

**GENERAL REGULATORY FRAMEWORK IN RASTIN PROFIT AND LOSS  
SHARING BANKING (PART III-AUXILIARY PROVISIONS)**

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**ABSTRACT**

This paper aims to explain some auxiliary regulatory pillars and complementary considerations and systems in Rastin Banking. Rastin Banking is a full Islamic Banking System with all necessary parts for banking operations that can be installed in conventional and Islamic banks both. In this paper, we are going to explain the auxiliary preparations of this banking system. Rastin Banking complies with the nature of financial intermediary activity (partnership of depositor in the yields of the fund receiver via the bank). In order to fulfil this goal despite particular formation, financial structure, instruments and workflow many other auxiliary considerations are defined to remove banking shortages in a legal framework. To handle Rastin Banking and to remove the common banking obstacles, a set of particular theoretical and operational regulatory frameworks should be defined to fulfil the participation operations. In this paper, we will have a look at the auxiliary legal environment to setup Rastin Banking. This system is novel, and requires more elaborations for further practical development and adjustment. In this system, the investment return of the participation is distributed to the parties of financial partnership (depositor, entrepreneur and bank), and it is done by eliminating fixed interest rate, and it is based on the real economy return of the activity. Rastin Banking can lead to important positive effects on growth and economic welfare through money and capital markets restructuring. Interest rate as an essential factor in conventional banking is not used in Islamic banking and other similar institutions that work based on partnership, such as mutual funds and saving and loan associations. Approach of this system is entirely different from the conventional banking. In addition to removing usury in banking activities, Rastin Banking uses the best practical ethic finance to creating safe and public confidence environment for banking operations.

**Keywords:** Rastin Banking, profit and loss sharing (PLS), partnership, Rastin profit and loss sharing (PLS) banking, Islamic banking, *musharakah*

## **Introduction**

To increase the banking system efficiency and compliance with Islamic principles and regulations, and providing safe and better access to financial activity and facilitating the economy to bloom, fair distribution of opportunities and possibilities and employment and promoting the welfare of the society, Rastin Banking System (Bidabad, 2014a) was designed and all banks (whether conventional or Islamic) can carry out their operations on this basis. Rastin Banking System is based on particular operational, financial, economic, ethical, social, legal, international and organizational principles derived from the latest scientific achievements in the field of science and technology, with the aim of banking growth and economic development of the society.

In Rastin PLS banking, on behalf of depositor, bank finances entrepreneur's project for investment through the depositor's deposit according to the compiled regulations (Bidabad et al., 2012a;2012b; and Bidabad, 2014b) and at the end of each financed project, bank will distribute the profit/loss of the entrepreneur's project in proportion to capital and duration of using that capital among the entrepreneur and depositors. In Rastin Banking, there is no interest rate (*Riba*) involved, and the parties to the contracts (entrepreneur and depositors) are bound to participate in the yield of the project. In order to distinguish profit from *Riba*, the following measures are defined:

1. In forward-deals, the price of the contracted subject should not depend on duration period involved.
2. The lender should share the profit and loss of the economic activity of borrower.
3. The exact profit (interest) rate should not be determined and prefixed.
4. No profit should be charged for consumption financing.
5. In the transaction of foreign exchange, the price should not depend on duration period of transaction, whether spot or forward.
6. Funds or assets exchanges should be equal in values and durations. Values and durations of first and second exchanged assets can be different if multiplications of duration by value for both exchanges are equal.

## **Squandering Prevention**

To prevent squandering and wasting and to reform banking sources consumptions, which have worse economic and social consequences than usury, and to increase efficiency, the bank is obliged to follow specific regulations concerning its activities. In order to lower operational costs and to increase efficiency, and to facilitate rendering banking services to clients; bank should mechanize its operational systems and by re-engineering the operational processes, makes them more economical and safer and by the gradual diminishing of the number of the physical branches, prevent the useless branch accumulation. Moreover, by interbank transactions and transfer of its surplus personnel to the other complementary banking services such as assessor, trustee, intermediate, dealer, investment adviser, market operator, publisher, brokerage, financial basket operator, investment fund, rating agency, financing company, financial information processing, financial IT services institute, credit rating institute, etc., after their training; provide convenient conditions for financial services activities (Bidabad and Sherafati, 2017).

## **Restoring Uncultivated Lands**

By observing financing regulations, the bank can finance projects of restoring uncultivated lands. The government can provide its own uncultivated lands to the applicants for restoring uncultivated lands projects, and if these lands are restored, the government will transfer the restored land to the restorer agent; or shares it between restorer and bank if it were financed by

bank according to regulations. The engaged lands authorities are obliged to support qualified applicants for employment promotion and development of agriculture, industry, housing, mining and tourism in the different regions of the country.

### **Insurance Provisions**

In order to prevent probable losses and promote relative certainty and to cover depositor, entrepreneur, bank, and other involving persons against risks; varieties of predefined insurances regarding different PLS products and Rastin Certificates have been designed to be engaged according to compiled instructions.

### **Auditing and Settlement**

The auditor will be selected from members of the Official Auditor Society of the country with bank's agreement to audit entrepreneur's firm accounts. The entrepreneur has to provide necessary provisions for implementing various phases of auditing, especially implicit auditing during the implementation of the project.

Auditing authority for expenses of an entrepreneur is the trustee unit of the PLS office. Trustee unit is responsible for supervising entrepreneur fund consumption, bookkeeping, financial reporting as well as executive operations of the project. Disapproved expenses of entrepreneur are not regarded as project's expenditures and will be levied on the entrepreneur itself. Legal fees such as tax and other legal charges approved by the trustee unit are included as acceptable project expenses.

For finitude and infinitude projects, with any rental asset<sup>1</sup>, productive asset<sup>2</sup> and dead asset<sup>3</sup>, settlement and account clearing with depositor and entrepreneur has been determined in the compiled instructions considering the corresponding subsystem and the type of Rastin Certificate. If the certificate holder wanted to terminate his participation before the end of his participated project, he could sell his certificate in Rastin Certificate Market.

### **Transparency, Disclosure and Governance of Entrepreneur**

The entrepreneur is obliged to provide transparent information, and he or the head and members of the management board and executive director of the entrepreneur company are responsible and responsive to company financial reports, to assure observing legal regulations and entrepreneur's company approvals and preventing various forms of corruptions in relation to financial reporting. Necessary considerations for financial transparency of entrepreneur's firm have been compiled and is compulsory for participating companies in Rastin PLS banking.

In order to promote the transparency of transactions in Rastin Certificate Market, and providing fair conditions for market actors, the entrepreneur company is obliged to disclose financial, operational, physical development of the project and other relevant information. This shall be done in bank's website, vis-à-vis entrepreneur company's website publicly after approving project proposal and during the execution stages of the project from the time of signing contract until the end of the settlement.

Corporate governance is a set of rules, regulations, structures, processes, cultures and systems, which enforces the firm to act according to the laws and regulations in observing rules, regulations and standards, responsiveness, transparency, fairness, truthfulness and to keep the

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<sup>1</sup> **Rental assets** refer to those assets, which can be let.

<sup>2</sup> **Productive assets** refer to the assets of an operating firm.

<sup>3</sup> **Dead assets** refer to non-operating (suspended) firms or uncultivated lands assets.

rights of stakeholders and the contract parties. Necessary contents of governance instructions have been defined in Rastin PLS Banking and they are obligatory (Bidabad et al., 2017a).

### **Transparency, Disclosure and Governance in the Bank**

The bank and the parties engaged in Rastin Banking contracts should observe the specified supervisory regulations (for Central Bank and Stock Exchange Organization) concerning financial transparency, information disclosure and corporate governance (Bidabad and Sherafati, 2016).

### **Professional Behavior of Trustee and Assessor**

General rules and fundamental pillars of professional conduct of the trustee and assessor and in general, all the other people involved in supervision and assessment professions in Rastin PLS Banking have been defined and compiled in this banking system. Due to the importance of the assessor and trustee jobs and emphasis on observing the rights of people, in the case of deficiency and waste, assessor and trustee are responsible and respondent for their behavior to stock holders (Bidabad and Sherafati, 2016).

### **Rastin Sharing Accounting**

The interest rate is not used in Rastin PLS banking to calculate present or future values of income streams or assets values. The timed-based-values of capital is used as the base for calculation in Rastin Sharing Accounting (Bidabad et al., 2016) system. That is the value and the duration of participation in the sharing activity are applied to accounting calculations and procedures. Accounts and financial operations of each project are kept in separate, and profit/loss and all financial results of each project belong only to that project. The share of depositors and entrepreneur from the sale price of the project is in accordance with Euler's value added (income distribution) theorem (Scitovsky, 1964), which is based on the added values of the factors of production (labour and capital) according to their productivity.

### **Change in Time Schedule and Non-Fulfilment of Obligations**

The bank calculates the amount of delay and work-stop through monitoring financial and operational activities of the project. In the case that the project is not finished at the due date, the trustee will assess the cost and income imposed through delay, by obtaining estimated prices from similar available commodities/projects at the market, accompanying the necessary documents to estimate the project delay net loss. The price change effects of delayed will be calculated and estimated according to Rastin Sharing Accounting system instructions, and without interfering interest rate. The net loss will be levied to the entrepreneur on behalf of the depositors (Bidabad et al., 2012b).

### **Transforming Subscribed Certificates into Shares**

At the end of the contract for infinitude projects, the bank converts Subscribed Certificates into shares of the entrepreneur's company according to the nominal value and duration of every certificate participation in the project. Therefore, the ownership of the project will be transferred to the last certificates-holders, and they become shareholders of the company and the settlement with depositor is done. This procedure has been defined in related compiled instructions (Bidabad et al., 2012b).

### **Carrying Out the Subject of Enforceable Documents**

In implementing Rastin Banking system, all contracts with the bank are considered as official documents and enforceable. These contracts will be carried out by the unit for execution of enforceable banking documents in the bank. If debtor would not fulfil his commitment, after

assessing the subject of the contract, the collateral will be sold through an auction and after paying back the debt; the surplus will be paid to the owner of the mortgaged. The organization, management, supervision and implementation of execution of enforceable documents will be according to banking regulations concerning Execution of Bank's Enforceable Documents and Method of Investigation of Complain of Execution Process in Rastin Banking regulations (Bidabad et al., 2017b; 2017c).

### **Vigilance of Rastin Banking**

Regarding the importance of Rastin Banking system achievements, it is necessary to establish a committee composed of experienced experts in this field as “Safeguarding Rastin Banking Committee” for five years under the supervision of central bank for the virtue of the implication, training, development and solving the probable deficiencies and obstacles of Rastin Banking system. The organization and activities of this committee have been specified and compiled in Rastin Banking regulations. The Ministry of Science, Technology and Research will also define Rastin Banking and related financial services courses and degrees for universities such as financial marketing, assessing, supervision, intermediation and consultancy with observing the concepts and regulations of Rastin Banking system and its future reforms and developments.

In order to safeguard Rastin Banking system and the rights of depositors and entrepreneurs and all those who trust the bank, all banking personnel, from top to bottom, at managerial and execution levels should precisely implement the regulations of Rastin Banking system and abstain any violation; otherwise, the wrongdoer will be encountered legally. Various violations and punishments and the method of investigation of violations of the employees have been defined in Rastin Banking regulations (Bidabad et al., 2012a; 2012b).

### **Force Majeure (Unexpected Incidents)**

Unavoidable and unexpected events (force majeure) are those events, which are out of the control and prevention of the contract parties and prevent the meeting of the contract obligations. The settlement procedure of this type of events has been defined in related instruction.

### **Arbitration**

The resolution of all conflicts among bank, depositors, entrepreneur and others engaged in Rastin PLS Banking are made by applying the case to the arbiter who has been assigned and admitted by both sides of the dispute in advance. The arbitration will be according to General and Revolutionary Courts Procedure Act.

### **Rastin Base System**

The fixed interest rate is not presented in Rastin PLS banking, and the rate of return of the resources is calculated according to the real return of capital in the real economy. These operations are done under Rastin Banking regulations. Rastin PLS Base system (Bidabad, 2013a) is the primary process and includes the general rules of Rastin Profit and Loss Sharing Banking system. On request of the depositor, the bank receives his/her fund and invests the in one of Rastin PLS products selected by the depositor and instead, issues a Rastin Certificate of the chosen project to his/her name and allocates the fund to the selected entrepreneur's project; and on behalf the depositor monitors the execution of the project. In the end, after deducting its own commission, bank divides the profit/loss (if any) among engaged sides (depositors and entrepreneur). The bank is an agent of the depositor and is responsible for observing his rights (depositor). The bank must use all his expertise to reach this end. In Rastin Base PLS system

for finite projects, *Musharakah* (Participation) Certificates<sup>4</sup>, and for infinite projects *Pazireh* (Subscribed) Certificates<sup>5</sup> are used.

Rastin Certificates is a collection of designed certificates in Rastin PLS Base system and its financial subsystems. These certificates are issued and delivered to the depositor (financer) instead of the received fund (deposit). Regarding the supervision role of the trustee unit of the bank over the entrepreneur's projects, these valuable (digital) papers are distinguished from common securities with the prefix of "certificate". Rastin Certificates (except Guarantee Certificate) are transferable and negotiable online through the Rastin Certificate Market (RCM) of the bank and are issued with a nominal price and for a specified period. The owners/holders of these certificates share the results of the project proportional to nominal price and participation period (Bidabad et al., 2016) of the certificate. Rastin Certificates regarding their particular characteristics and the kind of participation in the PLS Base system or its financial subsystems and the type of the project and asset will be bound to Rastin Banking rules and regulations. These certificates are anonymous or named securities, except the Guarantee Certificate<sup>6</sup> that must be named.

PLS Bank can also use Rastin Certificate basket as auxiliary financial instruments. The Rastin Certificate basket is a financial portfolio, which includes the Rastin Certificates of different projects, financed in Rastin PLS Banking. The financial engineering unit<sup>7</sup> can present the Rastin Certificate baskets to customers to be traded in Rastin Certificate Market, to maximise the return and minimise the risk of Rastin Certificates.

In order to form Rastin Certificate baskets, the financial engineering unit shall predict the risk and return of each of the Rastin Profit and Loss Sharing products selected for the basket, as well as the return and total risk of the basket. Risk is defined as the unexpected (unplanned) losses on the amount of investment. In the process of determining the portfolio, it is required for the financial engineering unit to conduct the necessary investigations about the predicted risk level of the economic activity/activities in advance, associated with the certificate basket. In order to adjust the basket risk, the financial engineering unit, can also consider the other securities in the basket in addition to Rastin Certificates, and can define Rastin Certificate baskets, in terms of the rate of return and the risk of each Rastin PLS Banking product, with minimum risk and return, with average risk and return, and baskets with high risk and return.

### **Rastin Financial Subsystems**

Rastin Financial Subsystems refer to specific financing methods or services in Rastin PLS Banking. These subsystems work under general regulations of Rastin PLS Base system, and

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<sup>4</sup> **Partnership (Musharakah) Certificate:** is an anonymous -or named- paper which expresses the participation of depositor in one of the PLS banking products with a defined value and is issued by bank for a defined period and its owner shares the profit and loss of the subject of participation proportional to its nominal value and duration of participation according to rules and regulations of Rastin PLS banking. This certificate is used in Rastin PLS Base System.

<sup>5</sup> **Subscribed (Pazireh) Certificate:** is an anonymous -or named- paper which expresses the participation of depositors in one of the first or second kind of PLS banking products with a defined value which is issued by bank for construction period for infinitude projects and its owner shares the profit and loss of the subject of participation proportional to its nominal value and duration of participation by becoming the shareholder of the company according to rules and regulations of Rastin PLS banking. This certificate is used in Rastin PLS Base System.

<sup>6</sup> **Guarantee Certificate:** is a named document which shows the guarantee of a certain amount of money and is issued by notary upon mortgaged asset and if the obligation is not fulfilled, the owner must compensate it, otherwise, the mortgaged asset will be sold through auction and the claim of the acceptor will be settled. This certificate is used in Mortgage Securitization System (MSS).

<sup>7</sup> **Financial engineering unit** is a unit in PLS office of Rastin PLS bank for supervision on Rastin Certificate Market and information disclosure of the entrepreneur.

most of the rules of Rastin PLS Base system are extended to its financial subsystems as well. These subsystems have their own financial and regulatory processes and are as follows:

- a. **Joalah Financial Sharing (JFS)** (Bidabad, 2016): It is a method in which, bank finances entrepreneur (producer) from depositor's resources or the provided sources by the buyer; by selling Future Certificates (to depositor or buyer) and in the form of another *joalah* contract, entrepreneur produces the buyer requested commodity. Future Certificate<sup>8</sup> is used in JFS.
- b. **Mudarabah Financial Sharing (MFS)** (Bidabad, 2014c): It is a kind of *mudarabah* under Rastin PLS banking in which the bank introduces the entrepreneur project proposal in the field of trade or transaction of goods (commerce) to the depositors and by selling them *Mudarabah* Certificates finances the entrepreneur (*modarib*). In MFS *Mudarabah* and Periodic *Mudarabah* Certificates<sup>9</sup> are used.
- c. **Installment Financial Sharing (IFS)** (Bidabad, 2014d): In IFS, the installer (*moghsit* or depositor) will finance a portion of the needed fund of the entrepreneur through the bank for a specified period of time (amortisation period). The entrepreneur will pay back its share by instalments and will own the total property of the project, and IFS ends. IFS can be carried out through one of the contracts of Ordinary *Mughasatah* (Installment), Rental *Mughasatah* (instalment) and *Musharakah* (sharing) *Mughasatah* (instalment); and by application of three related kinds of certificates of Ordinary *Mughasatah* and Rental *Mughasatah* Certificates for finite projects and *Musharakah Mughasatah* Certificate for infinite projects.<sup>10</sup>
- d. **Rent Financial Sharing (RFS)** (Bidabad, 2014e): Entrepreneur donates the ownership of a part of his productive asset, rental asset or dead asset temporarily to a depositor who finances him but keeps it as a mortgage. Then he pays back the fund received from the yields of the asset proportional to depositor's share to depositor at the end of the contract, or periodically. The original deposit of depositor will be given back to him after the end of the project. The profit of the project will be paid to depositor periodically or in a lump.

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<sup>8</sup> **Future Certificate:** is an anonymous -or named- paper that cites a commitment to deliver the commodity that is issued by the bank and can be negotiated and transferred to another purchaser. By this certificate, the entrepreneur or producer is committed to delivering the commodity to the certificate holder at maturity or sales the commodity and refund the sold amount to financier according to the contract. This certificate is used in Joalah Financial Sharing (JFS) subsystem.

<sup>9</sup> **Mudarabah Certificate:** is an anonymous -or named- paper which expresses the participation of depositor in profit and loss of a particular project (Product I) of the PLS banking products with a defined value and is issued by bank for a defined period and its owner shares the profit and loss of the subject of participation proportional to its nominal value and duration of participation according to rules and regulations of Rastin PLS banking. This certificate is used in Mudarabah Financial Sharing (MFS) subsystem.

**Periodic Mudarabah Certificate:** is the same as Mudarabah Certificate, but the return of the project is paid to depositor periodically. This certificate is used in Mudarabah Financial Sharing (MFS) subsystem.

<sup>10</sup> **Mughasatah Certificate:** is an anonym negotiable document issued by Rastin PLS bank with a nominal price for real financial participation (sharing) for a certain period. The bearer of this paper receives periodic payments relative to his share and the period of participation. Payments will be paid at the end of each period. In the end, the entrepreneur will own the project. This certificate obtains instalment until the end of the contract and after the settlement of the contract, the entrepreneur becomes the owner of the project. The settlement is after the payout of the last instalment. This certificate is used in Installment Financial Sharing (IFS) subsystem.

**Rent Mughasatah Certificate:** is an anonym negotiable document with a defined nominal price for a defined period of time (rental tenure) issued by Rastin PLS bank, which conducts Rastin PLS activity. The owners of these certificates have right on the results of the sharing project which is proportional to the nominal value of the certificate and the duration of holding certificate until the end and receive periodic rent and instalment of the valuation of the project at the end of each period. The settlement is after the payout of the last instalment and rent for the certificate. At the end of the contract, the entrepreneur will become the owner of the project. This certificate is used in Instalment Financial Sharing (IFS) subsystem.

**Musharakah Mughasatah Certificate:** is an anonym negotiable document with a defined nominal price for a defined period of time (*Musharakah* tenure) issued by Rastin PLS bank, which conducts PLS activities. The owner of this certificate has right on the result of the sharing project proportional to the nominal value of the certificate and the duration of holding the certificate until the end of the contract and receive periodic instalment plus income (positive/negative) yields of the project at the end of each period. After the payout of the last instalment and the profit or loss (yield), the settlement takes place. In the end, the entrepreneur will become the owner of the project. This certificate is used in Instalment Financial Sharing (IFS) subsystem.

Mortgage Sharing, Periodic Mortgage Sharing, Mortgage *Mudarabah* (commerce), Periodic Mortgage *Mudarabah*, Mortgage *Mugharasah* (planting), Periodic Mortgage *Mugharasah*, Mortgage *Muzaraah* (cultivating), Periodic Mortgage *Muzaraah*, Mortgage *Musaghah* (irrigation), Periodic Mortgage *Musaghah*, Mortgage *Istisna* (industrial/manufacturing), Periodic Mortgage *Istisna* and Rental Certificates are used in RFS.<sup>11</sup>

- e. **Bail Financial Sharing (BFS)** (Bidabad, 2014f): It is the application of the fund (deposit) of depositor by an entrepreneur to produce a determined commodity and delivering the commodity or paying back its value in future specific time. BFS uses Bail Certificate.<sup>12</sup>
- f. **Rastin Group Funding (RGF)** (Bidabad, 2014g): It is collecting of deposits of specific depositors for a particular beneficial project under the regulations of Rastin Banking. In RGF, the bank receives the project proposal of the entrepreneur in a determined economic activity, and after assessment will introduce it to specific depositors and collects the necessary funds and will pay to entrepreneur. Bank in specific times determined in the project proposal, after deducting its wage, according to the applied Base System or Financial Subsystem and the written services in the contract, will distribute the gained yields based on the regulations and will return all or part of the principal deposit to the depositor. Rastin Certificate is not issued in RGF.
- g. **Rastin Personal Security (RPS)** (Bidabad, 2015a): In order to provide a competitive environment and to increase the efficiency of social security insurance plans and diminishing the load of social security systems and pension funds (Bidabad, 2014h), new private and public pension funds are specified and established according to Rastin Banking regulations. Employees, employers and firms<sup>13</sup> can allocate a portion of their mandatory

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<sup>11</sup> **Mortgage Sharing Certificate:** is an anonym (nameless) negotiable document with a nominal price, which is issued for a certain period by a Rastin PLS bank. The holder of these certificates shares in the yield of the asset of the project proportional to his share to nominal price of the assessed value of the asset considering his participation period. The principal and return of sharing of these certificates will be paid to the depositor at the end of the contract. This certificate is used in Rent Financial Sharing (RFS) subsystem.

**Periodic Mortgage Sharing Certificate:** is similar to the Mortgage Sharing Certificate; but the return of the certificate is periodically paid to the certificate holder. This certificate is used in Rent Financial Sharing (RFS) subsystem.

**Mortgage Mudarabah Certificate:** is similar to Mortgage Sharing Certificate, but this certificate is used for commercial financing services. This certificate is used in Rent Financial Sharing (RFS) subsystem.

**Periodic Mortgage Mudarabah Certificate:** is similar to Periodic Mortgage Sharing Certificate, but this certificate is used for commercial financing services. This certificate is used in Rent Financial Sharing (RFS) subsystem.

**Mortgage Muzaraah Certificate:** is similar to Mortgage Mudarabah Certificates but for agricultural financing. This certificate is used in Rent Financial Sharing (RFS) subsystem.

**Periodic Mortgage Muzaraah Certificate:** is similar to Periodic Mortgage Mudarabah Certificate but for agricultural financing. This certificate is used in Rent Financial Sharing (RFS) subsystem.

**Mortgage Mugharasah Certificate:** is similar to Mortgage Muzaraah Certificate but for planting and restoring tree gardens financing. This certificate is used in Rent Financial Sharing (RFS) subsystem.

**Periodic Mortgage Mugharasah Certificate:** is similar to Periodic Mortgage Muzaraah Certificate but for planting and restoring tree gardens financing. This certificate is used in Rent Financial Sharing (RFS) subsystem.

**Mortgage Musaqah Certificate:** is similar to Mortgage Muzaraah Certificate but for maintaining and harvesting fruit gardens financing. This certificate is used in Rent Financial Sharing (RFS) subsystem.

**Periodic Mortgage Musaqah Certificate:** is similar to Periodic Mortgage Muzaraah Certificate but for maintaining and harvesting fruit gardens financing. This certificate is used in Rent Financial Sharing (RFS) subsystem.

**Mortgage Istisna Certificate:** is similar to Mortgage Muzaraah Certificate but for financing industrial and agricultural firms. This certificate is used in Rent Financial Sharing (RFS) subsystem.

**Periodic Mortgage Istisna Certificate:** is similar to Periodic Mortgage Muzaraah Certificate but for financing industrial and agricultural firms. This certificate is used in Rent Financial Sharing (RFS) subsystem.

**Rent Certificate:** is an anonym negotiable document, which is issued with a defined nominal price and for a certain period by Rastin PLS bank. The owner of this certificate shares the rent of asset proportional to its assessed asset nominal price. The rent will be paid to depositor periodically, but the original fund plus the rent will be paid to the depositor at the end of contract period. This certificate is used in Rent Financial Sharing (RFS) subsystem.

<sup>12</sup> **Bail Certificate:** is an anonym negotiable paper with a defined face value and duration issued by Rastin PLS bank branch. The owner of this certificate will receive the commodity or its price (at market price) from the entrepreneur who is obliged for this certificate. This certificate is used in Bail Financial Sharing (BFS) subsystem.

<sup>13</sup> **Firm:** is a technical or business unit that produces goods or services. Having legal personality for the firm is not an obligation



(or optional) insurance premium payments to the funds handling Rastin Personal Security (RPS) system. Therefore, they will be exempted from required insurance premium payments equal to the amount they have paid to these funds. In addition, those employers who have obtained Rastin Personal Security coverage for their employees will enjoy 50 percent reduction in their required social security payments. This also encourages them to increase employment. RPS uses Social Security Certificate, Personal Security Certificate and Pension Security Certificates.<sup>14</sup>

- h. Rastin Social Takaful<sup>15</sup> (RST)** (Bidabad, 2015b): The generous people can deposit their funds at banks for charity purposes. The bank will be allowed to pay the principal or profit of the deposit to needy people, in the form of a loan or non-returnable payments according to the depositor request. RST works under Rastin Banking regulations as "public takaful" (humanistic duty of people to resolve others' needs), or "*ziman-e-I'alih*" (government duty to provide people's livelihood of the society). In addition, the bank can collect *Waqf* (devoted) deposits to raise fund. *Waqf* deposit is a kind of deposit devoted by the depositor (benefactor) to the bank, and the bank will use the yields of this deposit to support needy people in the framework of Rastin Banking regulations.

Those people, who need financial support and cannot afford their basic livelihoods are: needy people, poor, indigent, helpless, mentally or bodily sick, disabled or handicapped, insane, bedridden, elderly, vagrant, captive, deserted child, exiled, orphan, infant without parent, damaged, those who cannot afford blood money of unintentional faults, families with no guardians or poor guardians, and similar cases; and those who are eligible to receive *Fitriah*, *Zakat*, *Kaffarah*, and charity payments. Moreover, those people whom private (not governmental) benevolent depositor introduces to the bank to receive gift payments or loans, even be included or not included in the above list are considered as needy and should be supported through the benevolent's specified deposit.

Ensuring minimum livelihood in forms of monthly or lump payment can be done through Rastin Social Takaful insurances such as: Housing insurance, Marriage insurance, Job insurance, Education insurance, Medical and Medicare insurance, Incident insurance, Food insurance, Clothing insurance, Insurance for defending rights, Orphan insurance, Disabled insurance, Guardianship insurance and Relief insurance under Rastin Banking regulations. Social Security Organization, charity institutions and supportive organisations cannot conduct takaful activities directly, and they must do the job through bank to support people. Bank will pay the needy according to the issued draft of benevolent.

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and real person as the head of the firm can sign the contracts.

<sup>14</sup> **Social Security Certificate:** is an anonym or named negotiable document with defined nominal price issued and for a certain period given to the insured person by Rastin PLS bank on behalf of the security fund in exchange for payment of insurance premium to the security fund. The holder of this certificate shares the fund capital proportionate to the value and shares the fund returns proportionate to the value and duration of his certificate. This certificate is used in Rastin Personal Security (RPS) subsystem.

**Personal Security Certificate:** is an anonym or named negotiable document with defined nominal price and maturity, and is issued by Rastin PLS bank on behalf of the pension fund for depositor by the request of the pension fund and equal to the amount of the deposited deposit. The holder of this certificate shares the capital of the fund in proportion to his deposit and shares the return of the pension fund proportional to the amount and duration of the deposit and receives his share (principal and profit) from the fund at maturity. This certificate is used in Rastin Personal Security (RPS) subsystem.

**Pension Security Certificate:** is an anonym or named negotiable document, which is issued from changing the share of depositor into several small lots at maturity, so that the holder can receive continuous pension payments from the fund. The return of this certificate will be calculated and paid to depositor according to Rastin Participation Accounting procedures for Joint Stock Company with Variable Capital (JSCVC).<sup>14</sup> On the other hand, if depositor or the owner of the certificate does not want to receive back his share and return from the fund in a lump sum at maturity, he can ask the fund to change his certificate into several smaller certificates with continual maturities and amounts via the agent bank. This certificate is used in Rastin Personal Security (RPS) subsystem.

<sup>15</sup> **Takaful:** is the humanistic duty of the society to fulfil the basic needs of the individuals and is divided into two parts: **Public Takaful:** is the humanistic duty of the individuals to fulfil other propels' needs. **Zeman Ialah:** is the duty of the government to provide the sustenance of the individuals in the society.

Bank and governmental charitable are obliged to release their supporting payments information on their website in such a way that would not harm the prestige of the supported people. The bank that acts under RST should provide its performance report according to central bank regulations. The Central Bank controls the performance of the bank in connection with RST activities and reports any violations to legal or disciplinary authorities. Supervisory organisations and institutions, whether including General Inspection Organization of the country, or General Accounting Authority will have proper supervision on the correct execution of Rastin Social Takaful. Rastin Social Takaful is applicable by issuing Takaful Certificate and Loan Certificate.<sup>16</sup>

- i. **Sponsor Crowd Funding (SCF)** (Bidabad, 2014i): is the process of collecting non-returnable funds for a specific protective goal of the entrepreneur through the bank via social networks. Bank according to the project proposal of entrepreneur for the specific protective project and after assessment collects the necessary funds from the supporter<sup>17</sup> and after deducting its wage pays it to the entrepreneur graciously. In SCF, Rastin certificate is not issued.
- j. **Peer to Peer Loan (PPL)** (Bidabad, 2014i): is the process of collecting funds for loan financing the entrepreneur through the bank and via social networks. Bank according to the project proposal of entrepreneur for a specific project and after assessment collects the necessary funds from the supporters and after deducting its wage pays it to the entrepreneur as a loan. In PPL, Rastin certificate is not issued.
- k. **Rastin Swap Bond (RSB)** (Bidabad et al., 2011a; 2011b): It is based upon *Mubadalah* (swap) contract between *Mobadil* (swapper) and *Motebadil* (swappee) in which, the durations and substances of swaps are equal for the first and second swaps. *Motebadil* (swappee) issues the bond and owes to *Mobadil* equal to the nominal value of the bond. *Motebadil* (swappee) should pay this amount (*badal*) to *Mobadil* (swapper) at maturity. The *Motebadil* (issuer) is obliged to give the *mobaadal* for the same amount and period (as *badal*) to *mobadil*. He can choose a combination of the amount and period that the multiplication of amount by the period of *mobaddal* is equal to that of *badal*. At the second maturity, *mobadil* is committed to returning *mobaddal* to *motebadil*. No interest rate is involved in these bonds, and they are of four kinds: Central Bank Rastin Swap Bond, Treasury Rastin Swap Bond, Bank Rastin Swap Bond, and Commercial Rastin Swap Bond. They can be in domestic money or foreign exchange. Regarding the fact that these bonds are not based upon participation and just indicate swapping of assets, is not covered by regulations of the Rastin PLS Base system, but uses its infrastructure such as organisation and Rastin Certificate Market.
- l. **Rastin Swap Deposit (RSD)** (Bidabad, 2015c): is a new banking deposit account, which is interest-free and is based on Swap Contract in Rastin Banking. In this depositing by opening the deposit, the depositor is entitled to use an interest-free loan to the amount and duration that his resources have been being deposited and then return the money back to the bank. Depositor and bank agree that a combination of money and duration be selected in such a way that the products of amount and duration in both operations of depositing and loaning be the same. From the time of depositing to the first maturity (the date that depositor

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<sup>16</sup> **Takaful Certificate:** is an anonym or named negotiable document with a defined face value and term, which is issued by Rastin PLS bank branch. The owners of these certificates give a choice to Rastin PLS bank to use their deposits for granting to needy people graciously for a specific period and report his activities to the depositor and supervisory authorities. This certificate is used in Rastin Social Takaful (RST) subsystem.

**Loan Certificate:** is an anonym or named negotiable document with a defined face value and term that is issued by Rastin PLS bank. The owners of these certificates give a choice to the bank to use their deposits for extending interest-free loans to needy people for a specific period and return the principal money back to depositor after that period and report his activity to the depositor and supervisory authorities. This certificate is used in Rastin Social Takaful (RST) subsystem.

<sup>17</sup> **Supporter:** is a real person or a legal entity who pays money to the bank graciously to support a specific project to be paid to the entrepreneur of the project or the beneficiaries.

requests loan), the depositor is lender and bank is borrower; and from the time of the first maturity to second maturity (the date that depositor returns the money back to the bank) the depositor is borrower and bank is lender.

- m. Rastin Swap Card (RSC)** (Bidabad, 2015d): is a bankcard, and has no interest rate and is issued based on the Swap Contract in Rastin Banking. In Rastin Swap Card there are two periods. In the first period, card issuer lends money to card holder; and in the second period, borrows money from card holder instead. At the first stage card issuer credits a certain amount of money for specific time duration to the card of cardholder and requests the cardholder to deposit the same amount for the same period at the end of the cited time duration (first maturity) in the issuer's deposit account. Card issuer and cardholder can agree for a combination of amount and duration for which the product of them (amount and duration) be equal for both operations of lending money by the issuer and depositing by the card holder. Moreover, they are not allowed to use interest rate in calculating nominal value or duration of *badal* and *mobaddal* in Rastin Swap Card. Rastin Swap Card can be issued in both local and foreign currencies. Bank receives fee by offering Rastin Swap Card service.

### **Rastin Banking Complementary Systems**

The complementary systems in Rastin Banking refer to innovations, systems and complementary methods to solve specific shortages in banking process, and they are defined as follows:

- a. **Rastin Certificate Market (RCM)** (Bidabad, 2013b): Bank establishes this market with specific characteristics and capabilities. Different Rastin Swap Bonds and Rastin Certificates can be transacted in RCM. The bank establishes the information portal about projects and entrepreneurs of Rastin PLS bank through RCM and releases information about Rastin PLS projects to the public. The system is capable of online updating the information about available certificates, transactions, settlements, capitalization, transfer or other activities on Rastin Certificates transactions.
- b. **Crowd Funding System (CFS)** (Bidabad, 2014i): this system is a web-based system, which collects funds for Sponsor Crowd Funding (SCF) and Peer to Peer Loan (PPL) projects via social networks.
- c. **Operation Control and Monitor (OCM)**: this system is a web-based inspection and monitoring system, which controls the activities of bank personnel. By establishing this system, the bank controls over the personnel activities online, to be in accordance with operational rules and instructions of Rastin Banking. Online unnoticeable monitoring of the operations of bank's units, clients and personnel of different offices and branches, detecting incompatibility of accounts and documents, embezzlement, cheating and fraud etc. with ranked levels of accessibility, reporting, analysis routines, data mining, distinguishing and follow-up systems for cyber-attacks and establishment of internal control are some of the tasks of this system.
- d. **Collateral Registration System (CRS)**: This system is established by the Department of Registry of Documents and Properties for registering movable and immovable collaterals and is introduced to notary offices. Banks, notary offices and other related authorities (determined by the cited department) at the time of mortgaging collaterals or restraining properties should register all mortgage information in this system. This system is integrated. Each asset has a unique identification number. Therefore, it can quickly show whether an asset has been collateralized or restrained before. The abovementioned department provides the accessibility for banks, other organizations, real persons and legal entities to find out the condition of collateral or mortgaged. This system also provides a safer environment for conducting collaterals auction and sale, and also enforcing the

subjects of enforceable documents. The abovementioned department also establishes a website with Relational Database Management System for auction and sale of the subjects of the enforceable documents and connect it to CRS dynamically.

- e. Serial Commitments Clearance (SCC) (Bidabad, 2015e): provides the necessary arrangements for settlement of obligations of people who are in debt to someone from one hand, while they are creditors to someone else in a chain of debits and credits in a set of individuals. Accordingly, banks, notary offices and other authorized authorities can clear serial obligations of persons according to laws and regulations and based on their requests and release their collaterals and guarantees as far as their debts are equivalent. Bank will gain commission for rendering this service.
- f. Mortgage Securitization System (MSS) (Bidabad, 2017a): By assessing the value of the asset, the bank can issue Guarantee Certificate in different lots and periods for the asset owners. The holder of this certificate can apply this certificate to banks, other institutions, real persons or legal entities (who accept these certificates as guaranty) for his/her own or on behalf of the others.

The issuer bank by using Interbank Withdrawal Protocol (IWP) can gain his claims from the accounts of the indebted after restraining the Guarantee Certificate. If the issuer bank becomes bankrupt, the beneficiary of Guarantee Certificate can obtain his nominal claim from settlement manager.

- g. Interbank Withdrawal Protocol (IWP) (Bidabad and Allahyarifard, 2013): allows bank to obtain his claim created through binding contracts or commercial documents (check, promissory note and draft) from other accounts of the debtor at other banks, or accounts belonging to his guarantors at other banks in an online way, after the debtor's first bank account is depleted. This activity takes place under central bank supervision. The bank is not allowed to use IWP in relation to ministries and other governmental organizations accounts that have a budgetary row in government budget bill. However, the bank is allowed to use IWP in connection with the accounts of governmental companies and other affiliated organizations and institutes to government, and non-governmental public institutions that do not use the public budget, including pension and social security organizations, revolutionary foundations and organizations and holy shrines.

In order to implement this protocol, central bank provides necessary legal and electronic obligations to all banks, financial and credit institutes. Based on claimer request, the IWP software will carry on account of the creditor if any money is carried into account of the debtor automatically at the same time. Therefore, every bank client should have a unique identity number in the banking system; in addition, all commercial documents should have a unique identity number.

According to this protocol, the bank provides the necessary conditions for collecting outstanding and delayed debts, doubtful debts, unpaid debts of his own claims and his client's claims that initiated through a loan, check, promissory note or draft, that had been opened in the traditional system before.

- h. Non-Usury Scripless Security Settlement System (NSSSS) (Bidabad and Allahyarifard, 2010): Central bank establishes the integrated NSSSS with specific characteristics and capabilities and provides the registration portal for entrepreneurs engaged in Rastin PLS banking. Compliance with Sharia is a necessary condition for financial documents and instruments to be used in this portal.

Portals of Rastin Certificate Markets (RCM) of banks are to be designed in accordance with the Central Bank's standards; so that the information concerning financed projects through Rastin PLS banking, entrepreneurs and Rastin Certificates will be updated in NSSSS online. This system should be capable of online monitoring of information concerning Rastin Swap Bonds and Rastin Certificates of commercial banks for every transaction, settlement,

capitalization or any other kinds of transaction and transition of the Rastin Certificates and Bond.

- i. Money Laundering Detection System (MLD) (Bidabad, 2017b): All commercial and financial transactions, whether with the aim of gaining profit or not, are regarded as economic transaction and are included in Value Added Tax (VAT) system. In addition, there should be a spot or delayed payment for each transaction of commodity or service. The two information of each transaction that is a purchase/sale of a commodity (or service) and its payment, should be matching; otherwise, there will be suspicion of money laundering. The Money Laundering Detection System provides the structural and electronic base for comparing and matching banking information with tax information. If necessary, conditions are forced that underground economy parties be obliged to use banking system; and also the tax authorities do appropriate monitoring on large and medium transactions and transition of goods, money-laundering activities can be detected and traced through MLD due to disconformity of tax and banking information. Thus, all the banks and credit associations are obliged to report money transactions data of their customers to Anti-Money Laundering Organization at the Ministry of Finance and Economic Affairs to be compared with VAT data (individuals' sales factors). The abovementioned organization performs data mining by computer software to discover the suspicion of money laundering.

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