Bangladesh Bank

Head Office
Motijheel,
Dhaka-1000

IBRPD: Circular No. 0---- Date: ----------

Managing Director/Chief Executives Officer
All Scheduled Banks in Bangladesh.

Dear Sir,

Investment products: Salam and Parallel Salam

Salam is a contract of purchase of the commodity (al-Muslam Fihi) for deferred delivery in exchange for immediate payment (Salam capital) according to specified conditions or sale of a commodity for deferred delivery in exchange for immediate payment. Goods to be supplied under Salam should be known and specified for quality, kind, type and amount as part of the contract. Such goods have to be replaceable in the market. Salam is used by bank to facilitate trade and business by providing capital to the supplier before production of goods and commodities. The Salam contract, in particular for farmers and merchants who need working capital for their business.

a) Contracts of Salam

In Salam contract, the quantity, quality delivery date and place of delivery of the subject matter must be clearly specified and agreed in the contract. In case of a revolving Salam (the relationship will continue for an indefinite or fixed period) a Master Salam Agreement will be signed in the form of a memorandum of understanding (MoU), but the actual Salam will only be effective upon conclusion of the Salam sale. The types of guarantees and other prospective arrangements shall also specify in the Master Salam contract.

b) Capital of Salam contract and its conditions

i. In principle, the capital of Salam contract should be in the form of cash. In addition to that, the capital of Salam contract may be fungible goods, livestock and usufruct of particular assets and ownership must be transferred immediately. But debt will not be the capital of Salam. Kinds, types, quantities and specifications of capital other than cash should be well known to both parties. The manner of payment, its currency and amount also is clearly defined and currency transaction must be in spot.

ii. The place where contract is concluded, capital must be paid to the customer before dispersing the contracting parties. Any delay in payment of the capital and dispersal of the parties renders the transaction a sale of debt. In case of dire need, payment may be delay as long as 2/3 days, but delay must not equal to delivery period of Salam goods.

c) Subject matter or Salam Commodities and its conditions

i. Salam Commodities may be fungible goods which do not differ in any significant manner and commonly available under normal circumstances at delivery places on delivery date. Whereas, currency, gold or silver will not be al-Muslam Fihi.

ii. Salam is not permitted for anything specific, e.g. fruits from specific trees or crop from a specific piece of land, product from specific factory. It is not also allowed for articles whose values change according to subjective assessment, e.g. unique items such as antiques, jewelry, etc.

iii. Specification, kinds, quantity, types, nature, dates, place of delivery Vat, Taxes and other Govt. imposed charges of Salam commodities must be known to the contracting parties for removing all types of dispute, uncertainty or ambiguity, except for minor discrepancies that are customarily ignored. If the delivery place is not clearly defined in the contract, delivery of the goods may be taken place where contract was concluded or customary practice.

iv. The products, which have no difference of manufacturing companies and are identified by trademarks, standardized specifications and are regularly and commonly available at any time, may be consider as al-Muslam Fihi.

v. Al-Muslam Fihi may be secured by a mortgage or a guarantee or any other permissible means of security.

d) Changes to Salam Commodities

i. To sell Salam commodities before taking possession is forbidden.

ii. After due date of delivery of Salam Commodities, bank may exchange Salam commodities with other substitutes, except currency, whether the substitute is similar in kind or not. It is provided that the market value of the substitute should not be greater than the market value of Salam commodities at the time of delivery.

iii. Cancellation and partial cancellation with repayment of corresponding amount of capital with the consent of both parties is permissible.

e) Delivery of Salam Commodities

The followings are the key elements for the delivery of Salam goods:

i. The contracting parties set the delivery date of the Salam commodities and both parties aware of that date. They also set various delivery dates for delivery in installments.

ii. If the Salam commodities meets the specifications agreed in the contract and is delivered on time or before the due date, the bank must accept the delivery, unless bank has a valid reason not to do so.

iii. If customer offers higher quality goods than what was stipulated in the terms of the contract, bank must accept the goods, but customer is not allowed to request for an increase in price. On the other hand, if customer offers lower quality goods than what was stipulated in the terms of the contract, it is bank's prerogative to either reject the commodity or accept it at a discounted price with mutual consent of both parties.

iv. If customer fails to deliver the commodity in due date for its unavailability, the bank has the option to either wait until the commodity becomes available, or cancel the contract and recover the amount paid, or replace the goods in agreement with customer.
v. If customer fails to perform his obligations due to insolvency, the bank may grant an extension of time for delivery. The bank should not stipulate any penalty clause in respect of delay in the delivery of Salam commodities.
vi. If customer fails to perform his obligations in time due to negligence he has to bear the actual loss as penalty. But the amount received as penalty must credited Charity Account instead of income.

f) Sale of Salam Commodities:

i. Bank's possession of Salam product must be ensured through proper documentations as required for constructive possession.
ii. Risk during Bank's possession must be borne by the Bank.
iii. Bank may appoint customers as selling agent to sale the Salam commodities. But customer must not act as a buyer of the same commodities.
iv. Bank may sale the Salam commodities by means of bai Murabahah or Murabahah Muazzal.

g) Profit Calculation:

No profit or markup can calculate or charge on a Salam account at any stages of transaction. Profit/loss should be earned only by selling of Salam commodities.

h) Parallel Salam

Shariah rules for Parallel Salam are:

i. Salam and Parallel Salam are two separate and independent contracts and those are not linked with each other in any way. it is necessary that both the obligations and the rights under the two contracts stand alone in all respects.
ii. If customer of the first Salam contract breaches his obligation the bank (the injured party) has no right to relate this damage or loss to the party with whom it concluded a Parallel Salam. Consequently, the bank has no right on the basis of its loss or damage under the first Salam contract to terminate the second Salam contract or to delay in performing it.
iii. If Salam contract is not completed for any reason whatsoever, it should not affect the Parallel Salam contract. In such condition, seller of the Parallel Salam (the bank) is under an obligation to buy the commodity from the market and deliver it to buyer of the Parallel Salam in order to honor the transaction.
iv. Bai' al Inah (buy back) is prohibited which refers two parties enter into transactions that allow one party to obtain cash in exchange for greater amount payable later without genuine commodity-trading purpose. In case of Parallel Salam an independent third-party must be involved.

All the Shariah rules relevant for Salam, as explained in the above sections, are also relevant for Parallel Salam contract.