



# 1<sup>st</sup> IIR Islamic Finance & Real Estate Forum

04.-05. Nov. 2008 Frankfurt/a.M.

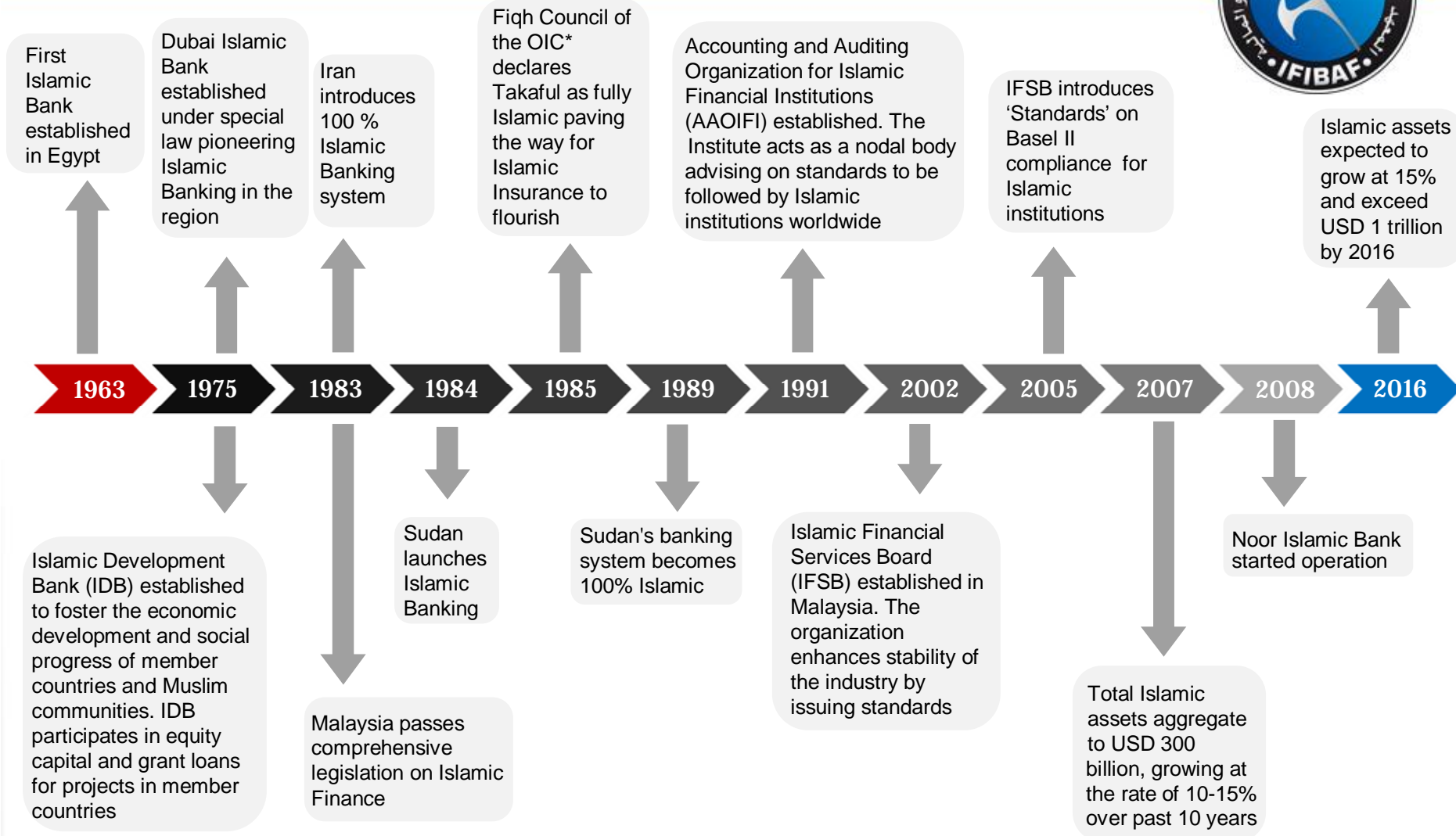
**Jalalle Chahboune**

Director (IFIBAF)

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## Short history of Islamic Finance



•Note: \* Organization of Islamic Conference  
 •Source: AAOIFI, IFSB, IDB, Islamic Finance News, News Run

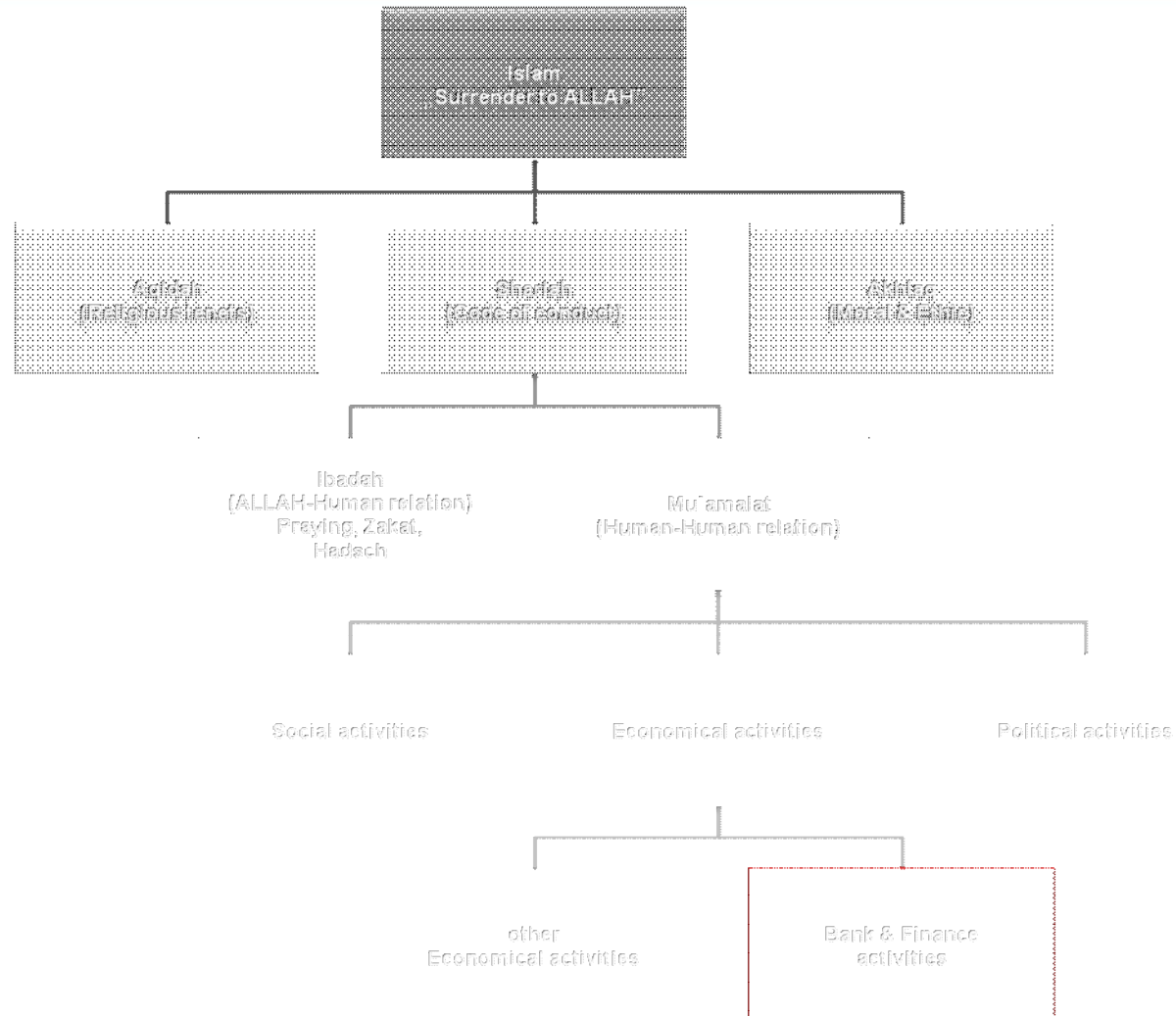


## Foundations & sources of Islamic Law



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- **Quran (Text of God)**
  - The highest and most authentic authority in Islam
- **Sunnah (Word or acts of the Prophet)**
  - Literally: "well known path". Technical sense: Actions instituted by Prophet Mohammad (pbuh).



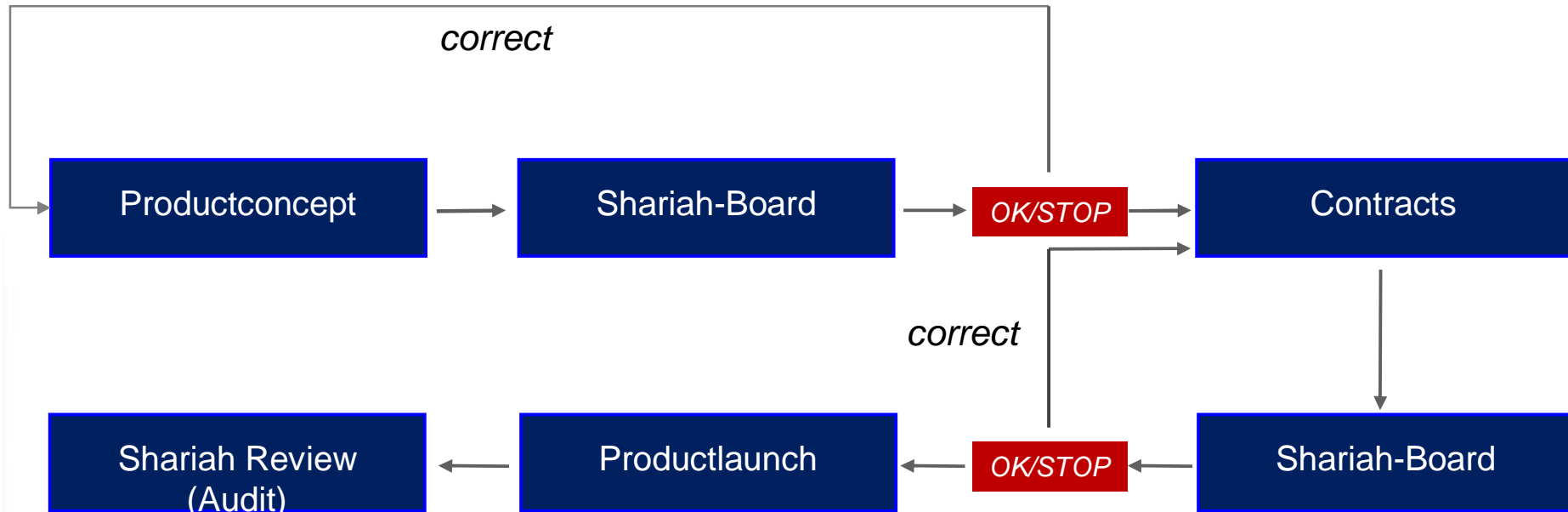


## Foundations & sources of Islamic Law

- **Authorities on Interpretations**
  - 4 sunni schools (madhabs) of thoughts (Hanafi, Hanbali, Maliki, Shaafi'i) and the Shia school of thought (Jaafari).
- **Shariah Board**
  - Three or more qualified Shariah scholars who are both respected in the religious community and knowledgeable enough about modern finance to evaluate new products and to communicate their opinions effectively.



## Certification process

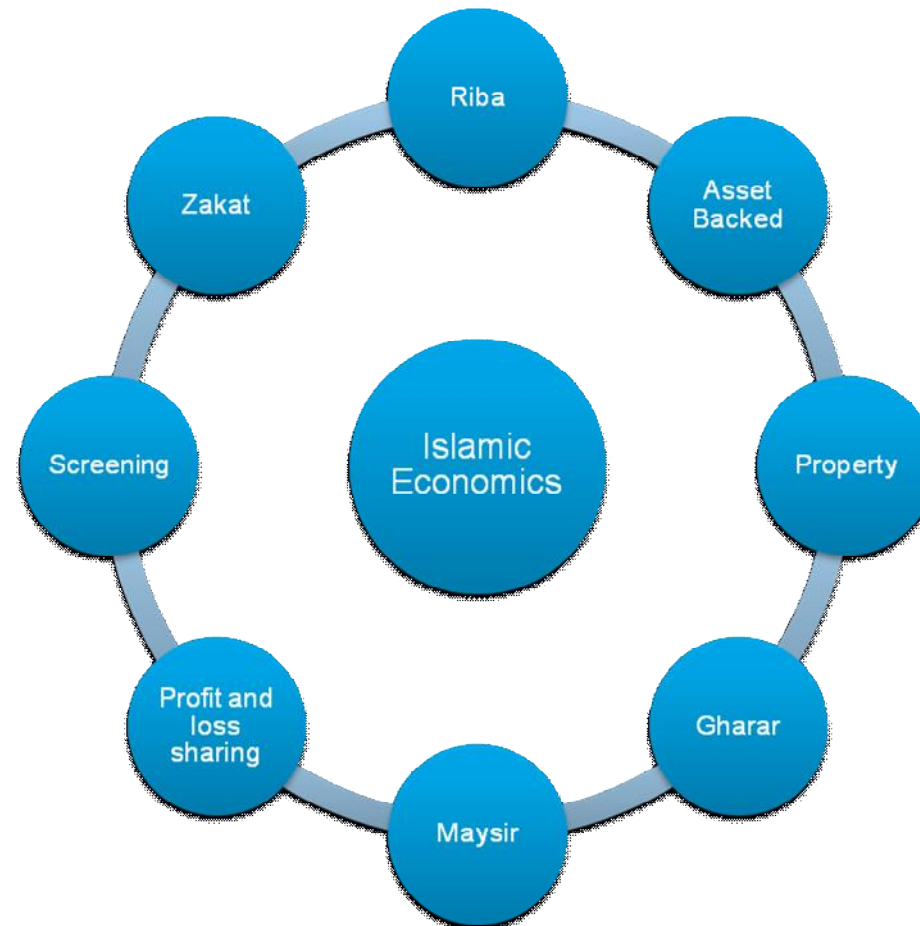




## Main prohibitions



## Main prohibitions





# Islamic Finance overview

## Banking and finance needs

### Primary Shariah sources

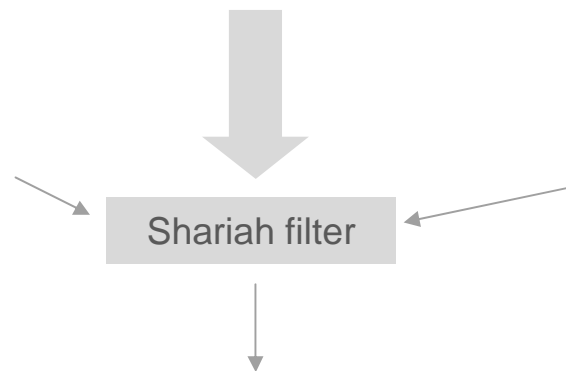
- Quran
- Sunna

### Secondary Shariah sources

- Idschma (jurist consensus)
- Qijas (analogy)
- Idschtihad (reasoning)

### Fiqh ul-Muamalat contracts

- Musharaka
- Mudaraba
- Murabaha
- Ijara
- Istisnaa
- Salaam



## Islamic banking and finance solutions

- Prohibition on:
- Interest
- Speculation
- Gambling

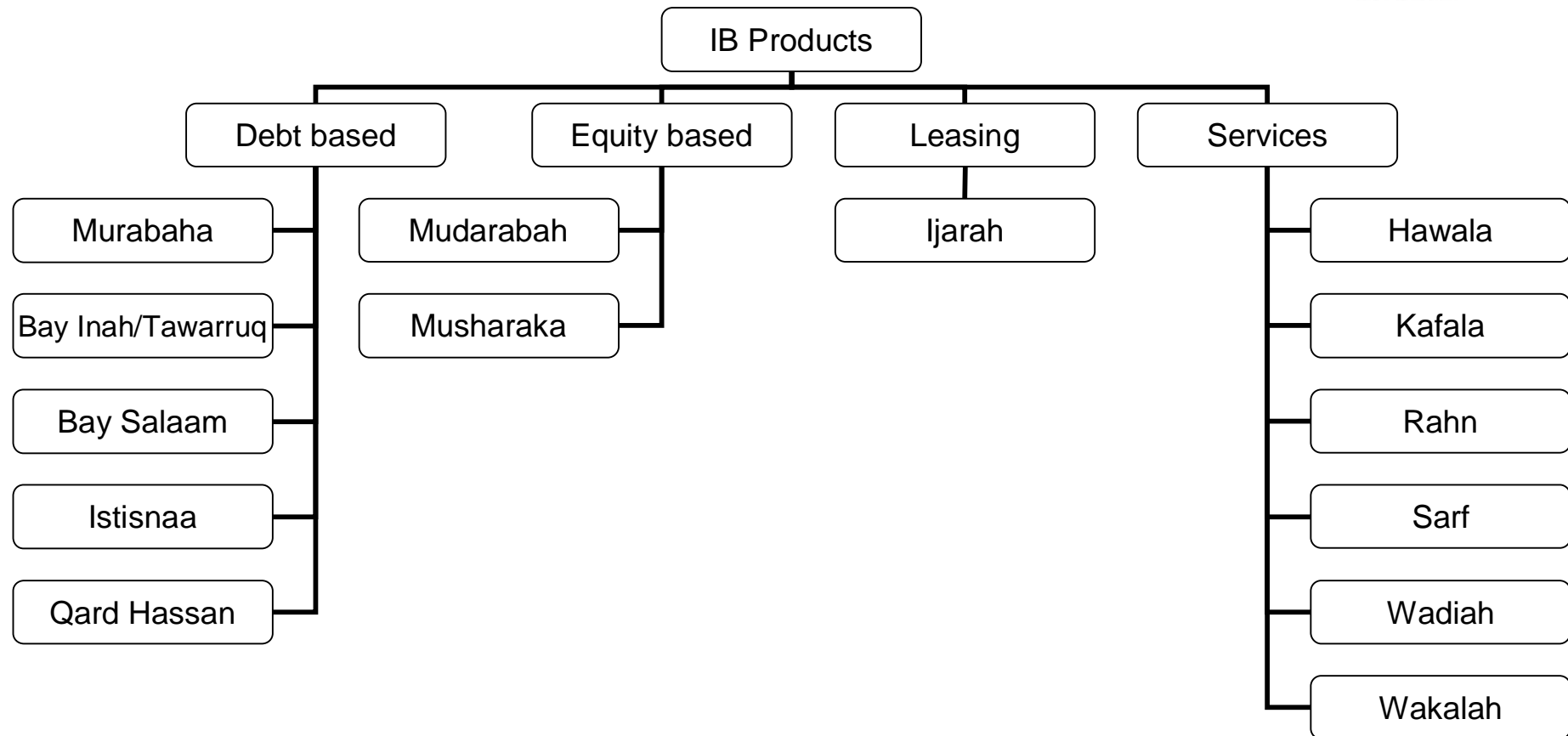
- Prohibition of certain investments:
- Sectors (e.g.: alcohol, armaments, financial services, gambling, pork, pornography, tobacco)
- Instruments (e.g. no forward transactions, limited option use, no derivatives, short-selling)

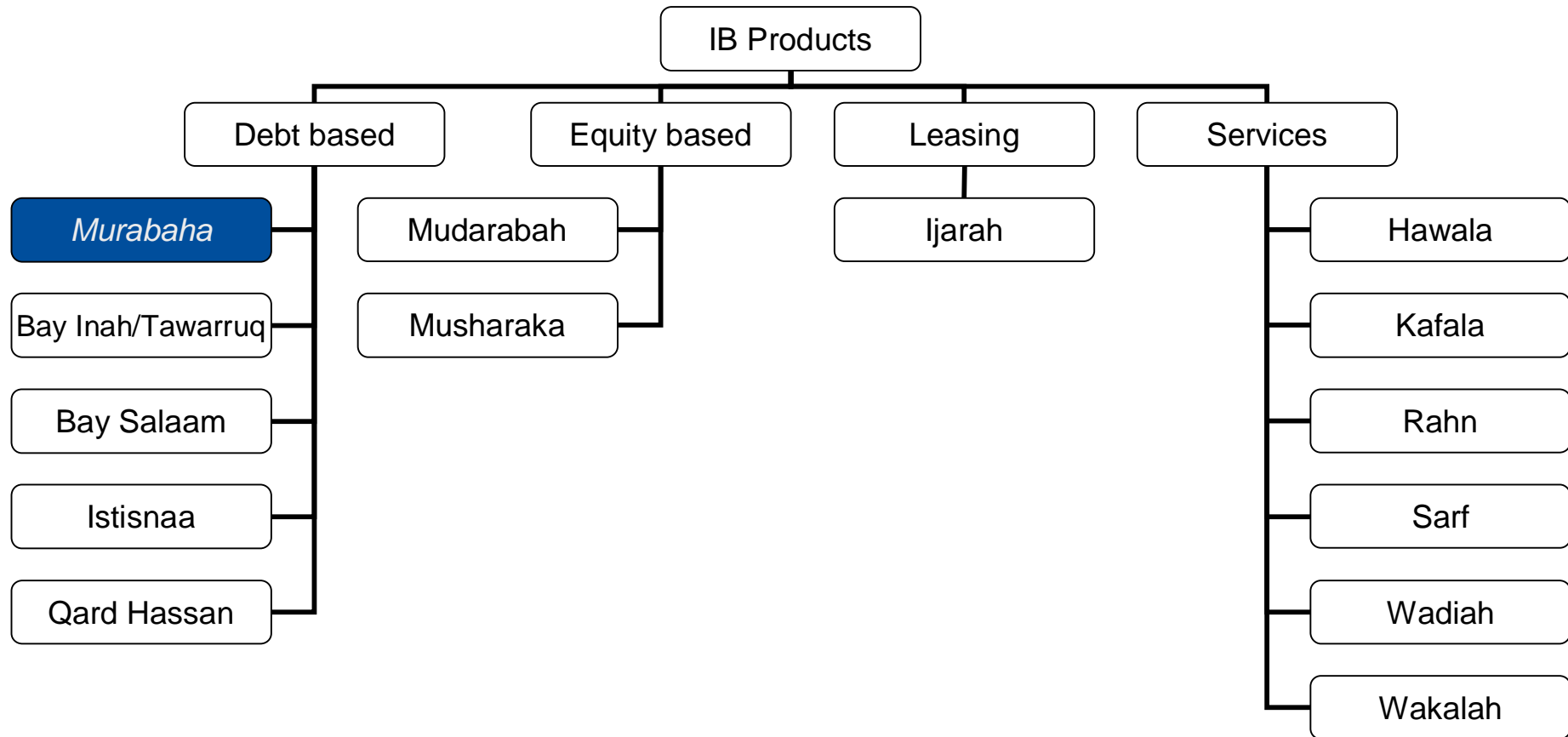
Asset-backed transactions with investments in real, durable assets

Credit and debt products are not encouraged



## Overview of the financial modes



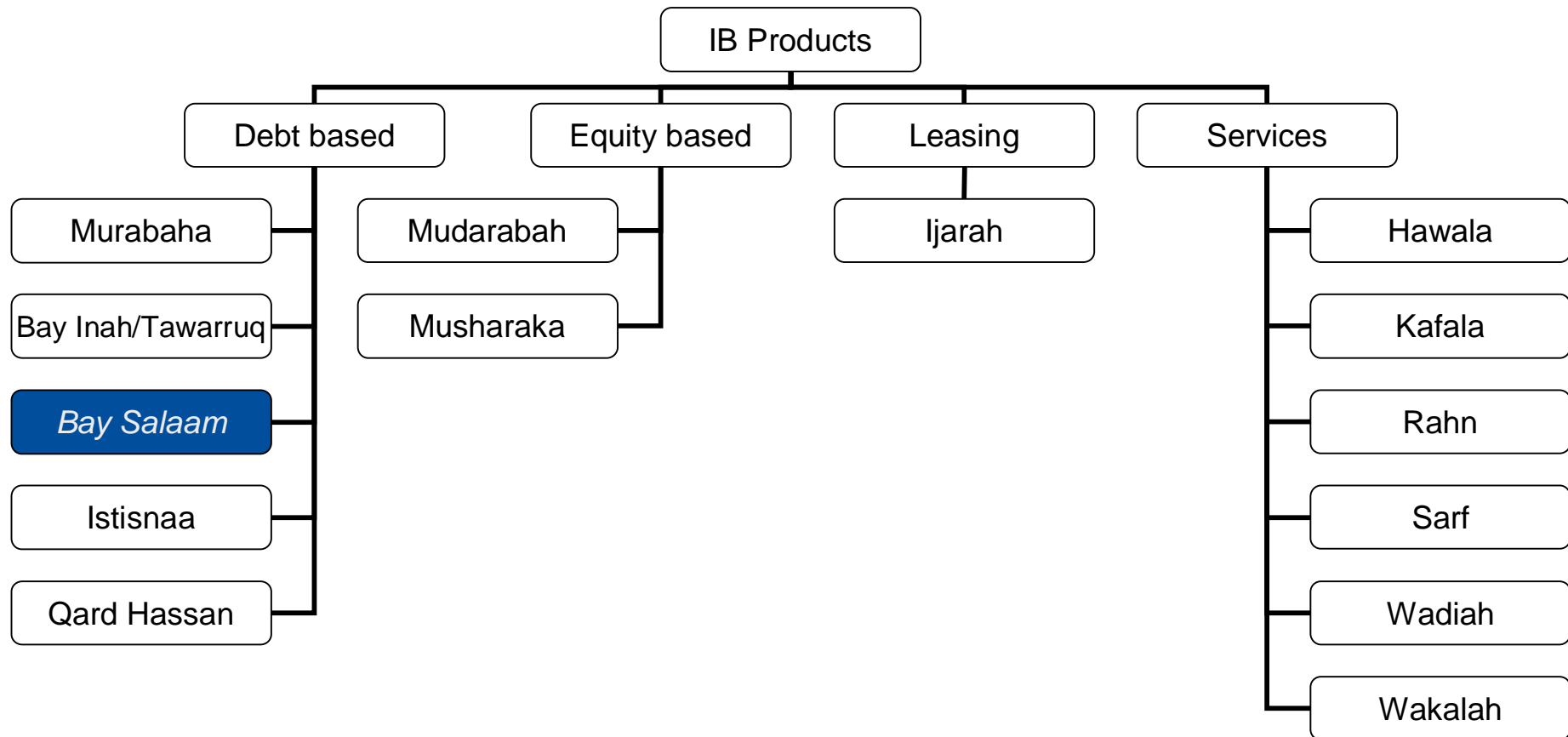




## Murabaha (mark – up – Sale)

Contracts in which a Investor purchase goods upon the request of a client, who makes deferred payments that cover the cost and an agreed-upon profit margin for the Investor. It is the most widely used instruments in Islamic finance.

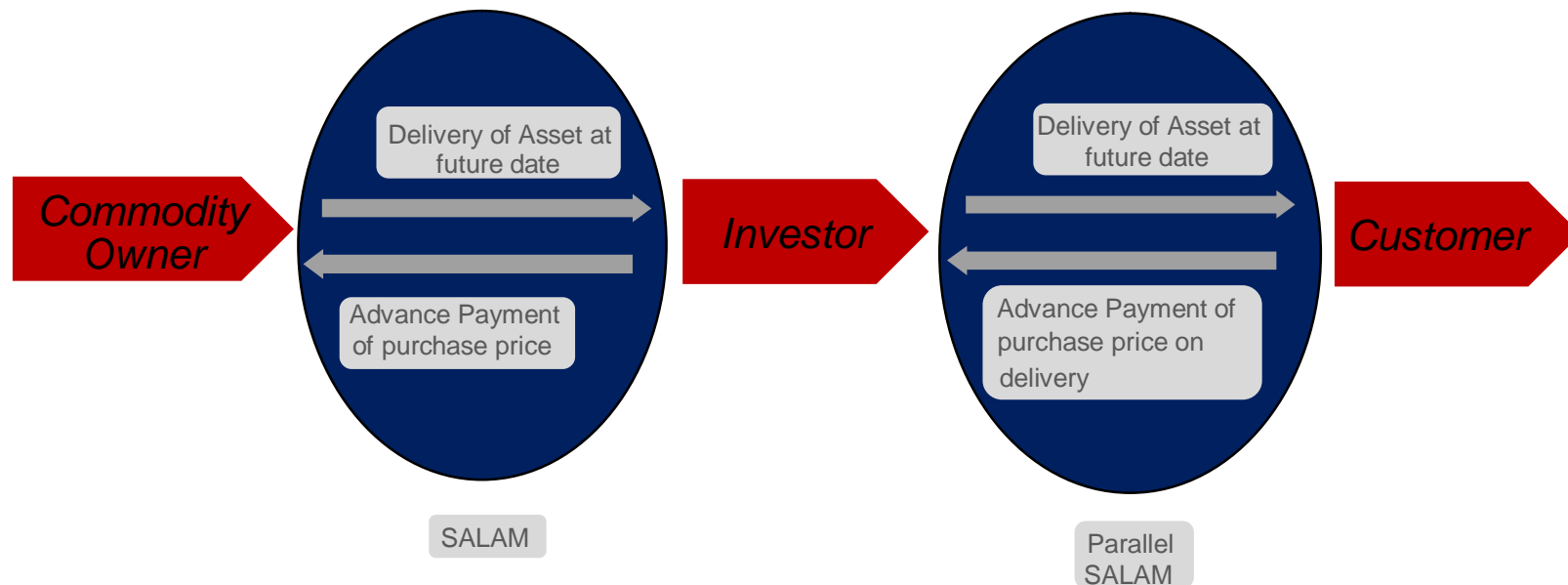


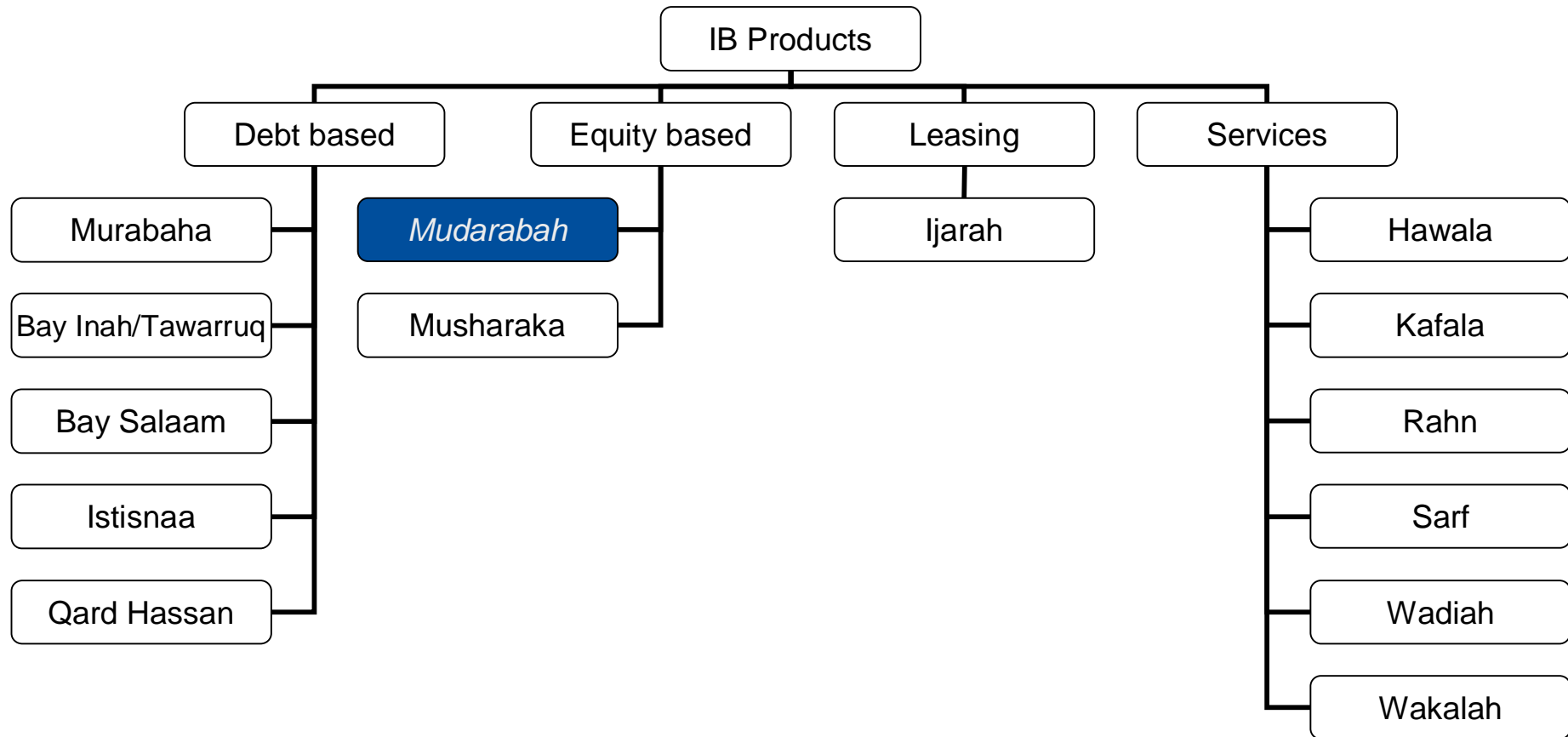




## Bay Salam (Advance Payment)

A Salam is a short term agreement in which a Investor makes full prepayments for future delivery of a specified quantity of goods on a specified date. A Salam is primarily a deferred delivery sale contract usually used for commodity finance. It is similar to a forward where delivery is in the future in exchange for spot payment. To mitigate the asset risk the Investor can enter into a “parallel” Salam.

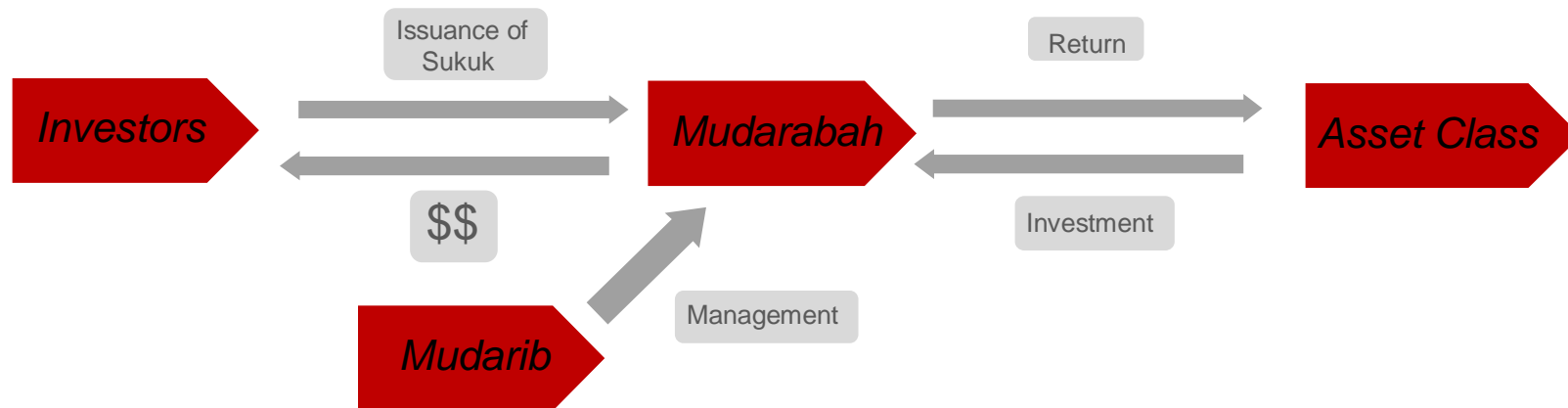


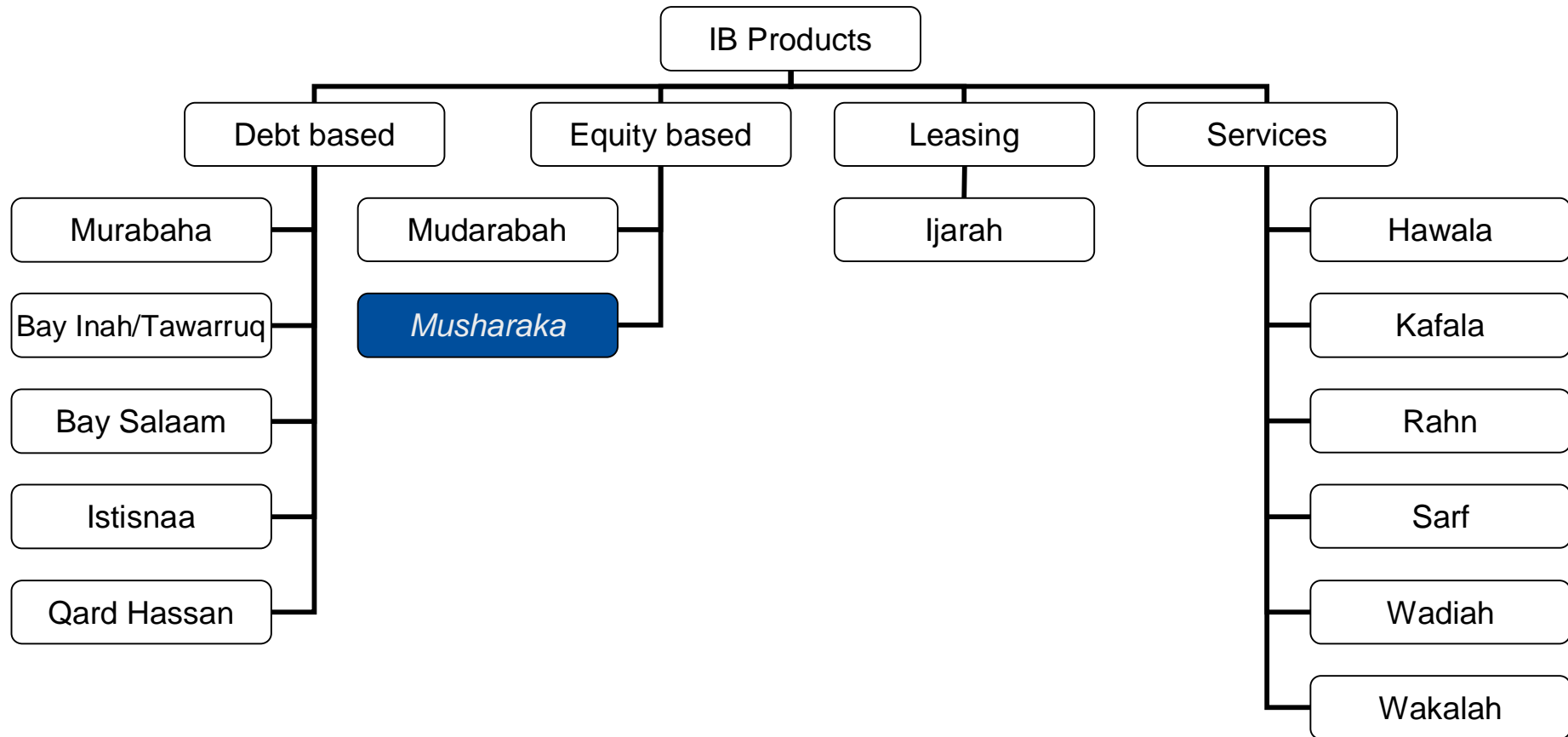




## Mudarabah (Joint Venture)

Is a contract between investors, acting as silent partners, and a Investor, acting as a fiduciary/manager, to invest in an activity or a pre-determined asset class that earns each partner an agreed- upon profit portion of the investment. Mudarabah investments may be made for a fixed terms and arranged through negotiable instruments (called Sukuk)

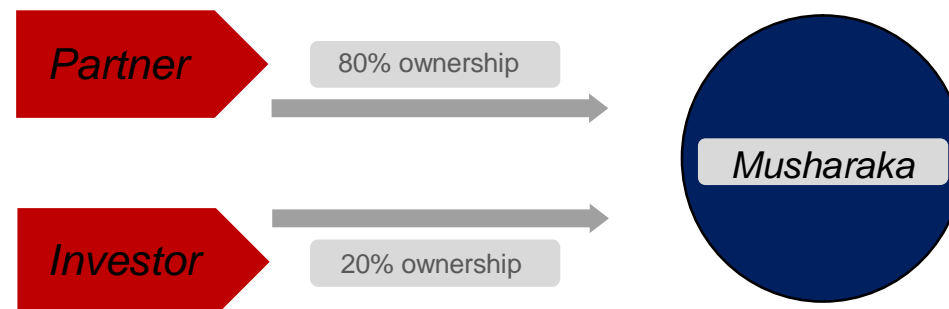


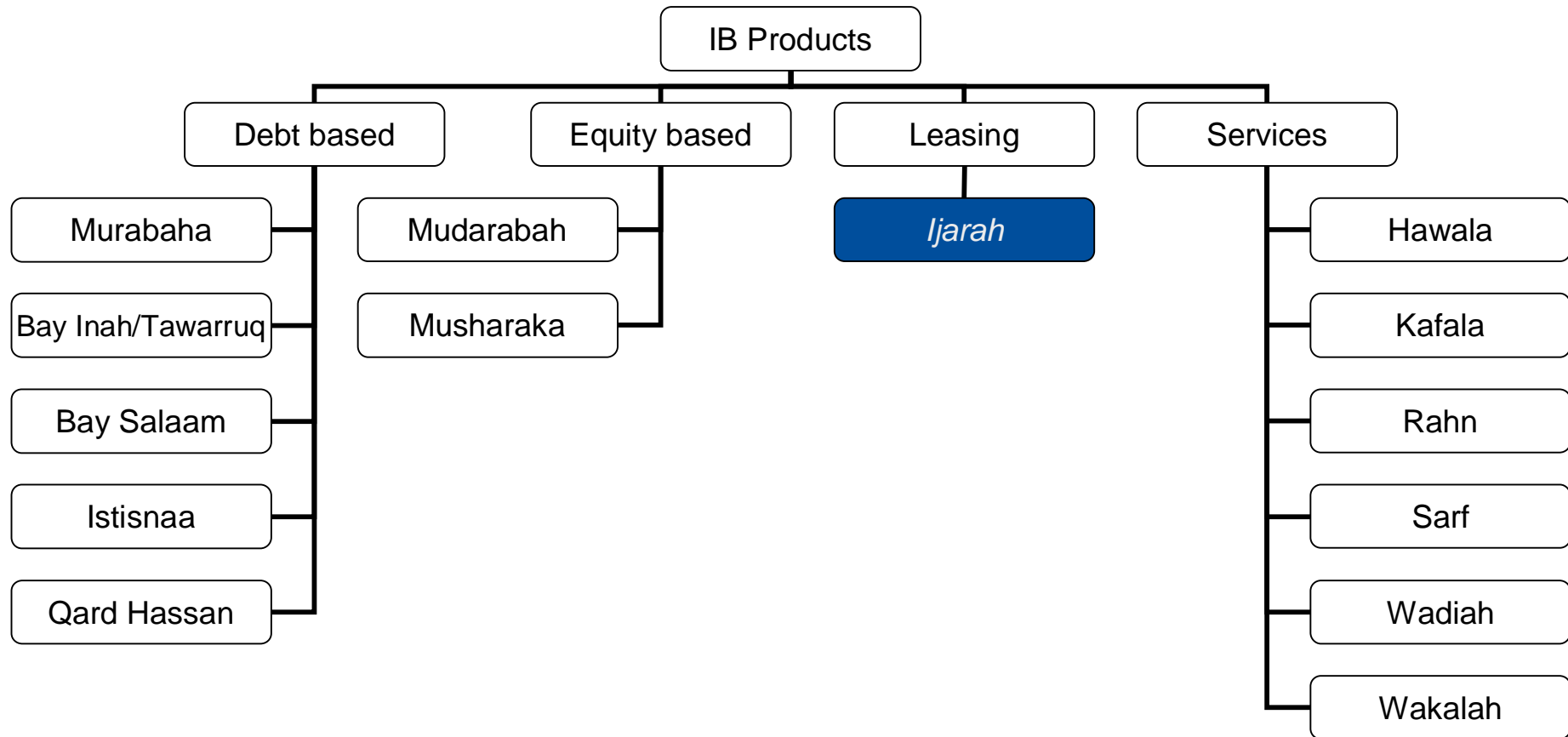




## Musharaka (Venture Capital)

A Musharaka is a partnership between the Investor and an enterprise in which the Investor supplies working Capital. The Investor and its partner share the profits which may be different from the proportions of capital contributed . Alternative: “Diminishing Musharaka” whereby the partner agrees to buy out the Investor’s share over a period of time







# Ijarah

Ijarah is a lease purchase contract in which a Investor purchase equipment or property and lease it to a Company (Operating Lease)





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