CHAPTER 10

Accounting and Reporting for Islamic Financial Transactions in Malaysia

10.1 The Islamic finance industry and accounting in Malaysia

The Islamic finance industry in Malaysia has been in existence for over 30 years. The enactment of the Islamic Banking Act 1983 enabled the country's first Islamic bank to be established and thereafter, with the liberalisation of the Islamic financial system, more Islamic financial institutions have been established. The first Islamic bank opened in 1983, and for 10 years was the only Islamic bank in the country before the government allowed conventional banks to offer Islamic banking services. By doing so, the Malaysian banking industry was forced to become more competitive, increasing the performance and efficiency of the Islamic banking industry. As of 2012, there are 24 Islamic financial institutions (IFIs) in Malaysia consisting of 11 full-fledged Islamic banks, eight conventional banks with Islamic windows and five other financial institutions offering Islamic products and services.[1]

Not only has the number of Islamic banks grown, Islamic banking assets have been rising sharply from year to year. In 1997, total Islamic banking assets were RM17.8 billion and rose sharply to RM77.4 billion in 2003.[2] While in 2011, the total accumulated assets of Islamic banks were 434.8 billion.[3] This increase is expected to contribute to Malaysia GDP. According to Malaysia's Economic Transformation Plan (ETP) 2011, the Islamic banking segment is expected to contribute RM11.1 billion in incremental Gross National Income (GNI) by 2020. Today, Malaysia is the world's third largest market for Shari'a assets, which includes Islamic banks, takaful and sukuk. Malaysia's global share of Islamic banking assets is targeted to increase from eight percent in 2009 to 13 percent in 2020; global share of takaful contribution is targeted to increase from 11 percent in 2009 to 20 percent in 2020; and at least one Islamic financial institution is targeted to be among the global top 10 by asset size by 2020. The Islamic banking sector is seen as a valuable area that needs to be focused upon, particularly as it is expected to contribute to the Malaysian economy.

The government of Malaysia aims to become the indisputable global hub for Islamic finance. As a result, the Malaysia International Islamic Financial Centre (MIFC) was launched in 2006 to strengthen the country's position. This initiative comprises a community network of financial and market regulatory bodies, government ministries and agencies, financial institutions, human capital development institutions and professional services companies that are participating in the field of Islamic finance. The objectives of the MIFC include, but not limited to, the following:

- Maintain public confidence in Islamic Financial Institutions (IFIs) as the custodians of public funds.
- Promote a competitive financial system which provides efficient and reliable services.
- Ensure the growth of each IFI for the development of a sound and stable financial system.
- Prevent the risk of a contagion and systemic failure of the financial system.
- Promote good market practices and high standards of corporate governance.
- Ensure IFIs are managed competently by strong and capable management teams.
- Protect customers' and stakeholders' interests.

Islamic financial products have progressed and grown in sophistication, as can be seen from the offering of a wider range of products with various structures, multiple categories of service providers and a variegated composition of consumers. To facilitate the recognition,

[1] Bank Negara Malaysia (2012). Online reference accessed November 10, 2012 from http://www.bnm.gov.my/index.php?ch=fs_mfs&pg=fs_mfs_bank

[2] Mokhtar, H. S. A., Abdullah, N., Jabshi, S. M. (2006) "Efficiency of Islamic Banking in Malaysia: A Stochastic Frontier Approach. Journal of Economic Cooperation". Vol 27 (2), pp. 37-70. Online reference accessed November 10, 2012 from http://www.kantakji.com/fiqh/files/markets/b300.pdf

[3] BNM (2011) Online reference accessed November 10, 2012 from http://www.bnm.gov.my/index.php?ch=li&cat=islamic&type=IB&fund=0&cu=0

measurement and reporting of Islamic financial transactions, many initiatives have been developed. A formal regional initiative was formulated by the Asian-Oceanian Standard-Setters Group (AOSSG) – a regional grouping of accounting standard-setters which was set up to discuss issues and share experiences on the adoption of International Financial Reporting Standards (IFRS). The AOSSG appointed the Malaysian Accounting Standards Board (MASB) as the leader for the AOSSG Islamic Finance Working Group. The objective of the Working Group is to facilitate the consideration and application of IFRS by AOSSG members through providing input and feedback to the International Accounting Standards Board (IASB) on the adequacy and appropriateness of proposed and existing IFRS to Islamic financial transactions. Besides the MASB, the other members of the AOSSG Islamic Finance Working Group comprise standard-setters from Australia, China, Dubai, Korea, Pakistan and Saudi Arabia.

The AOSSG Islamic Finance Working Group issued a Research Paper entitled "Financial Reporting Issues relating to Islamic Finance" on 30 June 2010, which discussed the accounting issues related to Islamic financial transactions within the IFRS framework.[4] With convergence in mind, the AOSSG's study sampled the opinions of working group members on issues relating to financial reporting in Islamic finance. In particular, members expressed varying views on whether there would be any Shari'a issues with regard to the application of IFRS when recording Islamic financial transactions.

Among the points of contention were the time value of money and whether to account for economic substance of the product or its legal form. With regards to accounting, the AOSSG research paper highlighted that some believed it would be inappropriate to reflect a time value of money in reporting an Islamic financial transaction because there is no interest being charged or incurred in these transactions. Following these arguments, questions were raised as to whether it is permissible to recognise a financing effect (i.e. deferred payment and profit recognition) when a contract is based on trade. There were some reservations because it was seen to blur the distinction between riba transactions and Shari'a compliant ones. On the other hand, other participants of the research focus group opined that even though charging interest on a loan is prohibited, disclosing the financing effect of a transaction would not be prohibited and thus such information would be beneficial to users.

In tackling the substance and legal form dichotomy, there were those who believed that the recognition and measurement of an Islamic financial transaction should give emphasis to its legal form in order to differentiate it from its conventional counterpart. Conversely, others believed it was important to show the economic substance of an Islamic financial transaction and information about the legal form may be disclosed in the notes to the financial statements. This issue is usually raised for the accounting treatment of ijara and whether it should be treated as an operating or finance lease.

In general, the AOSSG Research Report noted two main approaches when accounting for Islamic financial transactions through a separate set of Islamic accounting standards or by applying IFRS with additional application guidelines.

10.2 Challenges in adopting IFRS for Islamic financial transactions

In relation to Islamic financial transactions, the key challenge has been to find a relevant accounting framework that will allow for comparability with conventional finance, domestic as well as international comparability, without affecting the Shari'a compliance of Islamic financial transactions. However, if IFRS are to be implemented by IFIs, there are a number of reporting issues that may arise. Generally, it is questioned as to whether the existing accounting standards or IFRS could adequately address the reporting of Islamic financial transactions, or whether the transactions are so unique that some other form of accounting framework would be required.

IFIs are faced with the challenge between adhering to the distinctive characteristics of their operations and expanding business through deeper integration into the global financial markets. While IFIs are eager to truly comply with and conduct their businesses in accordance to Islamic principles, they also have to consider international accounting and financial standardisation in order to be part of the global financial markets.[5]

As such, in order to be competitive in the global markets, Islamic banks in Malaysia are required by Bank Negara Malaysia (BNM) to comply with IFRS. In the Circular on the Application of FRS and Revised Financial Reporting Requirements for Islamic Banks made effective on 1 January 2010, Islamic banks are required to prepare financial statements in accordance to financial reporting standards approved by MASB to the extent that the standards are consistent with Shari'a principles.

10.3 Recognition, measurement and disclosure for Islamic financial transactions

Islamic banking prosperity depends on the public trust, especially the trust of depositors and investors. The trust in Islamic banks relates to the extent of their adherence to Shari'a principles. One major source of public confidence is the quality of information issued to the investing public about the banks' ability to achieve both financial and Shari'a-related objectives.[6] Therefore, it is important to have unique accounting standards to regulate the provision of accounting information on Islamic banks. The need for accounting records as means for trust building is emphasised in the Quran: "... Do not be averse to recording it, however small or large, up to its maturity date, for this is seen by Allah as closer to justice, more solid as evidence, and more convenient to prevent doubts among yourselves, save when it is a present trade which you carry out on the spot among yourselves, then there is no sin on you if you do not write it down."[7]

Islamic accounting shares with their conventional counterparts the same common process of recognition, measurement and recording of transactions and fair presentation of rights and obligations. Recognition of rights and obligations must apply to a given

[4] Asian-Oceanian Standard Setters Group(2010) "Research Paper: Financial Reporting Issues Relating to Islamic Finance".

[5] Ratna, M. (2011, July) "The Islamic Financial Industry in the Wave of IFRS Convergence: Survey of Issues and Development". Paper presented at the 5th IIUM International Accounting Conference, Kuala Lumpur, Malaysia.

[6] Tag El-Din, S.I. (2004). "Issues in Accounting Standards for Islamic Financial Institutions". Available online at www.kantakji.com/fiqh/Files/Accountancy/v144.pdf

[7] Surah Al-Baqarah: verse 282

period of time tracing all changes of consummated transactions that may have taken place. Measurement is the quantification of financial effects of consummated transactions and the impact of other events during the same period of time. The recording process offers a lucid classification scheme of financial effects together with other events, in order to show the results of the entity's operations and changes in its financial positions including cash flow. Periodic reports are then prepared and issued by the entities to disclose their financial records during a given period of time.

The reason why Islamic financial accounting methods and principles have to be carefully distinguished from their conventional counterparts is the Islamic proscription of interest. Prohibition of interest in financial dealings is ineluctable but there are various other peculiarities that support the case for Islamic financial accounting standards. Accounting recognition for Islamic banks is crucial due to recognition of assets acquired under various Islamic modes of financing, profit/loss investment accounts, and funds. Questions that arise include when should murabaha profit; when should mudaraba capital be recognised; when should investment profit be recognised, and how is it measured. The rules governing recognition and measurement must have clear reference to Shari'a rules.

Additionally, accounting and reporting for Islamic banks should be different from conventional accounting and reporting as Islamic banks must portray that they abide by Shari'a principles. To be precise, Islamic banks must show that they do not transact in interest, pay zakat and are socially responsible, not merely focusing on attaining profit. Therefore, the primary objective of accounting information is to fulfil the ultimate accountability to Allah SWT.

Overall, this affects accounting concepts of recognition, measurement and disclosure. In terms of accounting recognition for Islamic banks, it is not significantly different from conventional practice, which defines the basic principles that determine the timing of revenue, expense, gain and loss recognition in the entity's income statement, and the timing of assets and liabilities recognition. Here, the concept of accrual accounting is relied upon, where revenue is recognised when realised and expense is recognised in accordance to the matching principle. Further, accrual accounting meets the requirement of Islamic objectives to determine 'real' wealth.[8]

However, most scholars do not agree on the use of historical cost in measuring the value to be recorded for assets and liabilities due to conflicts with the concept of fairness and justice. This is especially true for determining zakat whereby the majority of scholars recommend the use of current price on the due date of zakat.[9] The use of current market value is preferred as it provides a more accurate valuation of wealth to be then subjected for zakat. This enables justice and fairness for both the zakat recipients and zakat payers.

Many scholars have discussed the importance of disclosure for Islamic banks; most authors have expanded the scope of disclosure to include social accountability disclosure and full disclosure.[10] This has expanded the content of financial reporting to include environmental reporting, social reporting and the like. Furthermore, AAOIFI's FAS 1 stresses the importance of having a specific statement outlining the use of a qard fund and zakat collection and disbursement. This more or less signifies the importance of social responsibility to Islamic banks.

10.4 Possible approaches to accounting and reporting Islamic financial transactions: Exclusivity, Harmonisation or Convergence

Based on the issues raised in relation to the accounting principles used by IFRS it is obvious that there are differences in opinion between MASB, AAOIFI and IASB when applying accounting techniques to Islamic financial transactions. Therefore, the question that arises is whether the accounting for Islamic financial transactions should (i) have its own exclusive standards and accounting treatments, or (ii) harmonise and be comparable, but not necessarily identical, to its conventional counterpart, or (iii) converge fully with conventional accounting standards.

Exclusivity means that Islamic accounting is to prevail as a parallel system of accounting along with its conventional counterpart.[11] Thus, any Islamic financial instrument will only be recorded by using Islamic accounting practices. Harmonisation means that financial reporting standards are fine-tuned to enable general comparison with its conventional counterpart, but certain exemptions or amendments are allowed and Shari'a related disclosures may be required for specific Islamic financial transactions. The third option of convergence means applying IFRS, in every aspect, to Islamic financial transactions.

Mohamed Ibrahim and Shahul Hameed argue that there is a need for a different set of standards for IFIs mainly because IFIs are not based on the capitalist worldview which underlies the transactions that current IFRS caters for.[12] They opine that the basic difference between Islamic and conventional accounting is the objective of accounting itself. Conventional accounting is based on providing information that is useful in decision making, while Islamic accounting is based on accountability to Allah (God) and Shari'a compliance. This view is also supported by Arzim Naim who considers the "accountability framework" within the Islamic context to mean that IFIs are required to discharge their accountability in accordance with the Shari'a.[13]

More importantly, a different set of standards for Islamic financial transactions are needed because the functions and contracts used by IFIs are different from those of conventional banks. Most of the contracts are based on trading (such as sale and leasing) whereas the modus operandi of conventional banks are based on the mobilisation of deposits and advancement of loans on interest. The call for a different set of standards for Islamic financial transactions is also based on the following fundamental questions: (i) should the aim of financial reporting of IFIs be simply to provide information about their financial position and performance to a wide range

[8] Abdul Rahim, A.R. (2003) "Accounting Regulatory Issues on Investments in Islamic Bonds. International Journal of Islamic Financial Services". Vol.4 No. 4.

[9] Al-Qardawi, Y. (1999) "Fiqh Az-Zakat: A Comparative Study (translated)." London: Dar Al-Taqwa.

[10] See Baydoun, N and Willet, R. (1997) "Islam and Accounting: Ethical Issues in the Presentation of Financial Information" Accounting, Commerce & Finance: The Islamic Perspective, Vol.1 No.1… Shahul Hameed, M.I., Ade, W. Bakhtiar, A. Mohd Nazli, M.N & Sigit, P. (2004) "Alternative Disclosure & Performance Measures For Islamic Banks". Available online at http:// kantakji.com/fiqh/Files/ Accountancy/v117.pdf… Maliah, S. (2001) "Testing A Model Of Islamic Corporate Financial Reports: Some Experimental Evidence." IIUM Journal of Economics and Management 9, No. 2. pp. 115-39.

[11] Mohamad Faiz, A. (2010) "The Effect of Shariah Principles on Accounting methods for Islamic Banks". Paper presented at the World Congress of Accountants. Kuala Lumpur, Malaysia in June 2010.

[12] Shahul Hameed, M.H. (2007)" IFRS vs AAOIFI: The Clash of Standards?" International Centre for Education in Islamic Finance. MPRA Paper No. 12539. Available at http:// mpra. ub.uni-muenchen.de/12539.

[13] Naim, A. (2010). "Islamic accounting – Exclusivity, Harmonization or Convergence?" Islamic Finance News, 7 (34). Available at http://www. islamicfinancenews.com/ print_ID.asp?nm_id=18765

of users to assist them in economic decision making; or (ii) should the financial reporting of IFIs reflect their religious obligations.

In this respect, Naim suggests that Islamic accounting must not report any form of interest-based elements in the financial statements. For example, IAS 39 requires the fair value of a loan or receivable that carries no interest to be estimated according to the present value of all future cash receipts discounted using the prevailing market rate of interest for a similar instrument. He argues that this would contradict the Shari'a principles. When IFIs hold to the notion of "accountability framework" and the requirement to be accountable to Allah, reporting would be one channel to indicate Shari'a compliance of the products and business operations.

AAOIFI believes that the purpose of accounting is to "determine the rights and obligations of all interest parties, including those rights and obligations resulting from incomplete transactions and other events, in accordance with the principles of the Islamic Shari'a and its concept of fairness, charity and compliance with Islamic business values."[14] However, it appears that it espouses harmonisation with IFRS. The AAOIFI's documented approach is to start with objectives established in contemporary accounting thought, test them against Shari'a, accept those that are consistent with Shari'a and reject those that are not. Thus, entities which apply AAOIFI's standards often also apply IFRS requirements that are not rejected by AAOIFI to other items on the financial statement.

In general, the difference between AAOIFI and IFRS centres on the recognition and measurement of financial instruments and leases. AAOIFI additionally requires disclosures to convey Shari'a compliance and provides guidance on the presentation of certain items unique to Islamic finance. There are differences between the standards issued by AAOIFI and IFRS on the recognition, measurement and disclosure of provisions and contingent liabilities.[15] Another difference is that the AAOIFI's accounting requirements are drafted to emphasise the legal forms of contracts approved by its Shari'a board. It does not consider contracts (such as bai' al-inah and tawarruq) which are not approved by its Shari'a board even though they may be used extensively in some Islamic finance jurisdictions.

A study in 2011 compared IFRS and AAOIFI standards for investments/securities.[16] The study found inadequacies in both sets of standards in accounting for Islamic financial transactions. For instance, it noted that IFRS lacked adequate guidance on items that are equity-like in nature, such as unrestricted investment accounts. Similarly, it highlighted that there are deficiencies in the AAOIFI's standard for investments which, among others, does not elaborate on the determination of fair value and is vague on how to apply "estimation techniques" in the absence of quoted prices in an active market. The study points out that both accounting standards have inadequacies and advantages over the other.

The best way to resolve the differences in the accounting treatment and disclosure of Islamic financial transactions is by harmonising both AAOIFI's standards and IFRS as they are complementary to one another.[17] This means that IFRS standards have to be fine-tuned to accommodate Shari'a principles. Naim suggests that specific IFRS be issued for use only by IFIs. By taking into account the unique features of Islamic financial transactions, the issuance of specific IFRS would provide more useful information for decision making purposes.

The third approach – in addition to developing exclusive accounting standards or harmonisation with conventional standards – is the full convergence of accounting standards for Islamic financial transactions with IFRS. The MASB's initiatives are in line with this approach. For instance, while issuing its SOP i-1[18], the MASB appears to have already adopted this approach although it is tempered with caution against the remote possibility of Shari'a conflict. Paragraph 6 of SOP i-1 requires that "Shari'a compliant transactions and events shall be accounted for in accordance with MASB approved accounting standards, unless there is a Shari'a prohibition". In developing SOP i-1, the MASB also sought the advice of the Shari'a Advisory Council of Bank Negara Malaysia which concluded that generally accepted accounting principles (GAAP) do not conflict with Shari'a methodologies. More recently in January 2012, as mentioned earlier, the MASB has officially pronounced its convergence to IFRS.

This is not to say that there would not be any accounting issues under full IFRS convergence. Thus, those in favour of convergence believe that those issues, similar to other issues not related to Islamic finance, can be resolved within the IFRS framework without having to resort to a separate framework (exclusivity) or adopting mixed standards (harmonisation).

The decision as to whether exclusivity, harmonisation or convergence would prevail in a particular accounting jurisdiction largely depends on: (i) whether the relevant Shari'a authorities consider the financial reporting function to be part of the Shari'a assessment of a transaction or event; or financial reporting represents merely a recording of the economic effect of a Shari'a-compliant transaction without affecting Shari'a compliance; and (ii) to what extent the relevant Shari'a authorities would accept how Islamic financial transactions are reported in the financial statement, since IFRS would likely recognise and measure many Islamic financial transactions in accordance with their economic substance (e.g. as financing transactions) rather than their legal form (e.g. as trade transactions).

10.5 Financial reporting regulation for Islamic banks in Malaysia

The MASB issues accounting standards in the country. Malaysia has had a comparatively smoother journey towards convergence as it has incorporated the provisions of (International Accounting Standards) IAS into local accounting standards since 1978.1[19] The current Financial Reporting Standards (FRSs) issued by the MASB are already compliant with IFRS.

On 19 November 2011, the MASB issued a newly approved accounting framework, the Malaysian Financial Reporting Standards (MFRS) framework. This issuance, which was made in conjunction with the MASB's plan to

[14] Accounting Auditing Organisation for Islamic Financial Institutions (AAOIFI) (2010) "Accounting, Auditing and Governance Standards for Islamic Financial Institutions. Financial Accounting Standards No. 1." Manama, Bahrain: AAOIFI.

[15] Vinnecombe, T and Park, D. (2007) "The Implications of Islamic Jurisprudence for the International Harmonization of Accounting Standards." Financial Reporting, Regulation & Governance, 6(1), 1-23.

[16] Ratna, M. (2011, July) "The Islamic Financial Industry in the Wave of IFRS Convergence: Survey of Issues and Development." Paper presented at the 5th IIUM International Accounting Conference, Kuala Lumpur, Malaysia.

[17] ACCA and KPMG (2010) "Harmonising Financial Reporting of Islamic Finance."

[18] Malaysian Accounting Standards Board (2009) "Standard Operating Principles Financial Reporting from an Islamic Perspective."

[19] Zainal Abidin, P. (2008) "Full Convergence with IFRS in 2012." Accountants Today, October, pp. 22-23.

converge with IFRS in 2012, finalised the MASB Exposure Draft 75 IFRS-compliant Financial Reporting Standards released in June 2011. The MFRS framework comprises standards as issued by the IASB which are effective as from 1 January 2012. It also comprises new/revised standards issued by the IASB that will be effective after 1 January 2012 such as standards on financial instruments, consolidation, joint arrangements, and fair value measurement and employee benefits, among others.

BNM released the Guidelines on Financial Reporting for Licensed Islamic Banks (GP8-i) in 2005. Then, in 2012, BNM issued an updated GP8-i that will be effective in 2013. The objective of the Guidelines on Financial Reporting for Licensed Islamic Banks (GP8-i) is to provide the basis for presentation and disclosure of reports and financial statements of Islamic banks in carrying out its banking and finance activities. This is to ensure consistency and comparability of financial statements among the Islamic banks in complying with the provisions of the Companies Act 1965, applicable approved accounting standards and Shari'a requirements, and to facilitate users in their evaluation and assessment of the financial position and performance of an Islamic bank. The GP8-i is applicable to Islamic banks licensed under the Islamic Banking Act 1983.

10.6 Initiatives on the Reporting and Disclosures of IFIs

In Malaysia, IFRS-compliant standards apply to Islamic financial institutions. However, in some cases, the way they are to be applied is unclear and further clarification may be necessary. Consequently the MASB has issued a number of pronouncements relating to Islamic finance, as listed below:

i. MASB Technical Release TR i-1: Accounting for Zakat

ii. MASB Technical Release TR i-2: Ijara

iii. MASB Technical Release TR i-3: Presentation of Financial Statements of Islamic Financial Institutions

iv. MASB Technical Release TR i-4: Shari'a Compliant Sale Contracts

Apart from the above, the MASB has also issued three discussion papers in December 2011 for public comment, as detailed in Table 1.

MASB is also active in communicating its views to the International Accounting Standards Board (IASB), i.e. the body that issues IFRS, both in its own capacity and as leader of the AOSSG Islamic Finance Working Group. In response to IASB's request for views on its future agenda, the MASB and AOSSG strongly lobbied IASB to establish an expert advisory group on Islamic finance.[20]

Apart from the above discussion papers, MASB also adopts the relevant IFRS as issued by the IASB for use by IFIs. Table 2 and 3 summarise the salient points of relevant standards and technical pronouncements that are used by IFIs in recording Islamic financial transactions.

As mentioned earlier, Bank Negara Malaysia also provides reporting guidelines to be used by all IFIs in Malaysia that are consistent with the standards issued by MASB.

BNM's GP8-i: Financial Reporting for Licensed Islamic Banks was issued in 2005 to provide guidelines in presentation and disclosure of reports and financial statements. This effort is to ensure consistency and comparability of statements among Islamic banks and at the same time to assist users in their evaluation and assessment of the financial position and performance of an Islamic bank. The GP8-i proposes the minimum disclosure requirements that should be observed by the reporting institutions and they are encouraged to disclose additional information on accounting policies, new financial instruments and other material activities of the reporting institutions. It stresses that Islamic banks must ensure financial statements are prepared in accordance to MASB accounting standards. Additionally, it also outlines minimum disclosure requirements with regards to Shari'a related disclosures for financing and deposit products, zakat related information, purpose and source of fund of qard financing, murabaha inventories, ijara assets, further breakdown of financing, and deposits according to Shari'a contracts.

Table 1: MASB's Discussion Papers

No.	Title	Summary of Contents	Issue Date	Comments Due to MASB
1.	Discussion Paper i-1 on Takaful (MASB DP i-1)	The paper explores issues such as: • whether takaful meets the definition of an insurance contract as per IFRS 4 Insurance Contracts • whether a takaful operator should prepare consolidated financial statements • accounting for any qard (interest-free loan) extended to a participant's fund that is in deficit • retakaful, participating contracts, revenue recognition, and additional disclosures	16 December 2011	16 March 2012
2.	Discussion Paper i-2 on Sukuk (MASB DP i-2)	Issues discussed include the classification of sukuk by the issuer and investor in the statement of financial position, fair value measurement, impairment, derivatives, guarantees and related party disclosures.	16 December 2011	16 March 2012
3.	Discussion Paper i-3 on Shari'a Compliant Profit-sharing Contracts (MASB DP i-3)	These contracts are similar to conventional profit-sharing or partnership contracts but raise questions on the classification of items in the statement of financial position, accounting implications of smoothing techniques to stabilise returns on capital, and consolidation, joint ventures and investments in associates.	16 December 2011	16 March 2012

[20] To find out more about IASB's Agenda Consultation 2011, visit the relevant project page at www.ifrs.org

In 2012, a revised GP8-i was issued consisting of various changes introduced by BNM, especially emphasising the importance of adhering to MASB accounting standards known as MFRS and providing additional disclosures in relation to Shari'a contracts underlying the financing and deposits products offered by Islamic banks, sources and uses of qard fund, etc. Additionally, it stresses on the use of fair value option for financial instruments.

The revised GP8-i requires greater amount of disclosure

Table 2: MFRS Standards relating to Islamic financial transactions

No.	MFRS	Description of the standards
1.	MFRS139 Financial Instruments	Clarifies and guides users on the recognition and measurement of financial instruments. It defines the types of financial instruments and offers guidance on how it should be accounted and measured for in the financial statements of reporting entity.
2.	MFRS 7 Disclosure of Financial instruments	Outlines the important items to be disclosed in the Statement of Financial Position, Statement of Comprehensive Income in relation to financial instruments.

Table 3: MASB's Pronouncements Relating to Islamic Finance

No.	MASB's Pronouncements	Comments
1.	Technical Release TR i-1, Accounting for Zakat	Outlines the method of zakat calculation and how a zakat item is to be presented in the financial statements.
2.	Technical Release TR i-2, Ijara	Confirms that the requirements of MASB's approved accounting standard on leases apply to Ijara.
3.	Technical Release TR i-3, Presentation of Financial Statements of Islamic Financial Institutions	Contains guidelines on financial statements reporting format specifically for IFIs. This includes guidelines on additional notes disclosure such as disclosure of earnings or expenditure prohibited by Shari'a.
4.	Technical Release TR i-4, Shari'a Compliant Sale Contracts	Explains that a 'true sale' under Shari'a does not necessarily result in derecognition of the sold item for accounting purposes.

Table 4: Comparison between the revised and currently in use GP8-i

Disclosure item	New GP8-i (issued 2012)	GP8-i (issued 2005) & Comments
Accounting policies	• Information on each Shari'a contract or main class of Shari'a contract e.g. murabaha, ijara, mudaraba, istisna. This guideline also provides a suggested disclosure table detailing the financing by types of Shari'a contract which is comprehensive and reflective of the operations of Islamic bank. • Nature of income derived from Shari'a non-compliant activities, including its amount; method of disposal and control measure to avoid recurrence of such prohibited income.	The guideline classifies Shari'a contracts. Although not mentioned, the Shari'a Committee Report discloses the disposal of Shari'a non-compliant activities via charity, etc.
Deposits from customer	The following information are required to be disclosed: • Types of deposits • Types of investment account (restricted and unrestricted investment account) • Types of customers • Maturity structures of term deposits	Items to be disclosed are: • Types of deposits • Types of customers
Financing, receivables and other loan	The following information are required to be disclosed: • Measurement basis • Types of financing • Geographical distribution • Profit rate sensitivity • Sector or economic purpose • Residual contractual maturity	Items to be disclosed are: • Type of financing • Contract • Type of customer • Profit rate sensitivity • Maturity • Sector
Zakat	The following information are required to be disclosed: • Method applied in the determination of zakat base • Beneficiaries of zakat fund • Basis of distributing zakat fund to various beneficiaries	Items to be disclosed are: • Description of the purpose of zakat • Basis of calculation • Zakat base • Zakat expense

Disclosure item	New GP8-i (issued 2012)	GP8-i (issued 2005) & Comments
Qard	A movement schedule of the qard loan/financing which includes opening and closing balances, sources and uses of the fund	The guideline does not mention about this disclosure
Rahnu	A disclosure of rahnu assets by type	The guideline does not mention about this disclosure
Ijara	The following information are required to be disclosed: • disclosure of carrying amount • disclosure of the extent of the transfer of usufruct It provides a suggested format for the Islamic banks to consider applying.	The guideline does not mention about this disclosure

for the above mentioned items. Greater disclosure benefits users in becoming informed on how well IFIs are operating in line with Shari'a precepts.

10.7 Conclusion

Malaysia has come a long way in ensuring that its accounting standards for use by Islamic financial institutions are in tandem with Shari'a principles. In 2010, MASB proactively sought advice from the BNM's Shari'a Advisory Council for the Shari'a point of view on basic accounting principles such as time value of money and substance of contracts over legal form. This was to ensure that once the underlying accounting principles are Shari'a compliant, the IFRS to be adopted later by IFIs are also Shari'a compliant. Apart from that, MASB also issued specific technical pronouncements on ijara, zakat and Shari'a compliant sale contracts to greater assist IFIs in accounting and recording Islamic financial transactions. Bank Negara Malaysia as the regulator of IFIs play an active role in ensuring IFIs' accounting and reporting practices are in line with Shari'a principles as well as adhering to the accounting standards issued by MASB as evidenced in the issuance of the revised GP8-i in 2012. It is hoped that continuous collaboration and support from MASB and BNM will assist IFIs to provide higher quality disclosures on Islamic financial transactions.

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