

بنك البحرين الإسلامي



# AL MUFEED

TRANSACTIONS OF ISLAMIC BANKS



Written By  
Hamad Farooq Al Shaikh

Checking and Introduction by  
Dr. Abdul Latif Al Mahmood  
Dr. Shaikh Nizam Yacooby





Gift

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## Message by Shaikh Dr. Abdul Latif Al Mahmood

Praise be to Almighty Allah, the Lord of the Worlds, and peace and blessings be upon the Messenger of Allah, the sincere and honest, and upon his scion, companions and wives, and upon all those who follow his guidance to the Day of Judgement.

Brother Hamad has made commendable efforts in writing the book "Al Mufeed-Transactions of Islamic Banks." After I felt his keenness to explain the subjects contained in the book in a simple and easy way to the unsophisticated reader to benefit practitioners working in Islamic banks and those dealing with them, and after I saw the great attention he paid to the issue of verifying Shari'a rules contained in it, I undertook to check it very carefully and thoroughly in order to help him realize his objectives and goals.

With the grace of Almighty Allah, Shaikh Hamad compiled transactions carried out by Islamic banks and illustrated them from all aspects and explained the rules governing them. He also cited many modern and contemporary financial transactions, by quoting resolutions issued by Islamic Fiqh academies and the opinions of Shari'a Supervisory Boards (SSB's), particularly the fatwas issued by BiSB's SSB since the Bank's inception until the present time (1979-2010).

Finally, I pray to Almighty Allah to bless us with the benefits of the work of this author, and guide his steps to what pleases Him, and to reward plentifully those who have contributed to its publication.

May Allah's prayers be upon our Messenger, Mohammed, and upon his scion and companions. Amen.

Monday, 25th Shawwal 1431 Hejra  
Corresponding to 4th October 2010

**Dr. Abdul Latif Mahmood Al Mahmood**  
Chairman of the Shari'a Supervisory Committee (BSB)  
Bahrain Islamic Bank (BiSB)

## Message by Shaikh Dr. Nizam Yacooby



Praise be to Almighty Allah, and peace and blessings upon the Messenger of Allah, and upon his scion, companions and followers, Amen.

I have checked the Guide entitled "Al Mufeed-Transactions of Islamic Banks," written by brother Shaikh Hamad Farooq Al Shaikh, and found it to be useful in its field, new in its presentation and innovative in its illustrations, photographs and tables.

I pray to Almighty Allah to benefit its author, reader and publisher, and to weigh it in his scale on the Day of Judgement. An old adage says, "perhaps a good illustration is better than one thousand words."

Allah is the purveyor of success, and he is our Guide to the right path.

May Allah's blessings be upon our Messenger, Mohammed, and upon his scion and companions. Amen.

Monday, 25th Dhu Al Qi'dah 1431H  
Corresponding to 2 November 2010



The servant of knowledge in Bahrain  
**Nizam Mohammed Saleh Yacooby**  
Member of the Shari'a Supervisory Committee (BSB)  
Bahrain Islamic Bank (BiSB)

# Introduction



Praise be to Almighty Allah, who says, "But Allah has permitted trade and forbidden usury," and made it one of the major sins and infectious plagues. Peace and blessings be upon our Messenger, Mohammed, the chosen Messenger of Allah, and upon his scion and companions, who are blessed with grace and elevated positions, and upon his followers and their followers to the Day of Judgement, except those who refuse, Amen.

At the beginning of my professional career with Islamic banks, I wanted to read a brief and yet comprehensive book about the Fiqh of Islamic financial transactions in the form of Islamic financial institutions' transactions that would benefit me in my discipline as a beginner in order to understand this discipline in a compressive and brief way. After searching extensively in Arabic and Islamic libraries and bookshops and after sifting through electronic resources, I did not find any book that would satisfy my thirst for knowledge and guide me to the modern Fiqh of Islamic financial transactions. However, I found a few books dealing with the Fiqh and accounting fundamentals of Islamic transactions in a sophisticated and difficult manner, which needed a code to decipher ambiguous things in them.

Imagine with me the suffering and pains which a new researcher experiences in this discipline in trying to understand the rules of banking transactions, due to the lack of simplified references in this field which are easy to read and understand by beginners. I then asked myself one question: How could we spread this discipline among the general public, or even specialists, who do not know about it or about its principles? My answer was: Is this not the right time to write, publish and translate such books, particularly when Islamic economy and Islamic financial institutions are growing at a fast rate day after day?

For this purpose, I formulated an idea in my mind, and I wanted it to see the light through a practical experience by endearing to the people the Shari'a principles of transactions conducted by Islamic financial institutions in a simplified and brief way, without any unnecessary repetition in texts and without any superfluity or circumlocution. The result was this humble work, represented in the book "Al Mufeed" which is a brief but useful summary of modern banking transactions applied and executed by contemporary Islamic banks and financial institutions. I tried as much as possible to avoid unnecessary details and controversial Fiqh disputes and differences in order to make it easy to the reader to understand the most important Fiqh rules and practical steps of such transactions.

I do not claim to say that this book contains everything the reader needs in the form of Fiqh and rules governing Islamic financial transactions. However, a beginner will, with the permission of Allah, find in it something sufficient to satisfy his requirements and fulfill his hunger for knowledge.

Perhaps what distinguishes this book, in addition to being brief and concise, is that it contains many illustrative tables comparing many Islamic financial products with their conventional counterparts. This will enable the reader to identify many main differences between the two systems. In addition, there are many illustrative graphs explaining the steps of banking transactions to enable the reader to understand them in a clear way. I have also quoted a number of Qur'anic verses and Hadiths of the Messenger of Allah dealing with economic principles and financial transactions. The book also contains many useful information and statistics about banks and Islamic financial institutions and the world economy. There are also many sayings and well-known testaments by specialists, economists, heads of state and writers, both Arabs and foreign, in this field. In addition, I wanted this book to be in a modern style in terms of layout, by using colours and modern divisions which



stimulate the mind and help the reader overcome boredom, encourage reading and help understanding the information in a better way. This book has taken nearly ten months, covering research, compilation, design, checking and publication.

On this occasion, I would like to extend my sincere thanks and appreciation to those who have supported me in writing this book, mainly the brothers from Khalil Graphics, particularly brother Mohammed Al Adl, for their efforts in designing and laying out this book. I would like also like to extend my special thanks to my dear wife who has not spared any of her time and efforts, by making a number of observations and comments and by encouraging me over the period of writing the book. She herself designed the illustrative graphs using the 3D MAX software, with the result that the book has taken this special and unique shape.

I would like also to extend my deep gratitude to the two eminent Shaikhs, and the well-known scholars, His Eminence Dr. Abdul Latif Al Mahmood, Chairman of the SSB, and His Eminence Shaikh Nizam Yacooby, Member of the SSB, of Bahrain Islamic Bank, for gracefully checking this book in a through and careful way. I pray to Almighty Allah to reward them generously for their efforts.

Last but not least, I would like to commend the leading Islamic bank in the Kingdom of Bahrain, headed by Mr. Mohammed Ebrahim, the Chief Executive, for encouraging and supporting me in writing this book, which we insisted that it should be made readily available to everyone free of charge, seeking a reward from Almighty Allah.

In conclusion, I pray to Almighty Allah to benefit all from this book, and to make it a beacon and guide for all who are working in this field.

May Allah's peace and blessings be upon our Messenger, Mohammed, and upon his scion and companions. Amen.

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## Introduction to the Second Edition

Praise be to Almighty Allah, and peace and blessings be upon the most noble Prophet and Messenger, our master, Mohammed, and upon his scion and companions, Amen.

The First Edition of the Book, Al Mufeed, Transactions of Islamic Banks, has met with wide acceptance by all who have obtained a copy of the Book. All copies of the First Edition, which are 5,000 that were published in 2010 through Bahrain Islamic Bank, have run out. One of the blessings of Almighty Allah is that we were able to publish the translated copy of this Book, with a first run of 1,000 copies, in 2013.

We are privileged to dedicate the Second Edition of this Book to all who are interested in Islamic banking and financial transactions. We introduced certain improvements and additions, represented in making changes to the division of the Book into seven chapters containing different topics. Other important topics have also been added, including rules governing Riba and its types, and certain additions to the topics dealing with pledge, agency and company. To make the Book up-to-date, as required, we have added a number of up-to-date statistics, information and figures about the financial Islamic financial industry.

Finally, once again I would like to extend my deep thanks to all who have contributed to the success of the Book, mainly Bahrain Islamic Bank, which has undertaken to publish this Edition.

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# Chapter I

## General Introduction







"The way to development is not restricted to the capitalist or socialist systems but is apparent in a third one which is the Islamic economic system. The latter will dominate the world in the future because it is a global way of life that guarantees success and avoids evil.

" The French economist, Jacques Austruy, in his book "Islam and Economic Development"



# Topic 1

## Principles of Islamic Economy



Allah, the Almighty, says, :  
{Those who eat riba (usury)  
will not stand except as  
stands one whom the Satan  
by his touch has driven to  
madness. That is because  
they say: 'trade is like usury,'  
but Allah has permitted  
trade and forbidden usury.  
Those who after receiving  
admonition from their Lord,  
desist, shall be pardoned  
for the past; their case is for  
Allah to judge; but those  
who repeat the offence are  
companions of the fire: they  
will abide therein for ever. }

(Surat Al Baqarah-The Heifer-  
verse 275).

### First: Definition

Islamic economics is a set of economic principles and fundamentals which govern the economic activity of the Islamic State in accordance with the texts of the holy Qur'an and the Messenger of Allah's Sunna, which can be applied to suit the circumstances of time and place. Islamic economics deals with the society's economic problems from an Islamic perspective of life.

### Second: Creed of Islamic Economics

The creed of Islamic economics is based on two principles:

1. **Money is that of Allah, and we are vicegerents in using it:** In this way, we are responsible for this money in earning and spending it, towards Allah, Subhana Watala, in the Hereafter and towards people in this life. Therefore, we should not earn it by disobeying Allah or spend it by committing unlawful acts, nor by causing harm to people.
2. **The role of cash:** Money is a tool to measure the value and a method of trade exchanges, and not one of the commodities. So, it may not be sold, purchased or leased.

### Third: Features of Islamic Economics

1. **It is a divine in nature and source:** Islamic economics is an independent one, based on divine inspiration, and not a set of patched ideas, Eastern and Western, or human ideas.
2. **Easy and removal of difficulty, exorbitance or unnecessary restrictions:** Islamic economics depends on the Fiqh rule which states that "the essence in transactions is that they are lawful," and it is based on the Shari'a rule that Shari'a is based on facilitation and removal of burden. It prohibits only for the sake of obviating harm and damage. Everything that is not prohibited in a certain text is allowed and lawful. Allah, the Almighty, says, "Allah does not wish to place you in a difficulty." (Surat Al Ma'idah "The Table"- Verse 5). The Messenger of Allah, peace be upon him, says, "Halal (lawful) is what Allah has made lawful in his Book, and Haram (unlawful) is what he has made unlawful in his Book, and what he has been silent on is that which he has forgiven." Narrated by Al Turmuthi.

The Messenger of Allah, peace be upon Him, says,

{Avoid the seven great destructive sins." The companions enquired, "O Allah's Apostle! What are they?" "He said, "To join others in worship along with Allah, to practice sorcery, to kill the life which Allah has forbidden except for a just cause, (according to Islamic law), to eat up Riba (usury), to eat up an orphan's wealth, to give back to the enemy and flee from the battlefield at the time of fighting, and to accuse of adultery chaste women who never even think of anything touching chastity and are good believers}

(Narrated by Al Bukhari)



3. **Participation in risks:** This constitutes the basis and pillar of Islamic economics, which singles it out among other economic systems. Participation in profit and loss is the rule governing the distribution of wealth between the capital and labour, and it is the basis that ensures justice and fairness in distribution according to the rule "Al Ghurm Bilghunm " (entitlement to a return is related to the liability of risk).
4. **Circulating money and not hoarding it:** This is ensured through Zakat and encouraging spending. Shari'a obligates the wealthy to pay Zakat on their money to the poor and the needy, and it has promised those who spend with a generous reward, in order to encourage them to spend, instead of hoarding money. Spending stimulates the economy and fuels growth and production and this ensures justice and fairness in distribution and elimination of poverty.
5. **Encouraging growth and production:** The Messenger of Allah, peace be upon Him, encourages the cultivation of uncultivated land. He says, "He who cultivates an uncultivated land it belongs to him," (Narrated by Al Turmuthi). The Holy Qur'an also encourages us to cultivate land. Allah, the Almighty, says, "It is He who has produced you from the earth and settled you therein," (Surat Hud- Verse 61).
6. **Respect for private property and balancing it with public property:** The Islamic economic system protects private property. Individuals have the right to own land, properties and different means of production, of whatever kind and size, provided that such possession and ownership should not lead to inflicting damage to the interest of the general public, and that there should be no monopoly of commodities needed by the public. In this way, the Islamic economic system differs from, and opposes, the Socialist System which considers that everything is owned by the public as a property held in common.  
Vital utilities, which are important for the life of people, also remain the property of the State or under its supervision and control in order to provide the basic needs of people and to serve the society's general interest. In this way, the Islamic economic system also differs from, and opposes, the Capitalist System which allows the ownership of everything.
7. **Prohibition of harm:** Islam prohibits all sales which lead to harm to the individuals or to the society. For example, it prohibits riba (usury) and monopoly and prevents gharar (uncertainty) in contracts and sales. It also prohibits trading in harmful things, like wine, pork and their derivative products. Islam also prohibits gambling and betting. The Messenger of Allah, peace be upon Him, says, "There is no harm or reciprocating harm," (Narrated by Ibn Majah).

## Topic 2

# Sales And Reba

The Messenger of Allah, peace be upon Him, said:

“An honest trader who is a man of truth will be (on the Day of Judgement), with the Messengers of Allah, truthful and martyrs.”

(Narrated by Al Tirmithi).

Do you know?

Mohammed Abdulla Al Arabi, Isa Abduh, Mohammed Baqer Al Sadr, Mohammed Najatullah Siddiqi, Mohammed Aziz, Ahmed Abdul Aziz Al Najjar, Abdul Hameed Al Ghazali and Yousuf Al Qaradawi are the first scholars who proposed the idea of establishing Islamic financial institutions and who have the credit for taking the idea to fruition in the 1950s?

### First Section

#### First: Definition of Sale

Sale is defined as a transfer of the title of an asset “property” or “commodity” from one person to another in consideration for a specified price.

#### Second: Conditions of Sale

##### A) Conditions of the Seller and Buyer

1. **Majority:** A person who has not attained the age of majority may not sell or buy. However, a minor may buy small things, while his sale may not be relied upon without obtaining his parent's consent.
2. **Reason:** An insane may not buy or sell. Unlike the minor who may buy small things, an insane person may not do so.
3. **No distraint or interdiction:** A distrained or interdicted person, due to bankruptcy or prodigality, may not buy or sell under any circumstances.
4. **Consent:** Sale and purchase may not be made without the consent of both parties, in accordance with what is stated in the Holy Qur'an, as follows: “O you who believe! Eat not up your property among yourselves in vanities: but let there be amongst you traffic and trade by mutual good will.” (Surat Al Nisa' "Women"- Verse 29).

##### B) Conditions of the Commodity

The commodity, whether a value or a counter value, should fulfill the following conditions:

1. **It should be pure:** Unclean and prohibited things, like dead meat, pork and wine, etc., may not be sold or bought.
2. **It should be utilized in a Shari'a-compliant way:** Insects, for example, may be sold, unless they are proved to be beneficial and useful.
3. **It should be owned by the seller or that the seller is allowed to sell it:** A person may not sell what he does not own, so long as he is not allowed to do so.
4. **It should be deliverable:** For example, what cannot be delivered may not be sold, like a car to be bought next year.
5. **It should be specified and known:** It is not permissible to say, “I will sell you one of my cars for so much amount,” because you have not specified which car you are going to sell.
6. **The value should be ascertained:** The price should be specified before the contract is concluded, or else it becomes void.
7. **It should not be temporary:** Like when the seller says to the buyer, “I hereby sell you this camel for such a price of money for one year.”



The Messenger of Allah, peace be upon Him, says, money for one year.”  
The Messenger of Allah, peace be upon Him, says, “May Allah show mercy to a man who adopts a kind attitude when he sells, buys and demands for the payment of loans.”

(Narrated by Al Bukhari)



Said

“We want to make the City of London the global centre for Islamic finance, in view of the work done in tax and regulatory reform to support the development of Islamic finance products.”

Gordon Brown, the Chancellor of the Exchequer in 2006 and later the British Prime Minister

### Third: Classification of Sales

#### A) Classification of Sales by the Type of Commodity

A sale is divided into four types according to the subject of exchange:

1. **Absolute Sale:** It is the exchange of an asset for cash. This is the most common type of sales, and it allows people to exchange for their money any assets they need.
2. **Salam Sale:** It is called advance sale, whereby a debt is exchanged for an asset, or the sale of something that is deferred for something prompt.
3. **Sale of Cash:** It is the sale of values against each other, and it is defined as the sale of cash against cash, of the same type or otherwise, like selling gold for gold, silver for silver or one of them against the other.
4. **Barter Sale:** It is the exchange of an asset for another asset other than cash. For this sale to be valid, both assets they should be equal in exchange if both counter values are of the same type and amount.

#### B) Classification of Sale by the Method of Specification of Value

Sales are classified into three types according to the method of specification of value:

1. **Musawama Sale:** It is the sale where the seller does not disclose his capital or profit, i.e. it is a sale without disclosing the original price.
2. **Bidding Sale:** It is the sale whereby the seller discloses his commodity on the market and the buyers outbid each other, and the commodity is sold to the highest bidder. Bidding sale is similar to auction sale, where the buyer offers to buy a commodity of certain specifications, and the sellers outbid each others in offering to sell their commodities for the lowest price, and the sale is awarded to whoever accepts the lowest price.
3. **Amana (Trust) Sales:** They are the sales in which the price is specified as the same principal amount, or more or less. They are called “trust sales” because the seller is trusted in disclosing the principal amount. These sales are of three types:
  - **Murabaha Sale:** It is selling a commodity for the original price paid by the seller, with a certain mark up agreed upon between the seller and the buyer.
  - **Tawliya Sale:** It is the sale of the commodity for the original price paid by the seller without increase or decrease.
  - **Al Wadhee’a Sale:** It is the sale of a commodity for the same original price paid by the seller with a reduction (hatt) of a certain amount from the price, i.e. a certain loss.

## Topic 2

# Sales And Reba



Do you know?

Capitalism is an economic system of a socio-political theory, based on the principle of promoting individual ownership and encouraging it, with an expanded concept of liberty and free enterprise. The world has suffered a lot because of capitalism, and it is still mounting pressure on people and societies. It has also political, social and cultural interference and is weighing up heavily on all people of the world.

### C) Classification of Sales by the Method of Delivering the Price

1. **Sale for immediate price:** In this sale, the price should be paid promptly. This sale is called cash sale of prompt cash.
2. **Sale for deferred price:** Price under this sale is deferred.
3. **Sale for deferred commodity:** It is like the Salam and Istisna' sales.
4. **Sale for deferred counter values:** It is sale of a debt for a debt, and it is prohibited in general.

### Fourth: Types of Prohibited Sales

Islam does not prohibit any types of sales, except for certain reasons. They are as follows:

1. **When the commodity is unlawful or unclean:** The general rule is that the price of everything prohibited by Almighty Allah is also prohibited. Examples of this are the following:
  - Prohibition of the sale of alcoholics.
  - Prohibition of the sale of pork.
  - Prohibition of the sale of dogs except for hunting or for protection.
  - Prohibition of the sale of blood.
  - Prohibition of the sale of idols.
  - Prohibition of the sale of pornography.

In this respect, Jabir, may Allah be pleased with him, said he heard the Messenger of Allah, peace be upon Him, saying: "Allah, the Almighty, prohibited the sale of wine, dead meat, pork and idols." The Companions said, "O Messenger of Allah, the lard of the dead meat is used to dye ships, tan leather and as oil in lamps. Is it haram (unlawful)?" He said: "May Allah fight the Jews, when He prohibited the lard of the dead meat, they processed it, sold it and ate up its price." (Narrated by the majority of narrators).

2. **When the contract leads to haram or to leaving a duty.** For example:
  - Sale at the time of the second call for Friday prayers in order not to distract people from the duty of prayers. Allah, the Almighty, says, "O you who believe ! When the call is proclaimed to prayer on Friday (the day of Assembly), hasten earnestly to the Remembrance of Allah, and leave off business (and traffic) (Surat Al Jumu'a- "Friday" - Verse: 9).
  - The sale of arms and weapons at the time of sedition or civil war.
  - Sale of grapes for those who process it into wine, etc.

Do you know?

That the first actual experiment of Islamic banks in establishing local saving banks was started in the village of Meet Ghamr in rural Egypt in the year 1963. It was launched by Dr. Ahmed Al Najjar, and these banks were based on the system of participation in profit and loss, without charging or giving interest. It was widely welcomed with enthusiasm by people, so much so that the number of depositors reached 59,000 within three years of operation. However, this experiment came to a complete halt in 1967.

3. **When the sale involves gharar (excessive risk taking or uncertainty), like gambling.**  
This includes the sale of something which the seller cannot deliver, such as:
  - Selling fish in the water and birds in the air.
  - Bai' Al Mualamasah (touch sale): It is when the two contracting parties exchange the commodity from outside, without inspecting or seeing it.
  - Bai' Al Munabatha (discard sale): It is when you say "throw down what you have and I throw down what I have" and the sale is concluded.
  - Bai' Al Muhaqala: It is the sale of the harvest in the ears (harvested wheat).
  - Bai' Habal Al Hiblah (sale of the unborn camel): It is the sale of the meat of the unborn camel for a deferred price until the she-camel gives birth.
  - Bai' Al Mukhadara: It is the sale of fruit while still green, before it becomes suitable and ripe for harvesting.
  - Bai' Al Mu'awamah: It is the sale of trees for many years.
  - Gambling and divination by arrows and related things.
4. **When the contract involves harm and damage, such as:**
  - **Monopoly:** When the trader monopolizes the commodities until they run out of the market, and then increases the prices. This is confirmed by the Hadith of the Messenger of Allah, peace be upon Him, which states: "He who monopolizes something needed by Muslims to increase its price for them Allah, Praise be to Him, will throw him in Hell upside down." (Narrated by Muslim).
  - **Sale by a Muslim to undercut and outbid another Muslim:** It is when you entice the buyer during the option period to revoke the sale in order to sell him something better or at a lower price, or by enticing the seller to sell after an agreement or consent is mutually agreed with another to bargain for a certain price in order to buy the same thing from him at a higher price. It is also when the buyer is offered a lower price or something better in quality for the same price. This is prohibited according to the following Hadiths of the Messenger of Allah, peace be upon him: "A man should not undercut or outbid his Muslim brother." (Narrated by Al Bukhari and Muslim). In another story, "A Muslim should not offer a price for something for which a price has been offered by his Muslim brother." (Narrated by Muslim).
  - **Bai' Al Najash:** It is making an increase in the price of a commodity offered for sale, without the intention to buy it, but to mislead and deceive others and make them buy it for more than its value. This is forbidden, because of the Hadith of the Messenger of Allah, narrated by Ibn Omar, may Allah be pleased with them, which states, "The Messenger of Allah, peace be upon him, prohibited Al Najash sale. (Narrated by Al Bukhari and Muslim).

## Topic 2

# Sales And Reba



### Famous quotes

The immunity shown by Islamic banks in the face of the recent sweeping global crisis has heightened the attention by Westerns in general, and Europeans in particular, to the Islamic financial and banking system, particularly when until recently they were surprised that such banks are established. As a result, Swiss and U.S. banks are now expanding the scope of their Islamic financial services and products

(Ebrahim Mohammed, German media and economic expert).

- **Bai' Hader Libad:** It is when a person residing in a village or city sells to a person living in the desert by acting as broker, etc. and says to the owner of the commodity: "I'm ready to sell it on your behalf on a gradual basis, at a better price." As a result, people sustain damage and prices become higher for them. This is haram, due to the confirmed Hadith, which says, "A person residing in a village or city should not sell to a person living in the desert." (Agreed Upon Hadith).
  - **Intercepting Mounted Passengers:** It is intercepting some one who is coming with his commodity to sell it on the market and telling him that the market is slump. This convinces the owner of the commodity to sell it at a price that involves gharar, and then the buyer re-sells it at the price he offers. This is haram, because it involves injustice and damage to the seller and the people, and because of the sound Hadith: "Do not intercept mounted passengers." (Agreed Upon Hadith).
  - **Fraud:** It is the sale involving a defect in the sold commodity or inherent defect or an obvious defect that is covered up by way of fraud, or fraud in price or counterfeited money or consideration. This is because of the Hadith, which says, "He who cheats us is not from us." (Narrated by Muslim). It is also due to the Hadith, "A Muslim is the brother of his fellow Muslim. It is not lawful for a Muslim to sell a commodity with a defect to another Muslim without pointing it out to him." (Narrated by Ibn Majah).
  - **Bai' Al Mustarsil:** It is when the seller sells a commodity to a buyer, who does not have the desire to bargain for it, at a very high price. This is haram, according to the Hadith, "The fraud of Al Mustarsil is haram." (Narrated by Al Tabarani and Al Bayhqi).
  - **Bai' Al Mudhtarr (distress sale):** It is when the buyer buys a commodity at a low price from a person who is in need whose situation is known to the seller because he wants to pay off a prompt debt or to settle an adjudged court amount." Ali, may Allah be pleased with him, said: "The Messenger of Allah prohibited the sale of a person in need." (Narrated by Abu Dawood).
5. **When the Sale Involves a Commodity that Should be Provided Free and for which no Consideration is Allowed:** It is the sale of water, grass and fire, because people are owning them in common. The same also applies to giving on loan a he-animal for fertilization against consideration. No sale contract may be concluded for anything that is prohibited to sell because it should be provided and made readily available free of charge.
  6. **When the Sale Involves What One Does Not Own:** It is like selling a commodity that is possessed by others, the sale of human body organs, and the like.
  7. **Sale Involving Riba or the Trick for Riba:** It is like Al 'Ina sale, i.e. selling the commodity against deferred payment, and then buying it at a lower price from the person who bought it.
  8. **When the Sale Involves Something That Has No Benefit:** It is like selling insects, unless there is benefit in them.



The Messenger of Allah, peace be upon Him, says,

“Even if Riba though a lot,  
The consequences are Few  
become.”

(Narrated by Ahmed).



Do you know?

Some studies suggest that dealing in riba was practiced in many quarters since 4000 years.

## Second Section

### First: Definition of Riba

Riba is defined as every conditional increase stipulated beforehand over the principal against deferment alone. It is an increase in certain things, while it is a deferment in other things.

### Second: Ruling of Riba

Riba is one of the grossest of sins. Warning against, and prohibition of, Riba is mentioned in a number of Qur’anic verses and Hadiths of the Messenger of Allah, including: “Allah has permitted trade and forbidden usury. (Surat Al Baqarah-The Heifer-verse 275). The Messenger of Allah, peace be upon Him, says, “Avoid the seven great destructive sins.” The companions enquired, “O Allah’s Apostle! What are they?” He said, «To join others in worship along with Allah, to practice sorcery, to kill the life which Allah has forbidden except for a just cause, (according to Islamic law), to eat up Riba (usury), to eat up an orphan’s wealth, to give back to the enemy and flee from the battlefield at the time of fighting, and to accuse of adultery chaste women who never even think of anything touching chastity and are good believers,” (Agreed upon Hadith).

### Third: Wisdom Behind the Prohibition of Riba

1. Riba requires taking man’s property without any consideration, because whoever seeks one Dinar for two Dinars in cash or by way of deferment is paid an increase without any consideration. A Muslim’s property fulfills his needs, and it is greatly inviolable. Possessing property by any person for a long time and thinking that he will be able to trade in it and benefit from it is an illusion that is not free of harm.
2. Riba discourages people from trading and conducting business to make profit, because the owner of money, if he is able through the Riba contract to obtain an increase in his money, by way of cash or deferment, will be discouraged from earning money by way of trade or business, and so he hardly engages in trade, business and arduous jobs. This leads to the halt of benefits for people, which only come through trade, handicrafts, professions, industry and construction.
3. Riba leads to the cessation of good among people and they stop giving each other loans, because prohibition of Riba makes people transcended over greed, and this encourages men to give each other loans and recover the same amount. If Riba is made Halal (lawful), a person in need is prompted to charge interest, and this leads to a halt in good, charity and compassion.

# Topic 2

## Sales And Reba

Do you know?

If someone invested one cents utility vehicle by 4% per year, it will become ball of pure gold equal to the weight of the planet after 1750 years.

They said

Money and food as soon as the consumer eating and eat it goes, and it cannot hire a food cannot hire the money, money found for mutual benefits they do not reproduce because they are sterile.

### Fourth: Types of Riba

Riba is divided into two main types, namely:

**First Types: Sales Riba (Riba Al Buyoo’):** It is the Riba that takes place involving the sale of a commodity for another commodity of a bigger quantity. This is the type mentioned in the Hadith of the Prophet, peace be upon Him, which says, “Gold for gold, silver for silver, wheat for wheat, barley for barley, date for date, salt for salt, it must be equal on both sides and hand to hand. Whoever gives more or asks for more (than what he gave) commits an act of Riba, the giver and the taker are equivalent (in the sin). (Narrated by Muslim)

Sales Riba is divided into two kinds:

**(A) Riba Al Fadl:** it is the sale of a commodity from those mentioned in the Hadith above, against another commodity similar to it, with a different quantity. An example of this is when (A) sells one kilo of 18-carat gold, against one kilo of 21-carat gold (including modern currencies), or when (A) sells one kilo of dates against one kilo and half of dates of another variety.

In this type of sales, the following is stipulated:

1. The deal should be completed before the contracting parties leave the scene (whether the types are the same or different).
2. The two counter values should be of the same type of commodity (as when there is one BD against ten 100 fils coins), according to the following table:

Case	Ruling	Conditions
Selling gold for gold	Permissible	1. Spot possession. 2. Equal amounts of counter-values of the same currency (it is not permissible to sell a 21 carat gold for an 18 carat gold, but gold must be sold, using the price to buy another gold).
Selling silver for silver	Permissible	1. Spot possession. 2. Equal amounts of counter-values of the same currency (it is not permissible to sell one type of silver for another type, but silver must be sold, using the price to buy another type of silver).

The Messenger of Allah, peace be upon Him, says,

“Even if Riba though a lot,  
The consequences are Few  
become.”

(Narrated by Ahmed).



Case	Ruling	Conditions
Selling gold for silver and vice versa	Permissible	Spot possession.
Selling gold or silver against another metal	Permissible	Spot possession is not a requirement.
Selling one metal for another metal.	Permissible	Spot possession is not a requirement.
Wheat for wheat, barley for barley, dates for dates and salt for salt	Permissible	<ol style="list-style-type: none"> <li>Spot possession.</li> <li>Equal amounts of counter-values of the same commodity (it is not permissible to sell one kilo of good dates against two kilos of inferior quality dates, for example, but inferior dates may be sold, using the price to buy good quality dates).</li> </ol>
Wheat for barley and salt for dates, etc.	Permissible	Spot possession.
Other types (meant for rice or fruits for vegetables, etc.)	Permissible	<p>Scholars concur that the following commodities in the second part of the Hadith (wheat, barley, dates and salt), are not exclusive, while they differ on other commodities and on whether they apply to the commodities mentioned in the Hadith. This is called the rationale behind Riba. There are different opinions on this:</p> <ul style="list-style-type: none"> <li>Hanafis say: the rationale is the type and quantity (measure and weight).</li> <li>Malikis say: the rationale is in acquisition and storage.</li> <li>Shafi's say: the rationale is that they are eatables.</li> </ul>

## Topic 2

# Sales And Reba

They said

Many causes of wars and disasters, but if we look at history over 4,000 years, we find Riba that a big role in bringing about a lot of wars.

Richard Kelly Hoskins, in his book (war and peace cycles cycles)



The Messenger of Allah, peace be upon Him, says,

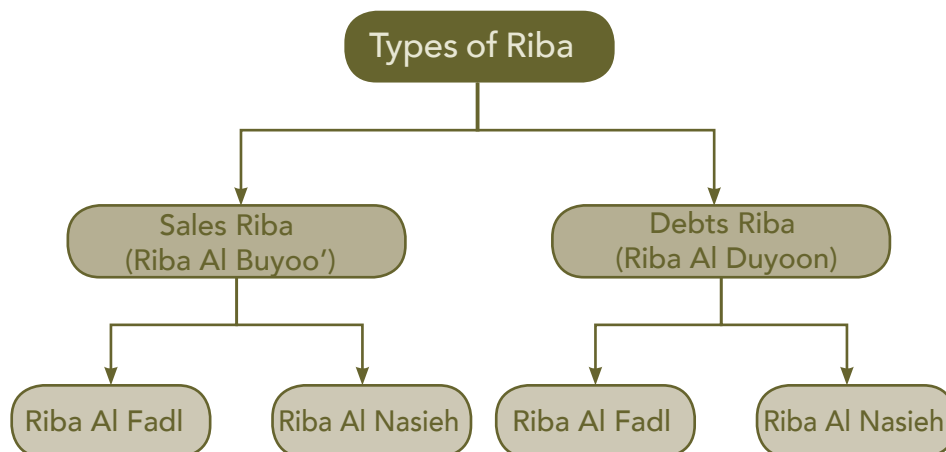
“Traders come on the Day of Judgement as transgressors, except for those who feared Allah and were truthful and pious.”

(Narrated by Al Tirmithi).

(A) **Riba Al Nasiah**: it is a delay or deferment in exchanging the commodities mentioned in the Hadith, whether they are similar (gold for gold or barley for barley) or different (gold for silver or barley for salt).

**Second Types:** Debts Riba (Riba Al Duyoon): It is the Riba related to borrowing and lending. It is divided into two types:

1. **Riba Al Fadl**: An example is when (A) gives BD 1,000 as loan to (B), provided that (B) should repay (A) BD 1,100.
2. **Riba Al Nasieh**: It is also called the Riba of Jahiliya (pre-Islamic period) or combined Riba. It is the Riba related to an increase in the amount paid according to the period. An example is when (A) gives BD 1,000 to (B), provided that (B) should repay (A) the amount of BD 1,100 after one month. If (B) delays payment beyond the fixed time, he should pay BD 1,200, and so on.





They said

Riba is contrary to good citizenship because it secretes hatred and rivalry in the community, money is not a creature like a human being or animal even generate other funds.

The class struggle which is created by usury will eventually lead to the destruction of society.

Plato

### Fifth: Different between Al bai (sale) and Riba

Case	Al bai (sale)	Riba
The agreement	Mu'awadha (mutual compensation)	Loan
Commodity	Cash by Commodity	Cash by Cash
Business Sector	Commercial	Financial
Increase the amount	Profit for selling	Interest
Increase the amount after the agreement	Forbidden	Price increased after each delay
Worth Profit	For work and Commodity	Without any work and Commodity
The Risk	Exist when ownership	Not exist
Verdict	permissible	Forbidden





There are now more than 600 Islamic financial institutions operating in more than 75 countries, offering a wide range of products and services.





## Topic 3

## Differences Between Islamic Banks and Conventional Banks

Area of Difference	Islamic Banks	Conventional Banks
Dealings	<ol style="list-style-type: none"> <li>1. Dealings are Shari'a-compliant; all dealings, services and products are based on the principles of Islamic Shari'a.</li> <li>2. They are based on religious principles that riba (usury) is haram (unlawful), based on texts from the Qur'an and Sunna.</li> </ol>	<ol style="list-style-type: none"> <li>1. Dealings are governed by local laws and international customs and practice without any regard to Islamic Shari'a principles.</li> <li>2. Usury or interest is considered the basis of dealings. Contracts also include riba, gharar, ignorance and gambling.</li> </ol>
Service of the Economy	One of their responsibilities is to spread Islamic da'wah (guidance) by translating the Islamic economic thought into a tangible living reality.	They do not pay any attention to reform to the community, and this is completely ruled out in their dealings.
Development	<ol style="list-style-type: none"> <li>1. They contribute to the development of their local communities.</li> <li>2. They encourage distribution of income and wealth justly and fairly in their local communities.</li> <li>3. They contribute to social development based on Shari'a and religious principles through Qard Al Hasan (interest-free loans, donations and Zakat).</li> <li>4. They pay attention to craftsmen, self-employed professionals and small traders).</li> </ol>	<ol style="list-style-type: none"> <li>1. They contribute to the development of major capitalist communities rather than their local communities.</li> <li>2. They contribute to the widening gap between the poor and the rich (the rich become richer, and the poor become poorer)</li> <li>3. They do not contribute to social development (they do not offer interest-free loans or Zakat). Some of them make annual donations on an individual and statutory basis.</li> <li>4. They concentrate on major customers and traders (high net worth individuals) more than others, with small customers and traders receiving little attention from them.</li> </ol>



Area of Difference	Islamic Banks	Conventional Banks
Ethics	They are based on integrity, honesty and forgiveness (adherence to values, morals and good conduct).	They do not pay any attention to morals and values if they do not serve their main objectives. They charge interest for delay and prosecute defaulting borrowers and insolvent and even bankrupt customers and also repossess properties, including private houses and finance prohibited products.
Basics of Cash Dealings	<ol style="list-style-type: none"> <li>1. They are based on the following principles: <ul style="list-style-type: none"> <li>• Riba is unlawful.</li> <li>• Money grows through exchange and trading.</li> </ul> </li> <li>2. Dealings are limited to available cash, and this prevents or reduces the risk of economic inflation.</li> <li>3. Dealings are not based on borrowing and lending, and all offerings of Islamic banks are based on actual sale and purchase, i.e. exchanging money for commodities.</li> <li>4. Dealings involve lawful products and services, and money is not employed in unlawful and prohibited products and services.</li> </ol>	<ol style="list-style-type: none"> <li>1. Dealings are based on the principle that cash begets cash.</li> <li>2. Dealings are not limited to available cash, based on usury and interest, leading to hiking prices and economic inflation, followed by economic slump.</li> <li>3. Dealings mainly involve lending and borrowing, based on interest. There are no actual transactions involving sale and purchase.</li> <li>4. There are no differences between good and bad things. Most investments involve prohibited activities or those which are repugnant to Islamic Shari'a and public morals.</li> </ol>
Control	There is a Shari'a Supervisory Board (SSB) comprising a number of reputable scholars who vet, check and inspect the bank's offerings, transactions and documents. There is also an internal Shari'a audit department which checks transactions from a Shari'a point of view.	There is no SSB or internal Shari'a audit department inspecting and checking the bank's offerings, transactions and documents.



## Topic 3

### Differences Between Islamic Banks and Conventional Banks

Area of Difference	Islamic Banks	Conventional Banks
Money Investment Methods	<ol style="list-style-type: none"> <li>1. Money invested through legitimate and lawful instruments, including Mudaraba, Musharaka, Murabaha, Istisna', Salam, Ijarah with the promise to own and Tawarruq).</li> <li>2. Receive depositors' funds on a Mudaraba basis (participation in profits) by investing investors' funds in lawful transactions and based on specific services and dealings, in which profit is distributed proportionately.</li> </ol>	<ol style="list-style-type: none"> <li>1. Money invested through one method: interest-based loan.</li> <li>2. Receive depositors' funds on the basis of interest fixed in advance on the principal amount, with the main objective being to make profit through unlawful interest charged on amounts extended to borrowers.</li> </ol>
Risk-Taking	Bear risks of trade and investment (profit and loss) through sale, purchase, Ijarah and such other investment transactions.	Do not bear risks involved in trade and investment, since they only engage in lending and borrowing transactions.







Allah, the Almighty, says,  
"Allah commands you to render  
back your trusts to those to whom  
they are due; and when you judge  
between people, that you judge  
with justice.

(Surat Al Nisa' - Women-Verse: 58).



# Chapter 2

## Financing Products





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### **Famous quotes**

I call for the implementation of Islamic Shari'a in the financial and economic fields to put an end to this crisis which is shaking the global markets due to manipulation of the rules of dealing and excess in fictitious and unlawful speculation.

(Dr. Finance Roland Laskin,) Editor in Chief of Le Journal.

## Topic 1

### Loan

Allah, the Almighty, says, :

“Who is he that will loan to Allah a beautiful loan, which Allah will double unto his credit and multiply many times? It is Allah that gives you want or plenty, and to Him shall be your return.

(Surat Al Baqara- The Heifer- Verse: 245).



The Messenger of Allah, peace be upon Him, says

“Who is he that will loan to Allah a beautiful loan, which Allah will double unto his credit and multiply many times? It is Allah that gives you want or plenty, and to Him shall be your return

(Narrated by Ibn Majah).

#### First: Definition

Loan is an extension of a sum of money to someone who has to repay the same amount. This means that the lender extends to the borrower an amount of money, provided that the borrower should return the same amount without any increase. If the lender obliges the borrower to pay an extra amount on settlement, this is considered actual riba.

#### Second: Rules governing bank loans

1. It is prohibited for the bank to stipulate an excess amount on the sum of money when repaid, because this is a prohibited riba, whether this increase is in the type or amount, and whether this is stipulated in the contract or thereafter.
2. A customer may not provides an asset or consideration to the bank during the loan period if this is for the sake of the loan.
3. The amount may be increased by the borrower on repayment, as a reward to the lender, provided that this should not be a binding obligation or a custom and practice.
4. The bank may charge a fee on the loan equivalent to the actual expenses involved in extending the loan, such as opening the file, studying the customer's situation and the costs of the study, if undertaken. However, this fee may not be increased, and the actual costs should not include what the customer has nothing to do with, such as staff salaries, rent for premises, transportation charges, etc.

#### Third: Examples of loan applications

##### A) Current account

1. Current accounts are defined as loans from the customer (lender) to the bank (borrower).
2. The bank may charge a fee as actual expenses involved in the current accounts for the services provided.
3. The bank may not offer prizes to current account holders, in the form of in-kind gifts, financial benefits, discounts or withdrawals, because this is a prohibited and unlawful interest.
4. The fee charged on cash withdrawals made through Automatic Teller Machines (ATMs) from current accounts is considered a charge for the service, and this charge should be actually linked to the costs.

## B) Overdrafts

The bank may provide an overdraft service (it is a temporary amount provided in the customer's account in case there are no funds in it), provided that such service should be rendered without interest. Actual costs, if any, may be charged in consideration for the service.

### Fourth: Comparison between Islamic banks and conventional banks in extending loans

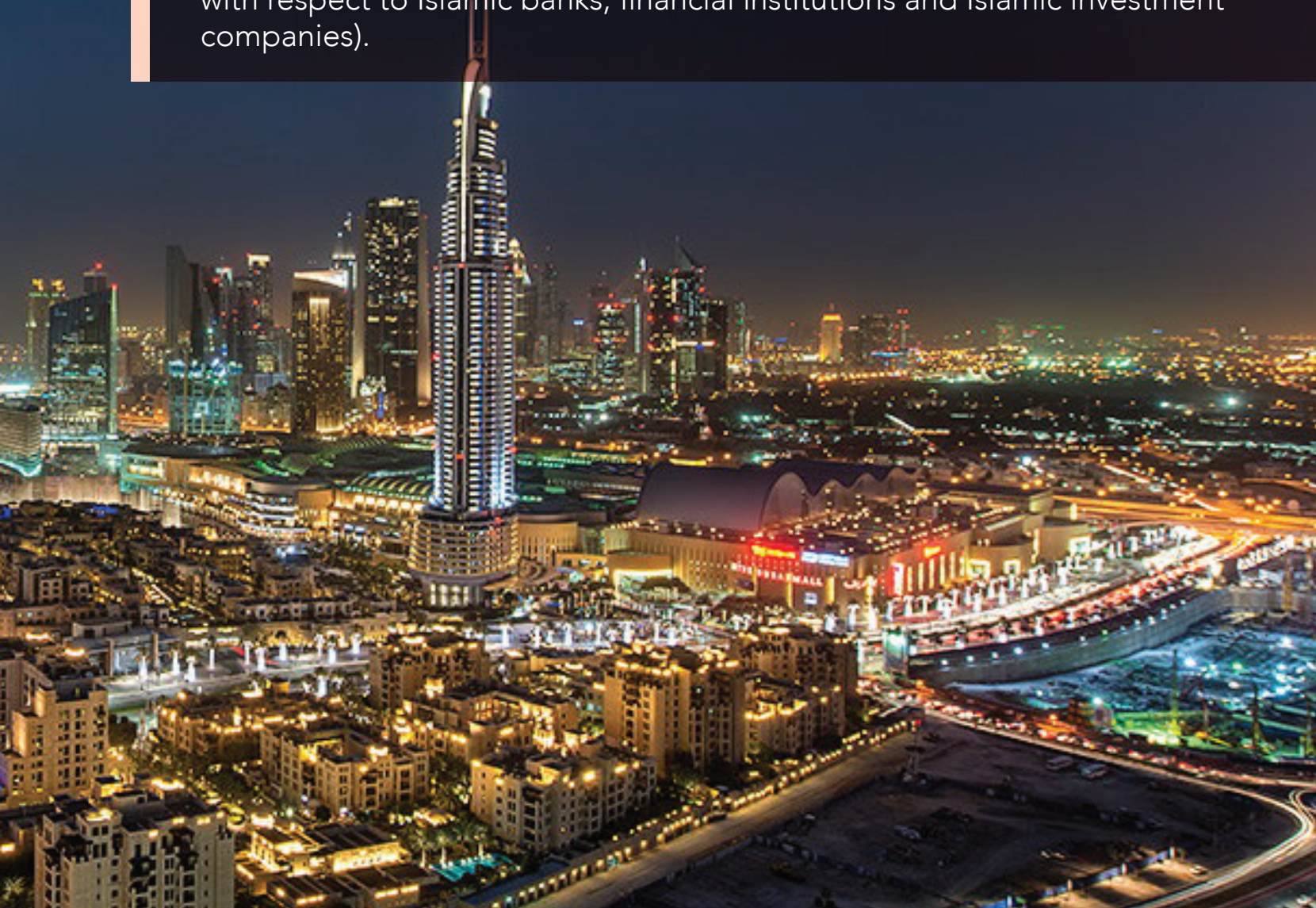
Area	Islamic Banks	Conventional Banks
Contract	Loan	Loan
Subject of the contract	Money against money	Money against money
Status in Fiqh	Qard Hasan (interest-free loan).	Usury-based loan against interest.
Purpose	Helping the needy, and therefore the bank does not extend it to all people.	It involves all transactions for the purpose of making profit and trading in interest.
Interest and profit	No profit or interest is charged,	Usury-based interest is charged.
Fees	Actual fees are charged to compensate for the costs incurred.	Fees are charged in proportion to the loan, regardless of the actual costs.
Delay penalty	The bank may not charge the customer penalty on delay in making payment. However, it may oblige the customer to donate a certain amount of money to charities on delay or when defaulting on payment.	The bank charges delay penalty, which accumulates and compounds on a monthly basis.







**The United Arab Emirates (UAE)** is unique in its pioneering Islamic banking experience. It is the first country in the Arab world to approve a law governing Islamic banking transactions (Federal Law No. 6 of 1985 with respect to Islamic banks, financial institutions and Islamic investment companies).



## Topic 2

# Murabaha to the Purchase Orderer



The Messenger of Allah,  
peace be upon Him, says

“Default in payment  
on the part of a solvent  
debtor is unjust.”

(Narrated by Al Bukhari).

Hakim Ibn Huzam said, “I  
said:

O Messenger of Allah, I  
buy commodities, what  
are permissible and what  
are impermissible?”  
He said: “If you buy  
something, do not sell it  
until you possess it.”

(Narrated by Al Bukhari).

### First: Definition

It is the purchase by a bank a certain commodity from the trader (car, house, building materials, etc.) on the customer's request, and then selling such commodity to the customer at a higher price than that paid for it (the difference between the two prices being the bank's mark-up in the transaction) while disclosing the actual price and the mark-up amount, after which the customer pays the installments to the bank as mutually agreed.

### Second: Steps of Murabaha

1. The customer expresses his wish to purchase the commodity he wants to buy (car, furniture, property, etc.) and files an application with the bank to obtain finance for the commodity, by providing all the necessary personal details and the price of the commodity.
2. The bank conducts the necessary studies on the customer's liabilities and his situation, and examines the quotation specified and the specifications of the commodity. If convinced, the bank buys the commodity in any way acceptable according to custom and practice, such as via telephone, facsimile or through the exchange of offer and acceptance notices, or through a sale contract. etc. The bank then pays the price of the commodity to the trader promptly.
3. The bank sells the commodity to the customer at a higher price, through Murabaha, with the difference representing the bank's mark-up.
4. The customer pays the amount in installments, as mutually agreed (See the illustrative diagram No. 1).

### Third: Most salient rules governing Murabaha

#### A) Before the contract is concluded between the bank and the customer

1. An agreement is reached on Murabaha, either in a percentage in excess of the cost of the commodity or by way of an amount added to the actual cost.
2. If customer pays an amount of money as advance or earnest money to the trader or owner of the commodity, this is considered a conclusion of the sale contract, in which case the bank may not purchase the commodity and sell it to the customer except after the exclusion of the first sale concluded through the advance payment or earnest money between the customer and trader. This is done when the trader or the owner of the commodity excludes the customer from the sale and considers it non-existent, and then the bank buys the commodity.

3. The bank may take from the customer a promise to buy the commodity from the bank before the bank owns it. Similarly, the customer may take a promise from the bank to sell the commodity to him after the bank owns it. In both promises (mutual promise), it is stipulated that they should not be binding except after the bank enters into the transaction. However, if the promise is unilateral, then it may be binding.
4. It is preferable, from a jurisprudence aspect, to reduce to writing the promise, contract and exclusion and such other agreements which arise between the contracting parties. Practically, writing is a must in order to safeguard rights.
5. The bank may charge a fee or commission, at a certain percentage, in consideration for opening the file and for conducting the studies and to compensate for the actual costs incurred. Such fee or commission is considered a charge for the effort made preceding the purchase, provided that such charge should be actual and not exorbitant.
6. The bank may obtain a security from the customer as a mortgage for the purchased commodity or another commodity as guarantee for good performance or as salary transfer, etc.
7. The purchased commodity should be permitted in Shari'a, otherwise the bank may not purchase and sell it.
8. The bank may take an amount of money before and after the contract, and such amount is considered as follows:
  - If it is before the Murabaha contract, it is an 'arbutn (earnest money). If the customer backtracks on the transaction, the bank may deduct from the amount the actual damages and then return the balance to the customer.
  - If it is after the Murabaha contract, it is an earnest money, and if the customer backtracks on the transaction, the bank may take the earnest money.

### Do you know?

The word "bank" is derived originally from the word "banco", which in Italian means the "counter" or "table," because Italian money changers used to exchange money for customers using this "counter" or "table."

### No. 1- Practical Steps of Murabaha





## Topic 2

# Murabaha to the Purchase Orderer



### Do you know?

The first bank to offer Islamic financial services in Britain was the "Islamic Bank of Britain", which was established in 2004. One of the amazing things is that the first customer to open an account with one of the bank's branches in the city of Leicester was a non-Muslim, who covered more than 100 miles to open an account with the bank, due to the transparency and ethics he found in it. The bank has now on its books more than 35,000 customers and eight branches in Britain.

### B) Conclusion of the contract

1. It is prohibited for the bank to conclude a Murabaha contract before buying the commodity from the trader or the original owner of it.
2. The bank's approval of the purchase of the commodity and the trader's consent to this through any means of recognized communication is considered a valid purchase and possession, even if the commodity (car or building materials) remains in the trader's stores, because the purchase has been concluded by way of consent, which involves a transfer of the commodity to the bank, and the bank bears the responsibility for destruction of the commodity.
3. The Murabaha contract may not be revised after it is concluded, except by way of consent of both parties. However, before it is signed, the contract may be revised.
4. If the bank buys a commodity and is destroyed, the bank shall become responsible for it, and the customer may not be considered responsible for its price except after the title thereto is transferred to the customer after the contract is signed between the two parties.
5. The documents (quotation and invoice) should be in the bank's name and addressed to it, and not in the customer's name.
6. The bank shall bear the cost of insurance for the commodity. After that, the bank may charge the cost to the customer and add it to its Murabaha mark-up.
7. The bank should disclose in the contract the price of the commodity which it bought to the customer. In addition, it should disclose the discount in the price it has obtained to benefit the customer from such discount.
8. The bank should disclose to the customer in the contract all the expenses, fees and profits charged to the customer. The bank may only add the actual costs, such as insurance, storage and fee for opening the account, etc. The customer may not be charged staff salaries or the costs of advertisement, etc.
9. The bank may stipulate that it shall bear no liability for defects in the commodity and that if such defects are discovered in it, the customer may have recourse against the seller.
10. Registration of the title to the commodity in the customer's name may be deferred until the price is paid in full, while the customer's right to the commodity is recognized and established.
11. It is prohibited for the bank to increase the amount of the transaction or its installments due to the customer's delay in payment of the installments, because this is a prohibited riba. However, the bank may oblige the customer to pay a certain amount to charities in case of delay in payment, and the bank channels such amount to charitable organizations with the SSB's knowledge.
12. The bank may not charge extra amounts to the customer when the Murabaha installments are extended, in what is called "debt rescheduling." However, it may deduct the actual costs incurred in this process, and such costs should be in the form of a fixed amount.



#### Fourth: Comparison between Murabaha transactions in Islamic banks and financing loans in conventional banks

Area	Murabaha in Islamic Bank	Loan in Usury-Based Bank
Contract	A sale contract, in which profit is permissible	A loan contract involving a usury-based increase
Subject of the Contract	Commodity in exchange of cash	Cash in exchange of cash
Profit	Fixed and not variable	The bank charges the stipulated usury-based increase, and also charges an excess amount for delay in payment of the installments
Title	The bank owns the title to the commodity before it sells it to the customer and then the title is transferred to the customer after sale	The bank does not own the commodity
Security	The bank bears responsibility for the commodity and for its destruction after it buys, and before it sells, it	The bank does not bear responsibility for the commodity or for its destruction
Fees	Administrative fees	Administrative fees



## Topic 3

### Musawama (Bargaining)

#### First: Definition

Musawama (bargaining) is selling the commodity by the bank to the customer after owning it, without being obliged to disclose its original price and the bank's profit. It is the recognized profit known on the markets and among traders, etc. Musawama is governed by all the rules of Murabaha. However, it is different from it because in Musawama the bank is not obliged to disclose the commodity price paid by the bank and its profit, costs and fees, unlike Murabaha, where the bank is obliged to disclose them.

#### Second: Comparison between Murabaha and Musawama sales

Area	Murabaha Sale Contract	Musawama Sale Contract
Contract	Murabaha sale contract	Musawama sale contract
Disclosure of the price of the commodity, purchased by the bank, in the contract	Should be disclosed	It should not be disclosed
Disclosure of the bank's fees and expenses in the contract	Should be disclosed	It should not be disclosed



### **Famous quotes**

Islamic economics is an application of Shari'a rules which prevent injustice in the possession of financial resources and disposal thereof for the sake of satisfaction of individuals and enabling them to fulfill their duties towards Allah and the community. (Hassan Zaman,) awarded Islamic Development Bank's Prize in Islamic Economics.





قسم النساء  
ladies section

رقم التذكرة  
TICKET NO.  
كشك التذاكر  
COUNTER


tellers

7  
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The structural crisis witnessed by the world economy at present is due to the brutal liberal leadership of the economy. The current situation is on the verge of a volcano, which may erupt under the pressure of the double crisis (debts and unemployment). To get out of this crisis and regain balance again, two things should be done: reducing interest rates to near zero and revising tax rates to nearly 2%, which is completely consistent with the annihilation of *riba* and the Zakat rate in the Islamic economic system (Maurice Allais, awarded the Noble Prize in Economics).

## Topic 4

### Tawarruq (Monetization)

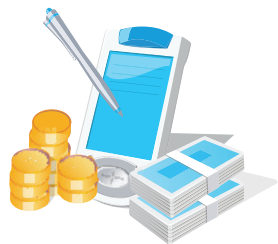
#### First: Definition

Tawarruq: It is the purchase of a commodity for a deferred price, either through Musawama or Murabaha, and then selling it to somebody else to obtain cash against a spot price.

'Ina sale: It is the purchase of a commodity against a spot price and then selling it to the person who sold it, for a lower price.

#### Second: Comparison between Tawarruq and 'Ina

Area	Tawarruq	'Ina
Purpose	Obtaining cash	Obtaining cash
Purchase of commodity and owning it	Purchase and ownership is achieved	Purchase and ownership is achieved
Sale of commodity	To a third party	To whoever sold the commodity
Number of parties to the transaction	3 parties	2 parties
Shari'a rule	Permissible	Impermissible



The Messenger of Allah, peace be upon Him, says,

"When people become stingy with dinars and dirhams, and trade with 'ina [a ruse attempting to bypass riba] and follow the tails of cows, and abandon jihad in the path of Allah, Allah will send down upon them a calamity [in one narration : a humiliation] which He will not lift until they re-examine their religion [in one narration : until you return to your religion]. (Narrated by Ahmed)



### Third: Steps of the prohibited 'Ina Sale

Customer (A) wishes to obtain an amount of BD 5,000, for example. He asks (B), who is a seller, to provide him with this amount. Party (B) consents, but by way of an 'Ina sale, which is conducted as follows:

1. Person (A) sells (B) a car, for example, for BD 5,000.
2. The Person (B) buys the car and pays the amount to the person (A).
3. The Person (B) sells the same car once again to (A) for BD 4,000, which he pays in installments or as a deferred price entirely.

(See illustrative diagram No. (2))

#### No. (2)- Practical Steps of 'Ina Sale



### Fourth: Practical Steps of Simple (Jurisprudence) Tawarruq

It is the Tawarruq which is executed in the retail sector, and was practiced in olden times, and is currently in use. Examples of it are:

A customer wishes to obtain the amount of BD 5,000, for example, and he conducts a Tawarruq transaction through the following procedures:

1. The customer buys a commodity from the seller (1) for the amount of BD 6,000 as a deferred price.
2. The customer sells the commodity to the seller (2) for the amount of BD 5,000 in cash money.

(See illustrative diagram No. (3))

#### No. (3)- Practical Steps of 'Simple (Jurisprudence) Tawarruq



## Topic 4

# Tawarruq (Monetization)

### Fifth: Contemporary Tawarruq

It is the Tawarruq executed in the banking sector by many Islamic banks. It is of two types:

**A) Organized Tawarruq:** The transaction is executed as follows:

A customer wishes to obtain the amount of BD 5,000. The bank consents to provide him with this amount through Tawarruq, as follows:

1. The bank buys a commodity worth BD 5,000 from a trader.
2. The bank sells the commodity to the customer, by way of Murabaha, for the amount of BD 5,500, for example, with the difference being the bank's profit.
3. The customer authorizes the bank to sell the commodity for his account, and then the trader hands over the amount to the customer.
4. The customer pays the amount to the bank in installments.

**Note:** The bank is a party to all contracts

(See illustrative diagram No. (4))

**B) Advanced Tawarruq**

In view of the many shortcomings of the previously mentioned Tawarruq, certain changes have been made to the process in order to avoid suspicions about Shari'a compliance, according to the following example:

A customer wishes to obtain BD 500 from the bank, and so the bank conducts the following Tawarruq transaction:

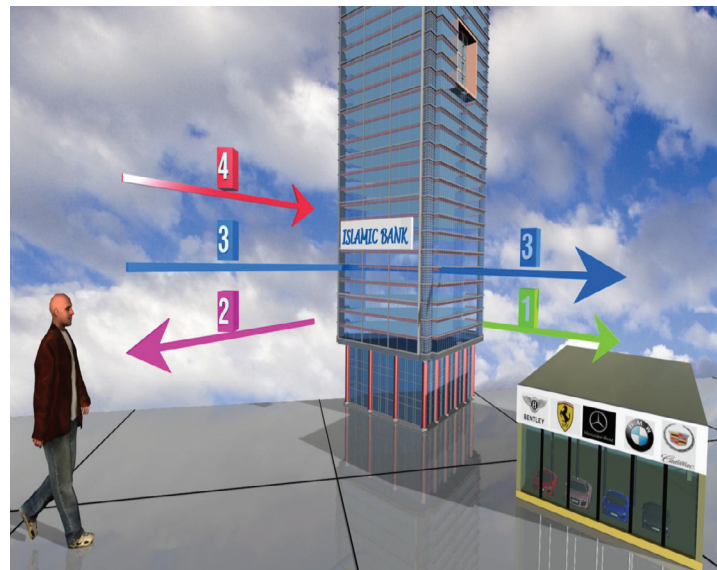
1. The bank buys a commodity from trader (1) through an agent, worth BD 500.
2. The bank sells the commodity to the customer, by way of Murabaha, for an amount of BD 7,000, the difference being the bank's mark-up.
3. The customer sells the commodity to trader (2) through one of two following methods:

**Allah, the Almighty, says,**

"O you who believe! Devour not usury, doubled and multiplied; but fear Allah; that you may really prosper. And fear the fire, which is prepared for those who reject faith, and obey Allah, and the Messenger that you may obtain mercy."

(Surat Al-'Imran –The Family of 'Imran- Verses 130-132)

### No. (4)- Practical Steps of Organized Tawarruq



- Authorizing the same agent to sell the commodity.
  - Receiving the commodity himself and selling it and collecting its price.
4. The customer pays the amount to the bank in installmen  
(See illustrative diagram No. (5))

### C) Tawarruq in International Commodities

It is the Tawarruq that is conducted by the bank to provide liquidity to certain customers (mainly companies). This type of Tawarruq is conducted outside the country, because the size of local commodities is not large enough for the transactions which are worth millions of dinars. This Tawarruq is conducted as follows:

1. The customer applies to obtain a certain amount of money (e.g. BD one million). The bank buys a commodity on the international markets (metals, for example) from trader (1) through an overseas agent worth BD one million.

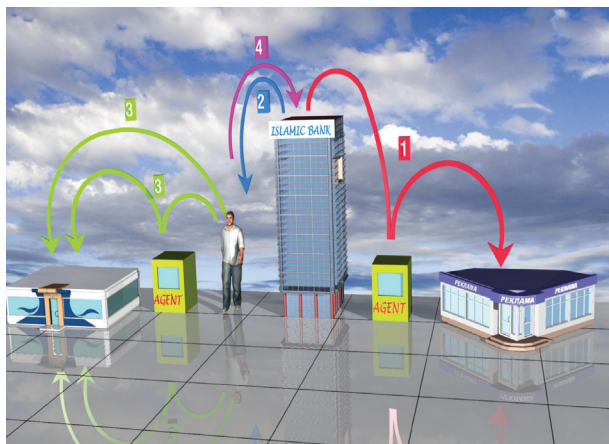
2. The bank sells the commodity to the customer by way of Murabaha, worth BD 1,100,000 (One million one thousand), the difference being the bank's market up.
3. The customer sells the commodity to trader (2) by authorizing an overseas agent (the same agent previously mentioned, or another agent) to do so.
4. The customer pays the amount of the transaction to the bank in installments.

(See illustrative diagram No. (6))

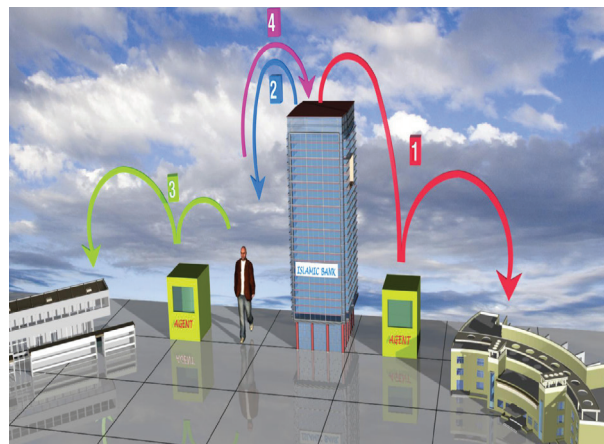
**The Messenger of Allah, peace be upon him, says,**  
**"Do not sell what you do not own."**

" (Narrated by Al Turmuthi)

#### No. (5)- Practical Steps of 'Advanced Tawarruq



#### No. (6)- Practical Steps of Tawarruq in International Commodities



## Topic 4

### Tawarruq (Monetization)

#### Sixth: Differences between various Tawarruq applications

Area	Jurisprudence Tawarruq	Organized Tawarruq	Advanced Tawarruq	Tawarruq in International Commodities
Suspicious about compliance with Shari'a	Free of suspicions	There are suspicions	Free of suspicions	There are suspicions
Place	Local market	Local market	Local market	Overseas market
Type of commodity (mostly)	Any commodity	Diamonds, oil or any other commodity	Diamond, oil or any other commodity	Metals (aluminum, zinc, platinum, copper, etc).
Collecting the commodity	The customer collects the commodity and sells it himself and receives the price	The customer may receive the commodity and sell it himself and receive the price	The customer may receive the commodity and sell it himself and receive the price	The customer may not receive the commodity and sell it
Number of sellers	Two sellers	One seller and sometimes two	Two sellers	Two sellers
Authorization	Not available	The customer authorizes the bank to sell the commodity to trader (2) and pay the price to the customer	The customer authorizes an independent company to sell the commodity on his behalf	The customer authorizes an independent company to sell the commodity on his behalf
Transfer of the commodity and trading in it	Achieved	Not achieved	Achieved	Not achieved



### Do you know?

The origin of the word “bourse” is derived from the name of the Belgian family of Van Der Boursen, which was working in the banking sector. It was agreed that the hotel owned by this family in the city of Bruges would be the venue for a meeting by local traders during a certain period in the 15th century. With the passage of time, the hotel became a symbol of the market and capital and bourse of the commodity. The first publication by it was similar to a list of the prices of the bourse during the entire period of trading for the first time in 1592 in the city of Anvers.

### Seventh: Rules governing Tawarruq

1. Ensuring that the purpose of Tawarruq is not repugnant to the precepts of Islamic Shari’a.
2. The commodity should be:
  - Specified and distinct from other commodities, with an allocated number and price.
  - Ensuring that the commodity is received, either actually or constructively.
  - The commodity should be permissible.
3. Sale of the commodity to other than the seller from whom it was bought through deferred sale (third party) and ensuring that it does not revert to the first trader.
4. There should not be any link between the first purchase price and the second purchase price.
5. The customer should not authorize the bank or its agent to sell the commodity he purchased from it.







I believe that we need more during this crisis to read the Qur'an rather than the Bible in order to understand what is happening to us and to our banks, because if those responsible for our banks tried to respect the teachings and rulings in the Qur'an and implemented them, the crises and disasters which have befallen us would not have taken place, and we would not have reached this miserable situation. (Bovis Vanson, Chief Editor of the Magazine "The Challenger.")





## Topic 5

# Documentary Credit

Allah, the Almighty, says,

"O you who believe!  
Fulfill all obligations.

(Surat Al Ma'idah-The  
Table Spread:- Verse 1)



The Messenger of Allah,  
peace be upon Him, says:

"An honest trader  
who is a man of truth  
will be (on the Day of  
Judgement), with the  
Messenger of Allah,  
truthful and martyrs.

(Narrated by Al Tirmithi).

### First: Definition

The documentary credit is a written undertaking issued by a bank (known as the issuer) on the request of the buyer (the applicant customer or orderer) in favour of the beneficiary or the foreign supplier, whereby the Bank undertakes to pay up to a specified amount within a certain period of time, on the condition that the seller present documents for the goods conforming to the instructions contained in the terms and conditions of the credit.

### Second: Parties to the documentary credit

There are four parties to the documentary credit, namely:

1. The Buyer: The customer who applies to open the credit. The credit is usually in the form of a contract between the customer and the bank opening the credit.
2. The bank opening the credit: It is the local bank to which the buyer submits an application to open the credit, where the bank studies and processes the application.
3. Beneficiary: The exporter which implements the conditions of the credit within its validity period.
4. The correspondent bank: It is the overseas bank which notifies the seller (the beneficiary or the overseas supplier) of the documentary credit received by it from the issuer of the documentary credit.

### Third: Shari'a rules governing documentary credit

#### A) General Rules

1. Dealing in documentary credits involve the following:
  - a) An agency to provide procedural services, mainly examination of the documents.
  - b) Guarantee secured by the bank to the importer. Both are permissible, and so the documentary credit is permissible.
2. The bank may open documentary credits of various types in any form of execution (See Fourth).
3. The bank may not deal in documentary credits if such credits involve goods which are prohibited or involve transactions based on usury, both taking and giving.

## B) Fees and commissions

1. The bank may charge the actual costs incurred in processing documentary credits, and it may also charge fees for the services provided, whether as a lump sum, a fixed amount or as a percentage of the documentary credit. The fees include amendments to the credits, except for amendments by way of increasing the term of the credit, where the bank may not charge except the actual costs only, and in this case it should be a lump sum and not a percentage.
2. A table of fees may be devised for opening credits, with variable amounts according to the amounts of the credit, if the credit includes activities that differ according to the changing value of the credit.
3. No commission may be charged as a parentage in case of confirmation of the credit issued by another bank. In this case, the commission should be limited to a certain amount representing the actual costs incurred in confirmation, because confirmation of the credit is a pure guarantee.

Case	Rule
Credit fees	May be charged
Credit amendment fees	May be charged
Increasing the credit tenor	Actual costs only may be charged, as a fixed amount
Confirmation of the credit	Actual costs only may be charged, as a fixed amount



### Do you know?

The first organized bank was established in the city of Venice in Italy in the year 1157 A.D.

## Topic 5

# Documentary Credit

The Messenger of Allah,  
peace be upon Him, says,

"What Allah has made  
lawful in his Book is  
halal, and what he  
has made unlawful is  
haram, and what he is  
silent on is forgiven.  
Therefore, accept  
forgiveness from Allah,  
because he is not  
forgetful."

(Narrated by Al Hakim).



### Famous quotes

It is anticipated that  
the Islamic finance  
system will rebuild  
the reputation of a  
capitalist system that  
has proved a total  
fiasco. The Islamic  
financial system is  
able to contribute  
to the rebuilding of  
the Western financial  
system  
(Vita E Pensiero).

### Fourth: Types of documentary credit

#### A) Fully- funded documentary credit (cash credit)

##### • Shari'a Rules

1. What is meant by the funded credit is that the amount of the commodity is available with the customer, and hence there is no need for the bank to buy the commodity. In this case, the bank's role is limited to the facilitation of trading and correspondence between the buyer and the seller acting as agent.
2. The bank may charge a fixed fee or commission as a percentage of the amount for the agency, without the guarantee, so that the guarantee is not taken into account when charging the customer such fee.

##### • Steps of the fully funded credit (cash credit) (see illustrative diagram No. (7))

1. The seller (overseas supplier) enters into a contract with the buyer (bank's customer) to export a certain commodity, and the buyer undertakes to pay the price through a documentary credit because there is no relationship between the two parties, particularly because they are in two different places.
2. The buyer requests the bank to open a documentary credit in favour of the seller, specifying the conditions reached between him and the seller.
3. The bank vets the customer's request, and after consent and specifying the terms and conditions, it issues the credit and forwards it to the correspondent bank in the seller's country.
4. The correspondent bank notifies the beneficiary seller of the credit.
5. The seller (beneficiary) hands over the documents and the shipping documents to the correspondent bank, which pays him the price of his commodity after verifying that the documents conform to the terms and conditions of the credit.
6. The correspondent bank sends the documents to the bank with which the credit was opened by the buyer (customer).
7. The issuing bank in the buyer's country hands over the documents to the customer against payment, as agreed between them.
8. The seller (beneficiary) hands over the commodity to the customer using any means of shipment (air, vessel, truck, etc) as well as the shipping documents.
9. The customer hands over the documents to the agent of the shipping company at the port of arrival, who in turn hands over to him the commodity. The issuing bank and the correspondent bank arrange payment between them, so that the transaction is completed.



### B) Non-funded documentary credit (Murabaha credit)

It is the documentary credit under which the customer does not own the amount of the commodity, and so he seeks finance from the bank. This documentary credit is implemented by Islamic banks by way of Murabaha.

- **Shari'a rules governing non-funded documentary credit (Murabaha)**

The documentary credit by way of Murabaha is implemented when the bank buys the commodity in its name and for its own account from the overseas supplier upon the customer's request, with a promise from the latter to buy the commodity later from the bank. The bank bears the risk of the destruction of the commodity in transit before it is delivered, and when it arrives, the bank sells it to the customer by way of Murabaha.

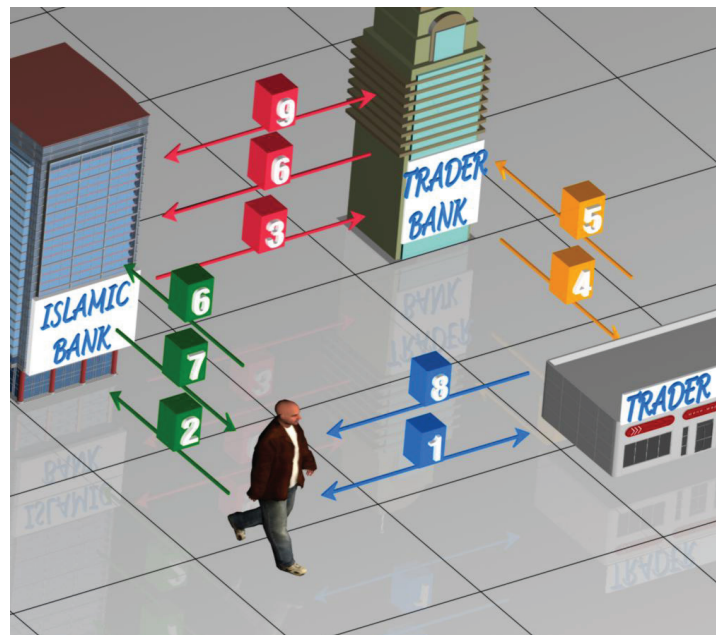
Under Murabaha credit, certain requirements should be fulfilled in order for it to be Shari'a-compliant, including the following:

1. If the seller and the buyer conclude the contract before opening the credit, the contract between the buying customer and the seller should be cancelled, and a new contract concluded between the bank and the overseas seller. If the orderer receives the commodity subject of the contract, no documentary credit may be opened for this commodity.
2. The bank should be the buyer from the beneficiary (seller), after which it sells the commodity to the buying customer by way of Murabaha.
3. The buying customer should apply for funding from the bank by way of Murabaha before the bank opens the documentary credit in its name and before it concludes the original sale contract with the beneficiary (seller).

### Do you know?

A study conducted by the Islamic Development Bank predicted that 80% of banks in the Arabian Gulf region will convert into the Islamic financial banking system by the year 2015.

### No. 7- Practical Steps of the Funded Documentary Credit (Cash)



## Topic 5

# Documentary Credit



"The Messenger of Allah said:

'The two parties to a transaction have the choice so long as they have not separated. If they are honest and open, their transaction will be blessed, but if they tell lies and conceal anything, the blessing of their transaction will be lost.'

(Narrated by Al Bukhari).

4. The contract to buy the commodity from the seller should be concluded with the bank itself; the credit should also be opened in the bank's name, because it is the buyer from the seller, and not the customer.
  5. The Murabaha contract should be concluded between the bank and the buying customer after the commodity arrives and the bank receives the documents.
  6. The bank may not ask the buying customer to pay a commission for opening the credit in the case of Murabaha-funded credit, because the bank opens the credit in its favour as buyer of the commodity. However, the bank may add the actual costs related to opening the credit to the overall expenses; it may also charge the buyer a commission for opening the credit by including it in the costs if the credit is opened with another bank.
- **Steps of Murabaha-funded documentary credit** (see illustrative diagram No. (8))
1. The buyer (overseas supplier) agrees initially with the buyer (bank's customer) to export a certain commodity.
  2. The buyer asks the bank in writing to open a documentary credit in the bank's name to buy the commodity agreed upon with the seller, specifying the conditions on which the customer agreed with this seller. The customer promises the bank to buy the commodity when it arrives. On this basis, the bank contacts the seller to conclude a transaction to import the commodity and own it.
  3. The bank vets the customer's request, and after it consents to the customer's request, it specifies the terms and conditions and issues the documentary credit and sends it to the correspondent bank in the seller's country, in addition to a statement by the bank of its purchase of the commodity.
  4. The correspondent bank notifies the beneficiary seller of the credit opened in the name of the bank opening the credit.
  5. The seller sends the commodity to the bank by using any means of shipment (air, vessel, truck, etc.) together with the shipping documents (bill of lading).
  6. The seller (beneficiary) hands over the shipping documents to the correspondent bank which pays him the price of its commodity after verifying the documents and ensuring that they conform to the credit terms and conditions (the documents should be addressed to the bank opening the credit).
  7. The correspondent bank sends the documents to the bank opening the credit.
  8. The issuing bank hands over the documents to the buyer in the buyer's country.
  9. The buyer notifies the bank in writing of its receipt of the commodity conforming to the specifications and free of any defects. The bank sells the commodity to the buying customer by way of Murabaha.



**The Messenger of Allah, peace be upon Him, says,**

"No one has ever eaten any food that is better than eating what his hands have earned. And indeed the Messenger of Allah, Dawood, would eat from the earnings of his hands."  
( Narrated by Al Bukhari).

## Topic 5

# Documentary Credit

10. The correspondent bank pays the price to the trader.
11. The customer pays the installments due from him.

### C) Partially-funded documentary credit

It is the credit whereby the customer pays part of the price of the commodity. It is implemented in two methods:

#### 1) Musharaka credit

A Musharaka credit is targeted at customers who need assets and equipment to use in their existing activities and projects, but they do not have sufficient resources to import them. In this case, the customer pays part of the amount of the credit, while the bank pays the remaining balance.

- A Musharaka credit is implemented in accordance with the following requirements:
- The customer should apply for funding from the bank by way of Musharaka credit before he concludes the original sale contract with the exporting seller.
- A contract may be concluded to buy the commodity from the seller as well as opening the credit in the name of any of the two parties, because the two partners under a Musharaka contract may contribute work in addition to providing a share in the capital, contrary to Mudaraba in which the Mudarib provides the work.
- The subject-matter of Musharaka between the two parties is specified, and this can be done in two methods:
  - First: Leasing Method: The bank leases its share of the goods unto the customer.

### Do you no:

There are more than 50 professional colleges and institution offering specialized education in Islamic finance.

#### No. 8- Practical Steps of the Funded Documentary Credit (Murabaha)







### Famous quotes

The responsibility for the extraordinary situation in the global economy we are living today is a result of the rampant corruption and the speculation wreaking the market, which led to the aggravating economic effects. The balance on the financial markets can be achieved thanks to Islamic finance after the destruction of the Western classification which likens Islamic economics with terrorism (Lorreta Napoleoni, Italian economist and researcher, in her book "Rogue Economics.")

- Second: Sale Method: The bank sells its share in the goods to the customer on a gradual basis, until the customer owns the goods entirely, after which the Musharaka is liquidated. However, the bank may sell the goods in one lot, and the customer pays the price in installments.
- The Bank may charge a commission for opening the credit under the Musharaka-funded documentary credit, and such commission may be deducted from the Musharaka expenses as acts and work outside the scope of the contract concluded between the two parties.
- If the equipment is lost before the bank sells its entire share to a partner, such loss shall be divided between the two parties according to the percentage of the respective shareholdings of the two parties.

### 2) Mudaraba Credit

- The application of Mudaraba credit is negligible by Islamic banks. This type of credit is suitable in particular to the finance of customers who are able to work and carry out transactions without having the necessary capital or resources.
- This method is summed up in that the bank provides the capital necessary to buy commodities subject of the Mudaraba. The customer markets the commodities and the profit is distributed between the two parties in the percentages agreed upon, and under this method the customer does not need to provide any cash funding to the documentary credit to be opened for importing the commodities as in the case with the Murabaha-funded credit.
- Under the Mudaraba credit, the following requirements must be complied with:
- The customer should apply for funding from the bank by way of Mudaraba credit before he concludes the original sale contract with the exporting seller.
- The contract to buy the commodity from the seller must be concluded with the customer himself, in his capacity as Mudarib, who enjoys full powers to manage the Mudaraba funds. In this case, the credit is opened in the name of the customer himself, unlike the Murabaha credit whereby the credit should be opened in the bank's name.
- The profit resultant from this Mudaraba-funded transaction is distributed as agreed upon between the two parties in accordance with a common percentage. Loss shall be borne by the bank entirely, because it is the fund provider.
- The Bank may charge a commission for opening the credit in the Mudaraba documentary credit, and such commission may be deducted from the Mudaraba expenses as acts and work outside the scope of the contract concluded between the two parties.


## Topic 5

# Documentary Credit

### Fifth: Comparison between types of documentary credit

Scope	Usury-Based Credit	Cash Credit	Murabaha Credit	Mudaraba Credit	Musharaka Credit
Reasons for funding	Overseas goods	Application for correspondence only, where the amount is available with the customer	Application for the bank to buy the commodity and sell it by way of Murabaha to the orderer because the customer does not have the required liquidity	The customer has the ability to work, but without any available capital	The customer has part of the capital
Contract	Agency if it is funded and a loan contract if it is not funded	Service contract	Murabaha contract	Mudaraba contract	Musharaka contract
Bank's ownership	Does not own	Does not own	Should own	Does not own	Does not own
Prior contracting	Permissible	Permissible	Impermissible	Impermissible	Permissible
Credit Opener	Customer	Customer	Bank	Customer	Either party
Fees	Certain administrative fees in the funded capital and interest in the non-funded and partially funded credit	Fees are charged on the agency and services	No fees. However, they may be added to the cost	Fees are charged on the agency	Fees are charged on the agency

Scope	Usury-Based Credit	Cash Credit	Murabaha Credit	Mudaraba Credit	Musharaka Credit
Applicable rules	International rules	International rules	International rules+Murabaha rules	International rules + Mudaraba rules	International Rules +Musharaka rules
Bank's profit	Profit on the usury-based loan	No profit	Murabaha profit only	The bank is entitled to the profit as fund provider	The bank is entitled to the profit as participant in the project or the goods
Documents "bill of landing, insurance and invoices"	In the customer's name	In the customer's name	In the bank's name	In the customer's name	In the name of either party
Destruction of the commodity	The customer bears this risk	The customer bears this risk	The bank bears this risk	The bank bears the risk, except in cases of trespass, negligence or violation of the terms and conditions, in which case the customer bears the risk	The two parties bear the risk of destruction each pro rata its share

A photograph of a modern city skyline, likely Dubai, featuring a prominent, uniquely shaped skyscraper (the Burj Khalifa) with a distinctive, tapering, and slightly twisted design. The building is covered in a blue and white geometric pattern. Other modern buildings are visible in the background. In the foreground, a traditional wooden boat (a dhow) is sailing on the water. The sky is clear and blue.

Ethical instructions which are the centre of focus by Islamic finance may bring banks closer to their customers more than at any time before. In addition, such principles may make these banks have the actual spirit which is supposed to exist with every institution providing financial services. Vatican Journal (L'Osservatore Roman).





## Topic 6

# Collection Bills

### First: Definition

Collection bills are Murabaha-based sales of goods offered to the bank or those shipped in its favour, without a prior request from it, whereby the bank has the option to accept or refuse the goods received in its favour, with full freedom to sell them to any customer it deems suitable, but without the obligation to sell them to a certain customer.

### Second: Steps of collection bills

Collection bills are of two types:

**A) Fully-funded collection bills:** They are the bills in which the customer owns the entire amount of the goods, and the steps of which are as follows: (see illustrative diagram No. (9))

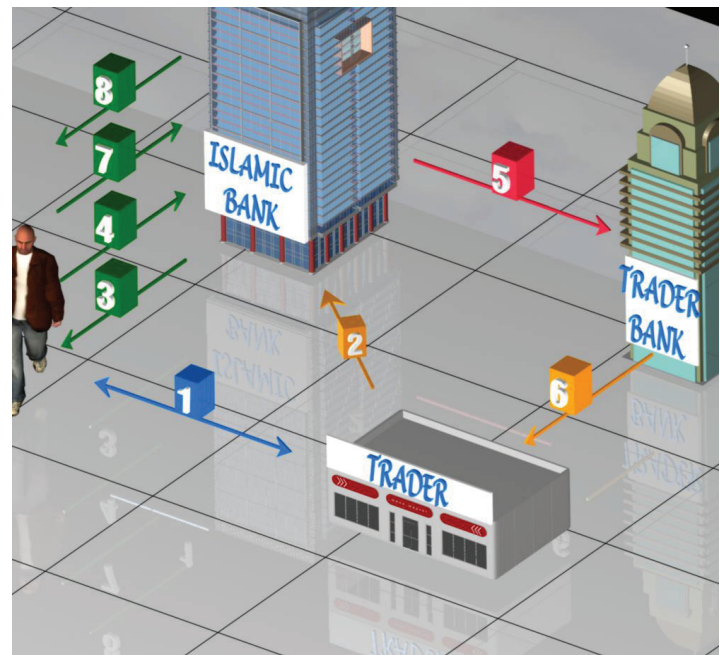
1. The seller (overseas supplier) enters into a contract with the buyer (bank's customer) to export a certain commodity, and the customer undertakes to pay the price. Both parties agree on the shipment and insurance mechanism, etc.
2. The supplier sends the documents of the goods to the bank without its knowledge, and the bank has the option to accept or turn down the documents.
3. Upon consent, the bank notifies the customer of the arrival of the documents.
4. The customer agrees to the documents sent to him containing the details of the goods.
5. The correspondent bank is notified of the need to advise the exporter of the correspondent bank's consent, and the bank pays the amount of the goods to the correspondent bank.
6. The correspondent bank notifies the importer of its acceptance, and the bank is accordingly paid the amount.
7. The customer pays the full amount of the goods to the bank.
8. The bank charges the customer fees or commissions.

### Allah says:

That which you give in usury so that it increases in other people's wealth, will not increase with Allah; but the charity you give desiring the Face of Allah, to those, they shall be recompensed many times over.

(Surat Al-Rome- Verse 39)

### No. (9)- Practical steps of fully-funded collection bills



### B) Non-funded collection bills (Murabaha collection bill)

It is the collection bill under which the customer does not own the full amount of the goods, and it is implemented by way of Murabaha through the following steps (see illustrative diagram No. (10))

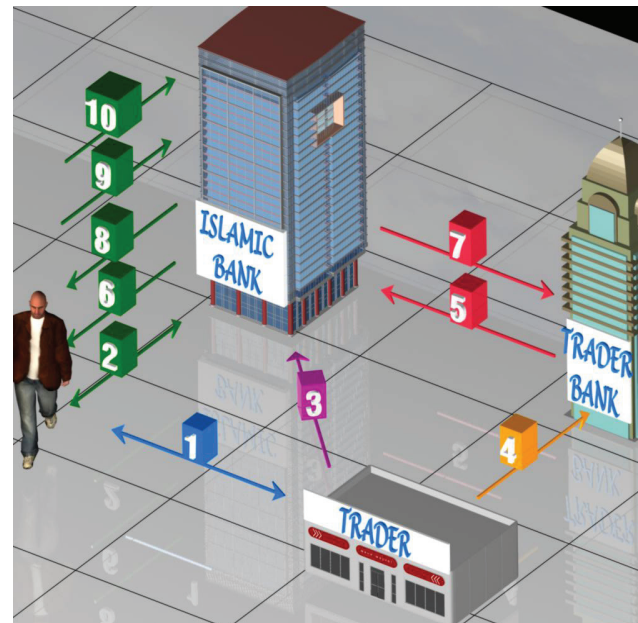
1. The seller (overseas supplier) enters into an initial agreement with the buyer (bank's customer) to export a certain commodity.
2. The buying customer notifies the bank of the Murabaha request, and the bank signs an agency contract in which it authorizes the customer to order the commodity on the bank's behalf. The customer signs a written order for the goods, containing the details agreed upon with the overseas exporter. The customer also signs a promise to purchase the commodity after the bank buys it.
3. The exporter ships the goods to the bank using any means of transport (air, vessel, truck, etc.)
4. The overseas exporter sends the documents of the goods (invoices and insurance policy, etc.) in the bank's name through the correspondent bank.
5. The correspondent bank notifies the bank.
6. The bank notifies the buying customer of the arrival of the documents, and the customer accepts them.
7. After the customer's acceptance of the details of the goods, the bank sends an advice to the correspondent bank of its acceptance to buy the goods from the exporter, and the price is paid and the commodity bought.
8. The bank sells the commodity to the buying customer by way of Murabaha.
9. When the goods arrive, the customer notifies the bank, in writing, of his receipt of the goods and that they are free of any defects.
10. The customer pays the installments due from him.

**The Messenger of Allah, peace be upon Him, says,**

“He who monopolizes a food for forty nights has nothing to do with Almighty Allah, and Almighty Allah has nothing to do with him.

(Narrated by Ahmed)

No. (10)- Practical steps of non-funded collection bill (Murabaha collection bill)





## Topic 6

### Collection Bills

#### Third: Differences between the Murabaha-based documentary credit and the Murabaha-based collection bills

Scope	Murabaha-Based Documentary Credit	Murabaha-Based Collection Bills
Mechanism	An agreement is signed for the goods between the bank, the exporter and the customer	An agreement is signed for the goods between the exporter and the customer
Order of the Goods	By the bank	Without the bank's request
Status in Shari'a	Remunerated agency + guarantee	Remunerated agency + guarantee
Bank's sale of the goods	The bank is committed to sell the goods to the customer	The goods may be sold to any customer
Authorization	There is no stipulation to authorize the customer in agreement with the supplier	It is stipulated that the customer should be authorized in agreement with the exporter
Documents (bills of lading, insurance and invoices)	In the bank's name	In the bank's name
Contract	Murabaha contract	Murabaha contract
Bank's ownership of the goods	It must own them	It must own them
Guarantee of the commodity	It is borne by the bank	It is borne by the bank
Fee	Fixed fee or commission	Fixed fee or commission



## Do you know?

Six out of the ten companions of the Messenger of Allah promised Paradise are counted among millionaires, and that Abdul Rahman Bin Awf (may Allah be pleased with Him), inherited nearly 65 million gold dinars.



## Topic 7

# Ijarah with the Promise to Sell and Forward Ijarah

### First: Definitions

1. **Ijarah:** It is the sale of a specific benefit for a specified period of time.
2. **Ijarah Muntahia Bittamleek:** It is an Ijarah which is coupled with the promise to transfer the ownership of the leased property to the lessee (customer), either at the end of the term of the Ijarah or by stages during the term of the contract. In other words, the lessor (bank) promises the lessee (customer) to transfer the ownership of the commodity or leased property at the end of the term of the Ijarah or during any period agreed upon. On the other hand, the lessee (customer) promises the lessor (bank) to own the commodity or property at the end of the term of the Ijarah or during any period agreed upon.
3. **Specified Ijarah:** It is the forward Ijarah, i.e. the lessor (bank) is obliged to hand over a described property very clearly and specifically to the lessee (customer) during a specific period of time.

### Second: Steps of Ijarah Muntahia Bittamleek or Described Ijarah (Forward Ijarah)

- A) Ijarah Muntahia Bittamleek: It has two cases
1. **Ijarah between two parties:** In other words, the property or the leased asset is owned by the same customer wishing to obtain finance and to conduct an Ijarah process involving his property. Under this type of Ijarah, the customer wishes to obtain financial liquidity for various purposes, such as purchase of a certain land or to construct a building or to pay off debts, etc. In such cases, when the bank buys the leased property, it pays its value in cash to the customer, and the customer benefits from the amount for his own purposes. The bank then leases the property unto the customer, according to the following example: (See illustrative diagram No. (11))

Allah, the Almighty, says  
 "...Surely, you could have charged  
 some fee for it."

(Al khahaf-77)

### No. (11)- Practical Steps of Ijarah with the Promise to Own (Two Parties)



A customer has applied to the bank to obtain BD 100,000 (Bahrain Dinars one hundred thousand) to pay off his debts. The customer owns a property worth BD 100,000 (Bahrain Dinars one hundred thousand), more or less. The process is carried out as follows:

1. The bank buys the property from the customer for BD 100,000 and pays the amount in cash to him, and the customer utilizes the amount for his own purposes.
  2. The bank leases the property unto him by way of Ijarah with the promise to own.
  3. At the end of the period, the bank sells the property to him or donates it to him.
2. Ijarah between three parties: Under this type of Ijarah, the property or the leased asset which the customer wishes to own is owned by a third party, and the customer wishes to acquire the property or the leased asset. The process is carried out as follows:

(See illustrative diagram No. (12))

1. The bank acquires the leased asset by buying it from its original owner.
2. The bank leases the asset unto the customer wishing to own by way of Ijarah with the promise to own.
3. At the end of the period, a sale contract or a donation contract is concluded whereby the bank transfers the title to the asset to the customer.

The Messenger of Allah, peace be upon Him, says,

“Pay the worker for his work before his sweat gets dry.”

( Narrated by Ibn Majah).

#### No. (12)- Practical Steps of Ijarah with the Promise to Own (Three Parties)



## Topic 7

# Ijarah with the Promise to Sell and Forward Ijarah

### B) Described Ijarah (Forward Ijarah)

This Ijarah is implemented as follows:

(See illustrative diagram No. (13))

1. A described (forward) Ijarah contract is concluded between the bank, as lessor, and the customer, as lessee, whereby the bank undertakes to hand over to the customer the property or leased asset agreed upon according to certain specifications and the agreed upon term and amounts (on account) received during this period. The bank also agrees with a contractor to make the property or lease ready for use.
2. An Ijarah contract with a promise to own is concluded after the property or asset agreed upon is made available and ready for use, and the bank becomes entitled to the actual rent.
3. At the end of the lease period, a sale or donation contract is concluded by the bank to transfer the title to the lessee.

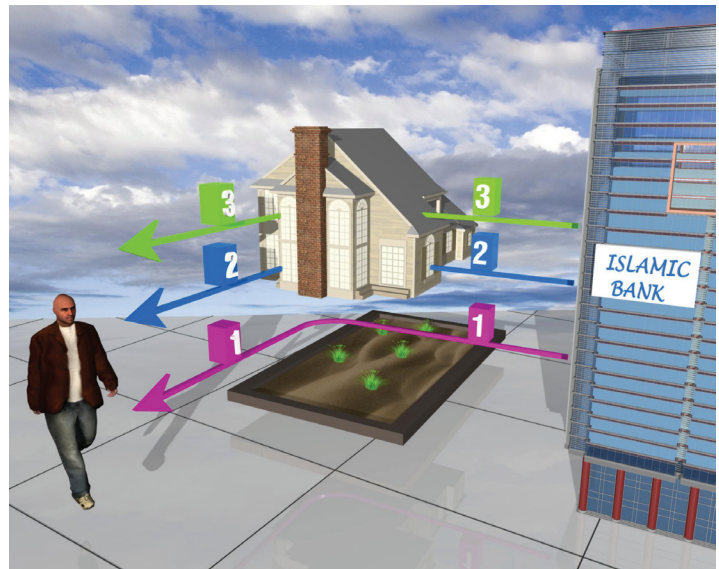


### Famous quotes

There are many reasons behind the success of Islamic banks in minimizing the losses during the global financial crisis, mainly compliance by Islamic banks with the principles of Islamic Shari'a which prohibit usury and do not rely on bank loans

(The Russian RBK Daily) newspaper.

### No. (13)- Practical Steps of Described Ijarah (Forward Ijarah)





### Third: Comparison between the three types of Ijarah

Scope	Ijarah with the promise to own (two parties)	Ijarah with the promise to own (three parties)	Described (Forward) Ijarah
Purpose	Obtaining liquidity (cash)	Acquiring house or property	Acquiring house or property
Subject of the contract	Readily available land or property or anything suitable for lease	Readily available land or property or anything suitable for lease	Unspecified land or property not ready or anything that can be obtained from the market
Bank's ownership	Required	Required	Not required on signing the contract
Ijarah Term	Should be more than one year	Unlimited	Unlimited
Rent	Begins to accrue immediately after the Ijarah contract	Begins to accrue immediately after the Ijarah contract	It is permissible to take it before the described thing is made ready and after the Ijarah contract with the promise to own is concluded. However, rent may be taken on account
Transfer of title	Transferred to the customer at the end or after the expiry of at least one year	Transferred to the customer at the end of the contract or at any time before that	Transferred to the customer at the end of the contract or at any time before that
Major maintenance	Borne by the bank	Borne by the bank	Borne by the bank
Periodical maintenance	Borne by the customer	Borne by the customer	Borne by the customer after the asset is made ready
Insurance	Borne by the bank	Borne by the bank	Borne by the bank
Guarantee of the asset	Borne by the bank except in case of trespass or negligence or when the customer violates the conditions	Borne by the bank except in case of trespass or negligence or when the customer violates the conditions	Borne by the bank except in case of trespass or negligence or when the customer violates the conditions
Payment of the rental in advance	Not required	Not required	Not required to be expedited so long as the lease is not executed according to the contract of Salam
Destruction of asset	Ijarah terminates	Ijarah terminates	Ijarah does not terminate, and the bank is obliged to provide another asset

## Topic 7

# Ijarah with the Promise to Sell and Forward Ijarah



Allah says:

Whoever hopes for the tillage of the Everlasting Life, We will increase his tillage; and whoever hopes for the tillage of this world, We give him some of it, but in the Everlasting Life he shall have no share.

((Surat Al-Shura-20))

The Messenger of Allah, peace be upon Him, says,


"The feet of a servant will not move on the Day of Judgment until he has been questioned about four things): his life - how he spent it, his knowledge - how he acted upon it, his wealth - where he earned it and how he spent it, and his body - how he used it."

(Narrated by Al Tirmithi).

### Fourth: Shari'a rules governing Ijarah

#### A) General rules

1. In principle, the Ijarah contract is executed for an asset owned by the lessor (the bank). However, it is for a customer to request the bank to acquire an asset and then leases it unto him and ultimately transfers it to him.
2. It is permissible for the bank to require the lessee customer to pay a sum of money to the bank to guarantee the customer's commitment to accepting a lease on the asset and the subsequent obligation, provided that no amount is to be deducted from this sum except in proportion to the actual damage suffered by the bank if the customer breaches his promise. It is permissible to agree with the customer, upon the execution of the contract of lease, that this amount shall be treated as an advance payment of the installments of the lease rental.
3. The asset or usufruct may not be leased out before it is owned by the bank.
4. If the bank buys the asset from the lessee and then leases it unto him (as in Ijarah between two parties), a certain period of time should elapse during which the leased asset or its value changes. This period is estimated at one year at least, in order to avoid the 'ina sale.
5. The lessee customer may enter into a sub-lease contract with any party other than the owner for a rental unless the bank stipulates that the lessee should not assign or sublet the property to third parties, or should not do so without its approval.
6. The customer may jointly acquire an asset that he wished to lease with the bank, and then takes on lease the bank's share of the asset from the bank. In this case, the lessee is a co-owner of the asset and therefore has to pay rent only on the share that he does not own.
7. The duration of an Ijarah contract must be specified in the contract. The period of the Ijarah should commence on the date of execution of the contract, unless the two parties agree on a specified future commencement date.
8. If the bank signs an Ijarah contract for a particular asset for a specified period of time, it cannot sign another Ijarah contract with another lessee for the duration of the existing Ijarah period or for any remaining period thereof.
9. The leased asset should fulfill the following conditions:
  - It must be capable of being used while preserving the asset.
  - The benefit from an Ijarah must be lawful in Shari'a.
  - The bank must accept responsibility for any defects of the leased asset which impair the intended use of the asset, and may not exclude its liability for any impairment that the leased asset may sustain which affects the benefits intended to be available under the Ijarah contract.
10. The major maintenance must be borne by the lessor, while the periodical (ordinary) maintenance must be borne by the lessee.



## Do you know?

The assets of Islamic banks in the GCC countries amounted to \$ 314 billion by the end of 2011, and this represents around 19% of the total assets of Gulf banks which stand about \$ 2 trillion.

Saudi Arabia leads the GCC in terms of its Islamic financial market, with \$ 92 worth of assets, followed by the UAE with \$ 80 billion, then Kuwait with around \$ 70 billion, Bahrain with \$ 38 billion and finally Qatar with \$ 35 billion in assets.

## Topic 7

# Ijarah with the Promise to Sell and Forward Ijarah



The Messenger of Allah, peace be upon Him, says, "Allah is pure and accepts nothing but what is pure. Indeed, Allah commands the believers with what He commands the Messengers and says: 'O Messengers! Eat of the things good and pure and work righteous deeds and says: 'O you who believe! Eat of the things good and pure that We have provided for you.' Then he mentioned a man who had traveled on a long journey, his hair disheveled and discolored with dust. "He will raise his hands to the sky saying 'O Lord! O Lord!' but his food is unlawful, his drink is unlawful, and his clothing is unlawful. How then can he be answered?" (Narrated by Muslim)

11. The leased asset is the responsibility of the lessor throughout the duration of the Ijarah, unless the lessee commits misconduct or negligence.
12. The lessor may take out insurance on the asset by way of lawful insurance, as much as possible, and insurance costs shall be borne by the lessor. The lessor may take this into consideration when fixing the rental.
13. The bank may not acquire a leased property and lease it once again, since there is no benefit from it. The first lease contract should be terminated before entering into a new Ijarah, or the Ijarah may be added to the future in order to commence after the termination of the old Ijarah contracts.
14. The bank may acquire a land and lease it unto the customer if it is possible to utilize such land.

### B) Rules of Ijarah

1. The lease rental must be specified.
2. The lease rental may be in cash, in kind (goods) or benefit (service).
3. The lease rental may be for a fixed or variable amount, according to whatever designated method the two parties agree upon.
4. In case of the rental is subject to changes (floating rental), it is necessary that the amount of the rental of the first period of the Ijarah contract be specified. It is then permissible that the rental for subsequent periods be determined according to a certain benchmark. Such benchmark must be based on a clear formula which is not subject to dispute, (such as LIBOR and BIBOR), which is the benchmark for market prices.
5. The two parties may agree to amend the rentals of future periods, i.e. the periods for which the lessee has not yet received any benefit. The rentals of any previous periods which have not yet been paid cannot be increased.
6. No increase in the rental due may be stipulated by the lessor in case of delay in payment by the lessee. It may be provided in the contract of Ijarah that a lessee who delays payment for no good reason undertakes to donate a certain amount or percentage of the rental due in case of late payment, and such donation should be paid to charitable causes.
7. If the lessee stops using the leased asset or returns to the owner without the owner's consent, the rental still continues to be due in respect of the remaining period of the Ijarah, and the lessor may not lease the property to the another lessee for this period, but must keep it at the disposal of the current lessee.





The Messenger of Allah, peace be upon Him, says, "Who cheats us is not one of us."  
(Narrated by Muslim)

The Messenger of Allah, peace be upon Him, says, "He who gives respite to someone who is in straightened circumstances, or grants him remission, Allah will shelter him in the shade of His Throne, on the day of Resurrection, when there will be no shade except its shade."  
(Narrated by Al Tirmithi).

### C) Termination and expiry of the Ijarah contract

1. It is permissible to terminate the lease contract by mutual consent.
2. An Ijarah contract does not terminate with the death of either party thereto. However, the heirs of the lessee may terminate the Ijarah contract if they can prove that they cannot afford to pay the rental.
3. An Ijarah contract expires with the total destruction of the leased asset in the case of leasing a specific asset or with the inability to enjoy the usufruct owing to the loss of the benefit that the asset was intended to provide. However, an Ijarah contract does not expire with the total destruction of the leased asset in the case of leasing a described Ijarah (forward Ijarah), and in this case the lessor is obliged to provide an alternative asset fulfilling the same conditions.
4. The two parties may agree to terminate the Ijarah contract before it begins to run.
5. The lease expires upon the expiry of its term.

### D) Rules governing Ijarah Muntahia Bittamleek

1. In Ijarah Muntahia Bittamleek, the method of transferring the title to the leased asset to the lessee must be evidenced in a document separate from the Ijarah contract document, using one of the following methods:
  - By means of a promise to sell for a token or other consideration.
  - Accelerating the payment of the remaining amount of rental (settlement).
  - A promise to give it as a gift.
  - A promise to give it as a gift, contingent upon the payment of the remaining installments.
2. A promise to transfer the ownership is a binding promise by the lessor. However, a binding promise is binding on one party only, while the other party must have the option not to proceed. This is to avoid a bilateral promise by the two parties which is prohibited on Shari'a because it amounts in essence to a contract.
3. Transfer of the ownership of the leased property cannot be made by executing, along with the Ijarah, a sale contract that will become effective on a future date.

### E) Rules governing Described (Forward) Ijarah

1. Ijarah may be concluded for an a described (forward) Ijarah in an accurate way, whereby the lessee customer asks the bank to prepare and make ready a specified asset or a certain property and lease it after it becomes available and ready.
2. The bank may make ready the asset or property even if it is not owned by it (where an agreement is concluded to hand over the described (forward) asset during the period of the contract).

## Topic 7

### Ijarah with the Promise to Sell and Forward Ijarah

3. 3. It is not a requirement of the described (forward) Ijarah that the rental should be paid in advance as long as the lease is not executed according to the contract of Salam (or Salaf).
4. 4. If the lessor delivers something other than what has been described, the lessee may reject it and demand something fulfilling the specifications, or rescind the contract.
5. 5. The described (forward) Ijarah does not terminate with the destruction of the asset, and the lessor should provide another asset conforming to the specifications. This is unlike the ordinary Ijarah contract.
6. 6. The bank may not charge the rental for the asset or property before enabling the lessee to benefit from the leased asset. The bank may collect from the lessee a rental on account or a rental added to the future. It may be agreed that the rental paid on account should be a rental for the first period of the Ijarah contract.

#### 7. Fifth: Comparison between Murabaha and Ijarah

Situation	Murabaha	Ijarah
Purpose	Expeditious acquisition	Gradual expedition
Status in Shari'a	Transfer of title	Sale of benefit
Bank's ownership	Required	Required
Bank's guarantee	Guarantee terminates on sale	Guarantee is not transferred except after the expiry of the lease
Insurance of the property	By the bank	By the bank
Changes to the rental	Impermissible after the contract is concluded	May be made for subsequent periods
Specification of the original price of the sold or leased property and the fees	Binding	Not binding
Increasing the rent due to delay in payment	Impermissible. However, an amount may be paid for charities	Impermissible. However, an amount may be paid for charities
Stipulation for non-acceptance of responsibility for defects	Permissible	Impermissible

## Do you know?

By the end of the year 2011, there were 363 full fledged financial institutions operating in accordance with the Islamic financial system. In addition to this, 108 conventional financial institutions have opened Islamic windows.



## Topic 8

# Istisna'a and Parallel Istisna'a

### First: Definition

1. **Istisna'a**: It is an order to manufacture something. It is a sale between the mustasni' (ultimate purchaser or buyer ordering the manufacture and the sani' (manufacturer). The bank manufactures a described commodity, on the request of the customer, and delivers it within the appointed time provided that the cost of the labour is paid by the manufacturer (bank) against the price they agree upon and paid promptly or later.
2. **Parallel Istisna'a**: It is a contract whereby the bank concludes a parallel Istisna' contract between it and the manufacturer (contractor, trader, etc) in order to manufacture a described commodity to carry out the first Istisna' contract concluded between the bank and the customer. It is stipulated that the two contracts should remain separate from other in the clauses.

### Second: Steps of Istisna' and Parallel Istisna'

To know the steps of Istisna' and Parallel Istisna', we give the following example:

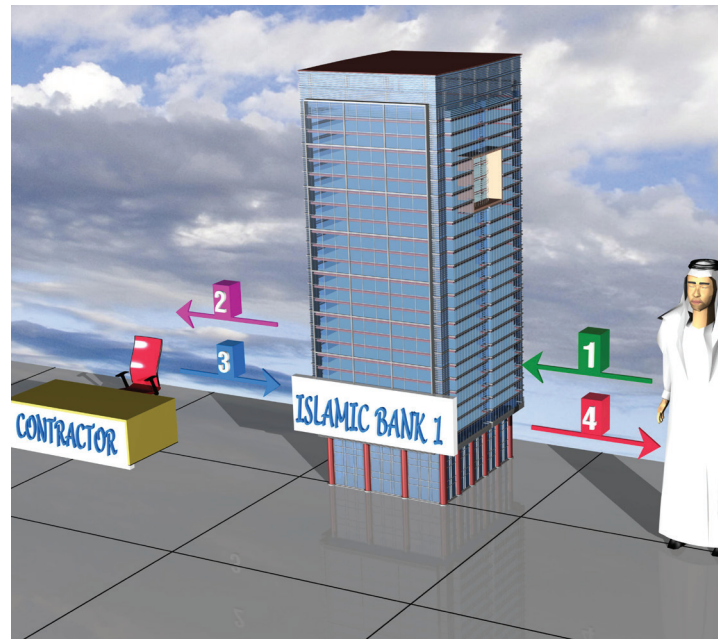
1. The customer applies to the bank to construct a building worth BD 200,000 (Bahrain Dinars two hundred thousand). The bank signs an Istisna' contract with the customer to construct the building against the price of BD 250,000 (Bahrain Dinars two hundred and fifty). The difference represents the bank's profit in the transaction.
2. The bank signs a Parallel Istisna' contract with the manufacturer (builder) for the amount of BD 200,000 (Bahrain Dinars two hundred thousand).
3. After the building is completed, the contractor hands it over to the bank.
4. The bank hands over the building to the customer, and the bank is paid the installments of the transaction as agreed (see illustrative diagram No. (17))

Hadith:

The Messenger of Allah, peace be upon him, manufactured a ring and a pulpit.

(Narrated by Al Bukhari)

### No. (14)- Practical steps of Istisna' and Parallel Istisna'





### Third: Shari'a rulings

#### A) General Rulings

1. It is not stipulated that the bank should own the Istisna' materials before signing the Istisna' contract with the customer.
2. The Istisna' contract is binding upon the two parties, and it may not be terminated except with their mutual agreement.
3. The manufactured thing should fulfill the following conditions:
  - Its type, kind, quantity and specifications required should be determined.
  - The price of the subject matter of Istisna' should be known.
  - Time of delivery of the subject matter of Istisna' should be specified.
4. If the subject matter of the Istisna' contract is contrary to the specifications, the customer ordering the manufacture is not obliged to take it over without its consent.
5. It is not permitted for the manufacturer to stipulate in the contract of Istisna' that he is not liable for defects.
6. It is not permissible for the customer ordering the manufacture to be the manufacturing contractor.
7. The bank may not increase the price for the customer when he delays payment, but it may oblige him to pay a penalty to charitable causes.
8. The bank may oblige itself to pay a compensation amount when it delays the delivery of the commodity to the customer. It is also permissible for it to stipulate that compensation should be paid by the manufacturing contractor when he is late in delivery of the commodity. Such compensation is for the delay in handing over the manufactured commodity and not for the payment of cash.

#### B) Rulings relating to Al-Masnoo'

1. An Istisna' contract is permitted only for raw materials that can be transformed from their natural stage by a manufacturing or construction process involving labour, such as construction of building or design of a kitchen or furniture which is not manufactured, etc.
2. The bank may itself manufacture the thing required, provided that it should manufacture it according to specifications. In this case, no Parallel Istisna' contract is concluded.
3. The manufacturer is under an obligation to produce the subject-matter of Istisna'a according to specifications and within the period agreed upon.
4. A contract of Istisna' cannot be drawn up on the basis of a Murabaha sale, for example, by determining the price of Istisna'a on a cost-plus basis.



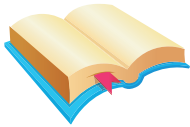
#### Famous quotes

The modern banking system manufactures money out of nothing. The process is perhaps the most astounding piece of sleight of hand that was ever invented. Banking was conceived in iniquity and born in sin. Bankers own the earth. Take it away from them, but leave the power to create money, and with the flick of a pen they will create enough money to buy it back again. Take this power away from them and all great fortunes like mine would disappear, and they ought to disappear, for then this would be a better and a happier world to live in. But if you want to continue to be the slaves of the banks and pay the cost of your own slavery, then let the bankers continue to create money and control credit»

Sir Josiah Stamp, Director, Bank of England 1928/1941- and second richest person in England.

## Topic 8

### Istisna'a and Parallel Istisna'a



The Messenger of Allah, peace be upon Him, says, "Riba has seventy segments, the least serious being equivalent to a man committing adultery with his own mother. And worst form of Riba is harming the honor of a Muslim man." (Narrated by Al Hakem and Ibn Majah).

Famous quotes  
Usury, once in control, will wreck any nation  
(William Lion Mackenzie King- Former Canadian Prime Minister)

5. The bank may demand accordingly 'arbutun as a guarantee for Istisna'a.
6. It may be agreed to alter the details of the manufactured commodity. If such alteration entails extra costs, they may be charged to the customer.

#### C) Parallel Istisna'a

1. As a result of concluding an Istisna'a contract in the capacity of a producer or supplier, the bank must assume liability for ownership risk and maintenance and insurance expenses prior to delivering the subject-matter to the ultimate purchaser (the customer).
2. It is not permitted to make any contractual link between the obligations under two contracts (the contract of Istisna'a and the contract of Parallel Istisna'a).
3. The bank is considered manufacturer in the first Istisna'a contract and an ultimate purchaser in the Parallel Istisna'a (ordering the manufacture).



## Famous quotes

The first state to launch war for the sake of the rights of the poor and to wrench these rights from the pangs of the rich is the Islamic State led by Khalifa Rashid Abdu Bakr Al Siddique, who said: " I swear by Allah that if they prevented me from a rope which they used to pay to the Messenger of Allah I will fight them for it." For this sake, Islam takes care of economics and has built it on just foundations. It is not based on property alone, but money is created through labour and effort.

(Dr. Yousuf Al Qaradawi, President of the World Federation of Muslim Scholars).





## Topic 9

# Salam and Parallel Salam

### First: Definition

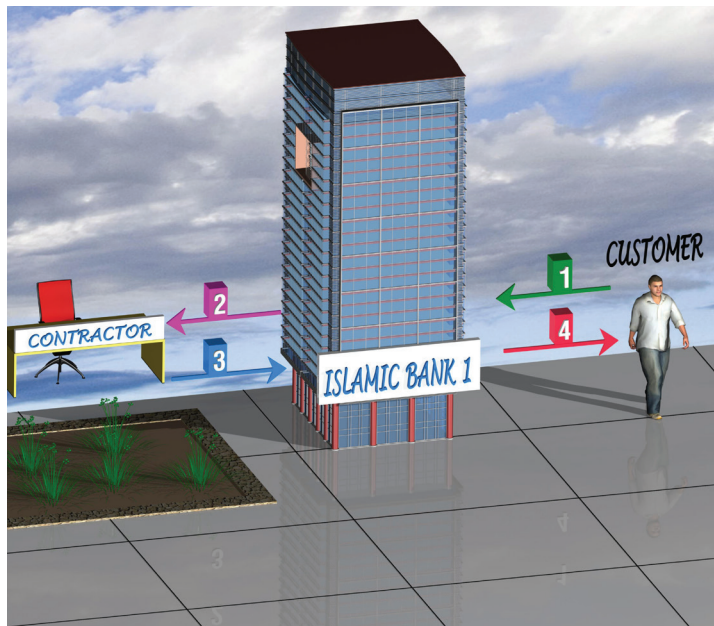
1. **Salam:** It is the sale of something described, and it is one of the types of sales in which the price, known as the Salam capital, is paid at the time of contracting while the delivery of the item to be sold, is deferred.
2. **Parallel Salam:** It is a contract whereby the Muslim ilaili (bank) enters into another separate Salam contract with a third party (seller or supplier) so that the bank can fulfill its obligations under the contract.

### Second: Steps of Salam and Parallel Salam

1. The customer or buyer (al-Muslim ilaihi) applies to the bank to assist him in obtaining 100 tons of bananas from India after 5 months against the amount of BD 50,000 (Bahrain Dinars fifty thousand), for example. The bank signs a Salam contract with the customer for the amount of BD 70,000 (Bahrain Dinars seventy thousand). The difference represents the bank's profit, and the bank is paid the amount promptly.
2. The bank signs a Parallel Salam contract with the banana supplier in India, whereby the bank buys the bananas against a prompt price of BD 50,000 (Bahrain Dinars fifty thousand), provided that it should be grown in India and delivered after 5 months. The bank pays the amount to the supplier promptly.
3. After the crop is harvested, it is sent by the supplier to the bank.
4. The bank delivers the crop to the customer.

Ibn Abbas, peace be upon him, said:  
 "Allah's Apostle came to Medina and the people used to pay in advance the price of fruits to be delivered within one or two years. The Messenger of Allah said, 'Whoever pays money in advance for dates (to be delivered later) should pay it for known specified weight and measure  
 (Narrated by Al Bukhari&Muslim).

### No. (15)- Practical steps of Salam and Parallel Salam







**Do you know?**  
The Sumerians engaged in banking activities in their temples, the most well known of which is the "Red Temple." The Babylonians also engaged in banking activities, as evident from the engravings on their antiquities. The Greeks, on the other hand, were the first to mint gold and silver money, and they also engaged in banking activities.

### Third: Rulings relating to Salam

#### A) Conditions of the Salam contract

1. It should be known in quantity, measure, type, kind and specifications, and whether it is in the form of currencies or fungible goods (such as wheat and other cereals).
2. For the Salam contract to be valid, the capital must be paid immediately at the place where the contract is concluded. However, as an exception to this ruling, payment may be delayed for one or two days.
3. It is not permitted that a debt be recognized as the capital of Salam.

#### B) Conditions of the Salam goods

1. Salam goods should be of a kind that can be described, such as those which may be weighed, measured or counted. Salam is also permissible in properties and buildings, and such other things, because they can be identified and specified by way of description.
2. It is a requirement that the Salam goods be known to the contracting parties in a manner that eliminates any possibility of uncertainty or ambiguity. In other words, they should be identifiable on delivery by way of viewing and description. These conditions must be fulfilled, namely:
  - Determination of kind, such as wheat, barley, dates, etc.
  - Determination of type, such as Syrian, Egyptian, etc.
  - Determination of quality (good, substandard, solid, soft, etc).
  - It must not be anything specific like "this car" or a readily available house.
  - The Salam goods must be deferred.
  - The date of delivery for the Salam goods should be known. For example, the bank says to the customer: "I will deliver the goods to you on 1 January 2010 or on Eid Al Fitr or on Eid Al Adha, etc.
3. Salam is not permitted for the Salam goods to be an amount of gold or silver if the capital of the Salam contract was paid in the form of gold or silver.

## Topic 9

# Salam and Parallel Salam

### C) Rulings relating to Salam

1. It is not permissible for the customer to sell the goods before collecting them from the bank. Similarly, it is not permissible for the bank to sell the goods before they are collected from the supplier.
2. The customer may replace the goods with another item (other than currency) after the maturity date.

### E) Parallel Salam

1. It is not permissible to link the Parallel Salam contract between the bank and the supplier to the first Salam contract between the bank and the customer or tie them together.
2. The bank in the first Salam contract between it and the customer is a seller, while in the Parallel Salam contract between the bank and the supplier it is a buyer.

### Fourth: Comparison between Istisna'a and Salam

Scope	Istisna'a	Salam
Purpose	It is used in things which can be manufactured, like buildings, properties, automobiles and aircraft, kitchens and unmanufactured furniture.	It is used in crops and certain commercial goods, and it is not a requirement for it to involve work
Prompt payment of the price	Not required	Required
Compensation for delay in delivery of the asset	Permissible	Impermissible





## Famous quotes

The strange thing is not the collapse of the capitalist system, because this has been long predicted by Western economists and Muslims at the same time. But the strange thing is its collapse so dramatically and unexpectedly, because it was born with the seeds of its own destruction

(Dr. Mohammed Al Qattan- Director of the Islamic Economics Unit of the College of Manageme



## Topic 10

# Sale of International Commodities

Allah, the Almighty, says,  
 "Allah will deprive  
 usury of all blessing,  
 but will give increase  
 for deeds of charity:  
 for He loves not any  
 ungrateful sinner."

(Surat Al Baqara- The  
 Heifer- Verse: 276).

Do you know?

Interest in the Islamic  
 economic system  
 by the Europeans  
 and Westerners  
 has expanded to  
 include universities  
 and institutes. The  
 university of Staatsburg  
 in France has recently  
 made an academic  
 coup by including the  
 discipline of Islamic  
 financial systems in its  
 curricula, becoming  
 the first European  
 university to do so.

### First: Definition

International commodity sales are contracts that are concluded in organized commodity markets under the supervision of specialized organizations and through intermediaries who co-ordinate the demand for sales and the demand for purchases by employing standard contracts that contain various conditions and specifications along with a statement of the period and place of delivery.

### Second: Types of international commodity sales

#### 1) Spot contracts

They are the contracts that require immediate delivery and acceptance of delivery, however, delivery and possession may take place within the limit of a day or two days. They are executed as follows:

1. The bank buys the commodity from the international market through an intermediary and the intermediary delivers the commodity documents to the bank.
2. The bank sells the commodity to a third party (in most cases the bank) through the intermediary at a higher price by way of a deferred payment or in installments.
3. The other bank settles the debt entirely or the installments to the bank

(See illustrative diagram No. (16)).

**Shari'a basis:** Conclusion of spot contracts in the commodity markets is permitted with the following conditions:

1. The commodity sold must be in existence and in the seller's possession.
2. The commodity sold must be ascertained (the existence of the documents is an evidence of its existence).
3. The contract should not include a condition that prevents the buyer from taking delivery of the commodity sold.
4. The price should be paid on a spot basis.

#### 2) Forward contracts

They are contracts of both counter-values deferred counter values, and they take effect on a certain date in the future, and are completed with the delivery of the commodity and the price at a deferred specific deferred date, and they are not organized in an exchange. These contracts have two forms:

- a) The commodity is a liability through description, while the price is deferred.
- b) The commodity is ascertained, but a delay in its delivery is stipulated along with a delay in the price. This is executed as follows:



The Messenger of Allah, peace be upon Him, says,

The Messenger of Allah, peace be upon Him, says,

(Narrated by Abu Dawud and Al Tirmidhi)

1. The bank buys the commodity from the international market through an agent or intermediately. The price is deferred and the commodity is a liability through description, or the price is deferred and the commodity ascertained, with deferred delivery.
2. The bank sells the commodity to a third party (in most cases the bank) through an agent or intermediary at a higher deferred price.
3. The other bank settles the installments to the bank.

(See illustrative diagram No. (16)).

**Shari'a basis:** It is not permitted to deal in international commodities by using the two above-mentioned forms.

#### No. (16)- Practical Steps of Sales of International Commodities (Spot Contracts-Deferred Prices-Futures)



## Topic 10

### Sale of International Commodities

#### 3) Futures

These are contracts the legal effects of which take place at a determined future date either through liquation between the parties or cash settlement, but they rarely end in actual delivery and possession. They are organized on exchanges, and are carried out as follows:

1. The bank buys the commodity from the international market through an agent. The price is deferred and the commodity is a liability through description, or the price is deferred and the commodity ascertained, with delivery unknown.
2. The bank sells the commodity to another party (in most cases the bank) through an agent at a higher but deferred price.
3. The other bank settles the installments to the bank

(See illustrative diagram No. (16)).

**Shari'a basis: Conclusion of these contracts is not permissible.**

The Shari'a basis of these sales relates mainly to the issue of deferring the counter-values. To know the Shari'a ruling on the deferment of the counter-values, we attach the following table:

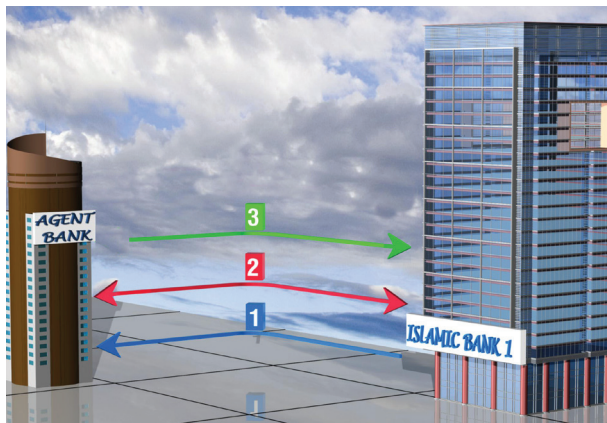
Subject of the contract		Designation	Ruling
Sold commodity (goods)	Price		
Existent	Existent	Express sale contract	Ruling
Existent	Absent	Deferred sale contract	Permissible
Absent	Existent	Salam sale contract	Permissible subject to certain conditions
Absent	Absent	Sale for deferred counter-values (Bay' Al Kali' Bilkali')	Forbidden



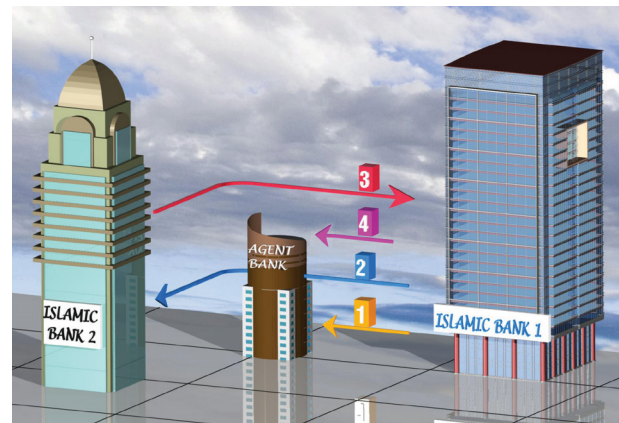
### Third: Most important applications of international commodity sales

- 1) Agency for third parties (investment agency): The bank in such agency is agent for other banks. This has two forms:
  - Agency with the determination of compensation for the agent as a lump sum or as percentage of the purchase price of the commodity. This method is executed as follows:
    1. The bank buys a commodity from the international market for a spot price through the agent.
    2. The bank sells the commodity to a third party (in most cases a bank) though an agent for a deferred higher price.
    3. The other bank settles the installments.
    4. The bank pays fees to the agent for the agency in a lump sum or as percentage of the purchase price of the commodity, and the bank receives the agency fee from the other bank (See illustrative diagram No. (17)).
  - Agency with an exchange of offer and acceptance notices. This is executed as follows:
    1. The bank buys a commodity from the international market against a spot price through the agent.
    2. The agent buys the commodity for its own account from the bank at higher price, and offer and acceptance notices are exchanged for the sale.
    3. The agent pays the transaction installments to the bank (See illustrative diagram No. (18)).

Illustrative diagram No. 17- Practical steps of the investment agency (1)



Illustrative diagram No. 18- Practical steps of the investment agency (2)



## Topic 10

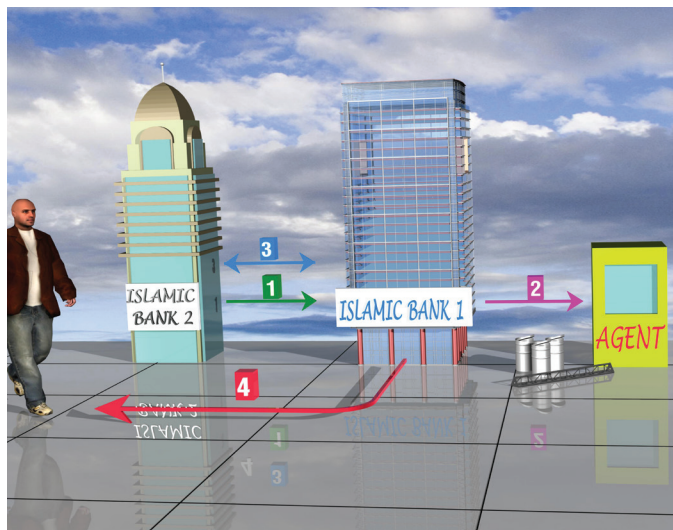
### Sale of International Commodities

2) **Commodity Murabaha transactions:** In these transactions, the bank is an agent to buy these commodities for the account of banks. It has two forms:

- **Deferred Murabaha:** It is executed as follows:

1. The bank buys the commodity from the international market through the agent against a spot price on the request of the bank (2).
2. The bank sells the commodity by way of Murabaha to bank (2).
3. The bank (2) pays the Murabaha amount by installments.
4. The bank (2) sells the commodity to another bank or customer (See illustrative diagram No. (19)).

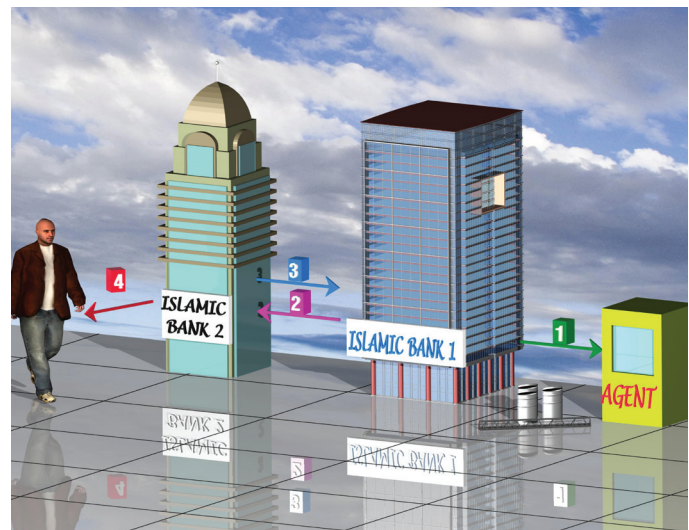
**Illustrative diagram No. 19- Practical steps of the deferred Murabaha**



- **Reverse Murabaha:** Its steps are carried out as follows:

1. The bank (2) deposits the investment amount with the bank.
2. The bank buys a commodity from the international market through the agent against a spot price on the request of the bank (2). The value of the commodity must be equal to the deposit amount.
3. The bank buys the commodity for its own account by way of Murabaha.
4. The bank sells the commodity to a third party (bank or customer). (See illustrative diagram No. (20)).

**Illustrative diagram No. 20- Practical steps of the Reverse Murabaha**

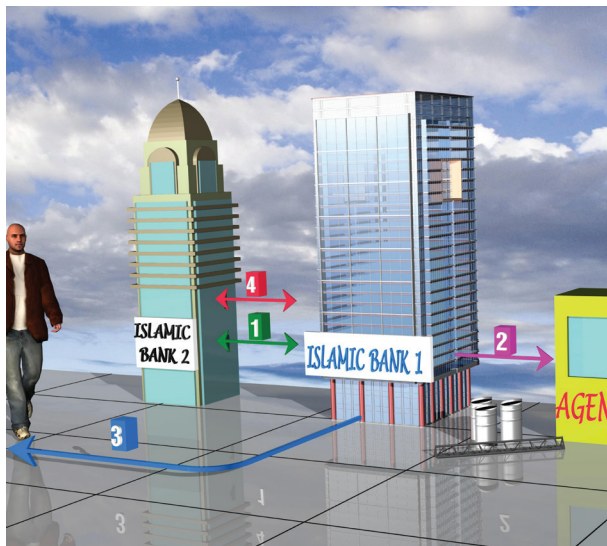




## Do you know?

Islamic financial assets registered a strong growth of 15%-20% annually over the last decade, from \$ 150 billion in the mid-1990's to around \$ 2 trillion in 2013. The Middle East region accounts for around 80% of these assets, with Indonesia being the country with the strongest growth rates, followed by Pakistan

Illustrative diagram No. 21- Practical steps of Mudaraba with third parties



### 3) Mudaraba with third parties: It has two methods

The bank as a Mudarib:

- Bank (2) appoints the bank to invest its funds by way of selling the commodities against a spot price and sell them against deferred prices while specifying the fee as a share in the profit (by way of Mudaraba).
- The bank as Rab Al Maal: The bank appoints another bank (2) to invest funds by way of buying commodities against a spot price and sell them against a deferred price while specifying the fee as a share in the profit (by way of Murabaha)

It is carried out as follows:

1. The bank, in its capacity as Mudarib, agrees with the bank in its capacity as capital provider and the latter provides the former with an amount of money to invest it.
2. The bank buys a commodity on the international market through an agent for a spot price.
3. The bank sells the commodity to a third party (bank or customer) against a higher price by way of Murabaha.
4. Profits are distributed as agreed (See illustrative diagram No. (21)).

### 4) Tawarruq

The bank buys a commodity against a spot price for its own account, and then sells it to the customer against a deferred price (or the bank buys the commodity to the customer against a deferred price on its behalf) then sells the same commodity to third parties against a spot price (or the customer sells it directly to third parties against a spot price). This transaction is carried out to obtain cash

(See illustrative diagram No. (6)).

## Topic 10

# Sale of International Commodities

Allah, the Almighty, says,  
 "O you who believe!  
 Fear Allah, and give  
 up what remains of  
 your demand for usury,  
 if you are indeed  
 believers. If you do not  
 do it now, take notice  
 of war from Allah and  
 His Messenger: But if  
 you repent you shall  
 have your capital sums:  
 Deal not unjustly, and  
 you shall not be dealt  
 with unjustly."  
 (Surat Al Baqara- The  
 Heifer- Verses:278-279).



Abu Burdah, peace be  
 upon Him, said:

"The Messenger of  
 Allah, peace be upon  
 him, was asked about  
 the best earning, and  
 he said: A rightful sale  
 and when the man  
 earns from the work of  
 his own hand."

(Narrated by Ahmed).

### Fourth: Prohibited Sales

1. Dealing with prohibited commodities.
2. Selling the commodity bought before it is specified and segregated from other commodities.
3. Bay' al-'inah, which is buying the commodity from a certain party at a spot price and then selling it to the same party against a deferred price.

### Fifth: Derivatives

1. **Definition:** They are secondary contracts based on underlying contracts related to the price of currency, commodity, financial instrument or interest rate of a currency at a certain time in the future. Alternatively, they are defined as follows: Fixing the value of a commodity at present to be sold in the future at the same fixed price.
2. **Objective:** The objective behind derivatives is to hedge against market fluctuations, i.e. protection against the risks of expected fluctuations in the prices of such assets, or against the risks of change in the prices of these assets, or against the risks of changes in interest rates, share prices, exchange rates and commodity prices.

They are executed for three main reasons:

1. Protection against the interest rate fluctuations.
2. Protection against currency rate fluctuations.
3. Protection against bond-related risks.

They are mainly three types:

#### 1) Futures

- a. **Definition:** A future is a contract binding under law to deliver and receive a financial asset at a certain time in the future. The price is fixed at the time of concluding the contract. Futures give their bearer the right to purchase or sell a quantity of specified assets not existing, which may be a commodity or financial asset, against a price fixed in advance. Delivery and receipt are agreed upon to take place at a later date, and the buyer and seller undertake to perform their obligations.
- b. **Benefit:** To avoid spot purchase of commodities which the buyer does not need except in the future.
- c. **Those dealing in them are of two types:**
  1. Speculators to make profit.
  2. Hedgers to avoid the fall of prices in the future or their rise.



Do you know?

Al Haji Fund (Tabooj Haji) was established in Malaysia in 1962 for the purpose of pooling the funds of individuals wishing to perform Hajj, while investing these savings in a Shari'a-compliant way. This experiment has developed dramatically and spread all over Malaysia, becoming today one of the biggest institutions offering banking services.

#### D) Parties

- Buyers and sellers.
- Inventors to provide coverage of positions and for speculations.
- Clearing house which provides guarantees to perform concluded contracts.
- Brokerage houses. No dealings may be done except through them.
- Dealing room, in which brokers meet.

#### E) Shari'a ruling: It is impermissible to deal in them for the following reasons:

- They are like binding promises by the two parties.
- The two counter-values in them are deferred.
- Contracting in them is done without owning the commodity by the seller and without delivering the commodity to the buyer. In these contracts, liquidation is enough, by receiving or paying the price differentials. Commodities in them may be shares, bonds or currencies, and currencies may not be delayed in the future place.

#### 2) Options

- a. **Definition:** An option is a contract whereby the buyer is bestowed upon the buyer and obligation by the seller. This means that the buyer pays a percentage of the commodity price against enjoying this right, and the seller is paid this price against its undertaking and obligation to deliver the amount to the buyer at a determined time, with the result being an instrument that can be sold and traded.

Another definition is that an option is a contract whereby a transaction may be performed either by way of sale or purchase of a certain quantity of a financial asset at a later date, against a price determined at the time of contracting, against payment of a premium to the seller on drawing up the contract. Such premium is non-refundable, and the seller of the option right shall have the right to deposit a margin with the brokerage house to guarantee the performance of the two parties of their obligations. The buyer is not obliged to perform at the time of exercise of the right, but only the seller.

- b. **Option Scope of Dealing:** shares, bonds, currencies, indexes or debts for a determined period.

- c. **Shari'a ruling:** They are not permissible except in the following:

1. Agreement on certain assets along with the payment of 'arbut (earnest money).
2. Contract on the commodities themselves with the stipulation of option.
3. Issuance of a binding promise by the owner of the assets, by way of sale or purchase, without specifying a counter-value for the promise.

## Topic 10

# Sale of International Commodities



Do you know?

The first dealings in option contracts go back to the ancient Greeks (550 B.C.) and to the Thales of Miletus, the great mathematician and astronomical philosopher. Thales was one of the seven sages of ancient Greece. He predicted a dearth in the olive harvest, and so he bought options giving him the right to buy olive harvest at a certain date against a price determined in advance, resulting in an embarrassing situation for the market.

### D) Shari'a substitutes for options

- If options are a speculation to benefit from the price differences, this is gambling that is impermissible and it has no Shari'a substitute.
- If the objective is actual possession to make profit while giving guarantee, this is achieved through known sales, i.e. spot sale, deferred sale and Salam.

### 3) Swaps

**A) Definition:** Swaps are agreements between two parties for the temporary exchange of determined financial, material assets or interest rates, determined according to the value of the transaction on the spot, provided that the asset subject of contract is exchanged at a later date. Sale may take place without the transaction resulting in any exchange of the commodity.

#### B) Types

1. **Exchange of interest rates:** under these transactions, an agreement is reached between two parties to swap variable interest rates against fixed interest rates against a determined amount in a certain currency, without this necessarily being linked to the exchange of the amount. Example: The borrower agrees with the lender to pay interest on the basis of a fixed rate, and this is done in case the borrower expects a rise in interest rates.
  2. **Currency swaps:** It is an agreement between the two parties on two transactions:
    - Purchase and sale of a certain currency against another on the basis of spot delivery against a spot exchange rate between the two currencies.
    - Sale and purchase at a later date, on the basis of an exchange price determined in advance between two currencies. Such transactions depend on future projections of interest rate differentials and exchange rates.
  3. **Commodity swaps:** Example of this type of swaps is what party (A) buys commodities from party (B) against a spot price at the prevailing price, and pays the price immediately. Party (A) sells the same commodity to (B) at the same time, by way of a deferred sale, at a price agreed upon in advance. Payment is made within periods agreed upon.
  4. **Re-purchase agreements:** They are agreements to sell a certain quantity of bonds along with the undertaking by the seller to re-purchase them after a certain period of time against a price higher than the sale price agreed upon.
- C) Shari'a ruling:** Dealing in these transactions is impermissible for the following reasons:
- There is no actual exchange of commodities.



Do you know?

The first dealings in option contracts go back to the ancient Greeks (600 B.C.) and to the Thales of Miletus, the great mathematician and astronomical philosopher. Thales was one of the seven sages of ancient Greece. He predicted a dearth in the olive harvest, and so he bought options giving him the right to buy olive harvest at a certain date against a price determined in advance, resulting in an embarrassing situation for the market.

- The contracts are not free of interest.
- The contracts are not free of 'ina sale.

### Sixth: Indexes

1. **Definition:** Indexes are a set of prices of a selected band of companies on certain bases divided by a fixed number, designed to measure the variation in prices. They are also accounting numbers worked out through special statistical methods with the intention of identifying the mean variation in the rates of a specified group of commodities or assets. Indexes give a quick idea about the general trends on the market and it is an inclination by customers to take the ideal decision in respect of investment. It has become a tool that is traded in and in its variations.
2. **Shari'a ruling:** A reputable index may be used to determine certain prices. However, the index itself may not be sold or bought, because it is pure gambling, as it involves the sale of an imaginary thing that is not existent.



# Chapter 3

## Investment Products





## Numbers

Islamic Bank sector currently accounted only 1.6% total assets of the 50 largest banks in the world (total 66.2 trillion \$ of the end of 2011), but it is still one of the fastest growth in the global financial.

## Topic 1

# Diminishing Musharaka



Al Saib Ibn Abi Al Saib was the trade partner of the Messenger of Allah, peace be upon Him, before the advent of Islam, and that on the Day of Victory, when Mecca was captured, The Messenger of Allah said to Abu Al Saib: 'Welcome my brother and partner who never privileged or wrangled' (Narrated by Abu Dawood and Ibn Majah)

### First: Definition

1. **Musharaka:** It is a form of an agreement between two or more parties to combine their assets, labour or liabilities for the purpose of making profit, and it is applied by Islamic banks as a sharika al-aqd (contractual partnership).
2. **Diminishing Musharaka:** It is a form of partnership in which one of the partners promises to buy the equity share of the other partner gradually until the title to the equity is completely transferred to him. Companies are classified into a contractual partnership and an ownership company. Diminishing Musharaka take the form of sharika al-aqd (contractual partnership).

### Second: Types of Sharika (Company)

Sharika is divided into two types:

1. **Sharikat Al Mulk:** It is a company that is established for the purpose of joint ownership of an asset that is held in common, without any objective to make profit. It is divided into a voluntary company, i.e. when parties agree on partnership, and compulsory mulk company, which is proved for the heirs over the asset.
2. **Sharika Al-Aqd:** It is the company that established among partners to share in profit and loss, and it is divided into two types:

The first category is the traditional fiqh-nominate partnerships: They include the following types of companies:

1. **Sharikat Al-Inan (contractual partnership):** It is a partnership between two or more parties whereby each partner contributes a specific amount of money in a manner that gives each one a right to deal in the assets of the partnership, on condition that the profit is distributed according to the partnership agreement and that the losses are borne in accordance with the contribution of each partner to the capital.
2. **Sharikat al-wojooh or dhiman (liability partnership) (partnership in creditworthiness or reputation):** A partnership in creditworthiness (partnership of liability) is a bilateral agreement between two or more parties to conclude a partnership to buy assets on credit on the basis of their reputation for the purpose of making profit, whereby they undertake to fulfill their obligations according to the percentages determined by the parties.
3. **Sharikat Al-A'mal (professional or vocational partnerships and partnerships in skilled jobs):** A service partnership is an agreement between two or more parties to provide services pertaining to a profession, vocation or skilled trade or to render some services or professional advice or to manufacture goods, and to share profit according to an agreed upon ratio.

The second category is the modern companies: mainly the following:

1. **Stock company:** It is a company of which the capital is partitioned into equal units or tradable shares and each shareholder's (co-owner's) liability is limited to his share in the capital.



The Messenger of Allah, peace be upon Him, says,

“Al Kharaju Bidhaman (Entitlement to profit, guarantee for risk of loss”

(Narrated by Al Nisa’i)

#### Famous quotes

What we need is a humane market economy, and then the current economic crisis will turn into a market economy that takes social dimension into account. What we can rely upon now is the decisive and thoughtful conduct at the same time, from those who caused the global economic crisis, to bear its consequences and to make contributions to reaching a solution to it.” (German Chancellor Angela Merkel).

(German Chancellor Angela Merkel).

2. **Joint-Liability company:** A joint liability company is a form of personal partnership the capital of which is divided into equal shares that can be traded, and all the partners in it are personally responsible for the obligations and liabilities of the company if the existing assets cannot meet the liabilities of the company.
3. **Partnership in commendum:** Partnership in commendum is a form of financing partnership Under this type of companies, the ownership is calculated based on disproportionate lots and not on the basis of proportionate shares that are equal in number. Profit must be distributed according to ratio of the lots or agreement. Losses are borne by the managing partners, irrespective of the ratio of their shares in the capital. Sleeping partners, on the other hand, are liable for losses only to the extent of the percentages of their lots in the capital.
4. **Company limited by shares:** The company limited by shares is a form of personal partnership. The subscription in this company is in accordance with equal numbers of shares and it comprises of managing partners and sleeping partners. Losses are borne by the partners to the extent of their assets.
5. **Allotment/particular (Muhassa) partnership:** It has the same definition as that of Sharikat Al-Inan
6. **Diminishing Musharaka:** This type of company originates from Sharikat Al-Inan).

### Third: Practical steps of Diminishing Musharaka

The main objective of the Diminishing Musharaka should be known as:

1. Ownership by the customer of a certain property, where Musharaka involves the same property intended to be owned (by three parties).
2. Utilization of the partner's amount for personal expenses, such as payment of debts or purchase of building materials (participation by two parties).

Fifth Case: A customer wishes to own a certain property, but he does not have its value, and so he enters into partnership with the bank to buy it, and the property in this case is owned by a third party. This Musharaka is implemented in the following method (See illustrative diagram No. (22)).

1. The bank purchases the property from its original owner by way of a purchase agreement, and pays the price of the property to the owner and registers the property in its name.
2. A Diminishing Musharaka contract is concluded between the bank and the customer wishing to own the property, and the customer undertakes to pay part of the amount as a share in the property.
3. A promise is concluded to buy the equity, whereby the customer promises the bank to buy the entire equity.

## Topic 1

# Diminishing Musharaka

4. The bank signs a sale agreement for the equity, whereby the customer buys the bank's shares gradually, until he acquires all the bank's shareholding. Alternatively, a lease agreement is signed for the shares, whereby the bank leases its share unto the customer, and then the bank sells its share to the customer for a token price or for the market price at the end of the period, and then the bank transfers the title to the property to the customer at the end of the period.

**Second Case:** A customer wishes to obtain cash for one of the following purposes:

- Payment of a debt;
- Payment of certain expenses;
- Construction of a building;
- Purchase of another property; or
- Purchase of a leased property, etc.

In this case, the customer should acquire a property the value of which is equal to, or more than, the required amount. The operation is carried out as follows (See illustrative diagram No. (23))

1. The bank signs a Diminishing Musharaka agreement with the customer, in which the bank is admitted as partner in the customer's property depending on the required amount.
2. The customer promises the bank to acquire its share.
3. The bank leases its shares unto the customer.
4. The bank sells its shares to the customer at the end of the period.

Allah, the Almighty, says,

"Say: If it be that your fathers, your sons, your brothers, your mates, or your kindred: the wealth that you have gained; the commerce in which you fear a decline: or the dwellings in which you delight- are dearer to you than Allah or His Messenger, or the serving in His cause;- then wait until Allah brings about His decisions: and Allah guides not the rebellious.

Surat Al Taubah- The Repentance: Verse: 24).

Illustrative diagram No. 22- Practical steps of the deferred Murabaha



#### Fourth: Shari'a rulings relating to Diminishing Musharaka

1. Musharaka is a transaction that starts with the signing of the Musharaka contract, after which buying and selling of the equity take place between the two partners whereupon one of the partners owns the asset or property subject of the Musharaka. It is, therefore, necessary that this buying and selling should not be stipulated in the partnership contract. In other words, the buying partner is allowed to give only a promise to buy. This promise should be independent of the partnership contract. In addition the buying and selling agreement must be independent of the partnership contract.
2. It is not permitted that the contract of diminishing partnership include any clause that gives any of the parties a right to withdraw his share in the company's capital.
3. It is not permitted to stipulate that one partner should bear all the cost of insurance or maintenance on the ground that he will eventually own the subject matter of the partnership.
4. Each partner should contribute part of the capital. The contribution may be in the form of cash or tangible assets that can be translated into a monetary value, for example, a land for building or equipment required for the operation of partnership.
5. The ratio of profit or income of the partnership that each partner (the bank and customer) is entitled to should be clearly determined.
6. It is not permitted to stipulate that one partner has a right to receive a lump sum out of the profits.
7. It is permissible for one of the partners to give a binding

#### Do you know?

Socialism is an economic system which is based on communal ownership. It means the system in which the means of production, land and factories are owned by the State. It also means the State's interference in the life of workers and poor classes to enact social and economic legislation alleviating their suffering and granting them some benefits.

#### No. (23)- Practical steps of Musharaka between two parties)



## Topic 1

# Diminishing Musharaka

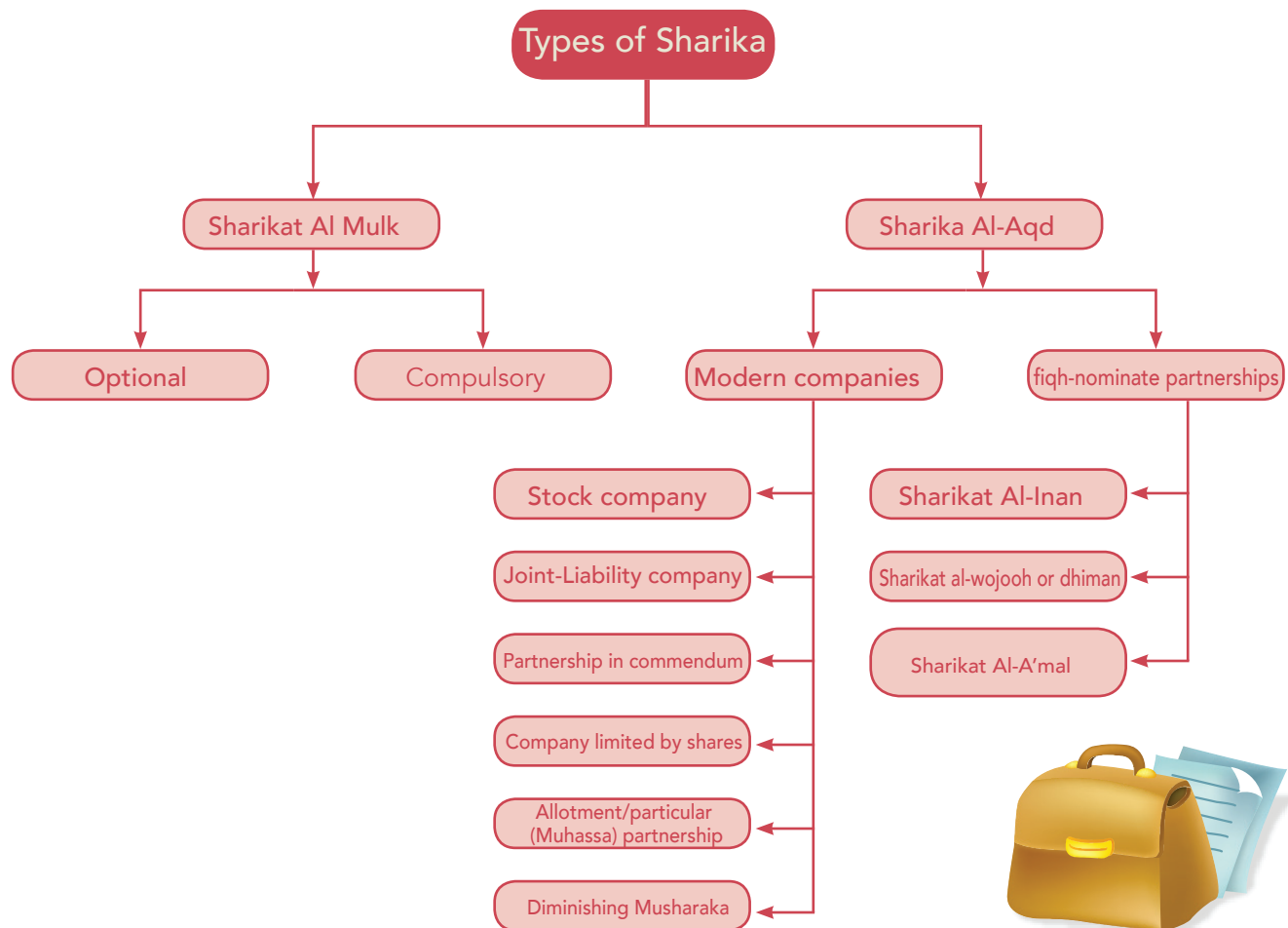
Allah, the Almighty, says, "  
...truly many are the  
partners (in business)  
who wrong each other:  
not so do those who  
believe and work deeds  
of righteousness, and  
how few are they?"  
(Surat Sad: Verse 24).

The Messenger of Allah,  
peace be upon Him, says,  
"A person who prays  
is like a trader, his  
profit is not pure until  
his capital is pure.  
In the same way, the  
voluntary prayers of  
a person who prays  
are not accepted  
until he performs the  
prescribed prayers.  
(Narrated by Al Bayhaqi  
and Abu Ya'la)



- promise that entitles the other partner to acquire, on the basis of a sale contract, his equity share gradually, according to the market value or a price agreed at the time of acquisition. However, it is not permitted to stipulate that the equity share be acquired at its original or face value, as this would constitute a guarantee of the value of the equity shares of one partner (the bank) by the other partner, which is prohibited by Shari'a.
8. The partners may arrange for the acquisition of the equity share of the bank in a manner that serves the interests of both parties. This includes, for example a promise by the bank's customer to set aside a portion of the profit or the return he may earn from the partnership for the acquisition of a percentage of the equity of the institution. The subject matter of the partnership may be divided into shares, in which case the bank's partner can purchase a particular number of these shares at certain intervals.
  9. It is permissible for either of the partners to rent or to lease the share of the other partner for a specified amount and for whatever duration, in which case each partner will remain responsible for the periodical maintenance of the share on a timely basis.
  10. One of the general rules in Musharaka is that profit is shared as agreed between the two parties, and that loss is borne by the partners in proportion to their shares in the Musharaka.
  11. The bank may vary the sale prices of the of subsequent shares only, by signing an agreement with its customer to use a certain benchmark therefor.
  12. Musharaka may involve a property, land or a certain project.
  13. The partners are entrusted with the assets of the Musharaka assets, and therefore there may not be any guarantee provided by the partner except in cases of trespass or negligence. It may not be stipulated that a partner should guarantee the capital of another partner.
  14. An undertaking may be provided by a third party, who is independent in his personality and financial liabilities from the parties to the Musharaka, to bear the loss, as follows:
    - The undertaking should be an obligation separate from the Musharaka contract, and for no consideration.
    - The third party (providing the guarantee) should not be a party owning or owned in excess of half of the party given the guarantee.
    - Either party may withdraw from the partnership by buying the remaining shares or when the bank sells the remaining equity.
  15. A partnership terminates on the expiry of its duration or at any time before if the partners so agree.





## Topic 2

# Mudaraba

### First: Definition

**Mudaraba:** is a partnership in profit whereby one party provides capital (Rab Al-Maal) and the other party provides labour (Mudarib).

The most common form in which Mudaraba is practiced by Islamic banks is in savings and deposit accounts, whereby the customer depositor is Rab Al-Maal, while the bank is the Mudarib.

### Second: Steps (See illustrative diagram No. (24))

1. The customer applies to the bank to open a savings account or deposit account by depositing a certain amount for a specified period of time.
2. The bank invests the amount provided by the customer in investment projects or transactions.
3. Both parties agree to distribute profit according to agreed upon percentages, such as %50 percent each, or %60 and %40, etc.
4. At the end of the deposit period or the account, or when periodical liquidation (revaluation) is made (weekly, monthly or annual) profit is distributed as agreed.

### Third: Shari'a rulings relating to Mudaraba

#### A) General Rulings

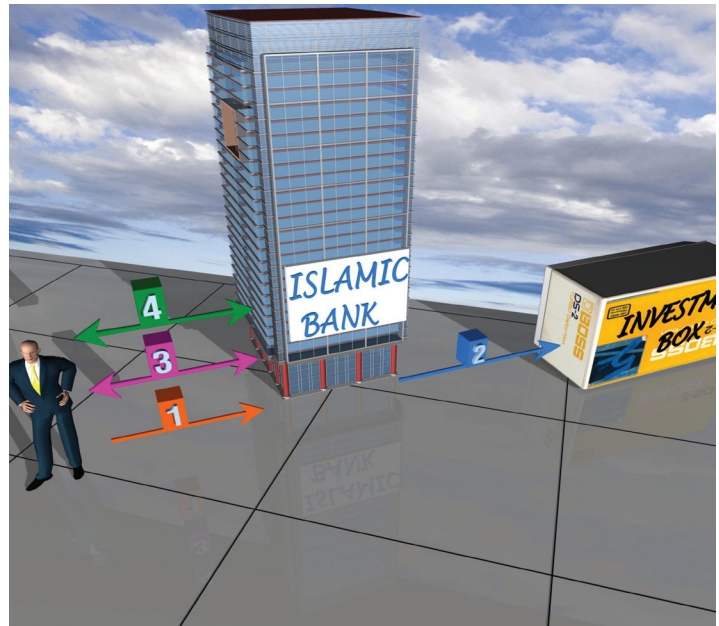
1. The Mudaraba contract is not binding, i.e. each of the contracting parties may terminate it unilaterally except when the Mudarib has already commenced the business. But when the contracting parties agree to determinate a duration for which the contract will remain in operation. In this case, the contract cannot be terminated prior to the end of the designated duration, except by mutual agreement of the two contracting parties.

Allah, the Almighty, says,

"....He knows that there may be some among you in ill-health; others traveling through the land, seeking of Allah's bounty."

(Surat Al Muzzammil –Folded in Garments- Verse: 20)

### No. (24)- Practical steps of Mudaraba



Hadith:

"Al Abbas, may Allah be pleased with him, used to stipulate certain conditions when he paid money in the form of Mudaraba. The conditions included that the Mudarib should not venture out onto the sea with it, or in a valley, or buy a creature with it, and if he did so, he would guarantee the money. These conditions were conveyed to the Messenger of Allah, peace be upon Him, who approved them."

(Narrated by Al Bayhaqi and Al Darqutni).



2. The Mudarib (bank) is investing Mudaraba capital on a trust basis in which case the Mudarib is not liable for the capital or the profit, except in case of breach of the requirements of trust, such as misconduct in respect of the Mudaraba fund, negligence and breach of the terms of the Mudaraba contract.
3. Mudaraba is divided into:
  - Unrestricted Mudaraba: It is a contract in which the capital provider permits the Mudarib to administer a Mudaraba fund without any restrictions. In this case, the bank employs its expertise in this field.
  - Restricted Mudaraba: It is the Mudaraba in which the capital provider restricts the actions of the Mudarib to a particular location or to a particular type of investment as the capital provider considers appropriate.
4. The capital of Mudaraba should be clearly known to the contracting parties and defined in terms of quality and quantity.
5. Prizes may be offered under Mudaraba accounts, subject to the following conditions:
  - The prizes should be a donation by the shareholders without charging the depositor customers any amounts.
  - The depositor's investment fund should be separated from the shareholders' investment fund.
  - In case the depositor customers are obliged to deposit a specified amount in the account, the bank should invest such amount as Mudarib in their favour and pay the profit due to them.

#### B) Profit

1. It is a requirement that the mechanism for distributing profit must be clearly known in a manner that eliminates uncertainty and any possibility of dispute. The distribution of profit must be on the basis of an agreed percentage of the profit. Example: %50 and %50 for both parties, or %60 and %40. If a profit is made at the end of the Mudaraba, it must be divided according to the percentages agreed upon. No agreement may be reached on the basis of a lump sum or a percentage of the capital. Example: the bank says to the customer "We hereby guarantee you a profit of BD 1,000." Similarly, profit may not be on the basis of a percentage of the capital, like when the bank says to the customer: "We hereby guarantee you a profit of %5 of your capital." However, initially, a certain percentage or lump sum may be specified as a way of projection, like when the bank says to its customer: "In view of the studies conducted by us, and in view of the profits made during previous years, we expect your profit to be BD 1,000 or %5." If no profit is made, the bank may not pay the said amount or percentage.
2. No profit can be distributed among depositors and the bank except after the following:
  - Deduction of all expenses.

## Topic 2

### Mudaraba

#### Do You Know?

The first experiment of Islamic banks was started in one of the rural areas of Pakistan in the late 1950s, when an institution was established to receive the deposits of wealthy landowners and provide them to poor farmers. Depositors were not paid any return on their deposits, and the loans extended to farmers were interest-free also. The institution's role was restricted to charging token fees covering its administrative costs only. However, because of the lack of qualified personnel, the institution closed down in the early 1960's.

- Deduction of all reserves and provisions agreed upon or which are prescribed by the State.
  - The capital provider (depositor customer) bears the losses incurred in the Mudaraba unless it can be proved that the Mudarib (bank) has committed a negligence or trespass or unless it has violated the Mudaraba terms and conditions.
3. The capital of the Mudaraba is maintained intact. Whenever a Mudaraba operation incurs losses, such losses stand to be compensated by the profits of future operations of the Mudaraba, unless the customer's Mudaraba is in a transaction of his own.
  4. Funds may be established to protect the depositor customer's money and the bank's money, by deducting part of the profits resulting from the Mudaraba to such funds.
  5. The principle is that the funds of the bank and the depositors should be invested through three accounts (funds):
    - An account for the bank (shareholders), and the profit of this account go to the bank only.
    - An account for the depositors. The profits of this account go to the depositors and the bank in its capacity as Mudarib.
    - Mixed account: If the Mudaraba commingles its own funds with the customer's funds, the bank is entitled to profit in its capacity as Mudarib and as investor.
  6. A Mudaraba contract can be liquidated in the following manner:
    - By unilateral termination of the contract by one of the parties.
    - With the agreement of both parties.
    - On the date of maturity of the Mudaraba.
    - If the funds of the Mudaraba contract have been exhausted or have suffered losses.
    - On the death of the Mudarib or the liquidation of the institution that acts as Mudarib.





#### Fourth: Comparison between Mudaraba accounts in Islamic banks and loan accounts in usury-based banks

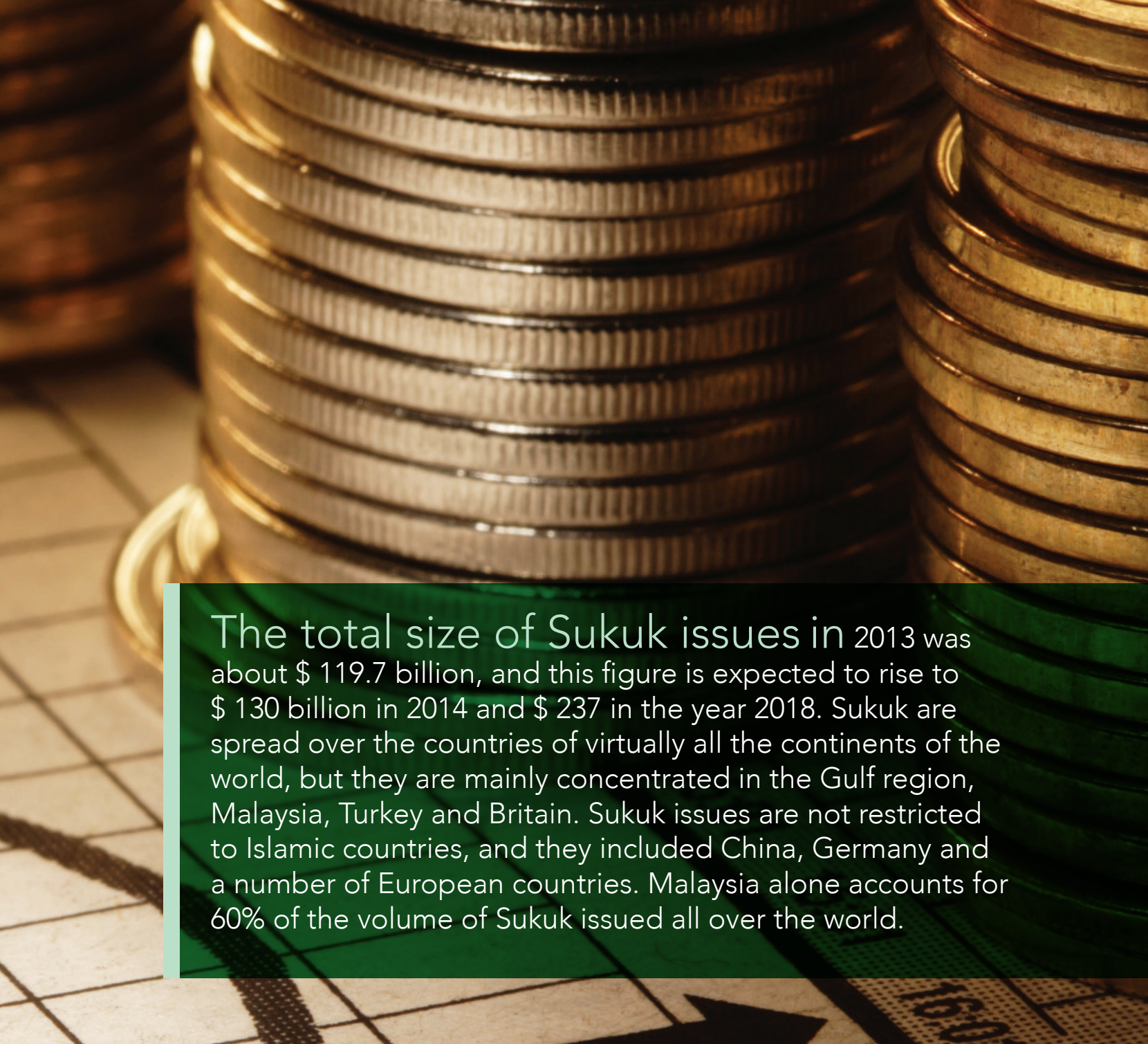
Scope	Islamic Banks	Conventional Banks
Status in Shari'a	Shari'a-based Mudaraba	Loan
Fees	Fees are charged sometimes for opening and closing the account and for ordering a statement of account, etc.	Fees are charged sometimes for opening and closing the account and for ordering a statement of account, etc.
Investment	Funds are invested in Islamic activities and projects, such as Mudaraba, Ijarah, Musharaka, etc.	Funds are invested in usurious activities. The majority of the funds is invested in interest-based loans.
Profit mechanism	Profit is generated in a Shari'a-compliant way, through labour, guarantee, etc. in accordance with Shari'a-based methods	Profit is achieved from the difference between the credit and debit interest in the bank's transactions
Loss	Rab Al-Maal (depositors) bear the loss. But it is borne by the Mudarib (bank) in cases of negligence and misconduct or when it violates terms and conditions	It is borne by the bank
Guarantee of the capital and profit	Not guaranteed, because they are based on profit and loss in investment	The bank guarantees both the capital and profit
Commingling of funds	Depositors' investment and profits are separated from the shareholders' investments and profit. If funds are commingled, this must be in a separate account	No separation is made between the depositors' and shareholders' accounts
Prizes	<ol style="list-style-type: none"> <li>1. They are a donation by the shareholders to depositors, and depositors do not pay any amount of the prizes</li> <li>2. The funds of depositors are invested, and they are paid profits according to Mudaraba.</li> </ol>	<ol style="list-style-type: none"> <li>1. They are deducted from the commingled shareholders' and depositors' profits, and so the mechanism is like prohibited gambling where the depositor pays a share in the prizes.</li> <li>2. Depositors are not paid their profit and the bank takes them all. If the bank gives any prizes to the depositors, this is based on interest-based loan</li> </ol>



11.05

08.0



The background of the slide features a close-up of several tall stacks of gold coins. The coins are arranged in a way that creates a sense of depth and value. Below the coins, there is a green grid pattern, and a large, dark arrow points upwards from the bottom left towards the center of the grid. The overall lighting is warm and golden, emphasizing the metallic texture of the coins.

The total size of Sukuk issues in 2013 was about \$ 119.7 billion, and this figure is expected to rise to \$ 130 billion in 2014 and \$ 237 in the year 2018. Sukuk are spread over the countries of virtually all the continents of the world, but they are mainly concentrated in the Gulf region, Malaysia, Turkey and Britain. Sukuk issues are not restricted to Islamic countries, and they included China, Germany and a number of European countries. Malaysia alone accounts for 60% of the volume of Sukuk issued all over the world.

## Topic 3

### Sukuk



Jabir Bin Abdullah, may Allah be pleased with him, said:

“The Messenger of Allah refused to pray over the one who died while still in debt. A man died among us and we bathed him, perfumed him and shrouded him. Then we came to the Messenger of Allah and asked him, ‘Will you pray on him?’ He took a few steps and then said, ‘Has he any debts?’ We replied, ‘He has a debt of two Dinars.’ Upon hearing that, the Messenger of Allah went away. Then Abu Qatadah undertook to pay the debt. We, thereafter went to the Messenger of Allah and Abu Qatadah told him, ‘I would pay the two Dinars.’ The Messenger of Allah then said, ‘The creditors’ right is guaranteed and the deceased is free from debt.’ He said, ‘Yes.’ The Messenger of Allah then prayed on him (Narrated by Abu Dawud).

#### First: Definition

**Sukuk:** They are certificates of capital value representing undivided shares in ownership of tangible assets, usufruct and services or (in the ownership of) the assets of particular projects or special investment activity. However, this is true after the payment of the value of the Sukuk and the receipt thereof and after the closing of subscription and the employment of funds received for the purpose for which the Sukuk were issued.

#### Second: Characteristics of Sukuk

1. They are certificates of equal value issued in the name of the owner or bearer in order to establish the claim of the certificate owner over the financial rights and obligations represented by the certificates.
2. They represent a common share in the ownership of the assets made available for investment.
3. Sukuk are issued on the basis of a Shari’a-nominated contract.
4. The owners of these certificates share the return as stated in the subscription prospectus and bear the losses in proportion to the certificates owned (held) by them.

#### Third: Types of Sukuk

1. **Certificates of ownership of leased assets:** These are certificates of equal value issued either by the owner of the leased asset, or they are issued by a financial intermediary acting on behalf of the owner with the aim of selling the asset and recovering its value through subscription so that the holders of the certificates become owners of the assets.
2. **Certificates of ownership of usufructs:** They are of many types:
  - Certificates of ownership of usufructs of existing assets: They are issued by the owner of an existing asset with the aim of leasing the asset and receiving the rental from the revenue of subscription so that the usufruct of the assets passes into the ownership of the holders of the certificates.
  - Certificates of ownership of usufructs of described assets: They are certificates issued for the purpose of leasing out tangible future assets and for collecting the rental from the subscription revenue so that the usufruct of the described future assets passes into the ownership of the holders of the certificates.
  - Certificates of ownership of services of a specified party: These are certificates issued for the purpose of providing services through a specified provider (such as educational benefits in a



The Messenger of Allah, peace be upon Him, says, "He who monopolizes (something) is sinful." (Narrated by Muslim).



Do You Know?  
Many Islamic Sukuk have been issued by Western financial institutions, like bonds issued by the government in Germany in the year 2004, targeting Middle Eastern countries in particular, in addition to the first issue of U.S. Sukuk in the year 2006 to finance gas field projects.

- nominated university) and obtaining the service charges in the form of subscription income so that the holders of the certificates become owners of these services.
3. **Musharaka (Participation) Sukuk:** These are certificates issued for the purpose of providing future services through described provider (such as educational benefits from a university without naming the educational institution).
  4. **Salam Sukuk:** They are certificates issued for the purpose of mobilizing Salam capital for the production of goods so that the goods come to be owned by the certificate holders.
  5. **Istisna'a Sukuk:** They are certificates issued for the purpose of mobilizing funds to be employed for the production of goods, so that the goods produced come to be owned by the certificate holders.
  6. **Murabaha Sukuk:** They are certificates issued for the purpose of financing the purchase of goods through Murabaha so that the certificate holders become the owners of the Murabaha commodity.
  7. **Musharaka Sukuk:** They are certificates issued with the aim of using the mobilized funds for establishing a new project, developing an existing project of financing business activity so that the certificate holders become the owners of the project of the assets of the activity. Musharaka certificate are managed on the basis of:
    - Participation or ownership.
    - Mudaraba: one Mudarib from the partners or others is appointed to manage them.
    - Investment agency: An agent is appointed for the certificate holders to manage them.

#### Fourth: Shari'a rulings relating to Sukuk

1. It is not permissible to securitize debts owed as a liability for the purpose of trading.
2. The two parties of the contract of issue are:
  - The issuer of Sukuk; and
  - The subscribers (Sukuk holders).
3. The relationship between the two parties to the issue contract is determined on the basis of the type of contract and its status in Shari'a, Murabaha, Ijarah or Salam, etc.
4. The issuance of the Sukuk prospectus represents the issuer's invitation to subscription, in which case the act of subscription represents and offer. As for acceptance, it is the issuer's acceptance of the subscription.

## Topic 3

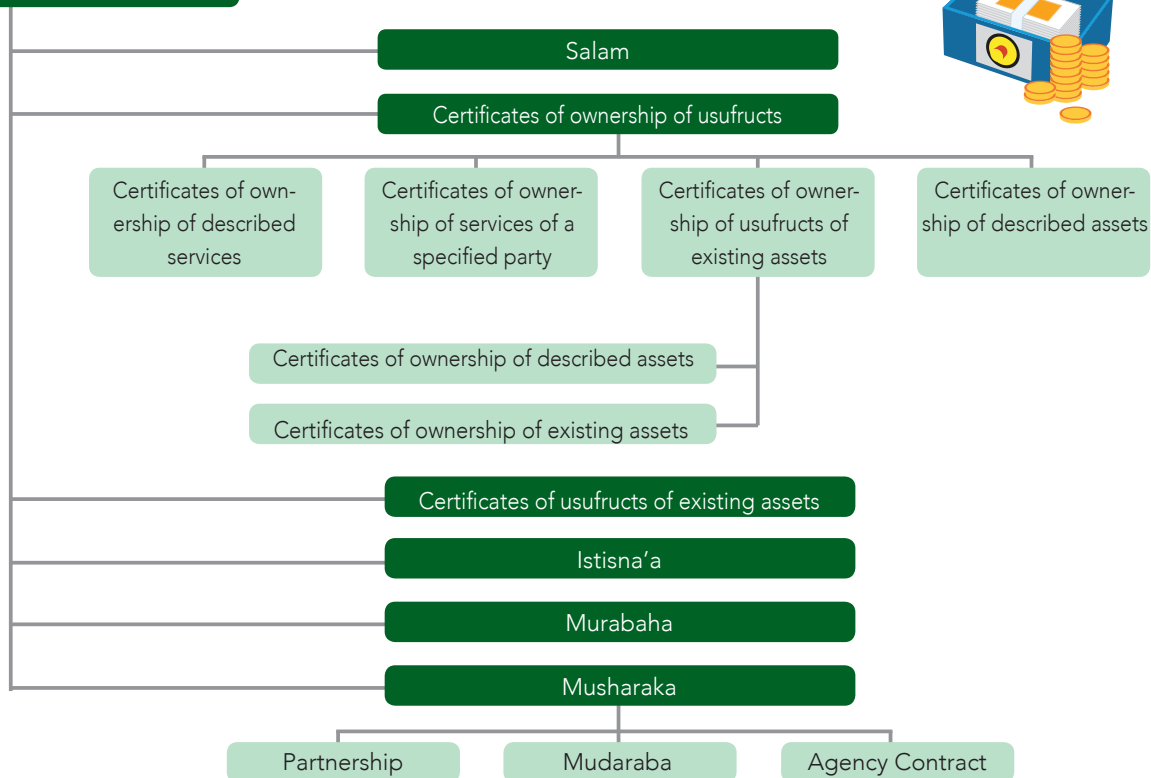
### Sukuk

5. It is permissible to trade in and redeem investment Sukuk except for described commodities, such as Salam.
6. The issuer of Sukuk or certificate holders may specify a Shari'a-compliant method of hedging against risks or mitigating the fluctuations of appropriated returns, such as establishing an Islamic insurance fund with contributions from the certificate holders, or participation in an Islamic takaful insurance fund with installments paid by certificate holders.

#### Fifth: Comparison between Sukuk and usury-based bonds

Scope	Sukuk	Bonds
Ownership	They represent common shares in assets yielding income and do not represent debts owed by the issuer.	Loans extended by their holders to the issuer of bonds.
Profit and loss	Sukuk holders have a percentage in the profit of the project in which they contributed, but they are not entitled to this profit unless it is actually earned, because it is susceptible and loss.	The bond holder has a fixed and guaranteed interest rate by the issuer of the bond, and this rate does not rise or fall, nor is it susceptible to loss
Bearing the obligations of ownership	Holders bear the expenses and assets	Bond holders do not bear any expenses.
Manager's guarantee	Manager does not bear the loss except in the case of trespass, negligence or violation of conditions	The manager bears the loss and it guarantees such loss.
Contract	Shari'a-compliant contract based on an Islamic product.	A loan contract earning usurious interest.

## Types of Investment Sukuk







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THIS NOTE IS LEGAL TENDER  
FOR ALL DEBTS, PUBLIC AND PRIVATE

*Wm. B. G. B. B.*  
Treasurer of the United States



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*Robert E. Rubin*  
Secretary of the Treasury

TWENTY DOLLARS







## Islamic mutual investment funds began

operation in the 1990's and became available to investors wishing to conduct business in instruments complying with the Islamic system. These funds totaled 126, four of which were in European countries, with assets totaling not less than \$ 4 billion.

## Topic 4

# Investment Funds

The Messenger of Allah,  
says,

**“How excellent is good  
money for a good  
person.”**

(Narrated by Al Bukhari)

Do You Know?

The philosophy of investment funds is based on guaranteeing profits for investors in them, regardless of the fluctuations taking place on global markets. The amount of investment in these funds are huge, because they range usually between \$ 500,000 and \$ 1,000,000 as minimum. The number of investors in these funds may total 500 investors.

### First: Definition

1. Investment funds: They are investment vehicles in which investors' funds are pooled for the purpose of placing them in investments specified in the subscription prospectus of the fund or in its articles of association. Investors are invited to subscribe in the fund, and the fund is usually managed by an entity enjoying the necessary expertise, which is in most cases the entity which established the fund, against a specific fee.
2. Hedge funds: They are investment vehicles comprising a number of investors the purpose of which is to guarantee the achievement of profits regardless of what happens on the global markets. Such funds aim at hedging against risks of any losses.

### Second: Rulings relating to investment funds

1. An investment fund has an independent juristic personality and a separate entity from the entity that manages it, which is known as the Special Purpose Vehicle (SPV).
2. The fund issues to each investor a certificate or Saak called “investment unit” which is very close to the share in the shareholding or joint stock companies. The investment unit represents a common share in the assets of the fund and the owners of such units are entitled to profit made by the fund after deducting the expenses (if any).
3. The unit holders are entitled to all the profit made by the fund until the certificates are redeemed and they recover their rights in the fund entirely. In the subscription prospectus, details are provided regulating admission, exit and profits, and such other legal and Shari'a rules governing funds which are required in such prospectuses.
4. Funds usually employ their assets in real estate investments (trading, development or management or in shares or in private equities). The assets of funds are usually invested in transactions or in a specific transaction, whether in the form of Murabaha, Ijarah or Salam. The fund manager who finds a Murabaha opportunity offers an investment fund to raise the funds



Allah, the Almighty, says,  
 “O you who believe!  
 Eat not up your  
 property among  
 yourselves in vanities:  
 but let there be  
 amongst you traffic and  
 trade by mutual good  
 will.”

(Surat Al Nisa’ “Women” -  
 Verse 29).



Do You Know?

These funds the  
 idea behind which  
 emerged on Wall  
 Street in the 1940's  
 totaled 8,000,  
 spread all over the  
 world markets.

necessary to the transaction through the fund. After subscription is over, the manager carries out the Murabaha transaction and so an investment fund may be set up for the sake of a Murabaha or Ijarah transaction or transactions, etc.

5. It is permissible to mortgage investment units or certificates in the funds according to the assets of the funds.

### Third: Steps of establishing investment funds issuing certificates by the banks

1. The bank establishes a portfolio or a special purpose vehicle (SPV).
2. As the bank issues the certificates, it sells them to the SPV fully so that they become no longer owned by the bank.
3. The SPV appoints a manager who is independent from the bank (third party) and pays the expenses and the manager's remuneration, etc. from the SPV's funds.
4. The SPV sells units representing the ownership of each participant in the fund, and each unit represents a common ownership in all the fund's assets. Each unit holder owns a common share in the fund representing all the certificates owned by it. The unit holders in the SPV are entitled to all return made by the certificates owned by the SPV after deducting the expenses, if any.
5. The bank gives a promise to the SPV to buy any certificate if the company wishes to sell it, and it may be stipulated in this promise that the purchase price should be the market price or the nominal price, because the bank in this case is not a Mudarib or agent, but a third party, since it has become a foreigner after selling the certificates.
6. The unit holders are entitled to all the profit made by the fund until the certificates are redeemed and they recover their rights in the fund entirely. In the subscription prospectus, details are provided regulating admission, exit and profits, and such other legal and Shari'a rules governing funds which are required in such prospectuses.

## Topic 4

### Investment Funds

7. Unit holders (investors) may exit the funds by selling their units to the fund at the market price only (NAV). Therefore, the dates on which they are allowed to sell their units must be mentioned in the subscription prospectus (for example at the beginning of each Gregorian month). At the same time, the fund manager must provide the market price (NAV) or the market minus 2% , for example, in each period they are allowed to exit the fund.



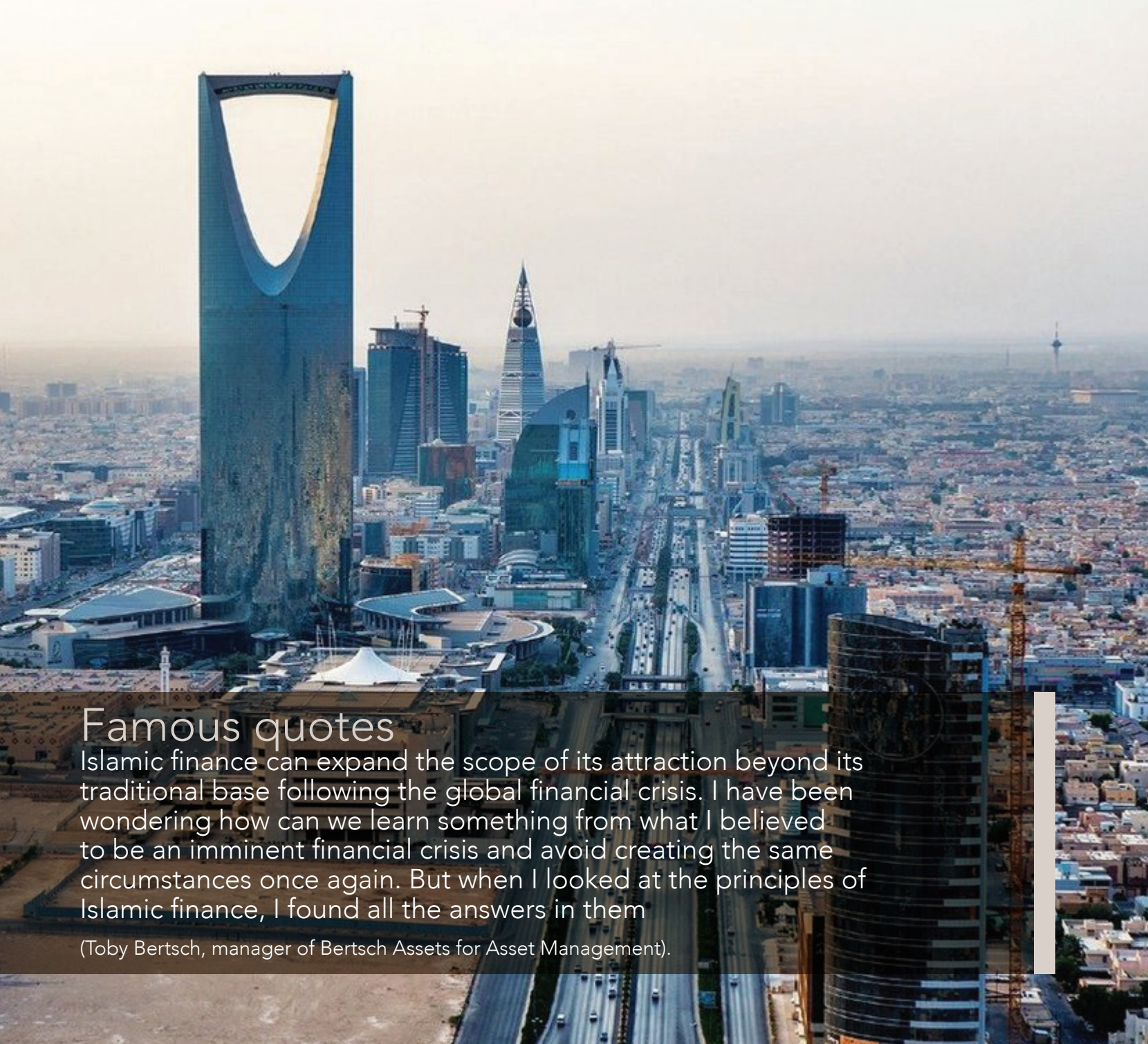
Do you know?

The size of investments by governments and individual investors in investment funds during the year 2007 totalled \$ 65 billion, and they are expected to reach \$ 140 billion in the year 2010. These funds are planning to issue Islamic editions of them, worth \$ 5 million in the near future.

#### No. (25)- Practical steps of Investment funds





An aerial photograph of Jeddah, Saudi Arabia, featuring the Kingdom Tower (Jeddah Tower) as the central focus. The tower is a tall, slender structure with a large, open, inverted U-shaped top. The surrounding city is densely packed with buildings, and a major highway with multiple lanes is visible in the foreground. The sky is clear and blue. A semi-transparent dark rectangular box is overlaid on the lower left portion of the image, containing white text.

## Famous quotes

Islamic finance can expand the scope of its attraction beyond its traditional base following the global financial crisis. I have been wondering how can we learn something from what I believed to be an imminent financial crisis and avoid creating the same circumstances once again. But when I looked at the principles of Islamic finance, I found all the answers in them

(Toby Bertsch, manager of Bertsch Assets for Asset Management).

## Topic 5

# Agency

Allah, the Almighty, says,  
 "Now send you then  
 one of you with this  
 money of yours to  
 the town: let him find  
 out which is the best  
 food (to be had) and  
 bring some to you.

(Surat Al Kahf- The Cave-  
 Verse: 19)

Hadith:  
 The Messenger of  
 Allah, peace be upon  
 Him, gave Urwa Al  
 Bariqi one dinar  
 to buy a sacrificial  
 animal or sheep."

(Narrated by Al-Bukhari)



### First: Definition

Agency is the act of one party delegating the other to act on its behalf in what can be a subject matter of delegation and it is, thus permissible.

### Second: Conditions on the agency

#### A) Conditions on the Principal

1. The principal should possess legal capacity to enter into contract.
2. The principal should have the right to dispose of the asset in question.

#### B) Conditions on the agent

1. The agent should have full legal capacity
2. The agent should be aware of his status as an agent.

#### C) Subject of the agency

1. The subject matter of the agency should be known to the agent.
2. It should be owned by the principal, or he has the right of disposing thereof.
3. It should be something that can be disposed of through agency.
4. It should not involve a Shari'a-banned practice, like trading in impermissible commodities or committing usurious lending.

### Third: Types of agency

1. Specific versus general agency.
2. Limited versus absolute agency.
3. Paid versus non-paid agency:
  - When agency is paid, it falls under the Shari'a rulings on Ijarah.
  - The amount payable as remuneration for agency should be known, whether in lump sum or as a share of a specific amount of income.
  - The agent does not guarantee what he is delegated to dispose of, except in cases of misconduct, negligence or breach of the terms or stipulations of the contract.

#### Fourth: Commitments of the two parties (principal and agent)

1. **Principal:** He should bear the expenses, such as transportation, storage, taxes and insurance.
2. **Agent:** The agent is considered as a trustee in holding the asset he is entrusted with, but he does not guarantee it except in cases of misconduct, negligence or breach of the terms or stipulations of the contract.
3. **Termination of the agency:** The agency contract expires in the following cases:
  1. When the agent dies.
  2. When the principal passes away.
  3. If either party, or both, lose their required legal qualifications.
  4. If the principal is liquidated or declared bankrupt.
  5. If the principal dismisses the agent, or if the agent resigns.
  6. When the agent completes the work assigned to him.



#### Famous quotes

The economic turmoil created by the U.S. capital markets crisis has put an end to the free market economy. The globalization system is approaching its end with the decline of capitalism that has imposed its logic on the economy as a whole, and contributed to its deviation from its course. It is high time to make capitalism ethical, by directing it to its true function (serving economic development and forces of production and keeping away completely from the forces of speculation

(previous French President Nicolas Sarkozy).



## Topic 6

# Securities (Shares and Bonds)



Jabir Bin Abdulla, may Allah be pleased with him, said:

**"The Messenger of Allah, peace be upon Him, has cursed the one who consumes Riba (interest), the one who gives it, the one who records it and the two witnesses."**  
He said: **"they are all the same"**

(Narrated by Muslim)

Do you know?

**Iran, Sudan and Pakistan are considered the only countries which have Islamicized their banking systems, and all units in them are operating in compliance with Islamic Shari'a.**

### First: Definition

1. Share: It is the share of a shareholder in the assets of the corporation and is represented by a certificate that can be negotiated. The term "share" is also applied to the certificate that represents such share.
2. Bond: It is a financial paper issued by trading establishments and governments in order to raise long-term loans in lieu of interest that is paid to the bearer of the bond after periods. They are sometimes issued at a discount with respect to their face value.

### Second: Rules governing the issuance of shares

1. The issuance of shares is permitted in principle.
2. It is not permitted to issue performance shares that have special financial features, leading to the granting of priority to these shares at the time of liquidation or distribution of profits.
3. It is not permitted to issue tamatu' (preference) shares. These are shares that grant the participant compensation in lieu of his shares, whose value is redeemed during the existence of the company, and they are entitled to profit lesser than that given to the owner of shares based on capital.
4. Rules for dealing in company shares:
  - Companies that deal in halal transactions: It is permitted to issue and deal in shares of corporations if the purpose of establishing the company is lawful.
  - Companies that deal in unlawful transactions: It is not permitted to issue and deal in shares of corporations which deal in unlawful transactions, like the manufacturing of liquor, trading in swine or pork-related products.
  - Participation or trading in the shares of corporations whose primary activity is lawful but they make deposits or borrow on the basis of interest: The fundamental rule is that of prohibition of acquiring shares of and transactions (investment and trading) in the shares of these corporations, unless they fulfill the following conditions:
    - The corporation does not state in its articles of association that one of its objectives is to deal in prohibited goods or materials.
    - The total amount raised as loan on interest does not exceed %30 of the market capitalization of total equity.
    - The total amount of interest-taking deposits shall not exceed %30 of the market capitalization of total equity.
    - The total amount of income generated from prohibited component does not exceed %5 of the total income of the corporation.
5. The elimination of prohibited income is obligatory, whether such income is a result of the activities, unlawful acquisition or interest, and the bank shall undertake to dispose of such interest.



Famous quotes

The socialist economy has dwindled to extinction, and the countries which are using socialist economic systems are suffering from abject poverty. On the other hand, the capitalist economy is racing towards the abyss, while the Islamic economy is the alternative, because it is the economy of facts and actualities, and it relies, in its dealings, on materialism and commodities then materialism once again, unlike the capitalist system which relies on materialism and materialism and then imagination and illusion.

(Dr. Mahmood Hajji, former professor of Investment Management at the Global American University in Dubai and member of the Business Entrepreneurs and World Trade Association in the United States).

6. It is not permitted to purchase shares by raising interest-bearing loans.
7. It is not permitted to sell shares that the seller does not own (short sale).
8. It is permitted to pledge shares that are lawful according Shari'a.
9. It is permitted to sell shares by way of Murabaha.
10. It is not permitted to rent shares by way of Ijarah .

### Third: Rules governing bonds

The issuance of all kinds of bonds is prohibited, which are based on usurious loans, when these bonds include stipulations for the return of the amount of loan and excess in any form, whether such excess is paid at the time of the satisfaction of the principal amount of loan, and whether it is paid in monthly or yearly installments.



The background of the slide is composed of three distinct visual elements. On the left, there is a vertical teal panel featuring a white, stylized floral or scrollwork pattern. The central portion of the slide is a solid purple panel, also decorated with a subtle, lighter purple floral pattern. On the right side, there is a vertical photograph showing the rear of a blue car, including the rear window, a black antenna, and a portion of a palm tree against a clear blue sky.

# Chapter 4

## Banking Services





The Messenger of Allah, peace be upon Him, says, "Gold for gold, silver for silver, wheat for wheat, barley for barley, dates for dates, and salt for salt - like for like, equal for equal, and hand-to-hand; if the commodities differ, then you may sell as you wish, provided that the exchange is hand-to-hand."

(Narrated by Muslim)

## Topic 1

# Commercial Papers



„Allah, the Almighty, says  
If the debtor is in a “  
difficulty, grant him  
time till it is easy for  
him to repay. Bt if  
you remit it by way  
of charity, that is the  
best for you if you  
”.only knew

Surat Al Baqarah- The Heifer-  
(Verse: 280)

The Messenger of Allah,  
peace be upon Him, says,  
“Whoever sleeps  
secure in his flock, safe  
in his body and has  
the sustenance of the  
day is like the one who  
possesses all life.”

(Narrated by Al Tirmithi)

### First: Definition

1. Commercial papers: They are tradable certificates that represent pecuniary rights payable at sight or after a short period. Customary practice regards them as instruments of payment and they act substitutes for cash in transactions. They are of different types:
2. Bill of exchange: A bill of exchange is a certificate issued in a particular legal form. It consists of an order from a person (known as the drawer) to another person (known as the drawee) to pay a certain sum of money at sight, or at a particular or determinable date, to a third person (called the beneficiary).
3. Promissory note: It is a certificate whereby the issuer promises to pay a certain sum of money at a particular or determinable date, or at sight, to another person (called the beneficiary).
4. Cheque: It is a certificate that is issued in particular form containing an order issued by a person (known as the payer) to another person (known as the payee) to pay a certain sum of money to a third person (known as the beneficiary) when the cheque is presented.

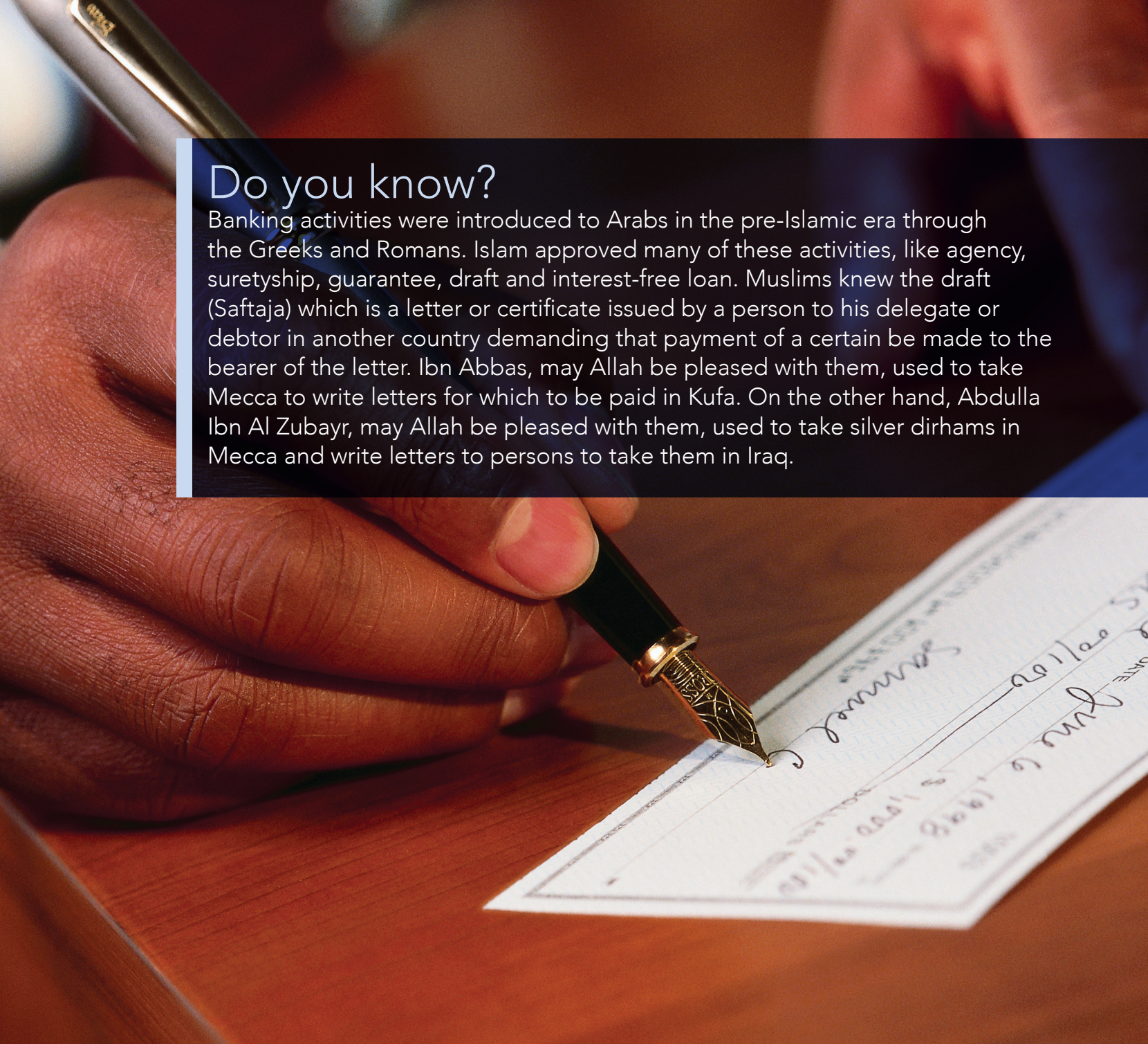
### Second: Shari’a rulings

1. It is permissible to undertake transactions in the commercial papers of the three types (bill of exchange, promissory note and cheques) on the condition that it does not amount to riba (usury).
2. The bank may collect commercial papers against a fee.
3. Commercial papers may not be discounted, whereby the paper bearer transfers its ownership through endorsement to a third party before maturity date against the bank paying the value thereto to him, less a certain amount.
4. It is permissible for the bank to obtain cheques or promissory notes from the customer as guarantee for the payment of the installments of the transaction.



## Do you know?

Banking activities were introduced to Arabs in the pre-Islamic era through the Greeks and Romans. Islam approved many of these activities, like agency, suretyship, guarantee, draft and interest-free loan. Muslims knew the draft (Saftaja) which is a letter or certificate issued by a person to his delegate or debtor in another country demanding that payment of a certain be made to the bearer of the letter. Ibn Abbas, may Allah be pleased with them, used to take Mecca to write letters for which to be paid in Kufa. On the other hand, Abdulla Ibn Al Zubayr, may Allah be pleased with them, used to take silver dirhams in Mecca and write letters to persons to take them in Iraq.



## Topic 2

# Trading in Currencies



### Hadith:

Once Bilal brought Barni (i.e. a kind of dates) to the Messenger of Allah and the Messenger of Allah asked him, "From where have you brought these?" Bilal replied, "I had some inferior type of dates and exchanged two Sas of it for one Sa of Barni dates in order to give it to the Messenger of Allah to eat." Thereupon the Messenger of Allah said, "Beware! Beware! This is definitely riba! This is definitely riba! Don't do so, but if you want to buy (a superior kind of dates) sell the inferior dates for money and then buy the superior kind of dates with that money."

(Narrated by Al Bukhari).

### First: Definition

It is buying and selling currencies to make profit.

### Second: Shari'a rulings

1. It is permissible to trade in currencies, provided that it is done in compliance with the following Shari'a rules and precepts:
  - Both parties must take possession of the counter-values before dispensing, such possession being either actual or constructive.
  - The counter-values of the same currency must be equal amount, even if some of them is in paper money and the other is in coin of the same country, like BD 1 and ten coins of 100 fils denomination, for example.
  - The contract shall not contain any conditional opinion of deferment clause regarding the delivery of one or both currencies.
  - The dealing in currencies shall not aim at establishing a monopoly position.
  - Possession of currencies should not be deferred for one or both currencies.
2. It is prohibited to enter into forward currency contracts. Example: (A) sells (B) BD 1 against Saudi riyals 10, provided that (A) receives the riyals after one day.
3. Possession of the currencies (counter-values) must be taken for the whole amount that is the subject-matter of the contract at the closing of the transaction.
4. Constructive possession is permissible, like crediting to the account or depositing in it, or making a transfer or receiving a cheque that has available balance, etc.

(Refer table on page 19-18)









1234 5678 9101 2

1234

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PETER SMITH





### **Do you know?**

The idea behind creating credit markets began in England in the late 19<sup>th</sup> century. A British garments company issued coupons to its customers enabling them to buy what they needed without paying any price therefor.

In the early 20<sup>th</sup> century, some U.S. companies offered a special card providing food services to their customers. Customers did not pay the value of the food, but only produced the card and the amount was booked.

## Topic 3

### Credit Cards

#### First: Shari'a rulings for different types of cards

Type of card	Definition	Characteristics	Shari'a ruling
Debit Card	It is an Automatic Teller Machine (ATM) card issued to savings or current account holders	<ol style="list-style-type: none"> <li>1. This card is issued by the bank to a customer with available funds in his account.</li> <li>2. The card confers on its holder the right to withdraw cash from the account to pay food goods or services purchased up to the limit of the available funds (credit balance).</li> <li>3. The customer will not normally pay any charges for using this card, except when it is used to withdraw cash or to purchase another currency through another bank.</li> <li>4. This card is issued against a fee or without fee.</li> <li>5. Some banks charge the party accepting payment by means of the card a commission calculated as a percentage of such payments.</li> </ol>	It is permissible for banks to issue this card, so long as the cardholder does not exceed the balance available on his account and no interest charge arises out of the transaction.
Charge Card	The charge card is issued by some banks and institutions which provide their customers a credit facility up to a certain ceiling for a specified period of time.	<ol style="list-style-type: none"> <li>1. The card provides a credit facility up to a certain ceiling for a specified period of time.</li> <li>2. The card is used to pay for goods and services and to obtain cash.</li> <li>3. This card does not provide revolving credit facilities to the cardholder, insofar as the cardholder is obliged to make payment for the purchased goods or services by the end of the prescribed period</li> <li>4. If the customer delays payment of the amount due beyond the period of free credit, and interest charge is imposed on the cardholder, but not Islamic banks do not charge any interest.</li> </ol>	<ol style="list-style-type: none"> <li>1. It is permissible to issue this card subject to the following conditions:</li> <li>2.</li> <li>3. The cardholder is not required to pay interest in case of his delay in payment of the amount due.</li> <li>4. If the bank takes security from the customer, it should be stated that such guarantee will be invested in the customer's favour.</li> <li>5. The bank should stipulate that the customer shall not use the card in a way that contravenes Islamic Shari'a.</li> </ol>

Type of card	Definition	Characteristics	Shari'a ruling
Credit Card	The charge card is issued by some banks and institutions which provide their customers with a credit facility up to a certain ceiling for a specified period of time.	<ol style="list-style-type: none"> <li>1. The card provides a credit facility up to a certain ceiling on a revolving basis as specified by the bank.</li> <li>2. The customer may pay for the goods and services, and withdraw cash up to a certain ceiling and withdraw cash within its limit.</li> <li>3. In case of purchase of goods and services, the customer shall be granted a grace period without interest. The card also allows him to defer payment within a specified period against interest. When cash is withdrawn, the cardholder is not given any grace period.</li> </ol>	It is not permissible for the bank to issue credit cards that provide an interest-bearing revolving credit facility, whereby the cardholder pays interest for being allowed to pay off the debt in installments.

## Second: General provisions governing cards

1. It is permissible for banks and institutions to join the membership of international card regulatory organizations, provided the institutions avoid any infringement of Shari'a that may be prescribed by those organizations.
2. It is permissible banks and institutions to pay membership fees, service charges and other fees to international card regulatory organizations, so long as these do not include interest payments.
3. It is permissible for the bank issuing the card to charge a commission to the party accepting the card at a percentage of the purchase price of the items and services purchased using the card.
4. It is permissible for the institution issuing the card to charge the cardholder membership fees, renewal fees and replacement fees.
5. It is permissible to purchase gold, silver or currency with all the cards mentioned in cases where the issuing bank is able to settle the amount due to the party accepting the card without any delay.
6. It is permissible for the cardholder to withdraw an amount of cash, provided no interest is charged.
7. It is permissible for the bank issuing the card to charge a flat service fee for cash withdrawal, proportionate to the service offered, but not a fee that varies with the amount withdrawn.
8. It is permissible to grant privileges to the cardholder, such as air bookings, travel and discounts on such services, but it is not permissible to grant privileges prohibited by Shari'a, such as conventional life insurance or purchase of liquor, etc.

## Topic 3

### Credit Cards

#### Third: Differences between Islamic and conventional card cards

Scope	Conventional Cards	Islamic Cards
Status in Shari'a	A loan with interest on delay	Interest-free loan without interest
Interest on delayed payment	An interest is charged on delayed payment by the customer. This interest is compounded (which is prohibited interest)	No interest is charged on delayed payment by the customer. Sometimes the customer is obliged to pay an amount to charities in case of procrastination and default.
Fees	Fees may be charged on issue and renewal, etc.	Fees may be charged on issue and renewal, etc.
Privileges	Conventional insurance may be offered, which is not Shari'a-compliant.	Shari'a-compliant insurance (takaful) may be provided.
Uses	No restrictions are imposed on the use of the card.	Restrictions are imposed on the use of the card, namely that they should not be used for non-Shari'a-compliant activities

### Do you know?

Some card issuing companies began this business in 1950. In the year 1949, Frank McNamara and Ralph Sneider went out to eat at a restaurant in the city of Manhattan. At the end of their meal, McNamara and his friend reached into their pockets so that they could pay for the meal (in cash). They were shocked to discover that they had forgotten their wallets. They were involved in an endless argument with the restaurant owner, and so they came up with a new idea of setting a company that would guarantee for the participating restaurants payment of the accounts of customers who were members of the company. So, they set up Diners Club for restaurants only. Desiring to expand the company, they opened many branches outside the United States, and the company remained without any rival or competitor until the year 1958.



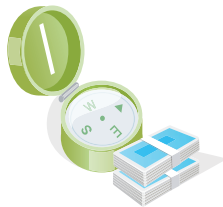
A close-up photograph of a hand holding a gold credit card over a calculator. The calculator has various colored buttons (purple, white, yellow, green) and a small screen. The background is blurred, showing what appears to be a blue and white striped object.

## Do you know?

Franklin Bank is considered the first bank to issue a card in the year 1951. The idea spread to more than 100 banks, but it suffered due to the inability to make profits. However, it made a major push in the year 1958. Cards began to be issued on a global level in the 1960's, when major credit card companies were established, such as Visa Card, MasterCard, Barclaycard, etc.

## Topic 4

# Charges for Banking Services and Products



### Allah said:

Said one of the (damsels): "O my (dear) father! Engage him on wages: truly the best of men for you to employ is the (man) who is strong and trusty." He said: "I intend to wed one of these my daughters to you, on condition that you serve me for eight years; but if you complete ten years, it will be (grace) from you, but I intend not to place you under a difficulty; you will find me indeed, if Allah wills, one of the righteous."

(Surat Al-Qasas –The Narration- Verse: 26-27).

### First: Definition

They are the fees charged by the financial institution to its customer for providing services to him. They are customarily called "administrative fees" related to the administrative efforts, work and services provided by the institution in the service of its customers.

### Second: Conditions for charges (fees)

1. They should be specified.
2. They should be linked to the cost and service provided, and they recur if the service provided recurs.
3. They should be determined by expert staff.
4. The service provided should be Shari'a-compliant.

### Third: Types of Charges (Fees)

#### A) Charges (fees) are of three types, according to the purpose:

1. Administrative fees and commissions: They are charged for making efforts, undertaking studies, incurring costs and providing services, such as opening files, conducting studies, opening accounts and handling correspondence.
2. Financing-related fees and commissions: they are charged against providing financing, such as interest-free loans and Murabaha.
3. Documentary credit-related fees and commissions: They are fees and charges charged for documentary credits.

#### B) Fees are of three types according to the method of calculation:

1. Fees and commissions which are payable in lump sum, like BD 10 or BD 100.
2. Fees and commissions payable as a percentage share of the value of the service and are linked to the amount, such as %1 or %3 of the amount.
3. Fees and commissions payable according to the tier or category system: The fees are increased if the amount increases, due to the difference in services and procedures. For example, charges for the documentary credits are BD 100 if the value of the goods is less than BD 20,000, or BD 200 if the value of the goods is less than BD 40,000, and so on and so forth.

**C) Fees are of two types according to the method they are charged:**

1. Fees paid to third parties: They are the fees charged by the bank to the customer on the request of a third party, such as the property insurance fees, life insurance fees, valuation of properties and commissions paid to clearing agents and agents, etc.
2. Fees payable to the bank: They are the fees charged by the bank for providing services, benefits and work to the customer.

**Fourth: Shari'a rulings and guidelines for the fees (charges)**

**A) Banking service charges**

.S.N	Type of service	Status in Shari'a	Shari'a ruling	Type of fees		
				Lump sum	%	Tier
1.	Currency exchange	Service against fee	permissible	Permissible	permissible	permissible
2.	Bank drafts	Remunerated agency	permissible	Permissible	permissible	permissible
3.	<ul style="list-style-type: none"> <li>• Collection of commercial papers</li> <li>• Issue of cheques</li> <li>• Bouncing cheques</li> <li>• Safekeeping of commercial papers</li> <li>• Suspension of commercial papers</li> <li>• Replacement</li> </ul>	Remunerated agency	permissible	Permissible	permissible	permissible
4.	Services related to securities and the like	Remunerated agency	permissible	Permissible	permissible	Permissible
5.	Collection of invoice fees of different kinds	Remunerated agency	permissible	Permissible	permissible	permissible

## Topic 4

### Charges for Banking Services and Products

.S.N	Type of service	Status in Shari'a	Shari'a ruling	Type of fees		
				Lump sum	%	Tier
6.	Opening fully funded documentary credits Amendment of credit Increasing credit tenor Confirmation of credit	Remunerated agency	permissible	Permissible	permissible	permissible
7.	Leasing safe deposit values	Ijarah	Remunerated agency	Permissible	Impermissible	permissible
8.	Providing advisory services	Remunerated agency	Remunerated agency	Permissible	Impermissible	permissible
9.	Customs clearance	Remunerated agency	permissible	Impermissible	permissible	permissible
10.	Fund and portfolio management	Remunerated agency	permissible	Impermissible	permissible	permissible

#### B) Banking product fees

No. S.	Type of Service	Shari'a ruling	Shari'a requirement
1.	Opening a file	Permissible	
2.	Cost of bank staff	Impermissible	
3.	Cost of temporary staff for specific service	Permissible	It should not be a routine job
4.	Stationery	Impermissible	
5.	Advertisements	Impermissible	



No. S.	Type of Service	Shari'a ruling	Shari'a requirement
6.	Drawing up of records	Permissible	The principle is that the expenses should be shared equally
7.	Credit study	Permissible	This study becomes the customer's own property
8.	Feasibility study	Permissible	
9.	Valuation	Permissible	
10.	Use of external consultants	Permissible	
11.	Clearing agents' commissions	Permissible	
12.	Marketing commissions	Permissible	
13.	Fees for providing credit facilities	Impermissible	The fees can be charged on the actual cost only against the study and efforts
14.	Facilities renewal fees	Impermissible	The fees can be charged on the actual cost only against the study and efforts
15.	Financing fees	Impermissible	The fees can be charged on the actual cost only against the study and efforts
16.	Deferment of installments	Impermissible	The fees can be charged on the actual cost only against the study and efforts
17.	Rescheduling	Impermissible	The fees can be charged on the actual cost only against the study and efforts
18.	Insurance on the asset	Permissible	It should be Islamic insurance (takaful)
19.	Life assurance	Permissible	It should be Islamic insurance (takaful), if available

## Topic 4

### Charges for Banking Services and Products

No. S.	Type of Service	Shari'a ruling	Shari'a requirement
20.	Guarantee	Impermissible	The fees can be charged on the actual cost only against the study and efforts
21.	Opening of account	Permissible	
22.	Closing of account	Permissible	
23.	Minimum account amount	Permissible	There should be an actual cost
24.	Cash withdrawal from ATM machine	Permissible	
25.	Request for letters, certificates or documents	Permissible	
26.	Delay penalty for the bank's account	Impermissible	
27.	Commitment to pay charity	Permissible	Should be paid to charitable organizations

**Note:** In case the bank incurs any other cost, it may charge it to the customer.





## Do you know?

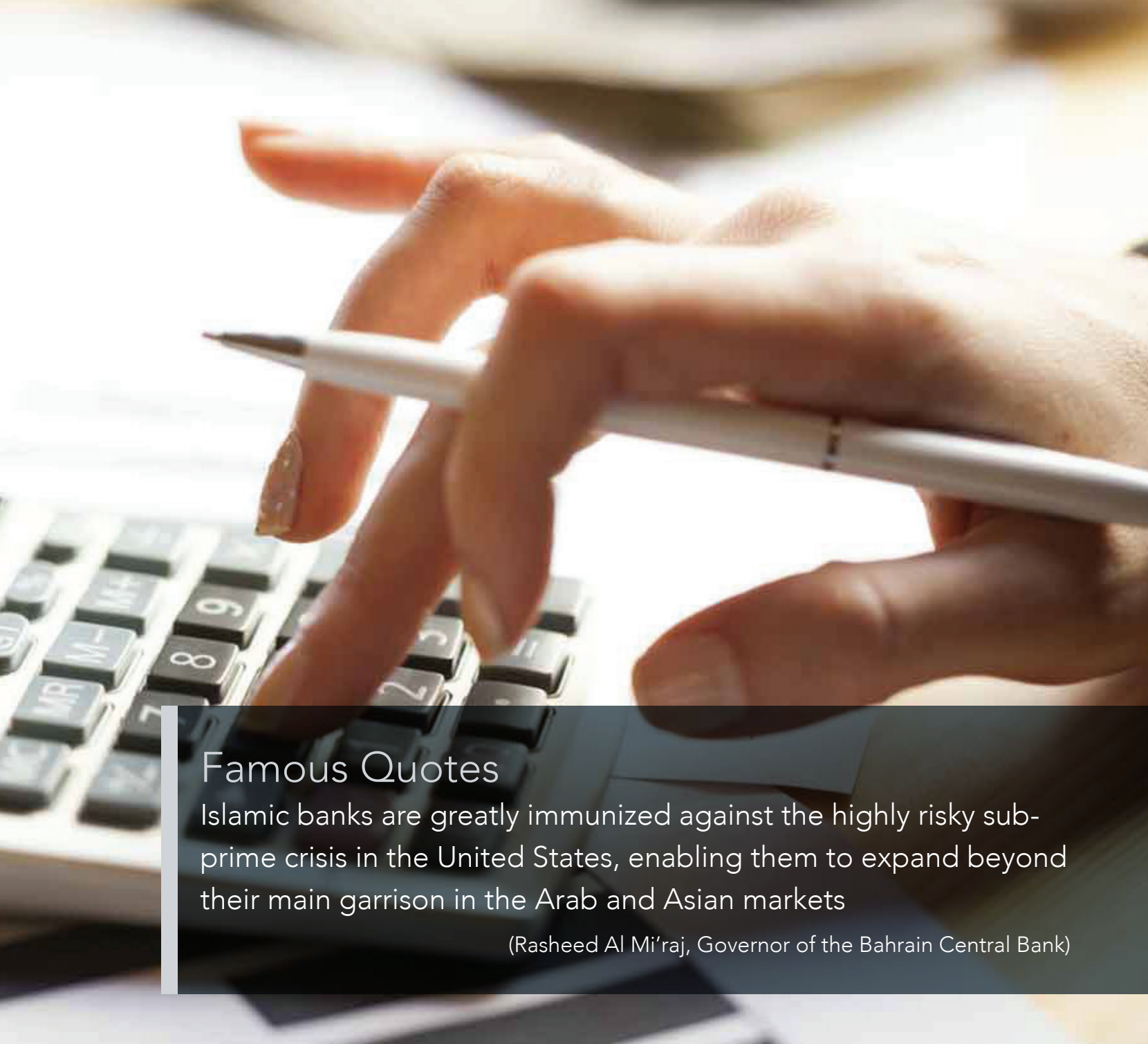
The invention of the Automatic Teller Machine goes back to the year 1939 in New York, when Luther George Simjian invented and installed it at Citibank. However, the machine was removed after six months because the idea was met with a great deal of doubt. Twenty five years later, the idea was revived when John Shepherd invented the machine because he could not obtain cash on weekend holidays (Saturdays and Sundays). He mooted the idea and offered it to the manager of the bank he was working for (Barclays). The manager asked him to make it a user-friendly machine and he would buy it from him immediately. John busied himself with making the machine for one full year trying to invent it until he made a prototype which was announced in the year 1967. Barclays Bank opened the machine which was at that time called DACS and was open round the clock. Many people predicted that the new invention would be a failure, but now it is considered one of the most widespread inventions, with statistics indicating that there are more than 1.5 ATM's all over the world. Celebrations were held in Florida in 2007 marking the 40th anniversary of this invention, and John Shepherd, who was more than 80 years old, was the guest of honour during the celebrations.

# Chapter 5

## Guarantees







## Famous Quotes

Islamic banks are greatly immunized against the highly risky sub-prime crisis in the United States, enabling them to expand beyond their main garrison in the Arab and Asian markets

(Rasheed Al Mi'raj, Governor of the Bahrain Central Bank)

# Topic 1

## Personal Guarantee and Letter of Guarantee

„Allah, the Almighty, says  
“Right graciously did  
her Lord accept her: He  
made her grow in purity  
and beauty: to the care  
of Zakariya was she  
assigned. Every time  
that he entered her  
chamber to see her, he  
found her supplied with  
substance. He said: ‘O  
Mary! Whence comes  
this to you?’ She said:  
‘From Allah: for Allah  
provides sustenance  
to whom he pleases,  
without measure.’”

Surat Al-‘Imran –The Family)  
(of ‘Imran- Verse: 37)

The Messenger of Allah,  
peace be upon Him, says,

“A man used to lend  
money to people,  
and when he found  
that one off them was  
insolvent, he used to  
say to his staff: ‘Forgive  
him, perhaps Allah will  
forgive us.’ Allah, the  
Almighty, forgave him.”

(Al-Bukhari)

### First: Definition

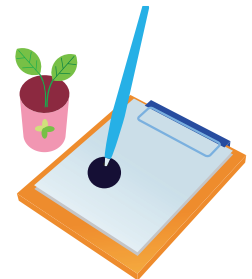
1. **Personal guarantee:** it is adding a liability to another liability.
2. **Letter of guarantee:** it is an undertaking by the bank, on the customer’s request, to pay a certain sum of money once the beneficiary demands the bank to do so within a limited period of time.

### Second: Shari’a rulings

1. The bank may stipulate for the customer to bring one surety or more or sign a joint guarantee from his company or a person to guarantee the payment of the price.
2. No remuneration may be charged or given against the personal guarantee at all, and the surety (bank) may charge actual expenses incurred in the course of suretyship against the feasibility study and preparation of the files.

### Third: Shari’a rulings governing the letter of guarantee

1. No fee or remuneration may charged for the letter of guarantee against only the guarantee, in which usually the amount of guarantee and its period are taken into account.
2. The customer may be charged certain costs incurred in issuing the guarantee, such as the costs of the feasibility study and maintenance of files, etc., provided that no extra amounts should be charged except the remuneration of the like.
3. The bank may not issue a letter of guarantee to the customer who applies for it to guarantee a usurious loan or a prohibited transaction.



# Do you know?

The first Islamic banks in the world:

1. Local Savings Banks (Egypt), 1963.
2. Nasser Social Bank (Egypt), 1963.
3. Islamic Development Bank (Jeddah), 1974.
4. Dubai Islamic Bank, UAE, 1975.
5. Faisal Islamic Bank of Sudan, 1977.
6. Kuwait Finance House, 1977.
7. Jordan Islamic Bank, 1978.
8. Faisal Islamic Bank of Egypt, 1979.
9. Bahrain Islamic Bank, 1979.

## Topic 2

# Pledge



It is narrated by Aisha, may Allah be pleased with Her, that the Messenger of Allah, peace be upon Him, bought some food from a Jew for a specified period of time and pledged his iron shield with him.” She also said: “The Messenger of Allah, peace be upon Him, died, while his shield was mortgaged.”  
(Narrated by Al Bukhari).

### First: Definition of Pledge

It is to retain an asset against right, which can be satisfied wholly or partially from it. It is also making a financial asset or its contents a security for a debt from which this debt is satisfied or from its value if payment is impossible.

### Second: Shari’a Rulings

1. It is permissible for an institution to stipulate that the customer should provide a pledge or security to secure the financing debt.
2. The contract of pledge is binding on the debtor who provides it, even if the asset so pledged is not possessed by the creditor, and thus the debtor cannot revoke the contract. The heirs shall replace the deceased in giving and receiving the benefit of the pledge, while the creditor may disclaim it unilaterally.
3. Pledge is divided into a possessory pledge (whereby the pledged asset should be in the possession of the creditor) and security or registered pledge (whereby the pledge is left in the possession of the creditor constructively).
4. All actual expenses of the pledge (except for the expenses incurred for the safekeeping of the pledge), are to be borne by the bank, and the bank is entitled to claim such expenses from the pledgor.
5. The bank is entitled, if the debtor fails to pay the debt on time, to demand the sale of the pledged asset in order to recover the amount of the debt from the sale proceeds, and to return any surplus proceeds to the debtor.
6. The pledge may be redeemed (released) at any time subject to the consent of both parties.
7. The following conditions should be fulfilled in the pledged asset:
  - It should be a property that has value, and can be possessed and sold, such as movable and immovable property.
  - It should be specified by way of reference, designation or description.
  - It should be deliverable. The pledged asset is held in trust by the creditor (bank) and it remains in possession of the customer (debtor) as long as it is pledged. If it is destroyed without negligence of trespass by the creditor, he should not guarantee it, but if the pledge is destroyed through its negligence or trespass, the creditor should guarantee it.
8. It is permissible for the pledgor to use the pledged asset with the consent of the pledgee, but the pledgee is not permitted to use the pledged asset at all.
9. The pledgor shall bear all actual expenses incurred in maintaining the pledged asset.
10. The bank may stipulate for the customer to take out Islamic insurance for the pledged asset.





## Do you know?

The Financial Markets Authority in France (Autorite des marches financiers- AMF) (which is the highest official authority concerned with the supervision of banks' activities) has earlier issued an order banning the trading of fictitious transactions and informal sales which are one of the hallmarks of the capitalist systems and has stipulated possession within no more than three days from the execution of the contract. This is consistent with the tenets and principles of Islamic jurisprudence.



# Chapter 6

## Guarantees





Do you know?

The total value of trading assets of Islamic insurance companies is in the range of \$ 700 billion.

# Islamic Insurance



The Messenger of Allah,  
peace be upon Him, says,

“When the food  
of the Ash’aris ran  
short during military  
campaigns or if their  
food supplies ran  
low in Medina, they  
would gather what  
they had in a single  
cloth, then share it  
out equally amongst  
themselves by  
measuring it with a  
bowl; they are of me  
and I am of them.”

(Narrated by Muslim).

## First: Definition

1. Islamic insurance: It is a process of agreement among a group of persons to handle the injuries resulting from specific risks to which all of them are vulnerable. A process, thus initiated, involves payment of the entire contributions as donations or donation of amounts which cover damages and the administrative expenses and the like.
2. Conventional insurance: It is a mu’awadha (mutual compensation) contract that seeks to make a profit of the insurance operation itself, and, hence, is subject to Shari’a rulings on financial dealings that involve gharar (uncertainty). Consequently, conventional insurance is prohibited in Shari’a.

## Second: Contractual relationship in Islamic insurance

1. The Musharaka (partnership) among the participants.
2. The relationship between the company and the policyholders’ fund which is a wakala relationship.
3. The relationship between the policyholders and the fund which takes the form of donation commitment at the sate of making contributions.

## Third: Principles of Islamic insurance

1. It is based on donation commitment, The company that arranges the insurance deal should maintain two separate accounts: one for its own rights and liabilities, and the other for the rights and liabilities of the policyholders.
2. The shareholding company managing the fund incurs its expenses and it owns the capital and is entitled to the returns and the fee charged to the participants on the basis of agency fee for managing the company.
3. The company that arranges the insurance deal should maintain two separate accounts: one for its own rights and liabilities, and the other for the rights and liabilities of the policyholders.
4. The company assumes the role of the agent in managing the insurance account, and the role of the Mudarib or agent in investing the insurance assets.
5. The company’s assets and the policyholders’ funds should be invested in compliance with the principles of Islamic Shari’a.

## Fourth: Types of insurance

1. Property insurance.
2. Personal insurance which includes insurance against the risk of disability and death.
3. Liability insurance.



### Fifth: Comparison between Islamic insurance and conventional insurance

Scope	Islamic insurance	Conventional insurance
Status according to Fiqh	Based on donation commitment by the participants for themselves and to protect themselves by paying contributions constituting the insurance fund managed by a committee of policyholders..	A mutual compensation contract that seeks to make profit out of the insurance operation itself, and hence it involves gharar (uncertainty).
Manager	It is a committee of policyholders or joint stock company that possesses the license of practicing insurance business on the basis of a remunerated wakala (agency) contract.	Joint stock company.
Return	Participants in insurance are entitled to the returns of their Shari'a-compliant investment of the contributions paid by them and the surplus from contributions after indemnifying injuries and damages and administrative expenses, etc.	The insured's relationship with the insurance company terminates on the execution of the insurance policy and payment of the premium.
Relationship between the company and policyholders	It is a remunerated agency contract, whereby the policyholders appoint the company as agent to manage the insurance operation and investment their contributions	The company is a principal party and its relationship is that of guratnee only.
Contribution amounts	The company does not own the contributions because they remain owned by the participants in insurance.	The insurance company owns the amounts against its commitment to pay indemnity in case of damages.
Investment of amounts	The company invests policyholders' funds under Mudaraba contract while the company and participants are entitled to returns.	1. The company invests policyholders' funds for its own account. 2. Investment in all lines of business without any regard to Shari'a principles.
Accounts	Two separate accounts, one for the shareholders and the (other for the policyholders (customers	Once account for the company
Shari'a ruling	Permissible	Impermissible

# Chapter 7

## Zakat





## Do you know?

Al Zubayr Ibn Al Awwam, may Allah be pleased with Him, used to be approached by prominent people to leave with him their properties in trust. Al Zubayr used to say: "No, it is a loan, because I fear that it may be lost." Abdulla Ibn Al Zubayr said: "I calculated his debts and found them to be dinars 2.2 million." He added: "Al Zubayr had four wives, and he set aside one third, and each of the four wives had a share of dinars 1.2 million." Some narrate that all his funds were dinars 57.6 million."

## Zakat

Allah, the Almighty, says, "And there are those who hoard gold and silver and spend it not in the way of Allah: announce unto them a most grievous chastisement. On the Day when it will be heated in the fire of Hell, and with it will be branded their foreheads, their flanks, and their backs. This is the "treasure which you hoarded for yourself, taste you, then, the (treasures) you hoarded."

(Surat Al Taubah- The Repentance- Verses 34-35).

The Messenger of Allah, peace be upon Him, says, "You spent one Dinar for the fight for the sake of Allah, one Dinar to liberate a slave, one Dinar to a poor person, and one Dinar to support your family. The most rewarded Dinar is the one that you spent on your family."

(Narrated by Muslim)

### First: Definition

**Zakat:** It is a fixed portion of money, prescribed by Allah, the Almighty, to those who are entitled to it, named in the Holy Qur'an. The word "Zakat" is given to the share set aside from the Zakatable funds. In a sound Hadith, the Prophet, peace be upon Him, said to Mu'adh, may Allah be pleased with Him, when he sent Mu'adh to Yemen: "Inform them that Allah has made it obligatory for Zakat to be taken from their rich and given to their poor." (Narrated by a group of narrators).

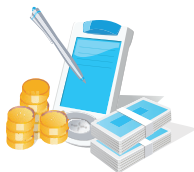
### Second: Conditions of Zakat

1. Full ownership by the person who is obligated to pay Zakat.
2. It should be growing or liable to grow constructively.
3. It should reach the Nisab (Zakatable wealth stratum) prescribed in Shari'a, as follows:
  - Nisab for funds, minerals and articles of trade (85 grams of 24 carat gold or 96 grams of 21 carat gold).
  - Agricultural products: five awsuq (i.e. 653 kilograms).
  - Livestock (cows, goats and camels), a certain percentage.
  - Rikaz: It is the treasures extracted from underground and Zakat on it is %20.
4. Funds should be free of any debts, i.e. payable debts should be deducted from the Zakatable funds.
5. One complete year should lapse from the time the Nisab is obtained, except for Zakat on agricultural products and Rikaz.
6. Funds should be lawful and pure. Evil and unlawful funds forfeit the condition of ownership, and hence they should be paid to Muslims' public interest.

### Third: Eight heads of Zakat disbursement

- 1 + 2. The poor and the needy: Those who do not have the sustenance of the day or do not have enough sustenance.
3. Those employed to administer the funds: The people employed to collect and disburse Zakat.
4. The recently reconciled to the truth: Non-Muslims who are expected to convert to Islam, or recently converted Muslims in order to strengthen them in Islam.
5. Those in bondage: Redemption of slaves (there are no slaves at present).
6. Those who are in debt: Those who are heavily in debt for lawful purposes and who do not have funds to settle their debts.





Said:

In the year 2012, the number of the world's Muslim population stood at 1.7 billion, 800 million of whom are considered poor. Of these, 600 million are below the poverty line, representing 45%. The abject poverty level is less than \$ 2 a day. Meanwhile, Zakat of the Arabian Gulf region, including the money of banks, traders and stock exchanges, totaled \$ 100 billion in 2008. If we take 20% of the daily oil revenues of Arab countries, which is around \$ 300 million, we will be able to eliminate poverty altogether.

(Dr. Mohiddin Al Qaradaghi, Professor at the College of Shari'a at Qatar University, Secretary General of the Word Federation of Muslim Scholars, expert at Fiqh Academies and Member of the European Council for Ifta'.

7. In the case of Allah: Fighters for the sake of Allah, those calling for Islam and students.
8. Stranded strangers or wayfarers: The travelers who are stranded away from their families.

#### Fourth: Method of calculation of Zakat

1. The available funds should first be calculated, to determine whether they have reached Nisab or not, by using the following formula:
2. The value of one gram of gold on the day Zakat is paid  $\times 85$  = The Nisab amount (i.e. the minimum amount for paying Zakat. If the balance is below this minimum no Zakat is due on the funds).
3. Available funds  $\times (2.5 \text{ when Zakat is paid for the Hejra year and } 2.5775 \text{ for the Gregorian year})$ , divided by 100 = the amount to be disbursed. Using another method, the available amounts divided by 40 = the amounts to be paid.

#### Fifth: General rules governing Zakat

1. The rule is that Zakat should be paid when due. However, it may be delayed in emergencies and in exceptional circumstances.
2. Zakat does not lapse by prescription.
3. It is permissible to expedite payment of Zakat before it is due if necessary.
4. It is not necessary to pay Zakat to the eight categories mentioned above, and may be paid only to one or some of them.
5. If the person paying Zakat does not have the money to pay, Zakat becomes a debt due from him, which should be paid as it becomes available with him.



## Zakat

It is related that Abu Sa'id al-Khudri said

"No Zakat is due on less than five camels. No Zakat is due on anything less than five uqiya of silver, and no Zakat is due on less than five wasqs."

(Agreed upon Hadith)

What coins were used during Prophet Mohammed's period? Coins during the Prophet's times were taken from the Romans (dinars) and the Persians (dirhams). One uqiya was worth 40 dirhams. The weight of the dirham was variable, until Abdul Malik Ibn Marwan gathered the scholars who made every ten dirhams seven mathaqeel. One mithqal of gold weighs 27 grains of barley of an average size. One dirham was weighing 50 average grains, and Abdul Malik's dinar was equal to 4.25 grams X 20 (one quarter of ten) = 85 grammes.

### 6. Rulings governing payment of Zakat to relatives:

Relative	Ruling	Remarks
Parents	Impermissible	They should be provided for.
Grandfather and grandmother	Impermissible	They should be provided for.
Sons and daughters	Impermissible	They should be provided for.
Wife	Impermissible	They should be provided for.
Husband	Permissible	Provided that he should be one of the categories mentioned earlier.
Brothers and sisters	Permissible	Provided that they should be one of the categories mentioned earlier.
Father's brothers and sisters	Permissible	Provided that they should be one of the categories mentioned earlier.
Mother's brothers and sisters	Permissible	Provided that they should be one of the categories mentioned earlier.
Other relatives	Permissible	Provided that they should be one of the categories mentioned earlier.



## Sixth: Table of Zakat rate for contemporary transactions

### 1) Zakat on funds

Type	Ruling	Remarks
Gold, silver, diamonds, precious stones and other articles of trade or investment	Zakatable	A rate of 2.5% of their market value should be paid.
Gold and silver for the woman's personal use	Non-Zakatable	It is not Zakatable if used during the year and within the limits of usage and custom. However, if the quantity is large and more than the custom, Zakat should be paid on the amount exceeding custom and usage, at the rate of 2.5%.
Diamonds, precious stones and platinum for personal use	Non-Zakatable	According to Dr. Yousuf Al Qaradawi, if the quantity is large and more than the custom, Zakat should be paid on the amount exceeding custom and usage, at the rate of 2.5%..
Bank notes (cash)	Zakatable	2.5%.
Balance of current accounts	Zakatable	2.5%.
Balance of savings account and deposits of all types	Zakatable (Zakat should be paid on principal and profit).	2.5%.
Stocks for trading purposes	Zakatable	Zakat should be paid on the market value on the day Zakat is paid.
Stocks for retention and to benefit from their dividends	Value is not Zakatable	<ol style="list-style-type: none"> <li>1. If the company announces the percentage, Zakat should be paid for every share X the number of</li> <li>2. Another opinion is that Zakat should be paid only on their collected dividends, at the rate of %2.5 if they continue to be owned for one year, or they may be added to the cash and Zakat is paid on the total amount. shares.</li> </ol>

## Zakat

Type	Ruling	Remarks
Employee's entitlements in pension and social security funds not yet collected	Non-Zakatable	The reason is that the employee cannot dispose of them. If collected and one year passes, Zakat should be paid on them with other funds.
Employee's monthly salary	Non-Zakatable	---
Employee's provident and savings schemes	Zakatable	<ol style="list-style-type: none"> <li>1. The funds paid by the employee are Zakatable by adding them to the amounts held by the employee, at the rate of %2.5</li> <li>2. The dividends or amounts not paid by the employer: Non-Zakatable after they are collected, because they are a donation. However, if they remain for one year, Zakat should be paid on them.</li> </ol>
Movement in accounts' monthly balances due to withdrawals and deposits, etc.	Zakatable	All amounts are added to the principal amounts on the time Zakat is paid, and then Zakat is paid for the entire amount, at the rate of 2.5%, even if one year does not pass for some of the funds. Another opinion is that Zakat is only due on the funds after one year passes.
Amounts saved for marriage, pilgrimage or to buy a car, house etc.	Zakatable	Zakat should be paid after one year, if they are not used for the intended purpose.
Personal residential property, furniture and private vehicles	Non-Zakatable	----
Property available for sale, i.e. for trading purposes (land or building under construction or building available for sale) owned by a trader who sells and buys properties	Zakatable	Zakat is paid on the market value every year if one year passes.
Property available for lease	Non-Zakatable	Zakat is paid only on its rental income, which should be added to the cash and Zakat should be paid on the balance. Some scholars believe that Zakat should be paid on all the income every year.



Type	Ruling	Remarks
Property held by a person not engaged in selling and buying properties, but only sells at time of need or if prices rise	Non-Zakatable	Zakat is due at the time of sale if one year passes even if it is owned for more than one year
Goods available for sale, such as trading assets in stores	Zakatable	Zakat is paid at the end of the year, at the lower of (the purchase price and market price). Many scholars believe that they should be calculated at the market price
Buildings of factories and their equipment, production tools and machinery	Non-Zakatable	---
Debts owned from other people	Zakatable	Zakat should be paid when collected, so long as one year or more passes.
Debts owned to other people	Non-Zakatable	No Zakat should be paid if retired, according to the opinion of the majority of scholars. If they are not paid off, Zakat should be paid on them according to one opinion, while no Zakat should be paid according to another opinion.
Inheritance funds after they are collected	Zakatable	Zakat should be paid after one year from collection.
Charitable Waqf funds	Non-Zakatable	---
Family Waqf funds	Zakatable	Zakat should be paid at the rate of 2.5%.
Yields of the sea for trading purposes	Zakatable	Zakat should be paid at the rate of 2.5%.



## Zakat

### 2) Zakat on agricultural products and fruits

Type	Ruling	Remarks
Different types (grains, dates, barley, etc.)	Zakatable	The Nisab for agricultural products and fruits is as follows: Applicable Zakat is 5% if irrigated. .1 Applicable Zakat is 10% if non-irrigated. .2 Applicable Zakat is 7.5% if partially irrigated. .3
Projects under process in agricultural installations	Non-Zakatable	
Accessories of production, such as fertilizers, pesticides, rapping and packing materials	Non-Zakatable	
Land leased by the farmer	Zakatable	Zakat should be paid pro rata the shares of the farmer and the landowner.

### 3) Zakat on livestock (camels, cows and goats)

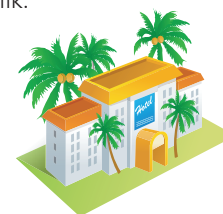
Type	Ruling	Remarks
Livestock used for trading purposes	Zakatable	Zakat on items of trade is applicable (2.5%)
Livestock used in plowing, carrying and irrigation	Non-Zakatable	---
Other animals (other than camels, cows and goats)	Non-Zakatable	Zakat should be paid only on those which are used for trade. Animals owned for adornment or use are not Zakatable.
Milk, wool and chickens' eggs	Non-Zakatable	Zakat should be paid only on what is owned for trade
Chickens acquired for production	Non-Zakatable	---
Camels, cows and goats fed through free grazing	Zakatable	According to the following table

Goats		
Rate		Zakat
From	To	
40	120	1 Goat
121	200	2 Goats
201	300	3 Goats
For more than 300, one goat for every 100 goats.		

Camels		
Rate		Zakat
From	To	
5	9	1 goat
10	14	2 goats
15	19	3 goats
20	24	4 goats
25	35	Bint Makhad camel (at the second year of age)
36	45	Bint Laboon camel (at the third year of age)
46	60	Hiqqah camel (at the fourth year of age)
61	75	Jatha'ah camel (at the fifth year of age)
76	90	2 Bint Laboon
91	120	2 Hiqqah
121	129	3 Bint Laboon
For more than 129, one Bint-laboon for every 40 camels and one Hiqqah for every 50 camels.		

Cows		
Rate		Zakat
From	To	
30	39	Tabee'a or Tabee'ah
40	59	Musinnah
60	69	2 Tabee'a or 2 Tabee'ah
For more than 129, one Tabee'a		
Tabee'a or tabee'ah is one year old cow. Musinnah is the two years old cow		

- Bint Makhad came: one year old camel, and it is given this name because her mother is pregnant.
- Bint Laboon camel: two year old camel, and it is given this name because her mother is producing milk.
- Hiqqah camel: three year old camel, and it is given this name because it is fit for riding.
- Jatha'ah camel: four year old camel who has dropped its front teeth.











The Messenger of Allah, peace be upon Him, says, "For any of you to take a rope and go to a mountain where he gathers a bundle of dry wood and carries it on his back to sell it, thus sparing himself the need to beg, is better than seeking other people's help, be it readily forthcoming or denied. The reason is that the upper hand is better than the lower hand, and so start with your family." (Narrated by Muslim)



## Conclusion

Finally,  
Islamic economics in general, and Islamic banking in particular, are witnessing a remarkable growth and development, accelerated by wide acceptance of them by people and their understanding of their objectives as a system not established by human beings. It is a divine system with all its general principles and rules and it has been implemented by pioneering scholars, who drew from the light of Islam and its objectives this art, until it reached the state it has reached.

Perhaps by writing this book we have been endowed with success from Allah, the Almighty, in determining the principles and rules of this art. Eventually, the role is for practitioners to contribute to its development and publication.

Allah is the purveyor of success.







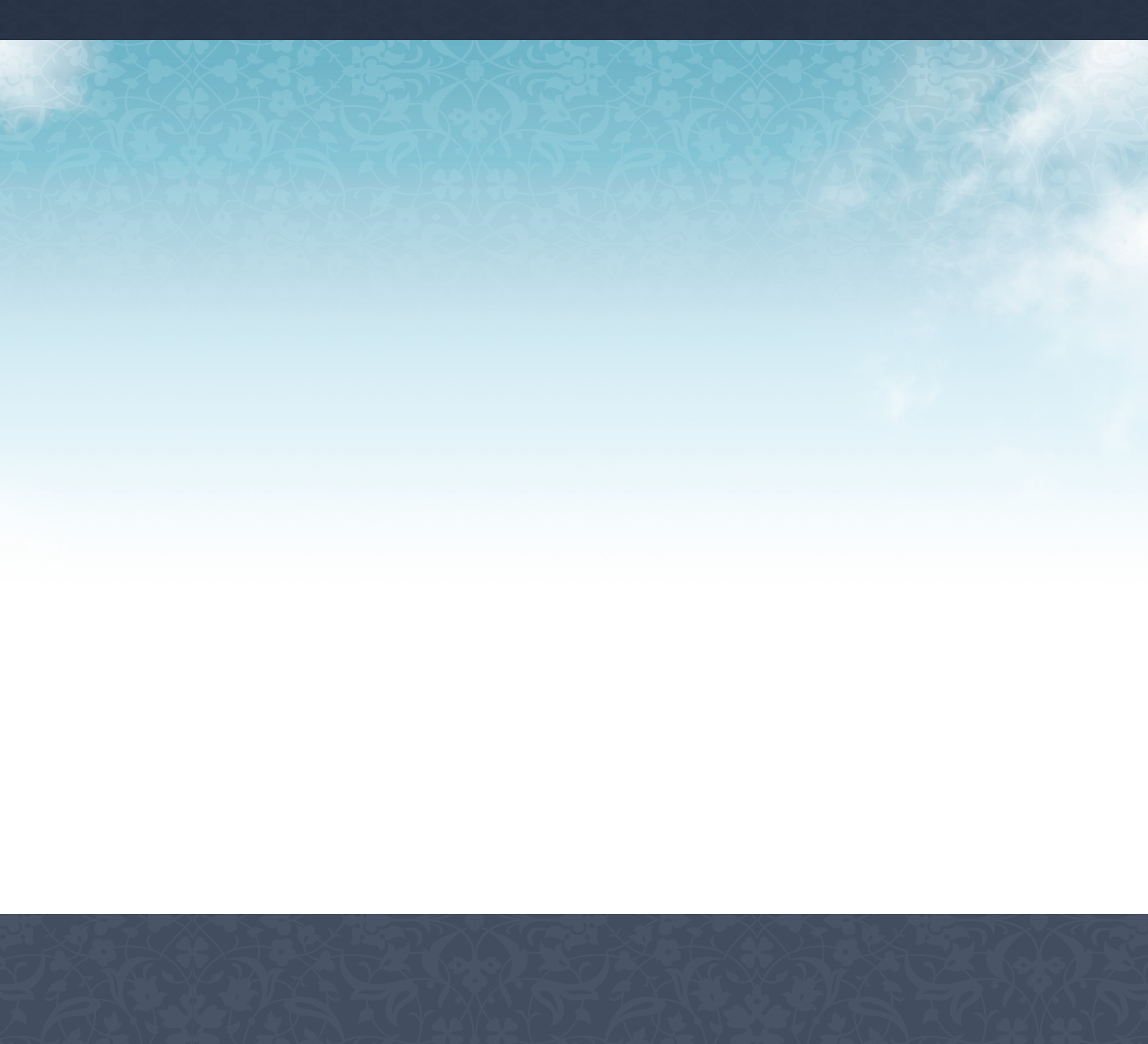
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# Notes







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