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The Influential Role of Financial Reporting Regulations on the Disclosure Levels of Islamic Banks in Selected Jurisdictions

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Abstract

The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) was established in 1990 to develop different standards to guide the Islamic financial institutions around the world. Although these standards are mandatorily adopted by six countries, the level of harmonization varies from one country to another. The financial reporting regulations were found to be significantly responsible for the variation in the disclosure levels across the countries. This study helps the regulatory authorities in the selected countries to understand how their financial reporting regulations affect the harmonization process of the AAOIFI accounting standards. This is a pioneer study that investigates theoretically and empirically the influential role of the regulations on the disclosure levels across countries.

Keywords:*harmonization, AAOIFI FASs, Islamic banks, financial reporting regulations.*

I. INTRODUCTION

Harmonization has been defined by Nobes and Parker (1995) as a process of improving the compatibility of accounting practices by limiting their level of variation (as cited in Parker, 1996). It thus represents a congruence of accounting practices that make the firms to cluster around one or few alternative accounting practices and methods. Studies in the accounting harmonization can be classified as "de jure harmonization" and "de facto harmonization". While the de jure harmonization examines the financial reporting regulations, the de facto harmonization analyses the actual practices of financial reporting (van der Tas, 1988).

In terms of disclosure, harmonization needs to be achieved across companies as it enhances the evaluation process of accounting standards' applications and help investors to analyse the relevant financial and non-financial information (Devalle, Rizzato and Busso, 2016). At the international level, the problem of disclosure has recently got more attention by some accounting professional bodies (e.g. the European Financial Reporting Advisory Group (EFRAG), the UK Financial Reporting Council (FRC) and, International Accounting Standards Board

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(IASB)). In 2012, the EFRAG issued a discussion paper titled: Towards a Disclosure Framework for the Notes. This paper aimed to put a general objective of a disclosure framework. This objective was that "all and only relevant information is properly and adequately disclosed so that detailed information does not obscure relevant information in the accompanying notes to the financial statements". In the same context, the IASB initiated a project in 2013 called "disclosure initiative". This initiative followed by a subsequent discussion paper in March 2017 entitled "Disclosure Initiative—Principles of Disclosure". The IASB (2017) initiative highlighted the problem of disclosure, the causes of the disclosure problem, the need for principles of disclosure and the objectives of this project. It aimed at seeking the stakeholders' views about the disclosure issues and the approaches used to address these issues.

From the accounting for Islamic financial institutions' perspective, there are many studies investigated the harmonization of AAOIFI accounting practices among Islamic banks across countries (e.g. Sarea, 2011; El-Halaby and Hussainey, 2016; Ajili and Bouri, 2017; Sellami and Tahari, 2017; Al-Sulaiti, Ousama and Hamammi, 2018). These studies investigated a wide range of explanatory factors of disclosure levels attributed to corporate attributes, corporate governance and Shariah governance. However, the explanatory role of financial reporting regulations on disclosure levels has been ignored.

This study is motivated by a lack of researches on the influential role of financial reporting regulations on disclosure levels. The study focuses on examining the influential role of financial reporting regulations on the disclosure levels in the accompanying notes to the financial statements of Islamic banks domiciled in six countries. The notes of financial statements are selected because they are crucial for external users as they provide relevant description in an appropriate manner. As mentioned by the EFRAG (2012), the accompanying notes to the financial statements are means to compensate for the deficiencies of recognition and measurement principles. Hence, the notes are no longer "footnotes" to the main financial statements, but rather, they are essential complementary part of the financial statements as they provide detailed disclosure of the items that presented in the financial statements, unrecognized arrangements and, the rights of and claims against the entity that exists at the date of financial reporting.

Thus, the study first measures the level of compliance with the disclosure requirements of Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) Financial Accounting Standards (FASs) in the accompanying notes to the financial statements of Islamic banks in six AAOIFI FASs adopter countries. Hence, All Islamic banks that domiciled in Bahrain, Oman, Qatar, Jordan, Sudan and Syria are targeted over the period of 2015 - 2017. Second, the study investigates the effect of the regulatory status of AAOIFI disclosure requirements on the level of disclosure. This is achieved through a comprehensive review to the financial reporting regulations of Islamic banks, followed by utilizing the panel data analysis to explore empirically the relationship between the regulatory status of disclosure requirements and the level of disclosure.

II. THE REGULATORY STATUS OF AAOIFI DISCLOSURE REQUIREMENTS IN THE SELECTED COUNTRIES

The study aims to measure the level of compliance with AAOIFI disclosure requirements in the notes accompanying the financial statements of Islamic banks that domicile in Bahrain, Oman, Qatar, Jordan, Sudan and Syria. The study also investigates behind the impact of the regulatory status of AAOIFI disclosure requirements on the disclosure level. All Islamic banks in these countries were selected because

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they are mandatory adopters of AAOIFI accounting standards based on the laws and regulations of these countries. In this section, we are highlighting the Islamic banks' financial reporting regulatory status. Showing how the financial reporting laws and regulations regulate the disclosure requirements for the Islamic banks in each country.

Islamic banks' financial reporting regulatory status in Bahrain

The Kingdome of Bahrain has regulated the financial reporting for Islamic banks under the Rulebook, Volume 2 – Islamic Banks, Part A, paragraph AU4.1.1 of Central Bank of Bahrain. This para states: "Islamic bank licensees must comply with Financial Accounting Standards (FAS) issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI)". The IFRS accounting standards are referred to by the Islamic banks in case the products and transactions were not covered by AAOIFI accounting standards as stated in the next part of the same paragraph: "… for products and activities not covered by AAOIFI, International Financial Reporting Standards (IFRS) / International Accounting Standards (IAS) must be followed". This regulation is only limited to full-fledge Islamic banks. In a sense, subsidiaries Islamic banks of conventional institutions, branches Islamic banks and Islamic windows of conventional banks have to follow IFRS to prepare their financial statements. Section 303 of the Commercial Companies Law states;

"A holding company shall prepare at the end of each financial year an aggregated balance sheet and profit and loss accounts for it and all its affiliated companies together with the notes and statements thereon in accordance with the international accounting principles"

Regarding the regulatory status of the AAOIFI disclosure requirements, Paragraph PD-A.2.7, under Part A of Volume 2 of the Rulebook that issued by CBB states: "The bank should decide which disclosures are relevant for it based on the materiality concept and subject to the concurrence of the bank's external auditor". Thus, the disclosure level of Islamic banks is based on the Materiality concept. In a sense, Islamic banks will only disclose the information that considered to be material for the managements of the banks.

Islamic banks' financial reporting regulatory status in Oman

The Islamic Banking Regulatory Framework of Oman was issued by Central bank of Oman (CBO) in December 2012. As per, full-fledged Islamic banks, Islamic windows of conventional domestic banks and Islamic banking branches of foreign banks are all required to comply with AAOIFI Financial Accounting Standards as stated in paragraphs 1.2.1 and 1.2.2;

"Full-fledged Islamic banks in Oman shall follow Financial Accounting Standards ("FAS") issued by AAOIFI. In accordance with the requirements of AAOIFI, for matters where no AAOIFI standards exist, the Licensees can use the relevant International Financial Reporting Standards ("IFRS"). Islamic Windows / Islamic branches of foreign banks in Oman shall follow AAOIFI's accounting and auditing standards. The parent conventional bank shall consolidate the financial statements according to the IFRS. Disclosures with regard to consolidation shall be covered in the Notes to Accounts"

The case in Oman is different from Bahrain in that all Islamic banks include; Islamic windows and Islamic banking branches of foreign banks are AAOIFI accounting standards adopters. Although, the type of accounting standards that should be applied by a subsidiary Islamic bank is not stated directly in the banking regulatory framework that issued by CBO, it can be inferred from paragraph No. 1.5.1.2 of the General Requirements of this framework which states:

"Banks offering Islamic financial services through windows, a branch or a number of branches that have separate accounts from their conventional branches, shall group those branches offering Islamic financial services together for financial

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reporting and shall prepare a consolidated supplementary set of accounting statements as per the standards issued by AAOIFI.”

… that is all Islamic financial transactions that offered by the banking system in the country should be reported using AAOIFI accounting standards.

Additionally, the Islamic Banking Regulatory Framework that issued by CBO has contained a format of financial statements to be followed by the Islamic banks in the country. This format of financial statements contains the minimum disclosure requirements that should be disclosed by the Islamic banks. Thus, these minimum disclosure requirements became regulated.

Islamic banks' financial reporting regulatory status in Qatar

Islamic banks in Qatar became mandatory adopters of AAOIFI accounting standards starting from January 2002. The 13th edition of Qatar Central Bank (QCB, 2009) Instructions to Banks, Chapter 8, Para 2/2/1 states:

“Islamic banks should implement the accounting standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), as relevant to the accounting policies and treatments, preparing the financial statements and the related disclosures”

Although there is no direct statement in this regulatory guideline regulates the financial reporting for subsidiaries Islamic banks, Chapter 8 of Instruction to Banks, Paragraph 2/3 - Accounting Classification of Deposits at Banks (Islamic banks and Islamic branches of commercial banks) indicates the use of AAOIFI accounting standards by the subsidiaries Islamic banks. This para states:

“QCB recently observed that certain Islamic banks and Islamic branches of commercial banks combine different methods of accounting classification for deposits received from customers and financial institutions, and thus contradict the standards issued by AAOIFI. In this connection, banks should differentiate between the various types of deposits and classify them in accordance with standards issued by the AAOIFI.”

In Qatar, all Islamic branches of conventional banks shall be independent entities. Section eight of the Banking Supervision Instructions (Offering of Islamic Financial Services by Commercial Banks) that issued by QCB states; “Commercial banks wishing to offer Islamic financial services should open an independent Islamic branch according to the following rules …etc.”. Thus, we can infer from Para 2/3 in Chapter 8 and Section 8 of the Banking Supervision Instructions that issued by QCB that Islamic banking sector in the country shall follow AAOIFI accounting standards to prepare the financial statements including Islamic branches and subsidiaries Islamic banks.

Additionally, the Instructions to Banks that issued by QCB has contained an illustrative attached form of financial statements to be followed by the Islamic banks in the country. This illustrative form aims to guide the Islamic banks to present their financial statements with maintaining a minimum disclosure requirement. Although this form of the financial statements contains a specific per cent of all AAOIFI disclosure requirements, Part B of Paragraph 2/5/2 (256The consolidated financial statements (Islamic Banks)) gave the option to the management of the Islamic banks to add, edit, delete or formulate any of these disclosures in consistence with their policies and transactions.

Islamic banks' financial reporting regulatory status in Jordan

In 2000, central bank of Jordan issued law No. (28) – Banking Law- to regulate the banking system in the country including Islamic banks. However, the law did not regulate the accounting practices for Islamic banks and left it to the

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instructions of central bank. In this regard, article (60) of the banking law of 2000 states:

“A bank shall comply with the orders of the Central Bank pertaining to … preparing its financial statements comprehensively to reflect the actual financial position of the bank and its branches and subsidiaries with due compliance with any special requirements specified by the Central Bank in this regard.”

The application of AAOIFI accounting standards by Islamic banks in the country was stated under article No. (25-c) of Instructions of Corporate Governance for Islamic Banks (2016) which says:

“The board of Islamic bank shall make sure of the bank’s commitment to disclosures defined under the standards of (AAOIFI)- provided that it shall be committed to disclosures defined under the international financial reporting standards (IFRS) and international accounting standards (IAS) in case there are no specific standards for Islamic financial institutions, …etc”

The Islamic banking windows and branches Islamic banks of conventional banks are not permitted to exists in Jordan. However, a subsidiary Islamic bank to a conventional institution could exists. In this regard, the accounting regulations regarding consolidating the financial statements of the subsidiary Islamic bank with that of conventional holding company are silent. In practice, there are four Islamic banks in the country and none of them is subsidiary to a conventional institution.

Contrasting to Islamic banks’ financial reporting regulations in Qatar and Oman, and similar to financial reporting regulations for Islamic banks in Bahrain, the law and regulations of Islamic banks in Jordan are free from any minimum disclosure requirements.

Islamic banks’ financial reporting regulatory status in Sudan

The foundation of Faisal Islamic Bank in 1977 constituted the first step toward the Islamization of the whole banking system in Sudan (Ismail and Mohsin, 2005). This Islamic bank succeeded due to the support it got from both, the government and people. In a conservative Muslim society, the establishment of an Islamic bank was the spark of changing the financial system from conventional to a wholly Islamic banking system. In the nineties of the last century, the government changed the entire financial system from conventional financial system based on interest (riba) to totally Islamic financial system, following the same policy as in Iran and Pakistan (Ismail and Mohsin, 2005). As a result, all banks, commercial and foreign, forced to operate through the Islamic financial mode.

The financial market regulators in Sudan require banks and insurance companies to follow the Islamic accounting standards that issued by the AAOIFI. The governor of the Central Bank of Sudan has been given the power to determine the type of accounting standards that have to be applied by banks as stated in Chapter V of the Business Banking Act, 2003: “Every bank shall prepare the balance sheet, and the profits and losses account, at the specified time, as to such accountancy systems and standards, as the Governor may specify”. Circular No 11/1998 and Circular No 13/1998- instructions to banks- give explanatory instructions to bank on how to implement the accounting standards that issued by the AAOIFI.

The World Bank, in a report issued in 2010, stated that the financial market regulators – Central Bank of Sudan and Insurance Supervisory Authority – require all financial institutions including non-bank financial institutions and insurance companies to comply with AAOIFI standards when preparing their financial statements (World Bank, 2010).

Islamic banks’ financial reporting regulatory status in Syria

A decade ago, Syria opened the doors for Islamic Banking to enter the country. In May 2005, the Syrian Parliament approved the Islamic Banking Law. By the end of 2006, the operating Islamic banks in Syria reached three, namely; Al-Sham Bank, Syrian International Islamic Bank, Al-Baraka Bank (Khan and Bhatti, 2008). The financial reporting of Islamic banks in Syria are regulated by the Decree No. 35 of 2005. Article 11 of the Decree No. 35 of 2005 states:

"Islamic Banks are subject to commitments stated in articles number /105/,/106/,/107/ of law no./23/ year 2002 to submit fiscal statements to Central Bank of Syria which can be modified by virtue of Central Bank approval to be in compliance with financial accounting issued by AAOIFI"

The minimum disclosure requirements for Islamic banks in Syria are coded under decree no (MN/B4/1075) issued by the central bank in 2014. According to this decree, Islamic banks should report their financial events as per the attached forms of financial statements. In a sense,minimum disclosure requirements are regulated within the forms of financial statements that attached to this decree.

III. LITERATURE REVIEW

The importance of this study stems from the great impact that laws and regulations have on disclosure levels. The impact of the disclosure requirements' regulatory status on the level of disclosure hasn't examined yet by the previous literature (Al-Baluchi, 2006; Vinnicombe, 2010, 2012; Farook, Kabir Hassan and Lanis, 2011; Sarea, 2011, 2012; Ullah, 2013; Ahmad and Daw, 2015; El-Halaby and Hussainey, 2016; El-Halaby, S., &Hussainey, 2016; Ajili and Bouri, 2017; Sellami and Tahari, 2017; Ullah, Khanam and Tasnim, 2018; Al-Sulaiti, Ousama and Hamammi, 2018). We divided this literature into two parts. The first part is a review to the literature that measured the level of compliance with AAOIFI disclosure requirements without investigating what could be explanatory variables behind the variation in compliance levels (e.g. Vinnicombe, 2010, 2012; Ullah, 2013; Ahmad and Daw, 2015; Al-Sulaiti, Ousama and Hamammi, 2018). The second part is a review to the studies that investigated behind the lack of full compliance with AAOIFI disclosure requirements across banks and countries (e.g. Al-Baluchi, 2006; Farook, Kabir Hassan and Lanis, 2011; El-Halaby, S., &Hussainey, 2016; Ajili and Bouri, 2017; Sellami and Tahari, 2017; Ullah, Khanam and Tasnim, 2018).

Studies that measured the level of compliance AAOIFI disclosure requirements have used self-constructed index except Sarea (2012) who examined the level of compliance using a questionnaire to obtain the accountants' perception about the AAOIFI level of compliance and Ahmad and Daw (2015) who used both questionnaire and content analysis.

In terms of the number of Islamic banks that are examined for compliance level, the sample varied between a minimum of one Islamic bank in Libya (Ahmad and Daw, 2015) and a maximum of 42 in Bahrain, Yemen, Qatar, Syria, Palestine, Sudan, Oman, and Jordan (Al-Baluchi, 2006; El-Halaby, S., &Hussainey, 2016). The number of AAOIFI that examined for compliance varied between a minimum one AAOIFI FAS as in the study of (Ullah, 2013; Ahmad and Daw, 2015) and a maximum of seven standards (Ajili and Bouri, 2017). Additionally, the number of items that used in the self-constructed index ranged between a minimum of 45 items used by (Al-Sulaiti, Ousama and Hamammi, 2018) and a maximum of 218 items (El-Halaby and Hussainey, 2016). All studies used unweighted scoring index. Some of them used two- category scoring index (Ullah, 2013), some (Ajili and Bouri, 2017; Sellami and Tahari, 2017; Al-Sulaiti, Ousama and Hamammi, 2018) used three-category scoring index, and others (Vinnicombe, 2012; Ahmad and Daw, 2015) used four-category scoring index. Some studies have investigated the level of compliance over one financial year (Ullah, 2013; El-Halaby, S., &Hussainey, 2016) and the others over a series

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of financial years. A wide range of explanatory factors have been examined in this literature. Some studies examined firm's attribute factors (Ajili and Bouri, 2017; Sellami and Tahari, 2017; Ullah, Khanam and Tasnim, 2018), and some others included corporate and Shariah governance factors aside with the firm's attribute factors (e.g. Al-Baluchi, 2006; Farook, Kabir Hassan and Lanis, 2011; El-Halaby, S., &Hussainey, 2016).

The literature investigated the impact of many variables on the level of disclosure, but non-of them investigated the impact of the regulatory status of disclosure requirements on the level of compliance. This study fills this gap by empirically examining the association between the regulatory status of accounting disclosure and the de facto level of disclosure for Islamic banks across the six AAOIFI mandatory adopter countries.

IV. THEORETICAL FRAMEWORK AND HYPOTHESIS DEVELOPMENT

The association between the impact of the financial reporting regulatory status on the disclosure level is based on the arguments of regulatory theory. To regulate, means to direct or control others by standards or rules. A country regulation has a strong connotation of enforcing people to do things which they wouldn't otherwise do using a coercive power for enforcement. However, regulations shouldn't always be this way. People can participate in regulations and agree to them. This is because regulations have come to serve and improve the wellbeing through e.g. healthcare standards, food, water, education …etc.

What regulator seeks behind a specific regulation is the compliance. As per Braithwaite (2017), compliance with regulations has two perspectives: process and outcomes. From the perspective of regulated community, compliance, as a process, is about our understanding of what a regulator wants us to do and the objective behind the regulation. From the perspective of regulator, compliance is a process of putting precautions by authorities to elicit compliance. On the other side, compliance, as an outcome, is all about measuring compliance levels of regulations. Compliance outcomes try to answer the question of; did regulated communities do what was required by laws or based on the request of the regulator? Supporters of regulatory theory argue that regulations are important to protect the public interest by taking correction steps against market non-equitability practices (Posner, 1974). This argument assumes no effectiveness in capital markets and therefore external users of financial statements who have no enough sources of information will suffer from information asymmetry which in turn could lead to a moral hazard and adverse selection problem (Boshnak, 2017). Hence, based on this theory, accounting disclosure levels should be determined by regulators in order to protect the public interest.

On the other side, opponents of "regulatory theory" argue that regulated disclosure could be controlled or captured by a specific interest group, resulting in regulated disclosure that gives preference to that specific group over other groups. Therefore, disclosure levels shouldn't be regulated by regulators, but rather, disclosure levels should be left to be determined by market forces (Deegan and Unerman, 2011). Following on the market forces theory, markets will penalize any company that does not disclose the necessary information by treating it as a "bad company", resulting in an optimal disclosure level.

Based on these arguments, the level of disclosure is determined based on whether being regulated by regulators or by market forces. Regulated disclosure is supposed to protect the public interest and lead to a stable disclosure level for all firms within that regulated environment. On the other side, unregulated disclosure, or disclosure that is determined based on market forces would result in a variation in disclosure level among firms domiciled within the same environment.

Thus, our discussion under section two of the study shows that three countries (i.e. Qatar, Oman and Syria) have regulated the AAOIFI disclosure requirements within their financial reporting

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regulations by enacting illustrative forms of financial statements. On the other hand, Bahrain, Jordan and Sudan haven't regulated the AAOIFI disclosure requirements within their financial reporting regulations. Therefore, we hypothesis:

H: The regulatory status of accounting disclosure requirements has a positive significant influence on the level of disclosure.

V. METHODOLOGY

1. Sample Size

The study covers all Islamic banks domiciled in six selected countries namely; Bahrain, Oman, Qatar, Jordan, Sudan and Syria. The rationale behind drawing this is that all these countries have made AAOIFI accounting standards part of the mandatory regulatory requirements in their jurisdictions. Thus, we are conducting our study in a mandatory environment. Islamic banks are identified from the official websites of central banks. A total of 71 Islamic banks have been identified. The biggest concentration of Islamic banks was found In Sudan with 34 Islamic banks, followed by Bahrain with 24 licenced Islamic banks. In Qatar and Jordan, four Islamic banks were identified in each country. Followed by Syria and Oman with four and two Islamic banks respectively.

Filtration of the financial reports for these Islamic banks revealed that only 35 Islamic banks have available financial reports for the period of the study and apply AAOIFI accounting standards. In Sudan, only seven Islamic banks, out of 34, have available financial statements in their official websites. Four Islamic banks in Bahrain are following IFRS and four others have no available financial statements in their official websites for one or more of the targeted years. Therefore, the sixteen Islamic banks represent the sample size of Islamic banks in Bahrain. Three out of four Islamic banks' financial statements are available in Jordan. In Qatar, Oman and Syria financial statements for all Islamic banks are available. Appendix A is a list of the sample Islamic banks.

2. Time period

The data are collected from the three latest annual reports 2015, 2016 and 2017. The annual reports are collected from the official websites of the Islamic banks. Central banks require all banking institutions to publish their annual reports in their websites and local newspapers. These annual reports are official and final based on the requirements of central banks.

3. Selection of AAOIFI FASs

The number of accounting standards are selected based on their average of applicability. A pilot study is conducted to identify the AAOIFI FASs that are applied by the majority of Islamic banks. All the 35 Islamic banks are selected to conduct the pilot study. Table 1 below shows the results of the pilot study and the selected AAOIFI FASs for this study and the accounting standards that are relevant to the period of study as their effective date start at the year of 2015. Only accounting standards that are relevant for the Islamic banks are listed in the table below.

Table 1

Selection of the AAOIFI FASs for the study

No.	Percentage of application by IBs	Irrelevant to the period of study	The selected standards > 50% and relevant the period of study
FAS 1	100%		√
FAS 2	95%		√
FAS 3	36%		

FAS 4	60%		√
FAS 7	18%		
FAS 8	78%		√
FAS 9	21%		
FAS 10	31%		
FAS 11	15%		
FAS 16	42%		
FAS 20	10%		
FAS 21	1%		
FAS 22	68%		√
FAS 23	69%		√
FAS 24	52%		√
FAS 25	89%	√	
FAS 26	55%	√	
FAS 27	81%	√	

As per table1, ten accounting standards are applied by the majority of Islamic banks in the selected countries. Additionally, three accounting standards are excluded as their effective day starts after the financial year 2015. Therefore, a total of seven accounting standards are selected to represent the sample of the study namely: FAS 1, 2, 4, 8, 22, 23 and 24.

4. Development of the disclosure index

A compliance index constructed properly, would be a reliable device to measure corporate compliance (Marston and Shrives, 1991). Compliance index is a common tool among researchers that used to measure compliance level by companies with different accounting standards. This study adopts a self-constructed disclosure index. A self-constructed disclosure index, as a tool to measure the level of disclosure, have been used widely in previous literature (Tower, Hancock and Taplin, 1999; Street and Gray, 2001; Al-Shammari, 2005; Vinnicombe, 2010, 2012; Sellami and Tahari, 2017)

Items of the disclosure index represent the disclosure requirements in the notes accompanying the financial statements under the seven AAOIFI FASs. A total of 59 disclosure items required in the notes are extracted from the seven AAOIFI FASs. Appendix B is a list for the disclosure items under each accounting standard. Equal weighting is given for each disclosure item. The disclosure index uses a four-category scoring index in which a value of (1) is given for an item if it is disclosed, (0) if it is not disclosed but it is obviously applied, (NA) code is given for items that obviously not applicable to the report, and (DK) code is given if there is no enough information available regarding the applicability of a specific item. The index is then constructed excluding the DK as well as the NA scores, so that compliance is measured as a ratio of items complied with, to the total number of compliance plus non-compliance (Vinnicombe, 2012).

5. Development of the independent variable

This study assumes a positive significant association between the regulatory status of disclosure requirements and the level of disclosure. The independent variable in this study is the regulatory status of disclosure requirements. The regulatory status of disclosure requirements means either, the AAOIFI FASs disclosure requirements enacted within the financial reporting regulations of the countries under the study or not. In a sense, if the financial reporting regulations of a country contained an attached illustrative form of financial statements, this would mean that the AAOIFI FASs' disclosure requirements are regulated as they are enacted within the regulations of financial reports. On the other side, if the financial reporting regulations of a country did not contain an illustrative form of financial statements, this would

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mean that AAOIFI FASs' disclosure requirements are not regulated.

In our study, as discussed in section two, three countries namely; Qatar, Oman and Syria have regulated disclosure requirements as their financial reporting regulations contained illustrative forms of financial statements to be followed by the Islamic banks. On the other side, Bahrain, Jordan and Sudan did not contain and illustrative form of financial statements in their financial reporting regulations. Hence, AAOIFI disclosure requirements are not regulated in these three countries. Therefore, the regulatory status of disclosure requirements is a dummy variable coded 1 if the AAOIFI disclosure requirements are regulated and 0 if they are not regulated.

6. Statistical method

Panel data analysis using OLS, Fixed and Random effect models is used. There are considerable advantages of using panel data estimations, among them are: (a) it provides better estimations for considerable big sample size of data; (b) provides solution for the problem of omitted variables under certain circumstances; (c) panel data makes differences among the various time-series or cross-sectional observations that can be captured by including dummy variables (Hidayat, 2013). Models of panel data can be estimated by three different methods. The first is pooled Ordinary Least Square (OLS) method, the second is the fixed effects method (fe) and, third is random effects method (re).

In order to determine which method is better for your analysis (either; OLS, random effect, or fixed effect), the Breusch-Pagan Lagrangian Multiplier (LM) test must be used (Nachrowi and Usman, 2006). The LM test is used to compare between the OLS and random effect method. If LM test result is significant at 5%, this means random effect method of analysis is better than OLS (Gujarati, 2003). To compare between preferences of using random effect or fixed effect method, Hausman test is used (Gujarati, 2003). If result of the test found to be significant at 5%, this means fixed effect method is more reliable and reflect better estimations. On the other side, if Hausman test was found to be nonsignificant at 5%, random effect model would reflect reliable estimations.

This research has a panel data set of 35 Islamic banks domiciled in 6 countries for a period of three years (2015-2017). Thus, the pooled data consists of 105 observations. This research uses Stata software in order to analyse the data in the following regression model:

Disclosure in the notes (DIN) = $\alpha 1 + \beta$ (RGU)i,t + εi,t

VI. FINDINGS AND DISCUSSIONS

1. Discriptiveanalysis

Table 2 shows the results of the descriptive statistics for the disclosure level in the accompanying notes to the financial statements. The table shows that the overall average level of compliance with AAOIFI disclosure requirements in the accompanying notes to the financial statements for 35 Islamic banks is approximately 77.1 per cent. Taking into account the differences in the type of disclosure index, number of countries, years under study and the type of AAOIFI accounting standards under each study, this result represents an increase from El-Halaby, S., &Hussainey (2016) who reported a mean disclosure of 56%, and a decrease from Al-Sulaiti, Ousama and Hamammi (2018) who reported a mean disclosure level for the year of 2015 approximate to 81%. The minimum disclosure level was reported at 25. 7 per cent and the maximum was 100 per cent. There is slight improvement in the average level of compliance over the year. The average was improved from 76.6 per cent in 2015 to 77.9 per cent in 2017.

Table 2: descriptive statistics for disclosure levels over the years

	Observations	Mean	Median	sd	Min	Max	Skewness	Kurtosis
All years	105	.771	.84	.173	.257	1	-1.223	3.765
2015	35	.756	.833	.177	.272	.972	-1.166	3.560

2016	35	.778	.871	.174	.257	.972	-1.245	3.775
2017	35	.779	.84	.173	.264	1	-1.268	3.994

Table 3 below shows the average level of compliance based on the countries and the regulatory status of disclosure requirements. The table shows that countries with regulated disclosure (Syria, Oman and Qatar) have higher level of compliance in comparison with the countries that have no regulated disclosure requirements. The highest level of compliance was reported in Syria with an average approximate to 91 percent. Followed by Oman and Qatar with 89.6 and 89.2 percent. Jordan, Bahrain and Sudan are ranked next with 84.7%, 80.1% and 50.4% respectively. The results in table 2 further show how the regulatory status of the disclosure requirements is reflected in the level of compliance. the table shows relatively high level of compliance for the countries that have regulated the AAOIFI disclosure requirements within their financial reporting regulations (i.e. Syria, Qatar and Bahrain). The average level of compliance for these three countries was reported at 89.9%. In contrast, the average level of compliance for the countries that haven't regulated the AAOIFI disclosure requirements within their financial reporting regulations (i.e. Jordan, Bahrain and Sudan) was reported at approximately 72.7%.

These results give a strong support for the role of financial reporting regulations in enhancing the level of compliance. As in our case, the financial reporting regulations that contained the AAOIFI disclosure requirements have improved the level of compliance with approximately 17.2%. Hence, this result support our recommendation to the financial reporting regulatory authorities in the countries that haven't regulated the AAOIFI disclosure requirements within their regulations to regulate these requirements in order to enhance the harmonization of Islamic banks' financial reports across the countries.

Table 3: the average level of compliance based on countries

	Syria	Oman	Qatar	Jordan	Bahrain	Sudan
The average level of compliance	.911	.896	.892	.847	.801	.504
Average level of compliance for countries with regulated disclosure	**.899**			NA		
Average level of compliance for countries with unregulated disclosure	NA			**.727**		

2. Regression results

As the study has only one dummy independent variable which is the regulatory status of disclosure requirements, the autocorrelation and heteroscedasticity tests are ignored. Therefore, the cross-sectional OLS regression is used. Table 4 below shows the results for the cross-sectional OLS regression between the disclosure level and the regulatory status of disclosure requirements. The table shows that the there is a positive at 1% significance level. In a sense, the hypothesis that predicted a positive and significant association between the regulatory status of the disclosure requirements and the level of compliance is achieved.

Table 4: Cross-sectional OLS regression results

DIN	Coef.	Std. Err.	t	P > | t |	[95% Conf.	Interval]
Regu status	.1724838	.0350722	4.92	0.000	.1029264	.2420412

The result empirically proves the strong influence of financial reporting regulations on the level of disclosure. Therefore, to enhance the level of disclosure across the countries, AAOIFI disclosure requirements should be regulated within the financial reporting regulations of Bahrain Jordan and Sudan. This is because the compliance with laws and regulations is always higher than the compliance level that is left to be determined by the market forces.

VII. CONCLUSION

The level of Islamic banks' financial reporting harmonization in terms of "disclosure level" is a controversial topic. Although, previous studies have examined a wide range of disclosure determinants, results found to be conflicted. For instance, while corporate attributes factors such as; listing status, company size and profitability, were found to have significant influence on the levels of disclosure as per Sellami and Tahari (2017), El-Halaby and Hussainey (2016) and Al-Baluchi (2006) respectively, the same factors (i.e. company size, profitability and listing status) were found to have no influence on the level of disclosure as per Sellami and Tahari (2017), El-Halaby and Hussainey (2016) and Al-Baluchi (2006) respectively. Our study contributes to this debate by investigating the impact of financial reporting regulations on the disclosure level of Islamic banks in six AAOIFI mandatory adopter countries namely; Bahrain, Qatar, Oman, Jordan, Sudan and Syria over three years period of time (2015 – 2017). We first constructed disclosure index that measures disclosure in the accompanying notes to the financial statements. Then, we measured the level of compliance based on every country and based on the regulatory status of AAOIFI disclosure requirements for each group of the countries. Finally, we empirically examined the association between the regulatory status of AAOIFI disclosure requirements and the level of disclosure.

The results revealed that the first group of countries (i.e. Syria, Oman and Qatar) have scored the highest level of disclosure respectively. On the other side, the second group of the countries (i.e. Jordan, Bahrain and Sudan) came next respectively. In order to interpret this result, we measured the level of compliance for the countries based on the regulatory status of AAOIFI disclosure requirements. The results found that countries which have regulated AAOIFI disclosure requirements under their financial reporting regulations have higher disclosure level in comparison with these countries that haven't regulated these disclosure requirements within their regulations. The difference between the two groups of countries (in term of disclosure percentage) was 17.2%. This means that an enhancement for the disclosure level in the second group of the countries could occurs if they enacted the AAOIFI disclosure requirements within their financial reporting regulations. Moreover, the first group of the countries can also achieve a full disclosure if they regulated all AAOIFI disclosure requirements within their financial reporting regulations. This is because of the fact that "compliance with laws and regulations is always higher than any compliance left to be determined by the market forces".

To examine whether, the regulatory status of disclosure requirements has significant influence on the level of disclosure, we statistically measured this association through cross-sectional OLS regression analysis. The results revealed significant influence at 1% significance level.

Our study contributes to the literature by examining the association between the financial reporting regulations and the level of disclosure for the Islamic banks in all the countries that have adopted AAOIFI accounting standards. The study has implications for the regulatory authorities in the countries under study. It shows them how the financial reporting regulations can affect the harmonization of Islamic banks' financial reports across the countries. The study is limited to disclosure in the accompanying notes to the financial statements for seven AAOIFI FASs, future researches may investigate the overall disclosure for all AAOIFI FASs. Additionally, future studies are recommended to conduct on both, de jure and de facto compliance with AAOIFI accounting standards to better understand how the countries adopt these standards and how Islamic banks respond to such an adoption.

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