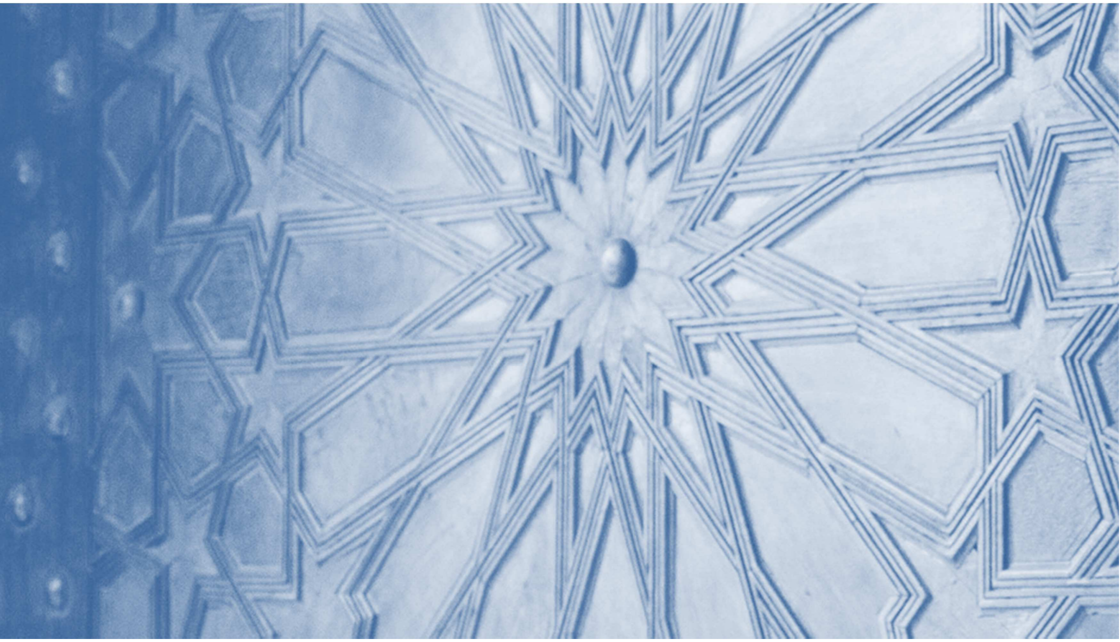
University of Glasgow



International Conference on Islamic Perspective of Accounting, Finance, Economics and Management

Glasgow, 7 -9 April 2015

IPAFEM 2015

In Association with:
Journal of Islamic Accounting and Business Research
ISSN: 1759-0817

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Foreword

The Head of Adam Smith Business School

Prof. Jim Love

Islamic banking and finance are topics gaining popularity around the world, and there is a growing need for scholars internationally to understand its philosophy and practices. The IPAFEM 2015 conference provides an excellent platform for both experts and those interested in the field to meet and engage in discussion. The Adam Smith Business School has always placed considerable engagement with the business community and on the importance of internationalisation, I take this opportunity to welcome you all to the University of Glasgow and, in particular, to the Adam Smith Business School. I wish you a pleasant stay and trust that the conference will be both enjoyable and productive.

Jim Love

Foreword

Conference Chair

Dr. Mohammad Hudaib

It gives me great pleasure and honour to chair the Islamic Perspective of Accounting, Finance, Economics and Management 2015. It is with the help and blessings of Allah Subhanahu Wa Ta'ala that enables us to hold this conference in seeking ways to apply Shari'ah Islami'iah in the fields of Accounting, Finance, Economics and Management and other related disciplines in social science. We chose the theme for IPAFEM 2015 to be "The Role and Contribution of Islamic Accounting, Finance, Economics, and Management in Contemporary society", because we believe shari'ah offers an alternative paradigm in overcoming injustice we see in our daily life resulting from lack of morality in business conducts. Shariah emphasises on responsibility and accountability of individuals and the leaderships in the conduct of economic affairs. The consequences of an over emphasis on profit maximisation, manipulations of prices, excessive remunerations and bonuses, giving and receiving kickbacks, fraudulent practices, excessive consumption of resources without caring the balance in the eco-system, and above all the riba based economy, have caused the collapse of nations and continued grievances in societies. In the Quran, Allah states:

"Mischief has appeared on land and sea because of [the meed] that the hands of men have earned, that [Allah] may give them a taste of

some of their deeds: in order that they may turn back [from Evil]"{Sura 30: 41Rum, or The Roman Empire}.

"Those who devour usury will not stand except as stand one whom the Evil one by his touch Hath driven to madness. That is because they say: "Trade is like usury," but Allah hath permitted trade and forbidden usury. Those who after receiving direction from their Lord, desist, shall be pardoned for the past; their case is for Allah [to judge]; but those who repeat [The offence] are companions of the Fire: They will abide therein [for ever] "{Sura 2: 275. Baqara, or The Heifer}.

Hence, let us share and disseminate our knowledge and engage with business leaders and practitioners through conferences and writing in journals. Let us work hand in hand in finding solutions to an alternative system that will help build just and healthy societies and nations.

Finally, this conference would not have been possible without the support and contribution of you all, as keynote speakers, presenters, reviewers and advisors, and we thanked you from the bottom of our hearts. I would also like to extend my thanks to Professor Jim Love, Head of Adam Smith business school and Professor John McKernan, Head of Accounting & Finance who had supported us in holding the conference. Last but not least, to the organising committee members who have devoted their time and efforts in making this intellectual event a reality. May Allah reward you all for your good deeds, *Jazakum Allah khair-an kathera.*

Mohammad Hudaib

Keynote Speaker

Yvonne Ridley

Yvonne Ridley is an award-winning author, journalist and campaigner. Yvonne was elected European President of the International Muslim Women's Union in Special Status with the Economic and Social Council (ECOSOC) of the United Nations. She is also Vice President of the European Muslim League.

Yvonne's long career as a journalist saw her working as a senior reporter with several well-known British newspapers including The Sunday Times, The Observer, The Independent on Sunday and The Sunday Express. While reporting for the latter on an undercover assignment in Afghanistan immediately after 9/11 she herself became the subject of international headlines when she was held by the Taliban. Yvonne narrates her personal story of entering Afghanistan as a journalist in disguise being captured by the Taliban and on her release her remarkable reversion to Islam.

Yvonne is a committed peace activist, champion of civil liberties and advocate for women's rights. She was on the first international flotilla to sail to Gaza in 2008 - a project personally endorsed by Nobel Peace Laureates, the former US President Jimmy Carter and Archbishop Desmond Tutu of South Africa. This humanitarian mission was hailed by the then President of the UN General Assembly as "truly in the spirit of Gandhi". A common thread runs through all Yvonne's work - social justice for all, the protection of civil liberties, the eradication of the pernicious cycle of poverty, and a steadfast commitment to the equality and empowerment of all women.

Yvonne continues to write regularly for the international press. She is an accomplished documentary filmmaker and has won several awards for her work in this field. Yvonne is an active spokesperson for Islam and regularly appears on mainstream media.

Conference Schedule

International Conference on Islamic Perspective of Accounting, Finance, Economics and Management (IPAFEM) 2015

Venue: St. Andrews Building, University of Glasgow, 1 Eldon Street, Glasgow G3 6NH

Main Theme: "The Role and Contribution of Islamic Accounting, Finance, Economics and Management in Contemporary Society"

Day, date	Time	Program
Tuesday, 7 April	08:30 – 09:30	Registration and refreshments
	09:30 – 09:45	Welcome and Housekeeping announcement
	09:45 – 10:15	Keynote Address
	10:15 – 11:00	Researching Islamic Perspective of Accounting, Finance, Economics and Management
	11:00 – 11:30	A Guide to Getting Published
	11:30 – 12:30	Parallel Session
	12:30 – 13:30	Lunch
	13:30 – 15:00	Journal Writing Workshop
	15:00 – 15:30	Break
	15:30 – 17:00	Parallel Sessions
Wednesday, 8 April	08:30 – 09:00	Registration and refreshments
	09:00 – 09:10	Welcome and Housekeeping announcement
	09:10 – 11:00	Plenary Session
	11:00 – 12:30	Parallel Sessions
	12:30 – 13:30	Lunch
	13:30 – 15:00	Panel Session
	15:00 – 15:30	Break
	15:30 – 17:00	Parallel Sessions
	19:00 – 22:00	Gala Dinner and Best Paper Announcement
Thursday, 9 April	09:00 – 09:30	Refreshments
	09:30 – 11:00	Parallel Sessions
	11:00 – 12:30	Parallel Sessions
	12:30 – 13:00	Resolution and Closing Remarks
	13:00 – 14:30	Lunch
	14:30 – 19:00	Sightseeing to Edinburgh

Tuesday, 7th April 2015

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09:45 – 10:15	Opening Remarks by Prof. John McKernan, Head of Accounting and Finance Subject Group	Room 213
10:15 – 11:00	Researching Islamic Perspective of Accounting, Finance, Economics and Management *Prof. Ros Haniffa and Dr. Mohammad Hudaib* Moderator: Dr. Murniati Mukhlisin	Room 213
11:00 – 11.30	*A Guide to Getting Published* *Dr. Mohammad Hudaib*	Room 213
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Time	Program	Venue
	3. Credit risk, sukuk rating and income manipulation ***Nor Balkish Zakaria**, Accounting Research Institute, Universiti Teknologi MARA* ***Nurshuhada Nashru**, Accounting Research Institute, UniversitiTeknologi MARA* ***Mohd Nor Firdaus Rameli,** Accounting Research Institute, Universiti Teknologi MARA*	Room 227A
12:30 - 13:30	Lunch	Room 537
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<table>
<tr><th>Time</th><th>Program</th><th>Venue</th></tr>
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Chair: Dr. Shammyla Naeem

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1. Determinants of non-traditional activities: Parallel study for conventional and Islamic banks in the Organization of Islamic Co-operation countries
Poi Hun Sun, Sunway University Kuala Lumpur
Shamsher Mohamad Ramadili, International Centre for Education in Islamic Finance

2. Stability of Islamic versus conventional banks: Malaysian case
Muhamad Azhari Wahid, Universiti Sains Islam Malaysia
Humayon Dar, Markfield Institute of Higher Education

3. Information asymmetry in Islamic banking
Aiman Hamed Said Alkiyumi, University of Glasgow
Frank Hong Liu, University of Glasgow

4. Conventionalizing Islamic Banking
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<tr><td>15:30 – 17.00</td><td>Parallel Session 5: Emerging Scholar Colloquium

Chair: Prof. Ros Haniffa and Dr. Mohammad Hudaib

Participants:
Rokhima Rostiani, Strathclyde University
Memiyanty Abdul Rahim, International Islamic University Malaysia
Mohammed Alswaidan, University of Portsmouth
Ali Sakti, University of Indonesia</td><td>Room 227B</td></tr>
<tr><td></td><td>End of Day One</td><td></td></tr>
</table>

Wednesday 8th April 2015

Time	Program	Venue
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11:00 – 12:30	**Parallel Session 6: Islamic Business & Management** **Chair: Dr. Muhammad Syafii Antonio** **<u>Papers</u>** 1. Is Islamic business and administration true or false? ***Salim Hamza Madani****, King Abdulaziz University*	Room 213

Time	Program	Venue
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11:00 – 12:30	**Parallel Session 7: Islamic Finance** **Chair: Dr Shammyla Naeem** **Papers** 1. Understanding and evaluation of risk in sukuk structures ***Mohammed W. Alswaidan,*** *University of Portsmouth* ***Dr Arief Daynes***, *University of Portsmouth* ***Dr Paraskevas Pasgas***, *University of Portsmouth* 2. Creating a two-way market via short selling and its potential use in the Islamic paradigm ***Azhar Mohamad***, *International Islamic University Malaysia* 3. Debt financing behaviour of Shariah compliant SMEs (Enterprise). A dynamic approach on Malaysian Islamic Capital Market ***Razali Haron***, *International Islamic University Malaysia*	Room 227A

Time	Program	Venue
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Time	Program	Venue
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Time	Program	Venue
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	End of Day Two	

Thursday 9th April 2015

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Time	Program	Venue
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Time	Program	Venue
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Time	Program	Venue
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12:30 – 13:00	Resolution and Closing Remarks By: Dr. Mohammad Hudaib	Room 213
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14:30 – 19:00	Sightseeing to Edinburgh	Edinburgh

Abstracts

Shariah Auditing: A Literature Review and Future Research Agenda

Muntaka Alhaji Zakari*
International Islamic University Malaysia

Maliah Sulaiman
International Islamic University Malaysia

Noraini Mohd Ariffin
International Islamic University Malaysia

Abstract

Shariah Auditing has over the past decades been recognised by academicians, practitioners and other stakeholders as an important element necessary for the sound *Shariah* governance of Islamic financial institutions. The increasing need for *Shariah* governance, warranted by the geometric growth of Islamic finance and its capital markets across the globe, has further heightened the need for *Shariah* Auditing. Accordingly, *Shariah* Auditing is mandatory in countries like Malaysia, Oman and Pakistan, among others. In tandem with this development is academicians' growing interest in *Shariah* Auditing research. This event presents an opportunity for interested scholars to assess the development of research in this discipline. Therefore, this paper seeks to review published studies since the inception of modern Islamic financial institution to year 2014 in order to identify key trends/issues in *Shariah* Auditing research and to propose future research agenda. Being the first of its kind in the *Shariah* Auditing research stream, it is hoped that the paper will be valuable to the present and future *Shariah* Auditing scholars interested in the evolution of literature and/or in identifying avenues for future research.

Key words: *Shariah* Auditing, *Shariah* Governance, *Shariah* Auditing Research, Trends

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Shariah Supervisory Boards and Financial Regulators

Faiza Ismail*
University College Dublin

Abstract

The paper seeks to analyse the supervisory mechanism for members of SSBs to operate in UK/Ireland. This analysis includes an explanation of civil liability that accrues on account of non-compliance or infringement of fit and proper test. AAOIFI standards are examined along with the fit and proper test applicable to financial institutions operating in the UK and Ireland to research the prospects of code of conduct for SSBs. It will be explored how the English and Irish regulatory requirements for competency will prevent controversy like that of Goldman Sachs sukuk and the consequent Shariah risk in SSBs. These issues include the problems of conflict of interest among management, BoDs and SSBs; and code of conduct for the members of SSBs. Recommendations are made to ensure the regulatory requirements help global IF industry to overcome the internal problems in SSBs.

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Internal Shariah Audit Implementation Post-Shariah Governance Framework in Malaysia: Evidence from the Practice in Islamic Banks

Zurina Shafii*
Universiti Sains Islam Malaysia

Ahmad Zainal Abidin
Universiti Sains Islam Malaysia

Abstract

The need to be in conformity with Shariah principles and guidelines, or to be Shariah compliant, is the distinctive feature of Islamic finance in comparison with its conventional counterpart. The recent issuance of Shariah Governance Framework (SGF) by Bank Negara Malaysia has made it compulsory for Islamic Financial Institutions (IFIs) to perform a periodic internal audit assessment on several areas such as financial statements, organizational structure, process and information systems of the IFIs in order to ensure a comprehensive compliance with Shariah. This has posed a challenge to Islamic banks and Takaful operators to develop its own internal Shariah audit structure and to train a new 'group' of internal auditors in the knowledge and approach of Shariah audit based on the general guidelines issued. Little research has addressed the current implementation of Shariah audit in different types of Islamic banks in Malaysia, thus the motivation of the authors to fill the gap. This paper intends to examine the current level of the implementation of Shariah audit in Malaysia pursuant to the requirement in the SGF by Bank Negara Malaysia in 2011 and also to study the opinion of the current internal Shariah auditor on the needs and the possibility of the establishment of external Shariah audit function in Malaysia. The study found that, despite the limited two-page guideline provided by Bank Negara Malaysia in the SGF, the result shows that the issuance of SGF has triggered the Islamic banks to take an appropriate and aggressive measure in ensuring that the requirements in the Framework are properly met. More interestingly, the issuance of SGF not just trigger the 'giant' Islamic banks to comply with the requirements, it also affect the implementation to the small scale Islamic banks in Malaysia. The current set up of internal Shariah audit is deemed to be sufficient and there is no (urgent) need for the establishment of external Shariah audit in Malaysia.

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Integration of Islamic Capital Market in ASEAN-5 Countries toward ASEAN Economics Community 2015: Evidence from Post Global Financial Crisis

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State Islamic University Sunan Kalijaga Yogyakarta

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State Islamic University Sunan Kalijaga Yogyakarta

Abdul Qoyum
State Islamic University Sunan Kalijaga Yogyakarta

Abstract

Objective-Regarding the commitment of ASEAN Countries to create ASEAN Economic Community 2015, Islamic capital market integration is very crucial in supporting that idea. The objective of this paper is to examinethe nature and extent linkage of Islamic stock market in ASEAN-5 Countries. In addition this paper focuses to test the integration of Islamic stockmarketbycheckingits long run market equilibrium.
Design/methodology/approach–This study uses the logaritm value of daily closing price for each index from 14 April 2009 to 14 November 2014, by relies a simple correlation test, Granger causality test and co-integration test using error correction model.
Finding-Islamic capital market in ASEAN-5 countries are integrated each other, it can be seen from the co-integration test.This research also founds that compared to the other market, JII-Indonesia and FBMES-Malaysia are the two islamic market which has highest effect on the ASEAN-5 market. This explained by the Variance decomposition test. On the other hand, MSCI-Philippine Islamic market is the most vulberable market in ASEAN. All market as used in this research share a fraction on the MSCI-Philippine market variation, but it is not *vice versa*.
Originality/value–This paper suggests a policy coordination is very important in promoting growth of Islamic capital market in ASEAN countries. Therefore, this market can contribute significantly to develop ASEAN Economic Community.

Keywords:Indonesia, Malaysia, Singapore, Thailand, Philippine, ASEAN Economic Community, Integration, Islamic Capital Market.

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Research On Islamic Banking In Malaysia:
A Guide For Future Directions

Gulzhan Musaeva
International Centre for Education in Islamic Finance

Mohamed Eskandar Shah*
International Centre for Education in Islamic Finance

Shamsher Mohamad Ramadili
International Centre for Education in Islamic Finance

Zulkarnain Mat Sori
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Abstract

Although not a near equivalent of conventional banking in terms of size, the global Islamic banking industry has grown at a very rapid pace in the last three decades. Malaysia has been at the forefront of this development since early 1980s and has earned a reputation of a global hub for Islamic banking. Since its inception, much research has been carried out in this area but there is no systematic documentation of research findings in Islamic banking, though much focus has been on aspects of efficiency and performance *vis-à-vis* the conventional counterparts. This warrants our relooking at the research – both theoretical and empirical – in different areas of Islamic banking in Malaysia, as to provide a road-map for the structured long-term development of the industry in consonance with the country's global leadership position in Islamic banking. This paper surveys and analyses the published works on Islamic banking in Malaysia with the goals of evaluating their contribution and usefulness to various stakeholders and charting the future directions for research that could sustain Malaysia's global leadership position in Islamic banking.

Keywords: Malaysia, Islamic banking, academic literature, research, survey.

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Issues On The Application Of IFRS 9 And Fair Value Measurement For Islamic Financial Instruments

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Abstract

International Accounting Standards Board (IASB) has issued the International Financial Reporting Standards No. 9 (IFRS 9) that caters for the accounting and reporting classification and measurement, impairment and hedge accounting in relation to financial assets. The latest updated IFRS 9 (2014) prescribed that financial assets are to be categorized as instruments reported at fair value through profit and loss plus transaction costs, and subsequently measured at amortized cost. In the context of Islamic financial institutions (IFIs), Islamic financial assets normally consist of various types of financial instruments that are designed using various Islamic concepts. The main aim of this paper is to examine the issues related to the application of IFRS 9 on the classification and measurement of Islamic finance instruments and transaction. Classification and measurement of Islamic financial assets are currently based on the different types of underlying Shariah contracts. Shariah concerns in relation to the testing of contractual cash flow characteristic, the issue of the allowability of interest revenue and expense, and the use of effective interest method are some of the emerging issues facing Islamic financial industry. A discussion on the permissibility of use of interest rate in time value of money calculation in recognizing asset and income of Islamic financial assets is provided. In addition, the issue on the use of expected credit loss model on Islamic financial asset based on *mudarabah* profit sharing contract is also examined. Finally, this paper critically discussed the Shariah issues of Gharar on the adoption of fair value as a measurement model for Islamic financial assets. The paper concludes that accounting regulatory bodies internationally need to carefully analyse the implication of Islamic financial instruments and Shariah on accounting requirements. As Islamic finance is founded on moral values, it is imperative that the impact of moral values on accounting need to be adequately addressed.

Keywords: Islamic financial transactions; Islamic financial instruments; IFRS 9; accounting and reporting of financial asset

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Accounting treatment of Islamic financial instruments: A comparative analysis of IFRS and AAOFI accounting standards

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Abstract

Purpose – The purpose of this paper is to perform a comparative analysis of stipulations laid down by International Financial Reporting Standards (IFRS) and AAOIFI Financial Accounting Standards (FAS) for accounting of selected Islamic financial instruments.
Design/methodology/approach –The paper is based on a case study analysis by analysing the relevant IFRS and FAS for accounting of Murabaha financing, Mudaraba financing, and classification of investment in unrestricted investment accounts (URIA) and in restricted investment accounts (RIA). The paper compares the accounting treatments of the relevant IFRS and FAS to examine whether the concepts and the stipulations of FAS are driven by any particular Shari'ah precepts. Interviews of industry practitioners and meetings with focus group comprising Shari'ah scholars had been conducted in constructing the paper.
Findings – The paper finds that while IFRS based financial reporting primarily focuses on economic consequences of financial instruments, AAOIFI further takes into consideration the legal structure of the instruments which is based on Shari'ah precepts. The paper also finds that IFRS based financial reporting cannot always capture the distinctive structure of the Shari'ah compliant instruments, hence may lack representational financial reporting. The paper furthermore finds that AAOIFI allows individual Shari'ah Supervisory Boards (SSB) of the Islamic banks to dictate some of the accounting policies, which may result in divergence of accounting practices even among the Islamic banks that adopted AAOIFI accounting standards. The paper also identified a number of accounting issues that are not addressed or clarified by AAOIFI, absence of which may result in confusion in implementation of its standards.
Practical implications –The forthright discussion and the observations of the paper are expected to assist the regulators and the standard setters in developing accounting standards that is in convergence but also caters the unique characteristics of Islamic financial instruments.

Keywords: Islamic financial instruments, Islamic financial institutions, Islamic accounting, Islamic finance, Financial reporting, AAOIFI, IFRS, Murabaha, Mudaraba

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The institutional and economic determinants of AAOIFIs adoption

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Abstract

The paper aims to explore the institutional and political economic factors that affect the adoption of Islamic Financial Accounting Standards (IFAS) as issued by the Accounting and Auditing Organization for Islamic financial Institutions (AAOIFIs). Despite considerable success in promoting its IFAS as can be noted in growing membership and increasing acceptance by the regulatory authorities in many Islamic and non-Islamic countries, the level of adoption and compliance with AAOIFIs standards is very low and vary considerably between its members. Currently, very few countries such as Bahrain and Qatar have adopted AAOIFI standards wholesale while the others simply refer to them without making them compulsory. The lack of global adoption and compliance with AAOIFIs' standards by IFIs can negatively impact the global development of Islamic finance industry and retard the effort toward the global standardisation of Islamic financial accounting practices codes. There is very little published on determining the exact level of global adoption and compliance with AAOIFIs' standards. Also, very few researchers tried to identify general proxies that can measure the institutional and political economic pressures on the adoption and compliance process. Therefore, the paper respond to the lack in the literature and is motivated to promote for improved understanding of how countries and Islamic financial Institutions (IFIs) drive their accounting and reporting practises from institutional and political economic theories perspective. This in turn can help national financial regulators, standards setters that adopted Islamic finance or planning to do so in accommodating AAOIFIs' standards and updating their laws accordingly. The paper argues that to increase the AAOIFIs' standards adoption and compliance, there is urgent need to identify, measure, and compare different institutional and political economic pressures wherever Islamic finance is adopted. Also, the paper argues that AAOIFIS itself is experiencing internal operational problems to improve their legitimization powers which are dependent on its ability to produce and develop a high quality financial accounting standards that can compete and be comparable with IFRS.

Keywords: IFAS adoption, institutional theory, economic network theory, AAOIFI, Islamic accounting.

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Opportunistic Behaviour: Accounting Quality in Malaysian Shariah-Compliant Companies

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ABSTRACT

The Malaysian capital market is unique in that it has two types of market that operate in parallel – the Islamic and conventional. Specifically, the Islamic jurisprudence (Shariah) advocates that Shariah-compliant companies must abstain from engaging in unlawful and unethical activities. Thus, opportunistic 29nalysed29 such as earnings management is not welcome in Islam and Shariah law should constrain managers from behaving in such a way. However, the issue on whether Shariah-compliant companies involve in unethical conducts such as earnings management is still vague. The main purpose of this study is to examine whether Shariah-compliant companies practice earnings management by looking at the relationship between the risk of financial distress, leverage and free cash flow on abnormal cost of goods sold and abnormal discretionary expenses (both abnormal cost of goods sold and abnormal discretionary expenses act as proxies for earnings management). This study employs 4,115 data from 694 sample companies for a period of five years from 2009 to 2013. Data are drawn from Bursa Malaysia website (annual reports) and Thomson Datastream (financial data). The data which were 29nalysed through correlation and regression analysis, concludes that the risk of financial distress, leverage and free cash flow have significant relationship on earnings management in Shariah-compliant companies. These results should be of interest to the stakeholders, shareholders, and regulatory bodies such as the Shariah Advisory Council and the Securities Commission to oversee the accountability of corporate financial reporting in the prevention of earnings management in Shariah-compliant companies.

Keywords: earnings management, Shariah-compliant companies, free cash flow, financial distress

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Determinants of Non-Traditional Activities: Parallel Study for Conventional and Islamic Banks in the Organization of Islamic Co-operation Countries

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Abstract

There is an increasing demand of non-traditional activities in both conventional (CBs) and Islamic banks (IBs), especially after the Asian Financial Crisis and the Global Financial Crisis. Although the banks are still relying on the traditional borrowing and lending activities as sources of funding and income, they understand that there is a need of change in the income structure of banks in order to improve their profitability. This study focuses on factors affecting the non-traditional activities in both CBs and IBs in the Organization of Islamic Co-operation countries, from year 1997 to 2010. In this study, income from fees and commissions is the dependent variables while bank-specific variables are independent variables. Pooled Ordinary Least Square method has been performed in assessing the relationship between the dependent and independent variables. The results indicate that capital adequacy, managerial efficiency, liquidity risk, operating costs, size and Lerner index have significant impacts on non-traditional activities in both CBs and IBs. This indicates that non-traditional activities are important to improve the liquidity of banks. Besides, the size of banks and the monopoly power of banks will lead banks to be innovative in development of non-traditional financial products/services. Given the change in the business and banking environment as well as the change in demands for financial products and services in banks, these results indicate that continuous development and improvement in financial products and services are important to further develop and enhance the banking sectors of these countries. The results also imply that these non-traditional activities would lead to a change in income structure of banks as banks could no longer rely on traditional activities in gaining profits. As for this, it is expected that regulatory framework and policies to be enhanced to strengthen the position, functions and product/service development in CBs and IBs in the market.

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Stability of Islamic versus conventional banks: Malaysian Case

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Abstract

This paper investigates the stability of Malaysian Islamic and conventional banks during the period of 2004 – 2013 by employing z-score as measure of bank stability. Specifically, this paper aims to uncover the possible impact of the 2007 – 2009 global financial crisis on stability of these institutions. The result suggests that the z-score (indicator if stability) of Islamic banks are lower than the conventional banks, suggesting that the earlier is less stable than the later. Furthermore, the z-score for Islamic banks and conventional banks indicates a deteriorating trend during the recent crisis and prolonged during the post crisis, suggesting the negative impact of crisis.

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Information Asymmetry in Islamic Banking

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Abstract

Investors seek for additional information about firms in order to sell stocks when their prices are (high) or buy (low). The inequality of information distribution (information asymmetry) gives an upper hand for those who have additional information about the firm. Islamic Banking is based on many aspects, such as: restriction of *Shariaa* on Islamic Banks investments, profit and loss sharing and transparency. These aspects might give an indication for users that the Islamic banks have lower information asymmetry than their counter parts Conventional banks. Such expectation can influence investments decisions. Hence, this paper empirically analyses the information hypothesis that Islamic Banks have lower information asymmetry levels than Conventional banks. Stock price synchronicity, Bid-Ask Spread, market to book value ratio and Earning Price Ratio are used as different proxy measures for information asymmetry. A sample of listed banks from the Middle Eastern and Asian countries is studied for the period of 2002-2013. The relationship of information asymmetry and both types of banks are examined by applying regression analysis for different variables. Preliminary results show that we can confirm the hypothesis.

Keywords: Islamic Banking, Information asymmetry, Bid-Ask spread, Stock price synchronicity

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Conventionalising Islamic Banking?

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Abstract

One of the common misconceptions the public has about Islamic banking industry is that the Islamic banking products are nothing more than the conventional products which label has been changed to make the products appear as if they are Shariah compliant. That is unfortunate. There are several factors contributing to such misconception. One of which because many institutions offering Shariah compliant products and services do not spare much attention to the importance of creating public awareness of their products and the Shariah principles underlying such products. Marketing materials concentrate on the commercial aspects of products with less if not no emphasis on Shariah features of the products that would be useful for education purposes. Likewise, some institutions do not provide sufficient training so as to equip the employees with Shariah knowledge relevant to their function. As a result, the employees are lacking of product understanding and they are not in the position to offer satisfactory explanation and/or clarification on their Shariah products nor are they in the position to remove any doubt a customer may express on whether the products really are Shariah compliant.

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A Comparison of the Impact of Basel III on Islamic and Conventional Bank Growth in the Gulf State Region

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Abstract

Using a sample of publicly listed Gulf Cooperation Council (GCC) Islamic and Conventional banks, this paper provides empirically motivated answers to the following two important questions facing Islamic Banking today:

Will Basel III dent the growth of Islamic Banks?
How well do existing Capital Adequacy Ratios take into account profit sharing aspects of an Islamic Bank?

For the first question we analyze and compare the Fama and French (F&F) book to market value risk factor, for both types of banks. We observe a statistically significant difference between Conventional and Islamic banks post the crisis and release of the Basel III standard proposals. This result implies that *relative to Conventional Banks*, Islamic bank growth is not disadvantaged by Basel III. For the second question, we observe that reported Tier 1 capital ratio from Conventional banks is insensitive to bank stress but for the case of Islamic banks, the reported Tier 1 capital ratio is relatively more sensitive to bank stress. This is consistent with the interpretation that existing Capital Adequacy Ratios provide more flexibility to Conventional Banks for managing Tier 1 capital especially during a crisis. Finally, we introduce and test the properties of a market based measure, the Sharpe Ratio, which we motivate theoretically from optimal growth theory. We find that the Sharpe Ratio provides leading indicator information regarding bank stress for *both* Islamic and Conventional banks. This is *independent* of questions relating to the profit sharing aspects of an Islamic bank. One immediate implication of this is that the Sharpe ratio potentially has greater relevance for Contingent Convertible Debt (CoCo) trigger solutions for both types of banks.

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A Measurement Framework of Business Risk for Islamic Credit Financing Using Exploratory Factor Analysis (EFA)

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Abstract

This study aims to develop a reliable and valid scale for measuring the asset ownership risk or business risk for Islamic credit financing that runs on the true-sale credit financing system by using exploratory factor analysis. This is done by incorporating the capital and tax charges as part of the price components in view that the bank takes ownership of the asset it intends to sell on credit terms. Results from factor analysis suggest that all items load on their corresponding factors/constructs and demonstrate adequate validity. The proposed framework contains of 31 items in 5 dimensions: cost of fund, overhead, default risk, capital charges and tax burden. The results of the study should help banks to think of new ways to look for new funding avenues such as IFSA's Investment account to avoid the hefty capital charges and tax burden on asset purchases.

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Contrasting Islamic Leadership Styles
(*An empirical study of Muslim majority and minority countries*)

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Abstract

The concept of leadership in Islam was not unknown in Islamic Civilizations in past. The leadership style of Muslims in past varied from time to time and subjected to many circumstances, place, culture but the best known styles are the ones' reported during the era of *khulfae-rash-eedoun* or period of Ummayad, Abbasid and Usmanli (Othman Empire). The era of industrialization and present day challenges in corporate governance has given an emergence of academic interest to conduct empirical studies to test the application of Islamic leadership theories in today's corporate management since Management from an Islamic perspective is one of the emerging disciplines besides Islamic finance, economics and accounting. Islamic finance has already got attention of mainstream academic researches. Islamic leadership is defined as psychological contract between a leader and his followers that he/she will try his/her best to guide followers, to protect them, and to treat them fairly and with justice. The objective of Islamic leadership is to encourage to the Muslim followers to practice and develop the qualities of leadership, teamwork, partnership, consultation, and joint planning (Shyura) in making a better workplace and a better life for the Muslim Ummah and others. The main purpose of this study would be to investigate the Islamic leadership approaches in the Muslim majority and minority countries' economic integration for future of South East Asia (ASEAN) where Muslims form the bigger demographic groups. This study will show differences or conformance between Muslim majority and minority countries' Muslims on issues related to Islamic leadership practices such as Islamic leadership principles, transformational leadership principles, transactional leadership principles and servant leadership principles. This research will conduct an empirical survey in four different nations in ASEAN, namely Malaysia and Thailand. The former provides samples of Muslim majority and later is sample of minority Muslim respondents. The research data will be analyzed through non-parametric analysis such as one independent samples t-test, one-way ANOVA, and discriminant analysis. Based on the basic studies above future research may include developing the academic curriculum to be taught, if any, as academic discipline and Islamic Management domain in institutions of higher learning to train the future Muslim managers and leaders.

Keywords: Islamic leadership principles, Leadership approaches, Islamic management, Muslim, Southeast Asia

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Trusting the Valuer: Islamic Banks and Fair Value Measurement

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Abstract

Purpose: Islamic banks generally prepare their financial statements using International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB). Banks must use "fair value" in measuring some of their financial assets and liabilities. The IASB sets out how to determine fair value in IFRS 13 *Fair Value Measurement*. Fair value is based on market value, and can be determined easily where there is an active and deep market. Without such a market, fair values must be estimated. This creates for Islamic banks risks and uncertainties similar to those covered by the concept of *gharar*, which should be avoided in Shariah-compliant transactions. The paper investigates how Islamic banks in Saudi Arabia deal with this problem, particularly through the use of trusted valuers.
Design: Interviews were carried out with bank officials, auditors and regulators in Saudi Arabia, which deal extensively in Shariah-compliant financial assets and liabilities.
Findings: Islamic banks control their exposure to uncertainty through strategies of minimising the use of instruments giving rise to the greatest "measurement risk", and relying on external valuers rather than undertaking valuations "in-house".
Research limitations: The research was carried out in one country, and may not be generalisable to other countries.
Practical implications: Banks must trust their valuers, and this re-enacts similar trust relationships going back even to the time of the Prophet Muhammad.
Originality: Few studies have so far been undertaken on the implementation of IFRS13, and this is the first to address fair value measurement in the context of Islamic financial institutions.

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Performance of Public *Waqf* Institutions in Malaysia: Toward Financial Sustainability

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Abstract

Financial health is crucial to the continuous existence and operation of any organisation. It is even more essential in the case of *waqf.* Accordingly, determining the financial strength and vulnerability of *waqf* institutions is particularly very significant and congruent to *waqf's* perpetual existence. This study will use the financial health model that has often been adopted in measuring the performance of non-profit organizations in determining the financial sustainability and vulnerability of state-managed *waqf* institutions in Malaysia. The annual reports of state managed *waqf* institutions will be examined to determine the transparency and performance accountability of such institutions by computing four essential ratios: the equity balance ration' the revenue concentration ratio, the administrative costs ratio and the operating margin. The results of the study may raise pertinent issues that policy makers may address to ensure the systematic revival of *awqaf* institutions in Malaysia. More importantly, this may also help other Muslim countries in managing *awqaf*. Additionally, the results of the study will also enable us to determine how well institutional *mutawallis* are carrying out their tasks---- an indispensable ingredient for the revitalization of *waqf.* Finally, being the first to investigate the financial sustainability of *waqf* institutions, the study will add to the literature on *waqf* and serve as a reference for future researchers.

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Is Islamic business and administration true or false?

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Abstract

This article aims to clarify the fact of Islamic business, administration, management and accounting by answering these questions; Is there actually an Islamic finance, Islamic marketing, Islamic business, Islamic human resource, etc. in Sharia? Are there texts from the Holy Quran and Sunnah concerning these topics? It's true that Islam did not come essentially to teach people how to manage their lives in details of all aspects of life, such as government, politic, economy, social, farming, manufacturing, but to provide them with "framework & basics" over-all life aspects. Islam teaches what is suitable and good, and what is not. These guidelines are regarded as a part of the two categories of religion; worshiping (*Ibadah*) and behaviors& moralities (*Mua'amalat*&*Akhlaq*). At the same time, both categories additional to faith category are all linked together. There are guidelines concerning business, administration, therefore, performing them is considered as worship. There are some old Islamic books which are specialized in business, management and account, such as; *Al-Amwal, Alkharaj, AlahkamAssultaneyah, SubhAl'asha*. Yet, generally we can find a sum of business, administration and accounting rules and ideas throughout different chapters of the old Islamic books, especially Sharia books (*Abwab Al-Fiqh*). The Arabic word (*Tadbeer*) management is more often used than (*Idarah*) administration. In conclusion, it's not enough for Muslims to depend on what is mentioned throughout the Quran, the Sunnah and in several various chapters of the old Islamic law books. Also it's not enough to Islamize what other nations have, but they should have their own actual contemporary systems by studying with deep understanding of ; the Quran, Sunnah and their explanations, Islamic law, Islamic history, Islamic culture, the knowledge and experiences of other nations. Thus, they will be able to come out with contemporary systems of; Islamic business, Islamic administration, Islamic accounting and Islamic finance, exposed in a new presentation with modern languageforms, to be easy to understand and refer to.

Keywords; Islamic finance, Islamic marketing, Islamic business, Islamic human resource, Islamic management.

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Strategic Management Principles from Three Major Battles of Prophet Muhammad (S.A.W.)

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Abstract

There were 14 wars during Rasulullah's period as prophet, and in which he was directly involved in 9 of them. An analysis were done from the strategic planning perspectives on three major battles, namely Badr, Uhud and Khandaq. Analysis on the pre, during and post war period were done on the said wars and then principles of survival/strategic management deduced from them. As strategic management are dealings with 'survival' and 'to be always at an advantage over the enemy', these were used as the basic guidelines of the analysis. Deductions from the three major battles alone revealed several situations that one could link to the conventional western strategic principles. But there are others that are unique that can be shared and insert into the current understanding of the process towards making strategic decisions. While the physical and mechanical aspect of the battles have been widely documented, the spiritual aspects which are as important are rarely brought into the open. The analysis revealed these two components which Islam in principle says they cannot be treated separately. This paper attempts to look at these symbiotic nature to bring in a different perspective of strategic management from the Islamic perspective specifically through the three major battles of Prophet Mohammed (p.b.u.h.). The other wars are not included nor the over three thousand hadith as documented by Bukhari and Muslim in the 'Book of Hadith'.

Key Words: Battle of Badr, Battle of Uhud, Battle of Khandaq, Devine help, Strategic implications form the three Battles

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Towards Understanding an Alternative Concept of the Shari'ah-Based Firm

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Abstract

The first and central question in this study is raised about the theory of the firm and is related to its nature- what is a *Shari'ah*-based firm?The main purpose of this study is to define an alternative concept of the firm, which will follow the ethics of *Shari'ah* in its operation. This model of a *Shari'ah*-based firm shows that the economic; political, socio-cultural and environmental responsibilities are crucial in the matter of choice of the concept of the firm. The paper argues that, with creative adjustments, a *Shari'ah*-based firm will capture long-term impact to fulfil the commitments to meet economic, social and environmental responsibilities in order to achieve *Maqasid al-Shari'ah* (objectives of Islamic ethical norms). On the other hand, a *Shari'ah*-based firm will indicate major domains of human activity and their economic, political and socio-cultural arrangements, all of which may partially overlap and are embedded in the natural creation achieve *Maqsid al-Shari'ah*.

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The Roles Of Islamic Work Ethics On Knowledge Sharing Practices In A Financial Institution – A Case Study In Malaysia

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Abstract

Knowledge Sharing (KS) has been posited by many researchers to play an important role in organisation life cycles. Hence, the researcher is interested to discover what might be the mediating factors that would lead to KS practices within organisations. However, the existing literature focus on materialism and secularism on the KS notion and have not touched much on the religiosity concept as a possible mediating factor. In this paper, the researcher investigates the roles of Islamic Work Ethic (IWE) as a mediator which promotes KS intention among the employees of a financial institution in Malaysia, anonymously named Bank Co. The reason for choosing IWE to represent the work ethic to be studied is because Islam is the official religion of Malaysia and the majority of the staff of Bank Co are Malay Muslims. The researcher would like to determine whether IWE would lead to individuals' intention to share knowledge within the organisation. The paper is a work in progress and will involve respondents from the organisation's branches in Peninsular and East Malaysia. The collected data will be analysed using Structural Equation Modelling (S.E.M.).

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Understanding and Evaluation of Risk in Sukuk Structures

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Abstract

During the rapid growth of the Islamic banking sector in the global market in the last decade, Sukuk have developed and expanded to become one of the most important classes of Islamic financial instruments. However, Sukuk require further investigation and evaluation, in particular from a risk factor perspective, and compared with their counterpart, Conventional Bonds. Sukuk are considered to comprise a different financial class from Conventional Bonds, for example, in that Sukuk are based on trade while Conventional Bonds are based on debt. Consequently, Sukuk and Conventional Bonds have differing risk characteristics. Within the class of Sukuk too, Sukuk differ from one another in terms of risk. Sukuk differ from each other in respect of structure, and can be classified as asset based, equity based, debt based, agency based, or hybrid. Sukuk with different structures have different exposures to a variety of risks. In this paper we describe, explain and evaluate Sukuk risks, and in particular we identify and evaluate risk exposures associated with Sukuk structure.

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Does the Distant-to-Default Measurement Provide a Good Predictor to Sukuk Default?

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Abstract

This paper examines the risks embedded in sukuk, particularly the credit risk. With the series of alarming sukuk default cases in GCC and Malaysia during the past few years, quantifying the risk of default for sukuk have become one of the central issues. As the rating announcements are claimed to be rather too late in providing some signals of default, appropriate tools are essential and much needed by the market players. Despite the overgrowing concern and the exceptional demand for sukuk globally, there is yet a study focusing on quantifying the credit risk of the defaulted sukuk and to examine its pattern prior to being announced as default. With the aim to highlight the possible signals and main triggering points leading to the default, this study estimate the distance-to-default (DD) of the defaulted sukuk. The finding indicates that for some cases, in the anticipation of default, the estimated DD appears to be reducing in value, signalling that the issuers were struggling to meet its financial obligations. This study provides some basic analysis in estimating the DD of the defaulted sukuk which is beneficial for the investors, issuers, regulators and researchers.

Keywords: Credit risk, sukuk default, distance-to-default

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Creating a Two-Way Market via Short Selling and Its Potential Use in the Islamic Paradigm

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Abstract

Short selling is the selling of a security that the seller does not own. In conventional finance, the ability to short is considered an important element of an efficient and complete market. For most Muslim scholars, however, short selling is deemed undesirable when read in conjunction with the Hadith *"la tabi' ma laysa 'indaka"*, which carries a verbatim meaning of *"sell not what is not with you"*. There are, however, alternative interpretations of this Hadith that may justify the use of covered short selling as one of the legitimate instruments in the Islamic paradigm. Covered short selling, which entails borrowing a security for the purpose of shorting it, may be used efficiently to lower asset prices, as theorized by Miller (1977). This paper discusses about the short selling mechanism and argues that short selling may be beneficial to consumers in an Islamic market as it creates a two-way market mechanism and can be used to stabilize asset prices.

Keywords: Short selling, Islamic paradigm, Islamic finance, Market, Fiqh

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Debt Financing Behaviour Of Shariah Compliant SMEs (Enterprise 50): A Dynamic Approach On Malaysian Islamic Capital Market

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Abstract

Employing a dynamic approach, this study investigates the debt financing behaviour of Shariah compliant E50 SMEs in Malaysia covering the existence of target debt, speed of adjustment, factors affecting the adjustment speed and the rational financing behaviour for the period of 2009-2013. This study is motivated by the outstanding growth of Islamic Capital Market (ICM) which has increased by 22.6% to RM1.4 trillion and is expected to reach RM 2.9 trillion by 2020. With the establishment of Shariah Advisory Council (SAC), Securities Commission of Malaysia has set up certain standard of parameters as guidelines in classifying Shariah compliant securities. The central features of the Shariah compliant securities are the prohibition of activities that involve interest (riba), gambling (maisir), uncertainties and speculative trading (gharar). Periodical monitoring is carried out to ensure continuous conformity of those firms to the Shariah principles. Being Shariah compliant, these SMEs offer an interesting platform for further investigation due to the guidelines set by the SAC and their conformity to the Shariah principles.The dynamic model estimated using the Generalized Method of Moment revealed certain determinants significantly influence target debt financing. Noting the positive relationship between tangibility and capital structure yielded in this study enhances Shariah imposition that debt must be asset-backed which means a firm operating under Islamic principles cannot have debt exceeding the tangible assets. What distinguishes Islamic debt from conventional debt is that the former is necessarily asset-backed and hence, the significant amount of total debt would be bounded by the tangible assets owned by the Shariah firms. The study found that 49.25% of the SMEs examined adjust their financing rationally. Out of these firms that behave rationally, the number of firms which are considered as under-levered is equally the same with the over-levered firms. Further investigation revealed that under-levered SMEs adjust relatively faster to be at target debt relative to the under-levered counterparts. SMEs that are practicing rational financing behaviour would either reduce or increase their debt intake to reach to their target debt level. Therefore, this study contributes to the literature and fills the gap by exploring into a relatively new area of debt financing which is the dynamic aspects and will also help to enhance the understanding on debt financing behaviour of Shariah compliant SMEs in Malaysia ICM.

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Does Perception towards insurable risks mediate the relationship between firm's leverage and corporate Takaful demand?

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Abstract

Takaful demand is defined as an individual's intention to take up a Takaful policy for protecting the interests of the business. SMEs'participation in Takaful is important in ensuring the long-term continuity of its business in the event of a catastrophic event, such as a fire or physical damage that would jeopardize the operations of the company and consequently affect the profit and assets of the company. On the other hand, the success of Takaful operators is very much dependent on the demand for Takaful protection by the SMEs. This study aims to examine the Takaful demand by SMEs in Malaysia based on the Expectation Takaful Demand Model. Data were collected from 278 SMEs in Malaysia using secondary data and the survey instrument. Analysis of Moments Structure (AMOS) version 20.0 was used to analyse the data. The results showed significant relationships between the entire variables in the study. Leverage and perception were found to be significantly related to the Takaful demand, explaining 46 percent of the variance in Takaful demand. Unexpectedly, perception towards insurable risk was found to be a strong mediator between leverage and Takaful demand. Finally, the findings from the study have important implications for Takaful operators in Malaysia.

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Takaful, Governance and Stewardship

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Abstract

This paper explores the stewardship performance of takaful operators as encouraged by the precepts of Islamic finance. These denote stewardship as being comparable to khalifah (vicegerent) – aligning one's actions with the interests of the principal. In the context of takaful operators, the essence of stewardship is dictated by the governance process in the firms. In other words, good governance manifests itself in good stewardship.

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Efficiency Analysis of Islamic Insurance Industry: Comparison between Indonesia and Malaysia

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Abstract

The objective of this study is to compare the industry performance of Islamic insurance industries in Indonesia and Malaysia. This study measures the efficiency scores of Islamic insurance operators in Indonesia and Malaysia over the period 2010-2012 using Data Envelopment Analysis (DEA). To measure the efficiency, total expense is used as the input variable and gross contribution and investment income are used as the output variables. Variables are chosen based on the data availability of the financial reports from both chosen Islamic insurance operators in Indonesia and Malaysia. Result indicates that Islamic insurance industry in Malaysia has better efficiency scores compares to Islamic insurance industry in Indonesia. Investment income is the main source of inefficiency in Malaysia *Takaful* industry by 58% while gross contribution mainly contributed to the inefficiency of Indonesia *Takaful* Industry by 75%. However, when all operators are ranked, both Indonesia and Malaysia *Takaful* providers share equal portions in top six most efficient *Takaful* operators. Both industries are recommended to expand output production in order to improve the performance.

Keyword: Takaful, Malaysia, Indonesia, Efficiency, Data Envelopment Analysis

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Revisiting Shariah Issues in Takaful Structures

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Abstract

Insurance had been used by the current society in order to better manage risk against unwanted event providing the policyholders an avenue to recover from financial losses. Financial services rendered by banks had also brought forward the need for subscribers of these services especially mortgage insurance and property insurance. The Muslims are not excluded from such requirement which pose an issue of compliance to the Shariah (Islamic Law). The rise of Islamic Banks providing Islamic financing alternatives still requires the consumers to subscribe to insurance services to cover for losses arising from unexpected events. Considering the needs for insurance services, Takaful had been developed to offer the society an alternative. The paper aims to analyse the prohibited elements in insurance and how Takaful is structured as an alternative. In this regards the available Takaful structures implemented is examined in their application to avoid the prohibited elements in insurance. It is noted that the current structures used faces issues which could render the contracts non-compliant with Shariah requirements. Overcoming these issues would require the review of the aims in offering Takaful beyond boundaries of insurance services.

Keywords; Takaful, Islamic Insurance, Takaful Business Model, Mutual Charity Fund

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Shariah Governance Practices In Malaysian Islamic Financial Institutions

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Abstract

The Central Bank of Malaysia (Bank Negara Malaysia or BNM) introduced the Shariah Governance Framework (SGF) in 2010 and required all Islamic Financial Institutions (IFIs) to fully implement in 2011. The objective is to provide a proper regulatory framework for IFIs to function within the required Sharia framework that will help further strengthen the international investor confidence in the fast growing Islamic Finance Industry in the country. However, to realize this objective, the IFIs
must 'buy-in' and provide the necessary infrastructure to effectively implement the requirements of the framework. This paper deliberates on the level of commitment and implementation of the requirements of the framework by IFIs in the country, and highlights the success factors, challenges and suggestions for effective implementation of this framework. Sixteen Shariah committee members from 16 different IFIs were interviewed on the issues of interest and the findings suggest that IFIs perceive that SGF is not only relevant but necessary to ensure that Shariah committees to keep the gates on the IFIs business operations. It has provided an avenue for Shariah experts to actively participate in the Shariah Risk Management Control Function, Shariah Review Function, Shariah Research Function and Shariah Audit Function.

Keywords: Shariah Governance Framework, Banking, Director, Risk Management, Audit

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The contribution of *Shariah* Auditing Research towards Understanding *Shariah* Audit Practice

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Abstract

Following the emergence of *shariah* audit as part of the governance mechanism in Islamic financial institutions, interested scholars have undertaken research aimed at providing insight into the concept and issues pertaining to the practice of *shariah* audit. Thus, the discipline of *shariah* auditing has witnessed a surge in scholarly interest in recent times. Consequently, the aim of this paper is to review the extent of the contribution of *shariah* auditing research over the last decades to advancing our understanding of *shariah* audit practice and its development as well as to examine the implications for the future development and vibrancy of the discipline. It is expected that the paper will provide vital insight into the relationship between *shariah* auditing research and practice. More importantly, the paper would serve as clear guide for researchers, policymakers and practitioners who wish to understand and/or engage in researching *shariah* auditing issues.

Key words: *Shariah* Audit*, Shariah* Governance, *Shariah* Auditing Research

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Impact Of Corporate Governance On Auditor Choice Evidence From Turkish Studies

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Abstract

Internationalization of financial accounting and audit standards developed the competition among audit firms. In order to provide services for international companies which had subsidiaries in different states number of audit firms merged and act globally. Thus, the service offered by some audit firms differentiates and made these firms leaders in audit market.
For last ten years Big 4 are the top leaders of audit market in all over the world. In the length of time this four leading firms begin to concentrate more in segment with companies having high level revenue, leaving the remaining market to other firms. Hereby, audit market separated to Big 4 and Non-Big 4 audit firms.
Changes in audit market concentration, especially the mergers of international audit companies have taken the attention not only of market participants but also are admired in academic world. Till now, most of the scholars investigated the UK and USA audit market concentration and the determinants that affect the auditor choice. Several researches done on Chinese, German, Australian, etc audit markets. However, the literature related with Turkish audit market is limited.
All members of Big 4 have their representatives in Turkey. In addition, there are 93 external audit firms which provide services in Turkish audit market. The purpose of this research is to investigate the determinants affecting auditor choice in a case of Turkish companies. Author believes that findings of this study will be the one of the bases for the future researches.

Keywords: auditor choice, audit market concentration, Big 4

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Audit Quality Framework: An Islamic Perspective

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Abstract

The International Federation of Accountants (IFAC) issued the Audit Quality Framework (AQF) in 2014. This framework is useful as it portrays the factors that enable a quality audit as a systematic process. This paper analyses and discusses the AQF from an Islamic perspective. The discussion from the Islamic perspective refers to support from the Quran. The Islamic philosophy emphasizes the individual human being and the characteristics that should be possessed by individuals, particularly professionals. These characteristics apply to an auditor as a professional, thus enable the enhancing of audit quality. Considering the AQF from another angle, the Islamic, contributes to the audit quality literature. Although empirical testing has not been carried out, the paper has practical implications that could be of interest to regulators, audit firms and auditors.

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Zakat Misconception

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Abstract

Islam's basic pillar is equality in society (*Masawaat*). That's one reason why Quran prescribes for circulation of wealth across the social spectrum. But, as per the Divine scheme, the instruments mentioned to ensure this are surely not confined to Zakat. If 15% of the Ummah is financially well placed then only 2.5% of their "wealth + annual savings" will not suffice to bring up the remaining 85% of the Ummah to the level of economic equality all over the community. That's the reason why God has prescribed Sadaqah. Accordingly, after duly providing for self and family, whatever a person is left with has to be given away as Sadaqah. The concomitant theme of all economic activity should be to ensure that the community's wealth keeps on changing hands and circulating across the entire social spectrum. In the process, the Mahajirs needed to necessarily be rehabilitated with dignity. The Islamic societies and governments should mull over this paradigm and incorporate it, in letter and spirit, in their constitution as well as the day to day working.

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Zakat Disbursement Efficiency – Comparison Study for *Zakat* Institutions in Malaysia

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Abstract

The study aims to measure and analyze zakat disbursement efficiency (ZDE) for the zakat institutions in Peninsular Malaysia and identify factor(s) that influence the efficiency. There are two phases of efficiency analysis in the study, (i) zakat disbursement efficiency measurement and (ii) identification of factor(s) that influence the zakat disbursement efficiency of the zakat institutions. ZDE is measured using ratio. There are three efficiency measures used, Disbursement Efficiency (D_E), Cost Efficiency (C_E) and Time Efficiency (T_E). As far as DE is concerned, Selangor performs most efficiently when the means score shows that Selangor are able to disburse about 91% of the total zakat collection for the six year period. D_E for Selangor improves over the years. While Kelantan shows a means score of 71% and D_E fluctuate over the years under study. As for C_E, Kelantan seems to perform better than Selangor with means score of 102.47 and Selangor means score of 23.66. However, for time efficiency (T_E), Selangor takes the shortest time, approximately of 13 days to process zakat application from the potential recipients while Kelantan takes about 38 days. There are 4 identified factors, namely zakat personnel, zakat institution branches, zakat institution status, and the use of IT in the zakat institution. These factors are then regressed against the three efficiency measurements, i.e. D_E, C_E and T_E which has been used in order to identify their influence on zakat disbursement efficiency. The regression result show that the number of zakat personnel is positively associated to D_E and negatively associated to C_E and T_E, the number of institution branch is positively associated with D_E and negatively associated with C_E. The zakat institution status is positively influence D_E and negatively influence C_E and T_E; and IT zakat disbursement system usage has a negative influence on C_E.

Keywords: Zakat; Disbursement Efficiency; Malaysia

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Waqf versus English Trust: A Comparative Analytical Study of Their Nature, Structure and Socio-economic Implication

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Abstract

That the institution of *waqf* (Islamic perpetual charity) emerged and evolved prior to the birth of English trust is scarcely disputed. There has also been a strong suggestion that English trust borrowed its conceptual as well as structural framework from Islamic *waqf* in 12th Century CE. *Waqf* originated in 7th Century CE as an Islamic charitable institution and constantly maintained its religious nature and character throughout the history. The religious nature of *waqf* entailed many distinctive implications for the institution which distinguish it from its English counterpart i.e trust. In the main, *waqf* is necessarily required to comply with shariah in terms of its structural formation, administrative framework, applied methods and intended objectives. In comparison, despite having close affinities in structural formation with *waqf*, English trust diverged its way with the former in its underlying concept, objectives and management framework. In fact, trust transformed into a secular device; being free from the remit of any religious regulating force. This conceptually inherent discrepancy between the two institutions makes *waqf*, according to some researchers, a rigid, inflexible and inefficient institution *vis-à-vis* English trust. This paper aims to examine and explore the areas of similarities and dissimilarities between *waqf* and trust in their conceptual, structural and administrative frameworks, followed by a critical analysis of their objectives and socio-economic implications. This paper would provide a solid base for policy recommendations aimed at reinvigorating the institution of *waqf* in modern context.

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Challenges in Administering Muslim Wealth through Islamic Entrustment (*Alwisayah*): The Reality in Malaysia

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Abstract

This working paper portrays the main challenges faced in administering Muslim wealth in Malaysia from the aspect of law, planning, management or its distribution to the party eligible to receive them. It also explains briefly about *wisayah* and its role in the process of administering wealth in a more efficient and fast manner. As a federal state with people of different races and different religions, the administering of wealth among the Muslims since the colonial powers of the British till now is placed within the jurisdiction of Civil Courts whereas in the context of determining the legal heirs and beneficiaries and the rate of wealth distribution is placed within jurisdiction of Shari'ah Courts limited within each state. Besides that, the study also identifies the human factors which are the causes for the delay in the process of wealth administration, inadvertently a big impact to the economy and finance of the Muslims on the whole. As a result, this study which is still being carried out is hoped to strengthen the rationale and efforts of the people in authority to empower the Islamic legal system, specifically in administering Muslim wealth based on *wisayah*. This is coherent with the aim of establishing an integrated system of administration, planning and an efficient distribution of wealth for the *maslahat* of *ummah*.

Keywords: Islamic Wealth Management, al-Wisayah (Islamic Entrustment), Islamic Law of Inheritance

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Islamic Assets and Diversification Effects in Emerging Markets

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Abstract

This study investigates the impact of Islamic equity and fixed-income securities in the process of eliminating the systematic risk component in emerging markets' investing. Using a dataset of Islamic market indices over the period of 2010 – 2014, we compute optimal weights on individual asset classes and examine interrelationships between Islamic sukuk and other conventional assets within a conventional semi-variance framework. According to our findings, Islamic sukuk exhibit the lowest risk while Islamic stocks report the highest level of return during the period under examination. Further tests suggest that Islamic assets not only outperform their conventional peers but they are also weakly correlated with the latter within an asset portfolio. Hence, the study recommends that Islamic assets could offer potential diversification benefits to investors with different risk profiles in emerging markets, and assist in positive returns performance during periods of market downturns.

Keywords: Emerging Markets, Islamic Assets, Sukuk, Portfolio optimization, Semi-Variance

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Leverage and Value at Risk (VaR) for European Portfolios compared to Global Sukuk: Evidence from the portfolio theory

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Abstract

Theoretically, the leverage of the firms appears to be a major determinant of the volatility of prices and returns of the portfolio. Particularly, the portfolio's Value At Risk (VaR) may show high value of losses that the investors may have to incur specifically during financial shocks. Thus, the investors' strategy has to take into account the leverage of the firms which are included in their portfolios. We examine the VaR of different portfolios in relation to leverage by considering different size of portfolios constructed based on the firm's level of debt and taken from a panel of European firms distributed over eight countries. The Mean variance efficient frontier (MVEF) of the optimal portfolio weights, based on the low and high debt firms, are determined for each quarter and the VaR are then computed. Our findings tend to indicate that, during the global financial crisis and for the optimal portfolios, the investors have to incur more losses in the case of high debt portfolios compared to low debt portfolios. Overall, the leverage seems to have a big role for the portfolio losses based on the value at risk. This is in line with the Shari'ah-compliant equities perspectives in regard to debt ratio exigencies. Finally, for Muslim investors and regarding the "flight to quality" behaviour, we explore the Value At Risk in the case of several portfolios based on high and low debt strategies in relation to the Global Sukuk index.

Keywords: leverage, Value At Risk, Volatility, Mean Variance Efficient Frontier, shari'ah-compliant stocks

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Credit Risk, Sukuk Rating and Income Manipulation

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Abstract

Based on the belief that the sukuk issuer firms that smooth their income would have better ratings, this study examines the relationship between income manipulation, sukuk rating and credit risk in Malaysia. Data were collected from datastream for 240 companies. Sukuk rating data are obtained from RAM (Rating Agency Malaysia). This data would be assigned scales that representing each rating judgment. Income manipulation measurement were based on the manipulation metrics of Eckel (1981) and the manipulation metrics of Leuz (2003). The analysis shows that the sukuk rating and income manipulation has significant correlation and positive relationship.

Keywords: Earnings manipulation, sukuk, rating, credit risk

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Rating Split: Does Corporate Governance matter? Evidence from the credit-rating gap of constituents of FTSE Shariah Global Equity Index Series and MSCI Global Islamic Indices

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Abstract

This paper contributes to show the corporate-governance attributes effects on rating split in fastest Islamic finance markets represented by constituents of both FTSE Shariah Global Equity Index Series and MSCI Global Islamic Indices. It is indeed proven that the conservatism and ability of company to pay interest expense is seen higher in perspective of local credit rating as the nature of conservative culture is attributed to these developing countries, while international agency value more on efficiency of the firm. On corporate governance attribute, independent directorship addresses significantly positive direction to the gap, although the coefficient is quiet weak, and nearly contributing no such massive magnitude of effect to the gap.

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Retracing the Early Development of Islamic Accounting in Indonesia: A Historical Perspective

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Abstract

The development of Islamic accounting in Indonesia has drawn both positive and negative response. For the supporters of the latter, Islamic accounting is merely a change of terminology as used in conventional accounting such as *murabaha*(cost-plus sale), *ijara*(lease) and *qard al hasana*(beneficence loan). They even maintain that Islamic accounting only mimics conventional accounting practices, without offering a distinctive concept of a new accounting discipline. Therefore, Islamic accounting does not provide a valid ground to claim as a unique accounting discipline. This study argues that embryonic development of Islamic accounting has existed in the Dutch colonial times (1596-1942). It can be traced from the work of an Islamic scholar and influential figure Syeikh Muhammad Arsyad Al-Banjari(lived 1710-1812) who introduced the basic principles and practice of Islamic accounting at that time. It could happen because a majority of Indonesians has embraced Islam as their religion since 1400. That view is supported by accounting theorists who noted that it is difficult to disentangle accounting from socio-religious values as demonstrated by the early development accounting in Italy initiated by a Franciscan monk in 1494. The study aims to investigate the historical root of Islamic accounting in Indonesia in the pre-Indonesian independence time, particularly during the Dutch colonial era. In retracing and revealing the early development of Islamic accounting in Indonesia, the study employs a bibliographic data sources strategy and institutional theory is chosen to be its theoretical lens. Findings of the study reveal that early form of Islamic accounting had been developed by Syeikh Muhammad Arsyad Al-Banjari, as he explained in his book entitled *Sabilal Muhtadin* ([1780], 2005). The book contained a detailed procedure and calculation on how muslims (Islamic adherents) should pay his/her zakat (compulsory alms) to charity based on muslims' wealth. In terms of institutional isomorphism, Al-Banjarihighlighted the importance of normative isomorphism adoptionby zakat organisations for boosting their organisational capacity in managing zakat fund. Contribution of this study will offer an assurance to the muslim community that the current development of Islamic accounting in Indonesia has historical root long before Indonesian independence (1945). Thus, the rapid development of Islamic accounting in the present days is not intended to imitate what has been achieved by conventional accounting, since the two disciplines have their own world-views.

Keywords: Islamic accounting; historical accounting; Indonesia

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Comparing Accounting Disclosure Practices Of *Shariah* Compliant And Non-*Shariah* Compliant Companies

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Abstract

Islamic beliefs and attitudes have the potential to influence the way of life for individuals. However, it is still unclear how Islamic beliefs and attitudes are translated into organisational practices such as accounting practices. In this study, we explore the accounting practices of 32 *Shariah* compliant companies and compare them with similar practices to those of equivalent 32 non-*Shariah* companies. Our study examines the disclosures practices of four accounting standards, IAS 17 *Leases*, IAS 21 *The Effects of Changes in Foreign Exchange Rates*, IAS 36 Impairment *of Assets*, IAS *Intangible Assets.* Through this comparison, we attempt to explore whether there are any distinct accounting practices of Islamic organisations and highlight the possibility that these organisations may exhibit better accounting practices than non-Islamic organisations. Our findings show there are no distinct patterns between *Shariah* compliant and non-*Shariah* companies. *Shariah* compliant companies made more disclosures for IAS 36 and IAS 38 than non-*Shariah* companies. However, for IAS 17, the latter had better disclosures than the former. There are no differences in the disclosures of both companies in IAS 21.

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Kuwait Finance House: A Case-Study in the Issues and Concerns in the Financial Reporting of Islamic Banks

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Abstract

This paper aims to shed light on the current unorganized state of financial reporting in Islamic banks. In this exercise, I illustrate the negative effects of using conventional accounting standards in Islamic banks rather than Islamic accounting standards and show how this leads to non-transparency and the provision of inaccurate and misleading information to the general public and investors. I also reveal how Islamic banks are not disclosing much of the information available on the financial statements of a conventional bank and are inadequately providing information about *Shari'ah* compliancy and the activities of the *Shari'ah* boards. The current state of financial reporting in Islamic banks allows Islamic banks to conduct operations secretively and to hide negative information and losses. The non-transparency of the emerging Islamic banking system should be a major concern for the industry as this may lead to corruption and scandals, which may lead to the demise of the industry. At the end of the paper, I make several key conclusions and recommendations for financial reporting in Islamic banks. The paper is limited in proportion to the amount of limited information available in the financial statements of Kuwait Finance House.

Keywords: Islamic Accounting, Financial Reporting, Islamic Finance, Maqasid al Shari'ah

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Accounting for Women in Islamic Microfinance: from Oppression to Education

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Abstract

Women's involvement in microfinance has been remarkably seen as potential players to the success of the poverty elevation program in countries where group based programs operate. Empowering women in the economy creates social capital which eventually contributes to the achievement of shared prosperity in the society and increased social cohesion that are critical for economic development and sustainability. However, the success of women participation in the economy which is in this study within the microfinance programs has mounted to criticism of male dominance and violation of their rights. In the case of microfinance in Bangladesh, loan obtained by women was actually controlled by male relatives. Furthermore, the study in Cameron shows that the economic empowerment of women was developed particularly by programs created by international donor agencies which could augment women's oppression. On the other hand, close examination of Islamic micro financing program where majority participants are women as the case in Indonesia and Egypt, we found different meanings of success in the group based program. Using ethnography approach and Giddens's concept on supervision, it becomes clear during the observation period that participants in Islamic micro financing program were economically and morally [religiously] empowered to tackle sustainable development issues that are obstacles to their sustainable development. Oppressed women tackle the causes through family contracts where the husbands or matured members of the family share some of the responsibilities on the use of the fund. Moral and civil education is also a crucial component for educating women participants of their rights and duties as wives or daughters in Islamic family as well as citizen of the country. At accounting and discipline level, managing business and personal accounting transactions is also a part of the education process possibly conducted through the Islamic micro financing program. The research contributes to the literature gap on study of women and Islamic micro finance and call on the World Bank to take into consideration Islamic views on women, family and micro financing as part of the social capital essential for community productivity and well-being.

Keywords: Women, Oppression, Education, Poverty, Islamic Microfinance

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Government's role to provide seed fund: the case of Saudi Arabia

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Abstract

The Saudi Government through its development of more than half a century has established many governmental institutes to provide loans to citizens and firms for different purposes. For example, the government established three development banks to provide individual and investment loans for three sectors: agriculture, manufacturing and real estate in 1963, 1974 and 1974 respectively. In the same manner, Saudi Credit and Saving Bank (SCSB) was established in 1971 to offer social loans for individuals. However, in 2004 the government realized the importance of providing specific support to the Small and Medium Enterprise (SME) sector. Therefore, the government established a loan guarantee scheme called "Kafalah". Moreover, in 2006, the government increased the role of SCSB to cover more duties including financing small and new business and looking after them. On the other hand, the Agricultural Development Fund (ADF) also provides loans but they are limited to projects investing in agriculture. Until the third quarter of 2012, the total loans provided by the government institutes reached SAR 407.9 billion (SAMA,2014). For instance, table 1 shows the total loans provided by some government institutes during and until 2012.

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Financial Inclusion through Partnership Model of Islamic Bank and Islamic Cooperative (BMT)

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Abstract

Access to capital is a central issue in an effort to empower small micro-enterprises in Indonesia. The large numbers of small micro-enterprises have reached 53.7 million units, which mean the share market reached 99.91% of the number of businesses in Indonesia. And this has encouraged the development of microfinance industry including Islamic microfinance. In the Islamic microfinance industry, Islamic Cooperative or also known as Baitul Mal wa Tamwil (BMT) became the dominant player serving the financial services needs of small micro-enterprises. Currently, there are 187,598 units of the cooperative, in which 97,950 units a savings and credit cooperative. And according to the Association of Indonesian BMT (Absindo) approximately 5,500 units of which are BMTs. Limitations of coverage and network services as well as lack of competency of human resources of Islamic Banks put together partnerships with the Islamic microfinance institutions such as BMT become crucial in order to increase access to financial services for micro-small businesses. At the same time almost all BMTs have limitations in service capacity due to the limited volume of their business. Currently there are 4 (four) types of partnerships undertaken between Islamic banks and BMT, namely: (i) executing, direct partnerships; (ii) holistic executing, executing partnership followed by coaching and empowerment programs; (iii) channelling, indirect partnership as through agency liaison (secondary Islamic cooperative); (iv) holistic channelling, channelling partnership followed by coaching and empowerment programs. By using analytic network process (ANP) approach, this study found some interesting facts related to the partnership model made between Islamic banks and BMT, particularly the factors that determine BMT preferences in using the existing partnership model.

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Islamic Microfinance Institutions: Pro-poor or for profit?

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Abstract

The paper examines the performance of Islamic Microfinance Institutions (MFIs) vis-à-vis their conventional counterparts to find any evidence of trade-off between sustainability and poverty outreach. Using latest data from MIX Market database, this paper benefits from a reliable dataset from 1998-2013 that covers microfinance institutions from 57 countries in four regions that have Islamic MFIs, namely East Asia and Pacific, South Asia, Middle East and North Africa and Eastern Europe and Central Asia. The Islamic MFIs represent about 2.88 percent (38 out of 1,320) of the total MFIs. Using Ordinary Least Squares (OLS) regression to analyse financial performance, the paper finds that there is no conclusive evidence of trade-off between sustainability and outreach in the Islamic MFIs. However, we find that profitability of Islamic MFIs is worse-off than conventional, indicated by lower ROA and higher Cost per borrower, despite higher sustainability measure (OSS). Likewise, Islamic MFIs have lower Number of poor borrowers and Average loan size, but higher Percentage of women borrowers, suggesting an encouraging depth of outreach to the poor but not the scale (breadth).

Keywords: Islamic microfinance, sustainability, outreach

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Financial Development, Islamic Finance and Economic Growth: the case of UAE

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Abstract

Purpose – In 2013, the UAE’s GDP was USD 396.24 billion, making it the world’s 27 largest economy. The contribution of the oil sector to the UAE's gross domestic product is decreasing since the government tries to diversify its economy. The UAE has embarked on an overall economic reform package that included policy and structural reforms in the financial sector. The role of Islamic finance – as a segment of the global financial system- also has been a key focus in development policy discussions. The aim of this paper is to examine empirically the relationship between financial development, Islamic finance and growth.
Design/methodology/approach – Using time series data from 1990 to 2012, the study carry out an analysis of a bivariate vector auto regressive model to document financial development-Islamic finance-growth causal nexus and to forecast growth under various scenarios.
Findings – The results suggest that the conventional view which suggests that the direction of causality runs from financial development to economic growth is true in UAE. Empirical findings clearly suggest that GDP causes Islamic financial development with no reverse or feedback effect.
Originality/value – This study proposes the construction of a composite indicator of financial development with the non-parametric approach Data Envelopment Analysis. This new indicator is used to evaluate the financial strength of the UAE and then to analyze its effect on economic development. In addition to the role of financial development in general, the paper analyzes the role of the Islamic finance in particular.

Keywords: **Financial development, Islamic finance, growth, Data Envelopment Analysis, bVAR, UAE**

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Islamic Economic Performance Measurement for Islamic Banks

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Abstract

The aim of this study is to conceptually analyse and then develop Islamic economic performance measurement indicators for Islamic banks. In developing the indicators, the study has developed and adapted the performance measurement indicators based on well-established Islamic economic objectives by selected scholars. The main argument of this study is that Islamic banks' performance should be measured using unique and specific objective indicators that will reflect their Islamic economic objectives. Hence, it is of vital importance to translate the normative Islamic economic objectives that require broader and more societal approach of measurement rather than focussing on the narrow financial measurement of conventional finance. This paper reports the preliminary results of a pilot study conducted on 6 Shari'ah and Islamic economic scholars. The pilot study is conducted to test the level of acceptability of the Islamic economic performance indicators for Islamic banks. The performance measurement indicators as conceptually developed by this study is very useful to be tested by future empirical studies.

Keywords: Islamic Economic Objectives, Islamic Banks, Islamic Economics, Performance Measurement

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Analysis of Commodity Reserve Currency System from *Siyasah Shariyyah* Perspective

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Abstract

This research paper applies the doctrine of *siyasah shariyyah* to a policy proposal in the area of monetary economics, namely the Grondona system of conditional currency convertibility which has been proposed as a practical means of resisting the economic instability caused by the present-day fiat money system. It uses library research to review the literature relevant to the Grondona system, and examines the extent to which its operations conform to the principle of *siyasah shariyyah,* thereby encouraging *Maslahah* i.e. the public interest. It has been found that the Grondona system of conditional currency convertibility conforms to the philosophy of *siyasah shariyyah* because it promotes public welfare in a number of ways. Firstly, it is based on the fundamental principle of Prophet Yusuf/Joseph (ʿalayhi s-salām)'s economic planning, that is accumulating reserves of primary commodities during times of plenty and releasing those reserves of commodities during periods of scarcity. Such a counter-cyclical principle helps to stabilise the prices of primary commodities and also exerts stabilisng influences on the business cycle of the implementing country. Secondly, it provides the necessary linkage between the monetary world and the real economy. Thirdly, its implementation does not require any international negotiations, and it could be implemented in parallel with the existing monetary system by using the national currency. Fourthly, it would help the least developed countries of the world which mainly depend on exports of primary commodities (mostly agricultural). The authors conclude that the Grondona system should be seriously studied as a candidate for implementation by interested countries, in order to reduce dependence on the global fiat money system.

Keywords: Siyasah Shariyyah; Commodity reserve currency system; Grondona system; least developed countries

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The Interplay between International Commercial Arbitration and Shariah Law

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Abstract

Despite the rich historical tradition of arbitration as a dispute resolution method for international commercial disputes, it has been argued that “as a technocratic mechanism of dispute resolution, with a particular set of rules and doctrines, international commercial arbitration is a product of this century”. This paper analyses the intersection between international commercial arbitration as a ‘twentieth century novelty’ and Shariah Law. Despite the initial scepticism towards the modern international arbitration regime, most Middle Eastern countries have ratified the New York Convention and modelled their international commercial arbitration law on the UNCITRAL Model Law. Brower and Sharpe classify the recent move towards arbitration reforms in the Middle East as the ‘third phase’. The third phase also consists of the increasing recognition of the Middle East in the international commercial system as a substantial exporter and major area for foreign investment. . During this period, it is evident that Muslim countries also began making efforts to expand its economic opportunities by attracting investors and being part of the international global economy. One may then argue that Shariah law no longer plays a role in the third phase of international commercial arbitration due to the recent move towards arbitration reforms in Muslim countries. This research paper initially discusses the history and context of Shariah arbitration and then discusses how Shariah law may still play a role in international commercial arbitration under the doctrine of public policy.

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Shariah Governance: Effectiveness of Shariah Committees in Islamic Banks In Malaysia

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Abstract

An effective system of rules, practices and processes by which Islamic Financial Institutions (IFIs) are directed and controlled is important to ensure their business operations are Shariah compliant, which has implications on their reputation, Shariah Governance and the future growth of the Islamic finance industry. Seventeen Chairman of the Shariah Committee of Islamic Banks in Malaysia were interviewed on the challenges faced in carrying out their responsibilities and their views on the effectiveness of Shariah Committees in Islamic Banks. This paper summarizes the various challenges faced by Shariah committees in general and in Islamic Banks in Malaysia in particular. Different from their conventional counterparts that focus only on maximizing wealth of shareholders, IFIs protect the interests of all stakeholders (including shareholders) and initiatives to maximize wealth are permitted by guides that ensure no form of any injustice to all stakeholders. Specifically, issues related to effectiveness of Shariah Committees such as independence, confidentiality, competence, consistency and information disclosure are discussed.

Keywords: Shariah Governance, Shariah Committee, Islamic Financial Institutions, Independence, Competence, Consistency

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Internal-External Shariah Audit Model for Shariah Assurance on Islamic Financial Institutions

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Abstract

Shariah Governance Framework (SGF) issued by the BNM (2010) proposed that the audit scope shall covers audit on financial statements, Shariah governance audit and audit on people, information technology and processes. The components in the audit scope shall also extensively reflect the overall operations of the IFI. However, SGF (BNM 2010) is silent on the detailed aspect of the scope of Shariah audit. Recent study highlighted that there are few Islamic banks that do not conduct audit on financial statements as part of their internal Shariah audit due to their reliability towards external audit function, as in the conventional set up. Thus, this study examines the internal and external Shariah audit role and proposes a new model for Shariah audit that integrates the internal and external Shariah audit function to complement the existing practice as outline in SGF. This study proposes clear distinction between the scope of internal and external Shariah audit. In order to formulate the integrated internal-external Shariah audit model, this study qualitatively analyses the resolutions issued by Bank Negara Malaysia (BNM) that forms guide for Shariah audit conduct and the standards that are applicable to Islamic financial transactions issued by the International Financial Reporting Standard (IFRS). This study would contribute to the literature on Shariah audit scope and brings about the practical implications to improve Shariah audit practices by internal and external Shariah auditors.

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The *Shari'ah* Governance Report Disclosure: An International Comparison

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Abstract

The study examines the Shari'ah Supervisory Board (SSB) Report, which is considered to be one of the most important reports in the annual reports of Islamic banks (Al-Mehmadi, 2004). The empirical procedures involve cross-sectional analysis being applied to disclosure data from the annual reports of Islamic banks in the Southeast Asian and the Gulf Cooperation Council regions in 2009, resulting in a data set of 53 Islamic banks. This study benchmarks the SSBReport disclosures of Islamic banks to the AAOIFI's Governance Standard for Islamic Financial Institutions No. 1: Shari'ah Supervisory Board: Appointment, Composition and Report. The average level of disclosure in the SSB Report is 39.1 percent, with similar results across the two regions. The findings from this study also reveal that SSB cross-membership is found to be highly significant with the disclosure in the SSB Report. It seems that experienced SSB members who sit on other Islamic banks' SSB and are renowned international scholars, play their part in enhancing SSB Report disclosures.

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Board Diversity and Company Financial Performance: A Framework for the Malaysian Takaful Industry

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Abstract

This paper presents a conceptual framework to examine the impact of board diversity on the performance of Malaysian takaful operators. The board diversity is examined from two perspectives, i.e. statutory (SD) and demographic (DD) board diversity which are based on the agency theory and resource dependence theory respectively. The framework suggests that the statutory diversity moderates the relationship between the demographic diversity and the performance. Instead of looking at the individual board characteristics, this study takes the approach to examine them collectively by constructing SD and DD indices. In addition, the impact of Shariah Supervisory Board (SSB) diversity is also examined in order to find whether it provides any incremental value to the performance of the takaful operators in addition to what the DD and SD may have offered. This paper contributes to the current literature of corporate governance by focusing on the rapidly expanding takaful industry. Besides, the usage of multiple theories and collective measurement of the board diversity may provide better evidence and explanation to the currently mixed finding

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Islamic Microfinance as a Solution of Capital System for Micro, Small, and Medium Enterprise (MSME): The Case of *Baitul Maal Wat Tamwil* (BMT) Dana Ukhuwah Lembang, West Java, Indonesia

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Abstract

The purpose of this paper is to identify how Islamic capital system works on Micro, Small, and Medium Enterprise (MSME). The paper discusses an Islamic microfinance that has important roles in socio-economic development as a capital system for Micro, Small, and Medium Enterprise (MSME) that does not charge them with any interests. This paper focuses on the case of capital system for MSME in Lembang Traditional Market, West Java, Indonesia. Recently, there are still many micro-entrepreneurs that put their trust on the *rentenir* (moneylender) as their capital system, although they know that *rentenir* (moneylender) offers higher interest than any other microfinance institutions. However, the establishment of *Baitul Maal Wat Tamwil* (BMT) Dana Ukhuwah in Lembang, which offers an islamic capital microfinance without charging interest, gives some better benefits for the micro-entrepreneurs. BMT gives easier requirements of lending some money to the micro-entrepreneurs compared to what the bank does. Thus, nowadays, there are many micro-entrepreneurs in Lembang Traditional Market who tend to trust the BMT Dana Ukhuwah as their capital solutions. Having said that, we can see the main purpose of the Islamic microfinance institutions is to decrease the level of poverty by lending the money to some rural society and help them with their business capital. So, by writing this paper, we want to show the influences Islamic Microfinance Institutions (the BMT Dana Ukhuwah Lembang, West Java, Indonesia) on the social welfare of rural-poor society through the Islamic capital system for the micro-entrepreneurs.

Keywords: Baitul Maal Wat Tamwil (BMT), Islamic microfinance, MSMEs

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Microfinance as a Tool for Poverty Alleviation: Case Study in Gakin Bank Jember (Sharia Human Resource Development Approach)

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Abstract

Poverty is an important problem that has to be solved as soon as possible, so every country must have effective program to face it. The most popular program that can solve poverty is microfinance program. To solve poverty problem, the government of Jember District, East Java, Indonesia especially Agency of Cooperative and Micro, Small, and Medium Enterprise made a program of poverty alleviation that adopted from Grameen Bank model with some modifications called Gakin Bank Jember. In Gakin Bank Jember, program practitioners are the people from the community itself. Human resource development is one of the important things in management of organization. Based on the description above, we consider the theoretical frameworks that link Sharia Human Resource Development and Gakin Bank Jember. We conclude our paper by making recommendations for further development of the Gakin Bank Jember based on Sharia Human Resource Development approach. *Tawheed* (religious spirituality) is the main foundation of Sharia Human Resource Development (Sharia HRD) that based on Al-Qur'an and As-Sunnah. Strong *tawheed* becomes the strong foundation of sharia human resource. A good understanding of *tawheed* can realize good corporate culture; such as honest, cooperative, independent, straight forward, caring, and loyal. All of these corporate cultures will reinforce each member, not only the institutional member, but also the targeted society group to have sense of belonging and forward looking. Then, the management functions (recruitment and selection, training and development, and performance management) can be organized by good leadership that based on prophetic values (*fathanah*, *amanah*, *shidq*, and *tabligh*) and implemented by institutional member and the targeted society group. So, the final purposes: business and *mardhotillah*, can be achieved.

Key words: poverty, microfinance, Gakin Bank Jember, Sharia HRD

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Promoting Islamic/Non-Interest Financial Infrastructure as Viable Option for SME Financing In Nigeria

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Abstract

Small and Medium Enterprises (SMEs) have been identified as nerve centre of, and catalyst for, the growth of the economy of nations the world over. In the Nigerian context, SMEs occupy a central stage in the economic landscape as it accounts for over 90% of the Nigerian business ventures and has strong bearing in influencing the distribution of income in the country. Despite its relevance, the contribution of SMEs to the nation's GDP is found to be drastically low and insignificant. In spite of various intervention programmes evolved by the Nigerian government towards the development of SMEs, its growth rate has been so low and developmental pace has remained so slow. This situation has been attributed to factors which include lack of adequate and suitable financing infrastructure to cater for the needs of the SMEs or, in other words, lack of access to financing by the vast majority of the SMEs through the formal financial sector, amongst others. As the banks remain the known formal source of finance for business enterprises, this paper intends to x-ray the current position of SMEs financing infrastructure in Nigerian banks with a view to addressing the nature of the impediments as regards access to SMEs funding. This work tends to establish that lack of suitable financing infrastructure represents the key constraints to SMEs' access to funding and since the prevailing funding mechanism in Nigeria has virtually been predicated on the conventional interest-based financing approach, this option has left a mark of little or no hope for the growth and development of SMEs in Nigeria. Conversely, the author proposes to establish that, with the introduction of non-interest banking in Nigeria based on Islamic commercial jurisprudence, and owing to the dynamics of shariah compliance of the non-interest banking products as well as the exceptional value propositions of the system of Islamic banking, the promotion of Islamic/non-interest financial infrastructure is capable of presenting more viable alternative option to SMEs financing which, to a great extent, can lay the foundation for overcoming the constraint of SMEs access to funding in Nigeria.

Key words: SMEs financing; shariah; Islamic/Non-interest; banking; financing infrastructure

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New Evidence of Risk v/s Return Performance of Islamic Mutual Funds: The Case of Malaysia

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Abstract

This paper compares the returns performance of the Islamic mutual funds with that of conventional fund. It covers both pre and post AFC and GFC data for an overall sample of 128 IMF's and 350 CMF's. It also covers 2 market cycles from January 1995 to December 1998 and from January 2005 to December 2008. The raw returns net of all expenses and market risk-adjusted return performance measurements are employed to examine the portfolios' performance, and to capture the difference movement of the funds based on the particular market trend. We observed that on average both portfolios outperform the market return. In general, average returns performance of IMFs is not better than the CMFs during bullish and bearish market trend periods. However, the empirical results based on time series regression model, reveal that the IMFs portfolio slightly outperform the conventional counterparts. The study would benefit the investors and market players to consider IMFs in their portfolio selection, if in future such an expected event may occur. Additionally, the study provides insights to regulators and market players who plan to access investment plan in an emerging market, particularly in Malaysia.

Key words: Islamic finance; Islamic mutual funds; emerging market; risk-adjusted performance

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Critical Analysis on Profit Sharing Investment Accounts (PSIA) Reporting in Islamic Bank's Financial Statements

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Abstract

The characteristics of investment accounts can vary from being a deposit like product to investment products. In Malaysia, the current accounting classification by Malaysian Financial Reporting Standards (MFRSs), which is equivalent to International Financial Reporting Standards (IFRSs) are different from the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) Accounting Standards in reporting the investment deposits. Moreover, in Malaysian context, the recent Islamic Financial Services Act (IFSA) 2013 distinguishes investment account from Islamic deposit, where investment account is defined by the application of *Sharīʿah* contracts with non-principal guarantee feature for the purpose of investment. The purpose of this paper is to highlight the issues on the reporting of investment accounts that adopts *muḍārabah* contract for Islamic bank's financial statements. Importantly, this paper recommends the possible accounting treatments and explains *Sharīʿah* implications on the proposed accounting treatments. Understanding the accounting treatment of these investment account will enhance the policy makers such as central banks, and also the international standards setters especially the International Accounting Standards Board (IASB) and the international bodies such as AAOIFI to enhance the accounting standards that will cater to the unique nature of investment accounts that will be reflected in the Islamic bank's financial statements. A qualitative analysis was conducted to examine the issues and proposed the possible accounting treatments on investment accounts. Focus group discussion is adopted to further enhance the research findings. The focus group involve both academicians and practitioners including the accountants, auditors, regulators, and *Sharīʿah*scholars. Finally, by reporting the investment accounts according to the distinctive nature of *muḍārabah* contract comprising of its term and conditions will provide faithful presentation of the financial statements to the users.

Keywords: Investment Accounts; Muḍārabah; Financial Reporting; Accounting Standards

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The determinants of commercial bank's cost inefficiency: evidences from ASEAN banking market

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Abstract

This study examines the determinants of cost inefficiency of banks operating in 8 member countries of the Association of Southeast Asian Nations (ASEAN): Indonesia, Malaysia, Singapore, Thailand, the Philippines, Cambodia., Brunei and Vietnam. We define the cost inefficiency using accounting based efficiency known as cost to income ratio (CIR). Second, we regress the cost inefficiency ration on a set of bank specific variables (size, equity to total asset, personnel expenses to total expenses) and economic variables (economic growth and inflation rate) using ordinary least squared (OLS) regression analysis. We use dataset of 504 banks in the ASEAN countries for the period from 2008 to 2012. Our results show that the average cost inefficiency ratio during the period is about 59% Banks from Vietnam exhibit the lowest cost inefficiency relative to banks in the other ASEAN countries. We find that cost inefficiency is positively determined by inflation, loan loss provision, personnel expenses, capital adequacy and negatively by asset size and liquidity position.

Key Word: Cost inefficiency, ASEAN, economies of scale

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The determinants of social accountability disclosure- Evidence from Islamic banks around the world

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Abstract

Objectives - The empirical literature on the determinants of corporate social responsibility disclosure (CSRD) offers mixed consequences. This complicates efforts among stakeholders to understand the factors affecting Islamic bank decision to report social information and achieving its social accountability towards Allah then all stakeholders. This study seeks to examine social accountability for Islamic banks through exploring CSRD. The study also aims to define the main determinants behind the disclosure about CSR whatever firm or country-specific characteristics.
Methodology - Manual content analysis is adopted to identify the disclosure levels of Islamic banks in the annual report and websites that concerned with social Islamic accountability. Our sample consists of 138 Islamic banks based on data of 2013 across 25 countries. The disclosure levels are measured through index for CSR based on AAOIFI governance standard No.7.
Results - Descriptive analysis shows very low compliance level for CSRD (26%) based on CSR report and 28% for disclosure about social accountability in the whole annual report sections. The regression analysis shows positively association of CSRD levels with financial standards; size of auditor; size of bank and existing Sharia auditing department as well as GDP growth. In the other side of analysis; we found a negative correlation between CSRD and culture based on Uncertainty avoidance as well as corruption
Originality - This study is the first one that develops and investigates social Islamic accountability for Islamic banks around the world. It is the first work that links CSRD based on AAOIFI standard with bank and country-specific characteristics

Keywords: Islamic banks, CSRD; Social accountability; AAOIFI

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Analysing Disclosure and Implementation of Corporate Social Responsibility Practice: Case of an Islamic Bank

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Abstract

This study aims to analyse the disclosure as well as the actual implementation of corporate social responsibility (CSR) conducted by an Islamic Bank (hereafter The Bank). This study is conducted by comparing the CSR disclosure and its actual implementation done by The Bank. For the CSR disclosure, we analysed the 2012 published reports such as annual report, audited financial statements, and report of good corporate governance practices; while for the actual implementation of CSR, we analysed data collected via observation and interviews. In analysing data we use six themes of Islamic Social Reporting (ISR) index as the reference. The results of this study indicate that the disclosure of CSR activities reported by the Bank are about 36% of the ISR Index, while its actual implementations are about 72% of the ISR index. Generally, it implies that the disclosures as well as the actual implementation of CSR done by the Bank do not fulfil all ISR Index.

Keywords: Corporate social responsibility, Corporate social responsibility disclosure, Corporate social responsibility implementation, Islamic social reporting index

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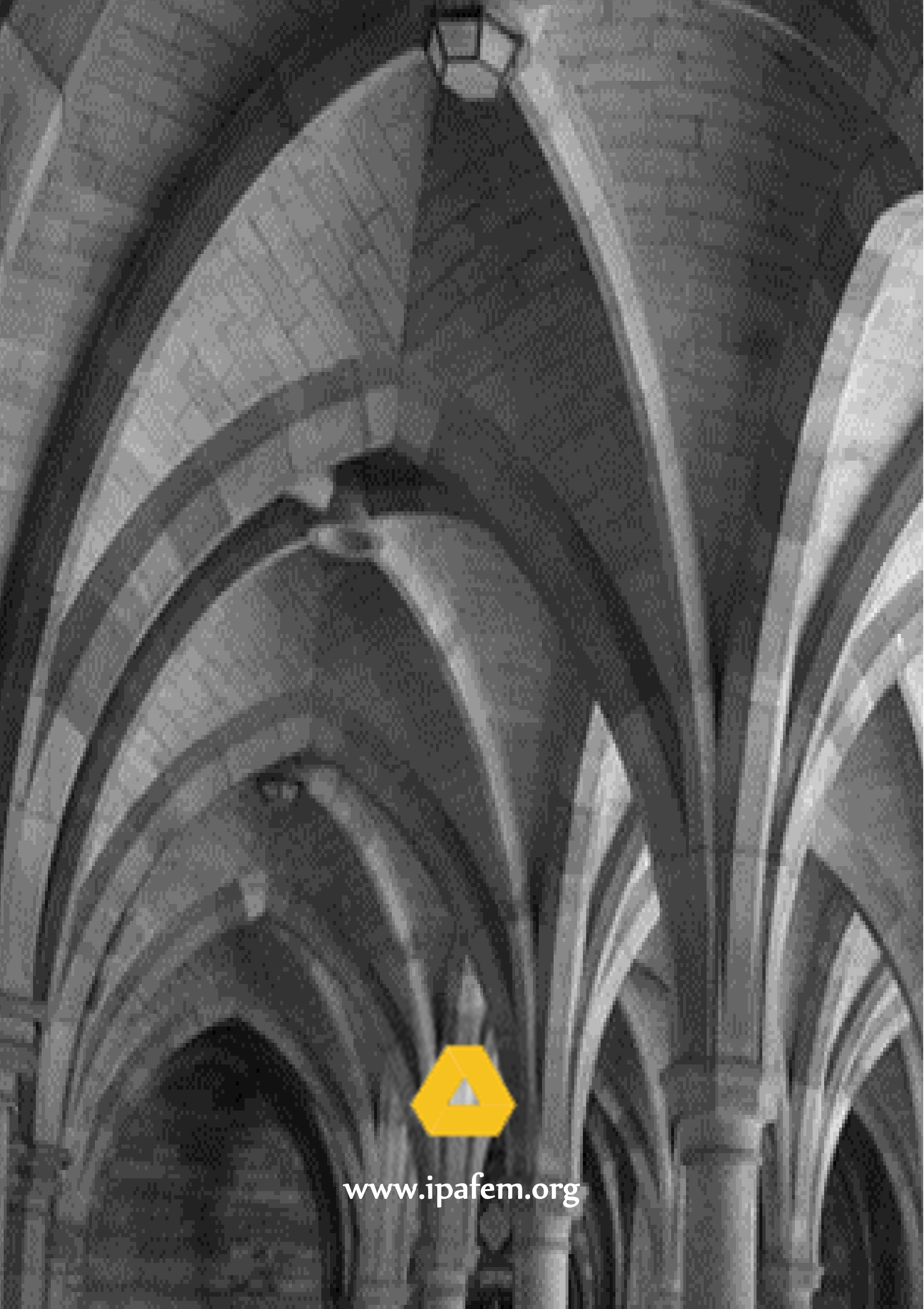
Journal of Islamic Accounting and Business Research
ISSN: 1759-0817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