Abstract: This study examines the criteria of transparency and disclosure in Islamic banking and compares them to conventional banking. By examining the traditional accounting standards for transparency, namely IAS 1, IAS 24, IFRS 7 along with the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) standards, we have highlighted that despite the fact that the conventional banking strives to achieve transparency; there is a lack of optimal transparency in conventional banking products. This deficiency is caused by the lack of the determination of the rate of change of interest and the variable interest loans, the securitization and the sale of the debt. This leads to a lack of transparency of all important financial and non-financial information, lack of disclosure in the balance sheet such as bankruptcy and the real characteristics of traded financial instruments. Nevertheless, the principles of Islamic finance, such as the prohibition of *riba* and *gharar* as well as the link to the real economy emphasize transparency in Islamic banking transactions. Hence, AAOIFI advocates high transparency. Besides the conventional disclosure, there is a disclosure on the basis of the distribution of revenues, the determination of selling prices and the statement of the illegitimate part of bank activity. Furthermore, by considering a sample of AAOIFI accounting standards 2 related Murabaha, to the Purchase Order and comparing it to conventional loans, we have concluded that financial transparency is more enforced in Islamic banking than in conventional one. Transparency protected the Islamic banking transactions from falling into the subprimes crisis.

Keywords: Islamic Banking, Transparency, Disclosure, Conventional banking, Standards, AAOIFI, Murabaha

JEL Codes: E42, G14, G21, Z12.

Introduction

The financial crisis of 2008 has caused suspicion on the rules and regulatory foundations of the conventional financial system (De Mendonça et al, 2010). For instance, hiding of information is among relevant factors leading to the emergence of this crisis as it is responsible for the non-disclosure of financial institutions’ risks causing bad assessment of their financial health.
Notably, the lack of transparency of information regarding market prices and credit instruments, excessive gambling, lack of financial disclosure and failure to apply proper governance led to the subprimes crisis. In this respect, Kane (2009) noted that this crisis reflected a lack of transparency (e.g. extremely lax securitization practices) in some banks. Furthermore, Stiglitz (2009) indicates that there is no surprise of the bank run occurrence due to the lack of transparency. In their study, “What is the importance of regulation and transparency in the subprime crisis?” De Mendonça et al (2010) conclude that countries with greater transparency and regulation of their financial sector have experienced a lower effect of the subprime crisis.

In this context, both researchers and authorities look for effective mechanisms to enhance financial transparency to limit the occurrence of such crisis. Thus, the promotion of transparency becomes more necessary to control not only the financial institutions but also for the integrity of the financial system. Transparency is one of the fundamental rules of governance. It ensures the financial institution management’s obligation not to adopt improper or illegal conduct by monitoring and auditing published information (Benjamin, 2014). Besides, as argued by Akhigbe et al (2017), transparency expands the market for a bank’s stock, lowers the cost of capital and improves a bank’s financial performance.

As Islamic banks were spared by this crisis, many research works investigate the specificities of Islamic financing compared to the conventional one (e.g. Dridi and Hasan (2010), Beck et al. (2013), Boukhris and Nabi (2013)). The financial transparency advocated by Islamic Banks is among the specified explanations of their resilience to this crisis. So, the specific research objective is to examine the differences in financial transparency standards between Islamic and conventional financing. This paper compares the transparency standards and their application in Islamic and conventional banking to address the accounting transparency issue by considering Murabaha as a case study.

The remainder of this paper is as follows: the second section presents financial transparency in conventional banking and focuses on transparency standards. The third section examines the transparency standards of the Islamic banking. The comparison between Islamic financial transparency standards and conventional one is done in fourth section considering the sample of Murabaha to the Purchase Order as a case study of accounting issues. Finally, we conclude the work with some policy recommendations.
Financial Transparency in Conventional Banking

The financial meltdowns experienced by many international companies show shortcomings in the disclosure of financial reports, in the quality of audit reports and also an imbalance in the rights of managers and shareholders (Khalil and Ashmaoui, 2008).

In Subprimes crisis, most of the loans are granted to low solvency customers. Moreover, they were variable rate loans up to 8 percent of the FED interest rate. Yet, the Federal Reserve rate, which was close to 1 percent during 2002-2004, had gradually increased to 5 percent at the end of 2006 (Pozen, 2009). As a result, the beneficiaries of the loans were not able to repay their installments (93% of borrowers). Furthermore, the securitization of mortgage loans and their selling in financial market aggravated the problem. For instance, the asset securitization was characterized by ambiguity in the dissemination of information between the lender and the borrower (Keys et al, 2009).

Many accounting organizations have stressed the need to respect the principle of full disclosure and have pointed out the conditions to meet it. Among these organizations, we can cite the American Institute of Certified Public Accountants (AICPA), founded in 1939; which established accounting principles or standards of financial accounting and Securities and Exchange Commission (SEC) in 1972 (Gibson, 2013). Nevertheless, due to differences in accounting procedures between countries particularly in European countries, the International Accounting Standards Committee (IASC) was founded in 1973 to establish uniform accounting standards in all countries through ‘International Accounting Standards’ IAS (Kimura and Ogawa, 2007) and later in 2002, ‘International Financial Reporting Standards’ IFRS, which urges transparency standards.

Financial disclosure and transparency

There is a close relationship between the concept of transparency and the concept of disclosure. Both meet in the transmission of knowledge or the transfer of information from the source of production to its users or beneficiaries (Aboud, 2009). However, there are differences, and it is difficult to distinguish between them.

Differences between transparency and disclosure

Transparency is the general disclosure of renewable and honest information which enables users of information to accurately assess firm’s status, financial performance, activities, risk setting and risk management practices.
In order to achieve transparency, it is necessary to provide adequate disclosure of quantitative and qualitative information which enables users to have appropriate assessments of institutions’ activities and their risk’s situations (Kantakji, 2012). So, the disclosure does not lead to transparency just by itself.

For financial institutions, transparency is the full and immediate disclosure of all information of the financial institution to all interested parties (outside of the institution). Bushman (2016) argues that “Bank transparency can be defined as the availability to outside stakeholders of relevant, reliable information about the periodic performance, financial position, business model, governance, and risks of banks”.

According to Christina (2003), the concept of transparency is defined regarding the following features:

- Clarity: the information does not contain hidden meanings
- Integration: the information clarifies the relationship between decisions and other activities
- Access: allowing everyone to access and receive documents and lead to dialogue between decision-makers and others.
- Truth and accuracy: information is free from deceit

In general, disclosure is the transmission of knowledge or the transfer of information from the source of its production to those who use it or who can benefit from its use. Disclosure is a deliberate transfer of information to those who do not know it (Essaben, 1996). Nevertheless, unlike transparency, the disclosure is not only a matter of providing data and information and allowing access to it, but the firm is required to provide and deliver information on a regular basis and also carry it to all shareholders, public and even potential investors.

In order to achieve transparency, many characteristics should be checked in the information presented in the financial statements (Transparency International, 2011):

- Truthful: Disclosure should be based on information that accurately describes the financial condition of the institution.
- Comprehensiveness: Disclosure information should answer all inquiries in order to enable investors to make informed decisions and must include financial and non-financial matters.
- Importance: The disclosed information should be relevant and have an impact on evaluation and investment decision.
Timing: Disclosure information should be presented in a timely fashion to enable investors to interact as quickly as possible, before losing the ability to influence decisions.

Availability: Information disclosed should be readily available to all investors at a low cost.

Thus, it is necessary to provide accurate and sufficient disclosure whether quantitative or qualitative in the financial statements or in appendix, notes and supplementary tables in appropriate time.

**Transparency objectives**

Transparency is of great importance in the financial markets and for the whole economy. It contributes to disclosure of all information that will ensure the proper accountability of institutions, investors, shareholders, regulators and other stakeholders. Transparency allows for more realistic future expectations, and consequently a better pricing of all financial assets regarding the organization. It reduces asymmetric information in the market. Among most important objectives of transparency in financial systems, we note (Transparency International, 2011):

- Fighting fraud and corruption in financial institutions.
- Improving the efficiency through pricing and cost detection and ensuring equal opportunities and fair market conditions in general.
- Protecting investors by removing ambiguity and discrepancies of information and permitting an effective risk analysis.

**Transparency Standards in Conventional Banking**

Accounting is the process of identifying, measuring and recording business transactions in order to establish financial reporting and facilitate the decision making. International Accounting Standards Board (IASB) aims to develop a unified set of high-quality accounting standards which can be applicable in worldwide. International accounting standards emerged in 1972 with the establishment of International Accounting Standards Committee (IASC) for nine countries. The Commission was restructured in 2001 and became International Accounting Standards Board (IASB). Its objective is to develop high-quality standard, comprehensible and enforceable disclosure of financial statements for all countries thus it provides accounting standards at a global level. Since 1975, IASB has set 41 standard accounting (IAS).
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IRFS standards


Table 2

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We focus on the accounting standards related to transparency which are:

IAS 1\(^1\) : “First-time Adoption of International Financial Reporting Standards”: IAS 1 requires to disclose information about financial statements related to fixed assets, inventory, financial assets, capital, reserves, cash rates, equity and bond investments, profits and losses, financing costs and revenue. This ensures the com-

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1 IAS 1 was reissued in September 2007 and applies to annual periods beginning on or after 1 January 2009.
parability with the firm’s financial statements in prior periods. In this standard, disclosures vary for each item, for example:

- Detailing items of property, plant and equipment are classified in accordance with IAS 12.
- Detailing amount of due debtors amounts from commercial customers and those due from related parties and advance payment in addition to detailing these accounts according to the nature of finance, general conditions and general disclosures that enable beneficiaries to differentiate accounts of different debtors.
- Detailing allocations for employee benefits and other items
- Disclosing capital and reserves in various categories such as paid capital, share premium and reserves.
- Disclosure of financial assets (including cash and investments) according to their nature and general terms
- Profit or loss items should be disclosed for these items: Revenue, Earning and Loss arising from not recognizing financial assets, financing costs, share of profit or loss of competing enterprises and joint ventures, and tax expense.
- The revenues of the firm must be disclosed in detail.
- Financing costs or interest expense arising from loans and bonds.

Thus, IAS 1 improves the quality of published financial statements for all institutions applying international standards.

**IAS 24 “Related Party Disclosures”**

According to this standard, the firm’s financial statements “contain the disclosures necessary to draw attention to the possibility that its financial position and profit or loss may have been affected by the existence of related parties and by transactions and outstanding balances, including commitments with such parties”.

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2 Cash
2 Rates of cash, time deposits and due amounts detailed according to their nature and general terms
2 Equity investments detailed into direct investments, investments in portfolios and investment funds, as well as investments in bonds
2 Financial liabilities include overdrafts, creditors and other financial liabilities such as required payable amounts.
This standard includes disclosure of relationships between the firm and its subsidiaries. Each entity discloses the name of the entity to which it is a party. The entity shall disclose the compensation of the key management in total and for each of following categories: short-term employee benefits; post-employment benefits; other long-term benefits; termination benefits and share-based payment. In sum, this standard permits to ascertain the extent to which the financial position of a firm is affected by the existence of relationships and transactions with related parties. It discloses the nature of these relationships and the nature, components and types of transactions.

**IFRS 7 “Financial Instruments: Disclosures”**

The objective of IFRS 7 is to require entities to provide disclosures in their financial statements that enable users to evaluate: (a) the significance of financial instruments for the entity’s financial position and performance; and (b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the reporting date, and how the entity manages those risks.

Information should also integrate:

- **Guarantee:** The entity discloses the amounts recorded for financial assets as collateral for liabilities, terms and conditions relating to asset’s issue for the mortgage.
- **Accounting Policies:** The entity discloses accounting policies and information in conformity with the standard of the preparation of the financial statements and accounting policies.
- **Hedge accounting:** The firm discloses each type of hedge. The specific financial instruments are described as hedging instruments and the nature of the hedged risks is disclosed.
- **Fair value:** The entity discloses the fair value of each financial asset and liability as well as the division of assets and liabilities into categories.
- **Nature and extent of risks arising from financial instruments:** the firm must disclose information that enables users of financial statements to assess the nature and the extent of risks arising from financial instruments.
- **Qualitative Disclosures:** An entity must disclose:
  - Risk exposure and how it is established.
- Objectives, policies and methods of measure and managing these risks.
- Any changes in paragraph (a) and (b) for the prior period.
- Quantity Disclosures

It consists of disclosed entity’s exposure to each type of risk arising from the financial instrument by indicating digital data for risk exposure. In addition, a firm is required to disclosing the concentration of risks arising from financial instruments and how they are managed. These risks include but are not limited to credit risk, liquidity risk, and market risk³.

In order to enable the users of financial statements to properly assess financial instruments, IFRS 7 discloses the nature and the extent of risks arising from these instruments, financial assets and liabilities, accounting policies, measurement methods and the fair value of assets and liabilities. Disclosures should also include qualitative disclosures through risk identification and risk management techniques, and quantitative disclosures through the introduction of digital data on risk exposure, risk concentration and risk management.

**Assessment of financial transparency**

Financial transparency and disclosure in traditional finance are means of controlling all activities and combating internal corruption in banks.

Basel Committee considers transparency as an essential element of the system’s strength and the integrity of the financial system. Basel II and Basel III recommend paying attention to market discipline and encourage fair application by increasing the degree of disclosure and transparency of Central Bank and its customers, especially with regard to capital, bank risks and the requirements of debts, sale and securitization of debts.

³ Cash
* Rates of cash, time deposits and due amounts detailed according to their nature and general terms
*Equity investments detailed into direct investments, investments in portfolios and investment funds, as well as investments in bonds
*Financial liabilities include overdrafts, creditors and other financial liabilities such as required payable amounts.
*Statement of profit and loss and property.
*It is required to disclose of the methods and assumptions used in the preparation of sensitivity analysis, as well as the changes in methods and assumptions used compared to previous periods and the reasons for these changes
Despite this attention to transparency and disclosure, there are issues which are not addressed in these standards, such as transparency through the dissemination of information about the process of securitization of intangible assets. In addition, it was stated that interest rates are often variable in loans, so, there is a lack of transparency related to the change of rate interest over the duration of the loan. In reality, the 2008 crisis has been a conclusive evidence of the lack of transparency practice in debt repayment as well as problems of securitization and sale debt.

Furthermore, the imperfections of transparency are related to the existence of problems such as misty data, ambiguity, facts blurring and falsification, double standards, vague words, difference in accounting principles, and job terrorism (Khedhery, 2005). Precisely, many financial transactions are suffering from lack of transparency (Khouja, 2013):

- Future sales of securities in the stock market are the highest speculative securities. They capture the differences resulting from fluctuations in the spot prices, whether profit or loss in the accounts of customers, but without delivering information about the shares to the buyer, the price of the seller and the real ownership of the contracted goods, these transactions suffer from lack of transparency.
- Selling securities without being the owner and making contracts on non-existent or non-owned goods causes several risks.
- Release imaginary transactions and symbolic sales by securitizing intangible assets which are difficult to assess.
- The lack of disclosure in the balance sheet, which lead to covering cases of bankruptcy in order to achieve personal interests at the expense of those who hid information. So, bad debts are traded.

**Financial transparency in Islamic banking**

Since the 1970s Islamic banks have emerged followed by Islamic investment companies, Takaful companies, Islamic investment funds and Sukuk. These institutions constitute Islamic financial industry with its philosophy, principles, bases, contracts and products. Islamic finance imposes various controls, procedures and standards, including Shariah standards, Accounting standards, risk management standards, governance standards and auditing standards (Khouja, 2013).

According to Standard & Poor’s (2015), Islamic financial institutions assets were estimated at USD 1.57 trillion by the end of 2015. The global Islamic Finan-
cial Services Industry (IFSI) sustained its total assets value at approximately USD 1.9 trillion in 2016.

Globally, Islamic economy requires a higher degree of clarity and transparency (Beni Salema and Draghma, 2014). The question is if the resilience of Islamic finance to the crisis of 2008 is related to its higher transparency which distinguishes it from conventional financing? Islamic finance provides financing services in accordance with Islamic Sharia. It is based on (Kammer et al, 2015):

The prohibition of interest and usury which means the prohibition of the “increase of debt against the term”. This provides more transparency in Islamic financial transactions compared to conventional ones since the change of interest rate does not allow the precise monthly installments and so the amount which will be paid definitively. Furthermore, the debt scheduling process leads to an inability to pay premiums and leads to more exposure to the risk of default and bankruptcy.

- The prohibition of illicit gains related to futures sale of securities in the stock market, such as short selling and buying on the margin leading to speculative transactions where there is no transparency in determining market trends. Thus, the lack of transparency hinders the appropriate decision to sell or buy and causes uncertainty about the appropriate value of the security price.
- Through the prohibition of Gharar, ignorance (lack of information about the qualities), and Maysir (uncertainty of the result), there is an imposition of transparency.
- The principle of profit and loss sharing enhances the transparency in an Islamic bank’s activity by providing all basic information about the quality of projects and encouraging the Islamic Bank to ensure profitability of projects.

Therefore, transactions that are not related to the real economy and those of sale of securities without ownership, and transactions on intangible assets that conceal information and make it difficult to assess assets which affect the transparency of financial transaction, are forbidden in Islamic finance. In others words, it appears that among causes of the crisis are: changes in interest rates, debt selling, selling without ownership, speculation and gambling, the expansion of debt through the securitization of intangible assets⁴, the high risk exposure of low-solvency loans such as poor quality mortgages, the lack of transparency of all important fi-

⁴ This is contrary to the correlation with the real economy in Islamic finance.
nancial and non-financial information of companies, lack of disclose in the balance sheets such as bankruptcy and the real characteristics of traded financial instruments.

**Transparency standard in Islamic banking**

From the Islamic viewpoint, financial accounting includes the right assignment and the disclosure of the financial position of the institution taking into account the distinction between *halal* and *haram*. Financial accounting should be committed to a system that protects rights and requires the necessary disclosure.

Islamic accounting is the process of providing appropriate information to interested parties to enable them to continue working under Islamic law (Hameed, 2009). The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) is working on the development of Islamic accounting and auditing standards for Islamic financial institutions. In fact, if Islamic banks were dealing with local accounting standards, it was difficult to compare their financial statements (Levy and Rezgui, 2013). AAOIFI was registered in Bahrain as a non-profit organization in 1991. It aims to unify the legal rules and accounting standards for the governance and the control of various Islamic financial institutions. In addition, the establishment of the Islamic Financial Services Board (IFSB) seeks to integrate Islamic finance into international finance (Elhamma, 2015).

**AAOIFI Standards**

AAOIFI has issued 95 standards; 54 Shari’a standards, 27 accounting standards, 5 auditing standards, 7 governance standards, and 2 codes of ethics. AAOIFI standards reflect concept and essence of Islamic finance transactions. Islamic accounting standards encompass the standard of presentation and the general disclosure in financial statements of Islamic banks and financial institutions (General Presentation and Disclosure in the Financial Statements of Islamic Banks and Financial Institutions), the standard of Murabaha and Murabaha for the purchase order (Murabaha and Murabaha to the Purchase Order), the Mudaraba financing standard, the Musharaka financing standard, the disclosure standard for the distribution of profits between the equity holders and the investment account holders right standard (Disclosure of Bases for Profit Allocation between Owners’ Equity and Investment Account Holders), the standard of Salam and Parallel Salam, the standard of Ijara and Ijarah Muntahab Bittamleek, Zakat standard, Istisna’a and Parallel Istisna’a standard, the Standard of provisions and reserves, the standard
general presentation and disclosure in the financial statements of the Islamic insurance companies, the standard disclosure of the basis of the determination and the distribution of the surplus in Islamic insurance companies (Disclosure of Bases for Determining and Allocating Surplus or Deficit in Islamic Insurance Companies), the standard of investment funds, the standard provisions and reserves in the Islamic insurance companies, the standard of transactions in foreign currencies (Foreign Currency Transactions and Foreign Operations), the standard of investments for Real Estates, the standard of Islamic financial services offered by Conventional financial institutions, the standard of Contributions in Islamic insurance companies, the standard of forward sales (Deferred Payment Sale), the disclosure standard for transfer of assets, the standard report on the sectors and the standard of unification of financial statements (Segment Reporting).

**The importance of transparency and disclosure in Islamic banking**

Transparency is an important legal principle. Islam requires transparency and full disclosure in the Quran and the Sunna. Transparency is a foundation in Islamic banking. It has been urged by Islamic law through the prohibition of *ghurar, jahala* and *gambling.*

Islamic legislation highlights the documenting of financial transactions. In this context, the fair presentation and the disclosure of information preserves the rights, saves money and limits suspicion and disputes. AAOIFI takes into consideration the legal structure of the instruments, which are based on Shari’ah precepts (Ahmed et al, 2016).

**AAOIFI accounting standards 1: General presentation and disclosure**

There are many disclosures in this standard, for example:

- Adequate disclosure of important information in financial statements
- Disclosure of bank’s basic information
- Disclosure of accounting measurement
- Disclosure of significant accounting policies
- Disclosure of profit or revenue which is not in conformity with the *Sharia:* disclose the amounts and the nature of gains made by the bank from the sources or ways prohibited by the law.
- Disclosing the concentration of the Bank’s asset risk.
• Disclosing the concentration of sources of unrestricted investment accounts and other accounts.
• Disclosing the distribution of Bank’s assets according to their maturity dates or the expected periods of their actual liquidation from the balance sheet.
• Disclosure contingent liabilities not recognized in the statement of financial position
• Disclosure of significant events subsequent to the date of statement of financial position
• Disclosing bank’s assets allocated for specific purposes or used to secure the bank’s obligations
• Disclosure of accounting changes: Disclosure of financial statements about the nature and effect of accounting changes.
• Disclosing the method used by the bank to distribute profits or losses between investment account holders and the bank as a *mudarib* or manager of investments

The importance of this Standard N°1 is to disclose several important matters, whether through financial statements, such as the disclosure of Bank’s basic information, significant accounting policies, the concentration of risks of Bank’s assets and the risks of assets and liabilities in foreign currencies. The disclosure also covers the method used by the Bank to distribute profit or loss between investment account holders, the transactions with related parties and disclosing each of financial statements.

These disclosures affect the ability to make investment decisions. This requires defining the rules, bases, principles and methods used in the preparation and publication of financial statements and the disclosure requirements in Islamic financial institutions.

**AAOIFI accounting standards 5: Disclosure of the basis for the distribution of profits between shareholders and owners of investment accounts**

This standard deals with the transparency of transactions between Banks, depositors and shareholders. The most important disclosures in this standard are (AAOIFI, 2007, p.252):

• The disclosure of unrestricted investment accounts and of restricted investment accounts and incentive income.
• For unrestricted investment accounts, the bank should disclose general principles followed by the Bank in the distribution of profits between the shareholders and the owners of unrestricted investment accounts, the expenses supported by unrestricted investment accounts, provisions and their beneficiaries when they are canceled, the general administrative expenses financed by investment accounts, the distribution of profits between shareholders and the owners of unrestricted investment accounts, the possibility of increasing the proportion of the bank’s profits as *mudarib*, the possibility of involvement of unrestricted investment accounts with current accounts or any other funds accounts, the possibility of involving unrestricted investment accounts in banking revenues, which is, giving priority to the investment of the shareholders and investment accounts holders.

• For restricted investment accounts, the bank should adopt a disclosure of general principles in the distribution of profits between shareholders and holders of restricted investment accounts, the provision’s support, the distribution of profits between the owners of equity holders, the shareholders and the holders of restricted investment accounts.

• In the case of incentive payments, the bank shall disclose: what is earned from unrestricted or restricted investment account profits and their relative importance in the case of agency relationship.

• Thanks to this standard n°5, justice is enforced by the knowledge of the basis of the distribution of profits and the disclosure of information that helps them to make decisions.

**AAOIFI accounting standards 21: Disclosure of the transfer of assets**

The most important disclosures in this standard are:

• The disclose of accounting policy adopted to transfer assets from unrestricted investment accounts to restricted investment accounts, and vice versa, to transfer assets from investment accounts (absolute or restricted) to owners’ rights and vice versa, to convert assets from investment accounts and shareholders’ funds to investment funds and or institutions with a special purpose, and vice versa.

• The disclosure of the reasons and bases that govern the transfer of assets between different investment accounts and the bases for valuation of transferred assets.
• The disclosure of promises by the contractual relationship between investment account holders and the property owners if any.

• The disclosure of the transfer of assets between the various investment accounts (including investment funds and owners’ rights).

• The disclosure of all transfers made with related parties, indicating the nature of the relationship and the type of transactions performed.

This standard includes disclosures of the accounting policy related to the transfer of assets, the reasons and principles governing the transfer of assets, and the foundation on which assets are assessed when transferred. This standard preserves the rights of the different parties (shareholders, owners of various accounts), and avoids the bias (conflict of interest) by disclosing the nature of the relationship in the transfers with the parties involved. This contributes to a fair presentation of the financial position of financial institutions and helps users of financial statements to make their economic decisions.

We can conclude that there is a high degree of disclosure in standards imposed in all Islamic financial transactions. For example, besides the conventional disclosure, there is a disclosure on the basis of the distribution of revenues, the determination of selling prices, and the statement of the illegitimate part of bank activity.

We note similarities in many branches of Islamic accounting with traditional one such as financial accounting and cost accounting. Yet, Islamic accounting is characterized by its principles and methods in conformity with Sharia. Islamic accounting considers the debt as a fixed asset, whereas traditional accounting considers it variable as it depends on the repayment period of loans and the evolution of interest rate in the money market.

In the next section, we consider the case of Islamic banking financing offered by murabaha in order to discuss the transparency it conveys and to compare it to the conventional loan.

**A sample of Murabaha**

Murabaha is the most important form of financing offered by Islamic banks. We discuss the extent to which transparency is applied in the Murabaha contract for the purchase order.

We consider AAOIFI accounting standards 2 (Murabaha & Murabaha to the Purchase Order). In fact, since some financial transactions and practices are unique
to Islamic banking and finance, AAOIFI standards are issued to apply to topics not covered by IFRS standards.

The qualitative and useful information on murabaha contracts should be disclosed and explained.

1/9/2: The Bank shall disclose the consideration of the promise made in the murabaha to the purchase orderer as obligatory or not in the notes to the financial position.\(^5\)

2/9/2: The disclosure requirements of Financial Accounting Standard No. 1 regarding the presentation and general disclosure in the financial statements of banks and Islamic financial institutions must be observed.\(^6\)

Islamic Bank disclosure focuses on many items: deferred profit, the guaranteed carrying value for non-performing murabaha receivables, the obligation of promise to purchase made in the murabaha to the purchase orderer, the amount of tangible collateral to murabaha contracts. Islamic bank shall disclose to the customer the price of the commodity and the details of expenses included in the price.\(^7\) It is forbidden to consider unknown or future variables in the determination of the price or profit. The profit in the Murabaha contract is based on a known percentage of the cost and the profit is not linked to Libor or to time.\(^8\) The bank can consider any expenses related to the commodity if it is agreed by the customer. However, if these expenses are not settled, the bank is only able to consider which is traditionally integrated such as transportation and storage expenses, documentary credit and insurance premiums.\(^9\) The enforced transparency also appears since "If the firm obtains a discount from the seller on the commodity itself even after the contract, the customer will benefit from that discount by reducing the total price."\(^10\)

Consequently, the terms of the Murabaha contract (knowledge of the first price, knowledge of the profit, knowledge of the costs and expenses, and knowledge of the commodity price) have been included. Among the condition of validity of Murabaha is to disclose the first price, the details of the expenses that will be included in the price and of profit. Thus, there is a focus on full transparency in the conclu-
on of the Murabaha contract. Murabaha contract is characterized by a stable debt, through the determination of profit, and therefore the stability of the amount to be paid. Nevertheless, the sale at a variable future price leads to damage to one of the parties (lender or borrower) and causes gharar.

The traditional loan depends on the interest rate. Interest can be fixed or variable. Variable interest is most frequently used. Interest rate on loan changes during the term of the loan whenever the LIBOR changes. So, there is a lack of transparency throughout the loan duration due to the change in the interest rate without prior knowledge of the change, which affects the installments and the final amount to be paid. Even if the loan has fixed interest, in the case of delay in payment, an additional amount will be added as delay penalties. Consequently, there is no transparency in determining the final amount to be paid to the bank.

Lmahfoud (2015, p.16) compared murabaha and conventional loan and concluded that while in loan, interest paid is linked to the amount of loan and changes in relation to the passage of time; in murabaha, the profit margin is determined by the agreement based on the cost price of the financed equipment.

Conclusion

In 2008, the global economy experienced a financial crisis caused by the subprime mortgage problem in the United States. One of the main reasons behind this crisis was the lack of information transparency. As Islamic banks were almost unaffected by this crisis, this study focused on the criteria of transparency and disclosure in Islamic banking standards and compares them to the conventional ones. The specific research objective is to examine whether there are differences in financial transparency standards between Islamic and conventional financing.

By examining the traditional accounting standards of transparency, namely IAS 1, IAS 24 (Related Party Disclosures), and IFRS 7, we highlight that although the conventional banking strives to achieve transparency, there is a lack of optimal transparency in conventional banking products. This is due to lack of determining the rate of change of interest and premiums and the amount for loans with variable interest, securitization and the sale of debt. These problems led to a low level of financial transparency, which in return raised the risk of default and bankruptcy in Subprimes crisis.

Nevertheless, the principles of Islamic finance, such as the prohibition of riba and gharar as well as its link to the real economy, emphasize transparency in Isla-
mic banking transactions. Financial transparency is one of the fundamentals of Islamic banking. It is also a condition of the contract’s validity. AAOIFI has issued 95 standards which reflect concept and essence of Islamic finance transactions.

Focusing on many AAOIFI accounting standards, we conclude that a high degree of disclosure in standards is required in Islamic banking. Besides the conventional disclosure, there is a disclosure on the basis of the distribution of revenues, the determination of selling prices, and the statement of the illegitimate part of bank activity.

For example, the Standard N°1 permits to disclose several important matters through financial statements, such as the disclosure of Bank’s basic information, significant accounting policies, concentration of risk of Bank’s assets, and the risk of assets and liabilities in foreign currencies. Further, thanks to Standard n°5, transparency is enforced by the knowledge of the criterion for the distribution of profits between investment account holders whether unrestricted or restricted.

We highlighted that the validity of the Murabaha contract for the purchase order is conditioned by the disclosure of the first price and the details of expenses taken into consideration in the price and disclosure of profit. Islamic accounting considers the debt as a fixed asset (stable debt regarding profit and the amount to be paid), whereas traditional accounting considers it variable as it depends on the repayment period of loans and the evolution of interest rate in the money market. We conclude that disclosure is enforced more in Islamic accounting than in conventional one.

Islamic banks are urged to adhere to the AAOIFI standards to achieve financial transparency. Besides, the macroeconomic legal system of the countries in which these Islamic banks operate must ensure that banks comply with them. The items of financial transparency should be revised by AAOIFI as far as Islamic banking products develop. The scope of this research was to compare the extent to which transparency is applied in conventional leasing and Ijara in Islamic finance. A study of the impact of financial transparency on Islamic banking performance can also be carried out.
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