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EDITORIAL

CRITICAL REVIEW

Liquidity Management by Islamic Banks: An Issue or a Contrivance for Risk-Free Returns

"*There is no faith for one who cannot be trusted. There is no religion for one who cannot uphold a covenant.*" (*Ḥadīth*)

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INTRODUCTION

Islamic banking and finance that can provide a framework for achieving the objective of sustainable socio-economic growth witnessed a rapid growth over the last two decades. Islamic finance industry spread over 110 countries, and 50 million customers grew from US$200 billion in 2003 to an estimated US$2 trillion of assets worldwide last year and are expected to surpass $3 trillion by 2020. Out of the total assets, the Islamic banks had US$1.451 trillion by the end of 2015 (T/R 2016/17).

Responding to the failure of capitalist and socialist systems, Islamic Banking and Finance (IBF) was initiated with the hope of providing a financial base through which economic development could be achieved with human well-being and social justice (Asutay, 2007). Hence, the Islamic Banks and Financial Institutions (IBFIs) belong to the entities whose social goals are at least (if not more) as important as making a profit (Haniffa & Hudaib, 2007).

Islamic finance promotes risk-sharing, connects the financial sector with the real economy, and emphasizes financial inclusion and social welfare. Even the 2030 agenda of the World Bank for sustainable development that seeks to eradicate poverty in all its forms emphasized Islamic finance to promote responsible and risk sharing-based finance. It is the recognition of the core principles of Islamic finance providing mechanisms for redistribution to address any imbalances that may occur during wealth production and distribution cycle (Soliman, 2017).

Islamic finance, however, is losing its meaning and rationale, contends Mabid Al Jarhi, former Head of IRTI, IDB, Jeddah and currently Professor at the INCEIF. It has crossed the threshold of convergence to conventional finance, and Sharī'ah compliance is increasingly becoming a misnomer as conventional finance is being practiced boldly in the name of Islam. IBF practitioners normally believe and always wish that every conventional product must have an Islamic alternative. As there are some restrictions for the Islamic banks based on the Islamic principles, bankers complain about the scarcity of liquidity management tools. Accordingly, a shortage of Liquidity Management (LM) tools is considered to be the most serious issue hampering the growth of Islamic finance.

It is, therefore, high time to take stock of the situation and analyse the performance of IBFIs in this perspective. We plan here to analyse Islamic banks' performance, especially in respect of LM practices and suggest a new approach enabling Islamic finance to serve the cause of humanity by enhancing socio-economic inclusion. We shall discuss what liquidity management means, what IBFIs are currently doing in the name of liquidity management, and what policy changes have to be introduced to evolve a real, stable, and sustainable Islamic system of finance, and to turn the tables on the conventional system.

LIQUIDITY MANAGEMENT AND RISK

Liquidity management refers to the ability of banks for matching the maturity of assets and liabilities daily and coping with short-term pressures that may arise in the process of ensuring that the assets are fully funded (Largan & Colley, 2000). From the regulators' point of view, liquidity risk is defined as a "risk to the bank's earnings and capital arising from its inability to timely meet obligations when they become due without incurring unacceptable losses" (Ali, 2006). Experiences show that liquidity risk mainly emanates from over-exposures taken due to false assumptions and incorrect judgments for higher earnings, abnormal behavior of financial markets and contagion impact, flaws in contractual structures, and breakdown of payment system due to a lack of credibility and mismanagement.

Basel III liquidity rules require banks to hold a liquid asset buffer of unencumbered and High-Quality Liquid Assets (HQLA) at all times. The assets in this buffer should be readily accessible and easy to be converted into cash in private markets to meet any sudden demands for liquidity. The Basel rules allow the Islamic banks to use a wider range of assets for their buffer, which is subject to haircutting to avoid favourable treatment over conventional firms (Bank of England, 2017).

Liquidity management has been one of the greatest concerns of both conventional and Islamic banks aiming at avoiding liquidity shortage, the assassin of banks, on one hand, and investing it for benefiting even from a single penny overnight, on the other hand. Although most of the Islamic banks generally have surplus cash, a few cases had been of a liquidity crunch. Turkey-based *Ihlas Finans* was closed down in 2001 due to the liquidity crisis (Ali, 2006).

According to the International Islamic Financial Market (IIFM), the key issues in Liquidity management by the IBFIs include: i) A small number of participants; ii) Slow development in Islamic finance instruments; iii) Absence of Islamic secondary market; iv) Absence of an active Islamic inter-bank market; v) Different Sharīʻah interpretations; and vi) Absence of Lender of the Last Resort (LOLR) facility. It requires a *muḍārabah*-based "lender of the last resort" window by the central banks/regulators.

There may be a need to establish an entity similar to IMF that could provide Sharīʻah-compliant liquidity in times of need. Islamic infrastructure institutions like IDB, IFSB, IIFM, and IILM may coordinate to establish such Islamic Monetary Fund (IsMF) that may also provide International Sharīʻah-compliant Financier of the last resort (FOLR) facility at the global level or coordinate arranging liquidity from other central banks (COMCEC, 2016).

THE MYTH OF EXCESS LIQUIDITY WITH IBIs

We need to analyse as to how Islamic banks' funding is short-term as in the case of the conventional banks and why they are surplus. Firstly, they pursue an aggressive marketing for Current Accounts on which they earn a profit, but pass on nothing or little to the depositors. Secondly, they market for the short-run fixed return deposits (FD) of the corporate sector, and finance/reinvest in fixed return avenues. Hence, Islamic Banking Institutions (IBIs) are becoming increasingly liquid, may be because they are getting fixed rate deposits based on *tawarruq* (the case of Malaysia and UAE) or even *muḍārabah* with some tactics to allure 'priority depositors' (the case of Pakistan). They are shy of going to the real sector for financing and are fond of the public sector deficit financing, thus getting small risk-free return.

In Pakistan, for example, IBIs emphasise on targets-based deposits mobilisation through current accounts (C/As) and investment accounts by the priority depositors by creating an unreasonably large number of Special Pools. Remunerative[1] and non-remunerative C/As of the IBIs increased by 50% and 28.2% respectively during 2016. A huge part of deposits so collected is provided to the interest-based banks by way of *tawarruq*-clean and collateralized lending. At the end of December 2016, IBIs' placements with conventional banks (mainly consisting of inter-bank *tawarruq*, *bai*ʻ *al-mu'ajjal* with State Bank of Pakistan (SBP), and *muḍārabah*-based deposits) stood at Rs. 111 billion out of the total deposits of Rs. 1.5 trillion. According to Meezan Bank's Report (2016), Rs. 129 billion were placed with other banks - Rs. 77.8 billion on the basis of secured *murābaḥah* of *ṣukūk*, Rs. 20 billion through clean lending, and Rs. 31.4 billion by way of *bai*ʻ *al-mu'ajjal* of *ṣukūk* with the SBP. It implies that surplus is not an issue per se; it's rather a case of profit maximization even by compromising on the Sharīʻah principles. Further, it provides conventional banks an opportunity to arbitrage. That is why, due to *tawarruq*-based placements by the Islamic banks, the collateralized rate is higher in Pakistan than the clean rate while globally, the call money market rates are higher than the collateralized rates.

In Malaysia, prior to the introduction of IFSA, 2013, a healthy ratio was maintained between CASA : FD : Capital at 40% : 30% : 30%; but now the ratio is around CASA 20, FD 50-60 due to more focus on FD based on commodity *murābaḥah*-implying that overall cost of deposits increased owing to the higher proportion of "expensive" FDs. The same is the case of UAE where the central bank itself launched debt-based commodity *murābaḥah*

[1] Banks pay a very low profit to remunerative C/As, the category introduced recently to circumvent the prohibition of paying any return/ *hibah* to C/A holders depositing money as a loan, but to offer them various benefits to allure cheap money.

(*tawarruq*) Islamic certificates of deposits with maturities of one week to a year (COMCEC, 2016, p. 50); almost 50% of Islamic banks deposits are raised and invested by way of *tawarruq*. Thus, Islamic banks have become just money managers like conventional banks, chasing the targets for their perks and benefits, and as such, the authors like Volker Nienhaus, renowned Western writer on Islamic finance, term the trend as the conventionalisation of Islamic banking and finance.

With this focus on Liquidity Management, Islamic banking can never be a driver of socio-economic growth. Client-wise financing in Pakistan shows that the corporate sector accounted for 77.5 percent share in overall financing, followed by consumer financing having 10.5 percent. Finance provided by IBIs to the real sectors like SMEs and Agriculture remained lower at 3.4% and 0.8% respectively, even less than the overall banking industry's financing at 7.1% and 5.3% respectively. To be the real competitors, IBIs could lower the financing rates to the commodities and business sectors, rather than becoming a conduit for the transfer of liquidity to the conventional system.

ISLAMIC BANKS' LIQUIDITY MANAGEMENT PRACTICES

The prime tools for liquidity management by the Islamic banks are *tawarruq* also called 'Commodity *murābaḥah*' and hedging through derivatives, although the latter category is a part of risk management, not the LM technique. In many parts of the world, Islamic banks mobilise deposits against fixed returns through *tawarruq* and/or commodity platforms and then deploy the funds again on the basis of *tawarruq*, or so-called hedging through financial derivatives. *Tawarruq* is being used in varying degrees in all countries except Sudan and Oman. Oman, which started Islamic banking in 2013, outrightly banned the organised *tawarruq* [even then it was ranked at number 3 in terms of growth of Islamic banking during 2015 (Thomson Reuters, 2015)].

In Sudan, where the banking system as a whole is Islamic, banks are allowed to keep liquid assets of up to a maximum of 20% of the financing portfolio in the form of any of CBOS's *ijārah*, *mushārakah* or *muḍārabah*-based certificates (Central Bank of Sudan, 2015). For the inter-bank market, CBOS encourages banks to cooperate and coordinate together to unify their financing and exchange rate policies, to establish LM monetary funds, and to securitize their capital assets. LOLR facility is provided by using the Liquidity Deficit Window (LDW) and the Investment Financing Window (IFW) on *muḍārabah* or *mushārakah* basis. At LDW, if the receiving bank repays the finance within seven days, it is exempted from paying any profit to CBOS. But if it exceeds seven days, profit is distributed between *rabb al-māl* and *muḍārib* based on 90% to CBOS and 10% to *muḍārib*. At IFW, the CBOS raises tenders for banks that are awarded to banks based on the profit percentage of *muḍārabah* (Hassan, 2004). Further, a Liquidity Management Fund (LMF) was established in 2014 as Special Purpose Vehicle (SPV) jointly owned by Sudanese banks and managed by the Financial Investment Bank. Thus, the central bank is no longer involved in the daily liquidity requirements of the banks except as Lender of Last Resort (LOLR). Member banks are required to put in the capital a combination of a minimum 40% cash contribution and 60% in the form of investment securities or *ṣukūk* (Thomson Reuters, 2015).

In Pakistan, SBP allows IBIs' exposure in *bai' al-mu'ajjal* of *ṣukūk* (for details of this transaction, see JIBM, Dec. 15) with Government of Pakistan (GOP) to be eligible for Statutory Liquidity Requirement (SLR). As such *ṣukūk* cannot be sold before maturity due to being receivables, their SLR eligibility has significantly increased the stability risk of IBIs and the industry. We discuss below these tools (*tawarruq* and hedging) to analyse their processes, level of Sharī'ah compliance, and implications for IBF.

Organised *Tawarruq* / Commodity *Murābaḥah* / *Ṣukūk Murābaḥah*

Tawarruq can be defined as getting cash or investing cash by way of trading as a contrivance while the subject of the exchange is not the objective. Almost all contemporary jurists allowed juristic *tawarruq* in unavoidable cases where a person may buy a commodity on deferred payment and sell it on the spot (to any third party) to get (less) cash while fulfilling the conditions pertaining to transfer of ownership and possession. In case the commodity sold is bought back by the seller, it is '*īnah*, prohibited by an overwhelming majority of jurists. But, what Islamic banks do is 'organized *tawarruq*' in which they buy and sell any commodities or instruments through broker(s) without fully observing the trade-related conditions. According to an estimate, such *tawarruq*-secured *murābaḥah* or commodity/*ṣukūk murābaḥah* represents around 60% of the Islamic banks' financing services around the world.

What is currently being done in the name of interbank *bai' al-mu'ajjal* of *ṣukūk* in Pakistan is practically '*īnah*. A broker facilitates an Islamic bank and two conventional banks; *ṣukūk* are purchased by the Islamic bank from the conventional bank 'A' on spot payment to sell instantly to the conventional bank 'B' on deferred *murābaḥah*; the latter bank uses them for *tawarruq* and arbitrage. If the placement of liquidity is the issue, Islamic bank should keep such *ṣukūk*, preferred profitable instrument, but it sells onward just because the bank 'A' is assured by the broker that the *ṣukūk* will reach back the same day before the close of business. The fact that 'A' doesn't exclude the sold *ṣukūk* from its SLR securities implying that the SBP also becomes a part of the contrivance. Sharī'ah board/advisors are happy with merely a note that 'B' can hold or sell the *ṣukūk* at its discretion.

Such *tawarruq* is invalid according to Islamic *Fiqh* Council (IFC, Resolution in 2009) Jeddah, AAOIFI, and Sharī'ah bodies like DSN (National Sharia Board) of Indonesia, except a few. Allowed exceptionally by some scholars for extreme and case-by-case situations, *tawarruq* has turned into a retail product for ordinary customers. It is neither the spirit nor even the letter of Islamic finance (Yurizk, n.d.). It runs against economic logic because it employs artificial sales contract as a facade to camouflage the conventional nature of transactions (Al-Jarhi, 2016).

But, the reality is that organised *tawarruq* is being widely used in Malaysia, UAE, Bahrain, Pakistan, and other parts of the world. For deposit-taking and placement of excess liquidity in the international market, there are currently three commodity *murābaḥah* Platforms including Bursa Malaysia, DMCC Dubai, and London Metal Exchange. In other jurisdictions, *tawarruq* is used through non-standardised procedures involving broker(s). It involves a heavy cost of commodity or *ṣukūk* brokerage without adding any real value whatsoever against the risk-free returns both to Islamic and conventional banks involved.

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Bursa Suq Al-Sila' (BSAS) launched in Malaysia in 2009 facilitates Islamic interbank placements, deposit-taking, financing, Islamic profit rate swap, cross-currency swap, *ṣukūk* issuance, as well as debt trading with commodity using the concept of *murābaḥah* for *tawarruq*. In Pakistan, the Sharī'ah board of the Meezan Bank recently approved the guidelines for developing a commodity *murābaḥah* platform at Pakistan Mercantile Exchange (PMEX) [Business Recorder, 2017]. It is important to observe that the proposed process of commodity *murābaḥah* at the PMEX has not been approved by the Sharī'ah boards of the SECP and the SBP. It seems that the responsibility of allowing such products has been shifted to the premier Islamic bank of the country that once practically involved would automatically be followed by the market.[2]

Shoaib Umar, a senior Islamic finance professional working with the Central Bank of Bahrain discussed in detail as to why the regulators must stop the use of *tawarruq* (ISRA & Thomson Reuters, 2016). His conclusion is based on seven reasons: i) *Tawarruq* creates a disconnect between the real and financial economy; ii) It is a parasite in the system debt accumulation without economic growth; iii) It is identical to the interest-based system in terms of consequences; iv) It increases systemic risk due to unhealthy financial innovation difficult to be regulated due to being more complicated than conventional system; v) It is hindering the genuine growth of Islamic finance; vi) It is immoral as the Islamic banks end up collecting the liquidity for Islamic business and placing it with the conventional banks for arbitrage, and vii) Practically, the proper *murābaḥah* structure is not followed, constructive or actual possession of the commodity is rarely obtained by the customer.

Financial Derivatives as Liquidity Management Tools

In a few jurisdictions like Malaysia and UAE or in the case of mega Western finance groups offering Islamic windows in other countries, derivatives are also being used for liquidity management, although their main objective is said to be hedging or risk management. Profit rate swaps, repo, and FX forwards comprised the main Islamic derivatives market, but quite recently, more structured transactions like structured FX options and commodity derivatives have also been targeted (IFN Guide, 2017). The so called 'Islamic Hedge Funds' are increasingly being used by reconciling the religion's ban on speculation for hedging involving short selling on unique rationale that "the religion's rules do not constrain profitability" (Reuters' market report, March 11, 2010). It is pertinent to observe in this context that *tawarruq* is again the part and parcel of so called Islamic hedging techniques.

The function of futures as a hedging instrument, without delivery from either side, has turned into the arena of mere speculation leading to gambling and *gharar* transactions. Less than 20 pc of the notional amount outstanding is traded on exchanges, and the magnitude and scope of OTC transactions are far greater than the exchange-traded transactions. It causes instability and failure to the whole system, even to the hedge funds themselves. According

[2]It has already happened that the MBL pioneered the excessive use of clean and collateralized *tawarruq* and 'Running *mushārakah*'(JIBM, Vol.6 No.1, 2016) obliging the other IBIs in the country to be involved in such doubtful practices, may be on the basis of '*maṣlaḥah*' or '*umūm* balwa' [a common plight' or "*fasād al-zamān*"] principle as adopted by the Sharī'ah boards of the Securities' Commission and that of BNM, Malaysia, in order to escape from the losses / harm from bad practices that prevailed in a market.

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to the Washington Post (May 29, 2017) and eVestment, a data firm, more than 1000 Funds were closed during 2016, while the investors pulled US$111 billion out of the industry. It implies that hedge funds are losing favor among some of their most important clients like pension funds on account that they are too expensive and complex. It is illogical, in this perspective, that IBFIs are increasingly using this *ribā* and *gharar*-ridden tool for investments.

IFA-OIC, AAOIFI, and some other Sharī'ah bodies have acknowledged the need for hedging while emphasizing that hedging strategies must be in line with the Islamic finance principles and subject to certain conditions like i) hedging mechanism not to be used for speculation and gambling; ii) the hedging transaction is to be carried out based on actual underlying risk arising from an investment which adds value to the real economy; and iii) the technique involved in hedging does not sever the risk from its underlying assets. IIFM guidelines for 'Islamic Hedging' include, inter alia, the following: i) the purpose must be a real hedge against unexpected risks to both sides of the transaction; ii) it should not be for the purpose of speculation; iii) a cash settlement without the actual transaction involving delivery and receipt of assets is not permitted; and iv) delay in receipt and delivery in case of cross-currency and FX forward transactions causes non-Sharī'ah compliance (Alvi, 2016).

But, practically, hedging would be extremely difficult or even impossible without speculation (Iqbal, Kunhibava, & Dusuki, 2012). An ISRA study has found that the above conditions are not being observed (Kasri, Abd Rahman, Mohamad, & Habib, 2016). Following issues have been identified in this crucial ISRA study: a superficial use of commodity *murābaḥah* for hedging; compensation for breach of *wa'd* that is not based on the actual loss (amount charged serves merely as a mechanism for profiteering (*istirbāḥ*); and mark-to-market gain/loss in Islamic profit rate swaps and Islamic forwards with mark-to-market netting off. The study found that execution of promises and *tawarruq* to facilitate mark-to-market gain/loss does not represent a genuine exchange in Sharī'ah, and hence, the resultant profit could not be considered a lawful gain. The study also suggests that the impact on the economy and society may also be taken into account while revising the resolutions already issued by the various Sharī'ah bodies for permitting such hedging.

International Swaps and Derivatives Association (ISDA) and International Islamic Financial Market (IIFM) have published template documentation for some Sharī'ah-compliant derivatives (ISRA & Thomson Reuters, 2016). This approach to standardisation is an effort at convergence of conventional and 'Islamic' derivatives markets. Accordingly, despite the standards, the market still continued to use bespoke documentation as that best suits their earnings maximisation motive. The problem of non-Sharī'ah compliance even in letter will, therefore, be piling up until the Sharī'ah scholars / boards do not take firm position for not allowing such products that defy the very purpose of introducing Islamic finance.

WHAT ISLAMIC BANKS NEED TO DO?

Islamic banks cannot earn money on money without first converting it into real assets and then taking commodity, market, and credit risks. An effective liquidity management framework for Islamic banks would base on the orderly development of Sharī'ah-compliant inter-bank, and sovereign and corporate *ṣukūk* markets. It could happen with strong commitment

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of the State, the central bank, and the fiscal authority as well as a proactive regulatory framework. While the use of *tawarruq* for taking deposits may be banned forthwith, *muḍārabah* as the basis of deposits may be applied genuinely while ensuring prudent risk management and just profit distribution. On assets side, IBFIs need to go to equity-related areas like stock market, venture capital, private equity, partnership, and *muḍārabas*.

The sovereigns may introduce *ijārah* and *muḍārabah*-based *ṣukūk* for retail investors. This way, small investors would be enabled to invest in asset-based Sharī‘ah-compliant retail *ijārah* and *muḍārabah ṣukūk* to broaden the basis of equity-based finance. The retail *ṣukūk* may be general as well project-specific like open-ended and close-ended Funds of the Investment Corporation of Pakistan (ICP). Active trading of the retail *ṣukūk* like that of stocks could be an effective tool of liquidity management by the IBIs.

An Investment Account Platform (IAP) may be developed in all jurisdictions to help the depositors to participate in the trading business directly giving the banks *muḍārib* share or *wakālah* fee. It is similar to the concept of crowdfunding where the investors come together and place equity in a business as direct investors (Islamic Bankers Resource Centre, 2016). IAP would finance the internal or external trading of such goods that are available in bulk in any market. As the clients will themselves choose the projects, their investment will remain till the completion of the trade activity.

Securitization of physical assets into tradable securities would be generating stable flows of income under *ijārah* and *mushārakah*. Its examples are *ṣukūk* and other certificates issued by the Government and the Central Bank in Sudan. This securitization must base on new assets each time to provide real boost to the economy. *Salam ṣukūk*, although not tradable in the secondary market, can serve for parking excess liquidity and for SLR as in the case of Bahrain's *salam ṣukūk*.

Direct Funding Model: "Fund before lending" is the old way of thinking. Islamic banks need to first identify the projects via the Investment Accounts Platform (IAP) and then arrange financiers to associate the depositors with real business and economy even on the basis of *muḍārabah* or *mushārakah* (Islamic Bankers Resource Centre, 2016). This arrangement is nearer to the concept of venture capital, a business area that Islamic finance has not explored so far. This direct funding model may automatically lead to promotion of equity-based financing.

Islamic banks may manage the liquidity risk by inter Islamic banks placements, prudent deposit mix for maturity matching, gap analysis prior to financing, a proper choice of contracts for finance, proper reserves, deposit *takāful*, and secondary market dealing in *ṣukūk* and redeemable equity instruments like PTCs and mutual funds. Contractual risks leading to liquidity problems can be managed by careful documentations, parallel contracts, and securitization of the underlying assets particularly in the cases of *ijārah*, *salam*, and *istiṣnā‘*, and trading in the secondary market where possible. IDB Jeddah and the UNDP have established the 'Global Islamic Finance and Impact Investing Platform' (GIFIIP) to promote market-based solutions to sustainable development challenges. Its strategies include developing appropriate investing tools and instruments, and improving access of impact enterprises to Islamic funding (Soliman, 2017).

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AAOIFI recently issued its Sharī'ah Standard on Gold which is said to be a game changer in respect of liquidity management (Bakar, 2016). Research institutions, particularly, IRTI and ISRA may undertake studies as to how the Standard can be used in line with the principles and objectives of Islamic finance. Further, the central banks may look at gold from Basel III requirements.

We can conclude that liquidity management is less an issue for Islamic banks and more a contrivance for earning risk-free returns. Their LM practices have diverted Islamic economics and finance from the value based to the capitalists system (Asutay, 2007). The failure of Islamic finance to live up to its paradigm owes a great deal to the inactive role of the regulators / central banks. "If regulators were aware of the macroeconomic advantages emanating from an honest application of Islamic finance, they must not had allowed any products like *tawarruq*", says Al-Jarhi (2016). The convergence to conventional finance has to be rolled back to realise the macroeconomic benefits that justify the switch from conventional to Islamic finance. Mabid has proposed a social dialogue in such countries where Islamic finance is a part of the regulators' policy to resolve the problems. The dialogue has to be among the legislators, monetary and financial authorities, bankers and finance executives, Sharī'ah board members, and representatives from Jeddah-based IFC, AAOIFI, IFSB, IDB, the International Association for Islamic economics, the IMF, and the World Bank.

Banks may focus on mutual funds to raise deposits; it will be more risk-spreading, and may lead to systemic stability. For medium-term liquidity management, IBIs may invest in various funds being traded in the secondary markets. In non-Muslim countries where Islamic banks exist, the regulators may accept the *ṣukūk* with good ratings for acceptable liquidity reserves in line with the approach of Basel III global banking regulations, which allow *ṣukūk* issued by high-rated sovereigns to be included in the liquid assets buffer. The Bank of England (2017) has been planning recently to enhance such liquidity tool for Islamic banks in this direction ultimately favouring a fund-based model.

Depositors' money is a trust in the hands of the banks taken for Sharī'ah-compliant business. As per a well-known Ḥadīth of the Prophet (PBUH), a person who does not keep Trust is as if has no *īmān*. Islamic banks' mangers and the Sharī'ah scholars need to be careful in keeping the Trust. The products like organized *tawarruq* and financial derivatives, accepted by Sharī'ah board members of many banks, are strongly condemned by Sharī'ah academics. Sharī'ah scholars in the banks do not abide by the resolutions of the IFC or AAOIFI and behave in many cases like an authoritative *Fiqh* academy. Some even dared to say that they would not be bound by such resolutions (Al-Jarhi, 2016).

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