

**SECURITIZATION  
IN  
ISLAMIC ECONOMICS**

# Objectives

- This lecture aims at providing trainees with a good grasp of the concept, conditions and types of securitization in Islamic Economics;
- Enhancing their understanding of the importance of highly liquid financial instruments for Islamic banks and Central banks in the Muslim countries; and,
- Developing capabilities and skills for creating securitized instruments out of physical assets or a bundle of physical and inter-personal assets

# **DOCUMENTATION**

## **IN *SHARI'AH***

### **- Of Ownership of Real Assets:**

- \* Physical Assets**
- \* Rights**
- \* Usufructs**

# **DOCUMENTATION IN *SHARI'AH***

(continue)

- Of Ownership of Debts:  
Notional Assets or  
Obligations in *Thimamah***

# **BASIC PRINCIPLES OF NEGOTIABILITY**

## **IN *SHARI'AH***

- \* **Sale (*Bai'*)**
- \* **Transfer (*Hawalah*)**
- \* **Exchange (*Sarf*)**

**(relevance to Securitization)**

# **SALE (BAI')**

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- \* Of Physical Assets**
- \* Of Rights**
- \* Of Usufructs**
- \* Of A Bundle of the above  
+ Debts + Money**

- **Pricing of Sale (market-cum-agreement)**
- **Sale of what is not owned or possessed**

# Transfer (*Hawalah*)

- Of Debts in Thimmah  
Face Value



# **Exchange (*Sarf*)**

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## **Of Currencies, Gold and Silver**

- **Same kind:**
  - **equal weight (or amount for paper currency)**
  - **Spot (hand to hand)**
- **Different kinds:**
  - **Varying weights (amounts for paper currency)**
  - **Spot (hand to hand)**

# KINDS OF SECURITIES IN ISLAMIC ECONOMICS

**Basic Principle:**

**Securities are only a veil**

**What matters is:**

**what securities stand for**

# Four kinds of securities

- 1. Real ( physical) Assets Securities**
- 2. Debts Securities**
- 3. Ijara Securities**
- 4. Financial Rights Securities**

# **Securities Representing Ownership of Real Assets**

## **NEGOTIABLE**

- **Shares in Companies' Principals  
(Common Stocks)**
- **Shares in *Modaraba* Principals  
(non-voting shares)**

# **Securities Representing Ownership of Real Assets**

continue

- **Certificates of Leased Assets (as derived from *Sharikat al Milk*)**
- **Shares in Ownership of Productive Fixed Assets with Distribution of Gross Revenue**

# **Certificates Representing a Group of Assets (mixed)**

## **Conditions**

- **Majority Rule**
- ***Riba* Relation**
  - **In Decision Making**
  - **In Earnings**

# Securities Representing Debts

## NON-NEGOTIABLE

- Debts In Money Terms
  - Government Bonds
  - Corporate Bonds
  - Commercial Papers
  - IOU's of *Ijara* Rentals
  - *Istisna'* Certificates
- Debts In Kind
  - *Salam* Certificates

# Ijarah Securities

## NEGOTIABLE

- ❖ **Usufructs Certificates**
- ❖ **Service Certificates**



# Securities Representing Financial Rights

- Options**
- Warrants to Buy Shares**
- Redemption Rights**