

*Readings In*

# Islamic Capital Market



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**Bangladesh Institute of Islamic Finance (BIIF)**  
বাংলাদেশ ইনস্টিটিউট অব ইসলামিক ফাইন্যান্স (বিআইআইএফ)

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# Introduction

Exigency for developing *Readings Series* on Islamic economics and finance arises from the dearth of literature and or textbooks meant for undergraduate and graduate students at universities in most of the countries of the world particularly in Bangladesh. None of the public and private universities in Bangladesh have Islamic economics and finance programs providing undergraduate, graduate and postgraduate programs. In Bangladesh there are ten full-fledged Islamic banks and most of the conventional banks maintain either dedicated Islamic banking branches or windows spreading all over the country. In absence of formal education at higher educational institutions particularly in Bangladesh, most of the Islamic banks and non-bank financial institutions rely on their own training institutions in providing non-degree short and medium term training courses for their staffs to carry forward day-to-day operations.

As a result, workforces in these Islamic financial institutions lack fundamental as well as analytical knowledge and problem solving skills necessary for handling promotional and Shariah issues they encounter. This calls for introducing undergraduate, graduate and postgraduate programs at universities to prepare and supply continuously appropriately trained and skilled workforces to the Islamic finance industry. Reading series on Islamic Economics, History of Islamic Economic Thought, Islamic Financial System, Islamic Banking, Islamic Capital Market, *Sukuk*, *Takaful* etc. can provide proxy reading materials to begin with allowing time to develop textbooks subsequently.

*Readings in Islamic Capital Market* (the 2<sup>nd</sup> of the ten readings series in pipeline) is a compilation of judiciously selected professional articles, research based working papers and lecture notes of highly regarded specialists published in journals and periodicals of international repute. While selecting any resource materials for a chapter from among host of similar articles, due attentions have been paid to the recent contributions as much as possible, authority of the contributors as well as standard and reputation of the journals/periodicals in which these are published. An overview of the structure of the book below may provide instant sense of the design and content covered in this readings series.

The series is structured in four parts: Part I: Overview of Islamic capital market, Part II: Shariah framework and governance, Part III: Products structure and risk management, and Part IV: The challenges, issues and the way forward for Islamic capital market.

## A. Contents Covered in the Series

**Part-I** includes the introductory chapter, i.e., Chapter-1 dealing with capital market concept in general (Wikipedia, 2022) and Islamic capital market in particular (Maiyaki 2013, Gumei 2018, McMillen 2006 and Ahmed et al (2019) providing overview, development, challenges and issues involved therein.

**Part-II** comprised of chapters 2-6 analyzes how modern investment issues are dealt in under Shariah discipline (Billah, 2015), application of Shariah contracts (Soualhi, 2015), and Shariah contracts governing debt-based sukuk structures in capital markets (Saad, 2014).

Under chapter-3, Hassan et al (2017) and Kasim et al (2013) discuss guiding principles needed for developing Shariah governance framework and parameterization of Islamic financial products (Ismail, 2011). IFSB (undated) documents identified emerging issues generated from inadequate adherence to disclosure requirements in the cases of Islamic capital market products, and how strong disclosure requirements facilitate cross-border investments and development of Islamic capital market products are dealt in chapter-4. Chapter-5 highlights operational framework and the issues result from its application. (Alshamrani 2014, Radzj (2019) studied whether a particular sukuk is a debt or equity in line with the categorization pursued by regulatory bodies taking Saudi Arabia as a case. Uddin et al (2020) made an



inquiry of the reasons why sukuk need a different pricing model. Chapter-6 looks into the requirements of a product to be Shariah compliant (Alam et al 2017, Habib et al 2017).

**Part-III** comprised of chapters 7-9 deals with products structure and risk management issues in Islamic capital market. Chapter-7 is dedicated to explain Islamic funds, private equity, venture capital and structured products as understood in Islamic capital market (Bank Negara (2015, Mikail et al 2013, Dhiraj et al 2019), while chapter-8 defines and analyses Islamic derivatives and hedging markets (Rizvi et al 2012 & Ijadat et al 2014) followed by discussions on risk and risk management in chapter-9 (Alswaidan et al 2017; el Sayed 2013).

**Part-IV** contains 10 & 11, concentrates upon global integration of Islamic capital market, the challenges it facing and suggests the way forward to proceed with. The discussions include contribution on Islamic capital market in a global context by Sheng & Singh (2013) and Selina H. Kassim (2013) in chapter-10, and on the challenges and way forward contributed by Dusuki (2009), Najeeb et al (2013) and Sheng & Singh (2013) in chapter-11.

Overall, the readings series-2 titled as Islamic Capital Market reflects recent developments in the thought and ideas on Islamic capital market covering a period of two decades in recent past.

## **B. Readings Outcome**

### **B.1 Capital market overview, development and issues conceptualized**

*Part-I Chapter-1.* The readers are able to attain snapshots understandings on the definition of capital market by differentiating among concepts like capital market, money markets, bank loans, primary and secondary markets, and size and control of capital market. Further they have attained concrete knowledge on Islamic capital market, norms, ethics, Islamicity of equity, Stock selection criteria, Sukuk market etc. Finally, they are able to make difference between Islamic and conventional capital markets having primary knowledge of Islamic capital market development tools and techniques and trace therewith the emerging issues from global and Bangladesh perspective.

### **B.2 Sharīah principles and contracts relating Islamic capital market conversed**

*Part-II, Chapter 2.* On completion attained understanding on how modern investments have taken place under Shariah discipline, Sharīah contracts pursued and governed under equity and debt-based Sukuk and how Islamic derivatives have parameterized in Islamic capital market.

### **B.3 Functioning of regulatory and governance framework of Islamic capital market understood**

*Part-II, Chapter 3.* On completion of this chapter readers/students attained the understanding of the need for and skills of how to regulate Islamic financial institutions, comprehend the guidelines and their applications on Shariah advisory council, corporate governance, presentation of financial statements measuring rate of return, and capital adequacy standard. Attained skills on the methodology in constructing the Shariah parameter for product innovations, and concept and application of maqasid al-Sharīah.

### **B.4 Command on accounting and disclosure requirements for Islamic capital market**

*Part-II, Chapter 4.* Have appropriate and adequate knowledge and handling capability of the key instruments and disclosure issues arising from structure, Shariah-related disclosures, and limitations therewith.

### **B.5 Attained technical knowledge on the operational framework and issuance of sukuk**

*Part-II, Chapter 5.* Comprehended sukuk structure, its regulatory framework and the practice of sukuk issuance in Saudi Arabia. Can explain why sukuk need a different pricing model.

#### **B.6 Understood how and when stocks become Sharīah compliant**

*Part-II, Chapter 6.* Attained technical knowledge on the conditions for Shariah permissibility of shares, ethical corporate governance, new financial instrument for Islamic corporate governance, AAOIFI Shariah standards' stock screening criteria and Sharīah screening methodology.

#### **B.7 Conceptualization and operational knowledge of Islamic Funds, Private Equity, Venture capital and Structured Products attained**

*Part-III, Chapter 7.* Fed with functional knowledge and skills attained on completion of this chapter based on Malaysian case, room for better operation and management of Islamic funds, Private equity and Venture capital would open up. Evaluation capability in measuring Sharīah compliance level of the structured Islamic capital market products are then strengthened in letter and spirit as well.

#### **B.8 Embedded ability in handling Islamic Derivatives and Hedging Markets issues**

*Part-III, Chapter 8.* Embedded learning taken place in coming across evolution of derivatives in conventional finance, Shariah viewpoints on derivative contracts and their Islamic alternatives, arguments in favor and against futures and forward contracts, requirements for accepting futures and forwards contracts in Islamic law in conclusion of venture into this chapter,

#### **B.9 Attained risk management capability**

*Part-III, Chapter 9.* On completion attained the understanding of risk and risk management skills in capital market: both conventional and Islamic, particularly on Sukuk and its risk management with exposure to International portfolio diversification opportunities for stock market investors.

#### **B.10 Hands over global integration of Islamic stock markets**

*Part-IV, Chapter 10.* Significant capability attained in understanding sensibility of the cooperation between conventional western system and the Islamic finance; Stock market integration and economic efficiency; Lessons learnt for Islamic stock markets, globalization and long-term growth of Islamic stock markets during and after global financial crisis, and the integration of Islamic stock markets in developed and developing countries

#### **B.11 Command over issues and challenges encountered by Islamic capital markets**

*Part-IV, Chapter 11.* Hands on capability attained of the readers/students/researchers in conclusion of their learning pursuits towards understanding growth and challenges of Islamic capital markets including operation of Islamic equities/mutual funds, sukuk, and liquidity management of structured products, derivatives with country experiences from Malaysia, Indonesia, United Arab Emirates and Brunei. Have attained further capability of finding out the ways and means in mitigating the challenges faced by Islamic capital markets.

**The Editor**