

[Exposure Draft (F5/2019) v5.1]

Financial Accounting Standard __

Financial reporting for Zakah

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AAOIFI Financial Accounting Standard __ “Financial reporting for Zakah” is set out in paragraph 01-18. 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 FAS shall be read in conjunction with the definitions, Shari’ah rules and principles and key considerations provided by AAOIFI Shari’ah standards in respect of such products and matters, particularly AAOIFI Shari'ah standard 35 “Zakah”.

Preface

- PR1 Zakah is an important religious duty and one of the pillars of Islamic economic system. AAOIFI had issued Financial Accounting Standard (FAS) 9 “Zakah” to help streamline the application of different methods used by Islamic financial institutions (the institutions) in determining the Zakah base, the items included in determining this base, the measurement of these items and the different degrees of disclosure of such bases from one Islamic institution to another. The accounting treatment of Zakah affects the determination of the institution net income, which is an important indicator used by users of the financial statements in making their decisions. The importance of standardization of such practices cannot be undermined.
- PR2 The comprehensive revision of AAOIFI FAS 9 “Zakah” commenced in July 2016. The initial part of the project included the overall identification of issues in the existing standard and the need to provide specific guidance. Initial discussions identified major areas of accounting for Zakah that are not addressed in the existing standard and the revision was agreed to include a broader scope. This was also done keeping in view the additional accounting and computations related matters mentioned in the AAOIFI Shari'ah standard (SS) 35 “Zakah”.
- PR3 It is expected that the new standard will improve the overall accounting and financial reporting practices of the Islamic finance industry.
- PR4 This standard is to be read together with AAOIFI SS 35 “Zakah” and supersedes the earlier AAOIFI FAS 9 “Zakah”.

Introduction

Overview

- IN1 This standard improves upon and supersedes AAOIFI's Financial Accounting Standard (FAS) 9 "Zakah" issued previously. This standard aims at setting out the accounting treatment of Zakah in the books of an Islamic financial institution (the institution), including the presentation and disclosure in its financial statements.
- IN2 The revision significantly alters the structure of the standard whereby the accounting and financial reporting principles provided are applicable depending upon the institutions obligation to pay Zakah.
- IN3 Where an institution is not required by law or by virtue of its constitution documents to pay Zakah, it is still required to identify the amount of liability and disclose the same in respect of various stakeholders.

Rationale for issuing this standard

- IN4 The newly appointed AAOIFI Accounting Board (AAB / the Board), after its constitution in 2015, approved a strategy and plan for improvement in and revision of a number of existing FASs. The revision of AAOIFI FAS 9 "Zakah" was on the agenda and a broader scope revision was under consideration. This broader review scope included bringing consistency in various FASs and particularly with regard to the presentation and reporting of Zakah.
- IN5 A further review of AAOIFI FAS 9 "Zakah" and the preliminary study on the topic duly considering the above factors identified that there is need for improvement, as well as, for bringing consistency with the respective Shari'ah standard (and avoiding duplication with the same). In particular, the earlier standard, though being an accounting standard, was addressing certain aspects of computation for Zakah, which in absence of a Shari'ah standard were relevant. After the issuance of the Shari'ah standard by AAOIFI it was partially contradicting the earlier accounting standard, and at times considered redundant.
- IN6 Further review of AAOIFI FAS 9 "Zakah" and the preliminary study on the topic duly considering the above factors identified that there is need for improvement.

Significant changes from previous standard

- IN7 This standard (FAS ____) brings significant changes from its predecessor standard (FAS 9), inter alia, in the following aspects:
- the revised standard is primarily a presentation and disclosure standard and does not cover the computation and measurement;
 - the revised standard provides guidance on two main categories of institutions namely "institutions obliged to pay Zakah" and "institutions not obliged to pay Zakah";
 - the accounting and financial reporting requirements such as recognition, presentation and disclosure requirements of this standard shall apply to institutions that are obliged to pay Zakah on behalf of certain or all stakeholders. Institutions that are not obliged to pay Zakah

shall apply the disclosure requirements of this standard for certain or all stakeholders, as relevant;

- d. under the revised FAS, the recognition, presentation and disclosure requirements for Zakah shall apply to all relevant stakeholders (not limited to shareholders) such as participatory stakeholders, unit holders of various pools, Sukuk-holders etc.;
- e. general rulings of Shari'ah related to Zakah that are already covered in AAOIFI SS 35 "Zakah" are not reproduced in this FAS, including the computation guidance;
- f. this standard provides guidance on annual Zakah base specific to the institution which includes the net amount subject to Zakah on annual basis. The annual Zakah base for the purpose of this standard shall not apply to those items that are not subject to Zakah on an annual basis such as agriculture produce; and
- g. the revised standard provides the disclosures with regard to calculation of the Zakah base (see Appendix B) using the net asset methods on valuation of balances used to determine the Zakah base. Net Invested Funds method for determining Zakah base is not included as a method for determining Zakah base in the revised standard¹.

¹ AAB decided to shortly issue guidelines on computation of Zakah in line with the requirements of relevant Shari'ah standards (with due collaboration of AAOIFI Shari'ah board)

AAOIFI Financial Accounting Standard ____

(Exposure Draft F5/2019)

Financial reporting for Zakah

Objective of the standard

1. The objective of this standard is to establish the principles of financial reporting related to Zakah attributable to different stakeholders of an Islamic financial institution (the institution).

Scope

2. This standard shall apply to an institution with regard to recognition, presentation and disclosure of Zakah attributable to relevant stakeholders.
3. The standard does not specifically address the issues relating to the Zakah on certain produce, including agricultural produce, which according to Shari'ah is due on produce and not on annual basis. In respect of such Zakah, an institution shall develop its own accounting policy, shall make necessary disclosures with regard to the reconciliation of computation of Zakah and shall follow the requirements of this standard, insofar as, practicable.

Definitions

4. For the purpose of interpreting and applying this standard, the following short definitions are relevant:
 - a. Annual Zakah base – is the total net amount subject to Zakah at the end of an annual period (maybe, but not necessarily coinciding with the financial reporting date of an institution), but does not include the value of agriculture produce or any other produce which is not subject to Zakah on an annual basis;
 - b. Institutions obliged to pay Zakah – are such institutions that are required to pay Zakah on net assets pertaining to certain or all relevant stakeholders whereby one or more of the following conditions is / are met:
 - i. when the law requires the institution to pay the Zakah obligation;
 - ii. when the institution by virtue of its constitution documents is required to pay the Zakah obligation;
 - iii. when the general assembly of shareholders has passed a resolution requiring the institution to pay the Zakah obligation; or
 - iv. where the contract with certain stakeholders require the institution to pay the Zakah obligation.
 - c. Institutions not obliged to pay Zakah – are the institutions other than the institutions which are obliged to pay Zakah, and include institutions which are not responsible to pay Zakah on behalf of one or certain classes of stakeholders;
 - d. Realizable value – is the entity-specific value, at which the institution is able to sell the relevant asset (i.e. convert the asset in cash);
 - e. Relevant stakeholder (for Zakah purposes) – includes but not limited to all those who provide capital in different capacities such as shareholder, participatory stakeholders etc.;

- f. Zakah – is a right (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 institution's legal environment, it may be an expense to the institution or an obligation of the individual shareholders or other stakeholders;
- g. Zakah asset – is the amount paid as Zakah over and above the Zakah expense recognized in the Income statement as well as excess Zakah paid through adjustment to equity for the current and prior years;
- h. Zakatable assets – are those assets that are subject to Zakah in line with the Shari'ah requirements on an annual basis;
- i. Zakah liability – is the unpaid amount of current and prior years Zakah due; and
- j. Zakah rate – is the rate applied to Zakah base in order to calculate Zakah.

Institutions obliged to pay Zakah

Recognition of Zakah due

Recognition of Zakah as current expense

- 5. An institution obliged to pay Zakah by law or by virtue of its constitution documents shall recognize current Zakah expense in its financial statements in line with the requirements of paragraph 6.
- 6. Current Zakah expense or reversal thereof for the current and prior periods shall be recognized as expense (or reversal of expense) and included in profit or loss for the period, unless paragraph 7 applies.
- 7. Zakah expense or reversal thereof from a transaction (or related balance) which is recognized, in the same or a different period, outside profit or loss, either in other comprehensive income or directly in equity shall be included in the relevant statement.

Recognition of Zakah as adjustment to equity

- 8. Where Zakah is not required to be paid by law or by virtue of its constitution documents, and where the institution is considered as an agent to pay Zakah on behalf of stakeholders, any amount paid in respect of Zakah shall be adjusted with the equity of the relevant stakeholders.
- 9. In case of insufficient distributable reserves (available in equity) to meet the relevant stakeholders' Zakah obligations, the amount paid by the institution shall be recorded as receivable from respective stakeholders.

Recognition of Zakah liability

- 10. Current Zakah obligation shall be recognized as a liability in the statement of financial position of the institution.
- 11. If the amount already paid in respect of current and / or prior periods Zakah obligations exceeds the amount due for those period(s), the excess shall be recognized as an asset in statement of financial position of the institution.

Institutions not obliged to pay Zakah

- 12. In case where the institution is neither obliged to pay Zakah nor asked to act as an agent, the institution shall disclose the Zakah base and the amount of Zakah per share / unit for certain or all relevant participatory stakeholders for the current year.

Presentation and disclosure requirements

13. In addition to the presentation and disclosure requirements stated in AAOIFI FAS 1 “General Presentation and Disclosure in the Financial Statements of IFIs and Financial Institutions”, an institution shall disclose the following (as minimum disclosure requirements):
- a. the method used for determining the Zakah base, the items included in this base and its reconciliation thereof. Appendix B provides an illustrative disclosure for the same;
 - b. the relevant authoritative guidance (e.g. AAOIFI Shariah Standard (SS) 35 “Zakah”, regulatory requirements, or guidance from the institution’s Shari’ah supervisory board) used for determining such method shall also be disclosed, including the ruling of the Shari’ah supervisory board of the institution on the issues related to Zakah that are not included in this standard;
 - c. Zakah per share and per unit basis for each pool or category of investments whether it is paid by the institution or otherwise;
 - d. a reconciliation between the Zakah liability and expenses presented in the consolidated financial statements and those presented in its subsidiaries’ individual financial statements;
 - e. a statement as to whether or not the institution collects and pays Zakah on behalf of participatory stakeholders and other accounts;
 - f. in circumstances where Zakah paid to a single charity is more than 5% of total Zakah payable, the nature of such payment and details of the recipient shall be disclosed;
 - g. the difference between amount of Zakah as required by law and Zakah determined voluntarily (in line with the requirements of AAOIFI SS 35 “Zakah” and related guidance), if any;
 - h. the amount of Zakah that is due from the equity of participatory stakeholders;
 - i. the amount of Zakah allocated or paid for certain or all stakeholders;
 - j. where the institution has agricultural produce, the accounting policy of determining Zakah base of such produce along with the amount of Zakah due on the produce;
 - k. the Zakah due from the institution to the Zakah fund, as well as, amounts of Zakah received from other sources of funds shall be presented in accordance with AAOIFI FAS 1; and
 - l. any dispute between the institution and relevant Zakah authorities including the amount and period to which dispute belongs along with reasons of such dispute.

Zakah fund

14. Where the institution has established its Zakah liability, the same (with corresponding assets) shall be transferred to a Zakah fund immediately. Zakah fund shall be treated distinct and separate from the institution (similar to assets under management). Such assets shall not meet the definition of asset of the institution, and hence, shall not be available to the institution even in case of bankruptcy.
15. Where Zakah fund is invested, it shall be in accordance with a policy to be duly approved by the institution’s Shari’ah supervisory board, developed in line with Shari’ah principles and rules, particularly AAOIFI SS 35 “Zakah”².
16. The Illustrative disclosure in respect of “sources and uses of Zakah fund” is attached as Appendix C.

² Paragraph 2/2 of AAOIFI SS 35 “Zakah”.

Effective date

17. This standard shall be effective for the financial periods beginning on or after 1 January 2022. Early adoption is permitted.

Amendments to other standards

18. This standard supersedes AAOIFI FAS 9 “Zakah”.

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 _____ and was duly approved.

Members of the Board – approving the exposure draft

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. Mohamed Bouya Ould Mohamed Fall (Chairman)
2. Dr. Abdulrahman M. Alrazeen
3. Mr. Kamran Malik
4. Mr. Abdel Rahman Eltoum Ahmed Alkando

Executive team

1. Mr. Omar Mustafa Ansari (AAOIFI)
2. Mr. Mohammad Majd Bakir (AAOIFI)
3. Ms. Farida Cassim (AAOIFI)
4. Mr. Atif Rashid (Executive Assistant)

Appendix B: Illustrative disclosure of reconciliation of Zakah base³

Assets/ liabilities	Basis of valuation for accounting purposes (illustrative only)	Accounting carrying value (CU)	Basis of valuation for Zakah purposes	Value for Zakah purposes (CU)
Assets				
Cash and cash equivalents	Historical cost / fair value	xxxxx	Realizable value	xxxxx
Receivables	Par value less unamortized deferred profit – net of allowance for credit losses	xxxxx	Par value – net of allowance for credit losses	xxxxx
Mudaraba financing [if Zakah not being paid by the venture directly]	Historical cost less undistributed losses – net of allowance for impairment	xxxxx	Realizable value / realizable value of net assets subject to Zakah in the Mudaraba venture (preferred)	xxxxx
Musharaka financing [if Zakah not being paid by the venture directly]	Historical cost less undistributed losses – net of allowance for impairment venture (preferred)	xxxxx	Realizable value / Realizable value of net assets subject to Zakah in the Musharaka venture (preferred)	xxxxx
Salam	Par value	xxxxx	Par value	xxxxx
Istisna'a	Par value	xxxxx	Par value	xxxxx
Assets for trading	Lower of cost and net realizable value	xxxxx	Realizable value	xxxxx
Inventories	Lower of cost and net realizable value	xxxxx	Net Realizable value	xxxxx
Marketable securities	Fair value / amortized cost	xxxxx	Fair value	xxxxx
Real estate for sale	Fair value / historical cost less depreciation	xxxxx	Fair value	xxxxx
Real estate for rent / own use	Fair value / historical cost less depreciation	xxxxx	N/A	
Others	As per relevant FAS	xxxxx	Realizable value	xxxxx
Liabilities				
Current accounts	Book value = par value less repayments	xxxxx	Book value	xxxxx
Payables due to be paid during the next financial period	Book value = par value less repayments	xxxxx	Book value	xxxxx
Other liabilities due to be paid	Book value = par value less repayments	xxxxx	Book value	xxxxx
Provisions and constructive obligations	Fair value	xxxxx	N/A	
Total		xxxxx		xxxxx
Zakah computed @ __%				xxxxx
Other Zakah (if any)*				xxxxx
Total Zakah				xxxxx
Zakah Attributable to:				
• Shareholders (total & per share)				xxxxx
• Non-controlling interest				xxxxx
• Different classes of quasi-equity / participatory stakeholders				xxxxx
*other Zakah includes Zakah on assets not subject to normal Zakah (for example Zakah on certain animals, agricultural produce, mineral resources etc.				

³ Note: This is an illustrative disclosure of computation of Zakah base in the financial statements of an institution and shall not be construed as or confused with a computation guidance of Zakah applicable to an institution.

Appendix C: Illustrative disclosure of sources and uses of Zakah Fund

Sources of Zakah fund	Current year	Prior year
Balance as at 1 January	XXXXX	XXXXX
Zakah due from the institution	XXXXX	XXXXX
Zakah due from participatory stakeholders (including investment accountholders)	XXXXX	XXXXX
Voluntary Zakah	XXXXX	XXXXX
Total Zakah available for distribution	XXXXX	XXXXX
Uses of Zakah fund		
Zakah for the poor and the needy	XXXXX	XXXXX
Zakah for the wayfarer	XXXXX	XXXXX
Zakah for the heavily indebted and freedom of slaves	XXXXX	XXXXX
Zakah for the cause of Allah	XXXXX	XXXXX
Administration and general expenses - staff cost	XXXXX	XXXXX
Total uses	XXXXX	XXXXX
Increase (decrease) of sources over uses	XXXXX	XXXXX
Undistributed Zakah fund as at 31 December	XXXXX	XXXXX

*The Zakah fund is utilized by making contributions to organizations which are registered with the _____, namely _____.

Appendix D: Basis for conclusions

Reason for revision of the standard

- BC1 The AAOIFI Accounting Board (AAB / the Board) deliberated on the need for revision of AAOIFI Financial Accounting Standard (FAS) 9 “Zakah” in its revised AAOIFI strategy in 2015. AAOIFI FAS 9 “Zakah” was developed in 1998, while AAOIFI Shariah standard 35 “Zakah” was issued in 2009. Due to the significant time gap between the two standards, over the years several contradictions were identified and reported to the respective boards.
- BC2 In March 2018, AAB in its unwavering pursuit to develop comprehensive financial accounting standards for the global Islamic finance industry, initiated a project to revisit existing FASs. The project was designed to review and revise existing AAOIFI FASs, including detailed analysis of each standard and benchmarking against other comparable global standards and best practices to identify and recommend areas of improvement or a complete overhaul, if required. The need for the revision of AAOIFI FAS 9 “Zakah” was once again highlighted through the industry-wide survey conducted during the project (although the project for revision had already been initiated at that time).
- BC3 The initial preliminary study was developed to identify the areas that may require revisions based on existing gaps and industry practices and recommend limited improvements to the standard. During this phase, it appeared that the standard was obsolete on many accounts and limited improvements would not be sufficient. The Board concluded to significantly revise AAOIFI FAS 9 “Zakah” and issue a standard in line with the Shariah standard 35 “Zakah”, global good accounting practices and industry needs. A fresh round of consultation process was initiated with a broader view of improving the standards objective, scope and guidance to cater to the needs of the industry and possibly all relevant stakeholders for Zakah purposes.

Determination of the scope of the standard and its name

- BC4 AAOIFI FAS 9 “Zakah” provided guidance for shareholders only and was silent on Zakah implications on other stakeholders. In line with the new AAOIFI strategy for financial accounting standards setting, the Board decided that the revised standard shall be as close as possible to cater to the needs of the industry, duly addressing the specific Shari'ah requirements. Additionally, with the broader scope and lacking accounting treatments as per global good practices, the Board decided the scope would include recognition, presentation and disclosure requirements for shareholders as well as participatory stakeholders.
- BC5 The Board emphasized the name of the standard to reflect the scope, which is not about computing Zakah. The Board debated on managing industry expectations which is a standard on the calculation of Zakah and guidance clarifying the computation and presentation of Zakah in the financial statements for the different types of stakeholders in different countries.
- BC6 The Board debated if it was the right body to interpret and explain how Zakah should be computed. Financial reporting, presentation and financial statements primarily fall within the scope of the AAB. As for the computation, the Board concluded that only guidelines can be provided to the industry or

else it will overlap with the mandate of the AAOIFI Shari'ah Board. The Board agreed the name to reflect the scope and was changed to "Financial reporting for Zakah".

- BC7 The Board concluded that with regards to the specificities of the general rulings of Shari'ah related to Zakah such as ownership, Nisaab, Hawl are covered in "Conditions for Zakah obligations" paragraph 3/2 and "Applicable Zakah rate" in paragraph 3/3 of AAOIFI SS 35 "Zakah" and will not be reproduced in this FAS. AAOIFI SS 35 "Zakah" aims to identify Zakah base and indicate different types of Zakatable assets and liabilities and its allocations. The standard adequately defines Zakah rates, disbursements and rulings on its recipients.

Scope exclusions – Zakah on agriculture produce and minerals

- BC8 During discussions on the revised scope, the matter of Zakah on agriculture produce was considered. Various arguments were given to include and exclude Zakah on agriculture, minerals and related items along with valid reasons.
- BC9 The Board was of the view that the revised FAS is principally based on the annual Zakah balances at end of Hawl (Zakah year). Since Zakah on agriculture and minerals are based on 'produce' rather than annual balance, the Board decided to exclude Zakah on agriculture produce, minerals and related items from the scope.
- BC10 It was concluded that the standard shall not provide guidance on recognition and presentation of Zakah and any other type of Zakah that is not due on an annual basis rather due on production basis e.g. animal, produce or minerals. For such Zakah, the institution is required to disclose the accounting policy and provide a reconciliation of Zakah.

Measurement of Zakah

- BC11 The Board reevaluated and concluded that the revised FAS on Zakah would not provide measurement guidance on Zakah due, as this would be primarily a Shari'ah matter. The AAOIFI SS 35 "Zakah" already covers identifying the Zakah base for Islamic financial Institutions and indicate the different types of Zakatable assets and the liabilities and allocations that have to be deducted from them. The Shari'ah standard illustrate the payable Zakah rates and indicate the specific heads of Zakah disbursements.
- BC12 The Board debated that treatment may create a difference in Zakah as per AAOIFI and local jurisdiction requirements. In order to facilitate these stakeholders, the Board decided to add a disclosure requirement stating the difference in Zakah amounts that has been calculated and paid as per AAOIFI standard and any other criteria. This standard primarily deals with the disclosure and presentation in both situations of Zakah – when it is a legal requirement and when it is a voluntary requirement.
- BC13 The standardization of the methods and basis used by institutions to calculate Zakah and the disclosure of the same in the financial statements of the institution would help in providing useful information to users of financial statements. The importance of such information stems from the fact that in the cases where the institution is obliged to pay Zakah, the accounting treatment of Zakah affects the determination of the institutions' net income, which is an important indicator used by users of the financial statements in making their decision.

- BC14 During the course of discussions, the Board decided that shareholders shall not be responsible for Zakah of participatory stakeholders or any other stakeholder for that matter. Where an institution is obliged to pay Zakah on all or certain stakeholders, it shall disclose the amount on behalf of such stakeholders and the method used to determine them. This may or may not be equal to stakeholder's actual liability, hence the ultimate responsibility remains with the stakeholders themselves. However, if in a jurisdiction, it is required by law that the institution shall deduct and pay Zakah on behalf of such stakeholders, then the same shall be accounted for in line with the requirements of this standard.
- BC15 It is also understood that the creditors (including current account depositors) are not considered stakeholders for the purpose of this standard, as they do not enjoy ownership rights on the assets or certain assets of the institution.

Determination of Zakah base

- BC16 Previously AAOIFI FAS 9 "Zakah" provided two methods for Zakah determination based on net assets and net invested funds. However, the Shari'ah standard only provided the net assets method for determination of Zakah base of the institution. The Board decided to align the revised accounting standard with the AAOIFI Shari'ah standard where this FAS provides guidance on recognition, presentation and disclosure of Zakah based on net assets of the relevant stakeholders. Accordingly, the disclosure requirements for Zakah base are based on the net assets method only.

Bifurcation of institutions who are obliged to pay Zakah and who are not obliged to pay Zakah

- BC17 During the consultation phase it was noted that the standard should be applicable to most jurisdictions with minimal implications for the institutions. There are jurisdictions' where Zakah is a legal requirement and others where Zakah is not a legal requirement but certain or all stakeholders may appoint the institution to act as an agent for deduction of Zakah. In order to incorporate guidance based on most jurisdictions, the Board decided to bifurcate between institutions obliged to pay Zakah and those that are not obliged to pay Zakah.
- BC18 This standard provides separate guidance for "institutions obliged to pay Zakah" and "institutions not obliged to pay Zakah".
- BC19 For institutions obliged to pay Zakah, the revised accounting standard on Zakah provides guidance on how the institution shall identify, recognize, disclose and discharge the Zakah liability on net assets of certain or all stakeholders.
- BC20 Institutions that are not obliged to pay Zakah on net assets of certain or all stakeholders shall determine and disclose the Zakah obligation for each class of such stakeholders, separately.

Zakah due to be recorded in related statement

- BC21 In order to match the income and associated expenses of Zakatable assets, the Board decided that the related Zakah due shall be recorded in statement where the income and other expenses of such assets are recorded. This is particularly important for such assets whose gains and losses, otherwise, are not taken to the statement of income, as taking gains and losses outside of statement of income and keeping the expense in the statement of income may create a mismatch.

Expected cash value

- BC22 The previous standard on Zakah required trading assets to be valued at cash and cash equivalent value (market selling price). During the discussion, this term was considered inappropriate given the limited scope and a better term for the same was sought. The Board decided on using 'expected realizable value' which is an entity specific value and is better understood in the accounting terminology.

Sources and uses of Zakah

- BC23 During the revision of AAOIFI FAS 1 "General Presentation and Disclosure in the Financial Statements of IFIs and Financial Institutions" (for which exposure draft has been issued), it was decided that the statement of sources and uses of Zakah shall be moved to the notes to the financial statements, rather than being a primary statement. The Board, after due discussion decided to provide an illustrative disclosure as appendix to this revised FAS.

Zakah fund – assets under management but not controlled / owned

- BC24 The Board considered that the established Zakah liability and the related assets are no more in the ownership of (and control of) the institution. Accordingly, the established Zakah liability and corresponding assets shall be transferred to Zakah fund which will be distinct and separate from the institution (similar to assets under management). The Board decided that segregated Zakah funds (net assets of funds) shall not become part of overall asset of the institution even in case of bankruptcy.

Appendix E: Brief history of the preparation of the standard

- H1 The AAOIFI Accounting Board (AAB) first meeting convened on 6-7 Jumada II 1437H, corresponding to 15-16 March 2016 after due deliberation it was decided that more disclosure shall be added to the Zakah Standard in line with the Shari'ah Standard on Zakah.

- H2 The AAB held its meeting no. 6 on 21-22 Shawwal 1438H, corresponding to 15-16 of July 2017 where the comments of the consultation notes were discussed. It was concluded that the calculation of Zakah is a Shari'ah matter, therefore the standard should focus on recognition, presentation and disclosure.

- H3 The first working group meeting for the revision of the standard was held on 14 Rajab 1440H, corresponding to 21 March 2019 where the initial draft along with the detailed illustrative examples along with comparatives with the AAOIFI Shari'ah standard was discussed.

- H4 The second working group for the revision of the standard was held on 14 Muharram 1441H, corresponding to 13 September 2019 where the second draft was presented along with discussion on the timeline for the deliverables and way forward. The standard was agreed to be on agenda for the upcoming AAB meeting.

- H5 The AAB held its meeting no. 15 on 15-16 Muharram 1441H, corresponding to 14-15 September 2019. AAB discussed different aspects of the standard and finalized the scope and broad contents of the standard. It was also advised to the secretariat and the working group that the exposure draft of the standard shall be brought to the next Board meeting for finalization.

- H6 The third working group meeting was held on 17 Safar 1441H, corresponding to 17 October 2019 was held to discuss and finalize the draft standard. The working group in this meeting made necessary changes and recommended the draft to be presented to the upcoming AAB meeting, after incorporation of the changes suggested by the working group.

- H7 The AAB held its meeting no. 16 on 2-3 Rabi' I 1441H, corresponding to 31 October and 1 November 2019 where the exposure draft was presented with working group conclusions. After discussion the draft was principally approved for issuance.

- H8 After incorporating the AAB recommendations and the basis of conclusions and another round of review by the working group, certain observations from the working group was presented to the AAB in its meeting no. 18 held on 1-2 Dhul Qa'dah 1441H, corresponding to 22-23 June 2020.

- H9 The exposure draft, after incorporation of minor Board changes was issued on 17 Dhul Qa'dah 1441H, corresponding to 8 July 2020.