

## Mudarabah and Jersey Limited Partnerships

It is possible to establish limited partnerships in Jersey (a "JLP") under the Limited Partnerships (Jersey) Law 1994 or the Separate Limited Partnerships (Jersey) Law 2011 which qualify simultaneously as mudarabah within the requirements prescribed by Shariah Standard No 13 of the Accounting and Auditing Organisation for Islamic Institutions (AAOIFI).

Under these arrangements the General Partner of the JLP acts as the mudarib and the Limited Partner as the rab al-maal. The General Partner will provide its labour and skill to the JLP and be responsible for managing the affairs of the partnership while the Limited Partner will provide the working or investment capital for the partnership.

Care needs to be exercised to adapt the partnership agreement so as to meet the express requirements for a mudarabah. In particular the following provisions need to be incorporated into the JLP terms.

- confirmation regarding the power and capacity of each of the General Partner and the Limited Partner to enter into the JLP/mudarabah relationship.
- certainty as to the amount of capital to be contributed to the JLP by the Limited Partner
- certainty as to the purpose for which the JLP/mudarabah is being established and the management mandate conferred on the General Partner
- agreement as to the duration and termination arrangements for the partnerships
- expense provisions and how these are to be borne
- confirmations regarding allocations of losses against the capital account of the Limited Partner and absence of liability by the General Partner towards the Limited Partner except in cases where losses have been caused by gross negligence or wilful default of the General Partner
- clear statement of the profit entitlement and distribution arrangements between the General Partner and the Limited Partner
- maintenance of capital requirements and making good of losses carried forwards from earlier accounting periods.

Jersey limited partnerships structured to comply with the requirements of mudarabah can be used for investment or trading purposes on a profit sharing basis between an entrepreneur acting as managing partner and a silent partner who puts up the capital to finance the activities of the partnership.

For further information on establishment of JLPs as mudarabah please use the contact details below.