



To:	AASB members	Date:	24 January 2011
From:	Angus Thomson & Christina Ng	Agenda Item:	7.1
Subject:	Islamic finance	File:	--

Action

Note recent developments on our involvement with accounting for Islamic finance and some issues in the context of IFRSs.

AASB staff will make a brief Powerpoint presentation at the meeting.

Background

The AASB is a member of the Islamic Finance Working Group of the Asian-Oceanian Standard-Setters Group (AOSSG). The main activities of that Working Group have been to:

- * prepare comment letters on IASB EDs covering topics on which there are Islamic finance issues, which have so far included submissions on each of the recent Financial Instruments EDs and the EDs on Leases, Insurance Contracts and Revenue; and
- * prepare an AOSSG Research Paper *Financial Reporting issues relating to Islamic Finance*, which provides a basis for understanding aspects of Islamic finance and is available on the AOSSG's website.¹

AASB staff are in the early stages of becoming familiar with Islamic finance. Accordingly, the AASB staff view their role on the AOSSG Working Group as primarily being that of an IFRS 'sounding board' and commentator.

The main aim of the AASB staff in participating in the AOSSG Working Group is to identify opportunities for helping to facilitate IFRS adoption in jurisdictions that might not otherwise consider adopting IFRSs. For example, there may be opportunities for us to comment to the IASB on amending proposals in a manner that might facilitate application in an Islamic Finance environment. Alternatively, we may be in a position to put forward arguments in our Working Group discussions that help overcome the perception of there being a particular problem with an IFRS or IASB proposal in a particular context.²

1 http://www.aossg.org/docs/AOSSG_IF_WG-Research_Paper_11Oct2010.pdf

2 This aim is consistent with the AASB's statutory functions, which include participating in and contributing to the development of a single set of accounting standards for world-wide use [*Australian Securities and Investments Act 2001* section 227(1)(d)]

The Australian government is also keen to consider removing any regulatory barriers to the creation and trading of Islamic contracts for the benefit of the Australian economy.³

Based on our AOSSG experience, it is apparent that there are various views on how accounting issues connected with Islamic finance should be dealt with in the context of IFRSs. Different Islamic communities have different perspectives on Shariah law, with some being more ‘orthodox’ than others.

Shariah law identifies activities that are permissible (halal), activities that are prohibited (haram), and activities of doubtful permissibility (shubhah). Interest on a loan, for example, is generally regarded as being haram.

One view is that the impacts of Shariah law in the context of IFRSs should be treated no differently from the impacts of any other laws, customs or restrictions, such as the short-selling restrictions imposed in Australia in the wake of the financial crisis, the general prohibition on direct borrowing by Australian superannuation plans, or the fact that Australian companies are not generally permitted to have treasury shares.

Another view is that the impacts of Shariah law are so profound that IFRSs would need to be re-written in order to be applied. Both the Institute of Chartered Accountants of Pakistan and the Indonesian Accounting Institute promulgate Islamic accounting standards based in part on those issued by the Accounting and Auditing Organization for Islamic Financial Institutions.

Attachments

Malaysia International Islamic Finance Centre *Introduction to Islamic Finance* [Agenda paper 7.2]
– provides background on some common Islamic contracts

Presentation slides will be tabled at the meeting

³ http://www.trademinister.gov.au/releases/2010/sc_100212.html