



**C L I F F O R D  
C H A N C E**

**WORKSHOP ON IIFM STANDARDS**

**SESSION: COLLATERALISED MURABAHAH STANDARD**

QUDEER LATIF

10 April 2017

## **COLLATERALISED MURABAHAH TRANSACTIONS**

### **Introduction**

- No available industry template for “Islamic GMRA”
- Islamic repos in the market adopt in-house proprietary structures
- IIFM Master Collateralised Murabahah Agreement (“MCMA”) as a tool for liquidity management in the Islamic financial system

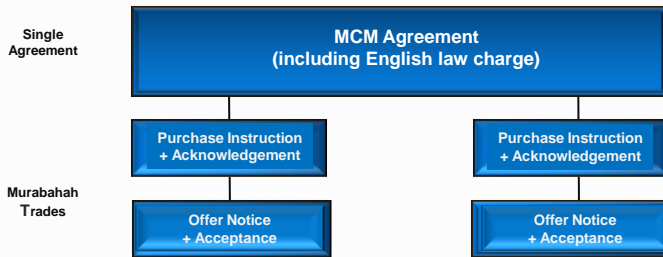
## MCMA – KEY ELEMENTS

- **Framework agreement** – MCMA covers all collateralised murabahah trades between the parties
- **MCMA not an “Islamic GMRA”** – product is not a repo; no title transfer of the securities subject to a financing but rather an English law charge
- **Seller and Buyer roles party-specific at master-level** – unlike the GMRA, only “one-way” financings permitted so one party acts strictly as financier and the other as obligor and a new MCMA required to do financings the “other way round” (note: “repo seller” = Buyer, “repo buyer” = Seller)
- **Financier can't rehypothecate/re-use the securities** – with no title transfer of the securities, the Seller will not be able to re-use the securities for the financing tenor
- **Margining provisions** – Initial Margin is the securities being financed and Variation Margin (which can be cash or securities and is an obligation of the Buyer) is benchmarked against the market value of the Initial Margin (note: [local law due diligence is required on: \(i\) supplemental pledge/ charging requirements on additional securities margin; and \(ii\) taking security over cash](#))
- **Sukuk collateral** – as with the GMRA, substitution of collateral is permitted under the MCMA and English law-driven security interest provisions govern (note: [local law pledge agreements may be required and local law advice required on whether substitution affects security interests](#))

## MCMA – KEY ELEMENTS (CONTINUED)

- **English law charge, no perfection** – there is an ISDA CSD-style English charging clause on the securities and any cash margin, which assumes they are held in a custody account that is then charged in favour of the financier (note: [doesn't work for securities in all jurisdictions and there may be onward perfection requirements for an English law charge. Perfection requirements are not in the MCMA](#))
- **Agency arrangements** – payments under MCMA mechanised through murabaha sales and purchases of commodities; therefore, commodity agency role needs to be documented in a separate agency agreement outside the MCMA
- **Custodian role** – although reference made to Custodian in the MCMA the parties will need to enter into separate custodian arrangements to hold the securities which are being charged (note: [local law considerations apply as to the involvement of the custodian for control, instructions and enforcement purposes](#))
- **Early termination** – triggers acceleration of all trades and collateral used to offset accelerated amount (note: [local law advice required on whether security interests would allow this](#))

## OVERVIEW OF MCM DOCUMENTATION ARCHITECTURE

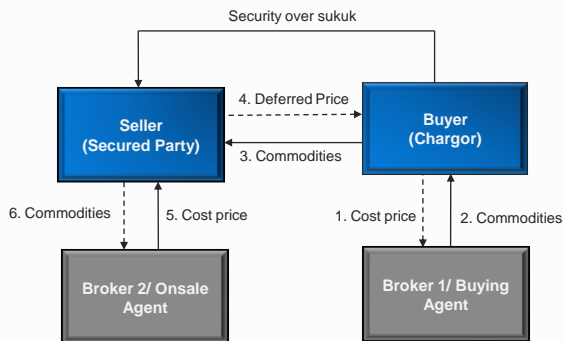


■ MCM Agreement also includes forms of:

- Valuation Notices
- Collateral Call Notices
- Acceleration Notices
- Substitution Notices

## SCHEMATICS OF A COLLATERALISED MURABAHA TRANSACTION (I)

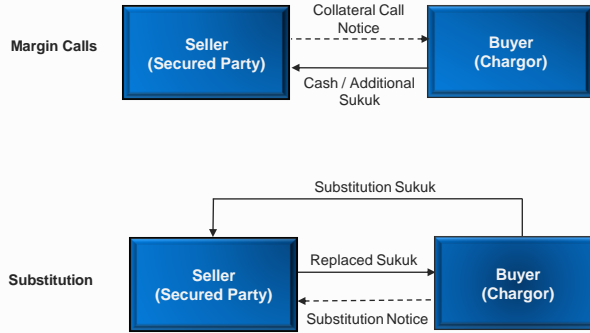
At the outset of the Transaction



Local law advice must be sought if sukuk are not in England and Wales

## SCHEMATICS OF A COLLATERALISED MURABAHA TRANSACTION (II)

### During tenor of a Transaction

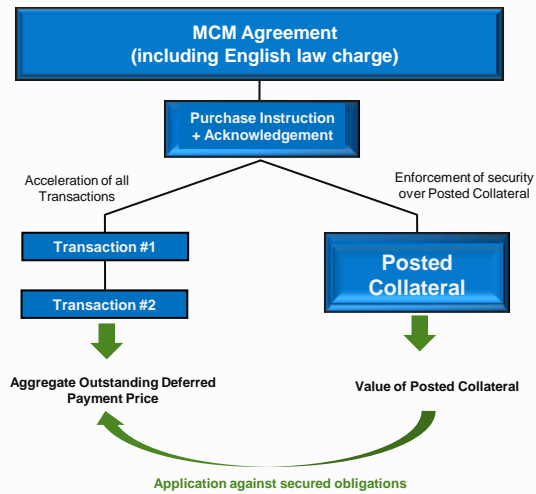


WORKSHOP ON IFM STANDARDS

Clifford Chance 7

## SCHEMATICS OF A COLLATERALISED MURABAHA TRANSACTION (III)

### Early Termination



WORKSHOP ON IFM STANDARDS

Clifford Chance 8

**OUR INTERNATIONAL NETWORK**  
33\* OFFICES IN 23 COUNTRIES



- |            |            |           |                  |
|------------|------------|-----------|------------------|
| Abu Dhabi  | Frankfurt  | New York  | Tokyo            |
| Amsterdam  | Hong Kong  | Paris     | Warsaw           |
| Bangkok    | Istanbul   | Perth     | Washington, D.C. |
| Barcelona  | Jakarta*   | Prague    |                  |
| Beijing    | London     | Rome      | Riyadh**         |
| Brussels   | Luxembourg | São Paulo |                  |
| Bucharest  | Madrid     | Seoul     |                  |
| Casablanca | Milan      | Shanghai  |                  |
| Dubai      | Moscow     | Singapore |                  |
| Düsseldorf | Munich     | Sydney    |                  |

\* Linda Widyell & Partners in association with Clifford Chance  
 \*\*Clifford Chance has a co-operation agreement with Abulmeed Alzahedi Alshagari Law Firm in Riyadh  
 Clifford Chance has a best friends relationship with Redcliffe Partners in Ukraine.

**CLIFFORD  
CHANCE**

Clifford Chance, Level 15, Burj Daman, Dubai International Financial Centre, P.O. Box 9380, Dubai, United Arab Emirates  
 © Clifford Chance 2017  
 Clifford Chance LLP is a limited liability partnership registered in England and Wales under number OC323571. Registered office: 10 Upper Bank Street, London, E14 5JJ. We use the word 'partner' to refer to a member of Clifford Chance LLP, or an employee or consultant with equivalent standing and qualifications. Licensed by the DFSA.

**WWW.CLIFFORDCHANCE.COM**