

CPD Spotlight Quiz (March 2008)

Islamic Finance

Answers

Question 1

Answer

The right answer is (d) all of the above

Three factors have combined recently to generate unprecedented growth in Islamic finance, with London as the main centre outside the Middle East.

Syndicated Islamic Finance by Asim Iqbal, Islamic Finance News 2nd November 2007, www.gtnews.co.uk

The Treasurer Nov 2007, The Rise and Rise of Islamic Finance by Humphrey Percy and Natalie Schoon, p36

<http://www.treasurers.org/thetreasurer/resources/2007/11/Nov07TTAmin34-36.pdf>

Question 2

Answer

The right answer is (c) the syndicate members are principals and they deal with the syndicate leader, who acts as their agent.

The syndicate manager and the members of the syndicate enter into an inter agency agreement (IAA) which determines their relationship. The lead bank acts as wakeel (agent) and the syndicate banks act as muwakkils (principal) in the contract.

Syndicated Islamic Finance by Asim Iqbal, Islamic Finance News, 2nd November 2007 www.gtnews.co.uk

Question 3

Answer

The right answer is (a) the instrument is listed on a stock exchange that is recognised for tax purposes.

There is a similarity here with Eurobonds, in that as long as the Eurobond is listed on a recognised exchange, no income tax is withheld.

The Treasurer, November 2007, An important First step by Mohammed Amin, pp34-36 <http://www.treasurers.org/thetreasurer/resources/2007/11/Nov07TTAmin34-36.pdf>

Question 4

Answer

The right answer is (b) It may not be sufficiently transparent for understanding the risk and reward offered.

Implementing Corporate Governance for Islamic Finance, by Mark Stanley, Ernst & Young Middle East and IFSG - Ernst & Young - 22 Jan 2008, <http://www.gtnews.com/article/7059.cfm>

Question 5

Answer

The right answer is (b) finance in exchange for a share of the profits

The share might be relatively small, to reflect the importance of the skill and expertise in implementing and managing the project, but still it is related to success rather than 'the cost of money'.

*The Treasurer December 2005, Islamic Finance by Mohammed Amin, pp34-35
<http://www.treasurers.org/thetreasurer/resources/2005/12/Dec05TTAmin34-35.pdf>*

Question 6

Answer

The right answer is (a) sale on deferred payment terms

Here any cost of finance is covered by the agreement for a future sale at a price which covers costs.

*The Treasurer December 2005, Islamic Finance by Mohammed Amin, pp34-35
<http://www.treasurers.org/thetreasurer/resources/2005/12/Dec05TTAmin34-35.pdf>*