

***Accounting for Islamic Financial Transactions:
Challenges to Harmonization***

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Abstract

The current study focuses on conventional accounting principles and the contrast to the teachings of Islam and other various Islamic financial alternatives for businesses. From an Islamic perspective, accounting should function not only as a service activity providing financial information to the users and to the public at large, but more importantly accountants should discharge their duties by providing information to enable society to follow the commandments of Allah [SWT].¹ Therefore, Islamic accounting can be generally defined as an alternative accounting system designed to provide users with information enabling them to operate businesses and organizations according to Shariah, or Islamic law. The growth of Islamic financial markets and institutions, as well as the growing interest in Islamic banking, insurance and capital market underscores the need for accounting practices that are in line with Islamic principles. Islamic accounting is thus needed to serve financial instruments that are Shariah compliant¹

Keywords: Accounting; Islamic finance; financial transactions; Harmonization

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Introduction

Accounting can be defined as “the process of identifying, measuring and communicating economic information in order to permit informed judgments by the users of information.”¹ Accounting is also shaped by the environment in which it operates. Since this differs from country to country (due to legal, economic, political, cultural differences) very diverse national financial accounting systems have developed. However, in an expanding global economy where management and investors are increasingly making cross-border decisions, compatible international financial information is essential.¹

Islam literally meaning peace and obedience. Therefore, the adherents to Islam are required to be ‘obedient’ to God and to appreciate the purpose of their existence in this world. God is said to have proclaimed that, “I have only created... men that they may serve me” (al-Qur’an, 51:56). The nature of this service is taken to have been spelled out clearly when God, upon creating men, declared, “I will create a vicegerent on earth” (al-Qur’an, 2:30). Muslims consider humans to be vicegerents of God. Thus, whatever worldly possession a Muslim has is to be held in a stewardship capacity – that is simply in trust from God. According to Islam, Muslims are trustees (or stewards) for God: Man therefore agrees to assume this great responsibility in a covenant with God.¹

An overriding consequence of acceptance of the faith is that everything a Muslim does is to be in accordance with God’s wishes as disclosed in two major sources. First, they are prescribed as revealed by words of God, in the Qur’an. Second, they are exemplified by the Sunnah, which contains God’s inspired acts: sayings of the Prophet Muhammad (S.A.W.); and descriptions of his conducts. These two sources are the material sources of Islamic law (Shari’ah). These sources are supplemented also by the ijma’ – the pronouncements representing the consensus of Islamic scholars on matters not addressed explicitly by the Qur’an and the Sunnah.¹

Therefore, upon examination of the role of economic activities within Islam, the appropriate philosophy of all human activity should be directed towards the achievement of a comprehensive human welfare in this life and also in the hereafter (Falah). Falah is a tangible quality towards the achievement of God’s pleasure. Human welfare as believed by Muslims, can be achieved without any conflict in the genuine interest of this worldly life and the Hereafter.¹

To achieve Falah, economic activities must be morally directed. In any economic decisions, including financial reporting of economic activities, ethical values should act as a norm and economic relationship must be regarded as moral relationship. The achievement of Falah is neither dependent on, nor related to maximization of wealth or profit; nor to the size of the individual business enterprise and quantity of output. Therefore, the activities of profit-making organizations should serve as a means to function in the economy. The worldview should be that they provide service to the public by manufacturing, trading goods or providing services and in return, profit is only to ensure that the business can operate and grow. ¹

The concept of tawhid (unity of God) in Islam is central to Muslim belief. This concept is based on the premise that absolute truth belongs only to God, God is the basis, source, and ultimate destiny for the whole universe. The universe exists for a serious purpose, and the final destiny of the universe is with God alone, who has no partner or equal. ¹ Man is unique and God has created him and honored him with free will and responsibility over the universe on the basis of truth and justice. Following this basic principle and derived from it are the principles of the unity of creation, the unity of truth and knowledge, the unity of life and humanity, and the complimentary nature of revelation and reason. ¹

The concept of tawhid is also directly related with another important concept, khilafah (vicegerent). This concept means that man is a trustee on this earth, and this requires him to act as a guardian and deputy of God in dealing with the world, its environment, wealth, and other creatures. This also refers to the concept of wealth and the rules governing the possessions and disposal of property. Man has the right to own wealth and property, and this right is protected as long as means of acquisition is lawful. The right to use and benefit from one's wealth and property must not be exercised at the expense of the interest of the community.

However, this right is not absolute, as God is the ultimate owner of all wealth. Islam advocates that human beings cannot achieve their purpose and fulfill their roles in life unless they continually act and make decisions concerning the management of their environment based on truth and justice. ¹

In addition, within Islam is the concept of accountability. The concept of taklif (accountability) means that everyone is accountable for his actions or inactions on the Day of Judgment. Accountability in Islam also means that people must accept all the duties and liabilities as well as the benefits of any ownership or responsibility. However, neither the Prophet [PBUH], nor other humans have the right to decide what is right or wrong for humanity or to define the rightful behavior in life; only God can do that. If Man uses his will and ability for any purpose other than those for which they were created, he will have failed in his responsibility, violated the honor of his duties, and missed the purpose of his existence. ¹

In Muslim society, the concept of accountability is ingrained in the basic creation of man as a vicegerent of God on the earth. Man's mission on earth is to fulfill the purpose of his/her existence in society. Human beings are thus created as trustees and are accountable for all their actions.¹

Objectives of Islamic Finance: Standardization

Shari'ah (Islamic Law) is a code of conduct that guides Muslims in social, economic, and political matters. It promotes balance and justice and discourages behaviors of excess consumption. In accordance with Islamic law, Islamic financial products are based on specified types of contracts. These Shari'ah compliant contracts support productive economic activities without betraying key Islamic principles as some conventional financial products do. Sharia-compliant contracts cannot create debt, cannot involve the payment of interest, and must provide for a sharing of risk and responsibility between the involved parties.

To be valid, an Islamic contract must feature subject matter that is lawful, has value for a Muslim, and is specific enough to avoid uncertainties. The service or asset described in the contract generally must exist when the contract is being created, must be owned by the seller (hence prohibiting short sales of stock, for example), and must be deliverable.

The Islamic Finance Market is a developing industry that is considered a viable alternative to conventional finance. It has been adopted across the globe and has a lot of potential for growth. However, since the industry is regulated by both national laws and Shari'ah laws, standardization becomes a serious issue.

*Standardization – is the process of implementing and developing technical standards. Standardization can help to maximize compatibility, interoperability, safety, repeatability, or quality. It can also facilitate commoditization of formerly custom processes.*³

“The Islamic finance system faces several key challenges if it is to unlock its huge potential and develop safely. The ethical-based fast-growing sector, which bans speculation, but still lacks regulatory and supervisory frameworks is catering to its unique risks. Islamic finance -- the provision of financial services in accordance with sharia law -- has so far been governed mostly by frameworks developed for conventional finance. Cross-border operations of Islamic financial institutions have expanded considerably without regulatory harmonization; these developments indicate a need for increased regulatory clarity and harmonization, closer cooperation between Islamic and conventional financial standard-setters, and further enhancement of tools for effective supervision,”²

The lack of standardization across the Islamic Finance Markets increases the risk of non-compliance with Shari'ah. This is problematic as all contracts that are not compliant with Shari'ah are not valid contracts under Islamic Law. To achieve standardization means to have a universal code for Shari'ah standards as a way of harmonizing the principles and laws that need to be followed by all Islamic Institutions.

In an effort to establish a standardized set of principles and laws, three main organizations were created to meet these goals:

- Islamic Financial Services Board (IFSB) – established in 2003, in Kuala Lumpur, Malaysia. It is an international organization that issues and promotes standards and guiding principles for Islamic Financial industry.
- Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) – an independent international organization based in Bahrain; supported by central banks, Islamic Financial Institutions and other participants from the global Islamic banking and finance industry. It has been working to develop a standardize set of international accounting, auditing, corporate governance, ethics, and Shari’ah compliance principles.
- The International Islamic Financial Market (IIFM) – is a leading Islamic Finance standard setting body based in Bahrain that was formed by several central banks. The main objective is to standardize opinions used by Shari’ah scholars when voting on standards that will benefit of the entire industry.

The ultimate benefits of standardization of Shari’ah within the marketplace would lead to cost savings due to time constraints needed to obtain approval in various regions. It would also enhance financial stability and create more transparency and consistency in financial reporting.

Islamic Financial Instruments

According to conventional economics, livelihood is the fundamental problem of man and economic development is the ultimate goal of human life. According to Islamic economics, livelihood is necessary and indispensable; but is not the true and the only purpose of human life. The Hereafter is the ultimate destination that must be considered. Islam also caters to the welfare of man in the Hereafter. Wealth in all its possible forms is created by Allah, it belongs to Allah; He has delegated the right of property to man for use and He has the right to demand that man subordinates his use of wealth to the commandments of Allah. The main objectives of Shari’ah are to cooperate with one another in righteousness and piety, and to cater to the well-being of the people in the worldly life as well as in the Hereafter.

Islam takes a positive view of life considering man as the viceroy of God. Virtue does not mean abandoning the beauties of life, but enjoying those while remaining within the framework of the values through which Islam seeks to maximize human welfare. It requires living a morally responsible life, earning only by fair means and considering wealth as a stewardship for which account is to be rendered to Allah Almighty. These concepts are transparent in many services

offered by Islamic Financial Institutions through unique contractual conditions of Islamic financial contracts such as mudharabah, musharakah, murabahah, ijarah

Mudharabah

Mudharabah is a form of partnership whereby the owner of capital (rab al mal) gives a specified amount of capital to another person (mudharib). Usually the Islamic Bank is the capital provider and the mudharib is an entrepreneur. The opportunity offered by mudharabah allows the entrepreneur who has no financial backing to have access to money with which he can start a business and earn a livelihood.

The profit will be shared between the two parties according to the agreed profit-sharing ratio and their agreement contract.

- Unrestricted Investment Account is where the investor fully authorizes the bank to invest the funds without restrictions as to where, how and what purpose the funds should be invested as long as it is deemed appropriate.
- Restricted Investment Account is where the investor restricts the manner as to where, how and for what purpose the funds are to be invested.

There are two fundamental principles for Mudharabah financing:

1. The two contracting parties – Islamic Institution (Capital Provider) and mudharib (entrepreneur)
2. The subject matter of the mudharabah – capital, labor and profit

Mudharabah financing has three fundamental elements – the two contracting parties, the capital and the profit.

- Both parties must have the capacity to enter into a contract of agency (wakalah)
- Islam is not a condition for both parties

The capital has conditions as well:

1. The capital must be money, not commodities
2. The capital must be specific, determined and known at the time of the contract. The capital must be available in cash.
3. The availability of the cash is relevant at the time of the actual business venture, not at the time of contract
4. The capital must be under the mudharib's control

Mudharabah may also be a two-tier structure where it would include 3 parties in the

agreement.

- Investors – capital provider
- Islamic institution – intermediate mudharib
- Entrepreneur – final mudharib and owner of business entity
 - The profit-sharing ratio must be predetermined as a percentage of the business profits, and the profit allocation ratio must be clearly stated based on the agreed to percentage. And profits can only be claimed when the business operations are profitable and have cleared all history of losses prior to distributions to owners.

Among the recommendations of IFSB, before opening a Mudharabah investment account, the investors should be adequately advised on their contractual rights and risks.

- The investor shall only bear loss in proportion to the assets funded by their investment
- The Islamic bank shall be liable for losses arising from their negligence, misconduct or breach of agreement
- Disclosures regarding the profit sharing policy needs to be made timely and in an effective manner for all parties involved
- Disclosures regarding the use of the assets needs to be made timely and in an effective manner for all parties involved

Murabahah specifically means to profit, where the sale of the goods plus the mark up produce this profit.

In order for Al-Murabahah to be accepted in Shari'ah, it must comply with the following requirements:

1. The Islamic Institution must hold and own the property prior to selling it to the customer.
 - a. Transaction 1 – bank purchases property from producer
 - b. Transaction 2 – bank sells property to customer
2. The customer must have the option to refuse to purchase the property, where the promissory purchase contract is not binding
 - a. Customer – inspect property and purchase
 - b. Customer – inspect property and refuse
3. Islamic Institution bears all risk in the trade
 - a. Prior to sale
 - b. Prior to the completion of delivery to customer
4. Deposits are not allowed as they imply an obligation to purchase
5. The cost price must be known by customer at the time of contract
6. Mark up (profit) must be specified and known by both parties

7. The cost price must be quantifiable and substitutable
8. Murabahah must not involve any ribawi items – occurrence of riba (interest).
9. The vendor must have bought the item for the Bay' Al-murabahah in a valid sale and purchase contract.

Ijarah

Ijarah financing is a concept used in the Islamic banking industry especially for motor vehicles and equipment financing.

Ijarah means to give something on rent, or wages paid in consideration of the services rendered. The basic feature of Ijarah is where one party is given the right to use the services of a person or of a given asset from another party for consideration.

- This has not involved the transfer of ownership because there has been no intention to purchase or to own the Ijarah by the interested party (operating ijarah)

INVESTMENT IN ISLAMIC SECURITIES

AAOIFI FAS 17 classifies Islamic bonds (sukuk) into at least four types:

1. Mudarabah (Muqaradah) sukuk – these are investments in sukuk that represent ownership of units of equal value in the mudarabah equity and are registered in the names of holders on the basis of undivided ownership of shares in the mudarabah equity and its returns according to percentage of ownership of share. The owners of such sukuk are the rab al-mal (capital provider).¹
2. Musharakah sukuk – these are investments in sukuk that represent ownership of musharakah equity. It does not differ from the mudarabah sukuk except in the organization of the relationship between the parties issuing sukuk forms a committee from the holders of the sukuk who can be referred to in investment decisions.¹
3. Ijarah sukuk – these are sukuk that represent ownership of equal shares in a rented real estate or the usufruct (benefit) of the real estate. These sukuk give their owners the right to own the real estate, receive the rent and dispose of their sukuk in a manner that does not affect the right of the lessee, i.e. they are tradable. The holders of such sukuk bear all cost of maintenance of and damage of the real estate.¹
4. Salam or Istisna' sukuk – these are sukuk that represent a sale of a commodity on the basis of deferred delivery against immediate payment. The deferred commodity is a debt in-kind against the supplier because it refers to a commodity which is accepted based on the description of the seller. The Istisna' sukuk is similar to Salam sukuk, except it is permissible to defer payment in an istisna' transaction, but not in a salam. In both salam

and *istisna'*, the subject matter of the sale is an obligation on the manufacturer or builder in the case of *istisna'* and the seller in the case of *salam*. Hence both instruments can neither be sold nor traded before their maturity date if either the buyer or the seller of the commodity issues them. Accordingly, these *sukuk* are treated as investments held to maturity.¹

Potential Impact of Islamic Finance: Socio-Economic Justice

Both conventional and Islamic accounting provide information and define how that information is measured, valued, recorded and communicated. Conventional accounting provides information about economic events and transactions, measuring resources in terms of assets and liabilities. The information is communicated through financial statements. Users, typically investors, rely on the statements to make decisions regarding their investments. Islamic accounting, however, identifies socio-economic events and transactions measured in both financial and non-financial terms and the information is used to ensure Islamic organizations of all types adhere to *Shari'ah* and achieve the socio-economic objectives promoted by Islam.

Ibn Taymīya wrote a large number of books related to different aspects of Islamic thought and practice. His *al-Hisbah fi al-Islam* remains a major contribution in the field of Islamic social studies, in which he expounded its theoretical foundation and its socio-economic functions. In this book Taymiya's main theme is "commanding what is *ma'ruf* (good; fair; right; and proper) and prohibiting what is *munkar* (evil; unfair; wrong; and improper). As Holland says, excessive zeal in this area may horrify some, and be a temptation to others, but if this work has any influence it should be to reassure the alarmist and restrain the potential fanatic, since ibn Taymīya calls for a moderate and realistic approach, with great stress on the importance of knowledge, gentleness, patience, forbearance, and generosity of spirit (Holland, 1983).⁴

Islamic accounting emphasizes the concept of '*Amanah*' (trustee of God) to their responsibilities. On earth, all bounties are from and belong to God. Human beings are just using them temporarily. Therefore, to achieve *Falah*, *Amanah* must be complied with through the state of *Ibadah* (servitude to God) to achieve true success in this world and the hereafter. Thus, Islamic objectives extend well beyond worldly existence and strive for the life in the hereafter instead.

Islamic accounting strives for a qualitative approach to business based on justice, equality, and fair play. While this approach is not necessarily unique from other religions, the qualitative aspects are combined with specific guidelines for trade. Specifically, *Shari'ah* prescribes specific requirements for financial transactions and products in order for them to be compliant with Islamic law. These requirements can be broadly placed into several categories:

- Prohibition of Riba (interest)
- Fairness and Justice to all
- Prohibition of contracts with excessive uncertainty
- Fairly allocating expenses and fairly disbursing profits
- Prohibition of certain industries as based on Islamic teachings
- Safeguarding assets and rights of others while ensure proper accounting recognition and valuation of those assets.

Islamic accounting, in numerous ways, can have a greater impact on business in comparison to the conventional accounting. For instance, Shari'ah prohibits interest-based income or usury. Therefore, this ensures that companies do not harm others while making money. An equitable allocation and distribution of wealth is achieved, not just among shareholders of a specific corporation but also among society in general.

Although Riba is viewed by many as a form of interest specifically relating to finance, Islamic accounting increases the scope from usury where excessive compounding of interest is used, to the same concept caused by an unfair or unjust transaction by way of deceit or uncertainty. History has proven that conventional accounting because of the lack of the socio-economic factors, have led to the disguise of unethical and illegal activities by way of scandals through the lack of transparency.

A study was done by *Interdisciplinary Journal of Contemporary Research in Business* (IJCRB) using four regression models to test the hypotheses of the research on the impact of Islamic Finance on the economy. The analysis showed a statistically significant positive relationship between Islamic finance and GDP. It was found that there is a statistically significant positive relationship between Islamic finance and domestic investment, and also a statistically significant positive relationship between Islamic finance and economic growth. This means that the Islamic finance contributes significantly to the promotion of the economic activity and it supports the process of economic development.

The study also noted that there is a statistically significant negative correlation between Islamic finance and the rate of inflation. This means that the Islamic finance enhances the production of goods and services in the economy field leading to a decline in the general price level. Finally, the study recommended the need to develop the role of Islamic finance, and new Islamic financial instruments. Thereby, enhancing the study of Islamic financial engineering in institutes and colleges at universities.⁵

Islamic Finance developed the Shari'ah compliant products mentioned above to be attractive to capital investors, increasing the effectiveness of the implementation of the products in the marketplace, and reducing cost associated with the market. This has slowly grown the

industry into global economies where both the demand and supply for these products are on the rise due to the positive correlation with the societies in which they are implemented:

Islamic finance currently encompasses banking, leasing, Sukuk (securities) and equity markets, investment funds, insurance ("Takaful") and micro finance. The banking and Sukuk assets represent about 95 percent of total Islamic finance assets.²

Islamic finance assets grew at double-digit rates during the past decade, from about US\$200 billion in 2003, to an estimated US\$1.8 trillion at the end of 2013. However, despite its growing spread, Islamic finance assets are still concentrated in the Gulf Cooperation Council (GCC) countries, Iran and Malaysia, and represent less than one percent of global financial assets.² Islamic banking outperformed conventional banking over the past decade, increasing its penetration rate above 15 percent in a dozen countries in the Middle East and Asia. Over the same period, Sukuk issuance increased twenty-fold to reach US\$120 billion in 2013, and its issuer base is broadening with new issuances in Africa, East Asia and Europe.²

Harmonization and Its Challenges in Islamic Finance

Although Islamic Finance is still a small share of global finance, Islamic finance is growing rapidly and has enormous potential for further growth. The Islamic banking sector is now systemically important in several member countries and the internationalization of the Sukuk market has increased cross-border financial flows and linkages. Islamic banking also has the potential to foster greater financial intermediation and inclusion, especially among Muslim populations that may be underserved by conventional banks, and to facilitate lending in support for small- and medium-sized enterprises, while Sukuk can enable investment in public infrastructure projects.

However, for this potential to be realized and to allow this industry to develop in a safe and sound manner, it will be important, , that countries adapt their regulatory, supervisory, and consumer protection frameworks to address the unique risks in Islamic finance This will require taking further steps to develop Shari`ah-compliant financial markets and monetary instruments, and strengthening the international architecture for the growing cross- border operations.

Harmonization in Arabic term known as *tawfiq* which means to bring one thing (two or more different types of ideas) into harmony or agreement with another.⁶

The entire concept of harmonization aims to combine Islamic Laws and common laws in a single authoritative codification for the finance industry as a whole; while taking all Shari`ah principles and common laws that do not contradict any Islamic laws into consideration during the development process.

The harmonization approach in the implementation of Islamic banking cannot be applied without adhering to certain Islamic principles. In this aspect, harmonization could not be invoked to the things that forbidden in Islam. Ethical aspects should not be compromised. Rulings stipulated in *al-Quran* and *al-Sunnah* should not be altered. No harmonization should be allowed to make forbidden things permissible and vice versa. Universal Islamic principles adhering to justice equality in transaction should not be violated. In carrying out this harmonization process also, the principles of objectives of shariah or *maqasid shariah*, public interest or *maslahah*, blocking the means to evil or *sadd al-dhariah* and other principles may be applied. ⁷

The globalization agenda and international harmonization movement of Islamic accounting and financial reporting is gaining momentum. However, the call for worldwide adherence to IFRSs to achieve harmonization in financial reporting regardless of cultural differences should not go unchallenged. In the context of accounting regulation, the flexibility allowed by the accounting conventions and Shari'ah principles in adopting different accounting methods for the treatment of certain accounting issues may lead to different results in financial reporting. Therefore, unless proper disclosure with regard to the issue, of underlying Shari'ah principles and accounting methods is adopted, the information contained in the financial statements will not be useful for comparison of the performances of different Islamic banks. The diverse nature of relationships between Islamic banks such as murabahah financing or Islamic investment account based on mudharabah vis-à-vis conventional financial instruments have made their accounting treatments differ from each other. ¹

Since Islamic Accounting is needed to serve various principles of financial instruments that are founded on an Islamic worldview and Shari'ah requirements, there needs to be direction and more importantly, a common source for information regarding these requirements.

The Accounting and Auditing Organizations of Islamic Financial Institutions (AAOIFI) has developed standards that can be used to direct Islamic Institutions in following the requirements and maintain a reasonable compliance rate with the latest Islamic worldviews and Shari'ah rulings.

These standards have the objectives to harmonize accounting practices for Islamic Financial Institutions. Moreover, if these objectives are successfully implemented as the single source for all Islamic Financial Institutions to follow, it will help facilitate the needs of users of accounting information of Islamic Financial Institutions.

Most importantly, is the fact that there needs to be a focus on the tailoring of all objectives to align with the Islamic worldview and ethics. Thus, establishing guidelines on how to connect these objectives to the modern accounting and reporting concepts.

Ilias (2010) reports that the challenges that face standardization include different interpretations of Shari'ah, diverse stages of maturity of Islamic financial markets; country-specific laws, regulatory practices, and the absence of consensus among scholars.⁸

There is a shortage of Islamic Scholars who can interpret and understand the modern issues and their implementation from an Islamic perspective. Islamic Finance depends on these interpretations to facilitate rulings in the different regions in which it operates. Unless minimum standards are put in place to regulate the qualifications needed to teach Islamic finance related subjects at various levels of education, this will continue to be a major challenge to achieving harmonization. Moreover, the lack of knowledge extends beyond Islamic Scholars. The governmental authorities in the different countries in which Islamic Finance operates have not appreciated the implications of the unique characteristics of Islamic financial institutions. They lack the understanding that leads to the various approaches needed to regulate the banks.

These different approaches in regulating Islamic banks are a major barrier since it will always affect the financial reporting based on the region of operations. This forces different institutions to adopt different accounting treatments for various Islamic financial instruments. Therefore, making financial statements of Islamic banks non-comparable to one another.

By far the biggest challenge to harmonization is the lack of knowledge as a whole in the marketplace. This leads to different interpretations of what is needed to regulate the industry. Thus, this creates many inefficiencies in the system inconsistencies globally.

Conclusion

The Islamic Financial system is more than just about the exchange of goods or services for resources, it also emphasizes social awareness and the importance of balance and justice to the society as well as rejecting excess consumption. The major concepts that the Islamic Financial system revolves around are as follows:

- Allah is the owner of all things and humans are trustees of everything in which they possess. Humans must exhibit justice and prohibit waste of anything they own.
- There must be a balance between economic activities and spirituality where a Muslim can seek the material world but must avoid being stingy or too materialistic.
- Every objective must take into consideration the effect it will have on the society; whether towards people or in using the resources on the earth.
- Wealth must not be accumulated by a few while most suffer

Therefore, all Islamic Financial products are based on specific types of contracts that must adhere to Shari'ah principles. These products cannot create debt, cannot involve interest, and

must share risk accordingly with all parties involved in an agreement.

The Islamic Finance industry continues to rapidly grow and expand. The total global Islamic financial assets are estimated to reach USD 6.5 trillion by 2020. The industry is expected to chart positive growth underpinned by the following factors:

- Government spending on infrastructure projects financed by Islamic finance;
- Growing interest in Islamic finance and supply-side dynamics by financial institutions;
- Active role played by government and regulatory agencies, multilateral bodies and industry players to promote the development of Islamic financial markets in their respective countries and globally; and
- The increase of global trade flows in MENA and OIC countries.

Another important aspect moving forward is the potential role of Islamic finance in supporting financial inclusion ⁹

The AAOIFI and the IFSB continue to work at bringing solutions to the problems of standardization and harmonization, and will aim to adapt to all the challenges that present themselves as they continuously develop the standards for the industry.

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