

Contents

Foreword	xv
Preface	xvii
Acknowledgments	xxi
Product Offerings	xxiii
Introduction	1
CHAPTER 1	
The Islamic Finance Space	5
Modern Phase of Islamic Finance	8
CHAPTER 2	
<i>Bai al Inah</i>	13
Definitions of <i>Bai al Inah</i>	13
<i>Bai al Inah</i> Process Flow	15
Legal Issues with <i>Bai al Inah</i>	17
<i>Bai al Inah</i> as a Financial Product	19
Transfer of Ownership	20
Documentation Involved	21
Resolutions on <i>Bai al Inah</i>	21
Conclusion	22
CHAPTER 3	
<i>Murabahah, Bai Mu'ajjal, and Bai Bithman Ajil</i>	23
<i>Murabahah</i> Sale/Credit Sale/Credit	25
Enhancements to <i>Murabahah</i>	26
<i>Murabahah</i> Working Capital	28
Credit-Based Sale/Markup or <i>Riba</i>	28
Bonafide <i>Murabahah</i> /True Sale	29
Trading House Model	31
	vii



Financial Services Division of a Manufacturer or Retailer	32
<i>Bai Bithman Ajil</i>	32
<i>BBA with Inah</i>	32
Conclusion	34
CHAPTER 4	
<i>Tawarruq</i>	35
Issue of Price Fixing	37
Transfer of Title	38
Payment of Sales Tax	39
Applications of <i>Tawarruq</i> in Banking Products	40
Real Economic Activity	43
Conclusion	44
CHAPTER 5	
Deferred Payment Sale or Credit Sale	45
Accounting Entries for <i>Murabahah</i> by Purchase Orderer	47
Accounting Entries for a <i>Bai al Inah</i> Contract	48
Pricing of Deferred Sales under <i>Murabahah</i> , <i>BBA</i> , <i>Inah</i> , and <i>Tawarruq</i>	49
Risk Treatment of Deferred Payment Sales	53
Fixed Income Portfolio	57
Conclusion	58
CHAPTER 6	
<i>Bai Al Wafa</i>	59
Financial Assets as Subject of Sale	60
<i>Bai Al Wafa</i> and Sale of Equities	60
<i>Bai Al Wafa</i> and Sale of <i>Sukuk</i>	60
Conclusion	61
CHAPTER 7	
<i>Salaam</i> and <i>Istisna</i>: Deferred Delivery Sale	63
<i>Salaam</i>	63
<i>Istisna</i>	68
Conclusion	70
CHAPTER 8	
<i>Bai al Sarf</i>	75
Basic Rulings on <i>Bai al Sarf</i>	75
Conclusion	77



<i>Contents</i>	ix
CHAPTER 9	
<i>Bai al Dayn</i>	79
Purchase Price, Rental Payments, Receivables, and Debt	80
Rental Payments Due in an <i>Ijara</i> Contract	81
Financial Products	81
Sale of Equity	82
Conclusion	83
CHAPTER 10	
<i>Bai al Urhun</i>	85
Conclusion	89
CHAPTER 11	
<i>Ijarah and Its Variants</i>	91
Normal <i>Ijarah</i>	92
Accounting Entries for <i>Ijarah</i> Contract	93
<i>Ijarah Muntabiya Bi Tamleek</i>	95
<i>Al Ijarah Thumma al Bai</i> (AITAB)	95
Sale and Leaseback	96
Conclusion	97
CHAPTER 12	
<i>Wadiah</i>	99
Forms of <i>Wadiah</i>	100
Enhancements to <i>Wadiah</i>	100
Money Creation	104
Conclusion	108
CHAPTER 13	
<i>Qard</i>	111
Applications of the Contract of <i>Qard</i>	112
<i>Qard</i> as a Deposit Instrument	113
Recording of <i>Qard</i>	113
Conclusion	114
CHAPTER 14	
<i>Mudharabah</i>	115
Simple Application of <i>Mudharabah</i>	117
Perpetual <i>Mudharabah</i>	118
Re- <i>Mudharabah</i>	118



X	CONTENTS
Restricted <i>Mudharabah</i> and Unrestricted <i>Mudharabah</i>	118
<i>Mudharabah</i> as a Deposit	120
<i>Mudharabah</i> as a Fund	121
Interbank <i>Mudharabah</i> Placements	122
Indicative Rate of Return	122
Profit Sharing Ratio	123
Importance of Disclosure and Accounting Treatments	123
<i>Mudharabah</i> as an Asset Product	124
Accounting Treatment of <i>Mudharabah</i> Transactions	126
Conclusion	126
CHAPTER 15	
<i>Musharakah</i>	129
<i>Musharakah</i> and Banking	130
<i>Musharakah</i> as Asset Product	132
Pooling of Assets in <i>Musharakah</i>	132
<i>Musharakah Mutanaqisah</i>	133
Conclusion	138
CHAPTER 16	
<i>Hibah</i>	139
Forms of <i>Hibah</i>	139
Restrictions on <i>Hibah</i>	140
Applications of <i>Hibah</i> in Banking	140
Enhancements to <i>Hibah</i>	142
Conclusion	143
CHAPTER 17	
<i>Kafalah</i>	145
Who Can Be a Guarantor?	147
Products Based on <i>Kafalah</i>	148
Back-to-Back Guarantees	148
Conclusion	149
CHAPTER 18	
<i>Wakalah, Hawalah, Ibra, and Rahn</i>	151
<i>Wakalah</i>	151
<i>Hawalah</i>	153
<i>Ibra</i>	156
<i>Rahn</i>	159
Conclusion	161



Contents

xi

CHAPTER 19***Shariah: Sources, Interpretation, and Implementation*****163**

Modern-Day <i>Ijtihad</i>	165
Whose <i>Shariah</i> Is It, Anyway?	167
Conclusion	171

CHAPTER 20***Islamic Asset Management and Shariah Screening*****173**

Capital Markets	177
IPO Stage	177
Market Integrity	180
Market Regulation	183
Valuations	187
Zero Sum Game	188
The Role of Capital Markets in the Sphere of Islamic Finance	189
Farmer <i>Sukuk</i> or Equity Notes	189
Conclusion	190

CHAPTER 21***Pricing, Income Distribution, and Risk Sharing in Islamic Banks*****191**

Pricing of Islamic Financial Products	191
Price versus <i>Shariah</i>	194
Benchmark for Pricing	195
Criticism on Pricing Models	195
Profit Equalization Reserve	196
Income Distribution	199
Risk Sharing in Islamic Banks	208
Conclusion	208

CHAPTER 22***Sukuk and Rights of Sukuk Holders*****209**

Rights of Lenders in Debt Financing	210
Rights of Equity Holders	212
Rights of Bondholders	214
Use of Subsidiary Companies and Special-Purpose Vehicles	216
How <i>Sukuk</i> Financing Could Work?	221
Sale and Leaseback	223
The Role of the SPV	227
Other <i>Sukuk</i> Structures	228
<i>Istisna Sukuk</i>	228
Simple <i>Sukuk</i>	229
Conclusion	233



CHAPTER 23	
Risk Management for Islamic Banks	235
Credit Risk	235
Market Risk	257
Liquidity Risk	269
Profit-Sharing Investment Account	269
Conclusion	273
References	273
CHAPTER 24	
Asset/Liability Management for Islamic Banks	275
Gap Limit	279
Spot Rates and Forward Rates	279
Funding Scenarios	281
Short-Term and Long-Term Rates	281
Time Value of Money	288
Conclusion	290
CHAPTER 25	
Takaful	291
Contract of Agency	291
Shariah Issues with Insurance	292
Contract of <i>Tabarru</i>	293
Product Menu	295
General <i>Takaful</i> Business Model	300
Concepts Related to <i>Takaful</i>	300
The Rights of the Fund over the Participant and the Rights of the Participant over the Fund	302
Pricing General <i>Takaful</i> Plans	304
Observations of General <i>Takaful</i>	310
Family <i>Takaful</i>	311
Basic Accounting Entries for <i>Takaful</i>	314
<i>Takaful</i> Operator Models	315
Distribution of Underwriting Surplus	316
Conclusion	317
CHAPTER 26	
Pricing of <i>Takaful</i> Policies and <i>Retakaful</i>	319
Case Study 1: Corporate Medical <i>Takaful</i> Plan under General <i>Takaful</i>	319
Case Study 2: Corporate Medical <i>Takaful</i> Plan under General <i>Takaful</i>	322



<i>Contents</i>	xiii
Case Study 3: Corporate Family <i>Takaful</i> Plan	323
Detailed Mortality Table for Life <i>Takaful</i>	325
Mortality Tables and Probability Calculations	327
Risk Profiling	331
Conclusion	336
Afterword	337
About the Authors	341
Bibliography	343
Index	347

<http://www.pbookshop.com>



<http://www.pbookshop.com>

