Editor's Notes

The Islamic finance industry in the United States has been developing in several areas over the past 25 years. Much of the attention paid to this development has focused on the growth of retail financial products like mutual funds and Shari'ah-compliant alternatives to conventional mortgage products. Far less attention has been paid to the areas of Islamic finance in the United States that deal with wholesale investments—investments designed for the needs of institutional investors. The wholesale investment market has largely, but not exclusively, been established to provide Shari'ah-compliant investment opportunities for global investors, particularly those in the Gulf Cooperation Council (GCC) countries in the Middle East.

The development of Shari'ah-compliant investments using money from the Middle East began almost completely under the radar with individual deals structured so that investors were not engaging in any non-Shari'ah-compliant investments. Only later were investment funds created to provide broader diversification for investors. More recently, two U.S.-based companies entered the sukuk market as a way to diversify their funding sources. Both companies did so for financial, not religious, reasons.

Alongside this growth in the Islamic finance industry several domestic companies emerged, some as subsidiaries of Gulf-based Islamic banks and some as standalone companies, to provide structuring advice, Shari'ah advice, investment screening, and investment advice for Islamic finance, both on a retail level and an institutional level.

The Islamic finance industry in the United States is best known for Shari'ah-compliant home finance products and the development of mutual funds. The U.S. is home to Amana Mutual Funds, whose Income and Growth funds are the two largest Islamic mutual funds in the world according to Failaka. However, the more significant area of Islamic finance in the U.S. has largely flown beneath the radar. During the past several decades a number of Muslim investors, primarily from the Middle East, have looked to the United States as a destination for investing their surplus (mostly petrodollar-related) capital and a portion of this has been invested in Shari'ah-compliant investments.

These investments have been largely, but not exclusively, in real estate. There are individual project investments, investment funds, and wholly-owned subsidiaries of Middle Eastern banks. In addition to these real estate investments, there have been several subsidiaries of Middle Eastern Islamic banks set up to operate in the private equity and venture capital areas within the United States. Although these different investments have stretched back several decades, like the Islamic financial industry, their breadth has expanded rapidly in the past decade.

The Islamic finance industry in the United States has developed relatively slowly, both in the wholesale and retail areas. However, several institutions based in the Gulf have footholds within this market and appear to be re-entering with new investments following the financial crisis that began in 2007. Several institutions with the largest footprints across the United States are either maintaining their investments or re-entering the market with new investments in real estate.

However, despite the continued presence of several Gulf-based banks and domestic companies, there remain significant gaps in the industry. One of the largest is the near total lack of Shari'ah-compliant investment opportunities targeting U.S.-based institutional investors. The two sukuk that have been issued by U.S.-based companies were both closed to U.S. investors to enable them to take advantage of the Regulation S exemption from registration under the Securities Act of 1933.

This could indicate that there is not sufficient demand from within the U.S. to warrant issuing products under the Rule 144A exemption. However, there have been several sukuk issued globally that have used Rule 144A instead of Regulation S, including two during 2009. This could indicate that we should expect sukuk issuance from other U.S.-based companies, but few are expected in the near term. This mightbe a sign that the concept of sukuk is viewed as a foreign onethat intrigues institutional investors enough that they will invest in foreign-issued sukuk, but is not viewed as mature enough to create a reliable source of demand among institutional investors within the United States.

There may also be some feedback from the small retail Islamic finance industry that limits demand for sukuk. Some of the largest investors in sukuk globally are takaful companies and Islamic banks, both searching for Shari'ah-compliant fixed income alternatives to hold on their balance sheet alongside their other assets. The U.K., in contrast to the United States, has five Islamic banks: 1 retail bank and 4 wholesale banks. In the U.S., there is 1 retail bank (a subsidiary of a conventional bank) and 0 wholesale banks. There is one provider of takaful, AIG, and its Islamic finance business is headquartered outside of the United States. Other large banks in the United States are also involved with Islamic finance, but those activities are based in regions of the world with larger domestic Islamic finance industries.

The consequences of this may be relatively benign for the Islamic finance that does occur in the U.S., where interaction with Islamic finance is either done overseas or in a passive way as a destination for Shari'ah-compliant investments. However, it is likely that the lack of infrastructure for Islamic finance within the United States will limit the role the U.S. can play in the Islamic finance industry as a whole. The role of Western capital in Islamic finance, at least for the time being, seems likely to be driven by London, Singapore, or Hong Kong instead of New York.

One area where this could have a significant impact is the retail investment prospects for the estimated 8 million Muslims living in the United States. As we have described, one of the areas where retail Islamic finance has intersected with capital markets is mutual funds and exchange-traded funds. These funds, however, have entirely consisted of equity funds. For many Muslims saving for retirement using Shari'ah-compliant investments, an entire asset class is no-nexistent. With so few options for engaging with the Shari'ah-compliant financial system available, there is little natural demand created by the limited familiarity that exists in countries like the U.K. for the types of institutions that will encourage a deepening wholesale Islamic finance industry to develop.

The first paper by Professor Kazem Sadr highlights the profound transformations that occur in ribawi financial systems when an Islamic conception of property rights is adopted. The nature of financial transactions changes, financial markets undergo structural transformation, and money, capital, and financial assets acquire new jurisprudential status. Banks' relationship with both their clients and the Central Bank will be altered,resulting in different macroeconomic policies and a more effective transmission mechanism. Further, the financial and real sectors of the economy will be integrated and sustainable.

The second paper by Professor Bijan Bidabad is about a financial product,Joalah Financial Sharing (JFS), that paves the way for financing the working capital of productive firms. JFS is a financial subsystem of the Rastin Profit and Loss Sharing (PLS) banking system and in this regard, its instructions, organization, working procedures, electronic structure, contracts, and forms work under the Rastin PLS banking Base System rules and regulations. In JFS, banks, by obtaining a commission, work as monetary intermediates for providing capital management services to productive activities of firms and engaged clients.The new financial innovation of "Future Certificate," which can create major developments in increasing the efficiency and stability of money and financial markets,is proposed in JFS. The financier of a specific project will receive a digital "Future Certificate" which can be transacted in the Rastin Certificate Market of the bank on the internet. "Future Certificate" prevents un-real paper market formation. At maturity, the latest owner of the certificate will be the owner of produced goods of the productive firm, and after deliverance, the corresponding certificate is closed.

The third paper by Dr. Muhammad Hanif delves into accounting comparisons between Islamic and conventional accounting systems. Financial reporting is a very important aspect of any business as it determines the financial rights and liabilities of the parties involved. With the advent of Islamic finance the issue of financial reporting as per Islamic law was raised, which was then addressed by the Accounting and Auditing

Organization of Islamic Financial Institutions (AAOIFI). There exist differences as well as similarities under both conventional and Islamic regimes of accounting. As in many countries, relevant changes in laws enabling the application of Islamic accounting have yet to be made, hence Islamic Financial Institutions (IFIs) in those countries are bound to follow conventional accounting standards. This study is intended to highlight the financial issues emerging due to the application of conventional accounting standards in Ijarah accounting by IFIs. A comparison of two accounting standards, IAS-17 and FAS-8, as well as their implications is discussed. We found that, although an informed effort is being made by experts in Islamic finance to match their revenue and cost to customers with that of the conventional financial industry, contracts of leasing and Ijarah carry more financial, legal, and accounting differences than similarities. Thus, the application of conventional lease accounting is not appropriate for an IFI.

The fourth paper by Shamim Ara is a comparative efficiency analysis of Islamic and conventional banking in Bangladesh. Islamic banking (IB) has been functioning for the past three decades while Conventional banking (CB) has been operating long before that in Bangladesh. IB, which was developed with Islamic law and order in mind, contrasts with CB, which operates on normal banking criteria (interest-based). A comparative study of CB and IB has been performed in this study. The data are collected from 19 banks (CB) and 5 banks (IB) from each banks' annual reports (2004-2008). Cost and profit are used as outputs and deposit, loans/investment, price of fund, price of capital, price of labor, branches, employees, depositors, investors, and years of operation are considered as inputs. Using SFA, the overall PE of CB and IB are 0.68 and 0.92 while CEs are 0.88 and 0.75, respectively. The analysisshows that PE for CB and CE for IB are expected to provide significant insights to policy makers and management contemplating the optimal utilization of capacities and resources in Bangladesh.

The fifth paper by H. Ali Ata and Mehmet Fatih Buğan examines banking efficiency in Turkey.

In recent years, Islamic finance has garnered much attentionin Turkey. Islamic banking has an important role in the injection of savings into the economy and in the rapid and efficient transfer of resources. Therefore, the objective of this study is to determine the factors that play a role in the efficiency of conventional and participation banks that operate within the Turkish banking system. For this reason, bank efficiencies were first measured with the help of Data Enveloping Analysis (DEA) and then factors that affect bank efficiency were determined by using the Tobit regression model. This study concludes that the factors that affect the efficiency of banks are asset size and net interest margin.

The sixth paper by Ibrahim Mohammed Lawal examines the role of Security (Collateral) in Islamic banking. Security is also called Arrahn in Arabic and has occupied a large

space in the business of lending engaged in by financial institutions. This study's purpose is to examine the permissibility of collateral and its types under the Islamic banking system. This study reveals that Shari'ah, which is the basis upon which Islamic banks operate, permits the acceptance of collateral for lending and such collateral must not be prohibited by the Shari'ah. Arrahn, in the parlance of Islamic banking, can be used in two ways: as a marhun (pure security) or as an instrument to facilitate micro-financing. This study concludes that despite the fact that collateral is clearly allowed by Shari'ah, it should not be a primary criterion for lending, as it is in the conventional banking system, in order to better fit the economic reality and achieve the objectives of Islamic economies.

The seventh paper by Owalobi and Shirazi is on regulation of Islamic microfinance institutions. Member-owned Islamic microfinance institutions have been lauded as the most promising alternative means of financial inclusion among Muslims who are voluntarily excluded from participating in traditional member-owned microfinance institutions because of the interest they charge. This novel idea is still new and little is known about its operations and the regulations guiding them. This paper surveys the practices of the common member owned Islamic microfinance in Sub-Saharan Africa with a view of recommending a regulatory framework for its operations based on these practices. This paper, thus, proposes a number of regulations for the operation of both Islamic Saving Groups and Financial Cooperatives. It is hoped that these proposed regulations will assist operators, policy makers, and donor agencies to chart a way of improving the financial inclusiveness of the poor, who are excluded from benefiting from the available member-owned microfinance institutions, with a view to lift them out of poverty.

The eighth paper is by Nurul Aini Mohamed. The role of firms in fulfilling the needs and demands of stakeholders is the landmark of the Stakeholder Theory. Profit maximization under monetary rewards should not be the main objective of firms. This idea is contradictory to what has been detailed earlier in the well-known Agency Theory, which assumes the primary obligation of a firm is to maximize shareholders' wealth. These two positions give rise to the main idea within the conventional perspective of firms. With regards to this concern, the paper focuses on tiers of relationship of three main parties, namely stakeholders of institutional investors, institutional investors, and investee companies. Specifically, it aims to identify the roles of institutional investors from an Islamic perspective, taking into consideration their position as intermediaries between their own stakeholders and investee companies. The focus on institutional investors and their outstanding roles in the present context will be clarified from the contractual obligation under the Islamic framework, and this will be extended beyond the discussion in the Agency Theory and Stakeholder Theory. This paper theoretically explores the role of institutional investors in the business environment and proposes

a way for them to most effectively manifest their responsibility towards stakeholders under an Islamic framework.

The ninth paper by Saif Siddiqui and Safika Sheikh is on Shari'ah stock in India. We attempted to reveal the co-movement and to model the risk and return of the NIFTY 500 and NIFTY 500 Shari'ah of the National Stock Exchange of India, with reference to global financial and euro zone crises. Closing prices from 1st January, 2007 to 30th April, 2015 are used to empirically measure the time varying effects. The sample is divided into six periods. Johansen Co-integration, Vector Auto-regression, and Granger Causality are calculated. GMM and E-GARCH Models are also employed. Shari'ah indices earned a higherreturn in only half of the periods, but are less volatile. The tests do not show any long term association and causality between both indices. The NIFTY 500 is affected by its own lag, but does not affect its Shariah counterparts. The Euro and US dollar both are significant to estimate returns, except in some cases. Both indices show leverage effects. This study is done with limited objectives and a limited time period. Results may vary with other indices and time periods. This study will help portfolio managers and investors in the revision of their portfolios as they look to reduce the risk of their portfolios and earn relatively higher returns. As the NIFTY 500 does not share any long term or short term relation with the Shari'ah Index, so it is recommended for diversification even in crises.

The tenth paper is on Bahrain by Sutan Hidayat and Suliman Alhur. This study aims to measure depositors' awareness on the corporate social responsibilities (CSR) of Islamic retail banks in Saudi Arabia. A survey questionnaire filled out by 100 Islamic bank depositors was used to determine the level of their awareness regardingthe pursuit of CSR of banks in terms of various issues. The questionnaire was developed based on the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI)"s Governance Standard No. 7: Corporate Social Responsibility Conduct and Disclosure for Islamic Financial Institutions. The study finds a relatively low level of depositors' awareness towards CSR activities of the banks. The level of depositors' awareness also varies significantly when depositors are grouped according to their respective banks; here, Al-Rajhi Bank was found to have the most aware depositors. The study fills the gap in the literature on CSR of Islamic banking. The findings of the study can be used as input for policy makers in the area of CSR of Islamic banks. This study recommends that the Islamic retail banks in Saudi Arabia intensify their efforts to make their depositors more aware of the CSR programs and activities undertaken by them.