Update on accounting in hyperinflationary economies

Presentation for IASB Islamic Finance Consultative Group (IFCG)
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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

- **Argentina**: 3-year cumulative inflation 300% 2023 121.7%
- **Ethiopia**: 3-year cumulative inflation 114% 2023 29%
- **Haiti**: 3-year cumulative inflation 96% 2023 43.6%
- **Iran**: 3-year cumulative inflation 200% 2023 47%
- **Lebanon**: 3-year cumulative inflation 2,227% 2023 190%
- **Suriname**: 3-year cumulative inflation 299% 2023 53.3%
- **Sudan**: 3-year cumulative inflation 2,793% 2023 256%
- **Türkiye**: 3-year cumulative inflation 156% 2023 51%
- **Venezuela**: 3-year cumulative inflation 98,573% 2023 360%
- **Yemen**: 3 year cumulative inflation 95% 2023 14.9%
- **Zimbabwe**: 3 year cumulative inflation 2,379% 2023 314%

Source: World Economic Outlook / Country Data IMF and EY

IFRS Developments – Hyperinflationary economies
Economies to monitor for hyperinflation

**Angola**
3 year cumulative inflation **81%**
2023 **13.1%**

**Ghana**
3 year cumulative inflation **92%**
2023 **42.2%**

**Sierra Leone**
3 year cumulative inflation **79%**
2023 **42.9%**

**Sri Lanka**
3 year cumulative inflation **84%**
2023 **1.90%**

**Syria**
3 year cumulative inflation ----%
2023 ----%

Source World Economic Outlook / Country Data  IMF
* Central Bank of Sri Lanka
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)

- Present 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.

- 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.)


- 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.

- 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!