

AAOIFI - World Bank Annual Conference on Islamic Banking and Finance

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Investment Accounts
Murabaha vs Wakala

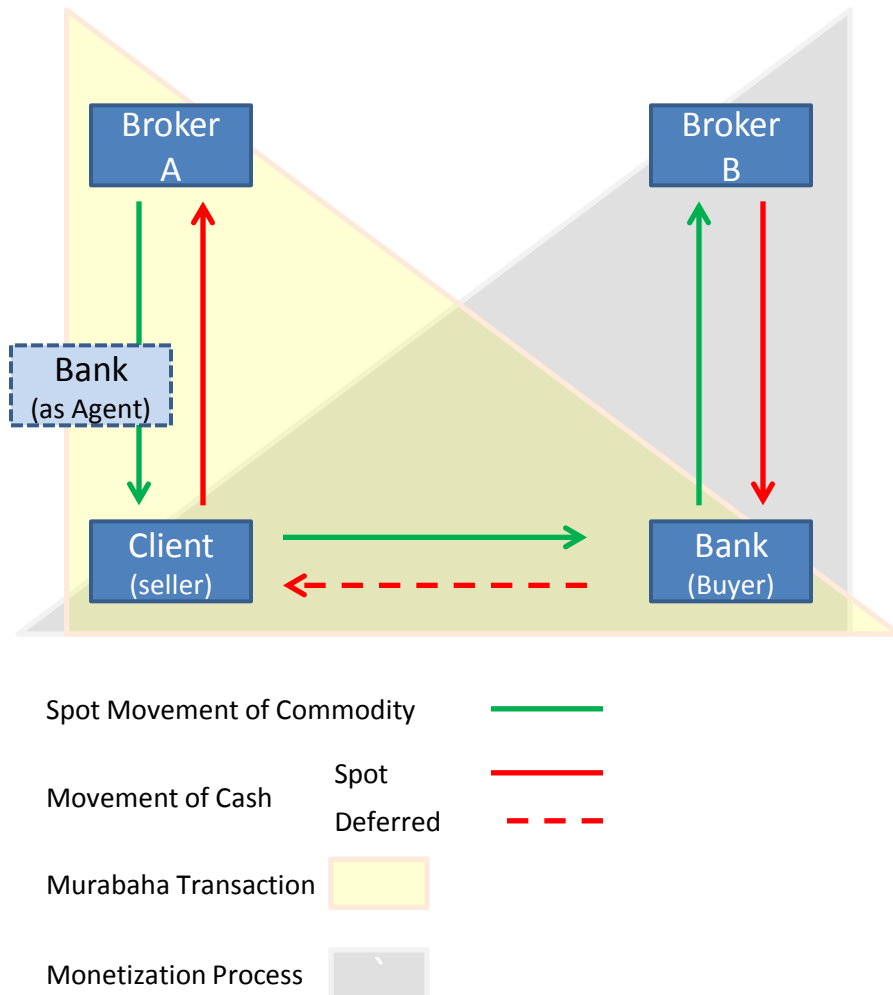
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Murabaha Investment Accounts (MIA)

- MIA's is the most popular form of raising liabilities among IFIs.
- The current day MIA is structured by attaching a monetization process to a Murabaha sale transaction.
- To achieve the economics of an Investment Account; this modified form of Murabaha needs to follow some strict guidelines to be valid under the laws of Shariah.

Shari'a Requirements for MIAs

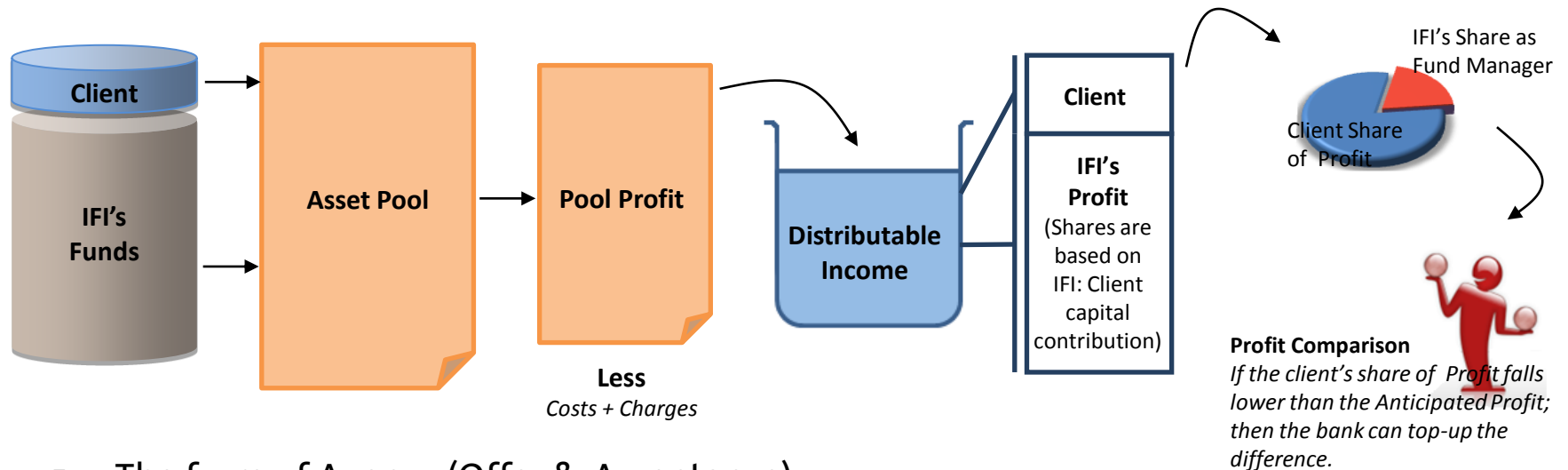


- The commodity should exist & must be owned by the seller.
- The commodity should be in the physical or constructive possession of the seller.
- The price of the commodity (cost and mark-up) and the deferred payment date should be known certainly without any ambiguity.
- Once the price is fixed, it cannot be decreased in case of earlier payment, nor can it be increased in case of default.
- The buyer of the commodity should be able to take delivery if he wishes to.
- The Bank must monetize the commodities with a party other than the one from whom it was purchased on deferred basis.

Wakala Investment Accounts (WIA)

- Wakala (Agency) is nothing but to appoint another person in one's position to fulfill a permissible and known transaction.
- In our case to manage the funds of a client (Muwakkil) by an IFI (Wakil) in a profitable manner.
- Muwakkil places his utmost trusts of the business capabilities of Wakil.
- The core money making process in Wakala is a PLS module which is no different to Mudaraba or Musharaka or an hybrid form of both.

Basic Structure & Shari'a Requirements

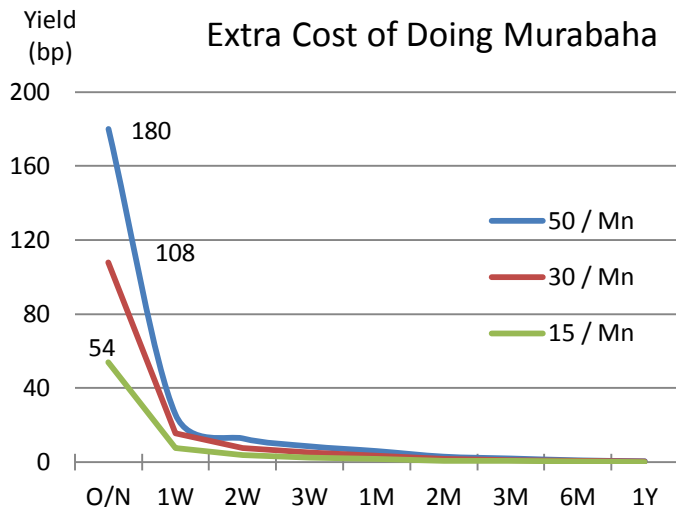


- The form of Agency (Offer & Acceptance)
- The principal & the agent should possess legal capacity to enter into a contract.
- The Principal should possess all legal rights of the subject matter of Agency.
- The Wakeel must be aware of his status and do the work according to the instructions of the Muwakkil.
- The subject matter of agency should be known and it should be disposed through agency.

Accounting Principles and Treatment

- Risk in theory & in substance.
 - Legal vs perceived risk
- Basis of On / Off – Balance Sheet treatment.
 - Restricted vs Unrestricted
- Agency funds vs Equity of Investment accountholders.
 - Wakala funds vs Mudaraba funds
- Transparency & Ease in profit calculation.
 - Simple and logical profit calculation.

Murabaha and Wakala in Interbank



- The limitation of Murabaha to manage short-term liquidity.
- Execution time of WIA clearly outpace a MIA.
- Commodity supply & market limitations.
- Issues related to Broker/Bank arrangements.
- Limitation to use PLS contracts with non IFIs on the assets side.
- Crystallized vs Ex-post values of principal & profit.

Thank You