CHAPTER - 4

Islamic financial instruments and infrastructure institutions supporting

Islamic financial market

4.1. Islamic financial instruments

When the idea of Islamic finance was put into practice on a large scale, few of Islamic financial instruments did exist. The pioneers of the idea were not given blueprint of Islamic finance in practice. Most of Islamic financial instrument as one sees today were developed in the daily practices of Islamic finance and banking. From time to time, these instruments have been developed according to nature of business of particular Islamic financial institution and needs of particular markets. Since Islamic finance industry is growing broader and more sophisticated, Islamic financial instruments are also growing in variety. Although, a great number of financial instruments are claimed as Islamic but not all of them are acceptable from a strict Shariah point of view. Some of the instruments were not unanimously accepted and some were rejected by Shariah scholars. Among them Profit-and loss sharing based instruments are ideal mode of Islamic finance but in practice it only plays a secondary role as it is not flexible for Islamic financial institution to deal with all present day financial affairs. On the contrary, many other forms of Islamic financial instruments have gained popularity but they are subject of ongoing discussions. Although, their legal form may be acceptable by Shariah point of view but their economic
effectiveness is not different from interest based financial instruments which Islamic financial theories propose to try to replace.¹

However, prevalence from of the Halal financial instrument can be named. The common forms of Islamic financial instruments are as

- Profit-and-loss sharing based instruments
- Sale based contract instruments
- Lease based contract instruments

4.1.1. Profit-and-loss sharing base instruments

Idea of profit-and-loss sharing

Profit-and-loss sharing (PLS) is a fundamental concept and ideal principle to build an Islamic financial instrument for Islamic banking and finance. Profit-and-loss sharing is the method utilized in Islamic banking and finance to comply with the prohibition of interest. The idea suggests fair sharing of risks and profits between the parties involved in a financial transaction. In the banking business, Islamic financial institution as financial intermediary applies this principle as main tool to fund mobilization. As it is partnership contract between the institution and its depositors or investors on one hand, and signs partnership contract between the institution and its borrower on other. Since the relation between them is partner, financial institutions will not receive a fixed rate of interest on their outstanding loans. But they share in profits or in losses of the business of whom they have provided the funds. In the same fashion, those who deposit their funds in an Islamic financial institution will share in the profit or loss of the financial institution. In this way, Islamic financial

institutions provide savers and investors or borrowers with instruments that similar to equity named as Mudarabah and Musharakah.²

4.1.1.1. Mudarabah

The term Mudarabah is derived from verse of Quran and refers to walking and traveling the earth, as it is activity that mudarib performs in order to seek profitable opportunities. It is also an ideal principle for Muslim to conduct a joint venture business as mentioned in Hadith as prophet Muhammad (PBOH) use to practice this contract.³ As a lot of evidences have shown, Mudarabah was one of financial modes that was prevalent and used throughout middle age history. Mudarabah was a pre-Islamic custom used to finance the caravan trade in Arabia. It was later approved by Islamic as legal means of financing as the prophet Muhammad (PBUH) used to involve in Mudarabah transaction. The prophet’s companions such as Umar and Uthman, The second and the third rightly guided caliphs also used to invest orphan’s money, under their protection, in trade business between Medina and Iraq by Mudarabah finance. Mudarabah is also known as Girad, Muqarada. In Europe this instrument was known as Commenda which was practiced by Venice merchants since 11th century.⁴

Mudarabah is a profit-and-loss sharing contract which one party is known as rabb al-mal or financier who provides all capital needed for financing a project and other party


known as mudarib or agent, provides labour and effort. In this contract the proportionate share in profit is predetermined by mutual consent between the two parties but in case of loss only rabb al-mal or financier bears the capital loss, and mudarib loss by get nothing in return for his expended time, effort and labour.\(^5\) Hanafi School jurisprudents distinguished Mudarabah contract into two types with regarding to the agent’s activities, restricted and unrestricted Mudarabah.\(^6\)

**Restricted Mudarabah or Mudarabah al muqayyada**

In this kind of Mudarabah, the contract is limited by some conditions such as time and place of business transactions or other conditions are limited and specified. The mudarib have no absolute freedom to manage project as he wills, but he has to conduct the project within the framework of the terms and conditions of the agreement. The profit is divided in predetermined proportion. In case of loss, capital loss is borne by the financier or rabb al-mal. However, if the loss is caused by mudarib negligence or mudarib violated the terms of Mudarabah contract, the mudarib must take responsibility for the loss.\(^7\)

**Unrestricted Mudarabah**

The characteristic of unrestricted Mudarabah derives from the Arab clause “I’malfihi bi raika” or “act with it as you see fit”\(^8\). In Unrestricted Mudarabah, mudarib is free to

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\(^7\) Ahmed Al-Suwaidi, N.4, pp.75-76.

\(^8\) Musrat Cizakca, N.6, p.5.
conduct project as he see fit. There are no restricted framework that mudarib have to act on. Profit or loss share proportion will be imposed in advance as same as in the Restricted Mudarabah.⁹

**Basic Sharia rules concerning Mudarabah**

As the matter of valid conditions of Mudarabah contract, some set of Shariah rules toward Mudarabah financing were recommended by Mufti Muhammad Taqi Usmani¹⁰ in 1999 as follow:

1. Capital must be specified at the settlement of the contract, uncertain amount of capital lead to uncertainty about the amount of return profit.

2. It is a necessary condition that the given capital must be known in particular unit as currency. Capital amount must be specified in terms of currency unit at the outset of contract, if a party gives capital in form of merchandise.

3. The capital can’t be a liability or debt on the Mudarib.

4. It is a permissible condition that a Mudarib mix its own private capital with the capital of the Mudarabah, and do arrangement of capital on the basis of Mudarabah principle.

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¹⁰Mufti Muhammad Taqi Usmani is a Hanafi Islamic scholar from Pakistan. He served as a judge on the Federal Shariat Court of Pakistan from 1980 to 1982 and the Shari’a Appellate Bench of the Supreme Court of Pakistan from 1982 to 2002. He is an expert in the fields of Islamic Jurisprudence (fiqh), economics and hadith. He also held a number of positions on the Shariah Boards of prestigious Islamic institutions, and is one of the most influential Islamic authors outside the Middle East.
5. The capital of Mudarabah must be delivered to the Mudarib. Regarding this condition, some jurist’s opinion allows that capital owner can hold capital and deliver it gradually, according to the need of the mudarib.

6. In case two or more Islamic financial institutions are involved in a Mudarabah contract as Mudarib, the distributable profits are distributed among them. The share of capital owner is provided by each.

7. Stipulation of any restriction on the Mudarib is permitted if the restriction is beneficial, does not cause a compulsion on Mudarib to achieving the profit required and is not counterproductive to the purpose of the Mudarabah.

8. Mudarib is allowed to hire an assistant.

9. The Mudarib’s management is restricted to that is conducive to the Mudarabah. The Mudarib can’t lend or donate of the Mudarabah capital. The Mudarib is not permitted to purchase more than its capital. The Mudarib is also not allowed to use the Mudarabah capital for other partnership agreement, with third party, without capital owner acceptance and authorization.

10. It is not permissible to impose a condition that force the Mudarib to bear capital loss except in case that loss is cause be Mudarib negligence. It is permissible to take a security from the mudarib to guarantee the payment in case of negligence or infringement of the contract. But, it is not allowable to take the security as a guarantee for profit or capital loss.
11. The proportion of profit sharing must be specified. It is condition that profit sharing ratio have to be stipulated in the contract. The absentness of the condition abrogates the contract. It is permissible that the profit sharing ratio can be stipulated in from o percentage or lump sum.

12. Profit in Mudarabah is shared according to pre-agreement between the contracting parties. However, it is a condition that monetary loss is absorbed by the capital owner alone.

13. The Mudarib receive its share of the profit only after obtaining the permission of the capital owner. Also the mudarib is entitled to receive its share of profit only after the capital is recovered because the Shariah principle states that “profit is protection to capital”.

14. The ownership of the mudarib becomes secure after the liquidation of the Mudarabah and the capital owner has recovered its capital.

15. The Mudarabah is terminated if one of the two parties rescinds, given that it is an optional and not a binding contract. However some of the jurists hold the view that Mudarabah is binding and it cannot be rescinded if the Mudarib has commenced work.

**Application of Mudarabah in finance**

Mudarabah is the first financial structure that was proposed to apply in Islamic banking business at the early stage of Islamic economic and financial system reclamation. As theory explanation, Islamic banks or other Islamic financial institutions can use two tired

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Mudarabah structure as backbone of their operation. The Islamic institution on one hand would receive deposits fund as agent or mudarib of its customer and on the other hand provide finance to its client to act as rabb al mal or sleeping partner. Thus a banking system could run on profit and loss sharing and remove interest out of system.\(^\text{12}\)

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\textbf{Figure 4.1: Two tier Mudarabah}

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The Islamic financial products and service that were built by Mudarabah such as:

Islamic bank use Mudarabah as core structure of investment deposit. Investment deposit is similar to saving and time deposit of conventional bank that they have to pay some return to depositor. However with the help of Mudarabah, Islamic banks do not pay the return in form of fixed interest rate but in form of proportion of profit share.

Prevalent types of investment deposits are as follow:

- General investment deposit which has no special requirement. Profit is calculated and shared at the end of accounting maturity say three months, six months or one year.

- Special investment deposit which is similar to general investment deposit, but adding some special conditions such as which require the bank to invest in particular project or sector.

- Limited period investment deposit which is mutually determined by the depositor and the bank.

- Unlimited period investment deposit where the period is not specified. Deposits are automatically renewable unless a notice of three months is given to terminate the contract.

Although, types of investment deposit are various. However their structures are similar as shown below
1. Customer deposits funds to a bank as Mudarabah contract.

2. Bank use the funds in its business to generate profit.

3. Business generates positive or negative profits.

4. Positive profits are shared between Depositor and Bank at a pre-agreed ratio.
5. Negative profits are absorbed by Depositor as the decline of the asset created with its investments and the value of the deposit are deteriorated.\(^{13}\)

In capital market, Mudarabah are applied to provide Equity-based financing products as trustee partnership facility by financial institution. As Rabb al mal a financial institution provide capital to customer or business enterprise. The customer or business enterprise act as mudarib who is responsible for management of business project.\(^{14}\) Islamic funds are also typically built under a two tier Mudarabah structure. Although, at present most of funds in the markets are available only for big amount capital investor, generally requiring at last 100,000 US dollars of Investment money. However, smaller minimum amount could be offered in the near future in response to the growth of Islamic financial markets.\(^{15}\)

4.1.1.2. Musharakah

Historical speaking, Principle of Musharakah was practiced by many civilizations long before the arrival of Islam. However, during the Prophet Muhammad (PBUH) life time, this principle was approved as valid means of Islamic financing by Sunnah of the prophet. Therefore Musharakah are considered by many scholars to be the most authentic form of Islamic financial contract.\(^{16}\) Originally, Musharakah is a contract of business and trade which


\(^{14}\) Ibid pp. 57-58.


\(^{16}\) Ahmed Al-Suwaidi, N.4, pp.77
all the partners share the profit or loss of the joint venture. In the modern financial affair, Musharakah is one of an ideal alternative for the interest-based financing with far reaching effects on both production and distribution.

The term Musharakah is derived from the Arabic word Sharikah meaning partnership. Indeed, Sharikah in Islamic Fiqh refer to all form of sharing and partnership. As described in Fiqh text the Sharikah forms are consist of:

1. Shirkat-ul-milk: joint ownership of two or more parties in a particular property.
2. Shirkat-ul-aqd: a joint partnership in the manner that two or more parties take a mutual contract to conduct a business effort. This kind of Shirkat can be further divided into 3 sub-categories
   2.1. Shirkat-ul-amwal: where all partners invest some fund into a joint commercial enterprise.
   2.2. Shirkat-al-a’mal: where all the parties jointly undertake to render some service for their customer and the fee charged from them is distributed among them according to pre-agreed ratio.
   2.3. Shirkat-ulwujoooh: where the partners have no investment at all. They do business by purchase commodities on a deferred price and sell them on the spot.

Musharakah in modern Islamic finance context, however, restricted refer to particular type of Shirkat-ul-aqd those are Shirkat-ul-amwal and shirkat-ul-a’mal.¹⁷

As modern financing mode, Musharakah is about contributing capital to a company, project, or any kind of asset transaction. The profit and the losses is shared among participation parties. In this contract all parties must provide capital. However, it is not a requirement of Musharakah that all parties must take part in the management. It is an option that all parties may take part in the management or some parties may take part in the management leaving other parties to become sleeping partner. Profit or losses sharing need to be born proportionately relating to the capital provided by each party (pro rata).\textsuperscript{18}

\textbf{Figure 4.3: Simple Musharakah Structure}

\textsuperscript{18} Dr. Natalie Schoon, N. 15, p. 29
Basic Shariah rules concerning Musharakah

1. Musharaka contract must be built on the condition that capital investment is specific, existent and immediately available. A contract is void if it is built on non-existent funds or debt.

2. The partners in Musharaka contract are not necessary to have equal shares participation in capital funds.

3. The participation capital must be in form of money and tangible assets.

4. It is permissible for one partner to singly handle and control Musharaka project with the mandate of the other partners, but it is not permit to imposing any conditions that prevents one or more of the partners from work. Because, Musharaka contract empowers all partners within contract to dispose of and work with the capital.

5. It is not permissible to take security for profit return on capital but it is permissible that to take a guarantee against negligent or misbehave of working partners.

6. To valid Musharaka contract, the profit share must be determined in pro rata ratio for all partners, in order to avoid uncertainty. The profit share cannot be determined in lump sum because this contravenes the requirement of Shariah law toward partnership contract.

7. Profit share ratio of each partner must be based on the proportion of their shares in capital. However, some of the jurists permit variation in profit shares whereupon it is determined by mutual agreement.
8. In case of losses, each partner bears losses according to its proportion of ratio of capital investment.

9. Since partnership principle is permissible contract, not a binding contract, thus it is permissible for any partner to leave the contract whenever he/she wishes. However, the event must occur with the knowledge of the other partners because it may prejudices his/her interest.\(^{19}\)

**Diminishing Musharakah**

Since simple Musharaka is such that it cannot respond to many requirement of modern business, Diminishing Musharakah is a form of Shariah compliant equity financing. In an attempt to secure funding in the Shariah recommended ways, the idea of diminishing Musharakah was first introduced as early as in the 1970's.\(^{20}\) it was approved as a permissible mode of financing by the First International Conference on Islamic Banking, held in Dubai, during 1979. Subsequently, when idea of developing an Islamic version of the conventional concepts of preferred stocks, particularly “redeemable capital" came up, Diminishing Musharakah was recommended by Islamic Development Bank as an appropriate mode for this purpose.\(^{21}\) The sukuk structures based on musharakah as stated earlier are generally based on diminishing musharakah (Musharakah mutanaqisah).\(^{22}\)

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\(^{19}\)Brian Kettell, N.11, pp.48-49


Diminishing Musharakah is a form of partnership, which ends with the complete ownership of a partner who purchases the share of another partner in that project by a redeeming mechanism agreed between both of them. This is a distinctive form of Musharakah which eventually concludes in the ownership of the asset or the project by the client. Hence it is a temporary and similar to redeemable equity in a company. It is deemed to more suitable for financing of fixed assets and present-day ongoing projects, particularly for financial intermediaries. The contract allows that a party, after participation in ownership of any business/project, can liquidate his investment from the asset or the ongoing business. The concept of Diminishing Musharakah also can be used by Islamic financial institutions for the purpose of financing fixed assets such as house financing, auto financing, plant and machinery financing, factory/building financing and all other fixed asset financing.

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Shariah scholars suggest that the Diminishing Musharakah should consist of three separate contracts, ensuring that each contract is independent of the other two contracts. The three contracts should include:

1. A joint ownership contract. In this contract the client partner makes a promise, before or after the lease agreement is finalized, to purchase the share of the financier partner.
2. The financing partner leases his share units to the client.

3. The client partner goes on purchasing the units of ownership of the financing partner. Accordingly, the rent goes on decreasing.\textsuperscript{24}

Prominent feature of the profit-and-loss sharing concept is that sharing profit or loss between contract parties accords to fund utilizations. The idea pays a direct concern to the profitability of the physical investment on the part of the creditor, not emphasis on potential default on the loan as did in conventional system.

4.1.2. Leasing based instruments

4.1.2.1. Ijarah

Risk taking and no interest dealing are two important conditions that make a financial transaction valid in the light of Shariah. The leasing finance is one of Islamic financial mode that provides these conditions. By transforming the financial assets into tangible assets, financier will take the risk inform of an economic recession or reduced demand for the assets. Moreover, as the rent again usufruct\textsuperscript{25} of assets, leasing financial instrument allow financier to stipulate fix rate of return against capital fund. As the return comes from rent such return is not considered as Riba transaction.\textsuperscript{26}

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\textsuperscript{24}Ibid, p.339
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\textsuperscript{25}Usufruct is the legal right to use and derive profit or benefit from property that belongs to another person, as long as the property is not damaged. Usufruct originates from civil law, where it is a real right of limited duration on the property of another. The holder of an usufruct, known as the usufructuary, has the right to use and enjoy the property, as well as the right to receive profits from the fruits of the property. The English word usufruct derives from the Latin expression \textit{usus et fructus}, meaning "use and enjoyment", cognate to English "use and fruits"
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\textsuperscript{26}Brian Kettell, N.11, p. 57
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'Ijarah' is a term of Islamic Fiqh means ‘to give something on rent’. According to Hanafi School Ijarah is a contract which enables possession of a particular intended usufruct of the leased asset for a consideration. Maliki school defined Ijarah as "a contract which relates to permissible usufructs for a particular period and a particular consideration not arising from usufruct". Shafie school defined it as " a contract for a defined intended usufruct liable to utilization and accessibility for a particular recompense". While Hambali school defined as: " a contract for a particular permissible usufruct which is taken gradually for a particular period and a particular consideration". Based on The text of The Quran and the Sunnah of the Prophet Muhammad (SAW), Ijarah is one of contract premised by Shariah law. It is a contract of exchange of counter values between usufruct and rental. Islamic law permits the lease of certain assets whose benefits can be obtained by the lessee against the payment of certain agreed rental. Ijarah is one of the popular contract of financing among Islamic Financial Institutions (IFIs) for many of their financial products such as property financing, vehicle financing, project financing, personal financing and structured products. Moreover, some Ijara such as Ijarah Muntahia bi al-Tamlik enable customers to lease the assets based on Ijarah from Islamic financier with an option to subsequently own the asset.27


Ijarah WaIqtina

Ijarah Muntahia bi al-Tamlik is also in variably called Ijara Walqitina. The words mean ‘leasing and acquisition’ and ‘leasing ending in ownership’ or lease to own. Ijarah Walqitina is the financial contract that a property is leased by the lessor to the lessee in a way that, at the end of an agreed contract the lessee becomes the owner of the property by purchasing it from the lessor at an agreed price. Despite the fact that return of Ijarah Walqitina look similar to interest charge on conventional financial lease but Ijarah walqitina is Islamically permissible as it contains profit element.

Figure 4.5: Basic Structure of Ijarah

![Diagram of Ijarah Structure]

- **Vendor**: Sale of the assets to financier
- **Financier**: Rent the assets to customer
- **Customer**: Rent
  - **Payment of purchase**:
Basic Shariah Rules toward Ijarah Contract

Like any other contracts, an Ijarah contract has to fulfill all the conditions of a valid contract stipulated by the Shariah. Some basic rule are as follow:

1. Ijarah is a contract that the owner of something transfers its usufruct to another party for specific period of time.

2. Non usufruct subject cannot be leased as the subject for leasing as the leasing subject must have a valuable use under Ijarah contract.

3. It is a condition that the corpus of the leased subject continues in the ownership of the lessor, and only its usufruct is transferred to the lessee. Therefore, consumable
subject such as eatables, fuel and consuming goods cannot be leased under this contract.

4. It is a condition that lessor remains responsible to all liabilities emerging from leased subjects. The corpus of leased subject remains in the ownership of the lessor. However, the liabilities related to the use of the leased subject shall be borne by the lessee.

5. The period of lease must be specified in clear terms.

6. The purpose of use of leased subject should be specified in the lease agreement and the lessee must not violate the term. If the agreement has not specified the used purpose of lease subject, the lessee can use it as normal course or get the lessor permission in express terms.

7. Any damage on leased subject by misuse or negligence of lessee will be paid by lessee.

8. The risk toward leased asset shall remain in hand of the lessor throughout the lease time period. Any loss caused by the factors beyond the control of the lessee shall be borne by the lessor.

9. Joint owner item can be leased out, and the rental shall be divided among them according to the proportion of their respective shares in the item.

10. In the case of joint owner item, if one of joint owner wants to lease his part, he can lease his share to his co-owner only. He cannot lease the share to third party.

11. It is condition that lease subject be fully identified by the contract parties.
12. The rental must be specified at the time of pre agreement for the whole period of lease. However, it is permissible that the rental time is divided into different phases and impose different rental for different phases. The rental of each phase can be specifically agreed upon at the time of affecting a lease.

13. The lessor cannot unilaterally increase the rent.

14. The lessee can pay the rent in advance before the delivery of the leased item to the lessee.

15. The commenced date of lease period will be counted on delivered date.

16. If the leased item is totally damaged and cannot function for which it was leased, the lease contract shall terminate on the day on which such loss has been caused. If the loss is caused by the misuse or the negligence of the lessee, he must take responsibility for all loss.\(^{29}\)

4.1.3. Sale based instrument

In capital market, debt-financing is one of important instruments for fund mobilization. However, the nature of conventional debt-financing instrument is interest-based financial instrument that totally contradicts with Shariah order. Islamic debt-financing is structured through contracts of exchange such as sale and purchase. opposed to a mere debt paper in conventional financing, In Islamic framework, there must be an underlying asset which is made the subject matter of the contract valid.\(^{30}\) Although, sale based instrument is not an original form of Islamic mode of finance, however with the

\(^{29}\) Mufti Muhammad Taqi Usmani, *An Introduction to Islamic Finance* (New Delhi: Idarashat-e-Diniyat (P)Ltd, 2005)159-163

requirement of modern financial affair, especially in debt-financing market that cannot be properly acquired by the original mode of Islamic finance such as Musharakah and Murabahah, sale based instrument became one of alternative mode of Islamic finance. As prevalent use in present day practice, Islamic financial mode based on sale contract can be divided into three categories 1) price deferred sale contract: Murabahah, 2) object deferred sale contract: Salam and 3) Object and price sale contract: Istisna.

4.1.3.1. Murabahah

Although financial assets that are constructed by Murabahah contract are regarded as non-tradable in secondary market as Debt cannot be traded in Islamic law.\textsuperscript{31} However, it constitute 80 percent of total Islamic financing that has been provided by Islamic banks.\textsuperscript{32} It is a popular instrument because it has numerous advantages. For example, the risk bearing period for the financier is shorter than other financing instruments and the financier also identifies its profit as soon as the Murabahah transaction is complete. It’s disadvantage is that the financier’s assets are receivables (debts) that cannot be sold according to the Shariah.\textsuperscript{33}

Murabahah is a price deferred sale contract. It can be defined as a sale contract between two parties at a price which includes an agreed profit margin. The payment of the acquisition price can be made on spot, on a deferred lump sum or instalment basis. It distinguishes from conventional sale contract in the way that in Murabahah contract the margin of profit must be


\textsuperscript{32} Robert W. Hefner \textit{‘Ambivalent Embrace Islamic Economics and Global Capitalism’ in Markers, Morals and Religioned} by Jonathan B. Imber( New Jersey: Transaction Publisher, 2009) pp.141-156( p148)

\textsuperscript{33}Ali ArsalanTariq, N.31, pp.16-17.
clearly specified. As a financing instrument, the Murabahah involves a financier purchasing assets required by the borrower from a seller. The assets are then sold to the borrower with a mark-up or margin. The payment of the acquisition price is usually made on an installment basis.\(^{34}\)

**Figure 4.7: Basic Structure of Murabahah**

![Diagram of Murabahah](attachment:image.png)

**Basic Shariah rule toward Murabahah**

Since Murabahah financial instrument is not a loan provided in exchange for the charging of interest but is the sale of a commodity. Therefore in has to fulfill all the conditions necessary for a valid contract some of basic Shariah rule are as followed:

1. The sale item must exist at the time of sale.
2. The seller must own the sale item at the time of sale.
3. The sale item must be in the physical or constructive possession of the seller when he sells it to another person

\(^{34}\)Abbas Mirakhor and Iqbal Zaidi, N.2, p.52.
4. The sale must be absolute. The sale agreement cannot impose a condition that make
the sale uncertain such as a sale contingent on a future event.

5. The sale item must be a value item according to the usage of trade.

6. The contract cannot be made on Haram item or item used for Haram purposes.

7. It is also a condition that the buyer must know and identify the purchase item.

8. The delivery of the sold commodity to the buyer must be certain and should not depend
on a contingency.

9. The price of sale must be in certainty term. If an agreement imposes different prices
according to different maturity of payment within the same agreement, the sale is
invalid. For example, price is 10 US dollars if payment is made within one month and
price will be 20 US dollars if payment is made within two month.

10. A conditional sale is invalid unless the condition is recognized as a part of the
transaction according to the usage of trade.  

4.1.3.2. Salam

Salam literally means the purchase of goods for which payment is done instantly and
their delivery is done in the future. It was known to Arabs in pre-Islamic times and was
approved by Islam on certain conditions. Salam is a forward contract that provides a means
of selling credit to a producer. The contract parties agree to compensation for the
temporality of an object of property. For example, the purchaser can offer to pay the
producer in advance of receiving the item, paying less than he would if he were
purchasing it at the time when the item is ready for delivery. From one perspective, the
parties to Salam contract essentially agree on price differentials compensating for the delay

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in contract fulfillment. This model is normally used to financing the cost of future production of a manufactured product or an orchard. By this mode, producer and financer make agreement that financer would buy the production of producer before it is produced, at an agreed price. The payment is paid in advance. Then the produced uses the money as a working capital to purchase the basic services, pay wages, and buy raw materials necessary for the production. If producer cannot deliver as agreed, the producer can agree with the financer to postpone the delivery till the next output comes. If financier does not agree, the contract can be cancelled by mutual agreement. In this case, the producer will return the advance paid to financier. However, the returned principal cannot be increased, because such increase of principal is regarded as Riba. However, to ensure that the financier shall deliver the commodity on the agreed date, Financier can ask producer to furnish a security, which may be in the form of a guarantee or in the form of mortgage or hypothecation. In this way financier can recover the advance by selling the mortgaged property or asking the guarantor to deliver the same commodity. Salam as a mode of Islamic finance is deemed to be suitable for small farmers and traders to acquire working capital and fund.

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Basic Shariah rule towards Salam

Since, original of Salam comes from the sale contract which allows that one can sell a thing which one has not acquired at the time of sale. Some conditions are strictly commanded by Shariah Law. To valid Salam the condition should be regarded as follows:

1. It is a condition that the buyer must pay full amount of price to the seller at the time of affecting the sale. Because, without full payment Salam contract will be invalided as it equals to sale of debt against a debt which is prohibited by Shariah law.

2. It is a condition that commodities under Salam transition can be specified exactly both quality and quantity. The thing that cannot be determined in quality and quantity cannot be covered by this contract.

3. Salam contract cannot be used and becomes invalid on condition that transacted item or a product is produced only in a particular factory or field. For example, if the
seller under takes to supply the wheat of a particular field, it is invalid because, the condition is given such that possibility of the delivery remains uncertain.

4. It is a condition that the quantity of the commodity is fully specified.

5. The exact date and place of delivery must be specified in the contract.

6. Salam cannot be applied on the things that Shariah commands to deliver at spot such as exchange of money or such exchanges as gold with silver. What may not be sold on credit may not be sold in Salam.

7. Commodity sold should be a thing that can possibly be delivered

Salam as futures instrument, three points require to be carefully observed. First, the delivery of the underlining item is mandatory and compulsory. In Islamic framework, there is no mechanism to absolve the traders of the obligation to make or take delivery. This is completely opposite to the practice in the contemporary Futures trade. Secondly, according to Shariah framework, a Salam commodity cannot be resold till the buyer of Salam possesses the commodity. On the contrary with contemporary futures market, reselling of future contracts is permitted in that the explicit possession of the commodity by reseller. The contemporary, Futures market have not only made it permissible but have separated the Futures market from commodity markets. Thirdly, to valid Salam contract, it is strictly required that advance payment must be paid in full of the price of the commodity to producer. The contemporary futures market does not require advance payment in full price

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38 Mufti Muhammad Taqi Usmani, N. 29, pp. 187-189
as it did in Salam but they require only a small deposit with the Futures exchange as a security. This deposit is not paid to producer.\textsuperscript{39}

\textbf{Parallel Salam}

Parallel Salam is an Islamic contract where a financier that has already purchased some commodity on Salam contract enters into a secondary Salam contract with another party to supply the same commodity at the future date. Thus he recovers its investment with some profit or loss.\textsuperscript{40} This provides an instrument for the financier to hedge against price risk\textsuperscript{41}

In parallel Salam, the financier will play a dual role. On the one hand the financier is the seller in one Salam purchase agreement and on the other hand he becomes a customer by entering into a separate independent Salam agreement in order to acquire Salam goods of some specification. However, most important condition in the parallel Salam is to distinguish the contracts as two separate deals of Salam\textsuperscript{42}.

\begin{flushleft}

\textsuperscript{40}Muhammad Akram Khan, \textit{Islamic Economic and Finance: A Glossary 2nd edition} (London: Routledge, 2003) pp.144-145

\textsuperscript{41}Humayon A. Dar, \textit{Incentive Compatibility of Islamic Financing}, (Massachusetts: Edward Elgar Publishing, Inc 2007). (85-95) P87

\textsuperscript{42}International Organization of Securities Commissions (IOSCO),No 30,p12 available at www.iasplus.com/resource/ioscoislamiccapitalmarkets.pdf (22 Feb 2011)
\end{flushleft}
**Basic Shariah rules of Parallel Salam**

1. The two contracts must be independent of each other. The financier cannot tie up the obligation of one contract to other contract or make a condition that achievement of one contract would depend upon other contract. In an arrangement of parallel Salam, the financier enters into two different contracts. In one of them, the financier is the buyer and in the second one the financier is the seller. Each one of these contracts must be independent of the other. Each contract should have its own obligation and its performance should not be contingent on the other.

2. Parallel Salam is allowed with a third party only. The seller in the first Salam contract cannot be made purchaser in the parallel Salam contract, because it will be equivalent to the buy-back contract in conventional financing, which is prohibited by Shariah law. Even if the purchaser in the second contract is a separate legal entity but owned by the same seller in the first contract, the contract would still be invalid as in practical terms it would equal to ‘buy-back’ arrangement.\(^{43}\)

4.1.3.3. **Istisna**

Istisna is a kind of future contract as Salam. It is a purchase contract for future delivery of underlying assets.\(^{44}\) Under the contract a party agrees to manufacture a specific product and to deliver it to the contracting party at agreement date, against a pre-determined price. In contrary to Salam, where advance payment needs to be made in full price, an Istisna contract has more flexible payment. It can be paid according to pre-

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\(^{43}\) Mufti Muhammad Taqi Usmani, *N.29*, pp.194-195

agreement between the two parties. Although, other school of Fiqh hold that to valid Istisna contract the advance price must be paid in full and the contract is required to be stipulated strictly according to the same conditions as of Salam contract, but the Hanafi school who originally introduced this type of contract hold the view that the price may not be paid in advance. It can be paid in installment, or can even be deferred until the product is delivered.

Even if the contract is similar to Salam there are some major distinctions in the nature of the assets and method of payment. Istisna is contract of customarily made to order and advance payment is not necessary as required in Salam. The method of payment in Istisna is more flexible, according to the terms as agreed to by the contracting parties. Its differing aspects could be concluded as:

- The purchase price does not have to be paid when the contract is entered into
- There is no requirement to stipulate when the asset is to be delivered
- The asset need not be an item that is commonly available in the market.

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Basic Shariah rule toward Istisna contract are as follows:

1. **Istisna** is a special mode of sale that the buyer made order to seller to create commodity and deliver the commodity at future date at an agreed price.

2. The commodity must be clearly specified in order to avoid uncertainty such as kind, type, quality, and quantity.

3. The price of the commodity to be manufactured must be fixed in clear terms. The agreed price can be lump sum or installments depending upon mutual agreement.

4. The buyer is not responsible to provide materials required for the manufacture.
5. Unless otherwise mutually agreed, any party may cancel the contract unilaterally if the seller has not incurred any direct or indirect cost in relation thereto.

6. If the manufacturing item conforms to the agreed term, the purchaser cannot refuse to accept the manufacturing item.

7. The buyer can enter into a parallel Istisna contract without any condition or linkage with the original Istisna contract. But each of the two contracts must be independent of each other.

8. Before taking possession of the manufactured item, the buyer cannot sell or transfer ownership of the item to the third party.

9. If the seller fails to deliver the goods within agreed date, the price of the manufactured item can be reduced by per agreement term.49

4.2. Infrastructure Institutions of Islamic financial market

In Islamic finance there are unique rules, restrictions and requirements regarding business and investing. In order to be considered acceptable, transactions must adhere to the principles under Shariah. Since most of prevailing financial systems are predominantly based on the conventional legal system which may or may not have provisions for handling special treatment of Shariah rules, the development of supportive legal and tax codes, and of a homogeneous regulatory framework based Shariah law is crucial for the success of Islamic financial service industry. Therefore, various special bodies and institutions were established to provide such kind of support. Many Institutions such as rating agencies, audit

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49Brian Kettell, N.11, pp. 70-71.
agencies, trade associations, and dispute resolution organizations were developed according to Islamic framework. These institutions are playing a vital role as they provide infrastructure supporting Islamic financial service industry. The functions of these institutions are not limited as their counterparts in conventional system but should also embrace such tasks that are required by Shariah practices. Recognizing the need for universal standard of Islamic financial service industry, various Islamic financial infrastructures were established. The Accounting and Auditing Organization for Islamic financial institution (AAOIFI) was established to respond to regulatory needs of accounting and Shariah standard. The Islamic Financial Services Board (IFSB) was established to address systematic stability and various governance and regulatory issues relating to the Islamic financial services industry. It has been mainly dealing in the areas of regulation, risk management, and corporate governance. Dow Jones and Financial Times launched Islamic indexes to track the performance of Islamic equity funds. Their efforts are responding to developing of Islamic financial assets in capital market. Several other institutions were established to create and support a robust financial system, including the International Islamic Financial Market (IIFM), the International Islamic Rating Agency (IIR), the General Council of Islamic banks and Financial Institutions, and the Arbitration and Reconciliation Centre for Islamic Financial Institutions.


In general, financial infrastructure consists of regulatory framework, supervision accounting and auditing, financial corporate governance rules and institute, information infrastructure, clearing and settlement and exchange system, and liquidity and safety net facilities. Since the financial infrastructure is the set of institutions that enhances effective operation of financial intermediaries, that strengthens the cause to greater financial system. Thus financial infrastructure, according to Islamic idea, should handle at least five critical issues such as:

- Strengthening the core components of financial system by implementing rigorous standard of sound practices
- Providing more structured and coordinated approach to testing new need.
- Enhancing industry-wide standards for business continuity and resilience.
- Enlarge the membership of the institutions involved by outreach and education efforts.
- Distinguishing and examining critical interdependencies between Islamic financial services and the conventional equivalent.\(^{52}\)

The Islamic financial infrastructure institutions should be designed to foster a sound development with well diversified and well integrated at national as well as global levels. On a global perspective, international infrastructure institutions are those that collectively facilitate monetary and financial policy- making at the nation level, and promote financial integration by offering universal standards, guidelines, best practices, and support coordinating national policies. In recent years, apart from Islamic Development Banking,  

\(^{52}\)Brian Kettell, N.11, pp.169-170.
various institutions have been established to strengthen the Islamic banking and finance. Some of them makes effort to standardize Islamic financial regulatory practices in term of accounting corporate governance, capital adequacy requirement, and risk management standards. Some prominent Institutions are as below.

4.2.1. Accounting and Auditing Organization for Islamic financial institution (AAOIFI)

The AAOIFI is a non-profit organization that focuses mainly on the area of accounting and auditing for Islamic financial institutions. While recognizing the need for standards, AAOIFI was established on February 1990 in Algeria and was registered on March 1991 in the kingdom of Bahrain. The organization is supported by 200 institution members from 45 countries across the global. The AAOIFI is one of prominent Islamic agency that attempts to install accounting and auditing standard for Islamic financial industry. The main object is to develop and disseminate accounting and auditing thought relevant to Islamic financial institutions and their applications. Its tasks include holding seminars, publishing periodicals, newsletters, commissioning research and prepare, promulgate, interpret and review, the accounting and auditing standards for Islamic financial institutions.

Its notable efforts are to inform and encourage banking supervisors around the world to adopt its standard as the benchmark for Islamic financial institutions in their countries. These attempts to improve the transparency and comparability of the financial reporting of Islamic financial institutions are bearing fruit. The AAOIFI’s standard has been applied in various countries such as Bahrain and Sudan which require Islamic Banks in their

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53 Amr Mohamed El Tify Ahmed, N.45, pp.15-16
countries to follow AAOIFI’s standards. In Qatar and Saudi Arabia AAOIFI’s standards are specified as guidelines.\textsuperscript{54} To achieve international recognition for its standard, AAOIFI has also been working with conventional international bodies which involve in the development of standards and regulation of banks such as the International Monetary, international Accounting Standards Board, and the Basel Committee.\textsuperscript{55} The organization plays a crucial role in harmonizing the Islamic financial institution practices with the international accepted practices.

4.2.2. Islamic Financial Services Board (IFSB)

The Islamic Financial Services Board is an international body based in Kuala Lumpur, Malaysia, and it began its operations in March 2003. The institution is working as international standard setting body of regulatory and supervisory agencies that have their main interest in ensuring the effective performance and stability of the Islamic financial services industry covering the area of banking, capital market, and insurance. The members of IFSB include 49 regulatory and Supervisory authorities in addition to Islamic Development Bank, Asian Development Bank, Islamic Corporation for the Development of Private Sectors, the International Monetary Fund, World Bank, and Bank for International Settlements, and 138 market players and professional firms operating in 39 countries across the world.\textsuperscript{56} The primary target of IFSB is to develop uniform regulatory and transparency


standards to address characteristics specific to Islamic financial institutions, keeping in mind the national financial environment, international standards, core principles, and good practices. The IFSB has also been enhancing awareness of issues that are pertinent to or have an impact on the regulation and supervision of the Islamic financial services industry.\textsuperscript{57}

In short, the performance of IFSB is divided into three main areas:

1) **Regulatory perspective**: It, effort to promote the development of a prudent and transparent Islamic financial services industry through introducing new, or adapting existing, international standards consistent with Islamic principles. It also provides guidance on the effective supervision and regulation of institutions offering Islamic financial products; by developing Islamic criteria for identifying, measuring, managing, and disclosing risks, taking into account international standards for valuation, income, and expense calculation and disclosure.

2) **Coordination and harmonization perspective**: To harmonize Islamic financial service industry, IFSB cooperates with other relevant agencies, those who are working to setup standards for stability and the soundness of the international monetary and financial systems such as Islamic Development Bank, Asian Development Bank, Islamic Corporation for the Development of Private Sectors, the International Monetary Fund, World Bank, and Bank for International Settlements. It also gives initiative support to enhance cooperation among member countries relevant to Islamic financial instrument development, better operation and risk management efficiency.

\textsuperscript{57}Hennie van Greuning, Zamir Iqbal, N.54, p.59.
3) Training and research perspective: In order to support further development of Islamic financial service industry, the IFSB also provides training programme and facilitates personal development in areas that relevant to better effective regulation of Islamic financial service industry and related markets. It is also undertaking research and surveys on the industry and creating a database of Islamic bank, financial institutions and industry experts.

So far, the IFSB has issued 12 standard and guiding principles to regulate the Islamic financial services industry. These standards cover the areas of risk management, capital adequacy, corporate governance, the supervisory review process, market discipline and transparency, governance for the Islamic collective investment scheme, the Shariah governance system, the development of the Islamic capital market, and the conduction of business. In addition, several standards of Islamic Takaful regulations were issued.58

4.2.3. The International Islamic Financial Market (IIFM)

Recent development for Islamic financial markets was made in 2001 when the Bahrain Monetary Agency (BMA) signed a Memorandum of Understanding with the Islamic Development Bank, the Labuan Offshore Financial Services Authority (LOFSA), Bank of Sudan, and Brunei Ministry of Finance to sponsor the establishment of a multilateral international financial market. As the result, the International Islamic Financial Market (IIFM) was established and headquartered in Bahrain.59 It main aim has been to provide


global standard and cooperative framework for the Islamic financial market and to ensure the continued growth of the market in line with Shariah rules and principles, by promoting the harmonization and convergence of Shariah interpretation in developing Islamic banking products and practices which are universally acceptable. It has also persuaded Islamic financial institutions in the market to introduce a wide range of Shariah compliant products and the creation of an active secondary market which creates liquidity for instruments traded in the market. It is active in the establishment, and development of settlement related system infrastructure and increasing trading value of Islamic financial market. It also involves itself with several challenging issues for Islamic financial market including Islamic hedging, secondary market documentation and the creation of innovative products, an Islamic repo market, treasury Murabahah contract mechanisms and similar elements vital to a well-developed and functional Islamic financial system

4.2.4. International Islamic Rating Agency (IIRA)

In responds to the sound expansion of Islamic financial services industry, The Islamic Development Bank (IDB) established the International Islamic Rating Agency in October 2002 in Bahrain. The IIRA was expected to be an international body to provide infrastructure assistance to Islamic capital markets by providing an assessment of the risk profile of entities and instruments that can be used for investment decisions. IIRA does rating, evaluating and providing independent assessments and opinions on the likelihood of future of any Islamic financial institutions as well as their products and services. It also

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61 Brian Kettell, N.11, p.187.
publishes and discloses to the public the data and information relating to rated entities and financial instruments. IIRA will also assess the Shariah compliant aspects of Islamic financial institutions and Islamic financial products. The IIRA is sole rating agency established to provide a rating spectrum that surrounds and deals with the full rank of capital instruments and specialised Islamic financial products. To foster development of the Islamic financial market, some provision by IIRA can be pointed out below:

- Ratings for sovereign bond issues.
- Sukuk rating and rating framework.
- Shariah-quality ratings to reflect institutional compliance.
- Investment quality and issue ratings.
- Specialist focused corporate governance ratings.
- A periodic summary bulletin of market activity and ratings.
- Economic commentary from a credit and investment quality perspective.
- Detailed rating reports designed to enhance the investment decision process.
- Sector report clarifying company status within industry groupings.
- A record of actual and prospective money and capital market activity
- Analysis of financial institution counterparty risk for treasurers.
- Seminars on the analytical principles employed by rating agencies.

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63 Brian Kettell, N11., pp.189.190
4.2.5. Liquidity Management Center (LMC)

To enable Islamic financial institutions to manage their liquidity through short and medium term liquid investments that are structured in conforming to the Shariah laws. The LMC was established for the purpose of facilitating the investment of the surplus funds of Islamic banks and financial institutions into quality short and medium term instrument as well as supports the interbank markets.\(^6^4\)Liquidity Management Centre B.S.C. (LMC) was established on July 29th, 2002 in the Kingdom of Bahrain as a Bahraini joint stock company with an Islamic Investment Banking license. It’s co-founder include Bahrain Islamic Bank B.S.C.M (Bahrain), Dubai Islamic Bank P.J.S.C. (United Arab Emirates), Islamic Development Bank (Saudi Arabia), Liquidity Management House (Kuwait).\(^6^5\) Some facilities provided by LMC are mentioned below:

- Expedite the establishment of an interbank market that would allow Islamic financial institutions to manage their asset-liability mismatch;
- Provide short-term liquid, tradable, asset-backed treasury instruments in which Islamic financial institution can invest their surplus liquidity:
- Provide short-term investment opportunities that have greater Shariah credibility and are priced more competitively than commodity Murabahah transactions:
- Enable Islamic financial institutions to assume term risk securities and liquidate such assets to improve the quality of their portfolios:

\(^{6^4}\)Hennie van Greuning, Zamir Iqbal, N.54, p.61.

\(^{6^5}\)http://www.lmcbahrain.com/shareholder.asp (March 16, 2011)
• Attempt to establish secondary market activity with designated market makers where such instrument can be traded actively:

LMC is playing an important role in the creation of an active and geographically expansive Islamic inter-bank market which attracts assets from governments, financial institutions and private and public in many countries. The sourced assets will be securitized into readily transferable securities or structured into other innovative investment instruments which can be easily utilized by Islamic financial institutions in managing their liquidity. LMC also offers other Islamic advisory services including but not limited to the areas of structured/project/corporate finance as well as equity rising.66

4.2.6. General Council of Islamic Banks and Financial Institutions (GCIBFI)

The General Council of Islamic Banks and Financial Institutions (GCIBFI) is an international autonomous non-profit corporate body that represents Islamic banks and financial institutions and the Islamic financial industry globally. The GCIBFI has been incorporated in the Kingdom of Bahrain in the year 2001. It aims at promoting the Islamic financial industry in theory and practice, improving multilateral understanding between Islamic banks, their customers and the public at large, and providing information, media, research and development, consultancy, and human resources development related to Islamic banks and financial institutions and related Islamic organization. The main objectives of GCIBFI include the following:

• To furnish the IFIs with the information needed for their development and growth;

66Hennie van Greuning, Zamir Iqbal,N.54, p.61.
● To boost the Islamic Financial Services Industry (IFSI) and enhance its image;
● To promote the growth of the IFSI by providing research and development services;
● To improve and enforce the growth of the IFIs by providing them with the needed advisory and consultancy services;
● To contribute to the human resources development required to face global challenges and meet growth opportunities.67

4.2.7. Islamic Research and Training Institute (IRTI)

The Islamic Research and Training Institute was established by the Islamic Development Bank at Jeddah in 1981. Its main functions are to organize and coordinate basic and applied research with a view to developing models and methods for the application of Shariah in the field of economics, finance, and banking and to provide training in Islamic economics for personnel in development activities in the member states.68 IRTI's objectives are: to undertake research and provide training and information services in member countries and Muslim communities in non-member countries to help bring their economic, financial, and banking activities into conformity with Shariah and to further accelerate economic development and enhance cooperation amongst them. Some key functions of the Institute are to:

- Sponsor basic and applied research to develop models and methods for the application of Shariah in economics, finance, and banking.

68 http://www.irti.org/irj/portal/anonymous?NavigationTarget=navurl://bed7884be7bf743a69b98f432d4b42a4 (March 18, 2011)
• Furnish advisory services in Islamic economics, finance, and banking.

• Organize policy dialogue with member countries in partnership with local, regional and international institutions engaged in IFSI.

• Provide learning and training opportunities to personnel engaged in socio-economic development activities in member countries.

• Collect, systematize and disseminate knowledge in Islamic economics, banking and finance in member and non-member countries.

• Disseminate, in collaboration with the Islamic Financial Services Industry, Department of the Finance Complex, IFSI related knowledge through conferences, seminars, workshops, apprenticeships, policy and research papers.

• Produce, in collaboration with the Islamic Financial Services Industry Department of the Finance Complex, the bi-annual IFS development report.69

Since it was established, the IRTI has proceed over 253 published research projects and hosted 130 seminars, conferences, and workshops. It also managed 170 special institutions in the member countries. IRTI has great by contributed to the human resources development of Islamic financial industry by providing training facilities for nearly 6000 officials from member countries. The participants received training on various aspects of economic problems especially in Islamic financial subject. In order to promote development of Islamic of Islamic banking and finance, IRTI has been awarding prizes and implementing

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69 Islamic Research and Training Institute Annual Report 2009, p.12
encouragement and promotion programs for the students and Scholars interested in the subjects.\textsuperscript{70}

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Conclusion

The general rule of Islam is permissibility of all what is done by mankind; however, there are prohibition imposed on some certain undertakings that are considered harmful for humanity. Regarding the Islamic financial matter, apart from that Muslims shall not invest in certain prohibited activities such as alcohol, pornography.e.t.c. The most known prohibition are Riba prohibition (commonly translated with interest for money lent), Gharar prohibition (excessive uncertainty in contracts, e.g. regarding the object of a sale) and Maysir/Qimar prohibition (Gambling). Since Islamic banking and finance has many unique features then it requires the unique products or instrument to run their business. These products and instrument have distinguished in nature and feature from their conventional counterpart. Musharakah and Mudarabah are original form of Islamic financing while some others were derived from Shariah Sale principle such as Murabahah, Istsna, Salam, or were derived from leasing principle of Shariah such as Ijarah. Although there are various kind of Islamic financial instruments and each instrument have its own Shariah requirement for validity. But they share features or requirements that are risk taking for gaining return without Riba.

Since Islamic banking and finance system is relatively new. It is not homogeneous in many aspects. The system is still not unifying in practice and regulation. Over the years, a number of Islamic financial institutions have been created to provide the positive development to Islamic financial industry. These institutions have contributed many efforts that result to the accelerated growth of Islamic finance industry. Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) was created to provide accounting
and auditing standards for various Islamic financial contracts. The International Islamic Financial Market (IIFM) was established to promote Islamic financial market by providing global standard and cooperative framework for the market and to ensure the continued growth of the market in line with Shariah rules and principles. International Islamic Rating Agency (IIRA) providing an assessment of the risk profile of Islamic financial companies as well as their financial product that can be used for investment decisions. IIRA does rating, evaluating, enhances and accelerates the growth of Islamic financial market. Liquidity Management Center (LMC) enables Islamic financial institutions to manage their liquidity through short and medium term liquid investments by providing secondary market that are structured in conforming to the Shariah laws. General Council of Islamic Banks and Financial Institutions (GCIBFI) enhance market understanding of Islamic finance. Islamic Financial Services Board (IFSB) is working as international standard setting of regulatory and supervisory agencies that have a main interest in ensuring the affective performance and stability of the Islamic financial institutions that indirectly contribute to the working of the Islamic capital market. Last but not least, Islamic Research and Training Institute (IRTI) supports and furthers the development of industry by promoting Islamic finance research and training.