Contents _____

Αl	About the Contributors				
Pr	eface	!	COLL	XXV	
PΑ	ART I	GEN	ERAL CONCEPTS AND LEGAL ISSUES	1	
1	Rah	n Conc	cepts in Saudi Arabia: Formalization and a Registration and		
			ion System	3	
	Mick	ael J.T.	McMillen		
	1.1	Introd	luction	3	
	1.2	The M	Mortgage Law	4	
		1.2.1	General Observations	4	
		1.2.2	Specific Provisions	6	
	1.3	Concl	usion	13	
		Notes		13	
2	The	Sharia	th Process in Product Development and Approval in ICM	23	
			sasna and M. Kabir Hassan		
	2.1	Introd	luction	23	
	2.2	Produ	act Development, Financial Engineering, and Innovation in		
		Islam	ic Finance	23	
		2.2.1	Principles to be Considered in Product Development,		
			Innovation, and Financial Engineering	24	
		2.2.2	Area of Product Development, Innovation, and Financial Engineering	25	
		2.2.3	Failure of Innovation and Financial Engineering	25	
	2.3	The S	hariah Framework in Product Development and Approval	26	
		2.3.1	Sources of Shariah Law	26	
		2.3.2	Maqasid al Shariah	31	
		2.3.3	Legal Maxims	33	
		2.3.4	8 - 8 - 8 - 7 - 7		
			Standards, and Parameters for Islamic Finance (AAOIFI, IFSB,		
			and Others: Shariah Standards, Corporate Governance, and		
			Prudential Regulations)	34	

19:23

√i	(Contents		
	2.4	The Tvi	pes of Product in Islamic Finance	37
			Shariah-Based Products	37
			Shariah-Compliant Products	39
	2.5		s of Product Development in Shariah-Based Products	39
		2.5.1	Example of Product Development in Shariah-Based Product:	-
			Ijarah Muntahiah Bittamlik (Leasing Ending with Ownership)	40
	2.6	Process	s of Product Development in Shariah-Compliant Products	41
	2.7		amework and Process Flow of Product Approval in	
			Finance	43
		2.7.1	The Flow of the Process of Approval of the New Product:	
			From the Product Owner to the Market Place	43
		2.7.2	Mechanism for Obtaining Rulings	46
		2.7.3	Position of the IFI with Regard to the Resolutions of SSB and	
			IFSB Principles Governing the SSB	47
	2.8	The Me	ethodology Used in the Approval Process	49
		2.8.1	The General Rules and Standards Governing the Product	
			Approval in Islamic Finance	50
		2.8.2	Methodology and Standards of <i>fatawa</i> in Islamic Finance	
			Prior to Issuing a <i>fatwa</i> and Resolutions	50
		2.8.3	Methodology of fatawa in Islamic Finance in Issuing the	
			Islamic Ruling	50
		2.8.4	Methodology of Presenting fatava in Islamic Finance	51
		2.8.5	Methodology of Empowering the fatwa in Islamic Finance	52
	2.9	Product	t Approval in Securities in Islamic Capital Markets	52
		2.9.1	Shariah Criteria for Listed Securities	53
		2.9.2	Primary Activities Criteria	53
		2.9.3	The Product Approval of Securities in Mixed Companies	54
		2.9.4	Image as Criteria for Listed Securities	56
		2.9.5	Quantitative and Qualitative Approach in Screening Process	
			in Capital Market	56
		2.9.6	Image with Benchmark	57
		2.9.7	Image without Benchmark	57
		2.9.8	Fundamentals of Shariah Assessment on Image Analysis	57
		2.9.9	Relationship of Image and Principle of Shariah	57
	2.10	Applyii	ng the Shariah Advisory Council Methodology	60
		2.10.1	Case 1: Wawasan Holding	60
		2.10.2	Case 2: Gemada Berhad	61
	2.11		Methodology of Shariah Screening Process for Securities	62
		2.11.1	FTSE Shariah Index Screening Methodology	62
		2.11.2	Yasaar Shariah Index Screening Methodology	63
		2.11.3	DJIM Shariah Screening Process	63
	2.12	Conclu	sion	67
		Notes		67
3	_		f Social Responsibility in Financial Communities	69
	-		d Rafi-Uddin Shikoh	
	3.1	Introdu	ction	69

		Contents	V11
	3.2	The Conflicting Ideologues within Islamic Finance	70
	3.3	Core Motivations of Conventional Business Models and Their Social	70
	0.0	Responsibility Mandates	71
	3.4	Islam, Business, and Social Responsibility	73
		3.4.1 "Taqwa-Centricity" (God Consciousness) and Human Beings	
		as Vicegerents on Earth	73
		3.4.2 Primary Responsibilities: To Educate and Establish Justice	74
		3.4.3 Ability-Based Focus	75
		3.4.4 Individual vs. Institutional Responsibility	75
		3.4.5 Existing Paradigms of Social Responsibility Discourse in Islam	76
	3.5	Case for Broader Social Responsibility Mandate	76
		3.5.1 IFIs' Special Obligation	77
		3.5.2 Religious and Financial Obligations	78 7 8
		3.5.3 New Realities	78
	2.6	3.5.4 Different from Charities	79
	3.6	Current Challenges and Recommended Approach to Islamic	70
		Social Responsibility	79
		3.6.1 Regularize a Framework of Mandatory and Recommended Social Responsibilities	79
		3.6.2 Mandatory Forms of Social Responsibility	80
		3.6.3 Recommended Forms	81
	3.7		84
	3.8		85
	5.0	3.8.1 Key Lessons from Current Practices	85
	3.9		86
	• .,	Notes	86
		References	88
		Concluding Thoughts Notes References Further Reading	89
4	The l	Dispute Resolution Framework for the Islamic Capital Market	
_		alaysia: Legal Obstacles and Options	91
		A. Oseni and M. Kabir Hassan	
	4.1	Introduction	91
	4.2	The Legal Framework of the Islamic Capital Market in Malaysia	92
		4.2.1 Relevant Legislations Regulating ICM in Malaysia	92
		4.2.2 Guidelines and Practice Notes	95
	4.3	The Nature of Disputes Among Market Players	96
	4.4	Constraints and Concerns Over the Current Legal Framework	97
		4.4.1 Jurisdiction of the High Court vs Shariah Court of Appeal	97
		4.4.2 Shariah Dispute Resolution in the Malaysian ICM	98
		4.4.3 Inadequacy of the Existing Legal Reforms	101
	4.5	Dispute Resolution Models for the Capital Markets	102
		4.5.1 The Saudi Arabian Model	102
		4.5.2 United Arab Emirates Dispute Resolution Framework for the	104
		Capital Market 4.5.3 A Hybrid Model for the Malaysian Islamic Capital Market	104 105
	46	Conclusion	103

viii	Contents	
	Case Studies	107
	Notes	113
	References	113
in Ta	Small World of Islamic Finance: How Good Governance can Assist aking the Islamic Finance Industry to the Next Level	115
<i>Mura</i> 5.1		115
5.2		116
	Good Governance-Related Points	118
5.4		123
	References	124
6 The	Alpha and Omega of Abrahamic Finance	125
Mufti	Talha Ahmad Azami and Shahzad Siddiqui	
6.1	Introduction Jewish Funds Catholic Funds Socially Responsible Investing (SRI) Funds	125
6.2	Jewish Funds	126
	Catholic Funds	127
6.4	Socially Responsible Investing (SRI) Funds	127
6.5		128
	Alpha: Quantitative Results of Abrahamic Funds	132
6.7		135
6.8		136
	Appendix: The Abrahamic Family Tree	137
	Notes References	137 142
	References	172
PART II	GLOBAL ISLAMIC CAPITAL MARKET TRENDS	145
7 Islan	nic Derivatives: Past, Present, and Future	147
•	Uberoi and Ali Rod Khadem	
7.1	Introduction	147
7.2	Formal Shariah Objections and Solutions	148
	7.2.1 Forwards and Futures	148
	7.2.2 Options	149
7.2	7.2.3 Swaps and Currency Transactions	151
7.3	Substantive Shariah Objections and Resolutions	153
	7.3.1 Existence, Ownership, Possession7.3.2 Speculation, <i>gharar</i>, and <i>maysir</i>	154 155
	7.3.2 Speculation, <i>gharar</i>, and <i>maysir</i>7.3.3 Trading Obligation for Obligation	158
7.4	Islamic Swaps and Currency Transactions	158
7.4	7.4.1 Cross-currency Swap	158
	7.4.1 Cross-currency Swap 7.4.2 Profit Rate Swap	161
	7.4.3 FX Option	163
	7.4.4 Total Return Swap	164

		Conte	nts ix
	7.5	ISDA/IIFM Tahawwut Master Agreement, Published 1 March 2010	166
		Conclusion	167
		Notes	167
8	Over	coming Incentive Problems in Securitization: Islamic	
		tured Finance	171
		as A. Jobst	
		Introduction	171
		Incentive Problems of Conventional Securitization	172
	8.3	The Rise of Islamic Finance	175
	8.4	The Case of Islamic Securitization	176
		8.4.1 Definition of Islamic Securitization	176
		8.4.2 Current Market Situation	177
		8.4.3 Sukuk – The Good Side of Securitization?	179
		8.4.4 Economic Challenges 8.4.5 Legal Challenges – Regulatory Consolidation and Supervisory Harmonization Conclusion Notes References Evolution of Takaful Products on K. Lewis	181
		Supervisory Harmonization	181
	8.5	Conclusion	182
	0.0	Notes	182
		References	183
9		Evolution of <i>Takaful</i> Products	185
	Mervy	n K. Lewis	
	9.1	Insurance under Islam	185
	9.2	Organizational Structures and Operational Models	188
		9.2.1 Mudaraba Model	190
		9.2.2 Wakala Model	191
		9.2.3 Hybrid Model	192
		9.2.4 Waqf Model	192
	9.3	Product Development and Prospects	193
		9.3.1 Products	193
		9.3.2 Prospects	195
		Notes	198
		References	198
10	A N	ew Model for Options in Islamic Law	201
		ntino Cattelan	
	10.1		201
	10.2	· · · · · · · · · · · · · · · · · · ·	203
	10.3		
		Critical Elements	204
	10.4		
		Structure	206
	10.5	Trading ijāra wa-hiba Options? Clearing House, Issuance of Ṣukūk	
		al-manfa'a, and Lack of Speculation	211

Contents 10.6 Pricing Sukūk al-manfa'a in Relation to the Rental Rate of Return 213 10.7 *ijāra wa-hiba* Options and the Path towards Legitimacy 215 References 215 PART III NATIONAL AND REGIONAL EXPERIENCES 219 11 Building up an Islamic Capital Market: The Malaysian Example 221 A. Usama DeLorenzo 11.1 Introduction 221 222 The Beginnings of Shariah-Based Finance in Malaysia 11.2 11.2.1 The Securities Commission Malaysia 222 11.2.2 The Shariah Advisory Council (SAC) 223 11.3 The Islamic Capital Market in Malaysia 225 11.3.1 The Capital Market Master Plan 225 11.3.2 The Current State 226 11.3.3 Malaysian Sukuk 226 Malaysian Shariah-Compliant Equities and Fund Management 11.3.4 227 Government, Regulation, and Taxation 229 11.3.5 Promoting International Linkages 230 11.3.6 11.3.7 Development of Skills in the Islamic Capital Market 231 11.4 Conclusion 231 Notes 232 12 Islamic Finance in Germany: Trends, Opportunities, and Potential 235 Azadeh Farhoush and Nicolas Schmidt 12.1 Introduction and Background 235 12.1.1 Brief Background on Islamic Finance 235 12.1.2 Development and Market Potential of Islamic Finance 236 12.1.3 Economic Relevance of Germany 238 12.1.4 Immigrants and the Muslim Community in Germany 238 12.1.5 Products and Services Focused on the Muslim Community in Germany 239 12.1.6 Status Quo of Islamic Finance and Shariah-Compliant Products in Germany 240 12.1.7 One Clear Objective is to Attract Major Muslim Investors 241 12.2 Research and Studies on the Muslim Population in Germany 242 12.2.1 Research and Studies on Financial Services and Islamic Finance 244 12.3 Analysis of the Attitudes and Preferences of the Muslim Population in Germany Towards Financial Products 246 Research Questions and Assumptions 246 12.3.2 Methodology and Approach 246 12.3.3 Description of the Dataset 247 12.3.4 Quantitative Results 248 12.4 Conclusion and Practical Implications for Financial Institutions in Germany 260 12.4.1 An Offer of Shariah-Compliant Products According to Needs 262

		Contents	xi
		12.4.2 Improvement of Financial Education and Consultancy	262
		12.4.3 Elaboration of Marketing Activities	262
		Notes	263
		References	265
13	Islami	ic Finance in France: An Emerging Market?	267
	Ibrahin	n-Zeyyad Cekici and Laurent Weill	
	13.1	Legal Aspects	267
		13.1.1 The Positions of Public Authorities	268
		13.1.2 The Trends	271
	13.2	Economic Dimensions	272
		13.2.1 The Demand Side	273
		13.2.2 The Supply Side	275
		Notes	277
		References	277
14		ic Finance in the United States Goud and M. Kabir Hassan Introduction	279
	Blake (Goud and M. Kabir Hassan	
	14.1	miroduction	279
	14.2	The United States as a Destination for Shariah-Compliant Investment	280
		14.2.1 The Development of an <i>Ijara-Istisna'a</i> Contract for Real	
		Estate Construction	280
		14.2.2 The First Entrants	282
		14.2.3 The Entry of Private Equity	283
		14.2.4 Growth Accelerates	286
		14.2.5 Conclusion	290
	14.3	Wholesale Islamic Finance within the United States	291
	14.4	Mutual Funds and Exchange Traded Funds	295
	14.5	Legal, Tax, and Regulatory Issues in Islamic Finance	297
	14.6	Sukuk Issued by US-Based Companies	300
	14.7	Conclusion	302
		Notes	303
15	An Ar	nalysis of Global Trends and Regional Pockets in the Application	
	of Isla	mic Financial Contracts in Malaysia and the Gulf	
	Coope	eration Council	307
	Anne-S	ophie Gintzburger	
	15.1	Regional Pockets and Global Trends	309
	15.2	The Influence of the Shariah Framework	310
	15.3	The Function of Shariah Boards	311
	15.4	The Role of Shariah Boards in Malaysia	314
	15.5	The Role and Function of Shariah Boards in the GCC	316
	15.6	Convergence Between the GCC and Malaysia	317
	15.7	Slight Divergence in Interpretations	318
	15.8	The Impact of the Regulatory Dimensions of the Jurisdictions	319
	15.9	The Role of the Creation of International Hubs in Harmonizing Views	327
	15.10	Conclusion	331
		Notes	333

19:23

16 Deve	elopments i	in Islamic Finance Practice: The Experience of Australia	341
Abu l	Jmar Faruq .	Ahmad and M. Kabir Hassan	
16.	Introduc	etion	341
16.2	2 State of	the Australian Economy in the World	342
	16.2.1	The Australian Economy	342
16	3 Potentia	l Problems in the Development of Islamic Finance in	
	Australi	an Market	343
	16.3.1	The Acceptance of Interest	344
	16.3.2	A Wait-and-See Approach	344
	16.3.3	The Size of the Muslim Community	344
	16.3.4	Doubt Concerning Shariah-Compliant Finance and	
		Investment Products	344
	16.3.5	Lack of Understanding on Islamic Finance	345
	16.3.6	Risk Analysis and Balance Sheet Management	345
	16.3.7	Absence of a Standard Rate of Return	345
	16.3.8	Difficulty in Classifying Risk Sharing Funds	346
	16.3.9	Problem of Accounting Standards	346
	16.3.10	International Perspective	346
16.4	4 Prospec	ts of Islamic Finance in Australia	347
	16.4.1	Opportunities for Introducing Islamic Banking	349
	16.4.2	Prospects of Islamic Banking and Finance in the	
		Academic Sphere	349
16.:	5 Summai	ry, Findings, and Recommendations	355
	16.5.1	Summary and Findings of the Study	355
	16.5.2	Suggestions and Policy Recommendations for the Study	355
	Referen	ces	356
PART IV	LEARNI	NG FROM ISLAMIC FINANCE AFTER THE GLOBAL	
		IAL CRISIS	359
17 The	Current Fi	inancial Market Crisis: Lessons Learned, Risks	
and	Strengths o	of Islamic Capital Markets Compared to the	
Con	ventional S	ystem	361
Rasei	n N. Kayed,	Michael Mahlknecht, and M. Kabir Hassan	
17.	l Introduc	etion	361
17.2	2 Causes	of the Global Financial Crisis	362
17.	Some In	nplications of the Global Financial Crisis	365
	17.3.1	Implications for the Global Economy	365
	17.3.2	Implications for Islamic Finance	366
17.4	4 Can Suc	ch Crises Occur Under an Islamic Financial System?	367
	17.4.1	Islamic Theory of Finance and the Global Financial Crisis	367
	17.4.2	The Current Financial Crisis Would not have Occurred	
		Under an Islamic Financial System	370
	17.4.3	A Systemic Trade-off Between Risks and Returns	373
17.:	The Pro	hibition of "Bad" Risks in Islamic Finance	375
	17.5.1	Types of "Bad" Risks	375
	17.5.2	Individual vs. Systemic Effects of "Bad" Risks	377

F I	. 11A			
fm	JWBK508-Hassan	February 2, 2011	19:23	Printer: Yet to come

			Contents	X111
	17.6	Lessons Learned		378
		17.6.1 Reputational Risk and the Recreation of Trust		378
		17.6.2 Real vs. Virtual Transactions: <i>sukuk</i> and the Escape	from	
		the Debt Trap	110111	379
		17.6.3 The Need for Clearing Houses		380
	17.7	Conclusions and Outlook		380
	17.7	17.7.1 Main Challenges for Real-life Islamic Finance		381
		17.7.2 Convergence Between Conventional and Islamic		301
		Financial Industry		381
		Notes		382
		References		383
		References		363
18		amic Perspective of Financial Engineering		385
		l-Suwailem and M. Kabir Hassan		
	18.1	Introduction		385
		18.1.1 Financial Engineering and Financial Innovation		385
	18.2	Financial Engineering: Definition and Concept		386
		18.2.1 Value of Innovation		386
		18.2.2 Shariah and Creativity		387
		18.2.3 Regulatory Arbitrage		387
		18.1.1 Financial Engineering and Financial Innovation Financial Engineering: Definition and Concept 18.2.1 Value of Innovation 18.2.2 Shariah and Creativity 18.2.3 Regulatory Arbitrage 18.2.4 State of Financial Innovation Principles of Islamic Financial Engineering		388
	18.3	Timespies of Islande Financial Engineering		388
		18.3.1 Principle of Balance		389
		18.3.2 Principle of Acceptability		390
		18.3.3 Principle of Integration		392
		18.3.4 Principle of Consistency		393
	18.4	Strategies for Product Development		394
		18.4.1 Imitation		395
		18.4.2 Mutation		396
		18.4.3 Satisfaction		397
	18.5	Challenges in Financial Engineering in Islamic Finance		398
		18.5.1 Fragmented Approach to Shariah		398
		18.5.2 Product Development Process in Islamic Financial		
		Institutions		399
		18.5.3 Specialized Institutions and Advanced Markets		399
	18.6	Concluding Remarks		399
		Note		399
		References		399
19	Sharia	h-compliant Portfolio Management: Processes, Methodolo	gies,	
		erformances	,	401
	Shehab	Marzban		
	19.1	Introduction		401
	19.2	Shariah-compliant Portfolio Management Process		402
		19.2.1 Shariah Issues in Investment Policy Analysis		402
		19.2.2 Shariah Issues in Financial Analysis		404
		19.2.3 Shariah Issues in Portfolio Construction		404

xiv	C	ontents		
		19.2.4	Shariah Issues in Performance Analysis and	
			Portfolio Revision	405
	19.3		Guidelines	405
		19.3.1	1	405
		19.3.2	E	407
				410
	19.4		rformance	412
		Notes		413
		Referen	ces	414
20			nance: The Way Forward	415
		med Obaid		
	20.1		of Islamic Microfinance	415
		20.1.1	Replication of Conventional Models	416
		20.1.2	Indigenous Models	416
	20.2		Indigenous Models ents of Islamic Microfinance Instruments for Mobilization of Funds Instruments of Financing	417
			Instruments for Mobilization of Funds	417
			Instruments of Financing	418
	20.2		Instruments of Risk Management	418
	20.3		Microfinance Projects Across the Globe	418
			Middle East North Africa (Mena)	419
			South Asia	419
			South East Asia	420
	20.4		Rest of the World	420
	20.4		Development in Islamic Microfinance Sector	420
		20.4.1	1	420
		20.4.2	Divergent Perceptions	422
	20.5	20.4.3	Agency Problems	422
	20.5		Funding Requirements of Islamic Microfinance Sector	424
		20.5.1	Linkage with Banks	424
			Rating Services	425
		20.5.3	Islamic Microfinance Fund	425
		20.5.4	Securitization	425
		Notes		427
		Referen		427
		Further	Reading	427
Ind	ex			429