separate statement presenting other comprehensive income.

122. The following matters shall be considered while preparing statement of income of the institution:

a. the period covered by the statement of income shall be disclosed;

b. income, expense, gain and loss shall be disclosed, by type; and

c. the nature of material income, expense, gain and loss from other activities shall be disclosed.

123. To the extent applicable, the following information shall be disclosed on the face of the statement of income and other comprehensive income, or in the notes to the financial statements:

a. income and gain from trade-based modes, Ijarah Muntahia Bittamleek, participatory investments and investments in Sukuk, shares and other securities;

b. provisions and losses in respect of the trade-based modes, Ijarah Muntahia Bittamleek, participatory investments and investments;

c. income and gain from investments carried at fair value through statement of income;

d. income from off-balance-sheet assets under management;

e. income from associates;

f. other fee, commissions and related expenses;

g. other income;

h. general and administrative expenses, distinguishing between material expenses as separate line items;

i. net income (loss) before attribution to quasi-equity;

j. attribution to quasi-equity holders in income (loss);

k. net income (loss) before Zakah and taxes;

l. taxes, both current and deferred, disclosed separately;

m. Zakah[7]; and

[7] See FAS 39 "Financial Reporting for Zakah"

n. net income (loss).

124. The Zakah base shall be disclosed in line with the requirements of FAS 39 “Financial Reporting for Zakah”.

125. The other comprehensive income shall include gains and losses from the revaluation of assets and liabilities in respect of the respective AAOIFI FASs or other accounting policies determined in accordance with paragraph 165.

126. The non-controlling interest (pertaining to subsidiaries whose financial statements are consolidated with those of the institution) in net income (or loss) shall be disclosed in the consolidated statement of income as a separate item after net income (or loss).

127. An institution shall present basic and diluted earnings per share for profit or loss attributable to the ordinary shareholders. The institution shall present basic and diluted earnings per share with equal prominence for all periods presented.

Statement of changes in owners’ equity

128. The period covered by the statement of changes in owners’ equity shall be disclosed.

129. The statement of changes in owners’ equity shall disclose the following:

a. paid-in-capital, legal and discretionary reserves separately and retained earnings as of the beginning of the period;

b. capital contribution by owners during the period;

c. net income (loss) for the financial reporting period;

d. distributions to owners during the period;

e. increase (decrease) in legal and discretionary reserves during the period; and

f. paid-in-capital, legal and other discretionary reserves and retained earnings as of the end of the period.

130. The component related to retained earnings shall disclose the following:

a. retained earnings at the beginning of the period with separate disclosure of the amount of retained earnings resulting from the revaluation of assets and liabilities, where applicable;

b. net income (loss) for the financial reporting period;

c. transfers to legal and discretionary reserves during the period;

d. distribution to owners during the period; and

e. retained earnings at the end of the period with separate disclosure of the amount of retained earnings resulting from the revaluation of assets and liabilities, where applicable.

Statement of cash flows

131. The following matters shall be considered while preparing statement of cash flows of the institution:

    a. the period covered by the statement shall be disclosed; and

    b. the statement of cash flows shall differentiate and accordingly disclose cash flows from operating activities, cash flows from investing activities and cash flows from financing activities.

132. Cash flows from operating activities generally arise from the institutions' regular business operations and indicate the institution's ability to continue and grow the business operations. Cash flows from investing activities (as determined in line with the business model of the institution) include, inter-alia, capital expenditure and strategic investment activities and returns thereon. Cash flows from financing activities generally arise when the owners of the institution provide or draw funds from the institution, or the institution enters into financing activities (as determined in line with the business model of the institution) and repays the same or pays return thereon.

133. The statement of cash flows shall disclose the net increase or decrease in cash and cash equivalents during the period and the balance of cash and cash equivalents at the beginning and end of the period.

134. Transactions and other transfers that do not require the payment of or do not result in the receipt of cash and cash equivalents shall be disclosed including for example, the bonus shares or the acquisition of assets of exchange for shares in the equity of the institution.

135. The institution's policy with respect to the components of cash and cash equivalents used as a basis for the preparation of the statement of cash flows shall be disclosed.

Statement of changes in off-balance-sheet assets under management

136. The period covered by the statement of changes in off-balance-sheet assets under management shall be disclosed.

137. The statement shall segregate managed assets by source (e.g., those from managed investment accounts or investment units in managed investment portfolios). In addition, the statement shall segregate investment portfolios by type.

138. The statement of changes in off-balance-sheet assets under management shall disclose the following:

    a. the balance of managed assets at the beginning of the period with separate disclosure of the portion of the balance resulting from the revaluation of managed assets, where applicable;

    b. the number of investment units in each of the investment portfolios and the value per unit at the beginning of the period, if applicable;

    c. investment units issued during the period, classified by type;

    d. withdrawals or repurchase of investment units during the period;

e. the institution’s share in investment profits as a Mudarib or its fixed or variable fee as an investment agent;

f. allocated overhead expenses, if any, from the institution to managed investment accounts or portfolios;

g. consolidated profits (losses) for managed assets during the period with separate disclosure of the amount resulting from the revaluation of managed assets, where applicable;

h. the consolidated balance of managed assets at the end of the period with separate disclosure of the portion of the balance resulting from the revaluation of managed assets and any related impairment, where applicable; and

i. number of investment units in each of the investment portfolios at the end of the period and the value per unit, where applicable.

139. Notes to the statement of changes in off-balance-sheet assets under management shall include the disclosure of the following:

a. the nature of the relationship between the institution and owners of managed investments either as Mudarib or as investment agent; and

b. the rights and obligations associated with each type of managed investment account or investment unit.

Part 2: Applicable to Islamic banks and similar IFIs

Presentation and disclosure in financial statements of Islamic banks and similar IFIs

140. The financial statements of Islamic banks and similar financial institutions shall provide the following disclosures in addition to those described in Part 1.

Statement of financial position

141. Disclosure shall be made on the face of the statement of financial position or the notes to the financial statements of the following assets:

   a. cash and balances with central bank, distinguishing between cash in hand and balance[8] with central bank; and

   b. receivables from, and participatory investments with, financial institutions.

142. Separate disclosure of assets jointly financed by the owners' equity and quasi-equity, and those exclusively financed by the owners' equity shall be provided for each line item of assets.

143. The movement in the allowance for impairment and credit losses charged to the statement of income during the period shall be segregated between amounts related to quasi-equity and owners' equity.

144. Disclosure shall be made on the face of the statement of financial position or the notes to the financial statements of the following liabilities:

   a. due to financial institutions; and

   b. due to other counterparties, including customers' Qard accounts.

145. Quasi-equity shall be presented in the statement of financial position as a separate item between liabilities and owners' equity.

146. Disclosure shall be made on the face of the statement of financial position or in the notes to the financial statements, of the following:

   a. Tier 1 equity, with adequate disclosures of significant terms and conditions [Explanation: These are generally, representing subordinated claims on an institution's asset (residual interest) that are perpetual in nature that are not callable by the issuer (except for discretionary buy backs allowed by relevant laws)]; and

   b. Tier 2 equity, with adequate disclosures of significant terms and conditions [Explanation: These are generally, meeting the criteria of equity under AAOIFI FAS, representing a subordinated claim on institution's asset after depositors (including investment account holders) and general creditors. These may generally be callable by the issuer after at least five years and only if they are replaced by Tier 2 equity of same characteristics].

[8] Excluding the capital or statutory deposits held by central banks that are not to be released even in extreme liquidity crises. These deposits include the funds held by the central bank to fulfil licensing requirements. Such deposits should be disclosed under other assets.

147. The rights, conditions and obligations of each type of quasi-equity account and other deposit accounts shown in the statement of financial position shall be disclosed.

Statement of income and attribution related to quasi-equity

148. The following matters shall be considered while preparing the statement of income and attribution related to quasi-equity:

a. the method used to allocate investment profit or loss between the owners' equity and quasi-equity shall be disclosed;

b. disclosure shall be provided whether the institution is acting as a Mudarib, partner or agent (if investments on the basis of investment agency (Al-Wakala Bi Al-Istithmar) is kept on-balance-sheet in line with relevant FAS);

c. separate disclosures of assets jointly financed by the owners' equity and quasi-equity, and those exclusively financed by the owners' equity shall be provided in the notes;

d. the following shall be disclosed:

i. share of quasi-equity (relating to assets and services attributable only to quasi-equity and those jointly to quasi-equity and the owners' equity (in case the effects of the commingled funds are not segregated already)) in different elements of income and expenses, gains and losses etc., as reported in the statement of income and the statement of other comprehensive income (where applicable);

ii. net income (loss) attributable only to quasi-equity and jointly to the quasi-equity and the owners' equity (in case the effects of the commingled funds are not segregated already) before allocation of share pertaining to owners' equity;

iii. net income (loss) attributable to owners' equity out of (ii) above, distinguished between the share against commingled funds (in case the effects of the commingled funds are not segregated already) and the share as Mudarib and / or fee as agent (in case of on-balance-sheet investment agency); and

iv. the share of net income (loss) attributable to quasi-equity (after taking into account (iii) above);

e. where the institution has made discretionary contributions to the quasi-equity for compensation of losses or to match the expected returns in form of Tabarru / Hiba or reduction of Mudarib's share, the institution shall disclose the basis for such contributions and the respective total amounts of general Hiba, specific Hiba to specific quasi-equity holders, voluntary reduction in Mudarib's shares etc.; and

f. disclosure shall be provided for any reserves, including PER and IRR along with the movement during the period.

Risk management disclosures

Capital management

149. An Islamic bank is distinct from a conventional bank as a significant portion of its funding requirements are raised through quasi-equity based on profit and loss sharing. The quasi-equity may show certain characteristics of both equity and liability, hence may be exposed to certain specific forms of risks.

150. An institution shall disclose information that enables the users of financial statements to evaluate the institution's objectives and policies for managing capital.

151. When the institution is subject to externally imposed capital requirements, the nature of those requirements and how those are incorporated into the institution's policies relating to management of its capital shall be disclosed.

152. The institution shall disclose the summary quantitative data about management of its capital, including the components the management considers as part of its capital.

153. When the institution has not complied with the externally imposed capital requirements, the management shall disclose the consequences of such a non-compliance.

Nature and extent of risk

154. The institution shall disclose information that enables users of its financial statements to evaluate the nature and extent of risks to which the institution is exposed, including credit risk, liquidity risk, market risk, equity investment risk, rate of return risk (including displaced commercial risks) and other risks arising from Islamic finance and investment transactions and balances.

155. The disclosure shall also include how the institution plans to manage the identified risks in line with the requirements of paragraph 154.

156. The institution shall disclose the qualitative and quantitative information about exposure to risks including institution's policies and processes to managing such risks, any changes in the risks from previous period, and the summary quantitative data about exposure to such risks at the end of the financial reporting period.

157. If the quantitative data disclosed as at the end of the financial reporting period are unrepresentative of the institution's exposure to risk during the period, the institution shall provide further information that is representative.

Concentration of assets risks

158. Disclosure shall be made in the financial statements of the magnitude of assets according to the following concentrations:

    a. economic sectors (e.g., the agriculture sector, the service sector, the manufacturing sector, the real estate sector, etc.);

    b. customers – differentiating between institutions and banks and other customers without stating the customer's name;

c. geographical area that has unique economic characteristics; and

d. foreign countries.

Classification of quasi-equity

159. Disclosure shall be made in the financial statements, by type, of the distribution of quasi-equity such as unrestricted investments accounts, and other accounts in accordance with their respective periods to maturity from the date of the statement of financial position.

160. The financial statements disclosure shall differentiate between demand accounts and other types of accounts. The institution shall use maturity periods to differentiate between the respective accounts, on a consistent basis. Any modification to the maturity periods shall also be disclosed.

Allocation of profits

161. The financial statements shall disclose the method used by the institution to allocate investment profits (or losses) between quasi-equity holders and the institution acting as a Mudarib or as an investment manager, whether or not participating in the investments with owners' equity.

162. Disclosure shall be made in the financial statements of the method(s) used by the institution to determine the share of quasi-equity holders in the profits (losses) of the period. Disclosure shall also be made of the returns of each type of investment accounts and their rate of return.

Part 3: Authoritative status and amendments to other AAOIFI FASs

Authoritative status of the conceptual framework for the institutions

163. The revised "AAOIFI Conceptual Framework for Financial Reporting" (Revised 2020) (the conceptual framework) is an integral part of the AAOIFI FASs.

164. All AAOIFI FASs shall be understood and interpreted in the context of the conceptual framework.

Hierarchy for selection and application of accounting policies

165. Development of accounting policies by institutions shall be performed, according to the following hierarchy:

1
- FAS specifically addressing the respective transaction, other event or condition or other pronouncement issued by AAOIFI

2
- FAS on similar matters

3
- Generally accepted accounting principles as applicable in the respective jurisdiction, insofar as these are not against the conceptual framework and Shari'ah principles and rules

4
- The management's judgment as long as in line with the conceptual framework and the Shari'ah principles and rules

Effective date

166. This standard shall be effective on the financial statements of the institutions for the financial periods beginning on or after 01 January 2024[9]. Early adoption of the standard is encouraged.

Amendments to other standards

167. The FAS 1 "General Presentation and Disclosures in the Financial Statements" supersedes the earlier FAS 1 "General Presentation and Disclosures in the Financial Statements of Islamic Banks and Financial Institutions".

[9] The effective date was deferred from 1 January 2023 to 1 January 2024. See paragraph H24 of Appendix C: Brief history of the preparation of the standard.

168. The FAS 1 “General Presentation and Disclosures in the Financial Statements” withdraws FAS 16 “Foreign Currency Transactions and Foreign Operations”. However, the provisions relating to foreign operations are saved till the time these are covered by a new standard[10].

169. The FAS 1 “General Presentation and Disclosures in the Financial Statements” withdraws FAS 22 “Segment Reporting”.

170. The FAS 1 “General Presentation and Disclosures in the Financial Statements” has adopted certain terminologies, that are different from the terminologies prescribed in the respective AAOIFI FASs, for better understanding of the nature of the transactions and to standardise their use. The board discussed the matter of terminologies at length and observed that various projects are currently underway to revise and update the existing AAOIFI FASs. The standardised terminologies shall be introduced in the new AAOIFI FASs. However, till the time the respective AAOIFI FASs are revised, the standardised terminologies adopted in FAS 1 “General Presentation and Disclosures in the Financial Statements” shall deem to supersede the terminologies used in the respective AAOIFI FASs.

171. The following list summarises the standardised terminologies:

AAOIFI FAS No.	Terms used in the respective AAOIFI FASs	Standardised terms used in AAOIFI FAS 1
FAS 3	Mudaraba financing Mudaraba capital Mudaraba financing capital Non-monetary Mudaraba Asset[11]	Mudaraba investment
FAS 4	Musharaka financing Musharaka capital	Musharaka investment
FAS 7	Salam financing	Salam receivable
FAS 7	Salam financing contract	Salam contract
FAS 27	Equity of off-balance sheet accountholder Equity of off-balance sheet investment accountholder	Off-balance sheet assets under management
FAS 27	Equity of on-balance sheet accountholder	Quasi-equity holder
FAS 27	Income statement of restricted investment owners	Statement of changes in off-balance-sheet assets under management
FAS 31	Statement of off-balance sheet investment accounts	Statement of changes in off-balance-sheet assets under management
General	Balance Sheet	Statement of financial position
General	Income statement	Statement of income
General	Off-balance sheet items Off-balance sheet fiduciary assets Off-balance sheet investment accounts	Off-balance-sheet assets under management

[10] The consolidation and business combination project is working on revision of FAS 23 “Consolidation”, and the provisions relating to foreign operations are expected to be included in the revised standard. The treatment of investment entities is also expected to be covered in the project.
[11] Mudaraba capital provided in the form of non-monetary assets

172. The definition of control prescribed in FAS 1 "General Presentation and Disclosures in the Financial Statements" shall supersede the definition provided in the respective FAS to align it with FAS 1.

AAOIFI FAS 23	AAOIFI FAS 1
Definition: The power to govern the financial and operating policies of an entity with the objective of obtaining benefits from its operations. [3/1 Control is presumed to exist if an IFI holds, directly or indirectly through its subsidiaries, more than 50% of the voting rights in an entity, unless it can be clearly demonstrated otherwise. Conversely, where the IFI has less than majority voting rights in the said entity, control may also exist through (I) agreement with the entity's other shareholders or the entity itself; (II) rights arising from other contractual arrangements; (III) IFI's voting rights (de facto power); (IV) potential voting rights; or (V) a combination thereof].	Control – an institution controls an asset or business, when it has substantially all risks and rewards incidental to ownership of such asset or business, duly meeting both of the following conditions: a. it is directly exposed to, or has rights to, variable returns (negative or positive, respectively) from its involvement with such assets or business; and b. it has the ability to affect those returns through its power over the assets or business.

173. The FAS 1 has replaced[12] the text in the following paragraphs of FAS 26 "Investment in Real Estate" to align it with FAS 1 "General Presentation and Disclosures in the Financial Statements":

H1 Paragraph	Modified paragraph
4/8	Any unrealised gains arising from a change in the fair value of investment in real estate shall be ~~recognised directly in equity under~~ **taken through other comprehensive income to** "property fair value reserve" for the period in which it arises taking into consideration the split between the portion related to owners' equity and ~~equity of investment accountholders~~ **quasi-equity**.
4/9	Any unrealised losses resulting from re-measurement at fair value of investment in real estate carried at fair value shall be adjusted ~~in equity~~ against the property fair value reserve, taking into consideration the split between the portion related to owners' equity and ~~equity of investment accountholders~~ **quasi-equity**, to the extent of the available credit balance of this reserve. In case such losses exceed the available balance, the unrealised losses shall be recognised in the income statement. In case there are unrealised losses relating to investment in real estate that have been recognised in the income statement in a previous financial period, the unrealised gains relating to the current financial period shall be recognised to the extent of crediting back such previous losses in the income statement.

[12] New text – **bold**; replaced text – ~~strikethrough~~

174. The FAS 1 "General Presentation and Disclosures in the Financial Statements" has replaced the text in the following paragraphs of FAS 30 "Impairment, Credit Losses and Onerous Commitments":

Paragraph	Modified paragraph
10	In case of investments carried at fair value through ~~equity~~ **other comprehensive income**, a significant or prolonged decline in the fair value of an investment below its cost is also an objective evidence of impairment.

175. The FAS 1 "General Presentation and Disclosures in the Financial Statements" has replaced the text in the following paragraphs of FAS 33 "Investment in Sukuk Shares and Similar Instruments":

Paragraph	Modified paragraph
6	Unless the irrevocable initial recognition choices provided in paragraph 10 are exercised, an institution shall classify investments subject to this standard as subsequently measured at either of (i) amortised cost, (ii) fair value through ~~equity~~ **other comprehensive income** or (iii) fair value through income statement, on the basis of both: c. the institution's business model for managing the investments; and d. the expected cash flow characteristics of the investment in line with the nature of the underlying Islamic finance contracts.
Heading	Fair value through ~~equity~~ **other comprehensive income**
8	An investment shall be measured at fair value through ~~equity~~ **other comprehensive income** if both of the following conditions are met: a. the investment is held within a business model whose objective is achieved by both collecting expected cash flows and selling the investment; and b. the investment represents a non-monetary debt-type instrument or other investment instrument having reasonably determinable effective yield.
9	An investment shall be measured at fair value through income statement unless it is measured at amortised cost in accordance with paragraph 7 or at fair value through ~~equity~~ **other comprehensive income** in accordance with paragraph 8 or if irrevocable classification choices at initial recognition are applied in line with paragraph 10.
10	An institution may make an irrevocable election to designate a particular investment, at initial recognition, being: a. an equity-type instrument that would otherwise be measured at fair value through income statement – to present subsequent changes in fair value ~~in~~ **through** ~~equity~~ **other comprehensive income**; and
11	Investments in a non-monetary debt-type instrument or other investment instrument, may be classified under any of the following categories: a. investment at amortised cost – as per paragraph 7; or b. investments at fair value through ~~equity~~ **other comprehensive income** – as per paragraph 8; or
12	Investment in a monetary debt-type instrument, as it reflects a debt at the back-end, shall be classified and measured at cost, till the time the transaction at the back-end is executed; and at amortised cost thereafter. Similarly, non-negotiable Sukuk shall not be eligible to be categorized as investment at fair value through ~~equity~~ **other comprehensive income**, or as investment at fair value through income statement.
13	Investment in equity-type instruments may be classified under the following categories: a. investments at fair value through income statement – as per paragraph 9; or

	b. investments at fair value through ~~equity~~ **other comprehensive income** – if the irrevocable classification choice at initial recognition is exercised as per paragraph 10(a).
21	For investment at fair value through income statement, items accounted for in income statement shall be recognised taking into consideration the split between the portion related to owners' equity and the portion related to the ~~equity of profit and loss taking stakeholders~~ **quasi-equity**, including investment accountholders.
Heading	Fair value through ~~equity~~ **other comprehensive income**
22	Investment carried at fair value through ~~equity~~ **other comprehensive income** shall be re-measured at fair value at the end of each reporting period. The resultant re-measurement gain or loss, if any, being the difference between the carrying amount and the fair value shall be ~~directly recognised in equity under~~ **taken through other comprehensive income to** "investments fair value reserve", taking into consideration the split between the portion related to owners' equity and the portion related to the ~~equity of profit and loss taking stakeholders~~ **quasi-equity**, including investment accountholders.
23	Investments carried at fair value through ~~equity~~ **other comprehensive income** (and those accounted for in line with paragraph 15 and 24) shall be tested for impairment at each reporting period in accordance with FAS 30 "Impairment, credit losses and onerous commitments".
25	The realised gains or losses resulting from the sale or maturity of any investment shall be measured as the difference between the carrying amount and the net proceeds from the sale or at maturity (in case of instruments having a maturity) of each investment. The resulting gains or loss together with the balance of the "investments fair value reserve" account for investments designated at fair value through ~~equity~~ **other comprehensive income** shall be recognised in the income statement for the current reporting period, taking into consideration the split between the portion related to owners' equity and the portion related to ~~profit and loss taking stakeholders~~ **quasi-equity**, including investment accountholders
30	The reclassification effects, where relevant, shall be adequately attributed to the owners' equity and equity of different classes of ~~profit and loss taking stakeholders~~ **quasi-equity** including investment accountholders
34(d)	the classification of investment portfolio in the following categories: i. investments carried at amortised cost; ii. investments carried at fair value through income statement; and investment at fair value through ~~equity~~ **other comprehensive income**;
34(f)	the cumulative "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, with due attribution to the owners' equity and the ~~equity of profit and loss taking stakeholders~~ **quasi-equity**, including investment accountholders

Reclassification Table provided in paragraph 28 of AAOIFI FAS 33			
Reclassification from	**Reclassification to**	**Measurement**	**Treatment of gains and losses**
Amortised cost	Fair value through income statement	The investment's fair value is measured at the reclassification date	Any gain or loss arising from a difference between the previous amortised cost of the investment and fair value is recognised in income statement
Fair value through income statement	Amortised cost	The investment's fair value at the reclassification date becomes its new gross carrying amount for the purpose of applying the amortised cost accounting	Not applicable
Amortised cost	Fair value through ~~equity~~ **other comprehensive income**	The investment's fair value is measured at the reclassification date	Any gain or loss arising from a difference between the previous amortised cost of the investment and fair value is recognised ~~in equity~~ **through the other comprehensive income**
Fair value through ~~equity~~ **other comprehensive income**	Amortised cost	The investment is reclassified at its fair value at the reclassification date, considering as if it was always measured at amortised cost	The cumulative gain or loss previously recognised in equity **as a reserve** is removed from equity and adjusted against the fair value of the investment at the reclassification date
Fair value through income statement	Fair value through ~~equity~~ **other comprehensive income**	The investment continues to be measured at fair value	Not applicable. However, future gains and losses are carried to equity, rather than income statement
Fair value through ~~equity~~ **other comprehensive income**	Fair value through income statement	The investment continues to be measured at fair value	The cumulative gain or loss previously recognised in equity **as a reserve** is reclassified from equity to income statement as a reclassification adjustment

Appendices

Appendix A: Adoption of the standard

This standard was presented for approval in the 25th AAOIFI Accounting Board meeting held on 25-26 Muharram 1443H, corresponding to 2-3 September 2021, and was duly approved.

Members of the board

1. Mr. Hamad Abdulla Al Oqab (chairman)
2. Mr. Syed Najmul Hussain (deputy chairman)
3. Mr. Abdelhalim Elsayed Elamin
4. Mr. Abdulmalik al Suwayni
5. Dr. Abdulrahman M. Alrazeen
6. Ms. Amal Al Masri
7. Dr. Bello Lawal Danbatta
8. Mr. Firas Hamdan
9. Mr. Hondamir Nusratkhujaev
10. Mr. Imtiaz Ibrahim
11. Mr. Irshad Mahmood
12. Dr. Mohammed Albeltagi
13. Mr. Samet Arslan
14. Mr. Saud Al Busaidi
15. Mr. Yusuf Ahmed Ibrahim Hasan

Reservation

The standard was approved unanimously.

Working group members

1. Mr. Syed Najmul Hussain (chairman)
2. Mr. Abdulhalim Elsayed Elamin
3. Mr. Fahad Yateem
4. Mr. Faizan Ahmed
5. Mr. Firas Hamdan
6. Mr. Hamad Abdulla Al Oqab
7. Mr. Imtiaz Ibrahim
8. Dr. M. Mahabbat Hossain
9. Mr. Mohammed Hammad
10. Mr. Muhammad Muzammil Kasbati
11. Ms. Ni Putu Desinthya
12. Mr. Sohail Sikandar
13. Dr. Sutan Emir Hidayat
14. Mr. Yusuf Sayed
15. Dr. Zakir Hossen Shaikh

Executive team

1. Mr. Omar Mustafa Ansari (AAOIFI)
2. Mr. Mohammad Majd Bakir (AAOIFI)
3. Mr. Haroon Tabraze (Senior Consultant-Researcher)
4. Ms. Farida Cassim (AAOIFI)
5. Ms. Merjan Abid (Senior Research Associate)

Appendix B: Basis for conclusions

Basis for conclusions of the framework

BC1 This basis of conclusion of FAS 1 “General Presentation and Disclosures in the Financial Statements” should be read in conjunction with the basis for conclusions of the “AAOIFI Conceptual Framework for Financial Reporting” (Revised 2020) (the conceptual framework).

The statement of compliance and departure from AAOIFI FASs

BC2 The board discussed the purpose and need to require an explicit statement of compliance for consistency and comparability. The board understands that at times it may not be practicable to comply with all AAOIFI FASs due to overriding rules and regulations in certain jurisdictions or realities not envisaged at the time of preparation of AAOIFI FASs.

BC3 The board concluded to allow departure, in rare circumstance, as situations may exist where management of an institution is able to make an assessment that compliance with the requirements of AAOIFI FASs will result in misleading information. This, as a result, will be in direct conflict of the objective of preparing and presentation of financial statements, where true and fair presentation means faithful representation of the transactions, other events or conditions (also see paragraphs BC18-BC19).

New and improved definitions / terminology

BC4 The board deliberated and agreed that terminologies should be consistently used across the different standards. It was decided to use the term “institutions”, as a number of jurisdictions adopting AAOIFI FASs are increasing, and those other than financial institutions are also likely to adopt the AAOIFI FASs.

BC5 The board emphasized that definition of cash and cash equivalents reproduced in FAS 1 should only be used for the purposes of statement of cash flows. Consequently, the wordings have been slightly amended to emphasize the fact. The preparers and users of the financial statements must take cognizance that cash and cash equivalents have different meanings and definitions according to the relevant AAOIFI FASs.

BC6 The board discussed the perception created when the term “financing” is used in reference to different product of Islamic finance e.g., Murabaha, Musharaka and Mudaraba. It was agreed that Murabaha and other trade-based receivables will be used with the term “receivable”, whereas the term “investment” shall be used with both Musharaka and Mudaraba and any other participatory investments.

BC7 The board also agreed to use the term “allowance for impairment and credit losses” instead of “provision for doubtful debts” to better reflect the nature of the account, in line with new AAOIFI FASs.

BC8 The board received multiple comments on the definition and explanation of control, both from the members of the working group and through public hearings. The board discussed that control may have different explanations; based on the fact that control is over assets or control is over the business. It was deliberated whether these connotations be reproduced in the standard or not. The members decided that the core definition of control should be included in the standard, and each

AAOIFI FAS may have a necessary explanation of the term, based on the requirement of such standard.

BC9 The board also discussed the definition of historical cost. The members noted that there may be different accounting treatments while recognising cost for assets acquired through Murabaha and Ijarah assets. Assets acquired at the culmination of Murabaha are to be recognised at full cost - gross invoice value including the seller's profit on transaction plus any incidental direct cost of acquisition. It was agreed that the matter will be taken up again when the relevant standards are due for revision.

Elements of financial statements

BC10 The board discussed that the financial statements shall disclose information that assists in evaluating business risks including the adequacy of the institution's capital to absorb losses and business risks, the degree of liquidity of the institution's assets and the liquidity requirements.

BC11 The standard requires that financial statements shall disclose owners' equity and distinguish it from quasi-equity. The previously used term "unrestricted investment account" was replaced with the term "quasi-equity" as the board felt that the new term conveys the nature of the account better, is more broad-based and the reader understands it to have both the characteristics of liability and equity.

BC12 The board further discussed and concluded that the ranking or sequencing (in line with maturity profile or otherwise) of the elements of financial statements shall be subject to the legal requirements applicable in the respective jurisdiction of the institution.

BC13 The board also decided to modify the definition of income and align it with the definition available in generally acceptable accounting principles globally to the extent possible while remaining under the conceptual framework. It was decided that introduction of a five-step model will facilitate preparers of financial statements in recording income, especially in complex transactions. In this regard the board concluded that a performance obligation is a promise to deliver a good or provide a service in return of promise of receiving the agreed consideration. The promise may also include delivering a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.

BC14 The board discussed the five-step model of recognition of income at length and observed that there is an anomaly between the five-step model and the revenue (income) recognition described in FAS 10 "Istisna'a and Parallel Istisna'a". The board did not propose a consequential amendment on this matter, as revision of FAS 10 is expected to be initiated soon, and agreed that presently FAS 10, being specific in nature, overrides FAS 1, which is a general standard.

Complete set of financial statements

BC15 The board decided to move the Zakah and charity statements to the notes, with a view to reduce the number of primary statements in the initial version of the exposure draft of the revised standard (issued in 2019). During the public hearings, repeated requests were made to reconsider the relocation, specifically the statement of charity, due to its specific nature in relation to Islamic finance (banking, in particular). The board reviewed the comments received and took additional feedback from regulators and industry experts. The board, through voting, agreed to retain the disclosure for charity in the notes to the financial statements, mainly due to the materiality, as well as, the restrictive nature of the format of primary statements, considering the fact that a clear and detailed picture of the uses and application of charity may conveniently be achieved through a comprehensive disclosure.

BC16 The board concluded that the complete set of financial statements prescribed in part 1 of the standard shall be applicable to all institutions where requirements of part 2 shall apply, only to Islamic banks and similar institution. However, the board agreed that general reporting requirements would remain similar for all the institutions that have decided to adopt AAOIFI FASs as their reporting framework. Other institutions such as Takaful institutions shall refer to the respective AAOIFI FASs applicable in addition to the requirements of this standard, to determine the complete set of financial statements.

BC17 The board discussed the usefulness of providing information relating to other comprehensive income, as the earlier FAS 1 did not prescribe the same. It was agreed that institutions shall be given an option to prepare one statement of comprehensive income with two sections, or two separate statements. It was also decided that term "statement of income" shall be used to denote the profit or loss account throughout the standard.

True and fair presentation

BC18 The board concluded that the objective of presenting financial information to users of financial statements of Islamic financial institutions is to give a true and fair view about the financial position, financial performance and cash flows of the institution.

BC19 It was agreed that AAOIFI FASs shall provide a true and fair override, to enable the preparers to fairly present the state of affairs of the institution. The board discussed that such an override would be acceptable only in extremely rare cases. As it may have an adverse Shari'ah impact, it was therefore decided not to allow such an override on a matter relating to Shari'ah principles and rules. To ensure compliance with the Shari'ah principles and rules, institutions shall obtain express permission from their Shari'ah supervisory boards for any or all such Shari'ah overrides.

Accounting policies and estimates

BC20 The board debated on decided to provide guidance when an accounting policy is deemed inappropriate. The need for guidance arose on a question regarding the meaning of "inappropriate accounting policies" and what may result in users being misled. After due deliberation, it was agreed that a policy will be inappropriate when:

a. it is not in accordance with AAOIFI FASs;

b. it is a departure from Shari'ah principles and rules; or

c. it does not reflect the true economic nature of the transaction.

BC21 The board also decided to provide guidance on adjustments made after the end of the financial reporting period that has an effect on prior period's balances that have constructively liquidated at the end of the period, and profit or loss distributed to the quasi-equity holders. Such an adjustment will have an impact in the prior period's balances but as the profits or losses have already been distributed to the quasi-equity holders, the current period balances may require adjustment.

BC22 It was agreed that if the adjustment relates to impairment or loss to the investments, the management of the institution may decide to charge it to the investment risk reserve (if available). In other cases, the charge could be to the profit equalization reserve (if available), or the management may decide to create a special purpose reserve.

Foreign currency and segment reporting

BC23 The board discussed the effectiveness of revising / improving FAS 16 "Foreign Currency Transactions and Foreign Operations" and FAS 22 "Segment Reporting". In line with the new strategy for standards development, it was noted that the generally accepted accounting principles provide reliable guidance to faithfully account for and present the foreign currency transaction and segment reporting. Moreover, AAOIFI FAS 16 and AAOIFI FAS 22 do not add significant value from Shari'ah perspective and this results in confusion in the industry. The board agreed that including minimum requirements and provisions related to currency conversions and segment reporting in the current standard would be sufficient and adequate. Therefore, it was concluded that the respective standards shall be considered to be withdrawn with the issuance of the revised FAS 1.

BC24 The board further deliberated on the minimum requirements related to segment reporting to be included in this standard. It was agreed that both operating and geographical sources of income and expenses would be significant for the user of financial statements, in assessing risks related to the institution. The board agreed that the institutions may decide to report segments even when they are not meeting the reporting threshold, if the management is of the opinion that giving additional information is beneficial for the users of the financial statements.

Contribution by owners' equity to quasi-equity

BC25 The board discussed and agreed on the usefulness of providing the disclosure for contribution of / from owners' equity to the quasi-equity, to match the expected returns (not to cover losses) or to maintain relative stability in the profits of quasi-equity. This normally takes form of contributing Tabarru / Hiba directly from profits or from the profit equalization reserve (PER), or by indirect contribution through reducing the profit ratio of Mudarib to a lower percentage of the contractual ratio or by bearing some burdens (expenses) on behalf of the quasi-equity such as allowances.

First time adoption of AAOIFI FASs and authoritative status

BC26 The board deliberated at length if the requirements of first time adoption of AAOIFI FASs should be included within the scope FAS 1. This was added to the board agenda simultaneously during the revision of FAS 1 and the conceptual framework due to its practical significance, especially in the jurisdictions that are in the phase of adopting or are considering adopting AAOIFI FASs. The board agreed that the first time adoption of AAOIFI FASs is a significant event, therefore a separate standard should be issued in this regard and the existing guidance note on the first time adoption shall be superseded by such new standard.

BC27 The board deliberated on making a consequential amendment to FAS 12 "General Presentation and Disclosure in the Financial Statements of Islamic Insurance Companies", FAS 13 "Disclosure of Baes for Determining and Allocating Surplus or Deficit in Islamic Insurance Companies, FAS 15 "Provisions and Reserves in Islamic Insurance Companies" and FAS 19 "Contributions in Islamic Insurance Companies". The members noted that the development of revised FASs on Takaful is already at an advanced stage. Therefore, it was agreed that being specific, the disclosure requirements of AAOIFI FAS 12, AAOIFI FAS 13, AAOIFI FAS 15 and AAOIFI FAS 19 shall remain applicable until the revised FASs on Takaful become applicable.

BC28 The board discussed the authoritative status of the conceptual framework and decided that it should be included in AAOIFI FAS 1 to make it enforceable. Consequently, the same hierarchy of selection and application of accounting policies are reproduced in both FAS 1 and the conceptual framework.

Consequential amendments to other standards

BC29 Based on the comments received during public hearing and roundtable events, the board reconsidered the withdrawal or revision of FAS 26 "Investment in Real Estate." As a result of a vote conducted after the 25th AAB meeting, the majority of the board reached consensus to revise FAS 26, with a consequential amendment to be included in this standard which shall be applicable until the issuance and implementation of the revised FAS 26. This decision was reached mainly on the premise of the significance and complex nature of various types of investments in real estate for the IFI, with emerging dynamics for global financial services, accelerated growth of financial services, etc.

Appendix C: Brief history of the preparation of the standard

H1 The newly formed AAOIFI Accounting Board (AAB) held its 1st meeting on 6-7 of Jumada II 1437H, corresponding to 15-16 of March 2016, at Ramee Grand Hotel, Kingdom of Bahrain. In this meeting it was decided that high priority shall be bestowed on the revision of certain FASs.

H2 The working group held its 1st meeting on the revised standard as a joint meeting with the revision of the AAOIFI conceptual framework on 27 Dhul-Qa'dah 1439H, corresponding to 8 August 2018. The members agreed that the revision of both the conceptual framework and FAS 1 would be done simultaneously, and it shall be brought closer to Shari'ah principles and rules. Both revised pronouncements shall reflect presentation and disclosure requirements in all newly issued AAOIFI FASs and additionally newer accounting needs that are not already addressed through any existing standards.

H3 The working group held its 2nd meeting on 9 Rabi' II 1440H, corresponding to 18 December 2018 where the initial draft of the preliminary study was presented. In this meeting it was decide that the revised FAS 1 standard would follow the new standard format requirements and include new terminology and will also reflect the recommendations from the AAOIFI FASs review and revision project. The two revised pronouncements (FAS 1 and the conceptual framework) were classified as high priority items for the current board agenda. A dedicated meeting to discuss other comprehensive income, quasi-equity and other related complicated matters was agreed.

H4 The working group held its 3rd meeting on 5 Rajab 1440H, corresponding to 12 March 2019. This meeting was a joint working group meeting with the AAOIFI FASs review and revision project where the second part of the preliminary study was presented which included an extensive comparison analysis of FAS 1 with all other existing globally accepted accounting standards and additionally included all requirements of issued old and new AAOIFI FASs as well. The working group also agreed to give authoritative status to the conceptual framework by making it an appendix to / a part of FAS 1. Certain decisions were made with regards to core principles to be incorporated in the revised FAS 1. It was also decided that illustrative financial statements will be developed and issued as a technical release duly approved by TAIC (Technical Advisory and Interpretation Committee).

H5 The AAB held its 13th meeting on 15 Rajab 1440H, corresponding to 22-23 March 2019, where the preliminary study including the Illustratives financial statements was presented. The board agreed with the working group recommendations to issue the Illustratives financial statements as a technical release duly approved by TAIC. The board also concluded that the two exposure drafts on the revised conceptual framework and FAS 1 will be issued at the same time.

H6 The working group held its 4th meeting on 17 Ramadan 1440H, corresponding to 22 May 2019, which included the discussion of illustrative financial statements. The extensive discussions concluded on the Illustrative financial statements and their components.

H7 The initial exposure draft of the standard was presented at the 5th working group meeting held on 9 Shawwal 1440H, corresponding to 13 June 2019. It was decided to dedicate the majority of the duration of the meeting to discuss and agree on the contents and main changes made to the draft of the standard. The working group deliberated on the draft and illustrative financial statements and requested conclusions to be presented to the board with its recommendations.

H8 The AAB held its 14th meeting on 24-25 Shawwal 1440H, corresponding to 28-29 June 2019. The agenda included the revision of FAS 1 illustrative financial statements for board's comments along with the presentation and review of the exposure draft on revised FAS 1. The presentation of the illustrative financial statements centred itself around the main components of the financial statements, to serve as a guidance for institutions when preparing their financial statements in light of FAS 1. The board discussion on the draft focused on the areas requiring urgent attention. The remaining aspects of the exposure draft were decided to be reviewed in a detailed working group meeting to be held at a later date.

H9 The working group held its 5th meeting on 28 Dhul-Qa'dah 1440H, corresponding to 31 July 2019. The agenda included the revised FAS 1 exposure draft after board amendments and discussion of illustrative financial statements of revised FAS 1 after board amendments.

H10 The exposure draft of the standard was issued after incorporation of the board and working group comments on 3 Jumada I 1441H, corresponding to 30 December 2019.

H11 The exposure draft and the illustrative financial statements were discussed extensively by TAIC in its 2nd, 3rd, 4th and 5th meetings held on 22 Sha'ban 1441H, 29 Sha'ban 1441H, 5 Ramadan 1441H and 10 Shawwal 1441H, corresponding to 15 April 2020, 22 April 2020, 28 April 2020 and 5 June 2020, respectively. These meetings concluded on the need for extending the scope of the exposure draft to address amendments required in other standards and finalized the presentation of the illustrative financial statements and relevant disclosures.

H12 A preliminary study was prepared and presented to the working group at the 7th working group meeting held on 17 Dhul-Qa'dah 1441H, corresponding to 8 July 2020, which shed light on the consequential amendments to other standards as a result of the revision to FAS 1.

H13 In the 8th working group meeting which was held on 1 Rabi' I 1442H, corresponding to 19 October 2020, it was deliberated upon whether to issue the consequential amendments as an appendix or a separate release, or to incorporate them within the revised FAS 1 to give suitable authoritative status. A majority of the members of the working group agreed on the consequential amendments to be made part of the revised exposure draft, suggesting a re-issuance of the same.

H14 The AAB, in its 18th meeting held on 1-2 Dhul-Qa'dah 1441H, corresponding to 22-23 June 2020, agreed to re-issue the exposure draft which supersedes the earlier exposure draft issued in December 2019. The re-issuance encompasses the need to highlight consequential amendments to certain standards as a result of a detailed review of the exposure draft already in issue and its impact on standards that have been issued, revised or are currently under the revision process. The board also agreed to extend the scope of the revised FAS 1 to include the consequential amendments to other standards. Other major change in the revised exposure draft was the division of contents in separate parts, including requirements applicable on all institutions and the requirements applicable specifically on Islamic banks and similar financial institutions.

H15 After incorporation of the comments of the board and working group, the exposure draft was re-issued on 16 Jumada I 1442H, corresponding to 31 December 2020.

H16 The first public hearing webinar event for the exposure draft was conducted on 11 Rajab 1442H, corresponding to 23 February 2021. The second public hearing webinar event was conducted on 5 Sha'ban 1442H, corresponding to 18 March 2021.

H17 Two roundtable events were conducted to discuss key issues with regard to the exposure draft. The first roundtable event hosted regulators and was conducted through webinar on 26 Shawwal 1442H, corresponding to 7 June 2021. The second roundtable event was conducted through webinar on 5 Dhul-Hijjah 1442H, corresponding to 15 July 2021, with a select group of industry leaders and experts.

H18 All comments received from the public hearings and roundtable events along with the views and comments received in writing from different industry participants on the exposure draft were presented for discussion at working group meetings held on 29 Dhul-Qa'dah 1442H and 8 Muharram 1443H, corresponding to 8 August 2021 and 16 August 2021, respectively.

H19 The committee of the Shari'ah board for review of accounting and governance standards held its 25th meeting on 24 Muharram 1443H, corresponding to 1 September 2021, where the exposure draft was discussed duly taking the views for conformity with Shari'ah principles and rules.

H20 The standard, after due changes observed by the working group and Shari'ah committee, was presented to the board at its 25th meeting convened on 25-26 Muharram 1443H, corresponding to 2-3 September 2021. In this meeting, the standard was approved in principle, with instructions for making suggested changes.

H21 The standard was presented to the AAOIFI Public Interest Monitoring Consultative Committee (PIMCC) on 27 Safar 1443H, corresponding to 4 October 2021. No major comments were raised on the standard from the public interest perspective.

H22 After due process and incorporating instructions and comments of the board, the standard was issued on 27 Jumada I 1443H, corresponding to 31 December 2021.

H23 The AAB, in its 18th meeting held on 23-24 Dhul-Qa'dah, 1443H corresponding to 22-23 June 2020, deliberated on the feedback received from the institutions operating in various markets, about the potential constraints in adopting and implementing the recently issued AAOIFI FASs, in the wake of the COVID-19 pandemic. The AAB decided to defer the effective date of the recently issued AAOIFI FASs, namely, FAS 30 "Impairment, Credit Losses and Onerous Commitments", FAS 31 "Investment Agency (Al-Wakala Bi Al-Istithmar)", FAS 33 "Investments in Sukuk, Shares and Similar Instruments", and FAS 34 "Financial Reporting for Sukuk-holders"; from 1 January 2020 to 1 January 2021. The AAB emphasised that institutions are still encouraged to early adopt these standards.

H24 The AAB, in its 29th meeting held on 29-30 Safar 1441H, corresponding to 25-26 September 2022, deliberated on the feedback received from certain Islamic financial institutions (the institutions) operating in various markets, about the potential constraints and practical difficulties in making the necessary procedural shift in their financial reporting requirements, specifically in terms of preparation of financial statements, changes in accounting policies and corresponding modifications in the accounting and IT systems. Accordingly, the board decided to defer the effective date from 1 January 2023 to 1 January 2024. In this meeting the AAB also concluded that early adoption of AAOIFI FASs shall be encouraged.