

**PRINCIPLES OF  
ISLAMIC FINANCE**

**MONZER KAHF**  
Lubbock, TX - Aug 09

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بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

**In the Name of God, Most  
Compassionate, Most  
Merciful**

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# Principles of Islamic finance

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The Islamic Shari'ah is:

**Comprehensive**

**Moral**

**and**

**The Last and Final Heavenly Law**

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**The General Objective  
of Shari'ah**

**Preservation of human order  
and  
Continuation/improvement  
of its goodness,  
individually and in groups**

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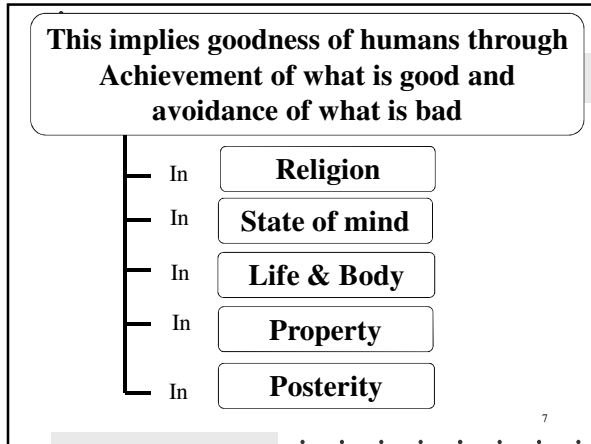
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**Let us go to the market. . .**

- **Business as usual**
  - Is trading fictitious things a “Business as usual”?
  - Is attributing growth to things that do not grow, by their very nature a “Business as usual”?
  - Is transferring wealth on assumed or deemed ground a “Business as usual”?

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**Let us go to the market. . .**

- Is increasing the production and exchange of harmful products , through finance, a “Business as usual.?”
- Is every activity that some people decide to undertake okay or is it a “Business as usual”?
- Is every activity that some law somewhere permits is necessarily moral or a “Business as usual”?

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What is Business as usual in finance?

- Credit in sale: financing through sale
- Use of property with little payment: Leasing
- Committing funds to businesses: Sharing

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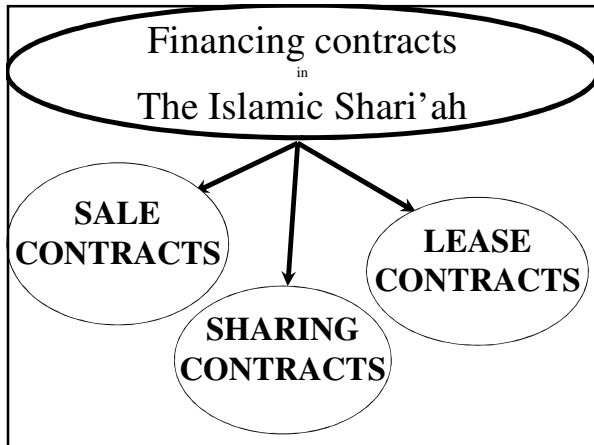
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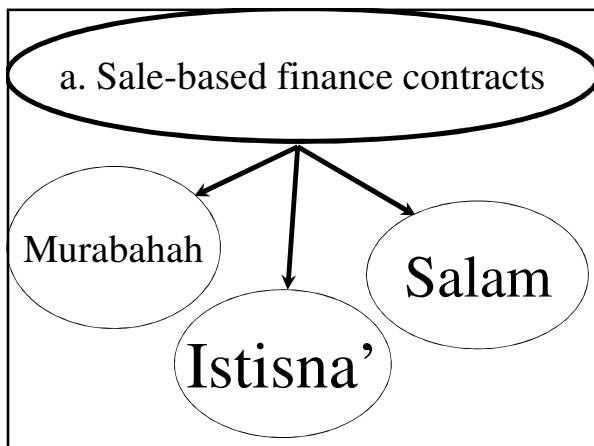
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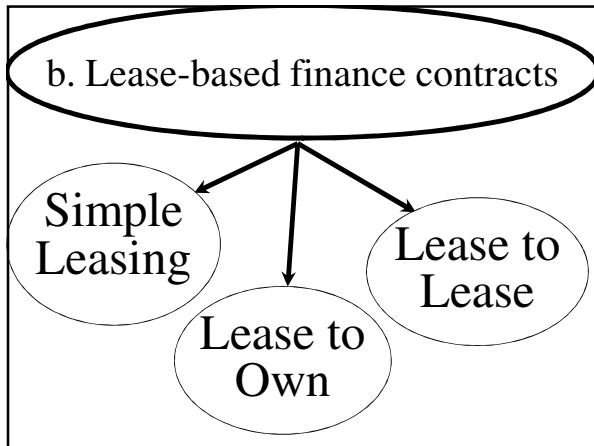
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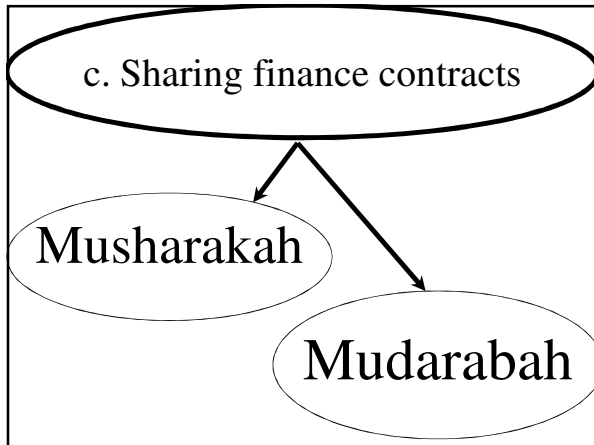
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**Characteristics of the Shari'ah-compatible Financing Contracts**

**1. Financier earns by virtue of ownership:**

- In Sharing: ownership continues
- In Sale/Ijarah: first own, then sell/lease

**2. Fairness and balance**

- In sharing: methodology of profit/loss distribution
- In sale/Ijarah: No Ghabn, no Gharar, etc.

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**Characteristics of the Shari'ah-compatible Financing Contracts**

**3. Social and contractual justice:**

- Required social contributions of owners
- Prohibition of Interest while permitting sharing

**4. Moral commitment:**

- God only prohibits what is bad (a rule of expandable application)
- What Shari'ah prohibits is bad: interest

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**Prohibition of Riba**

**in the Qur'an  
and the Sunnah**

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**Definition of Riba**  
**in finance:**

In Shari'ah, A conditioned increment (with no counterpart) in a loan or a debt.

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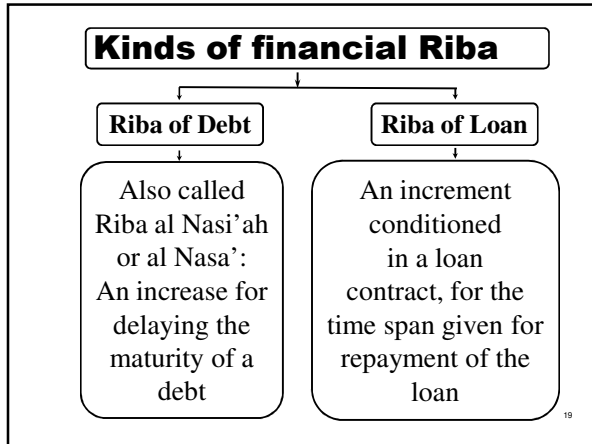
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- Implications for our lives**
- \* **We'll discuss:**
1. INVESTMENT IN STOCKS,
  2. INVESTMENT IN COMMODITIES
  3. CURRENCY TRADING: FOREX
  4. FINANCING: BUSINESS, HOUSING & CONSUMERS
  5. CREDIT CARDS
  6. INSURANCE: CAR, LIFE, HAZARDS

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**3  
BASIC  
PILLARS**

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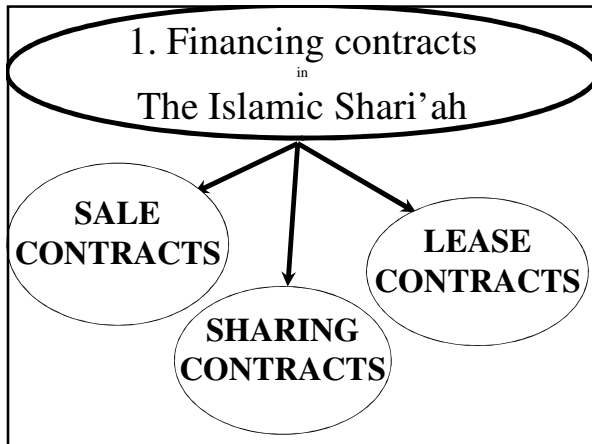
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**2. Justifying Return in Islamic Finance**

**Necessary condition:**

- Ownership (asset)

**Sufficient conditions:**

- Growable/Growing
- Morality screen
- Actual increment

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**3. NATURE OF SECURITIES IN ISLAMIC FINANCE**

**Basic Principle:**

**A security is only a Veil**

**What matters is:**

*What a security stands for*

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**1 - INVESTMENT IN STOCKS**

**Principles of Shari'ah**

- ✓ Interest
- ✓ Short sale
- ✓ Prohibited products
- ✓ Prohibited practices
- ✓ Speculation, day trading
- ✓ Speculative contracts

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**2 - INVESTMENT IN COMMODITIES**

**Principles OF Shari'ah**

- ✓ Leveraging
- ✓ Short sale
- ✓ Contracts not intended for execution
- ✓ Trading indices and CFD
- ✓ Speculation

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**3 - TRADING CURRENCIES, OPTIONS AND DERIVATIVES**

**Principles of Shari'ah**

- ✓ Riba al Fadl
- ✓ Speculation in currencies
- ✓ Value-creating asset

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**4 - FINANCING: BUSINESS, HOUSING & CONSUMERS**

**1. Islamic Financing Alternatives:**

▶ **Financing contracts:**

- 1. Murabahah
- 2. Contracting (Istisna')
- 3. Leasing
- 4. Equity (venture capital)

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**4 - FINANCING: BUSINESS, HOUSING & CONSUMERS** Continue

▶ **Financing institutions:**

- 1. Islamic companies and coops
- 2. Conventional Institutions

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**4 - FINANCING: BUSINESS, HOUSING & CONSUMERS** continue

**2. Cases of necessities/needs**  
(General needs/necessities & lack of alternatives)

- Personal financing
  - i. Residences
  - ii. Personal cars
  - iii. Personal durables
- Business financing

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**6 - INSURANCE: CAR, LIFE, HAZARDS, ETC.**

- 1. What is insurance?  
Pooling resources & distributing risk
- 2. Need for insurance, historical examples
- 3. Objections to insurance and response:
  - » Riba
  - » Gambling
  - » Ambiguity (Gharar)
- 4. Mutual and commercial insurances

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**Verses from the Qur'an**

- ☪ “That is because they said: sale is just like Riba”
- ☪ “And God made sale permissible and prohibited Riba”
- ☪ “But if you repent, you get your principal so that no injustice is done by you and no injustice is inflicted on you.”

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**What is intended by the prohibition?**

- ☪ Eliminating parasitic finance
- ☪ Eliminating rescheduling with increment
- ☪ Eliminating debt trading, e.g., the bulk of inter-bank transactions
- ☪ Eliminating trading of purely financial assets

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شكرا لكم  
*Thank you*

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