

Compliance with investment account holders' transparency and disclosure requirement: evidence from the Middle East and North Africa region

Investment
account
holders

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Abstract

Purpose – The purpose of this paper is to construct an investment account holders' transparency and disclosure (IAH-T&D) index based on the new and revised accounting standard for investment accounts of the Accounting and Auditing Organization for Islamic Financial Institutions Standards (AAOIFI) (2020). It also aims to measure and compare the compliance level with IAH-T&D over years and between countries.

Design/methodology/approach – This study uses the content analysis method to analyze the content of 270 annual reports across 30 Islamic banks (IBs) in 10 Middle East and North Africa countries during the period from 2010 to 2019.

Findings – This study introduces a new IAH-T&D index which consists of 27 items representing four categories: investment accounts disclosure (11 items), incentive earnings disclosure (1 item), allocations and reserve disclosure (4 items) and general requirements for disclosure (11 items). The analysis shows that the level of IAH-T&D is 51%. The level of compliance varies over the years and across countries.

Originality/value – To the best of the authors' knowledge, this is the first study that offers an original self-constructed-T&D index that could enhance future research related to determinants and consequences of IAH-T&D practice in IBs.

Keywords Transparency and disclosure, Investment account holders, AAOIFI accounting standards, Islamic banks, MENA region

Paper type Research paper

1. Introduction

The Global economic crisis is a stark illustration of the flaws in the conventional financial system and the fragility of a self-designed system lacking in spiritual and divine guidance (Adebayo and Hassan, 2013). The various financial system crises and the bankruptcy of major companies are among the most significant results of this principle's ethical lack of guidance. This situation resulted in the lack of transparency and disclosure (T&D)



of financial and accounting information, in addition to falsifying information (Migliardo and Forgiione, 2018). It became necessary to investigate the transparency and reliability of credit ratings after the global financial crisis and the sovereign debt of the Eurozone (Bayar, 2014). Banking distress can have systemic effects as banks played a central role in the international financial crisis of 2007–2009, which often failed in their mission of efficiently allocating resources while mitigating systemic risks (Stulz, 2015). This crisis has led to more empirical research on its causes and implications. The global financial crisis is thought to have been caused by banks' excessive risk-taking behavior and regulatory frameworks' failure to prohibit such risk-taking (Al-Abbad *et al.*, 2019). In light of this, it is apparent that the economic crises that resulted from hiding the truth from the company's information and economic conditions were the reason for the loss of trust between customers and companies since T&D have become extremely significant elements.

Islamic finance has evolved as a competent alternative and competitor to the traditional interest-based financial system over the last four decades. It has grown rapidly in predominantly Muslim countries and has spread to western economies (Al-Wreiket *et al.*, 2022). Islamic banking has an ethical responsibility that is inherent in their status as "Islamic" (Farook *et al.*, 2011). The term "Islamic Banking" "refers to a system of financing and investment that is consistent with Islamic law (Shari'a) and principles of Islamic jurisprudence (Fiqh)" (Farook *et al.*, 2014, p. 153). Islamic banks (IBs) are governed by Islamic law, which places a premium on ensuring justice, prosperity sharing and a general sense of well-being, principles that frequently run counter to the free market's emphasis on profit maximization (Rahman and Salehnejad, 2005). Islamic financial transaction principles emerge from Sharia primary sources and differ from conventional global practices. This legal environment is conservative (Abdallah *et al.*, 2015) because it limits IBs paying or receiving riba (usury), participating in *Gharar* (risk or uncertainty, such as speculating) (Merchant, 2012; Olson and Zoubi, 2008) and supporting illegal industries are all prohibited (e.g drugs and alcohol) (Hassan *et al.*, 2019). In addition, while supporting debtors, IBs rely on the profit-and-loss sharing structure. Saeed *et al.* (2021) argue that the issue of Islamic legitimacy of IBs must be addressed while considering the regulatory environment in which IBs operate. IBs have demonstrated that their strategy and tools are more effective and robust than those used by conventional banks to deal with systemic risk.

Al-Suwailem (2009) argues that Islamic financing formulas, especially investments such as speculative contracts, need higher T&D. Despite the vital role that investment accounts play in mobilizing the assets of IBs, their owners do not enjoy specific privileges, voting rights or guarantees that protect them from facing the problem of moral hazard (Grassa, 2018). These policies would give the managers of IBs a broader scope to make riskier decisions and adopt less capital (Visser, 2009).

With the absence of a high degree of disclosure of significant importance in investment decisions and the total absence of interference on the part of investment account holders (IAH), management can make riskier investment decisions, especially since the bank does not bear any loss. The risk appetite is different between the bank and the IAH due to conflict of interest (El-Hawary *et al.*, 2004). Another problem related to investment accounts is the use of profit smoothing by IBs to confront and cover any decline in profits (Archer *et al.*, 2010). These practices prevent achieving an acceptable level of transparency and reliability of the information disclosed in financial reports and restrict stakeholders from assessing the actual situation of an Islamic bank (Karim, 2001). This is what makes the issue of T&D one of the pillars required by IBs in their dealings with stakeholders. Among them are the holders of investment deposit accounts, who have contracts in which the profits and losses are shared, bearing the risk. Contracts can be Mudaraba contracts, partnership contracts or

agency contracts. In all cases, the owners of these accounts need a high level of disclosure to have adequate access to the information they need. This results in the increasing need for a measuring tool to give a positive picture of the extent of T&D of these accounts.

There is a need to assess the levels of disclosure for investment accounts, due to the conflict of interests between IBs and the owners of these accounts as well as their lack of participation in decision-making as profit distribution management, which is a discretionary activity carried out by IBs with no direct parallels to conventional banks. IBs can manage the amount of profits shared with their depositors (Farook *et al.*, 2012). The lack of a tool to assess transparency and disclosure levels in IBs is a problem facing all interested parties. Auditing and Accounting Organization for Islamic Financial Institution (AAOIFI) is an organization established in Bahrain in 1991. This organization is responsible for issuing and developing accounting and governance standards for the Islamic financial institutions around the world (Hassan and Raza Rabbani, 2022). Few studies use IAH disclosure as one of the components of their item's index based on AAOIFI accounting standards (Sundararajan, 2007). Only Saidani *et al.* (2022) provide a measure of IAH disclosure in annual reports. However, their measure depends on FAS 5 and FAS 6 of AAOIFI (2010). To the best of our knowledge, no study has provided a measure of IAH using the recent update of AAOIFI (2020). Our study fills this research gap.

We aim to introduce an investment accounts holders' transparency and disclosure (IAH-T&D) index based on updated AAOIFI (2020) standards and FAS 27. Our index updates and complements the work of Saidani *et al.* (2022). We also aim to measure the level of compliance with IAH-T&D requirement. We content analyse 270 annual reports of 30 IBs across 10 Middle East and North Africa (MENA) countries for 10 years. We find that the average level of IAH-T&D compliance is 51%, which is modest compared with prior literature (80% in Saidani *et al.* (2022) and 28% in Sundararajan (2007)).

This paper is structured as follows. Section 2 reviews the literature. Section 3 discusses the research design and the disclosure index. Section 4 reports and discusses the findings. Section 5 concludes this paper.

2. Literature review

Based on the agency theory, increasing levels of disclosure is one mechanism that could reduce the information asymmetry between agents (stockholders) and principals (managers) (Jensen and Meckling (1976)). Unlike conventional banks, which disclose information based on national law, IBs view disclosure as a religious duty. In contrast to conventional banks, IBs attempt to disclose information on Shari'ah governance, social responsibility and IAH as per religious obligation. IAH disclosure became a critical requirement for several stakeholders, mainly account owners. Few studies provide a framework to measure the level of IAH disclosure in IBs. While there are many studies about corporate social responsibility disclosure in IBs (see for example, Hassan and Harahap, 2010), limited studies include IAH as one of the categories of their disclosure indices [Srairi (2019), Kamaruddin *et al.* (2019); Abdullah *et al.* (2015), Sulaiman *et al.* (2015); Srairi (2015), Sundararajan (2007); Al-Baluchi (2006)].

Among the previous studies that used IAH disclosure as one of the components of their index, Srairi (2019) explores the impact of bank transparency on bank stability. One of the items included in constructing a composite corporate transparency index was information about IAH risks and rights. There were differences between countries in terms of the dimensions of the corporate governance index. The results reveal a wide range of disclosure practices across Gulf Cooperation Council (GCC) IBs. Information about the risks and rights of IAH is the most commonly reported part. The most typically cited elements relate to the

publication of basic corporate information and include information regarding the dangers and rights of IAH. [Kamaruddin et al. \(2019\)](#) examine the gaps in the disclosure requirements of IFIs in Malaysia on investment accounts based on MAS [Financial Reporting for Islamic Banking Institutions (FRIBI) and AAOIFI standards]. They examine IFIs' present disclosure policies on investment accounts. They show that 86.25% of IFIs comply with all five FRIBI items, and 53.91% comply with all eight BNM-IA items.

[Sundararajan \(2007\)](#) examines the disclosure practices of IBs, including investment account disclosure items and finds that disclosure practices are widely diversified. Concerning the disclosures related to the investment accounts, it is noted that deposits formation is the share of investment deposits out of total deposits in an Islamic bank: disclosure occurred in general, disclosure rate ranged from 0% to 95% and the average of the disclosures was 80%. [Al-Baluchi \(2006\)](#) explores the voluntary disclosure in the annual reports of 34 IBs operating in Bahrain, Sudan, Qatar and Jordan (before and after the implementation of the AAOIFI). The author constructs the disclosure index based on AAOIFI. The index consists of 104 items classified into four groups, including the level of IAH as one of his items. The results show that the level of disclosure has increased after applying AAOIFI. [Abdullah et al. \(2015\)](#) investigate the voluntary corporate governance disclosure practices for 67 IBs located in Southeast Asia and the GCC regions. In their research, a corporate governance disclosure index was developed based on the Organization for Economic Co-operation and Development (OECD) (2004), [Basel Committee on Banking Supervision \(BCBS\) \(2006\)](#), [AAOIFI \(2010\)](#), Islamic Financial Services Board guidelines, other standards like [Standard and Poor's \(2004\)](#) and a good deal of previous research. This index is composed of 81 items divided into 13 classes. They find that the level of disclosure is equal to an average of 37.01%. This is a low percentage, especially the levels of disclosure related to IAH, which represent the lowest levels of disclosure, which is equal to an average of 35.86%. [Sulaiman et al. \(2015\)](#) develop a disclosure index based on many standards, one of which was the standard on CG promulgated by AAOIFI for 16 Islamic Financial Services Industry – IFISI in Malaysia in 2009. The disclosure index developed contains 123 items classified into 14 significant dimensions. IAH is part of dimension 12 (D12), which consists of 13 items. They find that the level of corporate governance disclosure is between 42.28% and 68.29%, with an average score of 51.42%. The least disclosed dimension is dimension 12 on the customer/IAH information, with an average of 2.68%. [Srairi \(2015\)](#) examines the impact of corporate governance disclosure on bank performance, with a sample of 27 IBs located in 5 Arab Gulf countries. A composite index is developed to measure the overall level of corporate governance disclosure, which consists of 36 items classified into 6 categories of corporate governance disclosure. IAH is one of these categories. The analysis shows that the lowest disclosure rate was for information related to IAH, with an average level of 37%.

To the best of our knowledge, the previous literature does not contain a tool to measure the level of T&D for IAH in the annual reports of IBs based on the AAOIFI accounting standards, except [Saidani et al. \(2022\)](#), which measure the level of disclosure for these accounts. [Saidani et al. \(2022\)](#) depend on their index based on FAS 5 and FAS 6 of 2010 AAOIFI accounting standards that were revised in 2015. [Saidani et al. \(2022\)](#) index focus on three kinds of Islamic banking products: Mudaraba, Murabaha and Musharaka. Our study concentrates only on investment account products. They measure the compliance level with IAH requirement using the content analysis for a sample of 49 annual reports of IBs for the period from 2011 to 2015 across 10 countries. Their index consists of 53 items classified into three categories (IAH; Murabaha, Mudaraba, Musharaka and risk management of IAH). They find that the general level of disclosure of investment accounts in IBs is weak, which is 28%. Previous studies seem to mainly focus on corporate governance disclosure and

voluntary corporate governance disclosure. It is clear that the IAH disclosures reflected poor levels of corporate governance transparency. To the best of our knowledge, no studies have directly investigated the level of IAH disclosure (especially related only to the two kinds of Islamic investment products, Musharaka and Mudaraba) through the construction of a specific IAH disclosure index based on [AAOIFI \(2020\)](#) standards. Therefore, we aim to fill this gap.

Since we are only interested in IAH, we focus on the two kinds of Islamic banking products (Mudaraba and Musharaka). Our index consists of 27 items classified into four categories (IAH, Incentive earnings, allocations and reserves and general requirements for disclosure). We have relied on FAS 1 of AAOIFI to select our index's items list (we select 11 items, items 17–27 in our index).

The reason for these differences in the construction of the disclosure items may be due to the new version of [AAOIFI \(2020\)](#). For example, in [Saidani et al. \(2022\)](#) disclosure index, some disclosure items in FAS 1 were already mentioned based on other standards (like FAS 3 and FAS 4) to prevent repetition in the disclosure items. In the new version of AAOIFI, this issue was of the fullest addressed, where more clarity was added, and the overlap was reduced by adopting the new Standard No 27, which is retroactive according to what was mentioned in Standard No 1 concerning investment accounts, [AAOIFI \(2015\)](#). The fundamental difference between our index and [Saidani et al. \(2022\)](#) index is the dependence of this latest index on the two concealed standards (FAS 5 and FAS 6). These two standards were replaced by the new standard No 27, which would reduce the overlap between them and give more clarity to concepts ([AAOIFI, 2015](#)).

3. Research design

3.1 Transparency and disclosure index construction

In our paper, we use content analysis to measure levels of compliance with IAH disclosure requirement. In this study, we develop the transparency and disclosure index of the IAH based on [AAOIFI \(2020\)](#) accounting standards and the FAS 27, which replaced two of the previous accounting standards, FAS 5 and FAS 6. FAS 5 specifies the disclosure of the basis of profit allocation among owners of equity accounts and investments. The accounting standard FAS 6 presents the property rights of IAH. The FAS 1 accounting standard, which deals with general disclosure, has also been adopted. These standards were developed by AAOIFI to enhance the transparency of financial reports by Islamic financial institutions. Therefore, the new revision adopted in this research includes transparency requirements of completeness of information, timeliness, reliability and accessibility.

These characteristics were clear in the revised accounting standard, where we find an emphasis on times to publish information: (as in FAS No 27, in Paragraph 23, significant events after the statement of financial position must be reported: The financial statements must disclose events after the statement of financial position that may have a significant impact on the financial position of the bank or the results of its business). Items that focus on completeness, reliability, and accessibility of information (as in FAS No 27, in Paragraph 5, financial statements must disclose all relevant information necessary for the financial statements to be sufficient, reliable, and appropriate for their users). The new self-designed index gives us an idea of the extent of transparency and disclosure (T&D), in the annual reports regarding IAH.

3.2 Sample selection

This study focuses on measuring IAH-T&D index level of IBs in the MENA countries. In total, 270 annual reports across 30 IBs were selected in 10 countries from 2010 to 2019. It was verified that the selected sample of banks meets the various criteria used to ensure the bank's acceptance to fulfill the objective of this research. Several banks that did not meet one or more criteria used to determine the final acceptable sample were excluded. Based on the content analysis technique, disclosure data were measured. This standard became effective on January 1, 2016, in paragraph 53 of [AAOIFI \(2010\)](#). This motivates us to choose our sample for periods before and after the effectiveness of the standard so that we can get an idea about the level of disclosure for these investment accounts in IBs as a whole before and after this issue.

We have identified a list of banks that are affiliated with the MENA region. We choose this region because it shares common characteristics such as religion, political system and culture, and it also has a thriving economy ([Grassa, 2018](#)). So, our initial sample of IBs was 113 banks. We exclude closed and inactive banks due to the inability to obtain their annual reports from their website. This reduced our sample to 89 banks. We also eliminate any bank without a complete annual report for our sample period. We choose banks with annual reports written at least in one of the following three languages: Arabic, French or English. This gives us a final sample of 30 IBs in the MENA region. [Table 1](#) shows the distribution of our sample across ten countries.

3.3 Data collection

Following [Krippendorff \(2004\)](#), we use content analysis to measure the level of IAH-T&D. Based on prior research, this is the first study to analyze and design a T&D index based on the accounting standards of [AAOIFI \(2020\)](#), and more specifically, the updated revision that will improve the quality of T&D about IAH' in IBs. The T&D index is designed in several stages. Two coders prepared a list of items based on the same set of annual reports of IBs, using the same accounting standard of the [AAOIFI \(2020\)](#), and once the results were obtained, the two indexes were compared. We found that some items were missing. That is why we pass to the second step by redesigning a new list of items for each researcher. The result was an equal number of index items with a slight difference in naming certain elements. After the consultation, in the third phase, the elements in which there was some difference were applied to a sample of annual reports of three banks. The items found in these reports have been selected. The agreed T&D elements were obtained, which are 27 elements as in [Appendix](#), classified into four categories, as shown in [Table \(2\)](#).

Country	No. of Islamic banks	%
UAE	3	10
Egypt	1	3.3
Bahrain	12	40
Qatar	1	3.3
Tunisia	2	6.6
Jordan	4	13.3
KSA	3	10
Syria	2	6.6
Palestine	1	3.3
Oman	1	3.3
Total = 10	30	100

Table 1.
List of countries in
our sample

Based on prior studies and regulatory documents published by the AAOIFI (2020), we develop a multidimensional measure of T&D specific to IAH in IBs. In particular, the IAH-T&D index was constructed using a disclosure checklist comprising 27 items categorized into four categories of information that a bank should address in clear and appropriate details to achieve an acceptable level of transparency. In this study, we consider the following dimensions: investment accounts disclosure (11 items), incentive earnings disclosure (1 item), allocations and reserve disclosure (4 items) and general requirements for disclosure (11 items). These disclosure items cover most aspects of IAH-T&D of IBs. All categories and subcategories of the IAH-T&D index are presented in [Appendix](#).

3.4 Weighting of items included in the investment account holders' transparency and disclosure index

All items are given equal weights to eliminate any subjective judgment about the degree of importance corresponding to each item (Hodgdon *et al.*, 2008). All items of T&D are equally significant in our research. This means that each item is no less significant than the rest and directly impacts the extent of T&D to IAH. However, for the preparation of the index, we relied on the accounting standards of AAOIFI (2020), and none of these normative clauses, include any more indication of the importance of one of the disclosure elements than others. Also, Firth (1980) noted that the unweighted and weighted scores gave similar results. Inchausti (1997) says that the approach adopted has the same result, whether it is a weighted approach or not.

When developing the IAH-T&D, following Cooke (1989), we used an unweighted dichotomous approach in scoring annual reports. Each item is given a score of one if it is disclosed in the annual report of the Islamic bank and 0 otherwise. Therefore, when designing the IAH-T&D index, we relied on the unweighted scoring approach. The disclosure index adopted in this study is based on the quantity and quality of information that IBs provide in their annual reports. For each bank (j) and each year (t), IAH-T&D score are calculated as follows:

$$IAH - T\&D \cdot I_{jt} = \sum_{i=1}^{27} X_{ij} / (N * 100)$$

where IAH-T&D.I is the IAH' T&D index.

To measure the level and the transparency of information disclosed for IAH of the bank (i), for the year (t). X_{ij} is a dummy variable equal to 1 if item (i) is disclosed in the bank's annual report (j) in the year t and 0 otherwise. N is the total number of items included in the IAH-T&D.I index.

Categories of IAH-T&D Index	No. of items	%
Investment accounts	11	41
Incentive earnings	1	3.7
Allocations and reserves	4	14.3
General requirements for disclosure	11	41
Total	27	100

Table 2.
IAH-T&D Index by
categories

3.5 Reliability assessment

After completing the content analysis process and assessing the reliability of the content analysis performed in this study, the following steps were followed. We assigned an independent coder to analyze a sample of four IBs over three years (2010–2012). The sample consisted of 12 annual reports that were randomly selected. At the outset, we clarified some aspects of the independent coder, which are primarily related to the research under study. In addition, we clarified the categories and elements of disclosure included in the T&D index for IAH. Second, we explained the method and styles of decision-making. The annual report coding that was selected has been recoded. In the next step, the results obtained in the two cases were compared to ensure that the results in the two cases were close and the differences were minor or that the differences were reanalyzed and resolved (Milne and Adler, 1999). To ensure reliability, we used the Krippendorff alpha test, considered one of the most reliable measures when conducting content analysis (Grassa *et al.*, 2021). To obtain an acceptable level of reliability of the internal index programmer, the alpha value should be greater than or equal to 0.8 (with a minimum of 0.667). In our paper, we find that the Krippendorff alpha coefficient is 0.81. So, we can conclude that our measure of compliance with IAH is reliable.

3.6 Validity assessment

The following steps were followed to assess the validity of the content analysis performed in this study as mentioned by (Botosan, 1997). We analyzed the correlation between the level of T&D of IAH and the different categories of IAH disclosure, following (Botosan, 1997). Table 3 shows that all categories of the T&D index related to IAH are positively and significantly correlated with the level of T&D of IAH. Accordingly, the T&D index of IAH was valid.

4. Results and discussion

According to Table 4, the sample of IBs disclosed 51% of the IAH-T&D. This is an average percentage, as it revealed an average level of disclosure requirements for AAOIFI. It can be noted that the sample of selected IBs conforms moderately and somewhat to the accounting standards of AAOIFI relating to the reporting of IAH. In addition, it was noted that the level of T&D regarding IAH ranges from 22% to 96%. Thus, Al Baraka Bank (Jordan) has the highest level of T&D on IAH, which represents 96%, followed by Arab Islamic Bank (Palestine) for the years 2010, 2011, 2013 and 2019 and Khaleeji Commercial Bank (Bahrain) for the years 2014 and 2017 with a percentage of 85%. While the Islamic Investment Bank (Bahrain) for 2010 and 2015 and Bank Alkhair

Table 3.
Correlation between
the components of
IAH-T&D index

The categories of IAH-T&D index	AH-TDI level	IAHs	New incentive earnings	Allocations and reserves	General requirements for disclosure
IAH-T&D level	1.0000				
Investment accounts	0.572**	1.0000			
New incentive earnings	0.854**	0.441**	1.0000		
Allocations and reserves	0.283**	0.149**	0.181**	1.0000	
General requirements for disclosure	0.782**	0.100**	0.678**	-0.039	1.0000

Note: **Significant at 1% level

(Bahrain) for 2010, have the lowest level of T&D of investment accounts (22%). These variances in the level of disclosure across the selected banks may be justified based on differences in corporate governance mechanism, the value of IAH as % of assets, ownership structure and the firm's characteristics such as size, age and profitability.

We note that the difference between the minimum and maximum levels of T&D on IAH is clear, and this divergence can be explained by [Saidani et al. \(2022\)](#). The diversity of accounting standards adopted by these IBs can lead to a variation in the level of T&D. According to [Table 4](#), related to the average level of T&D by category, we find that the highest mean score of categories is for Allocations and Reserves. This category had the highest rate of 85%. This is followed by the investment accounts category, which achieved a T&D rate of 69%. Then comes the incentive profits category with 42%. Finally, the last category is the general requirements category for the disclosure category, which recorded the lowest disclosure rate and transparency at 22%. [Table 5](#) presents IAH-T&D by country.

[Table 5](#) presents IAH-T&D by country. It shows that Palestine has the highest level of T&D on IAH at 80%, followed by Jordan (68%). At the same time, Oman, Bahrain and Qatar recorded the lowest levels of T&D on IAH at 46%, 45% and 36%, respectively. Our results are similar to those of [Saidani et al. \(2022\)](#), who found that the IAH disclosure level varies from 4% to 74%. Also, [Srairi \(2015\)](#) discovered that the IAH index has the lowest mean of all dimensions (37%). Many factors may explain this deference in IAH-T&D level between countries, one being corporate governance. Many previous studies support this relationship ([Albitar et al., 2022](#)). Another reason for the difference in the level of disclosure between countries is the ratio of investment account funds to total financing, which can have an essential role in the disclosure level of each bank, and confirm, [Al-Baluchi \(2006\)](#) found

Variable	Mean	Min	Max	SD
IAH-T&D score	51.52	22.22	96.30	17.47535
Investment accounts	69.39	36.36	100	13.92634
Incentive earnings	42.67	0	100	49.54194
Allocations and reserves	85.75	0	100	20.62617
General requirements for disclosure	22.00	0	100	33.31339

Table 4.
Descriptive statistics
of IAH-T&D by
category

Notes: N = number of observations; IAH-T&D score = level of transparency and disclosure

Country	N	Mean	Min	Max
UAE	30	42.8395	37.04	55.56
Egypt.	10	52.2222	48.15	55.56
Bahrain	120	45.1852	22.22	85.19
Qatar	10	36.2963	29.63	40.74
Tunisia	20	59.4444	51.85	66.67
Jordan	40	68.4259	40.74	96.3
KSA	30	49.8765	40.74	59.26
Syria	20	63.8889	44.44	81.48
Palestine	10	80	62.96	85.19
Oman	10	45.9259	40.74	51.85

Table 5.
IAH-T&D by
countries

positive relationship between the proportion of investment funds to total financing and the level of disclosure.

Table 6 presents IAH-T&D by year. The table illustrates that the level of T&D is between 55% in 2019 and 48% in 2010. We can notice that there has been no change importance of IAH-T&D index level over the years. Figures 1–3 show the average levels of T&D about IAH during 2010–2019 and for each country in the entire sample. The results show slight differences between the ten years. This means that banks rely on the same strategy for T&D. However, we notice that the level of T&D about IAH varies in different countries. These differences can be explained by the different ways that each bank presents its annual report according to its culture. In addition, the diversity in the existing accounting standards could be a reason for this difference in the level obtained in each country.

Table 7 presents the IAH-T&D level and disclosure category levels by country. We show that the T&D rates by category were as follows: Syria, Egypt, Palestine and Jordan (85%, 82%, 79% 75%, respectively). Palestine has the highest degree of T&D regarding the

Table 6.
IAH-T&D by years

Years	Mean	Minimum	Maximum	SD
2010	48.0247	22.22	96.30	17.86810
2011	51.3580	25.93	96.30	16.86720
2012	52.4691	25.93	96.30	15.65568
2013	52.3457	25.93	96.30	16.35463
2014	52.2222	33.33	96.30	14.95306
2015	51.4815	22.22	96.30	15.20402
2016	52.4691	29.63	96.30	15.13334
2017	51.1111	25.93	96.30	16.34499
2018	51.8519	29.63	96.30	15.92281
2019	55.0617	29.63	96.30	16.55585
Total	51.8395	22.22	96.30	15.94965

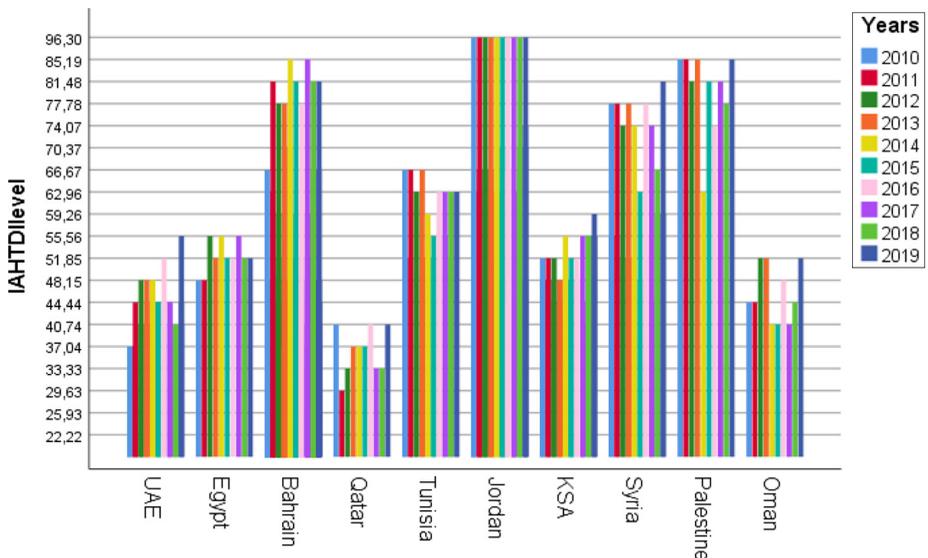
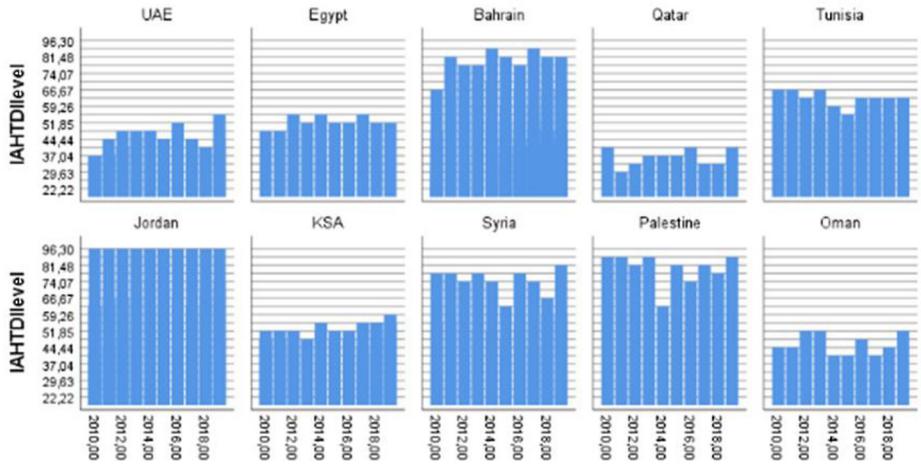


Figure 1.
IAH-T&D by year and country for the Islamic banks of the MENA region



Investment
account
holders

Figure 2.
Disclosure level by
country and by year

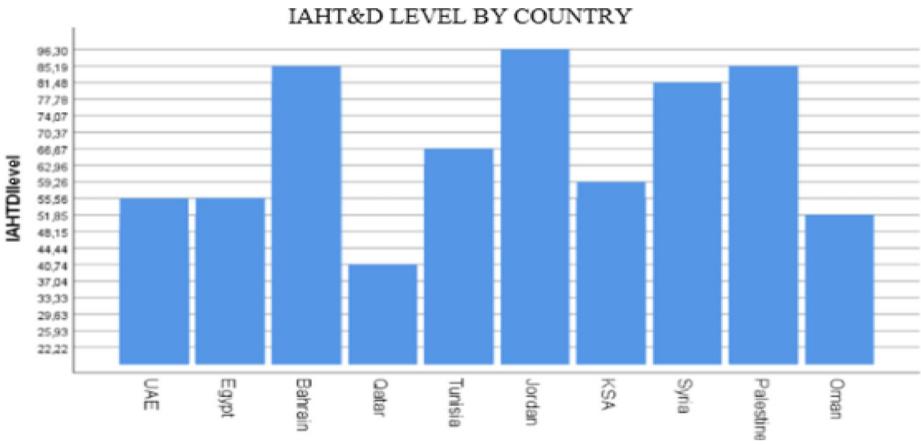


Figure 3.
Disclosure level by
country

category of Incentive earnings (100%), whereas Qatar has the lowest degree of T&D regarding this category (0%).

As for the category of allocations and reserves, Oman and Egypt achieved the highest degree of T&D (100%), followed by Palestine, Jordan, Tunisia and the UAE (95%, 93% and 83, respectively). In comparison, Qatar scored the lowest (32%). As for the General Requirements for Disclosure category, Palestine achieved the highest level (76%), followed by Jordan and Tunisia (56% and 50%, respectively), whereas Oman and Qatar have no disclosure about this category where the level of disclosure was 0%. We note that Bahrain is the country in which AAOIFI was developed. However, it did not rank first with the rest of the other countries in the degree of T&D. This was for all of the categories of T&D for IAH. These results are compatible with [Saidani et al. \(2022\)](#). Bahrain did not occupy the first place for any disclosure categories.

Country	N	Investment accounts	Incentive earnings	Allocations and reserves	General requirements for disclosure	IAH-T&D score
UAE	30	64.8485	6.6667	83.3333	6.0606	41.4815
Egypt	10	82.7273	80	100	0.00	51.4815
Bahrain	120	63.5606	20	81.25	13.1061	44.0123
Qatar	10	72.7273	0.000	32.5000	0.0000	34.4444
Tunisia	20	63.1818	100	83.75	50.4545	62.4074
Jordan	40	75.9091	75.0000	93.7500	56.5909	70.6481
KSA	30	76.6667	43.3333	97.5	3.3333	48.64
Syria	20	85.9091	90.00	92.5000	35.4545	66.4815
Palestine	10	79.0909	100	95	76.3636	81.1111
Oman	10	67.2727	30.00	100	0.00	43.3333
Total	300	69,6970	42.6667	85.7500	22.00	51.6420

Table 7.
IAH T&D level and disclosure category level by countries

We can find that the level of allocations and reserves is higher than the level of incentive earnings in (Bahrain, Qatar, Jordan, KSA, Syria and Oman). In our opinion, the difference between incentive earnings disclosure and allocations and reserves disclosure could be explained by the IAH owners' lack of feeling the need to withdraw their money as long as their funds have achieved a favorable return on investment. It is natural for the disclosure of incentive earnings to be less than the disclosure of allocations and reserves. Our finding is consistent with [Al-Baluchi \(2006\)](#), [Archer and Karim \(2007\)](#). There are fewer incentives for IAH due to the availability of profit equalization reserves. At this point, IAHs need more disclosure about their allocations and reserves than their incentive earnings.

5. Conclusion

IAH need a high level of T&D to have adequate access to the information they need to make sound decisions. Although these accounts are the primary source of mobilizing the assets of IBs, their owners do not enjoy the privileges that enable them to have the right to vote. Furthermore, they are not guaranteed to face the moral hazard problem. This problem results from a conflict of interest, considering the complete absence of interference on the part of the owners of these accounts. This is especially true since the bank does not bear any loss. Management can make riskier investment decisions. This situation makes the issue of T&D one of the elements and pillars required by Islamic banking institutions in their dealings with investment depository account holders. In this study, we measure the level of T&D of IAH in the annual reports of 30 IBs over the period 2010–2019 across 10 countries by constructing IAH-T&D index based on [AAOIFI \(2020\)](#). We focus on four categories of disclosure, IAH, incentive earnings, allocations and reserves and general requirements for disclosure, which consist of 27 items. Our findings suggest that the overall IAH-T&D level is 51%, which is modest. According to the results of the level of T&D by country, the highest rate was 80% in Palestine, 68% in Jordan and 36% in Qatar. We discovered that the level of T&D does not fluctuate significantly over the years. It is also worth noting that Bahrain did not come out on top in any of the transparency categories compared to other countries.

Before the implementation of AAOIFI, IBs applied different methods to allocate the profits between shareholders and IAH. Access to information about the basis of profit allocation is limited. Consequently, this high level of profit allocation disclosure can be explained as the result of AAOIFI implementation by many IBs. As a result of the level of disclosure seen above, we recommend to IBs that they enhance the general requirements for

disclosure. We also recommend that they recognize the right of IAH to monitor the performance and management of their investments. IBS should make adequate and timely disclosure to IAH and the public of information relevant to the investment accounts they manage.

There are many theoretical, practical and social implications for this study. The newly constructed index will be helpful in future research concerned with IAH-T&D in IBs. The results of this study may have some practical and theoretical implications for this subject. This newly developed index can be employed to facilitate future research on IAH-T&D of IBs. This index can be used to examine the determinants and consequences of IAH disclosure. In light of these results, several other variables need to be analyzed. IBs need to maintain customer loyalty with these moderate levels of IAH disclosure. This research allows those interested in Islamic banking to understand better the level of T&D of IAH in IBs. Thus, they can make decisions based on more accurate information. Also, IBs must ensure higher T&Ds on these IAH. Regulators across countries that hosted IBs should consider and investigate the causes behind the low disclosure level with AAOIFI as Bahrain. Investors concerned with investing in the Islamic banking industry will be entrusted with a high level of disclosure about the activities of IBs as IAH.

There are several limitations to the results of this study. The manual content analysis may be somewhat biased, and the results should be interpreted with some caution, especially regarding the generalizability of the results. Consequently, we recommend future research use computerized content analysis as the study sample is limited to 30 banks only in the MENA region. The low disclosure level for IBs in the hosted country for AAOIFI (Bahrain) requires more examination into this phenomenon. Future research may consider examining the determinants and consequences of IAH-T&D. It might also be interesting to examine the impact of COVID-19 pandemic on levels of IAH-T&D. Recent studies use hybrid review (bibliometric analysis with content analysis) to critically evaluate Islamic Finance literature (see for example, [Al Mamun et al., 2022](#)). We recommend that future research could use hybrid review to explore critically evaluate prior research on different methods used to measure the compliance with AAOIFI disclosure requirements.

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Appendix

Investment
account
holders

Range	Items	Description	Disclosed	
			Yes = 1	No = 0
Investment accounts	1	Display the shares of the owners of the investments included in the balance sheet independently		
	2	Display information related to shares of investment account holders that are not included in the budget in the list of changes in investment accounts		
	3	Disclosure in the financial statements clarifications of the accounting policies and the basis used in allocating profits between owners of equity and investment account holders		
	4	Disclosure in the financial statements clarifications of the accounting policies and the basis used in downloading the reserves and the parties to which those reserves belong if they become unnecessary		
	5	Disclosure of the total administrative expenses charged to investment accounts with a simplified explanation of their main components		
	6	Disclosure of the percentages for allocating profits between owners of equity and investment account owners		
	7	Disclose whether the financial institution has increased its share of profits as speculators		
	8	To disclose whether the financial institution has included investment accounts in the profit sharing resulting from the investment of current account funds or not and to disclose the bases used		
	9	Disclose whether the financial institution included investment accounts in the sharing of revenues from banking operations or not		
	10	Disclosure to those who have been given priority to owners of equity or to investment account owners when it is not possible to invest all available funds		
	11	Disclosure of the notes on the percentages of the funds of the investment account owners that the financial institution agreed with the owners of the investment on their investment		
Incentive earnings	12	Disclosure of the basis used to determine the profits of incentives obtained by the bank from the profits of investment accounts		
Allocations and reserves	Disclosure of provisions and reserves, whether:			
	13	Specific provisions		
	14	General provisions for specific losses		
	15	Profit equality reserve to maintain the level of account holders' income		
	16	Investment risk reserve to cover potential losses for investment account owners		

(continued)

Table A1.
Investment account
holders'
transparency and
disclosure index

IMEFM

Range	Items	Description	Disclosed	
			Yes = 1	No = 0
General requirements for disclosure	General disclosure requirements in accordance with Accounting Standard 1:			
	List of changes in restricted investments: it must be disclosed:			
	17	Balance of the restricted investments at the beginning of the period		
	18	Number of investment units in each of the investment portfolios		
	19	Issues of investment units		
	20	Redeemable withdrawals during the period by the portfolio		
	21	Bank's share as a speculator in investment profits		
	22	Indirect expenses charged by the bank to the restricted investments		
	23	Gains or losses of restricted investments during the period		
	24	Balance of the restricted investments at the end of the period		
	25	Number of investment units in each portfolio at the end of the period		
	Disclosure of clarifications on this list of:			
	26	Nature of the relationship between the bank and the restricted investment owners, whether speculator or agent		
27	Rights and obligations associated with the types of investment accounts			
Table A1.	Total	27	0	0

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