ISLAMIC INTERBANK BENCHMARK RATE
PULSE OF THE ISLAMIC CAPITAL MARKETS

TERMS OF REFERENCE
ISLAMIC BENCHMARK COMMITTEE

I. OBJECTIVES

a. To provide Thomson Reuters with recommendations on the process, constituent instruments and contributor banks of the benchmarks at the annual review.

b. To provide Thomson Reuters with recommendations on the process, constituent instruments of the benchmarks as necessary on an ad-hoc basis.

c. To provide guidance as necessary on other matters pertaining to the Islamic Benchmarks, such as (but not limited to) the introduction of new currency calculations.

d. To provide advice and guidance to Thomson Reuters on the correct way to proceed with calculating and distributing the Islamic Benchmarks in the event of disruption to the market that affects the usual calculation or distribution timing or method.

e. To advise on the creation of appropriate scrutiny and governance procedures for the Islamic Benchmark.

f. To maintain links as appropriate with such statutory and other public bodies as wish to observe Islamic Benchmark Committee proceedings.

II. MEETINGS

a. The Committee will meet once a year or more frequently as required. At least one half of the Committee members must be present to constitute a quorum.

b. The official minutes of the meeting will be recorded by the AAOIFI representative and where absent, the Thomson Reuters representative. The minutes of the meetings and all decisions made during the meeting shall be circulated within two weeks of the meeting to all members of the Islamic Benchmark Committee.

c. Committee members will sit as individuals in their own right, but will represent the views of their organisations. Members may nominate a single alternate who may attend meetings on their behalf if the member is unable to attend. Attendance at the meetings should be in person, or virtually via tele-conference, where the member is unable to attend in person. Any member who doesn’t attend two consecutive meetings shall be considered to have resigned from the Committee.

d. The Committee may invite representatives of rate contributing banks, or other bodies as appropriate to join the committee or observe proceedings.
III. COMMITTEE

a. The Committee shall elect a Chairperson based on rotation (descending alphabetical order – A - Z) and the Vice-Chairperson based on rotation (ascending alphabetical order – Z - A). The term of the Chairperson and Vice-Chairperson shall be one year each. New Committee members will be required to serve for a minimum of two years before they are eligible for either the post of Chairperson or Vice-Chairperson. The term of the inaugural Chairperson and Vice-Chairperson will be two years and the Committee shall elect them by majority vote. To ensure that the Committee is seen to be transparent and independent, it is desirable that the inaugural Chairperson is independent from the contributor banks both personally or professionally. Independent, for the purposes of this clause, is defined as any member who is not affiliated in any form, associated with or is in a reliant relationship with a contributor bank. For clarity, all Committee members that are also contributor banks are NOT considered to be independent.

b. In the event of a deadlock in the committee, the Chairperson shall have a casting vote. In the event that the Chairperson is unable to attend due to incapacity, sickness, death or voluntary resignation, the Vice-Chairperson shall have a casting vote. The Chairperson will have to be re-elected at the next meeting. All members will serve terms of two years, but may be re-elected by a majority vote of the Committee.

c. In the event of a member resigning, Thomson Reuters must be notified fourteen days before the resignation stating the reasons of such termination.

d. The Committee shall be quorate when a member from AAOIFI, Thomson Reuters and at least 2 representative banks are present in addition to the Chairperson or Vice-Chairperson (where the Chairperson is unable to attend).

e. Each Committee member shall be independent of other Committee members and must provide their own opinion or vote. In all matters where voting is involved, one or more Committee members must not influence or seek to influence other members either by canvassing, colluding or encouraging other Committee members to achieve a desired outcome. If it is found that any one or more Committee members have attempted to influence voting decisions of the Islamic Benchmark Committee, those actions may be discussed with the remaining Committee members and a vote to expel the offending Committee member(s) may be passed.

f. If any of the Committee members merge or are acquired by another institution (which may also be a member of the Committee), only one of the two members will be a member for the purposes of the Islamic Benchmark Committee while the other member will have to withdraw from the Committee from thereon.

g. All proceedings and papers of the Committee shall be confidential.

h. Decisions that are of market relevance including and not limited to changes related to process, constituent instruments, contributor banks of the benchmarks and governance and scrutiny procedures should be distributed in media forms accessible to the market.

i. The deliberations of the Committee will avoid the exchange of information or other discussion on competitively sensitive matters.
IV. ELIGIBILITY

a. The volume of Islamic transaction per day should not be less than USD 120 million.

b. The number of Islamic trades per day shall not be less than 12.

c. The total liquid cash assets, defined as the sum of cash, equivalents and sum of all Islamic assets and receivables, shall not be less than USD500 million for the latest year.

Additional Criteria for Conventional Banks with Islamic Windows

d. The treasury management for Islamic operations must be segregated and separated from conventional operations to maintain purity.

e. The conventional banks with Islamic windows shall have in place a Shariah advisory board as well as a dedicated audit function.

f. The financial statements and balance sheets of Islamic activities should be differentiated from its conventional counterpart.
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DISCIPLINARY PROCEDURES FOR CONTRIBUTING BANKS
DISCIPLINARY SUB-COMMITTEE

1. Should Thomson Reuters recommend that an issue with submissions has not been satisfactorily resolved in conjunction with the contributor, and then the Islamic Benchmark Committee shall form a Disciplinary Sub-Committee to provide a recommendation to Thomson Reuters.

2. Members of the Sub-Committee will be selected from the members of the Islamic Benchmark Committee, or individuals nominated by a majority of that Committee. The Sub-Committee will consist of at least three individuals plus a chairman, elected by majority vote of the Sub-committee. The Sub-Committee Secretariat will be the AAOIFI representative and where absent, the Thomson Reuters representative.

3. Tools at their disposal are detailed below, and will include but are not limited to: issuing written guidance, to include a restatement of contributor protocols; requiring an up-to-date audit of a bank’s contribution processes; other measures as appropriate or in extremis, a recommendation that a contributor be removed from the relevant panel. In this latter case, the recommendation must be approved by an extraordinary meeting of the Islamic Benchmark Committee.

4. Discipline of contributors may take three forms:

   - **Written guidance.** On the instructions of the Disciplinary Sub-Committee, Thomson Reuters will write to the contributor in confidence detailing the reasons the contributor is believed not to be acting in accordance with the benchmark definition or Standard Fixings Agreements for contributors and ask them to justify or remedy their actions. A full record of all correspondence will be kept and presented to the next meeting of the Islamic Benchmark Committee; however this will not be made public.
     
     If a contributor receives guidance, the Sub-Committee will set a date to re-convene and review the actions of the contributor since the original guidance was issued. At this point the issue will either be closed or disciplinary action will escalate.

   - **Requirement for a Re-Audit.** The Disciplinary Sub-Committee may issue a recommendation that a contributor is required to re-audit their internal rate submitting processes. This could happen when it is considered that the contributor is not reliably complying with the written guidance or if there are concerns with the existing audit process.

   - **Recommendation for Removal.** The Disciplinary Sub-Committee may issue a recommendation that a contributor is removed at the following review of Islamic Benchmark contributors, or in extremis, immediately. This will happen either when it is considered that the contributor has not complied with written guidance, or if the group believes the bank is unquestionably in breach of the Islamic Benchmark definition or Standard Fixings Agreement. The group may ask for external input from legal counsel to ensure that decisions do not raise competition law issues or implicitly favor one bank over another. In either case, the secretariat will retain records.

5. Meetings of the Sub-Committee will be as required

6. The deliberations of the Sub-Committee will avoid the exchange of information or other discussion on competitively sensitive matters.
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TERMS OF REFERENCE
SHARIAH COMMITTEE

The Shariah Committee for the Islamic Benchmark will be comprised of at least three (3) members, at least 2 of which must be members of the AAOIFI Shariah Board.

1. The purpose of the Shariah Committee is to provide final opinions on matters of Shariah compliance to Thomson Reuters and the Islamic Benchmark Committee. The scope of the Committee’s duty will be as follows:
   i. Process to be followed in calculating the Islamic Benchmarks,
   ii. eligibility of instruments for the Islamic Benchmarks,
   iii. benchmarking question to be asked to contributor banks, and
   iv. any other Shariah compliance matters referred to it by Thomson Reuters or the Islamic Benchmark Committee.

2. The Shariah Committee shall elect a Chairperson by majority vote, whose term shall be three years. In the event of a deadlock in the committee, the Chairperson shall have a casting vote. All members may serve terms of at least three years, but may be re-appointed for a further three year term, ratified by Thomson Reuters.

3. The agreed upon chairperson shall either have qualification or necessary knowledge, expertise or experience in the following areas:
   (a) Islamic Jurisprudence (Usul al-Fiqh); or
   (b) Islamic transaction/commercial law (Fiqh al-Mu’amalat)

4. Committee members will sit as individuals in their own right. Members may nominate a single alternate from among the members of the Shariah Committee who may attend meetings on their behalf if the member is unable to attend. Attendance at the meetings should be in person or virtually via tele-conference, where the member is unable to attend in person.

5. Opinions or decisions made by email shall only be considered binding if they are agreed upon unanimously by the Shariah Committee members. Any proposed alterations or amendments based on unanimous decision by the Shariah Committee will be presented to the Islamic Benchmark Committee for deliberation. The Islamic Benchmark Committee is required to distribute for public consultations, recommendations for alterations or amendments received from the Shariah committee. Subsequently, the Islamic Benchmark Committee will be responsible for a final determination, taking into full consideration the need to preserve the Islamic Benchmark as a market convention.

6. The Shariah Committee may invite representatives of rate contributing banks, or other bodies as appropriate to observe proceedings and/or provide expert opinions.

7. The Shariah Committee will meet at least once annually and may hold additional meetings when necessary or when advice is sought on matters of Shariah compliance by Thomson Reuters or by the Islamic Benchmark Committee.

8. A summary of the minutes of the Shariah Committee proceedings may be made available to the public, with the consent of the Shariah Committee.

FOR MORE INFORMATION
Eikon/3000Xtra: Call up <IIBRFIX>
For further enquiries or questions, reach us at financial.thomsonreuters.com/islamicbenchmark
islamic.finance@thomsonreuters.com
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