INTERNATIONAL CONFERENCE ON
ISLAMIC BANKING & FINANCE:
CROSS BORDER PRACTICES & LITIGATIONS
15 & 16 JUNE, 2010
INTERNATIONAL ISLAMIC UNIVERSITY MALAYSIA
KUALA LUMPUR, MALAYSIA

Organizers

In Collaboration With
INTERNATIONAL CONFERENCE ON
ISLAMIC BANKING & FINANCE:
CROSS BORDER PRACTICES & LITIGATIONS
15 & 16 JUNE, 2010
INTERNATIONAL ISLAMIC UNIVERSITY MALAYSIA
KUALA LUMPUR, MALAYSIA
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**PROGRAMME SUMMARY**

**DAY 1: 15th June 2010 (Tuesday)**

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<th>Activity</th>
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<tr>
<td>8.00 am - 8.45 am</td>
<td>Conference Registration / Breakfast</td>
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<tr>
<td>8.45 am - 10.45 am</td>
<td>PARALLEL SESSION 1</td>
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<tr>
<td>10.45 am - 11.00 am</td>
<td>Refreshment</td>
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<tr>
<td>11.00 am - 1.00 pm</td>
<td>PARALLEL SESSION 2</td>
</tr>
<tr>
<td>1.00 pm - 2.00 pm</td>
<td>Lunch &amp; Zuhr Prayer</td>
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<tr>
<td>2.00 pm - 2.15 pm</td>
<td>Arrival of Invited Guest and VVIP</td>
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<td>2.15 pm - 2.30 pm</td>
<td>Arrival of Guest of Honor</td>
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<tr>
<td>2.35 pm - 2.40 pm</td>
<td>Opening Remarks by Master of Ceremony</td>
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<tr>
<td>2.40 pm - 2.45 pm</td>
<td>Recitation of verses from Al-Qur'an</td>
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<tr>
<td>2.45 pm - 2.55 pm</td>
<td>Welcoming Remarks by Dean, AKOL</td>
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<tr>
<td>2.55 pm - 3.05 pm</td>
<td>Officiating Speech by Y. Bhd Prof. Dato' Seri Dr. Syed Arabi Idris Rector, IIUM</td>
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<tr>
<td>3.05 pm - 3.40 pm</td>
<td>Keynote Address by Guest of Honour</td>
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<tr>
<td>3.40 pm - 3.50 pm</td>
<td>Presentation of Souvenir</td>
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<td>3.50 pm - 4.20 pm</td>
<td>Refreshment</td>
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<tr>
<td>4.20 pm - 5.20 pm</td>
<td>PANEL DISCUSSION I: Cross Border Litigation in Islamic Banking and Finance (PLENARY DISCUSSION)</td>
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<td>5.20 pm</td>
<td>Disperse</td>
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**DAY 2: 16th June 2010 (Wednesday)**

<table>
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<th>Time</th>
<th>Activity</th>
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<tbody>
<tr>
<td>8.00 am - 8.30 am</td>
<td>Arrival of Participants / Breakfast</td>
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<tr>
<td>8.30 am - 8.45 am</td>
<td>Arrival of VIP &amp; Invited Guests</td>
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<tr>
<td>9.00 am - 10.00 am</td>
<td>Special Address by Mr. Rushdi Siddiqui, Global Head of Islamic Finance, Thomson Reuters</td>
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<tr>
<td>10.00 am - 10.30 am</td>
<td>Refreshment</td>
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<tr>
<td>11.00 pm - 1.00 pm</td>
<td>PARALLEL SESSION 3</td>
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<tr>
<td>1.00 pm - 2.00 pm</td>
<td>Lunch &amp; Zuhr Prayer</td>
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<tr>
<td>2.00 pm - 3.00 pm</td>
<td>Cross Border Practices: Roles and Responsibilities of Islamic Financial Centers and Alternative Dispute Resolution Institution (PLENARY DISCUSSION)</td>
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<tr>
<td>3.00 pm - 4.00 pm</td>
<td>PANEL DISCUSSION II: Shariah Governance and Auditing in Islamic Banking and Finance Practices (PLENARY DISCUSSION)</td>
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<td>4.00 pm - 4.15 pm</td>
<td>Presentation of Resolution</td>
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<tr>
<td>4.15 pm - 4.30 pm</td>
<td>Closing Remark by - Director of HMHLC&lt;br&gt;- Dean of University of Wisconsin, USA&lt;br&gt;- Dean of IIIBF</td>
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<td>4.15 pm</td>
<td>End of IBAF Conference &amp; Refreshment</td>
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VENUE: AKOL FOYER

DAY 01
5 June 2010
Tuesday

8:00 a.m. – 8:30 a.m.  Conference Registration/Breakfast
8:45 a.m. – 10:45 a.m.  PARALLEL SESSION I

VENUE

PAPERS (LA)
Theme: Islamic banking regulations and cross border litigation: issues and challenges

- Legal and Shari‘ah Issues in Cross-Border Islamic Financial Instruments, Azman Ismail, MALAYSIA
- Extra Cost of Litigation Versus Hurdles Upfront in the Court System in Islamic Finance Cases, Hakimah Haji Yaacob, MALAYSIA
- Cross Border Litigation in Islamic Banking and Finance, Md. Abdul Jail, Abdul Haseeb Ansari & AKM Akhratul Kabir, MALAYSIA
- Islamic Banking Law in Cross Borders: Between Centralization and Decentralization, Souleymane Kane, MALAYSIA
- International Regulation of Islamic Banks with Regard to Money Laundering, Norhashimah Mohd Yassin, MALAYSIA
- A framework for Analysing the Regulatory Development in Islamic Banking in Application of Global Financial Integration, Muhammad Muhaizam Musa, MALAYSIA

ROOM NO.
MM 1.7

PAPERS (LB)
Theme: Choice of law and alternative dispute resolution in cross border transactions

- Singapore as an International Islamic Finance Arbitration Centre, Andrew White, Muhammad Iskandar Abdul Kadir, Shahidah Mohamed Said, SINGAPORE & MALAYSIA
- Legal Implications of Deciding Islamic Finance Matters Within the Conventional Justice System: A Theoretical Framework, Hakimah Haji Yaacob & Ani Munirah Mohamad, MALAYSIA
- Viability of Extra Judicial Dispute Resolution Clauses in Cross Border Practices of Islamic Finance, Khalsoid Mohammed Aman, MALAYSIA
- A Critical Analysis of the Application of Choice of Law and Choice of Forum Clauses in Islamic Banking and Financial Cross Border Transactions, Kyaw Hia Win @ Md. Hassan Ahmed, MALAYSIA
- Islamic Finance and Cross Border Transactions-Observation from A U.S Lawyer, Kenneth B. Davis, Jr, UNITED STATES OF AMERICA
- Islamic Banking Disputes: Between Judicial Pluralism and ADR, Abdulqadir Ibrahim Abikan, NIGERIA

ROOM NO.
MM 1.8

PAPERS (LC)
Theme: Development and enhancement of shari‘ah compliant financing products for optimum efficiency

- Achieving Maqasid Al-Shari‘ah in Islamic Banks through Islamic Micro - financing, Aliyu Dahuru Muhammad, MALAYSIA
- The Application of Build, Operate and Transfer (BOT) Contracts in Waqf Institution; Majlis Agama Islam Wilayah Persekutuan (MAIWP), Azman bin Mohd Noor & Saidatulakma Mohd Yunus, MALAYSIA
- Islamic Banking Practice and Power Reduction: Any connections?, Kọlawọle Kazeem, NIGERIA
- Commodity Murabahah as Offered by Bursa Malaysia; A Critical Analysis from Fiqh Perspective Transaction, Nur Fairhia Mahadi & Azman Mohd Noor, MALAYSIA
- Issuance of Islamic Credit Card in Malaysia: A Critical Analysis, Raffidah Mohd Azli & Azman Mohd Noor, MALAYSIA
- Cross Border Sukuk Structuring: Legal and Shari‘ah Considerations, Younas Souahi, MALAYSIA
- The Implications of Al-Ghubn in Islamic Contracts: An Analysis of Current Practices, Mahamad Ariffin, Mohammad Deen Mohd Napiah, Muhammad Naim Omar & Mohammad Asmadi Abdullah, MALAYSIA
- Contemporary Fatawa of Muslims Jurists on Bai Bithaman Ajil Products: A Comparative Study between Theory and Practice, Abdul Fatah Sheikh Mohammad, Rusni Hassan, MALAYSIA

PROGRAM DAY 1 [Parallel Session I] on next page
PAPERS (LD)
Theme: التفاوضي والتحكيم عبر الحدود، وحالات دراسة في العمل المصرفي الإسلامي

- تسوية المنازعات المصرفيَّة الإسلاميَّة من خلال التحكيم
  Abdal Rahman AlSalih, Malaysia

- تجربة صناعة المصرفيَّة الإسلاميَّة في تايلاند: الإحاطة التصنيفية بالملك نموذجا
  Mohammad Laeb, Thailand

- مدى تأثر قانونVelocity للآليات في البيانيات والجهود الدولية لمقاومة الجريمة عبر الحدود دراسة تحليلية مبدع وقانونية
  Abdul Mageed Qasim Abdul Mageed, Malaysia

- النزاعات عبر الحدود في الخدمات المصرفيَّة الإسلاميَّة
  Sultan Ibrahim Al-Khahim, Qatar

- أثر المخاطر المصرفيَّة على تخصيص الأصول لدى المصارف الإسلاميَّة الأردية
  Sultan Tsa Hariz, Jordan

- ملخص البحث التحليلي في مشاريع الدراسات المصرفيَّة الإسلاميَّة في القانون البياني الواقع والآفاق
  Sultan Tsa Hariz, Jordan

PAPERS (LE)
Theme: Risk and liquidity management in the contemporary financial scenario: challenges and solutions

- Credit Crunch, Renaissance of Gold: The Islamic Monetary System and Sukuk Success So Far,
  Adesina-Usman Ganiyat Adepeke & Ibrahim Olatunbo Usman, Nigeria

- Issues of Liquidity Management in Islamic Banking Operation System: Malaysian Case Study,
  Md. Sairthrough Rahman & Farhina Shahari, Malaysia

- Financial Risks Underlying Sukuk Structures,
  Nigo Szwatz, South Africa

- Islamic Securitization: Risk Factors in Shar’iah view,
  Nidal Assayyed, Malaysia

- Effect of Sub-Prime Crisis on the Global Economy and How Such Crisis should Have been Averted
  in an Islamic Finance Environment, Oladokun Nafiu Olaniyi & Mohammad Firuz Mohammad Hatta,
  Malaysia & UK

- Clustering – An Approach for Development of a New Financial System Based on
  Islamic Concept of Equal Settlement and Creating Value, Shaikat Amer, Pakistan

- Significant Rules of Murabahah Contract in Islamic Banks,
  Ahmad Abdul Karim Ibrahim, Malaysia

- Discriminant Factors in Indonesian Bank Selection,
  Muhammad Abdur & Mohd Azmi Omar, Malaysia

CAFÉ FOYER:
10.45 a.m. - 11.00 a.m. Refreshment

PROGRAM DAY 1 (Parallel Session 2) on next page
DAY 01
15 June 2010
Tuesday
11.00 a.m. - 1.00 p.m.
PARALELL SESSION 2

VENUE
PAPER

ROOM NO.
MM 17

PAPERS (2.A)
Theme: Corporate governance and the role of Shari'ah boards in cross border practices

Islamic Banking and Finance Today: Professional Ethics and Cross Border Practice and Litigation, Adeyemo, Lateef Kayode & Mobolaji, Hakeem Ishola, MALAYSIA & NIGERIA

Corporate Governance for Islamic Financial Institutions, M. Jawed Mannaar, SRI LANKA

The Application of fatwâa / Resolutions by the Judge in Contemporary Islamic Finance in Malaysian Civil Justice System, Mohd Zakhir Md Nor, MALAYSIA

Shari’ah Advisory Board of Islamic Financial Institutions - Cross Border Practices, Rusni Hassan, Uzaimah Ibrahim, Nurizanawati Irwani Abdullah, Akrizatiie Abi Aziz & Mohd Faad Md Sawari, MALAYSIA

Towards Islamic Workview based Corporate Governance Framework, Sheila Nu Nu Htay Muhammad Akhry Ardin, Hafiz Majdi Abd Rashid & Shahrul Hameed Hj Mohamed Ibrhim, MALAYSIA

Corporate Governance of Australian Banking: A lesson in Law Reform or Good Fortune, Michael Peters, AUSTRALIA

ROOM NO.
MM 18

PAPERS (2.B)
Theme: The economic connotations of Islamic banking and customer acceptence

Customer Satisfaction of Islamic Banking Products in Pakistan, Falak Karim & Irfan Ejaz, PAKISTAN

The Role of Hajj in the Growth of the Islamic Banking and Finance: A case study of Tabung Hajj (Malaysian Hajj Fund), Ibrahim (Natu) Uthman, NIGERIA

Economic Role of Islamic Banks: Obstacles and Possible Solutions, Raseem N. Kayed & Ahmed A. Ibrahim, PALESTINE & BAHRAIN


ROOM NO.
MM 19

PAPERS (2.C)
Theme: Advancement of Islamic banking in new jurisdictions: challenges and perceptions

Legal Obstacles in Establishing Islamic Banking in Maldives, Aishath Muneeza & Imsan Wissam, MALAYSIA

Islamic Finance in the US: What Are the Challenges to Overcome in order for the Industry to Subsist Viably under Secular Regulation?, Fatimah S. Baeshen, USA

Accommodating Islamic Banking and Finance in New South Wales, Salim Ali Farrar, AUSTRALIA

Banking Sector Consolidation Crisis: Islamic Banking as a Credible Alternative System in Nigeria, A.S. Santapparaj & Muhammod Yusuf, MALAYSIA

Islamic banking in Sri Lanka And Malaysian Choice of Laws, Conflict of Laws And Court Jurisdiction, Rusni Hassan & Mohamed Naifee, MALAYSIA

PROGRAM DAY 1 [ Parallel Session 2 ] on next page
### PAPERS (2.A)

**Theme:** قضايا الديون وإدارة المخاطر في المشهد المالي المعاصر

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<td>Nor Nazeem Abdul Rahman &amp; Isaa Khan, MALAYSIA</td>
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**PAPERS (2.E)**

**Theme:** Standardization of Islamic banking practices in cross border transactions

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<td>Cross-Border Banking Transactions: Is There a Need to Uniform Stock Screening Procedures, Korimbocus Janicke Marie Christine, Aishath Muneer, Nik Nurul Atiqah Nik Yusuf &amp; Sooraya Capery, MALAYSIA</td>
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<td>An Analysis of Global trends and Regional Pockets in the Application of Islamic Financial Contracts in Malaysia and Gulf Cooperation Council, Anne-Sophie Grintzburger, AUSTRALIA</td>
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<td>Towards a global standard in Islamic Banking and finance practices: a review of the principles, products and regulatory organs of banking under Islamic Law, Ibrahim Ofana, MALAYSIA</td>
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<td>Rationality and its Role in the Standardization of Islamic Banking and Finance Practices in Cross Border, Jilani Bn Touhami Meflat, MALAYSIA</td>
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<td>Islamic Banking and Finance beyond Borders: Issues of Standardisation, Edino Smolo &amp; Elmin Habibovic, MALAYSIA</td>
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<td>Principle Of Autonomy In Letter Of Credit: Malaysian Practice, Rosmahwani Che Hashim, Ahmad Azam Othman and Akhtarzaite Abdul Aziz, MALAYSIA</td>
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**FOYER CAFE**

- **1.00 p.m. - 2.00 p.m.** Lunch & Zhur Prayer

**MOOT COURT**

- **2.00 p.m. - 2.15 p.m.** Arrival of Invited Guest and VIP
- **2.15 p.m. - 2.30 p.m.** Arrival of Guest of Honor
- **2.35 p.m. - 2.40 p.m.** Opening Remarks by Master of Ceremony
- **2.40 p.m. - 2.45 p.m.** Recitation of verses from Al-Qur'an
- **2.45 p.m. - 2.55 p.m.** Welcoming Remarks by Dean, AIKOL
- **2.55 p.m. - 3.05 p.m.** Officiating Speech by Y. Bhg Prof Dato' Seri Dr. Syed Arabi Idid Rector IIUM
- **3.05 p.m. - 3.40 p.m.** Keynote Address by Guest of Honor

**FOYER, MOOT COURT**

- **3.40 p.m. - 3.50 p.m.** Presentation of Souvenir

**MOOT COURT**

- **3.50 p.m. - 4.20 p.m.** Refreshment
- **4.20 p.m. - 5.20 p.m.** Panel Discussion I: Cross Border Litigation in Islamic Banking and Finance (PLENARY DISCUSSION)
  - **Moderator:** Dr. Norhashimah Mohd Yassin, IIUM
  - **Speakers:**
    - Mr. Megat Hizaini Hassan, Zaid Ibrahim & Co
    - Assoc. Prof. Dr. Engku Rabiah Adaway Engku Ali, IIUM
    - Mr. Mohd. Izmail Shariff, SKRINE

**05.20 p.m.** Disperse
VENUE: MOOT COURT

8:00 a.m. - 8:30 a.m. Arrival of participants / Breakfast
8:30 a.m. - 8:45 a.m. Arrival of Invited Guest
8:30 a.m. - 8:45 a.m. Arrival of Mr. Rushdi Siddiqui, Global Head of Islamic Finance, ThomsonReuters
9:00 a.m. - 10:00 a.m. Special Address by Mr. Rushdi Siddiqui, Global Head of Islamic Finance, ThomsonReuters
10:00 a.m. - 10:30 a.m. Refreshment
11:00 a.m. - 1:00 p.m. PARALELL SESSION 3

PAPERS

ROOM NO. MM 1.7

PAPERS (3.A)
Theme: Islamic and conventional banking systems: conversion, dual systems, and common issues

Shari’ah Transmission Mechanism in Indonesia Dual Banking System, Aam Slamet Rusyidiana, INDONESIA

Islamic Banks vis-à-vis Conventional Banks: A Constructive Analysis of Payment of Zakat and Corporate Tax, Adnan Trakic & Sheikh Manzur Sanyang, MALAYSIA

Conversion Effects from Islamic Units into Full Fledged Systems for Islamic Banks in Indonesia, Dodik Siswantoro, INDONESIA

Transition of Islamic Banking from Debt-Based Modes to Equity-Based Financing: Issues and Prospects, Muhammad Abdurrahman Sadiq, MALAYSIA

Sharing of underwriting Surplus in Takaful Operation: Practical Perspective, Salim Ali Al-Ali, MALAYSIA

Are Profit Rate of Islamic Banks and Interest Rate of Conventional Banks Counterregulated?: The Case of Indonesia, Mohamad Fany Alfaris & Mofid Azmi Omar, & MALAYSIA

ROOM NO. MM 1.8

PAPERS (3.B)
Theme: Ensuring shari’ah compliance in cross border banking practice: issues and concerns

Islamic Preference Shares: An Analysis on Light of Tanazul Concept, Ahmad Basri Ibrahim, MALAYSIA

Factors Influencing the Involvement in Shubuhat Activities: The Case of Shari’ah-Compliant in Bursa Malaysia, Essia Ries Ahmad, MALAYSIA

Issues in Foreign Exchange and its Implication for Cross Border Trading: An Islamic Perspective, Gupar Ozier & Mesterfa Omar Mohammed, MALAYSIA

Legal Maxims and Islamic Financial Transactions: A Case Study of Mortgage Contract and its Dilemma to the Muslims in Britain and the United States of America, Luqman Zakirah, UNITED KINGDOM

Peningkatan Dana (Fundraising) Dalam mempromosikan Waqaf: Analisi dari Perspektif Prospek dan Cabaran, Mohamad Tahir Zainuddin, Hisham Sabri, MALAYSIA

The Dilemma of Substitution in Islamic Finance: The Case of Substituting Gold and Silver by Banknotes by the Contemporary Islamic Jurists, Gorgoson Lukan Ayinde, MALAYSIA

Signifikasi Konsep Istibdal: Anjakan Paradigma Dalam Sistem Pengurusan Pembangunan Wakaf, Hisham Sabri, MALAYSIA

ROOM NO. MM 19

PAPERS (3.C)
Theme: تطوير المنتجات والاستثمار والتمويل: القضايا والاتجاهات

التطوير الشخصي وتطبيقاته العامة في البنوك الإسلامية والتقليدية
Mohammad Abdullahi Ishak, MALAYSIA

الإجراء كصيغة استثمارية متعددة
Mohini Aidin Abu Alhoul, MALAYSIA

تمكين الاستثمار من البدائل الشرعية لأسندت الفرص الربوية
Musa Bala Ahmad Ibrahim, MALAYSIA

مقاصد الشرعية وآثارها في المغود: عند الإجراء المنتهي بالتمليك موضوحاً
Yusuf Adam Al-Badani, MALAYSIA

دور الاصطلاح الإسلامي في دعم الموازنة العامة من منظور تمويل إسلامي
Ziad JK. Alawmanghi, MALAYSIA

المشاركة المناقشة لاقتضاء الأصول كما تجريها المصادر الإسلامية: تجربة بعض الجوانب الشرعية، ومقترحات لتنفيذ التطبيق
Abdullahi Mohammad & Abdurrahman Sadiq, MALAYSIA

PROGRAM DAY 2 (Parallel Session 3) on next page
الضوابط الشرعية القضايا المصريية عبر الحدود ودور المجالس الشرعية

Abdul Azeez bin Saud Ad-dhowairy, SAUDI ARABIA

ضوابط الشرعية في خدمة الإعداد المستندي
Anisur Rahman Manzoorul Haq, MALAYSIA

ضوابط الهيئات الشرعية في المصرفيّة الإسلامية
Abdul Mageed Ad-darwishi, KINGDOM OF SAUDI ARABIA

قرارات الهيئات الشرعية والإفادة منها عبر الحدود المعوقات والمتفرقات
Abdul Rahman Ibn Othman Ibn Rashid Al-Jaloud, SAUDI ARABIA

المصرف الإسلاميّة وإدارة مخاطر فقدان الثقة
Salin Zink, QATAR

المعامّلات المصرفيّة والمالية الإسلاميّة وأثرها في المقاصد الشرعية بين الماضي والحاضر
Abdulhadi Muhammad Hosni Al-Jabri, MALAYSIA

معايير تجّاج البنوك الإسلاميّة: تحليّل متعدد المعايير
Kamal Boussaﬁ & Faisal Shaya, ALGERIA

الحل الشرعي للتأمين على الحياة: دراسة في ضوء مقاصد الشرعية
Mukhtar Abubacker, MALAYSIA

FOYER CAFE
1.00 p.m - 2.00 p.m Lunch & Zuhr Prayer

MOOT COURT
2.00 p.m – 3.00 p.m Cross Border Practices: Roles and Responsibilities of Islamic Financial Centers and Alternative Dispute Resolution Institutions (PLENARY DISCUSSION)
Moderator : Dato’ Yasmeen Muhammad Shariff, Hajjar & Hajrudin
Speakers : Mr. Mohd Illias b. Seyed Ibrahim, Illias Advocate & Solicitor
           Assoc. Prof. Andrew White, Singapore Management University
           Mr. Rusdi Siddiqui, Thomson Reuters

3.00 pm – 4.00 pm Panel Discussion II: Shariah Governance and Auditing in Islamic Banking and Finance Practices (PLENARY DISCUSSION)
Moderator : Dr. Rusni Hassan, IIUM
Speakers : Dr. Syed Musa Al Habsi, UNIRAZAK
           Prof. Dato’ Dr. Samo Khotooub Moustaﬁha, Republic of Guinea
           Dr. Azman Hassan, IIUM
           Mr. Musa Abdul Malek, HSBC Amanah Malaysia Berhad

4.00 pm – 4.15 pm Presentation of Resolutions
4.15 pm – 4.30 pm Closing Remark by
- Director of Harun M. Hashim Law Centre
- Dr. Ghazi Ali Jaapar
- Dean of Wisconsin Law School, USA
- Kenneth B. Davis, Jr.
- Dean of IIUM Islamic Banking & Finance Institute
- Prof. Dato’ Dr. Mohd Azmi Bin Omar

FOYER, MOOT COURT
4.15 pm End of IBAF Conference & Refreshments
ISLAMIC BANKS VIS-À-VIS CONVENTIONAL BANKS: A CONSTRUCTIVE ANALYSIS OF PAYMENT OF ZAKAT AND CORPORATE TAX

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Abstract
This analytical research will evaluate the so called ‘double taxation’ duty of the Islamic banks in relation to payment of zakat as an Islamic obligation and corporate tax as an obligation towards the State. The incentive for the double taxation definitely finds its support in the concept of public interests whereby the corporate bodies are obliged to actively participate in wealth distribution through eradication of poverty and promotion of welfare and social responsibilities. However, from practical point of view, the double taxation of Islamic banks could put them in a very unfavorable position compared to conventional banks since they are obliged to pay only corporate tax. Moreover, the conventional banks are given right to engage into Islamic banking by operating Islamic divisions established under Banking and Financial Institutions Act (BAFIA) 1989 and yet many of them do not pay zakat because some of their shareholders are non-Muslims. This inequality has got to be changed. This policy will definitely harm the future implementation of Islamic banking and finance. The payment of zakat cannot be compromised as it is the core principle of the religion of Islam and thus, as such it should be enforced and duly paid by the banks in any circumstances. On the other hand the payment of corporate tax is the obligation made by the legislative body that could amend certain portions of it in order to ensure effective and prosperous implementation of both banking systems in the country. This research will propose the mechanism by which certain rebate in relation to corporate tax could be given to the Islamic banks that pay both, zakat and corporate tax.

In addition, Islamic financial institutions whose shareholders might not be Muslims, should be obliged to pay ushur, as was the practice during the Caliphate Umar r.a.

THE CONVERSION EFFECTS OF ISLAMIC UNIT TO FULL FLEDDGED SYSTEM ISLAMIC BANKS IN INDONESIA

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Abstract
The development of Islamic banks in Indonesia has a heartwarming story. It started from the establishment of Bank Muamalat Indonesia in 1992. This bank also faced a severe monetary crisis in 1998, in fact it could survive when many Islamic rural banks collapsed due to lack of management system and less government interferences. After Banking Act No. 10/1998 which permitted conventional banks to open an Islamic bank unit was issued, some conventional banks run the Islamic bank in units. After these units grew in a quite big size, some tried to convert into full fledged system. The process was the conventional banks as the owner spin their ownership off as a new subsidiary. Then, to boost the growth, they acquired existing conventional banks as an Islamic bank. This result is quite promising in the future. The paper tries to analyze the effects of this process to some proxies. They are deposits, total asset, the number of branches and stock price movement. Thus, the growth of these new full fledged Islamic banks may decelerate at the beginning phase but they can adapt and compete to the industry level after all. However, it needs a systematic and comprehensive education in Indonesia to be aware of Islamic bank so it can grow faster.

Keywords
Islamic bank, conversion, full fledged

TRANSITION OF ISLAMIC BANKS FROM DEBT-BASED MODES TO EQUITY-BASED FINANCING: ISSUES AND PROSPECTS

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Abstract
Equity financing seeks to achieve mutual sharing of risks pertaining to the enterprise and an equitable distribution of the return. Application of equity financing modes in Islamic banking is seen to be less developed, and configured in a manner that downplays their true potential. Some equity modes in vogue embody aspects more reflective of debt financing. Continued operation of these modes could not be expected to realise the fruits of Islamic economic ideals. To promote equity modes, some restriction should be introduced on the proliferation of debt-based schemes in areas of financing. Equity modes currently utilised could be further upgraded to ensure shari’ah compliance while realising their socioeconomic objectives. The aspect of existence and availability of capital at the formation of equity partnership would be reassessed, as considerable emphasis has been placed on it in Shari’ah. The mechanism employed by Islamic banks in deciding the ratio of profit sharing may require further refinement. Adopting an equity format could solve problems faced in debt-based project financing from an Islamic perspective, in addition to realising justice and fair play.