



Meezan Bank
The Premier Islamic Bank

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الحمد لله رب العالمين، والصلاة والسلام على خاتم الأنبياء والمرسلين، محمد المصطفى
الأمين، وعلى آله وأصحابه أجمعين

Being the Shariah Advisor of Pakistan Mercantile Exchange (PMEX), I have examined the structure of Shariah Compliant Trading Platform and relevant Contracts and found them to be in line with principles of Shariah. The relevant aspects of Platform/Contracts are set forth as follows:

PROCESS FLOW:

1. All market participants will open account with PMEX through a PMEX registered broker resulting in creation of Cash and Inventory ledger accounts of all market participants.
2. PMEX will assign trading limits to each participant.
3. PMEX will update the daily HSD market price/distributor price into PMEX Murabaha Market (ETS) before start of trading
4. All trades at PMEX ETS will be executed on the price mentioned above i.e. **Single Price Market** or any other as approved by Shariah Advisor of PMEX
5. OMC will update HSD inventory in ETS available for Murabaha in the following manner:
6. Tank location and unique identification number of tank
7. Total inventory in each tank
8. Inventory available for sale in each tank
9. PMEX and OMC system will be integrated by providing online access of its live inventory position to PMEX so that total quantity of HSD available in the tank is known at the time of each sale or at any point in time to determine the Musha (share) of each buyer. In case the OMC system isn't integrated then either of the following options shall be followed:
10. OMC will take measurement of total quantity of its tanks thrice a day when inflow or outflow is stopped from tanks. (Banks may prepare Murabaha documents beforehand. Murabaha then can be immediately executed as soon as the total quantity of the underlying tank(s) is confirmed. From the time of measurement, Murabaha can be executed as long as there is no further inflow or outflow in the respective tank).
11. OMC will provide a dedicated tank for Murabaha and once HSD is made available for Murabaha or sold to Bank A, OMC shall not consume / sell the same inventory until OMC gets this inventory as agent for onward sale.
12. Upon inventory update in the PMEX system, the system calculates tradable lots and OMC places sell orders in the system.
13. Primary Bank A will buy specific percentage of HSD equivalent to Murabaha amount from OMC through the ETS with the option of sale return unless the HSD has not been sold by bank A.

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14. At this stage PMEX will transfer the ownership of HSD from the OMC to the Primary Bank A. The inventory ledger of the Primary Bank A with the clearinghouse/repository will reflect Bank's ownership in terms of total quantity and share of Bank A in the total quantity.
15. On behalf of the owner (OMC / Bank) of HSD, PMEX will generate ETS a certificate confirming the ownership and delivery to the certificate holder. The bank may take a printout which will serve the purpose of ownership receipt as well as entitlement for physical delivery. All market participants must recognize the ETS certificate which entitles its holder to take physical delivery of HSD from its respective storage location.
16. Bank A will make advance payment to the Clearinghouse before placing the offer to purchase. The trading fee of PMEX, OMC charges for the storage of HSD or any other fee, if applicable, will be billed separately to Bank A.
17. The ownership & constructive possession will be in the name of Bank A while physical possession of the HSD will remain with OMC.
18. At this stage Primary Bank A will have the right:
19. To take physical delivery from OMC, either directly or through its agent, in their HSD Tankers from designated tanks by showing PMEX ETS Certificate. or
20. Bank A may sell this HSD to any market participant other than OMC itself either directly or indirectly (through Agency). However, OMC being an agent of its distributors may purchase HSD.
21. Distributor to appoint OMC as agent and agreement for the same will reviewed from Shariah Advisor.
22. Primary Bank A may sell this HSD to the Client Bank B on Murabaha basis, outside the PMEX. Bank A shall inform transaction details to PMEX to update its system and records. PMEX will then transfer the ownership of the HSD in the name of Bank B in the inventory ledger of the clearinghouse. PMEX will generate ETS certificate.
23. The deferred payment (from Client Bank B to Primary Bank A) and its related terms and conditions i.e. sale price, maturity date, etc. (the "Murabaha Contract") will be out of the PMEX regulatory ambit and both the banks will be solely responsible for such terms and conditions without any liability and responsibility of PMEX.
24. The constructive possession will now be in the name of Bank B while physical possession of the HSD will remain with OMC.
25. At this stage Bank B will have the following rights:
26. To take physical delivery from OMC, either directly or through its agent, in their HSD Tankers from designated tanks by showing PMEX ETS Certificate. Or
27. Bank B may sell this HSD to any market participant other than Bank A or OMC itself either directly or indirectly (through Agency). However, OMC being an agent of its distributors may also purchase HSD.
28. If Client Bank B sells HSD in PMEX market, PMEX will transfer funds to the Client Bank B on behalf of purchaser.
29. At this stage new Buyer, will have the right:
30. To take physical delivery from OMC, either directly or through its agent, in their HSD Tankers from designated tanks by showing PMEX ETS Certificate. or
31. New buyer may sell this HSD to any market participant other than OMC itself either directly or indirectly (through Agency). However, OMC being an agent of its distributors may also purchase HSD.



32. OMC acting as an agent of its distributors is allowed to purchase this inventory for its distributors who either have made advance payment to= the OMC or will make payment after an agreed credit term. In case of credit purchases, OMC will be responsible for the creditworthiness (guarantee) of its distributors.
33. OMC shall maintain record of all purchases made on behalf of its distributors through PMEX ETS which will be randomly audited by PMEX Shariah Advisor.
34. This will complete the whole Murabaha Market transaction.
35. PMEX will ensure that there is no mechanism on PMEX counter or over the counter to net off / square off the position of original supplier at day end except market mechanism as approved by Sharia Advisor.
36. Market participant who holds the HSD inventory at the day end may quote the HSD as available for sale on the next day. However, in case of expected price change on the next day, the Market participant will be required to take the physical possession of HSD from OMC as such HSD will not be allowed for trading through ETS.
37. The minimum quantity of HSD for the transaction will be the one that can be delivered by the OMC.
38. All buyers have right to return the HSD in case of deception if sale has been concluded before discovery of deception.
39. If the Shariah Complaint trading platform gets disrupted due to regulatory requirements, the Exchange reserves the right to cancel and reverse any PMEX Shariah Complaint Trading Contracts between participants which will be immediately referred to Shariah Advisor for his ratification/ guidance.

Important Considerations:

Although, this structure is approved, but before commencement of this Shariah Compliant Trading Platform, following points need to be addressed:

1. Review of ETS System of PMEX.
2. Execution of agreement between PMEX and OMCs.
3. Execution of agency agreement between OMCs and its distributors.
4. This process flow may be refined after initial transaction.

Qualification:

This opinion is based on the information and the documents provided by PMEX. Furthermore, the opinion is also based on the condition that the process as mentioned above and other guidelines provided by the undersigned from time to time to PMEX are followed in the true letter and spirit by PMEX and all related parties. This certification is effective from **June 08, 2017** till **June 30, 2018**; after which it shall be renewed upon the annual Shariah compliance review and satisfaction regarding Shariah compliance of the Shariah Compliant Trading Contracts executed at the platform of PMEX.

And Allah SWT knows the best.

Dr. Muhammad Imran Usmani
Shariah Advisor
Pakistan Mercantile Exchange