KUALA LUMPUR DECLARATION

The Second Strategic Roundtable Discussion, jointly organized by the International Shari'ah Research Academy for Islamic Finance (ISRA), the Islamic Research and Training Institute (IRTI) and Durham University, met on 20th September 2012 in Lanai Kijang, Kuala Lumpur.

After lengthy deliberations on the issue of risk sharing, the participants acknowledged that the financial crisis which started in 2008 highlighted the fact that the most salient feature of the dominant conventional financial system is the transfer of risks away from financial institutions onto customers, governments and the public at large. Islamic finance is in a unique position to offer an alternative to the present interest-based debt financing regime that has brought the whole world to the edge of collapse. Bearing this in mind, the second annual ISRA-IRTI-Durham Strategic Roundtable Discussion (2012) agreed on the following:

- The Shari’ah emphasizes risk sharing as a salient characteristic of Islamic financial transactions. This is not
only exemplified in equity-based contracts, like *musharakah* and *mudarabah*, but even in exchange contracts, such as sales and leasing, whereby risk is shared by virtue of possession.

- Risk transfer and risk shifting in exchange contracts violate the Shari’ah principle that liability is inseparable from the right to profit.
- Sales must be genuine transactions in open markets.
- Although the Shari’ah recognizes the permissibility of debt, it is acknowledged that excessive debt has detrimental effects on society.

The recommendations of the Roundtable Discussion are as follows:

1. Governments should endeavour to move away from interest-based systems towards enhancing risk-sharing systems by levelling the playing field between equity and debt.

2. Accordingly, governments should increase their use of fiscal and monetary policies based on risk sharing.

3. Governments could issue macromarket instruments that would provide their treasuries with a significant source of non-interest-rate-based financing while promoting risk sharing, provided that these securities meet three conditions: (i) they are of low denomination; (ii) are sold
on the retail market; and (iii) come with strong governance oversight.

4. There is a need to broaden the organizational structures beyond traditional banking models to formats such as venture capital and *waqfs* to fulfil the social goals and risk-sharing features of Islamic finance.