

Appendix B
Comment letter from the AOSSG Islamic Finance Working Group

16 October 2017

Mr. Hans Hoogervorst
Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
UNITED KINGDOM

Dear Hans

AOSSG Islamic Finance Working Group: Comments on IASB DP/2017/1
Disclosure Initiative – Principles of Disclosure

The Islamic Finance Working Group (WG) of the Asian-Oceanian Standard-Setters Group (AOSSG) is pleased to provide its comments on IASB DP/2017/1 *Disclosure Initiative – Principles of Disclosure* (Discussion Paper).

These comments are additional to those in the letter developed by the AOSSG Financial Statement Presentation and Disclosure Working Group dated 16 October 2017, and only focus on concerns relating to Islamic financial reporting.

1. Providing information identified as non-IFRS within the financial statements

The WG strongly agrees with the IASB's preliminary view that a general disclosure standard should allow an entity to include non-IFRS information in its financial statements if such an inclusion is necessary to enhance users' understandability of the information. For example, Islamic financial institutions are normally required to disclose additional information in their financial statements to explain, among others, features of Shariah contracts and related accounting policies, disaggregation of balances into types of Shariah contracts and the nature of finance income earned and finance cost incurred during the financial year. The WG believes these additional disclosures are not in any way depriving the usefulness of financial statements and are non-contradictory to IFRS requirements.

In this regard, the WG proposes that the general disclosure standard should retain the principle of paragraph 17 in IAS 1 *Presentation of Financial Statements* which states:

“In virtually all circumstances, an entity achieves a fair presentation by compliance with applicable IFRSs. A fair presentation also requires an entity: (a) ... (b) ... (c) to provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity’s financial position and financial performance.” [Emphasis added]

Additionally, the WG believes that the IASB has long recognised the importance of including non-IFRS information to enhance understandability of financial statements, as stated in its Conceptual Framework for Financial Reporting:

“OB8 Individual primary users have different, and possibly conflicting, information needs and desires. The Board, in developing financial reporting standards, will seek to provide the information set that will meet the needs of the maximum number of primary users. However, focusing on common information needs does not prevent the reporting entity from including additional information that is most useful to a particular subset of primary users.” [Emphasis added]

2. Providing information that is inconsistent with IFRS

Need for clear a definition

Paragraph 4.33 of the Discussion Paper identifies three categories of information i.e.:

- Category A – information specifically required by IFRS Standards;
- Category B – additional information necessary to comply with IFRS Standards; and
- Category C - additional information that is not in Category A or Category B. This includes information that is inconsistent with IFRS Standards.

The WG shares the IASB’s view in paragraph 4.37 whereby it is difficult to determine whether some information falls within Category B or Category C information. Hence, the WG believes it is important for the general disclosure standard to clearly define what constitutes information that is inconsistent with IFRS, and to clarify whether the definition applies to quantitative information or qualitative information or both.

Mixed views about Category C information

A WG member believes that inclusion of information that is inconsistent with IFRS should be permissible, subject to observing the requirements in paragraphs 49 to 50 of IAS 1 below:

“An entity shall clearly identify the financial statements and distinguish them from other information in the same published document.

IFRSs apply only to financial statements, and not necessarily to other information presented in an annual report, a regulatory filing, or another document. Therefore, it is important that users can distinguish information that is prepared using IFRSs from other information that may be useful to users but is not the subject of those requirements.”

Another WG member believes that including information that is inconsistent with IFRS in the financial statements may pose challenges to auditors who are expected to express an opinion on IFRS-compliance. However, the WG noted that the IASB does not discuss whether or not such information should be audited, as mentioned in paragraph 4.38 (a) of the Discussion Paper.¹

3. The proposed approaches to disclose additional information

The WG agrees with the IASB’s preliminary views that a general disclosure standard should not prohibit an entity from including non-IFRS information in its financial statements but does not believe that it is necessarily helpful to require entities to disclose non-IFRS information in the manner prescribed in paragraph 4.38 (a) to (c) of the Discussion Paper as follows:

“...The Board’s preliminary view is that, if an entity identifies information in this way, a general disclosure standard should require the entity:

- a) to identify clearly such information as not being prepared in accordance with IFRS Standards and, if applicable, as unaudited^[footnote 39];
- b) to provide a list of such information, together with the statement of compliance with IFRS Standards; and
- c) to explain why the information is useful and has been included in the financial statements. For information to be useful, it must comply with the qualitative characteristics of financial information (i.e. it must be relevant and faithfully represented).

¹ Footnote 39: IFRS Standards do not require any information to be audited in order for financial statements to state compliance with IFRS Standards. Therefore, this Discussion Paper does not discuss whether or not this information should be audited.

The WG proposes that the general disclosure standard should allow preparers to exercise judgment in determining the best way of presenting information in their financial statements without having the need to segregate them according to the types of information.

Conclusion

We thank you for this opportunity to share our views. If you have any queries regarding this submission, or require further information on any aspect of Islamic finance, the Working Group would be pleased to offer its assistance.

Yours sincerely,



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