المجمع الدولي العربي للمحاسبين القانونيين

The International Arab Society of Certified Accountants (IASCA)

عضو في طلال أبوغزاله فاونديشن

Member of TAG-Foundation

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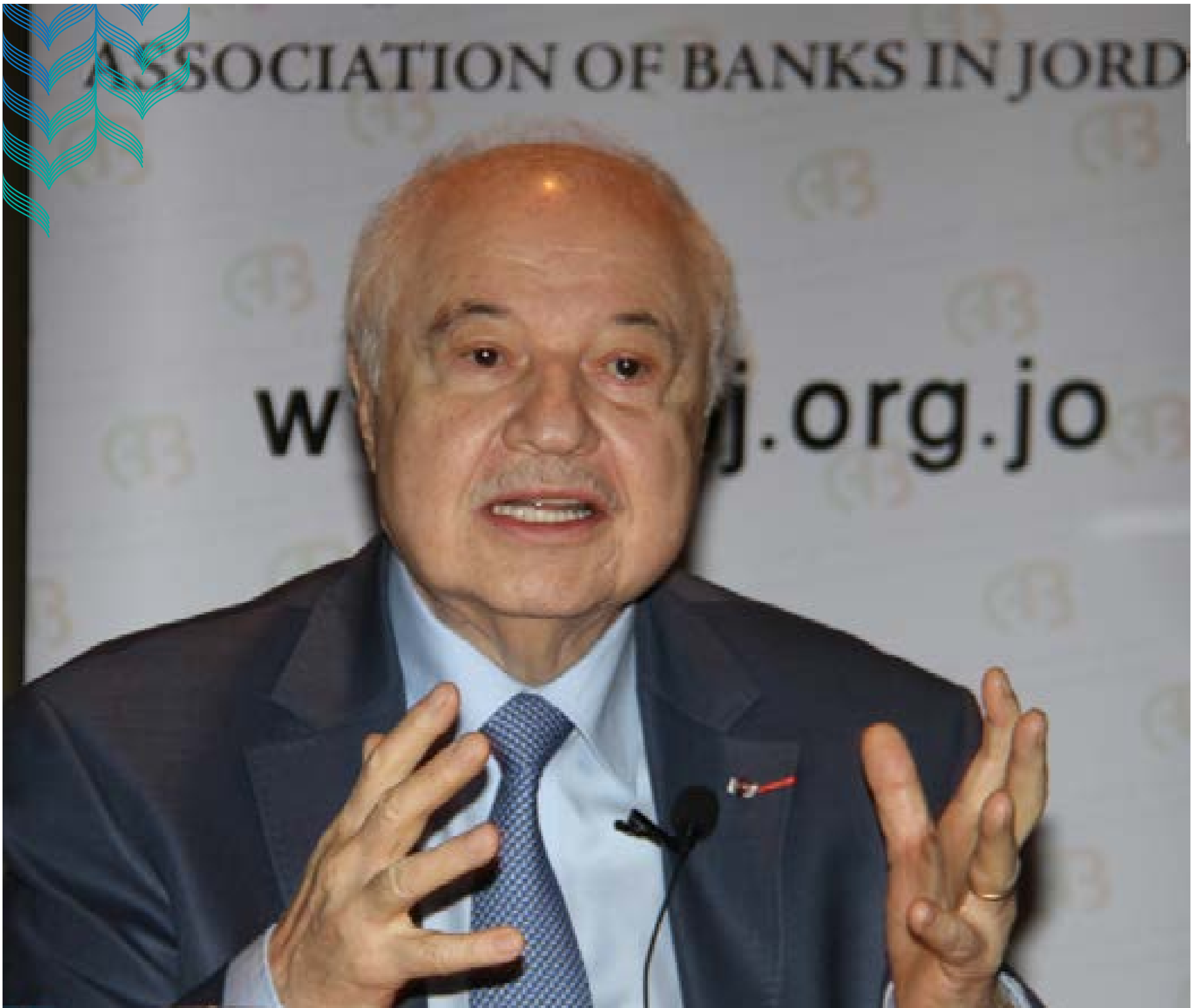
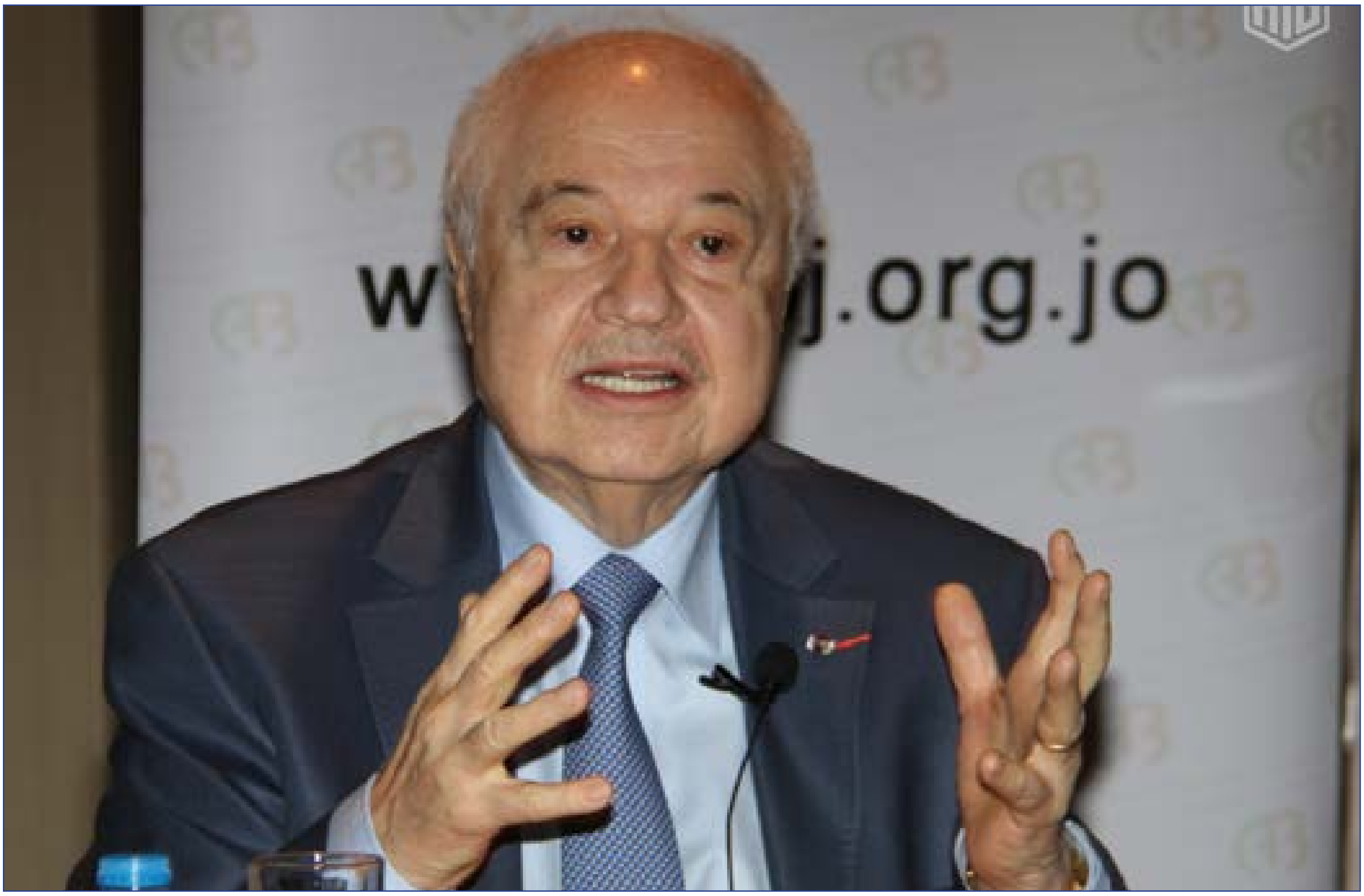
YOUR GATE TO ACCOUNTING, AUDITING AND CODE OF ETHICS



Abu-Ghazaleh: The Hashemite Vision Enabled Jordan to be Ranked 1st at Regional Level in Combating 'Money Laundering and Financing of Terrorism' Index

IN THIS **EDITION:-**

Abu-Ghazaleh: The Hashemite Vision Enabled Jordan to be Ranked 1st at Regional Level in Combating 'Money Laundering and Financing of Terrorism' Index



AMMAN - HE Dr. Talal Abu-Ghazaleh expressed his pride of the Hashemite leadership for its continuous efforts enabling the Kingdom to be ranked 1st at the Arab level on combating 'Money Laundering and financing of Terrorism' Index by Basel Institute on Governance which is specialized in studying anti-corruption, public governance, anti-money laundering, criminal law enforcement, as well as stolen asset recovery.

Dr. Abu-Ghazaleh affirmed that this great accomplishment was only possible as a result of HM King Abdullah II unique vision at all levels. The process started when the Kingdom established the Anti Money Laundering and Counter Terrorist Financing Unit making the current ranking of the Kingdom at No. 36 internationally out of 149 countries.

Dr. Abu-Ghazaleh's remarks were part of his speech at the Annual Forum on Fighting Money Laundering, Terrorism Financing, and Tax Evasion, in Amman, organized by the World Union of Arab Bankers in cooperation with the Association of Banks in Jordan and with an extensive Arab participation.

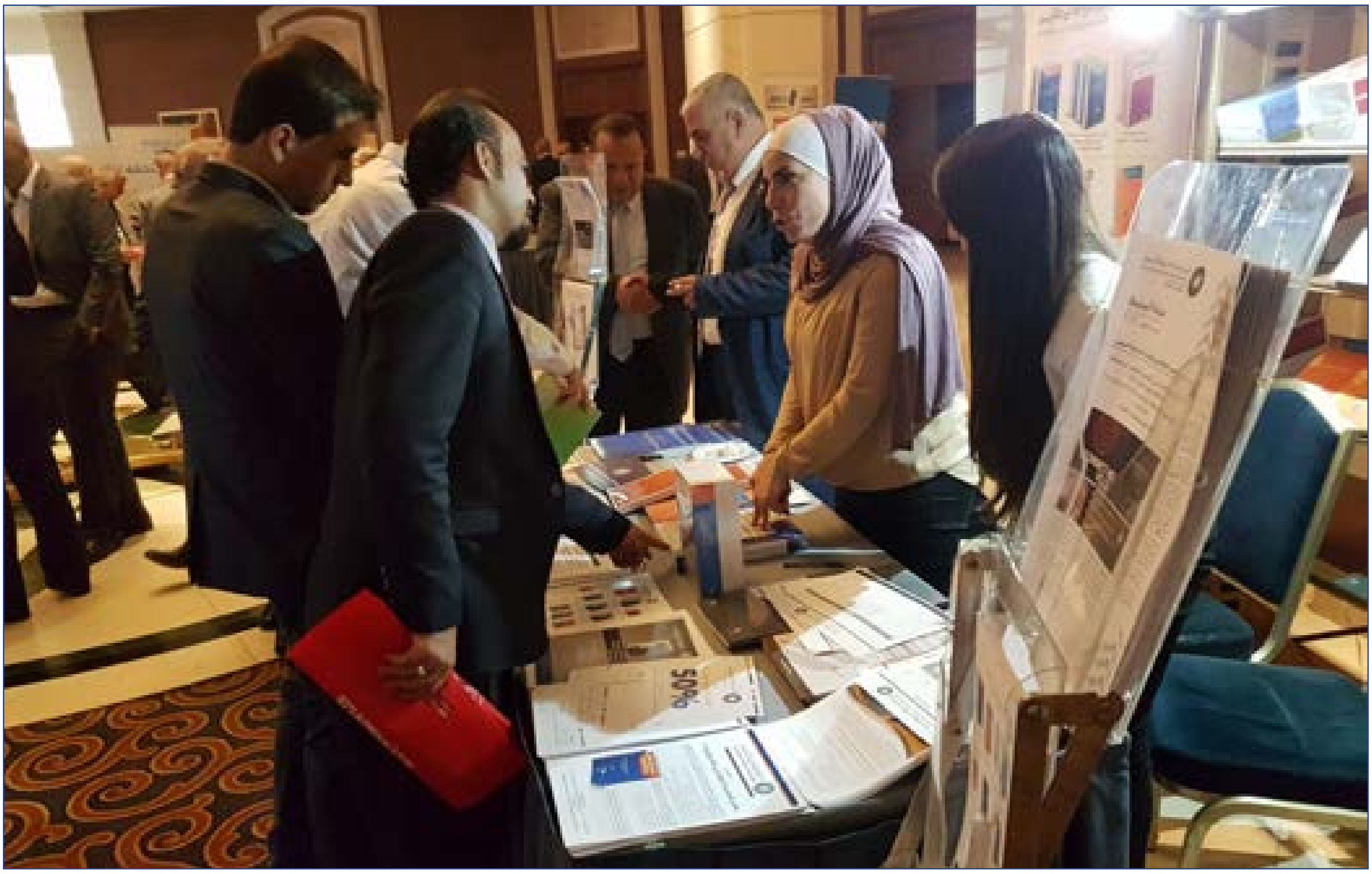
Dr. Abu-Ghazaleh urged the Forum participants to introduce mechanisms to fight money-laundering and to eliminate, though partially, terrorism financing by drying its resources. He further urged the important concept of (Know Your Client) by investigating actions that cannot be justified or prove not to be compatible with clients' economic activities.

Dr. Abu-Ghazaleh also advised the necessity of updating the client's information periodically. He called on the concerned entities to activate the Compliance Officer Department (Integrity) to revise the financial transactions constantly; to increase the level of awareness of all banking sector employees about money-laundering, financing terrorism, and means of detection. That can be achieved, he said, by organizing periodical training courses to all sector employee as well as conducting fake money-laundering procedures to check their ability to detect them.

Further, Dr. Abu-Ghazaleh stressed the significance of developing bank monitoring procedures by the Central Banks, creating close channels between auditors, to check on any suspicious transaction, as auditors are the independent entities which can investigate financial transactions, along with clients accounting records and financial statements.

Dr. Abu-Ghazaleh called for imposing stringent penalties income and sales tax evaders, facilitating and accelerating litigation procedures, building database of all the Kingdom employees so all are committed to present data about their activities even if they are not entitled to pay taxes, and forcing all service sector employees to issue invoices with their institution tax number.

IASCA Participates in "Reality and Challenges" Conference on Business Environment



AMMAN - The International Arab Society of Certified Accountants (IASCA) took part in the 11th International Professional and Scientific Conference entitled "Reality and Challenges" held in Amman by the Jordan Association of Certified Public Accountants.

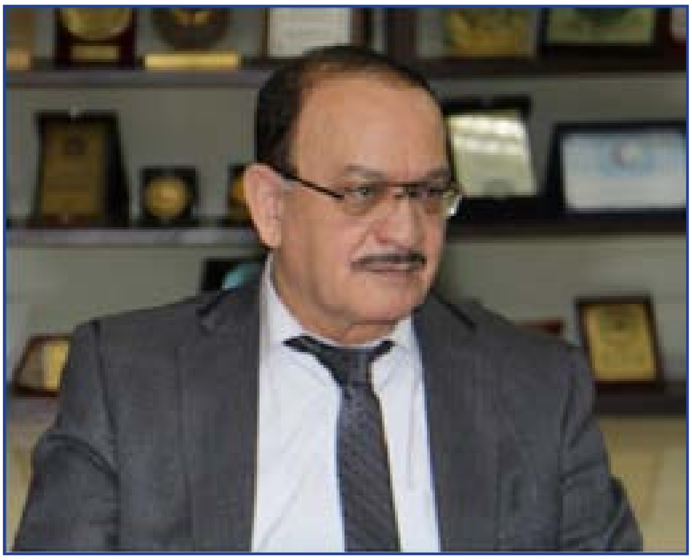
As part of IASCA professional responsibility towards certified accountants in Jordan and the Arab countries, it participated in the Conference as a professional partner, emphasizing that its role is integral with professional societies in all Arab countries. IASCA presented visitors to its booth with professional accounting publications.

The Conference was held as a response to the international development and changes in the international standards for preparing financial reports and auditing, and to keep up with such developments so that a certified accountant in the Arab world would be aware and knowledgeable of the latest updates in this field; this would reflect positively on the quality of work and financial data that many entities rely on in making financial and managerial decisions.

The Conference tackled many relevant issues, including family businesses, " opportunities and challenges" business integration and combination of financial statements (IFRS 9 and 10), as well as internal audit, capacity building and management skills development.

Islamic Financing Instruments (Sukuk)

Prepared by: Dr. Rafiq Tawfiq Al Dweik
ASCA (Jordan) BOD Member
The first part of the article: General Provisions and Accounting Principles



First: Difference between sukuk (Islamic bonds) and conventional bonds:
Emerging Islamic (sukuk) have emerged to fill the gap in the global capital market. An Islamic investor wants to balance his portfolio with products such as bonds. Sukuk is an asset-based investment - not a debt instrument - and it suits Islamic Shari'a. In other words, sukuk represents ownership in tangible assets, usufruct of an asset, service, project, business or joint venture.

Each suk has par-value (based on the value of the asset that the investor subscribe in part of its value), and investor may pay the purchase price (as in conventional bonds) at a premium or discount.

Investors' reward for Sukuk
For Sukuk, future cash flows from the assets in question are translated into current cash flows. Sukuk may be issued against existing assets or assets to be created in the future. Investors who purchase sukuk are rewarded with a share of the profits derived from the assets, and do not receive interest from the sukuk because it is against Islamic Shari'a.

Re-purchase the sukuk at maturity
As with conventional bonds, sukuks are issued with specific maturity dates. On the maturity date, the sukuk issuer repurchases them, and the sukuk is usually issued through a facility called the "Special Purpose Company" or "Special Purpose Vehicle-SPV" as will be explained later.

However, for sukuk, the initial investment value is not guaranteed. The sukukholder may or may not be able to collect the entire investment (par-value). This is because, unlike conventional bondholders, sukukholders share the risk of Sukuk-issued assets. If the outcome of the project or the business for which the sukuk is issued is not as expected, the sukukholder shall bear a share of the loss.

The issuance of Islamic sukuk is based generally on the principle of repurchase of Sukuk on the basis of the net asset value of the Sukuk issued against it or at a price agreed at the time of purchase of the Sukuk.

In practice, some sukuk are issued with repurchase guarantees just as with conventional bonds. Although there is no consensus among Shari'a advisors that this arrangement is in line with Islamic Shari'a, bearing in mind that Ijara Sukuk (lease sukuk) may be issued with a guarantee of repurchase.

Ensure compliance of sukuk with Shari'a
The main feature of Sukuk – represented by granting of partial ownership of assets issued against them - is in line with Islamic Shari'a. This provision means that sukuk investors have the right to receive a share of the profits from operating assets issued.

Second: Legislative and regulatory matters related to Islamic instruments:

a. Jordan has recently been concerned about issuing Islamic sukuk. In the last third of 2012, the Islamic Finance Sukuk Law No. (30) for the Year 2012 was issued to regulate the issuance, trading and listing of these sukuks, and issued several by-laws and regulations pursuant to the provisions of the said Law, deals with regulating the issuance of sukuk, registering and listing them at Security Depository Center and trading them on the Stock Exchange Market, organizing sukuk contracts and establishing the registration and operation of the "Special Purpose Company" that is entitled with issuing the sukuk.
b. The above Law stipulates that Islamic sukuk are documents with equal value that represent common shares in the ownership of a project which is an income generating economic activity. Sukuk are

issued in the names of its owners in exchange for the funds they provide for the project and its exploitation for a period specified in the prospectus according to Islamic Shari'a principles. Sukuk are tradable in the Stock Exchange Market and the ownership of Sukuk continues as far as the project is existing or until amortizing sukuk whichever is earlier.

c. Pursuant to the above-mentioned Law, the party wishing to issue Sukuk may establish a "Special Purpose Company-SPC" to own the assets, benefits or rights against which the sukuk is issued. SPC shall own the Project for the purpose of securitization, issuing sukuk, manage the Project and distributing Project's revenues to sukukholders. The Special Purpose Company By-Law No. (44) for the Year 2014 stipulates that SPC shall take the type of private limited liability company listed in the Jordanian Companies Law.

d. The SPC shall undertake to transfer the ownership of the Project's assets in its name by asking the relevant authorities to establish a record that the assets transferred in its name are for the purpose of issuing sukuk, and may not be disposed of by sale, mortgage, provisional seizure or execution. SPC is required to prepare annual financial statements, and financial statements for the Project, both shall be audited by an external auditor.

e. Pursuant to FASB Interpretation 46(R) Special purpose Company (SPC), also referred to as off–balance-sheet arrangements, were used as far back as the 1970s, when many companies engaged in securitization. Originally, these transactions served a legitimate business purpose: to isolate financial risk and provide less-expensive financing. In theory, because SPCs do not engage in business transactions other than the ones for which they are created, and their activities are backed by their sponsors, they are able to raise funds at lower interest rates than those available to their sponsors.

Third: Shari'a controls for Islamic sukuk:

Among the most important Share'a rules governing the issuance and circulation of Islamic Sukuk are the following:

a. The sukuk are govern by Islamic investment contracts such as: Musharaka, Salam, Istisna'a (manufacturing), Ijarah (lease) and other similar contracts when they comply with the provisions and principles of Islamic Shari'a.

b. The sukuk shall be regulated by the provisions of Islamic participation, including the mixing of funds and participation in profit and loss, ie the implementation of the principle of "Gain vs. Loss".

c. The issuer of the Sukuk shall have a legal personality independent of the persons participating in the sukuk and shall be responsible for the management of the sukuk.

d. The Sukuk shall be managed by the issuing company in return for a common rate of return in accordance with the Mudaraba Provision. Sometimes the Sukuk participants may agree with the Issuing Company that the latter shall manage the Project for a given fee regardless of the profit, and this is independent of Mudaraba contract that Shari'a advisors permitted that.

e. The method of distributing the yield between the participants in sukuk and the issuing company shall be expressly stated in the prospectus and shall not be deferred until after the end of the Project or activity financed by the sukuk.

f. A third party may intervene to guarantee the capital of the sukuk or to guarantee a minimum rate of return and to do so by means of donation and fornication.

g. If there is a loss, God forbid, without negligence or transgression from the issuing company that manage the Project, then participants in sukuk shall bear the loss, not the issuing company that has lost its effort.

h. The periodic yield (returns) shall be measured prior to Sukuk maturity in accordance with the principle of actual liquidation or judgmental (discretionary) settlement in the light of the Shari'a criteria that govern this issue.

i. Ownership of periodic dividends shall not be credited to the related accounts until securing the safety of the capital in accordance with the principle of "profit securing capital protection" or the accounting concept: "No profit shall be made until after the safety of the capital". (i.e. calculation of future risk reserve).

j. Sukuk shall be traded on the Stock Exchange Market or by any appropriate alternative means in accordance with the Shari'a Rules. Sukuk shall be evaluated in the course of trading through bargaining and concurrence between seller and buyer, all in light of the regulations and conditions governing this transaction.

k. The issuer of the sukuk may undertake to repurchase the sukuk from its holders according to its market value or at the price it offers, and this shall be done by mutual agreement between the parties.

l. Sukuk are amortized either at the end of the Project or the operation or at periodic intervals. This is called the amortization of sukuk. Amortization of sukuk shall be stated in the prospectus.

Fourth: Financial rules and regulations governing Islamic Sukuk:

The financial relationship between the issuing company and sukukholders:

a. Sukuk do not represent debt to the sukukholder toward the issuing company at issuance date. Considering that the sukukholders are the purchasers of the project assets, and the proceeds of issuing the sukuk are the price or the fare.
b. The sukukholder shall participate in the profits of the project and in the liquidation results by the percentage of his holdings, and shall bear the loss, if any, according to the percentage of his holdings, according to the rule of "Gains vs. loss".
c. The sukukholder shall bear the consequences of the leased assets and their guarantee as they are the owners.

Issues relating to the accounting treatment of the project assets:

a. The ownership of the assets, benefits or rights of the Project shall be transferred to the issuing company for the purpose of issuing the Islamic sukuk at the fair value
b. The issuing company shall record the fair value of the assets, benefits or rights transferred to it as Project receivables until the price is paid from the proceeds of the underwriting in the sukuk.
c. Fair value adjustments of the assets, benefits or rights transferred to the issuing Company in the Company's books are recognized in shareholder's equity account under "Asset Fair value adjustments" until the end of the securitization process and the collection of the assets' price from the proceeds of the issue. At that time, fair value adjustments shall be recognized as capital gain or loss - as the case may be - in the comprehensive income statement for the year in which the transfer was made.
d. Upon completion of the Sukuk underwriting, the Issuer shall collect the value of the assets, benefits or movable rights of the Company from the underwriting proceeds.
e. In the event of non-completion of the underwriting of the Sukuk, the situation shall be returned to the same as with respect to the transfer of the assets and the their fair value adjustments.

Project Accounts and Financial Statements:

a. The issuing company maintains separate accounts for the project and shows the net assets and results of the project in contra accounts in the company's financial statements (off–balance-sheet).
b. The issuing company shall debt Project assets and credit the sukukholders in the Project accounts with the fair value of the assets, benefits or rights transferred to it.
c. The issuing company evaluates the project assets according to the market value, when preparing the financial statements of the project, and uses the expertise and competence in this respect, which is considered a sound basis for evaluating the value of the sukuk when trading, repurchase or considering of capital gains or loss.
d. The issuing company shall take into account future risks reserve by calculating the necessary provisions before distributing of the periodic (annual) returns as long as the Project or the operations related to issued sukuk have not yet ended, in order to keep safe the capital.
e. When consolidating the financial statements of the parent company (the owner of the Special Purpose Company) with the financial statements of the subsidiary company at the end of the financial year, the assets and the operational results of the Special Purpose Company shall be consolidated apart of the Project accounts, assets and results of the project. The Project accounts are presented in consolidated financial statements of the parent company contra accounts. In this case, the Special Purpose Company shall record its share of the proceeds of the Project and its own expenses only, in addition to any assets owned by the Company or liabilities realized as the Company is a legal entity, and the said items are consolidated with the parent company's financial statements.

Amortizing the sukuk:

a. Amortization or redemption of the sukuk means the distribution of the Project's assets to sukukholders or their sale to the issuer, and the distribution of the proceeds of their sale to sukukholders by their respective sukuk holdings.
b. The Company undertakes to liquidate the sukuk assets at the end of the sukuk period at the market price, actual or judgmental liquidation, distribution of capital and realized profit, unless it is proved that the assets have been impaired or its value have been reduced without delinquency by the issuing company.

c. The liquidation shall be either at market value or as agreed upon at the time of execution of the purchase promise, or at net asset value, or at fair value or at knowledgeable judgment when performing the sale promise, conditional the prospectus to include the method to determine the liquidation value.

Equity items of the Sukukholders in the Project's financial statements:

Equity items in the Project accounts shall include:

a. Par-value of issued Sukuk
b. Future Risk Reserve
c. Fair value adjustment for the project
d. Retained earnings (loss)

The share of the issuing Company from the proceeds of the Project

a. The share of the issuing Company from the proceeds of the Project, as stipulated in the prospectus, to be recorded as income in the Income Statement.
b. Any unrealized future returns during the financial year are capitalized within a deferred income account.
c. A statutory reserve to be deducted from the net profit for the year in accordance with the provisions of Article (11) of The Special Purpose Company By-Law No. (44) for the Year 2014.

The accounting principles for issuing and trading Islamic sukuk:

The accounting, recording, measurement and accounting disclosures for the issuance and trading of Islamic sukuks govern by a set of accounting principles derived from the Accounting Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions, the most important of which are the following:

a. The basis of the independence of the issuing Company's liability (the founder of the Sukuk) shall be considered independent from the liability of every sukukshareholder. The Company is treated as having an independent legal personality, and the sukuk operations are accounted for on this basis, especially when dealing with government entities and third parties. Accordingly, it shall have its own accounting structure and financial statements, and shall have an external auditor, as well as a Shari'a Supervisory Board.
b. The basis of the financial period, where the life of the Project or the investment process for which the sukuk were issued is divided into short financial periods, for example annually. At the end of each reporting period, the financial statements and the various reports shall be prepared, actual or judgmental liquidation principle is applied in this case pursuant to what was agreed upon, both of which are permissible from a financial and accounting perspective.
c. The basis for continuity of participation until the end of the Project or the process for which the sukuk were issued, whether the type of sukuk was: Murabaha, Istisna', Salam, Ijara or so. Periodical accounting of the results of the business is based on the actual liquidation of a certain stage or judgmental judgment of liquidation in light of the Shari'a criteria that govern so.
d. The basis of the issuing company's issuance of the Sukuk to pear the expenses incurred in issuing the Sukuk, such as the underwriting expenses, promotion and marketing expenses and the banking expenses related to the issuance of the sukuk and the like. This should be mentioned in the prospectus unless otherwise agreed, and sukuk shall not be subject to any expenses that is the responsibility of the issuing company (the manager), assuming that the issuing company considered such when determining its common share of profits.
e. The basis of the assets of the Project or process that is the subject of the sukuk shall be evaluated on the basis of the market value when preparing the financial statements, namely the statement of financial position and the income statement - using experts and competence firms to do so, which is a sound basis for evaluating the value of the sukuk when trading or repurchase, or to specify Capital gains or loss.
f. The basis for calculating future risks reserve, by building the necessary provisions when distributing the periodic (annual) returns as long as the Project or the operation of the issued sukuk has not yet ended, in order to preserve capital.
g. The basis of the reconciliation between operating expenses and revenues when preparing the income statement for the Project or operation financed by sukuk, in order to measure the operational returns to be distributed between the sukukholders and the issuing company and the manager, this will be ruled by Shari'a rules of the Mudaraba company as detailed in the Mudaraba jurisprudence.
h. The basis for the distribution of profit advance payments, until the final liquidation of the Sukuk, the issuing company shall debit profit account in which case any subsequent loss may be occur for the purpose of protecting capital. In this respect,

actual or judgmental liquidation principle is applied as explained above.

i. The basis for the distribution of the return of the projects or operations subject to the Sukuk on the basis of a common rate for both of sukukholders and the issuing company. For example, a percentage of (%) to sukukholders and a percentage of (%) to the issuing company as provided in the Prospectus.
j. The sukuk shall be valued for trading purposes on the basis of market price on the Stock Exchange Market or consensual agreement between the parties (the seller and the buyer) and the buyer may be the issuer of the sukuk.
k. Sukuk shall be amortized periodically or at the end of the process or the project for which it was issued, in accordance with the Accepted Accounting Principles and Standards in force that are in accordance with the principles and rules of Islamic Shari'a.
l. The profits or loss of the Project or process subject to the sukuk shall be distributed in accordance with the Accounting Principles and Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions or the prevailing financial institutions, in accordance with the provisions and rules of Islamic Shari'a.
m. Accounting disclosures for each appropriate periodic period shall be disclosed for sukuk transactions by means of accounting means, tools, and methods.
n. The Shari'a Audit of sukuk transactions shall be disclosed through the report of the Shari'a Supervisory Board of the issuing company.

Note: In the next issue we will complete the subject of Islamic Sukuk to talk about the accounting treatment for issuing and trading Islamic Sukuk.

International Accounting Standards Board Responds to Companies' Call for Help with Materiality in Financial Statements

LONDON - The International Accounting Standards Board (Board) has issued guidance on how to make materiality judgments. The publication encourages companies to apply judgment instead of using IFRS requirements as a checklist, so that financial statements focus on the information that is useful to investors. The Board is also consulting separately on proposed clarifications to the definition of 'material' information in financial statements.

The concept of materiality is important in the preparation of financial statements, because it helps companies determine which information to include in and exclude from their reports. Companies make materiality judgements not only when deciding what information to disclose and how to present it but also when making decisions about recognition and measurement.

Some companies are unsure about how to make materiality judgements and have therefore used the disclosure requirements in IFRS Standards as a checklist. To encourage behavioral change and provide support to companies making such judgements, the Board has issued IFRS Practice Statement 2 Making Materiality Judgements.

The Practice Statement gathers all the materiality requirements in IFRS Standards and adds practical guidance and examples companies may find helpful in deciding whether information is material. The Practice Statement is not mandatory and neither changes requirements nor introduces new ones.

Commenting on the Practice Statement, Hans Hoogervorst, chairman of the International Accounting Standards Board, said:

http://www.ifrs.org/news-and-events/2017/09/iasb-issues-ps2-and-publishes-definition-of-material-ed /

ICAEW Publishes IFRS 9 Briefing

ICAEW has published a briefing on the new accounting standard, IFRS 9, which is to be implemented on 1 January 2018. The new rules will mean banks must show their expected losses earlier than in the past.
IFRS 9 is a more forward-looking approach. It will mean banks will be forced to estimate credit losses from the date the loan is taken out, and over the course of its lifetime. However, this model is complex and means that banks must look into the future and estimate the impact of possible economic events – and it is just that, an estimate.

The element of forecasting could potentially lead to unpredictable results, as estimates are highly subjective. This will also make comparisons between banks difficult, which analysts may find problematic. Providing enough information on year-on-year changes, assumptions and projections will be vital to allow users to compare banks

The application of IFRS 9 will substantially increase the amount banks set aside for bad loans, and will also make their results more unpredictable as economic predictions are made. The key challenges banks will face include difficulties predicting the future, complexities of calculations, and defining 'significant' changes in credit risk.

The full briefing can be found here:
http://www.icaew.com/en/technical/financial-services/inspiring-confidence-in-financial-services

Zsuzsanna Schiff, Manager, Auditing and Reporting, said:

One of the major outcomes of the financial crisis was a fundamental review of how banks account for loan losses. The model used prior to the crisis was heavily criticized for providing 'too little too late', and ultimately allowing a credit bubble to develop and an over-optimistic assessment of bank's reported profits.

IPSASB Works to Improve Reporting on Financial Instruments

By CFO Innovation Asia Staff

The International Public Sector Accounting Standards Board (IPSASB) has released Exposure Draft (ED) 62, Financial Instruments, for comment. It is based on International Financial Reporting Standard (IFRS) 9, Financial Instruments, developed by the International Accounting Standards Board (IASB).

The proposed new Standard will replace IPSAS 29, Financial Instruments: Recognition and Measurement, and improves that Standard's requirements by introducing:

- Simplified classification and measurement requirements for financial assets;
- A forward looking impairment model; and
- A flexible hedge accounting model.

"Accounting for financial instruments is an important but complex area for most governments. Although our existing standard IPSAS 29 includes guidance on a number of topics specific to the public sector, it is converged with the previous IFRS," said IPSASB Chair Ian Carruthers. "Through incorporating the improvements in IFRS 9 financial reporting will be improved by ED 62."

The IPSASB applied its Process for Reviewing and Modifying IASB Documents, to align ED 62 with IFRS 9, and includes appropriate public sector specific modifications. This approach builds on public and private sector best-practice while addressing unique public sector features.

ED 62 includes public sector specific guidance on financial guarantees issued through non-exchange transactions and concessionary loans and examples illustrating how to apply the principles in ED 62 to transactions that are unique to the public sector.

https://www.ifac.org/news-events/2017-08/ipsasb-works-improve-reporting-financial-instruments

IESBA Proposes Revised Ethical Requirements Prohibiting Improper Inducements

LONDON - The International Ethics Standards Board for Accountants® (IESBA®) released for public comment the Exposure Draft, Proposed Revisions to the Code Pertaining to the Offering and Accepting of Inducements. The proposals strengthen the Code of Ethics for Professional Accountants (the Code) by clarifying the appropriate boundaries for the offering and accepting of inducements, and by prohibiting any inducements with intent to improperly influence behavior.

The proposed comprehensive framework covers all forms of inducements and applies to both professional accountants in business and professional accountants in public practice. It also provides enhanced guidance on the offering and accepting of inducements by professional accountants' immediate or close family members.

"Inducements with intent to improperly influence behavior are a very major concern for the public interest, and they include the issues of bribery and corruption. Inducements made with improper intent are unacceptable and should be prohibited," said IESBA Chairman Dr. Stavros Thomadakis.

Among other matters, the proposals also require professional accountants to address any threats to compliance with the fundamental ethical principles in accordance with the Code's conceptual framework where there is no improper intent.

"The development of the proposals was informed by input from Transparency International UK based on their experience and insights in the area of bribery and corruption," noted IESBA Technical Director Ken Siong. "When completed, the provisions will constitute the last piece of the substantively revised and restructured Code."

https://www.ifac.org/news-events/2017-09/iesba-proposes-revised-ethical-requirements-prohibiting-improper-inducements

FOR MORE INFORMATION

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