

*In the Name of Allah, Most Gracious, Most Merciful.* The global Islamic finance industry is an active market bustling with new announcements and promising indicators of progress. A handful of moves among industry participants worldwide in the last quarter of 2017 reflect the increased attention the industry is receiving from different stakeholders across sectors and markets. Some of the recent market developments include:

- Turkey's sale of gold-backed bonds and lease certificates (*shukūk*) to attract gold savings held by households into the economy.
- Unprecedented interest in Shari'ah-compliant retirement vehicles received by the Turkish pension fund sector with a surge in demand for them as compared to conventional funds.
- The Federal Government of Nigeria's debut *shukūk* worth Nigerian Naira 100bn (about US\$277m) issued for the construction and rehabilitation of roads.
- AAOIFI's publication of new regulations, notably the Financial Accounting Standard (FAS) 28, "Murabahah and Other Deferred Payment Sales".
- The Malawi Government's approval for the provision of Shari'ah-compliant banking products on a window basis.
- The UK Treasury's promise to return to the sovereign *shukūk* market in 2019 with a reissuance of its 2014 GBP 200m inaugural issuance to reiterate the UK Government's commitment to promoting Islamic finance.

One of the much-talked-about developments in the *shukūk* industry is the issuance of green sustainable and responsible investment (SRI) *shukūk* that corresponds to the concept of green bonds in the conventional market. Bank Negara Malaysia, Securities Commission Malaysia and the World Bank Group have been making joint efforts to support the commercialisation of green *shukūk* to engage the industry in responsible financing and promote sustainable development. In October 2017, Quantum Solar Park Malaysia Sdn Bhd issued the world's largest green SRI *shukūk* worth RM 1bn (about US \$236m). The proceeds were earmarked to finance the construction of three large-scale solar photovoltaic plants in the states of Kedah, Melaka and Terengganu. Earlier in July 2017, Tadau Energy Sdn Bhd issued the first green *shukūk* facility under Securities Commission Malaysia's SRI Sukuk Framework. The issuance totalled RM 250m (about US\$59m) for financing another solar project. Across the world, governments are demonstrating an increased commitment to building a more sustainable, eco-friendly economy. Cutting-edge technologies and responsible financing are key instruments for realising that aspiration.

The wide-ranging Islamic finance developments reflect the varied topics being discussed by academics and market participants. The contents published in the *ISRA International*



*Journal of Islamic Finance* usually echo this diversity, and this December 2017 issue is no exception. The main articles discuss a wide array of topics, ranging from the economic theory of Islamic finance to corporate social responsibility (CSR), *ḍamān al-milkiyyah* (ownership risk) and corporate demand for general *takāful* (Islamic insurance). The six shorter articles that follow examine various issues from Sharī'ah, accounting and legal perspectives.

The first article, "An economic theory of Islamic finance", by *Mabid Ali Al-Jarhi*, attempts to provide an economic rationale for Islamic finance. The initial part of the paper discusses the lessons learnt from monetary, banking and finance theories with regard to Islamic finance. Relying on his previous work, Al-Jarhi's (1981) proposed Islamic finance model, the author then argues that the application of Islamic finance in such a model would bring about distinct macro-economic benefits. These set the basis for establishing an economic rationale for Islamic finance, and thus, the author recommends some institutional reforms for contemporary market economies.

The second article, "CSR practices of Palestinian Islamic banks: contribution to socio-economic development", by *Abdalrahman Mohamed Migdad*, pioneers the literature on Islamic banks' CSR practices in Palestine. It examines the CSR practices by analysing the banks' annual reports and by questioning practitioners and Sharī'ah board members. The paper finds that there was no specific CSR strategy adopted by the banks. They engaged in various projects that benefit the community, depending on their means and society's needs. Banks' practitioners and Sharī'ah board members endorsed the value proposition of CSR and seconded the idea that banks should involve more in CSR activities to further human well-being.

The third article, "The concept and application of *ḍamān al-milkiyyah* (ownership risk): Islamic law of contract perspective", by *Lutfi Abdul Razak and Muhammad Nabil Saupi*, studies the concept of *ḍamān al-milkiyyah* and examines its applications in contemporary Islamic banking, Islamic capital market and *takāful* products. The authors argue that the concept of *ḍamān al-milkiyyah* not only refers to ownership risks or uncertainties but also confers liabilities and responsibilities on owners. As such, the notion of ownership in Islamic commercial transactions should imply bearing the liability of loss to justify the earning of legitimate profits. The paper further identifies cases where this concept is not adequately applied in the practice of Islamic banking and finance. It thus calls for the proper understanding and application of *ḍamān al-milkiyyah* by practitioners and regulators for the industry to move to its truer form of sharing risks and benefits.

The fourth article, "Corporate demand for general *takāful* in Malaysia", by practitioners *Hamim Syahrums Ahmad Mokhtar, Izwayu Abdul Aziz and Noraziyah Md Hilal*, reports on a survey conducted by the authors to gauge corporate demand for general *takāful* business in Malaysia. The survey assessed corporates' awareness on *takāful*/insurance, their *takāful*/insurance needs, factors considered and experience gained when securing *takāful*/insurance coverage. The findings of the survey are deemed useful in determining areas of opportunities to better position the *takāful* business in the market and pinpoint areas for improving the practices of *takāful* in Malaysia. One of the opportunities highlighted is the small and medium enterprise sector, which still represents an underserved market. One of the improvements suggested by the authors is for *takāful* businesses to accentuate the value propositions of *takāful*. Respondents were found to be relatively indifferent to the Sharī'ah-compliance status of their protection.

The short articles published in the *ISRA International Journal of Islamic Finance* delineate key research findings on some of the research undertaken by ISRA researchers and other academics. The purpose of these articles is as briefly mentioned below:

- “Preference shares: analysis of Shari’ah issues”, by *Shamsiah Mohamad, Mezbah Uddin Ahmed and Mohd Bahroddin Badri*, studies the Shari’ah non-compliant features of conventional preference shares and offers some recommendations that would help in structuring Shari’ah-compliant preference shares.
- “Financial reporting of intangible assets in Islamic finance”, by *Syed Musa Alhabshi, Hafiz Majdi Ab Rashid, Sharifah Khadijah Syed Agil and Mezbah Uddin Ahmed*, conducts a comparative analysis of accounting dimensions and Shari’ah requirements in the financial reporting of intangible assets.
- “Shari’ah non-compliant assets as *rahn* (pledge) in Islamic banking products: a *fiqhī* perspective”, by *Lokmanulhakim Hussain and Mohammad Mahbubi Ali*, provides a Shari’ah analysis on the use of Shari’ah non-compliant assets as *rahn* and specifically examines the utilization of modern instruments such as shares, unit trusts, current accounts, investment accounts and insurance policy as pledges.
- “Contra trading in Bursa Malaysia Securities Berhad: a Shari’ah and legal appraisal”, by *Noor Suhaida Kasri and Burhanuddin Lukman*, analyzes the practice of contra trading in Bursa Malaysia Securities Berhad and examines the arising Shari’ah and legal issues.
- “The goods and services tax (GST) on *takāful* products: a critical Shari’ah appraisal”, by *Burhanuddin Lukman and Saba’ Radwan Jamal Elatrash*, discusses the Shari’ah view on the imposition of GST on *tabarru’*-based *takāful* (donation-based Islamic insurance) products in Malaysia.
- “The effect of IFSA 2013 on late payment of *takāful* benefits”, by *Muhammad Ali Jinnah Ahmad and Burhanuddin Lukman*, examines the impact on the *takāful* industry in Malaysia of compensation for late payment of *takāful* benefit claims imposed in the Islamic Financial Services Act (IFSA) 2013.

We are pleased to inform our readers that the *ISRA International Journal of Islamic Finance* has been successfully evaluated and accepted in the *Emerging Sources Citation Index (ESCI)* within Clarivate Analytics (formerly Thomson Reuters). Coverage is expected to begin with the June 2017 issue. As readers would be aware, ESCI is a new index in the Web of Science core collection and was launched in late 2015. As at date, *ISRA International Journal of Islamic Finance* is abstracted and indexed by: Index Islamicus, EconLit, EBSCO Products, ProQuest, Scientific Indexing Services, EconBiz, ESCI and the British Library.

We thank all the contributors for submitting their work to the *Journal*, and wish our readers a rewarding and insightful read.

Allah (SWT) is the bestower of success, and He knows best.

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