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B.Com Honours | Semester VI | Calicut University

ISLAMIC INVESTMENT AND INSURANCE

Course Code: COM6EJ312 • Module 2 Notes

Module II: Islamic Investments & Sukuk

Covers Shariah equity screening criteria, Sukuk (Islamic bonds) structures, Islamic mutual funds, Real Estate Investment Trusts (i-REITs), and Islamic venture capital/private equity.

Unit 5: Introduction to Islamic Investments & Screening Criteria

Shariah Equity Screening:
- **Qualitative Sector Screening:** Excluding companies dealing in non-halal goods/services.
- **Quantitative Financial Ratio Screening:**
1. Total Debt / Market Capitalization $< 33\%$.
2. Cash + Interest-Bearing Securities / Market Capitalization $< 33\%$.
3. Accounts Receivable / Market Capitalization $< 33\%$.

Unit 6: Sukuk (Islamic Bonds) Architecture

Sukuk vs Bonds: Sukuk represent fractional ownership in tangible underlying assets/usufruct rather than debt obligations. Types: Sukuk Ijarah (Lease-based), Sukuk Mudarabah, & Sukuk Murabahah.

Unit 7: Islamic Investment Products & i-REITs

Products: Islamic Equity Funds, Islamic Unit Trusts, & Islamic Real Estate Investment Trusts (i-REITs - rental income from Shariah-compliant tenant properties).

Unit 8: Islamic Venture Capital & Private Equity

Venture Capital: Startup equity financing structured under Mudarabah or Musharakah profit/loss sharing contracts without interest.

Practical Case Framework 1 (AAOIFI & S&P Shariah Equity Screening Ratio Thresholds Matrix): Compare financial screening ratio, AAOIFI threshold benchmark, financial metric formula, and pass/fail condition.

Quantitative Shariah Equity Screening Benchmarks Table:

Shariah Financial Screening Ratio	AAOIFI Maximum Permissible Threshold	Financial Compliance Requirement
Debt Ratio (Interest-Bearing Debt)	$\frac{\text{Total Debt}}{\text{Market Capitalization}} < 33\%$	Excludes heavily leveraged conventional debt firms
Cash & Interest Investments Ratio	$\frac{\text{Cash + Interest Securities}}{\text{Market Cap}} < 33\%$	Limits interest-earning cash holdings
Receivables Ratio	$\frac{\text{Accounts Receivable}}{\text{Market Cap}} < 33\%$	Prevents trading in debt receivables at discount

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Practical Case Framework 2 (Sukuk vs Conventional Bonds Comparison Matrix): Compare financial instrument attribute, Sukuk (Islamic Trust Certificate), and Conventional Bond.

Sukuk vs Conventional Bonds Reference Table:

Financial Instrument Attribute	Sukuk (Islamic Trust Certificate)	Conventional Bond
Underlying Legal Ownership	Undivided ownership share in tangible asset/lease	Pure debt obligation / loan IOU from issuer
Investor Return Component	Profit share or rental income from asset	Fixed contractual interest (Coupon payment)
Asset Impairment Risk	Investor shares risk of asset value decline	Issuer must repay principal regardless of asset value

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