

Contents

Preface	xiii
Acknowledgments	xv
1 An Introduction to Conventional and Islamic Financial Systems	1
Learning Outcomes	1
Introduction	2
The Roles and Functions of Financial Markets	4
Structures of Financial Markets	6
Based on the Instrument	6
Based on the Issuance of Securities	8
Methods Used in Secondary Markets	8
Based on the Maturity	9
Classification of Financial Markets	9
The Money Market	10
The Capital Market	12
Types of Financial Intermediaries	13
Depository Institutions	14
Contractual Institutions	15
Investments and Finance Institutions	17
A Brief Overview of the Islamic Financial System	17
Evolution of Islamic Finance	18
Chapter Summary	20
Chapter Questions	21

Notes	22
References	22
2 Development of Islamic Capital and Money Markets in Malaysia	23
Learning Outcomes	23
Introduction	24
Development of Islamic Financial Institutions in Malaysia	24
1960 to 1990: Establishment of Islamic Financial Institutions	24
1990 to 2000: Conventional Banks Allowed to Offer Islamic Financial Products and Services	26
2000 to 2010: Islamic Subsidiaries and the International Integration of the Islamic Banking System	27
Islamic Capital Markets in Malaysia	29
Sukuk	30
Islamic Collective Investments	31
Islamic Stock Broking	32
Malaysia International Islamic Financial Centre (MIFC)	33
Chapter Summary	34
Chapter Questions	36
Notes	36
References	36
3 Regulators and Transactions Platform for Capital and Money Markets	37
Learning Outcomes	37
Introduction	38
Bank Negara Malaysia (BNM)	38
Role and Functions	39
BNM Administered Legislation	40
Role of BNM on ICM Development	42
The Securities Commission (SC)	42
Role of SC on ICM Development	42
Bursa Malaysia (BM)	45
Role of BM on ICM Development	45
Shariah-Compliant Stocks and ETF	46
Islamic Equity Indices	46
Islamic REITs and Sukuk Market	47
Chapter Summary	47
Chapter Questions	48
Notes	48
References	48
Websites	48
4 Islamic Money Market	49
Learning Outcomes	49
Introduction	50
Money Market Participants	50

Functions of the Islamic Money Market	51
Differences between Islamic and Conventional Money Markets	52
Components of the Malaysian Islamic Money Market	53
Islamic Interbank Market	53
Mudarabah Interbank Investment	54
Profit Calculation for Mudarabah Interbank Investment	55
Example: Mudarabah Interbank Investment (MII)	56
Commodity Murabahah	56
Example: Commodity Murabahah Interbank Investment	58
Wakalah Investment	58
Trading of Islamic Money Market Instruments	59
Government Investment Issue (GII)	60
Example: Calculation of GII price	61
Malaysian Islamic Treasury Bills (MITB)	61
Example: Calculation of Proceeds on MITB	62
Bank Negara Monetary Notes (BNMN)	62
Sukuk Bank Negara Malaysia Ijarah (SBNMI)	63
Islamic Negotiable Instruments (INI)	63
Negotiable Islamic Debt Certificate (NIDC)	63
Example: Calculation of Price of NIDC of Less Than One Year	64
Example: Calculation of Price NIDC with Maturity of More Than One Year	65
Islamic Negotiable Instruments of Deposit (INID)	66
Example: Calculation of Proceeds for an INID	66
Islamic Accepted Bill (IAB)	67
Import and Local Purchases	67
Export/ Local Trade	67
Example: Price Calculation of IAB under Bai al-Dayn	68
Sell and Buy Back Agreement (SBBA)	68
Example: Sell and Buy Back Agreement	69
Cagamas Sukuk	70
Sanadat Mudarabah Cagamas (SMC)	70
Example: Sanadat Mudarabah Cagamas (SMC) Calculation	71
Sanadat Cagamas	71
Islamic Corporate Sukuk	72
Chapter Summary	72
Chapter Questions	73
Notes	73
References	74
5 An Overview of Sukuk	77
Learning Outcomes	77
Introduction	78
Comparing Sukuk, Bonds, and Shares	79
Sukuk Types	81
Sukuk Structures	81
Sukuk al-Ijarah	82
Sukuk al-Musharakah	88

	Sukuk al-Mudarabah	94
	Sukuk al-Salam	99
	Sukuk al-Istisna	102
	Sukuk al-Murabahah	106
	Sukuk al-Istithmar	110
	Sukuk al-Wakala	114
	Chapter Summary	117
	Chapter Questions	118
	Notes	118
	References	119
6	Shariah-Compliant Equity	121
	Learning Outcomes	121
	Introduction	122
	The Structure of Equity Markets	124
	Shariah-Compliant Equity Securities	125
	Differences between Shariah and Non-Shariah-Compliant Equity Markets	128
	Shariah-Compliant Stocks Screening	130
	Malaysia Securities Commission	130
	S&P Shariah Indices	131
	Pakistan Meezan Islamic Fund	133
	Global GCC Islamic Fund Screening	134
	Jakarta Islamic Index	135
	Chapter Summary	136
	Chapter Questions	136
	Note	136
	References	136
7	Islamic Mutual Funds	139
	Learning Outcomes	139
	Introduction	140
	Closed and Open-Ended Funds	140
	Conventional Mutual Funds	141
	Active and Passive Management	143
	Advantages of Mutual Funds	143
	Disadvantages of Mutual Funds	144
	Fees and Expenses	145
	Islamic Mutual Funds	146
	Basic Concept of Islamic Mutual Funds	147
	Shariah Stock Screening	147
	Purification of Income	148
	Types of Islamic Mutual Funds	149
	The Role of the Shariah Advisory Board in Islamic Mutual Funds	151
	Calculating NAV in the Islamic Mutual Funds	151
	Organisation of Islamic Mutual Funds	153

	The Process of Investing in Islamic Mutual Funds	154
	Islamic Ethical Investment and Ethical Investment	156
	Chapter Questions	158
	Notes	158
	References	158
8	Islamic Real Estate Investment Trusts (I-REITs)	161
	Learning Outcomes	161
	Introduction	162
	Islamic Real Estate Investment Trusts (I-REITs)	165
	Shariah-Permissible Investments for I-REITs	166
	I-REITs Structure	169
	Case Study: Al-'Aqar KPJ REIT	171
	Case Study: Al-Hadharah Bousted REIT	174
	Difference between Conventional and Islamic REITs	176
	Chapter Summary	177
	Chapter Questions	178
	Notes	178
	References	178
9	Islamic Exchange-Traded Funds	179
	Learning Outcomes	179
	Introduction	180
	Open- and Closed-End Funds, and Unit Trust Funds	180
	Open-End Funds	180
	Closed-End Funds	181
	Unit Trust	181
	Exchange-Traded Funds (ETFs)	181
	Islamic Exchange Trade Funds (I-ETFs)	185
	Security Borrowing and Lending in Malaysia	190
	Islamic ETFs in Other Countries	195
	Challenges in Promoting I-ETFs	195
	Chapter Summary	196
	Chapter Questions	197
	Notes	197
	References	197
10	Islamic Derivatives Market	199
	Learning Outcomes	199
	Introduction	200
	Derivative Securities in the Conventional Market	200
	Risk Profile	202
	Main Players in the Derivative Markets	203
	Hedging with a Forward Contract	204
	Hedging with Future Contracts	205
	Hedging with Swap Contracts	206

Derivative Securities in the Islamic Perspective	211
Islamic Forward and Future Contract	213
Islamic Option Contract	216
Islamic Cross-Currency Swap	218
Islamic Profit Rate Swap	220
Islamic Structured Product	222
Chapter Summary	225
Chapter Questions	226
Notes	226
References	227

Bibliography	229
---------------------	------------

About the Authors	233
--------------------------	------------

Index	235
--------------	------------