

### **Adoption of AAOIFI Shariah Standards No. 30 – Monetization (Tawarruq)**

In order to standardize and harmonize Shariah practices in Islamic Banking Institutions (IBIs), AAOIFI Shariah Standard No. 30 – Monetization (*Tawarruq*), has been adopted. The Shariah Standard is applicable with the following clarifications/amendments as mentioned against each clause(s) of the Standard:

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 the different applications of monetization, whether the monetization beneficiary is the customer or the institution.”*

*Further, the following footnote is added:*

*“Monetization” means “Tawarruq”*

2. **Clause 2:** The following is added as a footnote to the clause:

*The heading may be read as “Definition of Monetization and Its Distinction from Bay’ Al-’Inah*

*Monetization refers to the process of purchasing a commodity for a deferred price determined through Musawamah or Murabahah, and selling it to a third party for a spot price so as to obtain cash.*

*Whereas ‘Inah refers to the process of purchasing the commodity for a deferred price, and selling it for a lower spot price to the same party from whom the commodity was purchased.”*

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

*This clause may be read as follows:*

*“The Monetization beneficiary may be a customer who purchases the commodity (subject matter of tawarruq) from the Institution and sells it to a third party to obtain liquidity. It may also be the Institution itself when it purchases the commodity (subject matter of tawarruq) from the customer or another Institution and sells it to a third party to obtain liquidity. The controls for both cases are shown in items (4) and (5) below.”*

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

*This clause may be read as follows:*

*“The institution should not perform Monetization for the benefit of conventional banks when it is known that such banks are going to use the liquidity for interest-based lending instead of Shariah compliant operations.”*

*Further, the following footnote to this clause is added:*

*“An IFI shall not enter into a Commodity Murabaha Transaction (CMT) with the conventional bank to provide liquidity to the conventional bank unless it is established that the proceeds of the CMT shall be used for Shariah compliant transaction / business.”*

5. **Clause 4:** The following is added as footnote to the clause:

*The heading may be read as “Parameters for the validity of the Monetization Transaction”*

6. **Clause 4/1:** The following is added as footnote to the clause:

*This clause may be read as follows:*

*“The requirements of the contract for purchasing the commodity on deferred payment bases should be fulfilled, for both Musawamah and Murabahah transactions, with due consideration to Shariah Standard No. (8) on Murabahah.*

*There shall also be a real commodity that the seller owns before selling it. If the process is to involve a binding promise, it shall be from only one party. As regards the commodity sold, it shall not be gold or silver or any type of currency.”*

7. **Clause 4/2:** The following is added as footnote to the clause:

*This clause may be read as follows:*

*“The subject matter of the transaction shall be well identified in a manner that will distinguish it from the other assets of the seller. This may be done by separating the commodity from the other assets of the seller, or recording the numbers of its identifying documents such as storing certificates. [see Shariah Standard No. (20) on Sale of Commodities in Organized Markets, item 4/2/2].”*

8. **Clause 4/3:** The following is added as a footnote to the clause:

*This clause may be read as follows:*

*“If the commodity is not present at the time of signing the contract, the client shall be given a full description or a sample that indicates the quantity of the commodity and the place of its storage, so that his act of purchasing the commodity becomes real rather than fictitious. In this sense, using local commodities for Monetization is more preferable.”*

9. **Clause 4/4:** The following is added as a footnote to the clause:

*This clause may be read as follows:*

*“The commodity shall be possessed either physically by the buyer or constructively in such a manner that enables him to obtain the physical possession thereof without any further condition or procedure for its possession.”*

10. **Clause 4/5:** The following is added as a footnote to the clause:

*This clause may be read as follows:*

*“The commodity (subject matter of the Monetization) must be sold to a party other than the one from whom it was purchased on deferred payment basis (third party), so as to avoid 'Inah which is strictly prohibited. To achieve this, the commodity shall not return back to the seller by virtue of any prior agreement or collusion between the two parties, or according to the custom.”*

11. **Clause 4/6:** The following is added as a footnote to the clause:

*This clause may be read as follows:*

*“The contract for purchasing the commodity on deferred payment basis, and the contract for selling it for a spot price shall not be linked together in such a way that the client loses his right to possess the commodity, whether, such linkage is achieved through stipulation in the documents, acceptance as a custom, or incorporation in the procedures.”*

12. **Clause 4/7:** The following is added as a footnote to the clause:

*This clause may be read as follows:*

*“The client shall not delegate the Institution or its agent to sell, on his behalf, a commodity that he purchased from the same Institution and, similarly, the Institution shall not accept such delegation. If, however, the regulations do not permit the client to sell the commodity except through the same Institution, he may delegate the Institution to do so after he, actually or constructively, possesses the commodity.”*

13. **Clause 4/8:** The following is added as a footnote to the clause:  
*This clause may be read as follows:*  
*“The Institution should not arrange an agency of a third party to sell, on behalf of the client, the commodity that the client purchased from the Institution.”*
14. **Clause 4/9:** The following is added as a footnote to the clause:  
*This clause may be read as follows:*  
*“The client shall ensure to sell the commodity himself or through an agent (arranged by him) other than the Institution, and shall comply with the other clauses (of this standard).”*
15. **Clause 4/10:** The following is added as a footnote to the clause:  
*This clause may be read as follows:*  
*“The Institution shall provide the client with the necessary information that he or his appointed agent may need for selling the commodity.”*
16. **Clause 5:** The following is added as a footnote to the clause:  
*The heading may be read as “**Specific parameters for Monetization When the Institution Is the Beneficiary**”*
17. **Clause 5/1:** The following is added as a footnote to the clause:  
*This clause may be read as follows:*  
*“Monetization is not a mode of investment or financing. It is permitted to cater to a need situation subject to its terms and conditions. Therefore, the Institutions shall not use Monetization as a means of mobilizing liquidity for their operations, instead of making efforts for fund mobilization through other modes such as Mudarabah, investment agency, Sukuk, investments funds, and the like. The Institution shall resort to monetization only when it faces the danger of a liquidity shortage that could disrupt its operations and cause losses for its clients.”*
18. **Clause 5/2:** The following is added as a footnote to the clause:  
*This clause may be read as follows:*  
*“The institutions shall avoid agency in selling the Monetization commodity, even if agency is to be arranged with a third party. In other words, Institutions shall use their own channels for selling the subject matter of monetization, however using brokers for this purpose is permissible.”*

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