True / False Questions

1. The Musharakah certificate given to all Sukuk holders represent their proportion of ownership in the assets of the project being undertaken. ✗

2. Under Musharakah sukuk agreement, management of the business is the sole responsibility of the entrepreneur/mudarib. ✗

3. The contract of Ijarah has been used as a means of securitization of a tangible asset such as a hospital or airport which allows the issuance of Sukuk to prospective investors. ✓

4. Sukuk Salam and Murabaha are zero coupon Islamic bonds. ✓

5. The parties in Takaful are many and the participants insure one another against any loss and this is carried out mutually.

6. The Takaful operator manages the investment activities of the Takaful fund through Mudarabah and Murabah contracts only. ✗

7. In conventional insurance the underwriting surplus belongs to policyholders. ✓

8. In Takaful insurance the underwriting surplus is used to pay back debts and build reserves. ✗

9. Through Tabarru contracts we avoid the Gharar element in Takaful insurance. ✗

10. The Takaful operator provides Qard Hassan to the Takaful fund whenever the need arises. ✓

11. Murabaha Sukuk are usually structured as an agreement between the rabb al-mal who provides the capital and the entrepreneur which may be an investment company or a Special Purpose Vehicle (SPV). ✗

12. Mudarabah sukuk holders can transfer the ownership of their Sukuk by selling it in the primary market. ✓

13. It is permissible under mudarabah sukuk agreement to create reserves for contingencies, such as loss of capital, by deducting from the profit a certain percentage in each accounting period. ✗

14. The returns and losses on mudarabah sukuk are shared and borne in accordance with the percentage of ownership of shares of each of the sukuk holders. ✓

15. All Sukuk are negotiable instruments.
16. The Hybrid model of Takaful is composed of Mudaraba and Wakala.

17. Most of the time the underwriting activities are done by the TO through Wakala contract.

18. Takaful Operator is a company owned by shareholders.

19. Malaysia was the first country to establish a Takaful firm in 1970's.

20. Premiums paid by takaful policyholders are considered as donations towards the common cause to assist those members who suffer any loss.

21. Although the aim of takaful is to promote solidarity and cooperation among Muslims under the principle of ta'awun, its initial objective remains to gain profit.

22. Under takaful, the participants remain the owners of the premiums even though they have donated them into a pool of funds to indemnify any member of the group.

23. When the participants’ investment fund (PIF) is invested in Shari'ah-compliant business, the profit shared between the takaful operator and the participants based on a pre-agreed ratio.

24. Under the wakalah model of takaful, the takaful operator does not share in any risk borne in the investment or management of the takaful fund.

25. The relationship between takaful operator and participants can be characterized as insurer-insured relationship where each party assumes different roles and responsibilities.

Multiple Choices Questions

26. Which one of the following is a non-tradable Sukuk?
   A. Mudarabah Sukuk
   B. Ijarah sukuk
   C. Musharaka sukuk
   D. Salam sukuk
   E. None

27. Which of the following sukuk can be traded in the stock exchange?
   A. Mudaraba
   B. Musharaka
   C. Wakal
   D. Ijarah
   E. All

28. In sukuk contracts the SPV
   A. represents the obligor
   B. represents the investors
   C. represents the arranger
   D. B&C
   E. None
29. What is the role of the SPV in a Muadaraba Sukuk?
   A/ Rab al Mal
   B/ Mudarib
   C/ A profit and loss sharing partner
   D/ A Lessor

30. Fahad is expanding his car dealership and wishes to issue sukuk. He approaches a Bank which advises him to enter into an Ijarah Sukuk, using the premises he owns as an asset. In this scenario, which of the following is correct?
   A. The SPV is the lessee and the Sukuk holders are the lessor
   B. The SPV is the lessor and the Sukuk holders are the lessee
   C. Fahad is the lessee and the SPV is the lessor
   D. Fahad is the lessor and the SPV is the lessee

31. Which ONE of the following statements explains the technique used in Takaful to avoid Gharar?
   A/ The owners of the Takaful company are policyholders.
   B/ Policyholders donate their premium to the Takaful company.
   C/ The owners manage themselves the Takaful company.
   D/ The funds of the Takaful company are invested in non-interest bearing assets

32. Which ONE of the following statements concerning the utilization of the underwriting surplus of a Takaful company is FALSE?
   A/ The surplus is used to build up reserves.
   B/ The surplus is distributed to the policyholders.
   C/ The surplus is used to re-pay Takaful loans.
   D/ The surplus is used to pay the management fees.

33. ________________ promote stability and sustainability in the financial industry.
   a) corporate credit ratings
   b) sovereign credit ratings
   c) country risk ratings
   d) credit ratings

34. Islamic bonds can be rated on two bases:
   a) long term and short-term
   b) sovereign and corporate
   c) public and private
   d) none of the above

35. The two popular classifications of bonds while rating their quality are:
   a) ‘investment grade bonds’ and ‘junk bonds’.
   b) ‘sovereign grade bonds’ and ‘corporate bonds’
   c) ‘investment grade bonds’ and ‘sovereign grade bonds’
   d) none of the above
36. **Sukuk** can be defined as: certificates of equal value representing undivided shares in the ownership of:
   - A. tangible assets
   - B. usufructs
   - C. services
   - D. special investment activity
   - E. All of the above

37. Which of the following sentences is true?
   - A. a conventional bond exposes the holder to asset level risks.
   - B. a conventional bond has no fixed maturity date.
   - C. a sakk grants the holder undivided beneficial interest in the underlying asset.
   - D. a sakk will not result in the holder incurring a loss.

38. If the obligor/originator has a tangible asset like a building and wants to raise funds which type of Sukuk would advise him/her?
   - A. Musharak sukuk
   - B. Mudaraba sukuk
   - C. Istisna sukuk
   - D. Ijarah sukuk
   - E. All

39. Conventional securities are forbidden in Islam because
   - A. they are linked to an underlying asset.
   - B. they are issued on financial markets.
   - C. they are equivalent to debt trading.
   - D. they are reevaluated if the asset is over performing.

40. **Sukuk** have been generally classified as:
   - A. tradable and non-tradable
   - B. short term and long term
   - C. debt based and equity based
   - D. A and C only
Fill the Blanks

1. Bonds/Sukuk with "D" or "C" ratings are known as ________ bonds.

2. If GUST was looking for finance and used its building to issue Sukuk, that Sukuk would be ________ Sukuk.

3. SPV always represents ________.

4. ________ helps in financing large enterprises beyond the ability of a single party to finance in addition to helping Islamic banks and financial institutions in managing their liquidity.

5. Whenever there is deficit in the ________ fund, the Takaful Operator provides back-up capital.

6. The first Islamic insurance/Takaful company was established in 1979 in ________.

7. ________ is the amount that remains after all expenses and management fees for the administration of the takaful fund have been deducted and the contributions are more than the claims made by the participants.

8. Main Features of Takaful are:- 
   a. Cooperative Risk Sharing
   b. Cooperative Financial Segmentation
   c. Shari'ah-compliant Policies and Strategies

9. Cooperative risk sharing through the use of ________ was designed to: eliminate riba and ghmar elements in takaful to address issues of social responsibility, solidarity and the innate need to care for others.

10. ________ Sukuk consists of three types:
   - Sukuk of ownership of services
   - Sukuk of ownership of usufructs of assets
   - Sukuk of ownership in leased asset
1. Discuss the difference between shares and bonds
2. Discuss the difference between Sukuk and conventional bonds
3. Discuss the difference between tradable and non-tradable Sukuk.
4. Discuss about the importance of rating of Sukuk
5. Structure an Ijarah Sukuk for GUST using its building as an asset.
6. Mention minimum 5 benefits of sukuk.
7. Discuss the difference between Mudarabah model of Takaful and Wakal model of Takaful.
8. Discuss the Hybrid model of Takaful.
9. Discuss how the concept of Takaful operates.

Answer:

1. Enjoy ownership and control of the asset
2. Profit is calculated according to the performance and the asset
3. Maturity will end when the project ends
4. They are assets backed by instruments and are Shariah compatible trust certificates that are tradable.
5. Sukuk are rated by international rating agencies perfectly
6. Fulfill need for fixed income allocation
Please, answer only two out of the following five questions:

1...Arrange the steps involved in structuring a Mudaraba Sukuk:
   9 - The SPV issues sukuk certificates to investors/sukuk subscribers
   7 - The SPV pays the investors/sukuk holders according to the units of their individual
       shares in the invested capital
   4 - A company which needs liquidity establishes an SPV
   6 - The Mudarabah business is carried out and profits are periodically distributed among the
       two major parties: the company and the SPV
   1 - Cash generated used as capital in Mudarabah contract between SPV and an organisation
       appointed to manage the business

Arranged steps: 6 4 9 7 1

2. Name the following structure

3. Name the following structure
5. Name the following structure