



**BELOW REPRESENTS AN ILLUSTRATIVE SYNOPSIS OF THE TYPES OF AREAS COVERED IN THE RHT TAYYAB WHITE PAPER - FOR FURTHER INFORMATION ON THE PAPER ITSELF PLEASE EMAIL [INFO@RHTPARTNERS.COM](mailto:INFO@RHTPARTNERS.COM)**

#### EMERGING CHALLENGES FACING THE INDUSTRY...

Although growing rapidly, the Islamic finance industry as we know it today (perhaps unsurprisingly because of its age) faces a number of challenges. Academics and industry practitioners alike point to a number of issues, ranging from a lack of secondary markets, consistency and uniformity of standards within Shari'a compliance and a shortage of qualified professionals (lawyers, bankers, scholars and academicians amongst others) who understand both the Islamic as well as the conventional sides of the equation adequately. For an industry based on faith, credibility presents a fundamental challenge for Islamic finance to demonstrate how Shari'a compliant products provide an authentic alternative to interest (riba) based conventional products.

#### ...FOR EXAMPLE...

The credibility challenge is illustrated, for example, in grass root Muslim opinion in the UK, which to date struggles to deal with the benchmarking of Islamic home financing against interest. The argument that Islamic home financing charges a 'profit/rental rate' not an interest rate begins to lose credibility when users realise that the 'profit/rental rate' is benchmarked on Bank of England Base Rate. Similarly overly engineered treasury products are seen to be eluding towards a trend whereby products are being designed to comply with the technical requirements of Shari'a, but from all other perspectives appear to be the same as the conventional equivalent product.

#### CREEPING CYNICISM

Islamic finance appears to be entering a new era in its evolution where, previously frowned upon areas are now coming to afore. Sectors such as derivatives, hedge funds the extensive use of Tawarruq/Commodity Murabaha and other structuring methods to create effective cash loans are raising many questions on the authenticity and direction of the industry. Many analysts commonly refer to the phenomena of 'Shari'a arbitrage' and class Islamic products as 'just another structured product created using wrappers to overcome restrictions'.

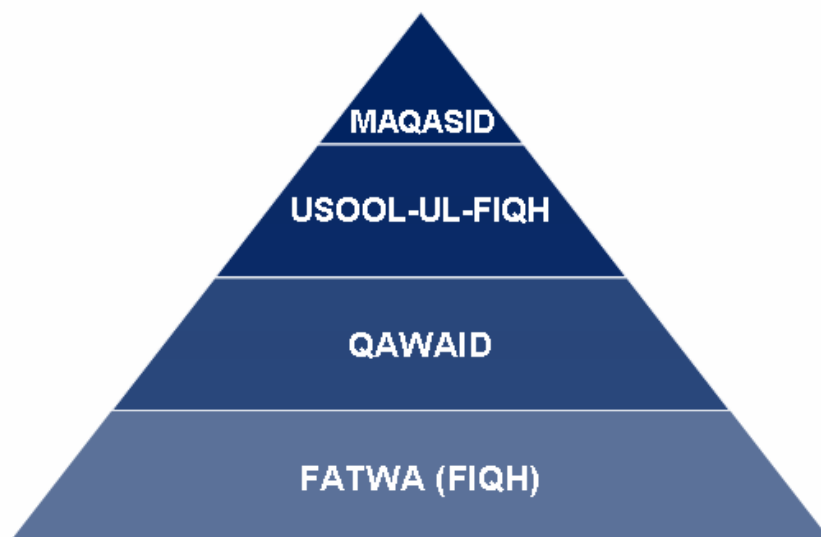
## BACK TO BASICS – “PRINCIPLES WITH PURPOSE”

An important fundamental principle of Islamic finance is that of profit and loss, and by extension, *risk* sharing – a principle of Musharika. In addition to basic Shari'a principles relating to profit and loss distribution, in general within the Islamic model the concepts of transparent and fair contractual arrangements are encompassed in the *purpose* of Islamic finance which is to define a system that is (in addition to being equity based) also “equitable”.

Scholars have viewed Shariah as a pyramid with the ‘Maqasid’ (purpose of the Shari'a) at the top, followed by Usool-ul-Fiqh (principles deriving rulings from the Shari'a), thereafter ‘Qawaid’ (legal maxims) and finally the Fatwa (specific rulings issued by scholars) as the base (see Diagram 1 below).

The Maqasid (purpose) is seen as the pinnacle of the system and in this regard there appears an apparent dearth in applicability or focus of the current Islamic financing structures.

Diagram 1: Shari'a Pyramid



## THE RHT APPROACH

In an exclusive comment to the DIFC, Tariq Shaikh (founder of “Rizq Halal & Tayyab”, or RHT Partners) comments that “in essence Islamic finance is an equity, not debt based system, and we need to develop Islamic products which are more in line with the ‘spirit’ of the law, as much as they currently are with the letter of the law and hence we have created our new Tayyab criteria which is a fundamental pillar to our investment philosophy”

“The excessive engineering of basic structures and products designed to clone conventional structures will result in the Islamic banking industry losing an opportunity to



define its own USP and differentiating characteristics... Re-aligning the focus to an equity based solution combined with a focus on *holistic, equitable* Islamic criteria of transparency, accountability and fairness across the various facets of current best international corporate practices in fields such as Corporate Governance, Corporate Social Responsibility (CSR) and others will serve to enhance the credibility of the Islamic finance industry”

### THE ‘TAYYAB’ FACTOR – “DEFINING THE PARADIGM SHIFT”

RHT Partners have been working on a pioneering concept based on a “back to basics” approach with a focus on the spirit and purposes (Maqasid) of Shari’a firmly in mind. Specifically RHT look to focus on the term “Tayyab” as referred to within the Quran and Islamic jurisprudence (Fiqh) texts.

“Whilst we do not enter into the debate about what is compliant or not (a realm we leave to the scholars), we build on the principal that there are clear gradations within Fiqh and Quran beyond mere compliance (ie ‘Halal’) or non-complicity (‘Haram’). Concepts such as ‘Makruh’ (disliked), and, more akin to our Tayyab approach, ‘Mandoob’ (recommended) are equally relevant in creating a range of products that provides the choice to the ultimate users of Islamic finance to opt for enhanced value-based products.”

“Within Quran, the concept of Tayyab is referred to in relation to ones sustenance (Rizq), adding a qualifier of “wholesomeness” or “goodness” to simple compliance, and as such forms the basis for the RHT Tayyab (or endearingly coined, “T-Factor”) approach. It is this T-Factor that represents the next evolution in the market place and, as our name implies, we wish to address this section of the industry.”

RHT Partners, in association with leading UK institutions have commissioned a white paper on this titled “*Innovate or Imitate? – Moving Beyond Compliance*” and is a seminal piece of research exploring the application of the term Tayyab into the financial and business arena to define the next generation of Islamic financial products. Topics covered within RHT’s Tayyab paper include the following paradigms (amongst others):

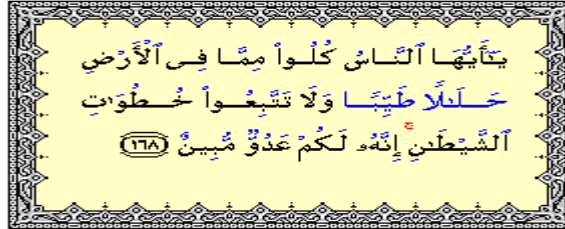
- 1. Corporate Governance & General Internal Business Practice:
- 2. External Business Practice (Including Social Responsibility)
- 3. Financial Product Structuring
- 4. Underlying Asset selection

Current Islamic financing structures are being signed off as Shari’a compliant, however moving this forward to open a new genre of Islamic financing products that are viewed as being “Tayyab”/wholesome being more beneficial than basic Halal options, is the premise behind the thought leadership in RHT’s unique ‘T-Factor’ approach.

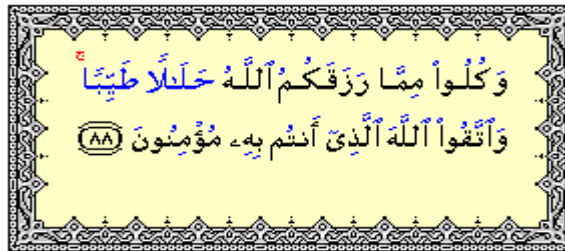
The white paper examines the ‘T-Factor’ in context of both a potential solution to the credibility/differentiation challenge and an example of innovation entrenched in the very highest *principles* of Islam.

## APPENDIX 1

### SELECTION OF VERSES FROM QURAN MENTIONING 'TAYYAB'

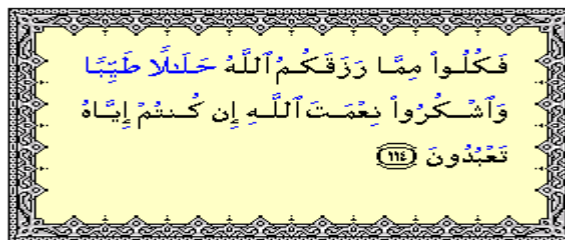


O mankind! Eat of that which is lawful and wholesome in the earth, and follow not the footsteps of the devil. Lo! he is an open enemy for you.



Eat of that which Allah hath bestowed on you as food lawful and good, and keep your duty to Allah in Whom ye are believers.

Al-Maida:5:88



So eat of the lawful and good food which Allah hath provided for you, and thank the bounty of your Lord if it is Him ye serve.

an-Nahl:16:114