

FINAL EXAM—ENGLISH M2 BF S4

A. VOCABULARY [3 pts]. Explain briefly (2-3 lines) the following words or expressions in English; no French translation please. You may provide an example if you wish to complete your definition/explanation. [0.5 pt each]

- | | | |
|----------------|-----------------------|------------------------|
| a. Nanny state | c. to tout | e. Payday loans |
| b. Tokenism | d. the Ethics of Care | f. Reverse engineering |

B. REWRITING: GRAMMAR, VOCABULARY AND SPELLING [3 pts]. The following text contains several **mistakes** (grammar, syntax, vocabulary and spelling). **REWRITE** the following paragraph **entirely** in proper, **formal** English [+0.25 per correct rewriting, -0.25 if you fail to correct a mistake or if your rewriting is itself incorrect]. Please **underline** the corrections you have made in your revised text.

[TEXT:] “To who it may concern,

I was interested at your proposal at first, however since then I change my mind, considering there are much opportunities elsewhere, especially in Bahamas or People’s Republic of China, who are developping incredibaly fast nowadays, like some pack of lions. You know I love the advertising, who could almost be considered as a hobby of me: she inspire the mind to create wonders of ephemeral beauty, however deliciously irrelevant beyond the confines of time, place, and cultural context. If you would but give me a hour of your time, I am ready to convince you that the law of offer and demand is uterly obsolete and that we could redefine what’s on and of the table here.

Yours fully,

Donald J. Draper, Creative Director, McCann Erickson”

C. COMPREHENSION [6 pts]. Read the text below, entitled “*Islamic Finance and ESG: The Missing 'S'*” and explain the following expressions and passages from the text in your own words. NB: only one or two references to the text in the form of very short quotes (with quotation marks “”) allowed per question.

1. Explain the meaning and comment on the consequences of the following sentence from the text: “Sharia doesn't consider money as an asset on its own because it is not tangible.” [8-12 lines, 2 pts]
2. Explain and comment: “The 'E' and 'G' factors seem to us to be more visible in Islamic finance than the 'S'.” [8-12 lines, 2 pts]
3. Explain and comment: “In order to push the governance aspect forward, we believe the industry needs inclusive standardization of Sharia interpretation and legal documentation and awareness of ESG factors.” [8-12 lines, 2 pts]

D. ESSAY QUESTION [8 pts]. In 450 words (+/- 10%), answer the following question in a (minimally) structured essay and in proper English [please provide **WORD COUNT** as well at the end]:

“In your (informed) opinion, should we consider religion, historically but also prospectively, as an obstacle, an opportunity, or otherwise when it comes to financial activities and the financial sector?”

[TEXT:] Islamic Finance And ESG: The Missing 'S'

S&P Global Ratings recognizes that environmental, social, and governance (ESG) factors have rapidly increased their prominence in global credit markets. Issuers are increasingly improving transparency on the potential effects of disruption from climate risk and other perils, as well as human and natural resources management, and sensitivities to demographic changes and technological advancements, among other factors.

In our view, Islamic finance, which must abide by the goals or objectives (Maqasid) of Sharia, shares some links with ESG considerations and the broader aim of sustainable finance. As regulators and policymakers around the world seek to establish a more sustainable, stakeholder-focused, and socially responsible financial system in the future, we see some complementarities between Islamic finance and sustainable finance.

Possible Parallels Between Islamic Finance Principles and Sustainable Finance

To be considered Sharia-compliant, a financial institution or transaction needs to meet the Koran's tenets against usury and uncertainty. Perhaps the most famous principle of Islamic finance is the prohibition of Riba. Depending on the school of thought, Riba has been defined as interest or excessive interest, leading to slavery. Sharia doesn't consider money as an asset on its own because it is not tangible. Therefore, money may not earn a return from the simple fact of time elapsing. Instead, return can be earned on risk-taking activities, as long as the burden or reward is shared between the bank and its client. Although the principle of profit- and loss-sharing has not been fully or always applied properly in the past, we think that the industry is slowly inching in this direction. Sharia also prohibits uncertainty of payout, gambling, or speculation (Gharar), and encourages responsible behavior. Moreover, Sharia-compliant transactions must be backed by tangible and identifiable assets that anchor the financial sector in the real economy. Lastly, Islamic finance forbids investment in or dealings with those industries prohibited under Sharia: notably alcohol and brewing, tobacco, weapons and armaments, or pork-based products. Reportedly, the ultimate goal of these principles is to create a sustainable, stakeholder-focused, and socially responsible financial system. More broadly, Islamic finance has to abide by the goals or objectives (Maqasid) of Sharia. There are several definitions or interpretations of the goals of Sharia but they broadly evolve around the protection of faith, life, mind, wealth, and dignity.

Sustainable finance, on the other hand, focuses on driving players throughout the financial system to integrate ESG objectives into their activities and capital allocation. For an entity, it involves a focus on improving its own performance across ESG factors. From an investor standpoint, it includes a number of investing approaches, such as screening assets based on environmental, social, or ethical criteria, the integration of ESG factors in investment decision-making, and investment based on social impact, among others. Sustainable finance also involves the bond market, with the issuance of green, social, and sustainability bonds, where proceeds are restricted for assets with environmental or social purposes, or a combination of the two.

In this context, we consider that there may be parallels between the objectives of sustainable finance and some of the underlying principles of Sharia. For example, the Islamic finance protection of life goal aligns with sustainable finance principles, which emphasize environmental and social protection including either refraining from developing or financing operations that could adversely impact the environment and/or the health or the well-being of humankind. There are also parallels between the social focus of ESG analysis and integration and the principle of profit- and loss-sharing, both of which ultimately aim to adopt a stakeholder view and increase

social cohesion, and ensure that no one is left behind. On the governance side, Islamic banks and instruments are typically subject to an additional layer of governance compared with their conventional counterparts. Islamic banks and products are typically approved by Sharia boards, which ensure the conformity of these products with Sharia at any point in time during their life cycle. Finally, tracking the allocation of proceeds to eligible projects is a principle that we also observe for ESG-linked issuance. The Sharia requirement that tangible and identifiable assets must back transactions aligns with the substantial green and social infrastructure development needed to support the transition to a low carbon economy.

Nevertheless, the consideration of ESG factors for a company or an investment product doesn't necessarily confer conformity with Sharia. A company that produces goods or services that would be considered non-Sharia compliant may comply with ESG considerations and vice versa.

The 'E' And 'G' Are More Visible

The 'E' and 'G' factors seem to us to be more visible in Islamic finance than the 'S'. A green sukuk, for example, is a form of Islamic financial instrument in which issuers use the proceeds to finance investments in renewable energy or other environmental assets, such as solar parks, biogas plants, wind energy projects, as well as renewable transmission and infrastructure projects. To date, several green sukuk have been issued, primarily in Southeast Asian countries and the Gulf, with the latest being the \$600 million green sukuk issued by Majid Al Futtaim (a diversified group based in the United Arab Emirates) in May 2019. The amount is still minimal compared with the global green bond market that saw \$168 billion of issuances in 2018, but it is growing. Green sukuk have reportedly allowed issuers to access not only the pool of conventional investors interested in green projects, but also Islamic investors. This could lead to potential excess demand and better financing conditions.

Given the rapid increase in energy demand and the objective of shifting energy provision to greener sources in some core Islamic finance countries (particularly Malaysia, the United Arab Emirates, and Saudi Arabia), the opportunities for green sukuk appear significant. Beyond green sukuk, we consider that the rising interest in and growth of ESG-related assets under management, will encourage Islamic finance to progressively shift from a negative screening of projects and operations to a positive screening, where projects with a positive ESG impact are given priority because of the links between ESG objectives and Islamic finance.

With regards to the 'G' factor, Islamic banks and sukuk are subject to an additional layer of governance compared with their conventional counterparts. Islamic banks and products need to have a Sharia board, which consists typically of three Sharia scholars having the responsibility of issuing Fatwas (or opinion of conformity with Sharia). They are also subject to internal Sharia audit, and the industry is slowly leaning toward external Sharia audit. The Sharia board reports its findings to the boards of directors of the institution and the different stakeholders. While this layer of governance should provide additional oversight, it did not prevent the industry from going through some episodes of instability, such as the recent instance in which an issuer did not pay back investors on the basis that its sukuk was, reportedly, no longer compliant with Sharia. In order to push the governance aspect forward, we believe the industry needs inclusive standardization of Sharia interpretation and legal documentation and awareness of ESG factors. The process would combine issuers, investors, regulators, and Sharia scholars' perspectives to help the market shape its future direction. In our view, inclusive standardization is not only achievable, it will also boost the industry and the volume of issuance. Ultimately, it will restore the attractiveness of the instrument to issuers through a smoother, faster issuance process and increased clarity on the underlying risks for investors.

The Missing 'S'

The social aspect appears to have been cast somewhat to the back seat. While the underlying principles are socially focused and a number of instruments already exist, they have not been leveraged in modern Islamic finance in a transparent, systematic manner. This may be because Islamic banks, as issuers themselves, do not appear to focus on their own social performance. At present, there are limited public disclosures on how Islamic banks or issuers of sukuk are dealing with social issues (such as workforce and diversity, safety management, customer management, and communities). However, we understand that they are not dealing with these issues in a significantly different manner from conventional banks in their respective countries or systems. From the perspective of financing activities, the lack of visibility of the 'S' factor is underpinned by the fact that Islamic banks are, at the end of the day, commercial entities that seek financial performance among other factors and it is not because of a lack of instruments or products. [...]

To be fair to them, a few Islamic banks have set public objectives on social responsibility. Al Baraka Banking Group, for example, announced that it aims to contribute to the creation of 51,000 jobs, and finance \$191 million education projects and \$434 million health care projects by 2020. In Malaysia, the Central Bank in 2018 issued a framework for value-based intermediation (VBI) aimed ultimately at delivering the intended outcomes of Sharia through practices, conduct, and offerings that generate a positive and sustainable impact to the economy, community, and environment, and that are consistent with the shareholders' sustainable returns and long-term interests. Therefore, in our opinion, the Islamic finance industry is slowly realizing that it could contribute to a sustainable financial system. We think that the contribution will remain limited, though, at least in the short term. We estimate the size of the global Islamic finance industry at around \$2.1 trillion at year-end 2018.

ESG And Ratings In Islamic Finance

We incorporate ESG considerations into our ratings methodology and analytics of Islamic financial institutions and sukuk in a similar way as we do for conventional issuers and issues. For sukuk ratings, the ESG considerations would generally be reflected in the sponsor rating. For sovereign sukuk, for example, institutional quality and governance effectiveness is a key factor for the rating on the sovereign sponsor. Indeed, it accounts for approximately one-quarter of the indicative sovereign rating. Similarly, for banks, we take into consideration deficiencies in the overall quality of a banking system's governance and transparency in our Banking Industry Country Risk Assessment, which is the starting point for assigning a bank rating. The impact could also be reflected in the individual assessment of a bank through our assessment of the quality of its management and strategy, or through its potential exposure to losses on its financing or investment portfolios because of ESG-related considerations (such as climate change). Finally, for Takaful companies, risks inherent to the insurance markets in which the company operates or specific risks undertaken by the insurance company (such as exposure to climate change) are factored into our macro assessment of the insurance company.

From: Mohamed, Damak, Dhruv, Roy, et al., *S&P Global Rating* (May 2019) [edited]