

**PRONOUNCEMENT
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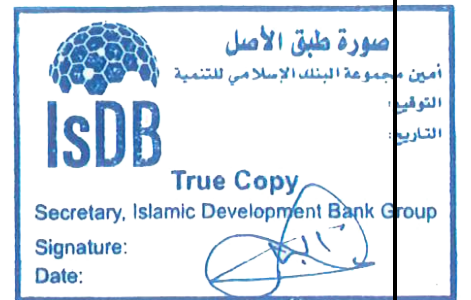
OF

**THE ISLAMIC DEVELOPMENT BANK GROUP
SHARI'AH BOARD**

ON

**ISLAMIC DEVELOPMENT BANK TRUST CERTIFICATE ISSUANCE
PROGRAM (SUKUK)**

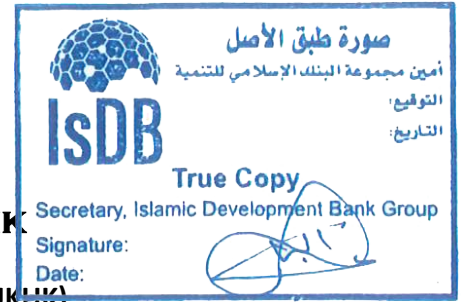
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ISLAMIC DEVELOPMENT BANK

TRUST CERTIFICATE ISSUANCE PROGRAM (SUKUK)



The Islamic Development Bank Group *Shari'ah* Board (“the Board”) reviewed the structure, procedure and the documents of IsDB trust certificates issuance program based on a portfolio made up of *Ijara* (lease) assets (leased out on a lease-to-own basis), shares, *Sukuk* certificates and installment (receivables) in respect of *Murabaha* and *Istisna'a* contracts, restricted *Mudaraba* assets and interest free loans (the “Program”).

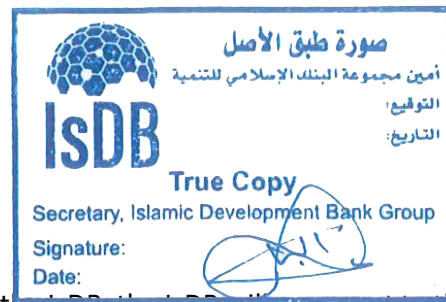
Unless the context otherwise requires, the terms defined in this Pronouncement shall have the same meaning given in the Program’s documents.

First: STRUCTURE OF THE PROGRAM

The Islamic Development Bank (IsDB) has prepared/established a program for the issuance of Shari’ah compliant investment *Sukuk* (“Trust Certificates”) to be issued in series based on the Program. This Program sets out the general framework and conditions applicable to the Trust Certificates that will be issued pursuant to the Program. These Series will meet all the Shari’ah requirements, notwithstanding that certain terms, such as the aggregate nominal amount (the Aggregate Nominal Amount), the maturity date, the periodic distribution amounts, the method of calculation of the periodic distribution amounts and other matters will be specified in the final terms/pricing supplement of, and may be different for each Series.

Any existing Series of Trust Certificates may, from time to time, be reopened (tapped) in order to allow for the issuance of a new additional tranche ("Tranche") of Trust Certificates with the same terms and conditions of the original Series. In this situation, the already existing Trust Certificates and any new Trust Certificates (issued pursuant to the additional Tranche) would be merged/consolidated under the same Series. The opening, issuance and consolidation shall occur at any time between the first issuance and the maturity date of the Trust Certificates. Once the consolidation has occurred, the existing Trust Certificates and the new Trust Certificates will be identical/same and indistinguishable from each other, (including their maturity date) in accordance with the terms specified below:

- (a) Old and new sukuk assets/portfolio must be evaluated before the consolidation.
- (b) New conditions will be added in the terms and conditions in the Prospectus stating that the earlier issued Trust Certificates (first series) may be opened /tapped on with the same terms and conditions as the existing Trust Certificates of that Series. Before any Series of Trust Certificates is opened for subscription, investors (prospective subscribers) will be therefore aware that a Series may be reopened and by subscribing for the Trust Certificates (of Series), they are deemed to have consented to any future tap/reopening of that Series.
- (c) The tap of an issue may be executed with the consideration of an issuance premium and discount.



Second: COMPONENTS OF THE PROGRAM

(1) Establishing the Portfolio:

Upon each new Issue, by a decision of the President of the IsDB, the IsDB will, pursuant to the programme, establish a portfolio of assets (the “**Portfolio**”), separate and financially independent from all other assets of the IsDB. Each Portfolio will be composed of tangible assets which are at least 51% of the value of the assets of the Portfolio and debts not exceeding 49% of the aggregate value of the Portfolio.

In the case of the reopening of Series, the proceeds from the issuance of the new Tranche of Trust Certificates shall be used in the same manner that was used in the initial issuance of the Series by purchasing a Shari’ah compliant portfolio from the IsDB which shall be separate and financially independent from other assets of the IsDB as stated in the present *Fatwa*. The IsDB shall be appointed as a service agent (the “Service Agent”) to collect returns of the Portfolio in preparation for its distribution to the holders of the Trust Certificates being the owners of the Portfolio assets. The main purpose for the re-opening of issuance is to offer an opportunity for subscription to any investors who were not able to participate in the initial offering for any reasons, or to allow any existing investors (subscribers) to increase their holding in the current Series.

(2) Sale of the Portfolio

The IsDB will sell the entire (relevant) Portfolio with all its components to the Trustee, who shall purchase the Portfolio on behalf of the Certificateholders of the relevant Series. After the sale, the IsDB shall de-recognize/remove the Portfolio from its balance sheet and the Trustee shall, on behalf of the Certificateholders of the relevant Series, purchase the Portfolio at a price, composed of the outstanding balance of (the Trust Certificates) as at the time of the purchase, from the sum of:

- (a) the fixed rental installment, due after any agreed previous payment, relating to the leased assets, be it completed assets or assets under construction (active) of which part of the fixed rents have been paid as may be agreed upon;
- (b) the value of shares and *Sukuk* certificates, if they (shares and *Sukuk* certificates) are included in the Portfolio;
- (c) installments under *Murabaha* contracts;
- (d) installments under *Istisna’a* contracts relating to completed assets or assets under construction (active);
- (e) restricted *Mudaraba* assets where the IsDB is the fund provider (*Rab-al-mal*);
- (f) interest free loans extended by IsDB to Member Countries;
- (g) short term financing (*Murabaha* debts);
- (h) installments under commodity *Murabaha* contracts (*Murabaha* debts).

An installment under *Murabaha* or *Istisna’a* contract shall consist of two parts:

- (i) the unamortized portion/unpaid portion of the debt origin (the Asset), i.e. the unpaid acquisition cost of the assets sold to clients under *Murabaha* contracts or the



unamortized portion of cost the *Murabaha* asset or the unpaid portion of the construction cost of assets under *Istisna'a* contracts and (ii) the share of profit ("Profit") added to the cost of purchasing the *Murabaha* asset or cost of asset construction under each *Murabaha* and *Istisna'a* contracts in the Portfolio.

Accordingly, the Portfolio and Trust Certificates which represents it will constitute equity in the tangible assets that are tradable via selling and buying because the portfolio consists of (a) tangible assets comprising of 51% of the total value of the Portfolio and (b) debts not exceeding 49% of the total value of the Portfolio as indicated above (Sale of the Portfolio); and because the Portfolio is distinct personality and financially independent from all other assets of the IsDB. The shares constituting part of the Portfolio should be cleansed from any forbidden income (if any).

The jurisprudential rationale of this consideration is that the whole Portfolio with all its components have been transferred to the Certificateholders, and debts are matched with debts and the balance of the value of the Portfolio is represented by tangible assets.

(3) **Issuance of Trust Certificates**

In consideration of the acquisition of the Portfolio, the Trustee will issue the Trust Certificates in the Aggregate Nominal Amount and shall, on behalf of the Certificateholders of the relevant Series of Trust Certificates, pay the proceeds thereof to the IsDB as the purchase price of the relevant Portfolio.

(4) **Status of the Trust Certificates under Sharia'h**

Each Trust Certificate will represent, at the time of purchase of the Portfolio, an undivided ownership interest in the assets of relevant Portfolio which consist of not less than 51% of the Portfolio, in addition to receivables not exceeding 49% of the Portfolio. If the tangible assets become less than 51% during the life of the Portfolio, the Wakeel shall purchase from IsDB or elsewhere additional portfolio assets in order to maintain the 51% tangibility requirement.

(5) **Submission of Reports from the Service Agent to the Trustee**

The IsDB, in its capacity as *Wakeel* (**Service Agent**), will be obliged to deliver to the Trustee a servicing report prior to each Periodic Distribution Date setting out the status of tangible assets and net asset value of the assets in the Portfolio. In the event that the tangible assets of the Portfolio is less than 51%, the Trustee has the right to request the IsDB to purchase, either from its own assets or from elsewhere, and following such request the IsDB shall be obliged to sell to the Trustee, additional tangible assets (completed leased assets or assets under construction (active), *Istisna'a* Assets under construction (active), shares and/or *Sukuk* certificates) in an amount sufficient to ensure that the tangibility of the Portfolio is at least 51% following such sale.

(6) **Collection of Amounts falling due under the Portfolio.**

If the IsDB is appointed as a *Wakeel* (Agent) of the Trustee, it will collect all amounts due under the Portfolio and amounts so collected shall be divided into two parts:

- (a) Representing the Principal and is deposited into the (“**Principal Account**”) which will be used for redemption.
- (b) representing the profit and is deposited into another account (the “**Profit Account**”) will be used for Periodic Distribution to the Certificate holders.

(7) **The Role of IsDB**

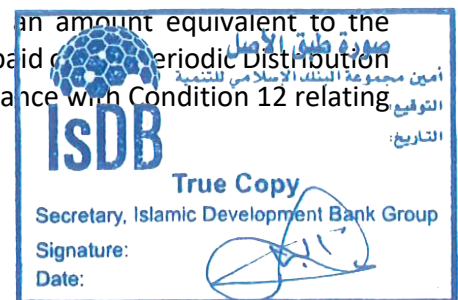
The IsDB is considered the seller of the Portfolio to the Certificate holders through their representative (the Trustee) and is neither an issuer, nor a participant, nor a manager, of the Trust Certificates. Therefore, the IsDB is a third party.

Where the Trustee appoints a *Wakeel* (Service Agent), by a separate agreement not to be a condition in the Purchase Agreement be it IsDB or another third party, the *Wakeel* will carry out certain limited functions in return for a specific fee. The Certificateholders shall be entitled to all the returns, however, they may relinquish/donate all or any part thereof to the *Wakeel* on the Maturity Date or the Dissolution Date out of the Profit Account after the payment of the expenses of the Delegate and the Trustee, other fees, commissions and expenses and the payment of the Periodic Distribution Amounts to Certificate holders. The functions to be performed by the *Wakeel* include the collection of amounts due under the Portfolio, the maintenance of the Portfolio assets, the sale, or as the case may be the purchase from the market of additional Portfolio assets if the Trustee so requests. Islamic Sharia’h does not forbid the IsDB from being appointed a *Wakeel* to be entrusted, by a separate agreement, with these functions for a fee.

(8) **Undertaking by the IsDB in respect of the Aggregate Nominal Amount of the Trust Certificates and the Periodic Distribution Amounts**

(a) After sale of the Portfolio, IsDB may execute a guarantee (“the Guarantee”) whereby it will guarantee performance of the obligors of the Portfolio in the sense that if any obligor is unable or fails to pay any amount he owes under the Portfolio, the IsDB will make the payment. As the guarantee will be given under a distinct instrument, it will be separate from the Supplementary Purchase Agreement and the *Wakala* Agreement and hence will remain valid irrespective of the validity of the *Wakala* Agreement.

(b) As IsDB is not the issuer, manager or participant of the Trust Certificates and is merely a stranger to the same it can make any undertaking to guarantee the Aggregate Nominal Amount of the Trust Certificates, and hence IsDB may undertake to purchase the Portfolio on the Maturity Date or the Early Dissolution Date for an amount equivalent to the Aggregate Nominal Amount and any amounts due but unpaid on the Maturity Date (including any additional amounts payable in accordance with Condition 12 relating to taxes).



(9) **Return on the Trust Certificates**

Distribution of the forecasted return shall be periodically made to the Certificate holders from the Profit Account (Periodic Distribution) on specified dates (Periodic Distribution Date). Any amount which exceeds a fixed rate, or a certain benchmark shall belong to the Certificate holders and they are entitled to voluntarily give it to the *Wakeel*, as indicated in Paragraph (7) hereof.

The return on the Trust Certificates shall be paid from the profit account, after payment of all expenses, fees of both the Trustee and the manager (or his representative) and other expenses, as more particularly set out in the *Wakala* Agreement. Amounts in the Principal Account must be reinvested as indicated above. If any of the Portfolio obligors fails to pay his debts, the IsDB shall make full payment as indicated in paragraph (8) hereof. The Trustee should not guarantee against any depreciation on the currencies and any subsequent negative return.

(10) **Redemption of the Trust Certificates**

According to the Base Prospectus, the Trust Certificates shall be redeemed on the Maturity Date or on the Dissolution Date of the relevant Series of Trust Certificates for a purchase price equal to,

- (a) the Aggregate Nominal Amount of such Series,
- (b) any payable but unpaid Periodic Distribution Amount on such date (including any additional amounts payable pursuant to Condition 12 (*Taxation*) of such Series of the Trust Certificates) and
- (c) Any amount remaining in the Profit Account shall belong to the Certificate holders unless they voluntarily give all or any part of it to the IsDB.

The purchase price payable by the IsDB for the Portfolio on the Maturity Date or, as the case may be, the Dissolution Date of the relevant Series will be specified in a repurchase or sale agreement to be executed by the Trustee and IsDB on that date.

Besides the ordinary cases of Sukuk redemption and early termination mentioned in the Program, the IsDB can, at any time before maturity, buy back the whole or part of a Series from the market (for the purpose of a partial or full redemption) and redeem such Trust Certificates by exercising its undertaking to purchase from the Trustee all/part of the Portfolio assets and using the proceeds to make any early redemption payment for the purpose of improving the secondary market of the Trust Certificates or for the reduction of the overall funding cost.

However, in case that some of the assets of the Portfolio have matured during the intermediate period (between the periodic payments and the amortization date), then any amount realized from that maturity of the asset shall be applied towards the payment of the early redemption amount due in that period. Any remaining amount from the maturing assets, after making the early redemption payment due in that period, shall be used to replace the maturing assets of the Portfolio as in “the Additional Portfolio Asset Sale Undertaking Deed” with tangible assets.



Thirdly: APPROVAL OF THE SHARI'AH BOARD


The IsDB Group Shari'ah Board has reviewed and approved the contracts and documents relating to the Program in the extraordinary meeting held virtually via Microsoft Teams on 18 Muharram 1442H, corresponding to 6 September 2020G.

Signed/-
Shaikh Abdulla Bin Sulaiman Al Manea
Member of the Shari'ah Board

Signed/-
Aboubacar Salihou Kante
Rapporteur

23 Rabi' II 1442 H, 12 December 2020G

Certified accurate translation of the Pronouncement (in Arabic) approved by the Islamic Development Bank Group Shari'ah Board on 18 Muharram, 1442H corresponding to 6 September 2020 G.


Dr. Ghassan Al Baba
Secretary of IsDB Group,
IsDB Group General Secretariat

