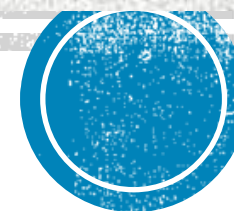


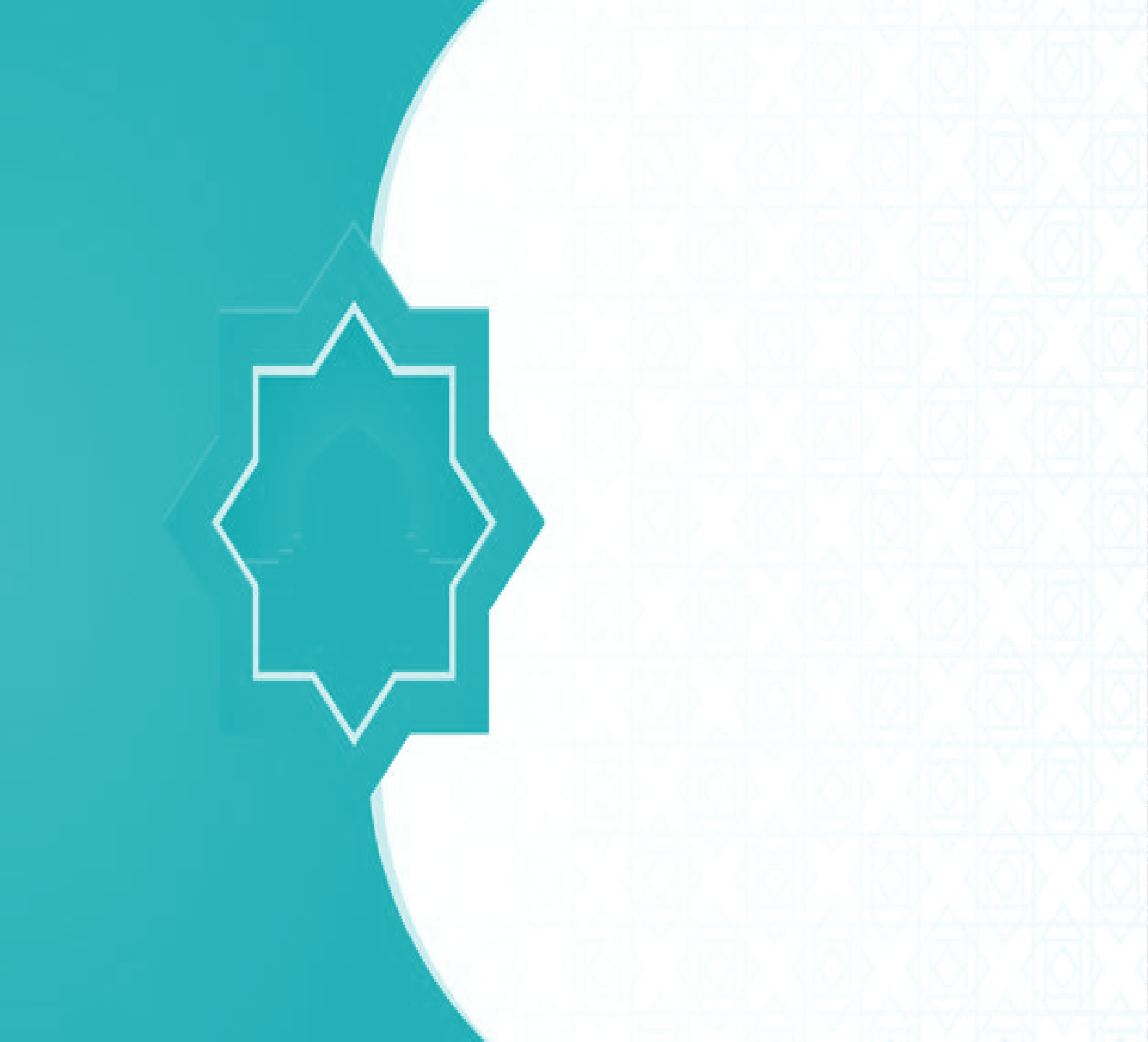
Update on accounting in hyperinflationary economies

Presentation for IASB Islamic Finance Consultative Group (IFCG)

Omar Mustafa Ansari - Secretary General AAOIFI

23 November 2023

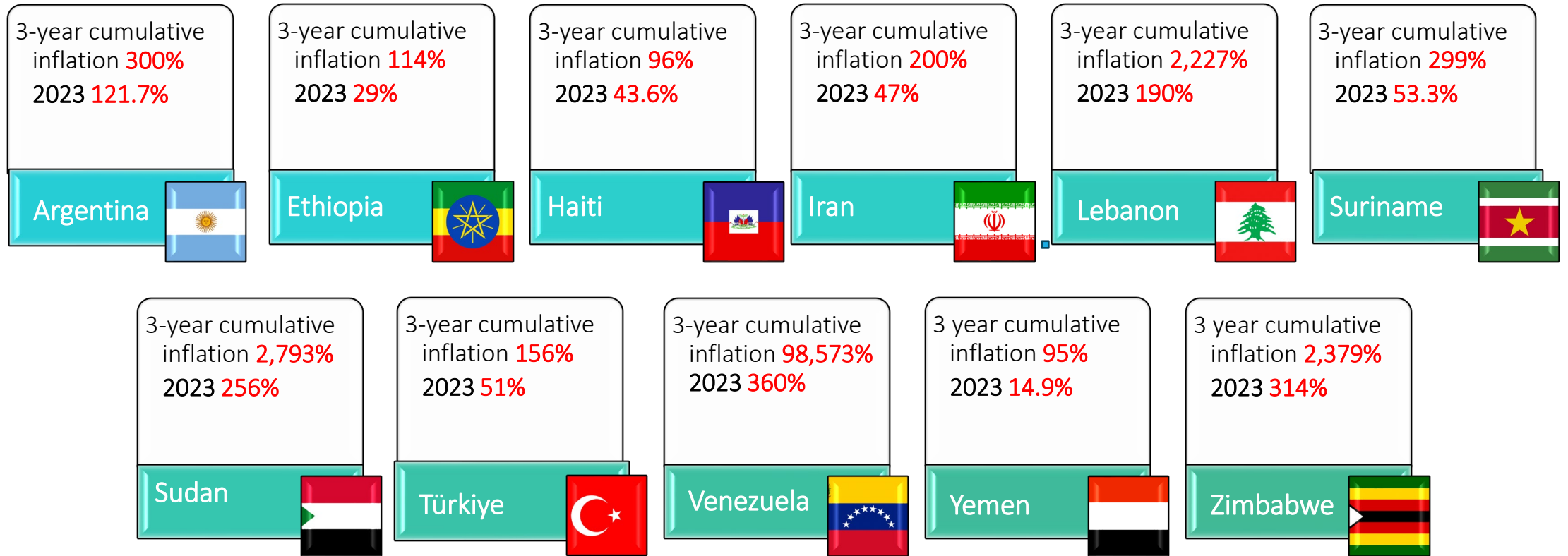




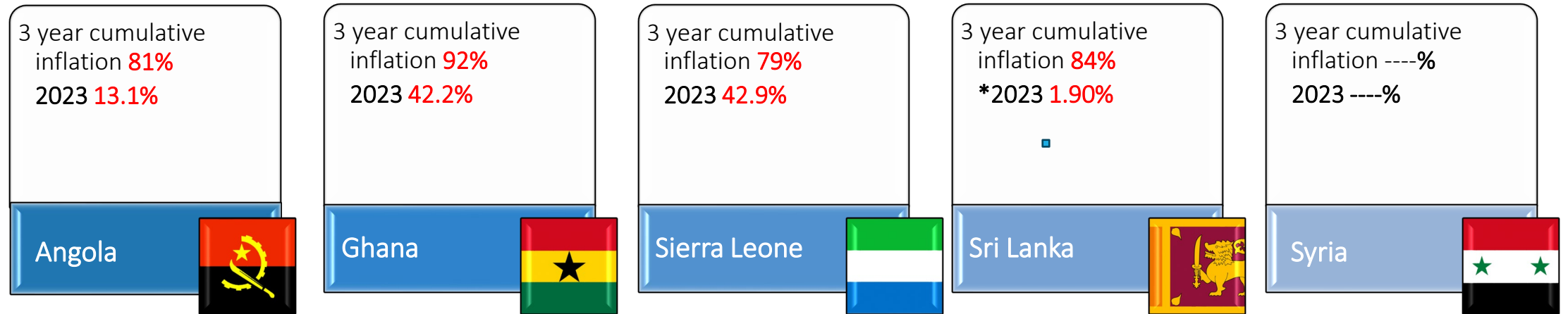
Agenda: discussion points

- Economies impacted by hyperinflation
- Economies to monitor for hyperinflation
- Countries having Islamic finance, currently impacted by hyperinflation
- Challenges faced by IFIs
- Challenges addressed by [ED of] AAOIFI FAS

Economies currently impacted by hyperinflation



Economies to monitor for hyperinflation



Countries having Islamic finance, currently impacted by hyperinflation

Countries following IFRS / Local standards based on IFRS

- Ethiopia*
- Iran
- Ghana*
- Sri Lanka
- Suriname**
- Zimbabwe*

Countries following AAOIFI FASs

- Full adoption
 - Sudan
 - Syria***
 - Yemen
- Partial adoption / supplementary
 - Lebanon***
 - Türkiye***

• Countries that are initiating Islamic finance

** An example of Islamic bank applying IAS 29

*** Subsidiaries of large Islamic banking groups (Applying IFRS (e.g., Kuwait) and applying AAOIFI FAS (e.g., Bahrain) exist

Challenges faced by Islamic Financial Institutions (IFIs)

- Presented in detail the issues being faced by IFIs in the ICFG meeting held on 31 May 2023.
- Certain assets and liabilities e.g., monetary assets and liabilities (receivables and payables, established as Dain / debt), are not allowed to be remeasured.
- Established receivables and payables are not allowed to be changed after constructive liquidation.
- The business model differences result in attribution of profits, losses and comprehensive income to different sets of stakeholders.
- Attribution of underlying assets and determination of resultant profits and losses, have a corresponding effect on the amounts of URIA and QE.

Challenges addressed by [ED of] AAOIFI FAS

- Approach of [ED of] AAOIFI FAS “Financial Reporting for Institutions Operating in Hyperinflationary Economies”
- Entity shall remeasure items constituting the elements of its statement of financial position at fair value except:
 - monetary assets and liabilities at carrying value;
 - assets acquired for future delivery for which a contract or promise exists requiring delivery / sale at a pre-agreed / pre-promised value;
 - held-to-maturity investments in Sukuk and similar instruments, reflecting a fixed or virtually fixed stream of cash flows;
 - assets and liabilities linked by agreement in accordance with agreement;
 - quasi-equity to be reflecting the appropriate effects of fair value adjustments to the underlying assets (and related liabilities), either through allocated profits or losses or through creation of appropriate reserves.

Challenges addressed by [ED of] AAOIFI FAS (contd.)

- Approach of [ED of] AAOIFI FAS “Financial Reporting for Institutions Operating in Hyperinflationary Economies”
 - Assets that are carried at lower of cost and net realisable value – to be reported at the net realisable value being an estimate of fair value only.
 - Assets that are carried at the revalued amount less accumulated depreciation and accumulated impairment to be reported at periodically revalued value.
 - All other assets (and liabilities) – to be reported at deemed fair values estimated through application of an index.
 - An index may comprise of a general price index (or a basket of general price indices) or an index based on a (or a basket of) stable foreign currency(ies) that quantifies the periodic effects of weighted aggregate loss of purchasing power of the functional currency.

Challenges addressed by [ED of] AAOIFI FAS (contd.)

- Approach of [ED of] AAOIFI FAS “Financial Reporting for Institutions Operating in Hyperinflationary Economies”
- Net gain or loss for the period, shall be recognised in OCI:
 - subsequently accumulated as a distinct “hyperinflationary fair value reserve”, presented separately representing the owners’ equity and the quasi-equity respectively; or
 - presented as allocated profit or loss (distributable, or non-distributable, in case of profit).
- Hyperinflationary fair value reserve shall be classified between:
 - the balance expected to be recycled to the statement of income:
 - categorised into amounts recyclable: i.e. within the next 12 months;
 - between the next one to three years; and
 - after 3 years;
 - the balance that is not expected to be recycled to the statement of income.

Thank you!