

National bank

Business



The objective of the fund is to provide its shareholders with long term growth through investing in portfolio of global real estate securities. The features of the funds are as follows: Well diversified Global Real Estate Securities
Monthly liquidity Two different classes of shares All Investments are Shari-compliant Solutions I have chosen to answer question 1 and 2 and the detailed solution are stout below: (1) How N.

B. can raise the funds in a Shari-compliant way.

In order to obtain financing for the open-ended fund at hand, N. B. may form a Shari-compliant elective investment undertaking (CIA) in the form of Real Estate Investment Trust (REID). REID will enable the fund to actively purchase, develop, sell, rent and manage real estate assets as stipulated by the Central Bank of Bahrain.

(Central Bank of Bahrain) Based on the investment requirements of the funds as stated in N. B. fund website, N. B. can make the fund either “Expert” or “Exempt” given that the minimum investment is \$250, 000 (above the minimum \$100, 000 for exempt and well above the \$10, 000 for expert).

Opting for exempt CIA will reduce the legal requirements to the minimum.

Central Bank of Bahrain) According to the CB, the initial capital required should comprise of: At least two real estate properties constituting 80% of the initial investment At most 20% of the initial Investment should be Invested in development and other actively. Additionally, the CB requires that the amount of equity capital be at least 40% of the total value. All of the

legal requirements as stated above require N. B. to provide substantial funding at the onset of the Joint venture.

There are many options available: N.

B. may elect to form a separate SSP to raise levered capital required as equity in the CIA. N. B. May invest in the CIA formation from unrestricted investments.

N. B. Can raise equity of unrestricted investment account holders using Muskrat instruments under the bank's name. I opt for the second option, given that the fund type is an open-type fund and N. B.

can subsequently raise capital as needed without limitations as to the number of shares.

Further, in order to comply with Shari, N. B. must ensure that: The fund does not disburse or receive fixed payments based on principal (interest). All payments and receipts should be either in the form of profit shares – or striations thereof; or fee based flows. Profit sharing ratios and fee structures should be according to contractual agreements made before the formation of the fund to avoid gharri.

The agreement should include no clause limiting the exposure of the bank to losses in contradiction to the stipulations of Shari without adequate Justification (e. . Limiting the exposure to loss for Arab al meal in a Muhammad contract without a valid justification which may be, for instance, gross misconduct by the midrib in breach of the contract resulting in the loss). To sum up, I suggest that N. B. raises funds through equity of <https://assignbuster.com/national-bank/>

unrestricted investment account holders using Muskrat instrument under the name of the Bank to purchase the assets needed to set up a collective investment undertaking according to the stipulations of the CB.

2) How N. B. can raise Shari-compliant funds in excess of initial capital for financing of specific real estate projects. After formation of the fund, N. B. will have to enter into joint venture agreements with real estate developers. This will require further financing as the portfolio will require investments for developing real estate assets in ariso countries in excess of the initial investment amount. Islamic finance provides many options for raising capital for such purposes, but two option are the most used: Muskrat and Muhammad.

Muskrat, basically, is a partnership where all parties provide finance and share profits according to predetermined arrangements. Management arrangements may differ according to the stipulation of contracts so does the management fees. Muhammad is a special type of partnership that involves a financier (Arab al meal) and an entrepreneur (midrib) whereby the undertaking is financed by the Arab al meal in turn for a profit or loss share and the midrib provides the actual work and technical expertise and receives a share of the profit.

It is worth mentioning that the Midrib does not share losses. The solution to Nab's case is a two-tier financing agreement. There will be a Muhammad contract with the developer whereby the bank is Arab al meal and the developer is the midrib. There will also be a Muhammad contract between the bank and the bank and investors whereby the bank is the midrib and the

<https://assignbuster.com/national-bank/>

investors are ABA al meal. The reason why Muskrat was not used is that, in common with investment funds, the manager does not share losses with investors.

The common practice is to charge fixed management and other fees and charge commission on profits which is compatible with the Islamic instrument of Muhammad. This strategy better matches the inflows and outflows for N. B. as they will only act as intermediaries between investors and developers and will minimize exposure to loss. The income for the fund will be in the form of: Fee income from investors Share of profit from the sale or rent of properties less developers share

This kind of arrangement is common with Islamic banks when finance is not readily available internally (Malden) However, the bank can also limit its risk exposure by taking a deposit from the developer in the form of Muskrat contract whereby the bank will be able to share some of the risk with the developers.

This sharing of risk will solve the agency Muskrat partnerships that for their own interest, thus increasing efficiencies in their part of the job as their net compensation will not contain a fixed minimum but can also extend to loss to a certain extent depending on the amount of the Muskrat contract.