

DA AFGHANISTAN BANK
(CENTRAL BANK OF AFGHANISTAN)
Product Outline: Letter of Credit (Trade Financing)

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Accountable Executive & Custodian	Islamic Banking Division
Policy Owner	Head of Islamic Banking Division

Approved by DAB Governor:	Date	DAB Board Secretary
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ISLAMIC REPUBLIC OF AFGHANISTAN

**DA AFGHANISTAN BANK, PRODUCT OUTLINE – LETTER OF CREDIT
(TRADE FINANCING)**

PART A: PREAMBLE

1 Background

- 1.1. This product outline for a Letter of Credit (Trade Financing) (hereinafter referred to as “the Product Outline”) is issued by the Da Afghanistan Bank (hereinafter referred to as “DAB”) which shall be adopted and become the guiding principles for Islamic Financial Institutions, Financial Institutions operating with an Islamic Window and Financial Institutions operating with an Islamic Unit (collectively referred to as “the Bank”) in the Islamic Republic of Afghanistan offering Islamic financial products.
- 1.2. This Product Outline is intended to:
- i) Enable Banks to develop their own Letter of Credit (Trade Financing) products using this Product outline as a baseline for the product development process; and
 - ii) Illustrate to the Bank global best practices in adopting the Product Outline.
- 1.3. The objectives of this Product Outline are to:
- 1.3.1. Facilitate the development of Letter of Credit (Trade Financing) products in Banks in the Islamic Republic of Afghanistan; and
 - 1.3.2. Establish a precedent Product Outline that the Banks shall use when developing and operationalising their Letter of Credit (Trade Financing) products.
- 1.4. Any particular exemption to any of the provisions as provided herein shall only be permitted via a formal application being submitted by the Bank after prior consultation with its Shariah Board (hereinafter referred to as “the Shariah

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Board”), to the Shariah Supervisory Board of DAB (hereinafter referred to as “the SSB”) outlining the reasons and justifications for such requests.

- 1.5. If any new or additional guidelines on the Product Outline are to be adopted, the Shariah Board of the Banks shall always be consulted first before the adoption of same.

2 Legal Provision

- 2.1. This Product Outline is issued pursuant to Article 2.2 of the Afghanistan Bank Law gazetted on 12/17/2003 (corresponding to 30/10/1382) in relation to the powers of DAB to regulate and supervise Banks in the Islamic Republic of Afghanistan and any amendments thereto.
- 2.2. This Product Outline shall be read together with the following manuals/guidelines:
 - 2.2.1. National Shariah Governance Framework;
 - 2.2.2. Shariah Review Manual;
 - 2.2.3. Shariah Compliance Manual
 - 2.2.4. Guidelines on Ibra
 - 2.2.5. Guidelines on Late Payment Charges; and
 - 2.2.6. Other relevant regulations guidelines or circulars that Da Afghanistan Bank (“DAB”) may issue from time to time.

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PART B: PRODUCT OUTLINE – LETTER OF CREDIT (TRADE FINANCING)

3 Product Outline Structure - Import letter of Credit (or Import Documentary Credit) -Sight

3.1. There are three types of Letter of Credit that this Product outline will address namely:

1. Import letter of Credit (or Import Documentary Credit)- Sight
2. Import letter of Credit – Usance; and
3. Import letter of Credit Third Port.

3.2. **Import letter of Credit (or Import Documentary Credit) - Sight** underlying Shariah contract: Wakala and Kafalah – this is an unfunded product.

3.3. The Wakala contract is in relation to the provision of procedural services i.e. examination of documents whereas the Kafalah contract is the provision of institutional guarantee/undertaking to pay to the exporter (as the guaranteed) on condition that the exporter/seller present documents for the goods conforming to the instructions.

3.4. **Product Description**

3.4.1. In simple terms, a letter of credit is an undertaking by a bank to make a payment to a named beneficiary (seller of the goods) within a specified time (Expiry date of the LC), against the presentation of documents which comply strictly with the terms of the letter of credit.

3.4.2. Its main advantage is providing security to both the exporter and the importer, where the shipping conditions are met.

3.4.3. A Letter of Credit is useful for the first few trades with a new customer for both parties. As they transact more business and grow to trust each other they dispense with a Letter of Credit, as this costs the importer money in bank fees and may tie up capital where he must post a 100% cash margin to the Bank in order for them to issue a Letter of Credit. ,

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- 3.4.4. A letter of credit is opened by an importer or buyer (applicant), to ensure that the documentation requested reflects and proves that the seller has performed under the requirements of the underlying sales contract, by the exporter/seller by making them conditions of the letter of credit (the sales contract is not an inherent part of the Letter of Credit, although the Letter of Credit may contain a reference to such contract). For the exporter a letter of credit, apart from cash in advance, is the most secure method of payment in international trade as long as the terms of the credit are met.
- 3.5. **Payment Terms:** Sight i.e. upon presentation of credit compliant documents to the issuing bank the payment becomes due.
- 3.6. The LC is subject to the proviso that it will only be used for Shariah compliant goods and contractual terms (which shall exclude any receipt of payment or interest) excluding debt and receivables as well as any refinancing of an asset. A non-exhaustive list of same is attached hereto at **Appendix 1**.

4 Process flow Letter of Credit - Sight

- 4.1. **Purchase stage and contact with the foreign Manufacturer / seller/ exporter:** Customer (Importer) approaches the manufacturer/exporter and imports the asset(s) (delivery can take some time depending on the nature of the assets). The customer negotiates the price and time of delivery with the supplier. Exporter sends pro forma Invoice to the customer (Importer). The "aqd" between the parties is established at this stage.
- 4.2. **Request from Customer (Importer):** Customer comes to the Bank and requests the Bank to issue an LC on the basis of the Pro-forma invoice. The Customer will pay the LC issuance charges upfront whereby security deposit is not taken.
- 4.3. **Agency & Guarantee/Undertaking:** Customer engages the Bank as per the terms of the LC as its agent by signing an LC application (document) to take delivery of the shipping documents on the Customer's behalf and the provision of procedural services i.e. examination of documents and to undertake to pay the exporter through the issuance of an LC ("agency 1"). Bank may then engage the customer as its agent for accepting delivery of the asset(s) when they arrive at the port ("agency 2")

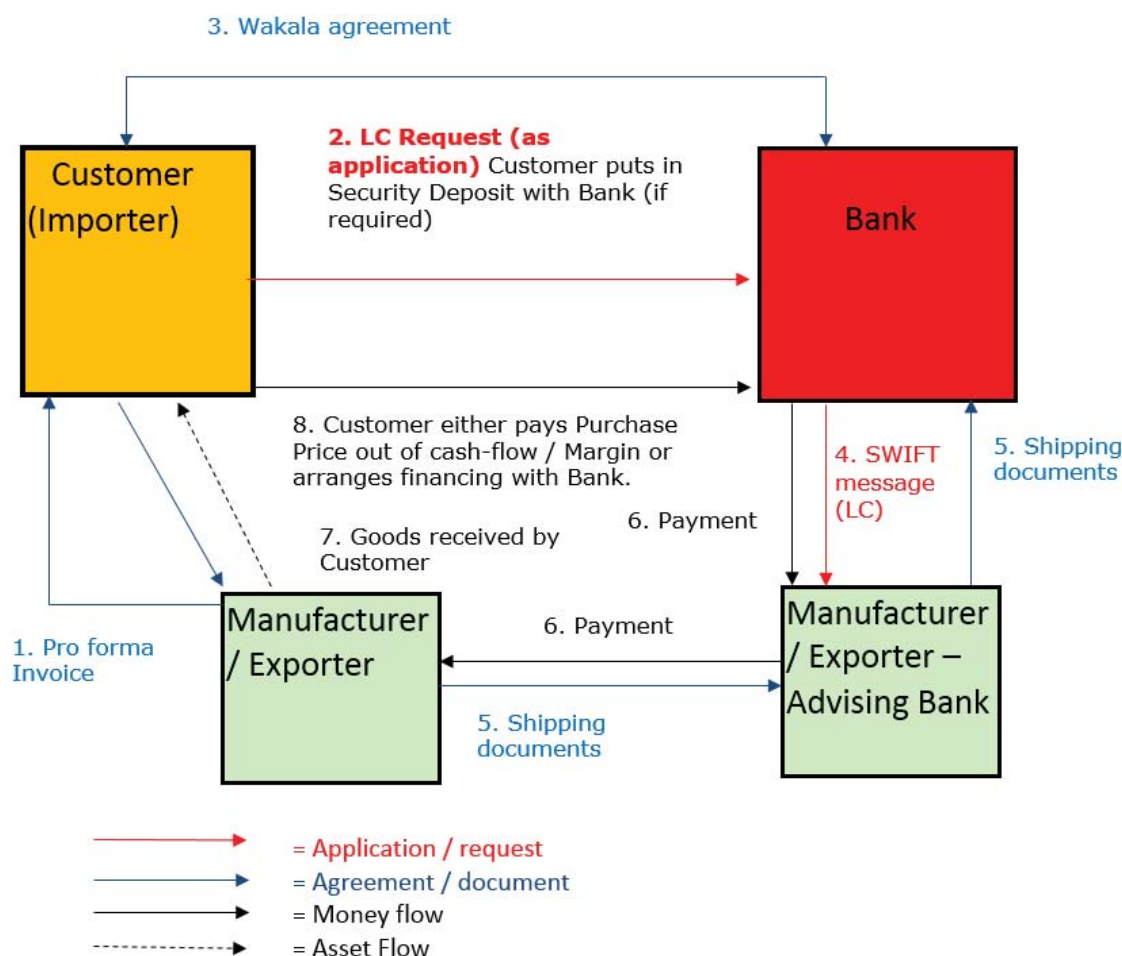
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- 4.4. **Opening of Letter of Credit:** Customer asks the Bank to issue the LC in favour of the manufacturer/ exporter. The Bank opens the LC and transmits the SWIFT message to the exporter or its Advising Bank (the manufacturer's bank) (if any); The Manufacturer/exporter upon receipt of the LC or through its Advising Bank sends Shipping Documents to the Bank.
- 4.5. **Arrival of Goods:** the Bank receives shipping documents from the exporter/its Advising Bank. The Bank, after scrutiny of the documents, arranges for the receiving of the asset(s) from the port through its agent (customer in agency 2). The agent takes possession of the asset(s);
- 4.6. **Payment Stage:** the Bank makes payment to the exporter directly or, via its Advising Bank, for the asset(s) purchased by the customer.
- 4.7. **Receiving goods:** The Bank transfer the asset(s) to the Customer and asset(s) duly received by the customer.
- 4.8. **Payment of Customer to the Bank:** customer will pay the Bank either out of cash-flow ("funded") or arrange financing (via Commodity Murabaha) for same ("unfunded").

Pro-forma Invoice: In trade transactions, a pro forma invoice is a document that states a commitment from the seller to sell goods to the buyer at specified prices and terms. It is used to declare the value of the trade. It is not a true invoice, because it is not used to record accounts receivable for the seller and accounts payable for the buyer. Simply, a 'Pro-forma Invoice' is a Confirmed Purchase Order where buyer and Supplier agree on the Product Detail and cost to be shipped to buyer. A pro-forma invoice is generally raised when the seller is ready for dispatching the material but he wants to ensure that the payment is being sent before dispatch. And similarly, the customer also wants to know what all other components are there in the Pro-forma invoice to avoid disagreements later.

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4.9. The above steps constitute a single LC transaction by the customer.

5 Suggested Documentation for LC sight

5.1. The legal documentation for the Product will depend on the actual structure to be adopted by the Bank and the Bank's internal policies and procedures as advised by the respective Bank's legal counsel.

5.2. The following is the suggested documentation that the Bank may use to deliver the Product Outline deliverable:

5.2.1. Request for documentary credit (letter of credit) facility from the customer to be approved by the Bank's Shariah Board.

5.2.2. Description of asset including its location.

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- 5.2.3. Definite cost of the asset
- 5.2.4. Request to amend LC application to be approved by the Bank's Shariah Board.
- 5.2.5. Agency Agreement to be approved by the Bank's Shariah Board.
- 5.2.6. Certificate of acceptance of the asset to be approved by the Bank's Shariah Board.
- 5.2.7. Pro-forma invoice
- 5.2.8. Accounting treatment to be approved by the Bank's Shariah Board.

6 Product Outline Structure - Import letter of Credit (or Import Documentary Credit) -Usance

- 6.1. Proposed underlying Shariah contract: Wakala and Kafalah – this is an unfunded product.
- 6.2. The Wakala contract is in relation to the provision of procedural services i.e. examination of documents etc.
- 6.3. The Undertaking from the Bank to pay the Pro-forma Invoice is a Kafalah contract which will be embedded in the LC document. A Kafalah contract is the provision of institutional guarantee/undertaking to pay the specified purchase price per the Pro-forma invoice to the seller/exporter (beneficiary) on condition that the exporter/seller present documents for the goods conforming to the instructions
- 6.4. **Product Description: Usance** is a type of Letter of Credit (LC) that is guaranteed by the issuing bank, but that is not payable in full until a specified amount of time after it is received and accepted by the Importer or his issuing bank. Usance LCs are a type of short-term credit used for financing transactions of goods in international trade. They allow the buyer a delay in payment after accepting a shipment of exported goods.
- 6.5. The usance LC is subject to the proviso that it will only be used for Shariah-compliant goods and contractual terms excluding debt and receivables as well as any refinancing of an asset. A non-exhaustive list of same is attached hereto at **Appendix 1**.

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- 6.6. **Payment terms:** Usance – i.e. upon presentation of credit compliant documents to the issuing bank the payment becomes due after certain fixed number of days as per the LC terms (time draft or deferred payment)
- 6.7. **Operation process flow** – See Letter of Credit – Sight above
- 6.8. **Product Structure** - See Letter of Credit – Sight above
- 6.9. **Documents required** - See Letter of Credit – Sight above

7 Letter of Credit (Third Port) Sight / Usance

- 7.1. The underlying contract is Wakala LC is subject to the proviso that it will only be used for Shariah- compliant goods and contractual terms excluding debt and receivables as well as any refinancing.
- 7.2. Goods will be shipped from one port to another (Third) Port i.e. other than any port in the Islamic Republic of Afghanistan.
- 7.3. In all other respects this type of LC is identical to Letter or Credit – Sight or Letter of Credit – Usance.

8 Hamish Jiddiyah (Security Deposit on LC)

- 8.1. The customer will pay Hamish Jiddiyah, as per approval terms, before issuance of the LC by the Bank.
- 8.2. It is considered as an indication of the financial capacity of the customer and to ensure the compensation of any damage to the Bank arising from a breach of promise by the customer.
- 8.3. In case of customer's breach of promise, the Bank will deduct the amount of actual damage incurred as a result of breach from the Hamish Jiddiyah.

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8.4. After the expiry of guarantee period and in cases where no claim has been lodged by the beneficiary of LC, the Hamish Jiddiyah will be credited to the customer's account.

9 Suggested Accounting entries for Letter of Credit – Sight

9.1. The following are suggested accounting entries. Actual accounting entries shall be determined by the Bank and approved by the Bank's Shariah Board.

9.1.1. At the time of opening of LC

Following accounting entries shall be passed in Off Balance Sheet contingent Accounts.

OFF BALANCE SHEET

<u>GL Account Number</u>	<u>Subs. Account Number</u>	<u>Account Particulars</u>	<u>Debit/Credit</u>
		Islamic LC Liability-Sight-Cust.r	Debit
		Islamic LC Liability-Sight-Bank (Contra LC)	Credit

9.1.2. Recording of LC Margin (Hamish Jiddiyah)

Following accounting entries shall be passed On Balance Sheet with Hamish Jiddiyah, (HJ) if any, being recorded as Other Liability.

ON BALANCE SHEET

<u>GL Account Number</u>	<u>Subs. Account Number</u>	<u>Account Particulars</u>	<u>Debit/Credit</u>
		Customer Current A/c	Debit
		Hamish Jiddiyah (Other Liabilities)	Credit

9.1.3. Upon Receiving of LC Documents

First entry of Off balance sheet LC recording is reversed.

OFF BALANCE SHEET

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<u>GL Account Number</u>	<u>Subs. Account Number</u>	<u>Account Particulars</u>	<u>Debit/Credit</u>
		Islamic LC Liability-Sight-Bank (Contra LC)	Debit
		Islamic LC Liability-Sight-Customer	Credit

9.1.4. Payment is made for LC upon satisfactory check of Documents

Upon satisfactory validation of documents, payment is made to beneficiary/Exporter Bank.

ON BALANCE SHEET

<u>GL Account Number</u>	<u>Subs. Account Number</u>	<u>Account Particulars</u>	<u>Debit/Credit</u>
		Customer Current AC	Debit
		Advising Bank/Nostro AC	Credit

9.1.5. Release of LC Margin (Hamish Jiddiyah)

Upon satisfactory completion of transaction the amount of HJ is released to customer

ON BALANCE SHEET

<u>GL Account Number</u>	<u>Subs. Account Number</u>	<u>Account Particulars</u>	<u>Debit/Credit</u>
		Hamish Jiddiyah (Other Liabilities)	Debit
		Customer Current AC	Credit

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10 Suggested Accounting entries for import Letter of Credit - Usance

10.1. The following are suggested accounting entries. Actual accounting entries shall be determined by the Bank and approved by the Bank's Shariah Board.

10.1.1. At the time of opening of LC

Following accounting entries shall be passed in Off Balance Sheet contingent Accounts.

OFF BALANCE SHEET

<u>GL Account Number</u>	<u>Subs. Account Number</u>	<u>Account Particulars</u>	<u>Debit/Credit</u>
		Islamic LC Liability-Usance-Customer	Debit
		Islamic LC Liability-Usance-Bank (Contra LC)	Credit

10.1.2. Recording of LC Margin (Hamish Jiddiyah)

Following accounting entries shall be passed On Balance Sheet with Hamish Jiddiyah, (HJ) if any, being recorded as Other Liability.

ON BALANCE SHEET

<u>GL Account Number</u>	<u>Subs. Account Number</u>	<u>Account Particulars</u>	<u>Debit/Credit</u>
		Customer Current A/c	Debit
		Hamish Jiddiyah (Other Liabilities)	Credit

10.1.3. Upon Receiving of LC Documents

Upon receiving of documents, LCs now change to acceptances upon satisfactory validation of documents. First the LC recording (as above) will be reversed

OFF BALANCE SHEET-LC reversal

<u>GL Account Number</u>	<u>Subs. Account Number</u>	<u>Account Particulars</u>	<u>Debit/Credit</u>
		Islamic LC Liability-Usance-	Debit

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	Bank (Contra LC)	
	Islamic LC Liability-Usance-Customer	Credit

OFF BALANCE SHEET-Acceptance

<u>GL Account Number</u>	<u>Subs. Account Number</u>	<u>Account Particulars</u>	<u>Debit/Credit</u>
		Islamic LC Acceptance Liability-Customer	Debit
		Islamic LC Acceptance Liability-Bank (Contra LC)	Credit

10.1.4. Payment is made for LC upon Due date after Acceptance

Upon due date after acceptance, bank has to honour payment to beneficiary or via advising bank.

ON BALANCE SHEET

<u>GL Account Number</u>	<u>Subs. Account Number</u>	<u>Account Particulars</u>	<u>Debit/Credit</u>
		Customer Current AC	Debit
		Advising Bank/Nostro AC	Credit

10.1.5. Off Balance Sheet Acceptance to be reversed (We show acceptances ON Balance Sheet in accordance with Central Bank Reporting Formats in Other Assets & Other Liabilities)

Same time along with 10.1.4, off balance sheet entry will be reversed, as acceptances stand no more upon payment

OFF BALANCE SHEET

<u>GL Account Number</u>	<u>Subs. Account Number</u>	<u>Account Particulars</u>	<u>Debit/Credit</u>
		Islamic LC Acceptance Liability- Bank (Contra LC)	Debit
		Islamic LC Acceptance	Credit

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Liability-Customer

10.1.6. Release of LC Margin (Hamish Jiddiyah)

Upon satisfactory completion of transaction the amount of HJ is released to customer
ON BALANCE SHEET

<u>GL Account Number</u>	<u>Subs. Account Number</u>	<u>Account Particulars</u>	<u>Debit/Credit</u>
		Hamish Jiddiyah (Other Liabilities)	Debit
		Customer Current AC	Credit

11 Concept and Basic Conditions for the various types of Letters of Credit.

- 11.1. Refer to Commodity Murabaha and Asset Financing Product outlines for details on concepts and conditions for Commodity Murabaha financing, Agency agreements and Asset financing as the case may be.
- 11.2. A Wakala contract is a service agency contract agreed between two parties. One party (the Bank in this instance) will charge a fee to the customer for providing the service of a Letter of Credit (unfunded) to the customer. The customer is getting the benefit of the Bank's credit rating and its relationships with its correspondent banks for a fee.
- 11.3. This Wakala fee can be agreed on a case by case basis between the customer and the Bank as the customer in trade finance scenarios is usually a sophisticated corporate and usually is in a much better bargaining position than a general retail banking customer.
- 11.4. The assets being acquired via Shariah-compliant instruments must be Shariah-compliant assets. See **Appendix 1** for a non-exhaustive view on what is not a Shariah-compliant asset.

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12 Key Features of a Letter of Credit

- 12.1. Letter of Credit allows for the development of cross border trade between the importer and exporter. This helps grow the real economy of both countries and is one of the main objectives of Islamic Finance.
- 12.2. The main issue for the Bank to consider is the credit risk of the importer. The use of the underlying Shariah contracts is well settled internationally.
- 12.3. Ideally the Bank's customer will be able to fund the purchase of the goods out of its own resources, the Bank must ensure that the customer provides suitable collateral before granting an LC facility.

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13 Risks associated with the Product outline

- 13.1. **Credit Risk:** Credit Risk of the customer. Bank to use prudent risk management tools to ensure that only good credits are approved for the Letter of Credit product. Bank may require additional security from customer as collateral for the financing. In addition, some Banks require a 110% cash deposit in to be lodged in order to issue a Letter of Credit. The Bank must have a robust credit risk team to offer this product or it may suffer losses.
- 13.2. **Market Risk:** There may be Market risk due to the particular nature of the imported assets (especially automobiles). The Market risk of the imported asset may adversely affect the cash-flow position of the customer and may make them require financing when they had anticipated paying for the goods out of cash flow. Suggest that the Bank has a financing cap for various industries prone to market risk (e.g. automobile dealers) as part of its credit policy.
- 13.3. **Operational Risk:**
- 13.3.1. **Process risk:** Strong Know Your Customer ("KYC") controls, complete Management Information System of the transactions and daily logs will reduce the processing risk.
- 13.3.2. **Documentation risk:** Relationship Manager to ensure that complete documents are obtained from the customer. To include correct corporate governance documentation.
- 13.3.3. **Loss of security documents:** Central Operations will ensure safe keeping of the documents under dual custody in a fire proof cabinet. The complete details will be entered in the lodgement register.
- 13.3.4. **KYC and Money laundering risk:** Business unit to ensure compliance with all requirements in the money laundering prevention, local regulations concerning KYC and account opening procedures.
- 13.4. **Compliance Risk:** Compliance department to ensure that necessary Central Bank regulations are communicated to appropriate divisions for implementation.

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13.5. **Shariah Risk:** The implications of Shariah non-compliance and risks associated with the Bank’s fiduciary responsibilities towards different fund providers would expose the Bank to fund providers’ withdrawals, loss of income or voiding of contracts. This in turn could lead to a diminished reputation and / or the limitation of further business opportunities for Bank in this sector. Shariah compliance is critical to the Bank’s Islamic operations and such compliance must permeate throughout the organisation.

13.6. Shariah compliance is the highest priority in relation to all other identified risks concerning this product.

13.7. **Specific Risk Matrix**

	RISK ASSOCIATED	RISK ELEMENTS	MITIGATING FACTORS
i	Market risk (price risk)	<ul style="list-style-type: none"> Price fluctuation when customer’s goods are in transit to the Islamic Republic of Afghanistan . 	<ul style="list-style-type: none"> Bank must ensure that it takes a large cash deposit to protect it against market risk experienced by the customer when he attempts to sell the imported assets in the market. The face amount of the letter of Credit price is payable regardless of whether the customer sells the imported asset or not.
		<ul style="list-style-type: none"> Different types of assets and markets contribute to volatility in the prices of the imported assets. 	<ul style="list-style-type: none"> Bank should highlight the specific market risk factors corresponding to each asset and market. The Bank should ensure that it has not provided letters of credit to customers primarily for the same asset class. E.g. agricultural machinery.
		<ul style="list-style-type: none"> Competitive threats from other financial institutions 	<ul style="list-style-type: none"> Bank must offer competitive fees, enhancing quality service and pricing capability when

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		who market the similar products	financing letters of credit. Thus, this would attract customer to engage in the product or services offered by the bank.
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ii	Credit risk	<ul style="list-style-type: none"> • Credit risk in the case of Over The Counter (OTC) transactions 	<ul style="list-style-type: none"> • Bank may manage the credit risk by putting in place appropriate credit policies, applying Takaful coverage (if available), and authorizing the limits prior to entering into Letter of Credit transaction.
iii	Liquidity risk	<ul style="list-style-type: none"> • Customer defaults in payment. 	<ul style="list-style-type: none"> • To reduce defaults in payment when same is due, banks may impose a late payment penalty (this must comply with the DAB Guidelines on Late Payment Charges).
		<ul style="list-style-type: none"> • Measuring rate of return risk 	<ul style="list-style-type: none"> • The estimation of cash flows is one of the key features of measuring rate of return risk. Hence, the bank should review regularly the behavioural maturity, underlying assumptions and parameters of the letters of credit it issues. Therefore, the strategy is to match the sources of funds to the uses of funds.
v	Operational risk	<ul style="list-style-type: none"> • Delivery of imported assets 	<ul style="list-style-type: none"> • Bank needs to monitor the arrival of imported assets and ensure payment is made promptly to the exporter/its advising bank (in sight LC) and in accordance with the pre-agreed terms (in usance LCs)

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		<ul style="list-style-type: none"> • Settlement risk / Counter-party risk <p>Exit strategies associated with the imported assets in the event of failure of delivery or goods not to the agreed specifications, which responsibility parties involved for the delivery of the imported assets or for the payment of price.</p>	<ul style="list-style-type: none"> • Since the bank puts a high degree of reliance on the exporter/its advising bank with regards to the delivery of the imported assets, this may expose the bank to settlement risk. Nevertheless, there might be several events that could lead to failure to deliver the imported assets. As only certain events can be protected through obtaining Takaful coverage, adequate assessment of the exporter/its Advising Bank's ability to honour its obligation (i.e. track record) is crucial to avoid settlement and risk. In view of this, adequate due process on the screening and selection of an exporter/its Advising Bank is highly recommended.
		<ul style="list-style-type: none"> • Shariah non-compliance risk 	<ul style="list-style-type: none"> • To avoid any potential risk arising from the transaction (i.e. non-compliance with Shariah requirements), the bank should have adequate controls to ensure validity of the contract which may include, <i>inter alia</i>: <ul style="list-style-type: none"> (a) a proper process for screening the assets being acquired by the customers via a letter of credit; and (b) checking on transaction flows which are endorsed by the respective Shariah Board of the bank

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14 Common Mistakes

- 14.1. Failure to ensure that Fatwa issued by the Bank's Shariah Board for the Product before offering to clients. Shariah secretariat to confirm with Business Units that the product may be offered to customers.
- 14.2. Inadequate or non-existent documentation – this may render the transaction void *ab initio*.
- 14.3. Incorrect document process flow – this may render the transaction void *ab initio*.
- 14.4. See common mistakes for Cash financing as this relates to the payment side of the Letter of Credit if the customer does not provide own funds to cover the cost of the assets when same becomes due or where the Bank did not secure a 100% cash deposit and some form of financing is required by the customer.
- 14.5. Failure to exactly describe the asset in the Letter of Credit documentation.
- 14.6. Providing a letter of credit for a non-compliant asset or to a business engaged primarily in non-compliant business activities.
- 14.7. Failure to specify the exact usance terms.
- 14.8. Failure to properly account for deductions out of the Hamish Jiddiyah (security deposit).
- 14.9. Failure to properly identify the Third Port in third port letters of credit.

**DA AFGHANISTAN BANK
(CENTRAL BANK OF AFGHANISTAN)
Product Outline: Letter of Credit (Trade Financing)**

15 Custodian of the Product Outline

- 15.1. This Product Outline shall be under the safe custody of the Islamic Banking Division ("IBD") of DAB. Any changes to this Product Outline shall be made by the IBD with prior consultation with the SSB, as reviewed by the DAB Executive Board and upon approval by DAB Supreme Council. A copy of the amended Product Outline shall be made available to all stakeholders and SSB members for reference and implementation.
- 15.2. Banks may further refine the Product Outline to suit their particular structure and policies. Such amendments shall be approved by the Bank's Shariah Board. The Bank's Shariah Department/Islamic Banking Department/Unit will have custody over the Bank's Product Outline for trade finance products.

16 Effective Date of the Product Outline

The Effective date of this Product Outline is the _____ day of _____ 20____

DA AFGHANISTAN BANK
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17 Appendix 1: Islamic Trade Finance Prohibitions sample – to be approved by the SSB.

No.	Prohibitions	Notes
Food and beverage related		
1	Alcoholic beverages	
2	Pork poultry or any pig-related items	
3	Non-halal poultry i.e. slaughtered not according to the Islamic prescribed methods	
4	Tobacco-related products	
5	Any other intoxicated or drug-oriented items (other than those approved for medical purposes by certificated practitioners)	
Gambling related items		
6	Casino/ any lottery slot machines or similar in nature	
7	Any other items that may reasonably be known to be used for gambling purposes	
Obscene nature		
8	Pornography or adult-oriented materials	
9	Items used for prostitution/ immoral activities	
	Any item that is likely to be used for purposes contradictory to the Shariah or not directly for the good of the people (vague category)	Not a total prohibition/ could be permissible provided that there are sufficient inquiries which have been conducted to ascertain its purpose of usage
10	E.g. Arms and ammunition	
Miscellaneous (non-exhaustive list)		
11	Any other items which an Islamic expert may deem it to be or likely to be used against the principles of Shariah.	Such as items that are harmful in nature etc.