FAAIF NEWS

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Here I am participating at the World Islamic Funds Conference in Manama, Bahrain, May 18-19, 2015.

FAAIF Participates in World Islamic Funds Conference in Manama, Bahrain

FAAIF CEO, Camille Paldi, participates in the mega Islamic Funds event at the Gulf Hotel in Manama, Bahrain. As of 2012, more than 750 Islamic Investment Funds have been established globally managing total assets of approximately USD$60 Billion. Currently, a broad spectrum of asset classes are available including equity, Sukuk, real estate, commodities, leasing, trade finance, private equity, structured products, REITS, and exchange – traded, murabahah, ijarah, balanced, index, and hedge funds. This is a business opportunity, which the Muslim and non-Muslim world should not miss.

Hot spots for global Islamic investment funds include Luxembourg and the Cayman Islands, with Luxembourg offering 3.5% of the total of Islamic funds and the Cayman Islands with 5.5% of the total Islamic funds offering. In fact 12 % of the total of Islamic funds are available in Luxembourg, Dublin, and the Cayman Islands. In terms of distributing investment products, international fund managers offer offshore funds in the Middle East by using Bahrain, the UAE, and Qatar as distribution platforms. Bahrain is a good platform for investors in the Middle East and Africa to source foreign funds. The Islamic asset management industry is also growing at a rapid pace in the Asia-Pacific region including Malaysia, Brunei, Singapore, Japan, South Korea, China, and Indonesia.

According to Noripah Kamso, author of Investing in Islamic Funds, A Practitioner's Perspective, Islamic investment funds are no longer seen as an alternative investment, but regarded as competitive to conventional. Kamso points out that financial centers from Malaysia, Singapore, Hong Kong, Bahrain, Dubai, and London are leading the global Islamic Investment funds initiative. Indeed, Kamso reveals that a matured and fully functioning Islamic financial market must contain asset management to compliment the demand side of the value chain. Camille Paldi can be contacted at camille@faaif.com.

Jesus smashing the moneylenders stalls in the marketplace.

Islam Explains Why Interest is Prohibited in the Bible and Torah
By Camille Paldi, CEO of FAAIF, camille@faaif.com

> Lending money is not prohibited in the Bible. What is prohibited is charging abusively high interest. This is because high-interest loans tend to prey on the most under resourced people in society. God strongly rebukes usury because it oppresses the poor. The Bible also teaches us to be very cautious regarding borrowing money. This is because "the borrower is the slave of the lender" (Proverbs 22:7). Once we borrow money we are beholding to the lender — and this can be a form of slavery God wants us to avoid.

The philosophical and conceptual foundations behind the prohibition on *riba* (interest) can be derived through the *Shuratic* process in discursive interpretation of the *Qu'ran* and *Sunnah as well as in the Islamic concept of Risalah, which states that Muslims should adhere to the teachings of all of God's prophets including Abraham (pbuh), Moses (pbuh), Jesus (pbuh), and Muhammad (pbuh).* All of God's prophets prohibited riba and this is clearly stated in all of the chapters of the Holy Book, including the Torah, the Bible, and the Qu'ran. The prohibition of riba can therefore be considered a Holy Book concept and a common and unifying theme amongst all of the people of the Holy Book. All Abrahamic religions and faiths ban interest as it is believed that producing money from money is an unproductive activity, which leads to the exploitation of human beings by other human beings, conflict, and societal and environmental decay. Money should be generated from productive activities, which helps the economy to grow and expand. Therefore, in all modes of Islamic finance, interest is absent and risk and profit and loss are shared between the parties to the contract.

The *Shari'ah* allows for transactions where both counter-values are transacted at the time of the dealing or one counter-value now and one in the future, however, not both counter-values in the future as this creates *gharar* (uncertainty) about the fulfillment of the contract. However, this is allowed where the benefit outweighs the harm.

Since in interest financing, one counter-value is certain, the interest on the loan, and one counter-value is uncertain, the yield from investing the loan by the creditor, interest-finance is in fact an extreme case of *gharar* (uncertainty) and is prohibited under the *Shari'ah* as the harm outweighs the benefit. Saadallah says that in the case of *riba* (interest), the "variance in certitude between the two counter-values, the interest on the one hand and the opportunity cost on the other, constitutes the essence of the injustice of imposing interest on loans" (2009:111). Debt-finance replicates the result of interest-based financing and does not fulfill the requirements of the *Shari'ah*. Dusuki says "For a contract to be valid, there should be *Iwadh* or counter value present. Three elements of *iwadh* that should exist are risk (*ghorm*), work and effort (*ikhtiar*) and liability (*daman*). In the majority of debt-financing contracts, one or more of these elements of *Iwadh* are missing. If there is no risk, effort and liability, then such a contract cannot be considered to contain any element of justice" (2011:3).

Ridha Saadallah states that an often-cited reason for the *Qu'ranic* ban on interest is to "forestall injustice, since increasing the amount is in return of the time-term" (2009:111). Islam does not recognize the time value of money as time cannot be the sole consideration for an excess amount claimed in an exchange. Saadaallah says the excess amount must be claimed against an asset or commodity and not time as this would result in a money-money transaction. Taqi Usmani explains "Time of payment may act as an ancillary factor to determine the price of a commodity, but it cannot act as an exclusive basis for and the sole consideration of an excess claimed in exchange of money for money" (2000:10). Commodity-commodity and money-commodity transactions are allowed, however, not money-money transactions as this may result in (*riba*) interest. Interest financing leads to a false economy, creating instability, inflation, unemployment, and cyclical crashes. Islamic finance is asset-backed, which creates a real economy with real assets and inventories and promotes stability as well as creates an economy where speculators and bankers cannot crash markets for profit through greedy and reckless behavior. According to Taqi Usmani "Interest-based financing does not necessarily create real assets, therefore, the supply of money through the loans advanced by the financial institutions does not normally match with the real goods and services produced in the society, because the supply is increased, and sometimes multiplied without creating real assets in the same quantity" (2011:10). Usmani explains that "This gap between the supply of money and production of real assets creates or fuels inflation" (2011:10). In contrast, Usmani says "Since financing in an Islamic system is backed by assets, it is always matched with corresponding goods and services" (2011:10).

In an interest- based loan, the creditor receives a fixed rate of return no matter how much profit or loss the venture makes. If the venture makes a lot of money, the creditor receives a fixed rate of return. It would be more just if the creditor shared in the profits rather than just receiving a low fixed rate of return in the form of interest. If the venture makes a loss, the creditor still receives a fixed rate of return and the debtor bears the risk of the loss. It would be more equitable if the creditor shared in the loss rather than receiving an abnormally high rate of return in the form of interest. *Riba* (interest) results in a financial system where the debtors bear the majority of the risk and the creditor most of the reward.

According to Sheikh Wahba al Zuhayli, "*Riba* is a surplus of commodity without counter-value in commutative transaction of property for property" (2006:25). The intent of such a transaction is a surplus of commodities. Therefore, the definition of *riba* includes both credit *riba a*nd invalid sales, since postponement in either of the indemnities is a legal surplus without perceivable material recompense, the delay usually due to an increase in compensation (Zuhayli, 2006:25). In Islam, money – money transactions are not allowed and there is no time value of money concept. Taqi Usmani explains that "Any excess amount charged against late payment is *riba* only where the subject- matter is money on both sides" (2011:10). Furthermore, "Any excess claimed in a credit transaction (of money exchange of money) is against nothing but time" (Usmani, 2011: 10).

There are two types of *riba f*orbidden in Islam, credit and surplus *riba*. "Credit *riba* is taken against a delay in settlement of a due debt, regardless whether the debt be that of goods sold or a loan" (Zuhayli, 2006: 26). Therefore, "Credit *riba* occurs due to their inclusion of an increase in one of the two exchanged goods without any counter-value (Zuhayli, 2006: 28). The impermissibility of exchanging equal amounts is due to the resulting increase in value. Zuhayli explains that this is because neither of the contracting parties would usually accept to postpone the receiving of the payment save if there were some benefit by increase in the value thereby (Zuhayli, 2006: 28). Credit *riba* represents a violation of the 'hand to hand' rule when one or both counter-values of a transaction are postponed to a future date (of goods of same genus). *Riba* of delay or credit *riba* prohibits sale of commodities in the future even if the counter- values are equal (Ahmed, 2011:32).

Ubida b. al-Simit (Allah be pleased with him) reported Allah's Messenger (may peace be upon him) as saying: Gold is to be paid for by gold, silver by silver, wheat by wheat, barley by barley, dates by dates, and salt by salt, like for like and equal for equal, payment being made hand to hand. If these classes differ, then sell as you wish if payment is made hand to hand (Muslim, book 10, number 3853) (Visser, 2009: 34).

The six goods mentioned in this hadith are *ribawi* goods. Violation of "same for same" can lead to *riba* of excess (*riba al fadl*) or surplus *riba* and not fulfilling "hand to hand" (i.e. spot transaction) would constitute *riba* of delay (*riba al nasi'ah*) or *credit* riba (Ahmed, 2011: 31). Furthermore, "gold for gold" and "silver for silver" provides the rules of monetary exchange (*sarf*) during this time (Ahmed, 2011:31). If there is exchange among the same specie of *ribawi* goods, it has to be done on the spot and should be of equal quantities (Ahmed, 2011:31). If the quantities exchanged differ, even in spot transactions, then it will constitute *riba* of excess (*riba al fadl*) or surplus *riba* (Ahmed, 2011:31). Rules of *riba* of excess also prohibit exchange of dissimilar quantities of a genus with different qualities (such as exchanging one unit of high quality dates with two units of low quality dates) (Ahmed, 2011:31). According to Visser, there is a ban on exchanging, for example, two low-quality dates for one high-quality date, even if it is permitted to sell the low-quality dates for money and use the receipts for buying a high-quality date (2009: 35).

Zuhayli says that "Surplus *riba* is the sale of similar items with a disparity in amount in the six canonically-forbidden categories of goods; gold, silver, wheat, barley, salt, and dry dates" (2006: 26). It is the violation of the 'equal for equal' rule in spot transactions of the same goods of a particular genus. Zuhayli explains that "This type of *riba* is forbidden in order to prevent it being used as a pretext to committing credit *riba*, such that a person sells gold, for example, on credit, then pays back in silver more than the equivalent of what he had taken in gold" (2006: 26). To avoid *riba*, the commodity has to be exchanged with some other genus and then traded with the desired commodity (high quality dates with wheat or silver and then wheat or silver with low quality dates) (Ahmed, 2011: 32).

Narrated by Abu Said Al-Khudri and Abu Huraira: Allah's Apostle appointed somebody as a governor of Khaibar. That governor brought to him an excellent kind of dates (from Khaibar). The Prophet asked, 'Are all the dates of Khaibar like this?' He replied, 'By Allah, no, Oh Allah's Apostle! But we bartered one Sa of this type (type of dates) for two Sas of dates of ours and two Sas of it for three of ours.' Allah's Apostle said, 'Do not do so (as that is a kind of usury) but sell the mixed dates (of inferior quality) for money, and then buy good dates with that money' (Bukhari, vol. 3, book 34, no. 405; see also Muslim, book 10, number 3875)(Visser, 2009:34).

The legal cause for the impermissibility of exchanging different amounts of edibles is, according to the Hanafi and Hanbali Schools, volume and weight; according to Imam Malik, its qualities being nutritious and storable; and for Imam Shafi, the mere fact that it is edible (Zuhayli, 2006: 39).

An economy which grows debt from debt cannot grow, but can only retract, causing the value of money to decrease, forcing people out of businesses, increasing the number of homeless, and forcing more and more people to struggle with their daily existence as the people become entrapped in a debt bubble, which eventually surrounds them and encapsulates their entire lives. Islamic finance is based on real assets and a real and productive economy. As Islamic finance is now booming around the world, we are presented with a momentous occasion for all of God's people to join together in an effort to bring about divine finance and ethical banking in order to create a productive, just, and equitable system for all.

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Islamic Finance is Knocking on the Doorsteps of China

By: Camille Silla Paldi, CEO of FAAIF, camille@faaif.com.

China is already an economic powerhouse and the world's second largest economy full of highly trained mathematicians, business people, finance experts, and millionaires. Anyone who gets off of an airplane in Shanghai, China will witness the booming economic miracle of China's mega-cities brewing with a highly-educated populace ready to make their mark in the financial markets.

The launch of the Shanghai Free Trade Zone in 2013 placed Shanghai on the map of financial services. In addition, in 2011, Hong Kong was ranked number one for the World's Economic Forum's Financial Development Index surpassing the USA and UK. Hong Kong is well-positioned for capital raising, product launch and distribution, and as a platform for specialized financial services. The People's Republic of China has been taking the steps necessary to facilitate Islamic finance transactions in China and Hong Kong to prepare China for competition in the sukuk, Islamic funds, and Islamic finance industries. In addition, as of January 2015, the government has approved plans to accelerate 300 infrastructure projects valued at USD$1.1 Trillion or 7 Trillion Yuan. China is ripe for Islamic finance. In this momentous occasion in time, Islamic finance offers a unique opportunity for the Muslim communities of China to gain status and respect in a traditionally challenging atmosphere and teach other Chinese people, businesses, and the government how to increase their net worth and remain competitive using the financing of Islam and reveal the correlation between the communal ideals of Confucianism and Islam.

In 2006, the Chinese banking sector was opened up to foreign banks. In the same year, Bahrain-based Shamil Bank launched its US$100 million Shamil China Realty Mudarabah. The four-year Mudarabah invested in the Xuan Huang China Realty Investment Fund, a joint-venture between Shamil Bank and the state-owned Chinese Conglomerate CITIC Group. In addition, Deutsche Bank, through its global mutual fund arm DWS Investments, launched its first Shari'ah compliant mutual fund capability in December of 2006, which was marketed as DWS Noor Islamic Funds and included the DWS Noor China Equity Fund.

In 2007, Chief executive Donald Tsang Yam-Kuen introduced the idea of promoting Hong Kong as an Islamic financing hub. In addition, Hang Seng Bank launched Hong Kong's first Shari'ah compliant retail fund. In 2008, Hong Leong Bank Hong Kong launched its Islamic Banking Services. Also in 2008, Hong Kong's first Shari'ah compliant syndicated loan for Noble Group raised US $80 million. In Taiwan in 2008, Polaris collaborated with DBS group to start an exchange traded fund that tracked the MSCI Taiwan Islamic Index. The index contains about 60 stocks listed on the Taiwan stock exchange. Polaris is the asset management unit of Polaris Financial Group, which owns Taiwan's largest online brokerage.

In 2009, Hong Kong Monetary Authority (HKMA) signed a memorandum of understanding with Bank Negara Malaysia to promote Islamic finance. In Taiwan in 2009, the Taiwanese Stock Exchange Corporation established exchange traded funds with both the Abu Dhabi Securities

Market and the Dubai International Financial Centre (DIFC) and established a Taiwan Shari'ah Index. Also in 2009, China became a member of the Islamic Financial Services Board (IFSB). In 2011, Khazanah, the investment holding arm of the Malaysian government, marketed Hong Kong's first yuan-denominated sukuk of 500 million yuan, attracting investors from Malaysia, Singapore, Hong Kong, the Middle East, and Europe.

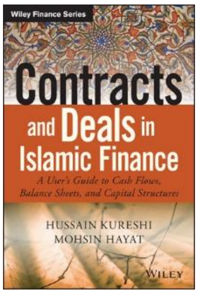
In 2012, Malaysian telecommunications firm Axiata launched the first corporate yuan sukuk in Hong Kong, raising 1 billion yuan. Also in 2012, HKMA and Bank Negara Malaysia introduced a pilot scheme that allowed bonds to be traded and settled across the Malaysian and Hong Kong borders. In 2013, China approved Ningxia as an economic experimental zone for inland development, creating room for the introduction of Islamic finance in China. In 2012, Bank Muamalat Malaysia and Bank of Shizuishan of China announced plans to establish an Islamic bank in Ningxia Province. In addition, the two banks agreed to offer Islamic banking products through Bank of Shizuishan's network of 23 branches. One third of the population of Ningxia uses Shizuishan Bank with assets of US$3.9 Billion and net profit of US$42 million in June, 2015. In addition, Bank of Ninxia established an Islamic Banking Unit, which has been in operation since 2009.

In 2013, Hong Kong enacted a law that equalized the tax treatment of sukuk with conventional bonds. The Loans (Amendment) Bill 2014 followed the introduction of the Inland Revenue and Stamp Duty Legislation (Alternative Bond Schemes))(Amendment) Ordinance 2013. In 2014, Hong Kong raised US$1 Billion in a sukuk issuance, making the world's first USD-denominated sukuk originated by an AAA-rated government. Also In 2014, RHB Asset Management launched an Islamic fund for public investors and Affin Bank and Bank of East Asia announced plans to establish an Islamic Bank in the People's Republic of China. In addition, RHC Capital (RHB Banking Group) also expressed a desire to establish an Islamic banking operation in Hong Kong and China. Since 2006, seven sukuk with a value of US$5.8 billion have been listed on the Hong Kong Stock and two renminbi-denominated sukuk by Khazanah National and Axiata. Riding on the sukuk momentum, after Hong Kong's debut $1 Billion Sukuk, the government of Hong Kong announced another USD$1 Billion Sukuk offering. In addition, Ninxia Province plans a USD$1.5 Billion Debut Sukuk sale in 2015/2016.

Qatar International Islamic Bank (QIIB) and QNB Capital signed an agreement in April 2015 with Chongqing-based Southwest Securities to develop Shari'ah Compliant finance products. In addition, Industrial and Commercial Bank of China, which is China's largest bank by assets, signed a deal with Islamic Development Bank (IDB) to develop Shari'ah compliant banking products in China and the 52 IDB member countries. Gulf Finance House plans to invest at least USD$1 Billion in Chinese infrastructure projects. In addition, Al Rajhi Investments (ARII) introduced Shari'ah compliant investments in the Chinese market through its Shari'ah Investment Fund (SAIF) in partnership with China Resources (CRC). There are also plans to develop a Ninxia Islamic Finance Center in the province's capital Yinchuan, establish Islamic Banks and banking products in China, and develop a wholesale Islamic capital market, including Islamic bonds, equities, and funds. It seems apparent that the time for Islamic finance and China is now.

Book Recommendations

Contracts and Deals in Islamic Finance: A User's Guide to Cash Flows, Balance Sheets, and Capital Structures by Hussein Kureshi.



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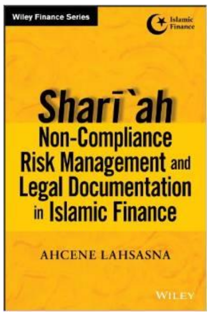

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