

MURABAHA

Definition Of Murabaha

What is a Murabaha?

A Murabaha is a sale transaction where the cost of acquiring the asset and the profit to be added are disclosed to the client. The buying client typically repays in installments or as a deferred lump sum. It is a necessary condition that the seller own and constructively possess the Murabaha asset.

Typically, the client is made the bank's agent for purchasing the subject matter of the Murabaha where the agent's possession of the asset is considered the principal's possession of the asset. It is not permissible to earn profit from a sale without first assuming all the risk associated with the asset.

Purchase Requisition In Murabaha

What are the rulings related to the purchase requisition in a Murabaha?

A client submits the purchase requisition when the financial institution approves a credit limit for a Murabaha. A bank may refuse to execute a Murabaha for an asset that is not Shariah-compliant or is against the bank's policy to promote in the market. The client's request and unilateral promise to purchase the Murabaha asset may be placed in combined or separate documents. If separate documents are created, the unilateral promise to purchase is made after the master Murabaha facility agreement is signed.

The purchase requisition is evaluated as follows:

1. The bank must first ensure that the commodity is Shariah compliant and sellable in the market.
2. If the bank is to purchase the goods of the Murabaha, then it must ensure that the client has not already made the purchase from the supplier.
3. If he has, the deal between the supplier and client must be cancelled.
4. The supplier must not be the client himself but must be a third party. If the supplier is the client, the transaction will be a *buy back* which is prohibited.

It is impermissible to execute a Murabaha if:

- The client is the supplier's agent;
- The supplier is the client's agent; or

- They are both substantial shareholders in the transacting company.

Consumption Of Murabaha Asset While Acting As Agent

How does the consumption of the Murabaha asset by the client while he serves as an agent affect the transaction?

If the client takes possession of the asset and consumes it, a Murabaha cannot be executed for it any more. For instance, consider raw material as the subject matter of a Murabaha. The client processes it into a finished product, for instance, sugar cane into sugar. In such a situation if the client acting as agent consumes the asset before the Murabaha's execution, the financial institution must cancel the contract, recover the principal amount and enforce the charity clause established at the time of the contract's execution.

Breach In Promise To Purchase In Murabaha

What happens if there is breach in a promise to purchase in a Murabaha?

Once the goods are purchased from the supplier and the client backs out on entering into a Murabaha with the bank, the bank may sell the goods in the market and make up for its actual loss. If the goods sell for a price lower than their cost to the bank, the client is expected to make up for the difference provided it is established at the time of the contract's execution.

Distribution Of Murabaha Profit Before Maturity

How does the distribution of profit take place in a Murabaha before maturity?

If a bank only conducts a Murabaha and possesses only liquid assets, and the closing of accounts is to take place after 6 months, and a depositor wishes to make a withdrawal after 3 months, the depositor will only be returned his principal amount. After 6 months, at the time of the Murabaha's maturity, his profit for 3 months is calculated and disbursed to him. If a depositor wishes to withdraw after 3 months while a bank conducts an Ijarah in addition to a Murabaha for a term of 6 months, and possesses liquid assets as well as fixed assets, the bank may take one of the following two steps:

1. The depositor may be given an amount decided mutually by the business partners.
2. The depositor may be given only his principal amount in addition to the profit rate announced for the period of 3 months.

At the time of maturity of the business, once the total profit and loss is calculated, the amount that is owed to him by the bank is disbursed. Alternatively, the amount owed to the bank from him is

retrieved.

The bank must determine its course of action from the aforementioned options in advance in order to deal with a business partner who wishes to withdraw before maturity.

Financing With Murabaha

What's the typical way of financing using Murabaha?

A client approaches a bank to enter into a Murabaha agreement to purchase an asset. The bank agrees and promises to sell the asset at its list price and an additional profit. The buyer in turn promises to make installment payments. The bank purchases the asset from a vendor and then sells the asset with the agreed profit in installments (or lump-sum in future). It is imperative that the bank first own the asset before selling to the client. Sometimes clients make the mistake of approaching the bank with an invoice of an asset after the client has already purchased, which would preclude a Murabaha.

Essential Features Of Murabaha

What are the essential features that must be present in a Murabaha transaction?

In a valid Murabaha transaction, the seller must clearly and unambiguously stipulate the nature, origin and kind of goods to be sold and any other necessary description of the goods that must be mentioned in order to make the contract unambiguous. The amount of benefit accruing to the seller must be mentioned. With regards payment of contract price in installments, what must be specified is a) when each installment would be due, b) the total duration of installments, and c) the amount of each installment.

Financing Construction Under Murabaha

A client approaches a bank with a request to finance the construction of a building over land owned by the client. The bank gets a specified percentage of mark-up as profit. Is such a transaction permissible under Murabaha contract?

Murabaha is a contract of sale in which the owner of an asset sells the asset to the buyer at a known mark-up. The transaction described does not fall under the category of Murabaha since there is no asset to sell. However, such a transaction may be financed under an Istisna mode of financing.

Identification Of Sale Asset In Murabaha Contract

Is it a condition in a Murabaha contract that the asset be known and identified?

It is a condition in a Murabaha contract that the asset be known and identified and that its original price and all costs incurred by the original buyer to obtain the asset also be declared.

Possession Of Goods With Seller In Murabaha Contract

Is it necessary for the goods to be in the possession and under the name of the seller in a contract of Murabaha?

It is necessary for a Murabaha contract to be valid that the goods be in the name of the seller and in the seller's possession as of the date of the contract.

Murabaha Contract For Foreign Trade

What is the correct mode of executing a Murabaha contract for purchase of foreign goods?

A Murabaha contract for purchase of foreign goods would include the following parties:

- The Islamic Bank ("Bank")
- Bank's client ("Buyer")
- Foreign exporter ("Exporter")

The Murabaha transaction would include the following steps:

1. The buyer requests a Bank to purchase goods from a foreign exporter
2. The bank opens a documentary credit under its own name.
3. The exporter ships the goods to the bank and simultaneously dispatches shipping documents to the bank.
4. The bank, upon receipt of shipping documents, sends them to the buyer against an interim promissory note.
5. The buyer inspects the goods on arrival, and communicates his satisfaction to the bank.
6. The bank pays the exporter.
7. The bank and the buyer execute a sale contract. The buyer signs a promissory note which states the buyer's promise to pay the bank the cost of the goods plus a specified markup. In case of payment in installments, multiple promissory notes may be drawn.
8. The buyer pays the bank on the due date of promissory note.

Additional Costs Incurred In Murabaha Contract

In case additional costs are incurred in procurement of goods under Murabaha contract, who shall be liable to bear such costs?

It is permissible to stipulate in the contract that any additional expenses incurred in buying and procuring the goods may be added to the purchase cost mentioned in the contract. However, the amount of profit may not be increased.

Appointing Agent For Receipt Of Goods Bought Under Murabaha

Is it permissible for the buyer to appoint an agent to receive goods bought under Murabaha contract on the buyer's behalf?

It is permissible for the buyer to appoint an agent to act on his behalf.

Purchase Of Goods For Sale Under Murabaha Before Execution Of Murabaha Contract

Is it permissible for a bank to purchase goods requested by a Murabaha client without first executing the Murabaha contract?

It is necessary for the bank to first contract with its client to ensure the client's commitment to purchase the goods.

Purchase Of Murabaha Asset

If the client acts as an agent in a Murabaha, can the Murabaha asset be purchased by the client before he becomes the agent?

The Murabaha asset may only be purchased by the client after he becomes the bank's agent. If the asset is bought before, it will be considered a buy-back transaction, which would be prohibited. In order to ensure that the client as agent makes an actual purchase of the Murabaha goods, the bank must issue a pay order in the supplier's name, receive an invoice from the client confirming the purchase, and carry out a visual inspection of the goods.

Selling Independently-Bought Goods Under Murabaha

Is it permissible to sell goods under Murabaha that were bought before entering into any Murabaha contract with the seller?

It is not permissible to sell goods under Murabaha that were bought before entering into any Murabaha contract with the seller. Murabaha is a special kind of sale in which the seller is bound to buy and sell the client only those goods that were specifically requested by the client.

Damage To Goods Bought Under Murabaha Before Delivery To Buyer

In case goods bought by a bank under a Murabaha agreement with a client are damaged before delivery to the client, who is liable to make good the loss?

In case goods bought by a bank under a Murabaha agreement with a client are damaged before delivery to the client, the bank is liable to make good the loss.

Client's Rejection Of Goods Bought Under Murabaha

Is it permissible for a client to reject goods bought by a bank under Murabaha agreement due to a defect in the goods?

The client may reject such goods, as it is the right of the buyer to reject goods due to a defect in them.

Delivery Of Goods Bought Under Murabaha To Client

What is the preferred mode of delivery of goods bought under Murabaha to the client?

It is preferable for the bank to have its own storage space where the goods are stored up until they are delivered to the client. However, in the absence of such a facility, it is permissible for the bank to request the client to collect the goods from where the bank purchased them under an agency agreement.

Down Payment To Bank In Murabaha Contract

Is it permissible for a bank to request the client for a down payment in a contract of Murabaha?

A down payment from the client to the bank is permissible in a Murabaha contract. In case of default by the client in purchasing goods, the bank is entitled to deduct the value of actual damage incurred as a result of the default.

Liability Of Bank As Regards Goods To Be Sold Under Murabaha

At what stage does the liability of the bank as regards goods to be sold under a Murabaha contract end?

The liability of the bank as regards goods to be sold under a Murabaha contract ends once the goods are delivered to the client. In case of imported goods, the bank's liability ends once the goods arrive at the port and the client receives the shipping documents.

Responsibility Of Bank As Regards Purchase Of Goods Under Murabaha

What is the responsibility of the bank as regards purchase of goods under Murabaha?

The bank is bound to acquire the goods exactly as requested by the buyer. Due care and precaution should be exercised in buying the goods. The bank should obtain multiple quotations in order to obtain the best possible offer.

Delivery Of Goods To Client In Installments

Is it permissible for a bank to deliver to its client in phases the goods bought under a Murabaha agreement?

Both parties to the Murabaha agreement may mutually agree as to the mode and phasing of delivery of goods. In such a case, if the delivery of goods will be complete in a short period of time, there shall be no need to draft a separate contract upon each delivery.

Goods Imported Under Murabaha Delivered In Installments

In case goods imported in a Murabaha contract are delivered in installments, is one Murabaha contract sufficient for the arrival of each installment?

In such a case, separate Murabaha contracts should be drafted for each installment date.

Delivery Of Imported Goods To Client Without Shipping Documents

In case goods imported by a bank under a Murabaha agreement are delivered before the shipping documents, is it permissible for the bank to deliver the goods to its client?

It is permissible for the bank to deliver the imported goods bought under a Murabaha agreement to the client in case they arrive before the shipping documents. In such a case, the bank is required to issue a customs clearance certificate to the client. In order for the issue of such a certificate to be valid, the following conditions should be met:

- The documentary credit should be in the name of the bank.
- The invoice should be in the name of the bank.
- The documentary credit should require the beneficiary to notify the bank of the details of the shipment and invoice.
- In case the client requests the issuance of customs clearance certificates while the bank has not received notification from the beneficiary, the bank will endeavor to obtain such notification. The customs clearance certificate should not be issued before the receipt of such notification, except to avoid imminent harm.

Furthermore, it is permissible in such a case to change the mode of sale from Murabaha to a bargaining sale. Since documents have not arrived and cost is not decisively known, both parties may bargain to a suitable price.

Conversion Rate In Case Of Imported Goods

In case of goods imported by a bank under a Murabaha agreement, which currency conversion rate should be used to determine the contract price?

In case of goods imported under a Murabaha, the bank should use the conversion rate prevailing on the day of purchase from the exporter.

Importing Goods On Basis Of Quotation Addressed To Buyer

Is it permissible for a bank to import goods under Murabaha agreement based on a quotation issued under the name of the client?

It is permissible for the bank to import goods under a Murabaha agreement based on a quotation issued under the name of the client. However, it is preferable that the quotation be addressed to the bank.

LC For Import Of Goods Opened In Name Of Client

In case of import of goods under Murabaha agreement, is it permissible for the documentary credit

to bear the name of the client along with the bank, or the client's name alone?

In general, it does not affect the validity of the Murabaha transaction if the documentary credit mentions the client as the co-importer or sole importer. However, this is against the essence of the Murabaha transaction and should be strictly avoided.

Charging Of Murabaha Price Before Delivery Of Goods

Is it permissible for the seller to charge the contract price from the buyer—either in whole or in installments—before delivery of goods under a Murabaha?

It is not permissible to charge from the buyer any portion of the price until the goods have been delivered.

Invoice For Purchase Of Goods Under Murabaha Issued In The Name Of The Client

What is the status of a Murabaha contract where the bank purchases the goods requested but the payment invoice received by the bank, instead of being addressed to the bank, bears the name of the client?

In a Murabaha contract, the bank purchases goods requested and sells them to the buyer. It is an integral of the contract that the bank purchases such goods, and the invoice bearing the name of the bank is the only documentary evidence the bank possesses of such purchase. Therefore, in case the invoices do not bear the name of the bank, they should be returned, and the goods should not be delivered to the client until the bank receives revised invoices bearing its name.

Murabaha As A Sale Of Unpossessed Items

Some people declare Murabaha to be invalid based on the opinion that it is a sale of unpossessed items. What is the correct opinion?

A Murabaha is not a sale of an unpossessed item because the contract of sale with the buyer is only concluded once the actual possession and ownership has been transferred to the buyer.

Importing Goods In Name Of Buyer In Murabaha Contract

A bank orders goods from abroad in pursuance of a Murabaha transaction. The exporter sends the goods in the name of the bank's client (promising buyer). Is this valid?

A Murabaha transaction is one in which the seller buys goods requested by the buyer and sells them to the buyer at a cost plus an agreed upon mark-up. It is necessary that the goods be dispatched or shipped in the name of the bank, as this is an integral of the contract and the only documentary evidence that proves that the seller (bank) actually bought the goods itself.

In such a case, all issued contracts or procedures entered into between the bank's client and the exporter should be cancelled, and a new transaction should be initiated between the exporter and the bank.

Procedures To Be Adopted By Bank To Ensure Valid Murabaha Transaction

What are the essential procedures that must be adopted by a bank to ensure the validity and substance of its Murabaha transactions?

A Murabaha is a permissible mode of financing in the Shariah. However, it is often misused, such that, in substance, it takes the form of conventional financing. In order to ensure a valid and substantial Murabaha transaction that conforms to the spirit of the Shariah, the bank should, at the very least, undertake to carry out the following procedures:

1. Purchase goods in its own name or through an agent.
2. Pay the price of goods directly to the seller, without the involvement of the client.
3. Receive the goods and place them in its custody before transferring to client.
4. Keep in its possession all relevant documentation that proves purchase in its own name and attach them to the Murabaha contract.

In addition to the above, the bank should ensure that the staff dealing with Murabaha clients is suitably trained in the above procedures.

Murabaha Contract Bound By Time

Is it permissible to set a time period for a Murabaha sale contract made with a promising buyer?

It is permissible to set a time period for a Murabaha sale contract made with a promising buyer if agreed upon by both parties.

Seller's Amendment Of Murabaha Contract Without Approval Of Buyer

Is it permissible to include a clause in a Murabaha contract where the seller has the authority to amend all conditions mentioned in the contract—including profit ratios—without recourse to the

buyer?

It is impermissible to unilaterally amend a Murabaha contract. Any amendment made must be with the full knowledge and approval of both parties to the contract. Therefore, the profit ratios may be changed in the future but only with the consent of the buyer.

Murabaha Transaction In Foreign Currency

Is it permissible to execute a Murabaha transaction in a foreign currency? Furthermore, is it permissible for the invoices of the purchase of goods by the seller to be in a foreign currency?

It is permissible to execute a Murabaha transaction in a foreign currency. It should be converted to the local currency on the date of purchase of goods from the exporter. It is also permissible that the purchase invoices are in a foreign currency.

Accounting For Foreign Currency Fluctuations For Payment Of Murabaha Contract

How should the seller account for foreign currency rate fluctuations that take place throughout a day, for the purpose of making payment to the exporter for goods ordered from abroad?

Foreign currency should be converted to the local base currency on the date of purchase of goods from the exporter. As for the fluctuations in foreign currency exchange rates, one should apply the rates being used by local banks in dealing in documentary credits with their clients on that particular day.

Expenses To Be Included In Cost Of Goods Purchased For Murabaha Transaction

What expenses may be added to the cost of goods purchased by the seller in pursuance of a Murabaha contract? Can staff salaries be added to the cost?

The cost of goods sold in a Murabaha contract should only be increased by expenses that directly relate to those goods and contribute to the value of the goods. Staff salaries and other general and administrative expenses may not be added to the cost of goods.

Customs Clearing Agent Salary Accounted For In Cost Of Goods

Is it permissible to add the salary of customs clearing agents in the cost of goods purchased in pursuance of a Murabaha contract?

With regards to customs clearing agents working for the seller in a foreign country in order to facilitate the import of goods by the seller, all money paid to them may be added to the cost of goods. However, if such agents are part of the seller's staff, only that portion of money paid to them for clearance of the specified goods may be added to the cost.

Determining Price Of Murabaha Contract

What factors should the seller consider in determining the price of a Murabaha contract?

The Murabaha price is mutually agreed upon between the parties to the contract. The seller should honestly state the cost incurred in purchasing and acquiring the goods and should propose a fair profit margin that the buyer agrees to.

Increasing Profit Rate In Return For Advance Payment To Exporter

Is it permissible for the seller in a Murabaha contract to increase the profit rate in consideration of making an advance payment to the foreign exporter for purchase of goods?

The profit margin in a Murabaha contract is decided on the basis of mutual agreement and the Shariah has not prescribed any limits barring artificial intervention.

Commission From Foreign Bank In Consideration Of Opening LC

A bank executing a purchase under a Murabaha contract opens documentary credit in a foreign bank and receives a commission. Should such a commission be given to the client or is the bank entitled to keep it?

The bank should, first of all, notify the client of such a commission. If it is agreed with the client that the bank is entitled to receive the commission, the amount of commission is deducted from the principal amount per the provisions of the Murabaha contract. If the receipt of the commission is not declared by the bank, then the commission will be held to be the client's property.

Adding Bank's Inter-Departmental Commission To Cost Of Murabaha

Is it permissible to add to the cost of the Murabaha commissions levied by one department of a bank on another department of the same bank?

It is not permissible to add inter-departmental bank commissions to the cost of goods in a Murabaha contract. Such a commission is not considered to be an additional direct expense.

Decreasing Price Of Murabaha By Insurance Compensation Received

In the event of damage to goods under a Murabaha contract, is it necessary to decrease the price of the contract by the amount of insurance compensation received? Will it suffice to hand over the compensation amount to the client without decreasing the price?

It is obligatory to decrease the price of a Murabaha contract by the amount of any insurance compensation received in lieu of damage to the goods. Changes in price that take place subsequent to the Murabaha contract should be immediately notified to the client. It is not sufficient to hand over the compensation amount to the client without decreasing the price.

Decreasing Murabaha Price By Discount Received By Seller

In case the seller receives a discount in goods purchased in pursuance of a Murabaha contract, is the Murabaha price decreased by the value of the discount?

Any discount earned by the seller in the course of buying and acquiring goods to be sold under a Murabaha should be netted off from the cost of goods. The discounted price is considered the base price.

Including Insurance Charges To Cost Of Goods Under Murabaha

Is it permissible to include insurance expenses to the cost of goods being sold under a Murabaha?

It is permissible to include insurance expenses to the cost of goods being sold under a Murabaha. However, the insurance expense is not considered when calculating profit.

Murabaha Sale Of Goods Not Bought By Seller

A client approaches a bank and requests it to finance under a Murabaha contract goods bought by the client itself. The bank should pay the price of goods according to the invoice submitted by the client and charge the same to the client along with a profit margin. Is such a transaction permissible?

The described transaction is not a valid Murabaha transaction and, furthermore, is unlawful in the Shariah. A Murabaha entails selling a particular commodity that the seller owns, disclosing its cost

and adding a profit margin mutually agreed upon by both parties. A Murabaha is not valid for goods that have neither been bought nor received by the seller nor are in his possession.

Ownership Of Goods To Be Sold Under Murabaha

Is it necessary for the seller in a Murabaha contract to have personally seen or received the goods, or have them stored at a location other than the site of sale?

It is a necessary condition that the seller have legally enforceable possession of the goods, even if it is constructive possession.

Importing Goods Under Special Permission To Be Sold Under Murabaha

Is it permissible to sell such goods under Murabaha that are not generally allowed for import but special permission has been granted from the government to a promising buyer to import?

It is permissible to import goods to be sold on Murabaha the import of which is generally restricted but has specifically been permitted by the authorities for the promising buyer. However, care should be taken to ensure that all conditions and integrals of a Murabaha are fulfilled.

Insurance Cover On Goods Ordered Under Murabaha

Is it permissible for a bank acquiring goods as a seller in a Murabaha to obtain insurance cover on such goods?

It is permissible to obtain insurance cover on goods to be sold under Murabaha, though it is not necessary in the Shariah. However, if the applicable laws and regulations make it mandatory to insure the goods, the bank should comply accordingly. It should be noted that irrespective of whether insurance cover has been obtained or not, the bank (seller) is responsible for any damage to the goods prior to delivery to the buyer.

Murabaha Sale Of Commodity Owned By Promising Buyer

Is it permissible for a bank to contract a Murabaha in order to sell the client goods that are owned by the client himself?

A Murabaha is a sale in which the seller sells goods owned by himself at a known cost plus profit. The transaction described in the question is not a valid Murabaha transaction. Furthermore, the said

transaction is not valid in Shariah under any mode of financing, since it involves buying and selling for oneself, which is forbidden. It is among the essentials of a valid contract that there be two distinct and separate persons who transact in terms of offer and acceptance.

Guarantee By Buyer For Goods Imported By Seller Under Murabaha

In case of goods being imported by a bank for sale under Murabaha, is it permissible for the promising buyer (client) to guarantee the imported goods?

In general, the bank—who is the buyer of the goods—should accept responsibility and liability for the goods and ensure their safe arrival. However, there are a number of limitations a bank may face, such as inability to deal with defects and shortages in goods and correspondence with exporters with whom the bank is not acquainted.

In view of such limitations, it has been held permissible for the buyer to act as guarantor for goods being acquired by the seller. However, such contracts of guarantee are completely independent and separate from the Murabaha contract. The guarantee given by the client would cover defects in goods, shortages in quantity of goods and any irregularity affecting the value of goods. In the event of any of the aforementioned, the bank may claim its entitlements from either the exporter or client.

However, in instances where the client is willing to absolve the bank of all liabilities resulting from the purchase, it may be prudent to execute the transaction under a different mode of financing, such as a Musharakah or Mudarabah.

Selling Impermissible Items Under Murabaha

Is it permissible to sell goods under Murabaha that are impermissible in Shariah?

It is not permissible to trade in anything that is impermissible in Shariah—be it under Murabaha or any other mode.

Deferring Payment Of Goods Bought To Be Sold Under Murabaha

Is it permissible for the bank to defer payment to the seller of the goods until such goods have been delivered to the buyer?

It is permissible for the bank to defer payment until goods have been received and approved by the buyer. However, this is contingent upon the fact that the sale contract between the bank and the seller has been concluded.

Storage Charges Of Goods As Part Of Cost

Is it permissible to add storage charges to the cost of goods being sold under a Murabaha?

It is permissible to add storage charges incurred to the cost of goods.

Floating Murabaha Installments Based On Market Price Of Goods

Is it permissible to benchmark Murabaha installments on the market price of the goods prevailing at the due date of each installment?

It is not permissible to benchmark Murabaha installments on the current market price of goods. A Murabaha is a sale of goods in which the cost and profit is unambiguously decided at the time of contract.

Ambiguity In Identity Of Buyer

Is it permissible for the buyer of property under a Murabaha to request that the sold property be registered at a later date either in his name or any person nominated by the client?

It is a condition of a sale contract that the buyer be unambiguously specified. Therefore, such a request is not valid and it is necessary to demand that the identity of the buyer be disclosed at the time of contracting. Moreover, registration of a property in the name of the buyer should be carried out at the time of execution of the sale contract.

Seller's Ignorance Of Goods' Specifications

Is it permissible to undertake a Murabaha transaction if the seller is not fully aware of the specifications of goods to be acquired and sold?

Goods should be thoroughly and unambiguously described in the contract of Murabaha. This should make the seller fully aware of what is to be sold. In case of any discrepancy in the goods, the buyer under Murabaha has the option to reject the goods and recover any amount paid.

Selling Air Tickets Under Murabaha

Is it permissible to sell air tickets under a Murabaha contract?

It is permissible to sell air tickets under a Murabaha contract. It is best, however, to seek a Shariah opinion on the specific contract before its execution.

Deficiency In Goods Discovered Subsequent To Murabaha Contract

In case some defect is discovered in goods to be sold under a Murabaha subsequent to signing the Murabaha contract, who is liable to make good the loss?

Any defect discovered in the goods is the liability of the seller. It is of no consequence if such defect is discovered subsequent to signing the Murabaha contract.

Selling Damaged Goods Under Murabaha

Is it permissible to sell goods under a Murabaha that were damaged in transit, considering such damage is disclosed to the promising buyer?

It is permissible to sell all permissible goods under Murabaha, provided that both parties to the contract agree upon the terms and the contract is lawful in the Shariah.

Goods Bought For Own Use Being Sold As Murabaha

Is it permissible to sell under Murabaha goods that were bought for one's own use?

It is permissible to sell such goods under a Murabaha. The intention at the time of purchase does not affect the validity of the Murabaha contract.

Advance Payments Of Murabaha Installments

Is it permissible to make advance payments of Murabaha installments?

It is permissible for the seller to accept advance payments of Murabaha installments. It is further permissible to reduce one's profit in consideration of receiving such advance payments; however, this may not be stipulated or implied as a condition.

Discount On Advance Payment Of Murabaha Installments

Is it permissible for the seller to give a discount to the buyer on advance payments of Murabaha installments?

A discount on advance payments is permissible. However, this is left at the sole discretion of the creditor (i.e. seller). It is not permissible to bind the seller into giving a discount. Therefore, such a discount may not be stipulated or implied either orally or in writing. At the same time, there is no harm in the seller forming a policy whereby one gives a discount upon early payment and makes such a policy known to all customers.

Penalty On Promising Buyer For Default In Purchase Of Goods

Is it permissible to impose a penalty on the promising buyer if he defaults in purchasing the goods he ordered?

Such a penalty is not permissible as it falls within the definition of riba. Instead, the bank may choose to sell the goods to another buyer, and recover from the promising buyer any expenses and depreciation in value of goods caused by his default.

Murabaha Installments In Foreign Currency

Is it permissible to stipulate that Murabaha installments be payable in foreign currency at the rate prevailing on the due date, in consideration of the fact that the bank has to pay for such goods in installments in foreign currency?

It is a condition for the validity of a contract that the contract price be known to both parties. In such a case, both the seller and buyer do not know the contract price, as it is contingent upon the currency rate prevailing in the future. Due to this and other ambiguities, such an arrangement is not permissible in the Shariah and should be avoided. Permissible alternatives to such a transaction would be:

- Executing and concluding Murabaha transactions in foreign currency. Foreign currency would be converted to the local currency on the date of purchase of goods from the exporter.
- To convert a Murabaha sale into a simple bargaining sale, where the bank estimates a price and enters into a contract with the customer based on this price. Later, this price can be changed with mutual consent of both contracting parties.

Increased Profit Rate For Past Defaulters

Is it permissible to increase one's profit rate on Murabaha transactions when dealing with past defaulters?

It is permissible in the Shariah to charge different profit rates from different customers. The profit rate is a matter of mutual consent between the parties and may be decided and changed on a case-by-case basis.

Confiscating Earnest Money Upon Default

Is it permissible to confiscate earnest money received if the promising buyer defaults in purchasing goods?

It is permissible to confiscate earnest money in such a situation, provided that this was mentioned in the Murabaha contract.

Selling Asset To Insolvent Client

In a Murabaha transaction, is the seller obliged to sell the asset to a client who, after promising to purchase, becomes insolvent?

In case the seller comes to know of a client's insolvency before delivery of the asset he has the right to withhold delivery.

Amending Murabaha Contract

Is it permissible to amend Murabaha contracts before the conclusion of the sale?

It is permissible in the Shariah to amend the Murabaha contract prior to its execution with the consent of both parties. However, unilateral amendment is not permissible for either party.

Payment By Promising Buyer At The Time Of Promise

Is it permissible for the seller to accept part of the Murabaha contract price from the promising buyer at the time of making a promise to purchase?

It is permissible to make a part payment at the time of the promise. However, in case the transaction of sale is not concluded, such an amount must be returned in full to the promising buyer.

Profit Recognition In Murabaha

For accounting purposes, how is profit recognized in a Murabaha transaction?

Since Murabaha is a cost-plus sale, profits are measurable and known at the contract date. Therefore, it is permissible to accrue the total amount of profit from a transaction on the date on which the Murabaha contract was executed.

Profit On Murabaha Contract Linked To Time

Is it permissible to make the profit on Murabaha contracts contingent upon the time the customer takes to make payment?

It is impermissible to link profit to time. Profit is part of the Murabaha price and cannot be separated over time. It is permissible to take into consideration the time a particular client takes to make payment for future dealings with that client.

Deferring Profit Determination Until Delivery Date In Murabaha

Is it permissible to enter into a Murabaha contract where the determination of profit is deferred until the date of delivery of the goods?

It is impermissible to defer profit determination in Murabaha contracts until the date of delivery.

Increasing Profit Margin Due To Late Purchase By Promising Buyer

In case the promising buyer unilaterally extends the date for the purchase of the goods from the bank, is it permissible for the bank to increase the profit rate in consideration for this late purchase?

It is not permissible for the bank to increase the profit margin if the promising buyer unilaterally postpones the purchase. The bank should take measures to ensure that the client purchases the goods on the date agreed-upon, since the promise to purchase is considered binding.

Participating In Profits Of Murabaha Client

Is it permissible to share in the business profits of a client who has been sold goods under a Murabaha?

It is impermissible to receive any share of the profits of a Murabaha client and it is not permissible to add any such clause in a Murabaha contract.

Appointment Of Guarantor In Murabaha Sale

Is it permissible to appoint a guarantor in a Murabaha sale?

It is permissible to appoint a guarantor in a Murabaha sale on credit. The guarantor should be provided a letter which stipulates that guarantees should not be evoked except upon default of the party. The bank should always exercise prudence and caution in evoking a guarantee and should consider it a last resort.

Post-Dated Cheques For Murabaha Installments

Is it permissible for the buyer to submit post-dated cheques for Murabaha installments?

It is permissible for the buyer to submit post-dated cheques for Murabaha installments.

Murabaha Transaction With An Interest-Based Bank

Is it permissible to enter into a Murabaha transaction with an interest-based bank on behalf of their client?

Such a transaction is permissible in principle. However, in practical execution, there are a number of Shariah considerations involved. Therefore, it is strongly advised that any such contract be vetted by a competent Shariah advisor or Shariah board.

Appointment Of Shipping Company As Agent To Receive Goods

Is it permissible for a bank to appoint a shipping company as its agent to receive imported goods that are to be sold under a Murabaha?

It is permissible in the Shariah for a bank to appoint a shipping company as its agent to receive imported goods that are to be sold under a Murabaha.

Title Deed Issued In Name Of Promising Buyer

In the case of an item to be sold under a Murabaha, is it permissible to issue the title deed in the name of the promising buyer?

It is not permissible to issue the title deed in the name of the promising buyer. The title deed is proof of ownership and should be in the name of the present owner.

Appointment Of Bank As Agent On Behalf Of Client

Is it permissible for a bank's client to authorize the bank or an employee of the bank as an agent to conclude a Murabaha transaction?

It is permissible for a bank's client to grant agency to the bank or any of its employees to conclude a Murabaha transaction between the bank and such client.

Commission To Murabaha Client In Event Of Agency

In case a bank's client under a Murabaha is also its trade agent, may the bank pay agency commissions to clients in cash and add such commissions to the value of goods for profit calculation?

In such an event, the bank may pay its client agency commission in cash and add its value to the price of goods to be sold. The profit of the contract may be calculated on the price of goods either inclusive or exclusive of such commission.

Buying Goods Under Murabaha From Lessee

Is it permissible for a lessor to buy goods from a lessee under a Murabaha, with a bank as an intermediary?

Such a transaction is permissible in principle. However, it should be verified that the lessee is the actual owner of the goods being sold and that the actual transfer of goods takes place. Due to the sensitivity of such a transaction, it is strongly recommended that a Shariah opinion be sought on the actual contract in question.

Unregistered Property Sold Under Murabaha

A bank purchases an asset which is required to be registered with the government. Before such registration is completed, a client approaches the bank to buy such an asset under Murabaha. May the bank sell the asset even though it is not registered?

It is permissible to sell the asset in such a circumstance. The buyer may get the asset registered directly in his own name. However, it is imperative that the title of such an asset be in the name of the bank.

Financing Concluded Deal Between Client And Owner Of Goods

Is it permissible for a bank to finance a concluded deal between a client and a third-party (owner of goods) under a Murabaha?

Such a transaction is impermissible since it would amount to interest-based financing. For a Murabaha to be valid, it is necessary that the bank acquires and takes possession of goods and subsequently resells them to a client at cost plus profit.

Promising Buyer Having Previous Contract With Owner Of Goods

A client approaches a bank to purchase goods under Murabaha. However, the client has a previous contract of purchase with the owner of the goods. May such a contract be unilaterally terminated by the client in order to proceed with the Murabaha contract?

Dealing with a client who has a previous contract with the owner of the goods depends on the nature of such a previous contract. If the contract is a general agreement and does not cover a specific transaction, then a Murabaha may be entered into. If, however, the contract is for a specific transaction, then this contract should be terminated before entering into a Murabaha transaction. As proof of termination, the client should provide the bank written evidence indicating that the client and owner of the goods have terminated their previous contract.

Return Or Replacement Of Goods Sold Under Murabaha

In a Murabaha transaction, is it permissible for the buyer under the Murabaha (client) and the owner of the goods to agree that the buyer will return the goods or have them replaced in case they are not sold?

It is permissible for the buyer and owner of goods to enter into such an agreement, as it is independent from the Murabaha transaction. Such a contract has no relation to the seller under a Murabaha.

Collusion Between Buyer And Owner Of Goods In A Murabaha

A client approaches a bank to buy goods under a Murabaha. The buyer agrees to buy the goods at a price less than the market value. At the same time, the buyer contacts the owner of goods and promises to pay the difference between the sale price and market price. Is such a transaction permissible?

The transaction described in the question is not permissible, as it amounts to an interest-based financing by the bank. If the bank becomes aware of such an agreement between the client and owner of goods, it should refuse to provide financing.

Earnest Money Paid By Client To Owner Of Goods

Is it permissible to enter into a Murabaha transaction with a client who has paid earnest money to the original owner of the goods?

It is impermissible to contract a Murabaha transaction with a client who has paid earnest money to the owner of the goods. It is necessary that all previous contractual relations of the client with the owner of the goods be extinguished before entering into a Murabaha transaction. The bank must demand proof of cancellation of the contract, which amounts to a letter of termination and return of earnest money.

Shipment Of Goods In Name Of Promising Buyer

In case of an import Murabaha transaction, is it permissible that goods be shipped in the name of the promising buyer?

It is not permissible for goods to be shipped in the name of the promising buyer. This would render the Murabaha transaction a mere interest-based financing. In case of such an event, the existing transaction should be terminated and a new contract should be entered into between seller and owner of goods.

Selling Endowments (Waqf) Under Murabaha

Is it permissible to sell endowments (Waqf) under Murabaha?

It is not permissible to sell endowments in the Shariah since they are not owned by any specific person, and for a sale to be valid a seller must be unambiguously identified.

Financing Labor Cost Under Murabaha

Is it permissible to finance labor cost under Murabaha?

It is impermissible to finance the cost of labor under a Murabaha. For such a financing, other permissible methods such as a Musharakah or a Mudarabah may be used.

Profit Rate Contingent Upon Repayment Period

Is it permissible to make the profit rate in a Murabaha contract contingent upon the period of repayment?

It is permissible to make profit contingent upon the repayment period. However, the amount of profit should be decided at the time of contracting. In other words, this entails that, at the time of contracting, the client be given an option of different repayment periods, each with different profit rates from which the client may select one.

Profit Distribution In Event Of Cancellation Of Murabaha

In the case of a cancellation of a Murabaha contract and return of a sold asset to the bank, is the bank entitled to the profits accrued for the period before cancellation?

It is permissible for the bank to retain profits accrued for the period up to the cancellation of the Murabaha contract.

Murabaha Subject Matter Prerequisites

What are the prerequisites for the subject matter of a Murabaha?

The subject matter of the Murabaha must meet the following conditions:

- The subject matter must exist. An asset that does not yet exist cannot be sold, as it would involve the element of uncertainty leading to dispute between contracting parties.
- The subject matter should be owned by the seller.
- The subject matter must be in the physical or constructive possession of the seller.

Constructive Possession In Import Murabaha

When does constructive possession take place in an import Murabaha?

In an import Murabaha when the bill of lading is received the party having received it is considered to have constructive possession of the goods.

Price Of Murabaha

What are the factors that need to be considered in determining the price of a Murabaha?

The following factors must be taken into consideration in determining the price of a Murabaha:

- The price must be established as a lump sum or determined in addition to a percentage.
- The price of the asset of a Murabaha may be paid at spot or its payment may be deferred.
- For a deferred Murabaha, the dates for installments must be fixed.
- The price of the Murabaha may not be decreased or increased based on an early or a late payment by the client.
- It is not permissible to allow the price of a Murabaha to fluctuate on the basis of changes in market rates. Once a price is fixed, it cannot be changed. At the time of signing the master financing agreement, a formula for pricing may be developed. At the time of the exchange of the offer and acceptance, the price may be fixed based on this formula. A new formula cannot be made at this point.
- The cost of the asset, namely the direct expenses involved in acquiring it and the profit to be earned from it must be taken into consideration while establishing the price.

Insignificant Damage In Murabaha

In the event that the value of the damage to some Murabaha goods is insignificant, is it necessary for the bank to deduct the amount of damage from the price or is it sufficient to pay the purchase pledger the amount of recompense received from the Takaful company?

If credit is extended for a Murabaha deal, then it is necessary to deduct the amount of damage however insignificant, from the price in addition to paying the purchase pledger the amount of recompense received from the insurance company. This is because a Murabaha is a sale of trust and

the client must be informed of any change in price.

Limitations Of Rebate In Murabaha

Is it permissible to grant a rebate in a Murabaha?

The bank may grant a client a rebate on the price of the Murabaha at its own discretion. However, this cannot be made a practice, stipulated as a condition within the contract or even demanded by the client. In order to avoid mishandling, rebates are generally disallowed. Nevertheless, under certain unavoidable circumstances a special dispensation may be requested from a qualified Shariah scholar.

Investment Stage In Murabaha

What is the investment stage in a Murabaha?

This is the stage that begins after signing the agency agreement. It is the time period during which the bank disburses the money for purchasing the asset from the supplier but has not yet acquired possession of it in order to sell it. The money disbursed at this stage is referred to as the advance against Murabaha. A profit will not accrue on this amount until the goods are received and handed over to the client.

Financing Stage In Murabaha

What is the financing stage in a Murabaha?

From the time that the goods are received and the document of the offer and acceptance is signed, until the Murabaha price is recovered from the client, is referred to as the financing stage. It is during this period that the bank has the right to accrue profit.

Bank's Liabilities Before Murabaha Asset Sale To Customer

What are the liabilities of the bank in a Murabaha contract before the asset is sold to the customer?

Once the bank takes constructive possession of the asset in a Murabaha contract, the bank assumes all the rights and responsibilities pursuant to ownership of the asset.

Murabaha Application

What is the Murabaha mostly used for?

Murabahas are used for everything from auto finance to home finance. Generally, they are more suited to short term financings because the repayment schedule is not changeable.

Murabaha Asset Sales Tax

Is the bank liable to pay sales tax as the Murabaha asset's seller?

In a Murabaha the bank sells the object of sale for its initial price plus a profit, or the initial price plus any expenses plus the profit. In either case the contract is valid with a condition that the bank informs the client of the breakdown that they are using.

Murabaha Agency

Is the client entitled to remuneration as Murabaha agent?

If the client agrees to do it for nothing, he is not entitled to anything. However, banks usually give the client a small nominal fee for acting as agent so that the agency contract is binding. If the agent does not receive a stated remuneration in the contract, he is not obliged to carry out his part (i.e. he can unilaterally cancel the agency contract. If he receives any remuneration, even if only nominal, the contract is binding).

Security In A Murabaha

What form of security is permitted in a Murabaha?

According to AAOIFI Shariah Standard 8 (Murabaha), Clause 5: "The institution should ask the customer to provide lawful security...the institution may receive a third party guarantee or the pledge of the investment account of the customer or the pledge of any item of real or moveable property..." Sections 5/2, 5/3, and other sections in clause 5 provide further detail on the terms and conditions associated with securing a Murabaha which we recommend that you read.

Down Payment For Murabaha

Is it permissible for the buyer in a Murabaha to contribute a down payment towards the purchase

price? If so, should he pay it to the bank or to the supplier or is it permissible to do either?

It is permissible for the buyer in a Murabaha to make a down payment towards the purchase price of the asset. Payment may be made either to the bank or directly to the supplier on behalf of the bank (i.e. as an agent to the bank) depending on how the Murabaha is structured.

Murabaha Asset As Security

Mortgaging is impermissible, however, in the example of a Murabaha home financing, is it correct that the bank sells the house to the client, the sale is concluded, the debt remains outstanding and the house serves as security to the bank? If the debt is not repaid, the bank would have recourse to the asset, sell it and make up for the remaining outstanding debt?

AAOIFI, the most widely followed Islamic finance standard in the world, provides detail on this question in its Shariah standard on Murabaha. The following is excerpted from standard 5/4 in the Murabaha section. Other parts of the standard, in particular those in section 5, should also be consulted for particulars on charity clauses, pledges, guarantees, and other risk mitigants: "It is not permissible to stipulate that the ownership of the item will not be transferred to the customer until the full payment of the selling price. However, it is permissible to postpone the registration of the asset in the customer's name as a guarantee of the full payment of the selling price. The institution may receive authority from the customer to sell the asset in case the customer delays payment of the selling price, in which case the institution should issue a counter deed to the customer to establish the latter's right to ownership. If the institution sells the asset as a result of the customer's failure to make a payment of the selling price on its due date, it must confine itself to recovering the amount due to it and must return the balance to the customer."

Murabaha Security

In case of default, when the financial institution sells the asset to recover the amount due to it and there is no balance to return to the customer (as a result of a decrease in the value of the house) wouldn't the customer's payment prior to default have been for nothing in return?

Typically, a Murabaha is used for short-term financings while for long-term financings Ijarah, Musharakah, and other structures are used. You may be getting confused with ownership. After the Murabaha is executed, the debt is owed but the customer is now the owner of the property. So the bank would not be able to seize and sell the house all things equal.

Murabaha Security Deposit

What is the difference between Arbun and Haamish Jiddiah?

Arbun refers to a down payment and Hamish Jiddiah refers to a collateral. Both are permissible to ask the client to provide in a Murabaha. In the case of Arbun, the down payment may be used toward the purchase of the good, and if the purchase is cancelled, part of the down payment may be used for the institution to recoup direct and actual costs associated with the transaction according to the guidelines outlined in AAOIFI's standard on Murabaha.

Purchasing Murabaha Goods

Is it permissible to purchase Murabaha goods after the acceptance of the purchase requisition and before the signing of the Master Murabaha Agreement?

The Master Murabaha Agreement contains the general terms and conditions of the transaction. There is a high risk that in the absence of a signed agreement there is no legal recourse in the event of an exigency.

Master Murabaha Facility Agreement

Does the sample MMFA assume the bank already has the goods?

If what is meant is the Agreement available at www.EthicalInstitute.com, in section 2.01 it says "Upon receipt by the Institution of the Client's Purchase Requisition advising the Institution to purchase the Goods and making payment therefore, the Institution shall acquire the Goods either directly or through the Agent." This shows that the Agreement does not assume the bank already possesses the goods.

Assigning Ownership Of Murabaha Goods

Is it permissible for the bank to assign the ownership of Murabaha goods to the client before the exchange of offer and acceptance in order to avoid double taxation?

One should have a scholar look at the documentation for the specific transaction to ensure that it is AAOIFI-compliant and one should also ensure that it is legal for the jurisdiction, however, in general, it is permissible for the bank to assign the name either to itself or to the client in order to avoid double taxation provided that the exchange of offer and acceptance/Murabaha sale afterwards

takes place between the bank and the client not in the latter's capacity as bank's agent but as customer/buyer of Murabaha goods.