

Exposure Draft

Islamic Financial Accounting Standard 5 General Presentation & Disclosure in the Financial Statements of Institutions Offering Islamic Financial Services

The Institute of Chartered Accountants of Pakistan



May 19, 2017

Exposure Draft
Islamic Financial Accounting Standard 5

General Presentation and Disclosure in the Financial Statements of Institutions offering Islamic Financial Services

1. Scope of the standard

This standard is applicable to the general purpose financial statements prepared and presented by Institutions offering Islamic Financial Services (IIFS).

Other Islamic Financial Accounting Standards (IFAS) / International Financial Reporting Standards (IFRS) set out the recognition, measurement and disclosure requirements for specific transactions and other events.

This Standard does not apply to the structure and content of condensed interim financial statements prepared in accordance with IAS 34 Interim Financial Reporting.

Definitions

General purpose financial statements are those intended to meet the needs of users who are not in a position to require an entity to prepare reports tailored to their particular information needs.

Material Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.

Notes contain information in addition to that presented in the statement of financial position, profit and loss account, statement of other comprehensive income, statement of changes in equity and statement of cash flows. Notes provide narrative descriptions or disaggregations of items presented in those statements and information about items that do not qualify for recognition in those statements.

Other comprehensive income comprises items of income and expense (including reclassification adjustments) that are not recognised in profit or loss as required or permitted by other IFRSs.

The components of other comprehensive income include:

- (a) actuarial gains and losses on defined benefit plans;
- (b) gains and losses arising from translating the financial statements of a foreign operation;
- (c) the effective portion of gains and losses on hedging instruments in a cash flow hedge (see IAS 39).

Profit or loss is the total of income less expenses, excluding the components of other comprehensive income.

Reclassification adjustments are amounts reclassified to profit or loss in the current period that were recognised in other comprehensive income in the current or previous periods.

Exposure Draft

Islamic Financial Accounting Standard 5

Total comprehensive income is the change in equity during a period resulting from transactions and other events, other than those changes resulting from transactions with owners in their capacity as owners.

Total comprehensive income comprises all components of 'profit or loss' and of 'other comprehensive income'.

Items not defined in this standard or other IFAS would have the same meaning as defined in IFRS issued by International Accounting Standards Board.

2. General provisions

2.1 The complete set of financial statements

The complete set of financial statements that should be published by IIFS should consist of the following:

- (a) A statement of financial position (balance sheet) as at end of the period;
- (b) A profit and loss account for the period;
- (c) A statement of other comprehensive income for the period;
- (d) A statement of cash flows for the period;
- (e) A statement of changes in equity for the period;
- (f) A statement of sources and uses of charity fund for the period;
- (g) Notes, comprising a summary of significant accounting policies and other explanatory information; and
- (h) A statement of financial position as at the beginning of the earliest comparative period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements.

An IIFS may use titles for the statements other than those used in this Standard, if so required by the regulatory provisions.

2.2 Comparative financial statements

Except when permitted by IFAS or IFRS or when required otherwise by IFAS or IFRS, an IIFS shall present comparative information in respect of the preceding period for all amounts reported in the current period's financial statements. An entity shall include comparative information for narrative and descriptive information if it is relevant to understand the current period's financial statements.

An IIFS shall present, as a minimum, two statements of financial position, two profit and loss account, two statements of other comprehensive income, two statements of cash flows, two statements of changes in equity two statements of sources and uses of charity fund and related notes.

The basic principles given in the IFRS Framework will be followed of fair presentation, going concern, accrual basis of accounting, offsetting, relevance, consistency of presentation and materiality and aggregation.

Employees and management will follow the ethical principles and a good example is Code of Ethics issued by AAOIFI for Islamic Financial Institutions and their employees.

2.3 The form and classification of the financial statements and the terminology used therein

The form and the classification used in the financial statements should ensure a clear presentation of their content. In addition, the terminology used to express the content of the financial statements should enable their users to understand and comprehend the information contained therein. Assets and liabilities should not be classified between current and non-current in the Statement of Financial Position.

3. General disclosures in the financial statements

3.1 Adequate disclosure of material information

The financial statements should disclose all material information that is necessary to make those financial statements adequate, relevant and reliable for their users. An IIFS should also disclose reasons for restatement due to Shari'a non-compliance.

3.2 Disclosure of basic information about the IIFS

An IIFS shall clearly identify each financial statement and the notes. In addition, an IIFS shall display the following information prominently, and repeat it when necessary for the information presented to be understandable:

- (a) the name of the reporting IIFS or other means of identification, and any change in that information from the end of the preceding reporting period;
- (b) whether the financial statements are of an individual IIFS or a group of entities;
- (c) the date of the end of the reporting period or the period covered by the set of financial statements or notes;
- (d) the presentation currency, as defined in IAS 21; and
- (e) the level of rounding used in presenting amounts in the financial statements.

Further, the financial statements should disclose, to the extent applicable, the following information about the IIFS:

- (a) The country of incorporation.
- (b) Formation date and legal form.
- (c) Location of headquarters and number of branches in each country where the IIFS operates.
- (d) The nature of the activities the IIFS is authorized to carry out by its charter and the major services it provides.
- (e) The name of the IIFS's subsidiaries whose financial statements are consolidated with those of the IIFS, the countries of their incorporation, the IIFS's ownership percentage in each subsidiary and the nature of their activities.
- (f) The names of the IIFS's subsidiaries whose financial statements are not consolidated with those of the IIFS's, the countries of their incorporation, the IIFS's ownership percentage in each subsidiary, the nature of their activities, and the reasons for excluding their financial statements from the consolidated financial statements of the IIFS.

Exposure Draft
Islamic Financial Accounting Standard 5

- (g) The role of the regulator, Shari'a adviser or the Shari'a board in supervising the IIFI's activities and the nature of the adviser's or board's authority in accordance with the IIFI's bye-laws and in actual practice.
- (h) The agency responsible for supervising the IIFS's activities and the agency responsible for supervising the holding company.

3.3 Disclosure of supervisory restrictions

The financial statements should disclose any supervisory restrictions imposed on the IIFS by any regulatory or supervisory agency after due consideration with respect to any regulations regarding the disclosure of such restrictions. A supervisory restriction should be considered if it either restricts management's ability to make decisions necessary to manage the IIFS, or if it prevents the IIFS from carrying out some of the activities it has been authorized to carry out by its charter.

3.4 Disclosure of earnings or expenditures prohibited by Shari'a

The financial statements should disclose the amount and nature of earnings that have been realized from sources or means which are not in compliance with Shar'ia requirements. Likewise, disclosures should be made of the amount and nature of the expenditures for purposes not permitted by Shari'a. The IIFS should also disclose how it intends to dispose of the assets generated by the prohibited earnings or acquired through prohibited expenditures.

3.5 Disclosure of risk associated with assets and liabilities which are denominated in foreign currency

Disclosure should be made in the financial statements of the net assets (net liabilities) by type of foreign currency, as of the Statement of Financial Position date, which are denominated in foreign currency.

3.6 Disclosure of restricted assets or assets pledged as security

Disclosure should be made in the financial statements of the nature and amounts of any assets which are restricted for a particular use or used as a collateral for the IIFS's obligations.

4. Presentation and disclosure in each statement

4.1 Statement of financial position

The date of the statement of financial position should be disclosed.

The statement of financial position should include the IIFS's assets, its liabilities, equity of its unrestricted investment / PLS deposit account holders and their equivalent, and its owner's equity.

Significant items of assets, liabilities, unrestricted investment / PLS deposit accounts and their equivalent (redeemable capital) or owner's equity should not be combined on the face of the statement of financial position without disclosure.

Exposure Draft
Islamic Financial Accounting Standard 5

At minimum, the statement of financial position should include following assets. Separate disclosures of assets jointly financed by the IIFS and unrestricted investment / PLS deposit account holders and those exclusively financed by the IIFS should be made in the relevant notes.

- (a) Cash and cash balances with treasury banks;
- (b) Balances with other banks;
- (c) Placement with financial institutions;
- (d) Investments;
- (e) Advances and inventory;
- (f) Islamic financing and related assets:
 - Trade based;
 - Participation based;
 - Rental; and
 - Others;
- (g) Property and equipment;
- (h) Intangible assets;
- (i) Deferred tax assets; and
- (j) Other assets.

Disclosure should be made of changes during the period in the provision for doubtful accounts receivable as follows:

- a) Provision charged to profit and loss account during the period;
- b) Receivables written-off during the period; and
- c) The balance of the provision for doubtful receivables as of the beginning and end of the period.

Disclosure should be made in the statement of financial position of the following liabilities:

- a) Bills payable;
- b) Customer Current & other accounts on loan or amanah basis;
- c) Due to Financial Institutions;
- d) Deferred tax liabilities; and
- e) Other liabilities.

Redeemable capital including Unrestricted investment / PLS deposit accounts and their equivalent should be disclosed and presented in the statement of financial position as a separate item between liabilities and owner's equity. Islamic instruments which are in nature of redeemable capital will be classified under Sukuks and other redeemable capital.

An IIFS shall present in the statement of financial position Contingencies and Commitments.

An IIFS shall present additional line items, headings and subtotals in the statement of financial position when such presentation is relevant to an understanding of the entity's financial position.

Exposure Draft

Islamic Financial Accounting Standard 5

A consolidated statement of financial position should disclose the minority interest as a separate line item between redeemable capital (unrestricted investment / PLS deposit accounts) and owner's equity.

An IIFS shall disclose, either in the statement of financial position or in the notes, further sub classifications of the line items presented, classified in a manner appropriate to the entity's operations.

Disclosure should be made either in the statement of financial position or the statement of changes in equity, and/or in the notes to the financial statements, as appropriate, of the following:

(a) for each class of share capital:

- i. the number of shares authorized;
- ii. the number of shares issued and fully paid;
- iii. par value per share, or that the shares have no par value;
- iv. a reconciliation of the number of shares outstanding at the beginning and at the end of the period;
- v. the rights, preferences and restrictions attaching to that class including restrictions on the distribution of dividends and the repayment of capital;
- vi. shares in the IIFS held by the IIFS or by its subsidiaries or associates; and
- vii. shares reserved for issue under options and contracts for the sale of shares, including terms and amounts; and

(b) a description of the nature and purpose of each reserve within equity.

The rights, conditions and obligations of each type of unrestricted investment / PLS account and its equivalent (redeemable capital) and other deposit accounts shown in the statement of financial position should be disclosed.

4.2 Profit and loss account

The period covered by the profit and loss account should be disclosed.

At minimum, the following information should be disclosed on the face of the profit and loss account:

- a) Return on funds generated from joint and unrestricted investments;
- b) Return on unrestricted investment account holders before the banks share as Mudarib ;
- c) Banks share as Mudarib;
- d) (i) Return on unrestricted investment accounts / PLS deposit accounts;
(ii) Banks share in income from investment (as a Mudarib and fund holder); and
(iii) Bank's income from its own investments;
- e) Bank's share in restricted investment profit as a Mudarib;
- f) Fee, Commission and Brokerage Income;
- g) Dividend Income;
- h) Income from dealing in foreign currencies;
- i) Gain / (Loss) on sale of securities;
- j) Unrealized Gain / (Loss) on revaluation of investments classified as held for trading;

Exposure Draft
Islamic Financial Accounting Standard 5

- k) Other revenues;
- l) Provision against non-performing Islamic financing and related assets;
- m) Provision for diminution in the value of investments;
- n) Provision against amounts due from financial institutions;
- o) Provision against off balance sheet obligations;
- p) Bad debts written off directly;
- q) Net profit after provisions;
- r) administrative expenses;
- s) Other provisions/write offs (to be specified);
- t) Other charges;
- u) Net Income (loss) before taxation;
- v) Taxes (to be separately disclosed); and
- w) Net Income (loss).

An entity shall disclose the following items in the statement of comprehensive income as allocations for the period:

(a) profit or loss for the period attributable to:

- (i) non-controlling interests, and
- (ii) owners of the parent.

(b) total comprehensive income for the period attributable to:

- (i) non-controlling interests, and
- (ii) owners of the parent

An IIFS shall present additional line items, headings and subtotals in the profit and loss account when such presentation is relevant to an understanding of the IIFS's financial performance.

When items of income or expense are material, an entity shall disclose their nature and amount separately.

An IIFS shall present an analysis of expenses recognised in profit or loss using a classification based on their nature.

4.3 Statement of other comprehensive income

An IIFS shall disclose each component of other comprehensive income classified by nature. Share of the other comprehensive income of associates and joint ventures accounted for using the equity method may be disclosed in aggregate on the face of statement with details in the notes.

An IIFS shall disclose the amount of income tax relating to each component of other comprehensive income, including reclassification adjustments, either on the face of the statement of comprehensive income or in the notes.

An IIFS shall disclose reclassification adjustments relating to components of other comprehensive income.

Exposure Draft

Islamic Financial Accounting Standard 5

4.4 Statement of cash flows

Cash flow information provides users of financial statements with a basis to assess the ability of the IIFS to generate cash and cash equivalents and the needs of the IIFS to utilize those cash flows. IAS 7 sets out requirements for the presentation and disclosure of cash flow information.

4.5 Statement of changes in equity

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

The statements of changes in owners' equity should disclose the following:

- (a) total comprehensive income for the period, showing separately the total amounts attributable to owners of the parent and to non-controlling interests;
- (b) for each component of equity, the effects of retrospective application or retrospective restatement recognised in accordance with IAS 8; and
- (c) for each component of equity, a reconciliation between the carrying amount at the beginning and the end of the period, separately (as a minimum) disclosing changes resulting from:
 - (i) profit or loss;
 - (ii) other comprehensive income;
 - (iii) transactions with owners in their capacity as owners, showing separately contributions by and distributions to owners and changes in ownership interests in subsidiaries that do not result in a loss of control; and
 - (iv) movement of reserves.

For each component of equity an IIFS shall present, either in the statement of changes in equity or in the notes, an analysis of other comprehensive income by item.

An IIFS shall present, either in the statement of changes in equity or in the notes, the amount of dividends recognised as distributions to owners during the period, and the related amount of dividends per share.

4.6 Statement of sources and uses of Charity Fund

The Charity Fund will include IIFS income from Shari'a non-compliant sources and penalties or late payment charges received from clients in case of default or over dues.

The period covered by the statement of sources and uses of charity fund should be disclosed.

The disclosures should include sources and uses of charity fund.

The notes should include details of amounts paid by the IIFS from the charity fund during the period.

The sources of funds should specify reason of Shari'a non-compliance.

Exposure Draft

Islamic Financial Accounting Standard 5

4.7 Notes

The notes shall:

- (a) Present information about the basis of preparation of the financial statements and the specific accounting policies used;
- (b) disclose the information required by IFRSs that is not presented elsewhere in the financial statements; and
- (c) provide information that is not presented elsewhere in the financial statements, but is relevant to an understanding of any of them.

An entity shall, as far as practicable, present notes in a systematic manner. An entity shall cross-reference each item in the statements of financial position and of comprehensive income, in the separate income statement (if presented), and in the statements of changes in equity and of cash flows to any related information in the notes.

Disclosure of significant accounting policies

An IIFS shall disclose in the summary of significant accounting policies:

- (a) the measurement basis (or bases) used in preparing the financial statements, and
- (b) the other accounting policies used that are relevant to an understanding of the financial statements.

An IIFS shall disclose, in the summary of significant accounting policies or other notes, the judgements, apart from those involving estimations, that management has made in the process of applying the IIFS's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

In deciding whether a particular accounting policy should be disclosed, management considers whether disclosure would assist users in understanding how transactions, other events and conditions are reflected in reported financial performance and financial position.

- (a) The financial statements should disclose the accounting method used for translating foreign currency balances and transactions.

Disclosure of accounting policies

The financial statements must contain a clear and precise description of the significant accounting policies used for the preparation and publication of the financial statements. This disclosure should include, as a minimum, the significant policies in the following circumstances:

1. The accounting policies that represent a choice among acceptable alternative accounting methods (e.g. the depreciation method used).
2. The accounting policies adopted by the management of the IIFS but which are not consistent with the concepts of financial accounting for IIFSs, if any.
3. The accounting policies adopted by the management of IIFS for revenue, gain and loss recognition.

Exposure Draft
Islamic Financial Accounting Standard 5

4. The accounting policies adopted by the IIFS's management for the recognition and determination of doubtful receivables and the policies of writing-off debts.
5. The accounting policies adopted by the IIFS's management for the consolidation of the financial statements of subsidiaries, if any

An IIFS shall disclose, in the summary of significant accounting policies or other notes, the judgements, apart from those involving estimations, that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

An IIFS shall disclose information about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. In respect of those assets and liabilities, the notes shall include details of:

- (a) their nature; and
- (b) their carrying amount as at the end of the reporting period.

An IIFS shall disclose information that enables users of its financial statements to evaluate the entity's objectives, policies and processes for managing capital.

An IIFS shall disclose in the notes:

- (a) the amount of dividends proposed or declared before the financial statements were authorised for issue but not recognised as a distribution to owners during the period, and the related amount per share; and
- (b) the amount of any cumulative preference dividends not recognised.

Special investment pools

The note on special investment pools should disclose the following:

- a) The balance of special investment pools at the beginning of the period;
- b) Deposits received by the IIFS during the period;
- c) Withdrawals from the pools during the period;
- d) The IIFS's share in pool profits as a Mudarib / Musharik in amount and percentage of distributable income along with the amount and percentage of the Mudarib /Musharik share transferred to the depositors through Hiba if any;
- e) Allocated overhead expenses, if any, from the IIFS to special investment pools;
- f) Special investment pools profits / losses during the period; and
- g) The balance of special investment pools at the end of the period.

Note on Special investment pools should also disclose the following:

- a) The number and nature of pools maintained by the IIFS along with their key features and risk and rewards characteristics.
- b) Avenues / sectors of economy / business where Mudaraba based deposits have been deployed.

Exposure Draft
Islamic Financial Accounting Standard 5

- c) Parameters used for allocation of profit, charging expenses and provisions along with a brief description of their major components.
- d) The profit rate earned vs profit rate distributed to the depositors during the year.

5. Effective date

This standard shall be effective for annual periods beginning on or after 1 January 20xx. Earlier application is permitted. If an entity adopts this Standard for an earlier period, it shall disclose that fact.

DRAFT