

A Study on Monetization (*Tawarruq*) from the perspective of Bank Negara Malaysia and AAOIFI Standards: Malaysian Practice

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ABSTRACT

Through the commencement of Islamic Banking Act (IBA) on 1983, until the enactment of Islamic Financial Services Act (IFSA) on 2013, Islamic financial industry has shown its commitments towards the financial industry and its stakeholders through the development of a distinctive products based on the various *Islamic* contracts such as Islamic hire purchase for vehicle and machine based on the concept of a contract of leasing ending with sale (*al-Ijārah Thumma al-Bay'*), Islamic personal financing based on the concept of sell and buy back with arrangement (*Bay' al-Īnah*), Islamic house financing based on the concept of diminishing joint ventures (*Mushārahah Mutanāqishah*) and others. On 28th July 2005, the *Sharī'ah* Advisory Council of National Bank Malaysia (SAC BNM) had resolved that financing and deposit product based on the concept of monetization (*tawarruq*) is permissible. This resolution then has become an alternative way for the Islamic financial institutions to overcome the liquidity issue without relying on the controversial contract of sell and buy back with arrangement (*Bay' al-Īnah*) anymore. Monetization (*tawarruq*) is a process where a person buys a commodity with deferred price, subsequently sells it on spot payment, usually with lower price to another party other than the first seller, with intention to obtain cash/liquidity. Thus, this study aims to discuss the role of National Bank Malaysia and Accounting and Auditing of Islamic Financial Institutions (AAOIFI) Standard regarding the concept of monetization (*tawarruq*) in Malaysia. With regard to the methodology, this study will use both qualitative and quantitative methods. However, the qualitative method will become the main method for this study. The instrument of qualitative method is an interview session with the main stakeholders involved in the development of monetization (*tawarruq*) Standard. This study will contribute from the theoretical and practical perspective of monetization (*tawarruq*) operation and application in Malaysia, argument and deliberation of monetization (*tawarruq*) not only from classical *Islamic* perspective, but also from modern application and discussion.

Keywords: Monetization (*Tawarruq*), National Bank of Malaysia Standard, AAOIFI Standard.

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Practice**

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1

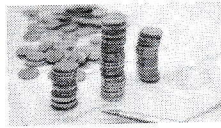
TABLE OF CONTENTS

1. Background of the Study
2. Problem Statement
3. Research Significances
4. Research Questions
5. Research Objectives
6. Limitation of Study
7. Research methodology
8. Literature Review
9. Bibliography

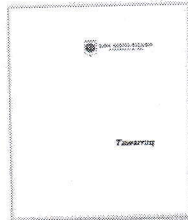
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BACKGROUND OF THE STUDY

Tawarruq was legalized by SAC BNM on 28th July 2005 based on the opinions of *Hanafi*, *Shāfi'i* and *Hanbali*



2009: establishment of Bursa *Suq al-Sila'* under Bursa Malaysia based for commodity trading based on the concept of *tawarruq*, *murabahah* and *musawamah*.



17th November 2015: Commencement of BNM Policy Document of *Tawarruq* (also known as BNM *Tawarruq* Standard)

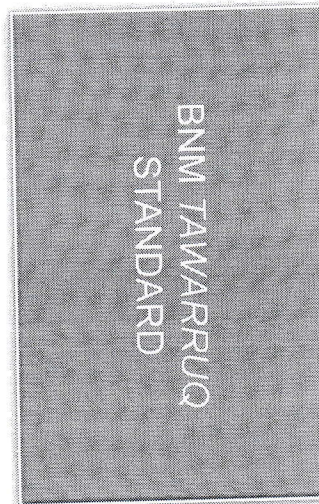
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OBJECTIVE OF THE STANDARD

Set out the Shariah rulings associated with *tawarruq*

Set out key operational requirements with regard to the implementation of *tawarruq*

Promote end-to-end compliance with *Shariah* requirements



4

AAOIFI SHARIAH STANDARD



5

PROBLEM STATEMENT

Previous development

- *Tawarruq* was legalized in 2010
- Became favorable contract, reflected through the numerous products e.g. FD-i, PF-i, etc.



Latest Development

- 2015 – commencement of BNM *Tawarruq* Standard
- IFI given discretionary power by BNM to develop *tawarruq* based product without any particular guideline/standard except the SC's approval

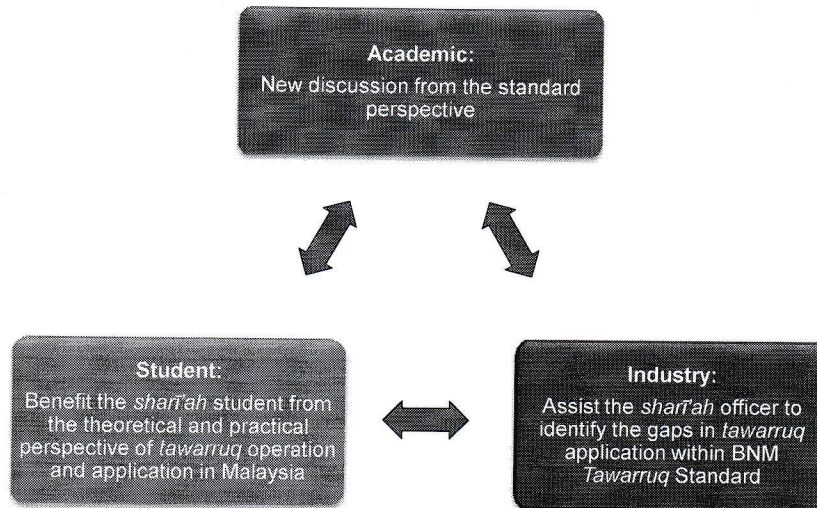


New study on the impact of the Standard to IFI and its level of compliance compared to the existing Standard i.e. AAOIFI *Tawarruq* Standard

6



RESEARCH SIGNIFICANCE



7

? RESEARCH QUESTIONS

- 1 What are the similarities and differences between BNM and AAOIFI in *tawarruq* application and issues?
- 2 How far is BNM *Tawarruq* Standard impacting the Islamic financial institutions?
- 3 What are the *shar'ah* issues which has been standardize by BNM *Tawarruq* Standard?

8



RESEARCH OBJECTIVES

1

To analyze the similarities and differences between BNM and AAOIFI in *tawarruq* application and issues.

2

To analyze the impact of BNM *Tawarruq* Standard

3

To deliberate the *shari'ah* issues which has been standardize by BNM *Tawarruq* Standard

9



LIMITATION OF STUDY



• Focus on the application of *tawarruq* from BNM *Tawarruq* Standard and AAOIFI *Tawarruq* Standard



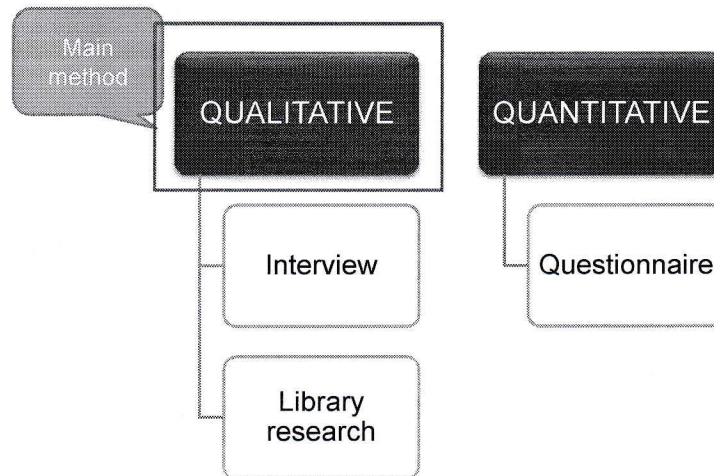
• Focus on comparative analysis from *shari'ah* perspective



• Focus on the implementation of *Tawarruq* Standard in Islamic banks under IFSA 2013

10

RESEARCH METHODOLOGY



11

LIST OF INTERVIEWEE

-  Member of Shariah Advisory Council, BNM
-  Officer of Jabatan Perbankan Islam and Takaful, BNM
-  Researcher of ISRA
-  Member of Shariah Board, AAOIFI

12

RESPONDENTS OF QUESTIONNAIRE

No.	Institutions	Type (Local/International)	Type (Full-fledge/Subsidiary)
1	RHB Islamic Bank Berhad	Local	Subsidiary
2	AmBank Islamic Berhad	Local	Subsidiary
3	Bank Islam Malaysia Berhad	Local	Full-fledge
4	CIMB Islamic Bank Berhad	Local	Subsidiary
5	Maybank Islamic Bank	Local	Subsidiary
6	OCBC Al-Amin Bank Berhad	International	Subsidiary
7	Standard Chartered Saadiq Berhad	International	Subsidiary
8	Asian Finance Bank Berhad	International	Full-fledge

- 8 from 16 Islamic Banks under IFSA 2013 as sample
- Quantitative Data-using the Statistical Package for the Social Sciences (SPSS)

13

LITERATURE REVIEW

14

Tawarruq	Wa'ad	Wakalah	Commodity Murabahah
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Shochrul Rohmatul Ajija, Mia Fathia, and Agusdiwana Suarni - Tawarruq: Issue and Challenge (2010)	Marjan Muhammad, Hakimah Yaacob and Shabana Hasan - The Bindingness and Enforceability of a Unilateral Promise (Wa'd): An Analysis from Islamic Law and Legal Perspectives (2011)		Asyraf Wajdi Dusuki - Can Bursa Malaysia's Sūq Al-Sila' (Commodity Murābahah House) Resolve the Controversy over Tawarruq? (2010)
'Abdul Fattah Maḥmud Idris - Takyīf al-Tawarruq al-Maṣrafi wa Ḥukmuḥu al-Syar' (2012)	Mushtaq Ahmad Qazi - The Binding Nature of Wa'ad (Promise) and Its Application in Islamic Finance (2012)		

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