

**Adoption of AAOIFI Shariah Standard No. 20**

In order to standardize and harmonize Shariah practices in Islamic Banking Institutions (IBIs), AAOIFI Shariah Standard No. 20 – Sale of Commodities in Organized Markets, has been adopted. The Shariah Standard is applicable with the following clarifications/amendments as mentioned against each clause(s) of the Standard:

**AAOIFI Shariah Standard No. 20 – Sale of Commodities in Organized Markets**

1. **Clause 1:** The following is added as a footnote to the clause:  
*This clause may be read as follows:*  
***“Scope of the Standard***  
*This Standard covers sales contracts whose subject-matter are commodities and derivatives of various kinds: Swaps, Futures and Options. The Standard does not cover indices, financial and commercial paper or currencies, because these have their own specific standards, just as it does not cover sales that are concluded outside the organized markets”*
2. **Clause 2:** The following is added as a footnote to the clause:  
*The heading may be read as “Definition of commodity sales and Their Kinds”.*
3. **Clause 2/1:** The following is added as a footnote to the clause:  
*The heading may be read as “Definition of commodity sales”.*
4. **Clause 2/1/1:** The following is added as a footnote to the clause:  
*This clause may be read as follows:*  
***“Commodity sales are contracts that are concluded in organized commodity markets under the supervision of specialised Organizations and through intermediaries who coordinate the demand for sales and the demand for purchases by employing standard contracts that contain various conditions and specifications along with a statement of the period and place of delivery. The contract may also stipulate the deposit of a portion of the price and opening of an account with the intermediary as a security for the execution of the contract.”***
5. **Clause 2/2:** The following is added as a footnote to the clause:  
*This clause may be read as follows:*  
***“Types of commodity sales”***  
***“Commodity sales are divided into three types”***
6. **Clause 2/2/1:** The following is added as a footnote to the clause:  
*This clause may be read as follows:*  
***“Spot contracts***  
*These are contracts that require immediate delivery and its acceptance, however, delivery and possession may take place within the limit of a day or two working days in accordance with the regulations of the market.”*
7. **Clause 2/2/2:** The following is added as a footnote to the clause:  
*This clause may be read as follows:*  
***“Forward contracts***

*These are contracts in which both counter-values are deferred with the effects of the contracts taking place at a determined future date, and delivery and possession take place at that time."*

8. **Clause 2/2/3:** The following is added as a footnote to the clause:  
*This clause may be read as follows:*  
**"Futures commodity contracts**  
*These are contracts whose effects take place at a determined future date either through set-off between the parties, or cash settlement or through counter-contracts, but they rarely end in actual delivery and possession."*
9. **Clause 2/3:** The following is added as a footnote to the clause:  
*This clause may be read as follows:*  
**"Conclusion of commodity sales**  
*Commodity sales end in one of the following ways:"*
10. **Clause 2/3/2:** The following is added as a footnote to the clause:  
*This clause may be read as follows:*  
*"Contracts that end through the operation of set-off among the parties;"*
11. **Clause 2/3/3:** The following is added as a footnote to the clause:  
*This clause may be read as follows:*  
*"Contracts that end in settlement by mutual agreement."*
12. **Clause 3:** The following is added as a footnote to the clause:  
*This clause may be read as follows:*  
*"Shariah rulings for Commodity Sales"*
13. **Clause 3/1/2:** The following is added as a footnote to the clause:  
*This clause may be read as follows:*  
*"If the subject matter of the sale is undivided (mushā'), but it is possible to ascertain, through a reliable method, the total quantity of the existing goods at any given time and the proportion of the sold portion therein, and if the liability (ḍamān) and rights of disposition regarding the sold portion have been transferred to the buyer, which includes the right that the buyer can take physical possession if he requires, then such a situation shall also be deemed as constructive possession (Qabḍ Hukmī)."*
14. **Clause 3/2:** The following is added as a footnote to the clause:  
*The heading may be read as follows:*  
*"Forward contracts"*
15. **Clause 3/2/2/1:** The following is added as a footnote to the clause:  
*This clause may be read as follows:*  
*"That the commodity is described by specification while the price is deferred, irrespective of the contract being concluded with the word sale or with the word Salam. These contracts are not permitted, because they amount to a Salam contract in which the capital of Salam (Ras al-Mal) is not paid promptly. [see Shari'ah Standard No. (10) on Salam and Parallel Salam."*
16. **Clause 3/2/3:** The following is added as a footnote to the clause:  
*This clause may be read as follows:*  
*"When the contract is that of Istisna'a, such a contract is valid even when the price is delayed. [see Shari'ah Standard No. (11) on Istisna'a and Parallel Istisna'a, item 3/2/2]."*

17. **Clause 3/2/4:** The following is added as a footnote to the clause:  
*This clause may be read as follows:*  
*"There is no restriction in delaying one of the counter-values: the price, or the commodity sold, while observing Shari'ah Standard No. (10) on Salam and Parallel Salam."*
18. **Clause 4:** The following is added as a footnote to the clause:  
*This heading may be read as follows:*  
*"Key Applications of Commodity Sales"*
19. **Clause 4/1:** The following is added as a footnote to the clause:  
*This heading may be read as follows:*  
*"Permissible applications of commodity sales."*
20. **Clause 4/1/4:** The following is added as a footnote to the clause:  
*This clause may be read as follows:*  
*"Purchase by the institution of a commodity on a spot basis and the subsequent sale of this commodity by the institution to another on a deferred payment basis. In these applications the avoidance of buy-back is stipulated, like the buyer selling what he purchased with a deferred price to one from whom it was initially bought on a spot basis at a deferred price lesser than this or vice versa".*
21. **Clause 4/2:** The following is added as a footnote to the clause:  
*This heading may be read as follows:*  
*"Impermissible applications of commodity sales from Shari'ah perspective."*
22. **Clause 4/2/4:** The following is added as a footnote to the clause:  
*This clause may be read as follows:*  
*"Sale by the agent of the purchased commodity before taking possession physically or constructively. Constructive delivery includes the transfer of liability to the buyer (agent) by ascertaining the commodity in a manner that distinguishes it from things other than the commodity sold."*
23. **Clause 4/2/5:** The following is added as a footnote to the clause:  
*This clause may be read as follows:*  
*"Commodity purchase operations of the institution through agency and purchase thereafter by the agent for his own account on a deferred basis by confining the transaction to an offer by the agent to the institution to enter into the transaction and acceptance by the institution thereof prior to taking ownership of the commodity by the institution or without the exchange of the two notices of offer and acceptance."*
24. **Clause 4/2/7:** The following is added as a footnote to the clause:  
*This clause may be read as follows:*  
*"Sale of a commodity by an agent for his client, prior to the transfer of ownership to him through purchase from an institution that is his principal."*
25. **Clause 4/2/12:** The following is added as a footnote to the clause:  
*This clause may be read as follows:*  
*"Stipulation of a guarantee by the agent for the sale price under all circumstances. He is obliged to provide a guarantee in case of tort, negligence or breach of the provisions of agency like the*

*stipulation that he obtain sureties from the buyers of the commodities with respect to the deferred period. [see Shari'ah Standard No. (5) on Guarantees]."*

26. **Clause 5:** The following is added as a footnote to the clause:

*This clause may be read as follows:*

*"Derivatives*

*Derivatives have a large number of kinds, the most important of which are: Futures, Options and Swaps. The Shari'ah rule for derivatives is based on the rule for the contracts employed within their framework, as stated in paragraphs that follow:"*

27. **Clause 5/1/1:** The following is added as a footnote to the clause:

*This clause may be read as follows:*

*"A contract that is binding under law. It is concluded on the trading floor of the exchange for the sale and purchase of commodities or financial instruments for a period linked to the future. The transaction is arranged with the mentioning of the quantity, type and category along with the statement of the date and place of delivery. As for the price, it is the sole element that varies, and it is ascertained in the trading hall."*

28. **Clause 5/1/2:** The following is added as a footnote to the clause:

*This clause may be read as follows:*

*"The Shari'ah rule for Futures*

*It is not permitted according to the Shari'ah to undertake futures contracts either through their formation or trading. [see para. 3/3]"*

29. **Clause 5/2/3/1:** The following is added as a footnote to the clause:

*This clause may be read as follows:*

*"The conclusion of a contract pertaining to ascertained assets, its sale is permitted according to the Shari'ah, along with the payment of part of the price as 'Arboun (Earnest Money) with the stipulation that the buyer has the right to revoke the contract within a specified period in lieu of the entitlement of the seller to the amount of earnest money in case the buyer exercises his right of revocation. It is not permitted to trade the right established with respect to the earnest money."*

30. **Clause 5/3/1:** The following is added as a footnote to the clause:

*This clause may be read as follows:*

*"Swaps are agreements between two parties for the exchange of determined financial assets, material assets or interest rates, at a specified time period. In some cases, the sale of a commodity or deferred currency takes place without the transaction resulting in any exchange of the commodity, while in other cases there may be an option, in return for a counter-value, that gives the owner the right to execute or not to execute the contract."*

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