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## Survey on Shari'ah non-compliant events in Islamic banks in the practice of tawarruq financing in Malaysia (Article) [Open Access](#)

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### Abstract

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**Purpose:** Tawarruq (Islamic commodity financing) has evolved as the most ubiquitous concept in Malaysia's Islamic banking industry. Nevertheless, the extensive use of tawarruq has invoked a number of Shari'ah (Islamic law) concerns in its practice. This study aims to investigate the Shari'ah non-compliant (SNC) phenomena in the practice of tawarruq financing in Malaysia. **Design/methodology/approach:** This study adopts qualitative research methodology, combining both descriptive and content analysis. A self-administered questionnaire was distributed to 16 Malaysian Islamic commercial banks to unveil the Shari'ah non-compliance issues in the application of tawarruq in Islamic banks (IBs) in Malaysia. **Findings:** The study found that some practices of tawarruq in Malaysia might not comply with the Shari'ah, mainly due to the improper sequencing of contracts. The study also discovered that IBs adopt different approaches in dealing with SNC events and the income derived therefrom. Finally, the study noted the influence of board of director/management on certain Shari'ah decisions particularly on the treatment of non-halal (impermissible) income. **Practical implications:** The findings of the study serve as a reference to industry players and regulators in formulating a Shari'ah non-compliance risk management framework for tawarruq practices. **Originality/value:** The survey on SNC issues in tawarruq practice constitutes the first of its kind in the existing literature. © 2020, Mohammad Mahbubi Ali and Rusni Hassan.

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