

**BNM's Shariah Standards: An
Analysis of Their Implications
on the Fatwa Framework in
Malaysian Islamic Finance
Industry**

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Presenter

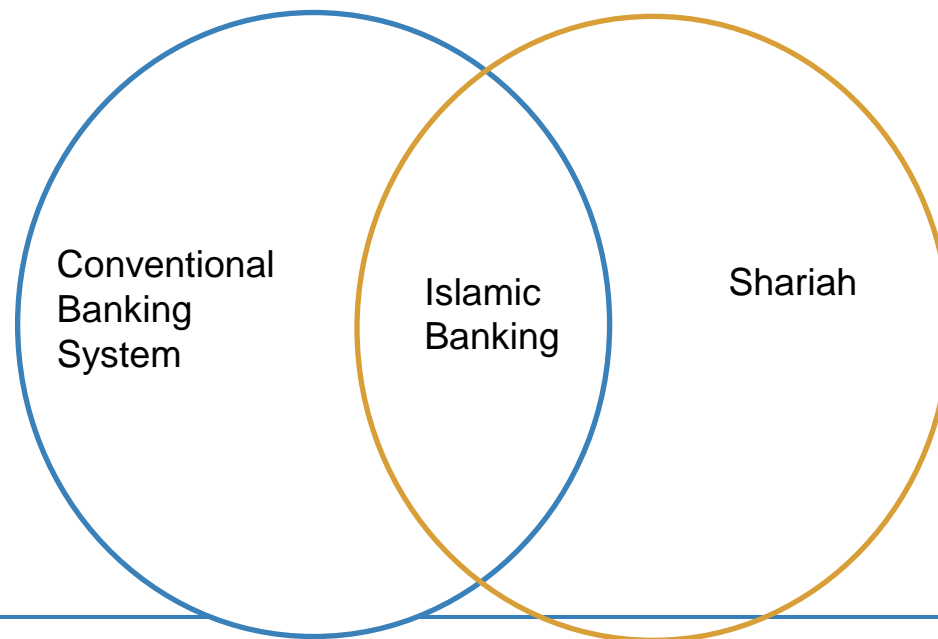
Abdullaah Jalil



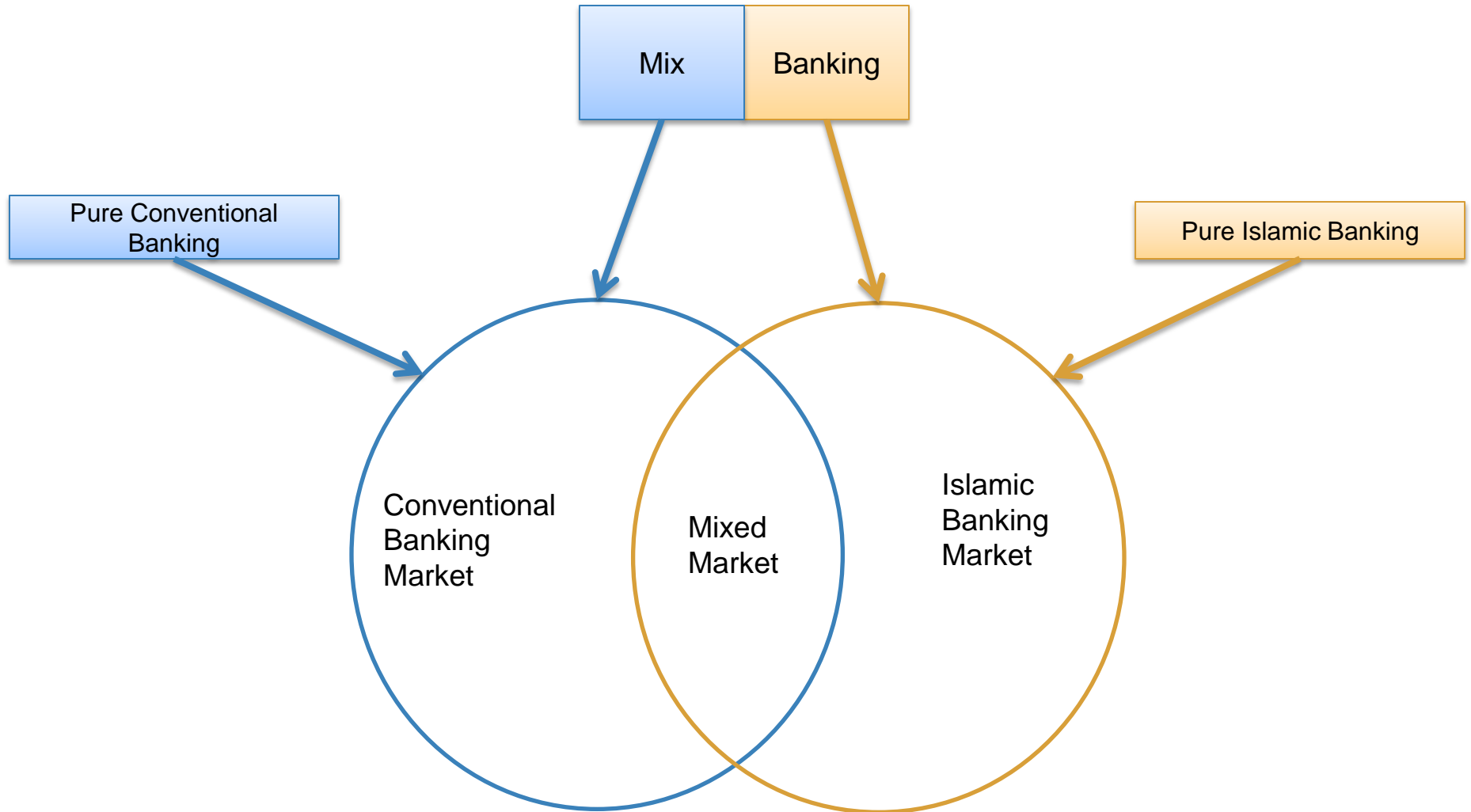
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Reality of Islamic Banking

◉A combination between “*modern conventional banking framework*” and “*Shariah principles of Muamalat.*”



Which Banking group has the largest market? Long term?



Assets, Financing and Deposits

Key Financial Indicators - Islamic Banking and Takaful Sectors

	As at end				
	2011	2012	2013	2014	2015 ^p
Islamic Banking System	RM million (or otherwise stated)				
Total assets ^{1,2}	434,665.5	494,705.2	558,295.0	615,190.0	685,391.9
% of total assets of entire banking system ^{1,2}	22.4	23.8	25.0	25.5	26.8
Total financing ^{1,2}	268,251.5	314,973.3	370,673.8	427,887.8	495,004.6
% of total loans / financing of entire banking system ^{1,2}	24.3	25.8	27.5	29.2	31.3
Total deposits and investment accounts ^{1,3}	-	-	-	-	550,139.7
Total deposits	340,695.8	386,196.8	436,327.6	494,738.3	502,992.4
Total investment accounts	-	-	-	-	47,147.3
% of total deposits and investment accounts of entire banking system ^{1,3}	24.4	25.6	26.7	28.2	30.0

Shariah Compliance is the Core of Islamic Finance



Contract-Based Regulatory Framework

Islamic finance:

Islamic banks conduct financial intermediation functions using Shariah contracts
Distinct risk and reward profiles based on Shariah contracts

End-to-end Shariah compliance under the Islamic Financial Services Act 2013

Shariah Standards

Compliance with fundamental requirements of respective Shariah contracts

Operational Standards

Strengthened risk management, governance, transparency and disclosure, market conduct and other operational aspects of applying Shariah standards

Oversight Functions

Codification of the role of the Shariah committee and board of directors of financial institutions in ensuring Shariah compliance

Resolution

Priority of payment reflective of underlying Shariah contracts

Shariah Contracts applied in Islamic financial business

ASSETS

Sales Based

- *Murabahah*
- *Istisna'*
- *Ijarah*
- *Tawarruq*

Equity Based

- *Mudarabah*
- *Musharakah*

Fee Based

- *Wakalah*
- *Kafalah*
- *Rahnu*

LIABILITIES

Islamic Deposits

- *Wadi'ah*
- *Qard*
- *Tawarruq*

Investment Accounts (Equity)

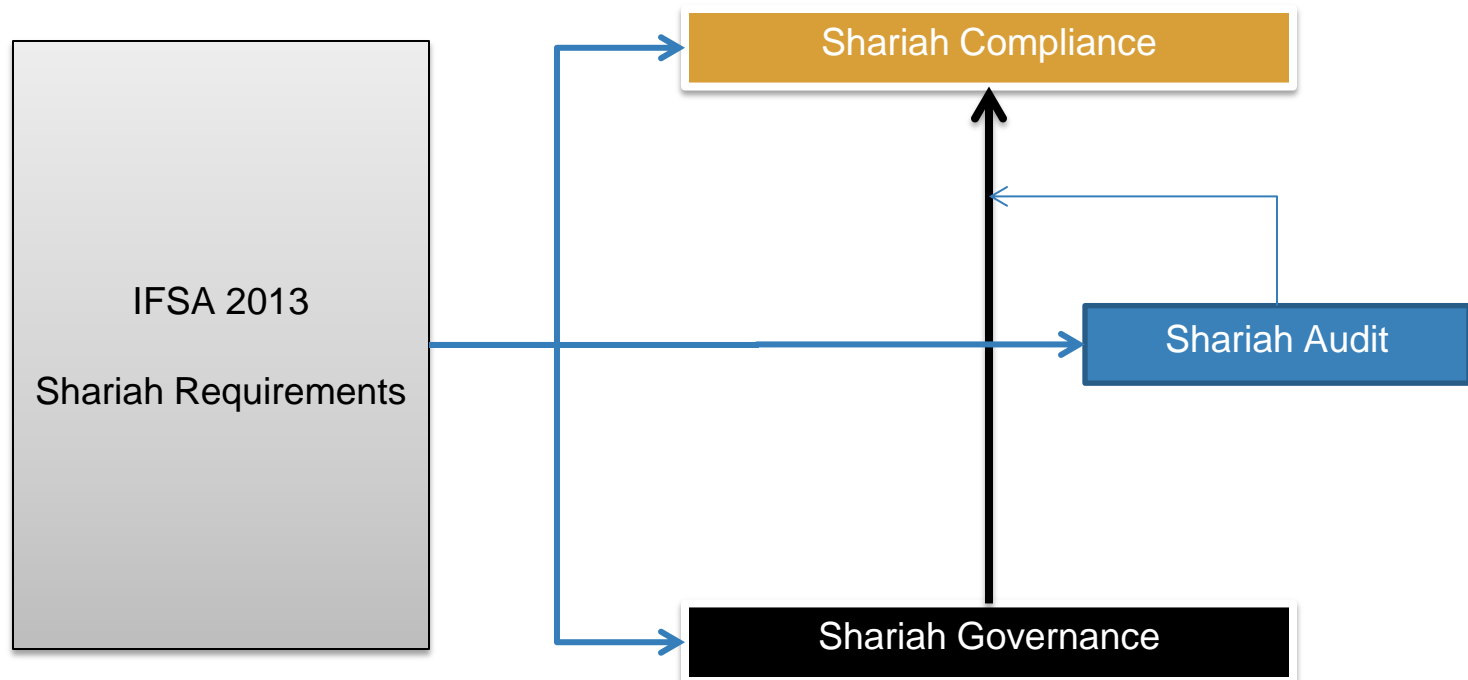
- *Mudarabah*
- *Musharakah*

Investment Accounts (Other)

- *Wakalah*

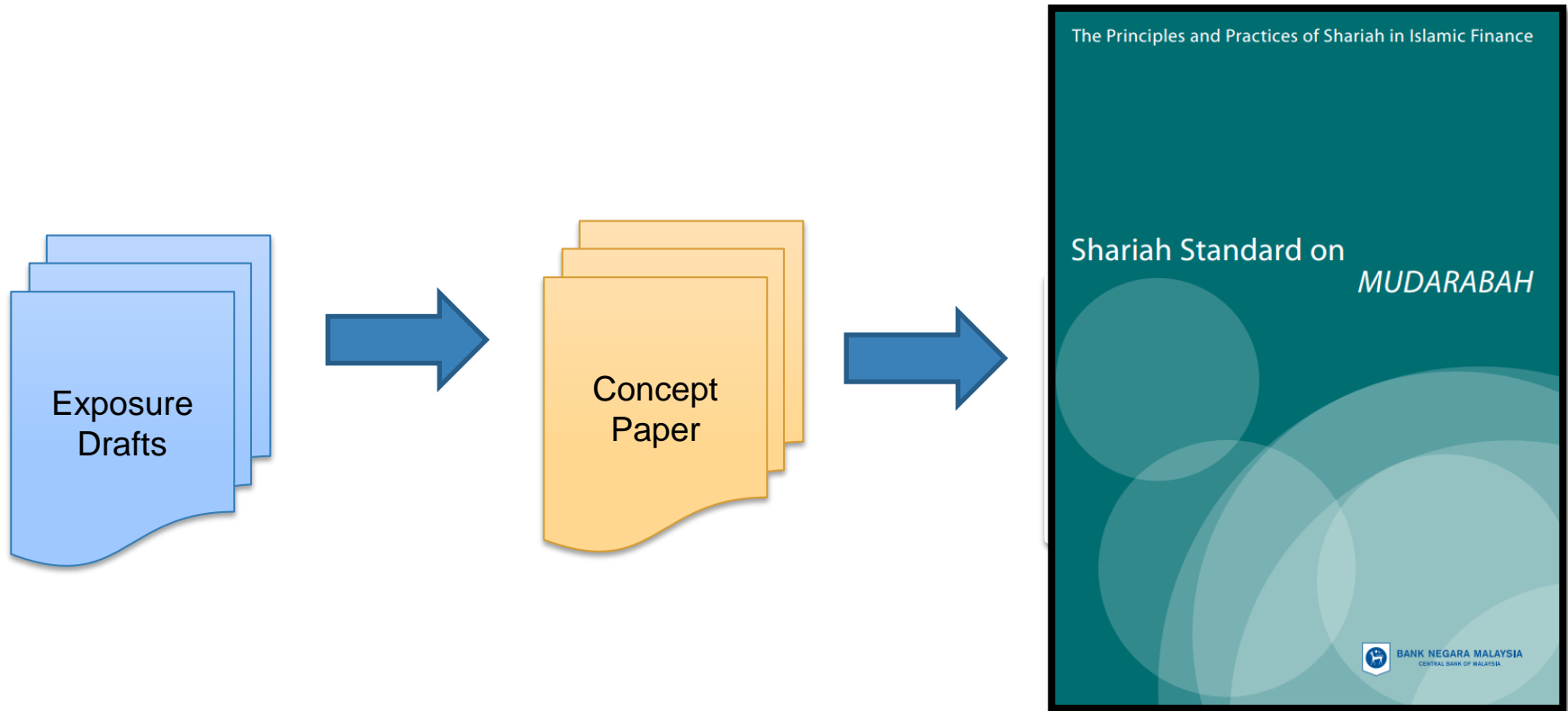
IFSA 2013 & Shariah Requirements

- IFSA 2013 has changed the landscape of legal framework for Malaysian Islamic finance industry.



The Process

◉ Shariah Standards of Contract

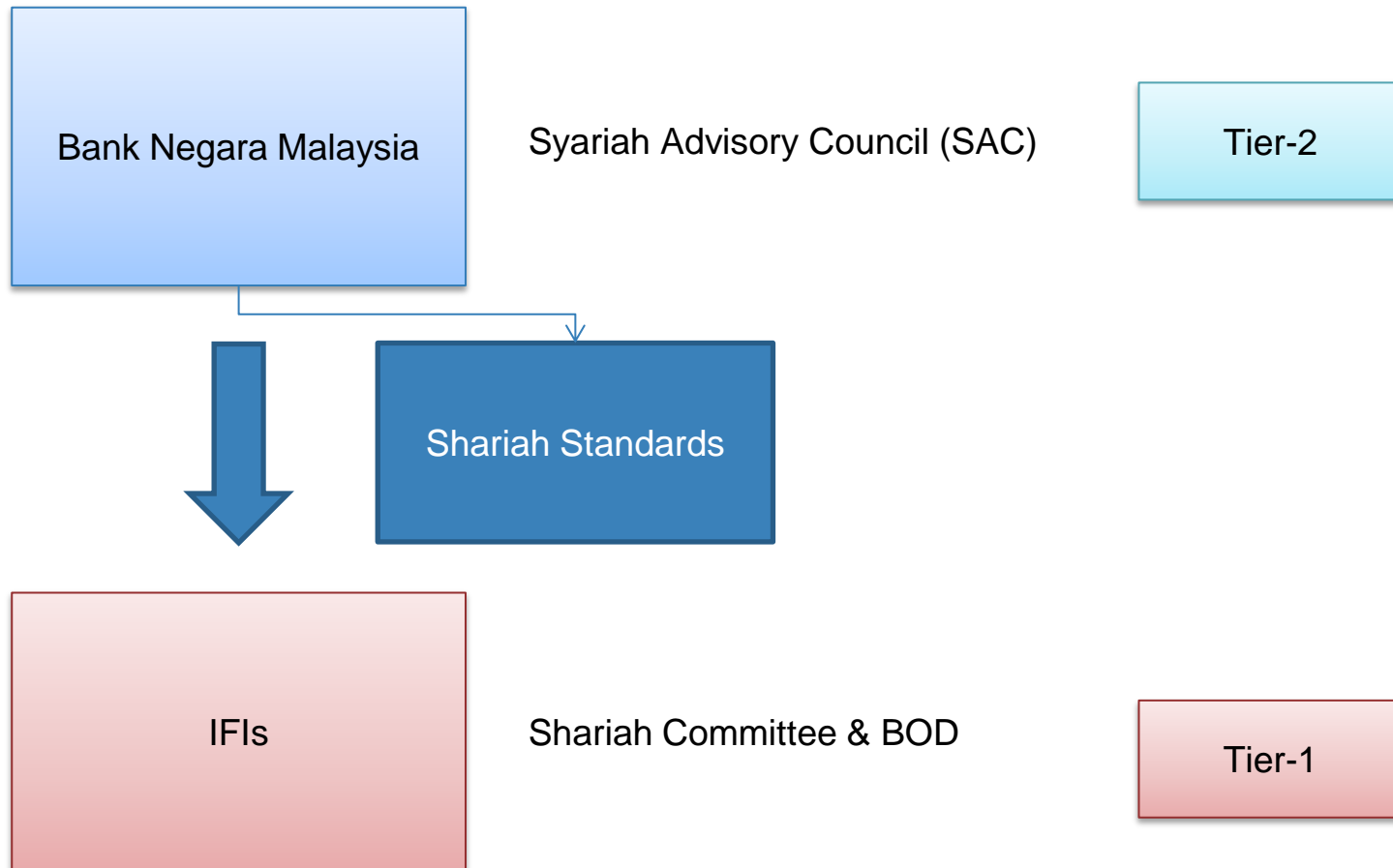


Published BNM's Shariah Standards

- ◉ Mudarabah
- ◉ Musharakah
- ◉ Murabahah
- ◉ Tawarruq
- ◉ Istisna'



Two-Tier Shariah Compliance Framework in Malaysian Islamic Finance Industry



Implications of Fatwa Framework in Malaysia

- ◉ **Codification** (*taqnin*) of fatwa / fiqh opinions in Malaysian Islamic finance industry.
- ◉ New **highly authoritative** references for Shariah in Malaysia, product development & dispute settlement.
- ◉ **Harmonization** of Shariah opinions and fatwas in Malaysian Islamic finance industry.
- ◉ **Review** of the current practices.

Shariah Standards are no longer optional for contemporary Islamic finance. For all intents and purposes, they should act like UCP500 for international trade financing. The Shariah Standards should be able to provide good Shariah governance, as well as solid basis for unlimited innovation leveraging on the broad selected principles.

Datuk Dr. Mohd Daud Bakar

The standards create more clarity in terms of Shariah interpretation to achieve a solid Shariah governance. This great initiative would be fundamental in complementing the growth of Islamic finance industry globally.

Datuk Muzaffar Hisham

The Shariah Standards and Operational Requirements will facilitate sound understanding and cohesive adoption of similar practices among Islamic Financial Institutions (IFIs). Shariah standards and policies would inevitably bring about economic and societal benefits to the Islamic financial industry as a whole. They are there to harmonise procedures, guidelines and specifications of products and services. The features identified in the standards shall serve to assist the Islamic Financial Services Industry to identify, understand, apply and distinguish one Shariah contract from the other contracts prevalent in the industry. It shall also assist IFIs in the implementation of sound banking practices, good governance, and fair market practices.

Mohamed Rafe Haneef, CEO of CIMB Islamic Bank Bhd

Thank you!

Q & A



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