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-T‘nah), Islamic house financing based on the concept of diminishing joint ventures (Mushārakah Mutanāqisah) and others. On 28th July 2005, the Shari‘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-T‘nah) 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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BACKGROUND OF THE STUDY

Tawarruq was legalized by SAC BNM on 28th July 2005 based on the opinions of Hanafi, Shafi'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)

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

BNM TAWARRUQ STANDARD
AAOIFI SHARIAH STANDARD

Best practice

Not binding

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 it level of compliance compared to the existing Standard i.e. AAOIFI Tawarruq Standard
RESEARCH SIGNIFICANCE

Academic:
New discussion from the standard perspective

Student:
Benefit the shariah student from the theoretical and practical perspective of tawarruq operation and application in Malaysia

Industry:
Assist the shariah officer to identify the gaps in tawarruq application within BNM Tawarruq Standard

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 shariah issues which has been standardize by BNM Tawarruq Standard?
**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

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**LIMITATION OF STUDY**

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

2. Focus on comparative analysis from *shari'ah* perspective

3. Focus on the implementation of *Tawarruq* Standard in Islamic banks under IFSA 2013
RESEARCH METHODOLOGY

Main method

QUALITATIVE
- Interview
- Library research

QUANTITATIVE
- Questionnaire

LIST OF INTERVIEWEES

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

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

### LITERATURE REVIEW
BIBLIOGRAPHY


