

Guidelines on Commodity Murabaha

1. Commodity Murabaha has been approved with effect from 1 July 2004 under the CPF Investment Scheme (CPFIS) as a Shariah compliant treasury product. Going forward, funds offered under CPFIS can invest in Commodity Murabaha without seeking further approval from the Board, provided that the following conditions are met:-
 - a) It is a Commodity Murabaha, defined as an exchange contract trade between an investor (seller) and financial institution (buyer), where the subject matter are base metals listed on the major commodity exchanges (such as the London Metal Exchange);
 - b) It is structured in such a way that it leads to the subject matter being exchanged on the spot; in other words, there must not be any involvement of forward contract, where the subject matter is delivered and the price that is to be settled, is to be determined at the deferred date in future;
 - c) It is structured in such a way that it is essentially similar to a loan granted by the seller to the buyer;
 - d) It has a risk-return profile broadly equivalent to a money market deposit;
 - e) It has a buy and sell arrangement that is done simultaneously and therefore, does not expose the fund to the price risk of the underlying commodity;
 - f) The financial institution which the collective investment schemes (CIS) included under CPFIS enters the arrangement with, must satisfy the requirement set out in paragraph 2.1 of the CPF Investment Guidelines (CPFIS); i.e., the financial institution must have individual/financial strength ratings of above C by Fitch Inc or Moody's;
 - g) It has to meet all other guidelines as listed under CPFIS, such as exposure to single party limit; and
 - h) There should be a clear and adequate disclosure of the structure and the risks of the product to the consumer.
2. For these reasons, a Commodity Murabaha with the above-mentioned criteria, is not considered to be a commodity and is therefore, not regarded as "Prohibited Investment" under section 10 of the CPFIS. Henceforth, "Appendix 1.1: Non-Specialised Funds, Section 5.1 (a)" of MAS Code on CIS where "a non-specialised fund should not invest in metals including gold, commodities and their derivatives" does not apply to Commodity Murabaha structured in this manner.
3. Apart from the criteria on Commodity Murabaha that are set out above, **explicit approval** from the Board is required for all other types of structured products that are variants.