

Tawwaruq Variants in Islamic Finance - Thematic Analysis and Shariah Interpretation

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Abstract

Classical sharia compliant tools of Islamic finance i.e., trade, rental, participatory and service modes, supported with ancillary non-compensatory contracts are tactfully adapted to satisfy market demand of banking and finance industry. The classical structures of these contracts with careful sharia compliant modification such as independent hybrid contracts are whole-heartedly accepted by majority of sharia scholars and sharia conscious stakeholders but some modifications and extensions in murabaha and tawarruq named as organized tawarruq (OT) are a matter of concern, particularly in the academic and scholarly world. This study aims to look into the sharia interpretation of classical tawarruq (CT) and organized tawarruq (OT). Thematic analysis is conducted comparing various regulations and market practices of OT in different jurisdictions to elaborate the interpretation of tawarruq variance in the context of Sharia.

CT and OT can be adopted with some adaptations and precautionary measures to validate these transaction from both aspects i.e., ‘substance’ and ‘form’ until the time some better solution is devised to substitute current objectionable structure of OT.

Keywords: Ina, Commodity Murabaha (CM), Tawarruq, Organized Tawarruq (OT)

1. Introduction

The word ‘tawarruq’ is originated / derived from the Arabic word ‘warq’ or ‘waraq’ means silver or minted dirham that can be used as a medium of exchange. Word tawarruq is mentioned in Surah Kahf as: “So send one of you with this silvery coin of yours to the town”.¹ Tawarruq is an Islamic financial tool for monetization. There are different viewpoints on sharia validity of classical tawarruq (CT) while there is high criticism on organized tawarruq (OT) which is sometimes mixed and is also called commodity murabaha (CM).

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About sharia status of permissibility or impressibility, Zuhaili concludes viewpoints of fuqaha as: “There are two scholarly views on tawarruq: (1) Tawarruq is permitted either by absolute permission or disapproved permission; (2) Tawarruq is prohibited. The scholars who allow tawarruq are Abu Hanifah, Abu Yusuf, Shafi‘and Ahmad. However, there is another opinion by Imam Ahmad where he disapproves tawarruq. Moreover, the Shafi‘ school, Umar bin Abdul Aziz and Mohammed bin Al-Hasan Al-Shaibani disapprove tawarruq as well. According to the vast majority of Islamic jurists, “classical tawarruq is permitted in extreme need, i.e. in order to fulfill an emergency need such as to settle a debt etc. In Islam, there are things that are prohibited due to the means which leads to those things. Therefore, if anything is prohibited because of its means, it is permitted in case of necessity. So, tawarruq is permitted in cases of necessity and this whereby there is no trick for riba.”²

The scholars of Hanafi and Hanbali schools permit classical tawarruq (CT) transaction in both aspects i.e., ‘form’ and ‘substance’ but criticize organized tawarruq (OT) transaction with regards to its ‘substance’. Maliki School condemns both CT and OT considering them tantamount to ‘ina (i.e., buy back sale transaction). Shafi‘i school accepts both transactions i.e., CT and OT wholeheartedly, considering their ‘form’ and overlooking ‘substance’ because none of the steps in these transactions violates any sharia rule.

The globally recognized regulatory bodies, (i) The International Islamic Fiqh Academy (IIFA) (ii) Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) (iii) Shariah Advisory Council, Bank Negara Malaysia (SAC-BNM), have their own stance regarding the permissibility and impermissibility of CT and OT on the basis of ‘form over substance’ and ‘substance over form’ preferences. All three regulatory bodies permit CT but have three different viewpoints on OT. AAOIFI and IIFA’s joint message for OT is: “Either do it properly, or don’t do it at all”³. AAOIFI stance is moderate but it requires some consideration to make OT adoptable for IFIs for the purpose of monetization.

2. Literature Review

According to Bouheraoua (2009), tawarruq are of two variants: one of them may be called classical variant of tawarruq (Tawarruq Farzi / Fardi) and organized form of tawarruq (Also known as Tawarruq e Munazzam).⁴ Classical tawarruq is defined in a manner as the procurement of a commodity that is being owned by the seller of the commodity for a deferred payment, subsequently the buyer then sells the commodity for on the spot cash payment to other than the original/initial seller in order to acquire cash.⁵ Whereas, Fahmy et.all (2008) define organized tawarruq as: The transaction where a person (mustauriq) procures commodity from a seller that can be of a local or international market at a deferred payment

price. Subsequently, he (mustauriq) will ask the financier in his own capacity or through his agent or by special agreement with mustauriq to execute the sale transaction usually at a lower price to be paid on the Spot.”⁶

3. Variants of Tawarruq

Tawarruq is one of the common transactions in major markets of KSA, UAE, Malaysia, Qatar and Bahrain. Two variants of tawarruq are known in Islamic finance industry: (i) Classical Tawarruq and (ii) Organized Tawarruq.

3.1 Classical Tawarruq

The procedure of classical tawarruq (CT) is appended below:

1. The Islamic Financial Institution (IFI) procures commodity on cash basis from trader A
2. With this sale, ownership of the commodity is now transferred to the IFI
3. IFI sells the commodity to the other counterparty (which usually is an institution e.g. other IFI or client) on murabaha (Cost + Profit basis) with deferred payment
4. The ownership of the subject matter i.e. the commodity is now transferred from the IFI to the counterparty
5. Now the new buyer, referred as ‘Counterparty’ sells the commodity to trader B on cash payment basis
6. Finally, the ownership of the commodity is transferred to trader B

See Classical Tawarruq (CT) in Below Figure 3.1

This process demonstrates steps of the transaction where the commodity clearly changes hands from trader A to IFI, from IFI to client, and from client to trader B. This structure reveals transfer of ownership between parties. Throughout CT transaction process each transaction is independent, having no effects on other transactions.

3.2 Organized Tawarruq (OT)

The structure of organized tawarruq (OT) is as follows:

1. IFI purchases commodity on the spot from trader A
2. Islamic Financial Institution (IFI) sells this commodity to the buyer/counterparty (e.g. other IFI or client) on murabaha (i.e., deferred payment cost plus profit basis)

At this stage, the ownership of the commodity is transferred to counterparty

3. IFI serves as an agent of counterparty and sells the commodity with spot payment to trader B. At this stage, ownership of the commodity is transferred to trader B

4. Payment received from trader B is paid to counterparty
 5. Usually deferred payment is made by the counterparty to the IFI in installments
- See Below figure 3.1 (See in Appendix 2)

Considerable points in CT structure are:

1. The counterparty assumes risk at a negligible period of time as revealed in point # 3 and 4
2. The commodity remains with IFI as the transaction is made with the concept of constructive possession
3. IFI obtains agency status from the client for selling the commodity

Organized tawarruq (OT), though different from ‘ina (i.e., buy back sale) in ‘form’ but in ‘substance’ it is almost like the same, as the whole process cast an impression that transfer of the ownership of commodity is mere paper work.

While comparing organized tawarruq (OT) with traditional Murabaha and Murabaha to purchase order (MPO) from accounting perspective, Tabraze and Ansari (2018)⁷ notice that “even if risk and reward are legally transferred in (organized) tawarruq and commodity murabaha transactions in all legs of the transactions, their nature is not exactly similar to the Murabaha (MPO) and other deferred payments’ sales. Tabraze and Ansari highlight three crucial issues in OT transaction: (i) duration of transection is extremely short (ii) third leg is pre-planned; pre-agreed and pre-organized (iii) price for third leg is almost equal to that of the first leg.

OT is criticized by many scholars and sharia regulatory bodies. Nevertheless, sharia scholars and sharia advisory councils of some jurisdictions such as Bank Negara Malaysia which is the Central Bank of Malaysia, give go ahead to this transaction.

3.3 AAOIFI Viewpoint on Tawarruq

Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) states that tawarruq (monetization) is not similar to ‘ina (buy back sale) transaction. AAOIFI defines tawarruq as: “Monetization (tawarruq) refers to the process of purchasing a commodity for a deferred price determined through musawamah (bargaining) or murabahah (mark-up i.e. Cost plus Profit sale), and selling it to a third party for a spot price so as to obtain cash”.⁸ While ‘ina is “the process of purchasing the commodity for a deferred price, and selling it for a lower spot price to the same party from whom the commodity was purchased.”⁹

In the light of AAOIFI sharia standards on tawarruq, following important points can be inferred¹⁰:

- Tawarruq is different from *ina* from both aspects: ‘form’ and ‘substance’
- Tawarruq is permissible while ‘*ina* is impermissible
- Tawarruq is a trick for evading *riba* while ‘*ina* is a trick for entering *riba*
- Tawarruq is not a ‘*ina* as it engages more than two parties
- Permissibility of tawarruq is reported by fuqaha of earlier time such as Aisha and Abdullah bin Mubarak
- Tawarruq is mostly practiced by those who dislike *riba*

Though tawarruq may be used for liquidity generation, but it is not a preferred / desirable mode of investment and financing. In order to keep tawarruq practice sharia compliant, the AAOIFI gives precautionary measures for adopting tawarruq¹¹, such as:

- Tawarruq is not allowed as mode of investment or financing
- Tawarruq is permitted only when there is a genuine need for it
- Tawarruq should be used as second option with strict controls and restrictions
- Primarily, institutions should show commitment towards desirable modes of investment and financing, such as *musharaka*, *mudaraba*, *ijara*, *istisna*’ and the like
- IFIs shall not use tawarruq product as a mere means of mobilizing and managing their liquidity for their business and operations
- IFIs shall use tawarruq transaction for the purpose of monetization only when it faces the challenge and danger of a liquidity shortage which may interrupt the flow of its operations and subsequently may cause losses to its clients
- IFIs shall avoid agency / proxy in selling the tawarruq commodity, even if agency is to be arranged with a third party
- IFIs try to avoid service of brokers for selling tawarruq commodity
- Tawarruq may be used to dispose of previous interest-based debts

3.4 IIFA View on Tawarruq

The International Islamic Fiqh Academy (IIFA) is subsidiary of Organization of Islamic Council (OIC) on advance studies of Sharia matter. IIFA released verdict on Tawarruq in its Resolution 179 (19/5). It categorizes tawarruq in three variants: classical tawarruq (CT), organized tawarruq (OT) and reverse tawarruq (RT).

IIFA defines classical tawarruq (CT) as: “Mustawriq (buyer) who buys merchandise at a deferred price in order to sell it in cash at a lower price. Usually, he sells the merchandise to a third party with the aim to obtain cash.”

IIFA defines organized tawarruq (OT): “When a person (mustawriq) buys merchandise from a local or international market on deferred price basis. The financier arranges the sale agreement either himself or through his agent. Simultaneously, the mustawriq and the financier execute the transactions usually at a lower spot price.”

According to IIFA, third variant of tawarruq is reverse tawarruq (RT) which is somewhat quite similar to organized tawarruq except that in this case: “the (mustawriq) is the financial institution and it acts as a client.”

IIFA Verdict on Three Variants of Tawarruq

Classical tawarruq (CT) (which is actually a commodity murabaha (CM)) is permissible while remaining two forms i.e. organized tawarruq (OT) and reverse tawarruq (RT) are impermissible.

Reasons for Impermissibility of OT and RT

IIFA elaborates reasons of impermissibility of OT and RT as:

“It is not permissible to execute both Tawarruq (organised and reversed) because simultaneous transactions occur between the financier and the mustawriq whether it is done explicitly or implicitly or based on common practice in exchange of a financial obligation. This is considered a deception, i.e. in order to get the additional quick cash from the contract. Hence, the transaction is considered as containing the element of riba.”

The IIFA provided rulings for tawarruq transaction are given as: “Classical form of tawarruq is permissible whereas organized form of Tawarruq is impermissible.”

According to IIFA, there are three differentiating points which render the CT permissible and OT and RT as impermissible. These differentiating points are:

1. The role of agency exercised by IFIs may change the nature of the contract, making it more closer to the form of a bai ‘ina transaction
2. This type of transaction is against the generally accepted guidelines and principles of possession as per Islamic law
3. The main objective and philosophical realm of this type of contract is to finance the client of IFI who applies for it and the IFI in order to make profit, adapts this procedure of agency (selling on behalf of client and crediting his account) which is not the actual form of tawarruq as mentioned in fiqh.

3.5 SAC BNM Viewpoint on Tawarruq

Malaysian stance on tawarruq can be traced through verdicts of shariah advisory council (SAC) of Bank Negara Malaysia. SAC-BNM expresses tawarruq and commodity murabaha as two names of same contract which is permissible in all the above said variants i.e., classical tawarruq, organized tawarruq and reverse tawarruq.

The SAC considers ‘form’ of any contract sufficient for its permissibility; it does not delve into the ‘substance’ of contract. According to the SAC, since tawarruq transactions fulfill all sharia requirement of sale transaction in its all variants, it deserves to be declared permissible.

BNM allows all variants of tawarruq in the light of the verdicts of Sharia Advisory Council (SAC), tawarruq transactions are used widely in IFIs working under BNM. Tawarruq is extensively used in liability side deposit products, financing, and asset and liability management (ALM) products as well as for risk management.

Sharia Advisory Council, Bank Negara Malaysia (SAC-BNM) defines Tawarruq as: “a mu‘amalah with two stages of transactions: At the first stage, the buyer will purchase an asset on credit from the original seller, and at the second stage, the buyer will then sell the asset on cash basis to a third party.”¹² In other words, “A tawarruq consists of two sale and purchase contracts. The first transaction involves the sale of an asset by a seller to a purchaser on a deferred basis. Subsequently, the purchaser of the first sale will sell the same asset to a third party on a cash and spot basis.”¹³

In view of Sharia Advisory Council, Bank Negara Malaysia (SAC-BNM) on tawarruq, it seems that intention of obtaining cash does not harm the transaction; rather liquidity is actual purpose of this transaction (as the term ‘tawarruq’ refers to ‘minted dirham or silver’ that is used to serve as medium of exchange).

Fatawa asked from SAC about different structures of tawarruq were declared permissible by the SAC subject to the fulfilment of sharia rulings on sales transactions. Some queries about tawarruq and their verdicts released by SAC-BNM are appended below:

3.5.1 CASE 1: Deposits based on Tawarruq¹⁴

- i. The customer (depositor) appoints the Islamic financial institution (IFI) as its proxy / agent to purchase any metal / commodity from a trader A on cash payment basis in a recognized and organized metal / commodity market
- ii. The IFI then purchases the commodity / metal from the customer on a deferred payment murabaha transaction

- iii. The IFI then sells the commodity / metal to trader B in the organized metal commodity market on cash payment basis
- iv. As an outcome of the transaction as mentioned in (ii) above, the Islamic financial institution (IFI) assumes liability to be paid to the customer on the maturity date
- v. The purchase price of commodity from metal trader A is usually the market price and the sale price of commodity to metal trader B which is also usually the same market price as per the first sale

See illustration of deposits based on tawarruq in figure 3.2 (See in Appendix 3)¹⁵

SAC BNM verdict on case 1:

“The deposit based on tawarruq is permissible.”

3.5.2 CASE 2: Financing product based on Tawarruq¹⁶

- i. IFI procures metal from metal trader ‘A’ on cash payment basis in an organized / recognized metal commodity market
- ii. IFI sells the metal to the customer on credit payment basis on cost plus profit murabaha sale and
- iii. The customer then appoints the IFI as his/her agent to sell the same metal to the metal trader ‘B’ on cash payment basis in the metal commodity market to generate cash.

See illustration of financing product based on tawarruq in figure 3.3 (See in Appendix 4)¹⁷

SAC BNM verdict on case 2:

“Financing product based on the concept of tawarruq is permissible.”

3.5.3 CASE 3: Application of Tawarruq in Sukuk Commodity Murabahah

A discussion was underway regarding the issuance of sukuk al (commodity) murabahah based on the structure of tawarruq as an alternative to existing money market products that are usually structured on the concept of bai ‘ina on the basis of the concept of ‘Durooora’. The idea is to issue sukuk involving commodity murabahah transaction through tawarruq contract to create indebtedness between the sukuk issuer and investors. The debt will be settled by the sukuk issuer on maturity date. This sukuk will be tradable in the secondary market for financial institutions that apply the concept of bai ad dayn again on the basis of “daruur’a”.

SAC BNM verdict on case 3:

“There is no objection in Shariah for the issuance of sukuk commodity murabahah based on tawarruq as long as the sale transactions involve three or more contracting parties.”

3-5-4 CASE 4: Operational Model of Commodity Murabahah House (Suq al-Sila’)

“BNM, IFIs, Securities Commission, Malaysia and Malaysian Stock Exchange had collaboratively introduced a fully electronic web-based shariah commodity trading platform named Commodity Murabahah House (CMH). The CMH facilitates commodity based Islamic investment trading and financing under the principles of tawarruq, murabahah and/or musawamah. As a start, crude palm oil (CPO) with clear specification is traded at CMH in ringgit. The CMH also offers trading in various foreign currencies to provide wider range of options, access and flexibility for International Financial Institutions to participate in Sharia commodity trading market.

In the proposed structure of CMH, the seller is required to own the CPO prior to any sale transaction. The CMH allows the buyer to receive delivery of the commodity if buying position is above commodity sale and trading accounts are not squared off on the same day. Prior to delivery, the CPO buyer must first obtain a license from the Malaysian Palm Oil Board and will be charged delivery fee determined by the CMH as well as other costs related to delivery and storage.

In this regard, the SAC was referred to whether the proposed implementation of CMH is in line with Shariah.”

1. When the commodity market is open, the banks will bid on the price for purchasing of asset/commodity and suppliers for commodities will line up in the form of supplier A, B and C. The market will open at 10.30 am and the order will be matched by ‘Trading & Clearing Engine’. After the bidding, CPO will be sold to Islamic Bank A via Broker A
2. ‘Trading and Clearing Engine’ will make sure that the delivery of commodities and trade confirmation will be sent to all the parties. The price will be credited to Trade and Clearing Engine Account upon the payment
3. Islamic bank/IFI A will sell the commodities to the Islamic Bank/IFI B on deferred payment basis.
4. Islamic Bank/IFI B will sell the commodities to ‘Trading & Clearing Engine’ via broker B. the ownership will be transferred from A to B
5. The Trading & Clearing Engine will sell the commodities to the next buyer based on the best bidding price

SAC BNM verdict on case 4:

The proposed operational structure of CMH is permissible as per shariah on the condition that it should follow all the requirements of Shariah related to trade and the traded CPO shall be identifiable and determinable (mu'ayyan bi al-zat) in terms of its location, quantity and quality in order to meet the features of a real commodity transaction. In addition, it is also recommended that the transaction shall be executed randomly so that the CMH operation is able to better meet the original features of tawarruq.

3.6 Arguments against Organized Tawarruq

Scholars who regard OT as impermissible present following arguments:

1. Two conditions in one contract are against sharia ruling mu'amlat contract. OT involves more than two conditions
2. The same commodity exchanges between same parties with different prices
3. In reality, it is just an exchange of money for money with extra sum
4. Though OT is not identical to 'ina in its 'form' but in 'substance,' this is like 'ina
5. Customer is only concerned with money which is credited in his account without engaging in economic activity
6. Imam Malik (r.a) condemned tawarruf and its variants considering them a form of 'ina
7. There is no intention whatsoever of any of the parties to possess the commodity. Rather, commodity is used as a cover/means for generating liquidity means for the real intention which is to obtain 'cash'
8. Client or IFI earns additional money by name of commodity murabaha in tawarruq transaction which is actually a selling of money with money, hence, this is tantamount to riba
9. OT is a trick to earn money through money
10. There is no actual delivery of commodity. The same exists only on paper to satisfy the conditions of sale

3.7 Counter Arguments in favor Organized Tawarruq

Scholars who regard OT as permissible justify their view as:

1. By default, all transactions are permissible in Mu'amlat (financial contracts) except the transactions that violate established sharia ruling. In the light of this maxim, tawarruq is permissible

2. General rule of business according to Quran is that “Allah has permitted *tijara* and forbidden *riba*”. OT is a sale set of three or four transactions which are sharia compliant. Process of *tawarruq* transaction with each individual contract is given below:

- **1st contract:** IFI buys halal and valuable commodity from local or international market. There is no violation of sharia rules at his stage therefore, this contract is permissible
- **2nd contract:** IFI sells this commodity to customer on deferred payment basis. Deferment of price is permissible in sharia, therefore this contract is permissible
- **3rd contract:** Customer enters another separate agency contract with IFI in order to sell his commodity to third party. Agency and selling of commodity to third party is permissible in sharia

None of the above contracts violates any sharia ruling, therefore, OT is permissible.

3. People need *tawarruq* transaction whether there is CT or OT, in order to avoid *riba* based financing. This contract is permissible rather desirable
4. Scholars have disagreement throughout the history about permissibility or non-permissibility of this contract. In the matter of *mu’amlat*, benefit goes to permissibility. Therefore, *Tawarruq* is permissible
5. Modifications in the classical form of financial contract are permissible rather admirable if these modifications facilitate public without violating sharia rule (e.g., diminishing *musharaka* (DM), *murabaha* to purchase order (MPO), *ijarah muntahiya bi tamlik* (IMBT), parallel *salam* etc.). OT is the modified and organized form of CT, therefore; these transactions are permissible
6. According to Hanafi and Shafi schools, financial contract is valid if all underlying terms and conditions fulfil sharia requirement. OT fulfills all sharia terms and conditions of sale therefore, the OT transaction is permissible
7. Unless ill-intention is revealed through confession or action; mere conjecture about ill-intention cannot invalidate the contract. Therefore, all variants of *tawarruq* including OT deserves permissibility

4. Findings

1. Majority of Abu Hanifah, Shafi’ and Ahmad school of scholars permit CT
2. Hanafi and Hanbali schools permit CT transaction in both aspects: ‘form’ and ‘substance’ but criticize OT transaction with regards to its ‘substance’

3. Maliki School condemns both CT and OT considering them tantamount to ‘ina i.e., buy back sale transaction.
4. Shafi’i school accepts both transactions i.e., CT and OT whole-heartedly considering their ‘form’ and ignoring the matter of ‘substance’ because none of the steps in these transactions violates any sharia rule
5. There is a mixed viewpoint on sharia validity of classical tawarruq (CT). Majority of earlier and contemporary fuqaha permit it
6. There is criticism on organized tawarruq (OT)
7. According to BNM, organized tawarruq (OT) and commodity murabaha (CM) are two names of the same transaction
8. Debate actually revolves around permissibility of OT
9. IIFA OIC validates CT and invalidates OT and RT categorically
10. AAOIFI validates CT categorically but permits OT with certain restrictions and controls
11. SAC-BNM validates CT as well as OT categorically
12. Malaysian IFIs practice all variants of tawarruq in deposit and financing sides

5. Conclusion and Recommendations

1. Commodity Murabaha (CM), Classical Tawarruq (CT) and Organized Tawarruq (OT) cannot be declared impermissible categorically as a group of scholars and Sharia Advisory Councils of Central Banks’ of some jurisdictions permit it in the light of sources of Islamic Law and viewpoint of early jurists
2. Due to serious criticism on OT as well as categorical verdict on its impermissibility by globally recognized sharia regulatory body, the OT should either be avoided completely or used it for monetization on serious need basis
3. Widespread use of OT could seriously harm Islamic finance industry in the long run due to highlighted sharia issues in OT
4. Excessive use of OT can raise credit risk, fiduciary and sharia compliance risk for IFIs
5. Sharia boards and sharia audit committees of Central Banks and IFIs oversee and monitor transaction of CTs, CMs, and OTs with due diligence
6. IFI should not serve as agent to the client who has just executed the sale deal
7. IFI should not arrange any agency / proxy third party to sell the commodity
8. The client should preferably sell the commodities by himself or through the agent other than the IFI

9. IFI may share relevant information to the client concerning buying or selling of commodity
10. Globally recognized sharia regulatory bodies, particularly IIFA-OIC and AAOIFI should provide alternate sharia compliant solution for liquidity arrangement
11. Tawarruq structure should avoid mysterious structures
12. Tawarruq structure should comply with viewpoints of majority of sharia scholars
13. Islamic Finance Industry should devise robust unanimously acceptable transaction for liquidity management as an alternative to OT
14. While using the mode of Murabaha, securities that may be structured as 'Held to maturity' instrument can be issued and can play in the development of Islamic Capital Markets (ICM) in any economy.
15. While addressing the issues that include Shariah non-compliance as well as risk management through the use of CM, Shariah Compliant Open Market Operations (OMO) can be performed by the regulators.
16. The usage of Murabaha securities cannot just increase the ICM and can add great instruments for helping FIs to manage their liquidity efficiently but it can also play an important role in organizing the commodities market especially in the context of developing economies and as a result will shorten the process and path between the end users and producers resulting in prosperity to the commodity producers.
17. Appendix 1

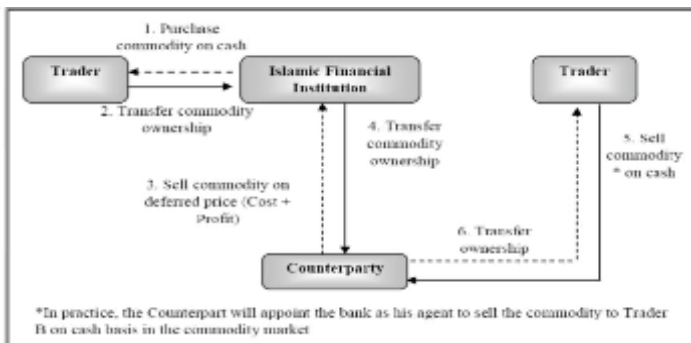


Illustration of classical tawarruq (CT): Figure 3.1 (Appendix 2)

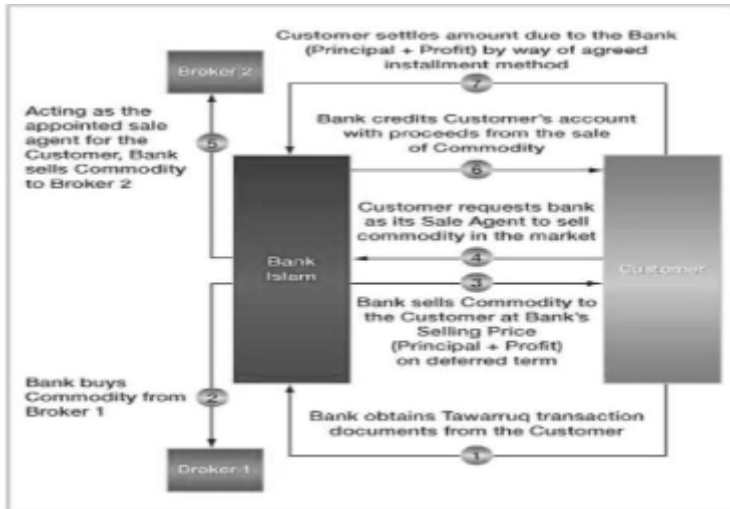


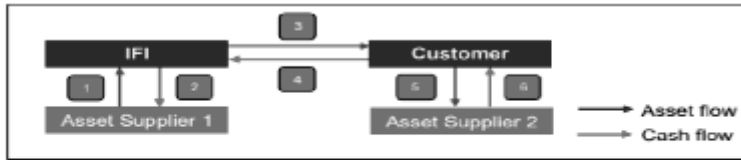
Illustration of organized tawarruq (OT): Figure 3.2 (Appendix 3)



A customer makes a fixed deposit placement of RM100,000 with the IFI for a 90-day period. Upon this request, the IFI executes the *tawarruq* arrangement.

1. The customer appoints the IFI as its agent to purchase the asset from Asset Supplier 1 with selling price of RM100,000.
2. The IFI uses the cash deposit placed by customer to pay for the purchase.
3. Subsequently, the customer appoints the IFI as its agent to sell the asset to the IFI itself at an agreed selling price of RM100,863 (RM100,000 + profit RM863 i.e. 3.5% per annum)
4. The IFI makes deferred lump sum payment to customer upon maturity of the deposit placement.
5. Subsequently, the IFI sells the asset to Asset Supplier 2 on spot at selling price of RM100,000.
6. The IFI obtains cash of RM100,000 as per the deposit placement.

Illustration of deposits based on tawarruq: Figure 3.3 (Appendix 4)



A customer requires financing of RM100,000 from the IFI. Upon this request, the IFI executes the *tawarruq* arrangement.

1. The IFI purchases the asset with selling price of RM100,000 from Asset Supplier 1.
2. The IFI pays cash to Asset Supplier 1.
3. Subsequently, the IFI sells the asset to the customer at an agreed selling price of RM120,000 (RM100,000 + profit RM20,000).
4. The customer makes deferred payments through monthly instalments for a period of 5 years.
5. Subsequently, the customer appoints the IFI as its agent to sell the asset to Asset Supplier 2 on spot at selling price of RM100,000.
6. The customer obtains a cash of RM100,000 required for the financing.

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