United International University

Submission of Project Work

Report On:

Islamic Finance: A Study on the Theory and Practice in context of Modern Investigations

Submitted to

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Letter of Transmittal

31st December, 2020

Ms. Nusrat Farzana

Assistant Professor,

School of Business & Economics (SOBE),

United International University,

Madani Avenue, Badda, Dhaka-1212. Dear Ma’am

Subject:

Ma’am,

With due respect and honor, I would like to submit to you my undergraduate thesis report. The report entitled, “Islamic Finance: A Study on the Theory and Practice in Context of Modern Investigations”, which is a partial requirement for the completion of the BBA degree. I have tried my best to furnish an informative and inquisitive report on the related topic under your kind supervision. I sincerely hope this report will meet your standards. Any faults or unwanted errors in this report would be apologetically considered as my fault.

I, therefore, pray and hope that you would be kind enough to accept my report and oblige thereby.

Sincerely Yours,

Emon Sheikh

Acknowledgement

Above all else, I recognize my appreciation to the Almighty Allah. First of all I want to cordially thank my supervisor Ms. Nusrat Farzana, Assistant Professor, Faculty of Business Studies for giving me the opportunity to work on this kind of venture and helping me in every part of the report. I do believe that this work has improved my insight and will surely be useful for my career in the near future.

Executive Summery

Islam being a complete code of life (Al Quran, 5:3), has given birth to a new kind of financial system and process of interpreting this system. Islamic finance is a creation of this kind of philosophy of making a balance between this world and the hereafter (Al Quran, 16:89). As it can be seen, Islam gives emphasis in the just and ethical representation of economic events (Al Quran, 2:199). So, a broad literature has already developed in the Islamic economic areas about the pros and cons of this kind of Finance: the standards, the policies, the methods, the practices and interpretation mechanism. This report was aimed to give an overall picture of the Islamic Finance framework, seen from the lens of past investigations, research and journals. And, at the end, a summary of the present state of Islamic Finance in the context of Bangladesh is given and recommendations made for further research.

Keywords: Islamic Finance, Concepts of Islamic Finance, Shariah, AAOIFA, Zakat, Finance Methods, Islamic Finance in Bangladesh.

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1. Introduction

Finance reflects the inward reality of an organization or human phenomena. The process records, processes, publishes and interprets the financial transactions and other aspects of an economic entity, giving a full and complete picture of the scenario for the intended users (AAA,1966).But, as this process takes place in a socio-economic context, different cultural and philosophical narratives can give rise to different systems of Finance (Hye,1988). These differences can also be organizational and technological. The incentive of profit making is another differentiator. So, Non-profit and profit organizations have different policies of Finance (Hossain and Rashid, 1992). Overall, different ethical and cultural frameworks give rise to different economic systems and thus a need for suitable and different Finance systems, practices and policies arises (Hameed, 2000). And it is in this line of thinking that gives rise to the system of Islamic Finance. Through the emergence of a large number of Islamic financial institutions in the world which are governed by the Shariah, a philosophical construct very different from the western economic philosophy, that a new way of representing the financial and other aspects of the entities was needed to be introduced. And this new method is called, Islamic Finance. Islam being a complete code of life (Al Quran, 5:3), has also given birth to this new kind of financial system and process of interpreting this system .Islamic Finance is a creation of this kind of philosophy of making a balance between this world and the hereafter (Al Quran, 16:89).As it can be seen, Islam gives emphasis in the just and ethical representation of economic events (Al Quran, 2:199). So, a broad literature has already developed in the Islamic economic areas about the pros and cons of this kind of Finance: the standards, the policies, the methods, the practices and interpretation mechanism. This report was aimed to give an overall picture of the Islamic Finance framework, seen from the lens of past investigations, research and journals. And, at the end, a summary of the present state of Islamic Finance in the context of Bangladesh is given.

2. Research Methodology

The discussion of this report was mostly done using secondary sources, such as articles, journals, periodicals, books regarding the topic of Islamic Finance and was based on pertaining verses of the Holy Quran and Hadith. The analysis was done in light of shedding light on the needs, objectives and fundamental theory and concepts of Islamic Finance (Abdul Rahman & Goddard, 1998). It tried to give insight how the theoretical perspective of Islamic Finance has grown through the decades and how scholars have tried to synthesize an Islamic Finance Theory (Maurer, 2002). At the same time, it mentioned the trend of empiricism on the topic (Abedifar, Ebrahim, Molyneux &Tarazi, 2015). The pertaining literature was also analyzed manually and comparison was made between the various ideas and practices (Maali, Bassam & Napier (2009), so that a sound and overall understanding on the overall topic could be made.

3. Literature Review

3.1 History of Modern Islamic Finance

Modern Islamic Finance has been merely a reaction of decolonization of the muslim world. Colonization and western viewpoint of Islam made it quite difficult to approach this issue from an Islamic standpoint. As all knowledge and mode of thinking was usurped by the western eye of orientalism (Said, 1995).After the fall of the Islamic Golden Age, Islamic countries mainly adopted the Finance policies of the western world (Naser and Nusaibeh, 2003). After independence many muslim countries were divided in either starting a new line of Islamic Finance or just following the western one (Napier, 2009). It was only after the rapid emergence of petro-dollar economy in the 1970s and the gradual Islamization of the muslim world that a new practice of Finance, called Islamic Finance started to take shape. In this process, the various universities of the muslim world also play a vital role (Napier, 2007). In this regard, the International Islamic University of Malaysia (IUM) has played an important role as it hasfurnished the leading scholars on this area.

These scholars were influenced by many new movements in Finance, Such as being, the continuously contemporary Finance (CoCoA).

The first systematic examination of the construct of Islamic Finance was done by Abdul Mazed

(1981). He tried to summarize and theorize the distinct Finance practices of the Islamic Banks which was beginning to become a force in that time. In that paper, which is a primary and seminal kind of its own genre, he first laid out the philosophical and religious platform of the practices of Islamic Finance, namely the Shariah, from that viewpoint; he explained the practices of the Islamic Banks and institutions. From his introductory work, Gambler and Karim (1991) discussed about the different methods of Islamic Finance, They emphasized that, as Islamic ethical system requires the entity to not only look for its own benefit, but the welfare of the whole muslim community and there is a sense of Accountability to God, so they opined that the created system of Finance had to be different from the prevailing one. They emphasized the issue of measurement principles, determination of zakat, the conservative principle and the presentation of financial content. They were of the opinion that, Islamic Finance's main area of issue was the Finance policy for determining zakat. They also were in the view that, fair value Finance was more appropriate for Islamic Finance and they opined that the conservative principle was in conflict with the Shariah.

The issue of social accountability was stressed by Lewis (2001). He defined the different needs for Islamic Finance. He opined that, the idea of full disclosure in this sense was different from the traditional one. He found that, the main obligation of Islamic Finance was towards a wider muslim community as a whole, not only the regarding parties of the transactions.

Hamid (1993) investigated the impact of Islamic culture and ethics on the practice of Finance. He came to the conclusion that, the idea of zakat, prohibition of interest and alternative business arrangements could not be satisfied through the western mode of Finance. He stressed that, the market value should be used in Finance statements and items of the balance sheet should be adjusted to the Islamic framework.

Khan (1994) stressed the different nature of the information in an Islamic financial system. He introduced a framework for this kind of Finance. He stressed the application of 'continuously contemporary Finance' which in his opinion will give a sounder view of the entity as far as Shariah was concerned. He opined that, the legal construction of the entity as separate from the owner was against the Shariah and that revaluation of assets is permitted.

Baydoun and Willet (1997) examined the impact of religion and culture in financial reporting in the Islamic world. They found that, religions affect culture and culture affects the Finance practices. They stressed the spiritual viewpoint of Islamic Finance and thought it to be a sense of religious obligation as part of the muslim community.

Baydoun and Willet (2000) came the conclusion that modern income statements corrupt the values of the Shariah, as it only deals with the welfare of the entity. ButIslam orders all economic transactions to be in full benefit of the muslim community as a whole. To reflect this sense of duty to the community, they opined the introduction of value-added statements. These statements would make clear the relation of the entity and its accountability to the muslim community.

Sulaiman (1998) has more or less same things to say. But he stressed the problems of using fair value Finance in all cases and the practical difficulties. He was in the opinion to use both the historical cost Finance and fair value Finance.

3.2 Need for Islamic Finance

Islamic Finance has mainly risen because of practical necessities, they are:

a) Traditional Finance limitations: Traditional Finance is one dimensional and does not cover the subjects of environment and society. It also does not touch upon the subject of religious duty and social justice. In this regard, Islamic Finance purports to satisfy the social, environmental and religious aspect of the financial transactions of the entity. It creates a sense of accountability not only to the community but also to God (Shahul and Yaya, 2003).

b) Obedience to Quran and Hadith: The main purpose of a muslim is to satisfy the will of God through obeying his orders given in the Quran and Hadith. A major relevance in this topic is the prohibition of interest and the determination of zakat. As modern Finance cannot reflect the Islamic ethics as it is interest based, Islamic Finance fulfills this vacuum. The modification of the balance sheet to come to a sound calculation of zakat is also an issue. Another issue is the prevailing culture of justice in the organization (Shahul and Yaya, 2003). All of these needs can only be fulfilled by Islamic Finance.

c). Different Socio-Economic Context of IFI: The Islamic financial institutions are run with a different objective and philosophy. So, their practice is also different. Islamic Finance addresses these differences.

Characteristics	Western Reporting	Islamic Reporting
Philosophical Viewpoint	Economic rationalism	Unity of God
Principles	Secular	Religious
	Individualistic	Communal/ Community based
	Profit maximization	Reasonable profit
	Survival of fittest	Equity
	Process	Environment
Criteria	Based upon modern commercial law—permissive rather than ethical	Based upon ethical law originating i *Qur'an*: (Islamic law, *As-sunnah*)
	Limited disclosure (provision of information subject to public interest)	*Full disclosure* (to satisfy any reaso demand for information in accordan with the *Shariah*)
	Personal accountability (focus on individuals who control resources)	*Public accountability* (focus the community who particip in exploiting

Table 1: Differences of Western and Islamic Reporting

(Source:Ullah.H2013)

d) Basic conflicts of Western and Islamic Finance: There are many sources of contentions between these two methods.

e). Creation of a new mode of knowledge: The new circumstances and need for a financial and social environment based on the Shariah demands the creation of new knowledge the adjustment of prior knowledge with Islamic Shariah (IIIT,1988). This can be done through the investigations and research into Islamic Finance.

3.3 Objective of Islamic Finance

Triyuwono(2000) found the major objectives of Islamic Finance to be:

a) The emphasis on Zakat maximization as an attempt to establish an equitable society.

b) Compliance with the Shariah

c) Building a bridge between the individual and the society

d) Encouraging the entity to build an organizational culture where men are free from the oppression of fellow men and the environment is not exploited in a bad way. This leads the way to give reports of organizational behavior within the company and green reporting.

e) Providing a link between this life and the hereafter

3.4 Concepts of Islamic Finance

The established concepts of conventional Finance has to modified and reexamined through the lens of Islamic Shariah. By this process, concepts of Islamic Finance can be deduced based on the principles of:

a) Oneness of God (Tawhid)

b) Justice (Adl)

c) Kindness (Ihsan)

d) Honesty (Amanath)

e) Having faith in God in all circumstances (Tawakkul)

f) Meeting social obligations through investing (Infaq)

g) Public Interest (Ististlah)

h) Prohibition of Interest

i) Anti-hoarding (Ihtikaar)

j) Resisting Tyranny (Zulm)

k) Avoiding Greed (Hirs)

l) Luxury Avoidance (Israf)
(Lewis , 2006)

3.4.1 Concept of Separation of Ownership

In conventional Finance, this concept states that the owner and the firm are two legal entities. As a result, the owners have limited liability. So, in case of bankruptcy, the owner is not liable to the defaulted debt of the company but can take the residual profits. This is treated as gambling and it is against the Shariah (Napier,2007). But some view this concept to be valid with the Shariah because the historical existence of mosques with different financial status in the early days of Islam (AAOIFI,1999).

3.4.2 Concept of Going Concern

According to this concept, the business is assumed to continue for an indefinite period. This concept may be regarded against the spirit of Islam, as only Allah is everlasting. But this can be solved by maintaining the view that, the business will continue for an indefinite period if Allah wishes (Ullah ,H., 2014).

3.4.3 Concept of Finance Periods

According to this concept, the reports showing the entity's financial performance and position is prepared after fixed periods. This is consistent with Shariah as Zakat is also ordered to be given in an annual manner. For this, Finance is also to be made in an annual manner (Adnan and Gaffikin,1997). It is noted that, in early Islamic states, budget was planned annually. (Attiah,1989)

3.4.4 Concept of Money Measurement

According to this concept, only those financial events that can be presented in terms of money is reported in the financial statements. This helps to express all items in a common language. But this concept is questioned by many Islamic scholars (Ahmed, 1990). They state that, Islamic Finance demands the disclosure of many items which cannot be expressed in terms of money,,such as environmental affects or human rights And they also argue that, in terms of inflation money cannot be a reliable measure for settling obligation and contracts. At the same time, scholars are in the opinion that, this concept can be accepted as there is no other suitable alternative (Napier,2007)

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3.4.5 Concept of Cost

According to this concept, items in the balance sheet are represented in terms of historical cost, as it is seen as more objective. But in determining zakat, this creates a problem. In determining zakat, the current value of the items is to be used. Because in this case, zakat cannot be based on figures of distant past. But in using fair value Finance, the reporting of earnings before they are earned is also against the Shariah. Mirza and Baydoun (2000) suggest that, both of these methods can be used. Current value can be used in zakat determination and historical cost in recording transactions with parties.

3.4.6 Concept of Conservatism

According to this concept, losses are to be recorded when there is a slightest possibility but not profits. This results in underestimation of assets.(Belkaoui, 2000) states that, this results in faulty and inappropriate data for calculating zakat. It also goes against the norm of full disclosure for relevant decision making. On the other hand, Ahmed (1990) states that although this concept may be against principles, but it helps in avoiding too much over-optimism over profits, which is important.

3.4.7 Concept of Materiality

According to this concept, it is not practical for the accountant to disclose all information about the entity as it can create redundancy. So only the information that is relevant and necessary to make sound decisions are disclosed in the financial statements. This is against the norm of full disclosure that is encouraged in Islam (Al Quran, 50:18). At the same time, materiality is a subjective term. It can lead to biases. So this concept can be applied when there is a safeguard against inappropriate actions or there is a code for determining materiality that the accountants must follow (Islam, 2000).

3.4.8 Concept of Accruals

According to this concept , revenues are reported when they are earned , not when cash is received and losses are reported when there incurred, not when the cash . This process is subjective and may lead to doubts in accounts. At the same time, dividends that are distributed based on the revenues of this method may be given from other sources as the receivables may become bad (Napier,2007). This is against the principles of accuracy and truthfulness.

3.5 Differences between Traditional and Islamic Finance

Over the years, the differences between these two modes of Finance have become evident and the conflict is in many areas.

They are in many basic and deep areas:

Points	**Islamic Finance**	**Traditional Finance**
1. Definition	Finance process which provides appropriate information (not only financial data) to stakeholders of an entity that will enable them to ensure that the entity is continuously operating within the limits of Islamic Shariah and delivering on its socioeconomic objectives.	Finance process aims to allow informed decisions whose ultimate purpose is to efficiently allocate scarce resources available to their most efficient (and profitable) uses by providing information efficiency in the market. (Without any compliance to Islamic Shariah.)
2. Operations	In operational, it performs everything within the limits of Islamic Shariah.	In operational, it allows everything to achieve maximum profit.
3. Nature	t is conceptualized based on the Islamic principles.	It is conceptualized based on principles of secularism and capitalism.
4. Governance	It is governed by Al- Qur’an and Sunnah or Islamic Shariah.	It is governed by Finance and commercial law and Secular Ethics.
5. Normative or	There is no difference between Normative and Descriptive Finance.	There is difference between normative Finance descriptive Finance.
6. Orientation	It is always society or community oriented.	It is always firm or individual oriented.
Points	Islamic Finance	Traditional Finance
7. Basis	Unity of God (Allah). (Tawhid)	Economic rationalism.

8. Entity Concept	Firm does not have separate financial obligation.	Firm and Owner have separate entity and financial obligation.
9. Cost or Price	Market or Selling price rather than Historical cost is preferred.	Historical cost rather than Market price is preferred.
10. Disclosure	Full disclosure to satisfy any reasonable demand for information in accordance with the Shariah.	Limited disclosure provision of information subject to public interest.
11. Going Concern	Business continues not forever but depends on contractual agreement between parties.	Business continues forever or unlimited period of time.
12. Consistency	Consistency based on Shariah.	Consistency based on GAAP.
13.Conservatism	Most favorable to society (justice).	Most favorable impact on owners and least favorable to society.
14. Finance Period	One lunar year for Zakat calculation.	Periodical measurement of performance.
14. Unit of Measurement	Quantity based and monetary based (Zakat calculation).	Monetary value based.
15.Accounta-bility	Public accountability focusing on the community who participate in exploiting resources.	Personal accountability focusing on individuals who control resources.
16. Equity	Recognize each party equally.	Survival of the fittest.
17. Profit	Determine accurate	Tries to maximize profit.
18. Ownership	It recognizes relative ownership on assets	It recognizes absolute ownership on assets and firm.
19. Reports	Reports socio-economic and religious events and transactions.	Reports only economic events and transactions.

3.6 Practices of Islamic Finance

The practice of Islamic Finance adjusts the conventional practices according to the Quran and Sunnah. Sometimes it adds new practices when there is a unique situation. The basic principles governing these practices are stated below (Ahmed ,1994) :

a) Prohibition of Interest

b) Prohibition of Illegal transaction

c) No uncertainty in transactions

d) Transactions must benefit both parties

3.6.1 International Finance Standards

Finance Standards are norms and policies givenout my standard setting board which they think are necessary in creating a fair presentation in the financial statement of the economic reality of the entity (Hye,2000). It is to be noted that, these standards are given on the framework on western capitalism which may not be suitable for Islamic Financial Institutions in many cases.

As this institution adhere to different principles and engage in alternative business arrangements its problems are unique and unknown to the western model of Finance. To meet this problem,

The Finance and AuditingOrganization for Islamic Financial Institutions (AAOIFI) was established in 1990 as an autonomous body for setting standards on Finance frameworks, financial statement preparation, audit and assurance standards and corporate governance standards. AAOIFI is based in Bahrain and is a non-profit organization. These standards havebeen set especially for the Islamic Financial institutions.

A	**Financial Accounting Statements**
1	Objectives of Financial Accounting for Islamic Banks and Financial Institutions
2	Concepts of Financial Accounting for Islamic Banks and Financial Institutions
B	**Financial Accounting Standards**
1	General Presentation and Disclosure in the Financial Statements of Islamic Banks and Financial Institutions
2	Murabaha and Murabaha to the Purchase Orderer
3	Mudarabah Financing
4	Musharaka Financing
5	Disclosure of Bases for Profit Allocation between Owners' Equity and Investment Account Holders
6	Equity of Investment Account Holders and Their Equivalent
7	Salam and Parallel Salam
8	Ijarah and Ijarah Muntahia Bittamleek
9	Zakah
10	Istisna'a and Parallel Istisna'a
11	Provisions and Reserves
12	General Presentation and Disclosure in the Financial Statements of Islamic Insurance Companies
13	Disclosure of Bases for Determining and Allocating Surplus or Deficit in Islamic Insurance Companies
14	Investment Funds
15	Provisions and Reserves in Islamic Insurance Companies
16	Foreign Currency Transactions and Foreign Operations
17	Investments
18	Islamic Financial Services offered by Conventional Financial Institutions
19	Contributions in Islamic Insurance Companies
20	Deferred Payment Sale
21	Disclosure on Transfer of Assets
22	Segment Reporting
23	Consolidation
24	Investments in Associates

Table 3: Finance Standards of the AAOIFA
(Source: AAOIFA website)

3.6.2 Finance Cycle

Finance Cycle is the sequence in which Finance procedures are performed (Khan,1995) . It is also the process by which accountants produce the financial statements of a company for a given time period (Horngren and Harrison,1992). It basically consists of five steps:

a) Recording (Journal)

b) Classifying (Ledger)

c) Summarizing (Trial Balance)

d) Financial Statement Preparation

e) Interpretation of Financial Statements

In Islamic Finance Practice, all of this steps may be followed in transactions involving money. But, Islamic Finance deals with few matters that cannot be expressed in terms of money, such as environmental safety, measure of justice etc. These matters cannot be expressed through the double entry system. As for interpretation and analysis, a few new ratios can be introduced to explain in terms of Islamic ethics. Such as, employee welfare ratio, environmental contributionto the societyetc. (Mirza and Baydour,2000)

3.6.3 Financial Statement Preparation

Entities prepare financial statements according to the prevailing practices, rules and regulations and the demand of the users. A conventional set of financial statements include

a) Statement of Financial Position

b) Statement of Financial Performance

c) Statement of Changes in Equity

d) Statement of Cash Flows

But Islamic Finance requires some additional reports (AAOIFI) , such as

a) Reporting the sources of zakat fund , their uses and distribution and safeguards

b) Reporting of earnings from prohibited transactions ; detecting their source and circumstances and specifying the ways in they were disposed of

c) Social Contribution Report and Human Development Reports (AAOIFI-3)

At the same time, there are few additional recommendations by scholars:

a) Preparation of a value-added statement. As a conventional income statement only focuses on the owners of the firm, a value-added statement measures the performance of an entity taking the whole socio-economic picture into context. This is in line with the Shariah. (Napier, 2007)
b) Preparing a fair value statement of position annually (Baydoun and Willet, 2000)

c) Assets which are not real, such as goodwill should not be included and net receivables should be calculated using direct write-off method.

3.6.4 Calculation of Zakat

Zakat has been called the cornerstone of Islamic Financial Structure (Siddiqi, 1982). For the payment process, the assets on which the zakat is levied should have the following properties (Clarke et al , 1996) :

a) Full and legal ownership of assets

b) Assets are productive

c) Assets are above the basic requirements ('nisab')

d) Assets should be owned for a complete year

For calculations of zakat , some Finance methods are used

a) Valuation of assets at fair value

b) No provision for doubtful accounts receivables

c) Inventory should not be recorded at the lower of net realizable value or market price. It should be recorded at fair value

3.6.5 Handling the problem of Interest

One of the most salient features of Islamic Finance is the prohibition of interest which is a predetermined fixed rate of return on the borrowed money. So, Islamic institution use alternative modes of financing based on the Shariah (Hassan& Lewis, 2009):

a) Mudarabah or Trust Financing: In this method, the bank lends money to the borrower and they both share the profits or losses (Haqiqi& Pomeranz, 1987). It is also described as transforming money into real factors of production by a partnership (Kahf, 1978)

b) Murabaha: In this case, the bank provides the finance for buying goods in order to take part in a share of the profits. The lender may or may not take part in the losses. The repayment may be

When the bank buys goods and pays cash :
Debit-cost of goods
Credit-amount in bankers-check (Cash);

When the bank sells the goods to the client on a deferred payment basis:
Debit-Investment (cost-plus-profit),
Credit Cost of goods (cost)
Credit-Unearned profit (profit margin

Figure 1: Journal Entries for Murabaha financing

Source: (Hamat,1994)

in installments, or it can be in lumpsum.

c) Musharaka: In this method , both the bank and the borrower take part in an operation for a given period of time. They both contribute to the investment in a given degree and then share profit and loss in a predetermined proportion.

d) Ijara : It is mainly a lease financing. It is quite similar to conventional leasing, but if the rental income is tied to profit margin, then it is considered prohibited as it leads to interest. In Finance lease in this method, Lease Receivable excluding the profit margin is recorded as property, plants and equipments in the statement of financial position. For operational lease, the assets should be recorded as PPE in the statement of financial position and depreciation should be made timely.

3.7 The Islamic Finance Model

From various literature, a model of Islamic Finance is given below :

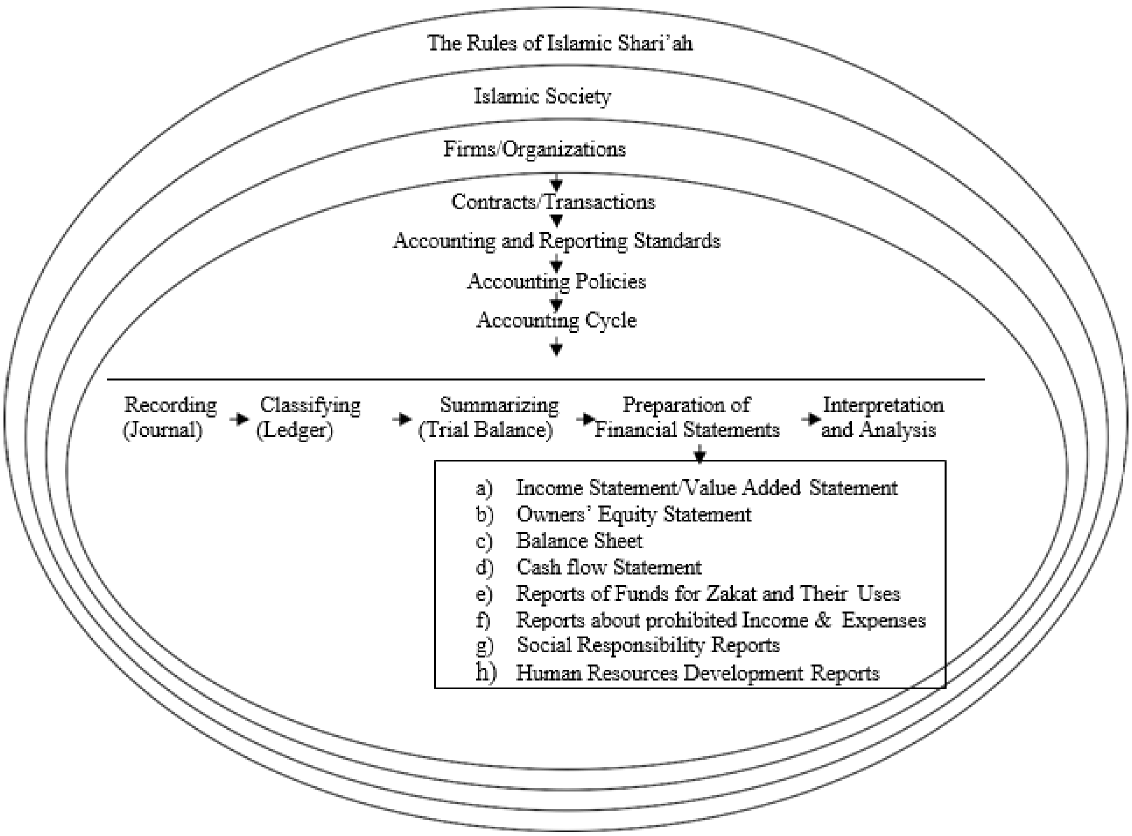

Figure 2 : Islamic Finance Model

(Source : Ullah, H. , 2013)

3.8 Challenges for Islamic Finance

There still remains in empirical and theoretical literature confusion among the scholars about the treatment of various issues (Napier , 2007) , such as :

a) The problem of applying fair value for all the assets when determining zakat

b) There is disagreement regarding cash basis or accrual basis Finance

c) Various rulings and interpretation of scholars , opens an area of vagueness . And the standards setting body AAOIFA and regulators are still in their infancy.
(Sarea, A. &MohdHanefah, 2013)

3.9 Islamic Finance in Bangladesh

Islamic Finance in Bangladesh is still in its infancy. The previous literature regarding this topic have mainly centered on the practices of the Islamic Banks. There has not been an attempt to standardize all the practices into a common code for all the IFI's.

In context of Bangladesh, Hossain (2012) conducted a research of all the full Islamic Banks and tried to find out their practices. It also investigated the compliance of those banks with the regulations. In those regards, the Islamic Bank of Bangladesh was seen to have the highest compliance rate (100%) and the First Security Islamic bank had the lowest (80.6%). Overall the industry compliance rate was seen to be 88.11, which is higher than the conventional banks. The period of investigation was the year 2010.

Sobhani, Zainuddin and Amran (2011) did an interesting investigation regarding the corporate social disclosures. It interviewed the executives and directors of an undisclosed Islamic Bank of Bangladesh and tried to find out the main reasons for the voluntary disclosures. As it was found, the Islamic Banks do tend to give more voluntary disclosures regarding many issues. The investigation opined that although corporate culture, Bangladesh Bank regulations and other regulatory supervision may have played a small role in this phenomena, but they stress that the role and impact of religious values was more than the former.

Hasan and Harahap (2010) investigated the seven Islamic Banks of Bangladesh to see the corporate social responsibility disclosure rates of banks. These rates were according to the standards of the International Monetary Fund. It found that, only one of the seven banks had an above average disclosure rate and that disclosure of CSR practices was not a crucial issue for the banks.

Sarker (2000) investigated the role of Bangladesh Bank regulations in the Islamic Banks of Bangladesh. It found that, the Bangladesh Bank supervised all the Islamic and non-Islamic banks according to one single regulatory guideline.But it gave some special provisions for Islamic Banks. The study recommended the introduction of separate rules and regulations for Islamic Banks.

The IFI's do follow some alternative Finance measures in comparison to non-islamic ones, such as zakat report or interest prohibition, but the practices vary among the organizations and there is not a central board for regulating reports for Islamic financial institutions (Ullah, H.2013).

4. Recommendations

As this topic is still a hot topic for debate, and the place of subjectivity is very high here. So, there is an overwhelming amount of literature on this topic, both in normative and positive fields. It was not possible to go through all of them and as a result the discussion may have missed some crucial investigations and findings. So, recommendations can be made for further research into this topic:

a) Most of the literature on this topic is normative. So, a positive approach could shed more light in the understanding of the topic (Ousama& Fatima ,2010).

b) There is a present contradiction in theory and practice about using the current value for zakat determination and historical cost for 'tandid' transactions (Kamla,2009). The future research should aim to reconcile these differences and present a unified model.

c) The future investigations should try to present the findings and state the theory in such a way, so that useful standards regarding Islamic Finance can be created (Karim, 2001).

d) Literature about Islamic Finance in Bangladesh should be broadened, as this will help assure quality investment decision for a large segment of the business sector who prefer Islamic Financing.

5. Conclusion

This report only aimed to give an overall viewpoint of Islamic Finance from the viewpoint of existing literature. From the analysis it is clear that, the literature on this topic is very rich and broad, but they are very much diverse and speculative, with each scholar maintaining a different viewpoint on the concepts and practices of Islamic Finance. At the same time, an absence of strong regulatory or policy making international board on this issue has made it quite difficult for the creation of a unified Islamic Finance Theory. On the other hand, existing literature have mostly been done from a normative or theoretical position, there remains a great need for empirical and positivist research in this sector. This is truer in the case of Bangladesh, where Islamic Finance is still in its infancy. The practices of these IFI's do not adhere to a common code. So, it makes it difficult for the users to compare and make decisions on the financial statements which have been prepared by applying different Finance principles. Islamic Finance has risen as a result of the growing need for a distinct business community with different cultural and ethical needs. So far, Islamic Finance has offered many solutions to solve this problem and meet these needs. But many of them, still remain in theoretical stages. There is also a sense of vagueness about application in the absence of a strong regulatory or policy making board like the conventional IFRS and IAS. Taking all of these issues into account, Islamic Finance needs to meet the demand that gave birth to it in the first place.

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