

In the name of Allah, the Entirely Merciful, the Especially Merciful

ISDA/IIFM TAHAWWUT MASTER AGREEMENT
Mechanics of exchanging schedules between parties
Sequence Procedures: Step by step

Q1: What are mechanics and when the exchange of the schedules between bank and client should take place?

Step 1: Countersign of the ISDA/IIFM *Tahawwut* master agreement (TMA) as a framework agreement which does not give rise to any transactions.

Explanation: The first step is to sign the TMA, and to sign the TMA parties need to do the following:

- (a) Date of the TMA and insert the names of the parties on the first page after the cover page.
- (b) Sign the TMA and insert the names of the parties and the details of the signatory on the last page before the schedule.
- (c) Agree and complete the schedule and sign it on the last page.

Note that to agree and complete the schedule the parties need to negotiate and agree a number of detailed points, most of which are administrative but a few of which are important substantive points.

Step 4: Exchange of annexes between the clients (annex 1 & 2) and its Sequences.

- Pursuant to the DFT Terms Agreement the Seller must first deliver to the Buyer an Exercise Notice with a fixed date and the Buyer as he undertakes, must purchase from the Seller a Relevant Shari 'ah Compliant Assets specified in the Exercise Notice.

Explanation: as mentioned each DFT terms contains a wa'ad of the relevant party. To exercise that wa'ad the exercising party must send an exercise notice. It will only do so profit rate period by profit rate period.

- If the DFT terms confirmation and agreement is signed and all its provisions such as "Effective Date" "Trade Date" "Exercise Date" etc. are known and approved by the parties, and the seller and the buyer in the transaction are identified then the following steps with respect to the Sequence of the exchanging document, need to be followed:

(a) First Step: Seller, who is the undertaking recipient, should send on its letterhead an EXERCISE NOTICE to the buyer (i.e. Exercising Buyer's Undertaking i.e. Wa'ad to purchase a commodity from him on *Murabahah* contract basis). (Please refer to annex 1, form of exercise notice for more details). As mentioned above this takes place profit rate period by profit rate period.

(b) Second Step: Two copies of the *Murabahah* Asset Sale Confirmation to be sent by the seller to the buyer (see the *Murabahah* asset sale confirmation).

i.e. the two *Murabahah* asset sale confirmations are to be attached to the exercise notice (see annex 1 paragraph 3. the buyer must return one signed original to the seller.

(c) Third Step: Buyer to countersign the *Murabahah* Asset Sale Confirmation and return it to the seller on the same day as the date on which the Exercise Notice is effective. (Please refer to annex 2 form of *Murabahah* asset sale confirmation for more details).

Note:

Buying and selling process in this transaction are based on well known *Murabahah* contract agreement. Therefore, the known process in the interbank *Murabahah* commodity execution with regard to exchanging schedules and establishing the dealings is the same.

Q2: Why do we have two sets of structures single sale and two sale structures?

The answer as follows:

Under the two sale structure, each party makes a sale to the other. So operationally there need to be two sales implemented generating two (2) cash flows the net result of the two (2) cash flows being the profit rate hedging payment.

In the one sale structure only one sale is effected, so operationally the parties need to arrange only one sale. The profit amount on that one sale will be the same as the net result of the two (2) cash flows under the two sale structure. So the one sale structure is operationally easier because only one sale needs to take place not two.