

UNIVERSITI TEKNOLOGI MARA

**A COMPARATIVE STUDY OF FINANCIAL INSTRUMENT
IN IRANIAN AND MALAYSIAN ISLAMIC BANKING
SYSTEM**

MANA AKHBARI

**Submitted in partial fulfillment of the requirements
for the master of comparative commercial law**

FACULTY OF LAW

November 2010

STUDENT DECLARATION

“I declare that the work in the dissertation was carried out in accordance with the regulations of the Universiti Teknologi MARA. It is original and is the result of my own work, unless otherwise indicated or acknowledge as referenced work. This topic has not been submitted to any other academic institutions or non-academic institutions for any other degree or qualification.

In the event that my thesis is found to violet the condition mentioned-above, I voluntarily waived the right of conferment of my degree and agree be subjected to the disciplinary rules and regulations of the Universiti Teknologi MARA”.

Name of Student: *MANA AKHBARI*

Student's ID Number: *2008277422*

Programme: *LW792*

Faculty: *LAW*

Dissertation Title: *A COMPARATIVE STUDY OF FINANCIAL INSTRUMENT IN IRANIAN AND MALAYSIAN ISLMIC BANKING SYSTEM*

Signature of student: *MANA AKHBARI*

Date: *22 NOV 2010*

Abstract

This study compares financial instruments in Islamic banking operations which is currently practiced in Iran and Malaysia. Both countries started Islamic banking in early 1980's but employed entirely different approaches. Pakistan attempted to convert the entire financial system in accordance with Islamic law at once at national level. Malaysia adopted the gradual application approach. It allowed Islamic and conventional banking systems to operate and to compete for deposits on parallel basis. This study examines the Iran and Malaysian approaches towards the implementation of Islamic banking in their respective countries. It recognizes by practical style and faults that Malaysia bank authorities encountered about non-usury compensate flaws and improve performance of non-usury banking in Iran.

Importance of this paper, financial instruments in Islamic banking in both countries was investigated by comparative method from theoretical and practical aspect

ACKNOWLEDGEMENTS

Thanks God for His helping out while I was about to give up and His unbelievably close support any time I needed.

After finishing this thesis I would like to express my gratitude to everyone who helped me during this long journey, First of all, I would like to express my sincere appreciation to my respected supervisor, Dr. Muhamad Rahimi Osman for the his guidance and endless help throughout the whole process of completing my thesis.

I would also like to take this opportunity to express my greatest gratitude to my parents whom without their guidance, help and patience, I would have never been able to accomplish the work of this thesis.

I also would like to appreciate the efforts of the honorable Associate Professor Norha Abu Hanifah and Dr. Irwin U.J. Ooi for them providing me with fruitful information and giving me a vast visibility in the world of knowledge.

I also thank all other faculty members who somehow helped me prepare this dissertation. Last but not least, I would like to express my gratitude to my beloved parents, with their guidance, supports, love and encouragement; I had overcome most problems in my life.

Thanks too to all my fellow friends and colleagues for their help and support at various occasions during my study.

Thank you very much

22 NOV 2010

MANA AKHBARI

TABLE OF CONTENTS

DEDICATION.....	i
STUDENT DECLARATION.....	ii
ABSTRACT.....	iii
ACKNOWLEDGEMENT.....	iv
TABLE OF CONTENTS.....	v
LIST OF TABLES.....	xii
LIST OF FIGURES.....	xiii
CHAPTER 1 INTRODUCTION	
1.1 Introduction.....	1
1.2 Problem Statement.....	3
1.3 Research Question.....	5
1.4 Objective of Study.....	6
1.5 Literature Review.....	7
1.6 Methodology.....	12
1.7 Limitation.....	13
1.8 Significance of the Study.....	13
CHAPTER 2 INVESTIGATION OF ISLAMIC BANKING	
2.1 What is Islamic Banking?	14
2.2 Islamic Banking Definition	14
2.3 Principles and Fundamentals of Islamic Banking.....	15
2.4 The Basic Prohibitions of Usury.....	17
2.4.1 Prohibition of Riba.....	18
2.4.2 Avoidance of Gharar.....	18
2.4.3 Avoidance of Gambling (Qimar).....	19
2.5 Deletion of Usury from Banking Transactions.....	19
2.6 Usury Definition	19
2.6.1 Usury in the Words	19
2.6.2 Usury in Shafi Religion	19
2.6.3 Usury in Shiite Jurisprudence	20