Shari'a corporate governance disclosure of Malaysian IFIS

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Abstract

Purpose – This paper aims to examine the extent of the *Shari'a* corporate governance disclosure in the annual report of Islamic financial institutions (IFIs) in Malaysia to determine the significant differences in this disclosure between the local and foreign-owned IFIs, small and large size IFIs and IFIs belong to Islamic and conventional holding companies.

Design/methodology/approach – All 16 IFIs in Malaysia were selected to analyse the extent of disclosure in their annual reports on issues related to *Shari'a* corporate governance. For this purpose, an index of *Shari'a* corporate governance disclosure for IFIs was created based on adapting Sulaiman *et al.* (2015). The index consists of 127 items classified into 14 dimensions. The scoring of the disclosed items is binary, where a score of "1" if disclosed and "0" if it was not disclosed in the annual report.

Findings – The result shows no significant differences in the *Shari'a* corporate governance disclosure between the local and foreign-owned IFIs, small and large size IFIs and IFIs belonging to Islamic and conventional holding companies. However, further examination shows that there was a significant difference in the disclosure of the risk management committee dimension between the large and small IFIs and investment account holders dimension between the conventional and Islamic holding companies.

Research limitations/implications – The results provide new emerging evidence that deviates from many prior empirical research studies, which document the domination of Islamic-based IFIs in the corporate governance practices, as compared with their conventional financial institutions that venture into Islamic finance. This study, however, was conducted on only 16 IFIs in a one-year period, i.e. 2013. Future research should consider data from a larger number of IFIs that involve a number of countries with more than one year of data to have a better understanding of the extent of *Shari'a* corporate governance disclosure.

Practical implications – This study provides an indicator to the stakeholders of Islamic finance that the Islamic-based IFIs and conventional IFIs are equal and cannot be differentiated based on the *Shari'a* corporate governance disclosure. For Islamic-based IFIs, as a pioneer in Islamic banking and finance industry, they need to take more efforts in adopting the *Shari'a* governance framework issued by the Central Bank of Malaysia (BNM), namely, the *Shari'a* review, audit and risk management.

Originality/value – This study is original, as it includes the latest requirements by the *Shari'a* governance framework issued by the BNM, namely, the *Shari'a* review, audit, risk management and research functions in its research instrument. In addition, this research also scrutinised the disclosure in detail of all the dimensions constructed in the governance index.

Keywords Corporate governance, Malaysia, Islamic financial institutions, IFIs, *Shari'a* disclosure, *Shari'a* index

Paper type Research paper

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1. Introduction

The Islamic banking industry is the fastest-growing segment in global finance. Because of the improved economic prosperity of Middle Eastern countries by the end of the 1970s, the industry received a boost (Khan and Bhatti, 2008). In the early 1980s, an initiative by three Muslim countries (Iran, Sudan and Pakistan) to implement *Shari'a* principles into their national economies and financial sectors has attracted the global community to Islamic finance. Today, the industry has become the mainstream financial system used in the Middle East, Southeast Asia and many other Islamic regions (Khan, 2013) and has contributed to Malaysia's economic growth (Abd Majid and Kassim, 2015), Indonesia and the Gulf Cooperation Countries (GCC) (Mohd Yusof and Bahlous, 2013).

To further enhance the industry, it is vital to building public confidence in the way organisations are managed and operated. This can be done by enhancing its operations to act according to *Shari'a*. For example, an audit can be conducted to ensure that the Islamic financial institutions (IFIs)' operations comply with *Shari'a* principles. This includes the need for IFIs to communicate information on their products and operations, as well as governance practices to the public. For example, disclosure through annual reports allows stakeholders to assess the IFIs' compliance with the *Shari'a* principles, effectiveness of internal control practices, the integrity of corporate governance mechanisms and credibility of financial information. Thus, it will increase company transparency, benefitting shareholders to make informed decisions while lowering the cost for a company to manage its business (Nor *et al.*, 2018; Jais *et al.*, 2016; Asmuni *et al.*, 2015; Jaafar *et al.*, 2014; Hashim *et al.*, 2014; Husnin *et al.*, 2013).

Generally, IFIs are similar to other businesses in which the existence of a proper framework of corporate governance is important. However, IFIs have the additional burden and possibility for noncompliance with *Shari'a* principles as compared with their conventional financial institution counterparts (Hamid *et al.*, 2011). In its substance, corporate governance facilitates the relationships among owners, the board of directors, shareholders, investors and other stakeholders of a business. It is to create an environment that shall assist a business to achieve its objectives (Nor *et al.*, 2017).

Because of this, IFIs need to place importance on robust corporate governance values and structure, the disclosure of information, and transparency, along with one unique yet crucial factor: strict adherence to *Shari'a* principles. Given the uniqueness of IFIs, the international corporate governance guidelines and accounting standards issued by the Organisation for Economic Co-operation and Development, International Corporate Governance Network, United Nations and International Accounting Standards Board (IASB) may not appropriately address the corporate governance and accounting issues of IFIs. Therefore, various bodies for IFIs are established such as the accounting and auditing organisation for IFIs (AAOIFI, 2013) and Islamic Financial Services Board (IFSB) with the objectives of developing and issuing various *Shari'a* standards for IFIs and their related industry (Sarea and Hanefah, 2013; Karim, 2001; El-Halaby and Hussainey, 2016).

However, empirical research shows that IFIs only communicate a minimal amount of governance information in their annual reports, as revealed by Haniffa and Hudaib (2007). This is not a good indicator, as poor disclosure of corporate governance will affect shareholders and potential investors' confidence to invest in the IFIs. Sulaiman *et al.* (2015) also documented moderate or average disclosure compliance among IFIs. Thus, it is interesting to investigate the current corporate governance information disclosure in the Malaysian IFIs' annual reports. This research will be based on updated guidelines, as there is still a gap in the existing literature to investigate the extent of current corporate governance disclosure levels based on the new IFI guidelines in Malaysia.

Because of this, the study intends to examine corporate governance disclosure among IFIs in Malaysia based on their size and ownership of the company. Malaysian IFIs are selected because this country is known as one of the countries that place effort into supporting the Islamic banking and financial system. Specifically, this study aims to determine whether there are differences in information disclosure based on the IFIs' size, ownership and type of holding company. Empirical research shows that large organisations disclose more corporate governance information than smaller ones because of resource advantages. The same situation also is expected if a bank is from a foreign country and its holding company is a conventional (or non-Islamic) type. This is because other developed countries such as the UK, USA and Australia were exposed to good governance practices much earlier than Malaysia. For example, Cadbury reported its first issue and discussed corporate governance in 1992, while Malaysia's first governance report was produced in the year 2000.

Based on these purposes, this study intends to answer this research question:

RQ1. To what extent do IFIs in Malaysia disclose information about the *Shari'a* corporate governance in their annual reports?

This study is significant, as corporate governance transparency is one of the ways for IFIs to uphold and sustain the confidence of various IFI stakeholders. This study offers several contributions, as discussed below.

First, this study assists regulators, stakeholders and investors, as well as the general public, especially the Muslim community, to assess whether information disclosed in the annual reports of IFIs is sufficient and meets the expected *Shari'a* requirements and benchmarks. It may help regulators and policymakers identify the aspects that the IFIs may lack in disclosing important information, and thus, take remedial action on that particular area.

Second, this study explains the results of the IFI corporate governance disclosure index. It can help the IFIs' board and management to understand and make more efforts to align its products and operations with *Shari'a* principles. It also will help stakeholders and consumers in assessing the products, services, transactions and management of IFIs. These stakeholders will be able to assess the commitment of IFIs to align their operations with *Shari'a* principles. This serves as a guide for them in choosing products and services accurately between the IFIs and sets expectations of the IFIs' future performance.

Finally, this study will contribute to the theory and body of the literature on the current IFIs' *Shari'a* corporate governance disclosure levels, particularly those in Malaysia, as information is still scarce and limited, especially for studies that focus on the size and ownership of different Islamic banks.

The paper is organised as follows. Section 2 is the literature review followed by hypotheses development in Section 3. Section 4 presents the research methodology, while Section 5 reveals the findings and discussion of the results. Section 6 discusses the conclusion, and finally, limitations and suggestions for future research in Section 7.

2. Literature review

2.1 Overview of corporate governance

Corporate governance encompasses the way a company is directed and controlled (Cadbury, 1992). It provides a mechanism to align the interests of various stakeholders via policies and guidelines for a company to pursue its various objectives (Jensen and Meckling, 1976; Shleifer and Vishny, 1997). The important mechanisms include board responsibility (Jain and Thomson, 2008), board composition (Ruigrok *et al.*, 2006; Ahmad *et al.*, 2016), risk management (Amirudin *et al.*, 2017; Hutchinson *et al.*, 2015), internal control (Karim *et al.*, 2018; Nawawi and Salin, 2018; Rahim *et al.*, 2017; Omar *et al.*, 2016; Zakaria *et al.*, 2016; Suhaimi *et al.*, 2016), shareholder engagement (Holder-Webb *et al.*, 2008; Lee and Chung, 2015) and information disclosure (Ashbaugh *et al.*, 1999; Hashim *et al.*, 2014; Jaafar *et al.*, 2014). Corporate governance has become an important issue, as the collapse of large organisations such as Enron and global companies such as Satyam, as a result of fraud.

The Asian financial crisis that hit Malaysia in 1997 exposed how poorly Malaysian companies were being managed (Husnin *et al.*, 2016). Consequently, the Malaysian code of corporate governance was introduced in 2000. The code was revised in 2007 to strengthen the board and audit committees' accountability and again in 2012 to reinforce the role of board independence and ethical commitment.

Corporate governance under the Islamic perspective stresses complementing private and social goals via upholding the principle of distributive justice (Choudury and Hoque, 2004). In Islam, man is accountable to Allah (God). God provides man with countless blessings. Therefore, a man should conduct his business activities with honesty and justness. The man also has to be accountable to the community. This is because, as a vicegerent of God, man has a fiduciary duty to equitably protect the rights of all stakeholders (Salin *et al.*, 2017; Chapra and Ahmed, 2002; Hamid *et al.*, 2011). This can be done by disclosing more information about the organisation. Transparency of information is important so that the truth is maintained all across the organisation (Bhatti and Bhatti, 2009).

Islamic views regarding disclosure are based on the concepts of accountability and full disclosure (Baydoun and Willet, 1997; Haniffa, 2002). The concept of accountability refers to the belief that as trustees, men are responsible and accountable for their actions to God, the one ultimate creator. God has absolute ownership, and men are merely trustees in this world. This is an extension of the fundamental Islamic concept of *tawhid*, which means "unity with God" (Maali *et al.*, 2006). Men are accountable to both the community and environment, which means the accountability to and recognizing the rights of society via proper management of resources to optimise the benefits of particular stakeholders (Shariman *et al.*, 2018). Specifically, society has the right to know the effects of IFIs' activities, which leads to the concept of full disclosure. Full disclosure does not mean having to disclose every last detail of activity; it means to disclose information important to users in making economic and religious decisions, as well as assisting management to fulfill its accountability to God and the community (Baydoun and Willet, 1997). Therefore, IFIs are expected to take into consideration the best interests of the whole group rather than focussing on individuals and disclose relevant information to the community. In doing so, IFIs have to ensure that the basic operations and ethical conduct of business aligns with *Shari'a* principles. For example, *Shari'a* prohibits acquiring wealth through unlawful ways, which could lead to social waste and inequality (Bhatti and Bhatti, 2009).

As such, the concept of *Shari'a* corporate governance is introduced to ensure that the operation of IFIs is in accordance with *Shari'a* and does not violate the rights of related parties. The benefits of adopting *Shari'a* corporate governance include allowing for efficient and cost-effective maintenance of a system of supervision, protecting depositors' funds, enhancing performance and giving better access to external financing.

Nevertheless, people cannot assume that IFIs do not need prudent corporate governance just because the Islamic system equitably protects stakeholders' rights (Chapra and Ahmed, 2002). Similar to conventional banks, IFIs also are prone to losses or even failures, which can result from corporate governance breaches. For example, several IFIs have collapsed and suffered huge losses due to governance breaches, e.g. the Islamic Bank of South Africa in 1997, Ihlas Finance House in Turkey in 2001 and Dubai Islamic Bank in 2007 (Ginena, 2014).

In addition, Chapra and Ahmed (2002) revealed that a majority of depositors of Islamic banks in Bahrain, Bangladesh and Sudan would not hesitate to withdraw their deposits and deal with another bank if the Islamic bank business does not comply with *Shari'a* requirements. These serve as a reminder of the importance of corporate governance for IFIs.

Besides, IFIs have been perceived by the public as better ethical organisations because of their foundation, which is related to religious needs (Khadijah *et al.*, 2015; Manan *et al.*, 2013). Hence, this gives the impression that IFIs are more transparent than conventional banks. Many non-Muslim clients use IFI products and services because of their noble perception toward IFIs. Because they operate according to Islamic laws and are based on profit and loss sharing, clients perceive them as equitable, ethical, and more transparent institutions compared with conventional banks (Rahman *et al.*, 2014). With the rise of Islamic finance, regulators, *Shari'a* advisors, industry players and researchers have placed attention on the need for *Shari'a* corporate governance. Accordingly, the management of IFIs needs to respond to the increasing public concern on corporate governance through the use of annual reports as a primary medium of communication.

2.2 Prior studies on Islamic financial institution disclosure in Malaysia

Numerous studies were conducted to examine corporate governance and *Shari'a* compliance among IFIs in Malaysia. Sulaiman *et al.* (2015) observed that IFIs in Malaysia focus more on general corporate governance information as compared with specific *Shari'a* corporate governance information. This may be because of deficiencies in incorporating *Shari'a* values in their corporate governance reporting framework and lack of awareness by management on the benefits of *Shari'a* disclosure.

In another study, Amalina Wan Abdullah *et al.* (2013) found that only 5 out of 23 IFIs examined disclosed more than 50 per cent of the total disclosure index, suggesting that there is still a low level of disclosure among IFIs. Besar *et al.* (2009) and Hasan (2010) also found that the transparency level of *Shari'a* corporate governance is still low. Other researchers conducted studies on other aspects of Islamic-related disclosures and reporting (Khan, 2013; Rahman and Bukair, 2013; Aziah Abu Kassim, 2012; Abdul Rahman *et al.*, 2010; Haniffa and Hudaib, 2007; Haniffa, 2002; Othman and Thani, 2010).

Othman and Thani (2010), for example, examined the level of Islamic social reporting of *Shari'a* approved companies listed on Bursa Malaysia. The authors concluded that the level of disclosure in the annual report of the companies was minimal. Under the concept of accountability in Islam, companies are expected to provide full disclosure, and yet the result indicates a lack of transparency.

Abdul Rahman *et al.* (2010) examined the corporate social responsibility disclosure of the first IFI in Malaysia, i.e. Bank Islam Malaysia Berhad. The authors found that this bank did not disclose many themes required by The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) such as unusual supervisory restrictions and *non-halal* transactions. The most disclosed themes were in regard to employees, products, services and the community. *Zakat*, the *Shari'a* supervisory council and *Qard* fund themes were the least disclosed despite being compulsory.

Besar *et al.* (2009) investigated the report produced by the *Shari'a* committee and practice of *Shari'a* review of IFIs in Malaysia. The authors documented that the *Shari'a* committee report lacked deeper assurance. The report merely provided a general endorsement of the IFIs' *Shari'a* compliance instead of emphasizing the actual operation to stakeholders. The same conclusion was also drawn by Aziah Abu Kasim (2012) in an examination of the disclosure of *Shari'a* compliance as reported by the *Shari'a* committee in the annual reports of Malaysian takaful companies, which places more emphasis on complying with the rules rather than the principles. This has an impact on investors and other external stakeholders in making well-informed decisions.

2.3 Prior studies on Islamic financial institution disclosure in other countries

It is also worthwhile to review the literature on IFI governance, reporting, disclosure and accounting of banks from other countries such as Indonesia, Bahrain, Bangladesh and Libya.

Harahap (2003) analysed eight annual reports of Bank Muamalat Indonesia to compare the disclosure requirements between conventional accounting and AAOIFI. The author found that disclosure rules under AAOIFI are better than conventional requirements. Darus *et al.* (2014) in their investigation of social responsibility reporting of three Islamic banks in Indonesia found that the key element of *Shari'a* compliance was not highly reported compared with the usual conventional social responsibility disclosure.

Haniffa and Hudaib (2007) revealed that ethical disclosure was recorded as being the highest in the Bahrain Islamic Bank and lowest in the Al-Rajhi Bank. The disparities largely occur under the dimensions of commitments to society, vision and mission, contribution and management of the charity, *zakat* and benevolent loans and information about top management. In contrast, Vinnicombe (2012) documented that compliance with AAOIFI standards did not appear to differ substantially with compliance via IASB standards by Islamic banks in Bahrain. However, in a more recent study, Sarea and Hanefah (2013) found that these banks showed a high level of compliance with AAOIFI standards according to the accountants' perceptions.

In Bangladesh, Ullah (2013) opined that its Islamic bank complies with the provision of general presentation and disclosure but is less compliant with the AAOIFI general disclosure. This bank had failed to report several important items such as the amount and nature of earnings realised from *Shari'a* prohibited sources and alternatives to dispose of the prohibited earnings. In Libya, Ahmad and Daw (2015) found a low level of compliance with the AAOIFI guidelines by the Libyan Islamic Bank.

All of these findings show that some IFIs do not fully implement the regulations issued by the Islamic authorities. The reason for disparities with the regulation is a divergence from fulfilling stakeholders' information needs. The management's disclosure behaviour was not done to satisfy stakeholder information needs but instead was an attempt by them to improve its corporate image. Companies want to appear as good corporate citizens and be "legitimate" in the eyes of society. Accordingly, companies will only report on events that have a positive impact on society and will not disclose negative impacts (Nik Ahmad *et al.*, 2003).

3. Hypotheses development

3.1 Type of Islamic financial institution and the Shari'a corporate governance disclosure index

Sulaiman *et al.* (2015) suggested that as foreign-owned IFIs have a broader group of community and stakeholders, they are likely to make more disclosures relating to governance information. Additionally, it is expected that because of the foreign-owned IFIs' global operation, they have to adopt both domestic standards together with foreign governance guidelines to attract and build stakeholder confidence both at home and abroad. They also are subjected to close supervision of regulators in the origin and host country.

Besides, Kim *et al.* (2005) argued that foreign-owned IFIs have shown various levels of compliance because of the additional standards imposed by the host country and to reflect various governance qualities. Foreign-owned IFIs are also affected by changes in the standards or guidelines wherever they operate. Hence, it is likely that foreign-owned IFIs have to adopt more standards and guidelines because those imposed by the home and host countries may differ. Operating in a foreign country, foreign-owned IFIs seek to meet the local needs in terms of products, services and marketing practices. This shows their effort to gain the trust of local regulators.

In contrast, Amalina Wan Abdullah *et al.* (2013) found that Malaysian foreign Islamic banks disclosed less information, more specifically on their *Shari'a* supervisory board in their annual reports. The researchers justified the result by explaining that the lack of disclosure might be because the foreign Islamic banks come from different jurisdictions. Sulaiman *et al.* (2015) also documented that local-owned IFIs disclose more information than their foreign-owned IFI counterparts.

There are mixed findings with regard to the type of IFIs and extent of disclosures, which lead to the first hypothesis:

H1. There is a significant difference in *Shari'a* corporate governance disclosure between local-owned IFIs and foreign-owned IFIs.

3.2 Size of Islamic financial institutions and the Shari'a corporate governance disclosure index

Black *et al.* (2006) suggested that large firms require more sound governance because of their complexity and may be subjected to special governance rules imposed by authorities. Thus, large-size IFIs are able to implement a proper governance structure and disclose more information (Eng and Mak, 2003) because of the availability of resources, which small IFIs cannot afford (Ousama and Fatima, 2010). Larger firms also need to please their larger base stakeholders, thus indicating that these firms receive greater pressure to disclose more because they have to meet the needs of a larger group (Amran *et al.*, 2009) while at the same time attract sources of finance and maintain the firm's value. Abu-Baker and Naser (2000) found that banks in Jordan are likely to disclose information required by law because they are typically large. In addition, large companies will try to maintain their good reputation by continuously disclosing more information, especially when investors tend to place greater confidence in large companies.

Arguably, small-sized companies do not require extensive formal governance because they have fewer complex operations that could lead to low corporate governance quality. Furthermore, the costs of collecting, compiling and communicating the information might outweigh the benefits enjoyed from it. Chhaochharia and Grinstein (2007) also found that small companies have different levels of optimal investment in corporate governance. These facts may support the argument that small IFIs may disclose less information than large IFIs:

H2. There is a significant difference in *Shari'a* corporate governance disclosure between the small-sized and large-sized IFIs.

3.3 Status of holding companies and the Shari'a corporate governance disclosure index

Amalina Wan Abdullah *et al.* (2013) suggested that when the holding bank of a foreign IFI is a conventional bank, the IFI discloses the least because the holding bank may not be familiar with the IFI objectives and values, leading to inadequate information provided on matters valued by the Muslim public. This is supported by Zubairu *et al.* (2011), who concurred to the fact that when an Islamic bank is still part of a conventional bank, its foundation is not based on *Shari'a* principles. Thus, the lack of familiarity and concerns toward adhering to Islamic laws may be attributed to the lack of disclosure. In addition, a bank's current base of stakeholders comprises conventional stakeholders who might not be interested in Islamic and *Shari'a*-compliant information. Aribi and Gao (2010) revealed a significant difference in the level of disclosure between IFIs and conventional financial institutions, i.e. they are less familiar with Islamic banking principles. The disclosure differences are related to religious practices, with IFIs disclosing more religion-related information. This behaviour will most likely influence the reporting behaviour of the Islamic bank's subsidiaries. The findings lead to the development of the third hypothesis:

H3. There is a significant difference in the *Shari'a* corporate governance disclosure index between IFIs belonging to Islamic and conventional holding companies.

3.4 Theoretical framework

This study used the stakeholder theory (Freeman, 1984) to explain the phenomenon of different disclosure practices between IFIs in terms of size, type and holding companies. Apart from conducting research in the field of Islamic banking (Al-Shamali *et al.*, 2013), this theory was selected because of its concern about the morals and responsibilities of businesses, which are close to the objective of IFIs. The objective of the stakeholder theory is to create awareness on the responsibility of an organisation, which is not only limited to a few groups of stakeholders but also to all stakeholders. This is consistent with the concept of *Maqasid al-Syari'a* in Islam, which includes the protection of life, *al-Din*, progeny, intellect and material of people. *Maqasid al-Syari'a* is the objective of Islamic law, which is to protect and preserve public interest, including the needs of IFIs' stakeholders. Thus, the responsibility of IFIs is not only to maximise shareholder wealth but also the well-being of other stakeholders. Furthermore, the foundation of the stakeholder model is originated from the Islamic economic system, which aims to protect the rights of stakeholders who are exposed to any risks as a result of a firm's activities (Iqbal and Mirakhor, 2004).

The stakeholder theory was first proposed by Freeman (1984), who argued that a company needs to satisfy the interest of various stakeholders in a business. It has become one of the important theories in management (Al-Shamali *et al.*, 2013) used in various research fields such as strategic management (Clarkson, 1995; Freeman, 1984; Frooman, 1999), organisational theory (Donaldson and Preston, 1995; Rowley, 1997), business ethics (Starik, 1995; Phillips and Reichart, 2000) and sustainability (Sharma and Henriques, 2005; Steurer *et al.*, 2005; Laplume *et al.*, 2008). If this theory is applied in the area of Islamic finance, IFIs will have various segments of stakeholders such as depositors who largely come from the Muslim community, investors, customers, shareholders, auditors, the *Shari'a* board, regulators, policyholders and the public at large. IFIs need to engage in serious efforts to manage the interests of these groups of stakeholders, e.g. transparently disclosing the required financial information for them to make decisions.

For example, depositors and investors require important information for their investment decisions, while customers are concerned with the status of *halal* or permissible financing products and services. On the other hand, shareholders expect the IFIs to make profits while complying with *Shari'a* law, while the external and internal auditors are interested in the risk-management function of the bank and its execution. The other groups of stakeholders such as the *Shari'a* board expects that decisions made by the management of IFIs are as per their approval, while regulators and policyholders require relevant information to establish policies and create an environment that supports the sustainability of the IFIs (Al-Shamali *et al.*, 2013; Iqbal and Mirakhor, 2004; Van-Greuning and Iqbal, 2008; Magalhaes and Al-Saad, 2013).

Thus, in the context of this research, large organisations typically have a huge number of stakeholder groups compared with small organisations. Therefore, it is expected that large organisations will disclose more information about their company and products. This is similar to foreign companies that usually operate in different countries with dissimilar jurisdictions. They have a wider range of stakeholders, which requires them to disclose more information to update their stakeholders not only those in the host countries but also in their home country. Finally, for the status of holding companies, conventional holding companies have multiple groups of stakeholders across many types of religions (Islam and non-Islam) as compared with Islamic holding companies, which have a narrow group of stakeholders that largely come from the Muslim community. Hence, the expertise and experience of an Islamic holding company may be emulated by its IFI subsidiaries by disclosing more *Shari'a*-compliant information compared with the information disclosed by IFI subsidiaries of conventional holding companies.

4. Research methodology

4.1 Independent variables

4.1.1 Type of Islamic financial institutions. The IFIs were categorised into local- and foreign-owned IFIs. The country where the IFI is incorporated determines whether it is a local or foreign-owned IFI. This information is available on the website of the Malaysian regulator, the Central Bank of Malaysia (BNM). Several studies also have used this variable (Kim *et al.*, 2005; Sulaiman *et al.*, 2015; Amalina Wan Abdullah *et al.*, 2013).

4.1.2 Size of Islamic financial institutions. The size was determined through the total assets of the IFIs. Other researchers also have used total assets as a measurement of firm size (Elzahar and Hussainey, 2012; Farook *et al.*, 2011; Linsley and Shrives, 2006). Once it was determined, the samples were then divided into large-or small-sized IFIs based on a certain range. The range between large and small firms may vary across industries, as evident in different studies (Behn *et al.*, 2013; Black *et al.*, 2012). The range used in this study for large IFIs was IFIs having total assets of more than $10bn, and for small IFIs, less than $10bn (Laeven *et al.*, 2014).

4.1.3 Holding company status. Information regarding the status of the IFIs' holding company is available in their annual reports. This variable was categorised as either IFIs belonging to Islamic or conventional holding companies. An organisation holding 51 per cent or more of a particular IFI would be recognised as the holding company of the IFI based on the definition provided by BNM. The status of the holding company was then determined by reviewing the information provided in its annual report or corporate website. It also can be determined through the *list of Shari'a-compliant securities* issued by the *Shari'a* advisory council of the securities commission Malaysia. Companies listed as *Shari'a*-compliant securities will be categorised as Islamic holding companies.

4.2 Dependent variables

The dependent variable in this study was constructed via an index of *Shari'a* corporate governance disclosure of IFIs, which was based on the corporate governance for licensed Islamic banks (GP1-i) issued by the Bank Negara Malaysia (BNM) in 2007, guiding principles on corporate governance for institutions offering only Islamic services (excluding Islamic insurance [Takaful] institutions and Islamic mutual funds) introduced by IFSB in

2006, Governance Standard for IFIs No. 1 to No. 6 issued by AAOIFI in 2008, and *Shari'a* governance framework issued by BNM in 2011 (Table I).

This index contains 127 items in 14 broad dimensions, namely, the board structure and functioning, nominating committee, remuneration committee, risk management committee, audit committee, *Shari'a* committee, risk management, internal audit and control, related parties' transaction, management report, nonadherence to guidelines, customers/investment account holders, governance committee and *Shari'a* compliance.

Previously, Sulaiman *et al.* (2015) also constructed a similar index, but it was only based on 123 items. This study is different from their study because four new items based on the more recent Shari'a governance framework (2011) were added, namely, *Shari'a* review, audit, risk management and research functions. These fall under the "*Shari'a* compliance" dimension. BNM has issued the new *Shari'a* governance framework with the objective to ensure the proper functioning of *Shari'a* compliance through effective internal *Shari'a* review and *Shari'a* audit requirements, supported by a risk management process and research facility. The issuance of the framework also was to strengthen the *Shari'a* corporate governance structure and process to conform to *Shari'a* principles (Shafii *et al.*, 2013). Thus, this index is more updated than the index constructed by Sulaiman *et al.* (2015).

The annual reports of the IFIs were evaluated, and an item was scored "1" if it was disclosed and "0" if not in the annual report. Each item was given equal weight. The study used the unweighted approach to put scoring on the index to avoid bias, whereby each item was considered of equal importance. Several researchers also have done the same (Darmadi, 2013; Sulaiman *et al.*, 2015). This approach was preferred to avoid potential subjectivity of assigning the weights of importance to items adopted by different researchers (Ousama and Fatima, 2010).

The annual report of each IFI was reviewed, and a judgement was made as to which items disclosed in the annual reports were relevant to the disclosure index. For example, the IFIs were required to establish their own *Shari'a* committees. Hence, a disclosure of its existence in the annual report of IFIs earned a score of "1". On the other hand, if the item was not disclosed anywhere in the annual report, then a score of "0" was given. After all, items were scored, an index was used to measure the extent of disclosure by an IFI. The *Shari'a* corporate governance disclosure index was constructed as a percentage of the actual score achieved by each IFI to the maximum possible value for each IFI. The computation formula

Dimension	Sub-items
D1: Board structuring and functioning	(D1:24 sub-items; 1-24)
D2: Nominating committee	(D2:25 sub-items; 25-32)
D3: Remuneration committee	(D3:8 sub-items; 33-40)
D4: Risk management committee	(D4:8 sub-items; 41-48)
D5: Audit committee	(D5:12 sub-items; 49-60)
D6: *Shari'a* supervisory board/*Shari'a* committee	(D6:19 sub-items; 61-76)
D7: Risk management	(D7:9 sub-items; 77-85)
D8: Internal audit and control	(D8:8 sub-items; 86-93)
D9: Related parties transactions	(D9:2 sub-items; 94-95)
D10: Management reports	(D10:2 sub-items; 96-97)
D11: Non-adherence to guidelines	(D11:2 sub-items; 98-99)
D12: Investment account holders (IAHs)	(D12:14 sub-items; 100-113)
D13: Governance committee	(D13:6 sub-items; 114-119)
D14: *Shari'a* compliance	(D14:8 sub-items; 120-127)

Table I.
Shari'a corporate governance disclosure checklist

of the *Shari'a* corporate governance disclosure index was based on the total score of an individual IFI divided with 127 items.

The total score of the *Shari'a* corporate governance disclosure index represents the score for the IFI and is a measure of the level of *Shari'a* corporate governance disclosure. The maximum score that can be obtained is 127. The index can be ranged from 0 to 100 per cent.

4.3 Sample

The sample consists of the whole population of IFIs as there are only 16 IFIs in Malaysia. Although the sample is small, it represents the whole population. Past studies also have used small sample sizes (Bukhari *et al.*, 2013; Haniffa and Hudaib, 2007; Menassa, 2010; Sulaiman *et al.*, 2015). The list of IFIs is provided in the appendix.

4.4 Data collection method

Annual reports for the year 2013 were used in this study. Because of several amendments on regulations, frameworks and guidelines, annual reports before 2013 cannot be used, as they may lead to bias in research findings. For example, the *Shari'a* governance framework was introduced in 2010, hence, superseding the previous guideline. The GP1-i was introduced in 2007 and further updated in 2011. In the consideration of the revised and updated regulations, framework and guidelines, the IFIs' 2013 annual reports were taken as data samples.

5. Findings and discussion

5.1 Descriptive statistics

Table II shows that the minimum *Shari'a* corporate governance disclosure index achieved by an IFI was 31, indicating that the lowest index scored by IFIs was 31 per cent. Meanwhile, the maximum was 75, indicating that the highest index scored by an IFI was 75 per cent. The mean was 59.06, indicating that, on average, the IFI score index is above 50 per cent. According to Sulaiman *et al.* (2015), the result can be regarded as "good" disclosure of *Shari'a* corporate governance information.

5.2 Results from the Mann–Whitney U-test

The Mann–Whitney U-test is a nonparametric test used to test the difference between different conditions and participants (Field, 2009; Pallant, 2010). The test was performed because of the small sample size used in this study. The test was conducted to determine whether there was a significant difference regarding the index level of *Shari'a* corporate governance disclosure between the IFIs according to the variables or firm characteristics: type, size and status of holding company.

The ranked IFIs and Mann–Whitney U-test results are listed as per Table III.

Based on Table III, in the year 2013, the IFIs in Malaysia were divided into local (10) and foreign banks (6). This shows that the proportion of local banks was more than foreign banks. Based on size, there were 13 small IFIs and three large IFIs, while on holding

Table II. Descriptive statistics of the *Shari'a* corporate governance disclosure index

	No. of IFIs	Min.	Max.	Mean	SD
Shari'a corporate governance disclosure index	16	31	75	59.0625	13.5817

company status, 11 of the samples were IFIs belonging to conventional holding companies and five to Islamic holding companies.

Table III also shows the actual significant value of the nonparametric test. *H1* assumed a significant difference in the *Shari'a* corporate governance disclosure index between the local- and foreign-owned IFIs. The result shows that the *Shari'a* corporate governance disclosure index in locally owned IFIs did not differ significantly ($Md = 84.5$; $n = 10$) with foreign-owned IFIs ($Md = 76.5$; $n = 6$); $U = 22.00$; $z = -0.868$; $p = 0.386$ ($p > 0.05$); $r = 0.2$. This indicated no significant difference between the mean of the *Shari'a* corporate governance disclosure index in the annual reports of locally owned IFIs and foreign-owned IFIs. Thus, *H1* was rejected. It can be concluded that the local-owned IFIs and foreign-owned IFIs have equal *Shari'a* corporate governance disclosure levels.

This result supports that of Sulaiman *et al.* (2015), who reported a nonsignificant difference in corporate governance disclosure index of locally owned IFIs and foreign-owned IFIs. This is possible because both types of IFIs excel and lack in different areas, which offset each other, thus making the index scores similar. For example, findings of Sulaiman *et al.* (2015) showed that in certain areas, the locally owned IFIs disclose more information (like the *Shari'a* committee), but, in other areas, the foreign-owned IFIs provide better information disclosure (such as nonadherence to guidelines and *Shari'a* compliance). Both scores are equal for the remaining areas. This indicates that foreign companies, although having possibly a wider range of stakeholders in the home and host country, do not necessarily disclose more information than local companies, so prior arguments based on the stakeholder theory are rejected. The reason behind this result is that probably both the foreign and local-owned IFIs are guided by similar guidelines such as IFSB and AAOIFI, which are adopted by all countries that establish Islamic finance and banking services.

H2 posited a significant difference in the *Shari'a* corporate governance disclosure index between the small- and large-sized IFIs. The result showed that the *Shari'a* corporate governance disclosure index in small IFIs ($Md = 79$; $n = 13$) did not differ significantly with large IFIs ($Md = 46$; $n = 3$); $U = 14.00$; $z = -0.740$; $p = 0.459$ ($p > 0.05$), $r = 0.2$. Thus, *H2* was rejected. It can be concluded that small IFIs and large IFIs have equal *Shari'a* corporate governance disclosure levels.

The result is interesting, as one would expect that large IFIs would report a higher mean, as large companies can afford to implement proper corporate governance structure and disclose more information compared with small companies, which have fewer resources (Ousama and Fatima, 2010). This result supports the findings that point to an insignificant association between the size of a firm and disclosure level (Aljifri and Hussainey, 2007; Aljifri, 2008). This means that the extent of disclosure is possibly driven by regulations rather than markets and resources. Both

Type of IFIs	Local owned	Foreign-owned	Small	Large	Conventional holding	Islamic holding
N	10	6	13	3	11	5
Median	84.5	76.5	79	46	78	86
Mean rank	9.30	7.17	8.92	6.67	7.45	10.8
Sum of ranks	93.00	43.00	116.00	20.00	82.00	54.00
Mann–Whitney U	22.000		14.000		16.000	
Wilcoxon W	43.000		20.000		82.000	
Z	−0.868		−0.740		−1.303	
Asymp. Sig (two-tailed)	0.386		0.459		0.193	

Table III.
Ranks of IFIs and Mann–Whitney U-test statistics

small and large IFIs are regulated by the central bank, and hence, are required to abide by the disclosure requirements. The argument, based on the stakeholder theory, which suggests that large IFIs have a huge number of stakeholders with a variety of needs, and thus, disclose more information as compared with smaller IFIs, is not applicable here.

H3 claimed a significant difference in the *Shari'a* corporate governance disclosure index between IFIs belonging to Islamic holding companies compared with conventional holding companies. The result shows that the *Shari'a* corporate governance disclosure indices for IFIs belonging to Islamic holding companies (Md = 86; n = 5) did not differ significantly from those of conventional holding companies (Md = 78; n = 11), U = 16.00; $z = -1.303$; p = 0.193 ($p > 0.05$); $r = 0.3$. Thus, *H3* was also rejected.

This finding failed to support the findings of Aribi and Gao (2010) and Amalina Wan Abdullah *et al.* (2013). The earlier prediction based on the stakeholder theory suggests that IFIs belonging to conventional holding companies should be less familiar with Islamic banking principles, leading to a lack of information on Islamic aspects as compared with IFIs belonging to Islamic holding companies (Amalina Wan Abdullah *et al.*, 2013). This is because the multiple groups of stakeholders that comprise Muslims and non-Muslims make it difficult and expensive for conventional holding companies to fulfill the needs of both stakeholders. Thus, Islamic holding companies were predicted to have a superior advantage in this situation. However, this is not the case for this study. Closer scrutiny shows no significant differences in terms of disclosure of specific *Shari'a*-compliant information, namely, the *Shari'a* supervisory board/*Shari'a* committee and *Shari'a* compliance. Perhaps, both IFIs still lack expertise in complying with certain *Shari'a* requirements. The result is contradicted by Aribi and Gao (2010), who revealed a significant difference in the level of disclosure between IFIs and conventional financial institutions in the Gulf region.

5.3 Findings on detailed dimension differences

Additional tests were used to examine every dimension in detail to determine if there are significant differences in terms of disclosure between the IFIs. The results of another Mann–Whitney U-test and mean differences for all the 14 dimensions are given in Table IV for the type of ownership, Table V for size and Table VI for the status of the holding company.

Table IV shows that both the local- and foreign-owned IFIs do not significantly differ in disclosing every dimension of the *Shari'a* corporate governance items. The mean value between local- and foreign-owned companies also shows huge differences between each other and with the overall mean. This finding does not support the argument that foreign-owned IFIs have better quality corporate governance disclosure (Sulaiman *et al.*, 2015).

Table V shows significant differences in the disclosure of Dimension 4, namely, risk management committee between large IFIs (Md = 2.00; n = 3) and small IFIs (Md = 7.00; n = 13), U = 7.50; $z = -1.702$; p = 0.089 ($p < 0.1$); $r = 0.4$. This is quite a surprising finding because the mean value of small IFIs (6.69) was larger than that of large IFIs (3.33) and higher than the overall mean value of 6.06. Possibly, small IFIs need to consider risk management seriously because operating in the finance and banking industries will expose the IFIs to fragile and high-risk transactions in which, without careful consideration and good risk assessment strategy, IFIs can easily fail a business and force a company into liquidation. Among others, small IFIs need to face various types of risks such as credit, market, operational (including *Shari'a* risk), liquidity, business, reputational, systemic risks and moral hazards. Large IFIs, however, have huge resources and cash flows, which can help to absorb more risks with a higher safety net. Prior study conducted by Pathan (2009) and Hughes and Mester (1998) documented evidences that larger banks take fewer risks in their transactions because large banks are closely monitored by regulators; thus, many

Table IV. Detail disclosure based on dimensions for local and foreign-owned of IFIs

Dimensions	No. of items	Overall mean ($n = 16$)	Local mean ($n = 10$)	Foreign mean ($n = 6$)	Mann–Whitney U	z-value	Sig	Local median ($n = 10$)	Foreign median ($n = 6$)
D1: Board structuring and functioning	24	17.06	16.50	18.00	29.500	−0.055	0.956	18.00	18.00
D2: Nominating committee	25	5.25	4.80	6.00	27.500	−0.281	0.779	7.00	6.00
D3: Remuneration committee	8	5.00	5.50	4.17	25.000	−0.568	0.570	7.00	4.00
D4: Risk management committee	8	6.06	5.40	7.17	20.500	−1.086	0.277	7.00	7.00
D5: Audit committee	12	8.19	7.40	9.50	29.500	−0.055	0.956	9.50	9.50
D6: *Shari'a* supervisory board/*Shari'a* committee	19	9.13	9.10	9.17	29.500	−0.056	0.955	9.00	9.50
D7: Risk management	9	9.00	9.00	9.00	30.000	0.000	1.000	9.00	9.00
D8: Internal audit and control	8	3.13	3.30	2.83	25.000	−0.552	0.581	3.50	2.50
D9: Related parties transactions	2	2.00	2.00	2.00	30.000	0.000	1.000	2.00	2.00
D10: Management reports	2	1.81	1.80	1.83	29.000	−0.160	0.873	2.00	2.00
D11: Non-adherence to guidelines	2	1.31	1.50	1.00	22.500	−0.953	0.340	2.00	1.00
D12: Investment account holders (IAHs)	14	1.19	1.40	0.83	23.000	−0.795	0.427	1.00	1.00
D13: Governance committee	6	0.00	0.00	0.00	30.000	0.000	1.000	0.00	0.00
D14: *Shari'a* compliance	8	6.06	6.50	5.33	16.000	−1.599	0.110	6.50	6.00

Table V. Detail disclosure based on dimensions for small and large size of IFIs

Dimensions	No. of items	Overall mean (n = 16)	Large mean (n = 3)	Small mean (n = 13)	Mann–Whitney U	z-value	Sig	Large median (n = 3)	Small median (n = 13)
D1: Board structuring and functioning	24	17.06	14.00	17.77	13.000	−0.889	0.374	13.00	18.00
D2: Nominating committee	25	5.25	2.33	5.92	8.500	−1.531	0.126	0.00	7.00
D3: Remuneration committee	8	5.00	3.00	5.46	11.000	−1.198	0.231	1.00	7.00
D4: Risk management committee	8	6.06	3.33	6.69	7.500	−1.702	0.089*	2.00	7.00
D5: Audit committee	12	8.19	4.00	9.15	12.000	−1.028	0.304	1.00	10.00
D6: *Shari'a* supervisory board/*Shari'a* committee	19	9.13	9.33	9.08	18.500	−0.139	0.890	9.00	9.00
D7: Risk management	9	9.00	9.00	9.00	19.500	0.000	1.000	9.00	9.00
D8: Internal audit and control	8	3.13	2.67	3.23	15.500	−0.547	0.584	3.00	3.00
D9: Related parties transactions	2	2.00	2.00	2.00	19.500	0.000	1.000	2.00	2.00
D10: Management reports	2	1.81	2.00	1.77	15.000	−0.894	0.371	2.00	2.00
D11: Non-adherence to guidelines	2	1.31	2.00	1.15	10.500	−1.419	0.156	2.00	2.00
D12: Investment account holders (IAHs)	14	1.19	0.67	1.31	14.000	−0.775	0.438	1.00	1.00
D13: Governance committee	6	0.00	0.00	0.00	19.500	0.000	1.000	0.00	0.00
D14: *Shari'a* compliance	8	6.06	6.67	5.92	14.500	−0.708	0.479	6.00	6.00

Note: *Significant at 10% level

Table VI.
Detail disclosure based on dimensions for conventional and Islamic holding companies of IFIs

Dimensions	No. of items	Overall mean (n = 16)	Conventional mean (n = 11)	Islamic mean (n = 5)	Mann–Whitney U	z value	Sig	Conventional median (n = 11)	Islamic median (n = 5)
D1: Board structuring and functioning	24	17.06	16.45	18.40	23.500	−0.461	0.645	18.00	18.00
D2: Nominating committee	25	5.25	4.55	6.80	17.000	−1.231	0.218	5.00	7.00
D3: Remuneration committee	8	5.00	3.91	7.40	15.000	−1.483	0.138	1.00	7.00
D4: Risk management committee	8	6.06	5.45	7.40	14.000	−1.612	0.107	7.00	7.00
D5: Audit committee	12	8.19	7.64	9.40	25.500	−0.231	0.817	10.00	9.00
D6: *Shari'a* supervisory board/*Shari'a* committee	19	9.13	8.82	9.80	16.000	−1.344	0.179	9.00	10.00
D7: Risk management	9	9.00	9.00	9.00	27.500	0.000	1.000	9.00	9.00
D8: Internal audit and control	8	3.13	3.09	3.20	25.500	−0.231	0.818	3.00	4.00
D9: Related parties transactions	2	2.00	2.00	2.00	27.500	0.000	1.000	2.00	2.00
D10: Management reports	2	1.81	1.82	1.80	27.000	−0.084	0.933	2.00	2.00
D11: Non-adherence to guidelines	2	1.31	1.18	1.60	21.000	−0.863	0.388	2.00	2.00
D12: Investment account holders (IAHs)	14	1.19	1.55	0.40	11.000	−1.958	0.050*	1.00	0.00
D13: Governance committee	6	0.00	0.00	0.00	27.500	0.000	1.000	0.00	0.00
D14: *Shari'a* compliance	8	6.06	5.73	6.80	17.000	−1.253	0.210	6.00	6.00

Note: *Significant at 10% level

efforts are taken to strengthen their risk management structure. This may justify why they are less concerned to disclose more information on their risk management committees.

Table VI shows that only one dimension (i.e. D12: investment account holders) significantly differs between conventional holding companies (Md = 1.00; n = 11) and Islamic holding companies (Md = 0.00; n = 5); U = 11.00; z = −1.958; p = 0.050 ($p < 0.1$); r = 0.5. This is an interesting finding, as the mean value of conventional holding companies (1.55) was larger than the mean value of Islamic holding companies (0.40) and overall means value (1.19). The possible reason is that transactions involving investment account holders are complex and typically include regulatory problems such as a complication in terms of assessing capital adequacy and supervision (Archer and Karim, 2009). However, experienced conventional holding companies manage similar investment accounts but, from a conventional point of view, have the extra advantage to bring expertise into the Islamic finance environment compared with their counterparts in Islamic holding IFIs, thus translating into better disclosure of information pertaining to this matter.

6. Conclusions

This study examines the extent of *Shari'a* corporate governance disclosure in the annual reports of Islamic banks in Malaysia and determines the difference in corporate governance disclosure between the local and foreign-owned IFIs, small- and large-sized IFIs and IFIs belonging to Islamic and conventional holding companies. The present study was conducted using the 2013 annual reports of 16 IFIs in Malaysia.

This study found no significant difference in the *Shari'a* corporate governance disclosure index between local- and foreign-owned IFIs. This serves as a reminder to local IFIs to adopt proper *Shari'a* corporate governance and disclose more required information, whether mandatory or voluntary, to the public. Size also showed no significant difference in the corporate governance disclosure level of IFIs. This result may be because the extent of corporate governance disclosure depends on regulations rather than the resources and capabilities of the IFIs. Finally, there was also no significant difference in the corporate governance disclosure level between IFIs belonging to Islamic and conventional holding companies. This indicates that the IFIs belonging to Islamic banks are not necessarily more transparent than their counterparts under conventional banks. The IFIs belonging to Islamic banks should take more serious efforts in adopting *Shari'a* corporate governance requirements as they operate a full-fledged Islamic banking system, which offers various Islamic products and services.

This study has several implications. First, the results of the hypotheses contribute to the theory, which indicates that IFIs may not disclose more information based on the stakeholders' drive and requests. Interestingly, Sulaiman *et al.* (2015), in accordance with the stewardship theory, also found that IFIs are not particularly motivated to disclose more information, although this practice reflects the accountability of IFIs toward stakeholders. This can be because of the complexity of the relationship between the IFIs and stakeholders. Stewardship theory assumes that the principal and manager rely heavily on trust and reciprocity. However, over time, a manager may develop self-interests that no longer align with the interests of the principals. The result of this study does not correspond with stakeholder theory and stewardship theory and may give opportunities for future researchers to further investigate this matter.

Second, IFIs are possibly motivated to disclose information because of their sense of obligation rather than being voluntary. The obligations of IFIs among others are to improve the socio-economic development, maintain social justice, improve human welfare, alleviate poverty (Aribi and Gao, 2011), and most importantly, reflect accountability and justice not only to society but also to God (Sobhani *et al.*, 2011; Hassan and Harahap, 2010; Aribi and Gao, 2011). Because of that IFIs will provide reporting to all stakeholders on their economic and noneconomic performance irrespective of their ownership, size and holding companies.

7. Limitations and suggestions for future research

This study has several limitations. The sample size of 16 IFIs was quite small. In addition, the study also used only a single year of observation, which makes it difficult to run comprehensive statistical tests. This study also only used IFIs' annual reports to measure corporate governance disclosure. It is possible that IFIs use other forms of communication to provide information to their stakeholders, e.g. through websites, press releases and announcements to the stock exchange.

Future research should use a larger sample size and conduct studies for a longer period of time so that stronger results can be produced. In addition, IFIs in other countries can be included, and comparisons can be performed between countries on the basis of their laws and cultures. More expanded and comprehensive disclosure checklists from various local and global guidelines should be established. Other variables such as the experience of the *Shari'a* committee members or cross-membership of the *Shari'a* committee members can be tested to better explain the results and contribute to the current knowledge on its relationship with corporate governance disclosure.

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Appendix

- Affin Islamic Bank Berhad.
- Al-Rajhi Banking and Investment Corporation (Malaysia) Berhad.
- Alliance Islamic Bank Berhad.
- AmIslamic Bank Berhad.

- Asian Finance Bank Berhad.
- Bank Islam Malaysia Berhad.
- Bank Muamalat Malaysia Berhad.
- CIMB Islamic Bank Berhad.
- Hong Leong Islamic Bank Berhad.
- HSBC Amanah Malaysia Berhad.
- Kuwait Finance House (Malaysia) Berhad.
- Maybank Islamic Berhad.
- OCBC Al-Amin Bank Berhad.
- Public Islamic Bank Berhad.
- RHB Islamic Bank Berhad.
- Standard Chartered Saadiq Berhad.

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