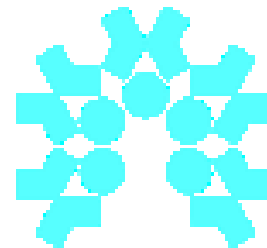


الجمعية المالية الإسلامية الإيرانية

Iranian Association of Islamic Finance



Islamic Accounting

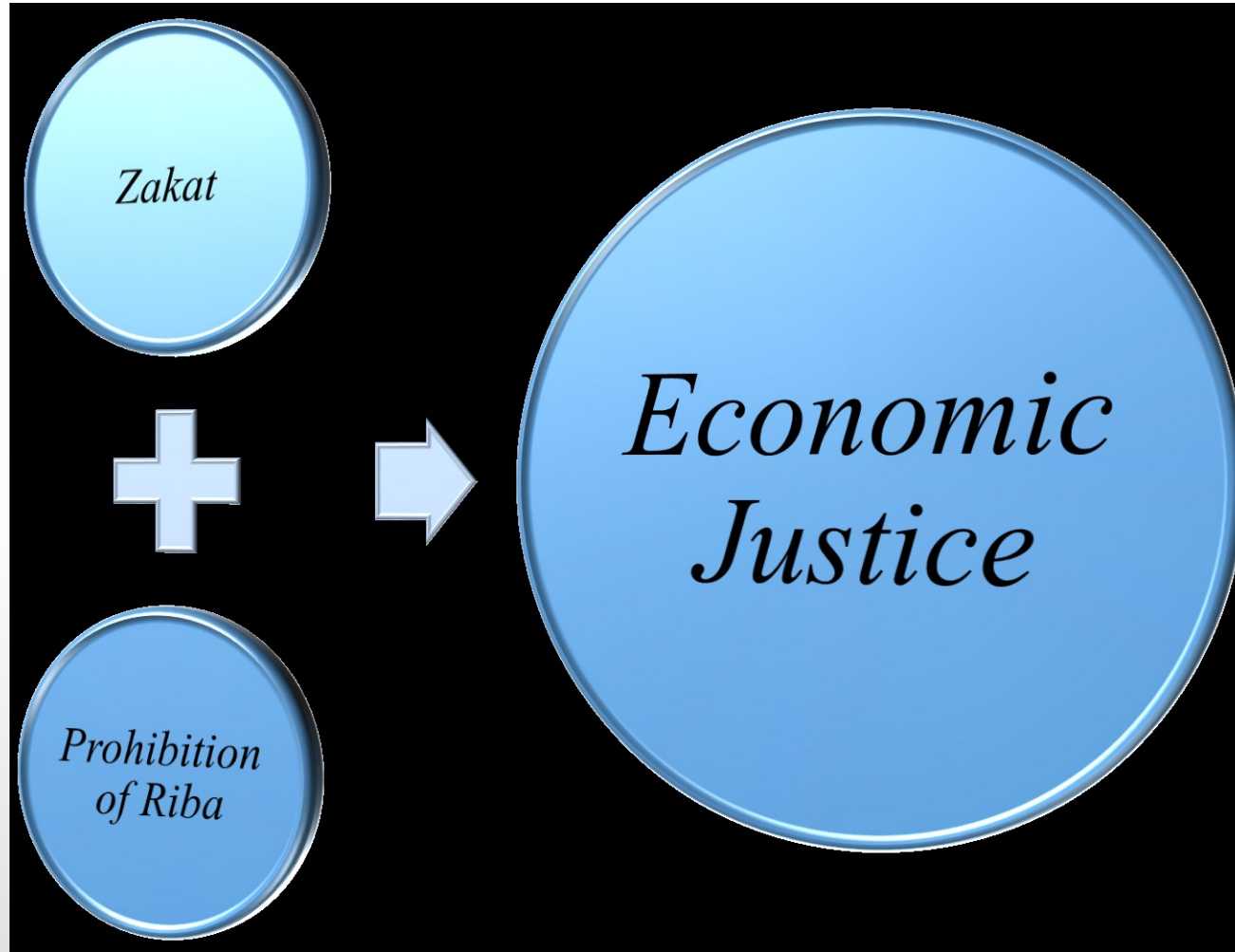
National and International Challenges

Prepared by

Dr. A. Ramrouz

For introductory purposes lets begin with some crucial questions:

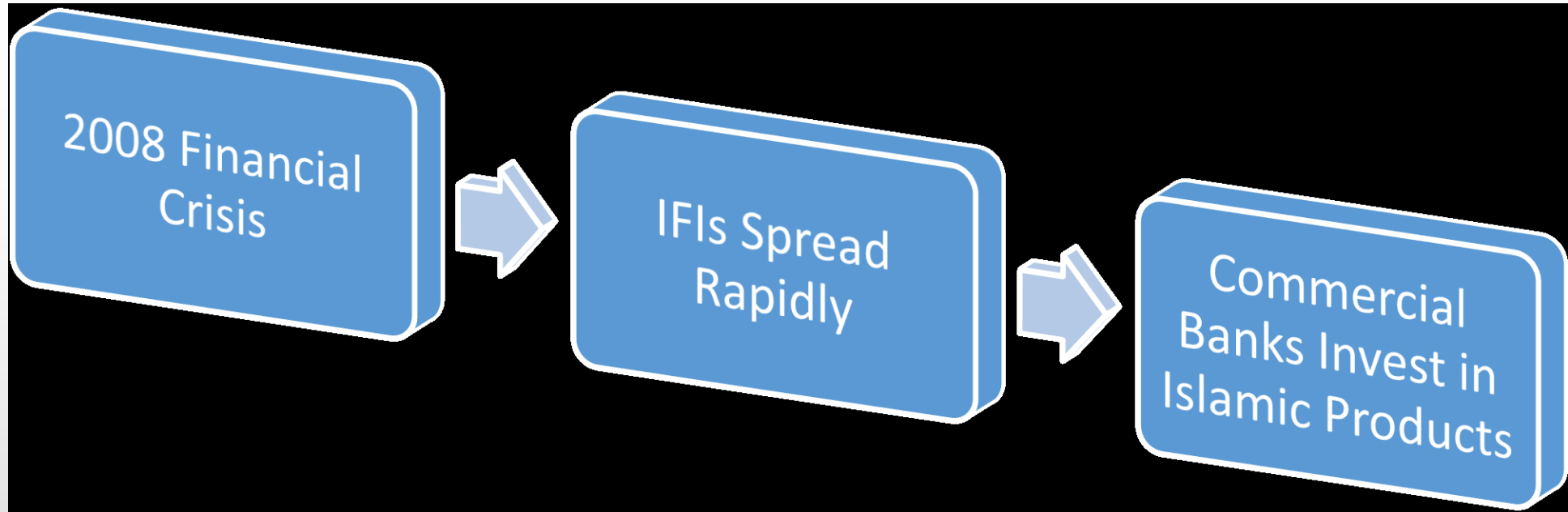
- *What is Islamic Accounting? Does it really exist? Is it really essential?*
- *Is Islamic Accounting a global matter?*
- *Do IFRSs provide sufficient guidelines for Islamic transaction?*
- *Islamic accounting or Accounting for Islamic transactions?*
- *What have Islamic banks and scholars done to solve the problem?*



سوره مبارکه بقره، آیه ۲۸۲

ای کسانی که ایمان آورده اید، هنگامی که دینی را تا مدت معینی (به خاطر گرفتن وام یا داد و ستد) به یکدیگر بدهکار شدید **آن را بنویسید**، و باید نویسنده ای (**سند آن را**) در میان خودتان به عدالت بنگارد، و هرگز نباید نویسنده از نوشتن آن - همان گونه که خدا به وی آموخته - امتناع ورزد، او باید بنویسد و کسی که حق به گردن اوست (بدهکار) املا کند، و از خداوند که پروردگار اوست پروا نماید و از حق چیزی را کم نگذارد، و اگر کسی که حق به گردن اوست سفیه یا ناتوان (سنی) باشد یا (به خاطر آفت زبان) نتواند املا کند، ولی او به عدالت املا نماید. و **دو گواه** از مردانتان (مردان مسلمان) را به شهادت بطلبید، و اگر دو مرد نباشد، یک مرد و دو زن را از میان گواهانی که (از دینشان) رضایت دارید گواه بگیرید، تا اگر یکی از آن دو زن فراموش نمود آن دیگری او را یادآوری نماید. و چون گواهان (برای تحمل شهادت یا اداء آن) دعوت شوند خودداری نکنند. و از نوشتن بدهی که تا مدتی معین مهلت دارد، کوچک باشد یا بزرگ، ملول نشوید. این کار در نزد خدا عادلانه تر و برای گواهی استوارتر و به اینکه شک نکنید (و نزاعی برنخیزد) نزدیکتر است، مگر آنکه داد و ستدی نقدی باشد که در میان خود تبادل می کنید، که بر شما گناهی نیست که آن را ننویسید. و (بهتر است که) هر زمان داد و ستد کنید شاهد بگیرید، و نباید نویسنده و گواه (به واسطه زیاد و کم کردن، به صاحب حق) ضرر بزنند و نباید به نویسنده و شاهد به سبب ندادن حقتشان ضرر برسد، و اگر چنین کنید برای شما فسق و گناه است. و از خدا پروا کنید، و خدا به شما می آموزد و خدا به همه چیز داناست.

Is Islamic Accounting a global matter?



Islamic finance

- *Represents about 1% of global financial assets but with a 10%-12% annual growth rate. Reuters [expects](#) total Islamic assets to reach \$3.5 trillion by 2021 but that scenario is tied to the economic well-being of these 10 markets.*
- *Islamic finance is today a \$2.2 trillion industry spread over more than 60 countries with the bulk of it concentrated in very few markets. Data compiled by the Union of Arab Banks' research department shows that just 10 countries account for 95% of the world's sharia-compliant assets. [Iran](#) leads the way with 30% of the global total followed by Saudi Arabia (24%), Malaysia (11%), the United Arab Emirates (10%), Qatar (6%), Kuwait (5%), Bahrain (4%), Bangladesh (1.8%), Indonesia (1.6%) and Pakistan (1%).*

Europe

- London positioned itself to become the hub for sharia-compliant finance in the Western world. Today, the UK boasts 5 licensed Islamic banks, over 20 conventional banks offering Islamic financial products, has more than \$700 million assets from Islamic funds and the London stock exchange has over 65 sukuk listed for a total amount of nearly \$50 billion.
- Luxembourg, the first Eurozone country to issue a sovereign sukuk and where 49 sharia-compliant funds are domiciled.
- Germany has several sukuk issuances over the past decade and its first full-fledged Islamic bank (KT Bank AG) in 2015.
- Switzerland with more focus on Islamic insurance or takaful.

Do IFRSs provide sufficient guidelines for Islamic transaction?

IFRS are set by
IASB

IASB`s
members are
not skilled in
Islamic finance

IFRS do not
include Islamic
Accounting
Guidelines

Islamic accounting or Accounting for Islamic transactions?

The Objective of general purpose financial reporting (Conceptual Framework for Financial Reporting 2018)

The primary users of general purpose financial reporting are present and potential investors, lenders and other creditors, who use that information to make decisions about buying, selling or holding equity or debt instruments, providing or settling loans or other forms of credit, or exercising rights to vote on, or otherwise influence, management's actions that affect the use of the entity's economic resources.

What have Islamic banks and scholars done to solve the problem?

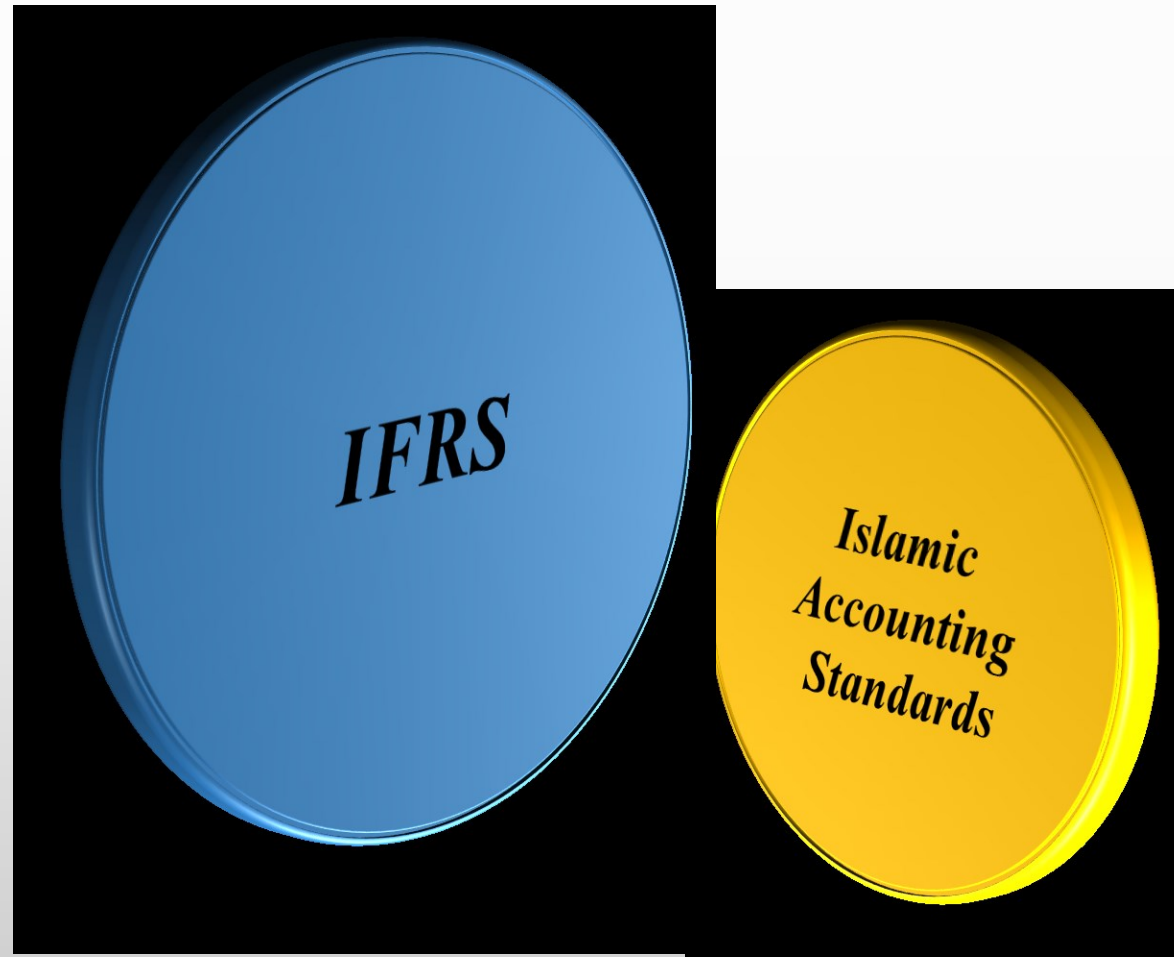
*Accounting and
Auditing Organization
for Islamic Financial
Institutions (AAOIFI)*

*Malaysian Accounting
Standards Board
(MASB)*

*Asian-Oceanian
Standard Setting
Group (AOSSG)*

*Deloitte Islamic
Finance Knowledge
Center*

First Approach: A separate set of Islamic Accounting Standards - AAOIFI



Outcomes of first approach



Strengths:

-26 Financial Accounting Standards (FAS)

Weaknesses:

-FASs are not generally accepted in Islamic countries

-FASs are not comprehensive enough

-FASs should be studied further in both accounting & juridical aspects

Second Approach, Islamic accounting issues should be included in IFRSs – MASB



Outcomes of second approach

IASB

Strengths:

*Establishing Islamic
Finance Consultative
Group*

Weaknesses:

*-Lack of practical outcomes
-The members of the Board and
the IFRS IC are not skilled in
the analysis of Islamic products*

Islamic Finance Consultative Group members

Faiz Azmi (Chair)	(PwC Malaysia)	Syed Najm ul Hussain	(Institute of Chartered Accountants of Pakistan (ICAP))
Martin Edelmann (Vice-Chair)	(IASB)	Mohamad Akram Laldin	(International Shari'ah Research Academy for Islamic Finance (ISRA))
Omar Ansari	(Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI))	Sami Ibrahim Al-Suwailem	(Islamic Development Bank Group (IDBSA))
Naweed Lalani	(Dubai Financial Service Authority (DFSA))	Zahid Ur Rehman Khokher	(Islamic Financial Services Board (IFSB))
Abdelilah Belatik	(General Council for Islamic Banks and Financial Institutions (CIBAFI))	Mohamed Raslan Abdul Rahman	(Malaysian Accounting Standards Board (MASB))
Obaid Saif Al Zaabi	(Gulf Co-operation Council Accounting and Auditing Organisation (GCCAAO))	Samet Arslan	(Public Oversight, Accounting and Auditing Standards Board (POA), Turkey)
Djohan Pinnarwan	(Institute of Indonesia Chartered Accountants (IAI))	Abdulrahman Alrazeen	(Saudi Organization for Certified Public Accountants (SOCPA))
Jusuf Wibisana	(Institute of Indonesia Chartered Accountants (IAI))	Mohammed F. Bahjatt	(Saudi Organization for Certified Public Accountants (SOCPA))

The Group does not judge whether products are compliant with the requirements of Shariah law.

Instead, members intend to focus on challenges that may arise in the application of IFRS to instruments and transactions commonly referred to as Islamic finance.

The topics discussed *would usually be referred to the Board's Interpretations Committee* (IFRS IC). However, the members of the Board and the IFRS IC *are not skilled in the analysis of Islamic products*, hence the role of the Group and others.

IFRS Interpretations Committee

Sue Lloyd

Tony de Bell

Andrew Buchanan

Reinhard Dotzlaw

Carl Douglas

Bonnie Van Etten

Mikael Hagström

Guy Jones

Jongsoo Han

Goro Kumagai

Bruce Mackenzie

Bertrand Perrin

Dr Martin Schloemer

Robert Uhl

Yang Zheng

International meetings

In 2011, the IASB (the Board) conducted a consultation on topics to be included in its technical agenda. As a consequence of that consultation, the Board decided to establish a consultative group on Shariah-Compliant Instruments and Transactions. The Group held an organizational meeting in Kuala Lumpur in July 2013.

**Members of the IASB Consultative Group on
Shariah-Compliant Instruments and Transactions**

International Accounting Standards Board

Chairman Mr. Ian Mackintosh

Coordinator Mr. Wayne Upton

AOSSG Islamic Countries

Malaysia Mr. Faiz Azmi

alternate Mas Sukmawati Abu Bakar

Indonesia Mr. Jusuf Wibisana

Pakistan Mr. Rashid Rahman Mir

Dubai Mr. Naweed Lalani

Mr. Matthew Gamble

Saudi Arabia Dr. Abdulrahman Alrazeen

Dr. Mohammed F. Bahjatt

Other Organisations

AAOIFI (invitation pending)

IFSB Mr Jaseem Ahmed

GCCAAO Dr. Obaid Saif Al Zaabi

CIBAFI Mr. Mohamed Ben Youssef

ISRA Dr. Mohamad Akram Laldin

E&Y Saudi Arabia Mr. Rashid AlRashoud

IDBSA Dr. Sami Ibrahim Al-Suwailem

Australia - [Australian Accounting Standards Board](#)
Bangladesh - [Financial Reporting Council](#)
Brunei - [Brunei Darussalam Accounting Standards Council](#)
Cambodia - [Ministry of Economy and Finance of Cambodia](#)
China - [China Accounting Standards Committee](#)
Dubai - [Dubai Financial Services Authority](#)
Hong Kong - [Hong Kong Institute of Certified Public Accountants](#)
India - [Institute of Chartered Accountants of India](#)
Indonesia - [The Indonesian Institute of Accountants](#)
Iraq - Iraqi Union of Accountants and Auditors
Japan - [Accounting Standards Board of Japan](#)
Kazakhstan - [Chamber of Auditors of the Republic of Kazakhstan](#)
Korea - [Korea Accounting Standards Board](#)
Macao - [Financial Services Bureau](#)
Malaysia - [Malaysian Accounting Standards Board](#)
Mongolia - [Mongolian Institute of Certified Public Accountants](#)
Nepal - [Accounting Standards Board](#)
New Zealand - [External Reporting Board](#)
Pakistan - [Institute of Chartered Accountants of Pakistan](#)
Philippines - [Financial Reporting Standards Council](#)
Saudi Arabia - [Saudi Organization for Certified Public Accountants](#)
Singapore - [Singapore Accounting Standards Council](#)
Sri Lanka - [The Institute of Chartered Accountants of Sri Lanka](#)
Syria - Association of Syrian Certified Accountants
Thailand - [Federation Of Accounting Professions](#)
Uzbekistan - [National Association of Accountants and Auditors of Uzbekistan](#)
Vietnam - Ministry of Finance

This meeting addresses issues in the classification of financial instruments under IFRS 9 Financial Instruments. The financial statements of 17 Islamic banks and the relative importance of Islamic products in their assets were discussed.

The meeting poses a series of issues in the application of IFRS 9 to those products and steps, if any, that the IASB might to clarify the standard.

IFRS 9 *Financial Instruments*, reduced the number of categories of Financial assets to two main categories:

- Instruments reported at fair value through profit and loss,
and
 - Assets initially measured at fair value, plus transaction costs and subsequently measured at amortized cost.
- Lease contracts, and therefore Ijara transactions that meet the definition of a lease, are excluded from the scope of IFRS 9.

A financial asset shall be measured at amortized cost if both of the following conditions are met:

a) The asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows.

b) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. [Emphasis added.]

Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin.

- Some have reasoned that contracts with some of the characteristics described above do not meet the restrictive language in IFRS 9.
- Others have reasoned that the economic substance of at least some contracts described above is collection of fixed or determinable contractual cash flows. They conclude that such contracts do qualify for measurement at amortized cost.

- Three of the banks (Bank AlJazira, Sharjah Islamic Bank PJSC, Dubai Islamic Bank) have adopted IFRS 9 and concluded that many Islamic contracts qualify for amortized cost measurement.

The IASB team has decided that the questions posed in this meeting should be the topic of a meeting of the Group, coupled with an outreach meeting to which we plan to *invite interested accounting professionals, academics, and bankers.*

The topics discussed would usually be referred to the Board's Interpretations Committee (IC). *However, the members of the Board and the IC are not skilled in the analysis of Islamic products, thus the role of the Group and others.*

Islamic Finance Consultative Group Summary of meeting held on 27 March 2018 at the office of the Dubai Financial Services Authority (DFSA), Dubai, UAE

Attendees

Mr Faiz Azmi (Chairman), PwC Malaysia Mr Martin Edelmann (Vice-Chairman), IASB

Standard-setter members

Professor Maliah Binti Sulaiman, Malaysian Accounting Standards Board (MASB) Ms Nadiah Ismail, Malaysian Accounting Standards Board (MASB) Mr Angus Thomson, Malaysian Accounting Standards Board (MASB) Mr Jusuf Wibisana, Ikatan Akuntan Indonesia (IAI) Mr Suhendar, Ikatan Akuntan Indonesia (IAI) Mr Syed Najm ul Hussain, Institute of Chartered Accountants of Pakistan (ICAP) Dr Abdulrahman Alrazeen, Saudi Organization for Certified Public Accountants (SOCPA) Professor Mohammed Bahjatt, Saudi Organization for Certified Public Accountants (SOCPA) Dr Hamad A. Al Oqab, Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI).

- The MASB representatives introduced a paper that considered how the requirements in recently issued IFRS Standards—specifically IFRS 9 Financial Instruments, IFRS 15 Revenue from Contracts with Customers and IFRS 16 Leases—might apply to three examples of Islamic finance arrangements that are common in the Malaysian environment: 1. Al-Ijarah Thumma al-Bai (AITAB); 2. Tawarruq; and 3. Musharakah Mutanaqisah and Ijarah (MMI).
- The paper addressed the accounting by the Islamic Finance Institution (IFI), and in each of the three examples, concluded that the IFI would apply IFRS 9 to recognize and measure a financial asset for the amount due from the customer.

- The Vice-Chairman provided a briefing on the new insurance contracts Standard, IFRS 17 (Insurance Contracts).
- It was suggested that the Group discuss IFRS 17, vis-à-vis Takaful, at one of its next meetings.

What we have now:

*IFRS:
Do not include
Islamic
guidelines*

*FAS:
Are not
sufficient*

*Islamic
accounting
challenges:*

Fundamental

- *Challenges related to accounting objectives, concepts, identification, measurement, presentation & disclosure (More general ones)*

Practical

- *Challenges that are related to the accounting procedures and records*

- *Key concepts that are accepted by IFRS & MASB while rejected by AAOIFI:*

Time Value of Money & Substance Over Form

In 2001, a bank buys a house at RM500,000 and sells it to the customer at RM696,650. The customer pays in monthly instalments over a period of 10 years. In 2003, the customer misses an instalment but pays the amount in 2004. Below are the possible ways that the bank could recognise and measure income over the 10 years.

Relevant paragraph(s)	Under AAOIFI standards		Under IFRS
	FAS 2, paragraph 2/4/2 (a)	FAS 2, paragraph 2/4/2 (b)	IAS 18, paragraphs 11, 29, 30 IAS 39, paragraphs 9, AG5-AG8
Requirement	Proportionate allocation of profits over period of credit	Profits recognised as and when instalments are received	Difference between fair value and nominal amount of consideration recognised as interest revenue ... in accordance with IAS 39
	RM	RM	RM
2001	19,665	19,665	33,866
2002	19,665	19,665	31,278
2003	19,665	18,026	28,503
2004	19,665	21,304	25,527
2005	19,665	19,665	22,337
2006	19,665	19,665	18,915
2007	19,665	19,665	15,247
2008	19,665	19,665	11,313
2009	19,665	19,665	7,094
2010	19,665	19,665	2,571
Total profit / interest income	196,650	196,650	196,650

Substance Over Form

- *MASB and IFRS emphasis on substance over form*
- *AAOIFI requires all ijarah to be treated as operating leases and not recognize a lease liability*

Measurement

- *Fair value measurement has been emphasized by IFRS.*
- *How measurement is practiced within IFIs?*

Restricted and Unrestricted Investment Accounts

- *Using mudharebah and musharakah contracts to invest in Islamic Banks*

URIA Presentation

IFRS & MASB

As liabilities



AAOIFI

Between liability & equity

- *3 financial statements that are required by AAOIFI but are not common in IFRS:*

Statements of changes in restricted investment accounts

Statement of sources and uses of funds in the Qard/ Hassan and charity funds

Statement of sources and uses of funds in the zakat funds

بر اساس استاندارد حسابداری مالی شماره ۱ افشا موارد زیر در صورت منابع و مصارف وجوه صندوق قرض الحسنه الزامی می‌باشد (استاندارد حسابداری مالی، شماره ۱، ۲۰۱۰):

- دوره مشمول صورت منابع و مصارف وجوه صندوق قرض الحسنه باید افشا گردد.
- مانده‌های قرض الحسنه و موجودی صندوق در ابتدای دوره باید برحسب نوع و ماهیت افشا شود.
- مبلغ و منابع وجوهی که در طی دوره اختیار صندوق قرار گرفته است، باید افشا شود.
- مبلغ و موارد مصرف وجوه در طی دوره باید برحسب نوع و ماهیت افشا گردد.
- مانده‌های صندوق قرض الحسنه و موجودی صندوق در پایان دوره باید افشا شود.

سازمان حسابداری و حسابرسی نهادهای مالی اسلامی افشا موارد زیر در مورد زکات را الزامی می‌داند (همان منبع):

- دوره مشمول صورت منابع و مصارف وجوه صندوق خیریه و زکات باید افشا شود.
- مسئولیت بانک اسلامی در پرداخت زکات و نحوه جمع‌آوری و پرداخت آن به وسیله بانک اسلامی به نمایندگی از صاحبان سرمایه و یا دارندگان حساب‌های سرمایه‌گذاری محدود نشده باید افشا شود.
- سایر منابع وجوه صندوق خیریه و زکات باید افشا شود.

Our current situation



*Thank
you*

