SOCIAL DISCLOSURE IN ANNUAL REPORTS OF ISLAMIC BANKS: THE CASE OF MALAYSIA

By

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APPROVAL PAGE

I certify that I have supervised and read this Project Paper and that in my opinion it conforms to acceptable standards of scholarly presentation and is fully adequate, in scope and quality, as a Project Paper for the degree of Master of Business Administration/Master of Management.

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DECLARATION AND COPYRIGHT

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I hereby declare that this research is the result of my own investigations, except where otherwise stated. Other sources are acknowledged by footnotes giving explicit references and a bibliography is appended.

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LIST OF SYMBOLS AND ABBREVIATIONS

AAOIFI	Accounting and Auditing Organisations for Islamic Banks and Financial Institutions
AFB	Asian Finance Bank Berhad
Affin Islamic	Affin Islamic Bank Berhad
Al Rajhi	Al Rajhi Banking & Investment Corporation (Malaysia) Berhad
AmIslamic	AmIslamic Bank Berhad
BIMB	Bank Islam Malaysia Berhad
BMMB	Bank Muamalat Malaysia Berhad
BOD	Board of Directors
CIMB Islamic	CIMB Islamic Bank Berhad
CSR	Corporate Social Responsibility
EIBB	EONCAP Islamic Bank Berhad
HLIB	Hong Leong Islamic Bank Berhad
IFIs	Islamic Financial Institutions
IFSB	Islamic Finance Services Board
IIFS	Islamic Financial Services
KFHMB	Kuwait Finance House Malaysia Berhad
MASB	Malaysian Accounting Standard Board
MIB	Maybank Islamic Berhad
PBUH	Peace be Upon Him
RHB Islamic	RHB Islamic Bank Berhad
SAB	Shariah Advisory Board
SAC	Shariah Advisory Council
SSB	Shariah Supervisory Board

ABSTRACT

Social responsibility is synonymous to the Islamic view on *maslahah ummah* (public interest). Islamic values and principles which are based on the Holy Quran, the teachings of Prophet Muhammad (PBUH) and the interpretation of Islamic jurists may serve as the foundation for social responsibility. Previous studies have shown that the disclosure level of social responsibility by financial institutions that claimed themselves as companies operated based on *Shari'ah* are however less than expected. In this study, a prescriptive benchmark for high-quality social disclosure that has been developed by previous researchers is employed where the banks will be graded based on their disclosure level.

The aim of this study is to examine the disclosure practice of the sample Islamic banks operating in Malaysia based on their annual reports. From a total of 17 Islamic banks in Malaysia, 12 banks served as sample for this study. The reason being, the remaining five banks just started their operations in late 2008 or early 2009 therefore are not eligible to serve as sample since this study is conducted using 2008 annual reports. The main implication of this study is to increase the awareness level of Islamic banks regarding the compliance and disclosure requirement to satisfy users of the annual reports especially those who are using the financial statement to make their religious decision or ethical consideration.

Findings show that seven out of twelve Islamic banks analyzed to be above average. However, most Islamic banks still put little effort in terms of disclosing their social values in the annual report. Some banks communicate in an ambiguous style, which can have big implications on the image and reputation of the banks. Therefore, in order to remain competitive and strengthen their reputation, the level of social disclosure of Islamic banks should be improved to reach the satisfactory level.

CHAPTER 1: INTRODUCTION

1.1 BACKGROUND OF THE STUDY

In recent years, the need for transparent reporting has become a significant matter in the business world. Adequate amount of disclosure is important to gain stakeholders confidence and trust to the management of the institutions. However, previous studies by Maali, Casson & Napier (2006) and Abdeldayem (2009) shown that Islamic banks tend not to disclose information about activities that are potentially criticized, namely activities which are considered unlawful according to the *Shari'ah*. This paper explored the level of disclosure of Islamic banks thus implying the importance of close monitoring by the regulatory authorities in order for the banks to increase the compliance and disclosure level according to *Shari'ah* requirement. Since Malaysia is known as International Islamic Banking Hub, other countries have a high expectation for the Islamic Banks in Malaysia to have highly *Shari'ah* abiding operations and also higher disclosure level of the operations.

In view of the fact that the comprehensive set of accounting standards are not available, Islamic banks and other Islamic financial institutions, as well as conventional banks that provide Islamic banking services, have relied heavily on the prevailing guidelines issued by the Bank Negara Malaysia (GP8-i) and on *Shari'ah* rulings issued by the in-house *Shari'ah* advisors appointed by the respective banks. The current practice has raised several serious concerns. The absence of a proper set of accounting standards for the recognition, measurement, and disclosure of Islamic-based transactions complicates the attempt to compare financial performance among banks or between periods for individual banks. Lack of specific standards for Islamic banks has become a concern to the regulators because it can hamper the development of Islamic banking and finance development. Therefore, the Malaysian Accounting Standard Board (MASB) has developed a standard which is now called Financial Reporting Standard of Islamic Financial Institution (FRS i-1_{2004}). Yet, if compared to the AAOIFI requirement on the social reporting, the leniency of reporting requirement in FRS i-1_{2004} is still very apparent. In order to see enhancement in the disclosure level, additional items regarding social disclosure should be added in the current standard so that the Islamic banks are aware of the other items that they should disclose in the annual report.

1.2 OBJECTIVES OF THE STUDY

The study has two main objectives.

1. To determine the extent of social disclosure in annual reports of Islamic banks in Malaysia.
2. To empirically examine the relationship between the extent of social disclosure and number of years in operations of Islamic banks.

1.3 RESEARCH QUESTIONS

Based on the objectives of the study, the researcher has formulated the specific research questions as follows:

1. What is the extent of social disclosure in the annual reports of Islamic banks in Malaysia; and
2. Do years of operation of the banks influence the extent of social disclosure in the annual reports of the Islamic banks?

1.4 MOTIVATION OF THE STUDY

Recently, there are an increasing number of Islamic banks and other financial institutions offering Islamic financial products and services within Malaysia. Thus this has motivated this study to be conducted to examine the social disclosure practices of Islamic banks. Furthermore, this study is motivated by the lack of social disclosure literature of Islamic banks in Malaysia context. Since the number of Islamic banks in Malaysia are increasing greatly, more literatures on the disclosure should be conducted for create the awareness of the newly established Islamic banks on the items need to be disclosed.

1.5 CONTRIBUTION OF THE STUDY

The Islamic Banking and Finance in Malaysia has emerged as a significant area of growth. With the increasing number of the *Shari'ah* compliant investments, investors nowadays have more confidence and choices in making investment decision. In order to attract more local and foreign investors, the Islamic Financial Institutions need to convince investors by communicating the qualitative and quantitative information using their annual reports. Therefore, this study intends to contribute towards the knowledge and understanding about the level of social disclosure in annual reports of Islamic banks. Awareness about the importance of social disclosure is important since the it will increase the transparency which will also influence the spiritual decision of the Muslims.

Additionally, the study contributes towards extending the Malaysian literature on disclosure, and filling the gap in the lack of empirical studies on social disclosure practices of Islamic banks, particularly in Malaysia. This study will create awareness for the banks about their level of compliance and disclosure not only based on the guidelines provided, but also based on the level of transparency required by the stakeholders to decide on their investment. This study can also strengthen the position of the authorities who advocate the Islamic banks on the need of social disclosure guidelines and disclosure audits to ensure that social disclosures are made in accordance with the professionally acknowledged disclosure guidelines. The regulatory authorities will also be informed about whether or not they have been providing close monitoring for the Islamic banks in Malaysia. If the results show that the disclosure level is high, an evaluation of impact of disclosure by Islamic banks in Malaysia can be analysed for further study. However, if the disclosure level is still low, assessment on the current disclosure guidelines or audits has to be conducted so that higher level of compliance to the disclosure guidelines will be obtained in order for the reporting standards will reach the ideal level of disclosure.

1.6 ORGANIZATION OF THE STUDY

The study has been organized into six chapters and they are structured as follows:

Chapter 1: Introduction

This chapter consists of the organization of the study, background, objectives, research questions, motivation and contribution of the study.

Chapter 2: Islamic Banks Background

Chapter two discusses about the overview of Islamic banks in Malaysia. In this section, the researcher categorised the Islamic banks in Malaysia as the domestic Islamic banks, domestic commercial banks with local subsidiaries, foreign Islamic banks and commercial foreign banks with Islamic subsidiaries. This chapter also discloses three regulatory institutions that are responsible for the standard and regulation of Islamic banks.

Chapter 3: Social Disclosure Literature

Chapter three looks at the different literature on social disclosure in general environment and also within Islamic context.

Chapter 4: Benchmarks for Social Disclosure

This chapter reviews the benchmarks provided by the previous researchers. Next, based on the previous benchmarks, a new social disclosure benchmark is developed for the purpose of this study.

Chapter 5: Research Methodology

Chapter five consists of two sections. The first section discusses the research methodology which includes two parts. The first part explains the sample selection and data description. Second part discuss about data collection and analysis.

Chapter 6: Empirical Results and Discussion

This chapter analyses the data and provides results and findings of the analysis. Then, the findings from this study are discussed.

Chapter 7: Conclusion, Limitations and Suggestions for Future Research

Chapter seven concludes the study with the overview of the findings and implications. It also offers some limitations and suggestions for future research.

CHAPTER 2: ISLAMIC BANKS BACKGROUND

2.1 ISLAMIC BANKS IN MALAYSIA

Malaysia has emerged as the first country to implement a dual banking system where Islamic banking system operates side by side with conventional banking (Mokhtar, Abdullah & Al Habshi, 2006). The legal basis for the establishment of Islamic banks was the Islamic Banking Act (IBA) which came into effect on 7 April 1983. Bank Negara Malaysia (BNM) was mandated by IBA to supervise and regulate Islamic banks, similar to the case of other licensed banks. The first Islamic bank established in the country was Bank Islam Malaysia Berhad (BIMB) which commenced operations on 1 July 1983. The bank was listed on the Main Board of the Kuala Lumpur Stock Exchange on 17 January 1992. On 1 October 1999, a second Islamic bank of Malaysia, namely Bank Muamalat Malaysia Berhad (BMMB) has commenced operations.

BNM has put a lot of efforts in encouraging domestic and foreign commercial banks in Malaysia to set up Islamic Banking Subsidiaries in order to remain competitive in the market. According to Dr Zeti Akhtar Aziz, the Governor of Bank Negara Malaysia in her speech at the launching of RHB Islamic Bank Berhad, there are two objectives for the establishment of the Islamic subsidiaries which are:

i) to further strengthen the institutional structure for Islamic banking business operations, and

ii) to be able to assimilate the developments in the regulatory and supervisory standards governing the Islamic banking operations.

The Malaysian Islamic banking system is currently represented by 17 banking institutions comprised of nine domestic commercial banks, two domestic Islamic banks, three foreign commercial banks and three foreign Islamic banks offering Islamic banking products and services under the Islamic Banking Scheme (IBS). The Islamic Banking Subsidiaries that have been set up and the commencement dates are shown in the table below:

No.	Local Islamic Banking Subsidiaries	Commencement date
1	Affin Islamic Bank Berhad	6 June 2006
2	Alliance Islamic Bank Berhad	April 2008
3	AmIslamic Bank Berhad (AmIslamic)	18 May 2006
4	CIMB Islamic Bank Berhad	2 June 2003
5	EONCAP Islamic Bank Berhad (EIBB)	1 April 2006
6	Hong Leong Islamic Bank Berhad	28 March 2005
7	Maybank Islamic Berhad (MIB)	1 January 2008
8	Public Islamic Berhad	3 March 2009
9	RHB Islamic Bank Berhad	1 March 2005

The foreign commercial banks that have started their Islamic subsidiaries in Malaysia are:

i) HSBC Amanah Malaysia Berhad (Launched on 25 November 2008)

ii) Standard Chartered Saadiq Berhad (Launched on 12 November 2008)

iii) OCBC Al Amin Bank Berhad (Launched on 11 November 2008)

The entry of the three foreign Islamic banks, which are Al Rajhi Banking and Investment Corporation Berhad (Al Rajhi), Kuwait Finance House Berhad (KFHMB) and Asian Finance

Bank Berhad (AFB), enhances the competition and stimulates innovation among the Islamic banking players, and at the same time complements the Malaysian players in tapping into strategic growth areas such as investment banking and wealth management.

2.2 REGULATORY INSTITUTIONS

Internally, financial institutions that wish to offer Shari'ah compliant products have to have a Shari'ah Supervisory Board (SSB) or Shari'ah Committee as it is called in most Islamic banks in Malaysia. The function of SSB is to review and approve financial practices and products for compliance with Islamic principles. However, since *Shari'ah* is open to interpretation, so *Shari'ah* scholars often disagree as to what is *Shari'ah* compliant or not. Thus the laws and regulation that govern Islamic institutions continue to vary across jurisdictions. Externally, the major regulatory bodies are Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), Malaysian Accounting Standard Board (MASB) and Islamic Finance Services Board (IFSB). The following are the explanation about the most influential standard setters regarding accounting for Islamic financial institutions.

2.2.1 Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI)

Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI), is the private sector standard-setting body in Bahrain that aims to produce international accounting standard based on *Shari'ah* precepts for Islamic banks and financial institutions. It is an independent international organization supported by institutional members (200 members from 45 countries, so far) including central banks, Islamic financial institutions, and other participants from the international Islamic banking and finance industry, worldwide. AAOIFI has gained assuring support for the implementation of its standards, which are now adopted in the Kingdom of Bahrain, Dubai International Financial Centre, Jordan, Lebanon, Qatar, Sudan and Syria. The relevant authorities in Australia, Indonesia, Malaysia, Pakistan, Kingdom of Saudi Arabia, and South Africa have issued guidelines that are based on AAOIFI's standards and pronouncements.

2.2.2 Malaysian Accounting Standard Board (MASB)

In order to increase high level of compliance regarding disclosure and transparency of Islamic banks, close monitoring system by the regulatory institutions should be practiced (Hossain, 2008). In Malaysia, Malaysian Accounting Board Standard (MASB) is the independent authority which developed and issued financial reporting standards. MASB has come out with FRS i-1 Standard which is effective in the beginning or after January 1, 2003. This standard is the first Islamic Accounting Standard ever issued by MASB and developed with careful consideration to the substance of AAOIFI standards.

The aims of this Standard are:

(a) to provide guidance for preparers in preparing a complete set of financial statements for users, investors, depositors, and other stakeholders in their decision-making;

(b) to harmonize accounting practices especially in areas where *Shari'ah* rules allow for different accounting treatments and alternatives;

(c) to bridge the gap or areas where the IASs and AAOIFI's Islamic Accounting Standards have not been able to address;

(d) to ensure comparability of operational and financial performance of all IFIs; and

(e) to promote healthier growth of the Islamic capital market.

2.2.3 Islamic Finance Services Board (IFSB)

The Islamic Financial Services Board (IFSB), which is based in Kuala Lumpur, was officially launched on 3rd November 2002 and started operations on 10th March 2003. It operates as an international standard-setting body of regulatory and supervisory agencies that have vested interest in ensuring the soundness and stability of the Islamic financial services industry, which is defined broadly to include banking, capital market and insurance. In advancing this mission, the IFSB promotes the development of a prudent and transparent Islamic financial services industry through introducing new, or adapting existing international standards consistent with *Shari'ah* principles, and recommend them for adoption.

As at November 2009, the 193 members of the IFSB include 49 regulatory and supervisory authorities as well as International Monetary Fund, World Bank, Bank for International Settlements, Islamic Development Bank, Asian Development Bank and the Islamic Corporation for the Development of Private Sector, Saudi Arabia, and 138 market players and professional firms operating in 39 jurisdictions.

To date, IFSB has issued 11 standards which are:

i. *IFSB-1*: Guiding Principles of Risk Management for Institutions (other than Insurance Institutions) offering only Islamic Financial Services (IIFS)

ii. *IFSB-2*: Capital Adequacy Standard for Institutions (other than Insurance Institutions) offering only Islamic Financial Services (IIFS)

iii. *IFSB-3*: Guiding Principles on Corporate Governance for Institutions Offering Only Islamic Financial Services (Excluding Islamic Insurance (Takaful) Institutions and Islamic Mutual Funds

iv. *IFSB-4*: Disclosures to Promote Transparency and Market Discipline for Institutions offering Islamic Financial Services (excluding Islamic Insurance (Takaful) Institutions and Islamic Mutual Funds)

v. *IFSB-5*: Guidance on Key Elements in the Supervisory Review Process of Institutions offering Islamic Financial Services (excluding Islamic Insurance (Takaful) Institutions and Islamic Mutual Funds)

vi. *GN-1*: Guidance Note In Connection with the Capital Adequacy Standard: Recognition of Ratings by External Credit Assessment Institutions (ECAIs) on Shari`ah-Compliant Financial Instruments

vii. *IFSB-6*: Guiding Principles on Governance for Islamic Collective Investment Schemes

viii. *IFSB-7*: Capital Adequacy Requirements for Sukuk, Securitisations and Real Estate investment

ix. *IFSB-8*: Guiding Principles on Governance For Takaful (Islamic Insurance) Undertakings

x. *IFSB-9*: Guiding Principles on Conduct Of Business For Institutions Offering Islamic Financial Services.

xi. *IFSB-10*: Guiding Principles On Shariah Governance Systems For Institutions Offering Islamic Financial Services.(http://www.ifsb.org/)

CHAPTER 3: SOCIAL DISCLOSURE LITERATURE

Business organizations all over the world exist because they satisfy the valuable needs of the society. Once the organizations fail to meet the expectation of the society, they will come to the end of their subsistence. For that reason, if businesses wish to stay viable, the operations must be in agreement with the society's needs and demands. Farook (2007) implied Islamic Financial Institutions (IFIs) are not only responsible in meeting the demands of the society they also need to comply with the form and substance of Islamic law in all aspects of their operations since they are the in the exemplary position, whereby they represent the interests of their stakeholders and at the same time are exemplars to their stakeholders. He also stated that all operations of the IFIs should be in line with the *Shari'ah* guidelines and if it is conducted in impermissible manner, the IFIs have the obligation to disclose to its stakeholders the reason for that particular conduct.

3.1 SOCIAL DISCLOSURE IN GENERAL

Social disclosure by the companies has been a very interesting topic that has been discussed by many scholars all over the world. The previous studies in Malaysia by Nik Ahmad and Abdul Rahim (2003) and Thompson and Zakaria (2003) conclude that the awareness level of the company about Corporate Social Responsibility (CSR) is growing but the disclosure of CSR is still at an infancy stage. In their research, Mohammad and Zain (2006) found that cultural factor such as modesty, and secrecy and religion are the major hindrance against corporate social responsibility disclosure in Malaysia. Before further discussion, it's best to familiarize ourselves with the definition of social disclosure.

Simpson (2005) defines Corporate Social Disclosure:

> ...as the provision of information regarding the impact of an organization upon the natural environment and society.

The researcher believed that the organization should provide the information on how the organization creates the impact on the society and environment. The impact here does not only refer to positive impact to the society but should also include the negative ones. An organization should come clear about how their operations contributes to the society and should disclose if any of their operation could be deteriorating to the society. Additionally, Abdul Wahad, How and Verhoeven (2008) defines Corporate Social disclosure:

> ...as a reflection of accountability and transparency that broadens the scope of management responsibility.

The statement clearly implies that it is part of management responsibility to provide the social disclosure to enhance the transparency of the operations. Therefore, companies and organizations in Malaysia should be made aware that they are accountable to provide such disclosure to their stakeholders.

According to Zain & Mohammad (2006) corporate social disclosure in Malaysia is still below the expected level and up till now, there is no in-depth study conducted on the reasons why managers are reluctant to disclose social information. They stated that when it comes to corporate social reporting, Malaysian companies are still lagging behind compared to their western counterparts. They also suggested that in order to become a developed nation certain values must be adopted particularly openness, transparency, equality, quality consciousness and environmental friendly sensitivity.

The second principle in the article titled Principles of Stakeholders Management by Clarkson et al (1999) stated that "managers should listen to and openly communicate with stakeholders about their respective concerns and contributions, and about the risks that they assume because of their involvement with the corporation". This article emphasized the two perspectives of social disclosure which are:

i) from an accounting perspective, the primary method of communicating with stakeholders is through annual reports that include financial statement and other information.

ii) from a stakeholder's perspective, social disclosure is seen as part of the dialogue between the company and its stakeholders.

Both perspectives highlight the social disclosure as a way for the companies to communicate with the stakeholders. Information that is clearly stated in the annual reports is easily accessible by the stakeholders thus will provide positive image towards the organization.

3.2 ISLAM AND SOCIAL RESPONSIBILITY

The primary factor contributing to the emergence of the Islamic banks all over the world is the need of the Muslims to practice their lifestyle in accordance with the Islamic teachings. Islamic values and principles which is based on the Holy Quran and the teachings of Prophet Muhammad (PBUH) may serve as the foundation for social responsibility. Islam, like other major religions in the world, requires people to exercise ethical behavior to deal with each other and with the resources available to them (Baydoun and Willet, 1997). The operations of Islamic banks should be based by the principles laid down by the *Shari'ah* or Islamic law. Dusuki and

Abdullah (2007) implied that corporation that claims to follow *Shari`ah*-based principles should naturally practice CSR, as it depicts Islam's true spirit. In *al-Nahl* verse 90, Allah reveals:

> *"Allah commands justice, the doing of good and liberality to kith and kin, and He forbids indecency, doing wrong, and tyranny ..."*

According to Farook (2007), the two reasons for Islamic Financial Institutions (IFIs) to be socially responsible are:

i) In order to fulfil a collective religious obligation (*fard kifayah)* for Muslims and hence they are in a position to fulfil an enlarged scope of responsibilities that Muslims cannot fulfil individually;

ii) They are in an exemplary position in society as a financial institution.

From an Islamic perspective, social disclosure means disclosing information that would aid economics as well as religious decision making (Muwazir, Muhamad and Noordin, 2006). Therefore, any matter of significance should be disclosed if "the knowledge of it would affect the decision of an average investor" (Eltegani. 1994). The information has to have those qualities of being relevant, objectives and material. According to AAOIFI:

> ...one of the information needed by the users in the financial reports of Islamic banks are information that can assist the stakeholders in understanding the level of social responsibility carried out by the Islamic Financial institution such as the use of available resources, the protection of the rights of others and also the corruption on earth. AAOIFI also stated that the financial reports should contain information about the level of compliance with the Islamic Shari`ah and the banks objectives and to establish such compliance; and information establishing

the separation of prohibited earnings and expenditures, if any, which occurred, and of the manner in which these were disposed of.

Therefore, Islamic banks are expected to disclose relevant CSR information to discharge their responsibility and to earn legitimacy for their continued existence (Baydoun and Willet, 2000; Haniffa, 2002; Lewis, 2001; Maali et al. 2006). Nevertheless, previous study by Maali et *al.* (2006) indicates that Islamic banks are not completely fulfilling their social disclosure requirement as per needed by the stakeholders. Allay says in al-Baqarah verse 42:

"...and cover not the truth with falsehood nor conceal the truth when you know."

The verse from the Quran above strengthen requirement for Islamic banks to disclose all information that the stakeholders need to know to obtain blessing (*barakah*) from Allah. In order to measure the level of social information of Islamic banks, Maali et al. (2006), developed a pragmatic benchmark based on Islamic perspective for social disclosure that they would expect Islamic banks to provide (see Table 1).

Maali et al. (2006) stated in their conclusion that the banks are using social disclosure to create a positive Islamic image. because a "negative corporate image can have a serious economic implication for organization". This is the main reason why most banks conceal some of the information about the company activities. Farook and Lanis (2005) states that:

> ...if a negative report were to be published, it be expected that the investment account holders would begin to doubt management's commitment to Islamic. Such belief would have a detrimental impact on the bank since the clients are likely to refrain from dealing with the bank.

In a study by Adebayo (2000), it is reported that Chief Financial Officers of Fortune 1000 Firms in the United States claimed that social reporting is important for most decision of the firm but the disclosure is limited to the information that will have favorable impact to the reporting companies.

Farook and Lanis (2005), in their research find that while Islamic banks are expected to favor small entrepreneurs who do not have access to credit in the conventional banking system, the banks rarely offer finance to these segments of the market, contrary to Islamic injunctions to promote the development of the underprivileged echelons of society.

Most of the users of Islamic banks are interested in dealing with Islamic banks because of their compliance with the principles of *Shari'ah* in all their financial and other dealings. It has been reported by Shameen in Businessweek (2005) that when HSBC introduced Islamically formulated products in 2004, more than half of its customers were non-Muslims mostly because of the increase of demand in ethical investing. However, some *Shari'ah* Advisory Council (SAC) of Securities Commission allows investment in mixed companies as long as it does not exceed the benchmarks determined by the SAC. (A mixed company is one whereby the core activities of the company are permitted by *Shari'ah*, although there are some other activities that may contain prohibited elements to a small extent). The benchmarks suggested the maximum level of revenue and profits generated by the prohibited activities in order for the company to be entitled as *Shari'ah* approved companies.