

## Regulations Governing Shari'ah Compliant Trading Platform For Murabaha

These Regulations may be called the Regulations Governing **Shari'ah Compliant Trading Platform** for Murabaha (the "Regulations") at Pakistan Mercantile Exchange Limited.

These Regulations shall come into force upon approval of Securities & Exchange Commission of Pakistan and gazette notification thereon.

### **Preamble:**

Whereas, Murabaha is considered as one of the acceptable financing modes under precepts of Islam.

AND WHEREAS, PMEX wants to play a vital role to strengthen Shari'ah compliant trading platform for Murabaha with financial institutions, corporates and others.

NOW THEREFORE, in the interest of Islamic financial institutions and others to adapt Islamic mode of financing, PMEX subject to approval of the Commission hereby drafts following Regulations which shall be called "Regulations for Shari'ah Compliant Trading Platform".

### **1. Definitions:**

In this chapter, unless the subject or context otherwise requires the following words and expressions shall have the meanings as assigned hereunder:

- a) **Constructive Possession** means the right to take physical delivery through transfer of ownership along with risk and reward by virtue of issuance of ETS Certificate
- b) **Delivery** means delivery of goods in physical form or having Constructive Possession through ETS Certificate.
- c) **ETS Certificate** means the certificate representing the ownership and Delivery as per the inventory ledger of the Participant maintained with PMEX.
- d) **Exchange for Physical ("EFP")** means immediate/real time settlement of contracts through Delivery.
- e) **Murabaha** means a sale transaction where the seller expressly mentions the cost of the commodity sold, and sells it to the buyer by adding some profit thereon.
- f) **Murabaha Contract** means a Commodity Contract in which the payment against purchase of commodity may be deferred by the buyer but Delivery will be made at the time of sale. The cost price and profit are disclosed at the time of sale.

- g) **PMEX Shari'ah Compliant Trading Contract** means all Shari'ah compliant commodity contracts approved by Shari'ah Advisor / Shari'ah Board, PMEX Board and SECP for trading at Shari'ah Compliant Trading Platform.
- h) **Primary Seller** means the Participant who initially makes the commodity available for trade on Shari'ah Compliant Trading Platform in the manner as prescribed under Regulation 5 (a) whereas the same Participant holds the commodity on behalf of its owner until commodity has been physically delivered / dispatched.
- i) **Shari'ah** means divine guidance as given by the Holy Qur'an and the Sunnah of Holy Prophet Muhammad ﷺ and embodies all aspects of the Islamic faith, including beliefs, practices, rules and principles as per the interpretation of the Shari'ah Advisor / Shari'ah Board of PMEX.
- j) **Shari'ah Advisor / Shari'ah Board** means a Shariah Advisor/Shariah Board as specified by the Commission.

## **2. Commodities Eligible For Trading**

The following commodities shall be eligible for trading on PMEX Shari'ah Compliant Trading Platform as per the procedure approved by the Shari'ah Advisor / Shari'ah Board.

- a. High Speed Diesel
- b. Petrol
- c. Gasoline
- d. Palmolien
- e. Furnace oil
- f. Rice
- g. Sugar
- h. Wheat
- i. Cotton
- j. Any other commodity approved by the Commission

Provided that following conditions related to the underlying Commodity are met:

- i) The parties must be legally competent to enter into sale/purchase transaction.
- ii) The Underlying Commodity must be halal and exist at the time of sale.
- iii) The Underlying Commodity must be in the ownership of seller at the time of sale.
- iv) The price of the Underlying Commodity must be certain.
- v) The Underlying Commodity must be in physical or constructive possession of the seller at the time of sale.
- vi) The sale must be unconditional, instant, and absolute and it must not be attributed to a future date or a sale contingent on a future event, as such sale is void.
- vii) The Commodity must be specifically known, quantified and identified to the buyer.

- viii) The delivery of the Underlying Commodity to the buyer must be certain and it should not be based on chance or contingency.
- ix) The underlying transaction should not adversely affect the sanctity of Maqasid e Shariah at any cost.

Provided further that PMEX shall ensure the following:

- 1) The information regarding the commodity's existing location and quantity in a manner like tank location, total inventory in each tank and inventory available for sale.
- 2) The sale of the commodity is done without any condition to re-sell it to ultimate buyer to avoid conditional sale and without any prior agreement with the first seller to avoid Bai Inah
- 3) No netting off transaction between first seller and the subsequent buyers has been carried out.
- 4) PMEX with the consent of Shari'ah Advisor / Shari'ah Board and shall prescribe the minimum time for holding the delivery by buyer before onward selling it to the seller and modify its system accordingly to conclude the transaction efficiently, transparently and in Shari'ah compliance manner.
- 5) Compliance of all relevant provision of AAOIFI's Shari'ah Standards No.8, 20 and 30, especially the compliance of clause 3/3 of AAOIFI' Shari'ah Standard No.20 as per the guidelines of Shari'ah Advisor / Shari'ah Board
- 6) The trading platform is able to carry out spot transaction in compliance of Shari'ah principles.
- 7) Submit quarterly report on Shari'ah compliance of Shari'ah compliant trading transaction duly verified by its Shari'ah Advisor / Shari'ah Board.

Shari'ah Advisory Board of SECP reserves the right to withdraw their approval if the conditions mentioned in the Shari'ah Approval are not duly satisfied or met at any point in time.

### **3. Shari'ah Compliant Trading Platform Participants (Participants)**

The following participants will be eligible to trade at Shari'ah Compliant Trading Platform:

- (a) All Brokers of the Exchange and their clients
- (b) All Islamic and conventional Banks
- (c) All entities who own commodity available for sale in any of the commodities eligible for Shari'ah Compliant Trading Contracts under Regulation 2 above and are willing to trade in such Contract.

All Participants will be pre-approved by the Exchange.

### **4. Transmission of Information**

Participants will provide information in relation to Shari'ah Compliant Trading Contract by disclosing all pre-requisites applicable for such transactions in the manner as prescribed by the Exchange:

- (a) Participants who want to act as Primary Sellers of a commodity in the Shari'ah Compliant Trading Platform will provide commodity information in the manner as prescribed by the Exchange from time to time.
- (b) The Exchange will transmit information on executed trades to the respective Participants in real-time.

#### **5. Rights & Obligations of Participants**

- (a) All participants are required to open account with PMEX through a registered broker of the Exchange.
- (b) Brokers and their clients would be allowed to perform their respective functions subject to these Regulations.
- (c) In accordance with the General Regulations, a Broker shall be responsible for the clearing and settlement obligations of all trades executed by the Participants.
- (d) Participants will be assigned UINs before they can participate in the Shari'ah Compliant Trading Platform.

#### **6. Trading Days and Hours of Shari'ah Compliant Trading Platform**

The Exchange shall announce the Trading Days and Hours in advance. The Exchange may extend, advance or reduce Trading Hours by notifying to all Participants through a notification.

#### **7. Risk Management of Trades in Shari'ah Compliant Platform**

All trades in Shari'ah Compliant Trading Contracts under these regulations shall be subject to a pre-verification as prescribed by the Exchange. Participants who are offering commodity for trading will be liable to provide delivery to purchasing Participants until the purchasing Participants receive physical delivery of commodity. Primary selling Participant must ensure that they have adequate arrangements for safety such as Takaful of their product on behalf of ETS Certificate holder.

#### **8. Trading, Clearing & Settlement Procedures**

- (a) All trades in Shari'ah Compliant Trading Platform shall have its settlement based on respective specifications of Shari'ah Compliant Trading Contracts.
- (b) Transfer of ownership/constructive possession of the underlying commodity and funds shall be done through the Clearing House of the Exchange.
- (c) Trades at the Shari'ah Compliant Trading Platform will be settled in real time through EFP.

(d) PMEX shall maintain bank account(s) that shall be used for the clearing of transactions carried out at Shari'ah Compliant Trading Platform with either full-fledged Islamic Bank(s) / Islamic Banking window(s) of conventional bank(s) or as approved by the Shari'ah Advisor / Shari'ah Board of PMEX.

**9. Trading Fee, Storage Fee etc.**

The Exchange shall prescribe, from time to time, trading fee, storage fee, etc. payable by such Participants for services provided by the Exchange or Primary Seller.

**10. Murabaha Contract Settlement Default**

In case a Murabaha Contract has been used for financing between participating institutions and a buying institution is unable to settle their obligations with the selling institution within the prescribed time, PMEX will not assume any liability due to such default. Deferred payment and financial settlement between buying and selling institutions is outside the ambit of these Regulations.

**11. Settlement Default**

Except in so far as highlighted in Regulation 10 above, in case a Participant is unable to tender delivery or make payment or fulfill its obligations for any reason whatsoever, against PMEX Shari'ah Compliant Trading Contract, the same shall be considered as default of such Participant and PMEX will settle Participant's obligations from its Cash or equivalent available with PMEX without creating any rights and obligations on any of the Participant in the Shari'ah Compliant Trading Platform & on PMEX.

**12. Transactions by Participants**

Participants must ensure that they have requisite internal and external approvals on their part to undertake Murabaha with other banks as well as participation in the Shari'ah Compliant Trading Platform at PMEX.

**13. Market Disruption / Force Majeure**

If the Shariah Complaint trading platform gets disrupted due to regulatory requirements, the Exchange reserves the right to cancel and reverse any or all trades on the PMEX Shariah Complaint Trading platform between participants which will be immediately referred to Shariah Advisor / Shari'ah Board for his ratification/ guidance.