



“Masterclass: Leveraging Islamic Finance to Enhance Investor Education & Investor Protection

Patrick Mahdi O'Neill
8th October 2020

Masterclass: Leveraging Islamic Finance to Enhance Investor Education & Investor Protection

- **Introduction – Regulators Perspective, Investor Education & Investor Protection**
- **Islamic Finance Background**
 - Industry Overview
 - What is Islamic Finance – Key Principles, Rules & Prohibitions
- **Principals and Ethics of Islamic Finance**
 - Islamic Corporate Governance
 - AAOIFI Code of Ethics
- **Education**
 - Institutional Level
 - § The Need for Benchmark Professional Qualifications
 - Investor Level
 - New Paradigm of Learning in Covid 19 World

Objectives of Securities Regulation



Protecting
Investors

Reducing
Systemic Risk

Ensuring that
Markets are
Fair, Efficient
and
Transparent

18th Century

[Crisis of 1763](#), started in Amsterdam, begun by the collapse of [Leendert Pieter de Neufville](#), spread to Germany and Scandinavia

[Crisis of 1772–1773](#) in London and Amsterdam, begun by the collapse of the bankers [Neal, James, Fordyce and Down](#).

[Panic of 1792](#), New York

[Panic of 1796–1797](#), Britain and United States

19th Century

[Panic of 1819](#), a U.S. recession with bank failures; culmination of U.S.'s first boom-to-bust economic cycle

[Panic of 1825](#), a pervasive British recession in which many banks failed, nearly including the [Bank of England](#)

[Panic of 1837](#), a U.S. recession with bank failures, followed by a 5-year depression

[Panic of 1847](#), United Kingdom

[Panic of 1857](#), a U.S. recession with bank failures

[Panic of 1866](#), Europe

[Panic of 1873](#), a U.S. recession with bank failures, followed by a 4-year depression

[Panic of 1884](#), United States and Europe

[Panic of 1890](#), mainly affecting the United Kingdom and Argentina

[Panic of 1893](#), a U.S. recession with bank failures

[Australian banking crisis of 1893](#)

20th Century

[Panic of 1907](#), a U.S. economic recession with bank failures

[Shōwa Financial Crisis](#), a 1927 Japanese [financial panic](#) that resulted in mass bank failures across the [Empire of Japan](#).

[Great Depression](#), the worst systemic banking crisis of the 20th century

[Secondary banking crisis of 1973–1975](#) in the UK

[Japanese asset price bubble](#) (1986–2003)

[Savings and loan crisis](#) of the 1980s and 1990s in the U.S.

[Finnish banking crisis of 1990s](#)

[Swedish banking crisis \(1990s\)](#)

[Venezuelan banking crisis of 1994](#)

[1997 Asian financial crisis](#)

1998 collapse of [Long-Term Capital Management](#)

[1998 Russian financial crisis](#)

[Argentine economic crisis \(1999–2002\)](#)

[1998–99 Ecuador banking crisis](#)

21st Century

- [2002 Uruguay banking crisis](#)
- [Late-2000s financial crisis](#), including:
 - **[Subprime mortgage crisis](#) in the U.S. starting in 2007**
 - [2008 United Kingdom bank rescue package](#)
 - [2009 United Kingdom bank rescue package](#)
 - [2008–2009 Belgian financial crisis](#)
 - [2008–2012 Icelandic financial crisis](#)
 - [2008–2009 Russian financial crisis](#)
 - [2008–2009 Ukrainian financial crisis](#)
 - [2008–2012 Spanish financial crisis](#)
 - [2008–2011 Irish banking crisis](#)
 - [Venezuelan banking crisis of 2009–10](#)



Problems Facing Regulators



**Financial
Crime**



**Money
Laundering**



**Terrorism
Financing**



Fraud



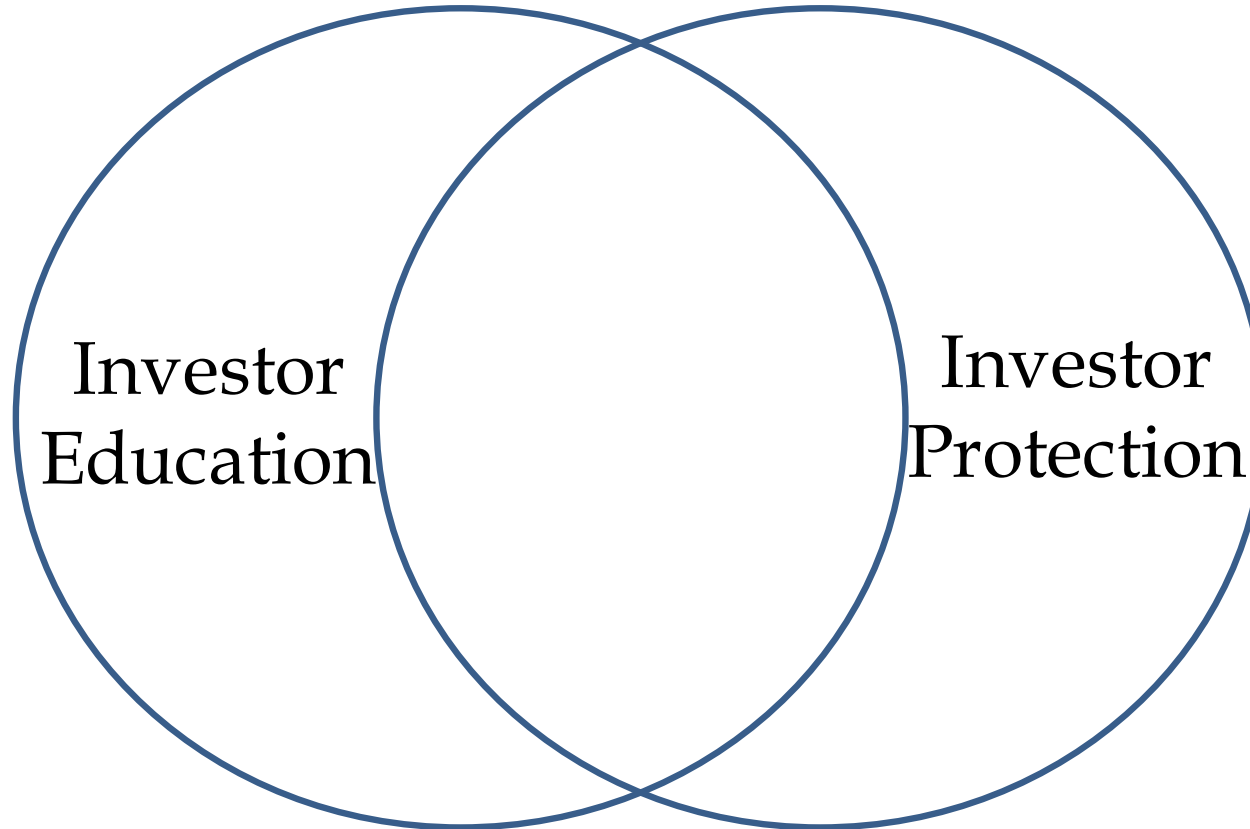
Cyber Crime



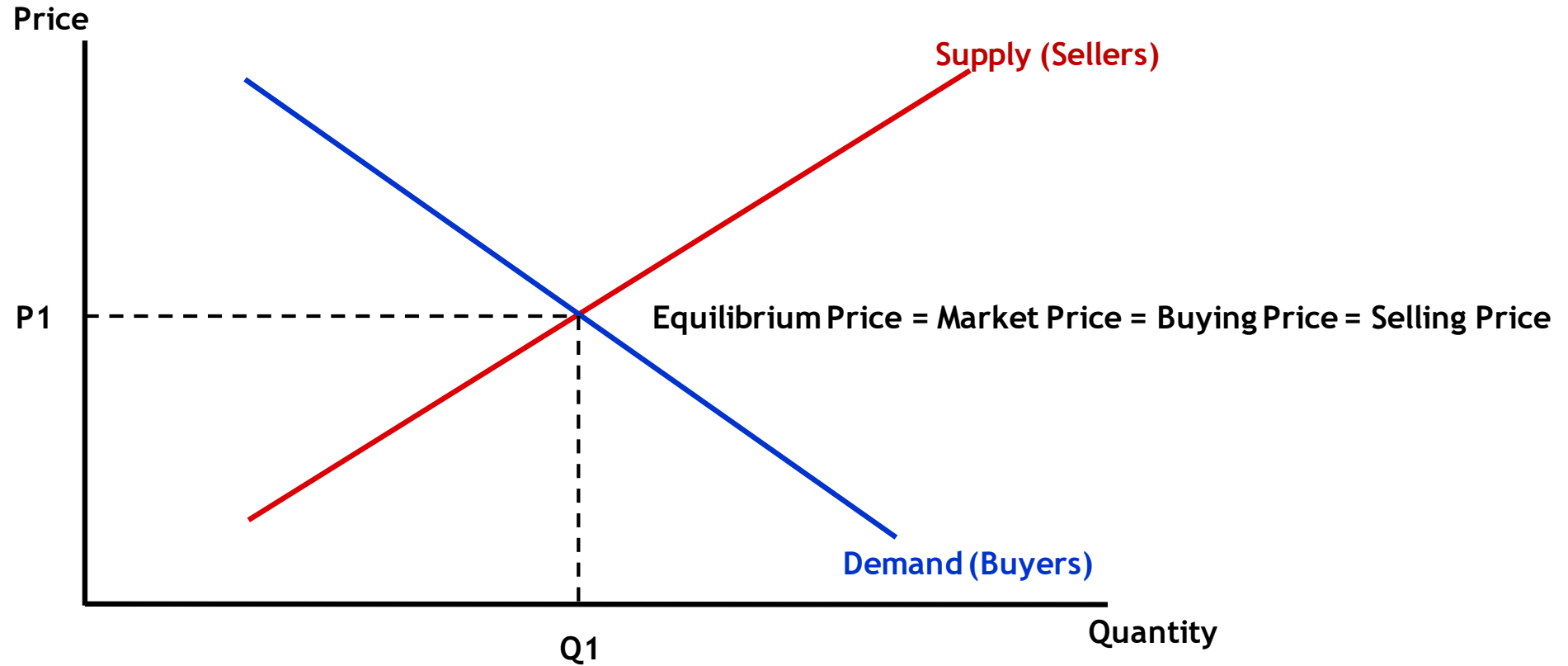
**Market
Abuse**



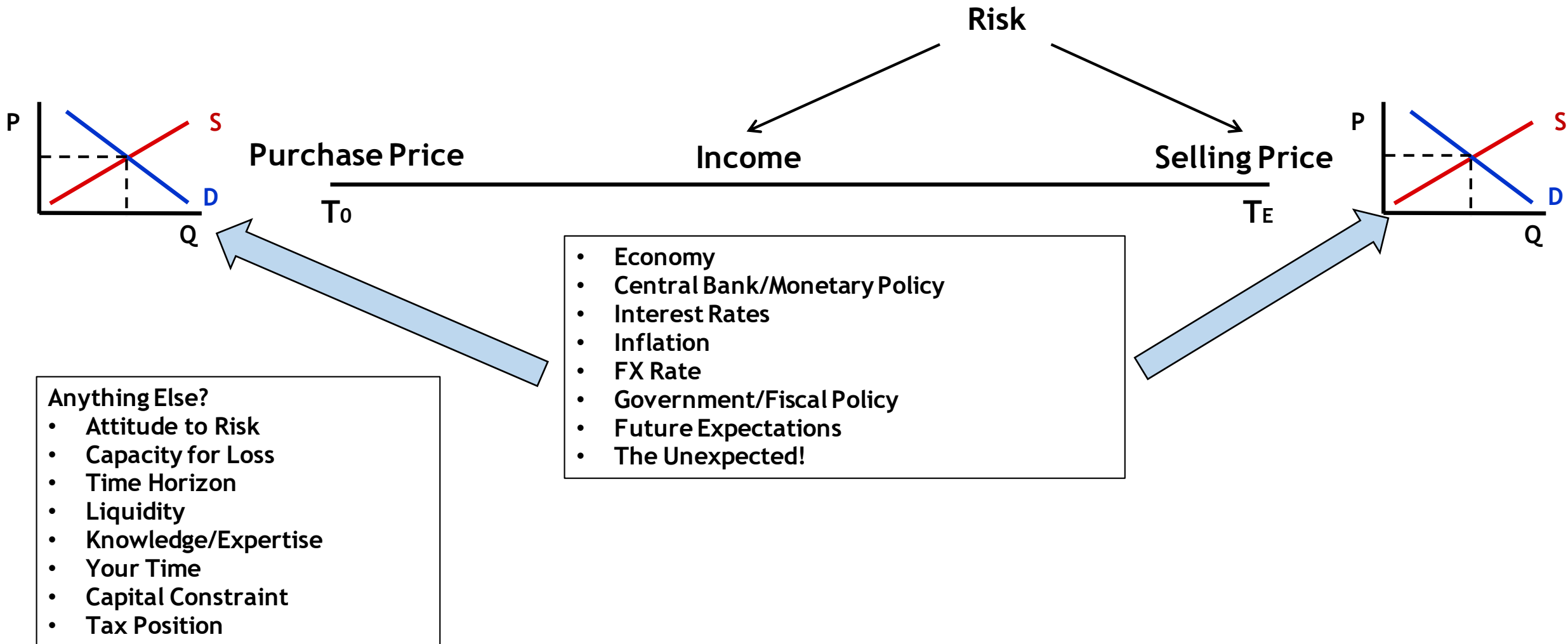
**Insider
Dealing**



A Reminder: Economics Drive Markets

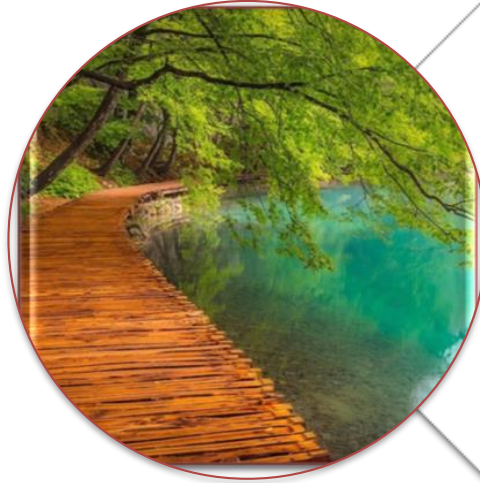


When making an investment, what are the key things that Investors should look at?



Total value of USD 1.88 trillion as of 2015 YTD

| Region | Banking Assets | Sukuk Outstanding | Islamic Funds' Assets | Takaful Contributions |
|--------------------|----------------|-------------------|-----------------------|-----------------------|
| Asia | 209.3 | 174.7 | 23.2 | 5.2 |
| GCC | 598.8 | 103.7 | 31.2 | 10.4 |
| MENA (exc. GCC) | 607.5 | 9.4 | 0.3 | 7.1 |
| Sub-Saharan Africa | 24.0 | 0.7 | 1.4 | 0.5 |
| Others | 56.9 | 2.1 | 15.2 | - |
| Total | 1496.5 | 290.6 | 71.3 | 23.2 |



Shariah or Islamic law

- Literal: The Path to Water
- Islamic Way of Life – Set of Norms, Values & Laws
- Is the Essence of Islamic Thought
- Forms the Core of Islam



Fiqh or Islamic Jurisprudence

Is the science of understanding the legal rights and obligations derived from its primary and secondary sources of Sharia i.e. Islamic Law.

COMPOUND INTEREST IS THE EIGHTH
WONDER OF THE WORLD. - EINSTEIN

BANNED



What This Means?

Every Islamic Finance Transaction

Asset

Rental of an Asset

Service

Loan

Qard Hassan



Purpose of Life: To Worship and Obey Allah

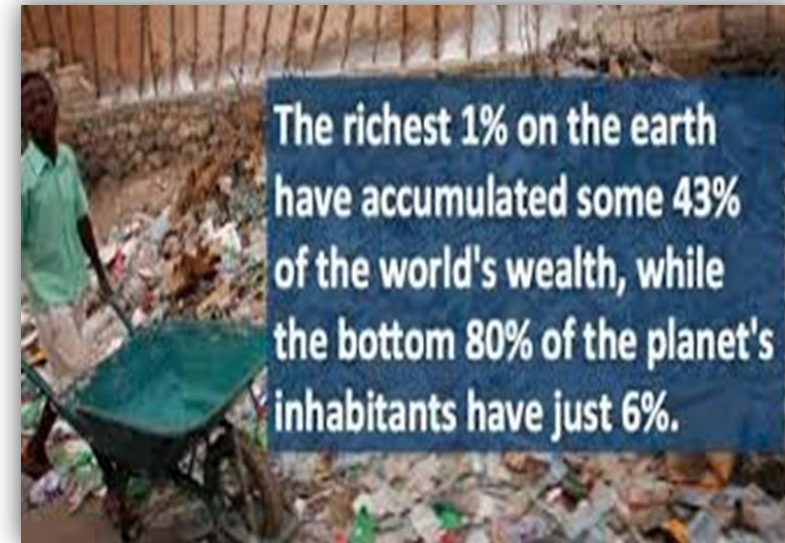
- “And I created not the jinn and mankind except that they should worship Me (Alone).” —Quran 51:56



This Life is a Test

- “Allah has created death and life to test which one of you is best in conduct.” —Quran 67:2

Why for Humanity





Allah (God) is the Owner of All Wealth

لَهُ مَا فِي السَّمَوَاتِ وَمَا فِي الْأَرْضِ وَمَا بَيْنَهُمَا وَمَا تَحْتَ الثَّرَى ﴿٦﴾

“To Him belongs what is in the heavens and on earth, and all between them, and all beneath the soil.” Surah 20 Ta Ha v 5



- Material Pursuits v Spiritual Needs
- Individual's Needs v Society's Need

وَالَّذِينَ إِذَا أَنْفَقُوا لَمْ يُسْرِفُوا وَلَمْ يَقْتُرُوا وَكَانَ بَيْنَ ذَلِكَ قَوَامًا ﴿٦٧﴾

“Those who, when they spend, are not extravagant and not niggardly, but hold a just balance between those (extremes)” Surah 25 Al-Furqan (The Differentiator) v 67



■ Interest or 'Riba' is Strictly Prohibited

- No interest based loans!
- Return on Capital - Effort & Risk

SAY NO to R!BA

وَأَحَلَّ اللَّهُ الْبَيْعَ وَحَرَّمَ الرِّبَا

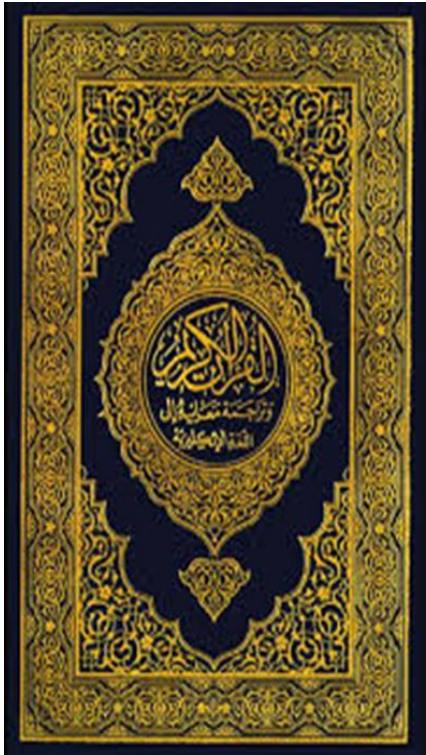
“ - But Allah has permitted trade and has forbidden interest. - “*Surah 2 Al-Baqara (The Cow) Part of Verse 275*

يَأَيُّهَا الَّذِينَ ءَامَنُوا اتَّقُوا اللَّهَ وَذَرُوا مَا بَقِيَ مِنَ الرِّبَا إِن كُنْتُمْ مُّؤْمِنِينَ ﴿٢٧٨﴾

“O you who have believed, fear Allah and give up what remains [due to you] of interest, if you should be believers. “*Surah 2 Al-Baqara (The Cow) Verse 278*

فَإِن لَّمْ تَفْعَلُوا فَأْذَنُوا بِحَرْبٍ مِّنَ اللَّهِ وَرَسُولِهِ - وَإِن تُبْتُمْ فَلَكُمْ رُءُوسُ
أَمْوَالِكُمْ لَا تَظْلِمُونَ وَلَا تُظْلَمُونَ ﴿٢٧٩﴾

“And if you do not, then be informed of a war [against you] from Allah and His Messenger. *Surah 2 Al-Baqara (The Cow) Part of Verse 279*





Avoidance of Uncertainty or ‘Gharar’

- The trade or transaction should be free from contractual uncertainty
- No ambiguity in terms of the **key terms** and **subject matter** of the underlying deal



Avoidance of Gambling

- ‘*Maysir*’ is the acquisition of wealth by chance instead of by effort.
- ‘*Qimar*’ refers to a game of chance.

Investment – Industry Screen



Conventional
Banking and
Insurance



Alcohol



Pork-related
products and non-
compliant food



Gambling



Tobacco



Adult
Entertainment



Weapons, Arms and
Defence
Manufacturing

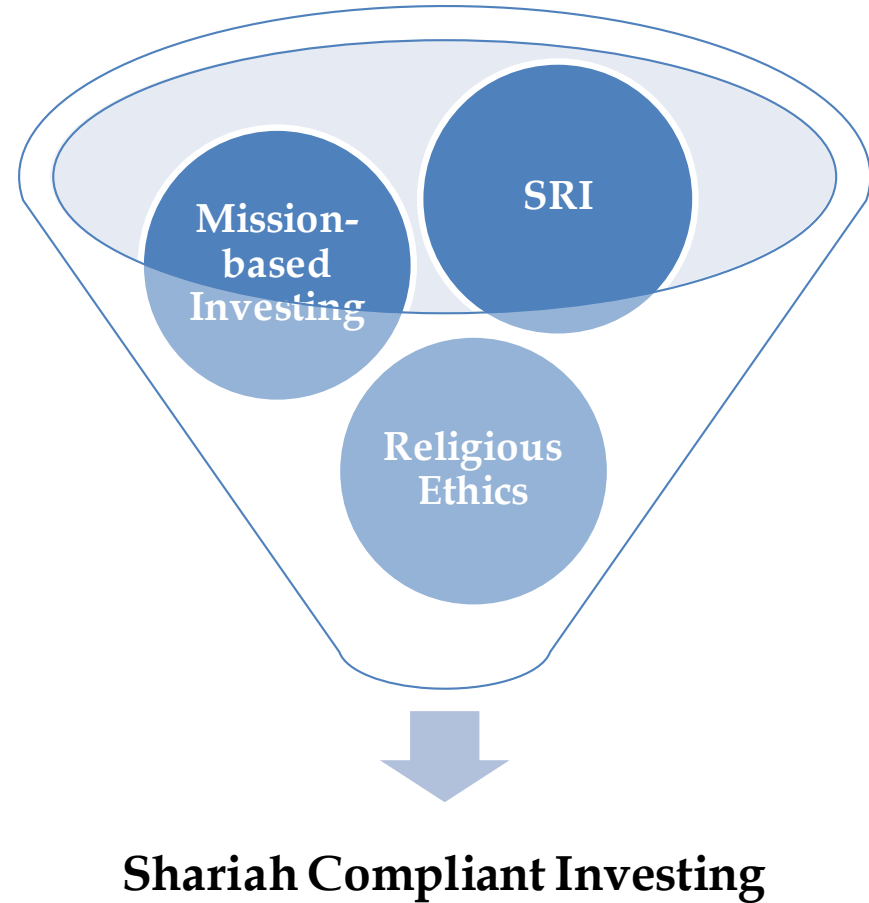
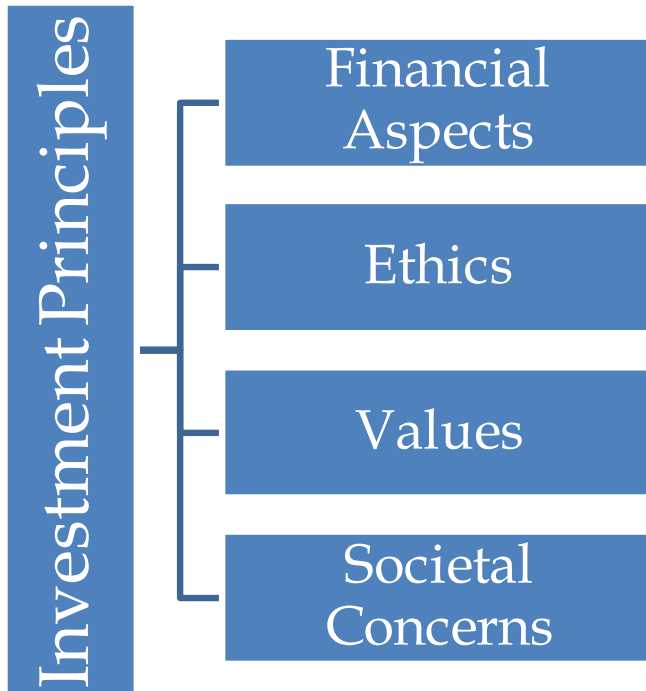


$$\frac{\text{Conventional Debt}}{\text{Market capitalisation}} < 30\%$$

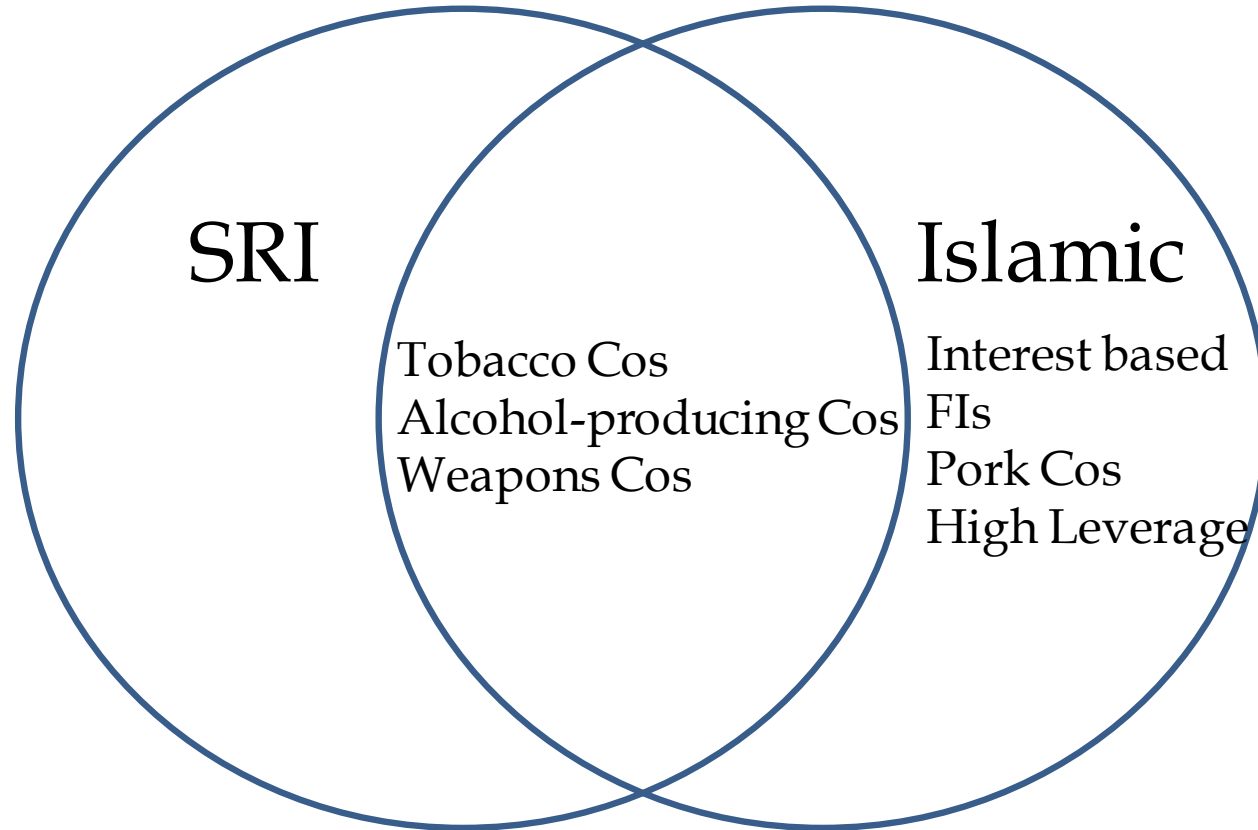
$$\frac{\text{Total Interest+Income from non-compliant activities)}}{\text{Income}} < 5\%$$

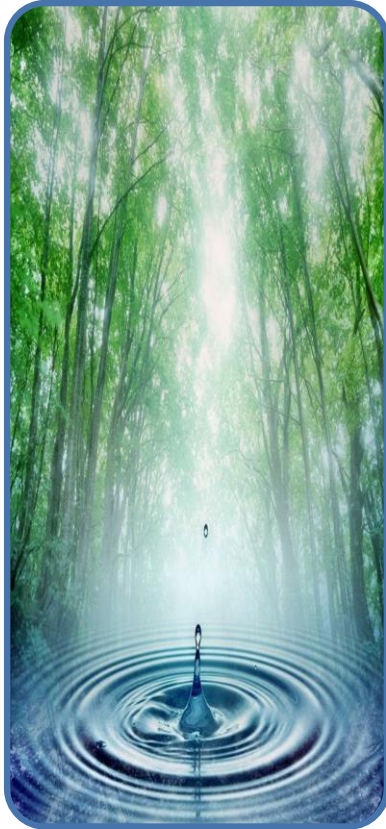
$$\frac{\text{Interest Bearing Deposits}}{\text{Market capitalisation}} < 30\%$$

Q: Is SRI = SCI?



A: Similar but Different





Literal: Increase (as in growth). Connotes Blessing, Purification, Commendation

Shariah: Zakat is the 3rd Pillar of Islam. It is an obligatory act of worship which applies to every Muslim possessing the designated minimal amount of wealth (called the nisab) for the full cycle of a lunar year (hawl), whom must pay a specified portion of that wealth (of which the percentage varies according to the type of wealth) to entitled beneficiaries specified by Allah.

% = 2.5% (on most types of wealth)

Sadaqa = Extra Charity



- ❖ Do not lie to sell your products (principles of honesty and sincerity).
- ❖ Honour your pledges and trustee obligations.
- ❖ Do not deceive or defraud others.
- ❖ Do not offer or solicit bribes.
- ❖ Do not boast about your products.
- ❖ Do not sell products that have a negative influence on the society (principle of stewardship).
- ❖ Uphold justice in all your dealings and transactions with both friends and enemies (Quran 4:29, 4:135, 2:279).
- ❖ Do not value your trade higher than your Lord (SWT) or allow it to distract you from the call to prayer (Quran 9:24).

a) Shari'ah Foundations of Accountants' Ethics

- Integrity
- The principle of vicegerency of humanity on
- Sincerity
- Piety
- Righteousness and making one's work perfect
- Allah-fearing conduct in everything
- Man's accountability before Allah

b) Principles and Rules of Ethics for Accountants

- Trustworthiness
- Legitimacy
- Objectivity
- Professional competence and diligence
- Faith-driven conduct
- Professional conduct and technical standards





Good Corporate Governance effect on a companies activities and operations:

- ❖ Are not harmful to mankind and/or the environment
- ❖ Deal fairly and properly with customers
- ❖ Compete properly with its rivals: hoarding and monopoly are out, and any manipulation to corner the market is rejected
- ❖ Ensure staff are treated fairly – and in turn, staff respect the corporation and act professionally in their dealings with the corporation and its customers
- ❖ Are transparent. The customer's ignorance of the market cannot be deliberately exploited or abused



Chartered Institute For Securities & Investments

- Fundamentals of Islamic Banking & Finance
- Islamic Finance Qualification (IFQ)



Chartered Institute of Management Accountants

- Islamic Commercial Law
- Islamic Banking & Takaful
- Islamic Capital Markets & Instruments
- Accounting for Islamic Financial Institutions



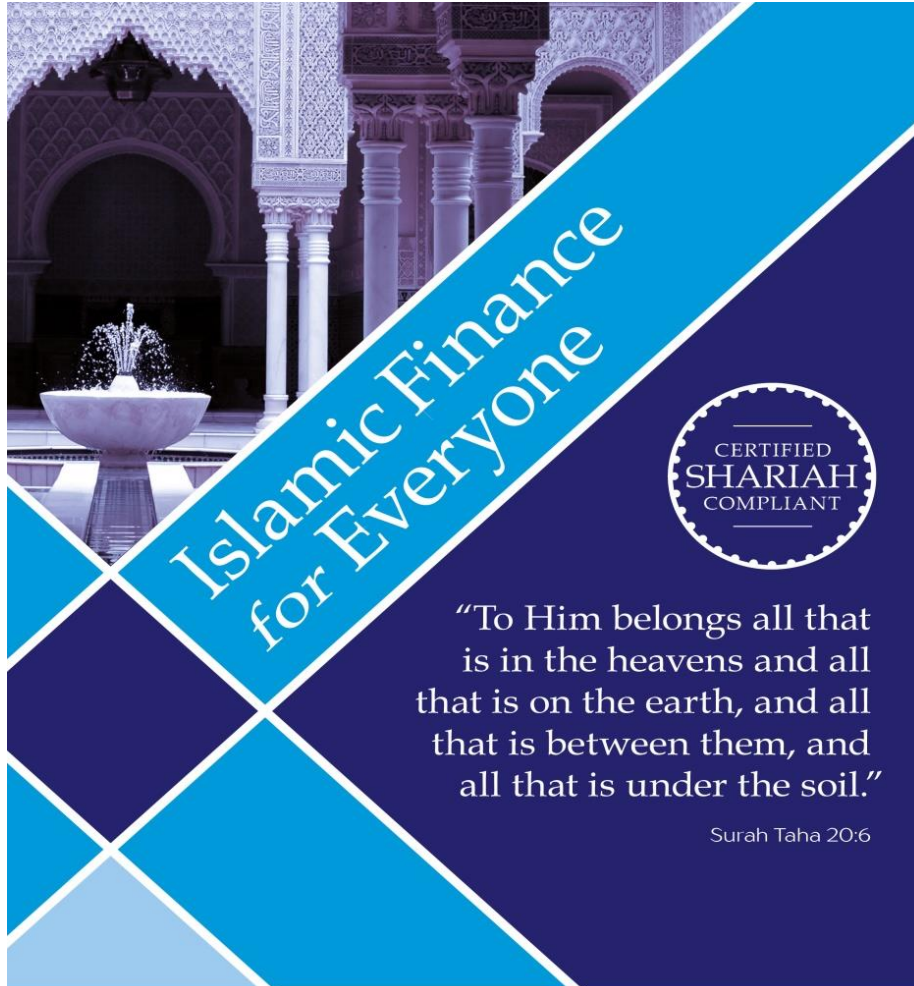
Chartered Insurance Institute

- Principles of Takaful



Accounting and Auditing Organization for Islamic Financial Institutions

- Certified Islamic Professional Accountant (CIPA)
- Certified Shariah Adviser & Auditor (CSAA)



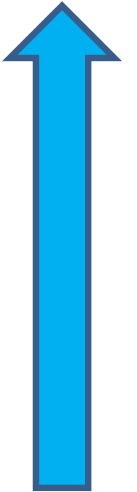
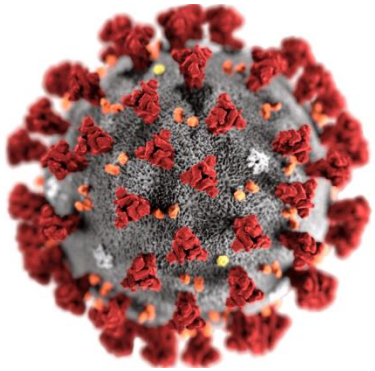
**Islamic Finance
for Everyone**

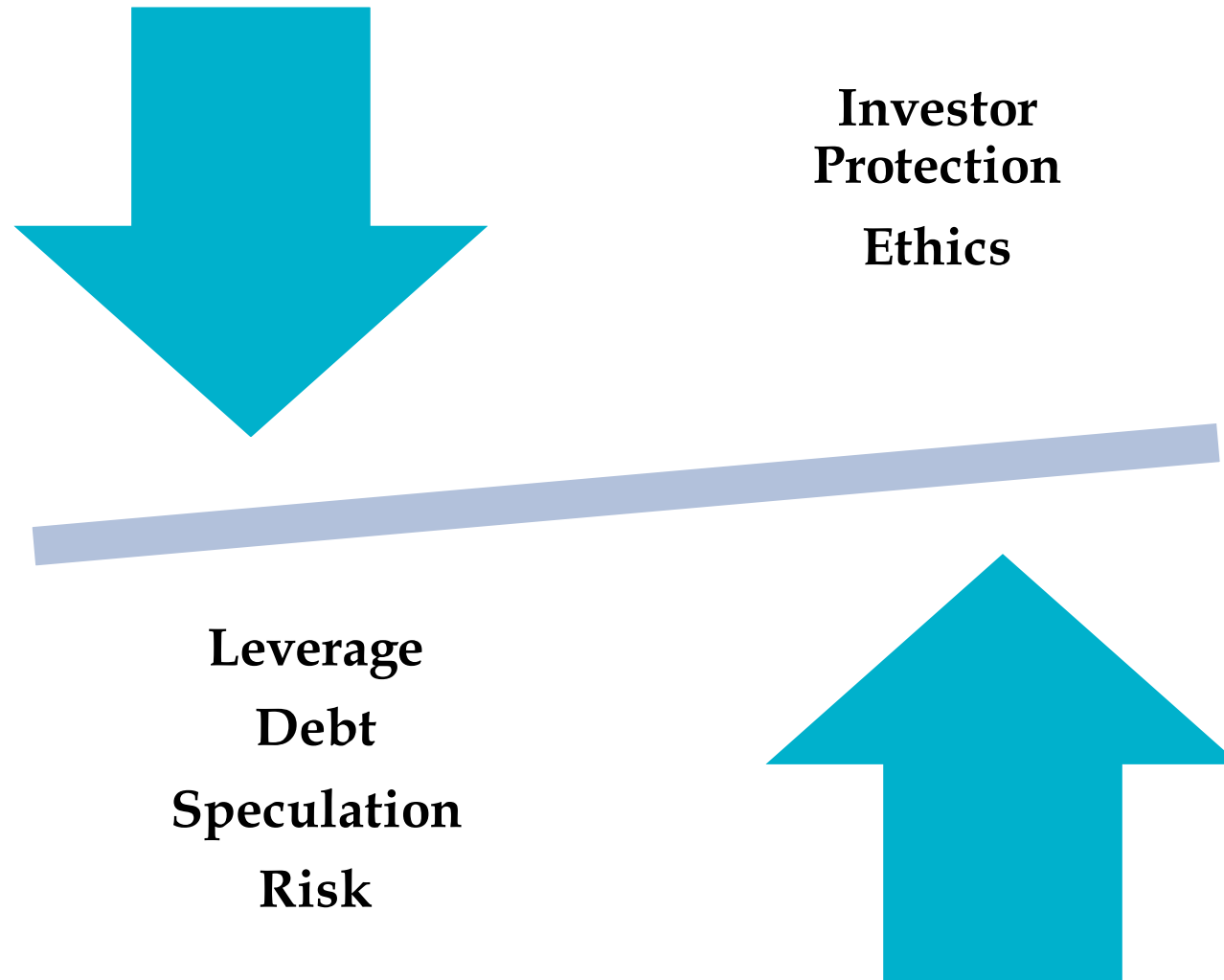
CERTIFIED
SHARIAH
COMPLIANT

“To Him belongs all that
is in the heavens and all
that is on the earth, and all
that is between them, and
all that is under the soil.”

Surah Taha 20:6

- **Islamic Finance Basics**
- **Islamic Banking**
- **Financial Planning Fundamentals**
- **Financial Mathematics using TVM
Calculator & Excel**
- **Takaful Solutions – Managing Risk**
- **Wealth Management**
- **Islamic Property Investment**
- **Zakat and Islamic Wills**







THANK YOU!

www.adgmacademy.com

Academy@adgm.com