

## SHARIAH PRONOUNCEMENT

*In the name of Allah, the Most Gracious, the Most Merciful.  
All praise is due to Allah, the Cherisher of the world, and peace and blessings be upon  
the Prophet of Allah, his family and all his companions.*

We have been appointed as the Shariah Adviser for **Fusang Exchange Ltd** (Company No. LL15250), a company incorporated in the Federal Territory of Labuan, Malaysia, and approved by the Labuan Financial Services Authority to operate a securities exchange under Section 134 of the Labuan Financial Services and Securities Act 2010 ("**Fusang Exchange**").

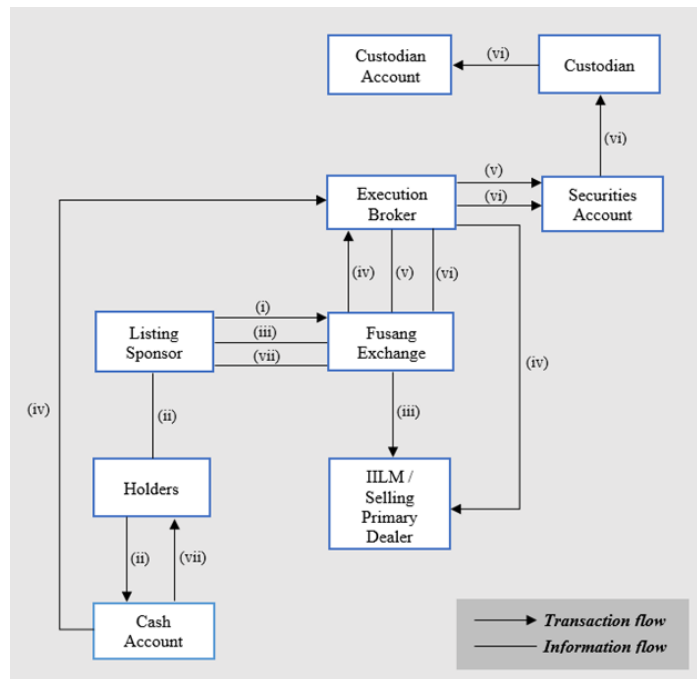
Fusang Exchange intends to facilitate the issuance and trading of a proposed Shariah compliant depository receipts ("Fusang Depository Receipts" or "**FDRs**") in both tokenised and non-tokenised format which evidence ownership of the International Islamic Liquidity Management Corporation ("**IILM**") Sukuk.

For clarity, Fusang Exchange will also be facilitating the issuance and trading of Shariah non-compliant FDRs.

We affirm that we have reviewed the structure and documentation in relation to the proposed FDR facility ("**FDR Facility**"), namely, the Rules of Exchange, and the Deposit Agreement. The words in bold herein reflect the words and definitions as contained in the said documentation.

### 1. STRUCTURE AND MECHANISM

#### 1.1 The FDR Facility will involve the following:



- (i) The listing sponsor (“**Listing Sponsor**”) appoints Fusang Exchange to provide for the deposit of the assets, the creation of depositary shares representing the assets so deposited and the execution, delivery and issuance of FDRs evidencing ownership in the depositary shares. The relationship between the Listing Sponsor and Fusang Exchange is that of a fee-based contractor arrangement.<sup>1</sup>

For this proposed Shariah compliant FDRs, Fusang Exchange will be the exclusive depositary for:

- (a) the purchase and custodianship of the IILM Sukuk; and
  - (b) issuance of FDRs evidencing ownership in the IILM Sukuk.
- (ii) The Listing Sponsor shall arrange for the purchase monies of FDRs to be paid by the investors (“**Holder**s”) into a cash account (“**Cash Account**”).
  - (iii) Upon Fusang Exchange confirming the receipt of the purchase monies in the Cash Account, the Listing Sponsor shall instruct Fusang Exchange to purchase the IILM Sukuk either from the IILM itself as the issuer or from a selling primary dealer, on such date and at such price and quantity.
  - (iv) Fusang Exchange shall utilise the purchase monies in the Cash Account to purchase the IILM Sukuk by instructing an execution broker to make such purchase.
  - (v) Upon settlement with the execution broker of the purchase transaction, Fusang Exchange shall cause the IILM Sukuk so purchased to be deposited into a securities account (“**Securities Account**”) or direct to the account kept with the Custodian (see para (vi) below).
  - (vi) Upon purchasing the IILM Sukuk, Fusang Exchange shall instruct the execution broker to transfer the purchased IILM Sukuk from the Securities Account into Fusang Exchange’s agent’s (“**Custodian**”) account (if not settled directly into the Custodian account), and thereafter procure the FDRs to be issued in respect of such IILM Sukuk (“**IILM Sukuk FDRs**”).
  - (vii) In the event that the purchase monies in the Cash Account are not fully utilised to purchase the IILM Sukuk, the Listing Sponsor shall direct Fusang Exchange to refund such unutilised monies by way of transfer into the account of the Holders on the Listing Sponsor’s record.
  - (viii) The IILM Sukuk FDRs issued shall represent the right to receive, and to exercise the beneficial ownership interests in the IILM Sukuk. The IILM Sukuk FDRs may be in (i) a physical form represented by the certificate issued by Fusang Exchange; and in (ii) a digitised form represented by tokens eligible for listing on Fusang Exchange.
  - (ix) The IILM Sukuk shall be deposited with Fusang Exchange and/or the Custodian. Fusang Exchange and/or the Custodian shall hold in custody the physical FDRs for and on behalf of the Holders and shall not release the physical FDRs from their

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<sup>1</sup> Paragraph 22.1 of the Deposit Agreement.

custody unless all the IILM Sukuk FDRs are withdrawn or the Deposit Agreement is terminated, whichever is earlier. Fusang Exchange and/or the Custodian shall with due care, store and handle the physical IILM Sukuk FDRs at all times.

## 2. SHARIAH CONSIDERATIONS

### 2.1 Shariah Contract

The Shariah contract used for the FDR Facility is *Ujrah* i.e., fee arrangement for services. The relationship between the Listing Sponsor and Fusang Exchange is that of a fee-based contractor arrangement. The Listing Sponsor appoints Fusang Exchange as its contractor to:

- (i) make arrangements for the purchase and custodianship of the IILM Sukuk; and
- (ii) issue FDRs representing the IILM Sukuk.

Fusang Exchange purchases the IILM Sukuk from the IILM or the selling primary dealer. The purchases are based on a buyer-seller arrangement.

Fusang Exchange appoints the Custodian to act as a custodian for the IILM Sukuk and the IILM Sukuk FDRs. The Shariah contract used for the custodianship is *Wadi'ah Yad Amanah* (safekeeping based on trusteeship). In the event the Custodian receives a fee, the applicable Shariah contract would be *Wadi'ah Yad Amanah bi al-Ujrah* (safekeeping based on trusteeship with a fee). The Custodian would not be liable for any loss or damages from the custodianship except it is due to its own misconduct, negligence or breach of specified terms.

### 2.2 IILM Sukuk FDRs

Tokens are recognised as assets from the Shariah perspective if they fulfil certain conditions. The rights and benefits attached to the tokens are to be Shariah compliant.

The IILM Sukuk FDRs are a form of asset-backed tokens which represent ownership in the IILM Sukuk. The IILM is an international organisation established by central banks and a multilateral organisation to create and issue Shariah compliant financial instruments to facilitate effective cross-border Islamic liquidity management.<sup>2</sup> It issues tradable short-term commercial papers in United States Dollar, with maturities of up to one year. The IILM Sukuk are based on the *Wakalah* (agency for investment management) contract backed by sovereign, sovereign-linked and supranational assets, as approved by its Shari'ah Committee.<sup>3</sup>

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<sup>2</sup> "About the IILM," accessed 22 August 2023, <https://iilm.com/about-iilm/>.

<sup>3</sup> Simon Archer and Rifaat Ahmed Abdel Karim, "The IILM Short-Term Sukūk for Liquidity Management: A Success Story in Enhancing Financial Stability," *SEACEN Financial Stability Journal*, no. 3 (2014): 19. The Shariah requirement for trading sukuk in the secondary market is that the proportion of the physical assets (tangible assets) has to be more than the intangible assets. The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) in its Shariah Standards No. 59 on Sale of Debts states that in all instances the tangibility ratio shall not fall below 33% of the value of the asset; "The Features of the IILM Sukūk," accessed August 22, 2023,

The IILM Sukuk FDRs are *mal* from the Shariah perspective as it is based on the IILM Sukuk.<sup>4</sup>

## 2.3 Accounts

The Cash Account and Securities Account used for the IILM FDR Facility are Shariah compliant accounts.<sup>5</sup>

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<https://iilm.com/the-features-of-the-iilm-sukuk/>. The Shariah tangibility ratio of the IILM Sukuk is 79% as of 22 August 2023. “Secondary Market Ranking,” accessed August 22, 2023, <https://iilm.com/secondary-market-ranking/>.

<sup>4</sup> The Shariah Advisory Council of the Securities Commission Malaysia has resolved on 29 June 2020 and 20 July 2020 that a digital token is recognised as *mal* under the category of ‘*urudh*’ from the Shariah perspective. The following matters are to be fulfilled in determining the Shariah status of a digital token:

- “(i) *The proceeds raised from the issuance of the digital token must be utilized for Shariah-compliant purposes;*
- (ii) *The rights and benefits attached to the digital token must be Shariah-compliant; and*
- (iii) *In the event the utilization of proceeds under item (i) and the entitlement of rights and benefits under item (ii) above are for mixed activities of Shariah-compliant and Shariah non-compliant purposes, the existing SAC resolution of Sukuk proceeds and the business activities benchmark under the Shariah screening methodology for listed companies on Bursa Malaysia are applicable.”*

Securities Commission Malaysia, *Resolutions of the Shariah Advisory Council Securities Commission of Malaysia* (Kuala Lumpur: Securities Commission Malaysia, 2022), <https://www.sc.com.my/api/documentms/download.ashx?id=eadeb8bb-4c43-418a-9777-1986bb8bf56c>. Note that this resolution is not applicable to any digital assets outside the jurisdiction of the Securities Commission Malaysia.

<sup>5</sup> Shariah Pronouncement on Labuan Islamic Digital-Based Solutions by the Shariah Supervisory Council of Labuan FSA issued on 28 February 2022:

*“Segregation of funds between conventional and Islamic financial business for Labuan entity which carries out both business activities.”*

Paragraph 26.26 of the Securities Commission Malaysia’s Guidelines on Islamic Capital Market Products and Services (“ICMPS”):

*“In a case where an issuer opens and maintains designated accounts in relation to a sukuk issuance, the accounts must be opened and maintained under a Shariah-compliant account with financial institutions.”*

Paragraph 38.04 of the ICMPS:

*“Where an Islamic investment note is executed or offered, on or through a peer-to-peer (P2P) platform, the P2P operator must establish and maintain a Shariah-compliant trust account with a financial institution for the purposes of—*

- (a) the funds raised in relation to the Islamic investment note; and*
- (b) monies received as payment to the investors in relation to the Islamic investment note.”*

Paragraph 38.05 of the ICMPS:

*“In the case of a Shariah-compliant fundraising on an ECF platform, the ECF operator must establish and maintain a Shariah-compliant trust account with a financial institution for the purposes of the fund raised.”*

**3. SHARIAH APPROVAL**

Based on the foregoing, we view that the IILM Sukuk FDR Facility is in compliance with Shariah principles.

And Allah knows best.

Yours faithfully,  
**For and on behalf of the Shariah Adviser:**



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Dr. Mohammad Mahbubi Ali  
Shariah Adviser



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Ahmad Ab Hamid  
Director

29 September 2023