Professional struggles in an accounting standards setting body in Bahrain

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Abstract

The operating principles of the Islamic financial system are substantially different from the conventional system. Accordingly, the accounting standards for Islamic banks (IFAS) produced by the regulatory body AAOIFI have to be different from the accounting standards commonly used by conventional banks (IAS/IFRS). The objective of this study is to explain the observed phenomenon of convergence between the two sets of standards. We put forward the hypothesis that a professional struggle took place within AAOIFI, following which the members of the Accounting and Auditing Standards Board (AASB) managed to impose their views at the expense of members of the Shari'a Board and were able to make the accounting standards of AAOIFI converge with those of the International Accounting Standards Board (IASB). By means of a study based on interviews, we confirm this hypothesis and explain the mechanism through which members of the AASB gained ascendancy over the members of the Shari'a Board.

Introduction

Islamic banks are relatively recent economic actors in the international financial markets. The first “Shari’a Compliant” bank was established in Egypt in 1963. However, it was from the 1970s that Islamic finance really began to develop in its modern form with the creation of the Islamic Development Bank (IDB).

Today, the Islamic financial market is becoming increasingly important and is spreading well beyond Muslim countries, even though the Persian-Arabian Gulf region and Southeast Asia tend to be the backbone of this booming economy. This market currently represents nearly $1 trillion of investment worldwide (DiVanna et Hancock, 2013).

Islamic finance is classified as one of the forms of ethical finance, because it is based, at least in theory, on a set of principles designed to balance risks between capital providers and borrowers.

The prohibition of Riba, which roughly corresponds to the western notion of interest, is the central constraint of Islamic banks. Other rules also constrain the functioning of these banks: sharing of profits and losses, prohibition of uncertainty and speculation, prohibition of investment in sectors regarded as illicit, etc.

Consequently the operating principles of the Islamic financial system are substantially different from the conventional system. Islamic banks certainly play a role in financial intermediation, but this functions differently, since all operations are subordinate to an underlying asset. The bank acts as a commercial intermediary between sellers and buyers as in *murabaha* or *Ijara Wa Ictina* operations. It can also act as a business partner in *mudaraba* and *mucharaca* contracts.

On this point, the traditional approach to banking intermediation is ineffective because in the Islamic financial institutions assets are not formed by credits with predetermined income, but by the contribution of the bank to the financing (*mucharaca* and *mudaraba*) or sales with a margin (*murabaha*, *ijara*, etc.).

Different operating principles require specific prudential, financial and accounting standards. Various international regulatory bodies are concerned with the standardization of the rules of

Islamic finance, such as the Islamic Financial Services Board (IFSB) and the Islamic Development Bank (IDB).

AAOIFI is the body responsible for issuing accounting standards for Islamic financial institutions. These standards are supposed to take account of the financial and legal specificities of Islamic banks. Nevertheless, several studies have reported the convergence of Islamic accounting standards with International Financial Reporting Standards.

The present study aims to explain the phenomenon of accounting convergence, by examining the inner workings of AAOIFI. Thus, the problem may be formulated as:

What are the factors that explain the convergence between Islamic financial accounting standards (IFAS) and international financial reporting standards (IAS/IFRS)?

To address this question, the paper is structured as follows. In the first section, we present the standards body that is the subject of this case study (AAOIFI). In the second section, we specify the methodology used to explain the phenomenon of accounting convergence. This methodology is based on interviews with members of the operational organs of AAOIFI directly involved in the production of accounting standards. In the third section, we present the results of the analysis of the interviews. In the fourth and final section, we offer our conclusions.

1. The accounting standards setting body for Islamic banks: Presentation and operational structure.

1.1. Factors pertaining to the emergence of AAOIFI

1.1.1. The need to harmonize the accounting practices of Islamic banks

The exponential growth of Islamic finance since the 1970s led to disparity among different accounting, auditing and governance practices in the Islamic banking sector. In the absence of a recognized legitimate framework, the accounting practices of Islamic financial institutions (IFIs) were as varied as the accounting standards on which they were based (Sarea and Hanefah, 2013). The accounting heterogeneity of IFIs prevented comparative analysis between the financial reports of these institutions.

According to Karim (1990), before the widespread dissemination of international financial reporting standards and the emergence of AAOIFI, Islamic banks generally resorted to local accounting standards. The choice of accounting method in each of these banks was done through concerted action among the preparer of accounts, the members of the Shari’a Board and the external auditor.

In fact, when the accounts preparers were faced with a lack of standards or a variety of alternatives for the accounting of a financial product, they resorted to the Shari’a Board (in consultation with the external auditor) to validate a solution that would be compatible with Islamic rules. These practices generally resulted in the proliferation of (sometimes contradictory) accounting methods for processing financial products, thus preventing comparability between these banks (Pomeranz, 1997, Karim, 1990).

As a result, the establishment of an international regulating body became essential for creating a degree of harmonization among the accounting practices of Islamic banks, while taking into account their duty to comply with Shari’a.

1.1.2. The inadequacy of international banking regulation standards

As mentioned in section 1, in addition to the difficulty of comparing the financial statements of Islamic banks, it appears that international financial reporting standards such as IAS30 or the capital adequacy ratios (Basel II and III) commonly accepted by conventional banks are unsuited to the qualitative and structural characteristics of Islamic banks. For example, Islamic banks do not distinguish between conventional banking (commercial component) and investing activities (investment component) in accordance with the principle of firewalls[1] used in traditional banks (Karim, 2001; Archer and Karim, 2009). The specific organizational structure of Islamic banks has accounting implications that are difficult to predict by local or international accounting standards bodies. Similarly, the particular structure of certain Islamic financial products, which simultaneously have characteristics of equity, debt and off-balance items calls for a review of the arrangement of the headings in the balance sheet and a questioning of solvency and capital adequacy ratios.

1.2. The role of AAOIFI

The creation of AAOIFI was preceded by an intense technical and administrative effort as illustrated by the roadmap produced by the Islamic Development Bank at its meeting in Istanbul (Turkey) in 1987. At this meeting, it was decided to set up various committees to study the best ways of editing accounting standards specifically intended for Islamic banks[2].

[1] This principle is intended in theory to reduce the risk of contagion if the investment component were to collapse.

[2] These committees have issued reports and studies classified into five volumes under the title "Accounting Standards for Islamic Banks." These reports are available at the headquarters of the Islamic Development Bank

On 26 February 1990 in Algiers, a number of Islamic financial institutions agreed to establish a regulatory body for accounting standards and governance. This became effective as of 27 March 1991 in Bahrain (Manama), where the organization set up its headquarters under the name Financial Accounting Organization for Islamic Banks and Financial Institutions (FAOIBFI). In 1993, the FAOIBFI issued its first two "statements", forming a kind of conceptual framework for Islamic accounting (although the term "conceptual framework" is not explicitly recognized): SFA[3] 1 (Objectives of Financial Accounting for Islamic Banks and Financial Institutions) and SFA 2 (Concepts of financial accounting for IFIs). The first Accounting Standard (IFAS[4]) was also published in 1993 (Presentation and general disclosure in the financial statements of IFIs).

AAOIFI currently has the status of a private non-profit organization. By 2011 it had more than 220 members, representing various professional, academic, religious and regulatory institutions from some forty countries. As well as the conceptual framework of financial accounting issued in 1993 (SFA1 and SFA2), AAOIFI has published a comprehensive body of accounting standards covering the various instruments of Islamic finance. It has also published financial audit, governance and ethical standards and has drawn up a legal framework regulating the operations of Islamic financial institutions.

Up to 2014, AAOIFI has issued eighty standards: 45 Shari'a compliance standards establishing the rulings of Islamic law on economic issues, 26 accounting standards, 5 financial audit standards, 2 ethics standards and 7 governance standards.

However, twenty years after the creation of AAOIFI, its standards have proved to be relatively difficult to enforce, at least at the level of national regulators. Only a few countries and supranational entities have regularized the use of these standards (Bahrain, Dubai, Jordan, Qatar, Qatar Financial Center, Sudan, South Africa, Syria, and the Islamic Development Bank). At the same time, we are seeing the emergence of new local accounting standards (in Sudan and Malaysia) intended for the Islamic banking industry, which are likely to compete with AAOIFI standards. Thus AAOIFI tends to align itself with an accounting model based on the international financial reporting standards (IAS and IFRS) produced by the IASB.

1.3. Operational structure of AAOIFI

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in Jeddah (Saudi Arabia) (electronic version available at: http://www.al-rashed.com.sa/en/13-accounting-islamic-banks-vol5.aspx).

[3] Statement Of Financial Accounting.

[4] Islamic Financial Accounting Standard.

Since 1995, the restructuring of AAOIFI has brought it closer to the model of the Anglo-Saxon standards setting bodies that existed at the time. This mimicry is evident in the organizational structure of AAOIFI, with the establishment of a central body (the Board) responsible for preparing, adopting and interpreting accounting and auditing standards for IFIs. This body, because of its centralizing and technical role, is similar to the "Board" that existed in the IASC in 1995. Administrative and technical work is delegated to other units in AAOIFI. Thus the reorganization of the administrative structure entailed the replacement of the supervisory committee by a Board of Trustees.

These changes were accompanied by the reformulation of AAOIFI's funding procedures so as to ensure its financial independence (in particular by introducing a *Waqf*[5] and an annual fee system for members). Currently the structure of AAOIFI, which has not changed since 1995, is constituted by the following bodies.

- General Assembly: composed of all founding, associate, observer and support members including, in addition to financial market professionals (Islamic financial institutions, rating agencies, etc.), the financial regulatory authorities (central banks, monetary authorities), accounting and auditing professionals and financial statement users (institutional or individual investors and any stakeholders interested in the Islamic financial market). This Assembly is convened at least once a year and is responsible for appointing members of the Board of Trustees.

- The Board of Trustees: composed of 20 members for a five-year term. Members are elected by the General Assembly, which takes care to ensure fairness of representation among the regulatory authorities, banking and accounting professionals, users of financial statements and the interpreters of Islamic law (members of Shari'a Boards). The Board of Directors is responsible for appointing the general secretary of the organization and the members of the AASB (Accounting and Auditing Standards Board) and to secure the AAOFI's sources of funding.

- The General Secretariat: comprises the Executive Director of AAOIFI and the technical and administrative units. The Executive Director represents the organization in international seminars and coordinates its day-to-day activities.

[5] A particular type of property in which the assets and income are dedicated to a specific project, usually charitable.

- The AASB (Accounting and Auditing Standards Board): composed of 20 members for a five-year term, representing legislative, professional, academic and associated actors in accounting and financial auditing. The role of the Board is to “prepare, adopt and interpret” accounting and auditing standards for IFIs. It also prepares the due process required for accounting regulation. Lastly, it makes revisions to accounting and auditing standards in order to provide them with the modifications required. The Board is composed of two committees: the Accounting Standards Committee and the Auditing and Governance Standards Committee. Members of the AASB generally come from the Big Four audit firms and from financial institutions. They continue their duties in their original organizations alongside their responsibilities in AAOIFI.

- The Shari’a Board: composed of 20 members who are experts in *fiqh* (Islamic jurisprudence) and represent the Shari’a Boards of financial institutions affiliated with AAOIFI. In this regard, it is the only purely religious body in AAOIFI. Its role is to give religious sanction to the AASB’s accounting standards setting procedure. The official website of AAOIFI specifies the following fields of action for the Shari’a Board:

- Achieving harmonization and convergence in the concepts and application of Shari’a among the Shari’a supervisory boards of Islamic financial institutions to avoid contradiction or inconsistency, which are among the most recurrent problems of the Islamic financial industry.

- Keeping pace with the development of financing instruments and other banking services by developing new financial instruments compatible with Shari’a.

- Examining any inquiries from Islamic financial institutions so as to rule on the conformity of a product with Islamic law or arbitrate between different possible solutions for the treatment of a product.

- Reviewing the standards produced by the AASB at various stages of the due process, to ensure that their compliance with Shari’a.

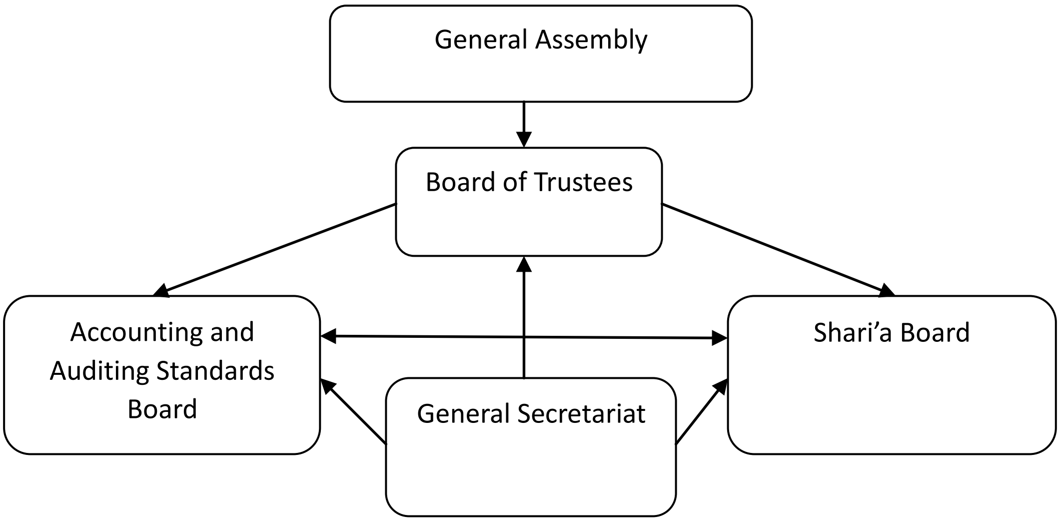

Figure 1. Organizational structure of AAOIFI and its functioning in the accounting standards setting process

1.4. Professional groups within AAOIFI

The internal structures of AAOIFI house two groups belonging to different professional spheres and whose inspirations and roles are different but complementary.

The first of these groups is "religious" and comprises members of AAOIFI's Shari'a Board. The role of this governance body is to ensure that the proposed accounting standards are consistent with the financial and moral precepts of Sharia. The Shari'a Board is in a way the underwriter of AAOIFI's moral legitimacy and serves as the religious guarantor of its standards setting process. For this reason its twenty members must be specialists in Islamic jurisprudence and must combine theological competence with financial and economic knowledge. Shari'a Board members are experts in Islamic jurisprudence and represent the various branches and theological schools of Islam.

The second group is "secular" and consists of members of the AASB committees responsible for drawing up accounting and auditing standards. The members of these committees are often drawn from the financial sector (large audit firms or recognized financial institutions) and have proven expertise in the field of finance, accounting and auditing. Thus, in 2012, four of the 16 members of the AASB were partners in the Big Four auditing firms, while remainder held positions of responsibility in various financial institutions or large legal consultancies (see Table 1). These members pursue their career in these positions, in parallel with their AAOIFI responsibilities, a situation that calls into question their independence and allows "Big Four culture" to be disseminated within AAOIFI.

	Position	Institutional affiliation	Type of institution
Member 1	Deputy General Manager	Kuwait Finance House	Bank
Member 2	Director of Financial Control	Albaraka Banking Group	Bank
Member 3	Partner	Ernst & Young	Audit firm (Big Four)
Member 4	Section Director in the Department of Finance	Islamic Development Bank	Bank
Member 5	Legal consultant	Dallah Al Baraka Group	Bank
Member 6	Legal consultant	Discover Islam Centre	Religious teaching
Member 7	Partner	Deloitte	Audit firm (Big Four)
Member 8	Director of Studies and Analysis, Accounting Department	Banque du Liban	Central Bank
Member 9	Director	Financial Services Authority	Regulator of financial markets in the UAE
Member 10	Deputy General Manager	Jordan Islamic Bank	Bank
Member 11	Partner	PricewaterhouseCoopers	Audit firm (Big Four)
Member 12	General Manager	Qatar Islamic Bank	Bank
Member 13	Deputy General Manager	Shamil Bank	Bank
Member 14	Associate Director	Agha & Co	Legal advice firm
Member 15	Partner	KPMG	Audit firm (Big Four)
Member 16	Partner	Clifford Chance LLP	Legal services
Rapporteur	Secretary-general	AAOIFI	

Table 1. Institutional affiliation of the AASB members.

2. Theoretical framework

We can make sense of the phenomena observed in AAOIFI through the concept of “jurisdiction” introduced by Abbott (1988).

The work of the American sociologist Andrew Abbott adopted an original and pioneering approach in analyzing the social interactions within organizations subject to permanent competition between professional groups belonging to the same “field of activity”.

Abbott (1988) does not specify the profession but identifies an area of expertise within each profession which he terms “jurisdiction” and which ties a group to a particular activity. Thus Abbott's analysis does not focus on a single profession but on the interactions between “jurisdictions”.

The boundary of each jurisdiction is not stable and several professions can partly or wholly share the same field of competence. These interactions tend to create tensions between professional groups. For example, the field of activity of tax consultancy may be subject to struggle between accountants and tax lawyers.

Such conflicts can arise within the same organization (see, for example, Armstrong, 1985; Ezzamel and Burns, 2005; Ezzamel et al., 2004) and then entail a clash of interests, experience and objectives in each professional sphere. By way of illustration, the most obvious conflicts in profit-making organizations take place between those concerned with the financial side (accountants, management controllers, financial managers, etc.) and engineers, workers or sales personnel (Morales and Pezet, 2010).

More than a conflict of interest or power, struggles among professional groups illustrate a conflict of norms or "rationalities" (understand here as worldviews or Weberian *Verstehen*) that will inevitably lead to the domination of the group with the most legitimate "rationality." Financiers, who convey the image of objective rationality because they are supported by the supposed neutrality of accounting figures, are often able to assert their dominance at the expense of other professional spheres (Morales and Pezet, 2010).

Applied to AAOIFI, the theory of professional struggle could explain the phenomenon of accounting convergence between AAOIFI and the IASB. On the one hand, there are the members of the Shari'a Board who are the "gatekeepers" and scrupulously ensure that accounting standards produced conform to Islamic jurisprudence. On the other, there are members of the AASB, imbued with an "IFRS culture", who may be able to pressure AAOIFI to align itself with international financial reporting standards and thus distance itself from the Islamic jurisprudence.

Thus, to explain the phenomenon of accounting convergence between the IASB and AAOIFI, we hypothesize that **a professional struggle has taken place within AAOIFI, as a result of which the members of the AASB succeeded in imposing their viewpoint at the expense of the members of the Sharia Board, so as to make AAOIFI accounting standards converge with those of the IASB**.

However, even if one assumes that this hypothesis is correct, several points remain unclear. How has the AASB professional group been able to dominate the Shari'a Board group, even though the latter is invested with religious legitimacy?

The research hypothesis will be tested by means of a study based on interviews with members of two professional groups.

3. Research methodology

3.1. Data collection through semi-structured interviews

Interviews were chosen for the collection of data in this stage of the study. Interviews are useful for providing information about the deeper meanings that people ascribe to specific phenomena as well as their perceptions of processes. In the words of Baumard et al. (2003), they offer "a technique for collecting, with a view to its analysis, discursive data reflecting in particular people's conscious or unconscious mental world".

Unlike quantitative research which holds that building a relationship between the researcher and respondents may affect the objectivity of the research, interviews in qualitative studies aim to build such a relationship with a view to entering the mental world of the actors relevant to the research topic.

However, there are several drawbacks to the interview technique, particularly biases associated with the reaction of the respondent to the researcher, such as difficulty in building a relationship of trust between the interviewer and the interviewee, failing to understand certain questions, partial or false answers, and so on. According to Wacheux (1996), the discourse of the people questioned does not necessarily reflect reality, but rather their subjective view of it, which makes it difficult for the researcher to interpret the data collected.

Interviews with people directly involved in the process of constructing accounting standards in the AAOIFI are useful for finding out about their perception of the phenomenon of IFAS/IFRS accounting convergence and can identify the factors to which they attribute this convergence.

More specifically, we target operational members involved in formulating legal and technical accounting standards. These members belong to one or other of the two AAOIFI executive organs, namely the Shari'a Board, which is responsible for the legal framework of standards, and the AASB, which is responsible for the selection of the standards to be developed and for their technical elaboration.

We elected to use a semi-directive form of interview. This format allows the overall consistency of the discourse to be retained, while giving sufficient flexibility for unexpected themes to emerge

In total, 16 members of the AASB and the Shari'a Board were interviewed and 14 interviews were used for this study.

The professional affiliation of the interviewees and a version of the interview guide are presented in the appendices.

3.2. Thematic analysis of the interviews

The interviews reflect the individual perceptions of members of the AAOIFI governance bodies on the standards stetting process within their organization. We aim specifically to explore their interpretation of factors accounting for the convergence or divergence of IFAS and IAS-IFRS. The discourse of respondents is therefore a social construct that reflects individual experience with regard to which we must find common traits that will help us build an overall picture of IFAS/IAS-IFRS convergence and divergence factors. Naturally, there are several possible interpretations of the respondents' discourse, hence the importance of choosing a content analysis method that is consistent and meets scientific validity criteria for qualitative research.

Thematic analysis is a convenient way of analyzing the qualitative data in this study, since the number of interviews (volume of data) did not seem large enough to support a significant lexical or syntactic analysis. Therefore, to optimize our use of the data, we used a thematic analysis to extract common themes and patterns.

Thematic analysis is carried out by coding. It involves breaking down the discourse into units of analysis (phrases, sentences, etc.) and grouping together similar units in the same category (theme). Thematic analysis assumes that the redundancy of a unit of analysis reveals the concerns of the respondents and may thus constitute a theme (Bardin, 2007).

In general, thematic analysis has two components: the identification of themes and the analysis of the relationships among them. Bardin (2007) recommends using the following two stages for thematic analysis

- First, a vertical analysis (interview by interview)

- Second, a horizontal analysis to identify recurring themes, to pinpoint differences in the discourses between respondents, and to capture the links between the themes identified so as to formulate proposals for interpretation.

We followed Bardin's (2007) recommendations, while making a number of adjustments.

The method adopted allowed us to consider each respondent first as an individual, then as a member of the professional group, and finally as a member of AAOIFI. This research model favors analysis of opposition between the two groups and allows shared or different interpretations of the same phenomenon to be identified.

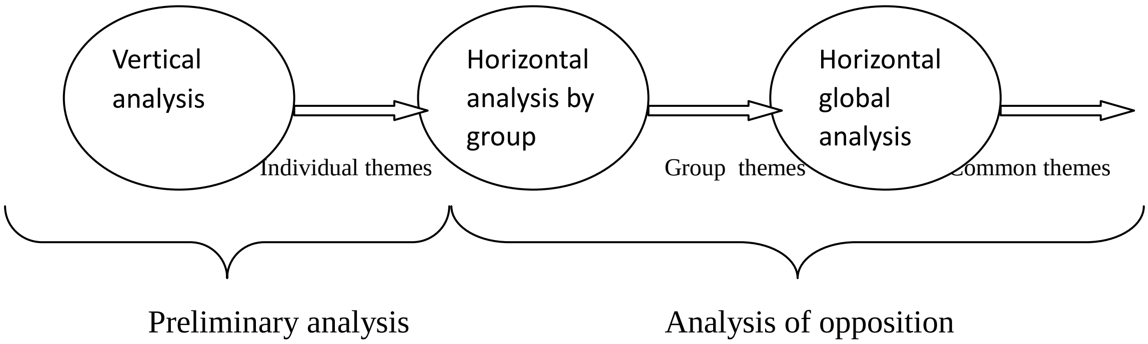

Figure 2. The three stages of the methodological process

4. Results and discussion

4.1. Perception of professional identity by each group

Both groups refer to two types of knowledge they believe they possess: knowledge of religious law and knowledge of finance and accounting. However, we can identify some distinctive characteristics that result in the professional identities of the two groups being conceived differently.

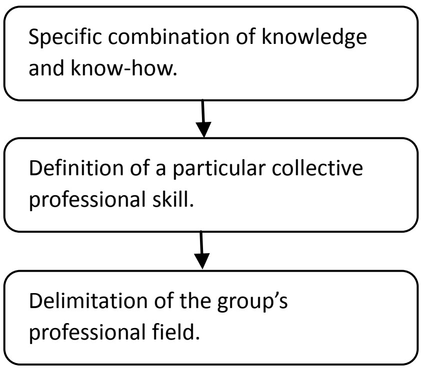

Figure 3. Connections between the definition of professional skills and the delimitation of the group’s professional field

4.1.1. First distinctive element: Definition of a distinctive skill

Each group defines its distinctive competence, that is, it views itself as having knowledge that is not possessed by the other group or possessed to a lesser extent. Accordingly, the people interviewed maintain a conceptual distinction between types of knowledge and minimize the other group's possession of the knowledge they consider to be distinctively theirs.

Thus members of Shari'a Board believe they have a monopoly of religious knowledge, while members of the AASB consider that accounting and financial knowledge is their distinctive competence.

4.1.2. Second distinctive element: The relative importance of each kind of knowledge in the composition of the competence

Another important distinctive element is evident in the respondents' understanding of collective competence. Even though each group considers it possesses both types of knowledge – religious and accounting – the weight of these two in the representation of competence is not the same.

Shari'a Board members consider themselves more competent in religious knowledge than in accounting and financial knowledge and willingly cede the monopoly of the latter to the AASB. On the other hand, the AASB lays claim to a twofold competence. For members of this body, possession of religious knowledge is an essential aspect of their competence.

4.1.3. Delimitation of the professional field

Through these two distinctive elements, each group attempts to construct its own professional field into which the intrusion of the other group is not well received. The way professional competence is defined is central to the delimitation of the boundaries of professional jurisdiction.

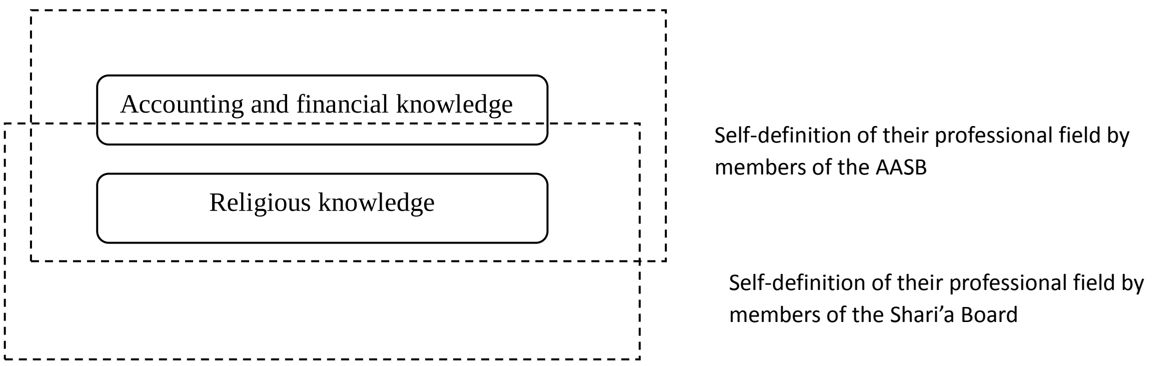

Figure 4. Self-definition of professional fields by members of AAOIFI

The figure above shows that the representations by each group of their professional field overlap. The perception that religious knowledge is a component of their professional field is shared by both groups.

This situation carries the seeds of professional conflict, because the AASB lays claim to part of the competences assigned to the Shari'a Board.

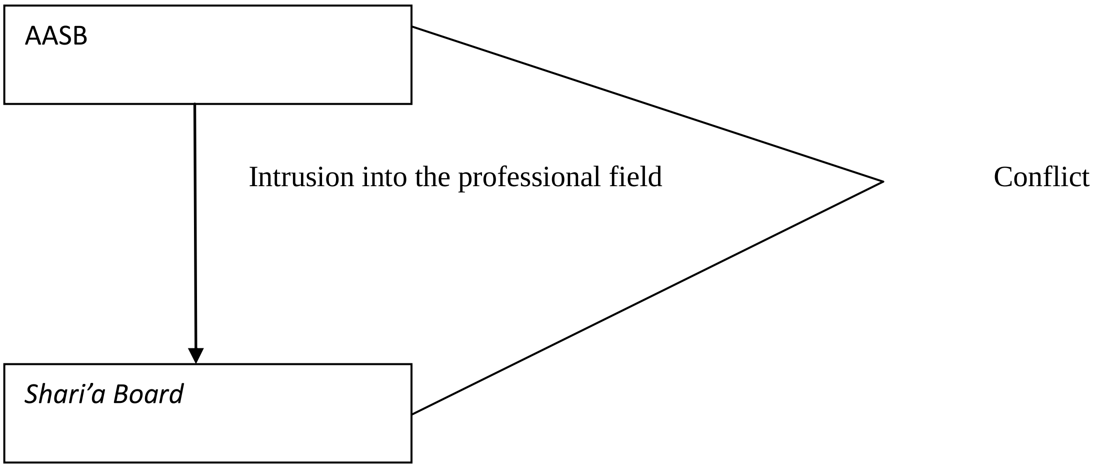

Figure 5. Confusion of boundaries between the professional field as a source of conflict.

4.2. The case of the revision of IFAS (Islamic Financial Accounting Standard) 17: an example of the disruption of each group's professional identity

AAOIFI may need to change certain published standards, as is the case for the IFAS 08 "*Ijara* and *Ijara Muntahiya Bitamleek*", IFAS 17 "Investment" and IFAS 23 "Consolidation".

For the oldest standards, AAOIFI issues a "consultation paper" to solicit requests for modification. Suggestions from stakeholders are then taken into account in preparing a new exposure draft that will in turn be subjected to the comments of banks and other interested parties.

This formal procedure is not always adhered to. In a statement published by AAOIFI in 2008[6] (in the midst of the financial crisis), we noticed the adoption of a special procedure for the revision of the IFAS 17 "Investments" standard.

"*In usual course of work, AAOIFI only revises Standards after issuance of exposure draft and considering comments from all stakeholders in a public hearing context. However, given the requests received from the stakeholders of Islamic financial industry requesting a revision of this Standard or issuance of a guiding statement on an immediate basis on account of recent turmoil in financial markets around the world, AAOIFI has decided, on an exceptional basis, to proceed directly for issuance of this guiding statement and amendment in Para 7 of FAS No. 17*". (Guidance statement on accounting for investments and amendment in FAS 17)

[6] Statement available at: http://www.kantakji.com/fiqh/files/accountancy/v107.pdf

On being asked about how to revise IFAS 17, one respondent (R5, member of the AASB) told us that certain Islamic banks took the initiative in seeking a review of the standard.

"*The modification of the standard on appraisal of investments was in response to very unusual economic circumstances. The emergency procedure was initiated at the request of Bahrain banks and the Central Bank of Bahrain*."

The revision of this standard typifies the interventionism of Islamic financial institutions when the application of the rules of the standard has a negative impact on their accounting results.

The modification of IFAS 17 concerns assessment rules for *sukuks*, in particular the rules for taking account of a negative change in the appraisal of sukuks that are "available for sale" (and where there may be latent losses).

Bypassing the usual procedures for changes to accounting standards, Islamic banks demanded an immediate review of IFAS 17 so as to benefit from the recording of unrealized losses in the statement of changes in equity.

This case illustrates perfectly the commercial pressures that force Islamic banks, and through them AAOIFI, to align themselves with IAS-IFRS international accounting standards. **The financial crisis was the trigger of this accounting convergence.**

At the procedural level, the modification of IFAS 17 was the result of an exceptional procedure like that described above.

Two of the respondents belonging to the AASB attribute the credit for this reform entirely to the accounting committee (one of the components of the AASB) and make no reference to the Shari'a Board in describing the process of revising the standard.

The revision of IFAS 17 is a striking and well-documented example of jurisdictional dispute in the AAOIFI, in which one professional group seizes hold of the prerogatives of another group.

The members of the AASB were receptive to pressure from Islamic banks and changed IFAS 17 in a way precisely tailored to meet the pressing needs of these banks. Its technical validation took place at a special meeting of the AASB. Unusually, the AASB was also responsible for the legal validation (compliance with Sharia) of the accounting changes, instead of and in place of the Shari'a Board, in order to speed up the procedure, thus intruding into the professional field defined by members of the Shari'a Board. Some members of the

Shari'a Board were consulted, but only informally, after the changes had already been validated.

Aware of the hasty nature of the revision process and the confusion of professional roles, the attitude of members of the AASB is characterized by an attempt to legitimize this procedure.

«(...) you must appreciate the urgency of the situation for the banks, which were losing money every second. The downward assessment of these banks during the crisis was not real, but was due to lack of investor confidence. We had to give a positive signal to clients and investors and reassure the financial markets. All this necessarily required reliable financial reports that reflected the real financial position of Islamic banks, which in fact withstood the crisis better than banks in the traditional sector. It is ironic that Islamic banks were more affected even though they were in a healthier situation. Ultimately, we did what we had to do and it was fair to everyone." (R14, AASB)

Members of the AASB concur with the arguments put forward by Islamic banks to justify the urgent amendment procedure for the revaluation process of short-term *Sukuks*, namely the equity worries facing Islamic and conventional banks whose financial state under IFRS allowed them to better mask latent losses.

The discourse of members of Shari'a Board differs significantly from that of members of the AASB. There is no attempt to legitimize the revision process but the reactions ranged from reducing the extent of the modifications to expressing of a certain perplexity with regard to their exclusion from the process.

4.3. Theoretical alignment with the theory of professional conflict

The intervention by Islamic banks triggered a conflict that was latent with regard to the delineation of professional boundaries.

In the case of IFAS 17, the members of the AASB controlled the greater part of the review process, by "almost" excluding members of the Shari'a Board. The religious filter was not activated or at most was only activated informally[7] and at the end of the review process, when an internal meeting of the AASB had already validated the changes in favor of an alignment with IFRS standards. The members of the AASB feel they have sufficient expertise in Islamic law to stand in for Shari'a Board members when necessary.

The upshot is that the modification introduces new assessment rules, whose conformity with Sharia is questionable, but which are close to international accounting standards.

[7] No meeting was held by the Shari'a Board to validate the revision, and some members were not even aware of it.

The conflict that arose between the members of the Shari'a Board and the AASB led to a situation where the latter was able to impose its views, which are ultimately those of the most influential Islamic banks.

The balance of power is thus in favor of the AASB, which overrides the Shari'a Board, though the latter is supposed to be the moral guarantor of accounting standards.

There are many parallels between the tenets of professional conflict theory and our empirical observations of AAOIFI. The boundary between AAOIFI's two executive committees is unclear because a common competence is shared between the two groups. Indeed, religious knowledge is the focus of a struggle between members of the Shari'a Board and members of the accounting committee.

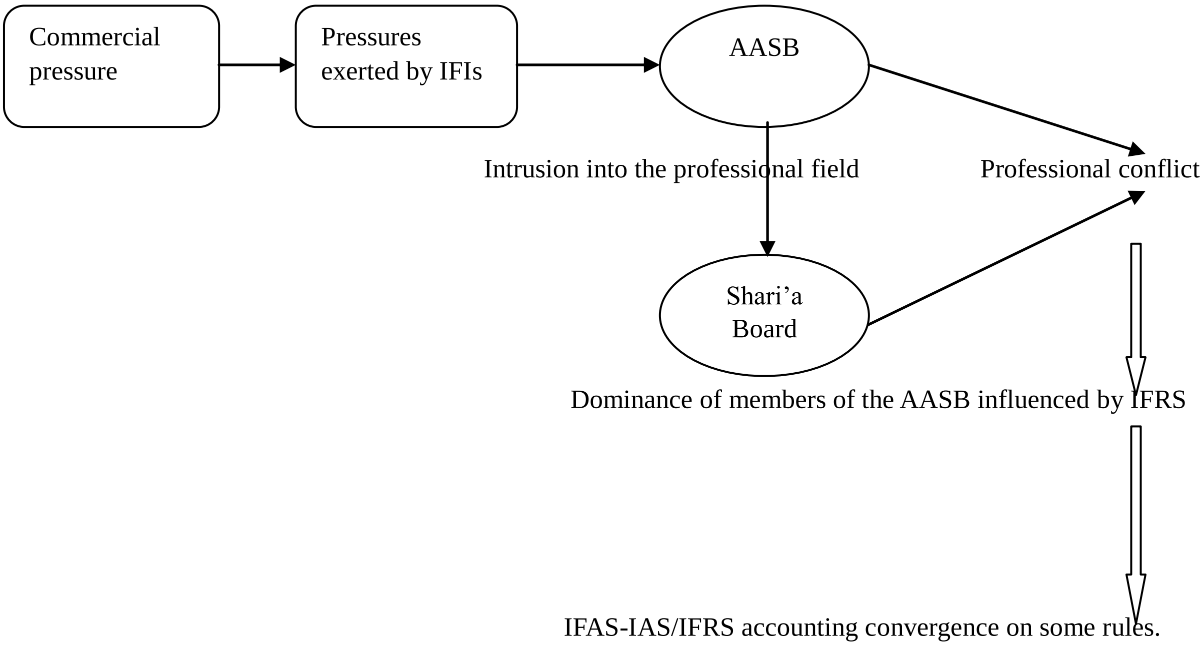

Figure 6: Dynamics of IFAS-IAS/IFRS accounting convergence.

This explanatory model of convergence confirms that the economic factor (competitive pressure) is a central element favoring international accounting harmonization. This conclusion echoes the findings of several studies (Nobes, 1992). However, this process leaves various questions unanswered. Why and how do Islamic banks manage to impose their preferences on the standardization process? Why does professional conflict between members of the AASB and those of Shari'a Board lead to the domination of the former?

The rationality of the two groups is different. The members of the AASB are more influenced by international financial reporting standards and by the accounting practices deployed in conventional organizations. The members of the Shari'a Board are naturally less influenced by secular knowledge (given their training and their experience) and are adherents to the traditionalist knowledge stemming from the classical schools of thought of Islamic jurisprudence.

In fact the Islamic banks legitimize one form of rationality at the expense of another. Relatively small on the scale of international finance, Islamic banks are subject to competition from conventional banks[8]. These hegemonic banks exercise institutional domination and impose their own collective rationality characterized, among other things, by the preponderance of the ideological framework of IFRS. Under institutional pressures, and within a logic of competition[9], Islamic banks therefore reproduce this rationality and legitimize the rationality of members of the AASB, who are more influenced by IFRS at the expense of the traditionalist rationality of members of the Shari'a Board.

Strengthened by this legitimacy and taking advantage of the blurring of professional boundaries, members of the AASB dominate members of the Shari'a Board and, intentionally or otherwise, orient AAOIFI accounting standards towards IAS/IFRS.

The difference compared to the findings of other studies on the theory of professional conflict is that bearers of financial knowledge are not able to impose their views through the "scientific superiority" of accounting and financial expertise but through institutional factors. It is these that tip the balance.

[8] "Translated commercial risk" is a concept found in the Islamic financial literature. It refers to the risk that Islamic banks may not be able to successfully compete with conventional banks (AAOIFI, 2010).

[9] Van der Tas (1988) also identifies a "spontaneous harmonization" of accounting practices that occur as a result of market forces (not of accounting regulations).

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Appendices

Interview guide

Theme/ Question	Comments
<u>Introduction and presentation stage</u> **A/ Presentation of the researcher and the research** **B/ Outline of the interviewee's training and career.** 1. How many years have you been exercising responsibility in AAOIFI ? 2. What academic training have you had? 3. What positions did you hold before joining AAOIFI ? 4. Do you hold other positions alongside your responsibilities in AAOIFI?	Explaining the practical aspects of the interview (ethical considerations), formulating the problem and research objectives.
<u>Stage of main questions</u> **A/ AAOIFI in its internal environment (internal relational flows)** 1. Can you describe the main aspects of the production process of AAOIFI's accounting standards? 2. Please describe your role in relation to this process.	These questions refer to the accounting standardization process.

3. What interactions/relations do you have with the other members of the Shari'a Board (or AASB if the interviewee is a member of the AASB)?	(focusing on personal relations, relations to work, types of problems that require joint management, and potential conflicts and how to resolve them)
4. What interactions/relations do you have with the members of the other operational board?	Ditto
B/ AAOIFI in its institutional environment (external relational flows)	
1. Do you have relations with other international accounting regulation organizations?	Emphasizing notions of acceptance and application
2. How do you rate the reception of your standards by Islamic banks and national accounting regulators?	If yes, who are they? In which particular cases have you been aware of these interventions? How would you describe these interventions?
3. Do external actors intervene in the standardization process?	
C/ Synthetic questions and conclusion	
1. What aspects of your work are most stimulating?	

2. Have you encountered any problems or difficulties in exercising your responsibilities at AAOIFI? 3. Would you like to raise any points that have not been addressed but seem relevant?	

Professional affiliation of persons interviewed

	Member of:	Date of interview	Interview language	Duration of interview
Interviewee 1	Shari'a Board	June 2011	English	40 min
Interviewee 2	Shari'a Board	June 2011	Arabic	1h
Interviewee 3	AASB	16 July 2011	English	1h25
Interviewee 4	Shari'a Board	October 2011	Arabic	30 min
Interviewee 5	AASB	12 June 2012	Arabic	1h25
Interviewee 6	Shari'a Board	11 July 2012	Arabic	45 min
Interviewee 7	AASB	12 July 2012	Arabic	35 min
Interviewee 8	Shari'a Board	12 July 2012	Arabic	1h15
Interviewee 9	Shari'a Board	10 August 2012	Arabic	55 min
Interviewee 10	Shari'a Board	17 August 2012	Arabic	45 min
Interviewee 11	Shari'a Board	18 August 2012	Arabic	1h25
Interviewee 12	AASB	October 2012	English/Arabic	50 min
Interviewee 13	AASB	December 2012	Arabic	35 min
Interviewee 14	AASB	July 2013	Arabic	45 min
Total				13 hours 25 minutes.