AAOIFI Accounting Board (AAB) Statement

AAB-1/2020

Accounting implications of the impact of COVID-19 pandemic

Contents

Preface

Background

PR1 The COVID-19 pandemic has caused a profound effect on how the society lives and works. Besides the numerous social implications, the pandemic has a significant impact on the world economy. In many jurisdictions businesses are closed; in others, they are operating under constraints.

PR2 This is a unique situation that has no precedence. Every day, we learn more and accordingly adapt our strategies. To jumpstart the economy and sustain the financial sector, jurisdictions are providing financial stimulus, regulatory reliefs and waivers to the most affected sections of society. The high uncertainty has led businesses, regulators, investors and customers raising complex questions.

PR3 Islamic Financial Institutions (IFIs / the institutions) are different from conventional financial institutions in many aspects, especially that they have multiple stakeholders (including in particular, the participatory stakeholders) who share the profit or loss of the institution. The uncertainty is more challenging for IFIs as they must ensure just and equitable treatments and presentation. And all treatments, in case of IFIs, shall always remain in line with the applicable Shari'ah principles and rules and the AAOIFI Conceptual Framework of Financial Reporting by the Islamic Financial Institutions (the Framework).

Applicability of AAOIFI Financial Accounting Standards (FASs)

PR4 The AAOIFI Accounting Board (AAB), with due support of the AAOIFI secretariat, is closely monitoring the economic situation and is aware that IFIs may be facing impediments in application of the AAOIFI FASs.

PR5 AAB is of the view that the FASs, read with the Framework, are robust and flexible enough to address the challenges posed by the prevalent uncertainty in the environment. AAB emphasizes that institutions are encouraged to provide additional disclosures on voluntary basis to enable the users of the financial statements to better understand the financial position and performance of the institutions.

PR6 AAB reiterates that all FASs are applicable, without any exemption or concession. In case the regulator of the relevant jurisdiction has notified departure from any treatment prescribed by FASs, the institution shall provide complete disclosure of the affected transactions, had such departure was not made. The institution shall also consider as to whether in such situation of departure, the statement of compliance with AAOIFI FASs is still valid.

Rationale for issuing this statement

PR7 Those institutions that prepare their financial statements in compliance with AAOIFI FASs are in need of clarification for certain pertinent accounting and financial reporting issues faced at this time, whereby the economic factors have significantly changed on one hand, and the regulators have come up with several directions on the other.

PR8 Accordingly, the AAB decided to issue this statement to provide clarifications for implementation of relevant FASs in these times.

AAOIFI Accounting Board (AAB) statement 1/2020
Accounting implications of the impact of COVID-19 pandemic

Objective of the statement

1. The objective of this statement is to provide clarifications to Islamic financial institutions (IFIs / the institutions) for the application of AAOIFI financial accounting standards (FASs) and the Conceptual Framework of Financial Reporting by the Islamic Financial Institutions (the Framework) considering certain pertinent issues arising due to economic factors and regulatory interventions in the wake of COVID-19 pandemic.

Scope

2. The scope of this statement is to provide clarifications and interpretations of AAOIFI FASs and the Framework in respect of certain significant issues related to transactions and events effected during the period of continuity of the economic factors and regulatory interventions, as a direct result of the COVID-19 pandemic.

3. The nature of the statement is that of providing interpretations, hence the same shall be applicable to similar events and transactions taking place before it is issued, if these fall within the current financial reporting period.

Definitions

4. For the purpose of interpreting and applying various terms used in this statement, the definitions provided in the respective AAOIFI FASs and the Framework shall be referred to.

Significant accounting and financial reporting issues

5. The significant accounting and financial reporting issues identified are discussed in paragraphs 5-67.

Payment moratoriums / deferment

Issue

6. In many jurisdictions, governments and regulators have announced various types of payment moratoriums, deferments and suspensions. These could be categorized into the following, whereby the payment moratorium:

    a. extends the contractual period of the transaction, without increasing the profit / return on the transaction;

    b. suspends the payments for the time being, without increasing the contractual period of the transaction, and the total profit on the transaction remains the same; and

    c. modifies the contractual terms and conditions whereby the contractual period of the transaction is increased with increase in the profit / return (where acceptable in line with Shari'ah principles and rules).

7. Considering the specific nature of IFIs, it is important to note that it may not be considered fair and equitable for participatory stakeholders, including unrestricted investment accountholders, if the institution suspends amortization of the deferred profit for the period of moratorium or recognizes an

upfront loss. [Explanation: As over a period of time their respective returns will not be uniform, just and equitable.] In addition, it is noteworthy that the Framework, in line with the Shari'ah principles and rules, does not allow either recording a receivable (Dain) on net present value (NPV) or applying the concept of opportunity cost in accounting.

Conclusion 1: payment moratorium without increase in profit / return for established receivables (Dains)

8. Since the de-recognition criteria as per paragraphs 18 and 20 of FAS 28 "Murabaha and Other Deferred Payment Sales" are not met, the original transaction shall not be de-recognized.

9. The structure of transactions, according to AAOIFI standards, allows deferred profits to be amortized over the contractual period (see paragraph 25 of FAS 28).

10. For the purpose of interpretation and application of the above requirement, the contractual period shall be considered the extended contractual / expected period, in line with the definition of the effective profit rate method (effective rate of return method)[1]. [Explanation: Once the contractual period is considered extended, the remaining amount of deferred profit shall be amortized over the remaining period using the same accounting policy as the institution has been applying in respect of accounting for such transactions. However, such an extension shall not be accounted for retrospectively.]

11. The expected contractual period in respect of a transaction is considered to be modified (extended):
    a. in case of mandatory payment moratorium by the regulator – as and when such regulatory decision is enacted; or
    b. in case of optional payment moratorium by the regulator – as and when the counter party submits its consent for application of payment moratorium in line with regulatory instructions.

12. However, it needs to be clarified that a payment moratorium does not constitute a reduction or waiver as described in paragraph 29 of FAS 28.

13. It is important to note that as per paragraph 5/7 of AAOIFI Shari'ah standard (SS) 8 "Murabaha" it is not permissible to extend the date of payment of debt in exchange of additional payments in case of rescheduling, irrespective of whether the debtor is solvent or insolvent. Accordingly, there is no intrinsic right of increase in profit in such situation.

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1. Effective rate of return method – is a method of allocating income from an asset or venture uniformly, and equitably over the contractual (or expected) period of expected benefit from the asset or continuity of venture. This method allocates the cash flows from asset or venture through a uniform rate of return including all cash flows considering all contractual terms (or best expectations) excluding expected future losses. Any fee or points paid or received, the transaction costs, premiums or discounts are included in the cash flows insofar as these are part of the base contract, or are ancillary costs. (see paragraph 6(e) of FAS 30/ paragraph 4(g) of FAS 32)

Conclusion 2: payment moratorium without increase in rental for Ijarah MBT with increase in Ijarah term

14. According to FAS 8 "Ijarah and Ijarah Muntahia Bittamleek" (also under FAS 32 "Ijarah", which is not yet effective), the Ijarah MBT assets are owned by the institution and are presented as such in the financial statements, so there is no change in the assets already recognized in the books of the lessor. In such case, the only change is the modification in the Ijarah term.

15. Accordingly, the unrecognized Ijarah revenue shall be amortized on a systematic basis (in line with the relevant standard), and related depreciation shall be charged, over the extended Ijarah term. This will ensure just and equitable return to the participatory stakeholders. The accounting treatment provided in the new standard is aligned with the Framework.

Conclusion 3: payment moratorium without increase in rental for Ijarah MBT and without increase in Ijarah term

16. According to FAS 8 (also under FAS 32, which is not yet effective), the Ijarah MBT assets are owned by the institution and are presented as such in the financial statements, so there is no change in the assets already recognized in the books of the lessor. In this situation, the transaction continues as normal, and only the payment of Ijarah rentals are deferred, in line with the original contract. This does not change the Ijarah term, and the payments deferred are to be made at a later date.

17. Accordingly, the unrecognized Ijarah revenue shall be amortized on a systematic basis (in line with the relevant standard), and related depreciation shall be charged, over the contractual (original) Ijarah term. The rentals receivables, in line with the relevant requirements, as and when due, and till when paid, shall be presented as receivables (without discounting)[2].

Conclusion 4: payment moratorium with increase in rental for Ijarah MBT with change in Ijarah term

18. According to FAS 8 (also under FAS 32, which is not yet effective), the Ijarah MBT assets are owned by the institution and are presented on the financial statements, whereby there is no change in the assets already recognized. In this situation, there is no change in Ijarah asset already recognized in the books of the lessor. On the other hand, however, there are changes in Ijarah term as well as, the total rentals to be charged (subject to mutual consent of parties and fulfilment of Shari'ah principles and rules, as confirmed by SSB of the institution[3]).

19. Accordingly, the unrecognized Ijarah revenue including the additional profit / return to be charged shall be amortized on a systematic basis (in line with the relevant standard), and related depreciation shall be charged over the extended Ijarah term. This will ensure just and equitable return to the participatory stakeholders as well. The new standard provides details of the proposed treatment and is aligned with the Framework.

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[2] Discounting of an established receivable (Dain) is prohibited under Shari'ah principles and rules, and has been referred to in AAOIFI SS at multiple places. For example, see paragraph 9/1/1 of SS 59 "Sale of Debt". Also see paragraph 12/5/4 of SS 7 "Hawalah".

[3] See paragraph 5/2/5 of SS 9 "Ijarah and Ijarah Muntahia Bittamleek", which states that the amendment of future rentals is permissible by agreement of both parties i.e. the periods of which the lessee has not yet received any benefit the rentals of any previous periods which have not yet been paid become a debt owed to the lessor by the lessee, and therefore cannot be increased.

Conclusion 5: payment moratorium in other transactions

20. In all other transactions, whereby the payment moratorium is allowed (subject to mutual consent of parties and fulfilment of Shari'ah principles and rules, as confirmed by SSB of the institution), with or without additional returns / profits, the accounting treatment shall be in line with the requirement of relevant FAS.

Presentation and disclosures

21. The AAB considers it important that institutions shall provide additional disclosures (voluntarily) in the financial statements to enable the users of such financial statements to assess the economic impact of payment moratoriums and other adjustments, settlements etc. as an effect of COVID-19 pandemic and its economic effects. The following aspects are important for providing faithful information:

    a. general terms and conditions of the moratoriums and other restructuring options exercised either on regulatory intervention, or with mutual consent of the counter parties;

    b. the effect of the moratoriums and restructuring of transactions on the effective rate of return of the current and future periods; and

    c. enhanced disclosures, in addition to the disclosures required by AAOIFI FAS and generally accepted accounting principles, with regard to the fair value of the portfolios, and risks attached thereto.

Settlement of a transaction with execution of a new transaction

Issue

22. Settlement of a transaction with execution of a new transaction can take different forms, whereby the first transaction is settled / completed earlier than the contractual settlement / completion date and a new transaction is executed which is either:

    a. a similar transaction e.g. a Murabaha or Tawarruq transaction being replaced with a new Murabaha or Tawarruq transaction, respectively with different terms and conditions – duly fulfilling the requirements of Shari'ah principles and rules, and meeting the de-recognition criterial as per relevant FAS or the Framework; or

    b. altogether a different transaction e.g. a Murabaha transaction being replaced with an Ijarah MBT transaction – duly fulfilling the requirements of Shari'ah principles and rules.

23. A Murabaha (or similar transaction) shall be replaced by another transaction if, and only if, the relevant Shari'ah principles and rules are complied with (See paragraph 4/1/3/4 of SS 59 "Sale of Debt").

Conclusion

24. In both scenarios, the first transaction shall be de-recognized from the books of account, that may result in a gain or loss that will be disclosed according to the relevant FAS applicable on the transaction and the new transaction shall be accounted for in line with the relevant FAS.

25. There is a rebuttable presumption that credit risk on a receivable that has been renegotiated with the same customer significantly increases (see paragraph 19 of FAS 30). The institution should assess the risk of default based on the modified contractual terms.

Government grants and subsidies

Issue

26. In certain jurisdictions, the governments / relevant competent authorities have announced and are still considering announcing, grants and subsidies for financial institutions to be able to cope with the economic pressures for themselves and their customers.

27. These may primarily be divided in two types, as follows:

    a. first, whereby the grant or subsidy is to support the institution itself, against its expenses or to support economic survival; and

    b. second, whereby the grant or subsidy is meant to either subsidize the profits / returns charged to the customers of the institution or, otherwise, to compensate for losses arising on investments and financing.

Conclusion

28. The grant and subsidies should be recognized in the books of an institution when, and only when, the institution is almost certain that the grant or subsidy will be received, and its amount can be reliably measured.

29. For situation addressed in paragraph 27(a), whereby the grant pertains to the institution itself, without a link to the benefits being passed on to the customers, the same shall be accounted for in line with the generally acceptable accounting principles, as suitable for similar government grants.

30. For situation addressed in paragraph 27(b), whereby the grant or subsidy is meant to either subsidize the profits / returns to the customers of the institution or, otherwise, to compensate for losses arising on investments and financing the same shall be:

    a. accounted for by applying the matching principle with regards to the corresponding profit / return charged to the customers, or as and when the corresponding losses are recognized in the statement of income; and

    b. suitably attributed to the participatory stakeholders including the unrestricted investment accountholders and other quasi-equity instruments.

31. In all cases, the grant, subsidy or any other form of assistance, should be recognised as a separate line item and shown within “other income” or netted off against the relevant line item it intends to compensate or support, as appropriate. [Explanation: If it is against a capital expenditure (asset grant) netting should happen against the respective balance sheet component and not in the statement of income]. Allocation of income should be consistent with the attribution of income and expenses between shareholders and participatory stakeholders, including unrestricted investment accountholders.

Qard Hasan (interest-free loan) and zero-return RePOs by the governments / regulators

Issue

32. In certain jurisdictions, the governments / relevant competent authorities have announced and are still considering announcing, Qard Hasan (interest-free loans) or zero-return RePO transactions for financial institutions to support their sustainability and liquidity positions during this time.

33. These may primarily be divided in two types, as follows:

    a. first, a Qard Hasan (interest-free loan) from Shari'ah perspective; and

    b. second, a RePO transaction with zero-return.

34. A Shari'ah compliant RePO is a transaction whereby an absolute sale of certain asset (normally securities) is executed between two parties in the first leg, and a unilateral promise is made to execute a reverse sale in the second leg of the transaction. Such promise must not be conditional on the first leg transaction and must be binding on one party making the promise (either the buyer, or the seller) only, while the other party must have an option of not executing the second leg transaction.

35. A zero-return RePO may also take form of a Bay' Bi-AlWafa, if relevant Shari'ah principles and rules are followed.

36. While appearing quite similar, from Shari'ah perspective, both transactions are different and hence are to be accounted for differently in line with AAOIFI FASs and the Framework.

Conclusion 1: Qard Hasan (interest-free loan)

37. Qard Hasan (interest-free loan) shall be accounted for as a loan in the books of the receiver (borrowing) institution at par value and shall not be discounted. [Explanation: For avoidance of doubt, it is clarified that there will be no initial gain on the recognition of the same, as it is a monetary item and its discounting is not permissible.]

38. On the other hand, in case of a lending institution, a Qard Hasan (interest-free loan) shall be accounted for as a receivable at par value, and shall not be discounted.

Conclusion 2: zero-return RePO

39. A Shari'ah compliant zero-return RePO transaction, like other Shari'ah compliant RePO transactions, has two distinct legs, each one of which needs to be accounted for separately in line with AAOIFI FASs and the Framework.

40. The first leg transaction is an absolute sale in line with Shari'ah principles and rules and hence, mandates a de-recognition of the relevant securities from the books of the seller. Accordingly, the securities shall be de-recognized and any gain or loss on their disposal against the carrying value shall be accounted for in the statement of income, whereas any balances kept in equity (of shareholders or participatory stakeholders) shall be released and accounted for in line with relevant FAS.

41. The second leg transaction could also be a sale in future, for which a unilateral promise is made, as a future sale transaction is not permitted. The promise, in itself, is not a transaction and hence cannot be recognized as a transaction in the books of account of the promisor.

42. In case, the promise is expected to result in a loss situation (an onerous commitment), whereby the promised re-purchase price for securities is higher than the fair value of the same, such expected loss shall be accounted for in line with the requirements of FAS 30 "Impairment, credit losses and onerous commitments".

43. Once the securities are purchased back by the seller (on the future date) the same shall be accounted for as a new purchase of securities in line with relevant FAS.

Expected credit losses

Issue

44. Established receivables, off-balance sheet exposures including guarantees, letters of credit, promise-based foreign exchange and other similar positions are subject to accounting for expected credit losses approach (see paragraph 11 of FAS 30). Due to uncertain conditions, and also due to unavailability of information in a number of cases, it may not be possible for institutions to obtain high-quality forward-looking information. The economic uncertainty permeates transactions and events; therefore, the institutions should assess the lifetime expected credit losses for all receivables and irrevocable unutilized commitment components of the products (see paragraph 14 and 17 of FAS 30).

Conclusion

45. The institutions should assess internal and external evidences as indication for the conditions leading to existence of expected credit losses. The assessment should cover the change in the risk of a default occurring over the expected life of the receivable (see paragraph 15 of FAS 30).

46. The assessment is complex, and it should focus more on the ability of the customer to start making payments when their businesses resume after the lock-down, as well as taking into account the customer's history and particularly, its status immediately before the impacts of the pandemic and the regulatory interventions. The current ability of making payments are of relevance to the assessment, but not the deciding factor to make any concrete judgment.

47. AAB has a considered opinion that a mere regulatory intervention of allowing moratorium / deferment in payment is not, in itself, an objective indication of the increase in credit risk, although the changes in macroeconomic factors may be an indication of the same to a certain extent.

48. The probability of default, risk weightage and other indicators (see paragraph 30 of FAS 30) set out by the institution to evaluate expected credit losses may require reconsideration. The institutions must take into account interest of the stakeholders in profit or loss, other than the shareholders. Creating unfair / unnecessary additional allowances for expected credit losses may be prudent for the shareholders but have an adverse effect on the interest of the participatory stakeholders, including unrestricted investment accountholders.

49. While evaluating the lifetime expected credit losses, the institution should consider the expected cashflows arising from disposal of collateral or security held and any additional uncertainties attached to the same (see paragraph 22 of FAS 30).

50. As discussed in paragraph 47, regulatory intervention of allowing moratorium / deferment in payment is not an objective indication of increase in credit risk on its own. Similarly, the credit risk may not

reduce merely by the changes in expected period of transaction, or the changes in effective rate of return for the remaining expected credit period. Accordingly, any allowance for expected credit loss, as would have been accounted for (in line with the requirements of FAS 30) before the impacts of the COVID-19 pandemic, shall be maintained at that level, even if not increased.

Impairment of assets

Issue

51. Unlike conventional financial institutions, IFIs are not subject to credit risk on all their financing and investing transactions, and rather due to the specific nature of the transactions, several products (wholly, or at a given stage of the transaction) are subject to operational, market and equity-investment risks.

52. In line with the requirements of FAS 30, an institution should ensure that the carrying value of non-monetary assets, including inventory, is not higher than the recoverable amount of such assets. Due to prevalent uncertainty, almost all asset classes may be affected, requiring extensive testing for potential impairment. [Also see paragraphs 56 to 61 with regard to impairment of investments carried at fair value through equity.]

Conclusion

53. The impairment testing for such products require careful assessment of assumptions, as both value-in-use and fair value of assets may have significant challenges to compute, including particularly, the following factors:

   a. assessing future cash flows will be difficult in the current situation, as payments are stuck in the whole of the value chain;
   b. active markets may not be available to determine the fair value of certain assets. Even where active markets are available, the level-1 quoted prices may be significantly lower than the carrying values. Where the institutions consider that non-financial assets are held for use rather than for eventual sale, the concept of value-in-use should be taken into assessment, in line with the requirement of FAS 30;
   c. most of the central banks have adjusted the discount rates to overcome the potential recession expected in the future months. Institutions should be careful in selecting an appropriate rate for impairment assessment as it can have a significant impact on the valuation of assets; and
   d. the institutions should be making judicious assessment of net realizable value of any inventory, held by them. In case, where there is a binding promise to purchase by a credit-worthy third party, the institutions should continue to carry the inventory items at their cost.

54. Ijarah MBT assets, in these scenarios, are subject to additional market and operational risks. The assessment of potential impairment of the same, shall take into consideration the additional factors. Due consideration may, in certain situations, be needed to be assigned to the fair value of assets, whereby the value in use determination may have more uncertainties involved as compared to fair value determination.

55. Products having participatory investment including for example, Musharaka and its different forms including diminishing and running Musharaka, Al-Wakala Bi Al-Istithmar and Mudaraba, besides several Sukuk and other similar instruments having similar structures have a risk of partial or complete

loss of capital for the institution. In these situations, the assessment level needs to be enhanced, and more depth of information might be needed with regard to the capability of the counter parties to survive the economic crises, rather than merely their payment capability.

Significant and prolonged decline in value of investments held at fair value through equity

Issue

56. Paragraph 10 of FAS 30 “Impairment, credit losses and onerous commitments” stipulates that in the case of investments carried at fair value through equity, a significant or prolonged decline in the fair value of an investment below its cost is also an objective evidence of impairment. In such situation, an institution needs to record an impairment on such investment, and the fair value losses are not kept in equity anymore (to the extent of impairment) and an impairment loss is recorded in the statement of income.

57. Considering the present uncertainties, as well as, lack of reliable data enabling an institution to reasonably estimate the fair values and value in use of such assets have created significant issues. Additionally, the present accounting policies of the institutions to determine as to what constitutes a significant or prolonged decline in fair value, were not meant, normally, to address such uncertain situations.

Conclusion

58. Institutions shall continue to apply their judgment for considering any decline in the fair value of investments carried at fair value through equity, as significant or prolonged for the purpose of application of their respective accounting policies developed in line with the requirements of AAOIFI FAS. However, it is clarified that determining the significant or prolonged is kept to the institution’s judgment under the respective FAS, and that such decline is an objective evidence, which in certain extra-ordinary situations may have a valid rebuttal.

59. However, in these extra-ordinary circumstances, such institutions may, for the purpose of determination of what constitutes significant or prolonged decline in fair value of such investments, take into account the following factors:

    a. their intention relating to the respective holding periods of such investments i.e. for trading purpose, or with intention for strategic investment, or for long-term dividends and capital gain etc.;

    b. as to whether the decline in the value of investment is in line with the overall trend of decline in the relevant or local market corresponding to the uncertain economic conditions as a result of COVID-19 pandemic;

    c. forecasts of the expected recovery market values within the expected holding periods; and / or

    d. forecasts of the expected recovery of the core business of the investee entity within the expected holding periods and consequential cash flows to the institution.

60. Such careful reconsideration of judgments is also important to safeguard the interest of participatory stakeholders, including unrestricted investment accountholders, as any such impairment attributable

to investments proportionately held by them is necessarily passed on to them, which may be subject to future reversals, when such uncertainties are removed.

61. It is important to clarify that the result of such change in judgment shall not affect the fair values of such investments (determined based on available data) and related fair value losses attributed to the equity of shareholders and respective stakeholders.

Going concern assumption

Issue

62. At present there are significant uncertainties with regard to the continuity of the COVID-19 pandemic itself, and more importantly, with regard to the continuity of the economic effects of the same. The current economic scenario has created significant risks with regard to the capability of various institutions to continue as a going concern, and accordingly, the suitability of the preparation of their respective financial statements on a going concern basis.

Conclusion

63. An institution shall regularly assess the suitability of going concern assumption for the purpose of preparation of its financial statements and shall provide necessary additional disclosures with regard to the risk factors and their mitigants. In particular, disclosures of the going concern assessment or key factors leading to the management's conclusion should also be disclosed in the interim financial information.

Technical reserves

Issue

64. Certain institutions may have set aside Profit Equalization Reserve (PER), and Investment Risk Reserve (IRR) in previous accounting periods to accommodate the rate of return risk and displaced commercial risk and the credit, market and equity investment risks, respectively, mainly relating to assets financed by participatory stakeholders, including unrestricted investment accountholders.

65. The institutions have to take a judgment call, in the present economic scenario, to decide as to whether they should take all effects of the allowances for impairment and credit losses, as well as, provisions of onerous commitments to the income statement directly, that have an adverse effect on the return to the participatory stakeholders, including unrestricted investment accountholders, or to utilize any available reserves to reduce such impact.

Conclusion

66. Creation and utilization of technical reserves is a business decision (at times required by regulatory framework as well), subject to the necessary approval of the stakeholders and the Shari'ah supervisory board (SSB) of the institution. However, since the primary purpose of creation and maintenance of such reserves is to ensure just and equitable treatment between the stakeholders over a longer period of time, it is highly expected in these times, that subject to the necessary SSB approvals (and regulatory approvals, where necessary), the institutions shall utilize available reserves, before passing on the adverse impacts to the participatory stakeholders, including unrestricted investment accounts.

67. Adequate disclosures shall be provided with regard to the application of judgment and movements in respective reserves or adjustments thereof, along with justification for the same. In case, such technical reserves are not utilized, the rationale for the same shall be disclosed.

Date of issue

68. This statement is issued on 21 May 2020.

APPENDICES

Appendix A: Adoption of the statement

This statement was approved by the AAOIFI Accounting Board (by circulation) on 28 Ramadan 1441H, corresponding to 21 May 2020.

Members of the Board

1. Mr. Hamad Abdulla Al Oqab – Chairman
2. Mr. Syed Najmul Hussain – Deputy Chairman
3. Mr. Abdelhalim Elsayed Elamin
4. Dr. Abdulrahman M. Alrazeen
5. Ms. Amal Al Masri
6. Dr. Bello Lawal Danbatta
7. Mr. Firas Hamdan
8. Mr. Hondamir Nusratkhujaev
9. Mr. Imtiaz Ibrahim
10. Mr. Irshad Mahmood
11. Dr. Muhammad Beltagi
12. Mr. Samet Arslan
13. Mr. Saud Al Busaidi
14. Mr. Yusuf Ahmed Ibrahim Hasan

Reservation

The statement was approved unanimously.

Taskforce members

1. Mr. Hamad Abdulla Al Oqab – Chairman
2. Dr. Abdulrahman M. Alrazeen
3. Mr. Hondamir Nusratkhujaev
4. Mr. Irshad Mahmood
5. Mr. Imtiaz Ibrahim
6. Mr. Kazim Merchant
7. Mr. Saud Al Busaidi
8. Mr. Syed Najmul Hussain

Executive team

1. Mr. Omar Mustafa Ansari (AAOIFI)
2. Mr. Mohammad Majd Bakir (AAOIFI)
3. Mr. Haroon Tabraze (Consultant-Researcher)
4. Ms. Farida Cassim (AAOIFI)
5. Ms. Merjan Abid (Executive Assistant)

Appendix B: Brief history of the preparation of the statement

H1 The AAOIFI Accounting Board (AAB) held its meeting no 17 on 5-6 Sha'ban 1441H, corresponding to 29-30 March 2020 via video conference. This was the first meeting of the newly formed board's term. An important and timely agenda item was the AAB response, at its own level, to coronavirus (COVID-19) outbreak and the disruption it has caused on a global scale. The Board considering the significance of the topic decided to develop a response and formed a task force for this purpose.

H2 The task force held its first meeting on 20 Sha'ban 1441H, corresponding to 14 April 2020 to discuss the scope of the committee and key deliverables. The members discussed the global impact created by COVID-19 and concluded that this would have an impact in the application of AAOIFI standards. The committee concluded that guidance with details should be provided, whereby technical release(s) may be issued based on necessity. The committee provided its recommendations to the secretariat with a second meeting to be held.

H3 The task force held its second meeting on 6 Ramadan 1441H, corresponding to 29 April 2020. In this meeting the first version of the exposure draft of the statement on the "Accounting implications of the impact of COVID-19 pandemic" was presented. Members concluded on key matters with instructions to the secretariat for improvements to the draft.

H4 The task force held the next meeting which was an extended second meeting on 10 Ramadan 1441H, corresponding to 3 May 2020 for the continued discussion on the statement. Further changes were made to the statement with instructions to committee members to provide their comments and input for finalization.

H5 The task force held the third meeting on 13 Ramadan 1441H, corresponding to 6 May 2020. This meeting concluded discussions on the draft and was approved for circulation to the industry stakeholders.

H6 The hearing for the statement was conducted through webinar on 21 Ramadan 1441H, corresponding to 14 May 2020 with a select group industry leaders and stakeholders.

H7 The statement was discussed with and reviewed by the Committee of the Shari'ah Board for Review of Accounting and Governance Standards in respect of conformity with Shari'ah on 25 Ramadan 1441H, corresponding to 18 May 2020. After due deliberation, the statement was forwarded to the AAB for approval by circulation.

H8 The statement after incorporation of all changes and observations was approved for issuance via circulation on 28 Ramadan 1441H, corresponding to 21 May 2020.