

Islamic Finance and Sale of Commodities in Organized Markets

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Article History: Received: 28 Mar, 2018 Revised: 04 Sep, 2018 Accepted: 08 Sep, 2018	Abstract: <i>International commodities trade involves various risks and the regulators have developed certain regulations, guidelines and contracts to ensure the smooth running of the system and the safety of all the stakeholders. Islamic Shariah does not permit many of these practices and Shariah scholars and standard setters like AAOIFI and IFSB issue guidelines from time to time to facilitate trading in a Shariah compliant manner. This study has discussed, in detail, the relevant rulings issued to perform international commodity trade. It is observed that existing knowledge offers valuable guidance in respect of trade agreements and the respective roles and responsibilities of different stakeholders. However, we find that there is a need to devise new hedging instruments to mitigate risks involved in international trade. Standard setters should enhance their skills in order to provide stakeholders with better regulatory guidelines for smooth practicing of Islamic finance transactions.</i> Keywords: <i>Islamic Finance, International trade, AAOIFI, Futures, Derivatives</i>
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1. Introduction

The traditional commodity markets (both retail and wholesale) follow relatively lesser complex mechanism as most of the transactions are performed on spot basis and, in the case of credit sales, the related parties know each other for years. The risk is comparatively lower for all the stakeholders as they are positioned in the same regime and abide by its regulations. The international trade in commodities, on the other hand, is

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different in nature as it involves the parties located in various jurisdictions. Therefore, this trade is highly regulated owing to its large volume and nature of transactions performed on daily basis. The regulators and private bodies across the globe have developed certain regulations and guidelines in order to ensure the smooth running of the system and the safety of all stakeholders. The International Accounting Standards Board (IASB) is an example of such an institution that has developed important standards that govern the preparation and presentation of financial information.

The objective is to provide the users with an opportunity to understand and employ this information in making investment and other decisions, regardless of their country of residence. These standards are adopted by most of the jurisdictions around the world for preparation and presentation of financial statements and the task of comparison of financial health of companies have become easier due to enhanced transparency Barth et al. (2008). As Islamic Finance seeks ultimate guidance from the principles laid out by Shariah instead of any man made laws? Islamic Financial sector needs distinguished regulatory standards, in line with Shariah principles.

There are several modes of financing and trade in commodity trade that do not comply with Shariah. As the standards developed by IASB and other authorities do not shed light on modes of financing traditionally allowed by Shariah like Mudarabah, Musharakah, Murabahah etc. to conduct commodity trading, Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) had been established to bridge this gap. AAOIFI has developed various standards, in the course of previous years, in the areas of accounting, auditing, governance, ethics and Shariah. These standards are prepared with a view to explore accounting and auditing thought related to Islamic Finance and transform it into measurable set of parameters meant to perform business in compliance with Shariah rulings Vinnicombe (2010). This paper discusses Shariah rulings in respect of sales of commodities in organised markets and explores the conceptual issues and challenges in practical application.

Conventional finance has introduced various contracts to facilitate international trade. In the similar manner, AAOIFI (through its Shariah standard 20 dealing with Sale of Commodities in organized markets) discusses, at length, various aspects of sales of commodities in internationally organised markets and provides the guidance regarding different kinds of contracts used in this activity and their status in the light of Islamic injunctions Vinnicombe (2010). Moreover, it also explains the permissibility status of various types of derivative contracts. The other standard setting bodies/regulators (like OIC Fiqh Academy, Shariah

Advisory Bank Negara Malaysia) and religious scholars have also given rulings in this regard. It is important to discuss these rulings and evaluate whether they are adequate to facilitate the commodity trading in international markets. Hence, this paper fills the existing gap in current literature by elaborating multiple features of AAOIFI guidelines, the contemporary stance of regulators in various jurisdictions and the issues and challenges.

The rest of the paper is organized as follows: Section 2 provides the detailed discussion on the relevant AAOIFI standard and its basis of preparation. Section 3 presents views of different regulatory institutions and Shariah scholars. Section 4 discusses the key issues and challenges. Section 5 suggests the key areas for improvement followed by a conclusion of the study and recommendations.

2. Literature Review

2.1 AAOIFI Guidelines on Sales of Commodities

The transactions related to international commodity sales are performed in highly sophisticated markets and require an active participation of 1) the specialized organizations and 2) intermediaries. The former keep the markets in order through issuance of rules and guidelines so as to set broad principles that are mandatory to be followed by the contracting parties. The role of latter is also vital for bridging the trust gap and devising standardized contracts as per the needs of the specific transactions. These contracts are of three types namely spot, forward and future commodity contracts.

There can be four ways to terminate these contracts i.e. through the actual delivery, operation of liquidation, cash settlement and counter contracts. The spot contracts that require immediate delivery or acceptance of delivery are allowed by Shariah if they meet certain conditions i.e. the commodities should exist at the time of contract, they need to be in the ownership of seller and it is necessary that they should be distinguishable in such a manner that the receipt is ensured before sale. The buyer cannot be forced to accept a set-off for value in lieu of the actual delivery. The forward contracts (where both counter-values are delayed) are generally not permitted due to the reason that both the price and delivery are in future. The same rule applies to the futures contracts (that are standardized forward contracts organized by an exchange) and they are also considered prohibited. It is worth mentioning here that both Salam and Istisna contracts (that are in essence forward contract) are permissible. In case of Salam, the price is paid on spot, but the delivery is deferred and the contract is made

specifically for homogenous (fungible) commodities. Istisna also does not fall in this category as although both counter-values can be deferred; the object of sale has to be constructed or manufactured based upon unique specifications.

Moving further, Shariah rulings allow the appointment of an investment agent that can purchase a commodity on spot basis and sell a commodity to a third person for a deferred price. The compensation can be equivalent to a part amount or a percentage of purchase price. The agent can also work as Mudarib with an entitlement of known undivided share in the profit. The agent may enter into a Murabaha contract and buy the commodity from the principle for himself provided he maintains a distinction between his roles as an agent and a buyer. Finally, this standard allows an institution a Tawarruq facility by virtue of which it can purchase a commodity on spot basis and sell it to a different party on a deferred payment basis while ensuring that it should not be a buy-back arrangement. It is apparent that the underlying conditions are imposed in a bid to promote transparency in the transactions and explicitly define the functions of investment agency in order to leave no room for misappropriation and disputes. There are several facets of international commodity sales that are deemed to be prohibited by the Shariah. To begin with, there can be no trade for the commodities that are unlawful. The contracting parties should act in such way that their respective positions do not overlap during the occurrence of transactions.

Therefore, it is not permissible for a seller or his agent to sell a purchased commodity without completely assuming complete possession as it may result in the overlap of roles of buyer-seller. Similarly, the agent cannot buy the commodity for his own account that he purchased on principal's behalf without putting an offer separately in order to avoid a possible overlap in his positions as agent-buyer. Furthermore, an agent cannot enter into such a transaction without taking actual delivery of the goods. This standard also puts a bar on forward transactions structured in substance as buy-back ('ina). To avoid confusion and fictitious sales activity, agents are directed to refrain from making sales prior to receipt of actual delivery by creating fake documents or selling the same goods to multiple institutions.

There are possibilities of disputes in some other areas due to violation of Shariah rules. For example, there should be a clear mention of compensation amount to be paid to the agent in the contract as its absence may lead to gharar. Any condition to the detriment of buyer's right of taking

delivery is not justified as well. Similarly, an agent should not be bound to provide a guarantee for the sure receipt of sale price and seller also cannot be forced to provide with a guarantee to pay the sale price regardless of any circumstances. Finally, the trading in derivatives like Futures, Options and Swaps is not Shariah compliant. In this respect, the practice of *arbutun* cannot be considered as a basis for the permissibility of Options contracts as it merely gives the right of revocation of contract to one or both of the parties. This right is not detachable and thus should not be considered tradable.

AAOIFI, while preparing this standard, has taken guidance from various instructions laid out in the Shariah sources. International Sales on spot basis are deemed permissible in the light of the ayats of Quran that stipulate permission of Sale subject to observing justice and mutual harmony and avoiding breach of contracts. However, as Prophet (PBUH) points out, Muslims are not bound to accept conditions that are meant to allow something declared unlawful by the Creator. The mechanisms of *Bay mu'ajjal* and *Bay Al-Salam* serve as the underlying criteria for accepting forward transactions i.e. both the counter values cannot be delayed. Therefore, the existing forward and future transactions had been considered non-compliant to Shariah principles. The rules related to agency are derived from the principles of *Wakala* and as an agent (*Wakil*) has defined powers, therefore, certain acts are not permissible for him in the light of this standard. He cannot provide guarantees except the matters related to his performance. The ruling regarding payment of compensation is inspired from the principles of *Ijarah*.

Derivatives possess some serious issues from the Shariah point of view. Most of them are essentially sales without an offer and acceptance especially Options. The deferred transactions in currencies are equivalent to sale of objects which are not in the physical possession of the seller as yet. In case of Swaps, no delivery takes place and a majority of them is constituted by exchange of interest payments. AAOIFI standards serve as the benchmark for forming rules pertaining to performance of financial transactions by IFIs. In this respect, it is worth a while to study the relevant views of other important institutions like OIC Fiqh Academy, Shariah Advisory Council (SAC) of Bank Negara Malaysia (BNM) and Securities Commission, Malaysia as well as renowned Shariah scholars in this respect.

2.2 The views of other regulatory bodies and Shariah scholars

OIC Fiqh Academy has given a detailed account of the possible forms of international commodity markets and provided the basis for issuance of

relevant AAOIFI standard. This resolution prohibits all the forward/future transactions where both the counter values are delayed. It also clarifies the status of Options contract and states that they are not permissible as the object of contract is not money, utility or a financial right. The resolution recommends establishment of an Islamic international money and commodity market where only permissible transactions can be performed. The instruments like Bay Al-Salam, As Sarf , wa'd bill bay and Istisna may be used for trading in this market.

Moving further, Shariah Advisory Council (SAC) of Bank Negara Malaysia (BNM) has issued resolutions, pertaining to dealings in commodities transactions in organized markets, mostly in line with AAOIFI guidelines. However, there are certain Islamic derivative products that are engineered to serve the needs of IFIs and SAC has endeavored to complement AAOIFI standard by providing guidance on these instruments. For example, in case of spot transactions, the standard states that delivery should be spot. The SAC has resolved that the delivery and settlement of a spot foreign exchange transaction which is based on settlement terms of T+2 is permissible. In another resolution, Islamic financial institutions (IFIs) are given liberty to conduct forward foreign exchange transactions that are based on unilateral wa'd mulzim (binding promise). This promise is binding on the promisor and the party who suffers losses owing to non-fulfillment of promise can claim compensation. IFIs can carry out such transactions with their customers, fellow IFIs or conventional financial institutions. SAC resolution in respect of Islamic Profit Rate Swaps (IPRS) is a bit different from AAOIFI that deems Swaps as impermissible. Islamic Profit Rate Swap (IPRS) is an agreement of mutual exchange of profit rates (one party offering fixed rate and the other offering floating rate) by executing a range of Shariah compliant sales contracts meant for trading in certain assets.

The purpose is to facilitate the bank to manage any mismatch between cash inflow outflows. The proposed underlying Shariah contract is bai' 'inah to be conducted among involved parties. SAC has allowed this practice and observed that the key features of this product do not violate Shariah rulings. The offset practice in the IPRS structure is not equivalent to the sale of debt with debt which is prohibited by the Shariah. Similarly, it considers the transfer of beneficial ownership as reflected in the contract documentation sufficient and resolves that it is acceptable and recognized by Shariah. The SAC has further resolved that the forward foreign currency exchange transaction based on bai' mu'ajjal (deferred payment sale) is permissible. This ruling is in line with AAOIFI as this transaction is a series of distinguished contracts where the delivery is spot and the payment is

deferred. SAC has also allowed Foreign Currency Option Based on Hamish Jiddiyyah, Wa'd and Tawarruq. This structure is designed to hedge forward foreign currency exchange transactions. Similarly, a foreign currency option product wa'd bi al-syira' (a promise to buy) based on hamish jiddiyyah (security deposit), wa'd (promise) and tawarruq is also approved by SAC .

Finally SAC has resolved that an Options product comprising of a wa'd and two independent tawarruq transactions is permissible provided this product is used only for hedging purpose, wa'd to be independent from the tawarruq transactions, every transaction to be conducted independently from each other a in terms of documentation and most importantly, the underlying asset has to be Shariah compliant. It is evident that SAC has not deviated from any principles laid out by Shariah and later adopted by OIC Fiqh Academy and AAOIFI to reach at their respective guidelines. It has nevertheless moved a step further and contributed to the existing knowledge through deliberating on new products proposed by IFIs and issuing detailed resolutions. Islamic finance industry is growing worldwide and in case of Malaysia, the progress is unparalleled. This phenomenon requires extra effort by IFIs and regulators to come forward and develop new products that can fulfil customers' needs. SAC has shared this responsibility through issuance of these resolutions on Islamic derivative products.

However, Shariah Advisory Council (SAC) of Securities Commission Malaysia takes a somewhat different stand from this general observation that held trading in future contracts for crude palm oil permissible. It stated that the issue of buying non-existent assets (bai madum) is prohibited due to the presence of uncertainty in capability of the seller to deliver the asset, which subsequently leads to gharar. As a result, the non-existence of an underlying commodity or asset can become a cause of invalidity of the whole contract. In their final resolution, they observed that if gharar could be eliminated, then the issue of non-existence of goods at the time of contract is not material and should not be a reason to make a contract void.

It is interesting to present here the views of Shariah scholars from traditional schools. Kunhibava & Shanmugam (2010) have listed five core reasons cited by scholars and international organizations while declaring futures impermissible.

1. The futures contracts are made for goods that do not exist at the time of contract and therefore it is only a paper transaction and does not constitute a genuine sale.
2. In this kind of sales, the seller does not own what he sells.
3. The requirement of possession (qabd) is not fulfilled prior to resale.

4. The deferment of both counter-values to a future date tantamount to the sale of one debt for another.
5. The futures are excessively speculative and in some cases close to gambling.

Khan (1988) has discussed these issues in detail and observed that in the course of trading in futures market, only 1 percent of the contracts materialise in actual exchange of goods at maturity and there is no physical delivery taking place. Furthermore, none of the parties actually owns the assets and thus condition of qabd is not satisfied. The intermediaries perform no economic function and make money without investing their time and money into the assets. He observes that if actual delivery takes place, it would be a source of social welfare as it will create new jobs to perform activities like storage, transport and packaging. He asserts that in an Islamic framework, speculation per se is not completely prohibited.

However, it has an inherent mechanism owing to which speculation can never thrive. Islamic law of contract stipulates that there is a mandatory requirement of physical delivery in case the buyer demands but generally it is hard for the speculators to deliver the goods. Furthermore, they play on interest based borrowings that are forbidden in Islam. Finally, a borrower's liability is unlimited in Islam which also discourages speculators as they may need to surrender their personal assets in addition to the collateral in case of any huge losses. These conditions effectively reduce the options for speculators and they cannot flourish in an Islamic economy.

Finally, in order to make our analysis comprehensive, we list the dissenting views of some Shariah scholars who have disagreed to the general views and presented the counter arguments that are based on rational interpretations of relevant texts of Quran and Hadith instead of relying on literal meanings of these sources. Kamali is of the opinion that even though the counter-values in futures contracts do not exist at the time of contract, this does not lead to gharar due to the presence of clearing houses that provide a guarantee against any uncertainty due to counterparty risk Kamali (1996). He contends that during the time of Prophet (PBUH), the marketplace in Madinah was very small and there was no regular delivery of all the supplies and so, it was hard to guarantee the availability of goods at any given time. Therefore, the trading in something not in possession was prohibited. However, this is not the case in modern times as a seller can procure goods from many locations and deliver them. Hence, this restriction is no longer applicable in his view.

Furthermore, he differentiates between speculation and gambling and mentions that speculators deal in those risks that are present in the environment but gambling, on the other hand, creates the risk that were otherwise non-existent. He argues that the futures markets are instrumental in transferring the unwanted burden of risk to those who are willing to take it. He also asserts that the Futures contract is in effect made between the buyer/seller and the clearing house only. As no third party is involved in the said transaction, there is no uncertainty involved in clearance and delivery. The clearing house assumes the whole liability and effectively serves as a principle and fully committed guarantor. In essence, futures contracts are “fulfillment of obligations” and the “repayment of debt by the debtor” that are allowable acts under Islamic law Kamali (2000).

Therefore, he tends to accept future contracts upon the basis of these arguments. He further adds that in case of derivatives, there is no wrongful misappropriation of another person's property. He observes that in the absence of derivative markets, the funds belonging to Muslim investors may move to foreign markets to the detriment of community as a whole. He claims that Options are valid under Shariah law owing to the concept of *al-ikhtiyarah*. He contends that they are not merely a right but an intangible asset and usufruct. The Shafii and Hanbali schools as well Hanafi and Maliki jurists from later periods have generally included “usufruct” in their definition of property. In his opinion, charging a fee for the rights granted under an option contract is valid. Therefore, he is also inclined to accept options as tradeable instruments for Islamic Finance.

Kamali disagrees with the prohibition on an exchange of debts with debts and claims that there are divergent rulings among the schools on this issue. He argues that a number of scholars approve exchange of debts and it should be permissible provided it is free from the elements of *riba* and *gharar*. Smolarski et al. (2006) highlight many advantages of derivatives contracts and claim that the criticism does not take into account various functions performed by them. They mention that these instruments are beneficial in risk reduction and protect the buyers from financial loss. They argue that these contracts are transparent as each contract is standardized with respect to duration, quantity, consideration and the outcomes.

Therefore, the parties enter into the contract with mutual consent and perform it without any pressure. Moreover, the presence of a third-party warrants fairness in the processes and minimizes *gharar*. Hence, they are helpful in reducing the overall risk within the financial system.

3. The Issues and Challenges

Owing to mammoth volume of transactions performed in international markets, through spot and forward products, the involvement of big players and high stakes, these markets need to be well regulated. The regulatory standards and rulings on one hand pave the way for establishment of Shariah compliant commodity markets but on the other hand restrict the scope of commercial activities for the IFIs. Consequently, IFIs cannot participate in international forward, future and derivative transactions and this issue in turn has strong economic implications.

It is widely argued that there are many important functions of commodity futures and derivative instruments and many compelling arguments are presented in their favor. To begin with, future markets help in price discovery owing to a continuous flow of information from across the globe. These markets determine future prices of commodities depending upon supply and demand of these assets keeping in view factors like climate changes, political situations, wars, defaults, environmental implications and health issues. Similarly, Options may not affect the price of commodities but they are an indicator of how the market participants forecast the volatility of the markets and thus also participate in price discovery. Derivatives are also helpful in effective risk management through hedging i.e. taking a position in an asset to safeguard against adverse movement of the market. Modern day corporations use hedging as well as speculation strategies to manage risk more appropriately and derivative instruments are used for this purpose.

Some other important attributes of derivative instruments are their ability to improve market efficiency for the underlying commodity or financial asset and a reduction in transaction costs. It may be difficult for the retail investors to trade in real commodities but they may trade even with small investments in these commodities by virtue of commodity derivatives. Therefore, in the light of this stance, it is needless to point out that IFIs will be deprived all of these benefits of derivatives if they adopt this AAOIFI standards. As they can only enter in Salam transactions for commodity forwards, they may lose in terms of opportunity cost of investment in comparison to traditional forwards where payment is also deferred. They may not be able to reap the benefits of hedging and as per conventional finance ideology they will be exposed to higher risk as compared to their conventional counterparts. There will obviously be lower number of investors due to involvement of real commodities and assets and markets will be hosting only high net worth individuals.

This argument neglects some core principals related to Islamic finance. Islam draws a clear line between permissible (Halal) and impermissible (Haram) modes of trade and one who adopts a Haram practice is always subject to Allah's displeasure. He may accumulate worldly wealth but his chances of succeeding on the day of judgement keep on shrinking. Therefore, the loss of opportunity of investing in profitable avenues by virtue of this Shariah standard should not be deemed a real concern. Furthermore, even conventional finance is shifting towards instruments that are engrained in economic reality after the global financial crisis of 2008 and there is ongoing criticism on derivative instruments.

AAOIFI Shariah standard gives prime importance to the underlying assets and mentions that even if the permissible modes of trade are used to structure a transaction, still the underlying assets should be Halal in nature. This condition bars IFIs from engaging themselves in the contracts where underlying assets do not comply with Shariah rulings and as a result, IFIs may be losing profitable investment opportunities. There is growing awareness among conventional financial institutions to practice ethics in commercial activities and refrain from dealing in arms, drugs and gambling. It is worth mentioning here that they are doing it on voluntary basis but in case of IFIs, it is a compulsion. In addition to the abovementioned transactions, they are barred from dealing in trading of financial assets, Liquor, Haram foodstuff and other impermissible products and activities.

Furthermore, AAOIFI elaborates the role of an agent and it may create certain difficulties in practice. For example, when an agent works as Mudarib, it gets very difficult to monitor his acts. A ready solution can be an agreement clearly establishing the role and scope of activities of contracting parties. Still the risk increases because this is an equity based contract and there can be possible instances of arising of moral hazard issues. The agent (Mudarib) may invest money without consulting principal (Rabb al-Maal) or not in a manner as agreed. AAOIFI or other standard setting bodies should come up with practical suggestions on how to improve transparency in such arrangements. Another practical difficulty is ascertainment of possession in case of interrelated transactions. The trading volume is very high in international markets and countless contracts are executed and finalized on daily basis. Therefore, most of the times, delivery and sale occur simultaneously and it becomes very difficult to be sure of the fact that there is no overlap in the roles of buyer and seller. The similar problem is faced by IFIs who work as agents in tawarruq transactions. AAOIFI and other standard setters should deliberate on relevant texts in Fiqh literature and

define conditions to clearly identify Qabd (possession) in case of such contracts to ensure compliance with the instructions stipulated by AAOIFI.

Finally, in most of the cases, a principal seeks guarantee (relating to surety of payment) from an agent merely to safeguard his interests and bind the agent to perform his duties more diligently. Similarly, when a seller demands a payment guarantee from a buyer, the real intention is to create a buffer against any unforeseeable circumstances. Since AAOIFI does not allow such guarantees in the light of Shariah rulings, it should suggest alternate course of action and comment what other precautions can be adopted to protect the interests of the sellers.

4. Proposed Area for Improvement

AAOIFI and other standard setters/regulators have done invaluable work for the enlightenment of IFIs and other stakeholders by devising standards and rules in respect of sale of commodities in international markets. However, various new products are developed in different jurisdictions after the issuance of these rules. There is a need for review and upgradation of these rules and in this respect, these bodies can collect the information regarding existing and proposed products and come up with guidelines more relevant to present conditions.

Likewise, AAOIFI should consider splitting their standard into two distinct standards i.e. one concerning commodity sales involving spot, forward and futures transactions and the other involving derivatives. The reason is that derivatives are a distinguished market and with the advent of new Islamic financial products in this area, the quantum of operations is increased. As a result, there is need for issuance of a separate standard covering all the new products. There is also a need for better explanation especially in the section where the applications of the standard are listed. AAOIFI should provide more details of the relevant transactions and the Shariah rulings that form the basis of decisions. In this regard, a more detailed appendix section can serve the purpose.

Finally, there are many dissenting voices against the Islamic derivative products developed through financial engineering and in certain cases, there is disagreement among jurisdictions on certain issues. Similarly, some of the dissenting views may carry weight and should be considered for revision (if possible) of any existing guidelines Soualhi (2012). Regulators/stand setters should take joint initiative and provide with the guidance on all these issues to remove conflicts and introduce homogenous practices.

5. Conclusion and Implications

Conventional standard setters formulate rules that facilitate global finance activity.

Islamic Finance is different as its mode of trade and practices should be based upon Shariah rules. Commodity markets are a large portion of international business activity and their substantial activities are performed through future exchanges and derivative instruments. IFIs cannot become a part of this market that is worth Trillions of US Dollars and some studies have also pointed to the “welfare loss” in case of completely abandoning derivatives markets.

In this scenario, IFIs have to select among three options. They can either continue trading in these markets upon the basis of Darurah (necessity) until an indefinite time. This may threaten even the very existence of these institutions as they are formed solely upon the basis of Islamic principles. The second option is to completely refrain from taking part in the trading activity thereby suffering huge losses in terms of lost opportunities. This choice is again a threat to the whole industry as it will not be able to earn profits and compete with its conventional counterparts. As a consequence, IFIs will fail leaving the ground vacant for the conventional FIs. The most viable solution seems to be the introduction of distinguished products and creation of new markets. The immediate recourse is designing of new Shariah compliant instruments through financial engineering that can be offered in the existing markets Rizvi et al. (2014). This involves thorough research and brain storming exercise by Shariah scholars, standard setting bodies and IFIs and it is indeed remarkable that they are already involved in this process. Malaysia has introduced many such products that are subsequently approved by SAC. Sukuk Al-Salam is another such instrument that is based on the mechanism introduced by Bahrain and follows a parallel Salam mechanism. This product in effect provides an alternative of Bay‘al-Dayn (sale of receivables). However, this choice is full of compromises due to the replication of conventional products and reliance on existing markets. The ultimate solution is establishment of dedicated markets having specifically designed innovative Islamic finance products. The concerned parties should try to evolve such markets that can bridge this gap for Muslim investors and IFIs.

At present, Muslim countries are following multiple practices. Recent studies have pointed out the disadvantages of this approach and recommended mandatory following of homogenous standards to move

towards integrated global Islamic markets Mohammed Sarea & Mohd Hanefah (2013). Most of the Islamic states have opted for convergence with international accounting standards which do not provide standards for Islamic financial products. These states should also converge with AAOIFI for achieving comparability of financial information related to IFIs and more clarity. AAOIFI also has to enhance its skills and expand the resource base with an objective to be capable of issuing such standards and guidelines that are at par with other international standard setting bodies in terms of precision and comprehensiveness. This task can be better performed through a joint collaboration of Muslim countries to fulfill the requirement of more elaborate and exhaustive standards.

This work has important implications for different quarters. Firstly, it can help the practitioners (IFIs and entrepreneurs) to comprehend the relevant rulings and practice commodity trade in a Shariah compliant manner. Secondly, the academia can evaluate the discussion/criticism on various rulings and add more on this issue. Finally, the policymakers can revise the current practices in the light of recommendations/suggestions.

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