

**GENERAL REGULATORY FRAMEWORK IN RASTIN PROFIT AND LOSS  
SHARING BANKING (PART I-OPERATIONAL CONTEXT)**

**Bijan Bidabad, Islamic Azad University, Iran**

**ABSTRACT**

This paper aims to explain the operational and legal infrastructure of Rastin Profit and Loss Sharing (PLS) 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 milestones of Rastin PLS banking operational framework. 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, particular formation, organisational structure, instruments and workflow are defined in a legal framework. To handle Rastin Banking, the particular theoretical and operational regulatory frameworks and legal context of the contracts should be defined to fulfil the participation operations. In this paper, we will have a look at the necessary 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 profit (return) of the activity. Rastin Banking can lead to important positive effects on growth and economic welfare through money and capital markets. Interest rate as an essential factor in conventional banking is not usable 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 compliance of banking system with principles and regulations of Islamic religion, and better access to safe financial activity and helping the economy to bloom, fair distribution of opportunities and possibilities, job creation and increasing the welfare of the society, Rastin Banking System was designed and all banks (whether conventional or Islamic) can carry out their activities on this basis. Rastin Banking System is based on specific operational, financial, economic, ethical, social, legal, international and organisational principles that based on the latest scientific achievements in the field of science and technology with the aim of economic and banking growth and development of the society. To carry out Rastin Banking the Bill and Operational Bylaw of Rastin Banking were compiled.

Rastin PLS Base system is the main process and general regulations of Rastin Profit and Loss Sharing (PLS) Banking system. On request and behalf of the depositor<sup>1</sup>, bank invests the depositor's resources in one of Rastin PLS products<sup>2</sup> and instead, gives Rastin Certificate<sup>3</sup> of the selected project<sup>4</sup> to him and allocates his fund to selected project of the entrepreneur<sup>5</sup>; and monitors<sup>6</sup> the implementation and execution of the project. In the end, after deducting its commission, bank divides the profit/loss (if any) among engaged sides (depositors and entrepreneur). The bank is the agent of the depositor, and it is responsible for observing the depositor's rights. Fixed profit rate is eliminated in Rastin PLS banking, and the return is calculated based on the real return of capital in the real economy.

The materials, stipulated in the Base System of Rastin Profit and Loss Sharing (PLS) are extended to the Rastin Financial Subsystems unless the deviation from it is indicated. In order to participate the depositors in the economic activities of the entrepreneurs of investment

---

<sup>1</sup> **Depositor:** is a natural person or a legal entity with a certain amount of fund (cash), who asks the Rastin PLS bank to participate in Rastin PLS banking products through a direct contact with the bank, or via internet, and buys the Rastin Certificate. Before depositing, the depositor can go to a Rastin PLS bank's branch (real/virtual on the internet) and to get informed about the products, Rastin Certificates, terms and conditions of participation, relinquishment and qualities and characteristics of the supplied projects, and then invest in the selected project.

<sup>2</sup> **Rastin PLS Products:** In Rastin Partnership Banking, the depositor can deposit and participate in the following three products:

**Product I:** Profit and loss sharing in a particular project: In this product, the depositor after getting informed about the introduced project/s to the bank – that bank has previously evaluated them and confirmed as acceptable and supplied to the depositors - according to his will select and deposit (invest) in the project by buying its Rastin Certificate and participate in the project yields according to the nominal value of the bought certificate and duration of his participation under the rules and regulations of Rastin Partnership Banking.

**Product II:** Profit and loss sharing in basket of projects: In this product, the depositor instead of a project can invest in a basket of projects that have been bundled by bank and has been introduced as a basket of projects by buying its corresponding Rastin Certificate and participate in the yields of the project basket according to the nominal value of the bought certificates and duration of his participation under the rules and regulations of Rastin Partnership Banking.

**Product III:** Profit and loss sharing in branch/bank yields: In this product, the depositor instead of a project or basket of projects will participate in the profit and loss of the branch/bank according to the compiled rules and regulations. Branch/bank is committed to provide financial reports at the end of financial year and distribute the profit/loss between the branch/bank and depositors according to the nominal value of the certificates and duration of their participation under the rules and regulations of Rastin Partnership Banking.

<sup>3</sup> **Rastin Certificates:** is collection of designed certificates in Rastin PLS Banking Base system and its financial subsystems. These certificates are issued and delivered to depositor or financier instead of the received fund (deposit). Regarding the supervisory role of trustee unit of banks over entrepreneurs, these certificates are distinguished from ordinary papers with "certificate" prefix.

<sup>4</sup> **Project:** is a collection of economic activities with specified and concrete plan with defined cost, time, quality and terms for making profit through Rastin participation banking format offered to Rastin participation bank to be financed.

<sup>5</sup> **Entrepreneur:** is a natural person or a legal entity, who proposes a project to the PLS bank for financing through the PLS Banking System, and after the banks actions participate with the depositor and executes the project up to the end. In addition to encompassing the required legal, financial, technical and performance capabilities, the entrepreneur should have the other capabilities and facilities/possibility to carry out the job.

<sup>6</sup> **Monitoring:** is a set of actions and arrangements which are done by bank for protection of depositor's interests to achieve the good performance of executive operations of the projects in Rastin PLS Banking. Bank, via the trustee unit of PLS office is obliged to take all necessary measures for good operational performance of the entrepreneur. Observing the monitoring standards for the projects is based on the Rastin Banking Executive Bylaw.

projects, the bank provides the participation possibility for natural persons and legal entities (whether public or private), and will facilitate the transactions based on real participation of the depositor in the profit and loss of the entrepreneur's project in context of Rastin Profit and Loss Sharing (PLS) Banking through financial intermediation and the mobilization and allocation of financial resources, and by considering a higher transparency in the activities and an increased efficiency in the banking operations. The bank, as the mediator of funds, will receive the commission and as the agent, will receive the wage-fee; and the return on investment shall be shared between the owners of funds (depositors) and the entrepreneur.

In Rastin Profit and Loss Sharing (PLS) Banking, financial instruments (such as Rastin Certificates) have been designed and the bank can create a variety of conditions for the traders of these papers, through issuing, offering, establishing the market, and designing the basket of certificates. Rastin Certificates are issued for the Rastin Profit and Loss Sharing (PLS) Banking products. In general, the depositor is obliged to notify the bank about his/her partnership in the primary and secondary types of products specifically, in a certain project or a basket of defined projects. Moreover, it should be mentioned that the third-type product (i.e., profit and loss sharing in bank/branch yields) could be performed only via the Musharakah Certificate.

This type of banking operations has its particular formation, organisational structure, and workflow so that the bank can appropriately achieve the intended goals and perform the duties. To handle Rastin banking, a particular regulatory framework and the legal context of the contracts should be defined to fulfil the participation operations. In this paper, we look at the necessary legal environment to setup Rastin Banking.

### **Operational framework**

The general stages of Rastin PLS Banking are as follows. The terms and conditions of the partnership shall be declared to the entrepreneur and depositor, through the information portal of the Rastin Certificate Market (RCM), or the information and counselling services counter in the branches of the Rastin PLS Bank.

The entrepreneur to finance her/his proposed project, s/he shall visit the bank and offer her/his partnership proposition in the implementation of the project, in the form of a project proposal. After submitting the project proposal by the entrepreneur, the preliminary assessment fee of the project will be received from the entrepreneur based on the submitted project proposal and according to the rules, alongside the information related to the proposed project (including the feasibility report, registration documents, activity permits, and the other necessary information) will be delivered from the entrepreneur. After receiving the preliminary assessment fee of the project proposal, an identification code will be assigned to the entrepreneur, and during the partnership process, the entrepreneur will be identified by this code.

The assessment unit will assess the records of the entrepreneur. In case the competence and the technical, financial, and managerial capabilities of the entrepreneur are verified, this unit will evaluate the project proposal and report the results to the bank's PLS office<sup>7</sup>. The assessment unit, in the process of project evaluation, will use the required information (such as the price list of the Management and Planning Organization, the available software and databases, and the executive records of the project by the other entrepreneurs) and in case of project feasibility, after obtaining the detailed evaluation fee from the entrepreneur in accordance with the rules,

---

<sup>7</sup> **PLS Office:** is a department in the Rastin PLS bank that with its dependent units manages the Rastin PLS operations in the bank.

will evaluate the project proposal in detail and will determine the type and the amount of collaterals, guarantees and paid-in capital of the entrepreneur. The audit and calculation unit<sup>8</sup>, according to the report of the assessment unit, will evaluate the value of guarantees, collaterals, and non-cash paid-in capital of the entrepreneur. The information related to the cash paid-in capital, and the security number of the guarantees and collaterals of the entrepreneur, after inquiry and verification, will be registered in the customer database of Rastin PLS Banking, based on the identification code assigned to the entrepreneur.

The Rastin PLS branch of the bank will proceed to sign the contracts of the entrepreneur, under the guidance and supervision of the legal unit<sup>9</sup> of the bank's PLS office and by the rules. The related information will be inserted into the system's database and the entrepreneur's profile. After signing the contract with the entrepreneur, through the information portal of the Rastin Certificate Market (RCM), or information and counselling services counter, the required resources in the approved proposal, based on the contract with the entrepreneur, will be declared to the depositors.

The bank's PLS office shall deliver a copy of the entrepreneur's records, along with the entire documents and evidences of the project proposal (such as budget, schedule, timing, required resources, method of utilizing the resources, process of project implementation, phases, quality control, reporting method, method of finalizing and delivering the project, and other required documents) to the trustee unit<sup>10</sup>.

By purchasing the Rastin Certificate of the selected project, the depositors can finance the resources of the project. After financing the resources, according to the project's implementation schedule, the resources will be paid to the entrepreneur. The trustee unit will start its full monitoring over the entrepreneur's operation, by the rules, which will be continued until the end of the project.

All the evidence and documents related to incurred expenses, as well as the agenda and reports of the executive and financial operations and the implementation process, and the management letters containing the contradictions observed in the audit process of the project and the financial statements, and the other required information, must be at the disposal of the trustee unit by the entrepreneur. The monitoring reports of the trustee<sup>11</sup>, concerning the implementation process and the physical progress of the project and the quality of the entrepreneur's work, shall be handed to the audit and calculation unit of the bank by the trustee unit at the pre-determined intervals. The reports of the project's trustee, under the supervision of the trustee unit, will be a benchmark for the future payments of the bank to the entrepreneur. All the probable stops during the project implementation along with their causes must be verified by the trustee unit in the form of reports and minutes of the project's stops. Otherwise, the delays, happen outside the project proposal schedule, will not be accepted by the bank.

In the event of insufficiency of the mobilised resources during the project's implementation,

---

<sup>8</sup> **Audit and calculation unit** is a unit in PLS office formed of financial, accounting, auditing and other experts and is responsible for financial and accounting and auditing tasks in Rastin PLS Banking System.

<sup>9</sup> **Legal unit** is a unit in PLS office formed of legal, insurance and other necessary experts and is responsible for legal supervision on the concluding contracts and related tasks in Rastin PLS Banking System.

<sup>10</sup> **Trustee unit** is a unit in the PLS office of Rastin PLS bank under the administration of PLS office which possesses adequate facilities and specialties or necessary key personnel such as technical, engineering and financial experts and in the process of Rastin PLS Banking has duty of trustee selection, supervision on good performance of the project, monitoring the executive operations and comparing it with project proposal's plans and other related tasks; and delivers the reports to the PLS office periodically or non-periodically.

<sup>11</sup> **Trustee:** Experienced and competent professional of trustee unit of PLS office or natural or legal entity outside the bank who is sufficiently experienced with key personnel and adequate resources and fulfills duties of monitoring on the projects in Rastin Banking.

the bank, with the request of the entrepreneur, by investigating the necessary documents and with the trustee unit's recognition and verification, can mobilise more resources through the issuance of new Rastin Certificates.

At the end of the implementation operation of the project, in accordance with the rules and the related formulas, and based on the principles of Rastin Partnership Accounting<sup>12</sup> the resulted profit and loss and the bank fees will be calculated by the audit and calculation unit's software and the share of the entrepreneur and the depositor will be determined and allocated. If there is any report or minute by the trustee about the stops, the delays and losses resulting from them will be determined and calculated according to the rules. The delays resulting from emergency natural and unexpected disasters (force majeure) will be investigated by the provided rules and regulations. In the case of objection of the entrepreneur to the trustee's reports, the cases will be initially discussed and dealt in the dispute resolution committee at the bank's PLS office. If the dispute is not resolved, the resolution will take place through arbitration by rules.

The principal of capital resources and the profit or loss of the project will be transferred to the accounts of Rastin Certificates holders after deducting the bank fees, and the related certificates will be exited from the Rastin Certificate Market.

In the depositing part, the operational steps are as follows:

The depositor, by visiting the online information portal of the Rastin Certificate Market, or a branch of the Rastin PLS bank and consulting with the related expert, at the information and counselling services counter, can get acquainted with a variety of partnership products as well as the terms and conditions of depositing and relinquishment, and select one of the three types of Rastin PLS products for depositing.

After obtaining the required information and selecting the product via the available forms on the online information portal of the Rastin Certificate Market, which contains the obligations and duties of the depositor and the agreements of different parties, the depositor will enter the computer system and purchase the related Rastin Certificate via paying its nominal price.

By authenticating the depositor's identity through his/her bank account information, the computer system of the Rastin Certificate Market will verify and register the depositor's information and the identification code of the depositor will be generated according to the type of the selected certificate. The record, related to the depositor's identification code, as well as the other information related to this record (such as the account number, the amount of deposit, the depositor's profile, etc.), will be registered and stored in the integrated database of the Rastin Certificate Market. After the digital signature of the contract, registration of the information and receiving the resources, the system will automatically proceed to issue the Rastin Certificate in accordance with the type of the certificate and the chosen product, under the name of the depositor. The depositor can feel free to have a printed version by using his/her identification code, where s/he can see and print the certificate. The dedicated serial number of the certificate, along with the other information related to the depositor is included in the printed certificate.

---

<sup>12</sup> **Rastin Partnership Accounting:** is the accounting procedure of participation operations, in which the interest rate is not used to book accounting documents, accounts and financial analyses; and all time-based values of capital are calculated according to the amount and duration of participation and without application of interest rate.

The depositor, before the end of the project, can transfer his/her Rastin Certificate to others at the market price. This price, in the Rastin Certificate Market, is determined based on the supply and demand for certificates. The mentioned operation must be done through the bank's Rastin Certificate Market. The transactions of Rastin Certificates shall be performed in accordance with the rules. The account settlement will be performed with the last holder of the Rastin Certificate and the final settlement, according to the type of the certificate, will be performed after the project completion.

At the end of the partnership period (in the first- and second-type products), or at the end of the fiscal year (in the third-type products), the audit and calculation unit will calculate and pay the profit, with respect to the duration and amount of the partnership and also, the type of the certificate and the chosen product. The transfer of the original partnership amount and allocation of the profit/loss will take place automatically through the depositor's account at the bank. The profit share of a new partner will be calculated based on the principles of Rastin Partnership Accounting.

### **Project proposal**

The project proposal is a written document covering a collection of necessary information about the entrepreneur's proposed project submitted to Rastin PLS bank that describes analytical justification of the project from economic, technical, financial and executive points of view, with enclosed necessary legal licenses and documents. After assessing of the bank's assessment unit and approved by the bank's PLS office and through signing the contract with the entrepreneur, will be a document, which comprehensively investigates the feasibility of a project from economic, technical, and financial perspectives, and is a document that its content is objectionable against the entrepreneur, and depending on the case, it must be signed, or signed and stamped, by the entrepreneur.

The outlines of the economic evaluation of a project are as follows: introduction, specifications, implementation, applications of the original and secondary product(s) for the project, upstream and downstream industries, price, supply, import, demand (consumption), export, supply and export predictions, demand and import forecasts, supply and demand balance analysis, quality of products (in some units), use of new technologies (in some projects), contracts of supplying raw materials, production and sales plans, market research and marketing, price of raw and auxiliary materials, selling price of product(s), sales contracts, summary, conclusion, and recommendations.

The outlines of the technical evaluation of a project includes entrepreneur and the records of his/her activities, design, project implementation site, company management, legal and working permits, project objective, project's production capacity, machinery capacity, selected equipment and installations, raw, intermediate, auxiliary and consuming materials, along with the facilities required for their preparation and transportation, project products, studying the existing production technology and offering technical services and cooperation contracts (if needed), introducing the available production techniques in the world, optional production methods and introducing the advantages of the optional methods, capacity, production plan, environmental impacts, human resources, quality control (if needed), schedule of the project implementation, investment costs (including land, buildings and landscaping, machinery and equipment, electrical and mechanical installations, vehicles, furniture, office appliances, miscellaneous and unanticipated costs, costs before exploitation, and working capital) and production costs (including the cost of consuming materials, salaries and benefits of production workers and administrative personnel, fuel consumption and energy costs, repair and maintenance costs, depreciation costs, miscellaneous and unanticipated costs).

The outlines of the financial evaluation of a project include studying the status of the debts and obligations of the entrepreneur, unit beneficiaries<sup>13</sup>, parent companies<sup>14</sup>, subsidiaries<sup>15</sup>, subsidiaries of subsidiaries, and the persons with considerable influence<sup>16</sup>, credit status of the entrepreneur, analysis of the past years audited financial statements of the entrepreneur's company and the corporate group<sup>17</sup>, authentication of the entrepreneur's financial ability, calculation of the company's operational information (including fixed and variable costs, break-even point, internal rate of return), unit production accounting, prediction of the final cost of products for the important cost items, financial ratios, return period of investment, other standard and conventional financial indicators, providing the forecasted financial statements (such as working capital, profit and loss account performance, cash flow or resources and expenditures statement, balance sheet, cash income) and project risk.

Many technical points must be reviewed in the project proposal, and their operational solutions must be considered in the project to decrease investment, production, distribution and consumption costs, and to increase productivity. Production lines should generate the least waste and minimal defective or below-standard products. The quality of manufactured products must be at a level, with minimal destruction, disposal, or conversion to trash. Investment efficient lifetime and the lifetime of durable and semi-durable goods, and the lifetime of buildings, structures, installations and machinery must be prolonged. Road construction and transportation standards must be met in such way that a higher traffic and load transport capacity would be provided, and a longer lifetime of roads, installations, and constructions would be achieved. The considerations related to efficient energy and fuel consumption, in buildings, installations, machinery, and products must be observed. Agricultural soil erosion must be prevented. Mortality rate must be decreased in a way to expand the life span of human beings. Clean production must be maintained, and environmental pollutants must be reduced, and the considerations for sustainable production and consumption must be taken into account with observing ecological loops of industrial production. Incorrect exploitation of mines must be prohibited. The method of promoting the investment must be investigated, and its possibility must be considered in the design phase. The necessary arrangements and measures to deal with natural disasters and the necessary arrangements and measures, to conserve and protect the investment and the product, from any rapid or gradual corruption, caused by environmental factors (such as temperature, natural disasters, and atmospheric effects) or the other cases (such as rust and corrosion, due to the moisture or acidity of the weather) must be predicted and performed in advance at the design stage. Waste of resources, due to an inefficient combination of production factors, must be avoided.

The entrepreneur is obliged to make sure that the information, statistics, figures, calculations, predictions, and estimates in the project proposal are authentic, accurate, and standard. S/he must provide the essential documentation of their accuracy along with the project proposal.

---

<sup>13</sup> **Unit beneficiaries:** natural or legal persons, who are subject to common interests due to ownership, financial, or managerial relationships.

<sup>14</sup> **Parent bank (company):** the bank (company) that owns one or more subsidiary banks.

<sup>15</sup> **Subsidiary bank (company):** the bank (company) that the majority of its stocks are directly or indirectly owned by the parent bank (company), or the majority of the members of its board of directors are selected by the parent bank (company).

<sup>16</sup> **Persons with considerable influence:** a natural person (along with his/her dependents) or a legal person will have a considerable influence, if s/he directly or indirectly owns more than 20% of the bank's shares or assets, or based on an agreement with the other shareholders or partners, owns more than fifty percent of the other bank's voting right, or owns the right of appointing or discharging the majority of the board of directors' members by him/herself or by his/her representative, or overall, for any reason can directly or indirectly control the bank.

<sup>17</sup> **Banking (corporate) group:** the group, which includes the parent bank (company), its subsidiary banks (companies), and the subsidiary banks (companies) of the subsidiary banks (companies).

The project proposal must necessarily have a detailed schedule of the executive operation in order to manage and monitors the project thoroughly, and in accordance with that, the assessor<sup>18</sup> will provide the checklists and supervision programs to monitor all stages of the project physical progress. The entrepreneur is obliged to determine and present the calculation and profit sharing method of the company in the project proposal, according to the general procedures for salary promotion, benefits, overtime working, accumulated surplus, and capital increase through awards. This case will be constant and unchangeable from the start to the end of the project.

The following comprehensive documents and evidence must be delivered by the entrepreneur to the assessment unit. A feasibility report of the project, including the economic, technical, and financial feasibility studies, prepared by a competent consultant. The company's registration documents, including the statute, articles of association, declaration, gazette of establishment, and newspapers with the latest changes in the organizational components of the company (such as the registered capital, members of the board of directors, change of the headquarter address, change of shareholders, etc.) along with the birth certificates, national ID cards, and the other valid official identity papers of the managers. Activity licenses, including the declaration of establishment or the principal endorsement by competent authorities, exploitation license (for development, completion, renewal, or reconstruction projects), and commercial card (for international trading activities). Legal permits necessary for project implementation (including environmental, water, electricity, gas, and others) and building construction permits must be obtained from the relevant ministries and competent authorities.

A certified copy of the land titles of the project site or the activity site, or if necessary, the leasing contract. Confirmation of the Ministry of Health and Medical Education and its affiliated organisations is necessary for health, food, and pharmaceutical products. Proforma invoices of machinery, facilities, installations, and necessary raw and intermediate foreign materials, and valid proforma invoices or contracts of purchasing or manufacturing the internal machinery, facilities, and installations of the project, along with at least two comparative bids and proforma invoices. Contracts related to technical, construction, and facilities services, installation of machinery and equipment, consulting services, increasing the project's technical expertise, and workforce training (after the preliminary assessment), including the contracts with domestic and foreign contractors. Construction plots of the implementation site of the project and the location of the machinery, equipment, and installations (after the preliminary assessment). Last trial balance of the company, including general ledger balance and summary of auxiliary ledgers of the company's accounts.

Complete audited financial statements of the last three periods of the company and the corporate group, along with the attached notes, the audit report, the report of the board of directors to the general assembly of shareholders, and the certificates of tax payment (tax recoupment) in the last three financial periods. The company's plan and budget for the next year (for development projects). The documents and evidence, related to the entrepreneur's proposed collaterals and guarantees. The documents and evidence, related to all the statistics, information and prices, used in the economic feasibility of the project. The documents and evidence, related to the educational background, work experience, and business relationships of the entrepreneur and the natural and legal persons that are in contract with the entrepreneur. The complete statement of the debts and direct/indirect obligations of the entrepreneur,

---

<sup>18</sup> **Assessor:** Experienced and competent professional of assessment unit of PLS office or natural or legal entity outside the bank, who is sufficiently experienced with key personnel and adequate resources that fulfills duties on assessment of project proposal and its justifiability.



dependent persons, unit beneficiaries, parent companies, subsidiaries, subsidiaries of subsidiaries, and the persons with considerable influence, at the internal banking system (including the state-owned banks, private banks, and financial and credit institutions), and the obligations and liabilities to the banks and financial and credit institutions abroad.

A complete statement of the accounts of the entrepreneur and the corporate group in the banking system and financial and credit institutions, along with the credit circulation of the aforementioned accounts in the last two years and their average monthly flow; and also, in the banks and financial and credit institutions abroad. Inquiring the credit status, obligations, and liabilities of the entrepreneur, managers, and the corporate group (in both domestic and foreign currencies), through the central bank or the customer information comprehensive database or the other databases in the central bank or other competent bodies. Obtaining the credit rank of the project's entrepreneur from the ranking agencies inside or outside the bank (if implemented). The entrepreneur can utilise the collection of price information, contained in the price index list of the Management and Planning Organization, or other similar competent authorities; in order to complete the price items of different parts of his/her investment and s/he is obliged to estimate the initial value of the company and present the tangible and intangible assets and liabilities as well as certain or estimated funds on a calendar basis (along with adequate documentation) to the assessment unit.

### **Entrepreneur**

In Rastin PLS Banking, to correctly select the entrepreneur, the assessment unit must investigate his/her ability on technical, financial, executive, and managerial aspects. For a correct exploitation of the available resources by the entrepreneur, s/he shall have the experience, expertise, competence and technical knowledge related to the subject of the project, the technical equipment, and the ability to manage or employing the qualified and experienced specialists, required for the field. The critical and important criteria in the authentication of the technical competence of the entrepreneur are his/her professional experiences and skills, past executive activities and their duration, and the executive background and its relationship to the subject of the project.

The entrepreneur must have an acceptable background, regarding his/her financial status, working and trading experiences in the past and present, and commitment to the fulfilment of obligations, and must also have no outstanding debts in the banking network. The entrepreneur is obliged to pay an acceptable portion of the total cost of the project for the implementing the project, in the form of cash/non-cash paid-in capital in accordance with the regulations. The bank shall authenticate the entrepreneur's ability in providing the intended share of the total cost of the project. The entrepreneur shall have the ability to share his/her paid-in capital in different periods and according to the financing schedule of the project and also, based on the viewpoint of the assessment unit, at the time of final evaluation. To prove his/her financial ability, the entrepreneur shall provide the bank with his/her past financial performance, in the form of audited performance reports (at least for the last three financial periods), or confirmed payments of the occupational tax (for the activities related to past years). The entrepreneur is obliged to provide the bank with the required guarantees and collaterals for a good performance of the project and ensure the return of the allocated resources and the efficiency of the project.

In order to provide the required financial resources in Rastin PLS Banking, the entrepreneur is obliged to prepare and present his/her project proposal in compliance with the acceptable standards of the bank. The entrepreneur shall provide the bank's PLS office with the project proposal, along with all the required documents, clarifying his/her managerial, financial,

executive, and technical ability in the implementation of the project. The entrepreneur is obliged to spend all the financial resources received from the bank, based on the signed contract and by the approved proposal of the project. Any change in the manner and direction of consuming the resources, outside the approved proposal, is subject to the prior consent of the bank's PLS office.

The entrepreneur is not allowed to carry out any activity, outside the proposal approved by the assessment unit. Any change, seems necessary, should have been previously verified by the trustee unit, with the advice of the assessment unit. The entrepreneur is obliged to submit all his/her financial operations along with the adequate explanations at the pre-determined times to the bank, in accordance with the national accounting standards. The entrepreneur is obliged to cooperate with the trustee of the trustee unit, or the natural/legal observers (trustees, appointed by the bank's PLS office), for cases such as the arrangements for visiting the project's implementation site, investigation of the books and documents, and receipt of information. To exploit the resources, the entrepreneur shall adapt his/her conditions to the rules of in Rastin PLS Banking.

The entrepreneur's company is not allowed to change its registered capital until the final settlement and the end of its financial relationships with the bank unless permission from the bank's PLS office is obtained. In any case, such changes should not lead to diminishing the depositor's interests. Unconventional bonus payments of the entrepreneur's company to the members of the board of directors, the managing director, the official personnel, or the other unofficial agents, during the project implementation and before the final settlement with the bank, are forbidden. In accordance with the Commerce Act, payment of fixed wage (under the title of the right of presence) to non-executive (independent) members of the board of directors is mandatory. These members are not allowed to receive any other additional payment, except the bonus of the board of directors, approved by the general assembly. These payments should be reasonable and consistent with the rates applied to the other employees.

The reports of the entrepreneur shall be drafted in a way to contain the information required by the bank, the trustee unit, and the audit and calculation unit. The entrepreneur is obliged to provide the bank's PLS office with the periodic reports during the project implementation, on the daily, weekly, or monthly basis, in three copies (the duration of the periods as well as the issuance dates of the reports will be determined by the trustee). One copy of the reports will be recorded and kept at the implementation site, and the other two copies will be forwarded to the trustee and the audit and calculation units. The trustee unit shall comment on the report of the entrepreneur until the deadline stated in the contract.

The main criteria for implementation are the plans and documentations, approved at the time of concluding the contract. If during the project implementation, some affairs, apart from the subjects envisioned in the plan and the related documents/designs, are required, the entrepreneur must execute them after preparing the minute and obtaining the approval of the trustee unit and receiving the agenda issued by the trustee unit. Before starting the executive operation, the entrepreneur is obliged to prepare the special forms of periodic reports, agendas, and minutes, and obtain the approval of the trustee unit. These forms must meet the minimum standards determined by the bank.

The control headings and the information, which must be necessarily positioned in the special forms of periodic reports, agendas, and minutes, will be determined according to the project requirements and based on the trustee's viewpoint, before starting the executive operation of

the project. The highest allowable amount of costs, in excess to the pre-determined plans/maps (agendas), must be specified at the time of concluding the contract, and the recognition authorities and the verification stages must also be stated.

### **Assessment**

The purpose of assessment is to investigate the entrepreneur's qualification, the authenticity of the project, documents, and annexes, and approve/reject the project's feasibility regarding the economic, technical, engineering, financial, and executive considerations. Authentication of the entrepreneur's capability and evaluation of the project will be carried out by the assessment unit. The assessment unit can use the internal assessor of the bank or the natural or legal persons inside/outside the bank (whether governmental or non-governmental) for evaluation. The assessor's task would be to authenticate the entrepreneur's capability in all aspects, considering the entrepreneur's records and the feasibility of the project implementation according to the project proposal, evidence, documents, and annexes, and to comment on the entrepreneur and the project proposal, codify the monitoring framework for the project implementation, determine the periods of paying the resources to the entrepreneur, authenticate the accuracy and compliance of the project site with the registered documents, authenticate whether the company is real or sham, determine and investigate the entrepreneur's guarantees and collaterals, and present and deliver the results to the assessment unit. The schedule and also, the method of supervision on the details of the project's executive operation in accordance with the checklists and the supervision programs, for monitoring all stages of the project development, will be prepared by the assessment unit.

The assessor is obliged to review all the entrepreneur's documents and financial statements and estimate the initial value of the entrepreneur's firm, and if necessary, the initial value of the corporate group, and shall also, separately appraise and register the tangible and intangible assets and liabilities and their certain or estimated values, with the approval of the audit and calculation unit. The assessor, only when special supervisions have been adopted to prevent the probable abuses, can confirm the qualification of the entrepreneurs, whose contracting parties are proprietorially, financially, and managerially dependent on them to the extent that they are considered as the unit beneficiary.

The assessment unit will present its viewpoint on the project, the entrepreneur, and the supervision method for implementation of the project, to the trustee unit through the bank's PLS office. The assessment unit will determine the technical specifications of the specialized groups, which are required for the assessor (such as the economic, technical, engineering, and financial sections), according to the project specifications, the industry type and its complexity, the applied technology, the amount of investment, and the implementation time. The technical assessment section must possess the necessary skills, expertise, tools, equipment, and software and hardware facilities. Specific assessment requirements, such as the formation of supplementary specialised assessor groups, can be performed as per request of the assessment unit or the bank's PLS office.

The assessment unit is consisted of the financial, technical, engineering, economic, and foreign exchange experts, with the title of the assessor. The assessor must possess the experiences, professional skills, work experiences, and executive activities related to the project theme. Authentication of any of the items mentioned above will be explained in the followings. The financial, technical, engineering, economic, and foreign exchange experts, under the title of assessor of the assessment unit, will be chosen from the bank's experts (if possible), who have at least a bachelor degree and three years of expertise experience in the related field. The references of authenticating their competence would be the relevant departments of the bank.

After checking and accreditation of the competent experts, the relevant departments of the bank will introduce them to the assessment unit and the other units of the bank's PLS office to cooperate with them, and the mentioned office will select the most competent expert based on their specific needs. The assessment unit, if needed, can take the necessary measures to employ the experienced and professional experts of the other internal sections of the bank as assessors. The assessment unit will be responsible for supervising the performance of the selected assessor for the intended project proposal. The internal assessor of the bank is obliged to deposit a good performance guarantee in four times of the amount of the incentive (one percent of the assessment income and one percent of supervision income shall be paid to the assessor and the trustee), to the bank. The personnel at the assessment unit must necessarily pass the training courses of Rastin Profit and Loss Sharing (PLS) Banking and the other professional courses of project assessment at the required level. The educational level of the aforementioned training courses shall be determined by the bank's PLS office.

In the case of lack of a competent assessor, the bank can employ the natural/legal persons outside the bank. In addition, the bank shall apply the following conditions to confirm the qualification of the aforementioned individuals. An assessor with a natural personality, while having a related university degree (at least at the bachelor degree), should also have work experience of at least five years. The above-mentioned person, besides presenting the degree approved by the Ministry of Science, Research and Technology, should also provide a summary of his/her 5-year working background in the bank's PLS office, reflecting his/her professional experiences and skills as well as the background and duration of his/her executive activities in connection with the subject of the project. An assessor with a legal personality should have a continuous 3-year activity since the starting date of the company in connection with the subject of the project. Besides providing legal documentation, the person mentioned above should also provide a summary of its 3-year performance, to the bank's PLS office. In the section of technical engineering, natural/legal persons must possess the technical and managerial skills and experiences as well as the technical facilities, necessary for the project. The recognition is performed by the bank's PLS office, through reviewing the relevant academic degrees, approved by the Ministry of Science, Research and Technology, and the three-year experience in the field of the project, and the needed facilities and equipment. The number and type of the experts of the assessment unit for each project will be determined by the assessment unit, based on the volume of investment, the type of activities, and the project characteristics. The best way to recognise the assessors' competence is based on the codified criteria of governmental organisations, such as the Consultants and Contractors Unit of the Management and Planning Organization.

The assessment unit is obliged to review the assessors' reports. The contracting with the entrepreneur must be made after the approval of the assessment unit. If the assessor's fault causes any damage to the bank for which the assessor is considered faulty, the assessor will be responsible. The assessor has the full right to comment independently, and from the perspective of administrative and employment regulations, s/he is immune from being objected or questioned. In the case of disagreement between the assessor and the assessment unit, the viewpoint of the assessment unit will be the benchmark for action. If the assessment unit does not pay enough attention in selecting the assessor, the assessment unit will be directly responsible.

### **Supervision**

The purpose of supervision is to evaluate and compare the project predictions with the

performances and to ensure the desired executive operation of the project. In the event of any disruption, violation, or any other problem such as disqualification of the entrepreneur, the trustee unit will be obliged to investigate the matter and if necessary, visit the operations of the entrepreneur. For the protection of the interests of the depositor, it must comment about any necessary action, which could be either stop or continue the project, and must inform the bank's PLS office accordingly. The supervision of the bank on the project will take place by the trustee. The trustee unit can carry out the supervision with the aid of the internal trustees of the bank, or the natural/legal persons from state/non-state companies outside the bank. The trustee unit consists of the financial and technical experts (i.e., trustees), who must possess the experiences, professional skills, background, and executive activities related to the subject of the project.

For each project, the trustee unit will determine the duties and powers of the trustee, the fees related to the services, and the payment arrangements, through a contract with him/her. The duty of the trustee will be to determine, calculate, and control the key parameters. It shall also provide the trustee unit with the necessary periodic reports according to important factors, such as cost, time, quality, and a good performance of the operation. In order to conduct a proper supervision, it is needed to define the project in the framework of the criteria determined by the assessment unit of the bank.

The trustee unit, with the advice of the assessment unit, will determine the technical specifications of the specialized units, required for the trustee (including the technical, engineering, financial, and other sections), in accordance with the specifications of the project, the industry type, complexity of the technology used, investment volume, and the implementation time. In the technical supervision section, the trustee shall have the skills, expertise, tools, and hardware/software facilities, necessary to supervise the project. For special projects, based on the implementation period, investment volume, and complexity of the technology used, the trustee and the assessment units can ask the entrepreneur to establish a project control system and prepare periodic reports. According to the specifications of the project, the trustee will perform personal supervision, request reports from the entrepreneur, or hold meetings with him/her. Particular supervisory requirements, such as the formation of supplementary groups for specialist supervision, can be determined and operated at the request of the bank's trustee unit, assessment unit, or PLS office.

All the financial operations and the orders of the payments of resources must be preceded with the confirmation of the trustee unit. The trustee is obliged to supervise all types of seizure (including transfer, transport, concealment, substitution, or any kind of transfer to natural/legal persons, in any way, and in the form of any certain/uncertain contract), for the properties related to the participation or the properties in the mortgage of the bank, whether the seizure is related to the original property, or the benefits, or to any of the associated rights.

The trustee unit, in case necessary, can employ the qualified and experienced experts as trustees in the other internal sections of the bank. The responsibility of supervision on the performance of the selected trustees, with respect to the project, is on the trustee unit. The internal trustee of the bank is obliged to provide the bank with four times the value of the incentive payment amount (as cited before) as a guarantee for a good performance of the job.

The personnel of the trustee unit must necessarily pass the Rastin PLS Banking training courses and specialised programs of monitoring the project, at the required level. The educational level of training courses must be determined by the bank's PLS office. The technical and financial

experts, as the trustees of the trustee unit, are the bank experts, with at least a bachelor degree in the related field and three years of work experience in the respective field. In addition, their accreditation bodies are the related departments of the bank. After reviewing and approving the competence of the experts, the concerned departments of the bank will introduce them for cooperation in the trustee unit and the other units of the bank's PLS office. If needed, the mentioned department will choose the best experts from the introduced experts. In the case of lack of a competent trustee, the bank can employ the natural/legal persons outside the bank.

In addition, the bank shall apply the following conditions to confirm their qualification. A trustee with a natural personality, while having a related university degree (at least at bachelor degree), should also have work experience of at least five years. The above-mentioned person, besides presenting the degree approved by the Ministry of Science, Research and Technology, should also provide a summary of his/her 5-year working background to the bank's PLS office, reflecting his/her professional experiences and skills as well as the history and duration of his/her executive activities in connection with the subject of the project. A trustee with a legal personality should have a continuous 3-year activity from the starting date of the company in connection with the subject of the project. Besides providing legal documentation, the person mentioned above should also provide a summary of his/her 3-year performance, to the bank's PLS office. In the section of technical engineering, natural/legal persons must possess the technical and managerial skills and experiences as well as the technical facilities, necessary for the project. The recognition is performed by the bank's PLS office, through reviewing the relevant academic degrees, approved by the Ministry of Science, Research and Technology, and the three-year experience in the field of the project, and the needed facilities and equipment. The number and type of the experts of the trustee unit for each project are suggested by the assessment unit to the trustee unit, based on the volume of investment, the type of activity, and the specifications of the project. The best way to recognise the trustee's competence is based on the codified criteria of governmental organisations, such as the Consultants and Contractors Unit of the Management and Planning Organization.

The trustee unit is obliged to review and evaluate the trustees' reports. If the trustee's fault causes any damage to the bank for which the trustee considered faulty, the trustee will be responsible. The trustee has the full right to comment independently, and from the perspective of administrative and employment regulations, s/he must be immune from being objected or questioned. In the case of disagreement between the trustee and the trustee unit, the viewpoint of the trustee unit will be the benchmark for action. If the trustee unit does not pay enough attention in selecting the trustee, the trustee unit will be directly responsible.

### **Acknowledgements**

The author is grateful to Mrs. Mahshid Sherafati who assisted the author for primary translation of the partial parts of this paper to English.

### **References**

- Bidabad, Bijan, Mahmoud Allahyarifard. (2010). *IT Based Usury Free Financial Innovations*. Proceeding of ECDC 2010, 5th International Conference on e-Commerce in Developing Countries: with focus on e-Banking & e-Insurance. 15-16 September.
- Bidabad, Bijan, Abul Hassan, Ben Ali Mohamed Sami, Mahmoud Allahyarifard. (2011). *Interest-Free Bonds and Central Banking Monetary Instruments*. International Journal of Economics and Finance. Vol. 3, no. 3, Aug, pp.234-241.
- Bidabad, Bijan, Abul Hassan, Ben Ali Mohamed Sami, Mahmoud Allahyarifard. (2011). *Interest-Free Bonds Financial Innovation, A Monetary Instrument for Economy at*

- Crisis*. Journal of Economic Cooperation and Development (JECD). 32, 1, 55-70.
- Bidabad, Bijan; Azarang Amirostovar, Saeed Abdollahi, Mahmoud Allahyarifard, Eskandar Pordel, Maryam Heidari, Alireza Shafiei, Mohammad Ali Pourbehrouz. (2012). Draft of Rastin Banking Bill, Bank Melli Iran.
- Bidabad, Bijan, Azarang Amirostovar, Saeed Abdollahi, Mahmoud Allahyarifard, Eskandar Pordel, Maryam Heidari, Alireza Shafiei, Mohammad Ali Pourbehrouz. (2012). Draft of Rastin Banking Executive Regulation, Bank Melli Iran.
- Bidabad, Bijan. (2013). *Rastin Certificate Market (RCM)*, Complementary System of Rastin Banking.
- Bidabad, Bijan, Mahmoud Allahyarifard. (2013). *Interbank Withdrawal Protocol (IWP)*, Complementary System of Rastin Banking.
- Bidabad, Bijan. (2013). *Rastin Profit and Loss Sharing (PLS) Base System*. Journal of Islamic Economics, Banking and Finance, pp. 32-57, Vol. 9 No. 4, Oct - Dec.
- Bidabad, Bijan. (2014). New Operational Islamic Banking System, Volume One, Theoretical Foundations, LAP Lambert Academic Publishing, OmniScriptum GmbH & Co. KG, ISBN: 978-3-659-54463-7.
- Bidabad, Bijan. (2014). New Operational Islamic Banking System, Volume Two, Applicational Issues, LAP Lambert Academic Publishing, OmniScriptum GmbH & Co. KG, ISBN: 978-3-659-55210-6.
- Bidabad, Bijan. (2014). *Instalment Financial Sharing (IFS)*. Journal of Islamic Economics, Banking and Finance.
- Bidabad, Bijan. (2014). *Rent Financial Sharing (RFS)*. Journal of Islamic Economics, Banking and Finance.
- Bidabad, Bijan. (2014). *Joint Stock Company with Variable Capital (JSCVC)*, International Journal of Law and Management, Vol. 56, Iss: 4, pp.302 – 310.
- Bidabad, Bijan. (2014). *Bail Financial Sharing (BFS)*. Journal of Islamic Economics, Banking and Finance.
- Bidabad, Bijan. (2014). Rastin Crowd Funding.
- Bidabad, Bijan. (2014). *Mudarebah Financial Sharing (MFS)*. Journal of Islamic Economics, Banking and Finance, JIEBF, Volume - 10, Number - 1, January - April, pp. 56-68.
- Bidabad, Bijan. (2014). *Rastin Group Funding (RGF)*. Bank Melli Iran, Tehran.
- Bidabad, Bijan. (2015). *Rastin Personal Security (RPS)*. Journal of Islamic Economics, Banking and Finance, JIEBF, Volume - 11, Number - 2, April - June, pp. 47-61.
- Bidabad, Bijan. (2015). *Rastin Social Takaful (RST)*. Journal of Islamic Economics, Banking and Finance, JIEBF, Volume - 11, Number - 1, January - March, pp.: 13-23.
- Bidabad, Bijan. (2015). Rastin Swap Deposit. Tehran.
- Bidabad, Bijan. (2015). Rastin Swap Card. Tehran.
- Bidabad, Bijan. (2015). *Serial Commitments Clearance (SCC) in Rastin Banking*. International Journal of Law and Management, Vol. 57, Iss: 6, pp. 600-609.
- Bidabad, Bijan. and Mahshid Sherafati. (2016). *Operational Ethical Banking in Rastin Banking (Professional Ethic, Audit, Inspection, Control, Monitoring and Preservation)*. International Journal of Law and Management, Vol:58, Iss:4, pp. 416-443.
- Bidabad, Bijan. (2016). *Joalah Financial Sharing (JFS)*. Journal of Islamic Economics, Banking and Finance, Volume-12, No. 1, January-March, pp. 33-48.
- Bidabad, Bijan, M. Allahyarifard, M. Sherafati. (2016). Rastin Partnership Accounting.
- Bidabad, Bijan, A Amirostovar, M. Sherafati. (2017). *Financial Transparency, Corporate Governance and Information Disclosure of the Entrepreneur's Corporation in Rastin Banking*. International Journal of Law and Management, Vol:59, Iss:5.
- Bidabad, Bijan, S, Abdollahi, M. Sherafati. (2017). *Enforcement of the Purports of Binding Banking Documents in Rastin Banking – Part I*. International Journal of Law and

- Management, Vol:59, Iss:1.
- Bidabad, Bijan, S. Abdollahi, M. Sherafati. (2017). *Enforcement of the Purports of Binding Banking Documents in Rastin Banking – Part II*. International Journal of Law and Management, Vol:59, Iss:2.
- Bidabad, Bijan. (2017). *Mortgage Securitization System (MSS), A Complementary System of Rastin Banking*. International Journal of Law and Management, Vol. 59 Iss: 6.
- Bidabad, Bijan. (2017). *Money Laundering Detection System (MLD), Complementary System of Rastin Banking*. Journal of Money Laundering Control.
- Bidabad, Bijan, M. Sherafati. (2018). *Sustainable Financing and Anti-Squandering Measures in Rastin Banking*. International Journal of Law and Management (IJLMA), Vol: 60, Iss: 1.