



**CHARTERED INSTITUTE FOR  
SECURITIES & INVESTMENT**

**ECOLE SUPERIEURE DES AFFAIRES**

**LEVEL 3  
CERTIFICATE IN ISLAMIC FINANCE**

**ISLAMIC FINANCE QUALIFICATION**

**EFFECTIVE FROM 31 AUGUST 2014**



## OBJECTIVE OF THE EXAMINATION

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

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

- The general principles of Islamic Finance
- Islamic contracts
- Islamic banking activities
- Islamic investment funds
- Sukuk
- Takaful
- Financial statements in Islamic banks
- Governance in Islamic institutions

## ASSESSMENT STRUCTURE

A 2 hour examination of 100 multiple choice questions.

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

## UNIT STRUCTURE

The unit is divided into *elements*. These are broken down into a series of *learning objectives*.

Each learning objective begins with one of the following prefixes: **know**, **understand**, **be able to calculate** or **be able to apply**. These words indicate the different levels of skill to be tested. Learning objectives prefixed:

- **know** require the candidate to recall information such as facts, rules and principles
- **understand** require the candidate to demonstrate comprehension of an issue, fact, rule or principle
- **be able to calculate** require the candidate to be able to use formulae to perform calculations
- **be able to apply** require the candidate to be able to use their knowledge in a given set of circumstances to present a clear and detailed explanation of a situation, rule or principle

## EXAMINATION SPECIFICATION

Each examination paper is constructed from a specification that determines the weightings that will be given to each element. The specification is given below.

It is important to note that the numbers quoted may vary slightly from examination to examination as there is some flexibility to ensure that each examination has a consistent level of difficulty. However, the number of questions tested in each element should not change by more than plus or minus 2.

**Candidates should note that in sections 4 and 6 more than one question may be set on certain learning objectives to test that candidates have fully grasped the nature and use of the contracts.**

Examination specification 100 multiple choice questions		
Element number	Element	Questions
1	The Basis of Islamic Banking and Finance	2
2	An Introduction to Islamic Banking and Finance	3
3	Islamic Law of Contracts	14
4	Financial Contracts and Techniques Applied by Islamic Banks	30
5	Islamic Investment Management	10
6	Sukuk Market	14
7	Islamic Insurance – Takaful	11
8	Financial Statements	8
9	Islamic Corporate Governance	8
<b>Total</b>		<b>100</b>

## CANDIDATE UPDATE

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

## IFQ WORDLIST

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

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

## SUMMARY SYLLABUS

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

## **ELEMENT 1 THE BASIS OF ISLAMIC BANKING AND FINANCE**

On completion, the candidate should:

1.1.1 *Understand* the ethical underpinning of Islamic finance

- Moral guidance governing property and wealth given through the Quran,
- The obligation to make charitable distributions: Zakat (obligatory) and Sadaqat (voluntary)
- The role of trade and investment in wealth creation
- Why Riba and Gharar are forbidden

1.2.1 *Understand* the role of the Sharia'a

1.3.1 *Know* the sources of the Sharia'a: Primary Sources (Quran & Sunnah) and Secondary Sources (Ijma', Ijtihad)

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

- The Scholars within the Schools of thought
- The Islamic Fiqh Academy
- The Sharia'a Boards of Regulatory or Industry Institutions

## **ELEMENT 2 AN INTRODUCTION TO ISLAMIC BANKING AND FINANCE**

On completion, the candidate should:

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

- The beginnings of Islamic banking
- Islamic banking in the GCC, Africa and the Middle East countries
- Islamic banking in Southeast and South Asia and Australasia
- Islamic banking in Europe and the Americas

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

2.3.1 *Know* the main functions of Islamic banks

## Islamic Finance Qualification

2.4.1 *Know* the operating structures and organisational forms adopted by the Islamic Financial Services Industry:

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

2.5.1 *Know* the infrastructure bodies overseeing and/or supporting Islamic finance and banking:

- The Regulators (central banks or other authorities)
- The standard-setters (AAOIFI and IFSB)
- Other Institutions supporting the development of Islamic finance and banking (IIFM, GCIBFI, IIRA, IILM, LMC and IDB Group)

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

- The Sharia'a-compliant equity markets
- The market for Sukuk
- Islamic Investment Funds
- The Islamic insurance companies – Takaful
- The Waqf properties (Islamic charitable trust)
- The Zakat funds (funds constituted of charitable obligatory tax)
- Islamic micro finance
- Purification of haram income

**ELEMENT 3 ISLAMIC LAW OF CONTRACTS**

On completion, the candidate should:

- 3.1.1 *Know* the ethical precepts relating to Islamic business
- 3.2.1 *Know* the Islamic teachings relating to business
- 3.3.1 *Know* the major prohibitions in Islamic Finance (Riba, Gharar)
- 3.4.1 *Understand* the difference between Riba al-Naseeyah and Riba al-Fadl
- 3.5.1 *Understand* the nature of Gharar, its causes and its implications for Islamic finance
- 3.6.1 *Know* the nature of Qimar and Maysir
- 3.7.1 *Understand* the components of Aqd' (contract): the contracting parties, subject matter, price, offer and acceptance
- 3.8.1 *Understand* the Sharia'a options of sale
- 3.9.1 *Understand* the classification of and conditions applied to contracts with respect to their effect:
  - valid (Sahih) contracts
  - voidable (Fasid) contracts
  - invalid (Batil) contracts
- 3.10.1 *Understand* the relationship between form and substance of contracts
- 3.11.1 *Know* the types of contract:
  - unilateral and bilateral with respect to their underlying purpose
- 3.12.1 *Understand* the concept of Wa'd (promise) and the conditions which make a commercial promise binding
- 3.13.1 *Know* the nature of a Muwaada (bilateral promise) agreement
- 3.14.1 *Understand* the elements and conditions of a contract of exchange
- 3.15.1 *Know* the problematic sales contracts



3.16.1 *Know* the nature of the security contracts:

- Hawala
- Kafala
- Rahn

3.17.1 *Know* the nature of the Wakala (agency contract)

3.18.1 *Know* the issues associated with the debate regarding Sarf (the purchase and sale of currencies)

3.19.1 *Know* AAOIFI's Sharia'a standards on the sale of currencies

#### **ELEMENT 4 FINANCIAL CONTRACTS AND TECHNIQUES APPLIED BY ISLAMIC BANKS**

On completion, the candidate should:

4.1.1 *Understand* the distinction between a conventional bank intermediary and an Islamic intermediary, including:

- the relationship between the bank and its clients
- the sources of funds
- the use of funds

4.2.1 *Understand* the operation of current accounts in Islamic banking

4.3.1 *Understand* how funds are used by Islamic banks

4.4.1 *Understand* the Islamic banking model and the challenges it faces

4.5.1 *Be able to apply* the Mudaraba contract in practice

- for the depositing side
- for the financing side

4.6.1 *Understand* the roles of and the returns received by the Rab al Mal and Mudarib under a Mudaraba contract

4.7.1 *Be able to apply* the Two-Tier Mudaraba contract

4.8.1 *Understand* the nature of Restricted and Unrestricted Investment Accounts

4.9.1 *Be able to apply* the concept of Wa'd (promise) and the conditions which make a commercial promise binding

## Islamic Finance Qualification

- 4.10.1 *Be able to apply* the partnership contract of Musharaka
- 4.11.1 *Be able to apply* the Diminishing Musharaka contract
- 4.12.1 *Be able to apply* the Murabaha contract
- 4.13.1 *Understand* the use of Murabaha in export finance
- 4.14.1 *Know* the differences between a Murabaha sale and a loan of money
- 4.15.1 *Know* the nature of Murabaha to the Purchase Orderer
- 4.16.1 *Understand* the operation of Tawarruq and Commodity Murabaha
- 4.17.1 *Know* how Arbun is used to synthesise option behaviour
- 4.18.1 *Be able to apply* the Ijara contract
- 4.19.1 *Understand* the redemption of a lease through Ijara wa Iqtina/Ijara Muntahia Bitamleek
- 4.20.1 *Understand* the use of Ijara Mawsoofa Bil Thimma (Forward Lease)
- 4.21.1 *Be able to apply* the Salam contract
- 4.22.1 *Understand* the documentation associated with a Salam contract
- 4.23.1 *Understand* the use of Parallel Salam in managing bank assets acquired under a Salam contract
- 4.24.1 *Be able to apply* the Istisn'a contract
- 4.25.1 *Understand* the reasons for Parallel Istisn'a contracts
- 4.26.1 *Understand* the differences between Istisn'a and Salam contracts
- 4.27.1 *Know* the use of letters of credit and guarantees in Islamic finance contracts

**ELEMENT 5 ISLAMIC INVESTMENT MANAGEMENT**

On completion, the candidate should:

- 5.1.1 *Understand* the Islamic investment guidelines
- 5.2.1 *Understand* the use of Islamic contracts in structuring Islamic investment funds
- 5.3.1 *Understand* the growth in types of Islamic investment products to respond to clients' risk / reward profile
- 5.4.1 *Be able to apply* the Islamic stock selection process through the Industry and Financial Screens
- 5.5.1 *Understand* the approaches used to handle non-compliant stocks in a stock selection
- 5.6.1 *Know* the approaches used to manage the market risk of portfolios and equity funds
- 5.7.1 *Know* the challenges fund managers face in applying liquidity strategies to Islamic funds
- 5.8.1 *Know* the challenges relating to origination and distribution of Islamic investment funds
- 5.9.1 *Know* the functions of the various components of an Islamic mutual fund structure
- 5.10.1 *Know* the role of the Sharia'a Board in Islamic fund management
- 5.11.1 *Understand* the governance aspects of Islamic investment funds
- 5.12.1 *Know* the developments taking place to expand the range of Islamic investment funds
- 5.13.1 *Understand* the benefits of direct investments
  - Shares
  - Real Estate

**ELEMENT 6 SUKUK MARKET**

On completion, the candidate should:

- 6.1.1 *Know* the differences between conventional and Islamic securities
- 6.2.1 *Understand* the responsibilities of the different parties to a Sukuk
- 6.3.1 *Understand* when financial guarantees can be provided for Sukuk
- 6.4.1 *Know* the differences between managing Sukuk and managing conventional securities
- 6.5.1 *Understand* the difference between asset backed and asset based Sukuk
- 6.6.1 *Understand* the basic processes involved in the issuance of Sukuk
- 6.7.1 *Be able to apply* the Mudaraba Sukuk
- 6.8.1 *Be able to apply* the Musharaka Sukuk
- 6.9.1 *Be able to apply* the Ijara Sukuk
- 6.10.1 *Be able to apply* the Salam Sukuk
- 6.11.1 *Be able to apply* the Istisn'a Sukuk
- 6.12.1 *Know* the AAOIFI Sukuk standards
- 6.13.1 *Understand* capital market considerations relating to Sukuk:
  - rating the issue
  - distribution

**ELEMENT 7 ISLAMIC INSURANCE – TAKAFUL**

On completion, the candidate should:

7.1.1 *Understand* the position of Islam regarding insurance

7.2.1 *Understand* the origins of Takaful

- The characteristics of mutual insurance
- The nature of conventional mutual insurance
- The nature of a Takaful undertaking and the need to avoid Gharar (uncertainty) through Tabarru' (donation) and Riba through the use of non-interest bearing assets
- The structure of Takaful undertakings: non-profit and commercial

7.3.1 *Understand* the differences between conventional proprietary insurance, conventional mutual insurance and Takaful

7.4.1 *Know* the two types of Takaful: general and life

7.5.1 *Understand* the structure of Takaful:

- Separation of participants' funds from those of the Takaful operator
- The role of Qard Hassan (interest free loan)

7.6.1 *Understand* the three models for underwriting and managing the investments of the Takaful fund

- Wakala
- Mudaraba
- the combined model

7.7.1 *Know* the Islamic financial contracts used in Takaful

7.8.1 *Understand* the rules on distribution of underwriting surpluses in Takaful:

- The definition of an underwriting surplus
- The nature and allocation of technical provisions
- The rules for distributing underwriting surpluses

- 7.9.1 *Understand* the risks associated with Takaful claims and their mitigation:
- The nature of technical provisions for general Takaful
  - Implications of the size of the risk pool
  - The nature of the underwriting and investment fund in Life Takaful
  - Internal risk pooling arrangements
- 7.10.1 *Understand* how Retakaful operates:
- The funding of Retakaful
  - The place of Retakaful
  - Resorting to reinsurance in the absence of viable Retakaful options
- 7.11.1 *Know* the responsibility of the Takaful operator for Sharia'a compliance

## **ELEMENT 8 FINANCIAL STATEMENTS**

On completion, the candidate should:

- 8.1.1 *Understand* the conceptual framework of International Financial Reporting Standards (IFRS):
- The aims of IFRS
  - The objectives of financial statements
  - The qualitative characteristics required of financial statements
  - The general principles governing decision making and presentation of financial data
  - The fundamental accounting assumptions underpinning financial statements
- 8.2.1 *Know* the main financial statements prepared by companies to report their financial performance
- 8.3.1 *Know* the purpose and main contents of the balance sheet
- 8.4.1 *Know* the purpose and main contents of the income statement
- 8.5.1 *Understand* the need for Islamic accounting standards
- 8.6.1 *Know* the role and responsibilities of AAOIFI

## Islamic Finance Qualification

8.7.1 *Understand* the conceptual framework of AAOIFI financial accounting statements:

- The qualitative characteristics of accounting information

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

- The conditions from realising recognition of revenue

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

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

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

- The different accounting interpretations of the IFRS used with Islamic investment accounts

8.11.1 *Know* the methods of calculating Zakat and the accounting treatment

**ELEMENT 9 ISLAMIC CORPORATE GOVERNANCE**

On completion, the candidate should:

- 9.1.1 *Know* the origins and nature of Corporate Governance
- 9.2.1 *Know* the Corporate Governance mechanisms available to stakeholders to exercise their rights
- 9.3.1 *Know* the different approaches regarding the identities and rights of stakeholders
- 9.4.1 *Understand* the reasons why banks face special Corporate Governance challenges
- 9.5.1 *Know* the risks that banks have to manage
- 9.6.1 *Understand* the reasons why Islamic banks present different Corporate Governance challenges to conventional banks
- 9.7.1 *Know* the different roles of the Sharia'a Supervisory Board in the Corporate Governance of an Islamic bank
- 9.8.1 *Understand* the distinction between information rights, control rights and cash flow rights for RIAH and UIAH
- 9.9.1 Understand the distinction between the rights of shareholders and investment account holders
- 9.10.1 *Understand* the distinction between the rights of Restricted Investment Account Holders (RIAH) and Unrestricted Investment Account Holders (UIAH)
- 9.11.1 *Understand* the Corporate Governance issues facing the Takaful industry