

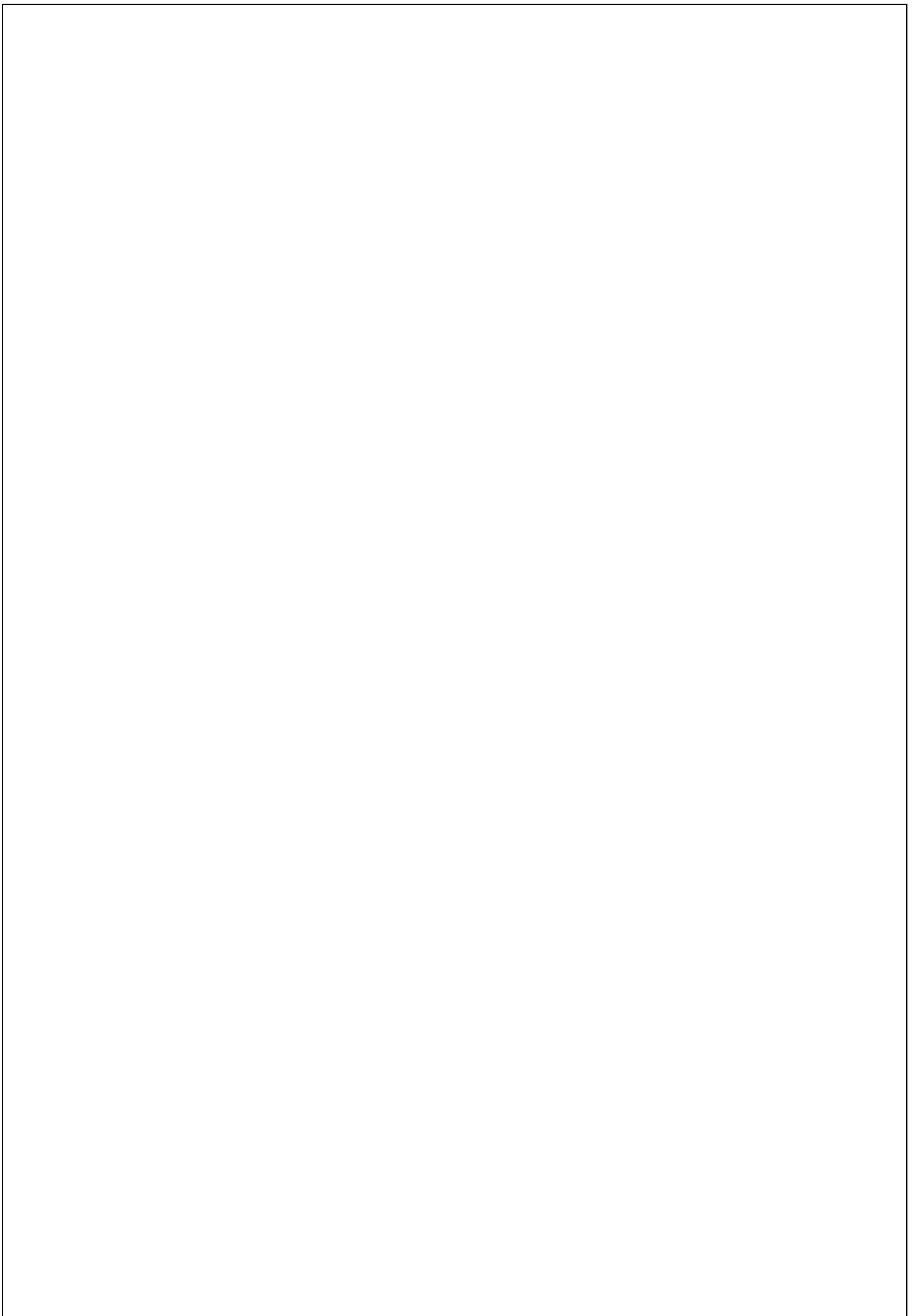


CHARTERED INSTITUTE FOR
SECURITIES & INVESTMENT
(Formerly Securities & Investment Institute)

ECOLE SUPERIEURE DES AFFAIRES

LEVEL 3
CERTIFICATE IN ISLAMIC FINANCE
ISLAMIC FINANCE QUALIFICATION

EFFECTIVE FROM 1 OCTOBER 2009



OBJECTIVE OF THE EXAMINATION

The objective of the examination is to ensure that candidates are equipped with a practical understanding of Islamic finance and an understanding of the influence of Sharia'a in a business context; enabling them to hold key positions in the Islamic finance and Takaful (Islamic Insurance) industries.

The examination will test candidates' knowledge and understanding of the following elements:

- 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 of 100 multiple choice questions.

Candidates sitting the examination by Computer Based Testing may have, in addition, a small number of trial questions that will not be separately identified and do not contribute to the result. Candidates will be given proportionately more time to complete the test.

UNIT STRUCTURE

The unit is divided into **elements**. These are broken down 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 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

EXAMINATION SPECIFICATION

Each examination paper is constructed from a specification that determines the weightings that will be given to each element. 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 element should not change by more than plus or minus 2.

Candidates should note that in sections 4 and 8 more than one question may be set on certain learning objectives to test that candidates have fully grasped the nature and use of the contracts.

Examination specification 100 multiple choice questions		
Element number	Element	Questions
1	The Basis of Islamic Banking and Finance	0
2	An Introduction to Islamic Banking and Finance	3
3	Islamic Law of Contracts	14
4	Financial Techniques Applied by Islamic Banks	32
5	Financial Statements for Islamic Banks	8
6	Islamic Corporate Governance	8
7	Islamic Asset and Fund Management	10
8	The Islamic Bond Market – Sukuk	14
9	Islamic Insurance – Takaful	11
Total		100

CANDIDATE UPDATE

Candidates are reminded to check the ‘Candidate Update’ area of the Institute’s website (cisi.org) on a regular basis for updates that could affect their examination as a result of industry change.

IFQ WORDLIST

For the examination, candidates should be familiar with the following Arabic terms:

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

SUMMARY SYLLABUS

ELEMENT 1	THE BASIS OF ISLAMIC BANKING AND FINANCE
ELEMENT 2	AN INTRODUCTION TO ISLAMIC BANKING AND FINANCE
ELEMENT 3	ISLAMIC LAW OF CONTRACTS
ELEMENT 4	FINANCIAL TECHNIQUES APPLIED BY ISLAMIC BANKS
ELEMENT 5	FINANCIAL STATEMENTS FOR ISLAMIC BANKS
ELEMENT 6	ISLAMIC CORPORATE GOVERNANCE
ELEMENT 7	ISLAMIC ASSET AND FUND MANAGEMENT
ELEMENT 8	THE ISLAMIC BOND MARKET – SUKUK
ELEMENT 9	ISLAMIC INSURANCE – TAKAFUL

ELEMENT 1 THE BASIS OF ISLAMIC BANKING AND FINANCE

On completion, the candidate should:

1.1.1 *Understand* the ethical underpinning of Islamic finance

- Moral guidance governing property and wealth given through the Quran,
- The obligation to make charitable distributions: zakat (obligatory) and sadaqat (voluntary)
- The role of trade and investment in wealth creation
- Why riba (interest) is forbidden

1.2.1 *Understand* the role of the Sharia'a

1.3.1 *Know* the sources of the Sharia'a: the Quran, the Sunnah, Ijma', Qiyas and Ijtihad

1.4.1 *Know* the authorities able to interpret the Quran and Sunnah and their role:

- The Scholars within the Schools of thought
- The Islamic Fiqh Academy
- The Scholars / Sharia'a Boards of Financial Institutions

ELEMENT 2 AN INTRODUCTION TO ISLAMIC BANKING AND FINANCE

On completion, the candidate should:

2.1.1 *Know* the development of Islamic finance and banking:

- The beginnings of Islamic banking
- Islamic banking in the GCC countries
- Islamic banking in Southeast and South Asia
- Islamic banking in Europe and Africa

2.2.1 *Know* the constraints and challenges on the development of the Islamic banking and finance industry

2.3.1 *Know* the main functions of Islamic banks

2.4.1 *Know* the operating structures and organisational forms adopted by Islamic financial institutions:

- The windows model
- Branches
- Subsidiaries
- Fully-fledged banks

2.5.1 *Know* the regulatory and standard setting bodies overseeing Islamic finance and banking:

- The Regulators (central banks or other authorities)
- The standard-setters (AAOIFI and IFSB)
- Other Institutions supporting the development of Islamic finance and banking

2.6.1 *Know* other components of the Islamic finance industry:

- 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)

ELEMENT 3 ISLAMIC LAW OF CONTRACTS

On completion, the candidate should:

3.1.1 *Know* the ethical precepts relating to Islamic business

3.2.1 *Know* the Islamic teachings relating to business

3.3.1 *Know* the major prohibitions in Islam (Riba, Gharar)

3.4.1 *Understand* the difference between Riba al-Naseeyah and Riba al-Fadl

3.5.1 *Understand* the nature of Gharar, its causes and its implications for Islamic finance

3.6.1 *Know* the nature of Qimar and Maysir

3.7.1 *Understand* the concept of Wa'd (promise) and the conditions which make a commercial promise binding

- 3.8.1 *Know* the nature of a Muwaada (bilateral promise) agreement
- 3.9.1 *Understand* the components of Aqd' (contract): the contracting parties, subject matter, price, offer and acceptance
- 3.10.1 *Understand* the Sharia'a options of sale
- 3.11.1 *Understand* the classification of and conditions applied to contracts with respect to their effect:
- valid (Sahih) including Nafiz and Mawqoof contracts
 - voidable (Fasid) contracts
 - invalid (Batil) contracts
- 3.12.1 *Know* the types of contract:
- unilateral and bilateral with respect to their underlying purpose
- 3.13.1 *Understand* the elements and conditions of a contract of exchange
- 3.14.1 *Know* the problematic sales contracts
- 3.15.1 *Know* the nature of the security contracts:
- Hawala
 - Kafala
 - Rahn
- 3.16.1 *Know* the nature of the Wakala (agency contract)
- 3.17.1 *Know* the issues associated with the debate regarding the purchase and sale of currencies
- 3.18.1 *Know* AAOIFI'S Sharia'a standards on the sale of currencies

ELEMENT 4 FINANCIAL TECHNIQUES APPLIED BY ISLAMIC BANKS

On completion, the candidate should:

- 4.1.1 *Understand* the distinction between a conventional bank intermediary and an Islamic intermediary, including:
- the relationship between the bank and its clients
 - the sources of funds
 - the use of funds
- 4.2.1 *Understand* the operation of current accounts in Islamic banking
- 4.3.1 *Understand* how funds are used by Islamic banks
- 4.4.1 *Understand* the Islamic banking model and the challenges it presents
- 4.5.1 *Be able to apply* the Mudaraba contract in practice
- for the depositing side
 - for the financing side
- 4.6.1 *Understand* the roles of and the returns received by the Rab al Mal and Mudarib under a Mudaraba contract
- 4.7.1 *Be able to apply* the Two-Tier Mudaraba contract
- 4.8.1 *Be able to apply* the partnership contract of Musharaka
- 4.9.1 *Be able to apply* the Diminishing Musharaka contract
- 4.10.1 *Be able to apply* the Murabaha contract
- 4.11.1 *Understand* the use of Murabaha in export finance
- 4.12.1 *Know* the differences between a Murabaha sale and a loan of money
- 4.13.1 *Know* the nature of Murabaha to the Purchase Orderer
- 4.14.1 *Know* the main components of Commodity Murabaha transactions
- 4.15.1 *Understand* the operation of Tawarruq
- 4.16.1 *Know* how Arbun is used to synthesise option behaviour
- 4.17.1 *Be able to apply* the Ijara contract
- 4.18.1 *Understand* the redemption of a lease through Ijara wa Iqtina/Ijara Muntahia Bitamleek

- 4.19.1 *Understand* the use of Ijara Mawsoofa Bil Thimma (Forward Lease)
- 4.20.1 *Be able to apply* the Salam contract
- 4.21.1 *Understand* the documentation associated with a Salam contract
- 4.22.1 *Understand* the use of Parallel Salam in managing bank assets acquired under a Salam contract
- 4.23.1 *Be able to apply* the Istisn'a contract
- 4.24.1 *Understand* the reasons for Parallel Istisn'a contracts
- 4.25.1 *Understand* the differences between Istisn'a and Salam contracts
- 4.26.1 *Know* the use of letters of credit and guarantees in Islamic finance contracts

ELEMENT 5 FINANCIAL STATEMENTS FOR ISLAMIC BANKS

On completion, the candidate should:

- 5.1.1 *Understand* the conceptual framework of International Financial Reporting Standards (IFRS)/International Accounting Standards (IAS):
 - 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 income statement
- 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:
 - The qualitative characteristics of accounting information

5.8.1 *Understand* the application of the accrual method of accounting to Islamic banks:

- The conditions realising recognition of revenue

5.9.1 *Know* the basic accounting treatment of the main Islamic contracts:

- Murabaha
- Mudaraba
- Musharaka
- Salam
- Parallel Salam
- Ijara
- Ijara Muntahia Bitamleek

5.10.1 *Know* the key issues involved in accounting for Islamic Investment Accounts:

- The different accounting interpretations of the IFRS 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 why banks present special Corporate Governance challenges

6.5.1 *Know* the risks that banks have to manage

6.6.1 *Understand* the reasons why Islamic banks present different Corporate Governance challenges to conventional banks

6.7.1 *Know* the role of the Sharia'a Supervisory Board in the Corporate Governance of an Islamic bank

6.8.1 *Understand* the distinction between the rights of Restricted Investment Account Holders (RIAH) and Unrestricted Investment Account Holders (UIAH)

- 6.9.1 *Understand* the nature of Restricted and Unrestricted Investment Accounts
- 6.10.1 *Understand* the distinction between information rights, control rights and cash flow rights for RIAH and UIAH
- 6.11.1 *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 fund 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 Board 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

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:
 - rating the issue
 - distribution

ELEMENT 9 ISLAMIC INSURANCE – TAKAFUL

On completion, the candidate should:

- 9.1.1 *Understand* the position of Islam regarding insurance
- 9.2.1 *Understand* the origins of Islamic insurance
 - 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

- 9.3.1 *Understand* the differences between conventional proprietary insurance, conventional mutual insurance and Takaful
- 9.4.1 *Know* the two types of Takaful: general and life (family)
- 9.5.1 *Understand* the structure of Takaful:
- Separation of participants' funds from those of the Takaful operator
 - The role of Qard Hassan (interest free loan)
- 9.6.1 *Be able to apply* the three models for underwriting and managing the investments of the Takaful fund
- Wakala
 - Mudaraba
 - the combined model
- 9.7.1 *Know* the contracts of Fiqh al Muamalat used in Islamic insurance
- 9.8.1 *Understand* the rules on distribution of underwriting surpluses in Takaful:
- The definition of an underwriting surplus
 - The nature and allocation of technical provisions
 - The rules for distributing underwriting surpluses
- 9.9.1 *Understand* the risks associated with Takaful claims and their mitigation:
- 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
- 9.10.1 *Know* how reinsurance operates in Islamic insurance:
- The funding of reinsurance
 - The place of ReTakaful
- 9.11.1 *Know* the responsibility of the Takaful operator for Sharia'a compliance