

# **Challenges Facing Islamic Finance: Research Areas**

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# CAUTION

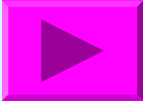
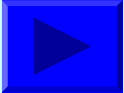

- Avoid re-inventing the wheel.
- Recognize the distinctive nature of Islamic banking and the associated needs.
- Avoid controversies without sacrificing the Truth.

The above considerations are our guide.

# Agenda

1. The Need for a Common Fiqh
2. The Basic Theory of Islamic Finance, with focus on Banking
3. Financial Instruments and Products
4. Covers for Bank Financing
5. Banking Manuals & Pricing Formulas
6. Accounting
7. Regulation and Control
8. Legal Framework

# 1. The Need for a Common Fiqh

- Significance
- State of the Contemporary Fiqh 
- Need for a New Methodology with emphasis on the Qur'an and the Sunnah 
- Renewed Focus: Solution-orientation 

## 2. The Basic Theory

- Rationale for Islamic Banks
- The Role Function of Islamic Banks
- The Nature of Islamic Banks, as Institutions
- Micro Foundations for Islamic Banking
- Tools for Islamic Banking
- Working of the Islamic Banks

# 3. Financial Instruments and Products

- Deposit Mobilization
- Financing
- Liquidity Management
- Mega Financing, esp. Govt. Financing
- Regulation and Control of Islamic Banks
- Simple Instruments
- Divisible and Tradable Instruments

### 3. Financial Instruments . . .

- **Principal Consideration:**

A financial instrument must replicate the entire transaction process from the bank's point of view, for example, from the moment the bank enters into financing till the moment the last penny is recovered.

- **The entire process, as above, must be Shari'ah-compliant.**

## 4. Covers for Bank Financing

- Virgin area
- Constraints: The necessary cover should not negate the basic goal of financing.
- The issue of penalty on the defaulters

# 5. Banking Manuals and Pricing Formulas

- Shari'ah Manuals
- Regular Banking Manuals
- Formulas for Pricing Islamic Financial Products

## 6. Shari'ah-Compliant Accounting

- Shari'ah considerations for property rights should be reflected in the accounting principles as well as procedures.
- In the order of priority, the transparency and other considerations come after, not before, Shari'ah-compliance

# 7. Regulation and Control

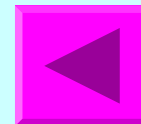
- Regulation and control along with the Shari'ah principles for contracts
- Issues raised by the Basel protocols
- Limit the role of Islamic banks to financing
- Checks against misuse of Islamic financial instruments
- The Shari'ah Audit

# 8. Legal Framework

- The existing position
- New challenges

# 1a Contemporary Fiqh

- A Committee Approach
- Negligible change in the methodology inherited from the past
- The notion of Ijtehad
- Reliance on Qawaed Al-Fiqhiyyah

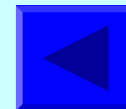


# 1b Some Principles for Interpreting the Qur'an

- A consolidated look at all the Ayat
- Proper allowance for the nature of the Qur'an as Spoken Word of Allah SWT
- Role of the Sunnah
- Balance in the emphasis on the Ahkam and their purpose
- Role for the Arabic language

# 1b Some Principles for the Hadith

- Unconditional respect
- Authentication
- Interpretation versus derivation of the Ahkam
- Link between the Qur'an and the Hadith
- Consolidated look at the Ahadith
- Focus on the message rather than the words in the Hadith texts



# 1c Renewed Focus

- The Shari'ah principles and search for solutions to contemporary problems in light thereof
- Search for what the Shari'ah desires, rather than what the Shari'ah prohibits

