Public Hearing of Islamic Accounting and Auditing Standards

Opening Address by
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Chairman, Securities Commission
at the Public Hearing of
Islamic Accounting and Auditing Standards
on 2 April 1997

Distinguished Members of the Panel,
Honourable Guests, and
Ladies and Gentlemen.

Assalamu'alaikum wr. wb. and a very good morning to you all.

It is indeed an honour for me to say a few words at this Public Hearing of Islamic Accounting and Auditing Standards. I must also say how pleased I am to see such an illustrious gathering of academicians and professionals - your presence is indicative of the growing awareness, interest and support that is being accorded to Islamic finance in this country.

One of the main reasons behind this effort to jointly organise this Public Hearing is to increase awareness amongst the financial community within the region, about the Accounting & Auditing Organisation for Islamic Financial Institutions (AAOIFI) standards. The hearing is also intended both to enhance the confidence of the people using the financial statements of these Islamic financial institutions and at the same time, to encourage these users to invest in these Islamic financial institutions.

Besides offering an insight into regional and global developments, and into current practices in the Islamic finance sphere as well as addressing the current issues in accounting, this Public Hearing is also intended to provide a platform for all interested parties to discuss and exchange views on the objectives, concepts and principles underlying Islamic Accounting and Auditing Standards.

Allow me, ladies and gentlemen to give you some information on AAOIFI. AAOIFI was established in 1991 in Bahrain by Islamic financial institutions and other parties to set international accounting and auditing standards for Islamic financial institutions based on syari'ah principles. AAOIFI’s standards are developed with a view of providing relevant and reliable information and hence, they can play an instrumental role in developing and enhancing Islamic capital market activities in centres like Kuala Lumpur and elsewhere.
I have been made to understand that AAOIFI’s standards are increasingly being used by central banks around the world as an integral part of their function. These standards are gradually being recognised by other players in the market as forming the standards of the Islamic financial system. This is because AAOIFI has helped to standardise accounting practices of Islamic financial institutions, thereby making the financial information of these institutions comparable and transparent, thus allowing investors to make informed decisions. The growing acceptance and implementation of these standards, however, will require a high degree of cooperation between standard-setters and regulators.

Ladies and gentlemen, financial reporting plays an important role in providing information to those who require and depend on financial statements of Islamic financial institutions, in assessing an organisation’s compliance with the Islamic accounting and auditing standards and Syari’ah principles. The government clearly recognises this critical role that a sound financial reporting and standard setting environment plays in the development of transparent, efficient and fair capital markets. Our Deputy Prime Minister, Y.A.B. Dato' Seri Anwar Ibrahim in his Budget 1996 speech announced the formation of a Financial Reporting Foundation (FRF) and a Malaysian Accounting Standards Board (MASB) to be responsible for the development of financial accounting and reporting standards. The Financial Reporting Act 1997 which establishes the Financial Reporting Foundation and the Malaysian Accounting Standards Board came into force on 6 March 1997. Therefore, I would imagine MASB would want to work closely with AAOIFI in establishing a framework for the Islamic Accounting & Auditing Standards.

Now after more than one and a half decades of tremendous growth in the Islamic banking industry, we have started to plan the same for the Islamic capital market and to also venture into new financial territories. Remember at the first International Islamic Capital Market Conference organised by the Securities Commission (SC) last March 1996, our Deputy Prime Minister stated our desire to make Kuala Lumpur the leading Islamic capital market centre.

Ladies and gentlemen, one of the basic requirements to fulfill this objective and to achieve a level of integrity that would attract an ever-increasing number of investors and foreign registrants, is to have credible and high quality accounting standards that would cater to the needs of players in such a market. Investors of Islamic capital market instruments would also expect the regulatory agencies to regulate and supervise the players in the market to ensure integrity and propriety.

In line with the Government’s aspirations to promote Islamic finance, an Islamic Financial Accounting Working Committee (IFAWC) was recently formed on the initiative of the Malaysian Association of Certified Public Accountants (MACPA) to provide technical support and advice in respect of Islamic reporting and accounting standards. The Working Committee consist of representatives from financial institutions, certified...
public accountants and academicians as well as representatives from Bank Negara Malaysia and the SC. The responsibilities of the Group would include, among other things, developing an accounting framework in the field of Islamic Finance; defining and resolving issues concerning the accounting and reporting practices of transactions based on Syari’ah principles; and last but not least to identify accounting problems and submit recommendations to the Syari’ah Advisory Council (SAC) on accounting and reporting matters arising from the SAC’s administration of Islamic modalities, products and processes in the development of the Islamic capital market.

Ladies and gentlemen, on 16 May 1996, SC established a Syari’ah Advisory Council to advise the Commission on matters relating to instruments, modalities and institutions, that are necessary for the development of the Islamic capital market. The SAC of SC also serves as a focal point of reference on all issues relating to the Islamic capital market and syari’ah such as Islamic unit trusts and other Islamic capital market products, schemes and institutions. Bank Negara Malaysia, I was informed, is establishing their SAC for the banking industry. It is apparent from the groundwork and legislative efforts that the Malaysian government is committed to, and serious about, promoting Islamic finance in our country. **There can be no clearer testimony that Islamic finance is here to stay.**

On a final note, I would like to thank the other parties who have jointly organised this public hearing - BIMB Institute of Research and Training Sdn. Bhd. (BIRT), Malaysian Institute of Accountants (MIA) and the Malaysian Association of Certified Public Accountants (MACPA). To the Panelists, thank you for your valuable support - we look forward to hearing what you have to share with us. And finally, to the participants, we encourage you to maximise your time with us and to participate meaningfully at this Public Hearing.

Thank you.