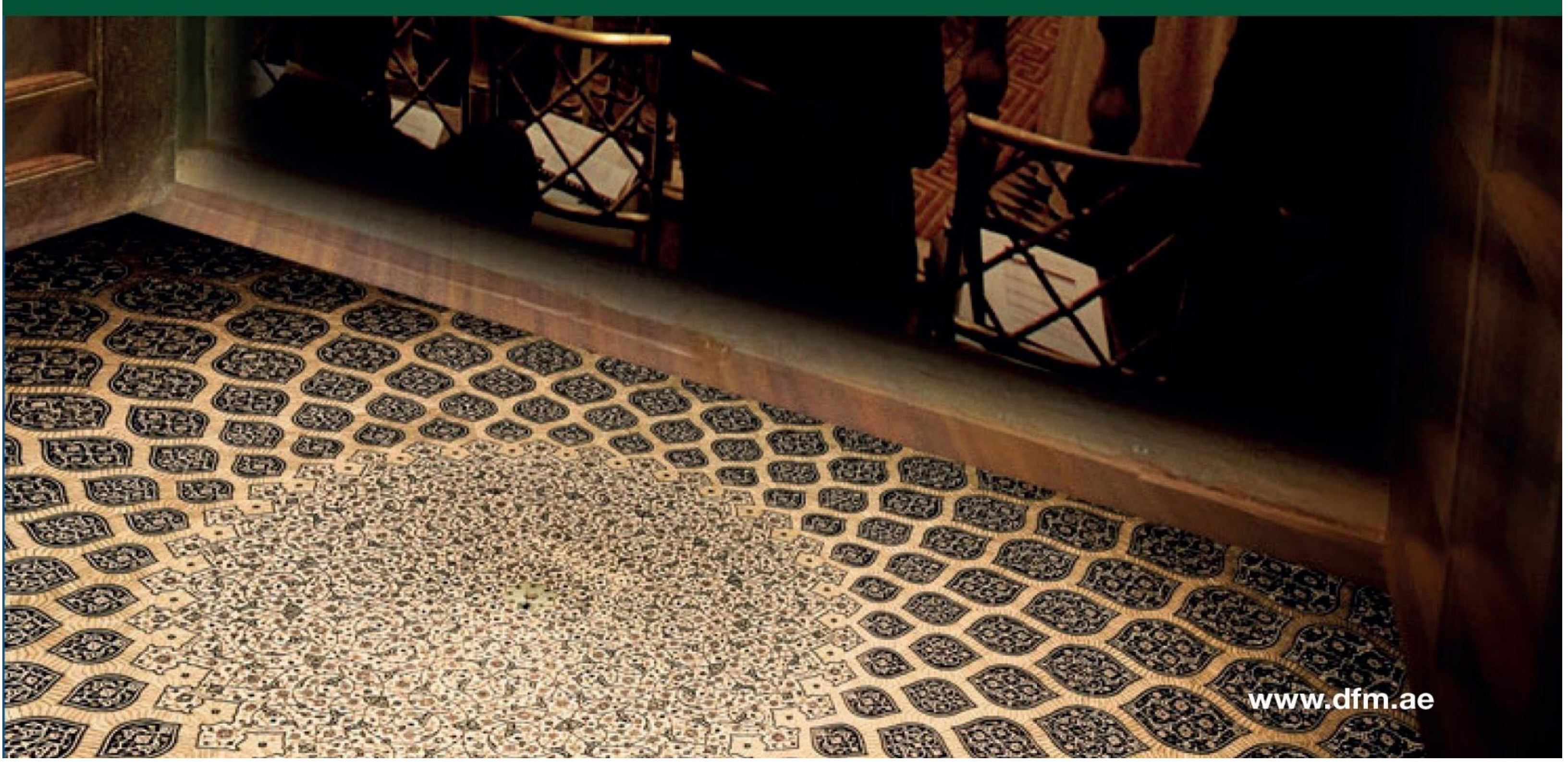
Fatwa and Shari'a Supervisory Board

Dubai Financial Market Standards on Shari'a-Compliance

Standard No. 1

Issuing, Acquiring and Trading Shares



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Dubai Financial Market, P.O.Box: 9700, Dubai, UAE سوق دبي المالي، ص . ب: 9700، دبي، الإمارات العربية المتحدة

T: +971 4 305 5555 هاتف: F: +971 4 305 5566 فاكس: E: customerservice@dfm.ae بريد إلكتروني:

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Introduction

All praise is due to Allah, Lord of the Worlds; and His blessing and mercy be upon his last Messenger, his family, Companions and upon all who rightly follow them, until the Day of Judgment.

The Islamic Financial industry has just witnessed another distinguished landmark, in addition to preceding momentous achievements, by collectively creating history as well as the future of this growing industry of Islamic Finance.

The Industry has already been graced by the establishment of the first Islamic private bank (DIB) in 1975 in Dubai, and the first International Islamic Bank (IDB) for Muslim countries in Jeddah. The recent establishment of the first Islamic capital market in Dubai has further graced this industry.

All praise of its inception is owed to the vision of His Highness Sheikh Mohammed Bin Rashid Al Maktoum, Vice President of the UAE, Prime Minister and Ruler of Dubai, with his initiative to develop Dubai into the capital of Islamic economy, and the sincere efforts of the Dubai Financial Market **(DFM)** management to realize this vision as the first Islamic capital market. The Fatwa and Shari'a Supervisory Board **(the Shari'a Board)** appreciates such noble undertaking and hopes this will pave the way for other financial markets to emerge as Islamic capital markets.

Dealing with Islamic capital markets essentially requires a Standard to draw boundaries between what constitutes Shari'a compliance and non-Shari'a financial instruments. Therefore, the Shari'a Board, whilst seeking Allah's guidance, has come forth and shouldered the great responsibility of setting forth the Shari'a Parameters pertaining to acquiring and trading financial instruments. The first step in this direction is to start with the Shari'a standard pertaining to **Shares,** the vital and widely used financial instrument.

In order to prepare this Standard, the Shari'a Board reviewed the Shari'a standards related to acquiring and trading **Shares,** which have been issued by the institutions involved in the fields of financial indices and Shari'a Standards. Subsequently, **the Shari'a Board** identified and studied the Shari'a as well as financial issues. When discussing them, the Shari'a Board took into account the current economic conditions and the timely need of Muslims to be open to sophisticated investment matters in order to attain prosperity and achieve economic growth, without compromising the necessity of Muslims to adhere to the principles of Islamic Shari'a.

Adopting this methodology was primarily aimed at examining the available standards and measuring their appropriateness in order to enhance their ability to accommodate the needs of the new emerging markets. In due course, this standard shall rightly serve the goals targeted by the **DFM** management in its capacity as an Islamic Financial Market attracting investors willing to invest in the Shari'a compliant modes of investment from all over the world.

Dubai Financial Market, P.O.Box: 9700, Dubai, UAE سوق دبي المالي، ص . ب: 9700، دبي، الإمارات العربية المتحدة
T: +971 4 305 5555 هاتف: F: +971 4 305 5566 فاكس: E: customerservice@dfm.ae بريد إلكتروني:
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This Standard comprises of four main sections:

The first section deals with the definitions. The second elaborates on the Parameters pertaining to acquiring and trading in Companies' shares, such as the company's objectives and activities, the illegitimate activities; supplementary lending and borrowing; elements of the assets; the prohibited income; method of computing the percentages used in the standard; dealing with cases of inconformity with the Shari'a Parameters and investing in the shares of companies that do not fulfill Shari'a Parameters in order to convert them into Shari'a complaint companies or correct their line of action. The third discusses in detail, the rules and regulations of excluding the prohibited income. The fourth consists of the general provisions.

The DFM intends to classify the listed companies therein into two categories: The first enlists the companies that fulfill the Shari'a conditions and Parameters as per this Standard (the Shari'a compliant companies), and the second enlists the companies that do not meet the Shari'a requirements (the non-Shari'a compliant companies). As such, the standard has been designed to help DFM management classify the companies into the two abovementioned categories.
However, this standard has been developed within undesirable circumstances dominating the business sector, and their impact upon the behavior of both companies and investors, such as the common plight of dealing with interest and forbidden contracts. Therefore, the Shari'a Board has, under the aforesaid undesirable circumstances, articulated a standard that will help examine and scrutinize what is *Halal* as far as possible, so that the doors of investment in the companies' shares will not be closed. However, there is no doubt that these undesirable circumstances will not continue to remain as such, and shall change with the passage of time. Besides, the Shari'a Board is optimistic that acquiring and trading in companies' shares by investors, shall bring about positive changes in the said circumstances. Therefore, the Shari'a Board shall review this standard and whatever standards it shall issue later, and will amend them whenever amendments and updates are justified.

Allah alone is the source of success

Dubai Financial Market, P.O.Box: 9700, Dubai, UAE سوق دبي المالي، ص . ب: 9700، دبي، الإمارات العربية المتحدة
T: +971 4 305 5555 هاتف: F: +971 4 305 5566 فاكس: E: customerservice@dfm.ae بريد إلكتروني:
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1. THE SCOPE OF THE STANDARD

This standard covers rules pertaining to ownership and trading of shares of companies. This includes purpose and activities of the company and their compliance with Shari'a, accidental lending and borrowing, the assets components, the unlawful income, and the method of calculating the percentages used in the standard, treatment of cases where Shari'a has been beached, acquiring shares non-fulfilling Shari'a requirements for the purpose of their conversion or rectification, unlawful income exclusion rules and general provisions.

Additionally, the Standard includes reference to Green Shares that are issued by companies for projects supporting the preservation and protection of the environment from materialized or expected risk or harm, and this is in accordance with the almighty Allah stating: **"...and do not spoil the land [environment] after Allah has made it suitable [for the life of mankind]"**. This Standard explains the characteristics of these shares and various ways to encourage investment to such Funds as they are considered investment-compliant according to the general aims and interests of Shari'a. The Shari'a rules state that Islam protects and mandates the safeguarding of the environment in terms of existence and non-existence, and this is protected in all religions.

2. SHARI'A PARAMETERS FOR ACQURIING SHARES OF COMPANIES

To ensure compliance with Shari'a in the following acts: the trading of companies' shares, whether by subscription or purchase of shares for investment or trade purposes, the subscription to shares, the finance of purchasing shares , the management of shares' funds or portfolios and finally the performance of any of the aforementioned duties by proxy, the following parameters must be abided by:

2.1. OBJECTIVES AND ACTIVITIES OF THE COMPANY:

It is permitted to acquire the shares of a company provided:

2.1.1. The company's Articles of Association stipulate that the company's objectives and principal activity are permissible under Shari'a; and the means, the contracts and the mechanism to exercise these activities are permissible under Shari'a.

2.1.2. The company's Articles of Association do not explicitly declare the nature of its objectives and principal activity, but it has a Shari'a board whose resolutions are binding on the management of the company.

2.1.3. The company's Articles of Association include Shari'a impermissible objectives, activities and mechanism, but it has been verified, with the company's financial statements confirming it, that the said provision has been suspended and that the company, in reality, does not exercise any prohibited activity.

2.2. NON-SHARI'AOBJECTIVES:

Impermissible objectives and principal activities include all prohibited products, transactions, contracts and services irrespective of whether the company is involved in their production, marketing, transporting, selling and buying or is acting as an intermediary in these activities.

For instance, the following is a non-exhaustive list of non-Shari' objectives and activities whose inclusion in a (Shari'a compliant) company's objectives and principal activities is not permissible:

2.2.1. Interest based lending and borrowing.

2.2.2. Conventional financing,

2.2.3. Conventional investment,

2.2.4. Conventional insurance,

2.2.5. Deferred transactions in gold, silver or currencies,

2.2.6. Trade in pork or its by-products,

2.2.7. Trade in all kinds of liquors and alcohol,

2.2.8. Trade in narcotics for non-medical purpose,

2.2.9. Trade in tobacco or its products,

2.2.10. Gambling,

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2.2.11. Dealing in pornography or permissive materials that contravene Islamic ethics and values in any manner, such as by publication or distribution of acts of obscene nature through any means,

2.2.12. Entering into non-Shari'a transactions,

2.2.13. Entering into impermissible debt-based transactions, such as discounting debt instruments and taking commission on mere act of guarantee,

2.2.14. Inhuman and unethical dealing in human related objects, such as human trafficking, trading in human organs and prostitution,

2.2.15. Producing or trading in weapons against law of the land,

2.2.16. Hotels, tourist resorts and similar establishments that provide or deal in prohibited products and services; or market them or act as agents in such deals,

2.2.17. Activities which are harmful to the environment,

2.2.18. Materials which jeopardize, whether alone or when mixed with other elements, health of living beings (humans, animals and plants),

2.2.19. Biological research projects which are in conflict with principles and fundamentals of Shari'a, such as human cloning or setting embryo's sex through non-Shari'a means,

2.2.20. Hereditary or genetic engineering leading to change in the nature or the physique of humans, unless it is meant for medical purposes such as treatment of disabled organs to restore their original function.

3. ACQURING AND SUBSCRIBING TO SHARES OF COMPANIES OF MIXED ACTIVITITES:

It is prohibited to acquire or subscribe to the shares of the following companies, even if their core activities are permissible:

3.1. A company whose total average interest-based lending exceeds 30% of its total assets during the last financial period (for three months) with emphasis on the fact that lending on an interest basis, howsoever small the amount may be, is prohibited; and it is obligatory on the company to segregate, and dispose of, any income generated from interest.

3.2. A company whose total average interest-based borrowing exceeds 30% of its total assets during the last financial period (for three months) with emphasis on the fact that borrowing on an interest basis, howsoever small the amount of loan may be, and payment of interest, howsoever small its amount may be, are prohibited.

3.3. In case the company holds shares in companies, funds, portfolios or projects, with independent financial liability but practice lending and borrowing on an interest basis, the average percentage of the lending and borrowing of these companies, funds and portfolios shall be computed against the equity of the shareholding company in all of the former entities. The mechanism (to calculate the weighted average lending of the company) is to add up the shareholding company's own loans given on an interest basis and its share in the loans of these companies given on an interest basis and divide the product by the total of the assets of the shareholding company as well as its shares in the assets of those entities. The result of the division should not exceed the limit of 30% percent. The same procedure shall also be followed in case of borrowing.

3.4. The average of the interest-based lending and borrowing against loan periods shall be computed by multiplying the sum of each loan by its period, adding up the products and then dividing the grand total by the total number of days in the financial period.

3.5. **PROHIBITED INCOME:** It is not permitted to acquire and trade in the shares of companies whose objectives and principal activities are legitimate but they carry out some non-Shari'a business activities other than temporary lending and borrowing on interest, if the income from these prohibited activities (other than the income from interest) is known through the financial statements and its average is found to be exceeding 10% percent of the total company income during the last financial period. However, the company is under obligation to segregate and dispose of its income from such non-Shari'a activities howsoever small its amount may be and should know the principle that the mere act of entering into non-Shari'a activities is prohibited in Shari'a irrespective of its volume.

3.5.1. PERCENTAGE CALCULATION METHOD: In regards to the aforementioned percentages in this Standard:

3.5.1.1. To calculate the aforementioned percentages in this Standard, the figures should be based on the latest audited balance sheet, or the latest audited financial position, or the latest financial statements audited at the time of issuance; and the company's position is re-examined whenever new audited balance sheet or financial statements are issued by the company. However, un-audited balance sheets and financial statements shall not be taken into

Dubai Financial Market, P.O.Box: 9700, Dubai, UAE سوق دبي المالي، ص . ب: 9700، دبي، الإمارات العربية المتحدة
T: +971 4 305 5555 هاتف: F: +971 4 305 5566 فاكس: E: customerservice@dfm.ae بريد إلكتروني:
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consideration for calculation of these percentages and ratios. In case no new balance sheets or financial statements have been issued, the result arrived at on the basis of the analysis of the previous audited balance sheets and financial statements shall be maintained until the issuance of new audited financial statements.

3.5.1.2. In case the company holds investments (such as investment in financial papers) or revenues whose source and nature have not been disclosed by the company; rather they have been mentioned under "other investments or revenues", the company shall be required to disclose the source and nature of such revenues, otherwise the matter shall be referred to the Shari'a Board.

4. SHARI'A PARAMETERS FOR TRADING SHARES OF COMPANIES

4.1. It is permitted to trade in the shares of existing companies whose assets comprise tangible assets, usufruct, receivables, cash and financial rights as long as the company's objectives and principal activity are Shari'a compliant, and the nature of the company's business requires such diversity in the assets. However, the company's average percentage of the non-cash and non-debt assets should be no less than 10% percent of the total company's assets value. However, if the company's activity is limited to dealing only in debts or cash or both, then trading in such companies' shares is not permitted.

4.2. It is not permitted to trade in the shares of new companies listed in DFM prior to commencement of their activities and the conversion of no less than 10% of their capital to non-cash assets, like tangible assets, usufruct and financial rights.

4.3. **ISTISHAB AL-ASL**. (PRESUMPTION OF CONTINUITY): If the Shari'a Board has permitted the acquisition of and trading in the shares of a particular company, this permission shall be deemed effective even if the company injects more capital by issuing new shares, or splits its existing stocks or merges with another company, unless the company issues new audited financial statements that reveal a breach of the Shari'a parameters. This ruling is based on the Shari'a maxim of Istishab al-Asl.

4.4. **BREACH OF SHARI'A PARAMETERS**

4.4.1. Whenever the Shari'a parameters related to acquiring and trading in a company's shares are breached, the shareholder is obliged to sell his shares immediately if he is not incurring any loss (by selling at a lower price than the purchase price) in doing so. If (immediate) sale causes a loss, he may wait for a maximum of 30 days from the date of such breach has been known. However, he is not under obligation to dispose of any return (the profit) that he may receive as a result of such a sale.

4.4.2. If a company has complied with the Shari'a parameters (and consequently classified as a Shari'a compliant company in the DFM), but later the Shari'a Board has concluded, based on the company's new financial statements, that the company has breached the Shari'a parameters, the company must rectify the situation by compliance with the Shari'a parameters within three months from the last date of the financial period on the basis of whose financial statement the Shari'a Board has given its decision. However, the acquisition of and trading in the shares of the said company during the period of rectification are permissible. In case the company fails to rectify the situation during the said period, the DFM management must declare the change in the company's classification. The company in breach shall be given only one chance for rectification within a year.

5. ACQURING SHARES NON-FULFILLING SHARI'A PARAMETERS FOR THE PURPOE OF THEIR CONVERSION OR RECTIFICATION

5.1. It is permissible to acquire shares of a company not fully or partly fulfilling Shari'a parameters provided such acquisition is aimed at converting the company to a fully compliant company in accordance with the Shari'a parameters stated in this standard and the purchaser is fully capable of converting it, through the acquisition of a strategic share which would enable him to take over the management of the company and to convert the company, individually or in coordination with other parties, on the basis of a well-prepared conversion plan identifying the reasons and dimensions of the capability for the conversion and leading to conversion within a reasonable period not exceeding two years. The Shari'a Board shall issue a resolution to that end; and the DFM management shall announce the conversion plan to the clients dealing with the shares of such companies.

5.2. During the conversion period, the company has to dispose of its prohibited income which includes interest, and the income generated through unlawful activities and contracts.

5.3. In case the conversion is not completed during the period determined by the Shari'a Board, the disposal of the shares by selling them becomes necessary.

Dubai Financial Market, P.O.Box: 9700, Dubai, UAE سوق دبي المالي، ص. ب: 9700، دبي، الإمارات العربية المتحدة
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6. EXCLUSION OF PROHIBITED INCOME

6.1. The shareholder is responsible, at the time of distribution of profit by the company to shareholders, to exclude the prohibited income, if the company has not already excluded it. However, if the shareholder has sold the shares prior to distribution of the profit, he is not obliged to exclude the prohibited income.

6.2. The financial institutions are responsible for excluding the prohibited income in the following cases:

6.2.1. When they trade in shares for their own accounts,

6.2.2. When they carry out managerial responsibilities such as the management of funds and portfolios,

6.3. It should be ensured that the prohibited part of the income of each share, which has mixed with the other income of the company, is correctly calculated.

6.4. The prohibited income which should be excluded shall be equivalent to: **"The total haram income of the company divided by the total number of the shares, and the product multiplied by the number of the shares owned by the shareholder."**

6.5. It is obligatory to exclude the prohibited portion of the share's income irrespective of whether the company has profited or incurred a loss, and has distributed the profits or not; and whether the profit's distribution has been in cash or in the form of gifted shares.

6.6. The prohibited income should be excluded irrespective of whether the shares were acquired for investment or trade purposes.

6.7. Subject to clauses (5.1.) and (6.2), the prohibited income should be excluded at the end of the financial period.

6.8. It is prohibited for the company and the shareholder to benefit from the prohibited income portion in any manner e.g. payment of taxes, payment of interests due or settlement of debt liabilities.

6.9. The commission or fee charged by a broker, an agent or a manager of shares whose trade is permitted, according to this standard, is not subject to the requirement of excluding the prohibited income.

6.10. It is prohibited for individuals, companies and financial markets to act as brokers, agents or managers of shares whose trade is not permitted according to this standard, and any commission or fee obtained from such activities by individuals, companies and their shareholders must be excluded.

6.11. The shareholders must comply with these rules for the entire period of holding the shares.

7. ISSUANCE AND SUBSCRIBTION TO SHARES

7.1. It is permitted to limit the company's liability to its capital, and the partner/ shareholder's liability to the value of his shares; provided it is declared to the public in a manner that it is known to all those who deal with the company and consequently eliminates deception.

7.2. It is permitted to add the subscription premium to the shares value at the time of their issue provided this premium is fair and reasonable.

7.3. It is permissible for the company to issue new shares in order to increase the capital of the company provided the new shares are issued at a price equivalent to the fair price of the old shares, as per the assessment of the company's assets made by the market experts; i.e. at a premium, a discount or at market value.

7.4. It is permissible to purchase shares by way of Murabaha[1] or Musawamah[2] against a spot or deferred payment, in lump sum or in installments.

7.5. It is permissible to agree, at the subscription time, on payment of the shares' price in installments by paying one installment and deferring the other installments, provided the deferred payment mechanism is applicable to all the shares.

7.6. It is permitted to underwrite the issue of shares and to charge the issue expenses.

7.7. It is permitted to lend shares by way of I'arah for the purpose of pledging them or for the purpose of granting the borrower their profit. However, the borrower is not allowed to sell the shares except for enforcing the security.

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[1] A sale contract for selling a specified item at a mutually agreed mark-up (profit) added to the purchase price

[2] A sale in which the seller is not obligated to disclose the price paid to create or obtain the good or service.

Dubai Financial Market, P.O.Box: 9700, Dubai, UAE سوق دبي المالي، ص . ب: 9700، دبي، الإمارات العربية المتحدة
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7.8. The relevant authorities may restrict trading of some shares to some particular licensed brokers if the purpose is to achieve some legitimate interests.

7.9. Subject to clause (4.1.), it is permissible to purchase and sell, on spot or deferred price basis, shares of stock companies, after commencement of their activities and before their liquidation, irrespective of whether the purpose of the purchaser/seller is investment or trading.

7.10. When selling shares, the provisions of the company's by-laws should be complied with, provided they are not in conflict with the principles of Shari'a e.g. the first right of refusal to the shareholders.

7.11. Sale of shares is executed by exchange of offer and acceptance in a manner that transfers the ownership followed by constructive possession, even if the final settlement has not taken place.

8. THE UNLAWFUL TRANSACTIONS IN ACQRUING AND TRADING OF SHARIES

8.1. Entering into non-Shari'a contracts (contracts which do not meet the necessary terms and conditions of the Shari'a compliant contracts or contracts declared impermissible by Shari'a) is prohibited in Shari'a. They include the following:

8.1.1. Einah Sale: It is the sale of a commodity purchased on spot price basis, to the same seller from whom it was purchased but at a higher deferred-paid price, or vise versa. In case it is sold to a third party, it is then called Tawarruq.

8.1.2. Non-Shari'a-compliant derivatives: They are financial instruments whose underlying contracts have not fulfilled the Shari'a requirements. Typically, the price of a commodity is fixed now, but it is purchased and delivered, against the pre-fixed price, on a future date. Derivatives include:

8.1.2.1. Futures: A sale contract in which the price is fixed, but both the payment of the price and delivery of the items are deferred to a specific date in the future.

8.1.2.2. Options: They are sale contracts whose subject matter is the option to buy or sell (a specific thing at a specific price) on a pre-agreed date in future. In other words, the seller (writer of the option) gives the buyer (the beneficiary from the option) the right, but not the obligation, to sell or purchase a currency, a commodity or a financial instrument for a predetermined price on a pre-agreed future date, or at any time before a particular date. The price paid in this contract is the price for the option itself and not for the currency, the commodity or the financial instrument. These options are of two kinds: options of right to purchase, and options of right to sell.

8.1.2.3. Index-based financial instruments: These are financial instruments whose issuer undertakes to pay the average of their return as per an index of some financial instruments. The return to be paid is not related to any particular investment; rather, it is dependent on the index's declared average of return.

8.1.2.4. Swaps: They represent agreements for the exchange of one set of cash flow with another.

8.1.3. Hire-Purchase.

8.1.4. Short Sale.

8.1.5. It is not permitted to issue preference or Tamattu' shares, nor to trade in them.

8.1.6. Financing purchase of shares through interest-based loans is not permissible.

8.1.7. It is prohibited to purchase shares on margin involving interest-based loans extended explicitly or implicitly by the broker through charging a higher commission than what is charged on spot transactions even if the charged commission rate is within the range of market commission rates. However, it is permitted to buy shares through finance extended in a Shari'a compliant manner.

8.1.8. Leasing or lending shares is not permissible.

8.1.9. Selling of shares by way of Salam is not permissible.

8.1.10. Pledging of shares as a guarantee for interest-based loans is not permissible.

8.1.11. Practicing any hedging activity based on margin purchase, short selling or any other unlawful activity is not permissible.

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APPENDIX (1)

9. DEFINITIONS

The following terms (arranged in alphabetical order) shall have the meanings assigned to them hereunder:

9.1. **ISLAMIC INVESTMENT:** means deploying funds through Shari'a-compliant contracts, instruments and modes of investment; thus, it excludes interest-based investment.

9.2. **CONVENTIONAL INVESTMENT:** means deploying funds through contracts, instruments and modes that contravene Shari'a principles.

9.3. **INVESTMENT IN SHARES:** means purchase of shares for the purpose of holding them to earn the periodic profit distributed thereon by the company.

9.4. **CONVENTIONAL (INTEREST-BASED) BORROWING:**

9.4.1. Interest based borrowing: means to obtain loans from a third party on an interest basis so that the borrowed amount becomes the company's liability to this party.

9.4.2. Interest based borrowing comprises all short-, medium- and long-term loans the company may obtain through borrowing, accepting interest based deposits and issuing or selling debt instruments like: bonds, treasury bonds, preference shares and the likes.

9.4.3. Interest based borrowing does not include liabilities of the company arising out of Shari'a-compliant transactions including but not limited to:

9.4.3.1. The price in the deferred payment sale (Bargain or Murabaha) where the company is the purchasing party;

9.4.3.2. The price in the deferred Istisna, where the company is the Mustasni' (the buyer) or;

9.4.3.3. Rental deferred or to be paid in installments where the company is the lessee.

9.5. **NON-INTEREST BASED BORROWING:**

Non-interest based borrowing shall include:

9.5.1. Company's borrowing with no interest (Qard Hassan) resulting in the creation of a liability on the company towards the lending party,

9.5.2. Borrowing between companies and their wholly owned subsidiaries or between sister companies, even if such loans carry a premium. (As this is considered self-lending (Iqrad alNafs) so the rules of Reba will not apply).

9.5.3. Borrowing by the company from the shareholders, even if the loan carries a premium, provided the loan is extended by each shareholder in proportion to his/her ownership of the company shares.

9.6. **INTEREST BASED LENDING:**

9.6.1. Interest-based lending means lending by the company to a third party on the basis of interest so that the company becomes a creditor to the third party.

9.6.2. Interest-based lending shall include all short, medium and long-term interest-bearing loans the company advances to others; the amounts deposited by the company on an interest basis with others as well as the purchase of debt instruments like bonds, treasury bonds and their likes. It also includes subscription and purchase of preference shares of companies.

9.6.3. Interest based lending does not include loans due from others with no interest charged thereon, including but not limited to:

9.6.3.1. Price of the deferred payment sale, (Bargain or Murabaha) where the company is the selling party;

9.6.3.2. Price of the deferred Istisna, where the company is the selling party on Istisna basis (al-sani');

9.6.3.3. Salam commodity (commodity loan), where the company is the purchasing party on Salam basis; or

9.6.3.4. Rental deferred or to be paid in installments, when the company is the lessor.

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9.7. **HIRE-PURCHASE:** is to lease an asset through a contract which puts the burden of all maintenance, insurance costs and property risk on the lessee, and the title to the leased asset is transferred automatically to the lessee at the end of the lease. It is a combination of lease and sale contracts.

9.8. **SHORT SALE:** it is the sale of such shares that the seller does not own at the time of sale, but undertakes to deliver them to their buyer on the due date.

9.9. **CONVENTIONAL INSURANCE**: means a commutative?? contract pursuant to which the insurance company undertakes, in return for the insurance premiums, to compensate the policyholders for the damages sustained from the risks covered under the insurance policy. The insurance company owns all the insurance premiums and is entitled to the balance (if any after deduction of compensations paid to the policyholders).

9.10. **TAKAFUL INSURANCE:** means participation of the policyholders in creating an independent portfolio based on their undertaking to donate their subscriptions and the investment returns for compensation of whoever, from amongst the policyholders, suffers from any one or more of the risks covered under the policy; while the portfolio's account is maintained separately from the accounts of its managing company, and the balance belongs only to the policyholders. The Takaful company manages the insurance operations as an agent against a fixed fee; and invests the portfolio's fund as a Mudareb against a pre-agreed percentage of the profit.

9.11. **CONVENTIONAL FINANCE:** lending and borrowing on an interest basis.

9.12. **ISLAMIC FINANCE:** finance obtained through Shari'a compliant contracts and modes.

9.13. **PROHIBITED INCOME:** it means the gross prohibited revenues, other than the income generated from Reba, before deduction of the expenses. It includes the revenues generated out of non-Shari'a- activities, transactions and contracts as may appear in the financial statements, or as may be proven by any means.

9.14. **SHARE:** A financial paper that represents for its holder/owner an undivided share in the ownership of the assets of a joint stock company bestowing on him a complete title to both the corpus and the usufruct of those assets, and is not confined to entitling the shareholder to a respective share in the profit and the liquidation value. The shares could be for its first beneficiary or for its bearer:

9.14.1. *Ordinary Shares*: these are the typical shares and are also called the capital shares; they are equal in value as well as rights. Every shareholder enjoys voting rights in the general assembly, is liable for loss and entitled to profit and the liquidation value in proportion to the shares that he holds.

9.14.2. *Preference Shares*: means the shares that enjoy preference in profit distribution as their holders are entitled to fixed amounts or a pre-agreed percentage of the share value from the company's profit and/ or its liquidation value.

9.14.3. *Tamattu' (Enjoying) Shares*: means shares whose nominal value has been paid to the holders by deducting the redemption amount from the company's profit, but the holders continue to enjoy some of the rights of the shareholders' such as getting a share of the profits and voting right in the company's general assembly.

9.14.4. Green shares are those the outcome of which finances the provision of amounts invested in sustainable development. Naming those as green is referring to the fields in which they are used that are environmental-friendly, i.e. preserving the environment from pollution and carbon impacts and climatic impacts. The purpose of these funds includes saving the environment, adaptation with climatic impacts, reducing energy costs, substituting solar energy for dependence on oil, reducing carbon emissions, enhancing the standard of living for all by means of having a care of infrastructure and strengthening the national economy. The fields and instances of the green funds are buildings of renewable clean power plants, especially the solar energy and the infrastructure projects (housing, electricity, education, health, and technology) and low-carbon bio-industries.

1.1. **BUYING ON THE MARGIN:** The financing made by the Brokerage Company placing a proportion of the market value of the securities financed on margin, and secured as collateral by the securities available in the margin, trading account or any other collateral in the cases exclusively stated in the SCA Regulations. The higher commission charged for sale on the margin, than commission for cash sale, is a hidden interest.

1.2. **COMPANY:** public joint stock company.

Dubai Financial Market, P.O.Box: 9700, Dubai, UAE سوق دبي المالي، ص . ب: 9700، دبي، الإمارات العربية المتحدة
T: +971 4 305 5555 :هاتف F: +971 4 305 5566 :فاكس E: customerservice@dfm.ae :بريد إلكتروني
www.dfm.ae

1.3. **SISTER COMPANIES:** companies which are fully owned by a single company, or companies that are totally owned by the same shareholders; and each company has its own independent juristic personality and separate financial liability.

1.4. **PARENT COMPANY:** means a company that holds 100% of the shares of one or more subsidiaries; with each subsidiary having its own independent juristic personality and separate financial liability.

1.5. **FINANCIAL PERIOD:** the three-month period at the completion of which audited financial statements are issued.

1.6. **TRADING IN SHARES:** means the purchase of shares for the purpose of making profit through selling them with a profit margin.

1.7. **CASH:** means all cash in hand/currencies held by the company or with any institution entrusted with their safekeeping; and it does not include company's money in its bank accounts.

1.8. **CONVENTIONAL INSURANCE COMPANY:** means a company that carries out conventional insurance operations with no consideration for Shari'a principles.

1.9. **TAKAFUL INSURANCE COMPANY:** means a company that manages Takaful operations (of a Takaful portfolio) as an agent and invests the Takaful funds as a Mudareb in accordance with the principles of Shari'a.

1.10. **GUARANTEE OF ISSUE:** means an undertaking given by some party, at the time of the company's launch, to buy all or some of the shares not subscribed to.

1.11. **UNDERWRITING PREMIUM:** means a certain amount or a fixed percentage of the share's face value added to the actual share value on its issuance to meet the issuance expenses.

1.12. **OBJECTIVE OF COMPANY:** The primary objective behind the company's formation, and for the achievement of which the company has obtained the necessary licenses.

1.13. **COMPANY'S PRINCIPAL ACTIVITY:** the actions, operations, the means or the mechanism applied by the company to achieve its objectives.

1.14. **FATWA AND SHARI'A SUPERVISORY BOARD (THE SHARI'A BOARD):**

1.14.1. It is a board appointed by the company's general assembly, which carries out the functions of Shari'a supervision and issuance of pronouncements (Fatwas). It is independent from the company's Management; and its orders and resolutions are final and binding on the company's management.

1.14.2. The Shari'a Board comprises at least three Shari'a scholars with specialization in Fiqh al-Mu'amalat Al-Maliah (Islamic jurisprudence for financial transactions), necessary academic qualification and experience in the Islamic finance industry. One or more experts in other fields needed for Islamic finance with no voting power may be added to the Board membership.

1.14.3. The Shari'a Board has the following functions:

1.14.3.1. Issuance of resolutions and pronouncements,

1.14.3.2. Endorsement of the finance modes structures and their relevant documents, and endorsement of the new products,

1.14.3.3. Endorsement of the template agreements prior to their execution,

1.14.3.4. Supervision and performance of Shari'a audit of the executed transactions through the internal Shari'a audit system.

2. DATE OF THE STANDARD ISSUANCE

This Standard was issued in 2008, reviewed and revised in September 2013, and further updated in October 2018.

Dubai Financial Market, P.O.Box: 9700, Dubai, UAE سوق دبي المالي، ص. ب: 9700، دبي، الإمارات العربية المتحدة
T: +971 4 305 5555 هاتف: F: +971 4 305 5566 فاكس: E: customerservice@dfm.ae بريد إلكتروني:
www.dfm.ae