



## THE 15<sup>th</sup> ANNUAL AOSSG MEETING

*Joining hands in regional cooperation and the development of IFRS*

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# Updated review of Islamic financial institutions' financial statements by AOSSG Islamic Finance Working Group

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# AOSSG ISLAMIC FINANCE WORKING GROUP

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- Islamic Finance Working Group comprises:
  - Malaysia (Leader)
  - Bangladesh
  - Indonesia
  - Maldives
  - Pakistan
  - Saudi Arabia
  - Syria

# Background

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**Objective: to determine the financial reporting standards that Islamic financial institutions are legally required to comply with and to note the accounting treatment of selected Islamic financial transactions**



# Scope

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The updated study reviewed 119 financial statements of Islamic financial institutions (IFIs) in 29 countries on the following focus areas:

Financial reporting framework

Lessor's accounting for *ijarah*

Classification of customers' investment account

Measurement of finance income

- Top IFIs by country by *The Banker* (corroborated to the 2022 list)
- Annual financial statements publicly available in English as of 31 July 2022

Excluded 13 samples, due to:

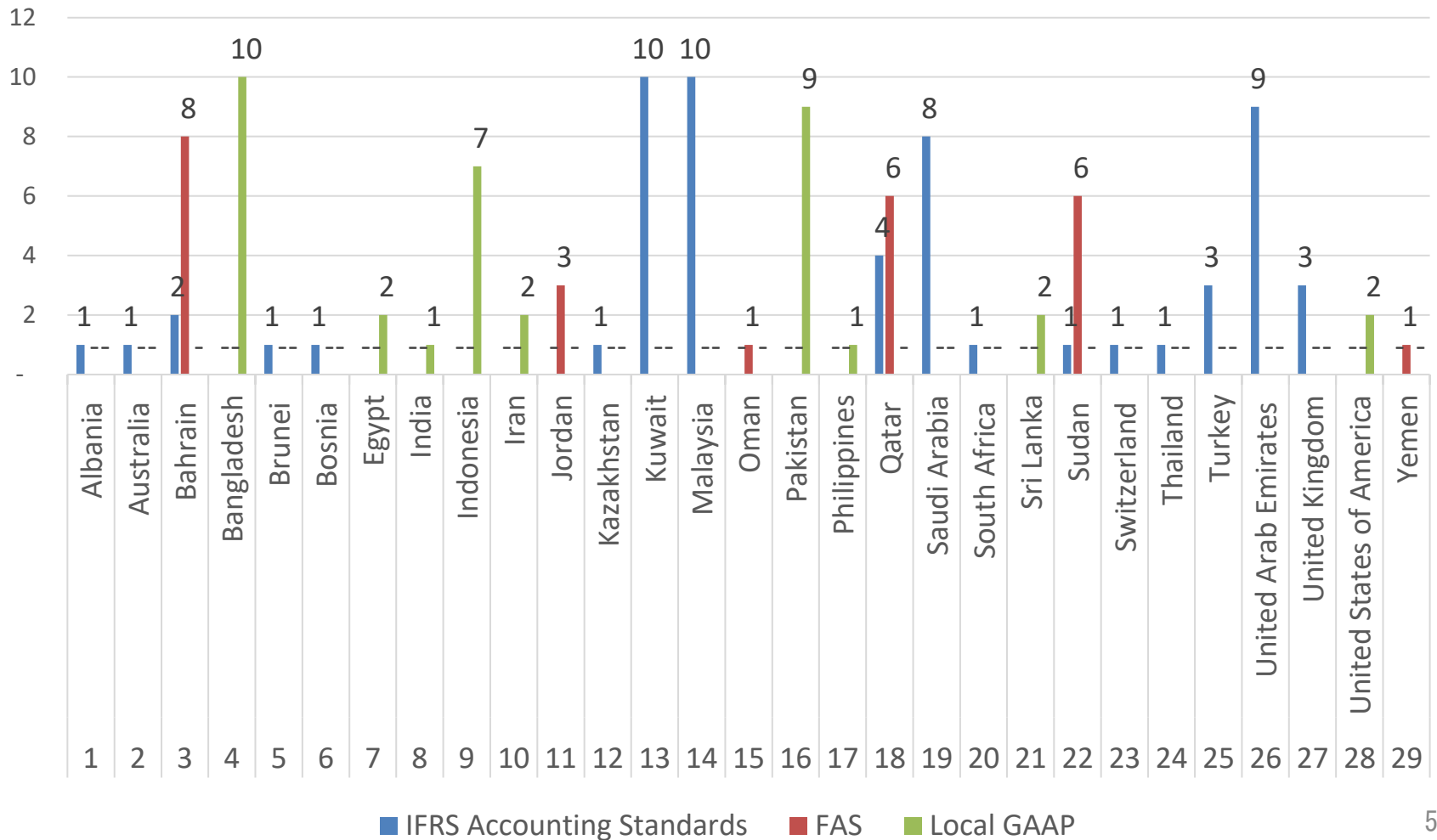
2 – banking license revoked

7 – underwent mergers and acquisitions

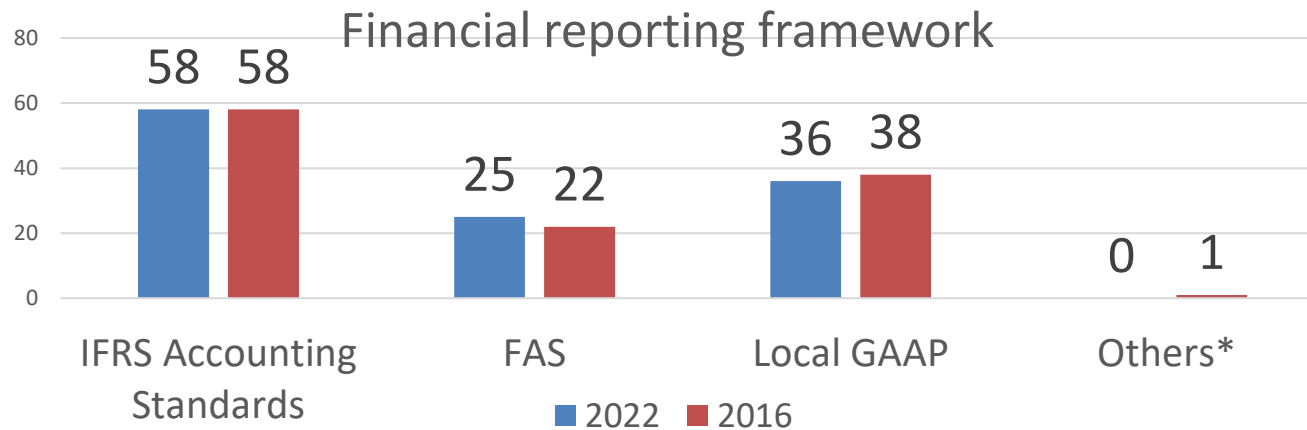
4 – financial statements were not available online

# 119 samples in 29 countries

Financial reporting framework (by countries)



# Obs. 1: Majority asserted compliance with IFRS Accounting Standards



**IFRS Accounting Standards** – as issued by the IASB

**Financial Accounting Standards (FAS)** – issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI)

**Local GAAP** – or comply with IFRS Accounting Standards but with a departure(s) to comply with local laws

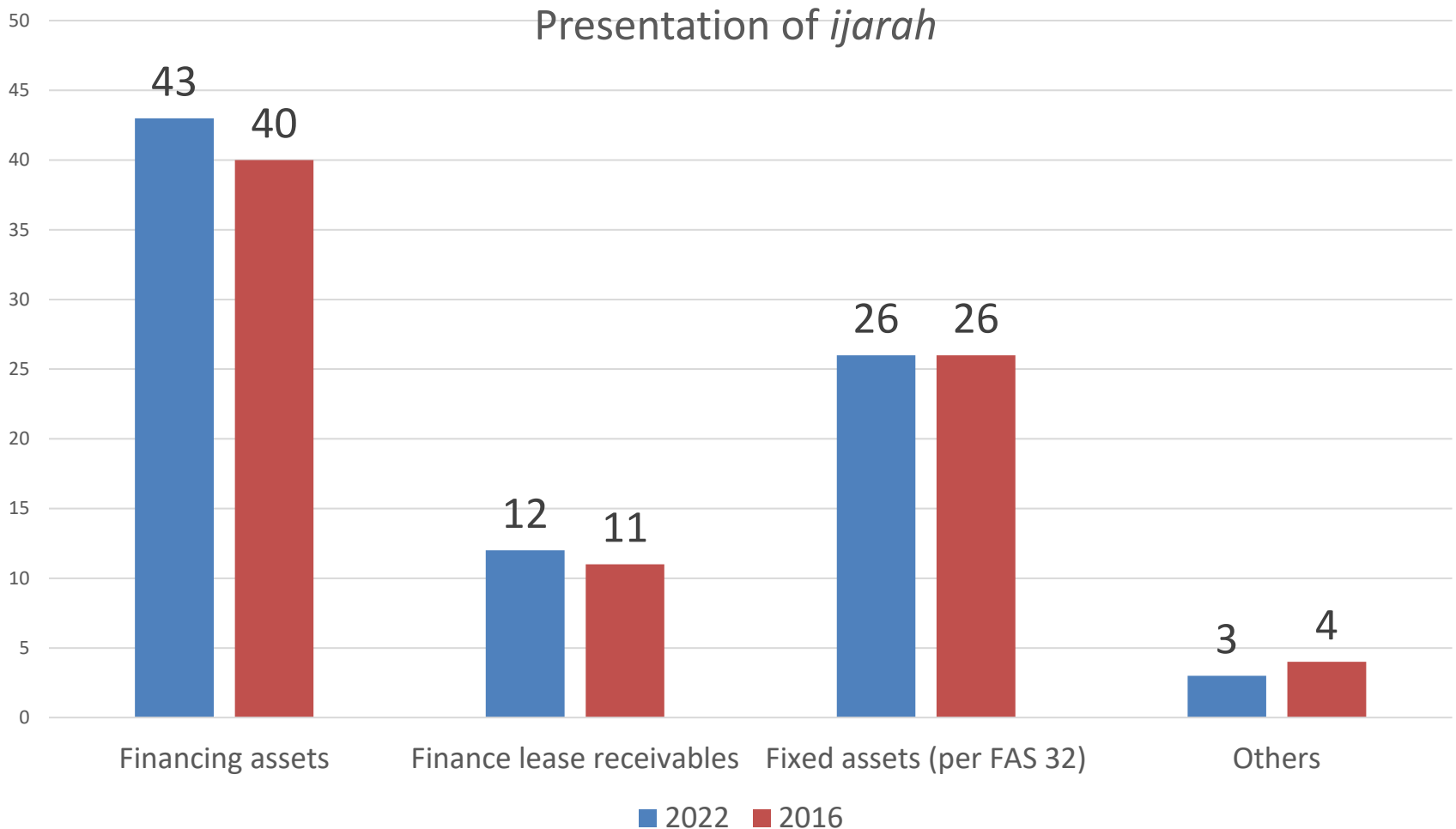
*Others (2016) = Financial statements were prepared based on historical cost and market value*

# Obs. 2: Two sets of reports

- Turkiye's financial reporting framework:
  - The Public Oversight, Accounting and Auditing Standards Authority of Turkey (POA) issued an introductory booklet where it states Turkey Accounting Standards (TASs) and Turkish Financial Reporting Standards (TFRSs) are fully compliant with the IFRS Accounting Standards
- Yet, two different sets of financial statements were published:

Financial statements (FS)	Assertion of compliance
Set 1 – Consolidated FS	IFRSs
Set 2 (part of Annual Report) - Consolidated FS - Unconsolidated FS	TASs/TFRSs TASs/TFRSs

# Ijarah of a lessor: Most reported as financial assets



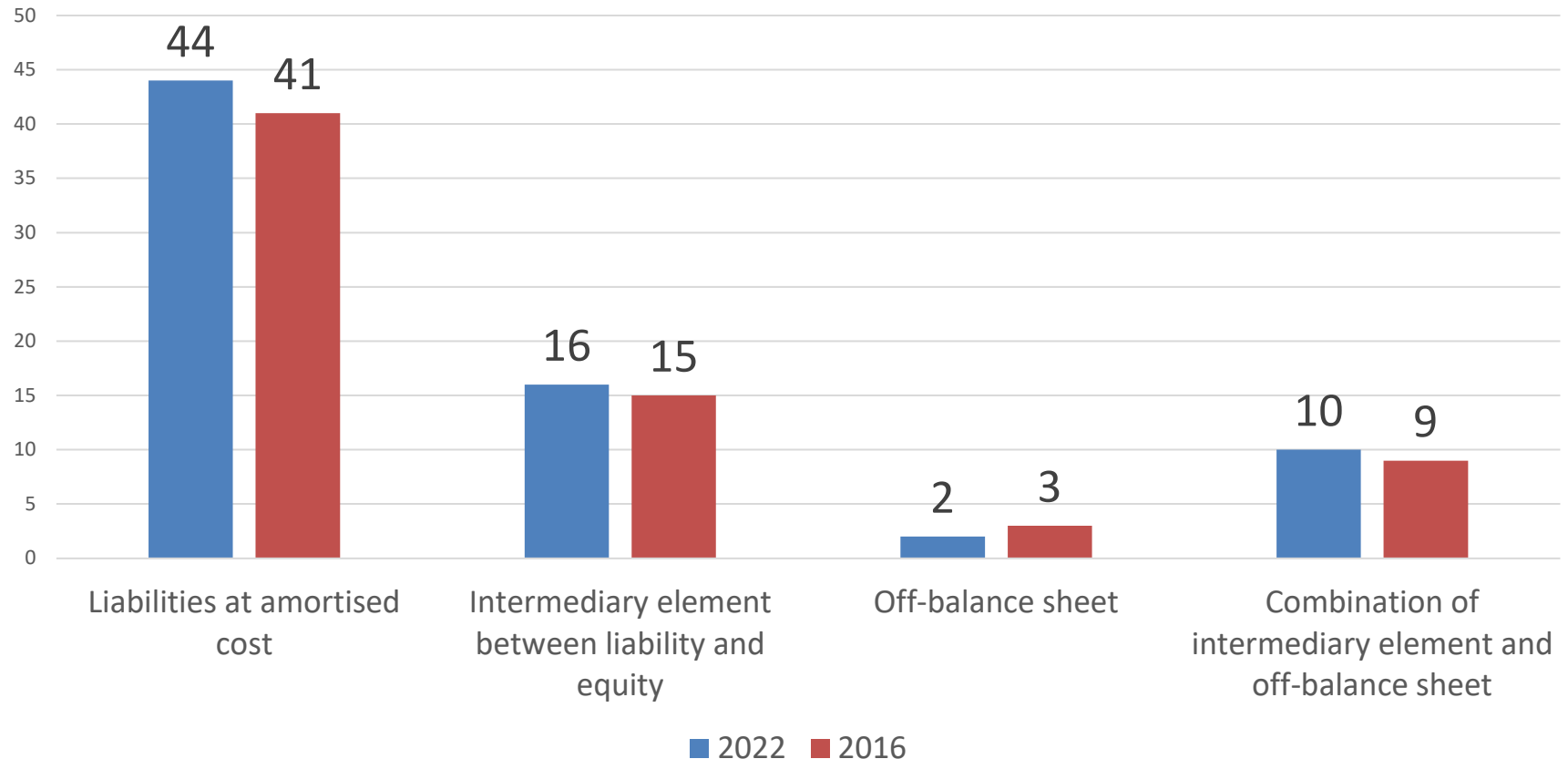


# Obs. 3: Exception in accounting for Ijarah

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- Financial statements of Islamic banks in Qatar asserted compliance with **FAS issued by AAOIFI, as modified by the Qatar Central Bank**
- On ijarah, four samples presented it as “financing assets” subject to expected credit loss requirement; similar to finance lease accounting of a lessor under IFRS 16 *Leases*
- Based on the requirements in FAS 32 on lessor accounting:
  - lessors to account for all *ijarah* assets as fixed assets measured at cost less accumulated depreciation and impairment
  - Ijarah receivables & income are recognised on an accrual basis

# Classification of *Mudarabah* customers' investment account



# Obs. 4: Intermediary element continues in practice

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- IFIs that presented investment accounts as an intermediary element between liability and equity are among those that apply FAS issued by AAOIFI or local GAAP
  - E.g., samples from Bahrain, Indonesia and Jordan

# Conclusion

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- Accounting frameworks applied by Islamic financial institutions vary
- Jurisdictional differences in views or opinions on the permissibility of a particular Shariah contract continue to contribute to differences in the accounting treatments

# Reference

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- A copy of the draft report is attached as **Appendix 1**
- To be read together with:
  - **Appendix 2:** The original report published in 2015  
[https://www.aossg.org/docs/aossg%20publications/AOSSG Islamic Finance WG-Paper Post 6th Meeting-2 Mar15.pdf](https://www.aossg.org/docs/aossg%20publications/AOSSG_Islamic_Finance_WG-Paper_Post_6th_Meeting-2_Mar15.pdf)
  - **Appendix 3:** Update to the 2014 report published in 2017  
[https://www.aossg.org/docs/aossg%20publications/aossg\\_fi\\_wg\\_jan\\_2017.pdf](https://www.aossg.org/docs/aossg%20publications/aossg_fi_wg_jan_2017.pdf)

**THANK YOU**