



مصرف الإمارات العربية المتحدة المركزي
CENTRAL BANK OF THE U.A.E.

GUIDELINES FOR COLLATERAL MANAGEMENT UNDER THE
CENTRAL BANK OF UAE'S
COLLATERALIZED MURABAHA FACILITY

("CMF Terms & Conditions")

Effective from 1 April 2015

1. Definitions

In these CMF Terms & Conditions, unless otherwise specified:

1.1 "CBUAE" means the Central Bank of the UAE, i.e., the monetary authority of the UAE under Union Law No. 10 of 1980

1.2 "Federal Government" means the Federal Government of the UAE

1.3 "Local Governments" means the local Emirate Governments in the UAE

1.4 "AED" means the local currency of the UAE, the Emirati Dirham

1.5 "GREs" mean Government Related Entities. These are commercial companies with Federal or UAE Emirates Government ownership of more than 50%, directly or indirectly

1.6 "PSEs" mean non-commercial Public Sector Enterprises which are public utilities and similar organizations fully owned by any Emirate of the UAE or Federal Governments and which provide goods or services not being provided by the private sector

1.7 “MMD” means the Monetary Management Division of CBUAE

1.8 “UAEFTS” means the UAE Fund Transfer System. It is the real time gross settlement system established and operated by CBUAE

1.9 "Eligible Counterparty" means any Islamic bank, domestic or foreign, licensed to operate in the UAE and which (i) is required to maintain reserves with the CBUAE as per Article 78, Union Law No. 10; (ii) is a direct participant in the UAEFTS; and (iii) has signed the relevant documentation as required by the CMF Terms & Conditions. Such documentation includes a Triparty Collateral Management Agreement with any of the approved Triparty Agents and the Collateralized Murabaha Facility Agreement signed between CBUAE and the Eligible Counterparty

1.10 “CMF” means the Collateralized Murabaha Facility. It is the financing facility where Eligible Counterparties can obtain financing from CBUAE for overnight settlement by pledging securities as collateral via a Triparty Collateral Management Agreement

1.11. “Triparty Agent” means a CBUAE approved international central securities depository (ICSD) such as Euroclear Bank SA/NV (“Euroclear”) and Clearstream Banking SA (“Clearstream”)

1.12 “Triparty Collateral Management Agreement” means the service agreement in which a Triparty Agent undertakes the settlement and management of the securities delivered as collateral in a CMF transaction. In the case of Clearstream, the relevant service agreement is the Collateral Management Service Agreement (CMSA) along with the Side Letter signed between the Clearstream and the Eligible Counterparty and in case of Euroclear the relevant service agreement is the Collateral Service Agreement (CSA) inclusive of both Terms & Conditions and Operating Procedures.

1.13 “Eligible Collateral” means security assets delivered as collateral in the relevant Triparty Custody Account to access the CMF which comply with the eligibility criteria set in Section 4 of these Terms & Conditions

1.14 “Collateral Value” means the valuation of security holdings as determined by the Triparty Agent’s internal valuation methodology

1.15 “Eligible Value” means the Collateral Value adjusted for haircuts. Eligible Value is also the amount of cash paid by CBUAE to the Eligible Counterparty on the value date of the CMF Transaction in exchange for collateral. Eligible Value shall be rounded off to two decimal points

1.16 “Haircut” means the difference between the collateral value and the eligible value

1.17 “CMF Transaction” means a collateralized Murabaha transaction for the financing of Islamic banks which consist of TWO legs: The first leg is when an Eligible Counterparty submits collateral via its Triparty Agent, the Eligible Counterparty first purchases the commodities on behalf of CBUAE and then offers to purchase the commodities on Day (T+0) on a deferred payment basis as detailed in the Collateralized Murabaha Facility Agreement. The second leg is the payment of the sale price by the Eligible Counterparty on the maturity date Day (T+1) and the subsequent release of the collateral via the Triparty Agent

1.18 “CMF Agreement” means the Collateralized Murabaha Facility Agreement signed between the CBUAE and the Eligible Counterparty for providing liquidity against collateral through buying and selling of certain commodities which conform to the requirement of Shariah principles

1.19 “Secondary Prices” means the prices in the secondary markets recorded as per the Internal Settlement System of the Triparty Agent

1.20 “Triparty Custody Account” means a custody account maintained by either of the Triparty Agents to house securities received by CBUAE from Eligible Counterparties, under the terms of this agreement

1.21 “Purchase Confirmation and Sale & Purchase Offer and Acceptance Notice” means the notice sent by the Eligible Counterparty to CBUAE in the form of **Schedule B** in the CMF Agreement

1.22 “Purchase Price” means with reference to the CMF Agreement the price required to be paid by CBUAE to the Eligible Counterparty to enable the Eligible Counterparty to pay to the supplier of the commodities

1.23 “Sale Price” means with reference to the CMF Agreement the price payable by the Eligible Counterparty to CBUAE on the deferred payment date

1.24 “CMF System” means the Collateralized Murabaha Facility System of CBUAE’s Treasury Platform, accessible via the Systems Menu under Services Portal of CBUAE

1.25 “Commodities” means the list of Shariah-compliant commodities that are approved by the Shariah Coordinating Committee of the UAE in the conduct of Murabaha transactions by CBUAE. This list includes: Steel, Zinc, Aluminum, Tin, Copper, Nickel, Palladium, Platinum, Coal, Rice, Palm Oil, Sugar, Wheat, Cocoa, corn, coffee, and Soybeans. These commodities shall be identified (allocated/sorted) and received constructively by CBUAE upon purchases

2. Eligibility for Usage of the CMF

2.1 Drawing on CMF funds is open to all eligible counterparties.

3. CMF Transaction Arrangement

3.1 CMF transactions will be processed via the CMF Agreement and a Triparty Collateral Management Agreement whereby a third-party, the Triparty Agent, will undertake the collateral management and CBUAE will handle the financing transaction and the relevant funds transfer via the UAEFTS.

3.2 More specifically, an Eligible Counterparty will deliver securities to the Triparty Custody Account of the CBUAE with the agreed Triparty Agent and will execute the CMF transaction under the CMF Agreement.

3.3 To execute a CMF transaction, the Eligible Counterparty is required to sign a Triparty Collateral Management Agreement with one of the approved Triparty Agents and the Collateralized Murabaha Facility Agreement with the CBUAE.

3.4 Upon the execution of a CMF transaction, the Eligible Counterparty will receive the relevant CMF funds (the cost price of the commodities bought on behalf of CBUAE).

4. Collateral Eligibility and Classification

4.1 CBUAE, at its sole discretion, accepts straight sukuk, covered sukuk, Shariah-compliant notes and Shariah-compliant short-term securities from the UAE and foreign issuers as collateral for CMF transactions provided that these securities are rated (except for securities issued directly by UAE local Governments) and tradable, issued and denominated in UAE Dirham, the US Dollar or any other acceptable currencies listed in Paragraph 4.5.

4.2 *Any Eligible Counterparty wishing to avail CMF funds via posting Islamic Certificate of Deposits (ICDs), issued by CBUAE, as collateral should be required to follow the guidelines and operational procedure stipulated in Notice No. 4119/2011 dated 22 June 2011, until further notice.*

Collateral Classification:

4.3 Eligible Collateral is classified into FIVE classes as below:

- **Class A** collateral consists of high-quality sukuk that are traded with an identifier recognized by the Triparty Agent and issued, originated and/or explicitly guaranteed by:
 - i. UAE Federal and Local Governments and their respective GREs/PSEs;
 - ii. Foreign Governments and their related-agencies;
 - iii. Approved sovereign backed multilateral supranational institutions; and
 - iv. Corporate entities / banks & financial institutions WITHOUT close links and/or not in the same group as the institution entering into an agreement with CBUAE under the CMF.

The spectrum of Class A securities includes straight sukuk, covered sukuk, Shariah-compliant treasury bills, Shariah-compliant medium-term /short-term notes and Shariah-compliant commercial papers. Minimum acceptable credit ratings are **AA** for long-term credit and **P-1/A-1/F1** for short-term credit.

- **Class B** collateral consists of investment grade sukuk that are traded with an identifier recognized by the Triparty Agent and issued, originated, and/or explicitly guaranteed by:
 - i. UAE Federal and Local Governments and their respective GREs/PSEs;
 - ii. Foreign Governments and their related-agencies;
 - iii. UAE corporate entities but excluding those which are in the same group as the institution entering into an agreement with CBUAE under the CMF;
 - iv. Shariah-compliant Securities issued by a UAE bank under an MTN/Sukuk program as per the guidelines established by CBUAE.
 - v. Corporate entities / banks & financial institutions WITHOUT close links and/or not in the same group as the institution entering into an agreement with CBUAE under the CMF.

The spectrum of Class B securities includes straight sukuk, covered sukuk, Shariah-compliant treasury bills, Shariah-compliant medium-term /short-term notes and Shariah-compliant commercial papers. Minimum acceptable credit ratings are **A** for long-term credit and **P-2/A-2/F2** for short-term credit.

- **Class C** collateral consists of other investment grade sukuk that, in CBUAE's judgment, are traded with an identifier recognized by the Triparty Agent and issued, originated and/or explicitly guaranteed by:
 - i. UAE Local Governments and their respective GREs/PSEs;
 - ii. UAE corporate entities but excluding those which are in the same group as the institution entering into an agreement with CBUAE under the CMF; and
 - iii. Shariah-compliant Securities issued by a UAE bank under an MTN/Sukuk program as per the guidelines established by CBUAE.

The spectrum of Class C securities includes straight sukuk, covered sukuk, Shariah-compliant treasury bills, Shariah-compliant medium-term /short-term notes and Shariah-compliant commercial papers. Minimum acceptable credit ratings are **BBB** for long-term credit and **P-3/A-3/F3** for short-term credit.

- **Class D** collateral consists of below investment grade sukuk that, in CBUAE's judgment, are traded with an identifier recognized by the Triparty Agent and issued, originated and/or explicitly guaranteed:
 - i. UAE Local Governments and their respective GREs/PSEs;
 - ii. UAE corporate entities but excluding those which are in the not in the same group as the institution, entering into an agreement with CBUAE under the CMF; and
 - iii. Shariah-compliant Securities issued by a UAE bank under an MTN/Sukuk program as per the guidelines established by CBUAE.

The spectrum of Class D securities includes straight sukuk, covered sukuk, Shariah-compliant treasury bills, Shariah-compliant medium-term /short-term notes and Shariah-compliant commercial papers. Minimum acceptable credit ratings are **BB** for long-term credit and **P-3/A-3/F3** for short-term credit.

- **Class E** collateral consists of securities issued directly by the UAE Local Governments which do not carry any of the acceptable credit ratings or are not rated. The acceptance of such securities in the list of Eligible Collateral will be at the discretion of CBUAE.

4.4 The following table summarizes the classification of eligible collateral:

Table 1: Eligible Collateral Classification				
Class A	Class B	Class C	Class D	Class E
AA*	A*	BBB*	BB*	< BB or NR**
<p>[UAE Shariah-compliant Securities]</p> <ul style="list-style-type: none"> Federal and local Governments and their respective GREs/PSEs securities; Banks & Financial Institutions Sukuk / MTN programs; and Corporate Sukuk, Covered Sukuk and Commercial Papers. <p>[Foreign Shariah-compliant Securities]</p> <ul style="list-style-type: none"> Governments & related-agencies securities; Supranational securities; Banks & Financial Institutions Sukuk / MTN programs; Corporate sukuk, covered Sukuk; and Commercial Papers. 		<p>APPLICABLE ONLY FOR [UAE Shariah-compliant Securities]***</p> <ul style="list-style-type: none"> Local Governments and their respective GREs/PSEs securities; Banks & Financial Institutions Sukuk/ MTN programs; and Corporate Sukuk, Covered Sukuk and Commercial Papers. 		<p>APPLICABLE ONLY FOR SHARIAH-COMPLIANT SECURITIES ISSUED DIRECTLY BY UAE LOCAL GOVERNMENTS</p>

* Minimum acceptable rating; ** Not Rated; *** Issuer country of origin is the UAE

Eligible Collateral Currency Denomination:

4.5 Eligible Collateral denominated in one of the following currencies will be deemed acceptable under the CMF: UAE Dirham, US Dollar, Euro, UK Sterling, Japanese Yen, Swiss Franc, Australian Dollar, GCC currencies, Norwegian Kroner, Singapore Dollar, Hong Kong Dollar and the Malaysian Ringgit.

Credit Rating Requirements:

4.6 Credit ratings of Eligible Collateral may be assigned by any of the following internationally recognized credit rating agencies: Fitch, Moody's and Standard & Poor's. For purposes of collateral classification, the lowest rating will apply in circumstances where multiple ratings exist. This will apply to both splits among ratings agencies and if an issue is assigned both short and long term ratings.

Triparty Agents:

4.7 Eligible Collateral shall be held in custody in one of the International Central Securities Depositories (ICSDs) mentioned below who will also act as the Triparty Agents:

- Clearstream Banking in Luxembourg
- Euroclear Bank in Belgium

5. Profit rate of CMF Transaction and Minimum Transaction Size

5.1 The profit rate at which an Eligible Counterparty may execute AED CMF transactions shall be the CBUAE official **Repo Rate plus 100 basis points**. Calculation of the profit rate shall be on an Actual/360 basis.

5.2 An Eligible Counterparty will only be able to enter into CMF transactions with a minimum size of AED10 million.

6. Collateral Valuation – Effective Price of a CMF Transaction

6.1 Eligible Collateral will be valued by the agreed Triparty Agent, on behalf of the CBUAE, under the Triparty Collateral Management Agreement and these CMF Terms & Conditions.

6.2 A Haircut, as published on Table 2 (in the next page), will be applied to the marked-to-market valuation of the Eligible Collateral. The size of the haircut reflects the size, duration and classification of the security as per the criteria listed in Table 1. The haircut is to be expressed as a percentage of its face value.

Table 2: Haircuts for Eligible Collateral (%)						
Collateral Type/Maturity	Issue Size ("IS") in AED Million	Class A	Class B	Class C	Class D	Class E
Floating Profit Rate (All Maturity) / Fixed Profit Rate < 1 Year to Maturity	500 ≤ IS	2	11	25	38	AT THE DISCRETION OF CBUAЕ
	IS < 500	3	12	26	39	
Fixed Profit Rate 1-3 Year Maturity	500 ≤ IS	4	13	27	40	
	IS < 500	5	14	28	42	
Fixed Profit Rate 3-5 Year Maturity	500 ≤ IS	6	15	30	44	
	IS < 500	7	16	32	46	
Fixed Profit Rate more than 5 Year Maturity	500 ≤ IS	8	17	34	48	
	IS < 500	9	18	36	50	

6.3 The Triparty Agent will accept securities as Eligible Collateral only those whose secondary markets prices are recorded within the relevant internal settlement system of the Triparty Agent when it is open for business. Additional collateral for securities whose secondary price age exceeds 5 **European business days** will be subject to additional collateral as per the following schedule.

- Up to 5 Days ~ no collateral for price age
- 6-9 Days ~ 10%
- 10-15 Days ~ 20%
- Beyond 15 Days ~ 100% (any security with a price age beyond 15 days will not be accepted)

6.4 The Eligible Value (EV), i.e., the first leg Settlement amount, will be the value of the commodities purchased by the CBUAE and then subsequently sold to the Eligible Counterparty on a deferred payment basis. The cash amount for the purchase will be transferred from the CBUAE to the Eligible Counterparty on day T+0 of the CMF transaction as per the following evaluation:

$$EV = \text{Collateral Value} / (1 + \text{Haircut} + \text{Price Age Add-on})$$

6.5 A currency haircut add-on of five percentage points (5%) will be applied to securities which are issued and denominated in eligible currencies (indicated in paragraph 4.4) other than the UAE Dirham and the US Dollar. Accordingly, EV will be calculated as follows:

$$EV = \text{Collateral Value} / (1 + \text{Haircut} + \text{Price Age Add-on} + \text{Cross Currency Add-on})$$

6.6 No model generated prices will be accepted for pricing by the Triparty Agents.

7. Operational Procedures

7.1 The CMF will operate on all UAE business days excluding Saturdays, Sundays and UAE banking holidays. It will be closed also on days when the concerned Triparty Agent(s) is (are) closed.

7.2 At the time of publication of these Terms & Conditions, both Triparty Agents' operations are open on all days of the year excluding the **1st of January and 25th of December** of each year.

7.3 The CMF operating window will be open for business at **10:00 hours** local time and will run up to the official closure of the UAEFTS¹. Business hours for the UAEFTS will be as per the relevant notifications from the CBUAE from time to time.

7.4 The settlement date of the first leg will be on the same business day (T+0) for all offered eligible collateral held in custody by one of the approved Triparty Agents. The second leg of the transaction will be on the next business day (T+1).

7.5 Settlement of CMF funds will be in AED through the Eligible Counterparty's Current Account with CBUAE. The Eligible Collateral will be affected at the Triparty Agent as per the agreed norms based on the Triparty Collateral Management Agreement.

¹ Official closure of the UAEFTS is 17:00 hours local time, effective May 01, 2014.

8. CMF Transaction Processing & Settlement

8.1 During the operating window of the CMF, an Eligible Counterparty must first inform the MMD via official dealing lines (refer to Section 10 later) of its intention to access the CMF before submitting a transfer notice to the nominated Triparty Agent via SWIFT or any other agreed mode of electronic communication. The Eligible Counterparty will include all the relevant details required by the Triparty Agent in this transfer notice.

8.2 Upon receiving the transfer notice from the Eligible Counterparty and matching instruction from MMD, the Triparty Agent will value the securities offered by the Eligible Counterparty for the CMF transaction.

8.3 After the collateral valuation is completed, the Triparty Agent will inform CBUAE of the list of securities being delivered by the Eligible Counterparty as Eligible Collateral along with their corresponding Eligible Value. Eligible Counterparty shall ensure that the “Eligible Value” of the collateral is at least equal to the size of the CMF transaction as requested in 8.1. This is to ensure access to the CMF System via CBUAE’s Treasury Platform and the execution of the 1st leg of the CMF transaction.

8.4 Upon confirmation that the transfer of securities from the Eligible Counterparty’s account at the relevant ICSD to CBUAE’s triparty custody account at the ICSD has been received (via the agreed mode of communication), the Eligible Counterparty will immediately access the CMF System to formally request access to the facility in order to proceed for the execution of the CMF transaction.

8.5 Should access be granted, CBUAE will appoint the Eligible Counterparty as its agent to purchase the commodities, on its behalf, equal to the Eligible Value, **and prior to the closure of the UAEFTS**. For the settlement of the first leg of the CMF transaction to occur, payment will be made on the spot value date and delivery of the purchased commodities shall be on a spot basis. Accordingly, CBUAE (as a purchaser of the commodities) will transfer funds equal to the Purchase Price (i.e. Eligible Value) to the Eligible Counterparty’s Current Account held at CBUAE.

8.6 Within **5 minutes** of concluding the commodities purchase by the Eligible Counterparty on behalf of CBUAE, the Eligible Counterparty must send the relevant “**Purchase Confirmation and Sale & Purchase Offer and Acceptance Notice**”, to CBUAE to confirm purchasing and taking delivery of the purchased commodities constructively without selling them to any other party. The Eligible Counterparty will offer to purchase these commodities from CBUAE on Murabaha basis for a Sale Price (Purchase Price plus profit as per Paragraph 5.1) on a deferred payment basis (on the maturity date “T+1”) and a delivery of the same on spot basis. Such a deferred payment will be secured by the posted collateral.

8.7 CBUAE will then send an acceptance notification to sell these commodities to the Eligible Counterparty on Murabaha basis and on a deferred payment basis as stipulated in paragraph 8.6.

8.8 The Eligible Counterparty will then sell the commodities to a commodity buyer for the same original Purchase Price on spot value date and delivery on spot basis.

8.09 On the following business day (T+1 i.e., the deferred payment date), CBUAE will automatically debit the Eligible Value plus Profit (i.e. Sale Price) from the Eligible Counterparty's Current Account with CBUAE by **9:00 hours** local time.

8.10 Upon confirmation of the automatic debit to the Eligible Counterparty's Current Account, CBUAE will submit, by **10:00 hours** local time, a unilateral instruction to the Triparty Agent for the transfer of securities from CBUAE's triparty custody account to the Eligible Counterparty's ICSD account. Upon receipt of the unilateral transfer instruction, the Triparty Agent will transfer such securities from CBUAE's triparty custody account to the Eligible Counterparty's ICSD account.

9. Other Terms and Conditions

9.1 CBUAE will, at any time, be entitled to suspend/revoke the CMF or amend these Terms and Conditions. This includes varying the profit rate for executing CMF transactions and restricting/denying eligible counterparties accessing the CMF or applying any restrictions/conditions on providing liquidity to Eligible Counterparties under this facility, as and when deemed necessary by CBUAE.

9.2 CBUAE reserves the right to reject any security offered or provided as collateral, for any reason, at any time.

9.3 CBUAE reserves the right to revise the list of Shariah-compliant commodities utilized in the conduct of Murabaha transactions, as per the requirements of the Shariah Coordinating Committee of the UAE at any time.

9.4 CBUAE reserves the right to reclassify collateral eligibility at all times. In addition, CBUAE reserves the right to revise/add applied haircuts on a regular basis in line with economic and financial developments in local/global financial markets. The currency haircut add-on of 5% will be reviewed from time to time depending on volatility in exchange rates.

9.5 CBUAE reserves the right to stop the execution of the 2nd leg of a CMF transaction in case of a default or bankruptcy even if occurring prior to such execution and as per the covenants stipulated in **Clause 20 ("Payment Default")** of the CMF Agreement.

9.6 An Eligible Counterparty may decide to opt out of the CMF and these Terms and Conditions by giving the CBUAE a written notice to this effect. This notice will take effect 2 business days upon CBUAE's receipt of such notice, during which the withdrawing Eligible Counterparty is prohibited from entering into the CMF transaction.

9.7 The provisions of the CMF Agreement will apply unless there is inconsistency between the CMF Agreement and these Terms and Conditions, in which case the latter will prevail. CBUAE's interpretation of the terms and conditions of this facility will be final and its decisions are irrevocable.

9.8 CBUAE reserves the right to, as and when required, access data pertaining to the securities holdings of eligible counterparties held at either of the two Triparty Agents.

9.9 The use of the Triparty Collateral Management Agreement in the CMF transaction is solely to facilitate the settlement and management of the securities delivered as collateral in a Shariah compliant manner. Certain terminology used in this agreement, which relate to different services provided by the Triparty Agent, do not fit into the scope of the CMF transaction either because they are non-Shariah compliant or because they pertain to activities other than the settlement and management of the collateral. Therefore, it should be noted that any terminology used to confer non Shariah-compliant meanings in the Triparty Collateral Management Agreement beyond that of a pledge of securities, including but not limited to, "opportunity costs", "interest", "accrued interest", "Cash Margin", "Margin percentage", "Margin deficit", "Margin Value", "Lending", "Borrowing", "Purchaser", "Seller", "Automatic Borrower" and "Securities lending and borrowing" shall be construed only in terms of its Shariah compliant equivalent.

10. Contact Information

10.1 The official dealing lines are as follows:

Telephone lines	02 - 665 2232 02 - 666 6245 02 - 665 6118
Swift Address	CBAUAEAA
CMF Email addresses: Eligible counterparties to use email addresses of their chosen Triparty Agent	sf.clearstream@cbuae.gov.ae sf.euroclear@cbuae.gov.ae
Thomson Reuters dealing code	CBEM

10.2 Any intimation over the phone has to be confirmed via an email/Swift or over the Thomson Reuters dealing line to be construed as confirmation of the requested CMF transaction.