

**Ecole Supérieure des Affaires
Securities & Investment Institute**

**Islamic Finance
Qualification**

Effective from November 2006

ISLAMIC FINANCE QUALIFICATION

For examinations from November 2006

VERSION 1

AIM OF THE EXAMINATION

To equip candidates with a practical understanding of Islamic finance;
Provide candidates with an understanding of the influence of Shariah in a business context;
Prepare candidates to hold key positions in the Islamic finance and Takaful (Islamic Insurance) industries.

OBJECTIVES OF THE EXAMINATION

To test candidates' knowledge of:
The general principles of Islamic Finance
Islamic contracts
Islamic banking activities
Financial statements in Islamic banks
Governance in Islamic institutions
Islamic investment funds
Sukuk
Takaful

ASSESSMENT STRUCTURE

A 2 hour examination consisting of 100 multiple choice questions.

SYLLABUS STRUCTURE

The syllabus is divided into **elements**. These are broken down into **sections** and then into a series of **learning objectives**.

Each learning objective begins with one of the following prefixes: **know, understand, be able to calculate or be able to apply**. These words indicate the different levels of skill to be tested. Learning objectives prefixed:

- **Know** require the candidate to recall information such as facts, rules and principles
- **Understand** require the candidate to demonstrate comprehension of an issue, fact, rule or principle
- **Be able to calculate** require the candidate to be able to use formulae or tax rates to perform calculations
- **Be able to apply** require the candidate to be able to apply their knowledge to a given set of circumstances in order to present a clear and detailed explanation of a situation, rule or principle

ISLAMIC FINANCE QUALIFICATION

For examinations from November 2006

EXAMINATION SPECIFICATION

Each examination paper is constructed from a specification that determines the weightings that will be given to each unit. The specification is given below.

It is important to note that the numbers quoted may vary slightly from examination to examination as there is some flexibility to ensure that each examination has a consistent level of difficulty. However, the number of questions tested in each unit should not change by more than 2.

ELEMENT	Questions
2	3
3	14
4	29
5	10
6	8
7	10
8	12
9	8
Application	6
TOTAL	100

ISLAMIC FINANCE QUALIFICATION

For examinations from November 2006

IFQ WORDLIST

Candidates should be familiar with the following Arabic terms:

A'qd	Qard
Arbun	Qard al Hassan
Bai al Inah	Quran
Fatwa (Fatawa, plural)	Rab al Mal (Arab al Mal, plural)
Fiqh	Rahn
Fiqh al Muamalat	ReTakaful
Gharar	Riba
Hadith (Ahadith, plural)	Riba al-Fadl
Halal	Riba an-Naseeyah
Haram	Sadaqat
Hawala	Salam
Ijara	Sarf
Ijara Muntahia Bitamleek	Sharia'a
Ijara wa Iqtina	Sukuk
Istisn'a	Sunnah
Kafala	Tabarru'
Muamalat	Takaful
Mudaraba	Tawarruq
Mudarib	Wa'd
Murabaha	Wakil
Musharaka	Zakat
Parallel Salam	

ISLAMIC FINANCE QUALIFICATION

For examinations from November 2006

ELEMENT 1: Introduction to Islam	
On completion, the candidate should	
1.1.1	<i>Know</i> the place of Sharia'a in Islam
1.2.1	<i>Know</i> the sources of Islamic law <ul style="list-style-type: none">- The Quran- The Sunnah- Ijma'- Qiyas- Ijtihad
1.3.1	<i>Know</i> the authorities responsible for interpreting the Quran and Sunnah <ul style="list-style-type: none">- The Scholars within the Schools of thought- The Islamic Fiqh Academy- The Scholars
1.4.1	<i>Know</i> the role of the Sharia'a Supervisory Board
ELEMENT 2: Introduction to Islamic Banking and Finance	
On completion, the candidate should:	
2.1.1	<i>Know</i> the main sources of understanding for the application of Islamic Guidance to commerce: <ul style="list-style-type: none">- Quran- Sunnah- Sharia'a- Fiqh
2.2.1	<i>Understand</i> the concepts underlying Islamic finance: <ul style="list-style-type: none">- Moral guidance governing property and wealth given through the Quran, ahadith and custom- Why riba (interest) is forbidden- The obligation to make charitable distributions: zakat (obligatory) and sadaqat (voluntary)- The role of trade and investment in wealth creation- The avoidance of riba through profit and loss sharing in an enterprise or negotiated price in sale or lease transactions
2.3.1	<i>Know</i> the historical development of modern Islamic finance and banking: <ul style="list-style-type: none">- The beginnings of Islamic banking- Islamic banking in the GCC countries- Islamic banking in Southeast and South Asia- Islamic banking in Europe and America
2.4.1	<i>Know</i> the regulatory bodies overseeing Islamic finance and banking:

ISLAMIC FINANCE QUALIFICATION

For examinations from November 2006

	<ul style="list-style-type: none">- The Regulators (central banks or other authorities)- The standard-setters (AAOIFI and IFSB)- Other Institutions supporting the development of Islamic finance and banking
2.5.1	<i>Know</i> the components of the Islamic finance and banking industry: <ul style="list-style-type: none">- The banks- The Sharia'a-compliant equity markets- The market for Sukuk (Islamic bonds)- The Islamic insurance companies - Takaful- The waqf properties (Islamic charitable trust)- The zakat funds (funds constituted of charitable obligatory tax)-
2.6.1	<i>Know</i> the operating structures and organisational forms adopted by Islamic financial institutions: <ul style="list-style-type: none">- The windows model- Branches- Subsidiaries- Independent Islamic banks-
2.7.1	<i>Know</i> the constraints / challenges on the development of the Islamic banking and finance industry
ELEMENT 3: Islamic Law of Contracts	
On completion, the candidate should	
3.1.1	<i>Understand</i> the ethical underpinning to Islamic finance
3.2.1	<i>Know</i> the Islamic teachings relating to business
3.3.1	<i>Know</i> the major prohibitions in Islam (Riba, Gharar)
3.4.1	<i>Understand</i> the difference between Riba an-Naseeyah and Riba al-Fadl
3.5.1	<i>Understand</i> the nature of Gharar, its causes and its impact on contracts
3.6.1	<i>Understand</i> the concept of Wa'd (promise) and the conditions which make a commercial promise binding
3.7.1	<i>Know</i> the nature of a Muwaada (bilateral promise) agreement
3.8.1	<i>Understand</i> the components of A'qd (contract): <ul style="list-style-type: none">- the contracting parties- subject matter- offer and acceptance

ISLAMIC FINANCE QUALIFICATION

For examinations from November 2006

3.8.2	<i>Know</i> the nature of Aqd' Al Wakala (agency contract)
3.9.1	<i>Understand</i> the classification of contracts with respect to their effect: <ul style="list-style-type: none">- valid (Sahih) including Nafiz and Mawqoof contracts- voidable (Fasid) contracts- invalid (Batil) contracts
3.10.1	<i>Know</i> the types of contract: unilateral and bilateral with respect to their underlying purpose
3.11.1	<i>Understand</i> the elements and conditions of a contract of exchange
3.12.1	<i>Know</i> the problematic sales contracts
3.13.1	<i>Know</i> the nature of the contract of Ijara
3.14.1	<i>Know</i> the nature of the partnership contract of Mudaraba
3.15.1	<i>Know</i> the nature of the partnership contracts of Musharaka and Diminishing Musharaka
3.16.1	<i>Know</i> the nature of the security contracts: <ul style="list-style-type: none">- Hawala- Kafala- Rahn
3.17.1	<i>Know</i> the issues associated with the debate regarding the purchase and sale of currencies
3.18.1	<i>Know</i> AAOIFI'S approach regarding the sale of currencies
ELEMENT 4: Financial techniques applied by Islamic Banks	
On completion, the candidate should	
4.1.1	<i>Understand</i> the operation of current accounts under Sharia'a conditions
4.2.1	<i>Understand</i> the distinction between a traditional bank intermediary and an Islamic intermediary, including the relationship between the bank and its clients
4.3.1	<i>Understand</i> how funds are used by Islamic banks

ISLAMIC FINANCE QUALIFICATION

For examinations from November 2006

4.4.1	<i>Understand</i> the Islamic banking model and the challenges it presents
4.5.1	Be able to apply the Mudaraba contract in practice
4.6.1	Understand the roles of and the returns received by the Rab al Mal and Mudarib under an Mudaraba contract
4.7.1	Know the nature of a Two Tier Mudaraba contract
4.8.1	Be able to apply the Musharaka contract
4.9.1	Understand the nature of the Diminishing Musharaka contract
4.10.1	Be able to apply the Murabaha contract
4.11.1	Understand the Sharia'a conditions for a valid Murabaha contract
4.12.1	Understand the use of Murabaha in export finance
4.13.1	Know the differences between a Murabaha sale and a loan of money
4.14.1	Know the nature of Murabaha to the Purchase Orderer
4.15.1	Know the main components of Commodity Murabaha transactions
4.16.1	Know how Arbun is used to synthesise option behaviour
4.17.1	Understand the operation of Bai al Inah and Tawarruq
4.18.1	Be able to apply the Ijara contract
4.19.1	Understand the redemption of a lease through Ijara wa Iqtina/ Ijara Muntahia Bitamleek
4.20.1	Understand the use of Ijara Mawsoofa Bil Thimma
4.21.1	Be able to apply the Salam contract
4.22.1	Understand the documentation associated with a Salam contract

ISLAMIC FINANCE QUALIFICATION

For examinations from November 2006

4.23.1	Understand the use of Parallel Salam in managing bank assets acquired under a Salam contract
4.24.1	Be able to apply the Istisn'a contract
4.25.1	Understand the reasons for Parallel Istisn'a contracts
4.26.1	Understand the differences between Istisn'a and Salam contracts
4.27.1	Know the use of Letters of Credit and guarantees in Islamic finance contracts
4.28.1	Know the Islamic contracts used in stock brokerage and money transfer services
ELEMENT 5: Financial Statements for Islamic Banks	
On completion, the candidate should	
5.1.1	Understand the conceptual framework of IFRS/IAS: <ul style="list-style-type: none">- The aims of IAS/IFRS- The objectives of financial statements- The qualitative characteristics required of financial statements- The general principles governing decision making and presentation of financial data- The fundamental accounting assumptions underpinning financial statements
5.2.1	Know the main financial statements prepared by companies to report their financial performance
5.3.1	Know the purpose and main contents of the balance sheet
5.4.1	Know the purpose and main contents of the profit and loss account
5.5.1	Understand the need for Islamic accounting standards
5.6.1	Know the role and responsibilities of AAOIFI
5.7.1	Understand the conceptual framework of AAOIFI financial accounting statements: <ul style="list-style-type: none">- The qualitative characteristics of accounting information
5.8.1	Understand the application of the accrual method of accounting to Islamic banks: <ul style="list-style-type: none">- The conditions realising recognition of revenue

ISLAMIC FINANCE QUALIFICATION

For examinations from November 2006

5.9.1	Know the basic accounting treatment of the main Islamic contracts: <ul style="list-style-type: none">- Murabaha- Mudaraba- Musharaka- Salam- Parallel Salam- Ijara- Ijara Muntahia Bitamleek
5.10.1	Know the key issues involved in accounting for Islamic Investment Accounts: <ul style="list-style-type: none">- The different accounting interpretations of the IASs used with Islamic investment accounts
5.11.1	Know the methods of calculating Zakat and the accounting treatment
ELEMENT 6: Islamic Corporate Governance	
On completion, the candidate should	
6.1.1	Know the origins and nature of Corporate Governance
6.2.1	Know the Corporate Governance mechanisms available to stakeholders to exercise their rights
6.3.1	Know the different approaches regarding the identities and rights of stakeholders
6.4.1	Understand the reasons for banks presenting special Corporate Governance challenges
6.5.1	Understand the reasons for Islamic banks presenting different Corporate Governance challenges to conventional banks
6.6.1	Know the role of the Sharia'a Supervisory Board in the Corporate Governance of an Islamic bank
6.7.1	Understand the distinction between the rights of Restricted Investment Account Holders (RIAH) and Unrestricted Investment Account Holders (UIAH)
6.8.1	Understand the nature of Restricted and Unrestricted Investment Accounts
6.9.1	Understand the distinction between information rights, control rights and cash flow rights for RIAH and UIAH

ISLAMIC FINANCE QUALIFICATION

For examinations from November 2006

6.10.1	Understand the Corporate Governance issues facing the Takaful industry
ELEMENT 7: Islamic Asset and Fund Management	
On completion, the candidate should	
7.1.1	Understand the constraints applying to Islamic investment
7.2.1	Understand the replication of conventional deposit markets through the use of Murabaha and Mudaraba
7.3.1	Understand the use of Ijara contracts in replicating conventional investment funds
7.4.1	Understand the growth in types of Islamic investment products to respond to clients' risk / reward profile
7.5.1	Be able to apply the Islamic stock selection process through the Industry and Financial Screens
7.6.1	Understand the approaches used to handle non-compliant stocks in a stock selection
7.7.1	Know the approaches used to manage the market risk of portfolios and equity funds
7.8.1	Know the issues fund managers face in applying liquidity strategies to Islamic funds
7.9.1	Know the issues relating to origination and distribution of Islamic investment funds
7.10.1	Know the functions of the various components of an Islamic mutual fund structure
7.11.1	Know the role of the Sharia'a Committee in Islamic fund management
7.12.1	Know the issues influencing financial disclosure for managed funds
7.13.1	Know the developments taking place to expand the range of Islamic investment funds
ELEMENT 8: The Islamic Bond Market – Sukuk	

ISLAMIC FINANCE QUALIFICATION

For examinations from November 2006

On completion, the candidate should	
8.1.1	Know the differences between conventional and Islamic securities
8.2.1	Understand the responsibilities of the different parties to a Sukuk
8.3.1	Know the reasons for the lack of financial guarantees for Sukuk
8.4.1	Know the differences between managing Sukuk and managing conventional securities
8.5.1	Understand the basic processes involved in the issuance of Sukuk
8.6.1	Be able to apply the Mudaraba Sukuk
8.7.1	Be able to apply the Musharaka Sukuk
8.8.1	Be able to apply the Ijara Sukuk
8.9.1	Be able to apply the Salam Sukuk
8.10.1	Be able to apply the Istisn'a Sukuk
8.11.1	Know the AAOIFI Sukuk standards
8.12.1	Understand capital market considerations relating to Sukuk: <ul style="list-style-type: none">- rating the issue- distribution
ELEMENT 9: Islamic Co-operative Insurance – Takaful	
On completion, the candidate should	
9.1	The nature of Islamic co-operative insurance (Takaful):
9.1.1	Understand the position of Islam regarding insurance
9.1.2	Understand the origins of Islamic insurance <ul style="list-style-type: none">- The characteristics of mutual insurance- The nature of conventional mutual insurance- The nature of a Takaful undertaking and the need to avoid gharar (uncertainty) through Tabarru' (donation) and riba (interest) through the use of non-interest bearing assets- The structure of Takaful undertakings: non-profit and commercial

ISLAMIC FINANCE QUALIFICATION

For examinations from November 2006

9.2.1	Know the two types of Takaful: general and life (family) including the nature of Family Takaful using 'endowment' type policies
9.3.1	Understand the differences between conventional proprietary insurance, conventional mutual insurance and Takaful
9.4.1	Understand the structure of Takaful: <ul style="list-style-type: none">- Separation of participants' funds from those of the Takaful operator- The role of Qard (interest free loan)
9.4.2	Be able to apply the three models for underwriting and managing the investments of the Takaful fund <ul style="list-style-type: none">- wakala- mudaraba- the combined model
9.5.1	Know the contracts of Fiqh al Muamalat used in Islamic insurance
9.6.1	Understand the rules on distribution of underwriting surpluses in Takaful: <ul style="list-style-type: none">- The definition of an underwriting surplus- The nature and allocation of technical provisions- The rules for distributing underwriting surpluses
9.7.1	Understand the risks associated with Takaful claims and their mitigation: <ul style="list-style-type: none">- The nature of technical provisions for general Takaful- Implications of the size of the risk pool- The nature of the underwriting and investment fund in Family Takaful- Internal risk pooling arrangements
9.8.1	Know how reinsurance operates in Islamic insurance: <ul style="list-style-type: none">- The funding of reinsurance- The place of ReTakaful
9.9.1	Know the responsibility of the Takaful operator for Sharia'a compliance
Element 10: Case Studies	
10.1 Case Studies	