

## Level 4 Award in Islamic Finance and Banking



International  
Qualifications from EDI

### Syllabus

Effective from 1 January 2012



## **INTRODUCTION**

Educational Development International (EDI) is a leading international awarding body that was formed through the merger of the London Chamber of Commerce and Industry Examinations Board (LCCIEB) and a leading online assessment provider GOAL. EDI now delivers EDI and LCCI International Qualifications (LCCI IQs) through a network of over 5000 registered centres in more than 120 countries worldwide. Our range of business-related qualifications are trusted and valued by employers worldwide and recognised by universities and professional bodies.

### **Level 4 Award in Islamic Finance and Banking**

#### **Aims**

The aim of this qualification is to provide candidates with an introduction to Islamic finance and banking. They will review the fundamental principles underlying Islamic finance and learn about the main Shariah-compliant financial instruments. They will be introduced to the main operations of Islamic banking and learn about Islamic contracts and Islamic bonds. Their study will include practical applications of Islamic financial principles including those involving calculations.

The unit within this qualification is accredited in the UK as EDI Level 4 Award in Islamic Finance and Banking (QCF) 600/4244/8. The qualification has a credit value of 10.

#### **Objective: Target Audience and Candidate Progression**

This qualification is suitable for candidates who wish to develop their knowledge and understanding of the Islamic financial sector.

This qualification would suit a candidate working in a financial environment, who wishes to progress into a specialised role within Islamic banking or other Islamic finance products. This qualification also forms part of the Level 4 Diploma in Accounting and Finance, and can be taken as a pathway into higher education.

## Structure of the qualification

The Level 4 Award in Islamic Finance and Banking is a single unit qualification and consists of the following topic areas:

Topic areas	Approximate weighting of question allocation
1 The fundamental principles of Islamic finance and banking	25%
2 The Islamic law of contract	25%
3 The application of Islamic financial instruments	25%
4 The function of Sukuk	25%

## ASSESSMENT

This qualification will assess the candidates' knowledge, skill and understanding of each of the syllabus topic areas.

### Learning Outcomes

- Understand Islamic finance and the fundamental principles of Islamic banking
- Understand the Islamic law of contract
- Understand how Islamic financial instruments are applied
- Understand the function of Sukuk

### Assessment Method

The assessment method for this qualification has been designed to provide an appropriate and fit-for-purpose assessment of a candidate's ability to achieve the assessment criteria. It has been levelled to match level 4 of the Qualifications and Credit Framework, the qualifications framework for England, Wales and Northern Ireland.

This qualification is assessed by a written examination paper and available On Demand. The paper will be marked out of 80 and will consist of four questions with 20 marks for each question. All four learning outcomes, listed above and shown in greater detail within the syllabus topic area, will be covered in an examination paper.

Candidates must answer all four questions. Questions will be presented in the form of a business situation, problem or issue with task(s) to be completed. The time allowed for the examination is 2 hours.

All examinations must be carried out in accordance with the *Examination Guide for LCCI Centres* and the *Examination Regulations*, which will be sent to centres with the examination papers.

## **Answer Format**

Candidates will be asked to provide answers in the form of calculations, short reports, briefing sheets, fact sheets, short notes, diagrams or charts, bullet points or short paragraphs/essay style. Some questions may ask for relevant examples to be provided. Appropriate business language should be used and any relevant charts, diagrams or tables should be properly labelled.

## **Mark Allocation**

A positive marking approach is used. Marks are not deducted for incorrect answers, nor for spelling and grammatical errors.

## **Certification**

Successful candidates will be awarded the Level 4 Award in Islamic Finance and Banking, and certificates will be issued based on the grades shown below:

Pass	50%
Merit	60%
Distinction	75%

Centres will receive certificates within a maximum of 6 weeks of the receipt of the scripts at EDI.

## Level 4 Award in Islamic Finance and Banking

Learning Outcome	Assessment Criteria	Indicative Content
<i>Candidate will:</i>	<i>Candidate can:</i>	<i>Taught content:</i>
Topic 1: The fundamental principles of Islamic finance and banking		
1 Understand Islamic finance and the fundamental principles of Islamic banking	1.1 Define the principles on which Islamic finance is based	Learners will develop their understanding of sources of Islamic Law, for example primary sources (Quran and Sunnah) and secondary sources (Ijtihad and Ijma).
		Learners are required to demonstrate their understanding of the role of authorities able to interpret the Quran and Sunnah, including The Islamic Fiqh Academy and the Shariah Boards of Financial Institutions.
	1.2 Describe the notion of Islamic finance and its ethical foundations	Learners will be able to explain the ethical underpinnings of Islamic finance and terms like Waid and Muwaada.
		They need to understand the basic principles of profit and loss sharing, the sanctity of contracts and necessity for contracts to be Shariah approved.
	1.3 Differentiate between Islamic and conventional banking system	Learners must be able to describe the differences between conventional and Islamic banks. This will include knowledge of ethical and moral dimensions and prohibitions in Islam.
	Learners will need to be able to describe the basics of financial intermediation. This will include the services, such as bank accounts and consumer loans, offered by commercial banks and other financial institutions.	
	1.4 Differentiate between the key Islamic regulatory bodies	Learners will be able to compare the roles of regulatory bodies including the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) and the Islamic Financial Services Board (IFSB).

## Topic 2: The Islamic law of contract

2. Understand the Islamic law of contract	2.1 Identify and explain the major prohibitions in Islam (Riba and Gharar)	Learners will be able to explain why Riba ('interest') is prohibited and to explain the differences between Riba al-Naseeyah and Riba al-Fadl. They will explain the nature of Gharar ('uncertainty'), its cause and its implications for Islamic finance.
	2.2 Describe the Islamic law of contract	Learners will be able to explain the components of Aqd (contract) in terms of the contracting parties, the subject matter, offer and acceptance.  They will be familiar with the four basic transactions of Bai (sale, or transfer of ownership for a consideration), Ijara (hire, or transfer of the right to use property, or Usufruct), Hiba (gift), and Ariyah (loan).
	2.3 Examine the classification of contracts	Learners will be able to describe, and explain the differences between contracts of Ijarah, Istisn'a, Mudaraba, Murabaha, Musharaka (partnership, and diminishing) and Salam. They will be able to explain the reasons for parallel Istisn'a contracts and for parallel Salam contracts.
	2.4 Explain what a valid sale is in Islamic finance by applying the rule of elements of contract	Learners need to be able to explain the conditions that must be met to ensure the validity of the sale, in terms of both parties involved, the offer and the acceptance and the subject matter and the consideration.

### Topic 3: The application of Islamic financial instruments

3. Understand how Islamic financial instruments are applied

3.1 Explain how Islamic banks operate and manage their funds

Learners will be able to distinguish between a conventional bank intermediary and an Islamic intermediary including, for example the relationship between the bank and its clients, the sources of its funds, and the use of its funds.

Learners must be able to explain how Islamic principles determine the mode of banking operation, for example, that dealing in transactions involving alcohol are forbidden.

They will be able to explain the two-tier basis of Mudaraba as the basis of modern Islamic banking. Depositors placing their funds in the bank on agreed terms is the first tier, and businesses seeking funds from the bank on agreed terms is the second tier.

3.2 Analyse different Islamic instruments and their practical applications

Learners will be able to explain the operation of different types of bank accounts, including current accounts.

They will be able to evaluate the applicability of Shariah compliant modes of financial instruments including participatory (Mushakara and Mudaraba), trade-based Bai instruments and lease-based ijara instruments.

They must also be able to analyse the implementation of security contracts including Hawala, Wakala, and Rahn.



## Topic 4: The function of Sukuk

4. Understand the function of Sukuk	4.1 Explain the basics of Sukuk (Islamic Bonds)	Learners must be able to distinguish between conventional and Islamic securities and bonds, and explain the basic processes involved in the issuance of Sukuk.
		They will be able to describe the features and benefits of Sukuk, and explain the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) Sukuk standards.
		They will explain the responsibilities of the different parties to a Sukuk and the financial guarantees that can be provided for Sukuk.
	4.2 Explain how to structure Sukuk by using different financial instruments	Learners will be able to apply a range of Sukuk for example, Istisn'a, Salam, Musharaka and Mudaraba.
		They will be able to explain the principles of the financial instruments upon which each Sukuk is based, and why they are suitable for each particular application.
	4.3 Examine the Murabaha and Ijarah Sukuk models	Learners will be able to critically comment on the Murubaha and Ijarah Sukuk models.
		They will understand that Murubaha is a widely used short-term financing instrument based on the Murabaha technique of considering the overall cost of 'cost plus financing'.
		Ijara Sukuk: These are Sukuk that are based on the Ijara mode of finance which is widely used especially for leasing and project finance.

## **ADDITIONAL INFORMATION**

### **Diversity, access and inclusion**

EDI qualifications address diversity, access and inclusion issues through a) guidance provided to authors of assessment material, b) assessment arrangements and c) guidance to centres.

The assessments generated by EDI are designed to be inclusive and free from bias. This is built into the task-setting specifications on which the assessments are based. EDI administers external assessments in line with the latest recommended procedures for ensuring accessibility and fair treatment of all.

EDI has procedures in place for making reasonable adjustments to assessments for those learners with particular assessment requirements, provided that this does not invalidate the assessment requirements of the qualification. For full details, please refer to EDI's guidance notes for centres on reasonable adjustments for candidates with particular assessment requirements. This document can be downloaded by EDI approved centres from the EDI website [www.ediplc.com](http://www.ediplc.com).

EDI's centre guidance uses plain language which is free from bias or discrimination in wording or content. The guidance highlights a range of equality issues to support centres in ensuring their delivery does not discriminate. This approach is designed to be helpful to centres without unduly intruding on the integrity of the specification. They are available from our website in a range of accessible formats and have been tested by accessibility experts. Staff involved in developing and administering EDI qualifications are trained in ensuring equality and centres registering with EDI are required to ensure that their staff are equally prepared and that the fabric of the centre ensures access for candidates in accordance with equalities legislation.

### **Entry requirements**

There are no formal entry requirements for this qualification. However, candidates should have a minimum level of English equivalent to the LCCI Level 2 English for Business or JETSET 4 - (Council of Europe B2/Threshold) to meet the communication requirements for this qualification.

Candidates should also be numerate and able to carry out arithmetical calculations comparable with those of Level 2 mathematics qualifications.

### **Guided Learning Hours**

EDI recommends that 75 guided learning hours (GLHs) will provide suitable course duration for an 'average' candidate at this level. The GLH indicates the number of direct contact hours typically required to cover the taught content for this qualification. In addition it is expected that students will carry out independent study. For this qualification a student will typically engage in independent study for 40 hours. Ultimately, however, it is the responsibility of centres to determine the appropriate course duration based on their candidates' ability and level of existing knowledge.

## Recommended Reading List and Support Materials

### Reading List

<b>Title</b>	<b>Authors(s)</b>	<b>Publisher</b>	<b>ISBN Code</b>
Understanding Islamic Finance	Ayub, Muhammad	John Wiley and Sons Ltd	978 0 470030691
Islamic Banking and Finance	Schoon, Natalie	Spiramus Press Ltd	978 1 904905837
Handbook of Islamic Banking	Kabir, Hassan and Lewis, M	Edward Elgar	978 1 845420833
Islamic Banking Practical Perspective		Prentice Hall	978 9 673003990

### Support Material

A Syllabus and sample questions and answers are available on the qualification page of the website, [www.lcci.org.uk](http://www.lcci.org.uk).

### How to offer this qualification

To offer this qualification you must be an LCCI IQ registered examination centre. To gain Centre approval please contact International Enquiries on +44 (0) 24 76518951 between the hours of 08.30 to 17.00 Monday to Friday, or via email on [internationalenquiries@ediplc.com](mailto:internationalenquiries@ediplc.com).

Alternatively you may contact your Regional LCCI IQ Office or Coordinating Authority.

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