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Foreign Exchange Accounting in Islamic Finance: Reconciling Fair Value with Maqashid Al-Shari'ah

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ABSTRACT: This study examines the conceptual alignment and divergence between PSAK 10 concerning foreign exchange transactions and the fiqh al-ṣarf framework in Islamic jurisprudence. Islamic Financial Institutions (IFIs) inevitably engage in foreign currency activities due to globalization, cross-border trade, remittances, and pilgrimage-related financial services. However, the application of PSAK 10, which mandates fair value adjustments and the recognition of unrealized gains and losses, potentially conflicts with Islamic legal principles that require immediacy of exchange (taqābuḍ) and prohibit speculative gains (maisir). Using a qualitative, conceptual, and literature-based analysis, this study compares PSAK 10, DSN–MUI Fatwa No. 28/2002, and AAOIFI FAS 16 to establish a coherent understanding of foreign exchange reporting from both accounting and Islamic perspectives. In addition, this research draws on the maqāṣid al-sharīʻah framework as a philosophical foundation maqāṣid emphasizes welfare, justice, and social order, making it relevant to evaluating ethical financial reporting. The findings reveal that PSAK 10 prioritizes economic relevance and decision usefulness, while fiqh al-ṣarf emphasizes legitimacy and the permissibility of profit. AAOIFI provides a middle path for Sharia-compliance disclosure. The study concludes that harmonizing PSAK 10 with maqāṣid principles is crucial for ensuring transparent, ethical, and sharia-aligned reporting in IFIs.

KEYWORDS: Foreign Exchange Accounting, PSAK 10, Fiqh al-Ṣarf, AAOIFI, Maqāṣid al-Sharīʻah, Islamic Finance

I. INTRODUCTION

The globalization of financial markets has increased the involvement of Islamic Financial Institutions (IFIs) in activities that require foreign currency transactions. These include international trade financing, remittances, cross-border investments, and the financing of Hajj and Umrah. In Indonesia, Bank Syariah Indonesia (BSI) plays a leading role in the Hajj and Umrah financial ecosystem, with Saudi Riyal (SAR) transactions experiencing significant growth during the 2024–2025 pilgrimage seasons. In 2025, BSI recorded SAR conversions reaching 24.4 million SAR, equivalent to Rp 107.01 billion, demonstrating the growing importance of currency operations in strengthening its halal value chain. Despite the operational necessity of foreign exchange, IFIs face conceptual and practical tensions when applying PSAK 10, which mandates the recognition of unrealized foreign exchange gains and losses. This poses a potential conflict with Islamic jurisprudence on currency exchange (fiqh al-ṣarf), which emphasizes real, immediate exchange (taqābuḍ) and prohibits speculative gain (maisir). According to DSN-MUI Fatwa No. 28/2002, currency exchange is permissible only when conducted on a spot basis and driven by genuine economic needs. Moreover, PSAK 10, derived from IAS 21, requires monetary items in foreign currencies to be revalued at closing rates at each reporting date, creating unrealized gains or losses. This accounting treatment has sparked debate among scholars over its compliance with Sharia principles. In contrast, AAOIFI FAS 16 offers a more sharia-attuned framework, emphasizing transparency and accountability while accommodating the economic necessity of valuation adjustments. Given these regulatory dualities, this study aims to conceptually analyze the alignment and discrepancies between PSAK 10 and fiqh al-ṣarf— supplemented by the maqāṣid al-sharīʻah framework and AAOIFI standards—toward developing a more coherent perspective on foreign exchange accounting in Islamic finance.

II. LITERATURE REVIEW

A. Foreign Exchange

The foreign exchange (FX) market is the largest and most liquid financial market in the world since its primary function is to facilitate international trade, investment, and financial transactions, creating a massive and constant need for currency conversion. Danila & Aggarwal (2025) examine herd behaviour in the ASEAN-5 foreign exchange markets: Indonesia, Malaysia, the Philippines, Singapore, and Thailand. The absence of herding may stem from fundamental macroeconomic diversity across those countries, such as differences in economic growth, inflation, and exchange rate policies. Understanding these macroeconomic foundations is essential for foreign exchange accounting because fluctuations driven by real economic forces directly affect the measurement of monetary assets and liabilities. Under international standards such as IAS 21, these items must be remeasured using closing exchange rates, which often results in the recognition of unrealized foreign exchange gains or losses. Consequently, the volatility of exchange rates—whether rooted in fundamentals or market microstructure—has material implications for fair value reporting and financial statement reliability.

B. Fiqh al-Ṣarf

The akad al-ṣarf refers to the exchange of one currency for another, whether of the same type of things or not (Sah & Ilman, 2018). The basis for its permissibility is ijma' (consensus) of scholars, supported by the Qur'anic argument on the permissibility of buying and selling (Q.S. Al-Baqarah: 275), and the hadiths of the Prophet SAW, which regulate the exchange of ribawi goods such as gold and silver. These rules require immediate exchange (taqābuḍ), equality when exchanging the same type of currency (tamāṯul), and prohibition of deferment (nasī'ah). Among contemporary scholars, including al-Qaradawi and Taqi Usmani, it is said that modern fiat currencies function as thaman istilāḥī, thereby extending classical rulings on ribawi items to contemporary currency exchange (Billah & Atabani, 2016). This establishes strict conditions for legitimate currency trading in Islamic finance.

In response to the limitations of conventional accounting standards, such as IFRS, which are value-free, the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) was established in 1991 in Bahrain as a non-profit organization focused on standardizing and harmonizing Islamic financial practices. AAOIFI developed various accounting, auditing, governance, ethics, and Sharia standards based on the principles of Maqāṣid al-Sharī'ah and the value of amanah. These standards are designed to increase transparency, consistency, and public trust in international Islamic financial institutions. In the context of this study, AAOIFI standards, particularly Financial Accounting Standard (FAS) 16 on Foreign Currencies, are used as a conceptual comparison to PSAK 10 and DSN-MUI Fatwa No. 28/2002 to see the extent to which sharia values can be implemented in modern sharia financial reporting.

In fiqh muamalah, the principle of al-ṣarf stipulates that the exchange of two currencies must be done in cash (at-taqābuḍ) and the transfer of ownership must occur before separation (qabḍ qabla al-iftirāq). Ibrahim (2021) reaffirms the four conditions for a valid currency sale and purchase: (1) delivery before separation, (2) al-tamāṯul if the types are the same, (3) cash payment, and (4) no khiyār syarṭ. Based on these provisions, the recognition of unrealized exchange rate gains or losses, as regulated in PSAK 10, may be inconsistent with Sharia principles because legally executed transactions under the contract do not support it.

C. PSAK 10 (Indonesian Standard) and Fair Value Reporting

PSAK 10 governs how entities recognize, measure, and report the effects of changes in foreign exchange rates. It requires recognizing foreign exchange differences, both realized and unrealized, in profit or loss. Studies such as Nurmalia et al. (2023) highlight that PSAK-compliant reporting enhances relevance and reliability for users of financial statements. Accurate reporting of exchange rate differences is crucial to reflect the actual value in a company's financial statements and to ensure that the information presented remains reliable and relevant to users of financial statements (Sabila et al., 2024). Empirical research supports this application as an example, Candradewi et al. (2024) found that PT Mandom Indonesia applies PSAK 10 to manage currency risk, improving the relevance and accuracy of its financial reporting. In another case, Sholihah et al. (2024) observe that PT Kalbe Farma, despite experiencing significant foreign exchange differences, does not implement a formal hedging policy, which may expose its financial statements to volatility. Some argue that the materiality of these differences matters, Susilawati & Wahyuni (2024) note that in PT Super Energy, the exchange differences under PSAK 10 are not material enough to affect financial presentation significantly. Finally, translational effects under PSAK 10 have been compared with IFRS (IAS 21), revealing that differences in treatment can materially affect consolidated financial statements.

Therefore, while PSAK 10's requirement to report unrealized exchange differences in profit or loss enhances relevance, it also raises questions about volatility, fair-value measurement, and the need for careful disclosure or alternative presentation (such as OCI) to maintain both reliability and meaningfulness for users.

D. AAOIFI FAS 16

AAOIFI FAS 16 provides guidance to Islamic institutions on foreign currency transactions. While it permits revaluation similar to PSAK 10, it strengthens the ethical dimension by requiring clear disclosure of unrealized gains/losses and asserting that these amounts should not be distributed until realized. This bridges Islamic legal requirements with the needs of modern financial reporting. Comparative studies indicate that AAOIFI FAS 16 has a more cautious posture than conventional standards such as IFRS/IAS. Research by Kusnan (2025) it demonstrates that under AAOIFI, there is greater emphasis on comprehensive disclosure and conservative recognition, which seeks to balance financial relevance with Shariah principles. This conservatism helps mitigate the risks of volatile currency revaluations. Moreover, in high-volatility contexts, AAOIFI's conceptual framework supports measurement flexibility, allowing for revaluation while maintaining strong disclosure requirements.

However, practical adoption of FAS 16 remains limited in some Islamic financial institutions. Some Islamic banks still lean toward IFRS-based reporting rather than AAOIFI, often citing ease of implementation and international comparability as motivating factors. This gap between normative ideals and practical application suggests challenges in fully harmonizing Shariahcompliant accounting standards in Islamic finance.

Furthermore, institutional analyses suggest that FAS 16 plays a strategic role in safeguarding the ethical integrity of Islamic financial reporting. For example, a review by Sarea & Hanefah (2013) that AAOIFI's structure regards FAS 16 as a core standard for managing foreign currency risks in a manner consistent with Islamic principles. By combining revaluation mechanisms with robust disclosure, FAS 16 allows Islamic financial institutions to present exchange differences transparently without compromising on Shariah-based accountability.

E. Maqāṣid al-Sharīʻah

According to Shihan et al. (2023), maqāṣid al-sharīʻah now functions as a comprehensive ethical framework emphasizing justice, communal welfare, and the prevention of harm. This modern view aligns with recent scholarly work that extends the application of maqāṣid to financial contexts. Qutaiba & Owais (2024) argue that Islamic banking products should be designed to fulfill maqāṣid objectives such as preservation of wealth (ḥifẓ al-māl), intellect (ḥifẓ al-ʿaql), and lineage (ḥifẓ al-nasl), thereby promoting socio-economic justice. In the context of contracts such as murābāḥah, critically evaluate how fixed margins often used in consumer murābāḥah may contradict maqāṣid values, particularly justice (al-ʿadl) and wealth protection (ḥifẓ al-māl), as their substance sometimes prioritizes administrative compliance over real ethical substance (Nurbaidah et al., 2025).

Furthermore, Fikri & Subroto (2024) discuss the paradigm of wealth preservation through maqāṣid in macroeconomic terms, examining Local Currency Settlement (LCS) mechanisms in ASEAN through the lens of ḥifẓ al-māl. They argue that preserving local currencies contributes to regional economic stability and aligns with maqāṣid goals of financial sovereignty and communal welfare. In the microfinance sector, Muhammad et al. (2025) find that integrating maqāṣid into digital accounting systems (such as DAIS) in Indonesian BMTs results in greater emphasis on ethical accounting practices and social justice, particularly in protecting clients' wealth and ensuring intellectual dignity. From a governance and performance evaluation perspective, Harahap et al. (2024) propose a maqāṣid al-Sharīʿah performance model centered on three main pillars: educating individuals (Tahdhib alFard), establishing justice (Iqāmah al-ʿAdl), and promoting general welfare (Jalb al-Maslahah). This model provides practical metrics for evaluating whether Islamic banks genuinely embody maqāṣid in their operations.

III. RESEARCH METHOD

This study uses a qualitative approach, grounded in normative legal and accounting research, with a literature analysis. Data were collected through a comprehensive review of authoritative texts, including PSAK 10, AAOIFI FAS 16, DSN-MUI Fatwa Number 28/2002, and classical and contemporary fiqh literature on al-sarf. This analysis proceeds in three stages: first, a comparative analysis of the treatment of foreign exchange gains and losses under PSAK 10 and AAOIFI FAS 16; second, an evaluation of their consistency with the principles of fiqh al-sarf; and third, an assessment using the maqashid al-shariah framework to find a reconciled accounting model that balances ethical legitimacy with financial reporting relevance.

IV. RESULT & DISCUSSION

As identified in the literature review, the core of the Sharia compliance issue is that unrealized gains cannot be categorized as Ribh or profit in the fiqh terminology. But they are notional gains that arise without buying and selling, and are called taqabud, thereby violating the prohibition on *maisir* in the Fatwa DSN-MUI rules, number 28/2002. The existing regulations in PSAK 10 appear to require the recognition of unrealized gains in the income statement, thereby automatically increasing the profits available for distribution. This is what causes the conflict, where Sharia Financial Institutions in Indonesia might be distributing the profit that has a dubious status (shubhat) and could even be potentially haram if it is considered as *maisir*.

Comparative Study

A comparison between PSAK 10, Fiqh Muamalah as contained in Fatwa DSN-MUI number 28/2002, and the international standard AAOIFIFAS 16 reveals fundamental differences in both the philosophical basis and the technical treatment of FX transactions. Philosophically, PSAK 10, which is adopted from IAS 21, is oriented towards the principle of the decision usefulness of information in economic decision-making. This approach is secular and value-free, as it emphasizes objectivity and relevance of data without considering ethical or religious dimensions. In contrast, fiqh muamalah bases all financial transactions on the principle of Maqashid al-Shariah, which emphasizes justice, benefit, and the prohibition of exploitation. Financial reporting not only serves as a decision-making tool but also a form of moral and legal responsibility to Allah and society. Meanwhile, the AAOIFI FAS 16 attempts to integrate both approaches through the concept of Accountability. This is a Sharia-based reporting system that combines information transparency with Islamic ethical values.

In terms of initial recognition, the three approaches are generally consistent because they all use the spot rate at the time of the transaction. Differences begin to appear when measuring monetary items at the end of the period. PSAK 10 and AAOIFI both require the revaluation of foreign currency assets and liabilities at the closing rate, so that the financial statements reflect their current fair values. However, fiqh muamalah does not recognize the concept of exchange rate revaluation, because its focus is not on market value, but on the validity of transactions and certainty of ownership (taqābuḍ).

The most substantial difference lies in the treatment of foreign exchange gains and losses. In PSAK 10, both unrealized gains/losses and realized gains/losses are recognized in the current period income statement. This provision reflects the modern accounting view that changes in economic value, even if not yet reflected in actual transactions, remain relevant information for users of financial statements. In contrast, fiqh muamalah rejects the recognition of unrealized gains as ribh (profit) because they are not based on actual business activities. Profits arising solely from exchange rate fluctuations are considered syubhat or even *maisir* (speculative) and therefore cannot be recognized as legitimate profits. Within the AAOIFI framework, the position taken is more moderate: unrealized gains are still recognized in the income statement. However, they must be supported by additional disclosures that emphasize their unrealized nature and that they cannot be used as a basis for distributing profits to fund owners before they are realized.

Derivative transactions, such as forwards and swaps, are not regulated by PSAK 10. Fiqh Muamalah explicitly prohibits derivative transactions due to their elements of *gharar* and *maisir*. Meanwhile, AAOIFI permits hedging contracts within certain limits, provided they are intended to mitigate risk rather than to profit from exchange rate changes.

Overall, this analysis shows that PSAK 10 is oriented towards economic relevance and fair value reporting. At the same time, fiqh muamalah emphasizes the legitimacy of transactions and the validity of profits based on the principle of taqābuḍ. Meanwhile, AAOIFI seeks to mediate between the two through a sharia-based accountability approach that balances ethical compliance and modern financial information needs.

V. CONCLUSION

This analysis has demonstrated a fundamental tension in accounting for foreign exchange transactions in Islamic Financial Institutions (IFIs), arising from the divergent philosophical foundations of conventional fair value accounting and Islamic commercial law. The analysis confirms that the mandatory recognition of unrealized foreign exchange gains and losses under PSAK 10, while enhancing the economic relevance and decision-usefulness of financial statements, conflicts with the core principles of Fiqh al-Sarf. These principles, as outlined in the Indonesian Regulation, require immediacy of exchange (taqābuḍ) and the prohibition of deferment (nasī'ah), thereby rendering unrealized gains illegitimate as profit (ribh) due to their speculative nature (maisir).

The comparative assessment reveals that AAOIFI FAS 16 offers a critical middle path. By permitting revaluation for transparency while imposing strict disclosure requirements and prohibiting the distribution of unrealized gains, it successfully bridges the gap between modern financial reporting needs and Sharia compliance. This approach is underpinned by the ethical framework of maqāṣid al-sharī'ah, which prioritizes justice (al-'adl), the preservation of wealth (ḥifẓ al-māl), and the prevention of harm.

Therefore, for IFIs in Indonesia to achieve both transparent financial reporting and unwavering Sharia integrity, a harmonization of PSAK 10 is imperative. This study concludes that the principles of AAOIFI and the objectives of maqāṣid alsharī'ah should guide such harmonization. It is recommended that the Indonesian accounting standards board and the Financial Services Authority consider either: Adopting an AAOIFI-inspired amendment to PSAK 10 for IFIs, requiring separate disclosure of unrealized gains/losses and clearly restricting their distribution, or formally endorsing AAOIFI FAS 16 as the primary standard for IFIs in Indonesia. Such a normative shift is crucial to ensure that IFIs' financial reporting is not only economically informative but also ethically sound and firmly rooted in the principles of Islamic law.

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