



IIFM Master Agreement for Treasury Placement (MATP)

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What is Commodity Murabaha



➤ **Murabaha**

Is a contract of sale between the bank and its client for the sale of Shari'ah compliant commodities/goods at a price plus an agreed profit margin for the bank. The contract involves the purchase of goods by the bank which then sells them to the client at an agreed mark-up on differed payment basis

➤ **Commodity Murabaha**

The "Parties" (two financial institutions or a FI and client) may from time to time initiate discussions to agree the terms of a proposed murabaha contract, whereby Party A (deposit placer) shall sell Shari'ah compliant commodities to Party B (deposit taker) on immediate delivery and deferred payment terms. The arrangement of sale and purchase of commodities could be principle to principle or agency basis **Note: Nik Thani to review and improve is needed**

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Commodity Murabaha as a product



- No Shari'ah Issues in terms of commodity murabaha trades but excessive use raises concerns
- No Secondary Market trading options, inflexible product
- Doubts on amount of commodities vs transaction volume
- Low Returns

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Need to Standardize



Why IIFM standardized Commodity Murabaha documentation?

- Most common and widely used product in number of jurisdictions (in absence of other viable liquidity management instruments)
- Frequent legal, Shari'ah, operational and other costs
- Lengthy negotiation time and constant Shari'ah involvement
- Variations in documentation processes and procedures leads to Shari'ah divergence
- Moving away from costly bilateral arrangement to efficient standardized approach IIFM MATP

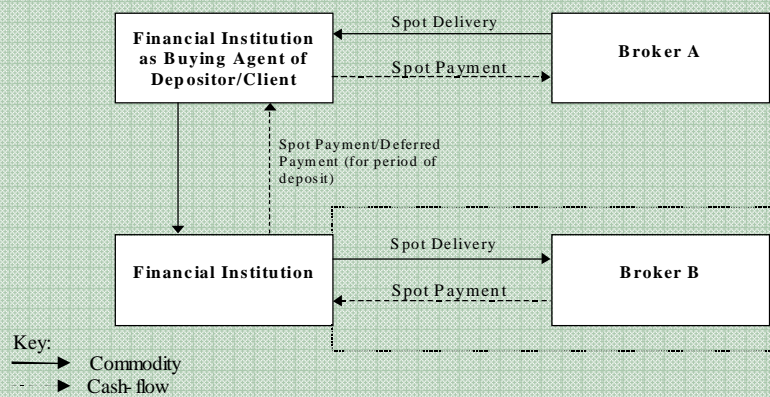
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MATP – Selected Structures



Murabaha Deposit Placement – Structure I (Agency)

- Deposit taker acts as buying agent of the FI



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Structure I (Agency) Salient Features



- The Deposit Placing Entity will appoint the Deposit Taking Entity as its (disclosed or undisclosed) buying agent
- This purchase will be effected by spot payment by the Deposit Taker (acting on behalf of the Deposit Placer) and immediate delivery of the Commodity by the Supplier
- The Agent will only be obliged to purchase the Commodities from the Supplier once it has been put in clear funds by the Deposit Placing Entity for an amount equal to the purchase price
- Following conclusion of the Purchase, the Agent will hold legal title to the Commodity on behalf of the Deposit Placing Entity. The Agent will take possession of the Commodity (either actual or constructive) on behalf of the Deposit Placing Entity
- Once the Agent holds legal title to the Commodity on behalf of the Deposit Placer, the Deposit Taker (in its corporate/personal capacity and not in the capacity as Agent) may offer to purchase the Commodity from the Deposit Placing Entity and upon the Deposit Placing Entity accepting such offer, a sale shall be effected (the First Sale)

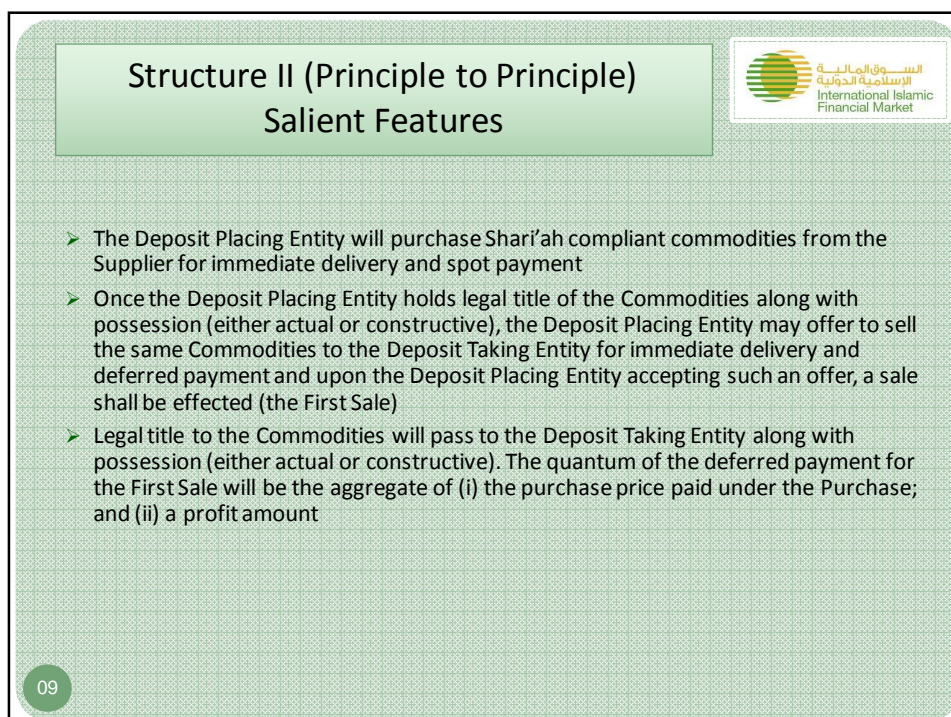
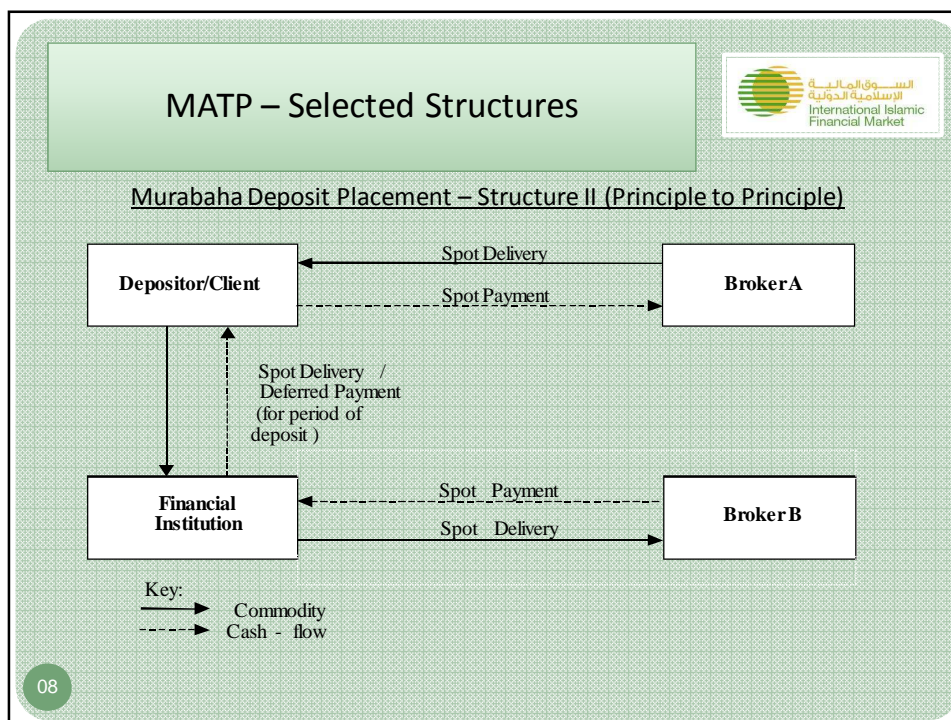
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Structure I (Agency) Salient Features



- Once the First Sale is concluded and the Deposit Taker becomes the owner of the Commodity which is in its possession (either actual or constructive) it will be entitled to sell the Commodity to the Purchaser (a third party other than the Deposit Placing Entity or the Supplier) for immediate delivery and spot payment (the Second Sale). The purchase price for the Second Sale will be as agreed between the parties to that sale
- To mitigate commodity settlement risk, the Deposit Taking Entity (both in its capacities as principal and agent) and the Purchaser will be required to have a commodity account with the Supplier
- To mitigate cash settlement risk under each of the Purchase and the Second Sale, the purchase price payable by the Deposit Taking Entity (as Agent) to the Supplier under the Purchase may be 'settled' against the purchase price payable by the Purchaser to the Deposit Taking Entity under the Second Sale

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Structure II (Principle to Principle) Salient Features



- Once the Deposit Taking Entity holds legal title of the Commodities along with possession (either actual or constructive), the Deposit Taking Entity may offer to sell the same Commodities to the Purchaser (a third party other than the Deposit Placing Entity or the Supplier) for immediate delivery and spot payment and upon the Purchaser accepting such an offer, a sale shall be effected (the Second Sale)
- The purchase price under the Second Sale will be agreed between the parties. Legal title will pass from the Deposit Placing Entity to the Purchaser along with possession (either actual or constructive)
- Mitigation of commodity settlement risk – same as Structure I
- Mitigation of cash settlement risk – same as Structure I

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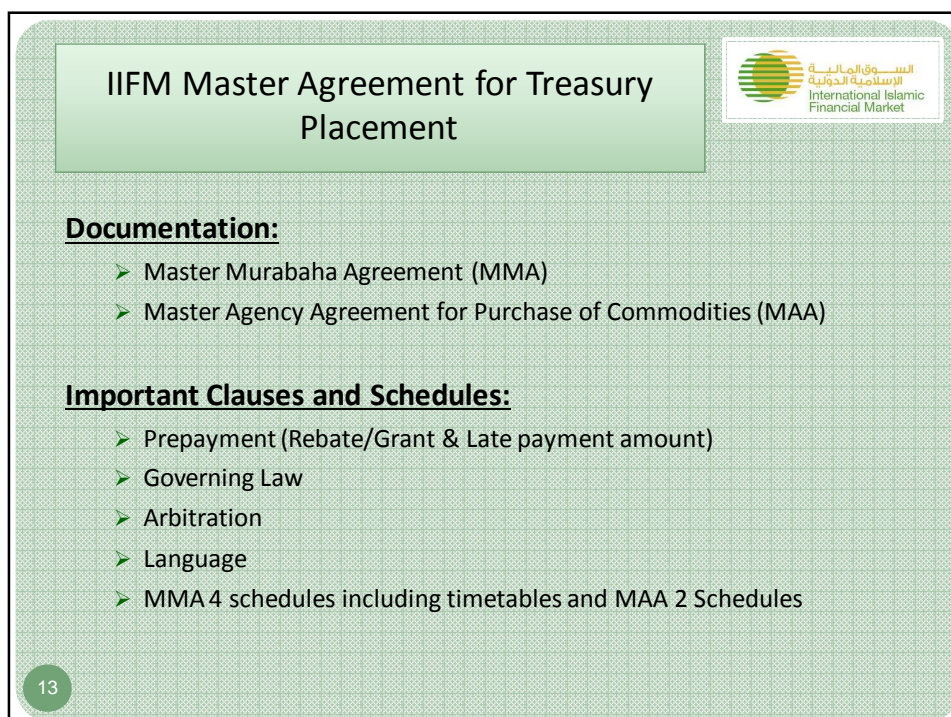
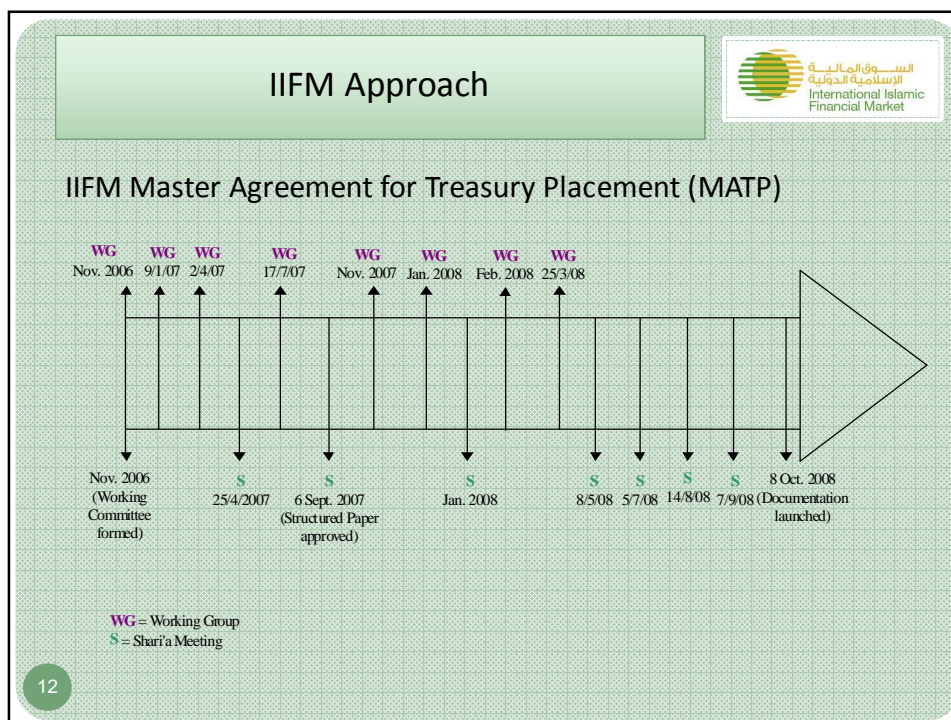
IIFM Approach



IIFM Master Agreement for Treasury Placement (MATP)

- IIFM's global working group; brings IFI's, regulators and other market participants on a common platform
- Working Group members more than 40 institutions from 9 jurisdictions
- IIFM Shari'ah Panel – 8 renowned scholars

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MATP Adaptation Procedures



➤ Use of MATP with Shari'ah Pronouncement

- Institution to obtain IIFM acceptance in order to use Shari'ah pronouncement (copyrights apply)
- Recommended procedure to gain true benefit and moving towards convergence

➤ Use of MATP as reference or guidance document

- MATP is used as a base document and as a starting point for negotiation only

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Benefits of MATP



- Based on widely acceptable Shari'ah ruling and market practices
- Reducing transaction arrangement cost (critical factor at present)
- Improving documentation standard and bringing smaller institutions on same level as large International banks
- Improving transparency
- Ideal for new jurisdiction entering Islamic finance
- Reduces burden on Shari'ah scholars – frees up time to concentrate on other more flexible and innovative liquidity management products thereby making Commodity murabaha
 - **Supplemental product in medium term (IIFM aim)**

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MATP Going Forward



➤ Initial beneficiaries of MATP

- Kuwait Finance House Group
- West LB
- Barclays Capital
- Calyon Corporate & Investment Bank
- Islamic Bank of Asia etc, etc
- IIFM members and member jurisdictions
- New Jurisdictions who are entering the Islamic Finance Industry

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Thank You!

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