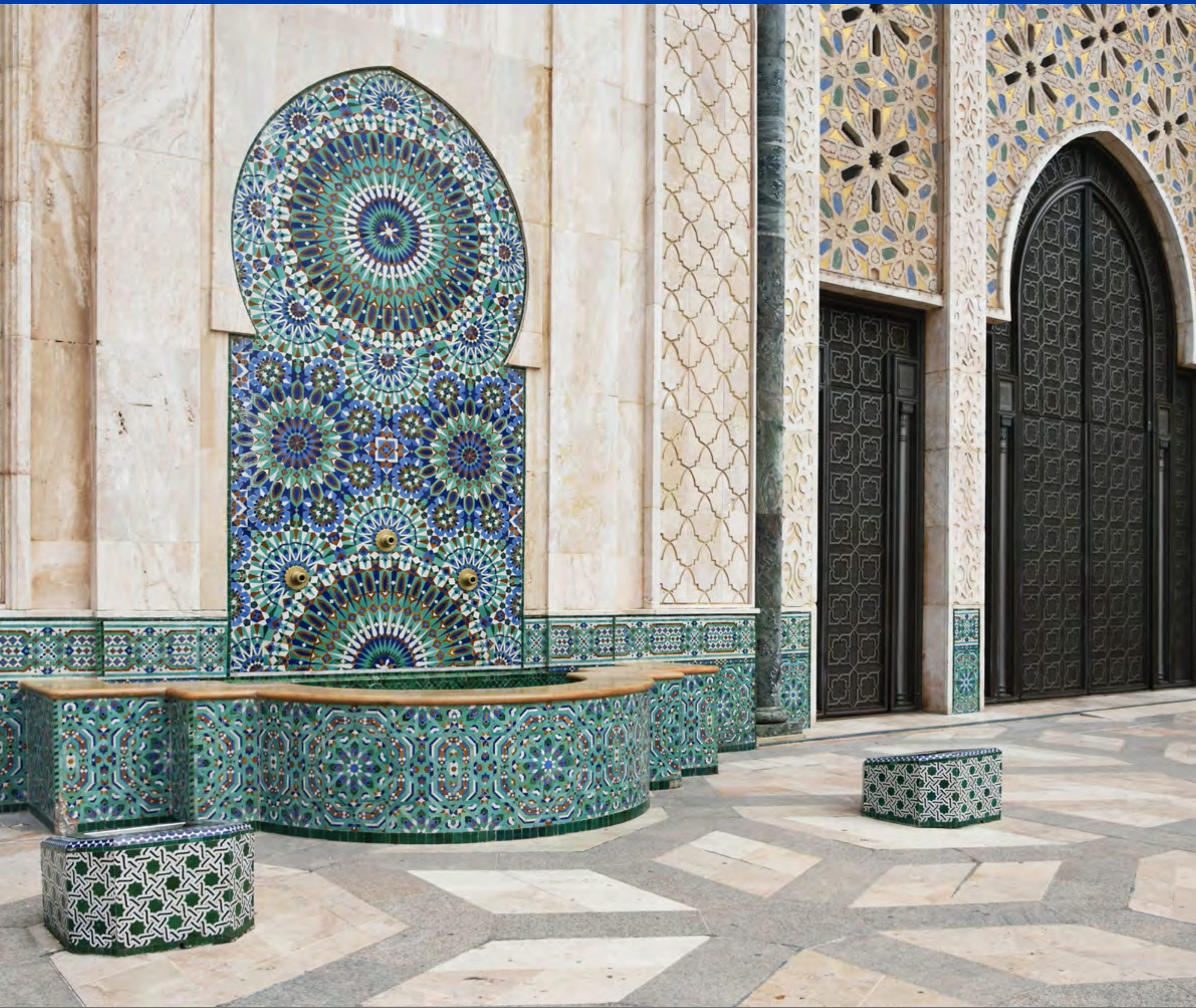


CFA Society Bangladesh

CFA Society Indonesia

CFA Society Malaysia

CFA Society Pakistan

CONTEMPORARY ISLAMIC FINANCE PRACTICES 2022

Compilation of Islamic Finance Webinar Series held by CFA Societies in the APAC Region

SUPPORTED BY

CFA Institute® Asia-Pacific Research Exchange

TABLE OF CONTENTS

PREAMBLE

With a presence in 60 countries, including 1,500 Shari'ah-compliant companies and accounting for US$2.44 trillion worth of assets under management (IFSB, 2020), Islamic finance is one of the fastest growing segments in the global financial system. The sector has shown a steady 10–12% per year growth over the past two decades. Among the most attractive features of Islamic finance is that it serves as a valuable source of funds for achieving the Sustainable Development Goals.

Given its growing importance, multiple CFA societies in the APAC region collaborated to conduct a series of Islamic finance webinars, which took a deep dive into the framework, guidelines, and industry landscape as well as emerging opportunities in this increasingly important market segment.

GLOSSARY OF ISLAMIC FINANCE TERMS

Diminishing Musharaka	a form of partnership that creates an avenue for the capital provider to reduce or be free of the joint ownership after the initial investment period has been satisfied
Halal	acceptable and lawful in Islam
Gharar	uncertainty
Ibra	a discount or rebate
Ijarah	a lease contract
i-REIT	Shari'ah-compliant Real Estate Investment Trust
Istisna'a	a contract to build, manufacture, construct, or develop the object of sale at a definite price, over a defined period of time, according to agreed specifications between the parties
Maisir	game of chance
Murabaha	sale of a commodity at cost price plus a known profit
Mudaraba	a profit-sharing contract. Under a mudaraba contract, the capital provider agrees to share the profits between themselves and the entrepreneur at an agreed ratio or percentage. The entrepreneur loses only the time and effort expended on the project, whereas the financier assumes the financial loss.
Musharaka	a form of equity partnership investment
Qard Hassan	interest-free loan
Riba	interest or usury
Running Musharaka	Shari'ah-compliant alternative to overdraft facility based on participatory mode of musharaka
Salam	purchase of a commodity for deferred delivery in exchange for immediate payment
Shari'ah	sacred law revealed by God almighty
Sukuk	certificates of investment
Tabarru	donation contracts
Takaful	literally, it means mutual help and assistance. The contract of takaful is based on the concept of helping one another, whereby each and every participant contributes to the common fund to provide financial assistance to any member who needs help, as defined in the mutual protection scheme.
Tawarruq	buy spot and sell-deferred payment or vice versa to facilitate cash liquidity
Wadi'ah	safe custody
Wakalah	a contract between an agent and principal. It enables the agent to render services and be paid a fee.
Zakah	a form of religious levy on the surplus wealth of Muslims

ABBREVIATIONS

AAOIFI	Accounting and Auditing Organization for Islamic Financial Institutions
AUM	Assets Under Management
ESG	Environmental, Social, and Governance
GCC	Gulf Cooperation Council
ICD	Islamic Corporation for Private Sector Development
IsDB	Islamic Development Bank
ICM	Islamic Capital Market
ICMA	International Capital Market Association
IFIs	Islamic Financial Institutions
IFSB	Islamic Financial Services Board
IIBR	Islamic Interbank Benchmark Rate
KIBOR	Karachi Interbank Offer Rate
MFIs	Microfinance Institutions
OJK	Otoritas Jasa Keuangan (Indonesia's Financial Services Authority)
PSX	Pakistan Stock Exchange
REIT	Real Estate Investment Trust
SRI	Socially Responsible Investing
US$	US Dollar

ISLAMIC FINANCE WEBINAR SERIES 1
Islamic Finance Fundamental Principles

PRESENTERS
- **Naila Firdausi Asa, CFA, Fixed Income Analyst, PT Manulife Aset Manajemen Indonesia**
- **Zeeshan Ahmed, PhD, Dean and Associate Professor, Karachi School of Business and Leadership (KSBL) Pakistan**
- **Adam Ng, PhD, Sustainable Finance Expert, WWF-Malaysia**
- **Mohammad Shoaib, CFA, CEO, Al Meezan Investment Management Limited**

OVERVIEW

What is Islamic Finance?

According to the International Monetary Fund (IMF), Islamic finance refers to the provision of financial services in accordance with Islamic law, principles and rules collectively referred to as Shari'ah (International Monetary Fund 2017). Islamic Finance promotes risk and reward sharing rather than zero-sum games in which one party gains at the expense of the other. Furthermore, the underlying objective of Islamic finance is to generate trade-based activities translating into real economic benefits for the society. Hence, Shari'ah does not permit riba (interest), gharar (uncertainty), and maisir (gambling), which are deemed to be public enemies because of their detrimental social consequences.

Prohibitions in Islamic Finance

1. **Riba (Interest)**

   To understand riba, it is important to first deliberate on the asset classification from an investment perspective in both conventional and Islamic finance.

   Conventionally, assets can be mainly categorized as monetary, real, and financial assets. Monetary assets include currency units (e.g., dollars, euros, yen) in addition to gold and silver, which were predominantly used as monetary assets during the time of the Prophet Muhammad. Real assets have intrinsic value, holding direct power to satisfy human wants and needs like property, plant, and equipment (PPE); houses; cars; and consumer durables. The third asset category includes financial instruments, such as stocks, bonds, and derivatives.

   From an Islamic perspective, assets can be broadly classified as monetary and real assets. Real assets are further divided in two categories: consumables that cease to exist after usage and nonconsumables (i.e., fixed assets).

   A fixed amount of money charged or earned on assets that are monetary and consumables in an arbitrary manner, without profit loss sharing or trading, is termed as riba in Islamic finance. For instance, the incremental amount agreed to in terms of fixed or floating rate on a US$100,000 loan contract executed between the borrower and the lender would be termed as riba or interest. Similarly, any excess amount charged when exchanging or trading similar commodities, such as gold, silver, wheat, barley, or dates, also would be considered riba (IslamicMarkets, "Riba Al Fadl," n.d.).

   Is riba prohibited only in Islam?

   Prohibition on usury or riba is not unique to Islam as it exists in other religions, too. The Quran, like the Hebrew Bible, bans usury explicitly (Calder, 2016). Key reasons for this prohibition on usury include fair treatment of contracting parties through risk sharing, the welfare of the society at large, and equitable distribution of wealth. In the humanities, narratives, such as Shakespeare's plays, denote riba/usury as the root of all social evil.

2. **Gharar (Uncertainty)**

   Avoidable uncertainty, referred to as gharar in Islamic finance, can lead to disputes among contracting parties. Islam propagates harmony, and therefore, the structure of both financial and commercial contracts should be devoid of all delusion. Hence, terms of the Islamic contract, including subject matter, specification/quality of commodities, payment modalities, price, and delivery date, have to be clearly established so that each party has upfront knowledge of the underlying transaction. This ensures that both parties know their rights and obligations from inception of the contractual agreement.

3. **Maisir (Gambling)**
   Maisir, meaning speculation or gambling, is prohibited because it creates wealth from chance instead of productive activity. It has negative social consequences in terms of unrest, depression, enmity, and grudges between parties. In several case studies, gambling has led to suicide and has had other detrimental impacts on society.
   Shari'ah does not, however, prohibit the ordinary commercial speculation involved in a business enterprise because commercial risk-taking is an integral part of Islamic finance transactions.
   Because of the prohibition against maisir, certain financial products, such as options, futures, and other derivatives, generally are not used in Islamic finance (Thomson Reuters Practical Law, n.d.).

Concept of Time Value of Money in Islamic Finance

Money is treated as a medium of exchange in Islam and, therefore, cannot be rented out because it does not yield any economic activity. Hence, fixing a price for a loan based on the time to maturity is prohibited in Islam. Islam does allow, however, an increment in the purchase price underlying a trade contract wherein the payment is deferred.

In the case of Shari'ah-compliant equity transactions, the profit-sharing ratio may be determined considering an expected rate of return on investment. This rate will not be fixed, however, and the investors will be entitled only to the share based on actual profits. Islamic finance aims to establish a link between financial and real economic activities with returns tied to the actual performance of the business.

Key Modes of Islamic Finance

According to Shari'ah, financing activities can be undertaken through participatory-, trade-, or lease-based modes.

1. **Participatory Financing**
   Investment in monetary assets can be undertaken through participatory modes, including mudaraba and musharaka, which are based on risk and reward sharing. Consequently, both parties to the contract partake in profits through dividends, capital, or drawings as well as share losses according to Shari'ah guidelines. Participatory modes are defined as follows:
   - **Mudaraba:** In this kind of partnership, one partner gives money to another to invest in a commercial enterprise. The investment comes from the financier while the management is an exclusive responsibility of the entrepreneur. Profits are shared according to a predetermined ratio, while the loss is borne by the financier only because the entrepreneur does not invest anything. This is subject to a condition that the entrepreneur has worked with due diligence (Usmani, 2015).
   - **Musharaka:** This joint enterprise is formed to conduct some business in which all partners share the profit according to a specific ratio, while the loss is shared according to the ratio of the investment (Usmani, 2015).

2. **Trade-Based Financing**
   Consumable assets can be financed through trade-based contracts, including murabaha, salam, and istisina'a. Under these modes, the financiers—that are, the Islamic Financial Institutions (IFIs)—buy raw materials or finished goods from the supplier and sell the same to another party while keeping their margin in the transaction.
   - **Murabaha:** In this kind of sale, the seller expressly mentions the cost of the sold commodity, and sells it to the buyer by adding some profit thereon. Thus, murabaha is not a loan given on interest, but rather it is the sale of a commodity for a deferred price (Usmani, 2015).
   - **Salam:** Under this mode of finance, the seller undertakes to supply specific goods to the buyer at a future date in exchange of an advanced price that is fully paid upfront (Usmani, 2015).
   - **Istisna'a:** In this sale transaction, an order is placed with a manufacturer to produce specific goods for the purchaser. The price must be fixed with the consent of all parties involved. All other necessary specifications of the manufacturing contract must be fully settled (Usmani, 2015).
   - **Tawarruq:** This type of transaction, which means "to buy on credit and sell at spot value," currently is being used by many Islamic banks for liquidity management and as a mode of financing, in particular, for personal financing and credit cards.

3. **Lease Based and Hybrid Financing**
   Islamic finance allows charging a predetermined amount as rent when leasing real assets. This practice of renting assets for usage, termed as ijarah, was allowed during the time of Prophet Muhammad. In fact, it was the predominant form of financing during the heyday of Islamic empires. Today, IFIs undertake this practice by purchasing nonconsumable assets, such as consumer durables, house, cars, and PPE, and renting them to the customers under ijarah. Alternatively, IFIs can co-invest in real assets and rent out their share to the customers using diminishing musharaka.
   - **Ijarah:** Although analogous to the English term "leasing," there are many differences between the leasing contract of conventional banks and ijarah (Usmani, 2015).
   - **Diminishing musharaka:** Under this mode, a financier and a client participate either in the joint ownership of a property or an equipment,

or in a joint commercial enterprise. The share of the financier is further divided into a number of units, and it is understood that the clients will purchase the units owned by financier one by one periodically, thus increasing their share until they become the sole owner of the property, or the commercial enterprise, as the case may be (Usmani, 2015).
The financiers can rent their share of the property to the client until the latter is able to purchase it. With the passage of time, the share of the financier in the property diminishes. The rent can be fixed or pegged to LIBOR or any other benchmark rate prevalent in that jurisdiction. This is a popular form of house financing for Muslim diaspora in the West.

Islamic Banking Ethos

Differences between Islamic and conventional banks exist at the following three levels (Usmani, 2015):

- Conceptual and socioreligious level
- Business model and governing framework
- Product-level implementation

Without a clear understanding of these differences, some people, including experts, commonly mistake Islamic banking as similar to conventional banking with a mere change of name.

TABLE 1. KEY DIFFERENCES BETWEEN ISLAMIC AND CONVENTIONAL BANKS

ISLAMIC BANKS (IBs)	CONVENTIONAL BANKS (CBs)
CONCEPTUAL AND SOCIORELIGIOUS LEVEL	
Operate as a trading/investment entities and not as money lending institutions	Involved in the business of interest based lending and borrowing of money
Avoid all transactions impermissible by Shari'ah like gambling, speculation, short selling, sale of debts, and receivables	Do not observe such restrictions
Do not extend financing to industries that are deemed haram or have negative social consequences including alcohol, tobacco, and pornography	Finance all type of industries, barring only businesses deemed illegal by the law of the land
BUSINESS MODEL AND GOVERNING FRAMEWORK	
Business model is trade centric, requiring active participation in trade and production process and activities	Generally do not get involved in trade and business, acting only as money lenders
Governed by a strong Shari'ah framework composed of a Shari'ah adviser and/or a Shari'ah Supervisory Board, which approves the transactions/products based on Shari'ah rulings	Devoid of such a framework that actually is a key litmus test to judge the claim of those who fail to see differences between IBs and CBs
PRODUCT-LEVEL IMPLEMENTATION	
Products are usually asset backed involving trading or renting of assets; other financing mechanisms include participation on a profit and loss basis	Trade in money as a commodity, lending it against interest as compensation
Recognize a loan as noncommercial and exclude it from all commercial transactions; any loan given by IB must be interest free	Almost all conventional financing and deposit products are loan based

Source: Usmani, 2015.

Product Dynamics of Islamic Banks

The Islamic banking model is asset driven, unlike conventional finance, which is liability based. Islamic banks price assets, whereas conventional banks charge a spread over liabilities. Asset-based financing is linked to economic activities and is not artificial like the liability-driven approach. The depositor's money is channelled for investment in assets using the noted Islamic finance modes, instead of being treated merely as a loan for further lending in Islamic banking. Hence, deposit products are structured based on participatory modes allowing depositors to earn a return based on the performance of the assets. For instance, if the asset is yielding a return of 7%, the depositor will earn a profit by applying predetermined weightages to this rate of return. Efforts are underway to come up with an Islamic benchmark to price Islamic finance contracts. Some institutions have developed such benchmarks, but overall, these have not yet gained traction. For instance, the Islamic Interbank Benchmark Rate (IIBR) was established in cooperation with the Islamic Development Bank (IsDB), Accounting and Auditing Organisation of Islamic Financial Institutions (AAOIFI), the Bahrain Association of Banks, Hawkamah Institute for Corporate Governance, a number of major Islamic banks, and Thomson Reuters. The IIBR provides a reliable and objective indicator of the average expected return on Shari'ah-compliant short-term interbank market funding for the Islamic Finance industry (Thomson Reuters, 2011).

Gharar is avoided in Islamic banking at various levels. Shari'ah does not allow selling what is not owned. Consequently, exotic derivatives, such as collateralised debt obligations (CDOs), which have been accused triggering the collapse of financial systems, are not permitted by Shari'ah. Some scholars have allowed hedging derivatives from a risk management perspective. To eliminate gharar, ibra (i.e., rebate in case of early settlement) is clearly incorporated in the financing agreements in various jurisdictions, including Malaysia.

The structure of Islamic banking products is explained in Appendix I.

Islamic Capital Markets

On the equity side, it is difficult to find purely Islamic companies from a stock investment point of view because both conventional and Islamic systems are running parallel to each other in most jurisdictions. Therefore, screening criteria determined by Shari'ah scholars are used to evaluate a company's Shari'ah-compliant status. These criteria include screens based on both the nature of the business and accounting filters. If there is an element of interest in the income of the company, the dividend income has to be purified by giving a certain percentage in charity. Guidance can be solicited from Islamic indices to identify Shari'ah-compliant shares available for investment in a particular jurisdiction. See Appendix IIA and IIB for the screening criteria established by the Dow Jones Islamic Index and KSE Meezan Index, respectively.

Permissible fixed-income instruments include sukuk (Shari'ah-compliant asset-backed bonds) and Islamic bank deposits. The sukuk structure will depend on the underlying asset. It can be structured under the diminishing musharaka mode if the underlying assets are real assets, such as a houses or an ijarah sukuk, used to finance PPE. If the assets are monetary or consumable, the sukuk can be structured under participatory modes, including musharaka or mudaraba. For more details on sukuk, please see Appendix III.

Islamic venture capital and private equity platforms are less developed compared with Islamic banking and capital markets.

Islamic Insurance (Takaful)

Islamic insurance is termed as takaful, which means "Guaranteeing each other." It is based on the principle of ta'awun (cooperation) and tabarru (gift, give away, and donation), in which the group voluntarily shares the risk collectively unlike transferring the risk to the insurance operator in the case of conventional insurance. Takaful is a pact among a group of members or participants who agree to guarantee, jointly among themselves, against loss or damage to any of the members, as defined in the pact. (Usmani, 2015).

Policy holders pay a premium to the insurance company, while in the takaful, they contribute to the tabarru fund to protect each other. The takaful operator acts as an agent to manage the tabarru fund, which is invested in Shari'ah-compliant assets, to pay the affected party in the case of an unforeseen situation. The surplus in the tabarru fund can be shared among the policy holders, while in case of deficit, financing can be arranged according to Shari'ah guidelines.

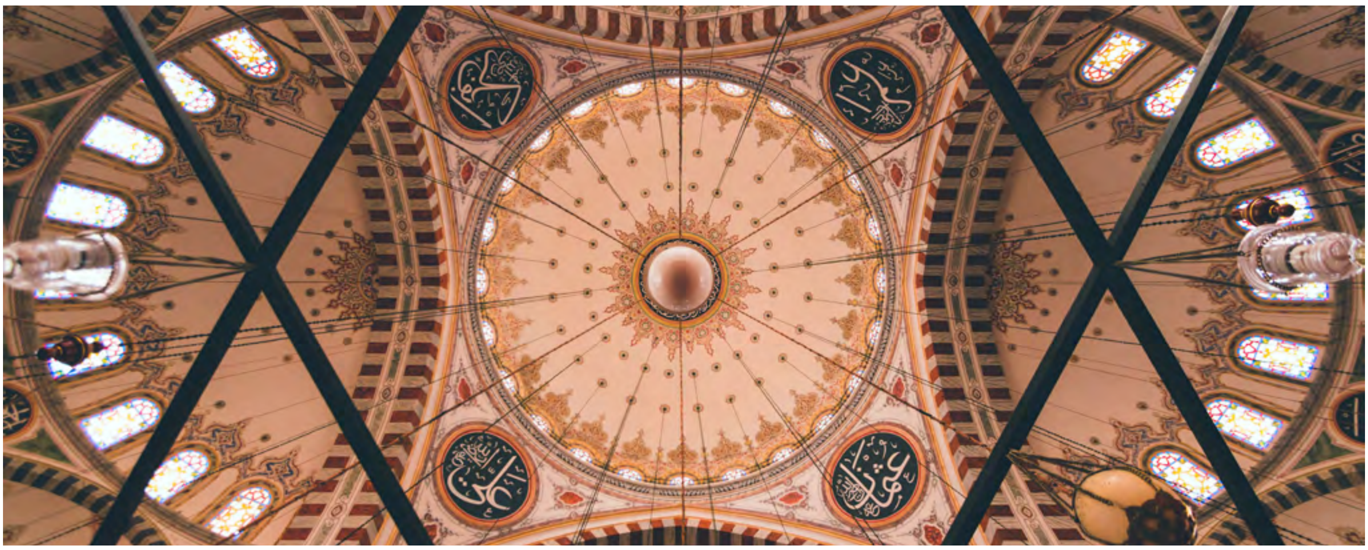


TABLE 2. INSURANCE VERSUS TAKAFUL

FEATURE	INSURANCE	TAKAFUL
Contract	An exchange contract for the sale and purchase of coverage service between insurance company and policy holders (risk transfer)	Combination of tabarru contract between participants (risk-sharing) and wakalah and/ or mudaraba between participants and the takaful operator
Responsibility of policy holders/ participants	Policy holders pay a premium to the insurance company	Participants make contributions to scheme/ pool of funds Participants mutually guarantee each other under the scheme
Liability of insurer/ operator	Insurer is liable to pay the insurance benefits from its assets (insurance funds and shareholders' funds)	Takaful operator acts as the administrator of the scheme and pay takaful benefits from takaful funds/tabarru funds Surplus underwriting is shared among participants; the operator can provide noninterest fund (qard) in case of deficit
Fund investments	No special restrictions apart from prudent/ regulatory guidelines	Additional requirement of investing only in Shari'ah-compliant assets Monitored by a Shari'ah Supervisory Board

Is Islamic Finance Similar to Responsible Investing?

Waqf (endowment funds), zakah (Islamic tax), and sadaqah (alms giving) are used successfully as blended social finance instruments. Such schemes come into play when dealing with microenterprises, which tend to mix up personal and business finance as a result of which they face difficulty in availing commercial finance. Social finance institutions such as BMTs in Indonesia, facilitate capacity building of microenterprises through these Islamic social finance instruments. The expected return on investment in case of these instruments is not commercially driven but rather is determined based on the repayment capacity of the enterprise.

To date, Islamic finance has focused on negative screening; however, there is growing trend towards positive screening in some jurisdictions, such as the inclusion of socially responsible businesses like renewable energy, energy efficiency, climate change, health, research and development (R&D), and other ventures that are beneficial for the environment and society.

ISLAMIC FINANCE WEBINAR SERIES 2
Innovation in Islamic Banking

PRESENTERS
- **Justin Ong, CFA, President, CFA Society Malaysia**
- **Syed Amir Ali, CFA, CEO, BankIslami**
- **Ade Cahyo Nugroho, CFO and Director, Strategy of PT Bank Syariah Mandiri**
- **Mabroor Mahmood, Principal–Infrastructure and Corporate Finance, Islamic Corporation for Development of the Private Sector (ICD)**

OVERVIEW

The Islamic finance industry is a relatively new entrant in the world of finance. However, it is steadily making its mark across the globe not only in Muslim countries but also in western countries such as the United Kingdom, Germany, and France. Islamic finance is broadly categorized under three categories: Islamic banking, takaful, and Islamic capital markets (ICMs). Among these three categories, Islamic banking is the single largest sector. It contributes 70% of industry assets, amounting to US$1.7 trillion.

The journey of Islamic finance is not yet over. IFIs face intense competition from their conventional counterparts. To expand their presence in their market, IFIs need to provide unique and attractive opportunities for both customers and investors. This leaves IFIs with no choice but to continuously innovate to stay ahead of the curve. In the subsequent sections, key innovations in various areas of Islamic finance will be discussed.

RUNNING MUSHARAKA: INNOVATIVE ASSET FINANCING PRODUCT

Islamic banks act either as traders or business partners. Asset backing and risk sharing are key differentiating principles between Islamic and conventional banks. As explained in the previous section, Islamic finance contracts can be categorized as sale, lease, or equity based or as a hybrid of these different modes.

The concept of financial asset in corporate finance, as defined by IFRS 9 (see box 1), is closely aligned with the one in Shari'ah barring certain restrictions regarding trading of assets. To eliminate riba, Shari'ah restricts trading of financial assets, representing debt or cash, at par value only. Other assets, however, including tangible ones or usufruct (i.e., the right to use) or services or a combination of these types with cash/debt, can be traded at any value. Equity is an example of such a combination of various asset classes on the balance sheet, including real assets, receivables, and services as well as debt. These types of assets are used to create different Islamic financing structures.

BOX 1. IFRS 9: DEFINITION OF A FINANCIAL ASSET

IFRS 9: DEFINITION OF FINANCIAL ASSET

Any asset that is—
- cash;
- an equity instrument of another entity;
- a contractual right:
  - to receive cash or another financial asset from another entity, or
  - to exchange financial assets or financial liabilities with another entity;
- a contract that will or may be settled in the entity's own equity instruments and is—
  - a nonderivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments, or
  - a derivative

One innovative asset financing structure developed in Pakistan by Meezan Bank in 2002 is running musharaka, which marked a paradigm shift from trade-based financing products to an equity-based model. Running musharaka accounts for around 20% of financing in Pakistan (Islamic Banking Department, 2020). Serving as an alternative to overdraft facility, running musharaka is structured according to AAOIFI principles governing musharaka.

BOX 2. KEY FEATURES OF RUNNING MUSHARAKA

KEY FEATURES OF RUNNING MUSHARAKA

- The product can be offered to finance any Shari'ah-compliant financing need of the client.
- It enables the clients to draw and repay funds against an approved limit, even on a daily basis.
- The bank participates in the operating activities of the client's business on a profit-/loss-sharing basis.
- It leverages the concept of profit ceiling and dual profit-/loss-sharing ratios.
- The bank enters into a partnership with the client by investing cash in the business for a fixed period of time (i.e., quarter or half or full year).
- This partnership is restricted to business operations only such that the Bank does not participate in the investing and financing activities.
- Operating activities of a manufacturing/trading concern comprise of purchase, production, and sale of goods.
- Expenses related to fixed assets, including depreciation, repair, and maintenance, are borne by the client because the ownership of these assets rests with him/her. These costs are transferred to the client because he/she has a higher share in the profit above the ceiling, as explained next.
- All production costs, including raw material cost, labor charges, direct overhead costs, and utility expenses, are taken into account for profit/loss calculation.
- Drawdowns by the client are considered as Bank's investment while repayments are considered as redemption.

Product Structure

Figure 1 exhibits the guiding principles for the calculation of investment and profit/loss in a running musharaka transaction.

FIGURE 1. GUIDING PRINCIPLES FOR A RUNNING MUSHARAKA TRANSACTION

INVESTMENT	PROFIT AND LOSS	PROFIT CEILING
Calculated as sum of average inventories and average receivables.	Calculated on the basis of figures reported in the quarterly or annual financial statements.	Profit ceiling is set as a percentage of total musharaka investment at the beginning of the musharaka period.
Bank's investment is the weighted average of daily outstanding balance (drawdowns less repayments) in the client's account.	Profit is arrived by excluding fixed-asset-related expenses (e.g. depreciation, repair and maintenance) from the gross profit.	Profit up to the ceiling is shared according to the investment ratio. This ratio may differ from the investment ratio.
Client's investment is equal to total investment less the bank's investment.	Loss, if any, is shared in the investment ratio. Shari'ah does not permit any floor for a loss while the profit is subject to a certain ceilling.	Profit above the ceiling goes to the client. It may also be shared with the bank according to any pre-agreed ratio as practiced in Pakistan.

Figure 2 illustrates the mechanics of a running musharaka product as illustrated in Figure 1.

FIGURE 2. MECHANICS OF A RUNNING MUSHARAKA PRODUCT

ADJUSTED COST OF GOODS SOLD (ACOGS)		
FIGURES IN PKR "000"	AUDITED ACCOUNTS	FOR MUSHARAKA
Raw and packing material consumed	15,330,843	15,330,843
Salaries, Wages and other benefits	1,212,579	1,212,579
Utilities	1,580,937	1,580,937
Packing material consumed	267,012	267,012
Stores and spares consumed	454,109	454,109
Repairs and maintenance	39,286	–
Insurance	30,112	–
Rent, Rates and taxes	2,297	–
Depreciation	568,734	–
Total	**19,485,909**	**18,845,480**

MUSHARAKA PROFIT		
FIGURES IN PKR "000"	AUDITED ACCOUNTS	FOR MUSHARAKA
Net Sales	22,090,427	22,090,427
Adjusted Cost of goods sold	19,485,909	18,845,480
Gross Profit	2,604,518	
Musharaka Profit		**3,244,947**

PROFIT/ LOSS SHARING	
Running Musharaka Tenure	365 days
Customer's Running Musharaka Limit (in PKR "000")	400,000
Profit Ceiling Rate (% p.a.) (KIBOR based)	7.35%

FIGURES IN PKR "000"	TOTAL	BANK	CUSTOMER
Running Musharaka Investment	4,082,169	279,758	3,802,411
Investment & Profit/(Loss) Sharing Ratio		6.85%	93.15%
Profit Sharing Ratio above Profit Ceiling		0.001%	99.999%
Profit Ceiling Amount	300,039		
Running Musharaka Profit	3,244,947		
Running Musharaka Profit upto Profit Ceiling Amount	300,039	20,562	279,477
Running Musharaka Profit above the Ceiling Amount	2,944,908	29.45	2,944,878
Total	**3,244,947**	**20,592**	**3,224,355**

DIFFERENCE BETWEEN DESIRED & ACTUAL PROFIT (IN PKR "000")		
Bank's Desired Profit	20,562	
Bank's Actual Share in Running Musharaka Profit	20,592	
Difference	**29.45**	

Note: KIBOR, Karachi Interbank Offer Rate.

Risk Management

To hedge against default in a running musharaka, the bank conducts extensive stress testing before offering the product. Furthermore, interim financial statements of the customer are reviewed to ensure that there is no loss. The product generally is offered only to blue-chip customers with a sound credit history.

The bank retains the right to terminate the running musharaka contract in the event of an expected loss. Actual loss during the currency of the contract, however, will be borne by the bank according to the investment ratio. The bank may choose to agree on a higher profit-sharing ratio in the subsequent period if the client reports a loss in a certain period to recover prior losses. Since its introduction a decade ago, the product has had a successful track record in Pakistan, with only negligible defaults.

LIABILITY/FUNDING: INNOVATIVE CUSTOMER ACQUISITION STRATEGY

Islamic banks can source funds through deposits, investment, and shareholder funds. Deposits can be categorized as current, savings, and term deposits, as discussed in Appendix I. To attract customers, Indonesia-based Bank Syariah Mandiri (henceforth Mandiri Syariah) has adopted a novel marketing approach. It is the largest Islamic bank in Indonesia in addition to being the sixth largest bank in the country. The progress made by the bank is noteworthy, particularly given the fact that the first Islamic bank came into existence in the country just 20 years ago, as opposed to conventional banking, which is a century old. The bank compares favourably with both conventional and Islamic banks in terms of cost funds; this status was retained in the post-pandemic crisis. Although Indonesia is the largest Muslim nation in the world, most of the population does not understand the concept of Islamic banking, which has resulted in its small market share. Teaching Islamic finance to a 100-million-plus population in the country is an uphill battle. Hence, the marketing approach adopted by Mandiri Syariah is to pitch itself not only as a financial but also as a social and spiritual partner of the customer. In addition to routine financial transactions, mobile banking offered by Mandiri Syariah caters to religious needs, including locating prayer times, qibla (prayer direction), and mosque locations. Furthermore, the bank's app facilitates in animal sacrifice and zakah/sadaqah (charity) payments. Consequently, the bank has witnessed a more than fivefold increase in the number of mobile users and transactions (especially those related to donations) during the period from 2018 to 2020. This innovative marketing approach has paid off in terms of the bank achieving an impressive growth in deposits, dominated by interest-free wadi'ah accounts and resulting in the declining cost of funds.

"BINIOG SATHI": A NEXT-GENERATION ISLAMIC BANKING MODEL

Conventional banking is a liability-driven business, wherein the bank sources deposits, ascertains cost of funds, and then deploys these funds in various assets by applying a certain mark-up to the cost. The Islamic banking model starts from assets (i.e., trade or rent or equity based) and then moves to a liability strategy, which can be structured as demand deposits or as restricted or unrestricted accounts. Hence, the Islamic model is focused on value creation by contributing to real economic growth through building assets.

The problem of default, however, is common in both conventional and Islamic banking models. The high risk of default is inducing banks and microfinance institutions (MFIs) to rule out ultra-poor sections of the population. Under the present banking system, a defaulter generally loses everything to the bank to settle debt because the financial institution does not have any other fallback mechanism. Hence, an impoverished segment of the society continues to refrain from taking loans from MFIs because of the risk of losing their collateral in case of default.

"Biniog Sathi" is a next-generation banking model that addresses default issues facing the banking industry. "Biniog Sathi" is a Bangla word, meaning "Friend in Investment." A true friend can never let the life of another friend be ruined in an adverse situation. Similarly, a loyal financing institution should stand besides its borrowers in both good and bad times, which is the essence of this model. An initiative of ICD (Islamic Corporation for Private Sector Development), Biniog Sathi is under review for approval as an official product. This model could be replicated around the world regardless of race, colour, or religion in accordance with prescribed guidelines.

Key Features of Biniog Sathi

The Biniog Sathi model integrates zakah (alms giving) and charity with the Islamic banking model, which benefits both MFIs and micro clients. This approach will enhance the competitive advantage of the Islamic banking model. Zakah is a key pillar of Islam. Muslims are obligated to pay 2.5% of their surplus wealth every year to the eight categories of people shown in Figure 3.

FIGURE 3. PEOPLE ELIGIBLE FOR ZAKAH

POOR	NEEDY	ZAKAT COLLECTORS	WHOSE HEARTS ARE TO BE WON OVER
CAPTIVES TO BE SET FREE	DEBT DEFAULTERS	THOSE WORKING FOR THE CAUSE OF ALLAH	DISTRESSED TRAVELERS

Zakah is practiced in the Muslim world, but it is not collected in an efficient manner because there is no central mechanism for the collection of funds. Furthermore, Muslims concentrate primarily on the poor and needy only to fulfil their zakat obligation, largely ignoring the other six categories of eligible people.

Zakah is a relatively less explored area in the field of Islamic finance, despite its enormous growth potential. Theoretically, 2.5% of yearly GDP of a Muslim country can be collected as zakah, provided efficient marketing and administrative processes are followed. Pakistan, Bangladesh, Indonesia, and Malaysia have a combined GDP of US$2,064 billion, indicating a potential US$52 billion in zakah collection at a rate of 2.5% annually. If only 10% of this zakah amount (US$5.2 billion) is allocated to poor debt defaulters annually, the risk of credit default will be greatly mitigated, allowing MFIs to expand their outreach.

How will it work?

To implement Biniog Sathi, MFIs will establish contractual relationships with independent zakah and charity funds in line with Shari'ah guidelines. The bank will investigate cases of default to ensure that it is not deliberate on the part of the client. If the default is genuine because of legitimate issues, the bank will issue a certificate to the client stating the outstanding amount. The client will submit the certificate to a zakah/charity fund, which will then have an option to assist in debt repayment based on the contractual agreement with the financial institution. The fund may not be in a position to assist because of inadequate funds. If the client gets the full overdue amount by the fund, the bank will release the capital and the client will be issued a new financing line. In this process, the bank can recover an outstanding amount from the client who can continue to retain the asset kept as collateral with the institution. Moreover, the model allows the zakah fund to utilize its balance in a Shari'ah-compliant manner.

A Biniog Sathi protocol, outlining proper checks and balances, will be developed and strictly followed to mitigate all moral hazard risks. ICD, as the owner of the product, will conduct a yearly audit to ensure adherence to this protocol. If the audit results are unsatisfactory, ICD will issue a report informing the funds that the bank is not following the protocol; hence, it is up to their discretion to continue their relationship with that particular institution.

FIGURE 4. BINIOG SATHI

PROGRESS TO DATE

The model, which unleashes the power of zakah and charity, received "Best Innovative Product" Award at Global Islamic Microfinance Forum in 2017.

ICD has entered into an MOU with Al Huda CIBE of Pakistan to market the model globally.

The model has been featured in Islamic Finance News (IFN) of Malaysia and CNBC Arabia.

Collaboration efforts are underway to form relationships with various zakah funds.

Developmental Impact

Biniog Sathi will incentivize poor beneficiaries to avail of financing for productive activities without any fear of being in default. Additionally, it will help Islamic MFIs reach the ultra-poor segment that, until now, has been a challenge to reach because of the greater risk of default. This model will help zakah and charity funds to be connected with the real economy through the banking channel. Because of the positive impact on the poor beneficiaries, donors will tend to pay more zakah and charity, contributing to poverty alleviation and financial inclusion.

ISLAMIC FINANCE WEBINAR SERIES 3
Practices and Opportunities in Islamic Capital Market

PRESENTERS
- **Naila Firdausi, CFA, Fixed Income Analyst, PT Manulife Aset Manajemen Indonesia**
- **Mohammad Shoaib, CFA, CEO, Al Meezan Investment Management Limited**
- **Iggi Haruman Achsien, Head of Capital Market, National Sharia Board of Indonesian Council of Ulemas**
- **Ridzham Zaidi Rizlzuwan, ICM Strategy and Industry Insight & Analytics, Securities Commission Malaysia**

OVERVIEW

Guiding Principles for Islamic Financial Transactions

Transactions in ICMs are governed by Shari'ah, which is the Islamic religious law that governs day-to-day life, including financial matters. The goals of Shari'ah, referred to as maqasid e Shari'ah, focus on achieving benefit (maslaha) in the following five areas:
- Religion (din)
- Life (nafs)
- Intellect (aql)
- Wealth (maal)
- Lineage (nasab)

Objectives of wealth or financial transactions, as defined by Shari'ah, are as follows:
- continuity of wealth circulation
- continuity of the investment of wealth
- achieving comprehensive communal prosperity
- financial transparency
- validation of financial ownership

Comparison of Islamic and Conventional Capital Market Transactions

When comparing ICM transactions with conventional transactions, the former is not necessarily completely different from the latter. In some cases, the terms (or forms) may be the same, but the difference lies in the content (substance). For instance, collective investment schemes are referred to as mutual funds in both Islamic and conventional finance. The substance differs, however, in the sense that Islamic mutual funds can invest only in Shari'ah-compliant equity and debt instruments.
At times, the substance may be similar, but the term (or form) is different. For instance, the substance of sukuk and conventional bonds is similar—that is, the holder of the instrument gets a fixed rate of return, but the form is different. Additional steps are required to make the financial transaction halal (i.e., Shari'ah compliant). Hence, sukuk have to be structured according to certain Islamic modes of finance to enable investors to earn a fixed rate of return in a Shari'ah-compliant manner. Similarly, screening of stocks is required to ascertain their Shari'ah-compliant status.

Distinguishing Features of ICM Transactions

The ICM differs from its conventional counterpart in terms of core business as well as the type of transaction. Core business activities not permitted by Shari'ah are specifically stated in some cases, such as Dow Jones Islamic Index, but these guidelines are defined more generally in other jurisdictions, such as Indonesia (see Figure 5).

FIGURE 5. CORE BUSINESS: SHARI'AH SCREENING CRITERIA

FATWA NATIONAL SHARIA BOARD, INDONESIA	DJIM (DOW JONES ISLAMIC MARKET)
Core Business Criteria ,will exclude: • Operation involving gambling • Operation based on riba and gharar (conventional financia institutions) • Acticities of producing, distributing, and selling non-halal foods • Activities of producing, distributing, and selling haram products and services	**Core Business Criteria,** will exclude: • Alcohol • Tobacco • Pork-related products • Conventional financial services • Defense/Weapons • Entertainment (Music, hotels, casinos, cinema, etc.)

In addition to core business, accounting filters are also applied to evaluate the eligibility of stock for Shari'ah compliance purpose. Please see Appendix II for details.

Shari'ah does not allow margin trading based on interest, speculative activities (such as short selling), spreading misleading information, and insider trading. Most Islamic finance jurisdictions do not allow excessive leverage and trading in risky instruments like derivatives. Hence, the structure of ICM transactions is such that the inherent risk in the transaction is relatively lower than in a conventional one. This also holds well for sukuk, which are asset-backed instruments contrary to conventional bonds for which this asset-backed condition is not a prerequisite.

Key ICM Instruments

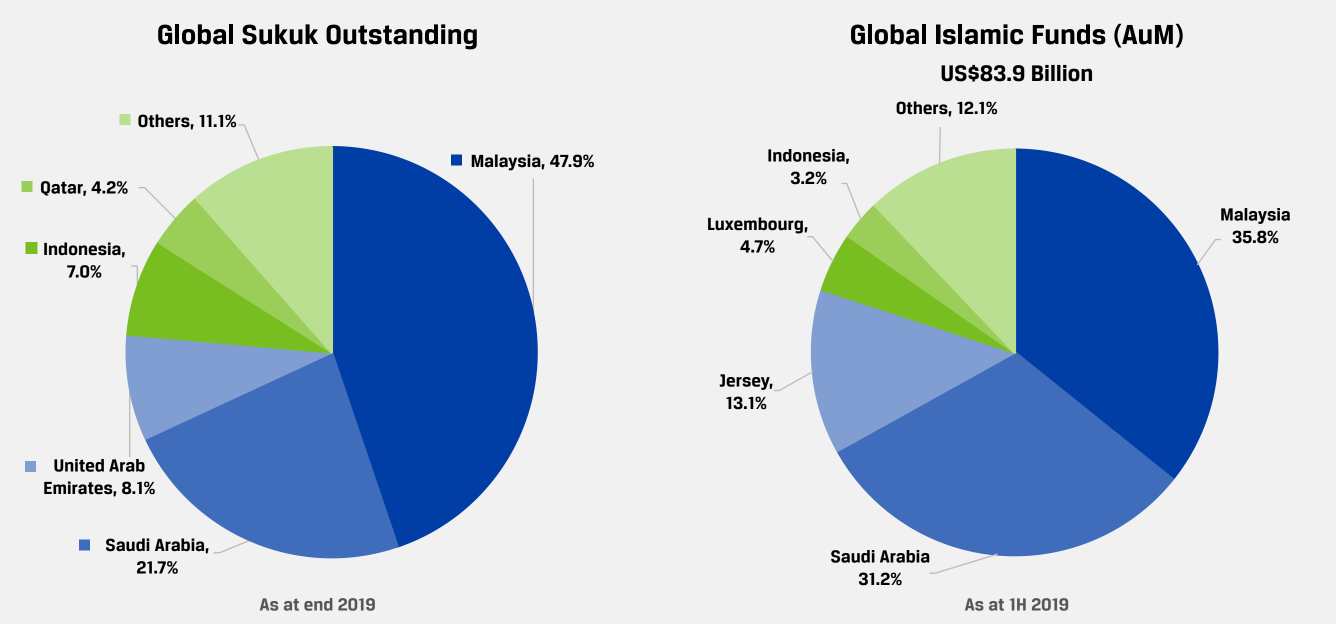
Following is a brief description of key ICM instruments:

- **Sukuk:** Sukuk (certificates) represent securities of equal denomination as well as individual ownership interests in a portfolio of eligible existing or future assets. See Appendix III for a detailed description of sukuk. Sovereign and corporate sukuk are both available in the market for investment and trading.
- **Halal/Shari'ah-Compliant Stocks:** These are equity shares that meet the Shari'ah screening criteria, including both sector and accounting filters, as specified by Shari'ah scholars. See Appendix II for details on Shari'ah compliance screens applied by the Dow Jones Islamic Market (DJIM) Index and the KMI (KSE Meezan) Index.
- **Islamic Mutual Funds:** These are collective investment schemes wherein the investors contribute their surplus money for the purpose of its investment to earn halal profits in strict conformity with the precepts of Islamic Shari'ah. Islamic funds can invest in halal stocks, commodities, and fixed income instruments.
- **Shari'ah-Compliant Real Estate Investment Trusts (i-REITs):** These are collective investment schemes that invest in real estate according to Shari'ah guidelines. See Appendix IV for details on i-REITS.
- **Islamic Indices:** Islamic indices reflect Islamic investment principles and are designed to measure the performance of Shari'ah-compliant securities in various jurisdictions. Such indices are monitored by their respective Shari'ah boards.

ICM Growth Potential

ICM, worth US$645.7 billion, accounted for 26% of the overall Islamic finance market in 2019 (Islamic Financial Services Board, 2020). Outstanding sukuk accounted for almost 22% of the global Islamic finance market, while Islamic funds held a 4% share. According to International Capital Market Association (ICMA) estimates, the size of the global bond market outstanding was US$128.3 trillion as of August 2020, while assets under management (AuM) of the world's 500 largest fund managers were US$91.5 trillion at the end of 2018. The small size of the ICM compared with its conventional counterpart indicates its huge potential for growth (see Figure 6).

FIGURE 6. ICM GROWTH POTENTIAL



Source: MIFC Estimates

According to Malaysian Islamic Financial Centre (MIFC) estimates, global sukuk outstanding stood at US$491.7 million as of 2019, up from US$142.3 million in 2010 and translating into compound annual growth rate (CAGR) of 14.7% during this period. Almost 89% of global sukuk outstanding was issued by five countries, namely Saudi Arabia, Indonesia, Malaysia, Qatar, and United Arab Emirates. Strong growth momentum for the global sukuk market has been provided by Malaysia, Indonesia, and Saudi Arabia, which together contributed to more than 50% of sukuk issuance in 2019. Government and government-related instruments dominate the global sukuk market. The size of Islamic funds stood at US$83.9 billion with Malaysia and Saudi Arabia being key contributors to the assets under management. There are more than 1,500 funds globally. Currently, only 2% of funds hold AuM of US$1 billion or more each, while 46% of funds hold AuM of less than US$10 million.

Spotlight on Select ICMs

Malaysia

Malaysia has emerged as a key ICM valued at US$502 million at the end of 2019, growing at a CAGR of 5% per year during the period from 2014 to 2019. Growth of the ICM in Malaysia is attributed mainly to a conducive and well-developed legal, Shari'ah governance, and regulatory framework, supported by the government. Shari'ah-compliant equity and debt account for a major portion of the overall capital market in the country, as illustrated in Figure 7.

FIGURE 7. MALAYSIAN ICM

Source: SC Annual Report 2019

Malaysia's Islamic fund industry constitutes 22% of the overall market and is spread across diverse products, including i-REITS, exchange-traded funds (ETFs), unit trusts, and private retirement funds.

Regulatory Focus on Fintech and Responsible Investing: Islamic finance in Malaysia has room for development. The government's efforts will focus on digitisation to enable IFIs to reach a wider market segment, especially small businesses that have been adversely affected by the pandemic. Shari'ah-compliant equity crowdfunding (ECF) and peer-to-peer offerings are under consideration to facilitate upscaling of micro, small, and medium businesses. Through fintech, the value chain of existing businesses can be made more efficient in terms of product and service delivery. For instance, block chain technology and smart contracts can be used for sukuk issuances, big data analytics can support investment selection, and digital platforms can be used to expand distribution network.

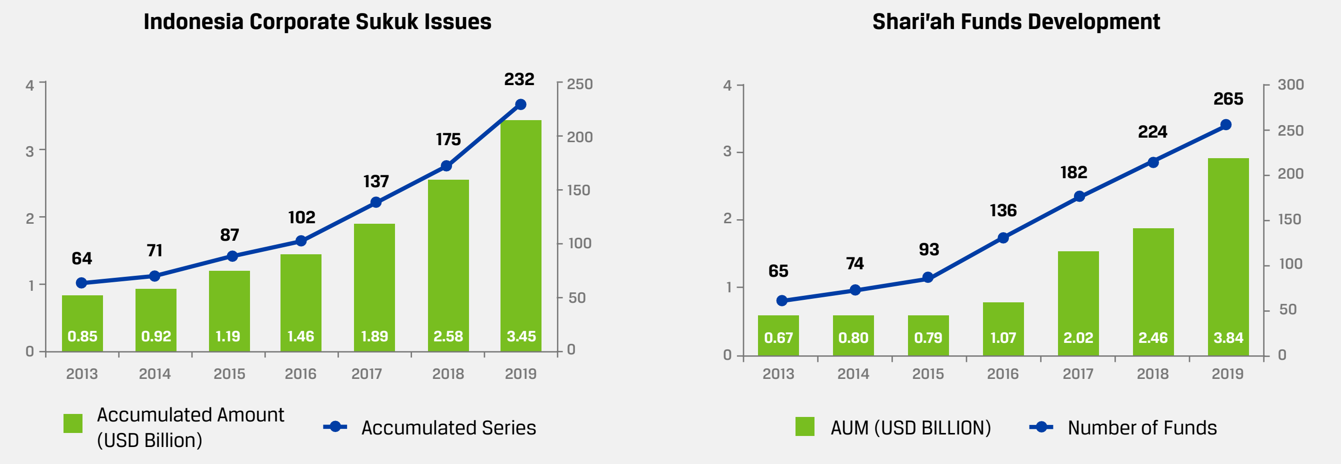
Another area that the country intends to focus on is socially responsible investing, in terms of both equity and sukuk, by leveraging its well-developed Islamic finance ecosystem. Malaysia launched an SRI roadmap in 2019. The government aims to widen the scope of ICM offerings to support social finance activities, such as waqf, for the greater good of the society. Recently, the SEC launched a waqf mutual fund framework to facilitate the launch of collective investment schemes based on this concept.

Indonesia

The Indonesian ICM ranks second according to the Islamic Financial Services Board Stability Report (IFSB, 2020), with Malaysia being the market leader. Given that Indonesia has the largest Muslim population in the world, Islamic finance offers strong growth potential in the country (see Figure 8). Currently, the Indonesian ICM has a significant amount of assets, a comprehensive regulatory framework, various types of investment products, and an increasing number of investors and market participants.

Indonesia has emerged as a top 10 country in terms of sukuk issuance, it is the first jurisdiction to issue a sovereign green sukuk to the global market and also has successfully issued retail-based sovereign sukuk. Shari'ah-compliant stocks account for almost 52% of the Indonesian market, while sukuk hold more than 25%. A list of halal stocks is compiled by the National Shari'ah Board in collaboration with the Indonesian Financial Services Authority (OJK). This list is reviewed every six months before dissemination for public use. The country has three Islamic indices.

FIGURE 8. GROWTH OF ICMs IN INDONESIA



Source: OJK

Source: OJK

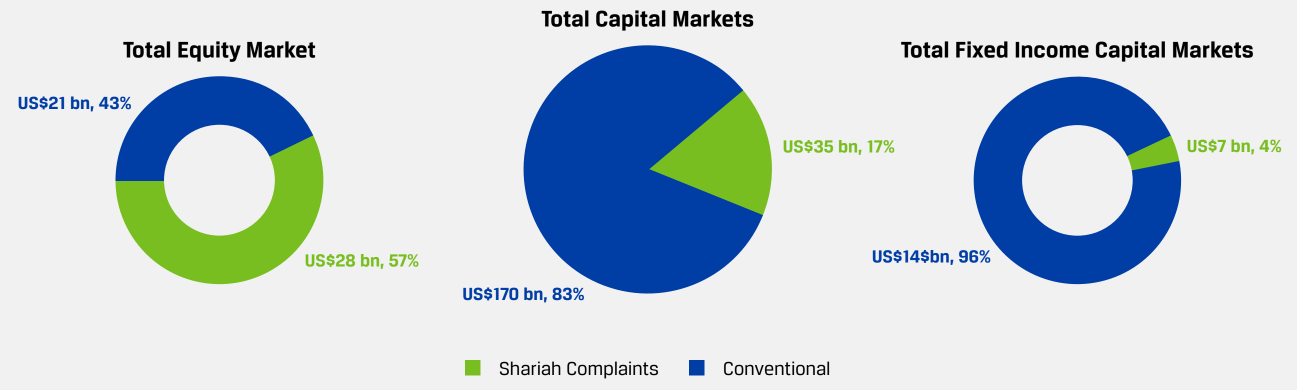
Unique Features: The Indonesian ICM is unique. Although other countries encourage ICM development by providing tax exemptions for both demand and supply sides, the government of Indonesia applies tax neutrality. This policy aims to put ICM on the same playing field as the conventional capital market. The government charges Islamic financial products the same tax rate as conventional financial products. Nevertheless, given its uniqueness, the Indonesian ICM has grown well (IFSB, 2020).

Regulatory Support: Advancement of ICM in Indonesia can be credited with the close collaboration between the OJK, other related regulators, and all stakeholders. Going forward, the government has embarked on several initiatives through the National Committee for Islamic Economy and Finance (KNEKS) for the development of ICMs as well as overall Islamic finance in the country. Indonesia will have the largest Islamic bank in the region as a result of merger of three state-owned banks. Furthermore, new sukuk issuances are in the pipeline.

Pakistan

The ICM in Pakistan was valued at US$35 billion in December 2020, accounting for 17% of the total industry (see Figure 9). Shari'ah-compliant stocks constitute 57% of the equity market and sukuk make up 4% of the fixed-income market. Pakistan has one of the widest ranges of ICM products available, both on investment and banking sides.

FIGURE 9. SHARE OF ICMs IN PAKISTAN



Source: Al Meezan Investment Management Limited

Shari'ah-Compliant Stocks and Indices: The first Shari'ah-compliant index, KSE Meezan Index (KMI-30) was launched in 2008, as a collaboration between Al Meezan Investment Management (AMIM) and Pakistan Stock Exchange (PSX). This was followed by the launch of another index, KMI All Share in 2015. The Shari'ah compliance aspect is managed by AMIM, free of charge, and the index maintenance and dissemination of information is the responsibility of PSX.

Annual returns on the KMI-30 Index have been higher than its conventional counterpart represented by the KSE-100 Index, with a 10-year CAGR of 10.4% for the former compared with 9.6% for the latter. This has motivated the new issuers in the market to become part of the Shari'ah-compliant universe to generate interest from a higher number of investors.

Islamic Funds: The Islamic funds industry accounts for 42% of the overall market, despite being a late entrant. The Islamic mutual funds industry commenced in 2003 compared with its conventional counterpart, which has been in existence since 1962. The AuM of Islamic mutual funds at the end of September 2020 stood at US$5.25 billion, growing at CAGR of 23% over the past decade.

The first Islamic ETF was launched by Al Meezan Investment Management in 2020. Presently, only one listed REIT in the market has a net asset value of more than US$305 million. Although international environmental, social, and governance (ESG) funds are investing in Pakistani equities, the country still does not have ESG funds. Given the growing focus on ESG investments in the international market, it is necessary to develop this area in the country in collaboration with local players.

Sukuk: Corporate sukuk constitute 70% of total corporate debt market contrary to the government sukuk, which account for a mere 4% share of public sector debt as of October 2020. The government wants to increase its share of outstanding sukuk to 10%. Hence, the country has witnessed the supply of new sukuk in the recent past. Two sukuk issuances, termed as Pakistan Energy Sukuk (PES) I and II, recently were issued with a size of US$1.2 billion each.

Commodities: Few Shari'ah-compliant contracts currently are trading on the Pakistan Mercantile Exchange (PMEX), the first centralized and regulated market for commodity futures trading. Efforts are underway to increase the number of Islamic commodity contracts.

Regulatory Support and Recent Developments: The Government of Pakistan and the Central Bank are aiming to enhance the share of Islamic finance from 16% to 25% by 2023. In this pursuit, several initiatives were taken by the government in the recent past. The Roshan Digital Account was launched, which caters to Non-Resident Pakistanis (NRPs), who can now open an account in a paperless environment, sitting abroad. Through this account, NRPs can invest in Naya Pakistan Certificates, a Shari'ah-compliant savings scheme launched by the government. Furthermore, a Murabaha Share Financing Scheme was launched for the purchase of halal shares and sukuk.

The focus on digitization has increased, primarily as a result of the pandemic, with more IFIs increasing their touchpoints with the consumers in a virtual environment. Furthermore, this has made it easier for local players to connect with their counterparts in key Islamic finance markets virtually through webinars and video calls. This effort will allow for greater learning opportunities for all stakeholders around the globe.

ISLAMIC FINANCE WEBINAR SERIES 4
Social and Sustainable Sukuk

PRESENTERS
- **Geoffrey Ng, CFA, Board of Governors, CFA Institute**
- **Margaret Franklin, CFA, President and CEO, CFA Institute**
- **Dr. Zamir Iqbal, Vice President Finance and Chief Financial Officer, Islamic Development Bank**
- **Mohammed Shoaib, CFA, Chief Executive Officer, Al Meezan Investment Management**
- **Sarwat Ahson, Executive Director, CFA Society Pakistan**
- **Sharifah Sarah Syed Mohamed Tahir, Managing Director, Client Coverage, Group Global Banking, Maybank**
- **Usman Zafar, CFA, Board Member and Chair of Advocacy Committee, CFA Society Doha**
- **Zeeba Askar, CFA, Head of Banking and Finance Centre, Bahrain Institute of Banking and Finance**
- **Alexander Perjéssy, Vice President–Senior Analyst, Sovereign Risk Group, Moody's Investors Service**

OVERVIEW
The guiding principles of Islamic finance, including justice, welfare, and equitable treatment, largely are aligned with the Sustainable Development Goals (SDGs), which aim to address environmental and social issues for the welfare of the society at large. Basic pillars of Islamic finance, such as zakah, sadaqah, and waqf, ensure that the entire community is being taken care of.
With the global issuance of sustainable bonds reaching a record US$100 billion in the second quarter of 2020, it should come as no surprise that social impact sukuk are fast becoming a popular financing instrument. An Islamic finance working group of CFA Societies from Asia Pacific, Middle East, and North Africa presented a panel of Islamic finance experts who discussed the growth of social impact sukuk in today's global financial markets.

Importance of ESG Considerations in Investment Management and Islamic Finance
In pursuit of its mission, CFA Institute is a strong advocate of ESG considerations in investment management and analysis. Like ESG and sustainable investing, Islamic finance aims to create value for the society at large. Key principles of Islamic finance, including justice, welfare, and equity, are closely aligned with SDGs. Hence, ESG considerations are likely to gain momentum in the structuring of Islamic finance products.
The following excerpt from the address of Margaret Franklin, president and CEO, CFA Institute, highlights the significance of socially responsible investing (SRI) and its growing importance in Islamic finance arena:

Setting standards is well integrated into the mission of CFA Institute which is served by generating value for core investment management professionals and engaging with the core investment management industry to advance ethics, market integrity, and professional standards of practice, which collectively contributes value to society. Regarded as an influential global standards setter, CFA Institute is the largest association of investment professionals. Given this position, the Institute is leading the way in educating investment professionals about ESG principles as well as advocating for better reporting and transparency. We see interest in ESG products continue to soar with savvy investors demanding ESG analysis as part of fundamental investment analysis. The phenomenon is witnessed in both individual and institutional client categories. More and more investors are viewing investment as a 3-part equation comprising of risk, return and impact. Islamic finance shares similar origins and aspirations with ESG and sustainable investing. Common to both are ethical underpinnings that put stewardship and societal value creation at the forefront of finance.
Socially responsible investing and Islamic finance seek to meet the financial needs of clients, perform well when it comes to returns and offer better outcomes for the society and the environment than the conventional finance. In the coming years, we expect to see a greater consideration of ESG issues in Islamic finance driven by several factors dominating our world today including increasing awareness, greater provision of ESG data by data providers and standards, more use of ESG data by rating agencies, the economic rise of Muslim millennials and, of course, plain expectations.

The historical connection between Islamic finance and SRI persists. Sustainability and ethical values drive innovation in both areas. The World Bank launched a green bond in 2008, with the first green sukuk following this bond 10 years later. The first social impact bond was born in 2010, and within five years, the first SRI sukuk was floated in 2015. With a growth in impact investing, the Global Impact Investing Network was established in 2009 and the Islamic Finance and Impact Investing Network was created in 2016 by the IsDB and United Nations Development Programme (UNDP) Istanbul International Center for Private Sector and Development.

ICM Instruments in ESG Landscape

Sukuk Overview: Sukuk is the primary Islamic instrument that offers fixed-income characteristics like that of a senior unsecured debt obligation. In commercial terms, procedures, and issuance process, it is identical to the conventional bonds. As opposed to conventional bonds, which are risk adjusted, sukuk are risk-sharing instruments linked to a certain asset pool according to the requirement of Islamic finance. Moreover, as an Islamic instrument, sukuk proceeds cannot be utilized towards prohibited sectors, such as alcohol, weapons, and gambling.

The structures of sukuk are certified by a well-defined governance framework to ensure compliance with Islamic law. Innovative structures are being pursued to tap into the vast potential of other Islamic concepts, such as waqf and zakah. This inherent "use of proceeds" made the traditional sukuk an SRI by default, much earlier than green/social bonds came to fruition.

Growth: Sukuk issuance in the Gulf Cooperation Council (GCC) outpaced increases in conventional bonds, recorded at 35% versus 10%, respectively, during 2020. This indicates a strong preference for sukuk, especially in the wake of Covid-19, because investors are more concerned about how the proceeds of the issue would be utilized. Another attractive feature of sukuk, particularly in GCC, is the high credit quality and underlying structures. These funds are issued by low-risk entities, such as sovereign bodies, supranationals, and government-related bodies. Sukuk have emerged as the best performing instruments amongst all of the fixed-income asset classes, with five-year risk-adjusted return of the Dow Jones Sukuk Total Return Index outperforming S&P Global Developed Aggregate Ex-Collateralized Bond Index.

ESG Market Offerings: Islamic and conventional capital market instruments currently offered in ESG market are quite similar in terms of their economic payoff:

Green Bonds/Sukuk, the first generation of ESG instruments, use 100% of the proceeds for projects that qualify as green, including climate change considerations. The first green bond launched by the World Bank was a simple product for funding an environmentally friendly project. Over time, the green bond market has evolved, crossing US$1 trillion. In GCC, Qatar National Bank (QNB) issued a US$600 million green bond in September 2020, one of the largest green issuances by a financial institution in the MENA region. The sukuk market is expected to follow suit.

Social Bonds/Sukuk followed green instruments with a relatively broader scope. They utilize 100% of the proceeds for projects that qualify as social, such as healthcare, poverty alleviation, and education. Social sukuk issuances can be used to fund Covid-19 vaccines to meet concessional funding requirements of governments in emerging economies. These instruments also can play a vital role in small and midsize enterprise (SME)–related microfinancing. Social impact sukuk are results-based instruments. The pay-out to investors is contingent upon social results being achieved. Results are verified before pay-out. They are of particular interest to institutions, which are typically impact investors, including certain financial institutions, foundations, and charities. These investors typically are supporting a certain cause and also may have a corporate social responsibility mandate for which they are willing to accept a relatively lower rate of return on these instruments. Social sukuk give such investors a channel to achieve their objectives in a measurable manner (e.g., creation of a certain number of jobs or an increase in GDP of certain basis points), along with a proper governance structure.

Sustainability Sukuk and Bonds are third-generation instruments with a much broader scope. Proceeds from these instruments are used for a mix of green and social projects. Narrowly focused issuances, such as green or blue or brown instruments, are quite challenging and may be uneconomical for issuers. Because it is difficult at times to identify green- or social-only projects, the trend is towards sustainability sukuk that provide more flexibility in terms of project coverage.

Because sukuk offerings are clearly identified as financing green or social or sustainability projects, use of these proceeds has been embraced by sukuk issuers to show alignment with the SDGs agenda and, therefore, attract SRI- and ESG-focused investors as well.

Role of Islamic Multilateral Institution in Sustainability Issuances

About IsDB: The IsDB is a AAA-rated supranational and multilateral development bank with 57-member country shareholders. It has a mandate of delivering social and economic development with a focus on sustainability in its member countries and Muslim communities worldwide. Being a signatory of SDGs, IsDB has targeted interventions in member countries. To achieve these goals, IsDB has embarked on green, social, and ESG projects in its member countries as illustrated in Figure 10.

FIGURE 10. SUSTAINABILITY PROJECT UNDERTAKEN BY IsDB

GREEN

- Climate Action
- Adaptation
- Mitigation

SOCIAL

- Health
- Education
- Women & Youth
- SMEs

ESG

- Environmental and Social Safeguards
- Strong Governance

SDGS ADDRESSED		
GREEN	**SOCIAL**	**ESG**
6, 7, 13, 14 & 15	3, 4 & 8	10 & 16

To date, the progress in member countries on the implementation of ESG factors is slow. Post-pandemic, IsDB along with other Multilateral Development Institutions and the G-20 have an increased focus on resilient and green economic growth to ensure sustainability. Going forward, climate change and other social goals, which ultimately contribute to poverty alleviation, will gain more prominence.

Sustainable Framework: IsDB developed a robust sustainability finance framework outlining the eligible criteria in line with international standards and SDGs. This exercise was undertaken to demonstrate compliance with certain safeguards and principles while embarking upon ESG projects. The framework clearly defines benchmarks that need to be measured and in what form. Some examples of benchmarks include protection of women/youth, job creation, access to clean water, addition of clean energy projects, and development of the road network.

This framework outlines how to measure performance, which is challenging in emerging economies, because of the limited accessibility of information as well as the time lag involved in collecting information. The measurement task, however, is much easier in more developed countries, such as Indonesia and Malaysia, that have a well-defined ecosystem for offering ESG sukuk. Performance is measured annually, and the score card is shared with the investors.

For independent assessment of the sustainability framework, external verification was conducted by a top rating agency CICERO (Norway), an award-winning global leader in providing green ratings to the financial sector. IsDB's sustainability finance framework received a CICERO Medium Green rating and a governance score of Excellent, indicating its high commitment to green projects. This rating is the same as its peers, such as the International Finance Corporation (IFC), African Development Bank (AfDB), and KfW (the German state-owned investment and development bank, based in Frankfurt). IsDB also received a very low ESG Risk Rating (11.5 out of 100) from Sustainalytics.

Green and Sustainable Issuances: Endorsement by the noted standard setters has enabled IsDB to attract investors, resulting in successful issuance of the EUR 1 billion green sukuk in November 2019. This was followed by the issuance of the first-ever AAA-rated sustainability sukuk, which raised US$1.5 billion in June 2020, to assist member countries in recovering from the aftermath of the global pandemic in a green and resilient manner. These proceeds would be used to finance Covid-19 projects that focus on "access to essential services" and "SME financing and employment generation" categories under the umbrellas of "SDG-3: Good Health and Well-Being" and "SDG-8: Decent Work and Economic Growth."

An annual impact report would be published for investors/stakeholders to show use of proceeds exclusively towards the COVID-19 projects and would be vetted by an external party. In March 2021, IsDB raised US$2.5 billion with its sustainability sukuk, which is also its biggest public issuance in US dollars to date. There is not much of difference in terms of spreads of plain vanilla and sustainability sukuk. This is primarily because of the fine pricing already enjoyed by IsDB issuances.

Moody's Rating of IsDB's Sustainability Sukuk:
Moody's rating of senior, unsecured debt, such as IsDB's sustainability sukuk, was based on the rating of the fundamental obligor. This rating indicates the likelihood of default and the expected loss suffered in the event of default. The rating methodology does not distinguish between plain vanilla sukuk and social/sustainability sukuk, which primarily is based on the credit risk of the ultimate obligor. IsDB's sustainability sukuk was rated AAA with a stable outlook, which is the highest on Moody's rating scale.

ESG factors are considered in the credit analysis conducted by Moody's. The rating agency has just rolled out ESG methodology for sovereign sukuk and intends to do the same for other rating groups, such as multinational development banks like IsDB. Moody's evaluated its member support while assessing IsDB's sustainability sukuk from an ESG perspective. Note that the greater the commitment made to sustainability in line with SDGs, the stronger the assessment of the willingness of member countries to provide support in times of need. Furthermore, such issuances unlock additional pools of capital that otherwise could be out of bounds. This improves access to funding from investors who are restricted in terms of investments because of ESG considerations.

Green Issuances-Malaysian Experience

Traditionally, sukuk in Malaysia have been distributed through banks. Given the challenging post-pandemic environment, the government decided to simplify the application and documentation process for both retail and corporate sukuk through its established digital platform. Subsequently, for the first time in September 2020, the Government of Malaysia launched the US$120 million Sukuk Prihatin on a fully digital basis to maximise its outreach to retail investors. Both local and foreign banks were able to distribute this sukuk through their digital channels. Proceeds from the sukuk were to be used for financing programs that benefit those affected by COVID-19, including improving connectivity for rural schools, financing micro-SMEs (especially women entrepreneurs), and supporting grants for research into infectious diseases.

The central bank played a key role in launching this sukuk by allowing innovation in know your customer and compliance-related matters through the joint efforts of industry players. This made it possible to launch the product without any major enhancements in the system. The success of Sukuk Prihatin demonstrated the fact that, in addition to the purpose and impact of the social sukuk instrument, documentation and delivery channels play a key role in getting the desired investor response. It is of utmost importance to make access to information and distribution of sukuk as easy as possible for both corporate and retail investors.

Returns, time horizon, and flexibility of redemptions, especially from retail investor's perspective, are important considerations for investment in social sukuk. With a two-year tenor, Sukuk Prihatin offered a donation feature that gave the investors flexibility to either part with their funds or invest with a return objective. Furthermore, the clarity of cause and its measurability played a key role in building investor trust. Tax exemptions and other incentives were built into the sukuk to make it more attractive for investors.

Future Outlook

Achievement of SDGs by 2030 seems like an uphill task since millions of people uplifted from extreme poverty in the past 10 years have been pushed back into the same situation by Covid-19. Hence, the ESG sector will be given priority by investors to reach SDGs, translating into huge potential demand for social and green issuances. The funding gap for the development of the countries was US$1 trillion before Covid-19 and has magnified manifold in the post-pandemic world. To capitalize on this opportunity, issuers need to ensure a robust ESG framework, thus enabling an environment for ensuring compliance with ESG standards and a sound monitoring and evaluation mechanism.

Given the lower returns on such issuances, support from the government and central banks will be required to lure investors through other incentives, such as tax benefits. Concerted efforts by all stakeholders, including investors, issuers, regulators, and zakah institutions, will be needed to establish the ecosystem for stimulating demand for social/sustainable sukuk.

APPENDIX I. STRUCTURE OF ISLAMIC BANKING PRODUCTS

LIABILITY PRODUCTS

Savings and Term Deposits: Islamic banks structure these deposits on participatory modes, including mudaraba or musharaka, wherein deposit holders participate in the business of the bank with their deposited money. Hence, savings and term deposit accounts are termed as Profit Sharing Investment Accounts (PSIA) or investment accounts in some jurisdictions, such as Malaysia. Investment accounts may be further categorized as unrestricted or restricted, as follows:

- Unrestricted Investment Account is an investment account for which the account holder authorizes the Islamic bank to invest the account holder's funds on the basis of a mudaraba contract in a manner in which the Islamic bank deems appropriate without establishing any restrictions as to where, how, and for what purpose the funds should be invested. Under the arrangement, the Islamic bank can commingle the investment account holder's funds with its own funds (owner's equity) or with other funds the Islamic bank has the right to use. The investment account holders and the Islamic bank generally participate in the returns on the invested funds (IslamicMarkets, "Unrestricted Investment Account," n.d.).
- A Restricted Account is an investment account that has certain restrictions as to where, how, and for what purpose the funds are to be invested. Furthermore, the Islamic bank may be restricted from commingling its own funds with the restricted investment account funds for purposes of investment. In addition, investment account holders may impose other restrictions.

Current Accounts: These deposits are structured based on qard hassan (interest-free loan). The account holder may withdraw only the money deposited; any increase on it will be deemed interest, according to Shari'ah guidelines. Deposits may be taken by an Islamic bank under a wadi'ah contract, which corresponds to safekeeping, custody, deposit, and trust. In this arrangement, the depositor places funds or assets with the bank for safekeeping and, in most of the agreements, the bank charges a fee for the safe custody of the depositor's funds.

ASSET PRODUCTS

The asset side of Islamic banks is based on three modes of Islamic finance, including trade, participation, or rent (see Islamic Finance Webinar Series 1, Islamic Finance Fundamental Principles).

AGENCY TRANSACTIONS

Shari'ah allows an Islamic bank to act as an agent (on a wakalah basis) of the customers and carry out permissible transactions on their behalf. It can charge agency fees for such services as follows (Usmani, 2015):

- Payment/receiving of cash on behalf of the customer
- Inward/outward bill of collection
- Letter of credit opening and acceptance
- Collection of export bills/bills of exchange
- Underwriting and initial public offering (IPO) services

MISCELLANEOUS SERVICES

Shari'ah permits charging service fee for issuance of guarantees. Furthermore, Islamic banks can provide Shari'ah-compliant financial advisory in addition to routine ancillary banking services, such as account opening and maintenance, lockers, foreign currency transactions, internet, and mobile banking.

APPENDIX IIA. SHARI'AH COMPLIANCE SCREENS

Dow Jones Islamic Market Indices Methodology (S&P Dow Jones Indices, 2022)

SECTOR-BASED SCREENS

Based on parameters established by the Shari'ah Supervisory Board, the following businesses are inconsistent with Shari'ah law. The majority of Shari'ah scholars and boards hold that these industries and their financial instruments are inconsistent with Shari'ah precepts and hence are not suitable for Islamic investment purposes. Although no universal consensus exists among contemporary Shari'ah scholars on the prohibition of tobacco companies and the defence industry, most Shari'ah boards have advised against investment in companies involved in these activities. Income from the following impure sources cannot exceed 5% of revenue:

- Alcohol
- Tobacco
- Pork-related products
- Conventional financial services (e.g., banking, insurance)
- Weapons and defence
- Entertainment (e.g., hotels, casinos/gambling, cinema, pornography, music)

Companies classified as financial (8000) according to a unique proprietary classification system are considered eligible if the company is incorporated as an Islamic Financial Institution, such as the following:

- Islamic banks
- Takaful insurance companies

Companies classified as real estate (8600) according to a unique proprietary classification system are considered eligible if the company's operations and properties are conducting business according to Shari'ah principles.

ACCOUNTING-BASED SCREENS

After removing companies with unacceptable primary business activities, the remaining stocks are evaluated according to several financial ratio filters. The filters are based on criteria set up by the Shari'ah Supervisory Board to remove companies with unacceptable levels of debt or impure interest income. All of the following must be less than 33%:

- Total debt divided by trailing 24-month average market capitalization
- The sum of a company's cash and interest-bearing securities divided by trailing 24-month average market capitalization
- Accounts receivables divided by trailing 24-month average market capitalization

Stocks deemed to be compliant at the prior evaluation period that exceed the maximum ratio for any accounting-based screen at the current evaluation period remain compliant if the ratio is within two percentage points of the maximum allowed. If the maximum is breached for three consecutive evaluation periods, however, the stock will be deemed noncompliant. If any of the ratios are above the two-percentage-point buffer limit, the stock is deemed noncompliant immediately.

Stocks deemed to be noncompliant at the prior evaluation period that pass all accounting-based screens at the current evaluation period remain noncompliant if any ratio is within two percentage points of the maximum allowed. If the stock satisfies all three ratios for three consecutive evaluation periods, however, the stock will be deemed compliant. If all three ratios are below the two-percentage-point buffer limit, the stock is deemed compliant immediately.

Companies passing the sector-based and accounting-based screens may be included as index constituents of the Dow Jones Islamic Market Indices.

APPENDIX IIB. SHARI'AH COMPLIANCE SCREENS

KMI 30 Index Methodology (KMI Index, n.d.)

For any stock to be Shari'ah compliant, it must meet the following six criteria:

SCREENING CRITERIA 1: BUSINESS OF THE INVESTEE COMPANY

The core business of the company should not violate any principle of Shari'ah. Therefore, it is not permissible to acquire the shares of the companies providing financial services on interest like conventional banks, insurance companies, leasing companies, or companies involved in some other business not approved by the Shari'ah—for example, companies making or selling liquor, pork, or haram meat, or companies involved in gambling or any other impermissible activities.

If the main business of the investee companies is halal, like automobiles, textiles, or manufacturing concerns, but they deposit their surplus amounts in an interest-bearing account or borrow money on interest, the shareholder must express his/her disapproval against such dealings, preferably by raising his/her voice against such activities in the annual general meeting of the company or by sending a letter to the management in this regard.

SCREENING CRITERIA 2: INTEREST-BEARING DEBT TO TOTAL ASSETS, <37%

The interest-bearing debt-to-assets ratio should be less than 37%. To understand the rationale behind this condition, such companies are based primarily on interest. Here again, the aforementioned principle applies—that is, if the shareholder is not personally agreeable to such borrowings, but has been overruled by the majority, these borrowing transactions cannot be attributed to the shareholder. Debt, in this case, is classified as any interest-bearing debt, including bonds, term finance certificates, commercial paper, conventional bank loans, finance lease, hire purchase, and issuing preference shares.

SCREENING CRITERIA 3: NONCOMPLIANT INVESTMENTS TO TOTAL ASSETS, <33%

The ratio of noncompliant investments to total assets should be less than 33%. Non-Shari'ah-compliant investments include investments in conventional mutual funds, conventional money market instruments, commercial paper, interest-bearing bank deposits, conventional bonds, interest-based savings schemes, and derivatives. Noncompliant investments also include investments in companies that do not meet the noted criteria for Shari'ah compliance.

SCREENING CRITERIA 4: NONCOMPLAINT INCOME TO TOTAL REVENUE, <5%

The ratio of noncompliant income to total revenue should be less than 5%. Total revenue includes gross revenue plus any other income earned by the company. Noncompliant income includes income from gambling, income from interest-based transactions, income from gharar-based transactions (i.e., derivatives), insurance claim reimbursement from a conventional insurance company, any penalty charged on late payment in credit sale, income from casinos, addictive drugs, alcohol, dividend income from the noted businesses, or companies that have been declared Shari'ah noncompliant.

SCREENING CRITERIA 5: ILLIQUID ASSETS TO TOTAL ASSETS, >25%

The ratio of illiquid assets to total assets should be at least 25%. The sum of all those assets whose trade price can deviate from par value, according to the rules of Shari'ah, is considered to be the aggregate value of illiquid assets. Illiquid assets include inventory of raw materials, work in process, all fixed assets (such as property, plant, and equipment), stores and spares, and stock in trade.

SCREENING CRITERIA 6: NET LIQUID ASSETS/SHARE VERSUS MARKET PRICE/SHARE

Market price per share should be at least equal to or greater than net liquid assets per share. Net liquid assets per share are calculated by using the following formula:

$$\text{Net Liquid Assets per Share} = \frac{\text{Total Assets} - \text{Illiquid Assets} - \text{Long-Term Liabilities} - \text{Current Liabilities}}{\text{Number of Shares Outstanding}}$$

APPENDIX III. KEY FEATURES OF SUKUK

WHAT IS SUKUK?
The Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) defines sukuk as "certificates of equal value representing undivided shares in ownership of tangible assets, usufruct and services or (in the ownership of) the assets of particular projects or special investment activity" (The Sukuk Handbook, 2015). Accordingly, sukuk (while sometimes referred to as "Islamic bonds" because, like bonds, they are, for the most part, tradable securities that can be easily rated) can be described more accurately as "Islamic investment trust certificates." Bonds evidence a debt the issuer owes to the bondholders, whereas sukuk certificates evidence the investors' ownership interest in the underlying sukuk asset, business, enterprise, or project, which entitles them to receive a share of the income generated thereby.

RELEVANT PRINCIPLES OF ISLAMIC FINANCE
The key principles relevant to structuring sukuk in accordance with the principles of Shari'ah are the same as the principles that apply to other Islamic financing structures, and can be summarised as follows:
The charging or receiving of interest (riba) is prohibited: Under the principles of Shari'ah, money is considered to be a tool for measuring value and a medium of exchange, and has no intrinsic utility. Accordingly, under Shari'ah, an investor should realise no profit or gain merely for the employment of money. The return to an investor must be linked to the profits of an enterprise and derived from the commercial risk assumed by that investor. Investors therefore should share in the income generated by the ownership of assets or the profits or revenues of the business in which they invest.

The underlying sukuk assets must be Shari'ah compliant: The assets or businesses underlying the sukuk must be Shari'ah compliant and therefore cannot be related, for example, to gambling or to the production or sale of alcohol or pork.
Prohibition on uncertainty (gharar), speculation (maisir), and exploitation of ignorance (jahl): Shari'ah prohibits intentionally induced uncertainty or unnecessary risk in contracts (gharar), transactions in which the outcome is entirely dependent on chance or speculation (maisir), and transactions in which one party gains because of the other party's ignorance (jahl). Transactions containing uncertainty with regards to an essential element of the underlying contracts, such as price, time of delivery, or subject matter, may not be compliant with Shari'ah. All rights and obligations relating to an investment certificate must be transparent and clear.

SUKUK STRUCTURES
AAOIFI has specified various categories of permissible sukuk and a number of techniques that can be employed to structure a sukuk transaction. The choice of structure type will depend on various factors, including the character of the underlying assets, taxation, and regulatory considerations; the targeted investor base; and the views of the Shari'ah scholars who must approve the sukuk issuance. As a result of the AAOIFI Statement, the most commonly used sukuk structures in the current market are ijarah, murabaha, and mudaraba-wakalah.

APPENDIX IV. SHARI'AH-COMPLIANT REAL ESTATE INVESTMENT TRUSTS

Concept (Haq, Breen, and Rose, 2012)

A key consideration for Shari'ah-compliant real estate financing is the proposed use of the property. Islam forbids the preparation or consumption of certain types of products and services, including the following (Bursa Malaysia, n.d.):

- Financial services based on riba (interest)
- Gambling/gaming
- Ammunition
- Manufacture or sale of non-halal products or related products
- Conventional insurance
- Entertainment activities that are not permissible according to the Shari'ah
- Manufacture or sale of tobacco-based products or related products
- Stockbroking or share trading in Shari'ah noncompliant securities
- Hotels and resorts

Consequently, the use of Islamic finance to fund a pork factory or a casino would not be permitted. It is less clear-cut in the case of a multilet property, such as a large commercial building, which may, for example, include a small branch of a conventional bank. Although such activities are prohibited, they do not form part of the primary usage of the property. In these situations, Shari'ah scholars generally have accepted that Islamic financing can be used for multilet properties for which the threshold of nonpermissible activities is below 5%. The income received from such activities, however, in a manner of speaking, must be cleansed. Such income may be donated to charity and should not form part of the profit distributed to investors.

TYPES OF STRUCTURES

Islamic financing structures used for real estate financing range from those that provide investors a fixed return to those in which investors take an equity risk in the development and performance of the property. Shari'ah scholars favour the latter, as it involves both the obligor and the financiers sharing in the risks and rewards of a project. This is considered to be more equitable and more in line with Shari'ah principles. The key methods for real estate financing include murabaha (cost plus financing), ijarah (lease), istisna'a (procurement), and diminishing musharaka (co-ownership akin to partnership).

REFERENCES

- Bursa Malaysia. n.d. "Shariah-Compliant Real Estate Investment Trusts (i-REITs)." Islamic Markets. Accessed 14 April 2022. https://www.bursamalaysia.com/trade/our_products_services/islamic_market/bursa_malaysia_i/shariah_compliant_real_estate_investment_trusts
- Calder, R. 2016, September 26. "God's Technicians: Religious Jurists and the Usury Ban in Judaism, Christianity, and Islam." European Journal of Sociology 57(2): 207–257.
- CIMA. n.d. Glossary of Islamic Finance Terms and Contracts. Chartered Institute of Management Accountants. https://www.cimaglobal.com: https://www.cimaglobal.com/Documents/Islamic%20finance/2011/Guides/Glossary.pdf
- Haq, Ferzana, and Natalie Breen, and Norton Rose. 2012, December. "Why Shariah Finance and Real Estate Are a Perfect Match." Eureka Hedge. https://www.eurekahedge.com/Research/News/6/December-2012-Norton-Rose-Why-Shariah-Finance-and-Real-Estate-Are-a-Perfect-Match
- International Monetary Fund. 2017, February. "Islamic Finance and the Role of the IMF." The IMF and Islamic Finance. Accessed 14 April 2022. https://www.imf.org/external/themes/islamicfinance/#:~:text=Islamic%20Finance%20refers%20to%20the,it%20considers%20harmful%20to%20society
- *Islamic Banking Department.* 2020, October–December. Islamic Banking Bulletin. State Bank of Pakistan. Accessed 14 April 2022. https://www.sbp.org.pk/ibd/bulletin/2020/Dec.pdf
- Islamic Financial Services Board. 2020, July. *Islamic Financial Services Industry Stability Report 2020.* Kuala Lumpur, Malaysia: IFSB. https://josor.org/wp-content/uploads/2020/08/Islamic-Financial-Services-Industry-Stability-Report-2020_En.pdf
- IslamicMarkets. n.d. "Riba Al Fadl–Explained." Accessed 14 April 2022. https://islamicmarkets.com/education/riba-al-fadl-explained
- IslamicMarkets. n.d. "Unrestricted Investment Account." Accessed 14 April 2022. https://islamicmarkets.com/dictionary/u/unrestricted-investment-account
- *KMI Index.* n.d. KSE Meezan Index, Katachi Stock Exchange and Al Meezan Investment Management Ltd. Accessed 14 April 2022. https://www.psx.com.pk/psx/themes/psx/documents/BrochureKMI_Idx.pdf
- S&P Dow Jones Indices. 2022, March. *Dow Jones Islamic Market Indices Methodology.* S&P Dow Jones Indices. Accessed 14 April 2022. https://www.spglobal.com/spdji/en/documents/methodologies/methodology-dj-islamic-market-indices.pdf
- *The Sukuk Handbook.* 2015. Los Angeles, CA: Latham & Watkins LLP. Accessed 14 April 2022. https://www.lw.com/thoughtLeadership/guide-to-structurings-sukuk-2015
- Thomson Reuters. 2011. "Islamic Interbank Benchmark Rate: Pulse of the Islamic Capital Markets." Thomson Reuters. Accessed 19 June 2022. https://www.thomsonreuters.com/content/dam/openweb/documents/pdf/tr-com-financial/fact-sheet/iibr.pdf
- Thomson Reuters Practical Law. n.d. "Maisir." Glossary. Accessed 14 April 2022. https://uk.practicallaw.thomsonreuters.com/9-500-7087?transitionType=Default&contextData=(sc.Default)&firstPage=true
- Usmani, D. M. 2015. *Meezan Bank's Guide to Islamic Banking.* Karachi: Maktaba Ma'ariful Quran.

CFA INSTITUTE
CONTEMPORARY ISLAMIC FINANCE PRACTICES 2022

AUTHOR
Shazia Farooq, CFA

CFA Society Bangladesh

CFA Society Indonesia

CFA Society Malaysia

CFA Society Pakistan

SUPPORTED BY

CFA Institute® Asia-Pacific Research Exchange