Accounting and Auditing Organization of Islamic Financial Institutions (AAOIFI) standards 387–8
accounting practices, in Islamic banks
Ijarah (leasing) 303–5
Istisna’a (order to manufacture) 271–4
Mudarabah contract 344–5
Murabaha 236–7
Musharakah contract 345–6
Salam contract 262–3
acronyms, list of 481–3
Ahd/W’adah (promise) 103–5
conditions in commercial dealings 115
rationale 114
token money 116–17
Al’Arbün sale (downpayment sale) 145–6
Al’Inah sale and the use of ruses (Hial) 147–50
Al Dayn (Sale of Debt) 146–7
AmBank Bank Berhad Al-Taslif Card 382
American national debt 5
Aqd (Contract) 103–5
Arbün 116
Bai’al Istijrar (supply contract) 355
Bai’or exchange of values 112, 130–1
comparison with Ijarah 280
types of 133
see also leasing (Ijarah)
Bank Holding Company Model, of Islamic banks 188
Bank Islam Malaysia Card (BIC) 382
banking 86
asset side 191–5
commercial 181–4
connotation 179–80
contracts and transactions 112–13
criticisms 114
deposit side 188–91
development of Shari’ah-compliant vehicles 461–2
experiences in different countries 461
fee-based services 384–6
financial markets and instruments 199–211
financial markets in the conventional framework 185
financing issues 369–83
important implications of Ahd/W’adah 116
and introduction of electronic money 461
investment 184, 199
Islamic banks and other banks, relationship 384
mode of financing 195–8
non-bank financial institutions (NBFIs) 185
objections and criticism of practices 445–56
products and services 194–5
strategic position in modern economics 180–1
structure of 186–8
see also loan and debt, in Islamic commercial law
Barter sales 109
Bretton Woods system 3
capital markets
components 390
development of Islamic depository receipts (IDRs) 390–1
securitization and Sukuk/Islamic investment certificates 391–412
capital markets (Continued)
Sharī‘ah principles 390
capitalism 3, 35–6
commercial law, see contracts and transactions, laws of
communism 3
components, of Islamic economic system
factors of production 35–7
individual freedom 37–8
liberalism vs state intervention 38–41
ownership of commodities and wealth 33–4
welfare concept 34–5
conditional sales 144–5
Contract Act of 1872 in English law 107
contracts and transactions, laws of
Aqd (Contract) 103–5
Bai‘al Istijrar 355
banking 112–13
categorization of goods 102–3
communicative and noncommunicative contracts 124–5
contingent/conditional contracts 126–7
difference between Ibādāt and Mu‘āmalāt 105
elements of 106–10
general framework 105–6
Ju‘alah 351–5
Māl or property in Islamic commercial law 101–2
Mudarabah 344–5
Musharakah 345–6
ownership 102–3
promises in respect of goods 104–5
with respect to the exchange of goods 102
rules of validity 110–14, 118–20
Salam 262–3
terminology 103–5
void (Batil) contracts 123–4
voidable or F‘āsid contract 120–3
W‘adah/Ahd and related matters 114–17
Wakalah (agency) 347–9
contracts of agency (Wakalah) 113
conventional banking

differences with Islamic banks 447–54
relationship with Islamic banks 384
credit cards 379–80
credit sale (Bai‘ Mu‘ajjal) 213
criticisms, on Islamic banking

differences with conventional banking practice 447–54
different Sharī‘ah interpretations 441–2
divergence from theory and practice 445–6
inflation and interest 438–9, 441
linking of money to real assets 455–6
meaning and connotation of Riba 436–7
modes of practice 442–4
money capital 437–8
penalty system 454–5
regard to the practice 435–6
related to the philosophy and concepts 434–5
time value of money 439–40
trading aspects 444–5
use of interest as Seed/Base capital 446–7

Dāera-e-Ma‘arif al Islami (the Encyclopaedia of Islam in Urdu) 50
debit cards 379
debt servicing and exploitation
debt relief packages 5
debt vs equity 85–6
imbalance in external payments 7
as a problem of underdeveloped countries (UDCs) 4–5
state of developed countries 5, 7
state of emerging economies 6–7
deposit side, of Islamic banks
current deposits 189
management on a Mudarabah basis 190–1
savings deposits/investment deposits/term deposits 189–90
derivatives 209–11
destabilization of economy 6
devotional acts, see Ibādāt
Diminishing Musharakah (DM)
case study 341–2
as Islamic mode of finance 339–43
overview 337–9
DP World’s Nakheel Sukuk 412–13
economic growth and socio-economic justice
factors responsible 8–9
inequality of income distribution 7
under neoliberalism 7
economic scenario, in neoclassical framework 3–4
Emirates Islamic Bank Credit Card 381–2
exchange rules 87–9
export financing 372
factors of production 36, 57
fee-based services 384–6
Index

financial markets and instruments 209–11
derivatives 209–11
foreign exchange market 209
fund management 201–3
inter-bank funds market 205–6
investment Sukuk 204–5
major instruments of trading 205
types 200–1
types of forward market 206–8
financial services and businesses, nature of Ijarah 366
major players 358–9
management of deposit pools and investments 359–60
Murabaha 364–6
operational controls 367–9
other compliances 367
selection of mode of financing 360–2
Sharī’ah compliance 363–4
tenor of financing 362–3
financing issues, with banks dealings in different cards 379–83
forward contract and foreign exchange deals 375–7
liquidity management 374–5
project financing 373–4
refinancing schemes 377–8
trade finance operations 370–3
working capital finance 369–70
foreign exchange market 209
dealings by banks 375–7
forward market 206–8
forward sales Ba‘i Salam/Salaf 241–2
disposing of goods purchased 250–2
economic role 242–3
features of valid Salam 243–9
post execution scenarios in 252–4
Salam rules 255–6
security or a pledge in a 249–50
Sukuk or certificates (SC) 254–5
free mutual consent, in transactions 110
fund management 201–3
future flow securitization (FFS) 394
gambling and Islamic principles 62
Gharar, prohibition of in insurance 419
Gharar, prohibitions of absence of Jahl 61
examples of 60–1
gambling 62
general principles for avoiding Gharar in sales transactions 61
in terms and essence of the contract 59–60
in terms of object of the contract 60
glossary of terms 485–96
gold standard 3
The Golden Age of Islam 28
Hamish Jiddiyah 116–17
Holy Qur‘an 25, 27, 30, 84, 418, 437–8, 451, 454, 475
Ahd 103
Aqd 103–5
avoiding interest 74–5
business norms and principles 64–7
concept of welfare 34–5
difference between cash and credit prices 141
on distribution of wealth 35
hardship 418
insurance practice 419
issues related to payments on borrowings 162, 174, 436
Ju‘alah 351
lending rules 70
Mithāq 103
mutual cooperation 68
ownership in 33
prohibition of Riba in 44–7, 95, 434
reference to contracts 104
references of Qimār and Maisir 62
references to loans and debts 155, 159
social justice and economic welfare 40
society in 38–9
as source of the divine law 21–2, 41
system of Zakat 12
in trading aspects 131
in utilization of goods and assets 33
honesty, role in Islamic economics 65–6
Ibādat 105
Ibāhatul Asliyah 22
Ibn Khaldun’s ideas on market system 27–8
Ibn Taymiyah’s concepts of Thaman-e-mithl 28
Ijarah, see leasing (Ijarah); Riba, prohibition of Ijarah Muntahia-bi-Tamleek 104, 112
issues with 295–6
leased assets and securitization of leases 297
Ijarah Muntahia-bi-Tamleek (Continued)
potential of 297–8
procedure 293–5
transfer of ownership 292
vs conventional auto lease products 300–1
vs conventional finance lease 291–2
Ijarah Sukuk 400–3, 410
offering by the Government of Pakistan 413–14
Water and Power Development Authority (WAPDA) of Pakistan 414
Imam Ibn Taymiyah 105
import financing, through Murabaha 372–3
insurance (Takaful)
challenges 429–30
Fatāwa (juristic opinions) 430–1
models of 423–6
need for 417–20
Sharī’ah basis 420–2
status and potential of 428–9
vs conventional insurances 427–8
working of 422–6
inter-bank funds market 205–6
interest-based financial system 4
interest-related benchmark, by Islamic banks 448
international infrastructure institutions 462
investment banking 184
investment Sukuk 204–5
Islamic depository receipts (IDRs) 390–1
Islamic economic system, features
approach to normative economics 30–1
defined 31–2
emphasis 25–7
recommended actions by government in
economic life 39–41
role of economists 27–30
Sharī’ah and its objectives 21–5
structure of, see components, of Islamic
economic system
see also Islamic finance
Islamic economists
in contemporary world 29–30
in the context of growth of money 28–9
contributions 27–8
earlier focus of advice 27
Imams as 27
Islamic finance
agenda for policy makers 457–61
appraisal of conceptual criticism 436–45
challenges in 474–9
common myths and objections 433–6
debt vs equity 85–6
exchange rules 87–9
factors influencing 462–3
Islamic banking 86
issues in 465–74
milestones 15–16
money and monetary policies 90–6
nature of financial services and businesses 358–69
philosophy of 73–85
potentials of 463–5
principles of 11–13
product development 358
time value of money 89–90
Islamic law 22
of inheritance 33
loan and debt in 155–74
norms and ethics 64–70
prohibitions 43–64
trading 130–52
value of “moderation” 34
Istisna’a, see order to manufacture (Istisna’a)
Istisna’a Sukuk 404–5
joint stock companies, participatory mode of 328–30
Ju’alah contract
execution of 353
financial products 354–5
parallel of 353
parties 351–2
practical process in 353–4
subject matter 352–3
Khan, Mohsin S. 31
Khayar al-Shart 107
Kuwait Finance House Al Tayseer Credit Card 383
Kuwait Finance House (Bahrain) Ijarah Card 383
leasing (Ijarah) 112
accounting practices of 303–5
contract 102
and conventional auto lease products 300–1
essentials of contract 280–1
guidelines for 298–9
and Islamic banks’ Ijarah
Muntahia-bi-Tamleek 291–8
juristic rules 281–7
modern use of 287–91  
risk management of 299–300  
letters of credit (L/C) 385–6  
letters of guarantee (L/G) 384–5  
life insurance policy 427  
liquidity management 374–5  
livelihood, in Islamic economics 23  
loan and debt, in Islamic commercial law  
Bai’ al Dayn (sale of debt/debt instruments) 172  
and banking system 158  
Hawalah (assignment of debt) 167–8  
illegality of commercial interest 157–8  
impact of inflation on 172–4  
instructions for creditor 161–2  
instructions for debtor 162  
penalty on default 165–7  
rebates in payments 163–5  
references from Holy Qur’ān 159  
repayment of loan/debt 162–3  
repayment of principle alone 160  
security/guarantee (Kafalah) in loans 168–72  
substance of loans 159–60  
terms defined 155–7  
value of money in 160–1  
loans and debts, prohibition of, see Riba, prohibition of  
Mabi’ (the subject of sale) 102  
Maisir and Qimār, prohibition of  
difference between Maisir and Qimār 62  
prize bond schemes and Islamic principles 63–4  
references in Holy Qur’ān 62  
Māl, see property, in Islamic commercial law  
Maslaha-e-Mursalah 22  
Milk ud Dayn 102  
Milk ul ’Ain 102  
Milk ul Manf’at 102  
Mithaq 103  
Mithli goods 102–3  
Mixed Portfolio Securities/Sukuk 406–7  
monetary policies  
creation of money in Islamic perspective 92–4  
currency rate fluctuation and settlement of debts 94–6  
status of paper money 91  
trading in currencies 91–2  
Mu‘āmalāt, see contracts and transactions, laws of  
Murabaha  
accounting treatment 236–7  
agreements in import financing 235–6  
in classical literature 215–16  
conditions for 217–20  
financing for exports 237  
form of Murabaha to Purchase Orderer (MPO) 222–9  
issues in 229–33  
need for 216–17  
precautionary measures for 233–4  
risk management 234–5  
structures 220–2  
Murabaha-based credit cards 383  
Mudarabah contract  
accounting treatment of 344–5  
concept 319–22  
deposit directives in 331–2  
execution of 325  
nature of capital invested 323–4  
termination of 327  
treatment of profit and loss 325–7  
types and conditions regarding 324  
vs Musharakah contract 327–8  
Mudarabah model, of Takaful system 424, 426  
Mudarabah/Muqaradah Sukuk 398–9  
Murabaha to Purchase Orderer 104  
Mudarabah (partnership in the profits of capital and labour) 311–12  
Musawamah  
as a mode of financing 238  
overview 234  
Musharakah contract 312  
AAOIFI Standard for stock company 328–9  
accounting treatment of 345–6  
application in trade finance 332–3  
as a basis for securitization 334  
case studies 334–7  
deposit directives in 331  
flow of transactions for running business 333–4  
guarantees 318, 334  
maturity and termination 318–19  
mutual relationship among partners 314–16  
rules to capital investment 313–14  
treatment of profit and loss 316–17, 319–20  
vs Mudarabah contract 327–8  
for working capital requirements 370
Musharakah Sukuk 399–400
Muslim countries and Islamic finance 459–61

Nasiruddin Tusi’s Memorandum 28
non-bank financial institutions (NBFIs) 185, 418, 447

norms and ethics, in Islamic economics and finance
free marketing and fair pricing 68–9
freedom from Dharar 69–70
fulfilling covenants and liabilities 67–8
justice and fair dealing 64–7
mutual cooperation and removal of hardship 68

offer and acceptance, of contract 106–8
order to manufacture (Istisna’a)
accounting practices by banks 271–4
and agency contract 268
binding nature of 266–7
definition 263–4
guarantees 267
housing finance 274–5
parallel contract 267, 276–7
penalty clause 266
post execution scenario 268–9
potential of 269
for preshipment export finance 275–6
risk management in 269–70
subject matter of 264–5
vs Ijarah (Ujrah) 271
vs Salam 270–1
ownership, in Islamic law 33
of assets 102
of debt 102
of usufruct 102

Pareto efficiency, in conventional economics 38
participation term certificates (PTCs) 334
participatory modes (Shirkah)
asset side of the banking system 332–4
concept of 307
criticisms 442–4
deposits side of the banking system 331–2
Diminishing Musharakah (DM) 337–43
joint stock companies 328–30
legality of 308–12
modern 308
Mudarabah contract 319–27

Mudarabah vs Musharakah 327–8
Musharakah contract 312–19
in the pre-Islamic period 307
principles of Shirkah 343–4
securitization 334
partnerships
conditions with respect to partners 312–13
in creditworthiness 310–11, 317
general 310
guarantees 318
in labour or crafts 310
maturity and termination 318–19
mutual relationship among partners 314–16
in the profits of capital and labour 311–12
rules related to capital invested by a partner 313–14
treatment of profit and loss 316–17, 319–20
universal 310
penalty on defaults 454–5
see also loan and debt, in Islamic commercial law

philosophy, of Islamic finance
alternative forms of financing 76–8
avoiding gambling/games of chance 76
avoiding Gharar 75
avoiding interest 74–5
entitlement to profit 81–2
gains on investment or principal of a business 78–81
Islamic banks dealing in goods 82–3
risks associated with Islamic banks 84–5
transparency and documentation 83–4
prize bond schemes and Islamic principles 63–4
profit
in the context of partnerships 316–17, 319–20
defined 36
with liability 113
prohibitions, in Islamic economics and finance of conventional insurance 418–20
exchange of two liabilities 113
Gharar 57–61, 110–11
Khalabah 66
Maisir/Qimār 61–4, 112
Najash 66, 110
Riba 44–57, 111
in sales 142–4
securitization 392
two mutually contingent and inconsistent contracts 112–13
Index 515

Project financing
in construction and erection of plants 373–4
syndication arrangements for Sukuk issue and securitization 374
promise, see Ahd/W’adah (promise)
property, in Islamic commercial law 101–2

Qimi goods 102–3

rates of return, in Islamic finance 448–50
refinancing schemes, by Central Banks 377–8
religion, role in economics 10–11
principles of Islamic finance 11–13
trade regulations 13–14
repayment of debts, see loan and debt, in Islamic commercial law
revelation and Islamic economic system 21–2
Riba, prohibition of
connotation of term 52–3
differentiating the contracts for in the Holy Qur’an and Sunnah 44–7
in insurance 419
in loans/debts 47
misconceptions 49–51
and other factor payments 57
in other religions 53–4
rationale for 54–7
in sale/exchange contracts 51–2
rights of Allah (SWT) 22, 64, 113, 302, 422, 433, 437, 475
risk premium, in Takaful system 427
risk profile, of Islamic banks 452

Salam contract 104, 108, 113
accounting practices by banks 262–3
disposing of goods purchased 250–2
economic role 242–3
features of a valid 243–9
as financing technique by banks 257–63
flow of Salam transactions by banks 256
post execution scenarios 252–4
preshipment export financing 260
and refinance by the Central Banks (CBs) 260–1
risks in 258–9
rules 255–6
security or a pledge in a 249–50
Sukuk or certificates (SC) 254–5
vs Murabaha 257
for working capital finance 261, 370
Salam Securities/Sukuk 403–4

sale/exchange transactions, in Islamic economic system, see Riba, prohibition of
securitization
AAOIFI standards 392
on the basis of Murabaha and Murabaha Sukuk 405–6
benefits 392
case study 414–15
categories of Sukuk 398–407
concept 391–2
issues in terms and structures of Sukuk 409–11
parties are involved in Sukuk transactions 393–4
risk, contract and cash flow analysis 395
Shar’iah standards 396–8
special purpose vehicle (SPV) 394–5
Sukuk in fund management 411–12
Sukuk issues in various countries 409
tradability of Sukuk 407–9
trading of securitized papers 392–3
securitized papers
asset-backed securitization (ABS) 393
collateralized debt/loan obligations 394
mortgage-backed securitization 394
pool-based securitization 393
shares/certificates distribution, in joint stock companies 329–30
Shar’iah
criticisms on different interpretations 441–2
functions of supervisory board 387–8
importance to the role of information 66–7
insurance (Takaful) 420–2
objections to modern leases 291
objectives 22–5
principles on capital markets 390
prize bond schemes in 63
prohibitions, see prohibitions, in Islamic economics and finance
protection and preservation in 23–4
rules 22
source of tenets and information 21–2
standards for securitization 396–8
on various cards 380–1
Waqf in 421

Shari’ah Appellate Bench (SAB), of the Supreme Court of Pakistan 50–1

Shirkah, see participatory modes (Shirkah)
Shirkah al Inan (general partnership) 310
Shirkah-al-Mufawadah (universal partnership) 310
Shirkatul Wujooh (partnership in creditworthiness) 310–11
Shirkatula’mal/Sanā‘ (partnership in labour or crafts) 310
short-selling 108
subject matter, of a contract 108–10
Sukuk, see securitization
Sunnah 22
supply contract 355

Takafal system, see insurance (Takafal)
Taqwa 26
Tawarruq contract 349–51
Tenets, of Shari‘ah 22
term finance certificates (TFCs) 333
Thaman (price) 102
time value of money 89–90, 447
trade finance operations, of banks
commodity operations 372
and facility of bill discounting 371–2
import financing through Murabaha 372–3
Murabaha–Istisna’a financing for exports 372
trading, in Islamic commercial law
al’Arbūn sale (downpayment sale) 145–6
al’Inah sale and the use of ruses (Hiyal) 147–50
al Dayn (sale of debt) 146–7
Bai‘ Murabaha, see Murabaha
Bai‘ or exchange of values 130–1
conditional sales 144–5
conditions of valid Bai‘ 214–15
legal status 131–3
options in sales (Khiyar) 150–2
prohibitions in sales 142–4
requirements of a valid sale contract 133–42
types of Bai‘ 133
see also Musawamah
underwriting 330, 384, 419
Uqood-e-Mu’awadha (commutative contracts) 124–5
Uqood Ghair Mu’awadha (Tabarru’) or gratuitous contracts 125
Urf 22
valid contracts
binding and nonbinding 119–20
defined 118
effectiveness from a future date 118–19
requirements of a sale contract 133–42
suspending the effects of 119
virtue, in Islamic law 22
Voidable or Fāsid contract
causes of irregularity 120–2
forms of 122
legal status of 122–3
Wakalah (agency) 384
types 347–9
Wakalatul Istismār 349
Wakalah model, of Takafal system 424–6
Waqf model, of Takaful system 423–5
Waqf principles 421
welfare/interest of human beings, in Islam 22, 34–5
working capital finance 369–70