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Islamic Finance

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Accession Of Al-Rajhi As CTP With BMIS To Give A Boost To Tawarruq Contract

The announcement that Al-Rajhi Investment and Banking Corporation Malaysia Berhad, has registered as a commodity trading participant with Bursa Malaysia Islamic Services (BMIS) to trade on its Bursa Suq Al-Sila' (BSAS) commodity Murabaha trading platform, is set to be a significant boost for the Tawarruq contract.

The Islamic banking giant which prides itself on its corporate and Shariah compliance conservatism is supporting Tawarruq, a commodity Murabaha financing and investment product, which has attracted some controversy over the last few years and which is popular amongst many Islamic banks in the GCC countries.

Some ultra-conservative Shariah scholars, discouraged the use of Tawarruq although the International Council of Fiqh Academy, did attempt to clarify the use of Tawarruq as a legitimate Islamic financing and cash management contract.

The academy suggested that classical Tawarruq whereby a person buys merchandise at a deferred price, in order to sell it for cash at a lower price, usually, to a third party, with the aim of obtaining cash is permissible, while organized Tawarruq and reverse Tawarruq are not allowed.

Organized Tawarruq is when a person (mustawriq) buys merchandise from a local or international market on a 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. Reverse Tawarruq, is similar to organized Tawarruq, except that the (mustawriq) is the financial institution, and it acts as a client.

The rationale is "it is not permissible to execute both Tawarruq (organized and reversed) because simultaneous transactions occurs between the financier and the mustawriq, whether it is done explicitly or implicitly or based on common practice, in exchange for a financial obligation. This is considered a deception, as it is done in order to get the additional quick cash from the contract. Hence, the transaction is considered as containing the element of Riba."

The dichotomy over Shariah compliance is pertinent given that only last month Cagamas Berhad, the National Mortgage Corporation of Malaysia and leading securitization house, in collaboration with Al-Rajhi issued a supposedly "innovative and the first-of-its-kind" Sukuk Al-Amanah Li Al-Istithmar (Sukuk ALIm) under Cagamas's RM5 billion Islamic Commercial Paper and Islamic Medium Term Note programs. Sukuk ALIm, stressed Al-Rajhi is one which would satisfy investors from a Shariah compliance point of view bridging Asia with the Middle East.

BSAS is able to facilitate cross border multi-currency commodity-based Islamic financing and investment transactions under the Shariah principles of Murabahah, Tawarruq and Musawwamah and claims to be the world's first end-to-end Shariah-compliant commodity trading platform.



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