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The extent of mandatory and voluntary Shariah compliance disclosure: evidence from Malaysian Islamic financial institutions

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Abstract

Purpose

This study aims to assess the extent of the mandatory and voluntary Shariah compliance disclosure in the Shariah Committee Report of Islamic financial institutions (IFIs) in Malaysia. The study highlights the accountability and transparency of the Shariah Committee members to provide full disclosure of relevant Shariah compliance information to the stakeholders.

Design/methodology/approach

The study adopts content analysis to quantify and code the number of sentences in the Shariah Committee Report disclosed in the 2016 annual report of 47 IFIs in Malaysia. The extent of Shariah compliance disclosure in the Shariah Committee Report is measured based on the Standard (S) and Guidance (G) items outlined in the Shariah Governance Framework (SGF) as well as the Financial Reporting for Islamic Banking Institutions and takaful operators guidelines issued by Bank Negara Malaysia (BNM) as the reference.

Findings

The findings indicate that majority of IFIs complied with the minimum mandatory disclosure requirement based on the Standard (S) items in the Shariah Committee Report as required by the SGF. Highest information on the purpose of Shariah Committee engagement and scope of work performed is disclosed to the stakeholders in almost all IFIs. Only

two prominent full-fledged Islamic bank and Islamic banking business in development financial institutions have shown highest accountability to go beyond the minimum disclosure requirement. This includes disclosing higher voluntary information on Shariah governance processes in the Shariah Committee Report of these two IFIs.

Research limitations/implications

This study adopts the SGF (Bank Negara Malaysia, 2010), Financial Reporting for Islamic Banking Institutions (Bank Negara Malaysia, 2016) and Financial Reporting for Takaful Operators (Bank Negara Malaysia, 2015) as the reference to develop the measurement of Shariah compliance disclosure in the Shariah Committee Report. These guidelines issued by BNM are still effective during the period of study, i.e. the year 2016.

Practical implications

The findings contribute towards the relevance for BNM as the regulator to enhance the current disclosure requirement in the Shariah Committee Report as stated in the SGF especially in Islamic windows and takaful operators. The main argument of this paper is that the more information being disclosed in the Shariah Committee Report will lead to better Shariah assurances. The issuance of Shariah Governance Policy Document in 2019 is expected to enhance the credibility, accountability and transparency of the Shariah Committee members concerning their oversight responsibility towards Shariah matters in IFIs' business operations.

Originality/value

After five years since the issuance of the SGF in 2010, further study on the extent of mandatory and voluntary Shariah compliance disclosure is important to highlight the accountability and transparency on the implementation of the Shariah governance across various types of IFIs in Malaysia.

Keywords

Shariah compliance

Shariah governance

Shariah disclosure

Shariah Committee members

Shariah Committee Report

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