

7 Aims/ Objectives of the “Islamic Finance” Course

Islamic Finance

The principal objective of this course is to impart knowledge and expertise in the field of Islamic banking and finance. It enables the student to understand the basis of Islamic banking and finance; differentiate the elements between the Islamic financial system and its conventional counterpart. The course will also cover the theories and concepts of the Islamic financial instruments used in the industry.

Specific Objectives

After the successful completion of the course, participants will:

- Have a basic understanding of:
 - Islamic Shariah and economic system
 - The concept of Riba, Gharar, Qimar and other prohibited activities
 - Islamic Law of contract, sales and purchase
- Be able to differentiate between Islamic and conventional banking
- Understand the concepts of Takaful, Securitization and Sukuk
- Understand the rules of agency contract (Al Wakalah)

7.1 Syllabus

Islamic Finance

Course Topics:

1. Islamic Banking - Introduction, Background & Global Scenario
 - a) Islamic Shariah
 - b) Shariah; key to understanding Islamic banking
 - c) Sources of Shariah
 - d) The concept of lawful and unlawful as per Shariah
 - e) Islamic economic system
 - f) Architecture of Islamic Financial System
 - g) Objectives of Islamic economics and finance vs. capitalism and socialism
 - h) The concept of wealth in Islam
 - i) Objectives of distribution of wealth in Islam
 - j) Factors of production in Islam and their compensations
 - k) Concept of free and fair market system in Islam

2. Concept of Riba, Gharar and Qimar and other Prohibited Activities
 - a) Riba - Quran, Hadith, definition and types
 - b) Arguments against commercial interest
 - c) Gharar, Qimar and Gambling

3. Islamic Law of Contract
 - a) Basic elements of contract void and valid conditions
 - b) Uqood Muawadha and Ghair Muawadha

4. Islamic Law of Sale
 - a) Subject matter, price, delivery & possession
 - b) Bai Batil, Bai Fasid, Bai Makrooh
 - c) Prohibited transactions in Islam
 - d) Khayar, Iqala

5. Comparison of Islamic and Conventional Banking
 - a) Conceptual difference between Islamic and conventional banking
 - b) Difference between the governing principles
 - c) Business model differentiation
 - d) Product level differentiation
 - e) Features of Islamic banking (Liability/Assets)
 - f) Concept of reward and risk under shariah

6. Categories of Islamic Modes of Finance
 - a) Trade based modes
 - b) Participation based modes
 - c) Rental based modes
 - d) Disclosed agent, non disclosed agent
 - e) Wakalatul Istismar contract (portfolio management)
 - f) Differentiate Waadah (unilateral promise), Muawadah (bilateral promise), Aqd (contract) Dhamanat
 - g) Guarantee, mortgage, liquidated damages, letter of guarantee, collateral

7. Islamic products

Murabaha

- a) Introduction to Murabaha
- b) Murabaha as a financing mode
- c) Murabaha terminology and its variants
- d) Characteristics and essentials of Shariah compliant Murabaha
- e) Practical steps for Murabaha transactions
- f) Issues and mistakes in Murabaha: Rebate in early payment, penalty on late payment
- g) Difference between Murabaha based financing and conventional bank lending
- h) Risks for Islamic banks in Murabaha transactions
- i) Scope and application of Murabaha

Ijarah

- a) Basic rules of Ijarah
- b) Lease as a mode of Islamic financing
- c) Rights and Obligations of lessor and lessee
- d) Conditions of Ijarah/Lease
- e) Differentiating Islamic Ijarah from conventional leasing
- f) Sharia alternative to the finance lease-Ijara Muntahia Bitamleek

Musharakah

- a) Terminology and characteristics of Musharakah
- b) Type and basic rules of Musharakah
- c) Termination of Musharakah
- d) Constructive liquidation of Musharakah
- e) Security/collateral in Musharakah
- f) Profit/loss distribution
- g) Application of Musharakah as a mode
- h) Problems and risks for banks in Musharakah financing

Diminishing Musharakah

- a) Concept of diminishing Musharakah
- b) Basic features of diminishing Musharakah
- c) Steps in a diminishing Musharakah transaction
- d) Lease rentals in diminishing Musharakah
- e) Unilateral promise and transfer of ownership title
- f) Diminishing Musharakah as a financing mode

Mudarabah

- a) Mudarabah defined
- b) Mudarabah capital
- c) Profit/loss distribution
- d) Unrestricted and restricted Mudarabah
- e) Difference between Mudarabah and Musharakah
- f) Termination of Mudarabah
- g) Scope of Mudarabah for banking system
- h) Problems and risks for Islamic banks providing Mudarabah based financing

Salam

- a) Salam : Definition and concept
- b) Background and purpose of Salam
- c) Rules for valid Salam contract
- d) Difference between Salam and Murabaha
- e) Taking delivery of Salam goods
- f) Parallel Salam
- g) Application of Salam and parallel Salam
- h) Risks in Salam application
- i) Scope and potential Salam

Istisna

- a) Concept and definition of Istisna
- b) Rules for valid Istisna contract
- c) Payment in Istisna
- d) Difference between Salam and Istisna
- e) Parallel Istisna
- f) Application of Istisna and parallel Istisna
- g) Risks associated with Istisna
- h) Application of Istisna in Islamic corporate finance

8. Liability products of Islamic banks

- a) Deposit (Liability) management in Islamic Banks
- b) Profit calculation mechanism and weightages

9. Concept of Takaful (Islamic Insurance)
 - a) Basic concept of Takaful
 - b) How it is different from insurance
 - c) Models of Takaful

10. Overview of Securitization and Sukuk
 - a) Securitization of Musharakah, Mudarabah & Ijarah Liquidity management through securitization
 - b) Sukuk Al-Ijara
 - c) Corporate finance transactions with live examples
 - d) Islamic asset and fund management

11. Introduction to AAOIFI standards
 - a) Overview of salient features of Accounting Standards of various modes
 - b) Adaptation of AAOIFI Standards by ICAP
 - c) Islamic banking framework given by SBP

7.2 Specific Learning Objectives (SLOs)

Islamic Finance

Specific Learning Objectives	Candidates Learning Outcome	Cognitive Level		
1 Islamic Banking - Introduction, Background & Global Scenario	Candidates should be able to:	K	U	A
	a. Explain the concept of Islamic Shariah		*	
	b. Explain the importance of Shariah in Islamic banking		*	
	c. List the sources of Shariah	*		
	d. Describe the concept of lawful and unlawful as per Shariah		*	
	e. Explain the concept of free and fair market system in Islam		*	
	f. Discuss the global scenario of Islamic banking and its impact on traditional banking practices		*	
	g. Explain the architecture of an Islamic financial system and discuss its effectiveness		*	
	h. Differentiate between Islamic economics and finance and capitalism and socialism		*	
	i. Explain the concept of wealth in Islam		*	
	j. Explain the objectives of wealth distribution in Islam		*	
	k. Describe the factors of production in Islam and their compensations		*	
2 Concept of Riba, Gharar and Qimar and Other Prohibited Activities	Candidates should be able to:	K	U	A
	a. Define Riba in the lights of Quran and Hadith	*		
	b. Explain the various types of Riba		*	
	c. Discuss the point of view of Islamic banking on interest		*	
	d. Differentiate between the concepts of Gharar and Qimar and explain why these are prohibited under Islamic Shariah		*	
	e. Describe the other activities that are termed as prohibited under Islamic finance		*	
3 Islamic Law of Contract	Candidates should be able to:	K	U	A
	a. Define the Islamic law of contract	*		
	b. Explain the basic elements of an Islamic contract		*	
	c. Explain the scenarios under which an Islamic contract is termed void or valid		*	
	d. Analyze the scenarios under which an Islamic contract is termed void or valid			*
	e. Define Uqood Muawadha and explain its importance in Islamic law of contract		*	
	f. Define Uqood Ghair Muawadha and explain its importance in Islamic law of contract		*	

4	Islamic Law of Sale and Purchase	Candidates should be able to:	K	U	A
		a. Differentiate between the concepts of Bai Batil, Bai Fasid and Bai Makrooh		*	
		b. Analyze the prohibited transactions under Islamic law of sale and purchase			*
		c. Explain the concepts of subject matter, price and delivery and possession under Islamic law of sale and purchase		*	
		d. Describe the concept Khiyar and discuss the conditions under which Khiyar can be exercised		*	
		e. Describe the concept of Iqala and discuss the conditions under which it can be exercised		*	
5	Comparison of Islamic and Conventional Banking	Candidates should be able to:	K	U	A
		a. Differentiate between the concept of Islamic and conventional banking		*	
		b. Differentiate between the governing principles and business model frameworks of Islamic and conventional banking		*	
		c. Discuss the product level differentiation among the various products offered by Islamic and conventional banks		*	
		d. Differentiate between the conceptual differences that exist in the documentation requirements of Islamic and conventional banking		*	
		e. Differentiate the nature of relationship between customer and bank under Islamic banking		*	
		f. Explain the concept of risk and reward under Islamic Shariah		*	
6	Categories of Islamic Modes	Candidates should be able to:	K	U	A
		a. Identify the categories of Islamic modes of financing	*		
		b. List the characteristics of trade based Islamic modes	*		
		c. List the characteristics of participation based Islamic modes	*		
		d. List the characteristics of rental based Islamic modes	*		
		e. Analyze the factors on which trade based, rental based and participation based modes differ			*
		f. Differentiate between a disclosed agent and a non-disclosed agent		*	
		g. Explain the concept of 'Wakalatul Istismar Contract (Portfolio Management)' under Islamic Shariah		*	
		h. Differentiate among Waadah (unilateral promise), Muawadah (bilateral promise) and Aqd (contract)		*	
		i. Describe the handling of trade finance under Islamic banking		*	
		j. Describe Dhamanat under Islamic Banking - guarantee, mortgage, liquidated damages, letter of guarantee, collateral		*	

7	Islamic Products	Candidates should be able to:			
		Murabaha	K	U	A
		a. Explain the concept of Murabaha and describe its variants as a financing mode used in Islamic financing		*	
		b. Explain the characteristics and essentials of Shariah compliant Murabaha		*	
		c. Explain the practical steps for Murabaha transactions		*	
		d. Discuss the scope and application of Murabaha in global Islamic banking practices		*	
		e. Discuss the common issues and mistakes that occur while dealing with Murabaha transactions		*	
		f. Differentiate between Murabaha based financing and conventional bank lending		*	
		g. Describe the possible risks Islamic banks may face while dealing in Murabaha transactions		*	
		h. Analyze the scenarios where Islamic banks may face non compliance risk in Murabaha transactions			*
		i. Analyze the scenarios where Islamic banks may face risks while dealing in Murabaha transactions			*
		Ijarah	K	U	A
		a. Explain the concept and basic rules governing Ijarah		*	
		b. Discuss the rights and obligations of a lessor and lessee		*	
		c. Recall the important conditions of Ijarah/lease	*		
		d. Explain the concept of Ijarah Muntahia Bitamleek		*	
		e. Distinguish Islamic Ijarah from conventional leasing		*	
		f. Illustrate lease as a mode of Islamic financing			*
		g. Discuss the salient conditions of an Ijarah agreement		*	
		Musharakah	K	U	A
		a. Explain the concept and characteristics of Musharakah		*	
		b. Describe the types and basic rules of Musharakah		*	
		c. List the conditions for termination of Musharakah	*		
		d. State constructive liquidation of Musharakah	*		
		e. Describe the types of security/collateral used under Musharakah financing		*	
		f. Describe the handling of profit/loss distribution under Musharakah financing		*	
		g. Discuss the problems and risks for banks while dealing with Musharakah financing		*	
		h. Analyze the scenarios for possible problems and risks that may exist for banks while dealing with Musharakah financing			*

Diminishing Musharakah	K	U	A
a. Explain the concept of Diminishing Musharakah		*	
b. Explain the basic features of Diminishing Musharakah based on Shirkat ul Milk		*	
c. Describe all the steps involved in a Diminishing Musharakah transaction		*	
d. Explain the concept of lease rentals in Diminishing Musharakah		*	
e. Explain unilateral promise and transfer of ownership title under Diminishing Musharakah transactions		*	
f. Discuss the role of Diminishing Musharakah as a financing mode under Islamic banking		*	
Mudarabah	K	U	A
a. Explain the concept and characteristics of Mudarabah		*	
b. Describe the handling of profit/loss distribution under Mudarabah		*	
c. Differentiate between unrestricted and restricted Mudarabah		*	
d. Differentiate between Mudarabah and Musharakah		*	
e. Explain the conditions of Mudarabah termination		*	
f. Describe how Mudarabah finance capital is generated		*	
g. Discuss the scope of Mudarabah for banking system		*	
h. Identify the problems and risks for Islamic banks providing Mudarabah based financing	*		
i. Analyze the scenarios for possible problems and risks that may exist for Islamic banks providing Mudarabah based financing			*
Salam	K	U	A
a. Explain the concept, background and purpose of Salam		*	
b. List the rules for a valid salam contract	*		
c. Differentiate between Salam and Murabaha contract/agreement		*	
d. Describe the underlying conditions for taking delivery of Salam goods		*	
e. Explain the concept of parallel Salam		*	
f. Differentiate between the application of Salam and parallel Salam		*	
g. Describe the possible risks that can arise while dealing in Salam contracts		*	
h. Discuss the scope and potential of Salam in global Islamic banking practices		*	

	Istisna	K	U	A	
	a. Explain the concept and basic rules governing a valid Islamic Istisna		*		
	b. Explain the concept of payment in Istisna		*		
	c. Differentiate between Salam and Istisna contract		*		
	d. Define parallel Istisna	*			
	e. Differentiate between the application of Istisna and parallel Istisna		*		
	f. Explain application of Istisna in Islamic corporate finance		*		
	g. Describe the possible risks that can arise while dealing in Istisna contracts		*		
	h. Analyze the scenarios for possible risks that can arise while dealing in Istisna contracts			*	
8	Liability products of Islamic banks	Candidates should be able to:	K	U	A
	a. Explain the concept of deposit (liability) management in Islamic Banks		*		
	b. Differentiate the handling of deposits between Islamic and conventional banks		*		
	c. Describe the profit calculation mechanism and weightages assignment method as used in liabilities management in Islamic banks		*		
9	Concept of Takaful (Islamic Insurance)	Candidates should be able to:	K	U	A
	a. Recall the basic concept and characteristics of Takaful		*		
	b. Differentiate between Insurance and Takaful		*		
	c. List the popular models of Takaful being used by Islamic banks today		*		
10	Overview of Securitization and Sukuk	Candidates should be able to:	K	U	A
	a. Define the concept of securitization		*		
	b. Define securitization of Musharakah, Mudarabah & Ijarah		*		
	c. Define liquidity management through securitization		*		
	d. Explain the concept of Sukuk al Ijarah		*		
	e. Illustrate the concept of corporate finance transactions under the Islamic banking			*	
	f. Discuss the methodology of assets and fund management as per Islamic banking concepts		*		
11	Introduction to AAOIFI standards	Candidates should be able to:	K	U	A
	a. Recall salient features of accounting standards of various modes		*		
	b. Define AAOIFI		*		
	c. Explain the adaptation of AAOIFI (Accounting and Auditing Organization for Islamic Finance Institutions) Standards by ICAP (Institute of Chartered Accountants of Pakistan)		*		
	d. List the Shariah standards adopted by Pakistan		*		
	e. Discuss the Islamic banking framework given by the SBP		*		