



# Islamic Finance – An Introduction

Dr Natalie Schoon, CFA

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# Agenda

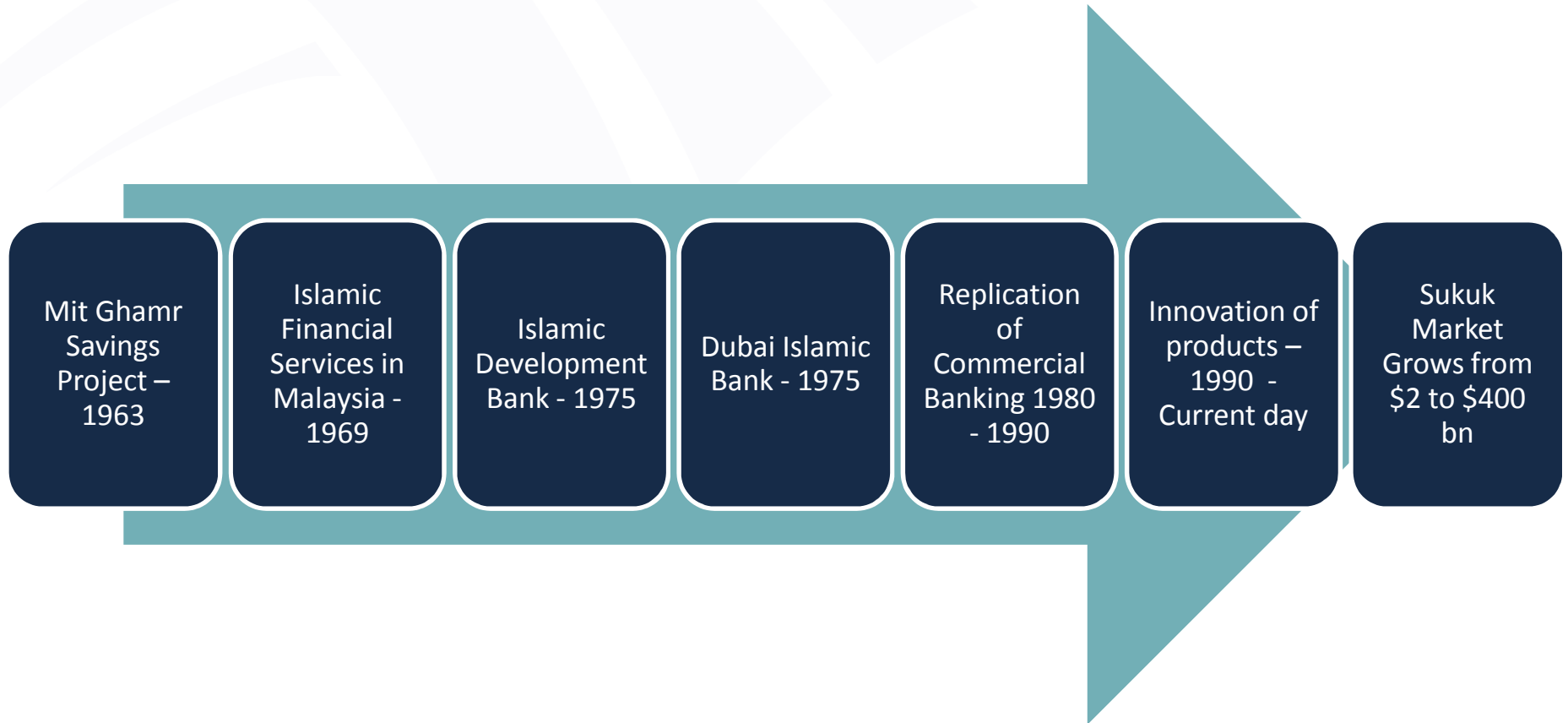
- Brief history of finance
- Basic Principles
- Application of contracts to finance
- The Islamic Financial Infrastructure

# Brief History of Finance

# History of Finance



# History of Modern Islamic Finance



# Principles and Prohibitions

- Framework of ethical principals
- Fairness, transparency and integrity
- Risk and reward sharing
- Transactions based on asset or enterprise
- Major Prohibitions
  - Riba                      Excess or Interest
  - Gharar                    Unnecessary uncertainty
  - Maysir                    Speculation

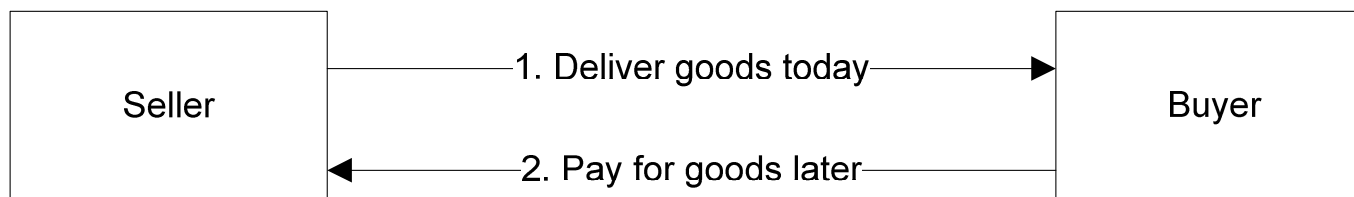
# Instruments

## Predictable Return Contracts

- Purpose: To finance trade or development
- Type: Deferred payment sales (murabaha)  
Leasing (ijara)  
Production finance (salam and istisna)
- Returns: Fixed mark-up or periodic rental

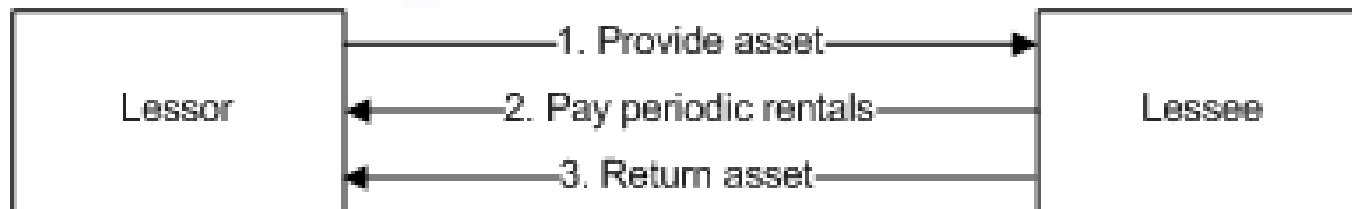
## Deferred Payment Sales (Murabaha)

- Seller delivers goods on day T
- Buyer and seller agree future payment date and mark-up
- Buyer processes or onward sells goods at a profit
- Buyer pays agreed purchase price plus mark-up on agreed future date



## Leasing (Ijara)

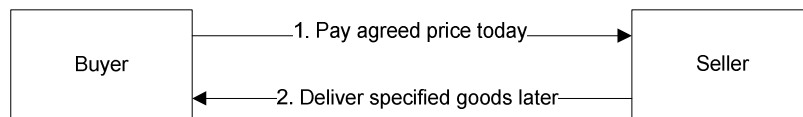
- Bilateral contract allowing the transfer of the usufruct
- Lessor provides asset to lessee
- Lessee pays rental during the lease period
- Lessee returns the asset to the lessor at the end of the lease (operating lease) or becomes the owner of the asset (finance lease)



# Production Finance

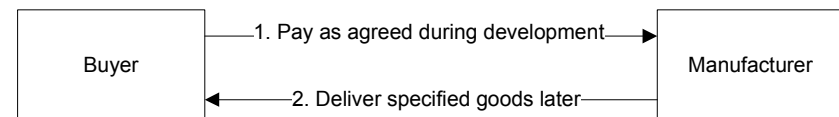
## Salam

- Agriculture
- Short term (1 – 3 months)
- Payment up front in full
- Buyer takes view on future price



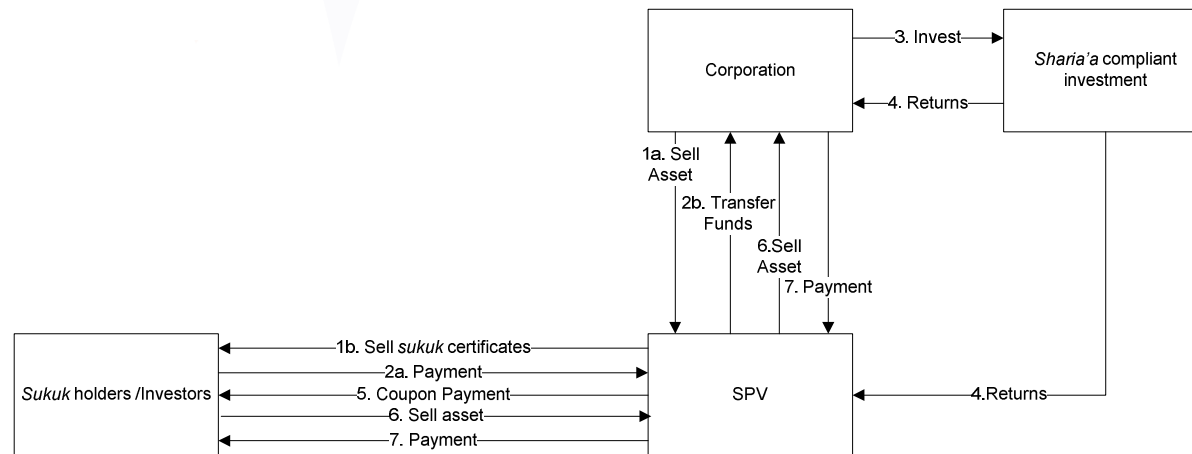
## Istisna

- Construction, infrastructure
- Long term
- Payment staggered



# Sukuk

- Comparable to covered bonds
- Based on any of the transaction structures except murabaha
- Sukuk holder owns proportional share of the asset



# Islamic Financial Infrastructure

# Market Participants

- Banks
  - Windows
  - Subsidiaries
  - Fully Sharia'a Compliant institutions
- Investment companies
- Fund managers
- Insurance companies
- Regulators

# Commodities

- Base Metals
- Deferred Payment contracts, Liquidity management
- LME Warrants
  - Issued by the London Agent
  - Bearer Document
  - Identifying metal and location
  - OTC

## Summary

- Historic principles
- Different market participants

# Questions