Operational Guidance Memorandum
For International Islamic Financial Market (IIFM)
Interbank Unrestricted Master Investment
Wakalah Agreement

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In the Name of Allah, the Most Gracious, the Most Merciful

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# Table of Contents

Purpose and structure of these guidelines (the Guidelines) ...................................... 1
1 PROCESS FLOW ............................................................................................................. 3
2 GENERAL......................................................................................................................... 6
2.1 Definition..................................................................................................................... 6
2.2 Types of Wakalah ........................................................................................................ 6
(a) Restricted or unrestricted Wakalah (Muqayyadah or Mutalaqah).......................... 6
2.3 Binding Wakalah (Al-Wakalah Allazimah) ................................................................. 6
2.4 Unrestricted Interbank Wakalah transaction .............................................................. 6
2.5 Difference between restricted Wakalah and unrestricted Wakalah ................. 7
2.6 Purpose ....................................................................................................................... 8
2.7 Key elements ............................................................................................................. 9
2.8 Need for the standard documentation .......................................................... 9
2.9 Mutuality of the agreement .................................................................................... 10
2.10 Use of this IIFM Agreement by conventional counterparties .............................. 10
2.11 Use of this IIFM Agreement for financing transactions ........................................ 11
3 RISK MANAGEMENT ................................................................................................ 12
4 WAKALAH TERMS AND CONDITIONS ................................................................. 14
4.1 Wakalah Pool ........................................................................................................... 14
4.2 Level of subordination ............................................................................................ 20
4.3 Anticipated Profit Rate ........................................................................................... 20
4.4 Actual Profit Rate .................................................................................................... 21
4.5 Wakil Fee .................................................................................................................. 24
4.6 Short term vs long term .......................................................................................... 26
4.7 Muwakkil’s return ................................................................................................... 26
4.8 Events of default / termination .............................................................................. 26
4.9 Shifting the burden of proof of the loss to Wakil .................................................. 29
4.10 Late payment amount ............................................................................................. 30
5 OTHER MATTERS ....................................................................................................... 31
5.1 IIFM Shari’ah pronouncement ............................................................................... 31
5.2 Amendment to IIFM Agreement due to change in Shari’ah views ....................... 31
5.3 Separate Account ..................................................................................................... 31
5.4 Capital adequacy .................................................................................................... 32
5.5 Deduction for tax or Zakat ..................................................................................... 33
5.6 Negligence or misconduct ..................................................................................... 33
6 APPENDIX 1 - ILLUSTRATIVE EXAMPLES ............................................................... 34
Purpose and structure of these guidelines (the Guidelines)

The purpose of these Guidelines is to highlight and document the key operational aspects of a proposed form of standardised Interbank Unrestricted Master Investment Wakalah Agreement (the “IIFM Agreement”) developed by IIFM for use by Islamic financial services industry (IFSI) participants. These Guidelines are not intended to be exhaustive and were documented to provide clarification on key operational aspects. In many cases, the analysis will help to identify the key issues that may need further consideration by the counterparties to the contract.

The defined terms used and the references made in these Guidelines are to be read in conjunction with the definitions and the detailed clauses contained in the IIFM Agreement.

Further analysis and interpretation will be needed in order for an IFI to consider the potential impact of these Guidelines in light of each IFI’s own circumstances, the legal and regulatory environment under which it is operating and the particular facts of individual transactions. The information contained in these Guidelines is based on initial observations developed by the IIFM in conjunction with various discussion groups. These observations may change in the future.
International Islamic Financial Market
Operating guidelines for Interbank Unrestricted Master *Wakalah Agreement*

1 **PROCESS FLOW**

**Offer**
- Wakil makes an offer for an Unrestricted *Wakalah* transaction. The offer, amongst other things, shall include the following:
  - Anticipated Profit Rate (APR)
  - Maturity
  - Wakalah Pool
  - Co-mingled vs Segregated pools

**Acceptance**
- Muwakil accepts the offer

**Fund Transfer**
- Muwakil transfers the investment amount to the Wakil

Early termination

- [ ] No
- [ ] Yes

**At maturity determine the return earned on the contract**

- Return > APR
  - *Wakil pays the Muwakil*
    - Investment Amount + APR – Wakil Fee and retain the excess (incentive fee) (clause 3.4 (a) 3.5)

- Return = APR
  - *Wakil pays the Muwakil*
    - Investment Amount + APR – Wakil Fee (clause 3.4 (a))

- Return < APR
  - *Wakil pays the Muwakil*
    - Investment Amount + Actual Profit – Wakil Fee (clause 3.4 (b))

- Negative return
  - *Wakil pays the Muwakil*
    - Investment Amount – Negative return – Wakil Fee (clause 3.4 (c))

**End**
1 PROCESS FLOW (continued)

Default by Wakil (clause 7.8)

- Muwakil notifies the Wakil of an early termination due to default on behalf of Wakil
- Wakil pays the Muwakil investment amount + lower of APR and Actual Profit Rate calculated up to the day of notification of Muwakil - Wakil Fee

Illegality (clause 8.5)

- Affected party informs the other party on becoming aware of event
- Wakil is to pay the Muwakil investment amount + lower of APR and Actual Profit Rate calculated up to the day of notification of Muwakil

Voluntary exit of Muwakil (clause 8.1)

- Muwakil sends a notice requesting for a early termination
- In case the Wakil accepts the request the Wakil shall notify the Muwakil of the acceptance. Early Termination date shall be the date of acceptance

Revised profit rate notice (clause 8.3)

- Wakil sends a notice to Muwakil notifying the inability to honour the anticipated return
- In case the Muwakil decides to continue with the contract
  - Wakil is to pay the Muwakil investment amount + total profit calculated up to the day of notification of Muwakil + revised profit rate calculated from the notification date to maturity date – Wakil Fee
- In case the Muwakil decides to terminate the contract
  - Wakil is to pay the Muwakil investment amount + lower of APR and Actual Profit Rate calculated up to the day of notification of Muwakil – Wakil Fee
The clauses referred in the process flow above are references to the IIFM Agreement. This flow chart provides an illustrative flow of a Wakalah Investment Transaction as envisaged in the IIFM Agreement. This should not be considered complete and conclusive on its own and should be read and interpreted in conjunction with the IIFM Agreement.
2 GENERAL

2.1 Definition

What is the definition of Wakalah in general?

Wakalah as defined by Accounting and Auditing Organisation for Islamic Financial Standards (AAOIFI) is the act of one party delegating the other to act on its behalf in what can be a subject matter of delegation. Basically Wakalah contract is a non-binding contract for both parties (Muwakkil and Wakil), which means that each of the two parties has the right to cancel the contract. However, it may sometimes become a binding contract in certain cases.

2.2 Types of Wakalah

What are the types of Wakalah?

Wakalah contract could be one of the following forms:

(a) Restricted or unrestricted Wakalah (Muqayyadah or Mutalaqah)
(b) Binding or Non-binding (Lazimah or Ghayr Lazimah)
(c) Paid or Non-paid (Be Ajr or Dun Ajr)
(d) Temporary or Non-temporary (Mu’aqqatah or Ghayr Mu’aqqatah).

2.3 Binding Wakalah (Al-Wakalah Allazimah)

When would Wakalah become a binding contract?

From a Shari’ah perspective, Wakalah would become a binding contract in the following cases:

1. When the Wakalah is a paid Wakalah i.e. Wakalah with fee;
2. When the Wakil commences a transaction that cannot be discontinued; and
3. When the Wakil or Muwakkil undertake not to cancel the contract within a certain period of time.

2.4 Unrestricted Interbank Wakalah transaction

In case of an Unrestricted Interbank Wakalah transaction, the Muwakkil, as investment accounts holders, appoint the Islamic bank to invest their funds in a
financial transaction on the basis of an unrestricted agency contract in return for specified fee or a specified fee and share of profit, if the realized profit exceeds a certain level, the latter being an incentive for the agent to achieve the return higher than expected [AAOIFI - Financial Accounting Standard (FAS) No. 5 – Appendix D: Definitions].

**Illustration:**

1. The investor makes a Wakalah investment with the Islamic Bank
2. The Islamic Bank invests in Shari'a compliant investment / treasury transactions
3. Profit is received by the Islamic Bank on the investment
4. The Islamic bank charges an agency fee and may also share profits earned in excess of the anticipated rate given to the investor. However, loss to be borne by the investor alone except in case of negligence by the Wakil

**General use of Wakala**
- Interbank transactions
- Asset management
- Investment funds
- Documentation agent
- Syndicated debt
- Escrow contracts, etc.

2.5 **Difference between restricted Wakalah and unrestricted Wakalah**

What is the difference between the Unrestricted Interbank *Wakalah* and Restricted *Wakalah* arrangements?

According to the AAOIFI *Shari‘ah* Standard (SS) No. 23, Wakalah contracts could be either one of the following:

**Restricted** (*i.e.* *Muqayyadah*)

If the *Wakalah* is restricted one, therefore it must remain restricted and adhere to what has been agreed between the *Muwakkil* and the *Wakil*. In this case, the *Wakil* has no right to violate what has been restricted to do by the *Muwakkil*.
Unrestricted *(i.e. Ghayr Muqayyadah)*

If the *Wakalah* is unrestricted one, in this case, *Shari‘ah* principles and customary practices *(i.e. al-urf)* must be fully and well observed with regard to any transaction involved.

**What is the Unrestricted Interbank *Wakalah* Agreement?**

Unrestricted Interbank *Wakalah* is a specific contract designed to be used between financial institutions for managing their liquidity through *Shari‘ah* compliant interbank treasury transactions. IIFM Agreement has been developed by IIFM for the purpose of standardizing the interbank *Wakalah* documentation to be followed by counterparties and is aimed at providing the IFSI clear direction on the use of the product.

**2.6 Purpose**

**What is the purpose of entering into an Unrestricted Interbank *Wakalah* Agreement?**

Given the strict prohibition of *riba* (interest) under the *Shari‘ah* (Islamic law), the scope of *Shari‘ah* compliant liquidity management is more limited than liquidity management for a conventional bank, since it is still essential for Islamic Financial Institutions (IFIs) to manage their excess liquidity in a way that produces a return for them. For many years, IFIs have relied mainly on commodity *Murabaha* for their wholesale liquidity management purposes notwithstanding issues and concerns related to commodity *murabaha* transactions, such as the cost of commodity brokerage, or the amount of *Shari‘ah* compliant commodities available at any particular moment in time to cover transaction volumes etc.

In order to diversify the range of liquidity management solutions available to the IFSI, the last few years have witnessed the active use by IFSI of *Wakalah* arrangements / transactions (both restricted and unrestricted) as an alternative
liquidity management tools. The objective of this activity has been to reduce
the over reliance by the IFSI on commodity murabahah.

2.7 Key elements

What are the important elements that must be taken into account in the
Wakalah contract in general?

The basic elements of Wakalah include the form, the subject matter of agency
and the two parties to the contract (i.e Muwakkil and Wakil). The form of
agency comprises any act that is a customary practice traditionally considered
as a delegation of the right to act on behalf of the other. Such delegation
comprises of an offer and acceptance. The subject matter of Wakalah is the
underlying transaction for which an agency is entered into. [AAOIFI Shari’ah
Standard No. 23 para 2/2]

The key elements reflected in the IIFM Agreement include:

- Investment Amount;
- Investment Transaction (unrestricted basis);
- Wakalah Pool (commingled vs segregated);
- Anticipated Profit Rate;
- Investment Period;
- Wakil Fee;
- Wakalah Pool; and
- Rights and obligations of both parties

2.8 Need for the standard documentation

Why IIFM, based on the market consultation, decided to develop standard
documentation on Unrestricted Inter-bank Wakalah?

IIFM is focused on the Islamic Capital & Money Market segment of the Islamic
finance industry. Its primary focus lies in the standardization of Islamic financial
products, documentation and related processes at the global level.
Through this IIFM Agreement, IIFM has aimed to address the issues and diversity in practices around Unrestricted Interbank Investment *Wakalah* and has through its research and consultation process has developed a suggested approach for documenting the arrangement incorporating features that have been designed to meet the requirements of the IFSI.

2.9 **Mutuality of the agreement**

*Can this agreement be used as a master agreement between two parties under which either can assume the role of *Wakil* and *Muwakkil* under the same terms?*

The IIFM Agreement is generally intended to be applied between parties in their respective capacities on which it is entered. However, it is possible that the IIFM Agreement can be used as a master agreement between two parties under which either party can assume the role of *Wakil* or *Muwakkil* under the same terms. In such a scenario, the role needs to be tracked based on the Offer Notices made each time under the Master agreement. It is the discretion of the contracting parties to ensure that the roles and responsibilities are clearly defined under the terms of such arrangement.

2.10 **Use of this IIFM Agreement by conventional counterparties**

*Can conventional financial institutions use this IIFM Agreement?*

Use of the IIFM Agreement for inter-bank placements is not necessarily restricted to IFI’s acting as counterparties. Conventional financial institutions may also use this IIFM Agreement for entering into *Shari’ah* compliant inter-bank placements with an IFI. If they do so, such conventional financial institutions would be expected to undertake their own assessment of demonstrating *Shari’ah* compliance, contracting risk involved and the potential commercial benefits of the transactions as determined in accordance with their own internal risk framework.
It is expected that the conventional financial institutions, acting as Wakil, shall address the following as minimum requirements:

- Invest the Wakalah funds in a Shari’ah compliant manner the details of which must be documented in the Wakalah Offer;
- The conventional financial institutions must have a Shari’ah board / Shari’ah governing body supervising its Shari’ah compliant business (including the deployment of Wakalah investments);
- At all times (during the Investment Period) ensure that they have Shari’ah compliant assets at least equal to or more than the Investment Amount.
- If the conventional financial institution has obtained other similar Islamic investments (e.g. under Wakalah/Mudaraba structures) then the size of Shari’ah compliant assets should be further increased by similar amount or more.
- In case of insufficient Shari’ah compliant assets (as discussed above), the conventional financial institution should either keep such portion of the investment (equivalent to the shortfall between Investments and Shari’ah compliant assets) in cash or return such portion to the Muwakkil.

In such cases, the IFI may also need to assess its own compliance with Shari’ah principles when dealing with conventional financial institutions in the capacity of a Wakil.

2.11 Use of this IIFM Agreement for financing transactions

Can this agreement be used for financing transaction?

This IIFM Agreement has been designed as a tool for managing liquidity and short term Shari’ah compliant treasury activities. Hence, the agreement in its current form is not intended to be used for financing transactions.
3 RISK MANAGEMENT

Does the agreement require minimum risk assessment procedures and due diligence to be carried out by the contracting parties and what are the contracting parties responsibilities?

The IIFM Agreement does not stipulate any specific risk assessment procedures or due diligence requirements to be met. However, the key factors that may need to be considered and understood in the context of a Wakalah arrangement are:

- From a Shari’ah perspective, the Muwakkil retains the risk of loss of principal and there is no loss indemnification by the Wakil; (clause 2.4)
- It is expected that the Muwakkil’s, in its normal course of business, would undertake minimum due diligences required to place reliance on the Wakil’s as a counterparty and service provider in connection with the Wakalah Investment Transaction; (clause 2.1 (e)) and
- The Wakil, as a service provider, has a commitment to execute and manage the Wakalah Investment Transaction diligently and in the best interest of the Muwakkil. The Wakil is also expected to communicate with the Muwakkil in a transparent manner both before and after the execution of the Wakalah Investment Transaction until maturity. (clauses 2.3 (a), (b) and (d))

As per Shari’ah, the Wakil is considered as a trustee in holding the underlying Wakalah Asset Pool and therefore, is not bound to indemnify the Investment Amount in case of loss. The Wakil can only be held responsible for indemnity when the damage results from misconduct, negligence or breach of terms of the IIFM Agreement (AAOIFI Shari’ah Standard No. 23 para 5/2).

In current volatile market conditions, relying solely on representations made by the Wakil may not be appropriate and the Muwakkil is expected to perform their own risk assessment. It should also be clarified that under a Wakalah structure it is possible that the Anticipated Profit Rate may not be achieved. Therefore, when entering into an Unrestricted Interbank Wakalah Agreement, the Muwakkil must be aware of the fact that any loss on its investment by the Wakil will be borne by the Muwakkil himself, except in case of negligence by the Wakil.
Therefore, we recommend that before engaging into any Wakalah investment transaction as a Muwakkil, it is reasonably expected that an IFI will be required to follow their internal risk assessment procedures (i.e. due diligence) on credit worthiness and investment track record of the Wakil and assign a limit for each counterparty. The due diligence, amongst other things, is expected to cover the Wakil’s credit risk, past investment management performance, governance structure, shari’ah compliance framework, liquidity management and market risk policies and frameworks that would support the Wakil’s ability to manage and provide an exit to the Muwakkil on the Maturity Date. The credit and investment assessment should be subject to review regularly.

As a commitment to transparent and enhanced disclosures as an agent in the financial sector, the Wakil should also consider presenting a business plan or a feasibility report to the Muwakkil before the Wakalah Investment Transaction. Such business plan shall include description on the Wakil’s investment plan including the targeted Wakalah Pool (mix, sector, geography, asset class, liquidity features etc.), indicative returns that the Wakil expects the Wakalah Pool to generate and the Wakil’s assessment of ability to liquidate the Wakalah Pool at the time of Investment Maturity.

It is expected that the Wakil shall not propose to enter into a Wakalah Investment Transaction unless it reasonably and genuinely believes, after due inquiry with respect to market conditions, past performance and future projections, that the Actual Profit Rate, in relation to the relevant Wakalah Investment Transaction, will be equal to or greater than the Anticipated Profit Rate. (clause 2.3 (d))
4 WAKALAH TERMS AND CONDITIONS

4.1 Wakalah Pool

What is the Wakalah Pool and what is the appropriate mixture of any Wakalah Pool?

Wakalah Pool means the pool of assets in which the Wakil shall invest the Investment Amounts. The pool of assets may consist of the Wakil’s:

a) general treasury pool comprising the [Wakalah/Mudaraba] funds held and invested by the Wakil from time to time; or

b) at Wakil’s discretion, a segregated pool of assets more specifically described in the Wakil Offer Notice (clause 1.1 of the IIFM Agreement)

In all cases, the pool of assets has to be Shari’ah compliant. The Wakalah Pool can either be managed on a segregated pool basis or on a commingled basis. Based on general market practice, when an investor invests money with the agent under a Wakalah, such money is usually mixed with the Wakil’s own pool of funds (commingled funds) for operational ease and invested collectively in a general treasury pool with similar return parameters, whereas in cases where the return objectives and the concerned asset class are specific and identified by the Muwakkil, a segregated pool would be more relevant for monitoring and reporting purposes. However, it is the discretion of the counterparties to agree the Wakalah Pool in Wakil Offer Notice or a separate confirmation to avoid ambiguity.

As the IIFM Agreement expects the Wakil to invest the investment amount in an identified treasury pool of assets (segregated or commingled), there is an inherent expectation that the Wakil should not accept funds under such IIFM Agreement to finance other operational activities and expenses i.e. the Wakalah Investment Amount shall always be backed by the identified/
allocated *Wakalah* pool of an equivalent amount or higher and a negative coverage is not envisaged as per the terms of the IIFM Agreement.

**Commingled or general treasury pool**

The commingled funds available for investment in a treasury pool are generally funded from the following sources:

- Equity and liability of the *Wakil*;
- Unrestricted investment accounts (*Mudarabah* funds);
- *Sukuk* proceeds; and
- *Wakalah* Investment Amounts

What consists of a general treasury pool needs to be clearly defined or elaborated in the Offer Notice. As per current market practice, this pool usually comprises:

- Placements with banks and other financial institutions under *Murabahah*/*Wakalah*/ *Mudarabah* contracts;
- Investment in highly liquid *Shari’ah* compliant treasury bills, government securities and money market instruments;
- Investment in listed *Sukuk* and similar instruments; and
- Cash and cash equivalents pending investment allocations

Investments in real estate (held for earning rentals or for capital appreciation) would generally not qualify to be part of treasury asset pools for the following reasons:

- Real estate investments are not liquid and cannot be converted into cash immediately to match the maturity tenor of the *Wakalah* Investment in an interbank transaction; and
- All real estate asset classes may not be generating realised returns to match the Anticipated Profit Rate for Investment Period and at maturity.
However, it remains the discretion of the Muwakkil as to what asset classes or mix would be accepted in the Wakil Offer Notice.

**Illustration:**

The average return expected from the mix of the treasury pool of assets should be at least similar to or higher than the Anticipated Profit Rate of the Wakalah Investment Amount. The Muwakkil shall consider including in the Wakalah Pool, assets whose maturity profile matches the maturity period of the Wakalah Investment Amounts or where the asset can be converted to cash within a short period of time with an insignificant change in value. This would give the flexibility for the Wakil to select the assets that would comprise the Wakalah Pool. However, if there is any change in the composition of assets of Wakalah Pool that would negatively impact the returns or the Wakalah Investment, then the Wakil should take steps to inform the Muwakkil immediately prior to the Maturity Date.

**Segregated pool**

A segregated pool includes specifically identified assets or class of assets that would be assigned as the subject matter of the Wakalah Investment transaction. This has to be agreed upfront between the Wakil and Muwakkil as part of the Wakalah Offer Notice. The assignment can either be maintained for each Wakalah Investment transaction or for the wider Wakalah pool of funds managed by the Wakil. A segregated pool is the pool of reference assets for a
**Wakalah** Investment transaction. However, in practice, segregated pools generally do not require legal separation from the assets of the *Wakil* i.e. they are asset based and not required to be asset backed.

Given that the IIFM Agreement is primarily designed to cover unrestricted *wakalah* arrangements for the interbank market, a reference to segregated pool of assets does not restrict the wider discretion of the *Wakil* on managing the pool of assets. A segregated pool merely enables a more specific calculation of returns and allocation of fees and incentive profits between the *Wakil* and *Muwakkil*.

It is also expected that the average return expected from the segregated pool of assets should be at least similar to or higher than the Anticipated Profit Rate of the *Wakalah* Investment Amount. The *Muwakkil* shall consider including in the *Wakalah* Pool, assets whose maturity profile matches the maturity period of the *Wakalah* Investment Amounts or where the asset can be converted to cash within a short period of time with an insignificant change in value. This would give the flexibility for the *Wakil* to select the assets that would comprise the *Wakalah* Pool. However, if there is any change in the composition of assets of *Wakalah* Pool that would negatively impact the returns or the *Wakalah* Investment, then the Wakil should take steps to inform the *Muwakkil* immediately prior to the Maturity Date.
Illustration:

Asset allocation within the *Wakalah* Pool

The mixture of *Wakalah* Pool is dependent on whether the *Wakalah* Pool is managed on commingled or segregated basis. As a matter of transparency and to avoid ambiguity, IIFM recommends that the counter parties should agree in the Wakil Offer Notice on the composition of the *Wakalah* Pool. For example, the *Wakalah* Pool may consist of a pre-determined portion of liquid securities (treasury, listed sukuk or equity securities) and the remaining could be invested in assets with fixed yield.

Replacement of assets in *Wakalah* Pool

Whether the *Wakil* has the ability to move assets in and out of the *Wakalah* Pool during the Investment Period given the IIFM Agreement by definition was designed to be ‘unrestricted’?

In general the *Wakalah* Pool would be based on defined asset classes and not necessarily refer to individual assets and the *Wakil* should have the required flexibility to adhere to the allocation presented in the *Wakil* Offer Notice. In cases, which are not covered under the *Wakil* Offer Notice, it would be considered permissible to move assets in and out of the pool only if such asset transfers are carried out in good faith and without exposing the *Muwakkil* to additional risks and such transfers are primarily made to improve the profitability of the *Wakalah* Pool to achieve the Anticipated Profit Rate. Also if
the existing pool of assets is not expected to earn the Anticipated Profits or if there are changes in Anticipated Profits due to a proposed change/re-allocation in the Wakalah Pool, the Wakil may have obligations under paragraph 8.3 of the IIFM Agreement to send a Revised Profit Rate notice to the Muwakkil.

**What are the factors that should be considered during the decision to manage the Wakalah pool on segregated or commingled basis?**

In our view, the following matters should be considered:

- Ability to maintain separate books for each Wakalah Investment Transactions;
- Ability to allocate assets to a segregated pool that would match the anticipated returns and maturity profile of the Wakalah Investment Amount;
- Costs and marketability of assets allocated in a segregated pool at the time of liquidating assets on maturity;
- Regulatory capital requirements; and
- Legal requirements and levels of subordination as per local law

**Can the Wakil’s assets pool be denominated in a different currency other than the currency of the Wakalah Investment Transaction**

Given the unrestricted nature of the agreement, it is possible that the Wakil’s assets pool can be denominated in a different currency other than the currency of the Wakalah Investment Transaction. In such a case, at the Maturity Date of the Wakalah Investment Transaction, the Maturity Proceeds shall be paid to the Muwakkil in the original currency of the Wakalah Investment Transaction. The return from the Wakalah Pool would be adjusted to factor the currency exchange differences arising due to application of different currency other than the currency of the Wakalah Investment Transaction.
4.2 Level of subordination

What is the level of subordination of wakalah under this agreement?

The level of subordination of Wakalah under this agreement is highly dependent on the Wakalah Pool whether it is managed on commingled or segregated pool basis. Also the Wakil has no obligations to indemnify for losses. However, on maturity or early termination, the payment obligations of the Wakil under the IIFM Agreement is expected to rank at least pari passu with the claims of all its other unsecured and unsubordinated creditors.

Based on general market practice, when a Muwakkil invests money with the Wakil on commingled basis, in the event that the Wakil becomes insolvent, the Muwakkil’s money will be part of the Wakil’s assets and may well be treated by the liquidator in certain jurisdiction’s law governing insolvency as part of the Wakil's liquidation assets. For this reason, in some jurisdictions, where there is an absent insolvency remote trust laws, investors are advised to consider this risk when investing their funds under a Wakalah agreement.

Where the Muwakkil invests money with the Wakil on segregated pool basis, in the event that the Wakil becomes insolvent, the level of subordination will be determined as per the terms of the IIFM Agreement (i.e. whether the reference pool is asset based or asset backed) and by local laws and regulations governing insolvency.

Also refer to the IIFM’s ‘Wakalah Agreement - Regulatory Analysis’ which is available for users of this IIFM Agreement to consider for their purposes and own internal assessment.

4.3 Anticipated Profit Rate

What is Anticipated Profit Rate?

Under the IIFM Agreement, the Anticipated Profit Rate represents the rate of profit the Wakil expects to earn for the Muwakkil by investing the Investment
Amount in its *Wakalah* Pool in accordance with any assumptions and its investment strategies at inception of the *Wakalah* transaction. This rate is not an obligation of the *Wakil* and the earned Actual Profit Rate could be different from the anticipated rate. However, the existence of a *Wakil* Fee and the incentive payment clause in the IIFM Agreement, aligns the *Wakil’s* interest with that of the *Muwakkil* and there is adequate remuneration in place for the *Wakil* to make its best efforts to earn the Anticipated Profit Rate. The *Wakil* is expected to make reasonable efforts to demonstrate its commitment to act responsibly and provide the Anticipated Profit Rate to the *Muwakkil* under the IIFM Agreement.

**What is the purpose of the Anticipated Profit Rate?**

Anticipated Profit Rate is a key component of the Offer Notice and documents the shared understanding between both parties on return objectives of the *Wakalah* Investment Transaction.

Also from an operational and treasury stand point, banks are required to accrue profits on treasury transactions using its effective yield. Therefore, from a *Muwakkil’s* perspective, profit on inter-bank money market instruments are calculated on a daily basis based on the terms of each product which are mainly, Investment Amount, Anticipated Profit Rate and Investment Period. IIFM expects IFI’s will use the same concept for the *Wakalah* transaction.

### 4.4 Actual Profit Rate

In case the *Wakalah* pool is managed on commingled basis, how the *Wakil* will calculate the Actual Profit Rate for each *Wakalah* Investment transactions?

Generally, in a banking environment, the systems are capable of calculating profit on *Wakalah* Pool on a daily/ monthly basis. The daily/ monthly profit generated from the *Wakalah* Pool is allocated to the respective *Wakalah* Investment Amount. Accordingly, the *Wakil* will be able to monitor the Actual
Profit against the Anticipated Profit on a regular basis and this would allow the 
*Wakil* to take action (either change the mixture or replace assets in the 
*Wakalah Pool* or send Revised Profit Notice to *Muwakkil*).

**Illustration:**

The below example illustrates one possible practice of maintaining segregated 
pools and calculating actual profits for a month.

<table>
<thead>
<tr>
<th>Asset pool</th>
<th>Yield (p.a.)</th>
<th>Period of computation</th>
<th>Profit Amount for the month</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government <em>Sukuk</em> (20%)</td>
<td>5%</td>
<td>31 days</td>
<td>86.11</td>
</tr>
<tr>
<td>Corporate <em>Sukuk</em> (30%)</td>
<td>6%</td>
<td>31 days</td>
<td>155.00</td>
</tr>
<tr>
<td>Interbank placements (50%)</td>
<td>2%</td>
<td>31 days</td>
<td>86.11</td>
</tr>
<tr>
<td><strong>Total profit for the month</strong></td>
<td></td>
<td></td>
<td><strong>327.22</strong></td>
</tr>
<tr>
<td>Implied yield</td>
<td></td>
<td></td>
<td><strong>3.80%</strong></td>
</tr>
<tr>
<td>Anticipated Profit Rate</td>
<td></td>
<td></td>
<td><strong>3.50%</strong></td>
</tr>
</tbody>
</table>

**Could the Actual Profit Rate be different from the Anticipated Profit Rate?**

**What are the consequences?**

As per the IIFM Agreement, there are four possible scenarios for the *Wakalah* 
transaction and each of them would impact the Maturity proceeds as follows.

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Maturity proceeds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Anticipated Profit Rate =</td>
<td>Investment Amount + Investment Amount * (Actual Profit Rate * Investment period / 360) – <em>Wakil</em> fee</td>
</tr>
<tr>
<td>Actual Profit Rate</td>
<td></td>
</tr>
<tr>
<td>Actual Profit Rate &gt;</td>
<td>Investment Amount + Investment Amount * (Anticipated Profit Rate * Investment period / 360) – <em>Wakil</em> fee</td>
</tr>
<tr>
<td>Anticipated Profit Rate</td>
<td></td>
</tr>
</tbody>
</table>
In this case the excess amount would be retained as incentive by the *Wakil*.

<table>
<thead>
<tr>
<th>Actual Profit Rate</th>
<th>Investment Amount + Investment Amount * (Actual Profit Rate * Investment period / 360) – <em>Wakil</em> fee</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; Anticipated Profit Rate</td>
<td></td>
</tr>
</tbody>
</table>

| Negative Profit Rate (loss) | Investment Amount - Investment Amount * (Negative Profit Rate * Investment period / 360) – *Wakil* fee |

**Detailed worked examples on profit rates and maturity amount calculations have been provided in Appendix 1.**

**In case the Actual Profit is in excess of the Anticipated Profit Rate, is *Wakil* required to disclose the incentive fees to the *Muwakkil*?**

The IIFM Agreement, based on current interbank market practices, caters for incentive payment but does not specifically require the *Wakil* to disclose the Actual Profit Rate and it is a commercial decision of the *Muwakkil* as to whether they require disclosure and sharing of any excess returns. However, Shari’ah scholars and industry participants have concerns as to whether it would be considered fair for the *Wakil* to retain all excess profits above the Anticipated Profit Rate as an incentive. In our view, for better and transparent disclosures, the *Wakil* should implement a mechanism of periodic reporting to *Muwakkil* on the assets pool, actual profit rate during the transaction period and at the maturity of the transaction. It is important for the counterparties to mutually agree either in the Wakil Offer Notice or separately, the disclosures to be made by the *Wakil* and specify the fee to be charged to the *Muwakkil* and the mechanism of computing incentive for the *Wakil*. 
Considering that the Wakalah Pool has different class of assets and each type of asset has different accounting treatments, can the Wakil consider unrealized gain as part of the Actual Profit Rate in the investment Wakalah transaction?

It is expected that on Maturity Date all underlying investment have been or can be converted to cash. Hence, Actual Profit Rate would reflect an earned and realized profit on the Wakalah Investment Amount that can be distributed. In the interim period, for computational and reporting purposes, the earned profit rate for the Wakalah Investment Amount shall include the adjustments arising from re-measurement of the Wakalah Pool of assets.

4.5 **Wakil Fee**

**What is the Wakil Fee and Wakalah Incentive?**

**Wakil Fee** means the fee specified in the Wakil Offer Notice payable by the Muwakkil to the Wakil on either the Investment Date or the Maturity Date subject to the agreement of the Wakil and Muwakkil (clause 1.1). The Wakil Fee should be fixed and not linked to the actual profit or performance of the Wakalah Pool.

**Wakil Incentive** is the excess of Actual Profit Rate over the Anticipated Profit Rate which is retained as incentive payment by the Wakil.

As per AAOIFI Shari’ah Standard No. 23 Appendix B – Basis of Shari’a Rulings, permissibility of adding a certain share of profit to the principal remuneration (Wakil Fee) rests on the fact that such addition does not distort knowledge of the principal amount. In the case where there is IIFM Agreement to offer the Wakil a certain share of profit is in the sense of a pledge to offer donation. Thus the offered share of profit is considered as a conditional gift, or as Juala. There is another view point which considers the incentive payment as a component of remuneration subsidiary to the principal Wakil Fee and concludes that in subsidiary we can overlook what cannot be overlooked in principal.
How is the *Wakil Fee* recognised? Can proportionate fee be recognized during the period or only at maturity? Can a monthly-based profit accrual accounting system be used for less-than-one-month deals (and related profit payments)?

**Accounting by *Wakil***: The Wakil is rendering a service and hence the *Wakil Fee* is generally recognized over the service period (in this case the Investment Period). For incentive income, in a banking environment, the incentive is calculated automatically by the systems on a daily basis over the term of the investment period and fee calculation is ceased at the maturity date.

**Accounting by *Muwakkil***: The *Muwakkil* recognizes the *Wakil Fee* separately as a deduction from the *Wakalah* profit over the Investment Period. Since the *Muwakkil* would generally follow an effective yield based accounting (i.e. will use Anticipated Profit Rate), incentive payments to the *Wakil* are not recognized separately.

**What are the modes of payment of *Wakil Fee***? Can this be paid in form other than cash?

From a *shari‘ah* perspective, this is entirely on a discretionary basis to be agreed between *Wakil* and *Muwakkil*. Generally, for interbank transactions, the payments are usually in cash. However, there is no restriction if the counterparties agree to settle the *Wakil Fee* in-kind. Anything the parties have agreed upon must be known and clear, whether it will be in cash or anything else. In other words, it is permissible in *Shari‘ah* that *Wakalah* contract could be a paid *Wakalah*, whether the fee is clearly stipulated in the contract or ascertained in accordance with the customary practices and the fee payable should be known whether in lumpsum or as a share of a specific amount of income etc.
4.6 Short term vs long term

Is there any difference in the treatment for short term and long term *Wakalah* transactions?

No, considering the current industry practice and banking environment, the duration of the *Wakalah* Transaction is not expected to have any difference in treatment or in the IIFM Agreement.

4.7 Muwakkil’s return

How does the Muwakkil record the income from the *Wakalah* transaction i.e. gross of *Wakil* Fee or net of *Wakil* Fee?

This *Muwakkil’s* net return is calculated after deduction of any *Wakil* Fee. The Operation/ Treasury departments of each counterparty would be expected to book the gross expected yield and fee expense separately in their systems. This is operationally different to conventional treasury deals wherein only the net yield is booked for each deal in the systems.

4.8 Events of default / termination

What if the *Muwakkil* fails to transfer the Investment Amount to *Wakil* on the investment date?

If the *Muwakkil* fails to transfer the Investment Amount in full to the *Wakil* on the Investment Date, the following may be the possible outcomes:

- The *Wakil* is not obliged to enter into the *Wakalah* Investment Transaction that is not in line with the Offer Notice and the *Wakalah* Investment Transaction shall automatically terminate and the *Wakil* shall return any amounts received from the *Muwakkil* (*clause 3.3 (c) of the IIFM Agreement*).

- In practice, if the partial payments made by *Muwakkil* under the IIFM Agreement could be invested and managed as envisaged by *Wakil*, then a revised *Wakala* Offer for the payments with revised investment terms should be agreed between both the parties.
In case of failure of Wakil to liquidate the Wakalah Pool due to conditions beyond the control of Wakil, would this be considered as event of default?

If the failure results from inability of the Wakil to liquidate the Wakalah Pool of assets due to events or circumstances beyond their control (force majeure, war, natural disaster, systemic risk etc), this event on its own would not be generally considered as a breach of the IIFM Agreement. The Wakil’s obligation relating to prior notices to Muwakkil would be considered for any assessment of breach of contractual terms.

What are the terms of payments upon early termination and what can be recovered from Muwakkil?

In the case where early termination is due to occurrence of an Event of Default with respect of the Wakil, then there is no Shari’ah concerns regarding payment of the Maturity Proceeds which should be paid in accordance with the terms agreed with the Wakil.

However, in the case of early termination request from the Muwakkil for prepayment (clause 8.1 of the IIFM Agreement) (Early termination at the request of the Muwakkil), the Wakil is entitled for compensation of any actual costs it has incurred as a result of such termination (clause 8.6 of the IIFM Agreement (Payments upon early termination)). The costs would represent any actual administrative costs and out-of-pocket expenses incurred by the Wakil as a result of the decision of the Muwakkil and should not cover costs of funds or loss of opportunity.

Please refer Appendix 1 for illustrative examples.

Whether the losses, if any, arising from a commingled or segregated asset pool should be equally allocated to the funding sources or it is the discretion of the Wakil to allocate losses arising in the commingled pool first to its equity and then pass on any excess losses to the Muwakkil?
From a Shari‘ah perspective, it was a pre-requisite that the unrestricted Wakalah and Mudarabah investment accounts should bear the risk of loss in their respective investments and provisions for any absorption of losses by the Wakil in the IIFM Agreement would contravene fundamental Shari‘ah principles. If the Wakil takes a separate decision to absorb losses due to considerations of displaced commercial risks, that is considered to be a decision outside the IIFM Agreement terms.

**How to deal with the potential risk of capital loss for investors? What are considerations for shareholders and fiduciary risk of the Wakil in a Wakalah transaction?**

By definition and as per Shari‘ah principles, it is inherent that the Muwakkil shall bear the losses and may lose the capital in a Wakalah Investment Transaction or may not earn the Anticipated Profit Rate.

Islamic Financial Services Boards and regulators acknowledge the need for assessment of the appropriate level of the capital adequacy requirements for IFI’s should be based on an analysis of the underlying asset portfolio and the results of the supervisory review process, taking into account rate-of-return risk and other risks that may give rise to displaced commercial risk (DCR). This risk is the transfer of the risk associated with deposits to equity holders. DCR arises when under commercial pressure banks forego a part of profit to pay the investment account holders to prevent withdrawals due to a lower return (AAOIFI 1999).

Displaced commercial risk implies that the bank though may operate in full compliance with the Shari‘ah requirements, yet may not be able to pay competitive rates of return as compared to its peer group Islamic banks and other competitors leading to a problem of deposit withdrawals. If anticipated rates are not earned and there is loss of capital, depositors/ investment account holders will have the incentive to seek withdrawal.
To prevent withdrawal, the owners of the bank may need to apportion part of their own share in profits to the investment depositors. Although the risk transfer to shareholders is part of regulatory assessments and commercial decisions, this is not within the terms of the IIFM Agreement and is treated as a separate decision of the shareholders.

4.9 Shifting the burden of proof of the loss to Wakil

In case of default, who has the burden to prove the loss in the transaction?

Given the unrestricted nature of the arrangement, the Muwakkil would not have access to the required information, facts or circumstances to assess the validity of a loss event.

Based on this situation which do exist at the present time, many of the contemporary Shari‘ah Scholars are of the view that the burden of proving a loss to the satisfaction of the Muwakkil should be transferred to the Wakil instead of Muwakkil. This trend is reflected in the Third Fiqh Conference for Islamic Financial Institutions held in 1430 / 2009, in the State of Kuwait. The participants in this conference have offered an alternatives solution to ensure the liability of the Wakil or Mudarib etc. in the case of claiming of loss etc. The main objective is to minimize the risks of claiming loss etc. by a Wakil in the Wakalah Investment Transaction, and they have reached to the following conclusions:

1. Transferring the burden of proof to trustees (Wakil) will indeed help to protect investors’ funds and provide confidence and certainty.

2. The transfer of burden of proof mentioned is quite different from asking the Wakil to guarantee the principal or the outcome of the transaction as this is considered to be against the Shari‘ah principles.

3. Demand / request the Wakil to bear the burden of proof in the case of claiming loss etc. is desirable because his claim of loss is against the main purpose of the transaction.
4.10 Late payment amount

In case of default of Wakil on the Maturity Date, what is the recourse to Muwakkil for recovering late payment charges?

In the event of default by Wakil, Muwakkil can claim actual costs only (not to include any opportunity costs or funding costs) incurred as a result of late payment. Any recoveries in excess of the actual costs shall be used for charitable purposes (clause 9.3 of the IIFM Agreement).

Does the investor have a possible recourse to the Wakalah assets (in case of default)? In case the Wakil is not able to liquidate the assets before the maturity date, is it obligatory to pay Late Payment Amount?

The level of subordination of Wakalah Pool is discussed above (4.2). In cases, where Wakil is not able to liquidate the assets in which an Investment Amount is invested on or before the applicable Maturity Date then the Muwakkil should not be put in a position where it should have to inquire as to the reasons for non-payment by the Wakil of the Maturity Proceeds on any Maturity Date. In extreme market circumstances where it is beyond the Wakil’s best efforts to liquidate, it should consult its Shari’ah board or the Shari’ah board of the Muwakkil if it wishes to see dispensation from payment of any Late Payment Amount.
5 OTHER MATTERS

5.1 IIFM Shari‘ah pronouncement

The terms of the IIFM Agreement are approved by the IIFM Shari‘ah Advisory Panel. The participants who intend to use this agreement may rely on the IIFM Shari‘ah pronouncement or obtain independent view of their respective Shari‘ah Supervisory Board as they consider necessary. Until amended by notice, the IIFM Shari‘ah pronouncement would be considered as the primary reference for the IIFM Agreement.

5.2 Amendment to IIFM Agreement due to change in Shari‘ah views

Can a subsequent amendment in Shari‘ah view lead to a modification or amendment in terms of the Wakalah transaction

The terms of the IIFM Agreement assumes that both parties to the IIFM Agreement has satisfied themselves, through their Shari‘ah Boards or Advisors, in relation to their assessment of Shari‘ah compliance of the terms of this IIFM Agreement or any Wakalah Contract prior to executing the IIFM Agreement. Accordingly, a subsequent revised ruling by the Shari‘ah Board or Advisors of either parties on matters of Shari‘ah compliance should not impact the legal basis of this IIFM Agreement or change the nature of obligations of either parties. The necessary provisions of the IIFM Agreement are steady and do not change, but sometimes there are some jurisprudence variation in some related issues. This should be addressed by the Banks on a case-by-case basis.

5.3 Separate Account

Should the Wakil maintain separate records for each Investment Transaction?

The Wakil should maintain adequate records for each Investment Transaction (which amongst other things would cover: amounts invested, composition of Wakalah pool, returns from Wakalah pool, allocation of losses, fee charged and
returns distributed) even if the funds are co-mingled. This is in line with the market practice in *Wakalah* investments as well as with general *Shari’ah* principles.

### 5.4 Capital adequacy

**What is the regulatory capital treatment followed for the *Wakalah* transactions by the *Muwakkil*?**

From a regulatory reporting perspective of the *Muwakkil*, usually, the *Wakil* is identified as the credit risk counterparty in an unrestricted inter-bank *Wakalah* transaction. Users of this IIFM Agreement should review and carefully consider their local regulatory requirements for classification of the Investment Amounts under such IIFM Agreements and its impact on capital adequacy.

The *Wakil’s* capital treatment of the commingled assets funded through Investment Amounts under the IIFM Agreement is primarily driven by the on or off-balance sheet treatment of the *Wakalah* pool. Based on the current market practice, it is expected that, in the particular case of interbank treasury transactions, the commingled assets funded through Investment Amounts under the IIFM Agreement will continue to be presented as on the balance sheet of the *Wakil* as the asset de-recognition requirements may not be met. For segregated asset pools, a separate assessment would be required as per the local accounting and regulatory standards depending on:

- Level of segregation (i.e. asset backed vs. assed based, ring-fencing etc.); and

- *Wakils’s* ability to change the composition of the *Wakalah* Pool and its continuing involvement and control over the assets.

Each party would need to assess the implication under local prevailing accounting pronouncements.
5.5 Deduction for tax or Zakat

Who is responsible for Zakat or tax on the Wakalah transaction?

The Muwakkil is usually responsible for their own Zakat payments, unless otherwise required by local regulations for withholding tax or Zakat. The Anticipated Profit Rate should be communicated after the impact of any tax that would be deducted at source by the Wakil. The Wakil Offer Notice to should also clearly cover applicable tax impact, if any, as per applicable regulations.

5.6 Negligence or misconduct

What is considered as negligence or misconduct by Wakil in a Wakalah Investment Transaction?

Negligence or misconduct is a failure to exercise the care that a reasonably prudent person would exercise in like circumstances. Some of the factors that may be considered would include:

- Breach of a promise to exercise care or skill in performing the service;
- Breach of trust;
- Breach of contract terms;
- Misrepresentation;
- Providing misleading information in the Wakil Offer Notice; etc.

Hence, negligence of Wakil is subject to the legal requirements of each jurisdiction under which the IIFM Agreement would be entered by the participants.
APPENDIX 1 - ILLUSTRATIVE EXAMPLES

Example 1: Actual Profit Rate = Anticipated Profit Rate (Clause 3.4 (a))

Terms as per Wakil Offer Notice

<table>
<thead>
<tr>
<th>Investment Amount</th>
<th>100,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment date</td>
<td>1 Jan</td>
</tr>
<tr>
<td>Maturity Date</td>
<td>31 Jan</td>
</tr>
<tr>
<td>Investment period</td>
<td>31 days</td>
</tr>
<tr>
<td>Anticipated Profit Rate</td>
<td>5%</td>
</tr>
<tr>
<td>Wakil Fee *</td>
<td>100</td>
</tr>
<tr>
<td>Actual Profit Rate</td>
<td>5%</td>
</tr>
</tbody>
</table>

* Assuming that the Wakil Fee is paid at the Maturity Date

\[
\text{Maturity proceeds} = \text{Investment Amount} + (\text{Investment Amount} \times \text{Anticipated Profit Rate} \times (\text{Investment Period} / 360)) - \text{Wakil fee}
\]

\[
= 100,000 + (100,000 \times 5\% \times (31/360)) - 100 = 100,330.56
\]

Example 2: Actual Profit Rate > Anticipated Profit Rate and Incentive fees calculation (clauses 3.4 (a) and (clauses 3.5)

Terms as per Wakil Offer Notice

<table>
<thead>
<tr>
<th>Investment Amount</th>
<th>100,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment date</td>
<td>1 Jan</td>
</tr>
<tr>
<td>Maturity Date</td>
<td>31 Jan</td>
</tr>
<tr>
<td>Investment period</td>
<td>31 days</td>
</tr>
<tr>
<td>Anticipated Profit Rate</td>
<td>5%</td>
</tr>
<tr>
<td>Wakil Fee *</td>
<td>100</td>
</tr>
<tr>
<td>Actual Profit Rate</td>
<td>9%</td>
</tr>
</tbody>
</table>

* Assuming that the Wakil Fee is paid at the Maturity Date

\[
\text{Maturity proceeds} = \text{Investment Amount} + (\text{Investment Amount} \times \text{Anticipated Profit Rate} \times (\text{Investment Period} / 360)) - \text{Wakil fee}
\]

\[
= 100,000 + (100,000 \times 5\% \times (31/360)) - 100 = 100,330.56
\]

Note: The Maturity Proceed will not change as calculated in Example 1 above. The Maturity Proceed is calculated based on the Anticipated Profit Rate. However, the
Wakil will retain the excess as Incentive Payment. The calculation of the Incentive Payment is as follows:

\[
\text{Incentive Payment} = (\text{Investment Amount} \times (\text{Actual Profit rate} - \text{Anticipated Profit rate}) \times (31/360)) - \text{Wakil fee}
\]

\[
= (100,000 \times (9\% - 5\%) \times (31/360)) = 344.44
\]

*The clauses referred are related to the IIFM Agreement.*

**Example 3: Actual Profit Rate < Anticipated Profit Rate (Clause 3.4 (b))**

Terms as per Wakil Offer Notice

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment Amount</td>
<td>100,000</td>
</tr>
<tr>
<td>Investment date</td>
<td>1 Jan</td>
</tr>
<tr>
<td>Maturity Date</td>
<td>31 Jan</td>
</tr>
<tr>
<td>Investment period</td>
<td>31 days</td>
</tr>
<tr>
<td>Anticipated Profit Rate</td>
<td>5%</td>
</tr>
<tr>
<td><em>Wakil Fee</em></td>
<td>100</td>
</tr>
<tr>
<td>Actual Profit Rate</td>
<td>2%</td>
</tr>
</tbody>
</table>

*Assuming that the Wakil Fee is paid at the Maturity Date*

\[
\text{Maturity proceeds} = \text{Investment Amount} + (\text{Investment Amount} \times \text{Actual Profit rate} \times (\text{Investment Period} / 360)) - \text{Wakil fee}
\]

\[
= 100,000 + (100,000 \times 2\% \times (31/360)) - 100 = 100,171.22
\]

**Example 4: Actual Profit Rate is a negative number (clause 3.4 (c)) (i.e the Wakala pool suffered losses)**

Terms as per Wakil Offer Notice.

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment Amount</td>
<td>1,000</td>
</tr>
<tr>
<td>Investment date</td>
<td>1 Jan</td>
</tr>
<tr>
<td>Maturity Date</td>
<td>31 Jan</td>
</tr>
<tr>
<td>Investment period</td>
<td>31 days</td>
</tr>
<tr>
<td>Anticipated Profit Rate</td>
<td>5%</td>
</tr>
<tr>
<td><em>Wakil Fee</em></td>
<td>100</td>
</tr>
<tr>
<td>Actual Profit Rate (net return)</td>
<td>-10%</td>
</tr>
</tbody>
</table>

*Assuming that the Wakil Fee is paid at the Maturity Date*
International Islamic Financial Market
Operating guidelines for Interbank Unrestricted Master Wakalah Agreement

Maturity proceeds = Investment Amount + (Investment Amount * Actual Profit Rate * (Investment Period / 360)) - Wakil fee
= 100,000 + (100,000 * -10%*(31/360)) - 100 = 99,038.89

The clauses referred are related to the IIFM Agreement.

Example 5: Revised profit rate (clause (8.3)) and (8.4 (a))

Continuing with the same assumptions used in Example 1, if we assume that the Wakil sent a Revised Profit Rate Notice on 15 January and the Muwakkil accepted the Revised Profit Rate Notice.

Investment Amount                  | 100,000
Investment date                   | 1 Jan
Maturity Date                     | 31 Jan
Investment period                 | 31 days
Anticipated Profit Rate           | 5%
Wakil Fee                         | 100
Actual Profit Rate (until date of revision)         | 4%
Revised Profit rate               | 1%
Date of the Revised Profit Rate Notice        | 15 Jan
Investment period until revised profit rate        | 15 days
Period from Revised Profit Rate Notice to Maturity Date | 17 days

* Assuming that the Wakil Fee is paid at the Maturity Date

Maturity proceeds = Investment Amount + [(Investment Amount * Actual Profit Rate * (Investment period till revised profit rate notice / 360)) + [Investment Amount * Revised Profit Rate * (period from the revised profit rate to Maturity / 360)] - Wakil fee
= 100,000+(100,000*4%*(15/360))+(100,000 *1%*(17/360)) -100 = 100,113.9

However, if the Muwakil has not accepted the revised profit rate, then the Muwakil has the right to early terminate the relevant Wakalah Investment Transaction. The calculation of the maturity proceed is similar to Examples II, III and IV as the Actual profit rate might be either less than the Anticipated Profit Rate or the Wakalah pool has suffered losses.

The clauses referred are related to the IIFM Agreement.
EARLY TERMINATION

Example 6: (Actual Profit Rate = Anticipated Profit Rate) (Clause 3.4 (a))

Terms as per Wakil Offer Notice.

<table>
<thead>
<tr>
<th>Term</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment Amount</td>
<td>100,000</td>
</tr>
<tr>
<td>Investment date</td>
<td>1 Jan</td>
</tr>
<tr>
<td>Maturity Date</td>
<td>31 Jan</td>
</tr>
<tr>
<td>Investment period</td>
<td>31 days</td>
</tr>
<tr>
<td>Anticipated Profit Rate</td>
<td>5%</td>
</tr>
<tr>
<td>Wakil Fee *</td>
<td>100</td>
</tr>
<tr>
<td>Actual Profit Rate</td>
<td>5%</td>
</tr>
<tr>
<td>Early Termination Date</td>
<td>20-Jan</td>
</tr>
<tr>
<td>Revised Investment period</td>
<td>19 days</td>
</tr>
<tr>
<td>Administrative and out-of-pocket Expenses</td>
<td>10</td>
</tr>
</tbody>
</table>

Maturity proceeds = Investment Amount + (Investment Amount * Actual Rate * (Investment Period / 360)) - Wakil fee - Administrative and out-of-pocket Expenses

= 100,000 + ( 100,000 * 5%*(19/360)) - 100 - 10 = 100,153.89

Example 7: Actual Profit Rate > Anticipated Profit Rate and Incentive fees calculation (clauses 3.4 (a) and (clauses 3.5)

Terms as per Wakil Offer Notice.

<table>
<thead>
<tr>
<th>Term</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment Amount</td>
<td>100,000</td>
</tr>
<tr>
<td>Investment date</td>
<td>1 Jan</td>
</tr>
<tr>
<td>Maturity Date</td>
<td>31 Jan</td>
</tr>
<tr>
<td>Investment period</td>
<td>31 days</td>
</tr>
<tr>
<td>Anticipated Profit Rate</td>
<td>5%</td>
</tr>
<tr>
<td>Wakil Fee *</td>
<td>100</td>
</tr>
<tr>
<td>Actual Profit Rate</td>
<td>15%</td>
</tr>
<tr>
<td>Early Termination Date</td>
<td>20-Jan</td>
</tr>
<tr>
<td>Revised Investment period</td>
<td>19 days</td>
</tr>
<tr>
<td>Administrative and out-of-pocket Expenses</td>
<td>10</td>
</tr>
</tbody>
</table>

* Assuming that the Wakil Fee is paid at the Maturity Date

Note: The Maturity Proceed will not change as calculated in Example 6 above. The Maturity Proceed is calculated based on the Anticipated Profit Rate. However, the
Wakil will retain the excess as Incentive Payment. The calculation of the Incentive Payment is as follows:

\[
\text{Incentive Payment} = (\text{Investment Amount} \times (\text{Actual Profit rate} \times \text{Investment Period}/360))
\]

\[
= (100,000 \times (15\% - 5\%) \times (19/360)) = 527.78
\]

*The clauses referred are related to the IIFM Agreement.*

**Example 8: Actual Profit Rate < Anticipated Profit Rate (Clause 3.4 (b))**

<table>
<thead>
<tr>
<th>Investment Amount</th>
<th>100,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment date</td>
<td>1 Jan</td>
</tr>
<tr>
<td>Maturity Date</td>
<td>31 Jan</td>
</tr>
<tr>
<td>Investment period</td>
<td>31 days</td>
</tr>
<tr>
<td>Anticipated Profit Rate</td>
<td>5%</td>
</tr>
<tr>
<td>Wakil Fee *</td>
<td>100</td>
</tr>
<tr>
<td>Actual Profit Rate</td>
<td>2%</td>
</tr>
<tr>
<td>Early Termination Date</td>
<td>20-Jan</td>
</tr>
<tr>
<td>Revised Investment period</td>
<td>19 days</td>
</tr>
<tr>
<td>Administrative and out-of-pocket Expenses</td>
<td>10</td>
</tr>
</tbody>
</table>

*Assuming that the Wakil Fee is paid at the Maturity Date*

\[
\text{Maturity proceeds} = \text{Investment Amount} + (\text{Investment Amount} \times \text{Actual Profit Rate} \times (\text{Investment Period} / 360)) - \text{Wakil fee} - \text{Administrative and out-of-pocket Expenses}
\]

\[
= 100,000 + (100,000 \times 2\%(19/360)) - 100 - 10 = 99,995.56
\]

**Example 9: (Actual Profit Rate is a negative number) (clause 3.4 (c)) (i.e. the Wakalah pool suffered losses)**

Wakah Investment transaction terms as per Wakil Offer Notice.

<table>
<thead>
<tr>
<th>Investment Amount</th>
<th>100,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment date</td>
<td>1 Jan</td>
</tr>
<tr>
<td>Maturity Date</td>
<td>31 Jan</td>
</tr>
<tr>
<td>Investment period</td>
<td>31 days</td>
</tr>
<tr>
<td>Anticipated Profit Rate</td>
<td>5%</td>
</tr>
<tr>
<td>Wakil Fee *</td>
<td>100</td>
</tr>
<tr>
<td>Actual Profit Rate</td>
<td>-10%</td>
</tr>
<tr>
<td>Early Termination Date</td>
<td>20-Jan</td>
</tr>
</tbody>
</table>
### International Islamic Financial Market
Operating guidelines for Interbank Unrestricted Master *Wakalah Agreement*

<table>
<thead>
<tr>
<th>Revised Investment period</th>
<th>19 days</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administrative and out-of-pocket Expenses</td>
<td>10</td>
</tr>
</tbody>
</table>

*Assuming that the Wakil Fee is paid at the Maturity Date*

<table>
<thead>
<tr>
<th>Maturity proceeds</th>
<th>= Investment Amount + (Investment Amount * Actual Profit Rate * (Investment Period / 360)) - Wakil fee - Administrative and out-of-pocket Expenses</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>= 100,000 + (100,000 * -10%*(19/360)) - 100 - 10 = 99,362.22</td>
</tr>
</tbody>
</table>

*The clauses referred are related to the IIFM Agreement.*