MALAYSIAN INSTITUTE OF ACCOUNTANTS
FINANCIAL REPORTING STANDARDS IMPLEMENTATION COMMITTEE
("FRSIC")

FRSIC Issue No. 57 [2015]

Accounting for Restricted Investment Account ("RA")

The issue:

Bank Negara Malaysia has issued a policy document on Investment Account in March 2014. This policy document outlines the regulatory requirements on the conduct of investment accounts. Islamic banks are required to categorise the investment accounts based on the investment mandate, namely: (i) unrestricted Investment Account; and (ii) restricted Investment Account. RA is a unique arrangement between the Islamic bank subsidiary and its conventional parent bank which allows the Islamic bank subsidiary to accept funds from the conventional parent bank in order to fund Islamic financing assets on a matched basis.

BNM observes that the respective Islamic banks have proposed different accounting treatments in relation to the RA:

1. Recognise the RA as financial liability in the financial statements of the Islamic bank (on-balance sheet); or
2. Do not recognise the RA as financial liability in the financial statements of the Islamic bank (off-balance sheet).

Current accounting practice as observed by the Submitter:

The RA placement has been in place since the repealed Islamic Banking Act 1983. During this period, BNM has observed that 7 of 8 Islamic banks recognised the RA placements as financial liability measured at amortised cost whilst 1 Islamic bank did not recognised the RA placements in the financial statements.

Reasons for the FRSIC to address the issue:

BNM believes the accounting treatment should be applied consistently by all Islamic banks that operate within the Malaysian legal and regulatory setting.

Submitter's proposal or recommendation to address the issue:

From the liability perspective, the RA placement is accepted by the Islamic bank and would appear to meet the financial liability definition.

From the asset perspective, the contract for the Islamic financing asset is entered into between the Islamic bank and the third party. The third party is not aware that the financing is funded by the RA

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placement by the conventional parent bank or the regulatory requirements that are imposed by BNM on the RA funding arrangement. Under the RA arrangement, the cash flows from the Islamic financing asset collected by the Islamic bank from the third party, shall be passed back to the conventional parent bank. As such, it appears that the arrangement meet the de-recognition criteria. Therefore, BNM proposed that the entire RA placement is not recognised in the financial statements of the Islamic bank (off-balance sheet).
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