

The Development of Bursa Suq Al-Sila' in Malaysia as a Commodity Trading Platform for Islamic Finance

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Bursa Suq Al-Sila' (BSAS, hereafter) is established with the objective of facilitating commodity trading transactions for Islamic financial institutions (IFIs, hereafter). BSAS is a commodity trading platform in Malaysia in order to facilitate the commodity-based transactions for its market participants by linking commodity suppliers with financial institutions. The manner of transaction is specifically called "*tawarruq*," which is an arrangement whereby a person, in need of liquidity, purchases a commodity from a seller on credit at a higher price¹). Since its inception, BSAS has undergone continuous improvements in order to ensure Shariah compliance on one hand and to foster better relationship with its various stakeholders on the other.

In the Islamic financial system, Islamic banks are required to have a positive social and economic impact that is manifested by developing the real economic sector, fair pricing practices as well as maintaining efficiency with regards to costs and adequacy of profits (Nordin & Zainuddin 2016). The involvement of Islamic banks in the real sector is required on top of the elimination of interest from banking practices. Some efforts are expected by Islamic banks in order to direct their financing capabilities toward the real sector. Priority should be given for financing projects that add value such as the financing of infrastructure, manufacturing, and other capital expenditures, as well as corporate financings. These should take precedence over consumption-oriented financing that adds little to no value to the real economy. Moderation is required in order to achieve the right balance between maximising shareholders' value and being socially, religiously and economically responsible (Ayub 2007, Aziz 2016).

The second perspective from which the Islamic financial system deals with the real economy is the requirement that financing facilities be constructed using real

1) According to Shariah definition, *tawarruq* is defined as "to buy on credit sale and sell at spot value with the objective of getting cash" (Amer & Dimitar 2008). It is also defined as commodity purchasing on credit and then selling the commodity with lower price to another seller (Dabu 2007, Ahcene 2012, Nadhirah, Asmak & Hydzulkifi 2014). Dusuki (2010) further describes that the term is used due to the asset buyer's intention to obtain liquidity instead of asset utilization or asset's value achievement.

underlying assets. Whether the financing facility is done through Islamic banking facilities or Islamic capital market instruments, the use of real underlying assets that are well specified and measured is essential. Unlike conventional finance, which is based on selling money, Islamic finance uses real underlying assets or commodities in order to facilitate the extension of funds between the customer and the Islamic bank (Hasan 2011, Aziz 2016). Obviously, BSAS represents the second purpose, aiming to support, develop and facilitate the commodity-based financial transactions.

This paper reviews the development and evolution of BSAS, particularly focusing on the role of crude palm oil (CPO) as a major commodity for transaction. BSAS witnessed a unique progress with the different milestones that had to happen to make a dream of a Shariah-compliant platform for liquidity management a reality (RAM Holdings Berhad 2017). Naturally, the very beginning of the story of BSAS starts with the establishment of Bursa Malaysia in 1930 and the different stages it went through to reach its current level of development and sophistication (Aziz 2013). The next section focused on the establishment and development of Bursa Malaysia, the mother company of BSAS. Section 2 examines BSAS and the different stages it went through to reach fruition. It explains the establishment of BSAS as the world's first electronically-based, end-to-end Shariah-compliant commodity trading platform that facilitates commodity-based Islamic financing and liquidity management solutions according to Shariah principles. Section 3 explains the functions of BSAS, including the explanation of the participants such as CSPs, CTPs and CEPs, as well as the approved commodities for *tawarruq* transaction. The final section is a brief summary of this paper.

1. The Historical Development of Bursa Malaysia²⁾

This section explains the historical milestones of the development of Bursa Malaysia. The development process of Bursa Malaysia can be divided into three main milestones that have shaped Bursa Malaysia to reach its current form, legal structure and level of development.

The Early Stages of Establishment of Bursa Malaysia (1930–1997)

The first formal organisation to work in the securities business was established in

2) This section is largely based on the information gained from the Bursa Malaysia website. https://www.bursamalaysia.com/about_bursa/about_us/corporate_history

Malaysia in 1930 under the name of the Singapore Stockbrokers' Association. The company was subsequently re-registered as the Malayan Stockbrokers' Association in the year 1937. The public trading of shares began in 1960, made possible by the establishment of the Malayan Stock Exchange. At that time, the board system had trading rooms in Singapore and Kuala Lumpur, with the two rooms linked via direct telephone lines. The Stock Exchange of Malaysia was established later in 1964. With the secession of Singapore from Malaysia in 1965, the name of the stock exchange was accordingly changed to the Stock Exchange of Malaysia and Singapore. This form of the organisation continued until 1973 when currency interchangeability between Malaysia and Singapore stopped. In that year, the Stock Exchange of Malaysia and Singapore was divided into the Kuala Lumpur Stock Exchange Berhad (KLSEB) and the Stock Exchange of Singapore. The Kuala Lumpur Stock Exchange was incorporated on December 14, 1976 as a company limited by guarantee, and it took over the operation of the KLSEB.

The Introduction of Shariah-compliant Securities and Indices (1997–2007)

The next milestone in the development of Bursa was the introduction of the Shariah-compliant securities list in June 1997, issued by the Shariah Advisory Council (SAC) of the Securities Commission Malaysia (SC). The motive in doing so was to introduce securities that are screened against a clear set of guiding principles that determine which security is permissible to be traded according to Shariah principle. This initiative was further supported with the introduction of the Kuala Lumpur Shariah Index (KLSI) in April of 1999. This index came as an attempt to answer the demands from investors seeking Shariah-compliant investments. KLSI could be used by such investors as a benchmark to measure the performance of the Shariah-compliant securities available for trade within the exchange.

In 2004, Kuala Lumpur Stock Exchange conducted a demutualization exercise and changed its name to Bursa Malaysia Berhad. The purpose of said exercise was to enhance the competitive position of Bursa. It came as a response to the global trend in the exchange sector to make it more customer-driven and market-oriented. The very next year, i.e. 2005, witnessed the listing of Bursa Malaysia on the Main Board of Bursa Malaysia Securities Berhad.

The year 2007 was an epoch-making year in terms of the development of Bursa Malaysia and its approach to promoting Shariah compliant security trading. Two main Shariah indices were launched that year. The first was FTSE Bursa Malaysia Emas Shariah Index (FBM Emas Shariah), launched in January. FBM Emas

Shariah was created to be utilised as a benchmark index for Malaysian Shariah-compliant securities after KLSI was deactivated in November 2007. The second index was FTSE Bursa Malaysia Hijrah Shariah Index (FBM Hijrah Shariah), launched in May. FBM Hijrah Shariah Index was created to be used as a benchmark for Shariah-compliant investment products that meet the screening requirements of international Islamic investors. Furthermore, in 2007, the Exchange managed to receive certifications of conformance to the standards of the ISO 9001: 2000 Quality Management System and ISO 14001: 2004 Environmental Management System.

The Development of BSAS and the Modernisation of Bursa Malaysia (2009 till now)

Bursa Suq Al-Sila' (BSAS) was established in 2009, being the world's first end-to-end Shariah-compliant commodity trading platform with the objective of facilitating commodity-based Islamic financing and liquidity management according to the Shariah principles of *murabahah* and *tawarruq*. *Murabahah* literally means a sale on mutually agreed profit (Nordin & Zainuddin 2016). Further details on how BSAS was established will be presented in the next section.

The same year also saw massive improvements in the trading experience of the exchange. For example, a new board structure comprising the Main and ACE (namely, Access, Certainty and Efficiency) Markets was officially implemented through merging the Main and Second Boards to form the Main Market. On the other hand, MESDAQ Market was revamped into an alternative market known as ACE Market. Most importantly among the milestones, Bursa Malaysia Berhad entered into a strategic partnership with the Chicago Mercantile Exchange (CME) aiming at improving accessibility to its derivatives offerings on the global level. Bursa Malaysia Derivatives Berhad was established, with CME holding 25% ownership of the equity stake and Bursa Malaysia Berhad holding the remaining 75%. Furthermore, Bursa's benchmark index, KLCI, was improved to a whole new level by adopting the FTSE international index methodology. This means the new index, known as FBM KLCI, is based on internationally accepted standards for tradability and investment and adopts a transparent methodology.

Bursa Malaysia was further enriched by the launch of ASEAN Exchanges and ASEAN Trading Link in 2011 and 2012 respectively. ASEAN Exchanges is a collaboration between Bursa Malaysia, Hanoi Stock Exchange, Ho Chi Minh Stock Exchange, Indonesia Stock Exchange, the Philippine Stock Exchange Inc., Singapore Exchange and the Stock Exchange of Thailand to form an interlinked

ASEAN capital market via higher cross-border investments, mobilisation of funds among ASEAN countries and trading of equities. On the other hand, ASEAN Trading link was launched in September of 2012 to connect Bursa Malaysia and Singapore Exchange. Later during the same year, the link was also extended to the Stock Exchange of Thailand. This link brought together 2,250 listed companies with a market capitalization of USD 1.6 trillion. This represents around 70% of the total market capitalisation of ASEAN countries. This link is expected to drastically increase capital flow and enhance liquidity and vibrancy of the ASEAN marketplace, which will eventually benefit investors in the ASEAN region (Bursa Malaysia 2017, 2018).

The year 2012 also marked the establishment of FTSE Bursa Malaysia Small Cap Shariah Index. This index is set to serve as a benchmark for Shariah-compliant investments in small-cap listings on the Malaysian stock market. This new index constitutes a part of the FTSE Bursa Malaysia Emas Shariah universe.

Moreover, continuing the development of Shariah-compliant investment avenues, Bursa Malaysia launched the Exchange Traded Bond and *Sukuk* (i.e. Islamic bond) in 2013, which marked a historic milestone for the capital market in Malaysia. This initiative created a new asset class on the exchange to further bolster Malaysia's leading role in the *sukuk* market.

In 2014, Bursa Malaysia launched its Bursa Marketplace, a platform that facilitates a comprehensive view of market information and insights on the Malaysian market. It encompasses in one place the information that every investor needs to be aware of. The new marketplace brings in more new investors through its unique user experience, which makes it easy to access market information and insights, and also through its approach to spreading financial literacy. The same year also witnessed the introduction of the environment, social and governance (ESG) index, FTSE4Good Bursa Malaysia (F4GBM), to measure the performance of those companies that demonstrate best ESG practices.

In 2015, Bursa Malaysia signed the Sustainable Stock Exchanges (SSE) voluntary commitment to promote sustainability performance and transparency in capital markets. This commitment comes as a reflection of the Exchange's intention to remain one of the most competitive markets worldwide through integrating global best practices. During the same year, Bursa also introduced a new Sustainability Reporting Framework that consists of amendments to the listing requirements; listed issuers must now issue an annual Sustainability Statement. The framework was accompanied with a Sustainability Reporting Guide along with six toolkits in order to aid listed issuers to prepare their Sustainability

Statements.

In 2016 the global index provider FTSE Russell announced the launch of FTSE4Good ASEAN 5 Index. This index is an ESG index that was developed in collaboration with the Association of Southeast Asian Nations (ASEAN) Exchanges. This index serves as a benchmark and consists of listed companies from five ASEAN exchanges from developed and emerging markets, namely, Singapore, Indonesia, Malaysia, Philippines and Thailand. Each listed company included in the index is subject to an assessment to ensure that it meets the standards required to be included in the FTSE4Good index.

Further, Bursa Malaysia has joined in efforts with 34 exchanges around the world to “ring the bell of gender equality.” These 34 exchanges join the Sustainable Stock Exchanges (SSE) Initiative, UN Global Compact, IFC, UN Women, Women in ETFs and the World Federation of Stock Exchanges to highlight the business case for women’s economic empowerment. They encourage the private sector to provide opportunities to advance gender equality and sustainable development. Following up on this initiative, Bursa introduced the “Empowering Women Series” which focuses on programmes for women in senior management to further develop leadership skills and prepare them for board positions in the capital market.

Bursa Malaysia also introduced “Bursa Malaysia-i” in September 2016, which is the world’s first end-to-end Shariah investing platform to mainstream Shariah investing and provide a choice for faith-based investors. Within its first year of establishment, the platform registered an average daily trading value (ADV) of RM78 million. This shows that the Bursa Malaysia-i platform will grow steadily as the shift towards ethical and value-based investing is growing in Malaysia, particularly for Shariah investing. The establishment of Bursa Malaysia-i further elevates Bursa Malaysia’s status as a leading ASEAN marketplace and emerging-market leader for Shariah-compliant trading activities across ASEAN as well as the world.

Another significant contribution was the launch of the world’s first Islamic Securities Selling and Buying-Negotiated Transactions (ISSBNT), a Shariah-compliant alternative to securities borrowing and lending in December 2017. The aim of ISSBNT is to increase the market’s liquidity and efficiency, facilitate hedging and reduce market risks, support the growth of products like Single Stock Option, RSS, IDSS, SWs and ETF, as well as facilitating trading activities and principles (Bursa Malaysia 2017).

2. The Development of Bursa Suq Al-Sila' (BSAS)

After reviewing the milestones of Bursa Malaysia's development above, this section dives deeper into the particulars of the establishment of Bursa Suq Al-Sila' (BSAS). The introduction provides a brief overview of BSAS's purpose and main features. The different phases of BSAS's development are then detailed, including the initiatives of each phase that have contributed to the current reputation BSAS enjoys among market players and regulators all over the world.

About Bursa Suq Al-Sila'

Bursa Suq Al-Sila' (BSAS) is a commodity trading platform specifically dedicated to facilitating Islamic liquidity management and financing by Islamic financial institutions (IFIs). Initiated as a national project, Bursa Suq Al-Sila' is the fruit of collaboration between Bank Negara Malaysia, the Securities Commission of Malaysia, Bursa Malaysia Berhad and industry players in support of an initiative by the Malaysia International Islamic Financial Centre (MIFC). The purpose of this platform is to address Islamic liquidity management challenges facing the industry worldwide. To manage the BSAS platform, a new entity called Bursa Malaysia Islamic Services Sdn. Bhd. (BMIS) was established. BMIS is a fully-owned subsidiary of Bursa Malaysia.

Bursa Suq Al-Sila' is the world's first initiative that aims to provide industry players with a regulated framework with defined codes of conduct governing commodity trade. BSAS is set to support Islamic interbank placements, client deposits and financing as well as *sukuk* issuances using the concepts of *muraabahah* and *tawarruq*. It is an initiative to further enhance the Islamic finance industry by embracing Shariah principles with the efficacy of modern technology in today's complex financial markets. In essence, BSAS integrates the global Islamic financial and capital markets together with the commodity market through one single engine. Participants may opt between voice broking and the automated web-based electronic system. BSAS undertakes contracts in various currencies to facilitate cross-border trades between IFIs and commodity players worldwide.

Additionally, to ensure compliance with Shariah principles, BMIS is governed by an independent Shariah committee and conducts periodical Shariah audit exercises on trades to ensure that the rules which govern members are adhered to. These are the Rules of Bursa Suq Al-Sila' (Rules of BSAS), which have been formulated in accordance with Shariah principles in order to uphold the integrity of the industry.

The evolution of BSAS

BSAS has gone through three major phases to reach its current form. The introductory phase lasted from 2005 until 2009. The second phase was the establishment of BSAS, which lasted from 2010 until 2012. The third phase entails the further development of BSAS, which started in 2013 and is an ongoing, everlasting process.

Phase one: The early introduction of BSAS (2005–2009)

The controversies over using *bay' al-'inoh* transactions to facilitate Islamic banking financing and liquidity needs motivated policymakers and market players to look into other alternatives that are more Shariah compliant and less controversial. The good intention to purify Islamic financial transactions from any potential Shariah issue led to exploring the possibilities of adopting *tawarruq* transactions instead of *bay' al-'inoh*. However, due to the sheer size of the Islamic financial transactions and the limitations associated with facilitating *tawarruq* transactions, there was a need for a special marketplace that could overcome such limitations. In the initial stage of development of Islamic financial institutions in the Muslim world, the only available option for facilitating *tawarruq* transactions was made in the London Metal Exchange (LME), accessed through commodity brokers. The transactions were not automated nor done through an online system; rather, buying and selling were done by fax machine. It is important to note that the *tawarruq* transaction was offered through LME brokers and not through LME itself.

The establishment of BSAS came as part of the Malaysian government's initiative to position Malaysia as the global hub for Islamic finance. Additionally, BSAS supports better Shariah scrutiny to address potential issues regarding the execution of *tawarruq* contracts. These include ensuring proper contract sequencing, adequate delivery policies, and having clear Shariah review and audit frameworks (Mohamad & Rahman 2014).

The idea of an in-house commodity platform for *tawarruq* was first introduced in 2005 in the form of a paper by the group business development department. After further considerations and improvements, a collaboration was initiated between the Securities Commission (SC) and Bank Negara Malaysia (BNM) with the additional participation of a few Islamic banks. In 2007, the then governor of BNM, Tan Sri Dato'Sri Dr. Ungku ZetiAkhtar binti Ungku Abdul Aziz, announced that BNM, SC, Bursa Malaysia and industry players had collaborated on a mechanism to use crude palm oil (CPO) to facilitate Islamic financing by applying the

concepts of *murabahah* and *tawarruq*. The development of the necessary trading software took around two years. The platform was finally launched in 2009 to be used by all Malaysian banks while also being available for other participants worldwide. The introduction of the platform in 2009 ended the development and introduction stage. By 2009, BSAS was the first transparent and internet-based platform in the market specialized only in Shariah-compliant transactions (RAM Holdings Berhad 2017).

During this phase, the only commodity available to facilitate transactions was CPO. It was selected because it is considered a controlled item under the Malaysia Palm Oil Board (MPOB). This means that the specifications of the offered commodity must meet certain standards because all CPO should be homogenous (Dusuki 2007, Mansor 2009). Another reason is the easy access to large amounts of available-for-trade CPO since Malaysia is one of the largest producers of palm oil in the world. The idea was pitched to local CPO suppliers as a national project that needed to be supported to enable Malaysia to become the hub of Islamic finance in the world. Further, BSAS was willing to share up to 60% of the profit earned from transactions with commodity suppliers. In other words, joining the trading platform in BSAS would allow CPO suppliers to earn an additional income from their available inventory. Therefore, the idea started to make sense for commodity suppliers from patriotic and business perspectives, which motivated many producers to join the platform (Dusuki et al. 2013). At this stage, trading was limited to local business days.

Phase two: The establishment of BSAS as a global commodity trading platform (2010-2012)

After the introduction of BSAS to the market and the official launch in 2009, a new phase was embarked on. The main approach of this stage was to establish BSAS as the 'go-to platform' for *tawarruq* transactions globally (RAM Holdings Berhad 2017). In order to do so, further developments of the IT system took place based on the feedback received from market players during the previous stage. For example, delivery of the commodity was made possible in this stage subject to a delivery fee of 30% (the fee was later changed, as shall be illustrated below). Further, during this phase, the platform started to support detailed tracking of the purchased commodity. In other words, the system provides not only the details of the commodity supplier but also the exact warehouse number and its location. Further, based on the Shariah pronouncement number 4 of the Shariah Committee of BSAS, trading is automatically halted during the time of

Table. 1 Introduction of Commodities Available for Trade under BSAS's Platform

Date		Commodities	
2009	17 Aug	Crude Palm Oil (CPO)	
2012	8 Apr	RBD Plein (OLN)	
	21 Oct	Timber	Softwood
			Hardwood
2014	3 Nov	Plastic	Resin A
			Resin B
			Resin C

(source) Bursa Malaysia 2018

Friday prayer to follow the commandments of Allah S.W.T. to leave trade during Friday prayer. In 2010, trading days increased to six days a week, from Sunday to Friday (Dusuki et al. 2013).

Also at this stage, plastic resin was introduced as a new commodity available for trade in the platform in 2010. BSAS worked on further expanding CPO available for trade by attracting more commodity suppliers to join the platform, not only from within Malaysia but also from China and Indonesia.

Trading in RBD Palm Olein started in 2012 and is still offered on the platform at present. RBD Palm Olein is a by-product of CPO, made of a refined, bleached and deodorised CPO, which makes it suitable for human consumption. It is important to mention that palm oil in its crude form is not suitable for human consumption. Later in that same year, timber (softwood and hardwood) was made available for trade via the platform.

In a nutshell, the main purpose of this stage was to fine-tune the IT software, address any arising Shariah issue, increase the commodities available for trade, increase the trading days, increase the volume of commodities available for trade by increasing the number of commodity suppliers, and attract more Islamic financial institutions and other participants locally and globally. Table 1 shows a chronological order of the introduction of commodities available for trade under BSAS's platform.

Phase three: The further development of BSAS (2013–present)

After setting up the foundation in the first phase and implementing the necessary updates and modifications to establish BSAS as a global commodity trading platform in the second, the third phase is about continuing steady development and growth. During this phase, BSAS is focused on being responsive to market needs

as well as continuing the development of the IT infrastructure. For example, BSAS has introduced tenor-based pricing in order to further support short-term liquidity funding needs of Islamic banks while at the same time maintaining feasible transaction costs.

Additionally, special attention has been given to further improve Shariah compliance and control. For example, Shariah teams need to ensure that the underlying tenors of the transactions correspond with the applicable trading fees. Furthermore, the randomisation process of selling the commodity back to the market was improved. Under the new improvement, the selection of the commodity supplier automatically excludes selling back to the same original commodity seller to avoid potentially falling under the rubric of organised *tawarruq*. The new process was approved by the Shariah committee in ruling number 9 dated 1st March 2018 (RAM Holdings Berhad 2017).

Continuing from the previous stage, trading days were further increased in 2016, making trading available for 22 hours a day, seven days a week (22/7). This is to facilitate trading around the clock, especially for countries that are in different time zones from Malaysia. As such, trading in the platform will only be suspended for approximately two hours a day, from 12am to 2am, to enable necessary maintenance. Moreover, new improvements of the IT infrastructure took place; the platform's IT system was converted to a Linux-based system in 2017. All these initiatives have contributed to strong growth in BSAS trading. The statistics show that the number of BSAS members has continued to rise, with 17 new participants in 2017 bringing the total to 141, up from 124 in 2016. Domestic participants accounted for 76% of total trades while foreign participants accounted for the remaining 24%, signifying the growing acceptance of BSAS as a global platform to facilitate *murabahah* and *tawarruq* transactions (Bursa Malaysia 2017). Further, this stage witnessed the introduction of Straight-Through Processing (STP) in the BSAS system. The main objective of this feature is to allow the Commodity Trading Participant (CTP) to automate commodity *murabahah* transactions in the system. This is done by submitting a set of transaction data, consisting of all purchasing information required, to the BSAS server instead of purchasing manually through the normal channel. This helps reduce transaction time and improve efficiency.

3. BSAS Business Model

As is explained, BSAS is a commodity trading platform that facilitates *tawarruq*

transactions for its market participants by linking commodity suppliers with financial institutions. There is a sequence of steps that must be followed in order to execute *tawarruq*. This section focuses on the business model that BSAS uses to that end. It starts with an overview of different stakeholders of the *tawarruq* transaction, followed by the specifications of the different tradable commodities on the platform.

*The stakeholders of the tawarruq transaction*³⁾

In order to understand the *tawarruq* transaction as executed through BSAS platform, it is important to first understand the different parties directly involved in the transaction. In essence, the stakeholders involved in the *tawarruq* transaction are commodity supplying participants (CSPs), Commodity Trading Participants (CTPs) and Commodity Executing Participants (CEPs). All these parties interact through the BSAS platform and within the applicable Shariah governance and regulatory framework. The customer - i.e., the recipient of the financial service - is not included amongst the stakeholders because the end user does not interact with the platform directly. Rather, the Islamic financial institution in its capacity as a CTP represents the client and trades on their behalf.

(i) Commodity Supplying Participants (CSP)

CSPs are those market participants who offer the commodities for trade. A CSP can be any person (individual or entity) that is eligible to be admitted as a CSP to trade in a particular approved commodity provided that such person is in possession of the commodity as specified by BMIS. A CSP may perform activities in and through the BSAS platform that include but are not limited to the following:

- a. Submit an offer to sell approved commodity;
- b. Sell approved commodity to a CTP only through the platform;
- c. Purchase the approved commodity from BMIS;
- d. Issue the delivery document, if physical delivery of the approved commodity is required.

Further, the CSP, even if acting as an agent of an owner of the approved commodity, shall be deemed to be acting and liable as principal and not as agent,

3) Information included in this section is mainly retrieved from BSAS Rules document.

for the activities performed as CSP in and through the platform in relation to such approved commodity. Simply put, CSPs are those who supply the commodity to be traded in the platform. As of April 2019, BSAS has 27 suppliers offering five different types of commodities. This suggests that, unlike many other commodity trading platforms that are used to facilitate *tawarruq*, BSAS does not deal with commodity brokers but, rather, directly with the commodity suppliers themselves.

(ii) Commodity Trading Participants (CTP)

A CTP is the party looking to facilitate Islamic financial transactions using *tawarruq* through the BSAS trading platform. A person would be eligible to become a CTP if the person is a financial institution licensed under the laws or rules of its domestic supervisory framework. It should, in addition, have in place systems and procedures to ensure business is carried out in compliance with the principles and rules of Shariah as determined by its Shariah committee. However, other types of institutions are eligible to join the platform as CTP subject to the approval of BMIS.

A CTP may perform the following activities in and through the platform in relation to the approved commodity for which it has been approved to trade in accordance with the following rules:

- a. Submit a bid to buy an approved commodity as principal or as agent for its client in accordance with the rules;
- b. Buy, as principal or as agent for its client, an approved commodity from the CSP;
- c. Conduct an onward sell trade to its client, or purchase an approved commodity from its client for the purpose of an Islamic financial transaction that is Shariah compliant as approved by that CTP's Shariah committee or the Shariah Advisory Council of Bank Negara Malaysia;
- d. Sell, as principal or as an agent for its client, an approved commodity to BMIS; or
- e. Such other activities as specified by BMIS.

As of April 2019, BSAS has over 150 CTPs comprised of central banks, commercial banks and other companies stretched across 18 different countries. In Southeast Asia, BSAS offers its services to countries such as Malaysia, Indonesia, Brunei, and Singapore. In the MENA region, BSAS's services have reached Bahrain, Iraq, Jordan, Mauritania, Palestine, Qatar, Saudi Arabia, Kuwait and the

United Arab Emirates. BSAS also offer its services to non-Arab African countries such as Kenya and Tanzania. Further, BSAS has also reached Central Asia, Europe and South America, offering services to Kazakhstan, the United Kingdom and Suriname respectively. In addition to BNM, BSAS's customers include the central banks of UAE, Iraq and Mauritania. CTPs also include Islamic banks, investment banks, conventional banks with Islamic finance windows as well as cooperatives and companies.

(iii) Commodity Executing Participants (CEPs)

CEPs mostly consist of money brokers who serve as intermediaries between banks to facilitate interbank transactions for liquidity management purposes in the money market. Among the conditions that shall be fulfilled for a party to become a CEP are that said party:

- a. Holds a Capital Market Services License for trading in futures contracts, or any equivalent license or authorisation as and where required for trading in futures contracts or dealing as an agent on behalf of clients in futures contracts, or equivalent license or authorisation under the laws or rules of its domestic supervisory framework; or
- b. Is a corporation which fulfils such other conditions as may be specified by BMIS; and
- c. Has established a set of internal guidelines, policies and procedures and has in place relevant personnel, systems and infrastructure with the relevant controls for carrying out activities on BMIS.

CEPs perform a very important intermediary role. If a CSP or a CTP has appointed a CEP as their agent and informed BMIS of such appointment, the CEP may perform activities in and through the Market in relation to the approved commodity for which it has been approved to trade in accordance with BSAS rules. Such activities include:

- a. Submit an offer on behalf of a CSP;
- b. Submit a bid on behalf of a CTP;
- c. Submit an offer to sell to BMIS on behalf of a CTP; or
- d. Such other activities as may be specified by BMIS.

As of June 2019, BSAS has 5 CEPs who facilitate money market transactions in Malaysia. CEPs act as the buyers/ sellers of the commodity on behalf of the respective CTP. The next section explain more details about the features of commodities approved in the BSAS *tawarruq* trading platform.

Commodities approved for trade in the BSAS platform

As is mentioned earlier, all commodities available for trade in BSAS are approved by the Shariah Advisory Council of the Securities Commission (SC). Commodities shall also adhere to certain specifications that must be met by the CSP in order to be included in the trading platform. It is among the responsibilities of the CSP to ensure that the approved commodities offered at all times meet the specifications set out by BMIS. This is done to ensure that the commodities of each kind which are offered through the system are all homogeneous and match the commodity description provided to the CTP in the system. Similarly, the CSP must ensure that the commodities made available for trading in the marketplace are stored only at the location that the CSP has specified in the system.

Adherence to the specifications of the commodity is a very important matter. Therefore, BMIS issues a detailed description for all the commodities that are available for trade through the platform. This section provides the specifications of all tradable commodities as they appeared in the Rules of BSAS document.

The tables in Appendix indicate that there are seven different types of commodities that are available for trade in BSAS platform. The development of multiple options for commodities available for trade in BSAS happened gradually. When BSAS was first established, Crude Palm Oil (CPO) was the only commodity available. Starting in 2012, RBD Olein, softwood and hardwood timber were added to the platform. For trading that involves either softwood or hardwood timber, only one specific type of wood (namely, Seraya Putih or Merbau, respectively) will be offered for every trading transaction to avoid *gharar* (i.e., excessive uncertainty). The trading approach of timber was approved by the Shariah committee in its pronouncement number 2. In 2014, plastic resin products (Type A, B and C) were added as well.

Now, there are totally seven different types of commodities available for trade on the BSAS commodity trading platform. It is relevant to mention that the commodities mentioned above represent only the approved ones. BSAS has been evaluating many other commodities to be added to the platform. Some commodities were found not to be feasible for use in trading while some others were dropped due to challenges to ensuring the Shariah compliance of their use as the

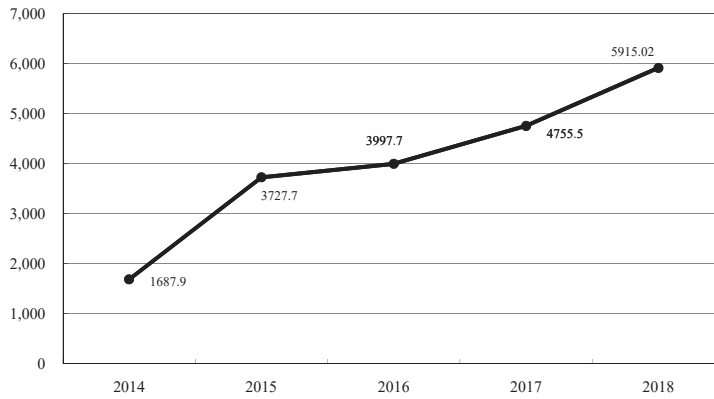


Fig.1 Total Commodity Trading Value (RM billion)

(source) Bursa Malaysia 2018 and Its Website

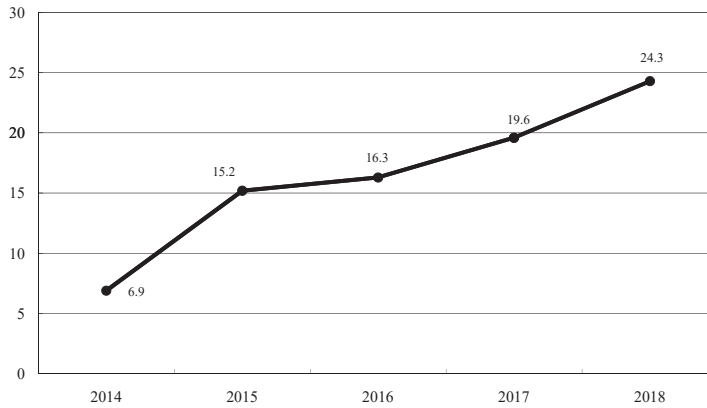


Fig. 2 Average Daily Value Commodity Traded (RM billion)

(source) same as above

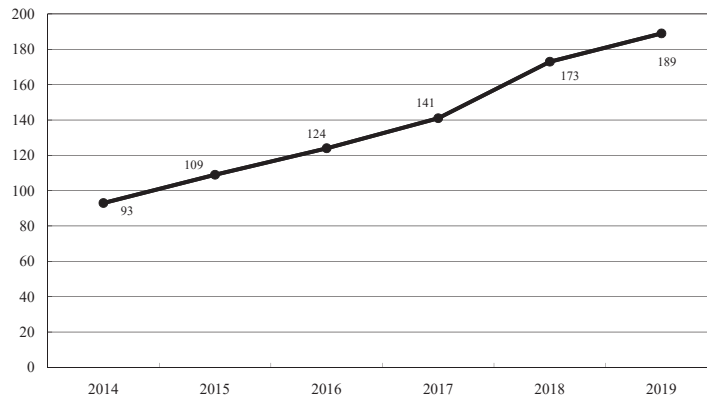


Fig. 3 Number of BSAS Registered Participants

(source) same as above

subject matter of trades.

BSAS's performance

With more commodities available for trade in the BSAS platform, coupled with an aggressive market penetration strategy, BSAS continues to grow in all different aspects. For example, in terms of trading value, data from the Integrated Annual Report 2018 by Bursa Malaysia (Bursa Malaysia 2018) show that the total commodity trading value in 2018 was RM 5,915.02 billion, a 24% increase on the previous year. The cumulative average growth rate for the period between 2014 and 2018 was approximately 37%. Figure 1 shows the growth trend of commodity trading value since 2014.

Similarly, the report also shows that the average daily value of commodity traded was RM 24.3 billion in 2018, a 24% increase over the previous year. The cumulative average growth rate for the period between 2014 and 2018 was approximately 37%. Figure 2 shows the growth trend of the daily value of commodity traded in BSAS platform since 2014.

As a result of BSAS's aggressive invitation strategy, the number of registered participants continued to grow. From 93 participants in 2014, BSAS registered a total of 199 participants as of June 2019. In other words, the number of participants more than doubled in less than six years. Figure 3 illustrates the growth of the total number of participants in the BSAS platform. BSAS shows a steady growth of trade in volume, value and participants, resulting in a relatively successful performance.

4. Summary and Conclusion

This paper covers the evolution of Bursa Malaysia as well as Bursa Suq Al-Sila' (BSAS), and the business model of BSAS.

The BSAS story started with the establishment of Bursa Malaysia, which can be traced back to as early as 1930. Over the years, Bursa Malaysia evolved to its current level of sophistication in its operations. It did so by gradually but steadily expanding its services, subsidiaries, and governance framework as well as affiliating with other exchanges around the globe, especially with other exchanges within the ASEAN region. Among others, Bursa Malaysia introduced Shariah-compliant securities as well as multiple indices to benchmark the performance of such securities. This facilitates attracting more and more investors to enter the marketplace, thereby increasing the liquidity of the market.

BSAS was introduced in 2009 as a result of a collaboration between Bank Negara Malaysia, the Securities Commission of Malaysia, Bursa Malaysia Berhad and industry players. The purpose of the platform is to provide industry players with a regulated framework for commodity trade for liquidity purposes. Having a dedicated liquidity platform serves multiple objectives, including objectives attributed to business and others attributed to Shariah. Since its establishment in 2009, BSAS has gone through massive improvements in all aspects, including its IT ecosystem, internal governance, commodities available for trade, market penetration strategy as well as the efforts to ensure the Shariah compliance of its activities.

BSAS has five different commodities available for *tawarruq* transactions for Islamic financial institutions. For that purpose, BSAS deals with different stakeholders such as the Commodity Supplying Participants, Commodity Trading Participants and Commodity Executing Participants. Those different stakeholders are involved in the commodity trading on BSAS platforms using a set of defined commodity *murabahah* transactions that grant market participants the ability to execute *tawarruq* to facilitate their different financing needs.

Although there are definitely issues and challenges that need to be addressed and opportunities to be embarked upon going forward, it is concluded that BSAS has played a very important role in promoting Islamic finance by facilitating *tawarruq* transactions in a convenient, secure way that can be monitored to ensure the transactions are Shariah compliant. Due to its flexibility, the BSAS platform is considered one of the leading supporting institutions in the Islamic finance industry. When compared with other similar service providers, BSAS stands out in many ways, namely its Shariah governance, transparency, flexible pricing, large supply and the variety of commodities available for trade.

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