

CHAPTER 15

Regulatory bodies

15.1 Introduction

A key goal of trade and enterprise under the Shari'a is to share wealth among the members of the community through moral business practices. In order to be considered Shari'a-compliant, a financial institution or transaction must meet the Quran's tenants against usury and uncertainty. Due to the achievements made during the last thirty-years by Islamic financial institutions (IFI), there has been a growing, albeit reluctant, participation in the securitization line of business. As a result, in addition to satisfying Shari'a-compliance requirements as stipulated by their advisory boards, Islamic financial products and services are now increasingly becoming subject to the rules and regulations imposed by certain regulatory bodies and industry-wide regulatory institutions which exist in connection with securitization. Regulations of Islamic financial services are developing as new Islamic finance structures are becoming more sophisticated, international and popular to investors and as regulators scramble to absorb the impact of the latest financial conditions.

15.2 Shari'a regulation in the context of Islamic Securitization Strategies

As international institutional investors and issuers have become interested in tapping into the increasing liquidity of the Middle East and North Africa (MENA), an essential requirement has been to familiarize themselves with a number of basic principles of Shari'a in order to fully understand and appreciate the strategic approach that IFIs have taken to invent sophisticated Shari'a-compliant products that also meet the standards stipulated by growing numbers of regulatory bodies and industry-wide regulatory institutions. Needless to say, such inter-

national investors and issuers view Islamic banking as yet another means to tap into the MENA wealth, but they are cognizant of the fact that they need to familiarize themselves with basic Islamic finance principles. These basic principles are set out below along with a description of how they relate to securitization transactions.

15.2.1 Riba

The prohibition of interest (riba) under Islamic law has historically prevented IFIs' involvement in asset backed securitization (ABS)¹. ABS has evolved tremendously in the non-Islamic world in various forms, for instance, interest-bearing credit and receivables (home equity loans, auto loans and credit card receivables) are the core asset classes financed through ABS and are a benchmark subsector for most floating rate indices. Profit and loss generation from ABS has traditionally been prohibited under Shari'a through the principal of riba. However, strategic developments created by IFIs and experts have provided a number of Islamic alternatives to ABS financial structures. Those financial structures permit the following assets to be securitized in accordance with Islamic law: (i) leasing contracts, (ii) equity interests, (iii) Islamic ABS in all of the above cases (sukuk), (iv) assets structured in accordance with mudaraba and wakala models, and (v) certain forms of sales contracts, provided that the underlying assets are Shari'a-compliant.

15.2.2 Gharar and Maisir

Secondly, uncertainty (gharar), and speculation or gambling (maisir) are banned under Islamic law, this prohibition results in risk being allowed only when it is shared among all parties and when all the terms and conditions of the transaction are clear and known to all parties.

¹ Please note Riba paragraph under the 'Haram' heading

The ban on uncertainty in the context of contractual terms and conditions is not, at least theoretically, far off from the approach applied to conventional products as this principal is usually self-governed by the parties themselves in order to limit unforeseen liability down the road.

The second implication under this principal is that no one participant should bare an unequal portion of the risk, profits and losses. This is the feature that sets Islamic financial products apart from their counterparts. The result is that conventional insurance securitization products are prohibited under Shari'a particularly in as far as issuers are made to guarantee fixed returns for lenders regardless of the actual performance or value of the underlying assets².

Takaful, an Islamic insurance concept that has been practiced in various forms for over 1400 years³ has become increasingly important to Islamic institutional investors wanting to invest takaful investment proceeds in sukuk and other Shari'a-compliant instruments without being accused of exposure to gharar or maisir⁴. Takaful is a system of Islamic insurance based on the principle of mutual assistance and voluntary actions where the risk is shared voluntarily and collectively by a group of participants. IFIs have created analogs to conventional insurance-linked products and securitization structures that incorporate the concept of takaful and are implemented through either a mudaraba (profit-sharing) model, or wakala (agency) model, or a combination of both. Mudaraba gives the right to the contracting parties to share the profit, while liability for losses is allocated among the participants; and under the wakala model, the takaful operator earns a fee for services rendered while liability for losses is borne by the participants. The fee may be varied based on the performance of the takaful operator. It can be a fixed amount or based on an agreed ratio of investment profit or surplus of the takaful funds. Takaful can provide insurance-linked cover against risks to the securitized assets, and takaful companies can also play an important role as investors in sukuk offerings.

15.2.3 Haram

It is a well-known fact that, certain sectors, known as haram, are banned under the Shari'a, such as industries that involve the sale of alcohol, pork or pornography. Like other investors, Islamic investors look for a diversified mix of investment products to add to their portfolios. But, before they buy, they must determine if a specific investment is permissible by evaluating its business activities and financial records to determine where its primary revenue⁵ comes from and how income and expenditures are managed.

This reasoning also applies to the Islamic prohibition on riba, or interest, as well. If a company's interest-based profits or holdings exceed certain limits, then investing in the company is forbidden. Even when these are found to be within tolerable limits, purification of earnings from these companies must take place which entails the investors donating any interest received, in contravention to Shari'a, to charity. Conventional investments do not have such restrictions or require-

ments, where such industries like the gambling industry attract wide appeal.

15.2.4 Tangible and identifiable assets as collateral

Finally, Islamic securities must be backed by a tangible and identifiable asset. Consequently, collateral coverage is usually higher for IFIs than for conventional banks and certain disclosure requirements are necessary in the transaction documents between IFIs and investors that are not required for conventional investments. The fact that Islamic principles restrict investments in companies that are highly leveraged served Islamic investors well in the recent global market crisis. For example, Amana Trust Income ('AMANX), an Islamic fund, easily made it into the top percentile of Morningstar's large-value category in 2009, while financial stocks tanked and battered the returns of Amana's competitors.⁶ The fund has returned 9.63% over the past year, -0.83% over the past three years, 5.92% over the past five years, and 5.64% over the past decade, making it into the top 8 funds in 2010 to invest in according to U.S. News and World Report.⁷ The fact that Amana Trust Income is barred from investing in banks or highly leveraged securities, regardless of how well or poorly they are performing ultimately saved them from the losses experienced by their conventional peers.

Growing awareness of and demand for investing in accordance with Shari'a principles on a global scale have been the catalyst towards making the Islamic financial services industry flourish. The challenge will be ensuring that the industry remains truly compliant with the spirit of Shari'a, such that IFIs express genuine willingness to assume the risk of the underlying assets as opposed to moving them off balance sheet and seeking balance sheet exposure through asset-backed-structures that do not necessarily adhere to the requirements and spirit of the Shari'a. If we also factor in the challenges which regulators need to tackle in order for there to be effective and timely formulation of standards, guidance or best practices where necessary, one can quickly begin to fathom the extent of the work that needs to be done. The good news is that numerous international and domestic initiatives have resulted in the development of global standards and benchmarks, as well as domestic regulatory schemes, which are discussed in the following section.

15.3 Regulation of Islamic financial products and institutions

We view the primary objectives of financial market regulation to include: (i) the pursuit of economic stability, translating into controls over the financial exchanges, clearing houses and securities settlement systems, (ii) transparency in the market and investor protection through equal treatment and disclosure requirements aimed to protect against inequitable dissemination of information, such as insider trading and market manipulation and (iii) to safeguard and promote competition in the markets, preventing concentrations, cartels and abuse of

² It should be noted that the issuance of conventional insurance-linked securities ("ILS") has shown a gradual, if sometimes uneven, growth that increasingly involves new risk classes. Recent innovations in ILS have provided insurers and reinsurers with ways to improve capital efficiency through more diverse use of capital markets. Further, there have been various technical advances in new structures and methodologies that express insurance risk in terms similar to capital markets, in addition to broadening of the investor base.

³ Omar Fisher and Dawood Y. Taylor, *Prospects for Evolution of Takaful in the 21st Century*. Copyright and reserved by Fellows and President of Harvard University, April 2000.

⁴ From the powerpoint presented by Dr. Ashraf Usmani on the Islamic Business Resources Centre website.

⁵ Primary revenue is usually classed as revenue of 5% or more.

⁶ Rob Silverblatt, "A Fresh Look at Socially Responsible Mutual Funds," *US News and World Report*, March 5, 2010.

⁷ Rob Silverblatt, "8 Great Socially Responsible Funds," *US News and World Report*, March 5, 2010.

dominant positions. Such objectives apply equally in the context of the economies of the Islamic world.

Over the last two decades, markets have truly become global—corporations, accounting firms, investment banking firms, law firms, and now stock exchanges—all have internationalized. The Islamic financial services industry, comprising Islamic banking, Islamic insurance and the Islamic capital market, is an area that has grown to become an increasingly substantial segment within the global financial market and has gained considerable interest as a viable and efficient alternative model of financial intermediation. Indeed, the pace of Islamic financial market development has gathered such momentum that various international Islamic organizations have been established to ensure that Islamic capital markets are appropriately regulated and that any gaps in regulation are identified early to safeguard investor interest and at the same time pave the way for the industry to evolve in an orderly manner. This step is important in ensuring harmonization and clarity required in order to ensure the Islamic financial market place receives the respect that it deserves. Improved regulation would also move towards avoiding criticism along the lines of Sheikh Muhammad Taqi Usmani's comments in 2007 that 85% of the current structures of Gulf sukuk do not comply with Islamic law⁸. The regulatory landscape of Islamic finance can be categorized in two separate categories. The first sets out international standards and norms agreed upon through the collaboration of industry leaders with expertise in Islamic finance. The second category relates to regulatory bodies within each country in which Islamic finance is practiced, each of which translates the international standards and norms of the first category into enforceable laws and regulation within the applicable jurisdiction. The first category is well established while the second category is still evolving. The following discussion covers the terrain of each category as of the date of this publication.

Category I: Organizations Responsible for Setting International Standards for the Regulation of the Islamic Financial Services Industry

15.3.1 The Accounting and Auditing Organization for Islamic Financial Institutions ("AAOIFI")

The AAOIFI⁹ has gained assuring support for the implementation of its standards, which are now adopted in the Kingdom of Bahrain, Dubai International Financial Centre, Jordan, Lebanon, Qatar, Sudan and Syria. The relevant authorities in Australia, Indonesia, Malaysia, Pakistan, Kingdom of Saudi Arabia and South Africa have issued guidelines that are based on AAOIFI's standards and pronouncements.¹⁰ Such standards have proven to be very useful not only for Islamic banking practitioners but also for professionals in the conventional banking world who seek a quasi-codified approach to the study of Islamic law as it pertains to their operations.

Needless to say, such reports, alone, do not have a binding nature, but the extent to which its findings and recommendation can be granted a binding force hinges upon the adoption of such findings and recommendation by the various capital markets authorities at the

national level.

The industry should actively lobby the regulators to adopt common standards throughout Islamic markets where Islamic banking is popular. In particular, a number of jurisdictions which traditionally are not considered to be Islamic banking power-houses are studying the merits of developing a securitization market and issuing sovereign sukuk, and efforts like those of AAIOFI and other organisations can constitute a good starting point in this aspect.

15.3.2 The Islamic capital markets Task Force of the International Organization of Securities Commissions ("IOSCO")¹¹

In recognition of the increasing size of, and growing investor interest in the Islamic financial services industry, and the potential implications it may have on financial stability and investor protection, the IOSCO Executive Committee¹² mandated the formation of an Islamic Capital Market Task Force to assist relevant regulators in assessing the extent of the development and potential regulatory issues relating to the Islamic capital market, as well as to gather information on Islamic financial products and activities.¹³ While Islamic banking is the oldest and most developed part of the Islamic financial system, there is great potential for the Islamic capital market as the industry matures and holdings of financial assets gradually transfer from the Islamic banking sector to the Islamic capital market. As has been the experience with burgeoning fast-growing markets, the Task Force report focused on the various regulatory issues that needed to be assessed on a timely basis in the Islamic capital market to ensure the protection of investors, the reduction of systemic risk and reflection that markets are fair, efficient and transparent.

The Task Force was comprised of 11 IOSCO members spread across 5 regions. The Task Force was chaired by the Securities Commission of Malaysia. Other national regulatory systems represented on the Task Force included the Australian Securities and Investments Commission, the Indonesian Capital Market Supervisory Agency, the Jordan Securities Commission, the Nigeria Securities and Exchange Commission, the Financial Services Board of South Africa, the Thailand Securities and Exchange Commission, the Capital Markets Board, Turkey, the Italy Commissione Nazionale per le Società e la Borsa, the United Kingdom Financial Services Authority, and the United States Securities and Exchange Commission.

The work of the Task Force and the report generated was built upon gathering information from IOSCO members and external parties with expertise in the Islamic capital market, and to undertake an in-depth analysis of the information obtained. The report identified specific industry issues covering both regulatory issues as well as public and private sector initiatives within IOSCO members' jurisdictions to accelerate the growth of the Islamic financial services industry. The report represented the first jurisdictional comparison of practices and approaches on Islamic capital market regulation.

16.3.3 The Islamic Financial Services Board ("IFSB")

⁸ 'Sukuk Issues and the way forward' by Tan Wan Yean.

⁹ An independent international organization, AAOIFI is supported by institutional members (200 members from 45 countries, so far) including central banks, Islamic financial institutions, and other participants from the international Islamic banking and finance industry, worldwide.

¹⁰ AAOIFI standards are available on AAOIFI's website, <http://www.aaofi.com/>.

¹¹ The IOSCO seeks to protect investors, address systemic risks, increase investor confidence and otherwise develop the securities market by implementing regulation among other methods.

¹² The Executive Committee takes all decisions and undertakes all actions necessary to achieve IOSCO's objectives.

¹³ The IOSCO mandated formation of the Islamic Capital Market Task Force at the 2002 IOSCO annual conference and meetings held in Istanbul, Turkey.

The IFSB,¹⁴ established in November 2002 in Kuala Lumpur, serves as an association of central banks, monetary authorities and other institutions that are responsible for the regulation and supervision of the Islamic financial services industry. The IFSB is expected to play a significant role in developing international prudential and supervisory standards and best practices for Islamic financial institutions.

The IFSB has developed two prudential standards for the Islamic financial services industry, namely capital adequacy and risk management standards. These standards were issued in 2005, and addressed the identification, classification, measurement and reporting of the risks for Islamic financial institutions. The IFSB is planning to develop standards on corporate governance, transparency and market discipline.

15.3.4 The International Islamic Rating Agency (“IIRA”)

The Islamic Development Bank (IDB) established the International Islamic Rating Agency in Bahrain in October 2002. The IIRA was established to rate, evaluate and provide independent assessments and opinions on the likelihood of any future loss by Islamic financial institutions as well as their products and services. IIRA also assesses the Shari’a-compliance aspects of Islamic financial institutions and Islamic financial products and publishes the data and information relating to rated entities and financial instruments to the public. In addition, IIRA has introduced a set of rating products and services to foster greater Shari’a transparency, for both financial products and their issuers.¹⁵

In August 2010, the IIRA joined hands with Dinar Standard, USA, to release a research report on the Pulse of the OIC (Organization of Islamic Conference member countries) Islamic capital markets. The research was conducted by selecting 28 major OIC markets based upon a combination of quantitative and qualitative assessment of data sourced from Dinarstandard.com and referenced third party sources. The report summarizes the current state of Islamic capital flow within its core OIC markets and covers three representative sectors: the stock markets of the OIC countries, the industry segment of sukuk and the Islamic Funds market.¹⁶

Category 2: Domestic Regulatory Bodies and Institutions Implementing Standards and Norms through Rule Making and Enforcement

15.3.5 Malaysia

In August 2006, the Malaysia International Islamic Financial Centre (MIFC) initiative was launched to promote Malaysia as a major hub for international Islamic finance. Malaysia has the distinction of being the world’s first country to have a full-fledged Islamic financial system operating in parallel to the conventional banking system.¹⁷

Malaysia’s central bank has tightened Shari’a rules for Islamic banks by requiring them to set up Shari’a review, audit and risk management functions to reinforce compliance. Rules for standardizing Islamic financing structures such as ijara, mudaraba and musharaka are

expected to be seen by the end of 2010.¹⁸

Malaysia also has a national Shari’a council whose financial rulings are used throughout the country’s Islamic financial institutions. Some critics, however, have often maintained that the Malaysian Islamic banking industry is too liberal in their interpretation of Shari’a and allow products to mimic conventional banking. Such a view has lost part of its appeal seeing that the Malaysian model withstood the test of the credit crunch as evidenced by the manner by which its capital markets have proven resilient to such events. In fact, the Malaysian model is attracting a growing degree of appeal among Shari’a practitioners in other jurisdictions particularly those concerned about possible conflict of interest issues embedded in other regulatory and compliance models, or who believe that Shari’a scholars may be over-stretched and that a combination of a track record of successfully closed capital markets transactions and dedicated Shari’a boards may mitigate such a challenge.

15.3.6 Bahrain

In 2006, Bahrain enacted the Central Bank of Bahrain and Financial Institutions Law (CBBL) that created the Central Bank of Bahrain (CBB) and vested in it all authority and responsibilities of financial sector supervision. The CBB asserts that it practices supervision in accordance with the Objectives and Principles of Securities Regulation developed by the IOSCO.¹⁹ It further states that the CBBL provides enhanced enforcement powers to the CBB and reinforces its operational independence, and also spells out insider trading as an offence. The 2008 annual report of the CBB adds that the review and development of the regulatory framework related to the capital markets are based on the International Monetary Fund Financial Sector Assessment Program recommendations as well as the IOSCO Principles.²⁰ The CBB became a signatory to the IOSCO Multilateral Memorandum of Understanding in 2008 signifying that it has the legal capacity to share supervisory information with other regulators.

It is noteworthy that the CBB was the first to make AAOIFI standards mandatory for all Islamic institutions. This is a prime example of how the status of such can elevate into being part of the law of the land. The CBB also has rules covering capitalization, risk management, financial crime and disclosure and is pushing to train Shari’a scholars to aid industry growth.

15.3.7 UAE

Securities regulation in the United Arab Emirates (UAE) is a potential source of confusion for investors and financial institutions. Generally speaking, there are two different regulatory schemes and three regulators.

Historically, the regulation of securities trading has been the domain of the UAE Central Bank. The Emirates Securities and Commodities Authority (ESCA) was created in 2000, after which the Central Bank and ESCA served as the two regulators under the federal regulatory scheme.

A separate regulatory scheme exists in Dubai in the

¹⁴ The establishment of the IFSB in November 2002 was supported by the International Monetary Fund.

¹⁵ Information on the IIRA can be found at <http://www.iira-rating.com>.

¹⁶ The detailed research report containing analysis, ratios and statistics can be downloaded from the IIRA website, www.iira-rating.com, under the research reports section or at www.dinarstandard.com/oicpulse.

¹⁷ Ahmad, A., “Towards an Islamic Financial Market, A Study of Islamic Banking and Finance in Malaysia” Research Paper No 45, Islamic Research and Training Institute, Islamic Development Bank, Jeddah.

¹⁸ Pasha, Shaheem, “Factbox-Islamic finance regulations around the world,” *Reuters*, May 10, 2010.

¹⁹ See <http://www.cbb.gov.bh>

²⁰ For more information, go to http://www.cbb.gov.bh/page.php?p=reports_and_papers.

Dubai International Financial Centre (DIFC), a financial “free zone” which has a separate legal and regulatory authority separate from the rest of the federal scheme. The regulator in the DIFC is the Dubai Financial Services Authority (DFSA) which ensures, among other things, that licensed entities comply with the procedural requirements set forth in the fatwa²¹ relating to their operations such as ensuring that the Shari’a board members continue to be engaged and that the fatwa is up-dated on an annual basis. More substantively, Islamic finance companies within the DIFC are expected to adhere to AAOIFI guidelines and Islamic banking activities are still guided by the UAE Central Bank. The appointment of Shari’a committees at these companies depends on the approval of the Ministry of Islamic Affairs.

15.3.8 Saudi Arabia

The Capital Market Authority (CMA) was established in July 2003 under the Capital Market Law by Royal Decree No. M/30. The CMA is now the sole regulator and supervisor of the capital market, and is composed of a five-member governing board, and a Committee for the Resolution of Securities Disputes. The CMA has legal and administrative independence, and reports directly to the Prime Minister. It also supervises the Saudi Stock Exchange, better known as Tadawul, an electronic share trading system, which includes a Securities Deposit Center. The formation of Tadawul as a joint stock company was formally approved in March 2007 pursuant to the Capital Market Law.

Saudi laws, by definition, are required to adhere to Shari’a so the Saudi Arabian Monetary Agency makes no differentiation between conventional and Shari’a-compliant banking. The kingdom is in the process of enacting its first Shari’a-compliant mortgage law which is expected to fuel more Islamic home finance in both individual and corporate arrangements.²² While the sukuk market in Saudi Arabia has only recently gathered momentum, many practitioners are of the view that the Saudi mortgage law will play a major role in sukuk issuances this year given the expected high focus on infrastructure buildup following the law’s passage.

15.3.9 United Kingdom

The Financial Services Authority (FSA) governs the regulation of Islamic finance in the United Kingdom. The Financial Services and Markets Act of 2000 (FSMA) applies equally to Islamic financial products and transactions as it does their conventional counterparts. The UK has also introduced legislation to provide relief from capital gains tax and stamp duty land tax for sukuk issuances and Shari’a-compliant home mortgages. Value added tax, however, remains a concern.

In August 2010, the first sukuk was issued to gather finance for a European corporate. The company in question is the maker of industrial milling machines in north-east England and the investor is DIFC based and Shari’a-compliant²³. A musharaka structure, also known as profit and loss sharing model was used. Despite the financing having only raised £10,000,000, this is a promising insight into the potential that Islamic finance has for non-Islamic countries through offering a further

diversified investor base than what previously seemed available.

15.3.10 United States of America (“USA”)

The Securities and Exchange Commission (SEC) is the federal securities regulator of the United States. All securities, whether Islamic or conventional, are subject to SEC enforcement under the Securities Act of 1933 and the Securities Exchange Act of 1934.

Islamic finance in the United States is largely confined to allowing for Shari’a-compliant mortgage products for ijara or murabaha structures. Under regulatory rules, a bank must be a lender, which inhibits the development of standalone Shari’a-compliant institutions.

U.S. federal banking regulators have provided some formal guidance about Islamic products. The Office of the Comptroller of the Currency (OCC) issued two directives concerning Shari’a-compliant mortgage products. In 1997 and 1999, respectively, the OCC issued guidance about ijara and murabaha structures.

To date, five sukuk offerings have already been issued by USA issuers one sector being oil and gas (as demonstrated by the sukuk issued by the East Cameron Gas Company which was the first ever USA sukuk and the first asset backed securitization²⁴). Further, University Bank in Detroit among other USA banks is offering Shari’a-based banking and in early 2009 University Bank was showing successful growth²⁵.

15.3.11 Other

As indicated above, the evolution of a robust Islamic banking industry is not always a factor of whether a country is constitutionally Islamic or is, for example, a member of such organizations as the Organization of Islamic States or the IDB. Some Islamic countries like Indonesia adopted a law last year removing double taxation on Islamic instruments as recently as April 2010. Given the fact that it is the world’s largest Islamic country by population, such development is substantial by all accounts. Turkey also is reported as issuing its first sukuk. The transaction was well oversubscribed which indicates investor’s interest in Islamic products in novel geographical locations. Other non-Islamic jurisdictions have also embraced Islamic banking in some shape or form. For example, Luxembourg is promoting itself as a haven for sukuk and Islamic investment funds and has signed tax treaties with the UAE, Qatar, Kuwait and Bahrain. In addition, currently Islamic investors enjoy no double stamp duty, no wealth tax and no liability to Luxembourg tax on profits and income. While, Luxembourg or Ireland, which has also taken a number of steps to attract Islamic investors, view this trend as a continuation of their efforts to attract global investors to use them as banking hubs, countries like the United States, United Kingdom and, very recently, Australia view this as a means to provide a level playing field for their Muslim population but also to be competitive in attracting foreign direct investments.

15.4 Conclusion

²¹ A fatwa is an Islamic religious ruling by Shari’a scholars regarding the transaction’s compliance with Islamic Law.

²² “Saudi mortgage law to boost property sector,” *Emirates* 24-7, November 10, 2011.

²³ AME.info, “Millennium Private Equity invests in International Innovative Technologies Ltd via first corporate sukuk in Europe” 30 August 2010

²⁴ Islamic Finance Asia, “Fate of Maturing Paper” November 2010

²⁵ Islamic Finance Asia, “Can Islamic Finance Help Ease US Woes?”, February/March 2009

The lack of concurrent viewpoints makes it difficult to standardize Islamic financing.²⁶ The international dimension which many Islamic financings are subject to also results in complete harmonization being difficult to achieve. Many observers correctly view standardization of Islamic finance regulations as important in increasing the marketability and acceptance of Islamic products. As is evident, international institutions have been established to promote international consistency in Islamic finance. Many leading Islamic financial centres around the world have adopted international Islamic finance regulation standards, but the need for implementation of standards on local levels continues.²⁷

Whilst it is recognized that the need for harmonization is an important and desirable aim and efforts must be continued to work towards further achieving a more complete harmonization of the Islamic finance system, it is worth being aware that the certainty and other benefits that harmonization would bring are not the sole concern of those already involved or considering becoming involved in Islamic financing. Islamic financing can and will continue to be a successful method of financing due to its proven track record as a practicable method capable of rivaling conventional alternatives but with added inextricable interlinking with morality. Such an inherent moral aspect can be claimed as being the key feature attracting the arguably more conscious current and future generations. However, this should not be taken for granted, the industry should put more efforts into ensuring that the securitization products it is sponsoring are true to the spirit of Shari'a investment guidelines and to invest in the type of research and analytical technologies that would allow it to conduct due diligence and value assets in sectors that require special expertise like energy, healthcare and technology. Additionally, regulators should adopt the type of regulations that would allow them both to encourage but also to monitor the Islamic securitization industry.

²⁶ "Islamic Banks: A Novelty No Longer," *Business Week*, August 8, 2005.

²⁷ "Watchdog is developing governance standards," *Misr Information Services and Trading News*, July 28, 2008.