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**INTERBANK COMMODITY MURABAHAH FOR
FUNDING LIQUIDITY MANAGEMENT IN MALAYSIA**

MOHAMAD ZABIDI

**INTERBANK COMMODITY MURABAHAH FOR FUNDING LIQUIDITY
MANAGEMENT IN MALAYSIA**

MANAGEMENT IN MALAYSIA



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**DOCTOR OF BUSINESS ADMINISTRATION
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2021**

**INTERBANK COMMODITY MURABAHAH FOR FUNDING LIQUIDITY
MANAGEMENT IN MALAYSIA**

By



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UUM
Universiti Utara Malaysia

**Dissertation Submitted to
Othman Yeop Abdullah Graduate School of Business,
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OTHMAN YEOP ABDULLAH GRADUATE SCHOOL OF BUSINESS
UNIVERSITI UTARA MALAYSIA

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ABSTRACT

Liquidity instruments for banks' monetary operations are diverse and available for both conventional and Islamic financial institutions (IFIs). Interbank Commodity *Murabahah* (ICM) was offered in the Malaysian market from 2009 till 2018 as one of the liquidity management tools for Islamic banks. ICM utilisation and demand by Islamic banks are still low due to Shari'ah, operational risks, commodity costs, and timing issues. This research aims to analyse ICM practices and investigate ICM structure and mechanism as an instrument that fulfils IFIs' liquidity needs and investment opportunities. In doing so, this research reviewed issues from Shari'ah and operational perspectives, such as the time for completion of transactions and the brokerage fees involved in commodity *Murabahah* transactions. Interviews, survey and autoregressive distributed lag model (ARDL) were used to assess current industry practices. This study found that higher costs brokerage fees charged by commodity suppliers and lengthy completion time caused by manual processes for transactions lead to declining ICM practices. Improper contract sequence was identified as a significant potential to raise Shari'ah non-compliance risks in the Tawarruq processes. The study recommends that Islamic banks adopt automated processes and standardised practices to mitigate Shari'ah and operational risks with more robust and efficient Structured Tawarruq. The findings of this study are expected to serve as a reference to industry players and regulators in improving the current Tawarruq processes of Islamic banks in Malaysia from controversial to more structured Tawarruq. IFIs should endeavour to identify better alternatives by creating more innovative products instead of mirroring conventional banking.

Keywords: Interbank commodity *Murabahah*, liquidity management, issues and challenges

ABSTRAK

Terdapat pelbagai instrumen kecairan untuk operasi kewangan institusi kewangan konvensional dan Islam (IFI). Komoditi *Murabahah* Antara Bank (ICM) telah ditawarkan dalam pasaran Malaysia sejak tahun 2009 sehingga 2018 sebagai salah satu alat pengurusan kecairan bagi bank-bank Islam. Penggunaan dan permintaan terhadap ICM oleh bank-bank Islam masih rendah berikutan isu syariah, risiko operasi, kos komoditi, dan tempoh masa. Kajian ini bertujuan untuk menganalisis amalan ICM sebagai alat pengurusan kecairan serta menyiasat struktur dan mekanisme ICM sebagai satu instrumen dan peluang pelaburan IFI. Dengan itu, kajian ini menyemak isu-isu dari perspektif syariah dan operasi seperti tempoh masa yang diperlukan untuk menyelesaikan transaksi dan firma pembrokeran dalam transaksi komoditi *Murabahah*. Temu bual, tinjauan dan model *Autoregressive Distributed Lag* (ARDL) digunakan untuk menilai amalan industri masa kini. Kajian ini mendapati kos komoditi yang lebih tinggi dikenakan oleh firma pembrokeran pembekal komoditi dan tempoh masa menyelesaikan transaksi yang lama disebabkan proses manual transaksi menjejaskan penerimaan terhadap ICM. Susunan kontrak yang tidak teratur didapati berpotensi besar untuk menimbulkan risiko tidak patuh syariah dalam proses *Tawarruq*. Kajian ini mengesyorkan agar bank-bank Islam menggunakan proses automatik dan amalan terpiawai untuk mengurangkan risiko syariah dan operasi dengan *Tawarruq* Berstruktur yang lebih mantap dan cekap. Dapatan kajian ini diharapkan menjadi sumber rujukan kepada pemain industri dan pengawal selia dalam memperbaiki proses *Tawarruq* di bank-bank Islam di Malaysia daripada *Tawarruq* yang berkontroversi kepada yang lebih berstruktur. IFI perlu berusaha keras untuk mengenal pasti alternatif yang lebih sesuai melalui penghasilan produk lebih berinovasi tanpa dibayangi perbankan konvensional.

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Kata kunci: Komoditi *Murabahah* antara bank, pengurusan kecairan, isu dan cabaran

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GLOSSARY OF TERMS

Glossary for Arabic terms implement in Islamic Banking and finance used in this dissertation. There are a lot of Arabic terms used in this research, but we summarized a few of them in this glossary as follows:

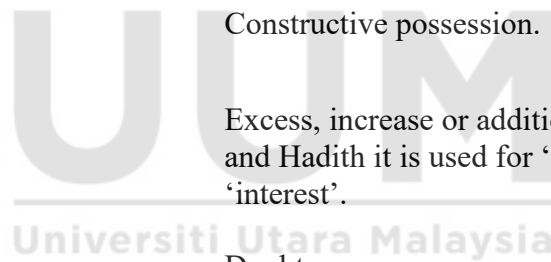
TERM	DEFINITION
<i>Al-Ijarah Thumma Al-Bai</i>	Lease contract followed by ownership of asset through sales contract.
<i>Al Salam</i>	Advance payment sales contract.
<i>Bay Ajilin bi Ajil</i>	Sale of something to be delivered immediately for a price to be paid later.
<i>Bay'wa Salaf</i>	A combination of an exchange contract including sale or lease contract with a loan contract.
<i>Bai' al 'Inah</i>	Sale contract followed by repurchase by the seller at a difference price.
<i>Bai ad-Dayn</i>	A contract of sales or purchases of debt or securities.
<i>Bai' Bithaman Ajil</i>	Sale contract based on deferred payment at certain price.
<i>Bay' Al-Tawarruq</i>	Purchasing an asset with deferred price, either on the basis of <i>Musawamah</i> or <i>Murabahah</i> , than selling it to third party to obtain cash.
<i>Bay'al-Tawarruq al-Fardi</i>	Classical <i>Tawarruq</i> where that the client to perform the commodity sale or purchase transaction directly with a third party.
<i>Bay'al-Tawarruq al-Munazzam</i>	Organized <i>Tawarruq</i> where that the bank will act as an agent to perform the commodity sale or purchase transaction with a third party on behalf of the customer.
<i>Hilah</i>	Legal stratagem or ruse used to avoid prohibited or inconvenience action or

	an apparent illegal mean to achieve a permissible end.
<i>Ijab</i>	Offer.
<i>Istithmar</i>	Investment.
<i>Istisna</i>	The sale contract by the way of order for certain product with certain specification and certain mode of delivery and payment (either cash or deferred).
<i>Ijarah</i>	Lease or service contract that involves benefit or <i>usufruct</i> of certain asset or work for an agreed payment or commission within an agreed period.
<i>Majma' Rabitah al-Alam al-Islami</i>	The Muslim World League is a Pan-Islamic NGO based in Mecca, Saudi Arabia that aims to clarify the true message of Islam by advancing moderate values that promote peace, tolerance and love.
<i>Maslahah</i>	Benefit or interest.
<i>Mu'amalah</i>	Refer to commercial and civil acts or dealing under Islamic law. Islamic law divides all legal acts into either ibadat or muamalat. Also call <i>Muamalat</i> .
<i>Murabahah</i>	Sale contract with a disclosure of the asset cost price and profit margin to the buyer.
<i>Mudharabah</i>	Profit sharing contract.
<i>Munthobiq</i>	Structured or controlled.
<i>Musawamah</i>	Sale contract without the disclosure of the asset cost price and profit margin to the buyer.
<i>Al-Mutawariq</i>	The party (purchaser or) who seek liquidity or cash.



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<i>Mustawariq/Mustawriq</i>	Customers or Individual.
<i>Mu`ayyan Bi al-Zat</i>	Specifically determined.
<i>Musyarakah Mutanaqisah</i>	A contract of partnership that allow one (or more) partners to give a right to gradually own his share of the asset to the remaining partners based on agreed terms or call diminishing partnership.
<i>Qabul</i>	Acceptance.
<i>Qard</i>	Loan contract.
<i>Qard Hasan</i>	Benevolent loan.
<i>Qabd haqiqi</i>	Physical possession.
<i>Qabd hukmi</i>	Constructive possession.
<i>Riba</i>	Excess, increase or addition. In Quran and Hadith it is used for 'usury', or 'interest'.
<i>Shubuhah</i>	Doubt.
<i>Takhliyah</i>	The purchaser took possession.
<i>Tamkin</i>	The purchaser would have access to the asset.
<i>`Urf tijari</i>	Customary business practice.
<i>Wadi`ah</i>	Safe keeping contract in which a party entrusted his property to another party for safe keeping and to be returned upon request.
<i>Wadiyah Yad Dhamanah</i>	Deposited on the basis of trust. Saving or deposit with guarantee.
<i>Wakalah</i>	Agency contract.



LIST OF ABBREVIATION

AITAB	Al-Ijarah Thumma Al-Bai
AAOIFI	Accounting and Auditing Organization of Islamic Financial Institutions
ACI	Financial Market Association of Malaysia
ADF	Augmented Dickey Fuller
AIC	Akaike Info Criterion
AP	Account Payable
AR	Account Receivable
AB-i	Acceptance Bill Islamic
AIBIM	Association of Islamic Banking and Financial Institutions Malaysia
ARDL	Autoregressive Distributed Lag
BBA	<i>Bay' Bithaman Ajil</i>
BCBS	Basel Committee on Banking Supervision
BIMB	Bank Islam Malaysia Berhad
BNM	Bank Negara Malaysia
BNMN	Bank Negara Monetary Notes
BNNN	Bank Negara Malaysia Negotiable Notes
BSAS	Bursa <i>Suq Al-Sila'</i>
BMIS	Bursa Malaysia Islamic Service
CB	Conventional Banks
CCPRS	Cross Currency Profit Rate Swaps
CIIF	Chartered Institutes of Islamic Finance

CIMB	CIMB Islamic Bank
CMP	Commodity <i>Murabahah</i> Programme
CM	Commodity <i>Murabahah</i>
CMD-i	Commodity <i>Murabahah</i> Deposit-i
CPs	Commercial Papers
CPO	Crude Palm Oil
CSP	Checklist Commodity Supplier Platform
CTP	Commodity Trading Platform
DBLM	Dual Banking Leveraging Model
DFI	Development Financial Institution
DIB	Dubai Islamic Bank
DOI	Diffusion of Innovations
DSN	Dewan <i>Shari'ah</i> Nasional
ECT	Error Correction Term
ECM	Error Correction Model
ETP	Eiger Trading Platform
EVP	Executive Vice President
FAST	Fully Automated System for Tendering
FCA	Financial Conduct Authority
FS	Financial Sector
FRAs	Fixed Rate Assets
FX	Foreign Exchange
GII	Government Investment Issues
GCC	Gulf Cooperation Council
HQ	Head Office

IBs	Islamic Banks
IAB	Islamic Acceptance Bills
IAIS	International Institute of Advance Islamic Studies
ICM	Interbank Commodity <i>Murabahah</i>
ICBU	International Currency Business Unit
IFN	Islamic Finance News
IFAS	Islamic Financial Accounting Standard
IFSB	Islamic Financial Services Board
IFIs	Islamic Financial Institutions
IFSA	Islamic Financial Services Act
IIMM	Islamic Interbank Money Market
INCIEF	International Centre for Education in Islamic Finance
IILM	International Islamic Liquidity Management Corporation
IPDs	Islamic Private Debt Securities
IPRS	Islamic Profit Rate Swaps
ISRA	The International Shariah Research Academy
JFX	Jakarta Future Exchange
KFH	Kuwait Finance House
LCR	Liquidity Coverage Ratio
LME	London Metal Exchange
MAA	Master Agency Agreement
MII	Mudarabah Interbank Investment
MITB	Malaysian Islamic Treasury Bills
MIFC	Malaysia International Islamic Financial Centre
MUI	Majlis Ulama Indonesia

NSFR	Net Stable Funding Ratio
NIDC	Negotiable Islamic Debt Certificate
OIC	Organisation of Islamic Cooperation
OLS	Ordinary Least Squares
PPKM	Persatuan Pasaran Kewangan Malaysia
PBUH	Peace Be Upon Him
PP	Philip Pheron
RM	Ringgit Malaysia
REPO	Repurchase Agreement
RCCSP	Review Checklist on Commodity Supplier Platform
RQ	Research Questions
SFHs	Special Finance House
SC	<i>Shari'ah</i> Committees
SAC	Shariah Advisory Council
SIC	Schwarz info Criterion
SMS	Short Message Service
SP	Structured Products
SOP	Standard Operating Procedure
SNC	<i>Shari'ah</i> Non-Compliant
STMMD	Short Term Money Market Deposit
TAM	Technology Acceptance Model
TMC	Technology Marketing Corporation News
TRA	Theory of Reason Action
TPB	Theory of Planned Behavior
UAE	United Arab Emirates

UK	United Kingdom
US	United State of America
USD	United State Dollar
VDC	Variance Decomposition Analysis
W	Weightage



CHAPTER 1

INTRODUCTION

1.1 Background of the Study

Financial experts have reached a consensus that liquidity is part and parcel of any financial institution, including the Islamic banking institution. As such, to ensure the smooth operations of banks and the economy as a whole, it is crucial for liquidity to be managed efficiently. The primary source of liquidity in the market is short-term money market instruments, where Islamic banks and their conventional equivalents offer long-term loans and project funding by utilising short-term mobilised deposit funds. This can potentially lead to inconsistencies in asset liability, thus making banks susceptible to liquidity issues (Muttalib, 2014).

In 1997, Malaysian Islamic banks failed to offer viable deposit rates due to the poor performance of fixed rate assets (FRAs), such as *Bai Bithaman Ajil* (BBA), or deferred payment sales and *Al Ijarah Thumma Al Bai* (AITAB), or lease ending with a purchase, and had to rely on Islamic-oriented money market funds for outflow of deposits. Year 1997 was the year of the economically debilitating Asian financial crisis, where although interbank Islamic trading increased significantly to RM134 billion, equivalent to 176%, Islamic-based deposits experienced a sharp decline of RM200 million (Saiful Azhar, 2015). Based on statistics of Bank Negara Malaysia (BNM) as at February 2019, the total deposits of Islamic banks was at RM547 billion, while interbank Islamic trading stood at RM97 billion, showing ample liquidity in the market.

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INTERVIEW GUIDE

INTERBANK COMMODITY *MURABAHAH* (ICM) FOR LIQUIDITY
MANAGEMENT IN THE MALAYSIAN MARKET: AN ANALYSIS FROM
OPERATIONAL BANKING PERSPECTIVE

1. Is ICM your main product for liquidity management on a daily basis? If yes, what are the advantages using ICM for liquidity management?
2. Why is ICM not a favorite product used on a daily basis for liquidity management? What are the factors in your opinion that lead to declining usage of ICM in the Interbank Market?
3. Operational risk and *Shari'ah* issues affect the usage of ICM. Can you explain those issues?
4. In your opinion and experiences, what are the issues on *Shari'ah* Non-Compliance event that always occur in *Tawarruq* practices?
5. How does cost and timing of transactions of *Tawarruq* practices affect the usage of ICM?
6. What is the proposed solution to enhance the usage of ICM?
7. In your opinion, what alternative product can replace the ICM or should this product be maintained?



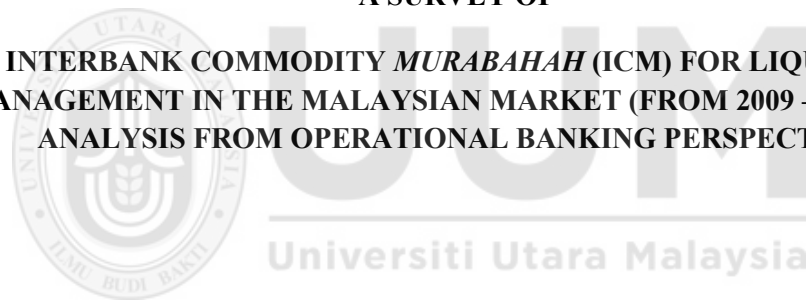
Othman Yeop Abdullah
Graduate School of Business

Universiti Utara Malaysia

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A SURVEY OF

**INTERBANK COMMODITY *MURABAHAH* (ICM) FOR LIQUIDITY
MANAGEMENT IN THE MALAYSIAN MARKET (FROM 2009 – 2018): AN
ANALYSIS FROM OPERATIONAL BANKING PERSPECTIVE.**



General Instructions and Information

All individual responses to this questionnaire will be kept STRICTLY CONFIDENTIAL.

Please do not worry about questions that seemingly look alike. If you do not have the exact answer to a question, please provide your best judgement by ticking the appropriate boxes to the questions. Your answers are very important for the accuracy of the study.

If you wish to make any comment, please feel free to use the space at the end of the questionnaire.

SECTION I: INTERBANK COMMODITY *MURABAHAH* FOR LIQUIDITY MANAGEMENT

1. Based on the statistics, about 80% of the *tawarruq* structure has been used in Islamic banking products. *Tawarruq* has been used by your bank for which of the following products?
 - Deposit
 - Financing
 - Trade Finance
 - Treasury

2. Which product in Treasury has been used by your bank using *Tawarruq*?
 - Interbank placement and borrowing
 - Short-Term Money Market Deposit
 - FX Option
 - IPRS
 - CCPRS
 - Structured products
 - Commodity hedging
 - Islamic Repo
 - Others (Please specify) _____

3. Which types of instruments does your bank use for liquidity management?
 - Interbank lending & borrowing
 - Interbank lending & borrowing *Tawarruq*
 - Interbank lending & borrowing *Wakalah*
 - Interbank lending & borrowing *Mudharabah*
 - GII / SPK
 - IILM Sukuk
 - Corporate *Sukuk*
 - MITB
 - NIDC & NID
 - BNNN/BMNM/SBNMI
 - Others (Please specify) _____

4. How do you control or manage day-to-day financial liquidity while engaging with lending activity in *Shari'ah* compliance way?
 - Qard* Interbank Lending/Borrowing
 - Tawarruq* Interbank Lending/Borrowing
 - Wakalah* Interbank Lending/Borrowing
 - Salam* Interbank Lending/Borrowing

5. What is the portion of *Tawarruq* transaction in interbank market activity for liquidity management?
- Less than 20%
 - 20% - 40%
 - 41% - 60%
 - 61% - 80%
 - More than 80%
6. What is the average volume of interbank *Tawarruq* usage on a daily basis for liquidity management and gapping?
- Less than RM100 million
 - RM101 million – RM500 million
 - RM501 million – RM1.0 billion
 - More than RM1.0 billion
 - None
7. What is the platform used by your bank to facilitate interbank *Tawarruq* transactions?
- BSAS
 - Sedania
 - DD Capital
 - Ableace Raakin
 - Shoraka
 - Others (Please specify) _____
8. Interbank Commodity *Murabahah* is one of the products for liquidity management on a daily basis. What are the advantages of using Commodity *Murabahah* as liquidity management?
- Capital and profit guaranteed
 - Profit rate is fixed upfront
 - IFSA 2013 qualified *tawarruq* as deposit
 - Easy to deal and understand by Non-Muslim dealers
 - Others (Please specify) _____
9. Based on BNM statistics, the usage of Interbank Commodity *Murabahah* is only 2% compared to other products, such as *Qard* from 2009 - 2018. What are the factors in your opinion that have led to declining usage of Commodity *Murabahah* in the Interbank Market?
- The master agreement is lengthy and complicated
 - A lot of manual processes (long time taken)
 - Tawarruq* is done by the dealers
 - Higher brokerage cost by commodity brokers
 - Additional cost compared to conventional

- BNM mopping up liquidity to focus more on using *Qard*
- Shari'ah* non-compliance issue
- Others (Please specify) _____

10. Which of the following solutions can enhance or increase the usage of Interbank Commodity *Murabahah*?

- Simplify the master agreement
- Automate the process or Straight-Through Processing, including *akad*
- Centralise the processing of *Tawarruq* at back office
- Lower brokerage cost by commodity brokers
- BNM mopping up liquidity to focus on using Commodity *Murabahah*
- Strengthen internal *Tawarruq* policy
- Others (Please specify) _____

11. In your opinion, should Commodity *Murabahah* be maintained?

- Yes
- No

12. What alternative products can replace the Interbank Commodity *Murabahah*?

- Salam*
- Qard*
- Mudharabah*
- Wakalah*
- Short-term *sukuk*
- Amendment of IFSA 2013 to qualify *Wakalah* as Deposit
- Others (Please specify) _____

SECTION II: SHARI'AH NON-COMPLIANCE EVENTS IN INTERBANK COMMODITY MURABAHAH VIA TAWARRUQ ARRANGEMENT.

13. Based on your experience, which one among the listed below contributes “relatively highly” toward *Shari'ah* non-compliance events in your bank?

- Tawarruq*
- Innah*
- Wakalah*
- Qard*
- Mudharabah*
- Salam*

14. *Shari'ah* compliance issues and operational risk issues affect the usage of Commodity *Murabahah*. Please rank the (potential) common *Shari'ah* non-compliant events in Commodity *Murabahah*:

Type of Event	Ranking (1-5) 1 = Most Common 5 = Least Common
The asset sold to customer before bank purchases the commodity from broker	
Appointment of agent is not stated in legal documentation (no <i>wakalah</i> agreement)	
The asset is not properly specified in the agreement	
The asset is not <i>Shari'ah</i> compliant. The asset is not recognised by <i>Shari'ah</i>	
The underlying contract is expressed wrongly	
The price is mistakenly disclosed	
The document is embedded with a clause that the buyer is strictly to take delivery	
No evidence of execution of each sales and purchase contract by appropriate documentations or records.	
Disbursement of funds before contract executed. No proper sequence or supported by proper evidence	
The purpose of usage of funds is not <i>Shari'ah</i> compliant	
Forget to do Commodity <i>Murabahah</i> transaction	
The offer and acceptance not expressed orally, in writing or by any other method recognised by <i>Shari'ah</i> (offer and acceptance)	
The <i>Tawarruq</i> contains conditions that require the purchaser to promise that the asset will be sold to its original seller (<i>Innah</i>)	
Others (Please specify)	

SECTION III: BACKGROUND INFORMATION

15. Type of Bank

- Full-Fledged Islamic Bank
- Subsidy of Conventional Bank
- Islamic window
- International Currency Business Unit
- Development Financial Institutions or Others

16. Role in your bank

- Shari'ah Committee Member
- Treasurer
- Funding Dealer
- Other role (Please specify) _____

17. How long you have been in the banking industry?

- Less than 1 year
- 1 – 5 years
- 5 – 10 years
- More than 10 years

18. Which of the following can describe your education level?

- Primary/secondary school
- College diploma/matriculation/A-level
- Bachelor's (First degree)
- Master's
- PhD
- PPKM license

Thanking you for taking time to complete this questionnaire. Your assistance in providing this information is very much appreciated.

If there is anything else you would like to tell us about this survey or other comments you wish to make that you think may help us to understand the operations of Islamic Banks and issues arising thereof, please do so in the space provided below.

APPENDIX 3

Standard Assessment / Review Checklist on Commodity Supplier Platform (CSP)

No.	Criteria	Assessment	Reference
1.	Type of commodity	<ul style="list-style-type: none"> a) To ascertain whether the CSP is providing <i>Shari'ah</i> compliant commodities. b) To verify the list of commodities and the corresponding suppliers. c) To check whether the approval from the <i>Shari'ah</i> Board/Committee has been obtained for each specific type of commodity. d) To ascertain whether the commodity is recognised by <i>Shari'ah</i>, is valuable, identifiable and deliverable. e) To ascertain the procedures and processes involved in maintaining the quality of commodities. 	Tawarruq (BNM/RH/PD 028-8), PART B, 13. Asset, 13.1 (b) (S)
2.	Existence and Ownership of the Commodity	<ul style="list-style-type: none"> a) To verify whether the commodity was in existence, already owned by the seller and sufficient during the respective transactions. b) To validate the ownership of the commodity in the respective transactions. c) To verify the accuracy of the information between the actual commodity traded by CSP and the relevant records. 	Tawarruq (BNM/RH/PD 028-8), PART B, 13. Asset, 13.2 (G) & 13.3 (S)
3.	Details of the Commodity	<ul style="list-style-type: none"> a) To verify the pertinent information relevant to the transaction, such as time, type, volume and location. b) To verify if the pertinent information matches the relevant records maintained at CSP. c) To validate the actual quantity of commodity against the CSP's stock for the particular period. d) To ascertain the availability of the commodity in terms of volume and quantity against the information in the Bank's trading certificate. e) To assess the adequacy and effectiveness of internal controls, such as the inventory movement log, position record, commodity availability, trading. 	Tawarruq (BNM/RH/PD 028-8), PART B, 13. Asset, 13.4 (S)
4.	Tawarruq Processes and Procedures	<ul style="list-style-type: none"> a) To verify that the commodity does not return to the original seller in the whole chain of <i>Tawarruq</i>. b) To ascertain that the same asset is not being used as the subject matter of multiple <i>Tawarruq</i> at any one time. c) To verify the overall end-to-end structure and transaction in the specific trading platform. 	Tawarruq (BNM/RH/PD 028-8), PART B, a) 11.Contracting Parties, 11.2 (S)

No.	Criteria	Assessment	Reference
		<ul style="list-style-type: none"> d) To validate whether the transfer of ownership from the seller to the purchaser takes effect upon entering into a valid sales and purchase contract (despite no registration of legal ownership to the purchaser). e) To verify whether the purchaser had taken possession of the asset before it was sold to a third party. f) To check if the possession of the asset is either in the form of <i>qabd haqiqi</i> (physical possession) or <i>qabd hukmi</i> (constructive possession). g) To ascertain the existence of the mandatory components of the <i>Tawarruq</i> contract i.e., contracting parties, offer (<i>ijab</i>) and acceptance (<i>qabul</i>), asset and price. 	
5.	Commodity Suppliers' Details	<ul style="list-style-type: none"> a) To verify the information provided by the commodity supplier's representative. b) To test the internal control mechanism for the commodity supplier to authenticate the accuracy of updated volume and tagging of the underlying commodity available in the specific vault. 	
6.	Delivery of Commodity	<ul style="list-style-type: none"> a) To check that CSP did not sell the commodity in advance pending delivery in the future. b) To verify the existence of the delivery mechanism and process. c) To test the delivery mechanism and to verify if it is legal and operationally workable that includes the approved incidental fees/charges/costs. d) To obtain the annual/periodical report or statistics (if any) on the overall percentage (%) of the traded commodity that has been physically delivered into the real economic environment beyond the financial <i>Tawarruq</i> environment of certain reporting period. e) To test the stock log maintained by Commodity Supplier Participant for the inventory/stocks that have been allocated to Service Provider. 	<i>Tawarruq</i> (BNM/RH/PD 028-8), PART C, 26. Risk Management, 26.4 (a) (S)
7.	Governance (Quality/Internal Control)	<ul style="list-style-type: none"> a) To validate the effectiveness of the on boarding due diligence process. b) To verify the existence of <i>Shari'ah</i> Advisers. c) To verify the effectiveness of tracking mechanism in ensuring all conditions imposed by <i>Shari'ah</i> Advisers are complied with. d) To test the effectiveness of the internal control functions. 	

No.	Criteria	Assessment	Reference
		<ul style="list-style-type: none"> e) To test the quality and internal control mechanism at the storage facilities, such as warehouse and vault. f) To test the quality of the underlying asset – i.e., lab confirmation on the quality and authenticity of the commodity as specified by a recognised commodity exchange (local and global) e.g., Malaysia Palm Oil Board 	
8	Accounting Treatment	<ul style="list-style-type: none"> a) To check the proof of accounting treatment (buy & sell). b) To test and verify the accuracy of the setting off mechanism and its accounting treatment/entries. 	<i>Tawarruq</i> (BNM/RH/PD 028-8), PART C, 28. Financial Disclosure, 28.1, 28.3 (S)
9	Performance (Financial and non-Financial)	<ul style="list-style-type: none"> a) To test the financial soundness of the CSP, such as financial performance, volume of trades and number of customers. b) To verify the operational capability, including adequacy of systems, trading and delivery capacity, asset and quality specification. c) To assess the adequacy and effectiveness of the stress testing on the CSP. 	
10	Sustainability of the Company	<ul style="list-style-type: none"> a) To verify the sustainability reporting. b) To test the nature of the company in terms of sustainability. 	