Wakalah
(Shariah Requirements and Optional Practices)
Exposure Draft

Issuance date: 6 December 2013
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As part of the objective to strengthen the Shariah-compliance culture among Islamic financial institutions (IFIs), Bank Negara Malaysia (the Bank) is embarking on an initiative to develop a Shariah-based regulatory framework. The purpose of the framework is to ensure that the IFIs comply with Shariah. In this regard, the Bank is issuing a series of policy documents on Shariah contracts to enhance the end-to-end compliance with Shariah.

This Exposure Draft (ED) outlines the Shariah requirements and optional practices relating to wakalah to facilitate IFIs in developing Islamic financial services and products including the features of wakalah and its arrangement with other Shariah contracts or concepts.

The Bank invites written comments from your institution on this ED, including suggestions for particular issues, areas to be further clarified/elaborated and any alternative proposal that the Bank should consider. To facilitate the Bank’s assessment, please support each comment with clear rationale, accompanying evidence or illustrations, as appropriate.

Written comments in the form of softcopy are preferable and may be submitted to shariahstandard@bnm.gov.my by 10 January 2014. Hardcopy of the written feedback may also be submitted to:

Pengarah
Jabatan Perbankan Islam dan Takaful
Bank Negara Malaysia
Jalan Dato' Onn
50480 Kuala Lumpur
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PART A  OVERVIEW

1.  Objective

1.1  This policy document outlines the Shariah requirements and optional practices relating to wakalah to be observed by the IFIs in developing Islamic financial services and products.

1.2  This policy document also covers arrangement of wakalah with other Shariah contracts or concepts.

1.3  This policy document aims to facilitate the understanding of the Shariah requirements relating to wakalah which the IFIs must adhere to in order to ensure its validity.

2.  Applicability

2.1  The policy document is applicable to all IFIs as defined in paragraph 5.2.

3.  Legal provisions

3.1  The requirements in this policy document are specified pursuant to sections 29 (1) of the Islamic Financial Services Act 2013 (IFSA).

4.  Effective date

4.1  This policy document comes into effect on xx xx xxxx.
5. Interpretation

5.1 The terms and expressions used in this policy document shall have the same meanings assigned to them in the Financial Services Act 2013 (FSA), IFSA and DFIA unless otherwise defined in this policy document.

5.2 For the purpose of this policy document:

“S” denotes a standard, requirement or specification that must be complied with. Failure to comply may result in one or more enforcement actions;

“G” denotes guidance which may consist of such information, advice or recommendation intended to promote common understanding and sound industry practices which are encouraged to be adopted.

“Islamic financial institutions” or “IFIs” means –

(a) licensed Islamic banks and licensed takaful operators under the IFSA;

(b) licensed banks and licensed investment banks under the FSA which are approved under section 15(1)(a) FSA to carry on Islamic banking business; and

(c) prescribed institutions under the DFIA which are approved under section 129(1) DFIA to carry on Islamic banking business or Islamic financial business.

6. Related legal and policy documents

6.1 This policy document must be read together with the following legal and policy documents:
(a) any Shariah Advisory Council (SAC) rulings published by the Bank; and

(b) Shariah Governance Framework for Islamic Financial Institutions.

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1 Including Shariah resolutions in Islamic Finance, standards, circulars or any directive pertaining to Shariah matter issued by the Bank.
PART B DEFINITION AND NATURE OF WAKALAH

7. Definition

**S**  
Wakalah refers to a contract in which a party (muwakkil) authorizes another party as his agent (wakil) to perform a particular task, in matters that may be delegated, either voluntarily or with imposition of a fee.

8. Nature

**S**  
8.1 The specific inherent nature of wakalah is that it is a trust-based contract whereby the wakil is considered a trustee (amin) who shall act within what has been authorized to him by the muwakkil.

**S**  
8.2 The wakalah contract shall be binding in any of the following situations:
   (a) the wakalah contract involves the rights of another party;
   (b) the wakalah contract is a paid agency;
   (c) the wakil has commenced the task authorized to him where discontinuance of the work would cause damage to the contracting parties; or
   (d) the contracting parties have agreed not to terminate the wakalah contract within a specified time.

**G**  
8.3 The wakalah contract may take the following forms:
   (a) Unrestricted Agency (Wakalah Mutlaqah): It is an agency contract in which the muwakkil appoints a person as wakil to perform a certain task without specifying the details and the descriptions of the subject matter of the wakalah; or
   (b) Restricted Agency (Wakalah Muqayyadah): It is an agency contract in which the muwakkil appoints a person as wakil to perform a particular task with certain restrictions in the form of
requirements, conditions and characteristics related to the subject matter of the *wakalah*. 

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PART C  COMPONENTS OF WAKALAH

9. Contracting parties

S 9.1 The contracting parties in a wakalah contract are the agent *(wakil)* and the principal *(muwakkil)*.

S 9.2 The contracting parties shall have legal capacity\(^2\) to enter into the wakalah contract.

G 9.3 The contracting parties in a wakalah contract may be a natural person or a legal person.

S 9.4 The *muwakkil* shall authorize a specific *wakil* and notify him of his appointment.

S 9.5 The *wakalah* contract shall be entered into through an offer and acceptance between the contracting parties.

G 9.6 The offer and acceptance may be expressed verbally or by appropriate documentation or by any other methods accepted by customary business practice (‘urf tijari) which do not contravene the Shariah principles.

S 9.7 The legal consequences of the offer and acceptance of the *wakalah* contract will take effect immediately after entering into the *wakalah* contract or upon occurrence of the specified condition or date and time.

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\(^2\) The legal capacity of a person is defined as capacity to assume rights and responsibilities; and capacity to give legal effect to his action. Among the important conditions are that the person must possess sound mind and the capacity to distinguish between what is harmful or beneficial to one’s interests.

Legal capacity of a legal entity is defined as eligibility of an entity to acquire rights and assume responsibilities.
S 9.8 Any term or condition mutually agreed upon which does not contravene the Shariah shall be binding on the contracting parties.
10. **Subject matter of wakalah**

S 10.1 The subject matter of the *wakalah* contract shall be known to the *wakil*.

S 10.2 Pursuant to paragraph 10.1, under *wakalah mutlaqah*, it is not required that the subject matter of the *wakalah* contract be enumerated in detail for the *wakil* provided that the *wakil* observes the interest of the *muwakkil* and the customary practice.

S 10.3 The subject matter of the *wakalah* contract shall be matters that may be delegated.

S 10.4 The subject matter of the *wakalah* contract shall be Shariah compliant.
11. **Requirements of wakalah**

S 11.1 The intended effect of the transaction related to the subject matter entered into by the wakil pursuant to the authorization shall apply to the muwakkil.

S 11.2 Pursuant to paragraph 11.1, in the event that the subject matter of the wakalah contract is the purchase of an asset, the intended effect, which is transfer of ownership of the purchased asset, shall apply to the muwakkil.

S 11.3 The rights and responsibilities of the transaction related to the subject matter entered into by the wakil pursuant to the authorization, such as taking possession of the purchased asset, its delivery, and return of a defective asset, shall lie with the wakil.

S 11.4 Notwithstanding paragraph 11.3, in the event the wakil attributes the transaction to the muwakkil, the rights and responsibilities of the transaction shall lie with the muwakkil.

G 11.5 The wakil may, on behalf of his principal, enter into a deal with his offspring who is still under his guardianship.

G 11.6 A wakil may, on behalf of his principal, enter into a deal with his partner in a musharakah contract.

S 11.7 Pursuant to paragraph 11.5 and 11.6, the selling price must be determined at the time of entering into the wakalah contract.

G 11.8 A wakil may act as the representative of each party to a transaction.
S 11.9 The *wakil* as trustee shall not be held liable in the event of loss or damage to the asset except if the loss or damage occurs due to misconduct (*ta`addl*), negligence (*taqsir*), or breach of specified terms (*mukhalafah al-shurut*).

S 11.10 Notwithstanding paragraph 11.9, in the event that breaching of specified terms is in favour of the *muwakkil*'s interest, such as selling at a higher or buying at a lower than mandated price, the *wakil* shall not be held liable.

S 11.11 Notwithstanding paragraph 11.9, in the event that breaching of specified terms is not in favour of the *muwakkil*'s interest, such as selling at a lower or buying at a higher than mandated price, the *muwakkil* shall have the right to terminate the *wakalah* contract and/or the *wakil* shall be held liable for any losses and/or damages.

G 11.12 The *muwakkil* may appoint more than one *wakil* in separate *wakalah* contracts to perform a certain task.

G 11.13 The *wakil* may appoint another person as his *wakil* with the consent of the *muwakkil*.

S 11.14 Pursuant to paragraph 11.13, the *wakalah* fee for the second *wakil* shall be borne by the first *wakil*.

S 11.15 In the event that the *muwakkil* appoints several *wakils* in one *wakalah* contract to perform a particular task, none of the appointed *wakils* shall act individually except with the consent of the *muwakkil*.
12. Wakalah fee

G 12.1 A wakalah may be arranged for a fee (wakalah bi ujrah).

S 12.2 Pursuant to paragraph 12.1, the fee shall be determined and mutually agreed at the time of entering into the wakalah contract.

S 12.3 The amount payable as wakalah fee shall be known to the contracting parties; for example, an absolute amount or a certain ratio or percentage of a certain amount.

G 12.4 Pursuant to paragraph 12.3, the wakalah fee may also be an amount that will be known later, such as an amount linked to an indicator that may be quoted at the beginning of different time intervals.

G 12.5 The wakalah fee may be determined based on a certain percentage of a reference rate such as the Base Financing Rate (BFR), the Base Lending Rate (BLR), Kuala Lumpur Interbank Offer Rate (KLIBOR) or Cost of Funds (COF).

G 12.6 The wakalah fee may be stipulated in the contract or determined based on customary practice or determined by a relevant authority.

S 12.7 In the event that the wakalah fee is stipulated but not specified in the contract, it should be measured based on the prevailing market rate for a similar task.

S 12.8 The wakil shall be entitled to the fee after accomplishing the authorized task.

S 12.9 In the event that the wakil did not complete the authorized task and the part of the task done was beneficial, he shall only be entitled to a
wakalah fee based on the prevailing market rate for the part of the task done.

G 12.10 The muwakkil may grant the wakil any gain exceeding a specific amount of output from the operation.

S 12.11 In the event of misconduct (ta‘addi), negligence (taqsir), or breach of specified terms or restrictions (mukhalafah al-shurut aw al-quyud) by the wakil, he shall only receive a fee based on the prevailing market rate for a similar task.

S 12.12 In the event that the wakil, without any reasonable excuse, refrains from carrying on the paid agency, and the part of the task done was beneficial, he is entitled to a fee equivalent to the prevailing market rate for a similar task done, but it shall not exceed the specified fee for the task done.

S 12.13 Pursuant to paragraph 12.12, the wakil is bound to indemnify the muwakkil for any actual loss resulting from his refusal to continue the authorized task.

S 12.14 In the event that the wakil, with a reasonable excuse, refrains from carrying on the authorized task before the end of the wakalah period or before accomplishing the authorized task, the wakil is entitled to the fee specified only for the task done.

S 12.15 In the event that the muwakkil forces the wakil to discontinue the task without any reasonable excuse before the end of the agency period or before accomplishing the authorized task, the wakil is entitled to the fee agreed upon.
S 12.16 In the event that the *muwakkil*, with a reasonable excuse, forces the *wakil* to discontinue the task before the end of the contract or before accomplishing the authorized task, the *wakil* is entitled to a fee for the task done.

G 12.17 The *wakil* may waive his right to the fee.
PART D APPLICATION OF WAKALAH WITH OTHER CONTRACTS

13. Application of wakalah in exchange-based contracts

G 13.1 The wakalah contract may be arranged for the purpose of entering into exchange-based contracts or arrangements such as sale and purchase, *ijarah* and *tawarruq*.

S 13.2 Under wakalah to purchase, the price and other expenses related to the purchase of the asset shall be borne by the *muwakkil*.

S 13.3 Pursuant to paragraph 13.2, the *muwakkil* shall not stipulate the condition that the *wakil* shall bear the expenses.

G 13.4 Pursuant to paragraph 13.2, the *wakil* may advance his own money for partial or full payment of the price as well as other expenses related to the purchase of the asset such as storage and transportation expenses.

S 13.5 Pursuant to paragraph 13.4, the *wakil* is entitled to claim the advanced amount from the *muwakkil*.

S 13.6 Pursuant to paragraph 13.5, the *muwakkil* shall reimburse the expenses upon claim by the *wakil*.

S 13.7 Under wakalah to purchase, ownership of the asset is transferred from the seller to the *muwakkil* although the sale contract is entered into by the *wakil*.

G 13.8 The name of the *muwakkil* may be disclosed in documents related to the sale contract between the third party and the *muwakkil*. 
S 13.9 The **muwakkil** shall be liable for the asset purchased by the **wakil**.

S 13.10 The **wakil** is considered a trustee in holding the asset related to the subject matter of the **wakalah**.

G 13.11 Under **wakalah** to purchase, in the event that the **wakil** breaches any of the specified terms, the **muwakkil** may opt to proceed or to terminate the **wakalah** contract.

G 13.12 Pursuant to paragraph 13.11, in the event that the **muwakkil** agrees to proceed with the **wakalah** contract, the **muwakkil** may be compensated with the difference between the purchase price and the mandated price or vary the terms as mutually agreed between the contracting parties.

G 13.13 Pursuant to paragraph 13.11, in the event that the **muwakkil** terminates the **wakalah** contract, the **wakil** is considered to have purchased the asset for himself as principal.

S 13.14 Under **wakalah** to sell, in the event that it takes the form of **wakalah mutlaqah**, the **wakil** is neither allowed to sell at a price lower than the market price nor to sell on a deferred basis unless the **muwakkil** consents.

S 13.15 Under **wakalah** to sell, the **muwakkil** shall own or have authority to dispose of the asset.

S 13.16 Under **wakalah** to lease, the **muwakkil** shall have the right to dispose of the usufruct or authority to dispose of it.

G 13.17 A **wakil** may enter into a deal with his own self when the **muwakkil** assigns his **wakil** to buy an asset and sell it to himself (**wakil**) provided that the selling price is determined at the time of entering into the **wakalah** contract.

G 14.1 The wakalah contract may be arranged for the purpose of entering into an equity-based contract such as musharakah or mudarabah.

G 14.2 Pursuant to paragraph 14.1, each partner may become a wakil for the other partner in transacting or leasing, including selling and purchasing or leasing each other’s shares of the musharakah asset among themselves.

G 14.3 A musharakah may be arranged with a wakalah contract whereby:
   (a) the partnership appoints one of the partners as the wakil to act on behalf of the partnership; or
   (b) the partnership appoints a third party as the wakil to act on behalf of the partnership.

G 14.4 In a mudarabah contract, a mudarib is regarded as wakil to the rabbul mal in managing the mudarabah capital. Thus, the mudarib shall not be held liable for losses to the capital except if it is due to his misconduct (ta’addi), negligence (taqsir), or breach of specified terms (mukhalafah al-shurut).

G 14.5 In the event that the mudarabah contract does not specify that the mudarib personally invests the mudarabah capital, the mudarib may appoint a wakil for investment.

15. Application of wakalah with kafalah

G 15.1 A wakalah contract may be entered into with a kafalah contract where the wakil becomes a kafil (guarantor) to the muwakkil as the
beneficiary.

S 15.2 Pursuant to paragraph 15.1, the entering into both contracts shall observe the following conditions:
(a) the kafalah feature is not stipulated in the wakalah contract; and
(b) both contracts are entered into independently and separately where the effect of each contract shall not be interrelated to each other.

16. Application of wakalah bi al-istithmar

G 16.1 A wakalah contract may be entered into for the purpose of investment (wakalah bi al-istithmar).

S 16.2 The wakil as trustee, shall not be held liable to compensate losses of the capital except if the loss is due to his misconduct (ta’addi), negligence (taqsi), or breach of specified terms (mukhalafah al-shurut).

S 16.3 The wakil shall be held liable to compensate the muwakkil the investment amount and the actual realised profit up to the event of loss due to misconduct (ta’addi), negligence (taqsi), or breach of specified terms (mukhalafah al-shurut) by the wakil.

G 16.4 Pursuant to paragraph 16.3, the contracting parties may agree that the wakil provide securities such as surety and collateral, which may be used to compensate the muwakkil in the case of misconduct (ta’addi), negligence (taqsi), or breach of specified terms (mukhalafah al-shurut) by the wakil.
The **muwakkil** may agree that, in the event the investment return is higher than the expected return, the **wakil** is entitled to part or all of the excess as an incentive for his good management of the investment.

In the event that the actual return is lower than the expected investment return, the **wakil** may give **hibah** to the **muwakkil** to make up the difference provided that it is not made an obligation on the **wakil** upfront.

In the event that the **wakalah** contract stipulates a condition that the fund shall be invested in an instrument which generates a certain minimum profit rate and the **wakil** breaches the condition, the **wakil** shall compensate the **muwakkil** the investment capital plus the actual realised profit up to the event of the breach.

The **wakil** may initiate the investment by advancing his money based on any structure permitted in the Shariah or through conducting a deferred transaction with the consent of the **muwakkil**.

Pursuant to paragraph 16.8, the advanced money is treated as a debt and it shall be subject to the ruling of its underlying contract.

The **wakil** may set aside a portion of the investment profit for the purpose of reserve for the interest of the **muwakkil** provided that the consent of the **muwakkil** is obtained.

Pursuant to paragraph 16.10, upon final valuation of the investment, all reserved profit belongs to the **muwakkil**.

The investment capital may be invested together with the **mudarabah** capital in one pool of funds.
17. **Tasarruf fuduli**

S 17.1 *Tasarruf fuduli* (unauthorized transaction) is defined as a person’s discharge of the affairs of another without having been appointed as *wakil* and without having a right to do so by virtue of the Shariah.

S 17.2 Pursuant to paragraph 17.1, the transaction shall become valid subject to the consent by the owner.

S 17.3 Pursuant to paragraph 17.1, in the event of a sale, the deal shall become invalid without the consent of the owner.

S 17.4 In the event that the owner of the property does not approve the act of the unauthorized agent (*fuduli*), the act shall become binding upon the latter.

S 17.5 In the event that the owner of the asset approves the act of the unauthorized agent (*fuduli*), the contract shall be subject to all rulings of a *wakalah* contract, which is retroactively effective from the date of such an act.
PART E DISSOLUTION (FASAKH) AND COMPLETION (INTIHA') OF WAKALAH

18. Dissolution of binding wakalah

18.1 A binding wakalah contract is dissolved under any of the following circumstances:
   (a) demise or dissolution of the wakil in the event that the wakalah contract stipulates that the task shall be personally performed by the wakil;
   (b) the muwakkil’s loss of right to the subject matter of the wakalah;
   (c) the contracting parties’ mutual agreement to terminate the wakalah contract; or
   (d) the muwakkil’s exercise of the option to terminate the wakalah contract due to misconduct (ta’addi), negligence (taqṣīr) or breach of specified terms (mukhalāfat al-shurūṭ) of the contract by the wakil.

18.2 Upon dissolution of the wakalah contract, the asset entrusted to the wakil (if any) shall be returned to the muwakkil, and the wakil shall be entitled to the wakalah fee based on the prevailing market rate for a similar task.

19. Completion of binding wakalah

19.1 The wakalah contract ends upon fulfilment by the wakil of the authorized task and settlement of the wakalah fee in the case of wakalah with a fee.
G 19.2 The settlement of the *wakalah* fee may be done by any of the following methods:

(a) payment of the *wakalah* fee by the *muwakkil*;

(b) transfer of the obligation to pay the remaining or outstanding *wakalah* fee to a third party (*hiwalah*);

(c) waiving the right by the *muwakkil* to receive the remaining or outstanding *wakalah* fee; or

(d) set-off (*muqassah*) of debt obligations between the contracting parties.

S 19.3 Upon completion of the *wakalah* contract, the contracting parties are free from any *wakalah* obligations.
APPENDICES

20. Appendix 1 Legitimacy of *wakalah*

20.1 The legitimacy of the *wakalah* contract is derived from the Quran and founded on the Sunnah of Prophet Muhammad (peace be upon him) and the consensus of Muslim jurists (*ijma*).

The Quran

20.2 The following verse of the Quran implies the general permissibility of *wakalah*:

"...So send one of you with this silver coin of yours to the city and let him look to which is the best of food and bring you provision from it..." (Surah al-Kahf, verse 19)

The Sunnah of Prophet Muhammad (peace be upon him)

20.3 The following *hadith* implies the general permissibility of *wakalah*:

"'Urwah reported that the Prophet (peace be upon him) gave him a dinar to buy a sacrificial animal or a sheep. He bought two sheep, sold one of them for a dinar, and brought him a sheep and a dinar. So the Prophet (peace be upon him) invoked a blessing on him in his business dealing, and he was such that if he bought dust he would make a profit from it..." (Sahih Bukhari, Hadith no. 3370)."
Jabir ibn `Abdullah related, “I wanted to go out to Khaybar so I came to the Messenger of Allah (peace be upon him), greeted him and said: ‘I want to go out to Khaybar.’ He said: When you come to my representative, take fifteen wasqs of dates from him. If he asks for proof that you are my representative, place your hand on his collarbone...” (Sunan Abi Dawud, Hadith no. 3148).

The consensus of Muslim jurists (ijma’)

20.4 Muslim jurists have reached *ijma*’ on the permissibility of *wakalah*.
## Appendix 2  Glossary

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<td>Transfer of ownership of an asset during the lifetime of the donor without any consideration in return</td>
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<td>Hiwalah</td>
<td>Assignment of debt from the liability of the original debtor to the liability of a third person so that the original debtor becomes free of liability</td>
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<td>Ijarah</td>
<td>Lease or service contract that involves benefit/usufruct of a certain asset or work for an agreed payment or commission within an agreed period</td>
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<td>I`arah</td>
<td>Transfer of usufruct of a non-perishable asset to someone with the requirement to return the asset without any counter-value</td>
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<td>Wakil</td>
<td>Agent</td>
</tr>
</tbody>
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