

AAOIFI Financial Accounting Standard 30

Impairment, Credit Losses and Onerous Commitments

Updated as of 10 November 2022 in line with consequential amendment of FAS 1 “General Presentation and Disclosures in the Financial Statements” [Effective date: 1 January 2024]

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AAOIFI Financial Accounting Standard FAS 30 “Impairment, Credit Losses and Onerous Commitments” is set out in paragraphs 01-65. 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 Generally accepted accounting principles have evolved tangibly over the last decade, particularly with regard to impairment and credit losses. Globally the lawmakers, the accounting standard setters including International Accounting Standards Board and the Financial Accounting Standards Board, the regulatory standard setters and the regulators have taken notice of the situation and have come up with revised laws, standards and regulations. A forward looking impairment model gained traction globally in the aftermath of the financial crisis (2008), prompting a more timely recognition of expected credit losses and lowering the ignition point for recognition of full lifetime expected losses.
- PR2 In the realm of Islamic finance, there also arose the need for a more robust and prudent financial reporting setting, without compromising on fairness and the broader set of Islamic finance norms and principles.
- PR3 This standard aims at setting out the accounting rules and principles for impairment and credit losses, covering current and expected losses, in line with global best practices, taking into account the ever-changing requirements and the genuine requirements of the Islamic finance industry across the globe. It also sets out classification of assets and exposures in view of the credit risk and other risks involved. The idea is to apply the forward looking approach in line with other standard setters for the assets and instruments that are financial instruments from Shari'ah perspective and to define other globally acceptable impairment and write down and provisioning approaches for other assets and exposures, without compromising on Shari'ah. It further covers the situations where onerous commitments exist which mandate a provision for anticipated losses on the same.
- PR4 This standard, along with the expected outcome of simultaneous project for development of standard for reserves, supersedes the earlier FAS 11 "Provisions and Reserves".

Introduction

Overview

- IN1 This standard, AAOIFI Financial Accounting Standard (FAS) 30 “Impairment, Credit Losses and Onerous Commitments” intends to define the accounting principles for impairment and credit losses (including expected credit losses) to be in line with ever-changing global best practices, as well as, provisions needed against anticipated losses on onerous commitments.
- IN2 This project also resulted in recommendations with regard to the changes and improvements in accounting for reserves and another standard on accounting for reserves i.e., FAS 35 “Risk Reserves” shall be adopted simultaneously with the same expected effective date.
- IN3 Both of these standards together supersede the earlier FAS 11 “Provisions and Reserves”.

Rationale for issuing this standard

- IN4 AAOIFI Accounting Board (AAB / the board) while approving its strategy and plan for 2016 felt that FAS 11 “Provisions and Reserves” was developed several years back and it was already due for a review. With the global changes in the generally accepted accounting principles including in particular the increasing emphasis of the law makers, regulators and accounting standard setters on changing the models for determining impairment and credit losses approach – including in particular the forward looking expected losses approach, it was relevant to consider a comprehensive revision of the standard. This is necessary to ensure a more robust financial reporting environment.
- IN5 The board also considered that all the requirements related to impairment and credit losses need to be brought at one place to improve the structure of the standards. The board further concluded that all Islamic finance assets shall not be subject to the same approach and shall rather be dealt with according to their own structure and nature in line with the respective FAS.
- IN6 The board also considered the accounting for reserves which was included in the existing FAS 11 “Provisions and Reserves”, and concluded that the same also needs revision, improvement and further elaboration. The board also considered the forward looking approach in the existing FAS 11 “Provisions and Reserves”, by recording investment risk reserve (IRR) and concluded that while AAOIFI’s previous approach was already taking care of the greater risk of future losses through creation of IRR, yet, it would be better to reconsider the presentation of the same. Accordingly, the board decided to reduce the scope of IRR and to include the forward looking approach in determination of expected credit losses. The board further initiated a simultaneous project to develop a standard on reserves.

AAOIFI Financial Accounting Standard 30

Impairment, Credit Losses and Onerous Commitments

Objective of the standard

1. The objective of this standard is to establish the principles of accounting and financial reporting for the impairment and credit losses on various Islamic financing, investment and certain other assets of Islamic financial institutions (the institutions), and provisions against onerous commitments, enabling in particular the users of financial statements to fairly assess the amounts, timing and uncertainties with regard to the future cash flows associated with such assets and transactions. This standard also specifies how such impairment and credit losses shall be recognised and when and how the same shall be reversed.

Scope

2. This standard shall apply to all Islamic financing, investment and certain other assets held by Islamic financial institutions that have similar characteristics. It shall also apply to off-balance-sheet exposures of the institutions. [See paragraph 4].
3. This standard shall apply to assets recognised at different stages of Islamic finance transactions, unless the respective standard applicable to such transactions specifically provides an accounting treatment for impairment and credit losses.
4. This standard shall not apply to the assets included in a restricted portfolio of assets managed by an institution meeting the criteria of off-balance-sheet investment accounts or off-balance-sheet Sukuk or similar instruments, if, and only if, the institution is not exposed to the risk of losses from such assets in any manner whatsoever.
5. This standard also considers and deals with the situations whereby onerous conditions exist in expected acquisition of an asset under a future commitment or a contract.

Definitions

6. For the purpose of interpreting and applying this standard, the following short definitions are relevant:
 - a. Allowance for credit losses – is the allowance for credit losses on financial assets and the provision for expected credit losses on financing commitments and financial guarantee contracts. The allowance for credit losses includes both, the incurred credit losses and the expected future credit losses;
 - b. Carrying amount – is the amount at which an asset is recognised after deducting any accumulated depreciation (amortisation) and accumulated impairment losses thereon;
 - c. Costs of disposal – are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense;

- d. Default – in relation to this standard is the “event of default” determined by the institution under its internal credit risk management policies for the respective receivables and exposures, taking into account the special nature of default in Islamic finance;
- e. Effective rate of return method – is a method of allocating income from an asset or venture uniformly, and equitably over the contractual (or expected) period of expected benefit from the asset or continuity of venture. This method allocates the cash flows from asset or venture through a uniform rate of return including all cash flows considering all contractual terms (or best expectations) excluding expected future losses. Any fee or points paid or received, the transaction costs, premiums or discounts are included in the cash flows insofar as these are part of the base contract, or are ancillary costs;
- f. Fair value – The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date;
- g. Haircut – for the purpose of this standard, refers to the percentage (or a margin otherwise defined) by which an asset's market value is reduced for the purpose of calculating fair value or recoverable value, capital requirement, margin and collateral levels etc.;
- h. Impairment loss – is the amount by which the carrying amount of an asset exceeds its recoverable amount;
- i. Inventory – in relation to this standard is an asset held for sale in the ordinary course of business or in the process of production for such sale;
- j. Investment risk reserve (IRR) – is the amount appropriated by the institution out of the profit of investment account holders (IAH) or similar instruments, in order to cushion against future investment and financing losses for the IAH;
- k. Irrevocable unutilized commitment component – refers to the unutilized portion of financing and unfunded facilities commitment which is binding in any such manner (contractually or by way of promise or by virtue of regulatory requirements) that the institution cannot revoke optionally without counter-party's consent;
- l. Lifetime expected credit losses – are the expected credit losses that result from all possible default events over the expected life of a receivable or irrevocable unutilized commitment component;
- m. Net realisable value (NRV) – is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale, considering the factors specific to the institution;

- n. Onerous contract or commitment – is a contract or commitment, respectively, in which the unavoidable costs of meeting the obligations under the contract or commitment, respectively, exceed the economic benefits expected to be received under it;
- o. Probability of default – denotes the likelihood of a default (i.e., inability to meet debt obligations – also see ‘default’) by a debtor over a particular time horizon;
- p. Profit equalization reserve (PER) – is the amount appropriated by the institution out of the Mudaraba income, in order to maintain a certain level of return on investment for investment account holders and the Mudarib. Similar instruments should be treated similarly depending on the nature of the instrument;
- q. Promise and bilateral promise – promise is a commitment assumed by one party (e.g. in Murabaha, the purchase orderer). The promise is understood to be religiously binding on the party who makes it, unless a legitimate excuse under Shari’ah arises and prevents its fulfillment. Nevertheless, a promise is understood to be binding from the juristic perspective if it is pending on a cause and the promisee has incurred costs by reason of the promise. Bilateral promise is the exchange of a two back-to-back promises between two parties, each promising to perform an act in the future relating to the same subject matter;
- r. Provision – is a liability of uncertain timing or amount, or both;
- s. Receivable (Dain) – in relation to this standard is an amount of contractual right established as a result of a permissible exchange (commutative) contract representing only established and known amounts of cash flows. For example, it may represent a receivable against a loan (Qard) transaction or a trading (sale) contract, or as an amount becoming due against any other type of contract e.g., a rental due against an Ijarah transaction or a profit declared for distribution against a Musharaka or Mudaraba contract);
- t. Recoverable amount – of an asset is the higher of its fair value less costs of disposal and its value in use;
- u. Reserve – is a component of equity (i.e., pertaining to shareholders, or non-controlling interest) or quasi-equity (i.e., pertaining to participating stakeholders such as unrestricted investment account holders) set aside by way of appropriations from respective earnings or retained earnings as well as value adjustments for the benefit of such respective stakeholders by way of managing various risks posed to such equity or quasi-equity balances;
- v. Value in use – is the net value of the future cash flows expected to be derived from the use of an asset or continuity of venture applying the effective rate of return method; and

- w. 12-month expected credit losses – is the portion of lifetime expected credit losses that represent the expected credit losses that result from default events on a receivable that are possible within the 12 months after the reporting date.

Classification of assets and exposures

- 7. For the purpose of this standard, the assets and exposures shall be categorized, as under:
 - a. Assets and exposures subject to credit risk (subject to credit losses approach):
 - i. receivables; and
 - ii. off-balance-sheet exposures;
 - b. Other financing and investment assets and exposures subject to risks other than credit risk (subject to impairment approach), excluding inventories; and
 - c. Inventories (subject to net realisable value approach).

Frequency of assessment for impairment and credit losses

- 8. An institution shall assess at the end of each reporting period whether there is any indication that an asset may be impaired or related credit risk has significantly increased. If any such indication exists, the institution shall estimate the recoverable amount of the asset or the expected credit losses, as appropriate, in line with the requirements of this standard.
- 9. An institution shall assess, based on internal and external available evidence, as of the date of preparation of the financial statements, the indications and conditions as may lead to determine the existence of impairment or adjustment for net realisable value as of the reporting date, or, the forward-looking expectation of credit losses, as may be applicable under the requirements of this standard.
- 10. In case of investments carried at fair value through 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.

Related accounting treatments

Credit losses approach

- 11. Assets subject to credit losses approach shall include all established receivables and off-balance-sheet exposures including guarantees, letters of credit, promise-based foreign exchange and other similar positions. An institution shall apply paragraphs 12-34 in respect of accounting for expected credit losses on account of such assets and exposures.
- 12. If, at the reporting date, the credit risk on a receivable or exposure has not increased significantly since initial recognition, an institution shall measure the loss allowance for that financial instrument at an amount equal to 12-month expected credit losses.

13. For financing commitments (other than those resulting in procurement of assets at the control of the institution) and financial guarantee contracts, the date that the institution becomes a party to the irrevocable commitment shall be considered to be the date of initial recognition for the purposes of applying the requirements of this standard.
14. If an institution has measured the loss allowance for a receivable at an amount equal to lifetime expected credit losses in the previous reporting period, but determines at the current reporting date that paragraph 12 (with regard to the significant increase in credit risk) is no longer met, the institution shall measure the loss allowance at an amount equal to 12-month expected credit losses at the current reporting date.

Determining significant increases in credit risk

15. At each reporting date, an institution shall assess whether the credit risk on a receivable or exposure has increased significantly since initial recognition. When making the assessment, an institution shall use the change in the risk of a default occurring over the expected life of the receivable or exposure instead of the change in the amount of expected credit losses. To make that assessment, an institution shall compare the risk of a default occurring on the receivable or exposure as at the reporting date with the risk of a default occurring on the receivable or exposure as at the date of initial recognition and consider reasonable and supportable information, that is obtainable with reasonable cost or effort, that is indicative of significant increases in credit risk since initial recognition.
16. An institution may assume that the credit risk on a receivable or exposure has not increased significantly since initial recognition if the receivable or exposure is determined to have low credit risk at the reporting date.
17. If reasonable and supportable forward-looking information is obtainable with reasonable cost or effort, an institution cannot rely solely on past due information when determining whether credit risk has increased significantly since initial recognition. However, when information that is more forward-looking than past due status (either on an individual or a collective basis) is not obtainable with reasonable cost or effort, an institution may use past due information to determine whether there have been significant increases in credit risk since initial recognition. Regardless of the way in which an institution assesses significant increases in credit risk, there is a rebuttable presumption that the credit risk on a receivable or exposure has increased significantly since initial recognition when contractual payments are more than 30 days past due. An institution can rebut this presumption if the institution has reasonable and supportable information that is obtainable with without undue cost or effort, that demonstrates that the credit risk has not increased significantly since initial recognition even though the contractual payments are more than 30 days past due. When an institution determines that there have been significant increases in credit risk before contractual payments are more than 30 days past due, the rebuttable presumption does not apply. Similarly, a significant rating downgrade for a customer by independent or internal rating system shall also be an indication of deterioration of credit quality.

Modified receivables and restructurings

18. If the contractual cash flows on a receivable have been renegotiated or modified and the receivable was not derecognised, an institution shall assess whether there has been a significant increase in the credit risk of the receivable by comparing:
 - a. the risk of a default occurring at the reporting date (based on the modified contractual terms); and
 - b. the risk of a default occurring at initial recognition (based on the original, unmodified contractual terms).
19. If the proceeds of a new contract have been applied for settlement of an earlier receivable with the same customer, there is a rebuttable assumption that there has been a significant increase in the credit risk or risk of impairment in respect of the new contract.

Measurement of credit losses

20. An institution shall measure credit losses of a receivable or exposure, subject to credit losses approach, in accordance with a policy developed and applied consistently, in a way that reflects:
 - a. an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
 - b. the contractual maturity of the receivable or exposure viz a viz the allocation of relevant income applying the effective rate of return method; and
 - c. reasonable and supportable information that is obtainable without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.
21. The computation of the credit losses shall be based on the amount of receivable net of any deferred profits accounted for under the requirements of respective FAS.
22. The cash flows that are considered for determining the expected credit loss shall include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms, duly considering the legal recoverability of the same and the timing of such recoverability.
23. When measuring expected credit losses, an institution need not necessarily identify every possible scenario. However, it shall consider the risk or probability that a credit loss occurs by reflecting the possibility that a credit loss occurs and the possibility that no credit loss occurs, even if the possibility of a credit loss occurring is very low.
24. The maximum period to consider when measuring expected credit losses is the maximum contractual period (including extension options) over which the institution is exposed to credit risk and not a longer period, even if that longer period is consistent with business practice.

25. Certain transactions include both a receivable and an irrevocable (legally or customarily) unutilized commitment component (being essentially the utilization expectations over the commitment period). For such transactions and exposures, the institution shall measure expected credit losses for the combined exposure unless the relevant commitment is subject to another provision of this standard.

Default

26. When defining default for the purposes of determining the risk of a default occurring, an institution shall apply a default definition that is consistent with the definition used for internal credit risk management purposes for the relevant receivable or exposure and consider qualitative indicators (for example, financial covenants) when appropriate. However, there is a rebuttable presumption that default does not occur later than when a receivable or exposure is 90 days past due unless an institution has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate. The definition of default used for these purposes shall be applied consistently to all receivables or exposures unless information becomes available that demonstrates that another default definition is more appropriate for a particular receivable or exposure.
27. Receivables and exposures in default situation shall be subject to specific allowances for lifetime expected losses.

Stages of credit risk – explanation and consistency

28. Considering the factors discussed in paragraphs 11-27, it is generally understood that the credit risk on receivables and related exposures shall be determined on the following three categories, provided that the number of days based criteria, may be subject to a change under the respective provisions of this standard:
- a. Stage-1 receivables – not meeting the criteria of 30 days delay in contractual payments – subject to 12-months expected losses through collective allowances (even though the calculations may be based on customer specific parameters);
 - b. Stage-2 receivables – having equal to or more than 30 days delay but less than 90 days delay in contractual payments or meeting the other qualitative indicators like significant deterioration of credit rating or breach of covenants – subject to lifetime expected losses through collective allowances (even though the calculations may be based on customer specific parameters); and
 - c. Stage-3 receivables – having equal to or more than 90 days delay in contractual payments or meeting the other qualitative indicators like significant deterioration of credit rating or breach of covenants or bankruptcy situations – subject to lifetime expected losses through customer / asset specific allowance.
29. Once applied, an institution shall apply the criteria for determining the significant increase in credit risk and default with consistency over the reporting periods.

30. In computing the expected credit losses the following have to be considered by an institution:
- a. amount (including receivable and exposure) at risk;
 - b. risk weightage, probability of default and other considerations including internally set indicators and effective rate of return;
 - c. changes in credit risk, deterioration in credit ratings (internal or external), modifications to the original contracts, breach of contracts or contractual covenants, industry and geographical parameters etc.; and
 - d. availability of collaterals and other credit enhancements considering haircuts and their effect on expected credit losses.
31. Expected credit losses shall be determined based on best judgment (unbiased, and probability-weighted) and not on the basis of most prudent judgment.
32. An allowance for credit losses duly distinguishing between the “estimated incurred” credit loss (generally stage-3 credit losses) and expected future credit loss shall be shown as a deduction from the gross carrying value of the respective asset and shall be taken as a charge to the income statement during the period in which it arises.
33. The total charge taken to income statement in line with paragraphs 31 and 32, shall be adequately attributed to the common shareholders and other participatory stakeholders, including, the unrestricted investment account holders.
34. Provision against off-balance-sheet exposures (other than those subject to onerous contract or commitment approach) shall be recorded as a provision applying the similar forward looking approach and recorded as a liability. The charge shall be taken to the income statement.

Impairment approach

35. Assets (or a group of assets with common characteristics, which may be considered as “an asset” for the purpose of requirements of paragraphs 35-44) subject to impairment approach shall include the other financing and investment assets and exposures subject to risks other than credit risk (other than inventories), other than investments carried at fair value through income statement. An institution shall apply paragraphs 36-44 in respect of accounting for impairment for such assets.
36. An institution shall compute impairment loss being the amount by which the carrying amount of an asset exceeds its recoverable amount. An impairment loss shall be shown as a deduction from the gross carrying value of the respective asset and shall be taken as a charge to the income statement during the period in which it arises. The charge taken to income statement shall be adequately attributed to the common shareholders and other participatory stakeholders, including the unrestricted investment account holders.

Recoverable amount

37. In case of indications of a possible impairment, an institution shall determine the recoverable amount of an asset at the reporting date being the higher of its fair value less costs of disposal and its value in use to determine as to whether there exists an impairment, and to account for the same under the provisions of paragraph 36. Provided that, an institution may consider it not being necessary to determine both an asset's fair value less costs of disposal and its value in use; if either of these amounts exceeds the asset's carrying amount.
38. If in rare circumstances, and after reasonable effort, the institution is not able to determine an asset's fair value less cost of disposal because of unavailability of relevant information, the asset's value in use shall be considered to be its recoverable amount.
39. If there is no reason to believe that an asset's value in use materially exceeds its fair value less costs of disposal, the asset's fair value less costs of disposal may be used as its recoverable amount. This will often be the case for an asset that is held for disposal.
40. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets in a group of assets; in which case such group of assets will be considered an asset for the purpose of this standard. This provision shall apply generally to a group of assets related to a single customer (or a group of associated entities considered to be a single customer, with an expectation of net settlement in case of defaults) only.

Value in use

41. While computing value in use the institution shall consider the following factors at a minimum:
 - a. an estimate of the future cash flows the institution expects to derive from the asset taking into consideration the expectations about possible variations in the amount or timing of those future cash flows;
 - b. the expected period of flow of economic benefits viz a viz the allocation of relevant income applying the effective rate of return method (the effective rate shall be adjusted for the changes in the market factors, including the currency risk, country risk, industry risk and entity specific risks etc.); and
 - c. other factors, such as illiquidity, that market participants would reflect in pricing the future cash flows the institution expects to derive from the asset.
42. Estimates of future cash flows shall include projections of cash inflows from the continuing use of the asset, projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset as well as net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life. Future cash flows shall be estimated for the asset in its

current condition. The estimates of future cash flows, when dependent on a single customer, shall essentially take into consideration the credit evaluation of the respective customer in addition to other factors.

43. Future cash flows may take into consideration the amount of any collateral available duly considering the legally recoverable amount and the timing of recoverability of the same.

Fair value less cost of disposal

44. Fair value differs from value in use. Fair value reflects the assumptions market participants would use when pricing the asset. In contrast, value in use reflects the effects of factors that may be specific to the institution and not applicable to entities in general.

Net realisable value approach

45. Various Islamic finance transactions are based on a trade based structure e.g. deferred payment sales including Murabaha, installment sales, Salam or Istisna'a. Such transactions, at different stages of the structure entail recording of inventories in the books of the institution. In certain situations, the institution may end up holding such inventories as part of its assets at the reporting date.
46. Unless contrary to a specific requirement of respective FAS, subsequent to the initial recognition, all inventories shall be measured at the lower of cost (as determined under the respective FAS) and net realisable value. These include the situations where there is a possible indication of a decline in value of such inventories.
47. In situations where a credit-worthy potential customer has a binding promise to procure the respective inventories at a value equal to or higher than the cost, the institution shall carry inventories at cost irrespective of fluctuations in fair value of inventories, if any.
48. In situations where a binding promise from a credit-worthy potential customer as mentioned above is not available, adjustment in carrying value to write-down to net realisable value (if lower than cost) shall be made and corresponding effect of write-down shall be recognised in the period in which such impact is identified.
49. Net realisable value may include the net recoverable amounts against losses on disposal of such inventories through collateral, if any, subject to the condition that the institution has established legal right, positive intent and significant probability of recoverability against such collateral.
50. Adjustment for net realisable value shall be shown as a deduction from the gross carrying value of the respective inventories and shall be taken as a charge to the income statement during the period in which it arises. The charge taken to income statement shall be adequately attributed to the common shareholders and other participatory stakeholders, including, the unrestricted investment account holders.

Provision for onerous contract or commitment to acquire an asset

51. An institution may face situations whereby although it does not have an asset on its books, but is obligated to acquire an asset under a future commitment or contracts permissible to be entered in the future, and it is expected that the obligation under the contract or commitment is higher than the economic benefits expected to flow through acquisition of such asset. In such situation, an institution shall create a provision on this account reflecting the expected losses arising on such transaction.
52. While calculating a provision under paragraph 51, an institution may consider availability of collateral by the expected customer, if applicable. In such cases, the amount of provision shall be computed duly considering the amount of collateral available, its recoverability through the legal process and timing of such recoverability.
53. For example, the requirements of paragraph 51 shall apply in a situation whereby an institution has a commitment to acquire an asset and then to provide it to a customer under an Ijarah arrangement and it is expected that the institution may not be able to execute the Ijarah transaction and may end up selling it in the market below the purchase price. Another similar situation may be that of a Salam transaction in which it is expected that the commodity expected to be received will be disposed of at a loss.
54. For example, the requirements of paragraph 51 shall not apply in case of a commitment or contract expected to result in delivery of an item of inventory for which a binding promise from a credit-worthy potential customer is available to procure the respective inventories at a value equal to or higher than the expected cost of acquiring the same.
55. Provisions for onerous contracts and commitments shall be disclosed as a provision (on liability side) in the financial statements and shall not be netted of as a deduction from the gross carrying value of the respective transaction (if applicable). The same shall be taken as a charge to the income statement during the period in which it arises. The charge taken to income statement shall be adequately attributed to the common shareholders and other participatory stakeholders, including, the unrestricted investment account holders.

Changes in estimate and reversals

56. An institution shall re-assess the estimates of impairment, credit losses (including changes in respective stages of credit risk), provisions for off-balance-sheet exposures, provisions against onerous commitments and contracts and adjustment for net realisable value at each reporting date.
57. Changes in estimate (including reversals) shall be recognised in the income statement for the period of their re-assessment and shall be adequately attributed to the common shareholders and other participatory stakeholders, including, the unrestricted investment account holders. Such attribution shall be based on the current proportions and ratios, ignoring the original proportions and ratios in which they were originally accounted for, with a presumption that constructive liquidations had happened earlier and hence such changes

and reversals are an event of the period. Provided that, in certain situations whereby it is decided by the respective Shari'ah board and accordingly stipulated in the contracts with the respective stakeholders that (either at the time of liquidation or at any point of time, as stipulated) any excess balance which is no more needed shall be paid for charitable purposes, such reversal shall be accounted for and disclosed accordingly. In this respect, whatever is the decision made by the Shari'ah supervisory board, the same shall be disclosed in the notes to financial statements.

Presentation and disclosures

Presentation

- 58. Allowances for credit losses and cumulative impairment shall be presented as contra asset (shown as a deduction from the respective asset) against the assets to whom they relate, duly segregating such assets from those whereby such allowances or impairment was not applicable. Allowances for credit losses shall be segregated in line with the stages as described in paragraph 28.
- 59. An institution shall disclose adjustment for net realisable value as a deduction from the amount of inventories, duly segregating such inventories from those whereby the net realisable value exceeds the cost.
- 60. Provisions against off-balance-sheet exposures and provisions against onerous contracts and commitments shall be presented as provisions and included in the liabilities of the institution.

Disclosures

- 61. In addition to the disclosure requirements stated in FAS 1 "General Presentation and Disclosure in the Financial Statements of Islamic Banks and Financial Institutions" following are the minimum disclosure requirements:
 - a. the accounting policies adopted for the allowances, impairment and provisions under this standard as applicable to different categories of assets or creating obligations;
 - b. significant judgments and estimates applied for the purpose of determining allowances, impairment and provisions under this standard for different classes of asset or obligations including principal approaches applied to determine and value the same;
 - c. additional allowances, impairment or provisions to meet the regulatory requirements, if any, segregated from the principal amounts determined under the provisions of this standard;
 - d. income taken directly to suspense account under regulatory provisions, if any;

- e. the allocation and transfers from reserves, as well as, reversals and the outstanding balances and movement of temporary transfers from shareholders' equity in accordance with the transitional provisions of this standard; and
- f. nature and estimated value of, the securities and guarantees adjusted for the purpose of determining allowances, impairment and provisions under this standard for different classes of asset, any haircut applied, and the valuation methodology applied for the same.

Effective date

62. This standard shall be effective on the financial statements of the institutions beginning on or after 01 January 2021¹. Early adoption of the standard is encouraged.

Transitional provisions

63. This standard shall be applicable on a retrospective basis. However, due to practical constraints, the institution shall not be required to restate the comparative financial statements and the cumulative charge (or net reversal of charge) attributable to shareholders related to previous periods shall be adjusted with the retained earnings as of the beginning of the period of the first application of the standard.
64. The cumulative charge attributable to participatory stakeholders, including unrestricted investment account holders related to previous periods, shall be adjusted with an allocation from the respective IRR with due Shari'ah approvals. In case of a shortfall, an allocation may be made from the respective PER with due Shari'ah approvals. In case of still a shortfall, a temporary transfer with due Shari'ah approval may be made from shareholders' equity to be recoverable from income of such class of stakeholders within a period in line with the maturity of respective assets to be duly specified in the approval. The temporary transfer from shareholders equity shall not be against a stage-3 loss or any other form of incurred loss. Any reversals of charge related to previous periods in a subsequent period shall be attributed to respective reserve or shareholders' equity from where it was originally allocated.

Amendments to other standards

65. This standard, along with FAS 35 "Risk Reserves", supersedes the earlier FAS 11 "Provisions and Reserves".

¹ The effective date was deferred from 1 January 2020 to 1 January 2021. See paragraph H11 of Appendix C: Brief history of the preparation of the standard.

Appendices

Appendix A: Adoption of the standard

This standard was discussed in multiple meetings of the AAOIFI Accounting Board and was duly approved by circulation on 4 Rabi I 1439H, corresponding to 22 November 2017.

Members of the board

1. Mr. Hamad A. Al-Oqab – chairman
2. Mr. Mohammad Bouya – deputy chairman
3. Mr. Abdelhalim Elsayed Elamin
4. Dr. Abdulrahman M. Alrazeen
5. Mr. Aly Hamed El Azhary
6. Dr. Bello Lawal Danbatta
7. Mr. Firas Hamdan
8. Mr. Hondamir Nusratkhujaev
9. Mr. Ismail Erdemir
10. Mr. Khalid E. Al Shatti
11. Mr. Mohamed Ibrahim Hammad
12. Mr. Muhammad Jusuf Wibisana
13. Mr. Nader Yousif Rahimi
14. Dr. Saeed Al-Muharrami
15. Syed Najmul Hussain

Reservation

The standard was approved unanimously.

Working group members

1. Mr. Hamad A. Al-Oqab – chairman
2. Ms. Damla Harman
3. Mr. Faheem Ahmed
4. Ms. Farah Khan
5. Mr. Mahesh Balasubramanian
6. Mr. Muhammad Nadeem Aslam
7. Mr. Yaser Mudhaffar

Executive team

1. Omar Mustafa Ansari (AAOIFI)
2. Mohammad Majd Bakir (AAOIFI)
3. Zahra Jassim AlSairafi (AAOIFI)

Appendix B: Basis for conclusions

Application of different approaches

- BC1 In the initial stages of discussion, the board discussed at length the overall approach for impairment and credit losses applicable on different Islamic finance transactions and their respective assets and balances. The board apprised that the accounting approach with regard to the classification and measurement taken by AAOIFI under different FAS is at times different from the generally accepted accounting principles. The board upheld that the treatment for each product or class of transactions defined by AAOIFI, in its view, reflects the accounting impacts of such transactions in a better way. However, this will result in a situation that the impairment and credit losses approaches taken by the generally accepted accounting principles recently set by different accounting standards setting bodies and certain regulators, as duly supported by lawmakers, cannot be applicable on the Islamic finance transactions in a similar manner.
- BC2 Accordingly, the board decided that the approach for applying the impairment and credit losses to various assets and balances shall be based on different categories according to their nature. However, all these approaches shall be kept closer to the generally accepted accounting principles and the regulatory guidance.

Credit losses approach

- BC3 The board noted that with regard to the financial assets, particularly, those subject to credit risk, the new approach taken by various accounting standards setters and regulatory standard setters, as well as, the regulators is tilted towards an expected credit losses model, although the application of expected credit losses model might be differently specified. The board considered the merits and demerits of this approach and decided that with regard to the Islamic finance transactions that result in a receivable (Dain) applying the expected credit losses might be the best approach except for certain Shari'ah issues which shall be dealt with carefully so as to ensure that the Shari'ah requirements and the principles of fairness and equity are not compromised (kindly refer paragraphs BC25 and BC26).
- BC4 However, the board reconsidered and decided that since all Islamic finance transactions do not result in receivables and rather result in physical assets of different types and since their accounting treatments are also different hence this approach, as mentioned earlier, shall be limited to the receivables only e.g. a receivable created as a result of a Murabaha transaction or a receivable in the form of Ijarah rentals receivable (but not the Ijarah asset itself, which is a physical asset).

Future expected losses: general provision and investment risk reserve (IRR)

- BC5 The board thoroughly discussed and analyzed the issue of future expected losses, as to whether the same is justified or is a deviation from the generally accepted accounting principles and the framework. The board noted that in the existing standard the approach taken for general provision is meant for the past and present losses only and do not take care of the future losses. However, the IRR approach takes care of the future losses, but it is not accounted for as a provision and is rather created as a reserve and even the same is applicable only if the assets are funded by the investment account holders funds, and not

those funded by the institution itself out of its own funds or borrowed funds (like current accounts).

- BC6 The first issue was to address the logical justification or otherwise of creating an allowance for a loss which has not yet incurred. The board discussed this issue and noted that the other accounting standard setters had also faced the same issue. The board felt that it is an important step towards ensuring stability in the system so that the system maintains risk absorbers. Furthermore, the Board felt that even beyond the matter of prudence, it might be considered a matter of fairness and equitable treatment of all stakeholders over a longer period.
- BC7 The board further considered the fact that normally the liquidity profiles of assets and liabilities (or quasi-equity) of Islamic financial institutions do not match. The pricing for the transactions, particularly, the long term transactions include an element of pricing against credit risk (or other relevant risks like equity investment risk) and normally this element is on a higher side in case of long-term transactions. However, the current approach of taking only the incurred losses as loss allowance (provision) does not take care of the risks of losses that the portfolio may be subjected to over the period till maturity of the transactions. Accordingly, it might be fair and equitable to maintain risk absorbing allowance based on best estimates to average out the returns and losses over the period till maturity of such transactions.
- BC8 The second issue was with regard to the application of such allowance; as to whether the same shall be considered as an allowance and be charged to the statement of income or the same shall be recorded as a reserve (see paragraphs BC15 and BC16 for further comments).

Impairment approach

- BC9 The board discussed at length and decided that in line with global best practices of accounting, the physical assets which are subject to the operational risk and market risk (excluding inventories), the instruments of Islamic finance which are subject to market risk and the equity instruments which are subject to business risk, operational risk and at times market risk, and other assets with similar characteristics, all shall be subject to a uniform impairment approach. The board decided that such impairment approach shall in line with the global best practices taking the recoverable amount as higher of the value in use and fair value of the asset (including instruments, or in some cases, assets at the back end of the relevant instrument).
- BC10 The board considered that since these assets are owned by the entity (directly, or through trust relationships) hence their approach shall be different from the assets subject to credit risk only. The ownership of these assets gives the right to the institution to the continuous use (value in use) or sale (fair value) and it has the option to apply higher of these for its favor. Moreover, since value in use takes into consideration the expected cash flows hence the risk of future losses is covered to a major extent.
- BC11 The board also decided that it would be appropriate to bring all the impairment requirements at one place in a uniform manner i.e., to be dealt by this standard and

accordingly, it decided to supersede the relevant paragraphs dealing with impairment in FAS 25 “investments in Sukuk, shares and similar instruments”.

NRV approach

- BC12 The board discussed the matter of loss situations with regard to inventories being physical assets which are acquired in different Islamic finance transactions by the institutions for sale in the normal course of their business like Murabaha or Salam inventories etc. The board decided that it would be appropriate to take the approach considered by generally accepted accounting principles. The board also discussed the option of fair value, but later considered that even the generally accepted accounting principles normally refer to the entity-specific NRV for writing down, instead of market specific fair value.
- BC13 The board evaluated the situations whereby there is a change (mainly decline) in the fair value of inventories as prevalent in the markets. However, since the institution has its own means of sales and at times promises available to sell the inventories, hence it would be more appropriate to adjust the value only if it is expected that this change in market value is going to affect the institution itself, which is more appropriately addressed through NRV. Additionally, NRV takes care of the cost necessary to make the sale or any completion cost (or similar cost to be incurred) and hence provides more appropriate risk coverage for such types of assets.

Provisions

- BC14 The board evaluated the situations whereby an asset is not present on the books of the institution but by virtue of a contract or commitment (in the form of a promise or otherwise) or any other off-balance sheet position, the institution is at a risk of loss when such asset is recognised or otherwise the contract or commitment or off-balance-sheet position is settled. The board considered such situations and decided that the off-balance-sheet positions shall be considered in a manner mainly similar to the credit risk and adequate provisions shall be made. The board also discussed the onerous situations in the contracts and commitments and decided that a provision shall be made against onerous contracts and commitments (including constructive, not contractual liabilities) in line with global best practices.

Reserves versus allowance

- BC15 The board discussed the conceptual differences in maintaining reserves versus maintaining allowances against potential losses and certain risks. The board also evaluated the impact on the investment account holders and other quasi-equity instruments. The board was of the view that whatever is just and equitable as a charge under the accounting principles may be charged to the statement of income subject to the consent of the investors and approval by Shari’ah (see paragraphs BC25 and BC26).
- BC16 The board further discussed and decided that the reserves shall be maintained on an equitable and justifiable basis, over and above the established allowances (which are charged to income statement), as appropriation of the profits of respective stakeholders, subject to their consent in line with the already established Shari’ah principles.

Separate standard for reserves

- BC17 After reaching conclusion on most of the accounting matters, another question with the board was to deal with the requirement for reserves including IRR and PER (or any other reserve) particularly those for safeguarding the interest of the respective stakeholders. The board considered the matter in the light of the new accounting approach and determined that there might still be a need to maintain PER and to some extent IRR. For IRR, the board considered that the expected losses approach and other approaches are based on the best estimates of future losses and not the worst case scenario and certain jurisdictions have a requirement of maintaining IRR based on income rather than the balances; hence there might still be need to maintain IRR for, although not all but, certain institutions. For PER however there is no debate as it is required to be maintained for managing the rate of return risk (including in particular, the displaced commercial risk).
- BC18 The board also considered that the existing standard does not provide any accounting treatment including the measurement guidance and rather it deals with only the classification and disclosure. The board further discussed that the accounting for reserves is more linked with quasi-equity instruments rather than the asset balances so it might not be justified to include the reserves accounting in this standard. Accordingly, the board decided that there is a need for a separate standard on reserves which shall deal with these matters with preferably the same effective date as of this standard.

Transitional provisions – impacts related to shareholders

- BC19 The board discussed the issue with regard to a major impact that certain institutions may face on the initial application of this standard and decided that it is necessary to allow for transitional provisions.
- BC20 At the outset, the board decided that any impacts related to the owners of the bank i.e., common stakeholders, shall be applied retrospectively in line with the requirements of FAS 1 “General Presentation and Disclosure in the Financial Statements of Islamic Banks and Financial Institutions” and other generally accepted accounting principles.
- BC21 However, considering the practical issues in this respect, the board decided to allow a limited relaxation by not requiring the restatement of corresponding financial statements. With regard to the matters related to stakeholders other than common shareholders, kindly see paragraphs BC32-BC38.

Exclusion of off-balance-sheet investment accounts from scope

- BC22 The board specifically discussed the matter and treatments that may be suitable to off-balance sheet investment accounts and portfolios including the restricted investment accounts and / or off-balance-sheet Wakala portfolios. After due deliberations that board decided to scope out the assets included in a restricted portfolio of assets managed by an institution meeting the criteria of off-balance-sheet investment accounts or off-balance-sheet Sukuk or similar instruments. The board decided that since the risks related to such assets are directly attributed to the investors and these are not in the main financial

statements of the institution, hence, it would not be appropriate to include the same in the scope of this standard.

- BC23 Such treatment, however, shall be subject to a strict test i.e., it shall be applicable only if the institution is not exposed to the risk of losses from such assets in any manner whatsoever. The board discussed that “any manner whatsoever” is a term broad enough to include any guarantee provided within Shari’ah parameters, a Shari’ah-acceptable promise to redeem the investments through purchase by the institution, etc. and in all such situations, this exclusion shall not apply.
- BC24 Nevertheless, the board discussed the possibility of creating reserves for such accounts within the portfolios to manage the risks for the stakeholders, but not the institution. Such matter, however, was left for the separate project on reserves.

Charging of expected credit losses to stakeholders including IAH

- BC25 The section 3/1 and the basis of conclusion of the Shari’ah Standard (SS) 40 “Distribution of Profit in Mudarabah-Based Investment Accounts” discuss the issue of safeguarding of capital and impermissibility of distribution of profit before such safeguarding. It is provided that no profit is to be sought before preservation of capital and hence the expenses and reserves are to be deducted before profit distribution.
- BC26 The board considered that the new approach of providing for the allowances for impairment and credit losses is more fair and equitable and serves the purpose of safeguard of the capital of stakeholders in a more structured and well-established manner. However, the board was of the view that this approach must be followed only after taking the consent of the respective stakeholders namely the investment account holders and other quasi-equity investors. See paragraphs BC27 for further discussion.

Impairment or credit losses deduction before Mudarib’s share

- BC27 The board further discussed that if the IRR is replaced with the allowances impairment and credit losses as a best estimate of such losses (over a longer period) to safeguard the interest of the investment account holders collectively (although individuals may have some impact), then it serves the purpose and objective of Shari’ah. This is because the earlier practices of IRR were not very well established and defined in the standards and at times were based on ad hoc transfers from income, while the new approach of the allowances for impairment and credit losses is a well-structured, statistical and mathematical computation based approach which surely serves the objective of Shari’ah as well as ensures greater stability in the system.

Justification of reversal

- BC28 The board decided that as discussed in detail in paragraphs BC32-BC38 with regard to the transitional provisions, the reversals with regard to one time funding by the institution (i.e., the owners of the institution) shall be reversed to them because it is supposed to be a temporary transfer.

- BC29 The board further discussed the issue of any remaining balance in reserves or allowances for that purpose, when these are no longer needed, and noted that there are different Shari'ah views on this matter. While Shari'ah supervisory boards have allowed their return to the respective stakeholders or to donate it for charitable purposes in line with the decision of their respective Shari'ah boards and in such situation, it is a business and Shari'ah matter and not an accounting matter and hence only a disclosure is required in this respect.
- BC30 The board discussed the issue of any remaining balance in reserves or allowances for that purpose, when there are no longer needed, and noted that according to SS 40, mutual relief from commitments in case of exit should be used to the extent that the existing party reliefs the accountholders from commitment towards his rights in the remaining part of the reserves for investment risks and rate of return, and the remaining part of allocations for debts. Likewise, the accountholders relieve the exiting party from commitment towards any losses that have not yet become apparent. On liquidation of the investment pool, the remaining parts of the above-mentioned reserves and allocations shall be devoted to charitable purposes.
- BC31 The same standard sets out that the institutions should liquidate Mudaraba and distribute the realised profit between the Mudarib and the investment accountholders according to the conditions set in the Mudaraba contract.

Transitional provisions – temporary adjustment

- BC32 With regard to the retrospective impact that may arise on the date of initial adjustment, the board considered that since the investment account holders and other participatory stakeholders normally do not have any retained earnings, and while there are certain reserves, it is not always necessary that such reserves might be for the purpose and more importantly, sufficient for the purpose. In this respect, in view of the practical constraints, the board had following discussions and decisions for the impact that is related for the assets funded by the investment account holders and other similar participatory stakeholders.
- BC33 The board rejected the idea of one time allocation to the shareholders because it will be against the credit, market and equity investment risks related to these balances relating to their owners in line with Shari'ah.
- BC34 The board discussed suitability of, and decided that, the cumulative charge attributable to participatory stakeholders, including unrestricted investment account holders related to previous periods, shall be adjusted with an allocation from the respective IRR with due Shari'ah approvals. The justification is that the IRR is created to serve the same purpose for which these allowances are being created and accordingly, maintaining such a reserve and additionally requiring an allowance to be recorded would be a double burden on the respective stakeholders.
- BC35 The board discussed that there would still be situations where there will be a shortfall i.e., the IRR will not be sufficient for the purpose, and decided that an allocation to a shortfall of allowance may be made from the PER with due Shari'ah approvals. The Board was of the view that the objective of PER is to maintain the rate of return and if it is not utilized the rate

of return to the stakeholders might be significantly impacted and hence, it is better to adjust the same as a one-time adjustment.

- BC36 The board further discussed that certain institutions do not maintain IRR and / or PER or maybe still there can be a shortfall against total allowance required (or in some situations there might be some regulatory or Shari'ah based prohibition to transfer the reserves for this purpose). After deliberating on various options available, the board decided that taking guidance from the concept of optional Qard Hasan in Takaful as analogous under Shari'ah, a temporary transfer with due Shari'ah approval may be made from shareholders' equity to be recoverable from income of such class of stakeholders within a reasonable period. The board considered that the reasonable period in this respect would be in line with the maturity of respective assets and the same shall be duly specified in the approval from the relevant Shari'ah board.
- BC37 The board further evaluated and decided that the temporary transfer from shareholders equity, in no case, shall be against a stage-3 loss (i.e., the loss where a default has already occurred) or any other form of incurred loss, as this would be tantamount to a guarantee of the capital and taking of the actual losses by the Mudarib, which is against the basic principles of Shari'ah in this respect.
- BC38 Lastly, with regard to any reversals of charge related to previous periods in a subsequent period, the board decided that the same shall be attributed to respective reserve (i.e., IRR or PER) or shareholders' equity from where it was originally allocated.

Appendix C: Brief history of the preparation of the standard

- H1 AAOIFI is part of International Accounting Standards Board (IASB) consultative group on Shari'ah-compliant instruments and transactions. On 19 Jumada II 1436H, corresponding to 9 April 2015, AAOIFI hosted, in participation with IASB, a workshop of the experts and active parties in the international Islamic finance industry to discuss the matters that the Islamic financial institutions may have to deal with when applying the International Financial Reporting Standard No. 9 (IFRS 9) (Financial Instruments) for the preparation of their financial reports. AAOIFI prepared a paper including some observations and suggestions about (IFRS 9), some of which were accepted by IASB.
- H2 The 2nd meeting of the board was held on 25-26 Shawwal 1437H, corresponding to the 30-31 July 2016 at Al Baraka Banking Group, Bahrain Bay, Kingdom of Bahrain. In this meeting the board discussed the broad scope of the project.
- H3 The working group held its 1st meeting on 4 Dhul-Hijjah 1437H, corresponding to 6 September 2016 at AAOIFI office, Nakheel Tower, Seef District, Kingdom of Bahrain. In this meeting, the board agreed to change the name of 'Impairment and expected credit losses' project to 'Accounting for impairment and loss allowances'. The members also agreed to use the term "loss allowances" for all kind of losses recorded against assets and receivables. They also agreed to hold a workshop in December 2016 in Jordan.
- H4 AAB held its 3rd meeting on 22-23 Dhul-Hijjah 1437H, corresponding to the 24-25 September 2016 at AAOIFI head office, Kingdom of Bahrain. In this meeting, the board discussed in the consultation notes and agreed to let the working group finalize them and present the resolutions in the next meeting.
- H5 The 2nd working group meeting was held on 4 Rabi I 1438H, corresponding to 4 December 2016 at AAOIFI head office, Kingdom of Bahrain. In addition, they reviewed and finalized the plan for Jordan's workshop and decided to raise Shari'ah issues related to reserves in the workshop.
- H6 A workshop was held in the headquarters of Jordan Islamic Bank in Amman, Jordan on 15 Rabi I 1438H, corresponding to 14 December 2016. The attendees agreed on and incorporated changes to the standard outline.
- H7 The 3rd meeting of the working group was held on 16 Rabi I 1438H, corresponding to 15 December 2016 at headquarters of Jordan Islamic Bank in Amman, Jordan. It was agreed to name the standard: "Impairment and Credit Losses" as credit losses cover current and expected losses. In addition, the members agreed to that the standard shall provide accounting treatment for IRR that may be accounted for under transitional provisions of this standard. Finally, the board agreed on the standard outline as follows:
- a. first: recognition and measurement: shall be in line with FAS 25 "investments in Sukuk, shares and similar instruments" and the respective product standards;
 - b. second: derivatives: shall be in line with the new AAOIFI's project on Wa'ad and Khiyar;

- c. third: impairment and loss allowances: covered in this standard; and
 - d. fourth: presentation and disclosure: shall be in line with FAS 1 “General Presentation and Disclosure in the Financial Statements of Islamic Banks and Financial Institutions” which will be revised.
- H8 AAB held its 4th meeting on 17-18 Rabi II 1438H, corresponding to the 15-16 January 2017 at the premises of Islamic Development Bank (IDB), Jeddah, Kingdom of Saudi Arabia. In this meeting, the main areas discussed included the broad classifications of Islamic financing and investment assets; the IRR and PER and the members agreed on the scoping of the standard. The board agreed for a separate standard for Reserves to be commenced shortly with an expected implementation date to be the same of this standard.
- H9 AAB held its 5th meeting on 20-21 Jumada II 1438H, corresponding to 18-19 March 2017 at AAOIFI head office, Kingdom of Bahrain. In this meeting, AAB reviewed the draft of the standard developed by the secretariat in line with the guidance of the working group and AAB’s earlier views. AAB approved the standard in principle and advised the secretariat to make necessary changes as identified by AAB and to document the basis of conclusion in line with the guidance of AAB, and after a review by the working group, to issue the exposure draft for comments and public hearings. The exposure draft was issued on 25 Dhul-Qa’dah 1438H, corresponding to 17 August 2017.
- H10 Comments were received on the exposure draft from different industry participants and a public hearing was held in Manama, the Kingdom of Bahrain on 11 Safar 1439H, corresponding to 31 October 2017. A working group meeting was held on 12 Safar 1439H, corresponding to 01 November 2017 to discuss and conclude on the comments received on the exposure draft and during the public hearing event. After due deliberation, the working group forwarded the standard with its recommendations to the AAB for approval by circulation. Committee of the Shari’ah board for review of accounting and governance standards also deliberated on the standard in its meeting held on 28 Safar 1439H, corresponding to 17 November 2017. AAB through a resolution by circulation, approved the standard after incorporating all changes on 4 Rabi I 1439H corresponding to 22 November 2017.
- H11 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.