Islamic Finance news

A REDmoney Product

Vol. 4, Issue 14 6th April 2007

The World's Global Islamic Finance News Provider

SINGAPORE

Lion City roars

The Monetary Authority of Singapore has awarded DBS Bank and its Middle East partners a license to open Singapore's first Islamic bank. DBS's shareholders will include companies based in Bahrain, Saudi Arabia and Kuwait.

Chief executive Jackson Tai sees abundant opportunities for DBS to grow its Islamic business in Asia. He added: "DBS wants to play a leading role in intermediating capital flows between Asian issuers and Gulf investors, as well as corporate banking services in Asia, the Middle East and elsewhere."

Jackson also acknowledged the lack of retail banking products in the market.

BAHRAIN

Sukuk marketplace

The Sukuk Exchange Center (SEC) domiciled in Bahrain expects to see up to US$600 million in bonds traded in its first year. It is set to commence operations in June 2007.

The SEC aims to become the world's first marketplace for Sukuk. Sokouk Holding, International Leasing and Qatar Islamic Bank have contributed US$200 million in start-up capital.

MALAYSIA

Scotiabank open to options

The Bank of Nova Scotia (Scotiabank) is studying Islamic banking options, Rasool Khan, country managing head for Malaysia, revealed.

Speaking exclusively to Islamic Finance *news*, Rasool confirmed that the bank was in the preliminary stages of examining potential Islamic moves, but was already looking at domestic and international opportunities.

Rasool affirmed: "A lot of international banks are going into [Islamic banking], making it a business that has to be evaluated, and that's what we are doing."

Scotiabank is also poised to set up mergers and acquisitions to boost its position in Malaysia. The Canadian bank opened in Malaysia in 1973, with a single branch in Kuala Lumpur. It also has a Labuan International Offshore Financial Center-based branch; offering foreign currency loans and trade finance products and services.

UAE

Shariah compliant CDs?

The Central Bank of UAE (CBUAE) is contemplating the development of Islamic Certificates of Deposit (CDs) to remove excess liquidity from banks.

Current CDs are tailored to conventional banking, and generate interest rates. The CBUAE is in talks with Bank Negara Malaysia and the Islamic Development Bank to create products based on market demand, according to Saif Hadef Al Shamsi, executive director of the CBUAE.

CBUAE began its CDs program in 1995, cleaning up between Dh4–5 billion (US$1.08 to US$1.36 billion). Conventional investments in CDs have since seen an increase to Dh50 billion (US$9.53 billion) in the first quarter of 2007, from Dh34 billion (US$9.25 billion) at December 2006.

In this issue

News Briefs

Capital Markets 1
Reuters champion Islamic finance
Water brings investment ops
more inside...

Ratings 7
Law suit has no impact
Saad stable
more inside...

Interview 8
Armen V. Papazian, DIFX

UAE's boom is Dubai's gain 9

Room for Growth in Dubai 10

Interview 11
Abdul Ghani Endut, CIMB Islamic

The Black Box Syndrome: A New Challenge for Shariah Supervisory Boards ... 12

Macroeconomic Analysis and Malfunction of Shariah Advisory Services 14

Optimal Shariah Governance in Islamic Finance 16

Jobs Vacant – Shariah Supervisory Boards 18

Overview of Shariah Advisory and Product Development in Malaysia 20

Meet the Head 21
Mubashar H. Khokhar, CEO, Badr Al-Islami

Takaful News 22
MoU to boost Takaful
more inside...

Takaful Report 23
The BancaTakaful Way to Protection

Moves 24

Deal Tracker NEW 25

Eurekahedge 26

Dow Jones Islamic Indexes 27

Bondweb 28

Dealogic – League Tables 29

Events Diary 31

Subscriptions Form 32

Country Index 32

Company Index 32

Editor's Note

Investment is certainly not a new topic to Islam, as Shariah tenets relating to investing are referred to in the Quran. The key words are socially responsible investing and, in reality, most of the principles of Islamic investing are common to other religions and morality systems.

Islamic investment principles entail considering the level of Shariah compliance of business practices of the company invested in. The person responsible for putting the Muslim investors' money into the assets of that company is indirectly a minority shareholder of that company and thus becomes ethically responsible for the activities the company engages in.

Co-operation is part and parcel of – and strongly encouraged in – Islamic business practices, which aim to produce and distribute goods and services to enhance human prosperity and dignity. The fact that the Shariah prohibits all business activities which bring significant harm or undignified moral behavior – activities involving gambling, pornography, alcohol, money lending, harmful substances and pork – are known by many. Furthermore, respect for the environment and human welfare, fair and just employment, research and development policies, as well as fair and transparent dealing, must all be taken into consideration when dealing in business Islamically.

To satisfy the appetite of Muslims, largely from the Arab world, who are currently blessed with a huge liquidity surplus, financial institutions – both conventional and Islamic – are diligently working to come up with all kinds of products and solutions. This has resulted in a surge in demand for Shariah experts who must be business savvy. Quoting Armen V. Papazian from the Dubai International Financial Exchange (DIFX), "Naturally, the shortage of Shariah scholars with experience in finance and economics is a serious issue. Indeed, it is an issue that has a direct impact on the supply capacity of the industry." (See our interview with Armen on page 8 of this issue.)

Look further into this issue and you will learn all the details about the many Shariah aspects in Islamic finance and capital market.

Investment takes courage and skill. With assets of more than US$800 billion under management by Islamic financial institutions and non-bank institutions, the task requires skill and professionalism. Make sure you see the next issue of Islamic Finance *news* to learn more about how these assets are managed according to Islamic Shariah law, what is involved, who are involved and where the players are.

Nora Salim, Editor

LUXEMBOURG

Small country, big Sukuk

The Luxembourg Stock Exchange (LSE) is gearing up to match London in terms of Sukuk documentation.

Anzal Mohammed, senior associate at Allen & Overy, has affirmed the LSE's bid to relax Sukuk rules, with only transaction summaries required, rather than full details of the Sukuk's underlying assets. However, he added: "It's not exactly the same and it's still considered best to be asset-backed, but they will not apply the same disclosure rules to securities."

The LSE last listed a Sukuk in July 2005, due to the implementation of the Prospectus Directive, making it harder for Sukuk to list within the jurisdiction.

Anzal highlighted: "London has the prestige that will attract some issuers. Luxembourg clearly wants to be a part of this competition."

UAE

Dow Jones Titans

Dow Jones Indexes (DJI), along with the Dubai Financial Market (DFM), has launched the Dow Jones DFM Index (DJ-DFM-I) and the Dow Jones DFM Titans 10 Index (DJ-DFM-T10-I). Both new indices will be Shariah compliant.

The DJ-DFM-I is a composite equity index, which will track the performance of equities traded on the DFM. The DJ-DFM-T10-I is a subset of the DFM index and is designed to serve as an underlying index for investment products such as mutual funds, ETFs and other investment products. The Dow Jones DFM Titans 10 will measure the performance of the 10 largest companies listed on the DFM.

These indices will enable investors to participate in the Dubai Islamic stock exchange. Essa Kazim, DFM chairman, commented: "With DFM being the first Islamic stock exchange, it is appropriate that we should co-brand our first Islamic index with Dow Jones Indexes, creator of the world's first Islamic index. Our stated mission is to create a fair, efficient, liquid and transparent marketplace in order to serve all stakeholders and to contribute to the economic growth of the UAE and the region."

Both indices will be calculated in US dollars and dirhams, and will be weighted by free-float market capitalization. They will be reviewed quarterly in March, June, September and December.

QATAR

QIB finances tower

Qatar Islamic Bank (QIB) has signed a Musharakah lease contract with the Al Habtour Company for the construction and engineering of the Al Faisal Office Tower.

The Al Faisal Tower is scheduled to be completed in three years, and will be built in the Towers district in the town center of Al Dafna.

QIB confirmed that this is the biggest project financing executed by the bank, consolidating the bank's Islamic experience with the innovative Islamic financing tool of Musharakah/Ijarah.

MALAYSIA

Reuters champions Islamic finance

Reuters, the financial data and news provider, is ready to boost the Malaysian Islamic financial sector into a sophisticated, globally integrated financial market.

Alex Hungate, managing director for Reuters Asia, believes increased interaction with regulators, issuers of Sukuk and buyers and brokers of the secondary market will create more opportunities.

Alex added: "Although Malaysia has a great story to tell because of its push to become a center for the Islamic finance world, it is not getting its fair share of investments."

Reuters in Malaysia is the official calculator for Bank Negara Malaysia's reference rate, the Kibor, and Murabahah rates for the banks in the country. 18% of the group's revenue hails from Asia, which is expected to accrue with the growth of China, India, Malaysia and Japan's economies.

UAE

Dubai Bank growth

Dubai Bank has opened five more branches throughout the UAE, doubling its presence to ten. This is in tandem with the bank's 2007 growth plans.

Three branches were officiated in Dubai, one in Ras Al Khaimah and one in Al Ain.

MALAYSIA/SAUDI ARABIA

JV for capital markets

AmInvestment Group has entered preliminary talks with Saudi Arabian parties to set up a joint venture (JV) company. The JV will mobilize the group's capital market activity in Saudi Arabia.

AmInvestment Bank, a wholly owned subsidiary of AmInvestment Group, will own 10% of the JV.

MALAYSIA

StanChart means business

Standard Chartered Bank (StanChart) is set to launch its Standard Chartered Islamic Branding and First to Market Islamic Deposit 3-in-1 account. This is in line with StanChart's bid to establish an Islamic banking subsidiary by 2009.

Azrulnizam Abdul Aziz, head of Islamic banking for StanChart, affirmed the bank's aim to double its Islamic assets in 2007 to RM4 billion (US$1.15 billion). StanChart also aims to increase its banking business to 20% of total assets by 2010.

StanChart's pre-tax profit from Islamic banking grew by three times on the back of more Islamic products, including profit rate swap and Islamic cross-currency swap. The bank currently has 24 Islamic products, and is geared to launch six more by the end of the year, three of which would be consumer banking and three corporate.

MALAYSIA

HSBC keeping fingers crossed

HSBC Malaysia has applied to Bank Negara Malaysia to set up a fully fledged Islamic banking subsidiary.

HSBC Malaysia's Islamic banking assets amount to 12–13% of the bank's total assets, and is set to reach Bank Negara's 20% target by 2010. HSBC Holdings group chairman Stephen Green explained that the group's overall policy for Islamic banking is to provide Shariah compliant structured services to countries with a significant customer base and high demand. He also elucidated that 70% of HSBC's Islamic products are taken up by non-Malays, due to their competitiveness.

Income from HSBC's Islamic banking operations amounted to 65.7% (RM179 million (US$51.78 million)) due to loan expansions, particularly personal installment loans. The bank's pre-tax and zakat profit climbed to RM949 million (US$274.56 million), charting a 28.8% rise from 2005.

Malaysia will be HSBC's prime hub for Islamic banking, while assisting growth in Indonesia, Brunei and Bangladesh.

SAUDI ARABIA

Water brings investment ops

Saudi Arabia needs SR350 billion (US$93.3 billion) for water and sewage projects and SR340 billion (US$90.65 billion) for electricity projects in the next 20 years. The water and electricity sectors in Saudi Arabia are currently growing at a rate of 7% a year.

This may provide opportunities for Islamic finance in the Kingdom.

GCC

More depth please

GCC companies are finding difficulty in utilizing Islamic finance due to its lack of depth. However, debt and private equity will continue to flourish, according to rising demand.

Peter Barker-Homek, chief executive of the Abu Dhabi National Energy Company (Taqa) explained: "It is an alternative investment base that is deep, but is not as deep as conventional finance." The CEO of Millennium Finance Corporation, Dubai – Keba Keinde – added: "There isn't a history of Shariah compliant equity, and you have to do an extra amount of work to set it up properly."

There have also been repeated calls for the set up of secondary trading in Sukuk. According to Moody's Investors Services, an increase in issuances will up the chances of secondary market liquidity. Moody's expects corporate bond issuance in the GCC to double in 2007, from US$18.2 billion in 2006. Sukuk comprised 25% of total GCC bond issuance in 2006, at US$10.5 billion.

UAE

Amlak denied license

Amlak Finance's application for a full Islamic banking license has been rejected. Nobody at Amlak was available to comment on the reason behind this license denial.

Meanwhile, the company will sell up to US$300 million in Sukuk to tap Middle Eastern, North African and Indian markets.

At Amlak's recent annual general meeting, it was revealed that the company recorded a net profit of Dh130 million (US$35.39 million) for the 31st December 2006, after depositor's share. This amount represented a 23% increase from 2005.

Amlak also saw revenues of Dh390 million (US$106.19 million) against Dh266 million (US$72.43 million) in 2005, charting a 47% rise from 2005. However, the company has decided against dividend pay-outs for 2006, following Emaar's decision to limit payment of dividends.

UAE

Islamic housing estates

The National Bonds Corporation (NBC) has launched a Shariah compliant fully fledged and full service real estate subsidiary – National Properties. National Properties' services will include design, development, marketing, sales, as well as management of properties.

Adel Lootah, chief executive officer of NBC, explained: "National Properties will develop communities that will help define 'value-for-money' as 'a-lot-of-product-for-the-money.' We will strive to stay different in the market place by securing right locations at the right price, thus increasing the potential of capital growth."

National Properties' financial, operations and investment activities will be overseen by NBC's Fatwa and Shariah Supervisory Board.

MALAYSIA

Liquid water financing?

AmIslamic Bank has unveiled plans to provide financing for the RM3 billion (US$868.8 million) Pahang–Selangor water transfer scheme. The transaction will mark the bank's largest venture, if successful.

The water transfer project will see the building of the Kelau Dam and a 45km tunnel passing through the Titiwangsa mountain range to transport water from the Pahang River to Selangor. A water treatment plant will also be built in Selangor, with a holding capacity of 2,180 million liters a day.

Ahmad Zaini Othman, chief executive officer of AmIslamic, is optimistic on funding subsequent Ninth Malaysia Plan (9MP) projects.

UK/UAE

DIFC's multiple share of the pie

The Dubai International Financial Center (DIFC) has commenced talks with the London Stock Exchange (LSE), amongst other exchanges, on the possibility of cross-listing stocks on both exchanges.

The DIFC is also currently linked to six unnamed institutions, all interested in a stake in Dubai's exchange.

Omar bin Sulaiman, governor of the DIFC, also affirmed DIFC's initiative to create at least two top 10 financial services institutions by 2015.

MALAYSIA

Oil palm financing

Kuwait Finance House Malaysia (KFH) has signed a master agreement with Bank Negara Malaysia for its Commodity Murabahah Deposit-I, utilizing local commodities underlying transactions.

Kuwait Finance House Malaysia and Bank Negara Malaysia's Commodity Murabahah agreement will have an investment period of 28 days. This agreement marks Bank Negara's first commodity Murabahah, and the first program to utilize local commodities. This is a leap from Malaysia's previous commodity peg to the London Metal Exchange. Commodity Murabahahs are widely used in the European and Middle Eastern markets, which see a daily volume of US$3 billion.

MALAYSIA

Exceptional gain for Bank Islam

BIMB Holdings (BHB) has reported an outstanding group performance for the six months ending the 31st December 2006. Group profit before zakat and tax amounted to RM824.9 million (US$239 million) compared to a loss of RM12.8 million (US$3.7 million) in the previous half year. There was a gain of RM631.5 million (US$183 million) arising from dilution of its effective interest in its banking subsidiary from 100% to 51%.

Group operating profit was RM193.4 million (US$56 million), banking operations contributed RM165.5 million (US$47.9 million), while Takaful operations contributed RM11.3 million (US$3.3 million). BHB's other businesses which include stock broking, asset management, leasing and venture capital, contributed RM25.7 million (US$7.4 million).

QATAR

QFC's first Islamic institution

Al Rayan Investment, a 100% subsidiary of Masraf Al Rayan, will operate from the Qatar Financial Center (QFC). Al Rayan will thus be the first Islamic financial institution to be domiciled in the QFC.

With a paid-up capital of US$100 million, Al Rayan Investment will invest in real estate and private equity, and engage in wealth management in the GCC and Asia. The QFC Authority's director general and CEO Stuart Pearce credited the induction to the rapid growth in Islamic finance. "Hence it is logical for the QFC to regard it as one of our core businesses," he stated. Chairman Phillip Thorpe added that the QFC has been set up to accommodate both conventional and Islamic institutions.

QFC is looking to host 70 tenants by the end of 2007.

UAE

Emaar buys subsidiary

Emaar Properties has completed a deal granting it total ownership of Emaar Misr, its Egyptian subsidiary. The US$141.99 million takeover deal was finalized between Emaar and the Artoc Group, which previously held 60% of Emaar Misr's 37.73 million shares.

Nicholas Maclean, managing director of property developers CB Richard Ellis, confirmed: "Emaar wants to maximize its opportunities in Egypt as soon as possible before UAE and Turkish developers."

UAE

Financing sacred spaces

Dubai Islamic Bank (DIB), along with banks from the UAE, Saudi Arabia and Egypt, will finance expansions of the Prophet Muhammad Mosque in Madinah.

DIB has signed a SR400 million (US$106.6 million) financing facility agreement with the Saudi Bin Laden Group, part of a SR2.97 billion (US$791.9 million) syndicated Islamic multiple financing facility.

Banks involved in the facility include Samba Financial Group, Mashreqbank, Union National Bank, Abu Dhabi Commercial Bank and Commercial Bank International. Ayman Adel, vice-president and head of DIB's real estate finance department, explained: "This project is of great moral value to DIB, which continues to consolidate its leadership in managing the world's largest Shariah compliant financing transactions in different sectors. The bank has provided financing facilities totaling Dh50 billion (US$13.6 billion) to the contracting sector during the past three years."

KUWAIT/BAHRAIN

Fortis fund for finance

Fortis and Kuwait Finance House Bahrain will help Persian Gulf Islamic banks manage their money via a fund set-up.

The fund will allow Islamic banks to manage short-term liquidity and create overnight investment opportunities. The Persian Gulf economy is seeing rapid development with record sales from oil and oil derivatives.

UK

First Islamic Bank

Lloyds TSB has become the first British bank with an Islamic arm. The service will be available throughout all of Lloyds' 2,000 branches.

Emile Abu Shakra, spokesperson for Lloyds, elucidated: "There are about 100,000 Muslim businesses in the UK alone, and many of them will be uncomfortable with the idea of receiving or paying interest."

The move to convert stemmed from Lloyds' survey of 100,000 British Muslims, 75,000 of whom were interested in Shariah compliant banking. Lloyds' previous track record includes an Islamic checking account, student account, mortgage and investment fund.

Having paved the way, Abu Shakra of Lloyds anticipates that other British banks will now follow suit.

MALAYSIA

Take note!

The Securities Commission (SC) will now issue its updated list of Shariah compliant securities every last Friday of May and November. The change is in line with streamlining its issuance date with the FTSE–Bursa Malaysia (FBM) Emas Shariah Index review date.

The SC's first updated list of Shariah compliant securities for the year will be released on the 25th May 2007.

THAILAND

Thai twist on banking

The Islamic Bank of Thailand (IBT) plans to list on the Stock Exchange of Thailand by the end of 2010. It is also seeking to entice conventional banking clients away from such banks to Islamic banking.

IBT is expecting approval from the finance ministry for a cash injection of THB3.3 billion (US$101.5 million) to fuel its expansion plans. IBT also plans to double its registered capital to THB2.4 billion (US$73.9 million) this year.

More than 50% of IBT's clients are Muslim, leaving room for more non-Muslim penetration. IBT's key customers are halal food exporters with liaisons in the Middle East. IBT currently has 29 branches, 12 of which are located along the southern border provinces of Narathiwat, Pattani, Satun, Songkhla and Yala.

SOUTH KOREA/MALAYSIA

Key to Islamic marts

Malaysia will pave the way for the export of information and communications technology (ICT) from South Korea to Islamic countries and South-East Asian markets.

Lee Hyun Jae, South Korean deputy minister for small and medium business administration is positive about collaboration between Malaysia and South Korea. He stated: "South Korean companies should take advantage of Malaysia's good infrastructure and its potential as a strategic hub for the Asean and Islamic markets."

South Korea's confidence is boosted by Malaysia's position as chairman of the Organization of Islamic Conference (OIC).

PAKISTAN/MALAYSIA

RAM to the rescue

Rating Agency Malaysia (RAM) has signed a technical assistance agreement with Pakistan's Credit Sustainability Rating (CSRL).

RAM's assistance will be in the context of consultation and discussion on credit rating methodology, best practices and reporting methods.

Executive chairman of RAM, C. Rajandram, highlighted: "The technical agreement with CSRL further boosts RAM's aspiration to prosper in the international market. RAM's affiliation with Standard & Poor's and direct involvement in other developing markets – including Sri Lanka and Bangladesh – represent its initial step en route to our regional and global aspirations."

MALAYSIA

Investors see returns

Kuala Lumpur Sentral, a subsidiary of Malaysian Resources Corporation, has successfully placed its RM720 million (US$208.56 million) serial Sukuk Musharakah to investors.

HSBC Bank Malaysia and Kuwait Finance House Malaysia acted as the deal's joint lead managers, with Newfields Advisors as its financial adviser.

The Sukuk has a long-term rating of AA2, higher than its current Bai Bithaman Ajil Islamic debt securities' A+ID rating.

UAE

Commercial Bank rated 1

Abu Dhabi Commercial Bank (ADCB)'s support rating has been affirmed at 1 by Fitch Ratings. This rating is based on strong support from the government of Abu Dhabi, which has a 65% stake in ADCB, through the Abu Dhabi Investment Council.

As at 2006, ADCB charted healthy revenue generation, propelled by strong loan growth and high fee income. The bank's revenue remained stable despite stock market fluctuations. Fitch Ratings assigned ADCB an eligible capital ratio at 14.3% in 2006, slightly below average for UAE banks. Fast retail loan growth in the past two years is also a negative indication.

ADCB is currently active in private banking, retail, corporate investment and trade finance services. Its expansion plans include a joint venture with Macquarie Bank, Australia.

SAUDI ARABIA

Saad stable

Standard & Poor's has assigned long-term BBB+ and short-term A-2 corporate credit ratings to Saad Group, with a stable outlook.

The ratings are credit to Saad's substantial investment portfolio, totaling US$15.2 billion in assets as at the 31st December 2006. Strong support from Dr Maan Al-Sanea, Saad's major shareholder, has also provided a boost to its ratings. The ratings are moderated by Saad's financial leverage, measuring 33% of its net debt to estimated value. Its fluctuating investment portfolio value also has a negative impact on the ratings.

The group's stable outlook is premised upon the assumption that Saad will maintain a net debt to estimated portfolio value of 30%, balance its growth plans in real estate and manufacturing activities to maintain an intermediate leverage.

KUWAIT

KREB cost efficient

The Kuwait Real Estate Bank (KREB)'s issuer default rating has been affirmed at A-, with a stable outlook. The bank has also been assigned a short-term rating of F2, individual rating of C/D and support rating of 1.

KREB is due to start of operations of its Islamic banking arm in the second quarter of 2007, upon recently receiving approval from the Central Bank of Kuwait. KREB currently operates under a restricted banking license solely for real estate purposes, which is a hindrance for KREB in terms of competition with commercial banks.

The bank's individual rating reflects its small size, adequate cost efficiency and satisfactory capitalization. It also indicates the positive impact KREB's Shariah compliance will have on its franchise, and its improving asset quality. KREB's profitability is adequate but continues to lag behind its local peers, partly due to expenses related to the conversion, higher funding costs and fewer economies of scale. The bank charted a 30% decrease in operating profit to KWD8 million (US$27.65 million), due to a run down in new business and non-Shariah compliant activities, in anticipation of its conversion to an Islamic bank.

MALAYSIA

Law suit has no impact

Rating Agency Malaysia (RAM) will not modify its ratings on Jimah Energy Ventures (JEV) and Special Power Vehicle (SPV), despite the legal suits filed against both companies by Jimah Power Generation.

RAM will maintain JEV's senior Islamic medium-term notes facility of RM4.85 billion (US$1.4 billion) at AA3, and SPV's RM800 million (US$231.35 million) Class A Islamic medium-term notes facility, as well as its Class B RM215 million (US$62.17 million) Islamic medium-term notes facility at A1 and C1 respectively. The long-term ratings also maintain a stable outlook.

THIS TIME LAST YEAR

- The **European Islamic Investment Bank** became the first Islamic bank to be regulated by the Financial Services Authority.
- **Injazat Capital** was granted a license by the **Dubai Financial Services Authority** to operate in the **Dubai International Financial Center**.
- **Bahrain Islamic Bank** posted net profits of US$10.1 million for the first quarter of 2006.
- **Dubai Islamic Bank** and **Dubai World** launched a US$5 billion family of private equity funds.
- **Investment Dar** arranged US$1.5 billion in floating rate Islamic bonds.
- **Sharjah Islamic Bank** opened subscriptions to its Al Hisn Property Fund at a unit price of US$5,000.
- **Qatar Islamic Bank** launched its Syrian operations via its subsidiary the **Syrian Islamic Bank**.
- **Dubai Holding** incorporated **Dubai International Properties** to consolidate its real estate activities.
- **Abu Dhabi Commercial Bank** began a study to establish an Islamic banking subsidiary in the UAE and GCC.
- The **Qatar Financial Center Regulatory Authority** was admitted as an associate member to the **Islamic Financial Services Board**.
- **Unicorn Investment Bank**'s proposed US$150 million Islamic fund was approved by the **Bahrain Monetary Agency**.
- **Lloyds TSB** of Scotland launched Shariah compliant products.
- The **Islamic Development Bank** allotted US$356 million for development and technical assistance projects and loans.
- **National Bonds Corporation** sold more than US$25.29 million in its first month of sales.
- **AMAN**'s proposed increase in paid-up capital to US$54.45 million was approved by shareholders.
- Dr Habib Al Mulla of the **Dubai Financial Services Authority** called for regulators to mobilize Shariah systems.
- **Dana Gas** become fully Shariah Compliant.

Islamic Finance *news* talks exclusively to Armen V. Papazian from the DIFX

The Dubai International Financial Exchange (DIFX)'s head of innovation and development believes that from the exchange's inception 2½ years ago, DIFX is now firmly placed in the center of the Islamic finance map, and will remain so going forward.

When asked to comment on how he believes the Dubai International Finance Center (DIFC) is progressing, Armen V. Papazian enthuses: "DIFC is doing great. Indeed, its recent past and immediate future indicate that the concept and birth of the DIFC were a necessity for the UAE and the region. More than 350 firms, many of them leading international and regional financial services companies (Deutsche Bank, Merrill Lynch, EFG-Hermes, and many others) have become members of the DIFC since it opened 2½ years ago.

We asked Armen how he saw the current role of the DIFC in developing Dubai as an Islamic financial center, both in the Gulf and internationally. He responded by stating that: "Both the DIFC, as the free zone, and the DIFX, as the exchange, are determined and very active in providing an efficient and open space for Islamic finance. Indeed, the DIFX is the largest stock exchange on the planet when it comes to listed Sukuk, with a listed value of US$8.38 billion" (see Sukuk table, below). However, as Armen goes on to expand, "This is only the beginning. The DIFC and the DIFX have many initiatives in progress to support this important and pioneering industry. Indeed, it is my personal opinion that Dubai is best situated to become the major promoter and leader of this industry."

Sukuk has become a very important part of the Islamic finance industry and, as Armen confirms, "Dubai has also become a center for Sukuk issuance. The two largest Sukuk in the world – at US$3.52 billion and US$3.5 billion – were both issued by Dubai organizations."

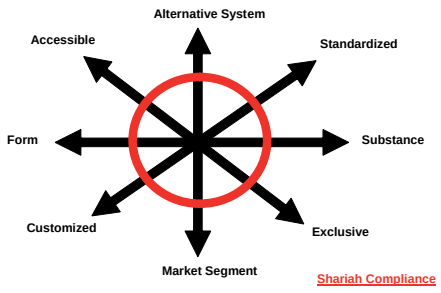
Expanding on the current boom in the Sukuk market, Armen stated: "The total number of Sukuk issued in the world during the last six years is close to 360 Sukuk, and the amounts involved are the equivalent of around US$55 billion." Although accurate data regarding Sukuk is not yet available, he revealed that such data is currently in development by many information service providers, adding that "the DIFX is undertaking similar research to bring more clarity as to the actual size of this industry."

However, the market is not without its problems: "In terms of the challenges faced by issuers, there are many; amongst them are the costs of Shariah compliance, the availability of standardized products, the limited number of Shariah scholars, and so on." Armen outlined briefly how Dubai is rising to these challenges: "The DIFC as the free zone and DIFX as the exchange operating to international standards are both curently initiating a number of projects to contribute to this industry, to ensure its future growth and sustainability. It is an area of attention and strategic focus for both the DIFC and the DIFX."

Another area of concern in the industry at large is the shortage in Shariah experts with experience in Islamic economics and banking. However, Armen is not unduly worried about the situation: "with the growth of training programs in Islamic finance, the growing curiosity, the standardization process of products, and the introduction of IT solutions, we might see this shortage disappear."

The development and future evolution of Islamic finance, the head of innovation and development believes, depends on where industry players take the sector. It is their imagination and creativty that will guide Islamic finance, going forward. "I cannot predict the intentions of the many players of this growing industry. However, I believe there are some major parameters that will guide this process. The framework described in the graph below is relevant and useful. How players perceive the issues identified below, or where they position themselves on the below axes, will in aggregate determine the direction of the industry."

Islamic finance: where to and why?



"Naturally, we need to position ourselves within the set of principles dictated by Shariah. The DIFX has its own vision and intends to contribute to the future of this industry. Our initiatives will reveal to everyone where we think Islamic finance needs to be in future years," Armen concluded.

SUKUK					
Issuer	**PCFC Development FZCO**	**Aabar Sukuk**	**TID Sukuk**	**Nakheel Development**	**DIB Sukuk Company**
Type of Sukuk issuance	Sukuk Musharakah	Sukuk Mudarabah	Sukuk Musharakah	Sukuk Ijarah	Sukuk Musharakah (Shariket Meik)
Purpose of issuance	To contribute to the capital of Musharakah	Business expansion and development	To contribute to the capital of Musharakah	Buying of assets as per business agreement	Buying of assets as per business agreement
Issue size	US$3.5 billion	US$460 million	US$150 million	US$3.52 billion	US$750 million
Margin/profit rate	7.125% If converted in 2 years; 10.125% beyond 2 years.	6.89%	Libor +1.25%	Libor + 1.2%	Libor + 0.33%
Listing date	26th January 2006	30th June 2006	16th October 2006	14th December 2006	26th March 2007

UAE's boom is Dubai's gain

By Kuwait Finance House Malaysia

Unlike Abu Dhabi, which owns approximately 95% of the oil and 92% of the gas in the UAE, Dubai, as one of the seven Emirates in the UAE, continues to strengthen its economic foundation by emerging as the engine of non-oil sector growth, having already spearheaded a diversification strategy. For the past few years, apart from being a popular tourist destination, Dubai has also provided the infrastructure and the catalyst for growth in construction, real estate, transport, retail and financial services. Given the country's expansion and diversification programs, it has managed to attract the largest amount of foreign direct investment – billed at US$12 billion – among the Gulf Cooperation Council (GCC) economies.

Non-oil sectors contributed approximately 60% of the UAE's total gross domestic production (GDP) in 2006, successfully placing the UAE as the most diversified economy in the Gulf. The UAE's non-oil sectors had touched as high as 71% of GDP in 2004, before dipping lower as a result of strengthening oil prices in 2005 and 2006.

Prospects for the GCC economies in 2007 remain sound. The region is poised to support global growth, with momentum in overdrive and growth rates expected to beat those of developed countries. Against a backdrop of a slowing global economy, sound macro fundamentals on the back of huge surpluses are expected to support growth momentum. This year, the GCC is forecast to register a GDP growth rate of 6.1% year-on-year (y-o-y), beating the world economic growth of 4.9% y-o-y, driven by sustained oil exports, higher public infrastructure spending and positive growth in non-oil sectors, with oil prices easing from a record high and marginal growth expected in oil production/output. The comparative growth rates in 2006 were 7.5% and 5.1%, respectively.

> "Non-oil sectors contributed approximately 60% of the UAE's total GDP in 2006, successfully placing the UAE as the most diversified economy in the Gulf"

Real estate is big business in the region, with impressive growth in investments and consequently in property supply. The sector's contribution to the economy was massive, and Dubai is at the forefront after it stepped up and allowed foreigners to own land and properties in designated zones since 2002. Abu Dhabi followed suit and introduced similar measures in 2005. The real estate sector is expected to grow at an encouraging rate of 12% this year, given the levels of opportunity for development projects in various segments of the property market in Dubai and Abu Dhabi.

Emaar Properties is the high profile developer in the region. The US$20 billion Burj Dubai Development – comprising Burj Dubai, 30,000 homes, a Giorgio Armani designed hotel, an ice rink and a 30-acre man-made lake – as well as a US$50 billion five-year infrastructure program to build new roads, schools and hospitals in rural areas, are amongst its current projects. The Burj Dubai Tower is expected to be completed in 2008 and will be the world's tallest, whilst the Dubai Mall will be the world's largest entertainment and shopping mall.

Huge oil revenues, coupled with sound financial policies and continuous reform, contributed to robust growth (especially in non-oil sectors) and large current account and fiscal surpluses. General prices picked up last year, underpinned by higher private consumption and massive infrastructure investments. Inflation, although a nagging issue, remained manageable, mainly due to the exchange rates pegged to the US dollar. Equity markets across the GCC region faced major corrections in early 2006, having lost US$442 billion in total market capitalization, led by Saudi Arabia. Despite this, financial stability has been preserved, given the strong oil revenues and abundant liquidity in the system.

> "The economic prospects for Dubai are favorable given vast surpluses and liquidity accumulated over the past few years"

Total export earnings for the GCC region are estimated to have surged 36% y-o-y to US$498.4 billion last year, driven mainly by oil exports. Oil prices touched a record high last year at US$77 per barrel, given robust global demand, "just-in-time" oil supplies and geopolitical risks in Iraq/Iran.

Oil exports provide a major source of income for GCC countries, with oil earnings accounting for more than 70% of GCC's exports and fiscal revenues. With the GCC's total oil production expected to remain mostly unchanged year-on-year, oil prices therefore remain an important determinant of the GCC's total oil earnings this year. In tandem with slower global growth and global demand for oil, the average oil price is projected at US$55 to US$58 per barrel in 2007, easing from an average US$66 per barrel last year. OPEC has recently revised downward its estimate of global oil demand to 1.5% y-o-y at 85.39 million barrels per day, from an earlier forecast of 1.6% y-o-y.

Inflation is under control: the consumer price index (CPI) is forecast to decrease to 4.1% this year from 4.7% last year. The reduced inflationary pressure is brought about by easing supply bottlenecks in construction projects and moderation in domestic demand.

The economic prospects for Dubai are favorable given vast surpluses and liquidity accumulated over the past few years. Continuous reform and diversification into non-oil sectors underpinned by massive public infrastructure spending can be expected and serves as a platform for the vibrant economy of the UAE this year.

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Room for Growth in Dubai

By Global Research

A major beneficiary of the strong economic growth in the UAE has been the banking sector. The expansion in banking sector assets can be attributed to the surge in oil prices and a flourishing economy.

The Dubai International Financial Center (DIFC) aims to be in the same league as London, New York and Hong Kong in terms of financial centers. With the booming economy, rapid strides have been made by the Islamic banking industry in recent years. Most of the banks in the UAE have either opened a new Islamic subsidiary or introduced an Islamic window to accommodate the growing needs of financing through the Islamic Shariah. A range of Shariah compliant products were introduced in the market and Islamic finance deals, such as Ijarah transactions, have become common in mortgage deals. The region has witnessed big Sukuk attracting large investor volumes with subscriptions exceeding the expected issuance, even in big issues.

However, Islamic banking in the UAE is still behind Bahrain as the regional center for Islamic banking. For a country with a population of only 4 million, the number of banks in the UAE is remarkable – 21 local banks, 25 foreign banks, two specialized banks and around 50 representative offices of other foreign banks. Primarily, banks in the UAE are either local or foreign owned, with the latter restricted to operating only up to five branches. All 21 local banks in the UAE are listed either on the Dubai Financial Market or the Abu Dhabi Securities Market.

Looking at the number of foreign banks, one might feel that the national banks must be having a tough time in sustaining their current position in the UAE market. However, the growth composition of UAE banks' balance sheet tells a different story. National banks have outperformed their foreign counterparts: the market share of national banks has increased to about 80%, at the expense of foreign banks, which have actually been declining since 2003. National banks also accounted for more than 80% each of total credits and assets.

Moreover, growth in banking assets has been across the board. Based on performance in the last two years, it could be construed that foreign banks are yet to exhibit the same levels of aggression as the national banks, and thus not succeeding to increase their market share from the current low base. One of the areas in which the national banks are now focusing is small to medium-sized enterprise (SME) banking, a focus which should increase their market sharet.

The UAE also boasts several large private banks: the National Bank of Dubai (NBD), which is held by prominent local businessmen and members of the ruling family; Mashreqbank, held by the Al Ghurair family; and the Commercial Bank of Dubai (CBD), which has most of its shares held by foreign banks.

The new requirement for increased liquidity in banks has forced a number of banks to approach the bond market – a phenomenon unpopular until recently – as they began seeing the advantage of leveraging on the good health of the economy at a relatively low cost. In the first phase of its implementation, banks must comply with the Basel II Accord by the end of 2007. The requirement raising the Capital Adequacy Ratio (CAR) does not necessarily pose a threat to the banks in the country, although they will have to establish independent and reliable systems to monitor all the risks involved.

Dubai Islamic Bank (DIB) is one of the frontrunners in expanding its operations overseas. Its international forays into Sudan and Pakistan will push its number of branches to 53 in the UAE by the end of 2007, from about 45 last year; and to 70 from eight in Pakistan. DIB Pakistan co-managed Pakistan's US$600 million first sovereign Islamic bond issue, which received a tremendous response from investors. Additionally, a range of Islamic banking activities and products are marketed through a large branch network across Pakistan. A representative office has also been opened in Turkey to improve its access to that market, acquiring 60% in Al Khartoum Bank. DIB is one of the parent banks of Emirates and Sudan Bank (ESB).

There is a lot of room in investment banking in Dubai and the Sukuk market is growing at a rapid pace. As a leader in Sukuk issuance, DIB has raised over US$9 billion in Islamic bonds, including the largest Sukuk in Islamic banking history. The latest was the US$3.52 billion Nakheel Sukuk, which used an innovative structure not seen before in either conventional or Islamic banking. DIB's previous successful transactions include the Dubai Civil Aviation (DCA) and Ports, Customs and Free Zone Corporation (PCFC) issuances. There are more issuances expected in the next year, forecast to be worth US$10 billion. In the nine months ending on the 30th Septermber 2006, DIB reported a 26% increase in its net income to Dh1.02 billion (US$277.75 million).

Emirates Bank International (EBI) is 77% owned by the Dubai government and relies heavily on corporate banking. EBI is the second largest bank in the UAE in terms of asset size, with a large branch network in the UAE. The bank moved into Islamic banking when it took over the failed Middle East Bank in 2004, and renamed itself the Emirates Islamic Bank (EIB). In the nine months ending on the 30th September 2006, EIB saw an 18.5% increase in its net income to Dh1.37 billion (US$373.061 million).

Other players include Dubai Bank, a subsidiary of Emaar, which like DIB has also taken an interest in Pakistan, with a 19% stake in BankIslami Pakistan. Mashreq Bank, the largest private bank in the UAE, is based in Dubai and has established its Islamic banking arm, Badr Al-Islami, with an initial capital of Dh500 million. The bank plans to offer the full range of Islamic financial services, retail, corporate and investment banking (Islamic Finance *news* talks to the CEO of Badr Al-Islami, Mubashar H. Khokhar, in Meet the Head, on page 21).

Although DIB has a clear advantage over other banks in the Emirate as the leader in Sukuk issuances, several other local banks have begun to look into the potential that Islamic banking can offer. Demand from the corporate as well as consumer segment can be expected to remain strong as the industrial and construction sectors are likely to be the key growth drivers. Together with the promotion given for tourism, hotels and resorts, these are likely to give a further fillip to loan growth. In a nutshell, the long-term outlook for the banking sector is positive, on the back of buoyant core banking activities. While Dubai has become a financial center in the Gulf, there is ample room for its Islamic banking industry to advance further.

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Abdul Ghani Endut, Head of Shariah at CIMB Islamic, talks exclusively to Islamic Finance *news*

Generally speaking, Shariah advice can be defined as Shariah advisory services on various Islamic banking products, both to internal business units and external clients. The purpose of such advice is to ensure compliance with the applicable Shariah principles, as well as the relevant resolutions and rulings made by the Shariah Advisory Councils of the regulatory bodies and in-house Shariah committee. This process involves various parties, including the resident Shariah scholars, as well as in-house Shariah committee members.

Abdul Ghani Endut, head of Shariah at CIMB Islamic, explained to Islamic Finance *news* that the key functions of Shariah advice in Islamic financial institutions are to ensure that the Islamic banking products comply with Shariah principles in all aspects and to endorse the terms and conditions contained in the proposal form, contract, agreement or other legal documentation used in the execution of the transactions. In addition, the Shariah advisor also needs to endorse the product manuals, the marketing materials and brochures. Shariah advice also assures that Shariah standards are adhered to by related parties, such as the legal counsel and auditors. In terms of product development, Shariah advisors have to provide written Shariah opinions to the Shariah advisory councils of the regulators (such as the Central Bank) for new and innovative products. In delivering these functions, the Islamic financial institutions' Shariah advisory members need to be aware of the findings and latest developments in Shariah research and Islamic banking industry.

When asked which particular standards are used by Islamic financial institutions, Abdul Ghani Endut points to the internal Shariah compliance manual, the relevant standards set by bodies such as the regulator of the financial institutions, the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) and the Islamic Financial Services Board (IFSB). In addition, the relevant product guidelines, as issued by regulators, from time to time, also serve as a guideline.

Shariah advisory performs several functions in Islamic banking and finance, amongst which are endorsement, a monitoring function, regulatory requirements, facilitating innovation and marketing. Shariah advisory for a financial institution can take many forms: as a Shariah advisory committee or board rooted in the institution, as an in-house or internal Shariah co-ordinating unit, as an independent Shariah advisory firm or as external Shariah scholars.

"The Shariah advisory process entails a review by the residential scholar of the Islamic financial institution. Should there be no requirement for a new ruling, the resident scholar will endorse the proposal. On the other hand, if the resident scholar thinks that a new ruling is required, a Shariah paper will be prepared and tabled to the Shariah Committee or circulated to the Shariah Commitee members. Ultimately, the Shariah ruling is communicated to the originating department, Shariah procurement/approval letter will then be issued to certify that the particular product is Shariah compliant," explained Ghani.

There is a need to differentiate between Shariah and Fiqh. Shariah is the revealed divine law, whereas Fiqh consists of detailed rulings of law which Muslim jurists understand, derived from their understanding of Shariah, based on evidence from the sources of Shariah. In the context of Islamic finance, a fatwa is an endorsement from qualified Shariah advisors for a particular Shariah compliant transaction. Fatwas are issued to resolve a specific Muamalat issue pertaining to a particular product, whether it is permissible or prohibited.

Shariah advisory members, in performing their duties, may come across misalignments or conflicts between Shariah law and the law of the country in question. To harmonize such conflicts and come to a compromise, Shariah recognizes the importance of the law of the land. As such, Shariah has set out many principles to deal with issues such as the principles of urf and custom, principle of Maslahah (benefits) and hajah (necessity), principle of umum balwa and principle of asl al ibahah.

Ghani outlines that Shariah scholars have to play several roles. These include deliberating on Shariah issues, setting policies and procedures for Islamic banking business, endorsing manuals governing the Islamic banking business, developing and reviewing the Shariah compliance risk management framework (using various tools such as the Shariah Compliance Manual and Shariah audit functions), supervising and monitoring the Shariah decision-making process and endorsing legal documentation for Islamic banking products.

In the context of Islamic finance advice, Shariah scholars would need to be knowledgeable or have expertise in the areas of Islamic jurispudence (Usul Fiqh) and Islamic transaction/commercial law (Fiqh Muamalat).

With Islamic finance undergoing such a phenomenal growth and the demand for Shariah compliant products swelling in recent years, so has the need for Shariah scholars grown. Ghani says there are no official statistics on the world's leading Shariah scholars. However, unofficially, he mentions Sheikh Nizam Yaqubi, Dr Mohd Daud Bakar, Dr Mohamed Elgari, Dr Abu Sattar Abu Ghuddah and Muhammad Taqi Usmani.

Touching on the importance of Shariah monitoring for Islamic finance institutions, Abdul Ghani Endut concluded: "This is to ensure that the management/clients discharge their responsibilities in relation to the implementation of Shariah requirements, rules and principles and to examine and evaluate the adequacy of the system of internal Shariah control and the quality of the performance in carrying out the assigned responsibilities."

Understanding the real objective of a particular transaction, keeping abreast of developments in the banking and finance industry and relate Shariah knowledge to practical issues. Putting a Shariah perspective on current conventional framework and harmonizing Shariah interpretations are therefore the key challenges faced by Shariah scholars today, including an appreciation of why Islamic products and Shariah compliant financial solutions as recommended by selected Shariah scholars may not be practicable in certain jurisdictions.

The Black Box Syndrome: A New Challenge for Shariah Supervisory Boards

By Shaykh Yusuf Talal DeLorenzo

The IFSB hosted Interactive Session in Kuala Lumpur last week asked the following question of participants: "Recent developments in the Islamic financial services industry: are they adding value to or Diluting the Industry?"

After explaining that I believed that recent developments included the entry of multinationals, conventional banks from the region, conventional asset managers and legal professionals, I went on to say that my own understanding of the question of dilution may be equated to a reduction of quality or value. As a Shariah scholar (and now also as an executive responsible for all Shariah related matters in a publicly traded company), I look at quality from a Shariah perspective. The question as I see it is whether or not the entry of conventional banks, asset managers and lawyers has led to a reduction in the quality of Shariah compliance within our industry.

I believe that many of the new entrants have added significant value; and there are many examples to support my view. Collaboration between new entrants and Shariah scholars has led to many successes in which the new entrant has found a profitable new market, helped to advance the industry and set new standards for Shariah compliance. Oftentimes, the innovations behind new products, and the Shariah solutions developed for the same, have found applications even beyond those originally intended. Clearly, all of this has been good for the industry. Indeed, the world's most renowned Shariah scholars have been involved in many of these projects, and much scholarship and scholarly discussion has been generated as a result, even when the specifics of each fund or project were protected by non-disclosure agreements. Overall, the benefits to the industry, and not just to those who will invest in these funds, have been very positive and helpful, adding quality to the industry rather than detracting from it.

However, my answer was a qualified one. This is because along with the successes I listed, there is a caveat. I have recently begun to discern what I feel is a disturbing trend which I will label the Black Box Syndrome. This trend could have disastrous results for our industry, and that is why I feel it must be mentioned here. What the black box does is to obfuscate the line between what is authentic Shariah and what is not. Without naming names, there are certain multinationals who offer products that allow returns from investments in what is clearly prohibited, but which, by means of a device or strategem we will call a black box for simplicity's sake, deliver those returns in a Shariah compliant manner.

We have been quite successful in recent years in pushing the envelope in innovating new and better financial products and processes, and have done so on the basis of sound Shariah principles and scholarship. Most importantly, in doing so, we have had equal regard for the letter and the spirit of the Shariah. However, what makes the Black Box Syndrome so threatening is that it ignores the spirit of the law; in some cases it appears even to flaunt it.

Ours is a rules-based industry, an industry that is predicated upon the authenticity of its adherence to Shariah norms. Without such adherence, Islamic finance would be no different from conventional finance, with no life of its own. Suffice to say that if the industry ignores the teachings of the Shariah, whether via the details or the broader principles, it is in trouble. I have little doubt, although I am not privy to the details of any of these black box schemes, that these adhere to the "letter of the law," so to speak. I am certain that the structure and the transactional basis of these schemes are compliant, in a literal way, with established Shariah rules. Had this not been the case, my Shariah colleagues would never have approved them. Literalism, however, does not ensure compliance with Shariah principles and precepts. If a so-called Shariah compliant investment yields returns based on a promise linked to the returns on a transaction involving prohibited activities, whether as a primary business or as a function of finance, then that investment cannot truly be called Shariah compliant, no matter how strictly it follows the letter of the law. Without going into details, I will further point out that the linking of pricing to an interest rate benchmark is an entirely different matter.

> "The black box allows asset managers (private equity and hedge funds especially) to invest in virtually whatever they feel will yield rewards"

To expand upon this point, I offer a worst case scenario. By means of a black box, held at arm's length from the Islamic investor by one legal means or another, Islamic money can be invested in junk bonds earning high rates of interest, and those can in turn be used to finance lucrative pornography portals on the internet. Of course, one might think, this is simply absurd. But no, it is technically possible. The black box allows asset managers (private equity and hedge funds especially) to invest in virtually whatever they feel will yield rewards. Since there is a series of legal devices between the Islamic investor and these investments, the returns, which are assumed to be the true concern of the Islamic investor, are technically lawful because they are not directly tainted by the other transaction(s). This, however, is an overly literal view of the situation. Yes, it may be true that the parallel transaction set up for the Islamic investor actually conforms to the letter of the law. But it is also true that the Islamic investor's money has facilitated, however indirectly, the commission of what is clearly wrong and unlawful. Another way to look at this; if the Islamic investor had not placed money in the vehicle or instrument, utilizing a black box device or strategy, the manager would not have made those investments, and those sinful activities would not have been financed. Yes, there is little doubt that others would have no reservations in financing these things. But the fact remains that the Islamic investor has become a part of the problem, even if he was not directly involved.

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The Black Box Syndrome: A New Challenge for Shariah Supervisory Boards *(continued...)*

Taking this to another level, with the black box solution in hand, managers can invest in virtually any business. What, then, would be the need for Islamic indices? Are they for Shariah screening criteria, for Shariah compliant funds or for Shariah compliant home finance? Any financial product or service, then, could become Shariah compliant by means of a black box – bond funds, interest rate funds, funds that invest exclusively in conventional banks and insurance, breweries or even commodity funds investing in pork futures, would all be "open" for investment. Finally, what then is the need of Shariah supervision?

> "I would like to see more faith in what true and diligent Shariah compliance actually means to our industry"

If black boxes are approved – with everyone knowing how they work, and everyone accepts that – then we will have a consensus (ijma'). When we have ijma' on a subject, there is no need for further discussion of the subject; and no need for a Shariah supervisory board to approve it. This is reminiscent of the old Arabic folk tale about the donkey which wanted to have horns and who, in his quest to acquire those wonderful horns, lost his ears.

In recent years I have worked on several projects which required finding authentic solutions to problems that seemed unthinkable. By bringing the right resources, both human and financial, to bear on these projects, major breakthroughs have been achieved. Today, Shariah compliant home finance is available to millions of Muslim families in the US, the UK, the MENA region, Pakistan, Malaysia and elsewhere because Shariah boards worked with financial and legal professionals to find appropriate solutions to all of the issues. Likewise, today Islamic investors may take advantage of the superior returns and risk averse features of hedge funds because Shariah scholars worked diligently beside business and legal professionals to work through all of the associated "short" problems. There are so many similar stories of success. However, the Black Box Syndrome spells doom for all such future stories, as the black box eliminates the efforts that are necessary for Shariah compliance by hiding sinful activities.

I would like to see more faith in what true and diligent Shariah compliance actually means to our industry. We have no need of "black boxes" and of arm's length transactions that miraculously produce results by sacrificing the spirit of the Shariah to the letter of the law.

shariah capital
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Macroeconomic Analysis and Malfunction of Shariah Advisory Services

By Shabnam Mohamad Mokhtar

Professor Mohammad Nejatullah Siddiqi, a renowned Islamic economist, raised a vital and intriguing point in his research paper presented at the pre-workshop of the Seventh Harvard Forum on Islamic Finance in Massachusetts last year. In that paper, he argued that Shariah advice is vulnerable to malfunction if the Shariah Advisory Board (SAB) does not take into consideration the macroeconomic implication of approving a product as Shariah compliant. He analyzed the malfunction of Shariah advice with regards to a specific contract – Tawarruq.

He highlighted that the adoption of Tawarruq on a large scale by financial institutions would bring more harm (maqasid) than benefit (maslahah) to society as a whole because Tawarruq (mimicking a bank loan) would result in the proliferation of debt in the economy. The approval of Tawarruq may seem to bring benefit to a number of individuals (the micro effect), however the widespread practice of Tawarruq would cause instability and inefficiency in the economy as a whole (the macro effect).

What do you think?

To gain further insight into this issue, I conducted short interviews with several respondents from different backgrounds – Professor Zubair Hasan, Dr Muhammad Yusuf Saleem, Dr Ahamed Kameel Mydin Meera (all economists from IIUM, Malaysia), Dr Aznan Hasan (Shariah Advisory Council of Bank Negara Malaysia) and Zaharuddin Abdul Rahman (Shariah advisor, Asian Finance Bank). In this way I obtained responses from both economists and also from Shariah trained scholars.

All respondents seemed to agree that a macroeconomic analysis is beneficial and brings about a more holistic ruling that considers the well-being of the society as a whole. Dr Aznan said: "I believe that in delivering Shariah rulings, jurists should envisage the effect of the ruling, not only at micro level, but also at macro level. Any ruling that seems to benefit a particular case at micro level, but bring harm to Islamic finance at macro level must be avoided."

Zaharuddin further added that: "Such analysis could benefit SABs by giving them a wider spectrum of the impact of every decision to the economy and society. This is important to make sure that the decision can meet maqasid Shariah (the objective of Shariah – to protect faith, life, intellect, progeny and wealth) on a long-term basis. In Islam, every fatwa to be issued must take into consideration the possible impact and consequences that could arise. Therefore, I think, this analysis would give great benefit and might even change the whole fatwa from permissibility to prohibition and vice versa."

The opinions of the economists and the Shariah advisors seem, however, to diverge over the question of whether the current practice of Shariah advisory takes into account the macroeconomic effect of a ruling. Dr Ahamed Kameel said: "In my opinion, the Shariah scholars are sincere and well-versed in their knowledge. However, most Shariah scholars do not take into consideration the economic implications of their product approvals. In other words, the maqasid Shariah is ignored in their decisions."

When asked for clarification on why he says that the maqasid is being ignored in SAB's decisions, he explained that: "A product that would result in the proliferation of debt would not be able to protect the wealth of the society in general. In some societies even the progeny can be affected. It takes away wealth from the people forcefully (especially when one defaults on the debt and the asset is being auctioned)." When asked why this happens he continued: "A possible reason could be because they are trained only in Islamic law and do not have the understanding of how the current monetary and economic systems work. As their knowledge in Islamic law is established, what we need is to complement their knowledge with knowledge in economics."

> "Most Shariah scholars do not take into consideration the economic implications of their product approvals"

Professor Zubair concurs with Professor Siddiqi: "The SAB's intentions are genuine and they are persons of integrity. Even so, the boards are inherently prone to make mistakes: they can correctly assess, let us grant, the legality of an instrument, but they can seldom foresee its consequence with reference to the intention or the spirit of the Shariah. Permissibility does not automatically ensure purity in practice. The SABs are powerless to see the mufsidah at the macro level of what they may innocuously allow at the micro level. To me, Murabahah, 'Inah, Tawaruq, derivatives, options, etc, all in current practice threaten to degenerate into hila (legal trick) and debase the spirit of the law."

The Shariah scholars, however, hold different views. Dr Aznan says: "Based on personal experience, I believe that so far as the practice of Islamic finance is concerned, rulings made by the Shariah council did not disregard the macro aspect of the ruling." Zaharuddin further adds that currently the SAB does have input regarding the macroeconomic impact of a product from bankers presenting new products for Shariah approval. He agrees that the current approval practice does not pay much attention to the macroeconomic impact, however he disagrees with the opinion that non-consideration of the macroeconomic analysis will result in malfunction of the Shariah advice.

He refers to the earlier example of Tawarruq given by Professor Siddiqi, saying: "This opinion is quite interesting and the result of the analysis is deemed relevant to the SAB, however I do not think these facts would prohibit Tawarruq immediately. When such result is tied to 'if practiced on a large scale,' the new Shariah ruling (prohibition of Tawarruq) will only come into the picture when that particular situation takes place, since the maqasid is conditional upon a predicted situation that might or might not occur. Therefore, this kind of analysis will not greatly impact the current ruling on Tawarruq. However, as more accurate and empirical evidence are accumulated, then the SAB may see the need to re-consider their earlier opinion."

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Macroeconomic Analysis and Malfunction of Shariah Advisory Services *(continued...)*

Furthermore, he was of the opinion that the argument regarding the proliferation of debt in society does not take into consideration the needs and the practices of society today. "The issue of debt in society is a real fact and almost every person has personal debts. If the SAB issued a fatwa based on the argument of the proliferation of debt in the society, the SAB might also have to prohibit all kind of debts in all products, such as Istisnah, Murabahah, Salam, etc, because all of it would also result in the proliferation of debt in society. As for me, this kind of prohibition will contradict the maqasid Shariah, because a Muslim's life will in turn be very difficult and no business can be made."

The opinion of Professor Siddiqi in his research paper may help to reconcile this divergence of opinion. He said that Shariah scholars currently do take into consideration the effect of the approval of Tawarruq, however the full extent of the mafsadah (ill-effects) of Tawarruq could not be captured without a macroeconomic analysis. That is why he gave the approval of Tawarruq as an example of malfunction in Shariah advice and suggested that Shariah scholars should consider a fully fledged macroeconomic analysis before approving such products.

How would you do it?

Since all the respondents seemed to acknowledge the benefit of conducting such an economic analysis, I also asked them how they would suggest the implementation of such an analysis. Again there seems to be divergence between the Shariah scholars and the economists. The Shariah scholars seem to prefer outsourcing the economic analysis, while the economists would like to see an economist on the SAB.

Dr Kameel and Dr Yusuf suggested: "Instead of outsourcing, include economists on the board. The mutual co-operation would be beneficial since both lack knowledge of the other. In this way the economists' view would be more binding. Furthermore, the co-operation between Shariah scholars and economists will bring about Islamic finance products that are truly Shariah compliant." Dr Yusuf further added that to be cost efficient, the economist should be on the board of a National Shariah Council, not merely at individual bank level. He said: "This is important for two reasons. First, to require an economist to be present at individual banks would heighten the bank's operational costs. Secondly, National Shariah Councils' decisions have direct policy implication. Usually, the macroeconomic analysis is vital in policy decisions and I believe this structure is the most cost efficient."

Dr Aznan, on the other hand, stated: "The ideal way is to have both capabilities (Shariah knowledge and economic analysis capability). However, this combined capability is very rare to be possessed by one person. Realizing this hurdle and admitting human limitation, I think it would be better that a thorough economic analysis may better be conducted by a specialist, and to be presented to the Shariah board in its totality."

Zaharuddin agreed with Dr Aznan and said: "I am of the view that we should not require SAB to conduct such analysis by themselves as they are not the expert on the matter but it is agreeable if the result of such analysis is done before any product proposal is being tabled in the SAB meeting by an Islamic economist (not just an ordinary economist). Thus, the SAB will have a better picture of any product from various angles. However, to include the economist as one of the SAB members in order to tackle this matter, it is debatable for sure, and for me I don't think it is a good idea. The reason is that being a Shariah advisor and a practitioner, I've seen that when other than Shariah experts are sitting in an SAB meeting, the meeting will turn to be inefficient, as the discussion would stray from the focus. It might also turn into a lecture on Shariah concepts to the non-Shariah background members. Thus, I don't think SAB needs the expert opinion in every meeting; rather they should be invited on a need basis."

Besides time line issues, Zaharuddin also highlighted a few important practical problems regarding the implementation of such economic analysis. Among other issues, the type of analysis, the validity of it and the accuracy of such analysis must be tackled to ensure smooth implementation. He said: "An economic analysis is very wide. Some of these analyses might not have any impact or real benefit to the SAB. So the economist needs to be more aware of the kind of economic issues that are relevant to the SAB. Besides that, the validity of some analysis may be true within certain time limits and might change due to changes in government policies, for example. Finally, the accuracy of the analysis is also very important. Who will be in charge in screening and discussing the results of the analysis? This is very important because it would be improper to impose a debatable result of an economic analysis to the SAB. It might cause inaccurate SAB decisions."

Professor Zubair's suggestion may help to elevate some of the problems highlighted by Zaharuddin. He said: "SABs as they are currently constituted are ill-equipped to assess the macroeconomic impact of the measures they find legal in form. Outsourcing such analysis to external economists also may not cut much ice. Institutions might select economists who would be pliable to serve their interests. A better solution would be to have and maintain a national or international pool of competent economists and Shariah scholars selected from all over the place on the basis of specified known and well-publicized criteria.

The opinion of this panel was that institutions should constitute their Islamic advisory board from an equal division of Shariah experts and economists. One individual would not be allowed to sit on more than three such boards at the same time and will have a term of not more than three years with one institution. The payment to these experts will be made by the panel management, who will collect contributions to their fund from the institutions served. The scheme suggested above will make experts free from the undue influence of the financial institutions and they will have more elbow room in discharging their duties. The system is expected to be cost efficient for society and would instill confidence in the common man for the system."

Where do we go from here?

There is no doubt that macroeconomic analysis would be beneficial and would substantially improve the current Shariah advisory practice. However, a lot of technical details would have to be sorted out to ensure the smooth running of such an arrangement. I would like to quote Professor Siddiqi's words to wrap up this issue: "The current practice of Shariah advisement, buttressed by occasional hearings given by economists, is vulnerable to malfunction. As to how to fix it, we are yet to grapple with that problem. I do not claim to offer you any quick fix. I will consider my job done if I succeed in convincing you that a problem exists and deserves your attention. I suggest the issue be discussed with the seriousness it deserves and at the level of scholarship it requires. It would be most unfortunate for the discussion to degenerate into a blame game."

Optimal Shariah Governance in Islamic Finance

By Dr Aznan bin Hasan

Corporate governance refers to the method by which a corporation is directed, administered or controlled. Since an Islamic financial institution (IFI) is in many ways similar to a conventional financial institution (FI), the existence of a proper framework of corporate governance is a matter of necessity. However, an IFI differs from a conventional FI in that an IFI is additionally responsible for ensuring compliance with Shariah principles in its products, instruments, operations, practices and management.

Principle 3.1 of the "IFSB Guiding Principles on Corporate Governance" states that an appropriate mechanism must be created to ensure compliance with Shariah principles. Similarly, Principle 7.1 of the "IFSB Guiding Principles on Risk Management" states that an IFI shall have in place adequate systems and controls, including a Shariah board/ advisor to ensure compliance with Shariah principles.

The importance of Shariah governance

Shariah compliance is the backbone of Islamic banking and finance as it gives legitimacy to the practices of the industry. It also boosts the confidence of the shareholders and the public, knowing that the company's practices and activities are in compliance with the Shariah at all times. The existence of non-Shariah compliant elements not only adversely affects public confidence in Islamic banking and finance, but also exposes IFIs to fiduciary and reputation risks. Compliance with Shariah principles thus needs to be achieved by having a proper Shariah governance framework.

Models of Shariah governance

We examine below some different models of Shariah governance in force in selected countries.

Malaysia

The Central Bank of Malaysia – Bank Negara Malaysia (BNM) – established a Shariah Advisory Council (SAC) by virtue of section 16B of the Central Bank of Malaysia Act 1958 (CBA). The SAC is the final authority in matters relating to Islamic banking business, Takaful business, Islamic financial business, Islamic development financial business, or any other business based on Shariah principles and supervised and regulated by the Central Bank. Should any dispute involving Shariah issues in Islamic banking and finance and Takaful arise, the SAC will be referred to by the court or by the arbitrator. In an arbitration, SAC's resolution is binding or obligatory on the arbitrator. Where a case is under the jurisdiction of a court, the SAC's resolution becomes advisory to the court.

BNM has also issued "Guidelines on the Governance of Shariah Committees for Islamic Financial Institutions" (GPS-1), which make it compulsory for each Islamic bank, Islamic window and Takaful operator to establish a Shariah body. The relationship between the roles of all these Shariah committees and the SAC of the Central Bank are complementary. Nonetheless, there are restrictions imposed by virtue of section 16B(6) of the CBA 1958.

Members of the Central Bank's SAC are not allowed to serve on the Shariah committee of any financial institution. Each Shariah advisor can only serve as a member of a Shariah committee of one financial institution in the same industry. It must be noted that Islamic banking and Takaful are considered to be different industries.

Pakistan

The State Bank of Pakistan (SBP) has established a Shariah board to become the sole authority in matters pertaining to Islamic finance. An Islamic financial institution is also required to establish a Shariah advisor, and a member serving on the Shariah board at SBP is allowed to serve concurrently as a Shariah advisor of a financial institution. This is unlike the situation in Malaysia. However, a Shariah advisor is restricted to serving only one financial institution at a time. There is nothing stated with regards to the industry division as in the case of Malaysia.

Kuwait

Islamic financial institutions in Kuwait practice self-regulation. There is no Shariah advisory council at the Central Bank of Kuwait. What do exist are Shariah advisory boards for every IFI, as stipulated by section 10, chapter 3 of the Central Bank of Kuwait (CBK) Law 32/1968. Should there be conflicting opinions on matters concerning a Shariah ruling among members of the Shariah supervisory boards (SSBs), the board of directors of the designated bank may transfer the matter to the Fatwa Board in the Ministry of Awqaf and Islamic Affairs. Whilst this is not compulsory, this Fatwa Board is the final authority on the matter. The Fatwa Board is an external body to the CBK. From the existing practice, it can be deduced that a member of the Fatwa Board is not restricted from serving a financial institution, as no such restriction is mentioned in the law. Similarly, there is no limitation on serving as a member of the SSB of more than one financial institution.

Bahrain

The establishment of the National Shariah Board (NSB) of the Central Bank of Bahrain was in order to serve and verify the Shariah compliance of the bank's own products only. Other IFIs are required to establish their own Shariah supervisory committee and comply with the Accounting and Auditing Organization of Islamic Financial Institution (AAOIFI)'s Governance Standards for Islamic Financial Institutions No. 1 and No. 2. Members of the NSB are not restricted to serving only one financial institution.

The UAE

The Higher Shariah Authority (HSA) in the UAE was established according to article 5 of Federal Law No. 6 of 1985, with the role of supervising Islamic banks, financial institutions and investment companies. The HAS is the final authority on any Shariah aspects of Islamic banking and finance. In addition, article 6 of the same law stipulates that each financial institution is required to form a Shariah supervision authority. There is no mention of any restrictions.

Qatar

The country's Islamic banks practice self-regulation. There is no Shariah advisory board at the Central Bank of Qatar (CBQ); the Supreme Shariah Council in the Awqaf Ministry clarifies any Shariah issues that arise. The CBQ appoints Shariah scholars to solve problems encountered on a case-by-case basis. Shariah advisors are not restricted from being a Shariah board member for more than one IFI.

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Optimal Shariah Governance in Islamic Finance *(continued...)*

COUNTRY	SHARIAH AUTHORITY		FINAL AUTHORITY	RESTRICTION
Malaysia	SAC	SC	SAC	1. Members of SAC cannot serve an IFI. 2. One Shariah advisor can only serve one IFI in the same category (banking and Takaful).
Pakistan	SB	SA	SB	1. Members of SB can serve IFI. 2. One Shariah advisor can only serve one IFI (no category mentioned).
Kuwait	n/a	SSB	SSB*	No restriction is mentioned.
UAE	HSA	SSA	HSA	No restriction is mentioned.
Bahrain	NSB	SSC	NSB	No restriction is mentioned.
Qatar	N/A	SSB	N/A	No restriction is mentioned.

* *In case of dispute the matter goes to the Fatwa Board in the Ministry of Awqaf and Islamic Affairs.*

Pros and Cons of Restrictions on SSB Membership

ADVANTAGES	DISADVANTAGES
Avoiding conflict of interest.	Obsoleteness of the knowledge of the members of SAC: Macro vs. Micro.
Preserving secrecy and confidentiality.	Depriving the market of good brains.
Allowing for more new brains to enter the market.	No interaction between experienced and inexperienced Shariah advisors.

Common practice

The practice of appointing external members to sit on the in-house SSB of an IFI is widespread. There are also some institutions that have a dedicated Shariah review and audit department or unit to support the SSB.

Composition

The AAOIFI standards require at least three individuals to sit on a Shariah board, but the legal/statutory requirement varies from country to country – some require a minimum of one, while Malaysia requires at least three. In contemporary Islamic finance practice, most IFIs appoint between three and six members to the Shariah board.

The way forward

There is a need to apply best practices in Shariah governance for IFIs. As there is neither a set of hard and fast rules, nor a single model applicable for all, Shariah governance should take into account the level and pace of Islamic finance development. Given that the Islamic financial services industry is still in its infancy, hastily adopting a rigid, rule-based approach to strengthen the governance of the industry may jeopardize and hamper healthy growth. There are, however, some common elements of good governance and best practices which can be used to facilitate an optimal, viable environment for Shariah governance, without impeding the growth of the industry.

Shariah Advisory Council as the SSB

In countries where Islamic finance has become part of the main agenda in the country's financial system – Malaysia, the UAE, Bahrain and Saudi Arabia – the government should consider legislating to establish the regulator's or Central Bank's SAC. This leaves the final Shariah authority on Islamic banking and finance in the hands of the SAC. Members of the board – primarily Shariah scholars – should be selected from varying but related backgrounds. They should comprise Shariah, legal, economic and finance experts. The regulator's or Central Bank's SAC members should be allowed to serve on the SSB of IFIs, but membership of the IFI should be limited by appointing only one Shariah advisor from the regulator's or Central Bank's SAC to its SSB, so as to avoid concentration.

Scope of supervisory responsibilities

The Shariah supervisory process needs to apply both macro and microanalysis to the operations and practices of the IFIs. Rather than limiting this to product development, process and verification, the process also needs to cover banking practices and conduct of the IFIs. While almost all SSBs have access to the ex-ante Shariah rulings, the practice of ex-post Shariah rulings is a matter of concern, and is not currently being looked into thoroughly by the SSBs of some IFIs.

Internal and external Shariah review/audit

IFIs should perform a Shariah compliance review – both internal and external – which gives due emphasis to the conduct of an external Shariah compliance review. There should be a close working relationship between the audit committee and the internal auditor/Shariah reviewer with the external auditor, in order to enhance the external auditor's capability of conducting such a Shariah compliance review.

Conclusion

The importance of Shariah governance to IFIs is undeniable. In order to enable the proper advisory and supervisory role of SACs/SSBs, a mechanism and framework need to be established. To provide a favorable environment for Shariah governance, the SAC and SSB of IFIs should be integrated. A proper framework must be put in place to ensure optimal Shariah governance for the appointment of SAC and SSB members, the relationship between the two bodies, membership and procedures. The scope of advice and supervision should have a holistic approach, encompassing contracts and structures, the operation of IFIs before, during and after the execution of all products and structures. A proper framework and guidelines for the internal and external Shariah compliance review/audit is also needed, to constantly enhance the framework to ensure optimal Shariah governance in Islamic finance.

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Jobs Vacant – Shariah Supervisory Boards

By Yasser Saud Dahlawi

In the Islamic finance industry, significant responsibility is undertaken by the Shariah supervisory boards (SSBs). The scholars who make up these SSBs have supported the industry not only through their knowledge, but also through their reputation. This has been instrumental in fostering the confidence of an increasing number of Muslims who want to be effective participants in business and economic activities while complying with Islamic jurisprudence.

SSBs are a major constituent in the structure of Islamic financial institutions (IFIs) in an environment where business practices and structures are rapidly becoming more complex. The functions of SSBs are undeniably crucial in ensuring that requirements to conform with the underlying principles of Shariah are met without compromising competitiveness and profits. This new, ever-changing environment presents a challenge to Shariah scholars. In order to maintain the stringent requirements placed on SSB members, there is a need for Shariah scholars who sit on boards to have proper training and knowledge of business operations, in addition to their expertise in Islamic Shariah rules and principles.

Defining the roles of SSB

Governance Standard No. 1 of the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) identifies the mission of an SSB as follows:

> "A Shariah supervisory board is an independent body of specialized jurists in fiqh almua'malat (Islamic commercial jurisprudence). However, the Shariah supervisory board may include a member other than those specialized in fiqh almua'malat, but who should be an expert in the field of Islamic financial institutions and with knowledge of fiqh almua'malat. The Shariah supervisory board is entrusted with the duty of directing, reviewing and supervising the activities of the Islamic financial institution in order to ensure that they are in compliance with Islamic Shariah rules and principles. The fatwa and rulings of the Shariah supervisory board shall be binding on the Islamic financial institution."

Product development

Product development is a vital function in the growth and progression of the Islamic financial industry and involves the creation of new products or services to the market. The lengthy process of product development involves different stages, starting from idea generation and product design, right up to the delivery stage. Different divisions within an organization are all engaged in the process.

The SSB is involved in different ways with the product development process. At the initial stage, the management of an organization develops the new product structure and seeks the approval of the SSB. In most cases, the product structure is designed by experienced professionals who provide sufficient information and background to the SSB to enable it to issue the fatwa or Shariah judgment concerning that structure.

The SSB then reviews and approves the process and the underlying documentation of the new product. The process and documentation are developed by the concerned divisions of the organization following the approval of the SSB of the initial product structure.

Shortage of expert scholars

A major challenge facing the industry at present is the shortage of Shariah scholars. Given the significant role of the SSB in the product development process, this deficiency has been a serious obstacle to the development of new products. The research activities for product development – which requires the involvement of Shariah scholars – have been hampered, thus impacting the flow of new products to the market. Looking at this from another perspective, although most major banks and financial institutions have their own SSB, the availability of the SSB to any organization is only for a limited time.

To circumvent this problem of the scarcity of Shariah scholars slowing down the process, mechanisms must be established to ensure a sufficient supply of Shariah scholars to the industry.

The supervisory role of SSB

Reviewing and supervising the activities of IFIs to ensure that they act in compliance with Islamic Shariah rules and principles are primary roles of the SSB. There is additionally an increasing focus on finding Shariah compliant solutions for conventional financial products and on developing new products, as well as issuing fatwas.

In addition, the implementation of a fatwa is also very important. Just because a product is approved by the SSB does not necessarily mean that it is implemented in an approved manner. Therefore another crucial function of the SSB is to give feedback on the execution of the product. As today's business environment becomes increasingly sophisticated, the follow-up and review activities of an IFI following endorsement is not an easy task for the SSB. The shortage of Shariah scholars and the limited time they have for each organization makes it difficult to pursue that role alone. This is a key element that has led to SSBs directing IFIs to have stronger internal controls over their Shariah activities.

Some IFIs have established internal departments to monitor Shariah compliance and to provide feedback to the SSB. However, finding qualified professionals with a Shariah background and experience in Islamic banking is difficult. SSBs are also required to give feedback on the activities of an organization prior to approving those activities. As such, a professional methodology must be used for Shariah review or audit activities.

Conclusion

The infrastructure of an IFI requires the creation of various specialized functions to support supervisory and professional roles. Additionally, it is crucial that standards and procedures are developed and implemented on professional criteria to enhance compliance with Islamic principles. The role of the AAOIFI is essential to bridge this gap, via their Shariah standards. However, these standards have not yet been entirely adopted in different global jurisdictions.

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Overview of Shariah Advisory and Product Development in Malaysia

By Mahadzir Ahmad

After 24 years of Islamic banking in Malaysia, it must now be clear to all that the primary difference between Islamic and conventional banking is the Shariah advisory requirements in the former. Perhaps what is not apparent to newcomers is the fact that for at least 13 years until the Islamic Banking Act (IBA) 1983 was introduced, the industry was working within an informal framework. In other words, the industry had no Shariah Advisory Council (SAC) to rule on Shariah matters during those years.

The SAC for Bank Negara Malaysia (BNM) was established on the 1st May 1997 as the highest authority for the ascertainment of Islamic law for the purposes of Islamic banking business, Takaful business, Islamic finance business, Islamic development financial business, or any other business that was based on Shariah principles and regulated by BNM. A year earlier, on the 16th May 1996, the Securities Commission (SC) had established its own SAC to advise the SC on all matters related to the comprehensive development of the Islamic capital market and functioned as a reference center for issues related to the Islamic capital market.

The financial market

Prior to 1993, there was only one Islamic bank and one Takaful operator in existence in Malaysia. In 1993, when BNM allowed conventional banks to operate Islamic windows, the number of players increased hugely, rendering a structured Shariah framework a necessity.

In December 2004, BNM introduced the "Guidelines on the Governance of Shariah Committee for the Islamic Financial Institutions" (GPS-1). The guidelines took effect on the 1st April 2005, 12 years after the introduction of Islamic banking windows. The broad objective of these guidelines, as outlined by BNM, was: "An effective Shariah framework would serve to ensure uniformity and harmonization of Shariah interpretations that will strengthen the regulatory framework and governance practices for the Islamic financial industry."

In addition to Islamic banks, GPS-1 also applies to conventional banks with Islamic windows (including those which fall under the Development Financial Institutions Act 2002) and Takaful operators. Collectively, these are referred to as Islamic financial institutions (IFIs). Prior to GPS-1, BNM had streamlined the Shariah advisory framework by amending the Central Bank of Malaysia Act 1958 in 2003 to accord its SAC as the sole Shariah authority in matters under its supervision.

GPS-1 outlines the establishment and membership of the Shariah committee. Highlights include:

(a) The appointment of Shariah committee members must have BNM's prior approval, valid for a renewable term of two years.
(b) Shariah committee members must have qualifications and expertise in Usul al-Fiqh or Fiqh al-Muamalat.
(c) The Shariah committee must have a minimum of three members with a secretary.
(d) A Shariah committee member will be disqualified if he acts with impropriety, is absent regularly, becomes a bankrupt, is convicted of a crime or is subjected to restricted residence.
(e) BNM must be notified of any resignation or termination of a Shariah committee member within 14 days.

Members of Shariah committees are expected to be active participants in the deliberation of issues. The committee's main duties are to:

(a) advise the board on Shariah matters relating to the IFI's business operations, to ensure that they comply with Shariah principles at all times;
(b) endorse the Shariah Compliance Manuals;
(c) endorse and validate relevant documentation;
(d) assist various professionals (lawyers, auditors, consultants) of the IFI to ensure Shariah compliance;
(e) direct the IFI to consult the SAC on matters not yet resolved by SAC;
(f) provide written Shariah opinions; and
(g) assist the SAC with advice and ensure the SAC's decisions are implemented by the IFI.

Before the guidelines were enacted, there were instances of members sitting on Shariah committees for several banks. This raised questions relating to the impartiality and independence of these advisors in supervising the IFIs. Under GPS-1, IFIs are not allowed to appoint members of the SAC to sit on its Shariah committee, and no member of a Shariah committee can serve two IFIs in the same industry. This is a move to enhance the objectivity, impartiality and integrity of Shariah committees, as well as to ensure co-ordination in Shariah rulings and consistency in decisions.

BNM issued the "Guidelines on New Product Approval Requirements for Islamic Banking Institutions" in January 2004. Under these guidelines, a simple new product notification and specific approval process was introduced to promote greater incentives in product innovation. Unclear regulatory requirements in the past for pre-product approval had been identified as a major impediment. In remedying the situation, BNM adopted the principle of "what is not prohibited is allowed" for new Islamic banking products. This is reflective of the Islamic legal maxim for Muamalat (commercial dealings between men) that all transactions are permissible except those that are specifically forbidden. Industry players were called upon by BNM to improve levels of product transparency and consumer education as they brought new products onto the market.

In February 2006, BNM implemented the Product Approval and Repository System (PARS) to automate the approval process and to provide for a repository of Islamic banking products. The secure online application system provides simplicity in data submission on new product application. PARS also enables Islamic banks to review the application history, update existing approved products and interact with external parties in seeking feedback on the submitted products.

The capital market

The first Islamic bond issued in Malaysia was in 1990. Shell MDS raised a total of RM125 million (US$36.12 million) through a syndicate of financiers using the Bai Bithaman Ajil concept. This feat was accomplished well before the SAC was established and the issuance was not based on any Islamic guidelines from the SC. The subsequent development of the Islamic bond market over the next 10 years remained stagnant.

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Overview of Shariah Advisory and Product Development in Malaysia *(continued...)*

Development in the capital market followed a slightly different pattern in that SC has no guidelines on Shariah governance, although it did provide elaborate guidelines on how products should be introduced. Two guidelines played a major role in shaping the Islamic bond market into it is today. The first was the PDS Guidelines, issued in July 2000, which are primarily for conventional bond products but do have Shariah advisory provisions. And the second are the "Guidelines on the Offering of Islamic Securities" (IS Guidelines), which were introduced on the 26th July 2004 to recognize the distinct features of Islamic securities. With the second set of guidelines, issuance of Islamic securities based on Mudarabah and Musharakah principles was enabled. Islamic securities were no longer constrained by the debenture definition of the PDS Guidelines.

The debenture definition in practice limited the issuance of Islamic securities only to those that were based on the principles of Bai Bithaman Ajil, Ijarah and Murabahah, which basically represent debt obligations. However, Mudarabah and Musharakah are risk-sharing schemes and participants in these schemes are akin to being investors in a business or asset.

The IS Guidelines also provide considerable protection for investors. Issuers must comply with the statutory requirements on trust deeds and the duties of trustees and borrowers. Furthermore, if a transaction is structured under the Mudarabah or Musharakah principles, an Information Memorandum must be issued to investors. The disclosure via the memorandum allows them to make informed investment decisions. This is only apt, given the true nature of Mudarabah and Musharakah schemes.

Another major set of guidelines for the capital market are the "Guidelines for Unit Trust Funds." The third edition was dated the 1st April 2003 and was last updated on the 30th September 2003. These guidelines contain provisions requiring a Shariah committee or advisor to be appointed if a fund is to be managed and administered in accordance with Shariah principles. This type of fund is now commonly known as an Islamic unit trust. Every unit trust fund must appoint an investment committee consisting of a minimum of three members. For Islamic funds, the investment committee must comprise at least two Muslim members.

The quality of the Shariah committee members prescribed by the SC is the same as that of BNM and the appointment of Shariah committee members must be approved by the SC. The guidelines also stipulate that where a Shariah advisory company is appointed, the advisory company must employ a minimum of one full-time officer designated to be responsible for Shariah matters relating to the fund.

Under the unit trust guidelines, the management company must remove immediately any Shariah committee member or designated officer of the Shariah advisor if the member or officer becomes subject to any disqualification or becomes otherwise unfit to hold office. Also, a Shariah committee member or designated officer cannot be appointed to the investment committee of funds managed by the same management company. Additionally, the Shariah committee or advisor must review the Islamic fund's compliance report and investment transaction reports provided by the compliance officer and the trustee respectively, to ensure that the investments are Shariah compliant.

On the 21st November 2005 the SC issued the "Guidelines for Islamic Real Estate Investment Trusts." An Islamic REIT is a collective investment scheme in real estate. Current cash inflows are generated from rental income and tenants must operate permissible activities according to the Shariah. In cases where tenants are found to be operating non-permissible activities, the fund manager for the Islamic REIT must perform additional compliance assessments.

The SAC has set a 20% threshold level of non-permissible activities for Islamic REITs. The total rental from non-permissible activities is compared to the total turnover of the Islamic REIT to obtain the percentage of rental from non-permissible activities. The guidelines provide specific remedial treatments and ways to calculate non-permissible activity ratios. They also stipulate that all forms of investment, deposit and financing instruments related to the Islamic REIT must be Shariah compliant. In risk management, coverage for the real estate can only be sourced from conventional insurance companies in cases where no Takaful schemes are available. An Islamic REIT can participate in forward sales or purchases of currency, and is encouraged to deal with Islamic financial institutions.

Another significant guidance issued by the SC to industry players comes in the form of a book entitled *Resolutions of the Securities Commission Shariah Advisory Council*. This is a major reference point, especially to Shariah advisors and academicians, and for those wanting to understand the products and the Shariah principles applied in the Malaysian capital market.

Conclusion

Looking at Shariah advisory and product development from a macro perspective, one can presume that BNM and SC have addressed the major issues effectively and successfully laid out building blocks for the future. Nonetheless, there are still areas that require the regulators' guidance, such as Shariah compliance audit for Islamic financial institutions and Islamic financial advice and education for consumers. However, one clear observation from the discussions above is the high level of commitment demonstrated by the regulators in shaping the Islamic financial services industry and in pursuing the Islamic finance agenda in general.

For Muslim communities around the world, there are many lessons that can be learnt from Malaysia. Being a forerunner in the industry does not mean that every single step taken in Malaysia has been the most appropriate to achieve the objectives of Shariah. There have been steps that could be improved upon by other countries, sequences of steps that can be rearranged and even steps that can be taken simultaneously. What is important is to study the case of Malaysia in order to understand fully the steps taken and to remove any hinderances from the implementation strategies of other countries. We have been reminded by the Prophet not to put our hands in the same snake hole twice. By no means is following this advice easy in Islamic finance. However, with wholehearted effort, perhaps what Malaysia has achieved in 24 years can be done in 10–15 years by another nation. After all, Islamic finance is a struggle. Allah knows best.

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Islamic Finance *news* talks to leading players in the industry

Name: Mubashar H. Khokhar
Position: CEO
Company: Badr Al-Islami
Based: Dubai, UAE
Age: 46
Nationality: Pakistani

Could you provide a brief journey of how you arrived where you are today?

After doing my MBA in Finance and Economics at Ohio University in the US, in 1983 I started my career at the American Express Bank, before joining Bank of America in a senior management role. In 1994 I took over as the country manager for MashreqBank in Pakistan and then came to Dubai as the head of international business in 1996. In all, I have over 24 years of international banking experience managing businesses in more than 15 countries, including the GCC, emerging markets, Europe, the US and Hong Kong, focusing on investment, corporate, commercial and retail banking, including mergers, divestiture and establishing new businesses. Most recently, I was heading the construction and contracting business at Mashreqbank in Dubai, and led the Mashreq–Mizhou Alliance to manage Japanese businesses in the region. I was appointed as the first CEO of Badr Al-Islami in November 2006.

What does your role involve?

My role involves building a strong and sustainable business model for establishing a premier Islamic finance institution in the region. Since we have launched recently, I have been involved in implementing our strategic business plan, building a reliable infrastructure with integrated systems, setting the strategic direction for product development, recruiting senior managers and expanding our branch network for delivering high quality service for sustained long-term growth.

What is your greatest achievement to date?

Today, when I look at the success of businesses I have been involved in, particularly in the building-up phase, it provides me with a great sense of accomplishment. It is heartening to see the management team doing well and associated with a successful business. We now share a humble sense of pride in building a strong team here at Badr Al-Islami, which is set to lead the way in Islamic finance industry.

Which of your products/services deliver the best results?

We only launched Badr Al-Islami three months ago, therefore we are initially focusing on large ticket items in corporate banking, especially in Islamic structured finance, where we have booked a number of high profile deals and transactions. However, obviously our long-term intention is to have a sustained and predictable high performing retail banking business in place. Efforts on that front are underway and we have already launched five Islamic finance products.

What are the strengths of your business?

Clear strategic priorities, strong execution skills and, most importantly, a result-oriented team. We believe in complete ownership and accountability at all levels of the organization. This, together with a strong conviction in Islamic banking, builds natural strength in our business delivery capability.

What are the factors contributing to the success of your company?

Again I will say that our success comes through our people, their high level of dedication to the cause of Islamic banking, their commitment and passion to deliver results, and our sponsor's support, commitment and belief in our vision, mission and objectives.

Badr Al-Islami is an independently managed business which is majority owned by MashreqBank. We have capitalized on our sponsor's sound financial standing, operational excellence, credibility and good will in the market to overcome any challenges that have come in our way.

What are the obstacles faced in running your business today?

In the Islamic finance industry the greatest challenge is product complexity and the non-standardization of Islamic finance products. Also the support provided by the present IT systems to the Islamic financial services business is still in an embryonic stage. I believe that once the product complexity and non-standardization issues have been addressed by the industry, then the IT systems will be ready to play an enabling role in the growth of our institutions and drastically improve the dynamics of our industry as a whole.

Finally there is the human resources challenge. Even though at times recruitment of the right talent is a problem in our industry, at Badr Al-Islami we have been focused on addressing the challenges and opportunities in retaining our talented Islamic finance professionals.

Where do you see the Islamic finance industry, maybe in the next five years?

The size of the Islamic finance industry means it can no longer be ignored. Today, the financial services industry breakdown is approximately 60% in capital markets, 35% in financial institutions (non-bank and Islamic) and 5% in insurance. I believe that the highest growth rates will be in the financial institutions and insurance sectors in the next 10 years, not because they are small today, but because they have the highest potential going forward.

Name one thing you would like to see change in the world of Islamic finance?

I would like to see initiatives to simplify and standardize Islamic finance products. This would in turn facilitate new entrants to the industry, which would help in developing the maturity level of the industry and thus reduce the time to market new products considerably. If that is achieved, then I think this industry has a very strong future.

Often people criticize the service standards of institutions in the Islamic finance industry. I feel that it is unfair to compare the 300-year-old conventional banking industry with a young industry which is only 40 years old. Maturity, depth, breadth and sophistication can only be achieved over time. However, looking at the market potential, the dedication and commitment of the people, the increasing involvement of Central Banks and the standardization now taking place, all this can bring faster maturity and a good track record for the industry as we move forward.

Badr Al-Islami is an independently managed business comprising Badr Al-Islami Finance and Badr Al-Islami Banking. Badr Al-Islami Finance, which is majority owned by MashreqBank, is a private joint stock Islamic Finance Company, while Badr-Al Islami Banking is the Islamic Banking Division of MashreqBank.

Takaful news
www.islamicfinancenews.com

BAHRAIN

Takaful International complies

The Takaful International Company (TIC) will comply with the Central Bank of Bahrain (CBB)'s disclosure requirements to commence trading on the Bahrain Stock Exchange (BSE).

TIC was recently suspended from trading on the BSE for violating disclosure standards. The company affirmed: "We have finalized all the audit requirements for last year and are in the process of complying with all the disclosure requirements with regard to one of our regional investment transactions."

BSE, in co-operation with the CBB, has suspended TIC shares until further notice.

INDONESIA/MALAYSIA

MoU to boost Takaful

Maybank Group has signed a memorandum of understanding (MoU) with Panin Life to form a joint venture which will see the Malaysian bank acquire a 60% stake in Anugrah Life, a subsidiary of Panin Life.

Amirsham Aziz, president and chief executive officer of Maybank, is confident that the proposed joint venture will allow Maybank to market more innovative products in the life and family Takaful businesses in Indonesia. "Ultimately, we aim to be the most cost efficient insurance company in Indonesia," he added.

Panin Life's president director, Fadiar Gunawan commented: "We operate in a very competitive market, and I'm confident that the intended consolidated expertise of Maybank and Panin will create a dynamic force in bancassurance and Takaful, maximizing on our joint expertise and extensive network."

Panin Life owns a 45% stake in Panin Bank, one of Indonesia's top 10 banks.

GLOBAL

Takaful premiums soar

Takaful premiums are expected to exceed US$7 billion by 2017, according to international analysts.

Dawood Yousef Taylor, group head of Takaful for Bank Al Jazira, affirmed: "The growth of the Takaful segment of the market is in line with that of other Shariah compliant financial offerings – we're seeing significant growth in the number of companies being licensed to deliver Islamic insurance products in the Middle East."

To support the growing market sector, the UAE will also establish a new regulatory body to oversee the UAE insurance industry, in line with the Federal Insurance Law.

UAE (Dubai)

Industry's elite meet

The World Takaful Conference (WTC) on the 9th and 10th April 2007 in Dubai will see Takaful operators discussing growth strategies.

The WTC will be co-hosted by the Dubai International Financial Center and sponsored by Salama Islamic Arab Insurance Company and HSBC Amanah.

SAUDI ARABIA

Everyone wants a piece of SABB

SABB Takaful's share flotation generated SR247.163 million (US$65.92 million) in subscriptions, accommodating 105,397 requests. More than 63% of the requests were made electronically.

Dr Abdulrahman Al-Jaafary, chairman of SABB Takaful's Constituents Committee, elucidated: "The huge interest in SABB Takaful shares was due to subscribers' confidence in the strength of the Saudi economy, which has witnessed noticeable growth." SABB's oversubscription was refunded to subscribers on the 1st April.

MALAYSIA

X-VISION ++ the answer?

India-based First Apex Software Technologies, along with Deloitte Consulting, will provide business intelligence (BI) solutions to Malaysia's Takaful Nasional.

Dubbed X-VISION ++, First Apex's BI solutions are insurance specific. It promises to monitor and streamline Takaful Nasional's corporate performance. According to Suresh Prabhu, CEO of FirstApex, X-VISION ++ will allow corporate decision-makers to gather, organize, analyze, distribute and act on critical business information. The company aims to extend analytical capabilities to users and leverage its data and expertise to provide high returns on information.

Apex commented: "We are confident that this project execution will enable Takaful Nasional to use technology effectively to meet its business needs."

SAUDI ARABIA

SALAMA subscriptions skyrocket

SALAMA's IPO, which closed on the 26th March, had more than 4,000 subscribers, covering 521% of the offered shares. Electronic subscriptions represented 84% of all subscription methods used for the IPO.

The IPO's share assignment was completed on the 1st April, assigning 10 shares per subscriber, and 411 shares were assigned to the highest subscription request of 41 persons.

The BancaTakaful Way to Protection

By Dr Bruce J. Broida

When banks and Takaful companies collaborate to distribute Shariah compliant insurance products to bank customers, they are essentially functioning as bancaTakaful. The conventional alternative to this is bancassurance, which has enjoyed considerable success for some time in European markets, as well as in Australia and South America, where life insurance and pension business is transacted by banks.

Advantages

There are many advantages of bancaTakaful – for both the Takaful operator and the customer. Takaful operators are able to take advantage of the significant opportunities provided by the bank to expand their customer base. Banks have massive databases containing the personal and financial details of their clients. Takaful operators, through bancaTakaful, can take advantage of such databases to come up with new product designs tailored to the needs of Islamic banks' clients. Generally, Takaful operators operating by themselves lack such information, which possibly hinders them from fully understanding the market needs and thus the products most required.

Given that banks have direct contact with their clients, the types of Takaful products provided can be determined easily. It is therefore convenient for customers to get a personalized service. Using banks as a one-stop financial center, customers would, in addition to their day-to-day banking requirements, also be able to obtain assistance with premium payments, policy surrender, transfer of policies and other services that Takaful operators would not usually provide. Banks commonly provide retail banking products such as home and auto financing, and packaging Takaful cover with such products, for example family Takaful with a savings account, home Takaful with a home mortgage, education Takaful with an education loan and motor Takaful with a car loan, is an efficient way of doing business.

In terms of business development, Takaful operators are able to reach out to the rural areas that form part of a bank's network. It does not make economic sense for a Takaful operator to open an outlet in remote areas, which is why most Takaful operators are based in large cities and major financial centers.

Moreover, a higher investment in the development of human resource competencies and a more effective use of technology by banks and insurers – in support of the increased customer focus that is central to an effective bancaTakaful strategy – is definitely favorable to consumers. Over time, this would be expected to lead to significantly improved services to consumers and, thereby, a higher overall level of consumer satisfaction.

BancaTakaful allows customers convenience in accessing a wide range of integrated financial services from a single provider. What is important is that customers have access to more competively priced Takaful products as a result of the Takaful providers passing on cost savings arising from lower distribution costs.

Methods of operation

Islamic banks and Takaful operators could consider three alternative arrangements when setting up bancaTakaful. The first is to establish the Islamic bank's own Takaful subsidiary, where the Islamic bank invests in the Takaful products and establishes its own Takaful providers. In this case, the Islamic bank has responsibility to design the products, provide the experts and manage the whole operation. A successful example of this model is Bank AlJazira's Takaful Ta'awuni division in Jeddah.

Another method is to directly sell the Takaful products. Here, the products are designed by the Takaful operator and the bank is confined to selling the products through its counters to its clients. The final way is for the bank and the Takaful operator to jointly develop the products in accordance with the needs of the bank's clients and the nature of the bank's products.

Challenges

Every business has its challenges and bancaTakaful is not necessarily straightforward. Both Islamic banks and Takaful operators will have to face a number of issues when adopting bancaTakaful. Shariah supervision is a key challenge, as while there are Shariah experts in banking operations and Shariah experts in Takaful operations, finding a Shariah expert who is knowledgeable in both industries can be tricky. The Islamic banking and the Takaful institutions are completely different, governed by different rules and regulations and holding different goals and objectives.

Another challenge is the association of bancaTakaful with family Takaful policies – long-term policy products – instead of general Takaful policies – short-term products. While both are meant to be asset management and accumulation by financial institutions, the concepts of family Takaful and life insurance are not widely accepted by Muslims. This stems from disagreement regarding the legality of life insurance under Shariah rulings. While bancaTakaful that markets general Takaful products would be beneficial to the Takaful industry, the success rate would be higher if family Takaful products were also included.

Another factor to bear in mind is the lack of a regulatory framework for the operation of bancaTakaful, which acts to hamper the industry. BancaTakaful needs to have its own regulatory framework and operational standards to become trustworthy and to ensure transparency.

Conclusion

Partnerships offer Islamic banks and Takaful operators an avenue to tap modern-day financial markets. BancaTakaful is an option for the Takaful industry not just to improve its services, but also to expand its operations. Before the benefits of bancaTakaful can be delivered, banks, Takaful operators, financial authorities and regulators must all address and solve the challenges, thus averting failures. As Islamic finance opens up in tandem with the free trade and free markets agreements, thus facing stiff competition from bigger and tougher conventional financial players, the Islamic financial industry must standardize practices and forge partnerships between all its sectors to meet this competition.

The author is a professor in the MBA Program at Indiana University. He can be contacted by email on kep@indiana.edu.

TAKAFUL MALAYSIA – Malaysia

Hassan Kamil has been appointed group managing director of Syarikat Takaful Malaysia. Mr Hassan is the first qualified actuary to head a Takaful operation.

Mr Hassan will lead the overall management of Takaful Malaysia and its subsidiaries, including Asean Retakaful International and Syarikat Takaful Indonesia. He was previously executive director of BIMB Holdings, Takaful Malaysia's parent company.

"I hope to apply actuarial skills and techniques to Shariah principles, especially in the areas of risk management and product design," Hassan commented on his new role.

CONYERS DILL – Global

Law Firm Conyers Dill & Pearman has appointed Marcello Ausenda, Vivien Fung and Piers Alexander in a three-partner swoop.

Mr Ausenda was previously a solicitor in Conyers' corporate department, having worked on company and commercial deals, including aircraft finance, ship finance, securities, insurance and corporate restructurings. He graduated from McGill University in Canada and the London School of Economics, UK. His experience includes working as a solicitor in England and Wales and being admitted as a barrister and attorney in Bermuda in 1999. He has also previously worked for Latham & Watkins and Clifford Chance in England and Italy. Mr Ausenda is a member of the Law Society of England and Wales and the Bermuda Bar Association.

Hong Kong partner Vivien Fung will cover corporate and commercial law and mutual funds for Conyers, having previously served in Baker & McKenzie in Hong Kong. She was also a solicitor of the Supreme Court of Hong Kong in 1994, and a solicitor of the Supreme Court of England and Wales in 1997. Ms Fung obtained her LLB from the University of Hong Kong.

The third Hong Kong partner, Alexander Piers, will specialize in mutual funds and corporate finance. He was previously with Clifford Chance in London and Hong Kong until 2002.

TROWERS & HAMLINS – Middle East

International law firm Trowers & Hamlins has appointed five new partners to its Middle East offices. Abdul-Haq Mohammed will be based in Bahrain, Rupert Copeman Hill in Abu Dhabi, Henry Cort in Dubai, Charles Schofield in Oman and Tim Armsby will be domiciled in Cairo.

Mr Abdul Haq is a specialist in commercial property and Islamic finance. Mr Copeman Hill will advise on mergers and acquisitions, company floatations and restructuring, and local law. Mr Cort's expertise covers project finance, project development and development projects with an emphasis on international infrastructure. Mr Schofield has corporate finance, mergers and acquisitions, general commercial and corporate governance experience, while Mr Armsby will advise on a wide range of commercial, corporate, project and finance matters. He has experience in a variety of international projects and commercial matters including IPPs, gas pipelines and petrochemical plants.

Trowers & Hamlins' portfolio includes the development of the Grovesnor House Aparthotels in Park Lane, the UK's second largest Islamic finance deal to date.

MIFC – Malaysia

Raja Dr Nazrin Shah will assume the role of financial ambassador for the Malaysia International Islamic Financial Center (MIFC)'s international initiatives.

In his role as financial ambassador, Raja Dr Nazrin will aid in advancing bilateral relations between Malaysia and country and industry leaders, as well as key players in the global financial community.

Raja Dr Nazrin holds a BA (Hons) in Philosophy, Politics and Economics from the University of Oxford, a Masters in Public Administration from the Kennedy School of Government, Harvard University, and a PhD in Political Economy and Government from Harvard University. He is also currently the pro-chancellor of University Malaya, the president of the Perak Council of Religion and Malay Custom, and president of the Perak State Islamic Economic Development Corporation.

Next Forum Question

In an environment where Islamic financial services are becoming increasingly sophisticated, there are times when certain products orginating from one country are not acceptable in another country. Is it then necessary for interpretation of Shariah rulings to converge?

If you would like to air your views on the next Islamic Finance Forum Question, please email your response of between 50 and 300 words to Christina Morgan, Forum Editor, at: Christina.Morgan@RedMoneyGroup.com before Wednesday 11th April 2007.

Deal *tracker*

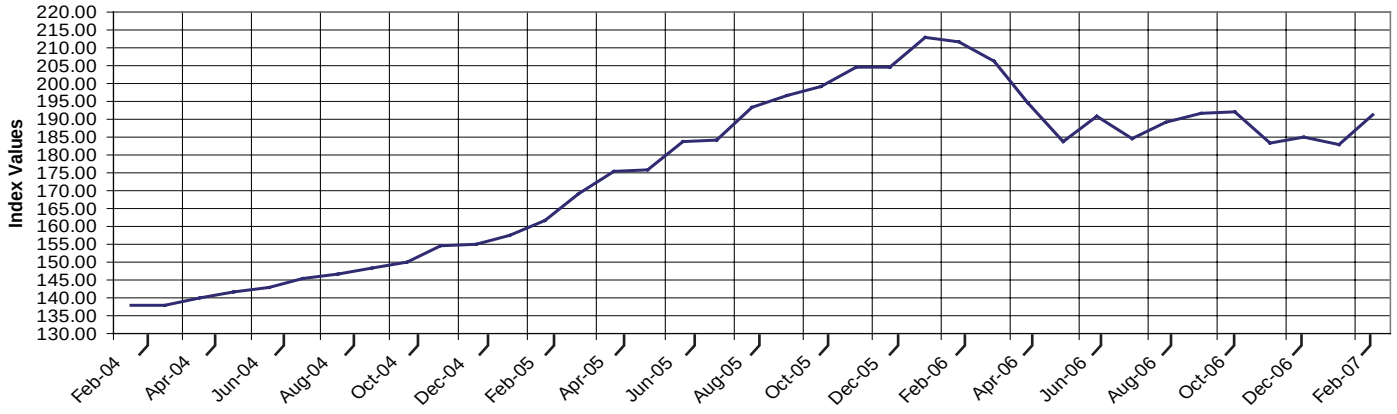
Keeping you abreast of the world's upcoming Shariah compliant deals

Another **Islamic Finance** *news* exclusive

ISSUER	SIZE (million)	INSTRUMENT
Saudi Electric Company	US$4,000	Sukuk
MTC	US$1,200	Sukuk
Prolintas	US$170.70	Senior Ijarah/Junior Musharakah
Tomei Consolidated	US$28.5	Islamic Commercial Papers
Sui Southern Gas Co.	US$49	Islamic Commercial Papers
JBIC	US$250 – US$350	Sukuk
Dynamic Communication	US$143.4	Istisnah/ MTN program
GLOMAC	US$50.18	Murabahah MTN program
Indonesia Comnets Plus	US$11.02	Sukuk Murabahah
Karachi Shipyard	US$69.19	TBA
Kwantas	US$69.19	Murabahah/ Off CP/MTN program
Malaysia International Shipping	US$286.30	Sukuk Murabahah
Gamuda	US$256	ICPs/ IMTNs
Islamic Development Bank	US$142.40	Ringgit denominated Sukuk
AMMB Holdings	US$114.20	Sukuk
ADIB	US$408.50	Sukuk
Moccis	US$108.80	Sukuk Murabahah/ 2 Tranches/ 6 Series
Moccis	US$51.50	TBA
MTD Infraperdana	US$71.50	Murabahah (CP/MTN program)
Sabah Ports	US$22.90	Bai Bithaman Ajil
Sabah Ports	US$20	MTN Murabahah
Orient Technology Indonesia	US$120	Islamic and conventional bonds (TBA)
Tiong Toh Siong Holdings	US$24.20	Sukuk Ijarah
FACB Industries	US$22.80	Murabahah
FACB Industries	US$42.80	Bai Bithaman Ajil
Tiong Nam	US$83.40	Sukuk Ijarah
Indonesia	TBA (in IDR)	Sukuk Ijarah
Lahore SunCity	US$250	Sukuk Musharakah
Polytama	US$21,725	Sukuk Ijarah
Prasarana	US$568.70	TBA
Tele-flow	US$25.6	Murabahah partially underwritten; Islamic MTN

For more details on these deals visit
www.islamicfinancenews.com

Eurekahedge Middle East/Africa Islamic Fund Index



Monthly returns for Asia Pacific funds (as of 5th April 2007)

	FUND	MANAGEMENT COMPANY	12 Month Return (%)	FUND DOMICILE
1	AlAhli Islamic Asia Pacific Equitybuilder Certificates	The National Commercial Bank	8.15	Germany
2	Alliance Dana Adib	Alliance Unit Trust Management	6.33	Malaysia
3	SBB Dana Al-Ihsan 2	SBB Mutual	5.66	Malaysia
4	AlAhli Asia Pacific Trading Equity Fund	The National Commercial Bank	5.03	Saudi Arabia
5	Apex Dana Al-Faiz-i	Apex Investment Services	4.77	Malaysia
6	SBB Dana Al-Ikhlas	SBB Mutual	4.75	Malaysia
7	Pacific Dana Aman	Pacific Mutual Fund	4.68	Malaysia
8	TA Dana Optimix	TA Investment Management	4.19	Malaysia
9	CMS Islamic Balanced Fund	CMS Trust Management	3.91	Malaysia
10	Euro Peregrine Syariah Balanced Plus	Eurocapital Peregrine Securities	3.89	Indonesia
	*Eurekahedge Asia Pacific Islamic Fund Index**		*1.23*	

**Geographic Mandate = Asia Pacific*

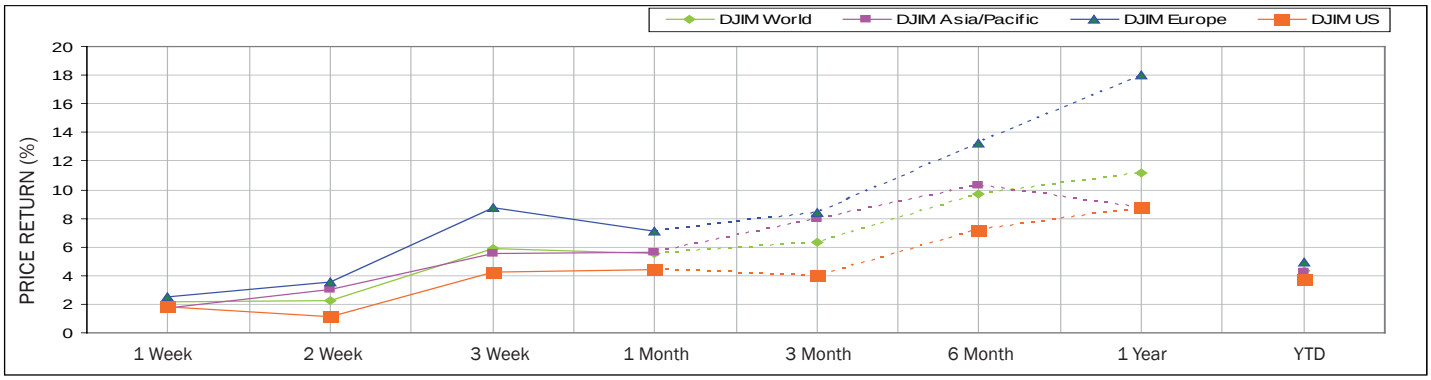
Monthly returns for Middle East/Africa funds (as of 5th April 2007)

	FUND	MANAGEMENT COMPANY	Sharpe Ratio (%)	FUND DOMICILE
1	Amanah Saudi Industrial Fund	The Saudi British Bank	18.42	Saudi Arabia
2	Amanah Saudi Equity Fund	The Saudi British Bank	18.32	Saudi Arabia
3	Zajil – Service & Telecommunications Fund	National Investments Company	17.40	Kuwait
4	Al-Saffa Saudi Equity Trading Fund	Banque Saudi Fransi	17.35	Saudi Arabia
5	HSBC Amanah Saudi Equity Segregated Portfolio	HSBC Investments	16.46	Cayman Islands
6	AlAhli Saudi Trading Equity Fund	The National Commercial Bank	16.23	Saudi Arabia
7	Saudi Companies Fund	The Saudi Investment Bank	13.54	Saudi Arabia
8	Gulf Industrial Companies Fund	The Saudi Investment Bank	13.13	Saudi Arabia
9	Al Danah GCC Equity Trading Fund	Banque Saudi Fransi	7.97	Saudi Arabia
10	TAIB Islamic GCC Index Fund	TAIB Bank	7.93	Bahrain
	*Eurekahedge Middle East/Africa Islamic Fund Index**		***4.59***	

**Geographic Mandate = Middle East/Africa*

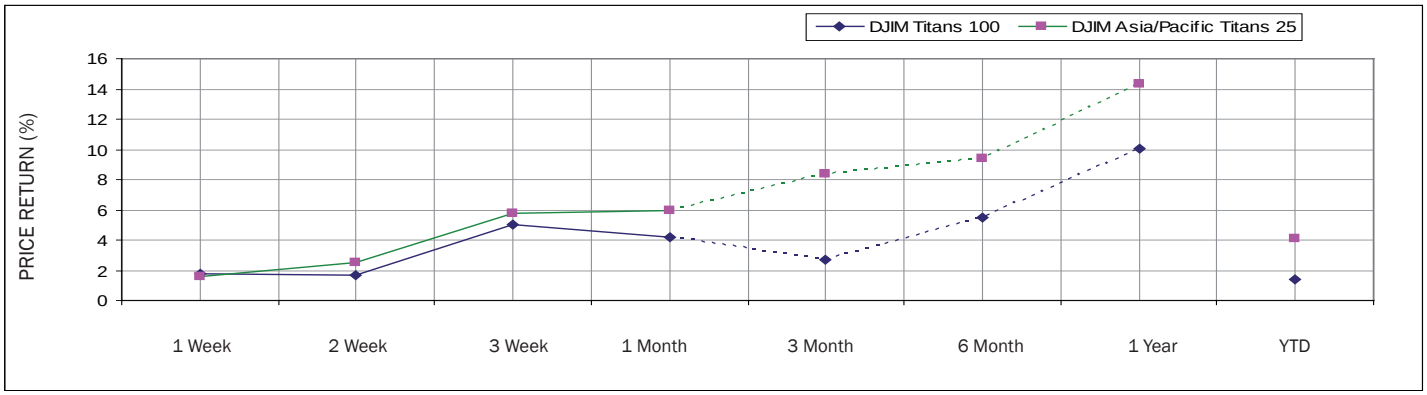
Data as of the 4th April, 2007

PERFORMANCE OF DJ INDEXES



INDEX	PRICE RETURN (%)							
	1 Week	2 Week	3 Week	1 Month	3 Month	6 Month	1 Year	YTD
DJIM World	2.14	2.28	5.86	5.57	6.29	9.7	11.21	4.34
DJIM Asia/Pacific	1.71	3.03	5.5	5.63	7.97	10.32	8.71	4.25
DJIM Europe	2.5	3.59	8.76	7.12	8.44	13.29	18.05	4.95
DJIM US	1.85	1.1	4.21	4.38	3.98	7.15	8.74	3.68

PERFORMANCE OF DJ TITANS INDEXES



INDEX	PRICE RETURN (%)							
	1 Week	2 Week	3 Week	1 Month	3 Month	6 Month	1 Year	YTD
DJIM Titans 100	1.77	1.69	5.02	4.22	2.74	5.46	10.01	1.42
DJIM Asia/Pacific Titans 25	1.61	2.48	5.81	5.91	8.36	9.41	14.34	4.09

DESCRIPTIVE STATISTICS		Market Capitalization (US$ billions)						Component Weight (%)	
Index	Component number	Full	Float adjusted	Mean	Median	Largest	Smallest	Largest	Smallest
DJIM World	2379	17574.51	14880.01	6.25	1.55	439.02	0.01	2.95	0
DJIM Asia/Pacific	946	3239.4	2310.11	2.44	0.62	87.53	0.01	3.79	0
DJIM Europe	358	4697.97	3752.61	10.48	3.11	209.97	0.27	5.6	0.01
DJIM US	733	8233.52	7834.86	10.69	3.01	439.02	0.28	5.6	0
DJIM Titans 100	100	7430.54	6755.89	67.56	47	437.29	1.36	6.47	0.02
DJIM Asia/Pacific Titans 25	25	916.1	637.31	25.49	18.74	71.43	7.66	11.21	1.2

Mean, median, largest, smallest and component weights are based on float adjusted market capitalization, not full market capitalization.

RINGGIT ISLAMIC DEBT MARKET: WEEKLY SNAPSHOT

AS AT 4th April 2007

Key Benchmarks Trend (by volume)	Rating	This week close (RM)	28 March 07 (RM)	21 March 07 (RM)	14 March 07 (RM)
Private Debt Securities					
RANTAU IMTN 0% 14.08.2013 – MTN 2	AAA (RAM)	105.52	105.36	104.40	104.18
RANTAU IMTN 0% 15.03.2012 – MTN 3	AAA (RAM)	101.02	100.89	100.18	N/A
RANTAU IMTN 15.03.2011 – MTN 1	AAA (RAM)	102.07	102.00	101.42	101.39
TENAGA IBONDS 0.00000% 13.12.2021	AA+ ID (MARC)	126.50	125.28	124.94	124.96
JEV IMTN 3836D 12.11.2015	AA3 (S) (RAM)	115.97	114.73	113.44	112.66
Government Investment Instruments					
PROFIT-BASED GII 1/2007 15.03.2010	N/A	100.33	100.17	99.97	N/A
PROFIT-BASED GII 3/2006 15.11.2016	N/A	102.25	101.81	100.79	100.75
PROFIT-BASED GII 24/2005 08.12.2010	N/A	100.33	100.60	100.34	100.40
Quasi Government					
KHAZANAH 0% 08.12.2016	N/A	70.00	69.43	68.84	68.71
IFC 2.880% 13.12.2007	N/A	99.59	99.50	99.51	99.39
KHA3/03 1B 0-CP 5YR 18/12/2008	N/A	94.20	94.07	93.93	93.87
IBRD 0.00000% 12.05.2010	N/A	99.66	99.59	99.50	99.52

SPREAD VS GII (in b.p.)

	TENURE					
	1Y	2Y	3Y	5Y	7Y	10Y
GII	3.38	3.42	3.46	3.48	3.51	3.56
Cagamas	0.1	0.14	0.16	0.22	0.25	0.28
Khazanah	0.04	0.08	0.07	0.12	0.14	0.17
AAA	0.27	0.33	0.39	0.53	0.66	0.8
AA1	0.45	0.51	0.57	0.77	0.94	1.13
A1	1.38	1.54	1.72	2.1	2.47	2.87

MYR ISLAMIC DEBT YIELD CURVES

YTM Curves

5 YEAR YTM Historical Charts (weekly closing, over last 6 months)

ISLAMIC BONDS		SEPTEMBER 2006 – APRIL 2007		
	Issuer or Group	Amt US$ m	Iss.	%
1	Nakheel Development	3,520	2	27.9
2	Aldar Properties	2,530	1	20.0
3	Malaysia	1,821	2	14.4
4	ADIB Sukuk	800	1	6.3
5	Dubai Islamic Bank	750	1	5.9
6	Rafflesia Capital	750	1	5.9
7	PLUS Expressways	743	18	5.9
8	SIB Sukuk	225	1	1.8
9	Kuala Lumpur Sentral	208	7	1.6
10	Jimah Energy Ventures	208	10	1.6
11	KMCOB Capital	178	4	1.4
12	MTD InfraPerdana	174	8	1.4
13	Sarawak Enterprise Corp	113	21	0.9
14	Lion Corp	113	1	0.9
15	Kinsteel	112	15	0.9
16	Cagamas	100	4	0.8
17	NICBM Sukuk	100	1	0.8
18	Oversea-Chinese Banking Corp	55	1	0.4
19	Suria Capital Holdings	23	8	0.2
20	Diversified Venue	22	2	0.2
	Total of issues used in the table	**12,628**	**126**	**100.00**

ISLAMIC BONDS		SEPTEMBER 2006 – APRIL 2007		
	Manager or Group	Amt US$ m	Iss.	%
1	Barclays Capital	2,853	4	22.60
2	Malaysian Government bond	1,821	2	14.42
3	Dubai Islamic Bank	1,768	3	14.00
4	HSBC	1,401	12	11.09
5	CIMB	1,148	35	9.09
6	Abu Dhabi Investment	843	1	6.68
7	Credit Suisse	843	1	6.68
8	Standard Chartered Bank	356	17	2.82
9	Citigroup	250	1	1.98
10	UBS	250	1	1.98
11	AmInvestment Bank	234	21	1.86
12	RHB	179	39	1.42
13	Kuwait Finance House	154	8	1.22
14	United Overseas Bank	147	12	1.16
15	Cagamas	100	4	0.79
16	Bank Muamalat Malaysia	64	18	0.50
17	Oversea-Chinese Banking Corp	55	1	0.43
18	EON	52	10	0.41
19	Standard Bank Group	50	1	0.40
20	MIDF-Sisma Securities	20	7	0.16
	Total of issues used in the table	**12,628**	**126**	**100.00**

ISLAMIC BONDS BY COUNTRY	SEPTEMBER 2006 – APRIL 2007	
	Amt US$ m	Iss.
UAE	7,825	6
Malaysia	4,632	117
Kuwait	100	1
Singapore	55	1
Pakistan	16	1
Total	**12,628**	**126**

ISLAMIC BONDS BY CURRENCY	SEPTEMBER 2006 – APRIL 2007	
	Amt US$ m	Iss.
US dollar	8,675	8
Malaysian ringgit	3,937	117
Pakistan rupee	16	1
Total	**12,628**	**126**

ISLAMIC BONDS		MARCH 2006 – APRIL 2007		
	Issuer or Group	Amt US$ m	Iss.	%
1	Malaysia	3,591	4	19.3
2	Nakheel Development	3,520	2	18.9
3	Aldar Properties	2,530	1	13.6
4	Rantau Abang Capital	999	2	5.4
5	ADIB Sukuk	800	1	4.3
6	Dubai Islamic Bank	750	1	4.0
7	Rafflesia Capital	750	1	4.0
8	PLUS Expressways	743	18	4.0
9	Cagamas	510	10	2.7
10	Aabar Sukuk	460	1	2.5
11	Maybank	416	1	2.2
12	Jimah Energy Ventures	308	20	1.7
13	Bank Pembangunan Malaysia	272	3	1.5
14	Segari Energy Ventures	258	6	1.4
15	SIB Sukuk	225	1	1.2
16	Putrajaya Holdings	211	5	1.1
17	Kuala Lumpur Sentral	208	7	1.1
18	National Central Cooling	200	1	1.1
19	KMCOB Capital	178	4	1.0
20	MTD InfraPerdana	174	8	0.9
	Total of issues used in the table	**18,616**	**273**	**100**

ISLAMIC BONDS		MARCH 2006 – APRIL 2007		
	Manager or Group	Amt US$ m	Iss.	%
1	Malaysian Government bond	3,591	4	19.3
2	Barclays Capital	2,853	4	15.3
3	CIMB	1,854	56	10.0
4	Dubai Islamic Bank	1,768	3	9.5
5	HSBC	1,665	18	8.9
6	AmInvestment Bank	1,324	50	7.1
7	Aseambankers Malaysia	843	23	4.5
8	Abu Dhabi Investment	843	1	4.5
9	Credit Suisse	843	1	4.5
10	Deutsche Bank	460	1	2.5
11	Standard Chartered Bank	409	19	2.2
12	RHB	311	62	1.7
13	Citigroup	250	1	1.3
14	UBS	250	1	1.3
15	United Overseas Bank	237	25	1.3
16	Kuwait Finance House	154	8	0.8
17	Bank Muamalat Malaysia	135	39	0.7
18	MIDF-Sisma Securities	127	32	0.7
19	EON	114	30	0.6
20	Alliance Investment	103	10	0.6
	Total of issues used in the table	**18,616**	**273**	**100**

ISLAMIC BONDS BY COUNTRY	MARCH 2006 – APRIL 2007	
	Amt US$ m	Iss.
Malaysia	9,902	259
UAE	8,485	8
Kuwait	100	1
Singapore	55	1
Pakistan	35	2
Indonesia	21	1
Saudi Arabia	18	1
Total	**18,616**	**273**

ISLAMIC BONDS BY CURRENCY	MARCH 2006 – APRIL 2007	
	Amt US$ m	Iss.
US dollar	9,353	11
Malaysian ringgit	9,207	259
Indonesian rupiah	21	1
Pakistan rupee	35	2
Total	**18,616**	**273**

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DATE	EVENT	VENUE	ORGANIZER
April			
2nd – 5th	International Islamic Finance Forum	Dubai	IIR Middle East
17th – 19th	Inclusive Islamic Financial Sector Development	Brunei	IRTI
19th	Seminar on Regulation of Islamic Capital Markets	Kuala Lumpur	IFSB
24th – 26th	Enhancing Islamic Financial Services for Micro and Medium Sized Enterprises	Brunei	CSM
24th – 26th	Structured Products World 2007	London	Terrapinn
25th	Sukuk: Exploring the Phenomena	Dubai	Middle East Business Forum
May			
2nd – 6th	Islamic Finance Summer School	Durham	Durham University
6th – 7th	World Islamic Funds & Capital Market Conference	Bahrain	Mega Events
7th – 8th	World Halal Forum 2007	Kuala Lumpur	Kaseh Dia
15th – 16th	4th Islamic Financial Services Board Summit: "The Need For A Cross-Sectoral Approach to the Supervision of Islamic Financial Services"	Dubai	IFSB
17th – 18th	3rd International Conference on Islamic Banking, Finance and Insurance	Ottawa	Ansar Financial Group
21st – 22nd	Commodity Investment Week 2007	Dubai	Terrapinn
22nd – 24th	Islamic World Finance North America 2007	Toronto	Terrapinn
27th – 29th	3rd World Islamic Economic Forum	Kuala Lumpur	ASLI
29th – 30th	32nd Islamic Development Bank Annual Meeting	Senegal	IDB
June			
3rd – 6th	Funds Middle East	Madinat Jumeirah	Terrapinn
18th – 19th	The 2nd International Islamic Financial Markets Conference	Bahrain	Islamic Finance Events/IIFM
18th – 19th	International Islamic Banking & Finance Forum 2007	Singapore	Marcus Evans
25th – 27th	Islamic Finance and Investment World Europe 2007	London	Terrapinn
25th – 27th	3rd International Islamic Finance Forum 2007	Kuala Lumpur	IBC Asia
July			
2nd – 6th	Islamic Markets Program	Kuala Lumpur	Securities Commission
August			
13th – 14th	MIF Forum 2007	Kuala Lumpur	Islamic Finance Events
November			
27th – 28th	3rd Seminar on the Regulation of Takaful	Cairo	IFSB

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Company Index

Company	Page	Company	Page	Company	Page	Company	Page
Abu Dhabi Commercial Bank	5	Delloite Consulting	24	Lloyds TSB	5	Scotiabank	1
Al Rayan Investment	5	Dow Jones Indexes	2	London Stock Exchange	4	Securities Commission	5
Allen & Overy	2	Dubai Bank	3	Luxembourg Stock Exchange	2	Sokouk Holding	1
AmInvestment Group	3	Dubai Financial Market	2	Malaysian International Islamic Financial Center	25	Standard Chartered Bank	3
AmIslamic Bank	4	Dubai International Financial Center	4	Malaysian Resources Corporation	6	Syarikat Takaful Indonesia	25
Amlak Finance	4	Dubai Islamic Bank	5	Mashreqbank	5	Takaful International	24
Asean ReTakaful International	25	Emaar Properties	5	Maybank Group	24	Takaful Malaysia	25
Baker & McKenzie	25	First Apex Software Technologies	24	Monetary Authority of Singapore	1	Takaful Nasional	24
Bank Negara	3,4	Fortis	5	Moody's Investors Services	4	Trowers & Hamins	25
Central Bank of Bahrain	24	HSBC Malaysia	3	National Bonds Corporation	4	Union National Bank	5
Central Bank of UAE	1	International Leasing	1	Panin Life	24		
Clifford Chance	25	Islamic Bank of Thailand	6	Qatar Islamic Bank	1,2		
Commercial Bank International	5	Kuala Lumpur Sentral	6	Rating Agency Malaysia	6		
Conyers Dill & Pearman	25	Kuwait Finance House Bahrain	5	SABB Takaful	24		
Credit Sustainability Rating	6	Kuwait Finance House Malaysia	4	SALAMA	24		
DBS Bank	1	Latham & Watkins	25	Samba Financial Group	5		

Country Index

Country	Title	Page	Country	Title	Page	Country	Title	Page
Bahrain	Sukuk marketplace	1		JV for capital markets	3	South Korea	Key to Islamic marts	6
	Takaful International complies	24		Oil palm financing	4	Thailand	Thai twist on banking	6
	Fortis fund for finance	5		Liquid water financing?	4	UAE	Shariah compliant CDs?	1
GCC	More depth please	4		Take note!	5		Dow Jones Titans	2
Global	Takaful premiums soar	24		Key to Islamic marts	6		Industry's elite meet	24
Indonesia	MoU to boost Takaful	24		RAM to the rescue	6		Dubai Bank growth	3
Kuwait	Fortis fund for finance	5		Investors see returns	6		DIFC's multiple share of the pie	4
Luxembourg	Small country, big Sukuk	2	Pakistan	RAM to the rescue	6		Islamic housing estates	4
Malaysia	Scotiabank open to options	1	Qatar	QIB finances tower	2		Amlak denied license	4
	MoU to boost Takaful	24		QFC's first Islamic institution	5		Emaar buys subsidiary	5
	X-Vision++ the answer?	24	Saudi Arabia	Everybody wants a piece of SABB	24		Financing sacred spaces	5
	Reuters champions Islamic finance	3		SALAMA subscriptions skyrocket	24	UK	DIFC's multiple share of the pie	4
	StanChart means business	3		Water brings investment ops	3		First Islamic bank	5
	HSBC keeping fingers crossed	3	Singapore	Lion City roars	1			