

Purchasing commodities from the Supplier in the Global Markets

Among the main transactions conducted by the Mudaraba Commodity Funds is the purchase of metals from global markets with the purpose of selling them on a deferred sale basis to financial institutions.

- **Company relationship with the suppliers:**

In order to organize the company's relationship with the suppliers with regard to the purchase of commodities from London Metal Exchange, an agreement for the purchase of commodities is signed between the company and the suppliers in which the company shows its interest to buy certain commodities from the market. After its possession of the goods, the Company receives the necessary documents for the transfer of ownership and receipt of goods.

- **The Executive steps:**

- The First Stage: Expression of Interest:**

If the company is interested to purchase goods on a deferred purchase basis, it must express its desire to the broker or the supplier through the "Expression of Interest" form, and send it through one of these means: e- mail, fax, or through the recorded phone calls.

- **The sharia rules :**

Expression of interest is considered as a non- binding promise on the company to purchase commodities, in case the supplier has owned them. This demand shall not result in any commitment from the part of the company.

- The Second Stage: Acceptance of the Supplier**

If the supplier desires to sell commodities to the company, he shall issue a sales acceptance and send the same to the company according to the "Seller Acceptance Form" by fax, e- mail, or phone calls, subject to the following two conditions:

- 1- The e- mail, fax, or phone call shall include contents of the "Seller Acceptance Form."
- 2- The phone call shall be recorded to document the transaction, and to enable referring to it when needed.

- **Note:**

The supplier or the broker shall attach with the "Seller Acceptance Form", a copy of the commodities identification documents, or send it upon issuing the acceptance, if the acceptance is sent by phone or fax. These documents include the following information: Ownership Certificate Number, Type of metal, number of units- ounces-, place of the metal, the transaction

execution date, and date of delivery of commodity. This certificate is considered as an official document indicating that the metal is existing (identified) and that it is owned by the seller.

- **The Sharia rules:**

1. The supplier shall own the commodities before sending the Seller Acceptance Form to the company in order avoid selling what he actually doesn't own.
2. It is impermissible according to Islamic Sharia for the supplier to obtain an advance payment of the commodities price from the Company before the supplier owns it in order avoid selling what he actually doesn't own.
3. The commodity shall be identified as pursuant to the identification documents, and the company shall receive these documents so it will be entitled to the resulting profits (benefits) and subject to bear the costs before selling the commodity or authorizing someone to sell it.

The Third Stage: Acceptance of the Company

If the company agreed to purchase the commodities from the supplier and received the identification documents it shall send its acceptance to the supplier according to the "Buyer's Acceptance Form" after signing and filling all its particulars, and sending it by fax or e-mail. Upon the supplier's receipt of this acceptance, the purchase transaction will be accomplished between the two parties according to the terms and conditions of the "Purchase of Commodities Agreement and its Appendixes".

By completing the previous transaction, the Company will be in possession of the commodity, which will be entitled to all the rights pertaining to the commodity and subject to all its consequences including the risks of the commodity damage, price changes, etc.

- **Note:**

If the acceptance is declared by phone, it is necessary to abide by the following:

- a. The commodity identification documents, shall be received before the company issues its acceptance to purchase a commodity.
- b. The phone call shall be recorded and it shall include the content of the "Buyer's Acceptance" form.
- c. Sending the "Seller's Acceptance Confirmation" Form by the supplier to the company.
- d. Sending the "Purchaser's Acceptance Confirmation" Form by the company to the supplier.

- **The Sharia rules:**

1. The Company's purchase of the commodities shall be from a supplier who owns the commodities such as a principal or an agent.
2. The company shall not purchase gold, silver, or currencies from the supplier on a deferred payment basis because it is not permissible to purchase and sell these commodities by exchanging one different kind of it with another, or on a deferred money basis.
3. The supplier may not practice any trading from the commodities sold to the Company as long as it remains in the possession of the company, and it shall not bear any charge, restriction, or further obligation.
4. The supplier may not buy commodities from the company at a current price, and then sell them to the company at a deferred price because that is a reverse form of the buy-back sale (Baye aleayana) both of which are prohibited.
5. The supplier may not sell commodities to the company on deferred basis, and then buy them from it because that falls under what is known in sharia as the Baye'aleayana (buy-back sale) which is prohibited by sharia.
6. The company may not sell to suppliers from whom the commodities were purchased whether it purchased these commodities for itself or for others to close completely the pretense (claim) of the prohibited Baye'aleayana (buy-back sale) in its bilateral or trilateral form or more.

The fourth Stage:

The Company's disposition of the commodity and its consequences:

If the company sold the commodity to a third party the company must deliver the instructions of the third party to the supplier according to the "Delivery Instructions" Form. In this case, the supplier shall dispose of the commodity in accordance with the delivery instructions provided to him by the company.