[Exposure Draft (F2/2019) v9.0 of the]

Financial Accounting Standard __

General Presentation and Disclosures in the Financial Statements of Islamic Banks and Financial Institutions (Revised 2020)

Contents

AAOIFI Financial Accounting Standard __ *"General Presentation and Disclosures in the Financial Statements of Islamic Banks and Financial Institutions" (Revised 2020)* is set out in paragraph 01-166. All the paragraphs have equal authority. The revised Conceptual Framework for Financial Reporting is an integral part of AAOIFI accounting standards, therefore this standard shall be read in its context.

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 in respect of such products and matters.

Preface

PR1 The AAOIFI Accounting Board (AAB/ the Board) is in constant endeavor to make the financial statements of institutions transparent, fair, understandable and comparable. The objective is to align the accounting treatments and the reporting requirements of Islamic finance institutions (the institution) to the maximum possible extent with the generally accepted accounting principles.

PR2 The Board agreed to revise the AAOIFI Financial Accounting Standard (FAS) 1 “General Presentation and Disclosure in the Financial Statements of Islamic Financial Institutions” and AAOIFI “Conceptual Framework for Financial Reporting by Islamic Financial Institutions” (the conceptual framework) in their first meeting held in 2016. However, the Board put the revision on hold, until the standards identified in the “AAOIFI Financial Accounting Standards (FAS) Review and Revision Project”, where the standard to be issued or revised as the case may be, on priority basis are complete. This was concluded as these would have an impact on the reporting requirements prescribed in FAS 1.

PR3 The Board understands that the Islamic banking 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 necessitates that FAS 1 is revised to conform to the reporting requirements prescribed in the newer FASs. The revised 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 FAS 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 of Islamic Banks and Financial Institutions” improves the accounting treatments prescribed in line with the global best practices and supersedes the existing FAS 1.

IN2 The revision of FAS 1 is in line with the modifications made to the AAOIFI “Conceptual Framework for Financial Reporting by Islamic Financial Institutions” (the conceptual framework). The Board will also revise the illustrative financial statements that will accompany FAS 1. The illustrative financial statements will not be part of the standard and instead be issued separately.

Rationale for issuing this standard

IN3 The Board released a number of new FASs in the recent years and has observed that the definitions and treatments prescribed in the newly issued FASs may not completely align with the reporting requirements prescribed in the existing FAS 1. Consequently, the Board included the revision of FAS 1 and revision of the conceptual framework 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 relevant and timely to revise both standards simultaneously, to ensure consistency in presentation and treatments.

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

Significant changes from previous standard

IN6 This standard (FAS __) brings significant changes from its predecessor standard (FAS 1), 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 FASs. However, the Board clarifies that the conceptual framework is not a standard in itself and cannot override any requirement of a FAS;

b. definition of quasi-equity is introduced as a broader concept that will include the ‘unrestricted investment accounts’. Similarly, the wider term of ‘off-balance-sheet assets under management’ is now being used, instead of ‘restricted investment accounts’. 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 for cash and cash equivalents, income, and Ijarah to align them with the recently issued FASs;

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 financial 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 that are not using AAOFI FASs;

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. However, departure from Shari'ah rules and principles is prohibited;

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

i. disclosures for related parties, subsequent events and going concern has been improved.

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AAOIFI Financial Accounting Standard ___
General Presentation and Disclosures in the Financial Statements of Islamic Banks and Financial Institutions (Revised 2020)

Objective of the Standard

1. The Islamic financial institutions (the institutions 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 requirement for the content 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 institutions financial statements of previous periods, and the financial statements of other institutions.

Scope

2. This standard is applicable to the financial statements of IFIs desirous to prepare information for Shari'ah compliant products and services to meet the information needs of the users of such statements. These IFIs 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 other IFIs. This standard prescribes the primary statements and specific disclosures as applicable to Islamic banks and similar financial institutions. The requirements related to other types of institutions have been specified in their respective FASs (also see paragraph 25). However, in the absence of specific guidance in the respective FASs, requirements of this FAS shall apply to such institutions as well.
3. This standard is applicable to all institutions regardless of their legal form, country of incorporation, or size.
4. This standard is equally applicable to the entities that are presenting consolidated financial statements, or the stand alone or separate financial statements.
5. This standard does not apply to the structure and content of condensed or summarized financial statements prepared for interim financial reporting.
6. Any entity, other than Islamic Financial Institutions, operating on a Shari'ah compliant basis may apply this standard, insofar as it is considered suitable.

Definitions

7. 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 that provides the institution with a future economic benefit;

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

c. 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 withdrawals by quasi-equity holders;

d. Historical cost – the purchase price or the cost of acquisition of an asset plus any other expenses incurred by the Islamic bank; e.g. customs duties and other taxes on purchases, transport and loading charges, insurance and any other expenses directly related to the available goods;

e. Ijarah – is a contract, or part of contractual arrangement, that transfers the usufruct of an asset (the underlying asset) for a period of time in exchange for an agreed consideration, from a lessor (the owner of the underlying asset) to a lessee. It has three major elements:

    i. a form – which includes an offer and an acceptance;

    ii. two parties – a lessor and a lessee; and

    iii. the object of the (Ijarah) contract – which includes the rental amount and the service benefit;

f. Income – is as defined under paragraph 15;

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

h. Istisna'a – it is a sale contract between Al-Mustasni' (the buyer) and Al-Sani'(the seller), whereby Al-Sani' - based on an order from Al-Mustasni'- undertakes to have manufactured or otherwise acquire Al-Masnoo' (the subject matter of the contract) according to the specifications and sell it to Al-Mustasni' for an agreed upon price and method of settlement whether that be at the time of contracting, by instalments or deferred to a specific future time. It is a condition of the Istisna'a contract that Al-Sani' shall provide either the raw material or the labor;

i. Liability – is a present economic obligation (legal or constructive) other than quasi-equity, that is enforceable against the institution resulting in outflow of economic resources. Liabilities result from past transactions, other events or conditions. A future commitment is not considered a present obligation for the purpose of this definition;

j. Mudaraba – is a partnership in profit between capital and work. It is conducted between investment accountholders as owners of capital and the Islamic bank as a Mudarib. The Islamic bank announces its willingness to accept the funds of investment amount holders, the sharing of profits being as agreed upon between the two parties and the losses being borne by the owner of funds except if they were due to misconduct, negligence or violation of the conditions agreed upon by the Islamic bank. In the latter cases such losses would be borne by the Islamic bank. A Mudaraba contract may also be concluded between the Islamic bank, as a provider of capital on behalf of itself or on behalf of investment accountholders, and business owners and other craftsmen, including farmers, traders etc. A Mudaraba cannot include market operations undertaken for purely speculative purposes, which are a form of gambling;

k. Murabaha – is sale of goods with an agreed upon profit mark-up on the cost. This could be on a spot basis or deferred payment basis;

l. Musharaka – a form of partnership between the Islamic bank and its clients whereby each party contributes to the capital of partnership in equal or varying degrees to establish a new project or share in an existing one, and whereby each of the parties becomes an owner of the capital on a permanent or declining basis and shall have his due share of profits. However, losses are shared in proportion to the contributed capital. It is not permissible to stipulate otherwise;

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

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

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

   ii. certain characteristic of a liability i.e. it has a maturity or a put option of redemption; and

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

o. Salam – purchase of a commodity for deferred delivery in exchange for immediate payment according to specified conditions or sale of a commodity for deferred delivery in exchange for immediate payment;

p. 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

q. Zakah – is a religious responsibility on a Muslim which becomes due in certain types of wealth, and disbursable to specific categories of recipients in respect of the current annual period. Subject to different institutions' legal environment, it may be an expense to the institution or an obligation of the individual stakeholders.

Confirmation of compliance with AAOIFI FASs

8. The financial statement shall include an explicit statement confirming compliance that AAOIFI FASs have been followed while preparation of financial statements, in their entirety.

9. 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 paragraph 31).

Elements of financial statements

10. 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

11. An asset is a present economic resource controlled by an institution, as a result of a past transaction, other event or conditions, that provides the institution with a future economic benefit.

Liabilities

12. Liability is a present economic obligation (legal or constructive) other than quasi-equity, that is enforceable against the institution resulting in outflow of economic resources. Liabilities result from past transactions, other events or conditions. A future commitment is not considered a present obligation for the purpose of this definition.

Quasi-equity

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

    b. certain characteristic 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 business or assets and not on the whole of the institution, as well as, they do not have certain rights associated only with owners' equity.

Owners' equity

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

[Explanation: 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; and

   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

15. Income depicts:

a. the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity 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 items.

16. Income as a result of transfer of goods or services shall be recognized 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, and the payments 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 the same pattern of transfer;

c. determine the transaction price to which the institution expects to be entitles 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. recognize revenue when (or as) the entity satisfies a performance obligation and passes off the control, either at a point in time, or over a period of time.

17. The institution recognizes income over time if one of the following criteria is met:

a. the customer simultaneously 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 entity and the entity has an enforceable right to payment for performance completed to date.

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

19. To be considered as income, the gross increases in assets or the gross decreases in liabilities shall not be the result of investment by, or distribution to owners, or investment or withdrawals by quasi-equity holders.

Expenses

20. Expenses (including losses) represent gross decrease 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.

Complete set of financial statements for Islamic banks and other similar institutions

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

22. The complete set of financial statements for Islamic banks and other similar institutions shall include the following:

a. Statement of financial position as at the end of the 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 23);

c. Statement of income and attribution related to quasi-equity;

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; and

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

23. 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.

24. The sources and uses of funds in the Zakah and charity fund, and the sources and uses of funds in the Qard fund shall be disclosed in a separate note to the financial statement, or as prescribed in the generally accepted accounting principles as applicable in the jurisdiction of the institution.

25. Institutions requiring special considerations, such as Takaful, Waqf, collective investment schemes and investment funds etc. shall refer to their respective FASs for preparation of financial statements. These entities may replace certain statements referred in paragraph 22 or provide additional statements according to the requirements of the respective FASs.

Corresponding figures

26. 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.

27. Information, at a minimum, for two periods shall be provided in each of the financial statements referred in paragraph 22.

28. 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 27, if:

a. an accounting policy is retrospectively applied to restate or reclassify items in the financial statements; 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.

True and fair presentation

29. 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, events and conditions in line with the definitions and recognition criteria of assets, liabilities, quasi-equity, income and expenses set out in the conceptual framework.

30. 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 8. Compliance shall assume to occur if the institution is unable to comply with certain requirements of FASs due to local laws and regulations.

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

32. In case of departure described in paragraph 31, 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.

33. The departure described in paragraph 31 shall not be made on any of the Shari'ah principles and rules and shall require a consent from the Shari'ah supervisory board of the institution.

Accounting policies and estimates

34. Accounting policies are the specific principles, bases, conventions, rules, methods and practices of recognition, valuation and measurement that are adopted by the institution's management for the preparation and presentation of the financial statements.

35. 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.

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

    a. not in accordance with AAOIFI FAS;

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

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

37. 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.

Significant accounting policies

38. 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 (e.g. the depreciation method used);

    b. the accounting policies adopted by the management of the institution for revenue, 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 and their equivalents, off-balance-sheet assets under management or their equivalent 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.

39. 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 or estimate and correction of error

40. 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.

Treatment of changes in accounting policies

41. 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 and events compared to similar transactions and events in the past;

b. the adoption of a new accounting policy because of transactions or events 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 comparative purposes, shall be reclassified to conform to their current classifications.

42. The balance of retained earnings at the beginning of the first period presented shall be adjusted to reflect the cumulative effect of the change on the prior periods which are not presented.

43. If the data necessary for restating one or more of the prior periods financial statements is not available or not practicable to obtain, retained earnings as of the beginning of the current or a prior period, as appropriate, shall be restated to reflect the cumulative effect of the change in the accounting policy on the prior periods which are not restated.

44. 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

45. 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

46. 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.

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

48. 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.

Disclosure requirements

49. 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.

50. 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 comparative purposes; and

        iii. the effects on retained earnings as of the beginning of the first period shall also be presented for comparative 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 financial statements, including:

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

        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.

51. The effect of the change in an accounting policy on 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 requirements and Shari'ah approval

52. Any adjustment made to the current year balances due to a prior year event, transaction or condition shall be made after approval of the institutions Shari'ah supervisory board.

53. The effects on change in accounting policy or correction of an error 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 years.

54. The institution shall present a third balance sheet in cases where requirements of paragraph 28 are being met.

55. Where the Shari'ah principles and rules are not available, the management will assume constructive liquidation with creation or charge to a reserve. If the adjustment relates to impairment or loss to investments, 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, as a negative balance to respective equity.

Presentation and disclosure in financial statements for Islamic banks and similar financial institutions

56. Financial statements shall faithfully present the financial position, financial performance and cash flows of the institution.

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

58. Based on the nature of the institution, it might be relevant to distinguish the asset and liabilities between current and non-current, where current is within 12 months. A banking institution that provides additional information regarding its liquidity position, may decide not to adopt this classification, as similar information is provided elsewhere in the notes.

Statement of financial position

59. 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 and its equivalent, 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 Shari'ah requirement or legally enforceable right for the set-off;

    d. significant items of assets, liabilities, quasi-equity and its equivalent 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 its equivalent accounts, and owners' equity; and

    h. assets and liabilities shall not be classified between current and non-current (also see paragraph 58).

60. 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 Islamic bank and quasi-equity accountholders, and those exclusively financed by the institution:

a. cash and cash equivalents, distinguishing between cash in hand, balance with Central bank and capital deposits with Central Bank;

b. amounts due from banks and financial institutions;

c. interbank investments;

d. receivables from sale of commodities distinguishing between products such as Murabaha, Salam, and Istisna'a;

e. Ijarah Muntahia Bittamleek and Ijarah receivables;

f. assets purchased for Ijarah purposes;

g. Mudaraba investment;

h. Musharaka investment;

i. Investment securities;

j. Investments in other entities;

k. Inventories (including goods purchased for Murabaha customers prior to consummation of Murabaha agreement);

l. Investment in real estate;

m. Wakala Bi Al-Istithmar (on net basis);

n. other investments with disclosure of their types;

o. fixed assets with disclosure of significant types and related accumulated depreciation; and

p. other assets with disclosure of significant types.

61. The net realizable value of an asset shall be disclosed if such value is less than the asset's carrying value. However, expected losses shall be recognized only when they are reasonably measurable.

62. 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.

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

a. allowance or provision charged to the statement of income during the period segregating the amounts between quasi-equity and owners' equity;

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.

64. Disclosure shall be made in the statement of financial position or the notes to the financial statements of the following liabilities:

a. due to institution and other banks;

b. Qard and similar accounts, with separate disclosure of each category of account;

c. inter-bank Wakala;

d. customers' Wakala;

e. Salam payable;

f. Istisna'a payable;

g. declared but undistributed profits;

h. Zakah obligation, distinguishing between legal and voluntary;

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

j. other payable.

65. Quasi-equity accounts or their equivalents, shall be disclosed and presented in the statement of financial position as a separate item between liabilities and owners' equity.

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

67. Disclosure shall be made in 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. Tier 1 equity, represented by 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);

d. Tier 2 equity, if it meets 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 be callable by the issuer for at least five years and only if they are replaced by Tier 2 equity of same characteristics;

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

f. 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;

g. number of treasury shares held by the institution;

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

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

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

Statement of comprehensive income

69. The institution may choose to prepare one statement for comprehensive income, including the statement of income and the other comprehensive income, presented in two distinct sections. Alternately, the institution may choose to prepare statement of income, and a separate statement presenting comprehensive income.

70. 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. investment revenues, expenses, gains and losses shall be disclosed by type; and

    c. the nature of material revenues, expenses, gains and losses from other activities shall be disclosed.

71. To the extent applicable, the following information shall be disclosed in the income statement with separate disclosures for investment revenues, expenses, gains and losses that are jointly financed by the institution and quasi-equity accountholders, and those exclusively financed by the institution:

    a. revenues and gains from investments, financing and sales;

    b. expenses, provisions and losses from investments and sales;

    c. income (loss) from investments and sales;

    d. share of quasi-equity accountholders in income (loss) from investments before the institution's share as a Mudarib;

    e. the institution's share in income (loss) from investments and sale;

    f. the institution's share from quasi-equity investment income as a Mudarib;

    g. the institution's share in profits from off-balance-sheet assets under management as a Mudarib;

    h. the institution's fixed fee as an investment agent for off-balance-sheet assets under management;

    i. other revenues, expenses, gains, and losses;

    j. general and administrative expenses;

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

    l. Zakah;

    m. taxes (current and deferred) (to be separately disclosed); and

    n. net income (loss).

72. The Zakah base shall be disclosed whenever the institution is obligated to pay such Zakah on behalf of all owners.

73. The other comprehensive income shall include estimated gains and losses from the revaluation of assets and liabilities, including the general principles used by the institution in the revaluation of assets and liabilities.

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

Statement of income and attribution related to quasi-equity

75. 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 bank and the quasi-equity account holders and their equivalents shall be disclosed;

    b. disclosure shall be provided whether the bank is acting as a Mudarib, partner or agent (if Wakala investments are kept on-balance-sheet in line with relevant FAS);

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

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

Statement of changes in owners' equity[1]

76. The period covered by the statement of changes in owners' equity or the statement of retained earnings shall be disclosed.

77. 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 with separate disclosure of the amount of estimated earnings resulting from the revaluation of assets and liabilities, where applicable;

    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 with separate disclosure of the estimated amount of retained earnings resulting from the revaluation of assets and liabilities, where applicable.

78. The statement of retained earnings shall disclose the following:

    a. retained earnings at the beginning of the period with separate disclosure of the amount of estimated 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;

[1] or statement of retained earnings

d. distribution to owners during the period; and

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

Statement of cash flows

79. 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;

   b. the statement of cash flows shall differentiate between cash flows from operations, cash flows from investing activities and cash flows from financing activities; and

   c. the main components of each category of cash flows.

80. Cash flows from operations generally arise from the institutions regular business operations and indicates the ability to continue and grow the business operations. Cash flows from financing activities generally arise when owner of the institution provide or draw funds from the institution.

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

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

83. The institution’s policy with respect to the components of cash and cash equivalent 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

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

85. The statement shall segregate managed assets by source of financing (e.g. those financed by managed investment accounts, investment units in managed investment portfolios). In addition, the statement shall segregate investment portfolios by type.

86. 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 investments, 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;

   c. deposits received or investment units issued by the institution during the period;

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

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

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

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

h. the balance of managed investments at the end of the period with separate disclosure of the portion of the balance resulting from the revaluation of managed investments, 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.

87. Notes to the statement of changes in off-balance-sheet assets under management shall disclose the following:

a. the nature of the relationship between the Islamic bank 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.

Disclosures for sources and uses of funds in the Qard fund

88. The sources and uses of funds in the Qard fund shall be disclosed in the notes to the financial statements.

89. The period covered by the note for sources and uses of funds in the Qard fund shall be disclosed.

90. The balances of Qard outstanding and funds available at the beginning of the period shall be disclosed by type.

91. The amounts and sources of funds contributed to the fund during the period shall be disclosed by source.

92. The amounts and uses of funds during the period shall be disclosed by type.

93. The balances of Qard outstanding and funds available at the end of the period shall be disclosed.

General presentation

Basic information

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

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

a. the name of the Islamic Financial Institution;

b. the country of incorporation;

c. formation date and legal form;

d. location of headquarters and number of branches in each country where the institution operates;

e. the nature of the activities the bank is authorized to carry out by its charter and the major banking services it provides;

f. the names of the institution's subsidiaries whose financial statements are consolidated with those of the bank, the countries of their incorporation, the institution's ownership percentage in each subsidiary and the nature of their activities;

g. the names of the institution's subsidiaries whose financial statements are 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 the reasons for excluding their financial statements from the consolidated financial statements of the institution;

h. the name of the holding company and the names of other affiliates of the institution. An institution is considered an affiliate of another if they are controlled by an entity that owns not less than 51 percent of the shares of each entity;

i. the role of the Shari'ah supervisory board in supervising the institution's activities and the nature of the adviser's or board's authority in accordance with the institution's by-laws and in actual practice;

j. the agency responsible for supervising the institution's activities and the agency responsible for supervising the holding company;

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

l. 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;

m. 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";

n. 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;

o. the institution's responsibility towards Zakah; and

p. the tax treatment of the institution in the country of incorporation and in other countries where the institution has operating branches. If the institution enjoys a tax holiday in the country of incorporation and in other countries, the period of the tax holiday and the remaining period thereof.

Disclosures for sources and uses of funds in Zakah

96. The disclosure for sources and uses of fund in Zakah shall be provided as a note to financial statements.

97. The note shall disclose the period covered by the sources and uses of funds in the Zakah fund.

98. The disclosure shall distinguish between the Zakah obligation of the institution, and the voluntary obligation assumed by the institution, if any.

99. The disclosure shall also distinguish the Zakah collected on behalf of customers as an agent for subsequent disbursement according to Shari'ah requirements.

100. Disclosure shall be made of the funds paid by the Islamic bank from the Zakah and charity fund during the period and of funds available in the fund at the end of the period.

Disclosures for sources and uses of funds in charity fund

101. The disclosure for sources and uses of funds in charity fund shall be provided as a note to financial statements.

102. The note shall disclose the period covered by the sources and uses of funds in the Charity fund.

103. Disclosure shall be made of the funds paid by the Islamic bank from the charity fund during the period and of funds available in the fund at the end of the period.

104. Other sources of inflows to the charity shall be disclosed separately.

Currency

105. Functional currency is the primary currency for the economic environment in which the institution operates. Whereas, the financial statements are presented in presentation currency.

106. The financial statements shall disclose the presentation currency used for measurement, if not otherwise evident from the contents of the financial statements.

107. A transaction in a foreign currency shall be initially recorded at the rate of exchange applicable at the date of the transaction.

108. A foreign currency transaction shall be subsequently measured at rate of exchange applicable at the reporting date of monetary assets and liabilities.

109. 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.

110. 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 holders and the owners' equity holders, and those financed entirely by the owners' equity holders.

111. Paragraph 108 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 taken to the other comprehensive income.

Segment reporting

112. Segment information is to 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.

113. 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.

114. 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.

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

a. the segment’s revenue is 10% or more of the total revenue; or

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.

116. 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 comparative purposes.

Disclosure requirements for segments

117. Segment revenue 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.

118. The nature and items of any extraordinary items of segment revenue or expense shall be reported.

119. 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.

120. 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.

Risk management disclosures

Capital management

121. An institution is distinct from a conventional bank as some of its funding requirements are raised through quasi-equity accounts based on profit and loss sharing. The quasi-equity may show characteristics of equity and may be exposed to price or some other form of risk.

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

123. 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.

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

125. 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

126. The institution shall disclose information that enables users of its financial statements to evaluate the nature and extent of risks to which the entity is exposed, including credit risk, liquidity risk and risk arising from financial instruments.

127. The disclosure shall also include how the institution plans to manage the identified risks in paragraph 121.

128. 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 reporting period.

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

Prohibited transactions

130. The financial statements shall disclose the amount and nature of earnings that have been realized from sources or means that are not permitted by Shari'ah.

131. Disclosures shall also be made of the amount and nature of expenditures for purposes that are not permitted by Shari'ah.

132. The institution shall also disclose how it intends to dispose of the assets generated by the prohibited earnings or acquired through prohibited expenditures.

133. The institution shall disclose the amount marked for charity by its Shari'ah supervisory board.

Concentrations of asset risks

134. Disclosure shall be made in the financial statements of the magnitude of assets invested or deposited 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 banks or a financial institution, 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 and other investment account holders

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

136. 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.

Classification of assets

137. 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.

138. 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

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

140. 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

141. Disclosure shall be made in the financial statements of contingencies existing as of the balance sheet date including those resulting from the issuance of letters of credit or guaranty, documentary credit or similar instruments.

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

Subsequent events

143. Adjusting events are the 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.

144. The institution shall adjust the amounts to reflect the adjusting events in the financial statements.

145. Non-adjusting 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.

146. The institution shall not adjust the amounts to reflect non-adjusting events in the financial statement financial reporting period.

147. 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.

148. The disclosure shall be made after due consideration to regulatory requirements imposed by the supervisory agencies.

Restricted assets or assets pledged as security

149. Disclosure shall be made in the financial statements of the nature and amounts of any assets that are restricted for a particular use or marked as a collateral for the institutions obligations.

Allocation of profits

150. The financial statements shall disclose the method used by the institution to allocate investment profits (or losses) between quasi-equity accountholders, or their equivalent, and the institution acting as a Mudarib or as an investment manager, whether or not participating in the investments with its own funds.

151. Disclosure shall be made in the financial statements of the method(s) used by the institution to determine the share of quasi-equity accountholders 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.

Related party transactions

152. Related party transactions and outstanding balances 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.

153. Related parties mean the following:

a. members of the institution's board of directors, its external auditors, Shari'ah adviser or members of its Shari'ah supervisory board, its general manager (or equivalent) and his deputies (or equivalent);

b. relatives of those mentioned in paragraph 153(a) to the second degree when there is vested interest between the two parties;

c. any natural person, or relatives of the natural person to the second degree, or entity that directly or indirectly owns a significant holding (to be determined by the institution) of the institution's voting ownership units. Any change in the percentage used by the Islamic bank shall be disclosed;

d. any entity in which any person described in paragraph 153(a)(b) or (c), either directly or indirectly, owns the significant holding referred to in paragraph 153(c) of its voting ownership units, or is a member of its board of directors;

e. subsidiaries and other affiliates of the institution. An entity is considered an affiliate of another if both of them are controlled by a third entity that owns not less than 51 percent of the shares in each of the entity; 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 transaction

154. The institution shall adequate disclosures significant transactions with related parties in accordance to best practices and local regulation.

155. 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.

156. 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 etc.

Going Concern

157. The financial statements shall be prepared on the 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.

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

159. 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.

160. 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.

161. 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 of its obligations.

Authoritative status of the conceptual framework for the institutions

162. The revised conceptual framework is an integral part of the AAOIFI FASs.

163. All FASs shall be understood and interpreted in the context of the revised conceptual framework.

Hierarchy for selection and application of accounting policies

164. 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

165. This standard shall be effective on the financial statements of the institutions beginning on or after 01 January 2022. Early adoption of the standard is permitted.

Amendments to other standards

166. This standard supersedes the earlier AAOIFI FAS No. 1 “General Presentation and Disclosures in the Financial Statements of Islamic Banks and Financial Institutions".

APPENDICES

Appendix A: Adoption of the Standard

This standard was presented for the approval in the AAOIFI Accounting Board’s meeting No. ___ held on ______ corresponding to __________ and was duly approved.

Members of the Board

1. Mr. Hamad Abdulla Al Oqab – Chairman
2. Mr. Mohamed Bouya Ould Mohamed Fall – Deputy Chairman
3. Mr. Abdelhalim Elsayed Elamin
4. Dr. Abdulrahman M. Alrazeen
5. Dr. Bello Lawal Danbatta
6. Mr. Firas Hamdan
7. Mr. Hondamir Nusratkhujaev
8. Mr. Irshad Mahmood
9. Mr. Mohamed Ibrahim Hammad
10. Mr. Muhammad Jusuf Wibisana
11. Mr. Nader Yousif Rahimi
12. Dr. Saeed Al-Muharrami
13. Mr. Sulaiman AlBassam
14. Mr. Syed Najmul Hussain
15. Mr. Tarik Bolukbas

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. Haroon Shahban
8. Mr. Mohammed Hammad
9. Mr. Muzammil Kasbati
10. Mr. Noman Abass Sheikh
11. Mr. Sohail Sikandar
12. Dr. Zakir Hossen Shaikh

Executive team

1. Mr. Omar Mustafa Ansari (AAOIFI)
2. Mr. Mohammad Majd Bakir (AAOIFI)
3. Ms. Farida Cassim (AAOIFI)
4. Mr. Haroon Tabraze (Executive Assistant)
5. Ms. Merjan Abid (Executive Assistant)

Appendix B: Basis for conclusions

Basis of conclusions of the framework

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

Reason for revision of the standard

BC2 The AAOIFI Accounting Board (AAB/ the Board) in continued endeavors of improvement of existing financial reporting practices, began the process of reviewing and revisiting the primary objective of financial reporting by an institution. As a result, the Board decided in 2016 to review and revise current financial reporting practices of the Islamic finance industry along with revising the existing AAOIFI conceptual framework.

BC3 The project to revise FAS 1 “General Presentation and Disclosures in the Financial Statements of Islamic Banks and Financial Institutions" was initiated on a priority basis as the same was confirmed before the Board initiated the “AAOIFI Financial Accounting Standards (FAS) Review and Revision Project” in 2018. The project was designed in order to review all existing FASs and to revise them, if necessary. The Board also concluded that the revision of FAS 1 would be along with the revision of AAOIFI “Conceptual Framework for Financial Reporting by Islamic Financial Institutions”(the conceptual framework).

BC4 The Board discussed that the financial statements shall provide information about the institution’s compliance with the precepts of Shari’ah in its dealings and operations, and shall also provide information to assist in separating earnings and expenditures prohibited by Shari’ah, if any, and in verifying that prohibited earnings are spent on charitable purposes.

The statement of compliance and departure from AAOIFI FASs

BC5 The Board discussed the purpose and need to require an explicit statement of compliance. 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.

BC6 The Board concluded to allow departure, as situations may exist where management of an institution are able to make an assessment that compliance with the requirements in FAS 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, events and conditions. The Board also considered that the users would not be aware of any continuing effects of prior period departures and concluded that cases of any departure are done after management assessment and departure without disclosure would discourage the occasions of departure of convenience. It must be emphasized that departure although allowed shall not be made on any of the Shari’ah principles and rules unless with consent from the Shari’ah supervisory board of the institution.

New and improved definitions / terminology

BC7 The Board deliberated and agreed that terminologies should be consistently used across the different standards. It was decided that the term Islamic financial institution, or IFI, should be replaced by 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.

BC8 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.

BC9 The Board discussed the perception created when the term ‘financing’ is used in reference to a Murabaha, Musharaka and Mudaraba. It was agreed that Murabaha will be used with the term ‘receivable’, whereas the term ‘investment’ shall be used with both Musharaka and Mudaraba.

BC10 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.

Elements of financial statements

BC11 The Board discussed that 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.

BC12 The standard requires that financial statements shall disclose owners’ equity and distinguish it from quasi-equity or its equivalent. The previously used term 'unrestricted investment account' was modified with the term 'quasi-equity' as the Board felt that the new term conveys the nature of the account better, and the reader understands it to have both the characteristics of liability and equity.

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.

Complete set of financial statements

BC14 After detailed deliberations, the Board concluded that the required number of statements in a complete set of financial statements are to be reduced. Consequently, the disclosure of funds in the Zakah and Charity funds was relocated to the notes to the financial statements. The Board also agreed to make them two separate notes due to the differences in the nature of the transactions. Further, the sources and uses of the Qard fund was also agreed to be relocated as a note to the financial statement.

BC15 The Board discussed that public interest in reporting according to Shari'ah principles and rules is growing day by day, and entities apart from Islamic Financial Institutions are also adopting AAOIFI FASs for reporting purposes. Few entities like Takaful companies have specified FASs to follow, whereas a few other sectors may not have a specified FASs to follow as of now.

BC16 The Board decided to allow such organizations flexibility in defining a complete set of financial statements. It was decided that the complete set of financial statements described in FAS 1 shall be applicable only to Islamic banks and similar institution, and institutions having specified reporting requirements shall be allowed to follow their respective FASs. 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.

BC17 The Board discussed the usefulness of providing information relating to other comprehensive income, as the existing FAS 1 does not prescribe it. 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 required only in extremely rare cases, as it may have an adverse Shari'ah impact. Therefore, it was decided not to allow such an override on a matter relating to Shari'ah principles and rules. To ensure compliance with the Shari'ah, 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 FAS; or

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

c. 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 reporting period that has an effect on prior period's balances that have constructively liquidated at the end of the period and profits or loss distributed to the quasi-equity holders. Such an adjustment will have an impact in the prior year's balances but as the profits or losses have already been distributed to the quasi-equity holders, the current year balances would 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. In other cases, the charge could be to the profit equalization reserve, or the management may decide to create a special purpose reserve.

Currency, segment reporting and risk management

BC23 The Board discussed and agreed to include requirements and provisions related with currency conversions and segment reporting thereafter, the respective standards shall be considered to be withdrawn after issuance of the revised FAS 1.

BC24 The Board deliberated on the significance of segment reporting. 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.

BC25 It was also decided to consolidate the risk management provisions under a suitable heading and include them as disclosure requirements.

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 FAS1 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 to be withdrawn.

BC27 Financial accounting standard (FAS) ____ "First Time Adoption of AAOIFI Financial Accounting Standards" provides principles of financial reporting to be applied in the financial statements prepared for the first time according to the AAOIFI FASs, and prescribe the transitional effects arising at the time of adoption. The same supersedes the AAOIFI Accounting Guidance Note 1 "Guidance Note on First Time Adoption of AAOIFI Accounting Standards by an Islamic Financial Institution" and should be read together with AAOIFI Shari'ah Standard 6 "Conversion of a Conventional Bank to an Islamic Bank".

BC28 The Board discussed the authoritative status of the conceptual framework and decided that it should be included in 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.

Appendix C: Brief history of the preparation of the standard

H1 The newly formed AAOIFI Accounting Board (AAB) held its meeting No. 1on 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.

H2 The first working group on the revised standard was held 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 be closer to Shari'ah. Both revised standards will be done to reflect presentation and disclosure requirements in all newly issued FAS and additionally newer accounting needs that are not already addressed through any existing standards.

H3 The second working group meeting was held 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 FAS review and revision project. The two revised standards (FAS 1 and the conceptual framework) was 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 third working group meeting was held on 5 Rajab 1440H, corresponding to 12 March 2019. This meeting was a joint working group meeting with the AAOIFI FAS 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 FAS as well. The working group also agreed to give authoritative status to the conceptual framework by making it an appendix to FAS 1. Crucial decisions were made with regards to core principles to be incorporated in the revised FAS 1. In this meeting it was also decided that illustrative financials will be available and issued as a technical release duly approved by TAIC (Technical Advisory and Interpretation Committee).

H5 The AAB held its meeting No. 13 on 15 Rajab 1440H, corresponding to 22-23 March 2019 where the preliminary study including the Illustratives financials was presented. The Board agreed with the working group recommendations to issue the Illustratives financials 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 fourth working group meeting was held on 17 Ramadan 1440H, corresponding to 22 May 2019 which included the discussion of illustrative financials of the revised FAS 1. The extensive discussions concluded on the Illustrative financials and its components. The members consider needs to be incorporated in the illustrative financials, the exposure draft and vice versa.

H7 The initial exposure draft was presented at the fifth working group 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 exposure draft and illustrative financials was requested conclusions to be presented to the Board with its recommendations.

H8 The AAB held its meeting No. 14 on 24-25 Shawwal 1440H, corresponding to 28-29 June 2019. The agenda included the revision of FAS 1 illustrative financials for Board comments along with the presentation and review of the exposure draft on revised FAS 1. The presentation of the illustrative financials centered 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 was decided to be reviewed in a detailed working group meeting to be held at a later date.

H9 The fifth working group meeting was held 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 financials of revised FAS 1 after Board amendments.

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