

## **FIN-402 Islamic Finance**

**Cr Hrs: 3.0**

### **Course Description**

Islamic finance is one of the fastest growing and most innovative financial disciplines in the international financial market. It is growing at a rate of 15-20% each year, and is expected to be US\$3 trillion in size by 2020. It is one of the least understood both by the western financial community and indeed by those in Islamic communities. This course offers a clear and understandable examination of this dynamic area of finance. It will help participants to fully understand the fundamental principles underlying modern Islamic finance, as well as modern practices prevailing in this industry. The course will also cover the theories and concepts of the Islamic financial instruments used in the industry.

### **Course Objectives**

- Understand the basic rules and values underlying Islamic finance.
- Learn about the full range of current Islamic products used in Islamic banking, capital markets and insurance.
- Have an up-to-date overview on the scope and relevance of the Islamic financial market across the world and, in particular, in Europe
- Comprehend current issues and discussions surrounding the Islamic financial industry.
- Refine each student's general knowledge of business and extend their ability to confront new situations and propose solutions which can withstand critical examination into the area of Islamic finance.

### **Learning Outcomes**

• This course aims to provide students with the ability to:
• Understand how international markets work and facilitate international business
• Understand Islamic Shariah and economic system
• Explain the architecture of an Islamic financial system and discuss its effectiveness
• The concept of Riba, Gharar, Qimar and other prohibited activities
• Islamic Law of contract, sales and purchase
• Explain the importance of Shariah in Islamic banking
• Explain the objectives of wealth distribution in Islam
• Be able to differentiate between Islamic and conventional banking
Understand the concepts of Takaful, Securitization and Sukuk
• Understand the rules of agency contract (Al Wakalah)
• Analyze the Additionally, students should gain research and communication skills through the course project experience.
• factors on which trade based, rental based and participation based modes differ

## Required Course Material

The required text(s) for this course include:

### Text Book:

1. Muhammad Ayub: "Understanding Islamic Finance".
2. Michael Mahlknecht: "Islamic Finance"
3. Islamic banking- theory and practices by Muhammad Hanif

**Reference Book:** Michael Mahlknecht: "Islamic Capital Markets and Risk Management"

Supplemental readings may also be used from academic and business journals. Reading financial sections of newspapers and/or periodicals is encouraged.

### Additional / Optional Book(s) & Materials

1. Mohammed Obaidullah: "Islamic Financial Services"
- A basic calculator and excel expertise are required.

### Course Content (Weekly)

Weekly breakdown is given below

Week	Topic
1	<b>Islamic Banking – Introduction, Background &amp; Global Scenario</b> <ul style="list-style-type: none"><li>• Islamic Shariah</li><li>• Shariah; key to understanding Islamic banking</li><li>• Sources of Shariah</li><li>• The concept of lawful and unlawful as per Shariah</li><li>• Islamic economic system</li><li>• Architecture of Islamic Financial System</li><li>• Objectives of Islamic economics and finance vs. capitalism and socialism</li><li>• The concept of wealth in Islam</li><li>• Objectives of distribution of wealth in Islam</li><li>• Factors of production in Islam and their compensations</li><li>• Concept of free and fair market system in Islam</li></ul>
2	<b>Introduction of Islamic Finance</b> <ul style="list-style-type: none"><li>• Basis of Islamic Finance: The Shariah</li><li>• Main Prohibitions in Islamic Finance</li><li>• Riba, Gharar and Maisir/Qimar</li></ul>

	<ul style="list-style-type: none"> <li>• Contracts ('Aqd) and Promises (Wa'd)</li> <li>• Practical Implications of these Prohibitions</li> <li>• Prohibition of Short-Selling, Conventional</li> <li>• Insurances, and Financial Derivatives</li> <li>• Shariah Boards</li> </ul>
3	<b>The Global Islamic Financial Industry</b> <ul style="list-style-type: none"> <li>• A Worldwide Growing Industry</li> <li>• History and Development</li> <li>• Islamic Banking</li> <li>• Islamic Insurances (Takaful)</li> <li>• Islamic Capital Market</li> <li>• Main Markets and Institutions: IIFM, AAOIFI, IFSB, LMC, IDB, etc.</li> <li>• Global Market Trends</li> </ul>
4	<b>Basic Financial Modes Used by Islamic Banks</b> <ul style="list-style-type: none"> <li>• Fixed Income versus Profit-Loss Sharing (PLS) Modes of Finance</li> <li>• Murabaha and Murabaha-to-Purchase-Orderer (MPO)</li> <li>• Tawarroq and Prohibition by Islamic Scholars</li> <li>• Mudaraba</li> <li>• Musharaka</li> <li>• Ijarah and Ijarah-wal-Iqtina</li> <li>• Salam</li> <li>• Istisna</li> </ul>
5	<b>Islamic Law of Contract and Islamic Law of Sale</b> <ul style="list-style-type: none"> <li>• Basic elements of contract void and valid conditions</li> <li>• UqoodMuawadha and GhairMuawadh</li> <li>• Subject matter, price, delivery &amp; possession</li> <li>• BaiBatil, BaiFasid, BaiMakrooh</li> <li>• Prohibited transactions in Islam</li> <li>• Khayar, Iqala</li> </ul>
6	<b>Comparison of Islamic and Conventional Banking</b> <ul style="list-style-type: none"> <li>• Conceptual difference between Islamic and conventional banking</li> <li>• Difference between the governing principles</li> <li>• Business model differentiation</li> <li>• Product level differentiation</li> <li>• Features of Islamic banking (Liability/Assets)</li> <li>• Concept of reward and risk under shariah</li> </ul>
7	<b>Categories of Islamic Modes of Finance</b>

	<ul style="list-style-type: none"> <li>• Trade based modes</li> <li>• Participation based modes</li> <li>• Rental based modes</li> <li>• Disclosed agent, non-disclosed agent</li> <li>•</li> </ul>
8	<p>Cont:</p> <ul style="list-style-type: none"> <li>• Wakalatullstismar contract (portfolio management)</li> <li>• Differentiate Waadah (unilateral promise), Muawadah (bilateral promise), Aqd (contract) Dhamanat</li> <li>• Guarantee, mortgage, liquidated damages, letter of guarantee, collateral</li> </ul>
9	Mid-Term Examination
10	<p><b>Hedging Products in Islamic Finance</b></p> <ul style="list-style-type: none"> <li>• Hedging using Basic Islamic Financial Modes</li> <li>• Global Hedging Products Standards</li> <li>• Replication of Conventional Financial Products: Financial Engineering</li> <li>• Islamic Forwards, Options, Swaps, and Futures</li> <li>• Total Return Swaps: Structure and Criticism by Islamic Scholars</li> </ul>
11	<p><b>Islamic Fund and Asset Management</b></p> <ul style="list-style-type: none"> <li>• Principles and Constraints of Islamic Investing</li> <li>• Islamic Investment Products</li> <li>• Investment Funds</li> <li>• Hedge Funds</li> <li>• Venture Capital and Private Equity Funds</li> <li>• Real Estate Investment Trusts (REITs)</li> <li>• Islamic Approaches to Short-Selling</li> <li>• Islamic Market Indices</li> <li>• Case Studies</li> </ul>
12	<p><b>Islamic Structured Products</b></p> <ul style="list-style-type: none"> <li>• Murabaha-based Structured Products</li> <li>• Murabaha plus Arbun</li> <li>• CPPI-based Structured Products</li> <li>• Wa'd-based Structured Products</li> <li>• Khiyar al-Tayeen</li> <li>• Other Types of Islamic Structured Products</li> <li>• Case Studies</li> <li>• Trends and Limitations</li> </ul>
13	<p><b>Takaful (Islamic Insurance)</b></p> <ul style="list-style-type: none"> <li>• What is Islamic Takaful?</li> </ul>

	<ul style="list-style-type: none"> <li>• Comparison between Conventional</li> <li>• Versus Islamic Insurances</li> <li>• Types of Takaful</li> <li>• Pure Wakala, Pure Mudaraba and Co</li> <li>• mbinedWakala and Mudaraba Model</li> <li>• Underwriting Surplus in Islamic Takaful</li> <li>• Reinsurance and Retakaful</li> <li>• Use of Takaful Products for Hedging Purposes</li> </ul>
14	<b>Risk Management and Corporate Governance for Islamic Banks</b> <ul style="list-style-type: none"> <li>• Nature of Risks and Risk Management in Islamic Banking</li> <li>• Basel II for Islamic finance</li> <li>• Corporate Governance for Islamic Financial Institutions</li> <li>• Islamic Banks are Unique and Need for Shariah Compliance</li> <li>• Profit Equalization Reserve and Investment Risk Reserves</li> </ul>
15	<b>Sukuk (Islamic Bonds)</b> <ul style="list-style-type: none"> <li>• Basic Structure of Securitization</li> <li>• Islamic Sukuk versus conventional bonds</li> <li>• MudarabaSukuk</li> <li>• MusharakaSukuk</li> <li>• IjarahSukuk</li> <li>• MurabahaSukuk</li> <li>• Salam Sukuk</li> <li>• IstisnaSukuk</li> <li>• Case Studies</li> <li>• Rating and Risk Management of Sukuk</li> <li>• AAOIFI Standards of Islamic Sukuk</li> </ul>
16	<b>Contemporary issues in Islamic finance</b> <ul style="list-style-type: none"> <li>• Articles based discussion.</li> </ul>
17	Group Presentations
18	Final Examination (Tentative)