

The Islamic Finance Industry Must Harmonize Financial Reporting

An Islamic Perspective of Accounting, Finance, Economics and Management (IPAFEM) Conference takes place in Glasgow, Scotland, United Kingdom April 7-9, 2015.

GLASGOW, SCOTLAND, UNITED KINGDOM, April 8, 2015 /EINPresswire.com/ -- Camille Paldi, FAAIF CEO, participates in IPAFEM 2015 in Glasgow, Scotland. Paldi described the inconsistent and incoherent financial reporting practices used by Islamic banks today and suggested that the industry adopt the KFH (Bahrain)



B.S.C.(c) Public Disclosure Report as a template to be used across the Islamic finance industry. The report can be easily found on google. Paldi explains that banks across the industry use different accounting methods and reporting techniques and that this leads to confusion, inconsistency, non-transparency, and possibly a misleading representation of the true financial health of the IFI. Paldi emphasizes that the special nature of Islamic banking requires tailored standards in order to promote full disclosure and transparency of the IFI.

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Camille Silla Paldi

Conventional accounting standards such as IFRS do not equip Islamic banks with the necessary degree of disclosure and transparency in light of Islamic modes of finance, as risk exposures of assets vary according to different types of contracts and the mode may be used for sale or finance, which would result in different reporting implications. Furthermore, there are many rules in the Shari'ah, which the

IFI must abide by, which may affect reporting requirements. General disclosures unique to IFI's are information about the Shari'ah Advisory Board, policies on zakat, policies of profit distribution with Investment Account Holders, disclosures on prohibited earnings and disclosures of concentration of asset risks involving unrestricted investment accounts. Many gaps in disclosure occur due to use of conflicting standards.

Furthermore, in general in Islamic banks, capital adequacy and the use of regulatory capital are governed by the Basel Committee on Banking Supervision rather than the standards issued by AAOIFI and the IFSB. However, Islamic finance standards are required to regulate deposits based on Wadi'ah (guaranteed safe custody) or Qard Hassan (interest free loan) contracts, which are reported as liabilities in the balance sheet and are not taken into account by Basel Standards. As Islamic banks do not use the IFSB and AAOIFI standards for capital adequacy, the capital adequacy

percentages may not truly reflect the bank's capital structure and stakeholders cannot truly assess whether capital structure decisions were made to maximize shareholder equity. Camille Paldi can be reached at camille@faaif.com.

FAAIF Limited is a legal and management consultancy firm servicing clients in the legal, Islamic banking, finance, takaful, and the halal industry. FAAIF Events is an events production and management company <http://www.faaif.com>.

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