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Shariah Capital Advises on Shariah Compliant Gold ETF



Shaykh Yusuf



Dr. Al Olama

Shariah Capital, Shariah Advisor to Dubai Gold Securities (DGS), was honored to attend the launch and first successful trading of the new DGS gold ETF earlier this month in Dubai.

The Shariah scholars enlisted by Shariah Capital for the DGS Shariah Supervisory board likewise were pleased at the product's positive reception and the fact that this security represented a first for Islamic finance. Each DGS certificate, traded on NASDAQ Dubai, represents 1/10th of one ounce of allocated gold at independent custodian HSBC in London. The publicly-traded certificate can be redeemed for

physical gold by an investor at any time, a first for Islamic investors.

Under the direction of Shaykh Yusuf Talal DeLorenzo, Chief Shariah Officer of Shariah Capital and Executive Representative of the DGS Shariah Supervisory Board, Shariah Capital and the Shariah Supervisory Board scholars oversee the operations, methodologies and contracts related to DGS, as well as the certificates' trading activity. In strict observance of Shariah and the industry standards developed for Shariah compliance by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), they together periodically check and re-certify compliance of both trading activities and the allocation of gold bullion backstopping the certificates, the latter involving personal inspections of the custodian's vault facility.

Shariah Capital's role in the DGS process was threefold:

--It directed Shaykh Yusuf to act as the Executive Representative to the project. In its early stages, his involvement included preliminary reviews of the product concept and drafts of its prospectus, along with recommendations on the business process. His collaboration with the Dubai Multi Commodities Centre (DMCC) and the World Gold Council (WGC) insured that the product remained unique, yet Shariah compliant. In particular, he confirmed the Shariah rules for the exchange of gold (known as "Sarf") and their application to both allocated gold accounts at the custodian and the certificate instrument held by investors.

-- To insure the broadest possible consensus on all issues of Shariah compliance, Shariah Capital enlisted appropriately-qualified Shariah scholars with demonstrated experience in Islamic jurisprudence. As a result, the DGS Shariah Supervisory Board represents scholars from a variety of geographic areas, all of whom are internationally-recognized as leading experts in modern Islamic finance. These scholars are:

Sheikh Nizam Yaquby (Chairman, Bahrain)
Dr. Mohamed Daud Bakar (Malaysia)
Dr. Mohammad Abdul Rahim Sultan Al Olama (UAE)

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Dr. Yousef Abdullah Al-Shubaily (Saudi Arabia)
Shaykh Yusuf Talal DeLorenzo (Executive Representative of the Board, U.S.)

--Lastly, Shariah Capital's ongoing role is one of monitoring and maintenance, coordinating the scholars' unannounced reviews and their detailed annual examinations that are reported to investors as an annual recertification of Shariah compliance.

Given the uniqueness of this product, Shariah Capital went beyond the typical responsibilities of a Shariah advisor. It understood the importance of the link between investors and the allocation of gold to underline the veracity of Shariah compliance. It accepted the challenge of joining a highly successful conventional gold ETF on one side and the Dubai Government, through the DMCC, on the other within the context of Shariah of the highest institutional-quality. To that end, Shariah Capital and the scholars paid special attention to documents such as the Allocated Custody Agreement and the language to perfect the investor's ownership of physical gold.

DGS is a remarkably unique offering and a notable achievement for the growing Islamic finance industry. We know of no other product, Shariah compliant or conventional, that has taken steps like DGS that insure its certificates exactly and precisely represent allocated gold for the investor. Nor is there a gold product like DGS that offers investors a choice of physical delivery. Finally, there is no offering that includes the global reach of the DGS Shariah Supervisory Board scholars, four of whom are members of the AAOIFI Shariah Board. Shariah Capital is privileged for the opportunity to work with the DMCC and the WGC in the development of this robust ETF product.

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