

Islamic Finance Glossary

'Ayn: a tangible or physical asset.

Bai': a sale.

Bai' al arbun: a sale contract with an earnest money deposit, (*'arbun*), which contains a condition that if the sale is completed the *'arbun* will be part of the sale price and if the sale is not completed then the seller can retain the *'arbun*.

Bai' al dayn: a sale of a debt.

Dayn: a debt or a liability to pay arising from a contract or credit transaction.

Dhaman: the taking on of a liability or responsibility (such as arising out of a guarantee). It is also used to refer to the guarantee itself.

Fatwa: in the context of Islamic financing, a pronouncement on whether a transaction is in compliance with the Shari'ah and issued by a Shari'ah scholar or by the Shari'ah Supervisory Board of an Islamic financial institution.

Fiqh: Islamic jurisprudence.

Gharar: has various interpretations but covers ambiguity, uncertainty, hazard and risk relating to the main aspects of a transaction.

Hadith: the sayings reported to the Prophet Mohammed (peace be upon him).

Halal: permitted by the Shari'ah.

Hamish jiddiyah: earnest money paid by a person who intends to purchase an asset and wishes to confirm his intention to do so by paying earnest money to the seller.

Haram: prohibited by the Shari'ah.

Hibah: a gift.

Hilah (Hiyal (pl)): using permissible or a combination of permissible means to reach forbidden ends. Tricks or ruses employed in structuring transactions to give the appearance that they are in compliance with the Shari'ah but with the real intention of violating the Shari'ah rules.

Ijara: a lease.

Ijtihad: the process of reasoning.

Ijma': consensus of scholars in relation to issues relating to the Shari'ah.

Istisna': a contract of sale of an asset that has yet to be manufactured or constructed.

Jahl or Jahala: lack of knowledge. This denotes a lack of knowledge or ignorance about essential contractual terms which in turn leads to *gharar*.

Kafalah: a guarantee.

Maisir: a game of chance or gambling – trying to earn easy money without having to provide equivalent consideration.

Maqsid: objectives of the Shari'ah.

Mudaraba: equivalent to investment trust management. A joint venture in which one party is the manager (*mudarib*), who provides his expertise and labour. The other party is the investor (*rabb ul-maal*), who provides his capital. Both parties receive a share of profits of the joint venture. In case of loss, *rabb ul-maal* loses his capital and the *mudarib* loses his labour and effort, unless the loss is caused by the negligent acts or omissions of the *mudarib*.

Mudarib: the person providing skill, expertise and labour in a *mudaraba* arrangement.

Mujtahid: a person qualified to interpret the sources of the Shari'ah to deduct rules of the Islamic law.

Murabaha: purchase of an item and its resale at a profit. The cost of purchase and the profit must be disclosed to the buyer. The payment of the purchase price by the customer of an Islamic financier, is generally deferred and paid either in one payment or in instalments.

Musha': undivided and inseparable. Commingled.

Musharaka: sharing. This can be in the form of a partnership. The partnership are divided into two main categories: a contractual partnership (*sharikat ul-'aqd*) or a co-ownership partnership (*sharikat ul-milk*).

Musharaka mutanaqisah: a diminishing partnership. A form of partnerships where the ownership ratio of the financial institution gradually decreases in favour of the customer, during the tenor of the financing.

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Qard: a loan which the borrower must return on or before the stated period. The lender can take a pledge, collateral to secure the return of debt but cannot stipulate an increase over the value of debt.

Qard al hassan: a virtuous loan. The lender does not insist on its return and leaves it to the borrower's discretion to return it when he has the ability to do so. It is something between giving charity or gift and giving a loan (*qard*).

Qiyaas: analogy.

Rabb ul-maal: the investors in a *mudaraba*.

Riba: usury. It includes interest because it is a stipulated increase in a loan.

Sarf: a contract in which both items that are exchanged are gold, silver or any monetary units.

Shari'ah: the divine guidance as given by the Holy Quran and the *Sunnah* of the Prophet Muhammad (peace be upon him) which covers all aspects of the Islamic faith including practice and beliefs.

Sharikat ul-'aqd: a partnership or joint venture formed by contract.

Sharikat ul-milk: co-ownership of an asset.

Sukuk: in the context of Islamic financing this means trust certificates evidencing the holder's pro rata share of the ownership of the underlying assets.

Sunnah: the sayings (*Hadith*), actions and affirmations of the Prophet Muhammad (peace be upon him).

Takaful: a form of Islamic finance based on the principle of mutual support and assistance.

Tasarruf: dealing in one's assets or someone else's assets.

Tawarruq: a transaction which generates cash now for more cash later through trade in goods, other than gold and silver. Usually it involves a deferred payment sale of goods by the financier to the customer at a higher price which the customer then sells to a third party for cash, thereby receiving cash now for more cash paid later to the financier.

Ummah: members of the Muslim community at large, regardless the differences in nationalities, origins, colour and languages.

Wa'd: a promise, such as is found in purchase and sale undertakings used in certain Islamic finance transactions.

Wakala: an agency contract.

Wakala istismar: an investment agency. The investment agent will be paid a pre-agreed service fee or commission with the investor being entitled to all of the profit.

Wakil: an agent.

Waqf: property dedicated to the benefit of a class of relatives, charities or other humanitarian purposes. There are three types – religious, philanthropic and family.

Zakat: a religious tax payable by Muslims based on their wealth.

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