The Quest for Effective Regulation of Islamic Money Market: An Appraisal of the Applicable Laws in Malaysia

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Abstract

The absence of an effective framework for the regulation of Islamic money market in many jurisdictions is inhibiting the growth of the Islamic finance. This study aims to suggest a way out of the logjam. It appraises the regulatory framework of the Malaysian Islamic Money Market which is believed to be the most developed in the world. The fabric of the framework is comprised of codified Shariah principles that are required for the compliance of the Market with Shariah, as well as the statutory guidelines, rules and notes that governs the activities of the market. It can be asserted that Malaysian framework is comparable to the conventional money market framework in terms of efficiency, reliability and viability. Therefore, the study concludes that the espousal of the framework as the best

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practice model in the emerging jurisdictions will go a long way in helping to surmount the challenges.

**Keyword:** Islamic Money Market, Regulatory Framework, Malaysia

**Introduction**
In this study, the regulatory framework of the Islamic money market in Malaysia is discussed. The regulatory framework of the Islamic interbank money market in Malaysia is what makes the country’s Islamic financial system stands out among its global counterparts. The legal framework is a spectrum of highly sophisticated laws upon which the liquidity market is firmly planted. It is made up of a very developed and well enacted statute, as well the various Rules, Guidelines, and Notes, which are put in position by the regulatory authorities. The regulatory agencies in this respect are the Central Bank of Malaysia and the Security Commission. Therefore, the legal framework is made up of two types of laws. These are the main legislations which are Acts of the parliaments and the administrative laws which include guidelines, rules, notes and etc. The current work presents a sharp account of the legal framework, its viability, sophistication and offered it as a model for the emerging jurisdictions of Islamic money market.

**The Main Legislations of IIMM**
To start with, the Malaysian financial regulators, which include the Parliament and other governing bodies did a truly brilliant and diligent work on the realization and optimization of the practices of Islamic banking, and finance as a whole, vis-a-vis the Islamic interbank money market in the country and has thus, passed several Acts and Statutes for that purpose. The appropriate Acts are enacted by the parliament in this respect to create a formidable basis for the operations of the Islamic interbank money market in the country. The said Acts and Statutes can be categorised into the main legislations and quasi-legislations.

The main legislations in the legal framework of the Islamic interbank money market are the Central Bank of Malaysia Act, 2009, Islamic Financial Services Act 2013 (IFSA), and the Financial Services Act, 2013 that both replaced the Banking and Financial Institution Act, 1989 (Act 372), Islamic Banking Act 1983 (Act 276) and Takaful Act 1984 (Act 312). Another applicable law in the IIMM is the Securities Commission Act 1993. These are the legal
philosophies that make the operation of the Islamic interbank money market more advanced as compared to that of the other jurisdiction.

The highest law in the legal framework of the Malaysian Islamic Interbank Money Market (IIMM) is the Central Bank of Malaysia Act, 2009 (Act 701). The Act repealed Central Bank of Malaysia Act, 1958\(^7\) and clearly provides for the operations and the regulation of the Islamic interbank money market (IIMM), *inter alia*, in its Section 43.\(^8\) It states the power of the Central Bank in respect of the Islamic money market that;

43 (1) the Bank may issue rules, codes, standards, principles or guidelines for the purpose of regulating, developing, or maintaining orderly conditions or the integrity of the money market, the foreign exchange market or the market for derivatives related to the currencies, securities and other financial instruments traded in these markets.

(2) Without prejudice to the generality of subsection (1), rules, codes, standards, principles or guidelines may be issued in respect of the money market, the foreign exchange market or the market for the derivatives related to the currencies, securities and other financial instruments traded in these markets-

Thus, the Central Bank Act, 2009 is the apex law for the regulation of money market in the country. It is enacted ‘to ensure orderly dealings in the Islamic interbank money market, and to impose obligations and duties on participants in the markets.’\(^9\) The next in turn to this Act in the regulation of the Islamic interbank in Malaysia is the Islamic Financial Services Act, 2013. The Act provides in its sections 152 to 154 for the power of the Central Bank to specify standards or issue codes for the market. It equally states the conducts that are prohibited in Islamic money market and as well as the arrangement between the market players and the relevant supervisory authority.\(^10\) The law provides for the approved participant in the market. That is, institutions such as the Islamic banks, finance company, merchant banking, discount house and money-broking companies, this is on one hand. On the other hand, it also caters for

\(^7\) Central Bank of Malaysia Act, 1958 (Act 519).
\(^8\) Section 43, Central Bank of Malaysia Act, 2009.
the non-bank institutions such as credit and finance, credit and charge card companies, building societies, factoring, leasing companies and development finance institutions. These institutions are the primary parties in the Islamic interbank money market transactions and the daily affairs of the institutions without the money market as a whole, and Islamic interbank money market, specifically for those that engage in Shariah compliant services is impossible. This is because the management of the liquidity portfolio that is, the maintenance of the liquidity reserve fund of the institutions depends on the operation of the Islamic interbank money market.\footnote{Ibid, Sec. 154.}

Thus, the upkeep of the liquidity reserve of the Islamic banks and other fiscal institutions is a subject of the affairs of the Islamic interbank money market. The provision of the Act in respect of the money market \textit{vis-a-vis} the maintenance of liquidity reserve is applicable \textit{mutatis mutandis} ‘subject to necessary modifications’ to all the institutions under the armpit of the Act. This is also corroborated with other relevant laws and regulations.

Another important statute in the framework of the laws of the Islamic interbank money market in Malaysia is the Securities Commission Act 1993. This is because some of the instruments of the Islamic interbank money market are listed and traded in the stock market, and therefore, fall under the purview of the regulation of the Securities Commission. The Section 15, (1) of the Securities Commission Act 1993 provides that the Securities Commission shall have the functions of regulating ‘all matters relating to securities and derivatives’.\footnote{Section 15, (1) (b), Securities Commission Act 1993.} Among the institutions that fall under this category are the ‘Central Depositories’ which are part and parcel of the participants in the Islamic interbank money market.\footnote{Section 15 (5), Securities Commission Act, 1993.}

In short, these are the Acts and the legislative acts that constitute the fundamental regulating laws of the Islamic interbank money market in Malaysia. All the same, the Acts are supplemented by other laws, which are also Act of the Malaysian Parliament. Withal, the supporting laws are procedural in nature as opposed to the main laws, which are substantial.

\textbf{Quasi-Legislation of IIMM}

The supporting legislations in the legal framework of the Islamic interbank money market include the Government Funding Act 1983...

The Government Funding Act 1983 (Act 275) is the Act that provides for the raising of funds by the Government of Malaysia in accordance with the Shariah principles and also provide for other related matters. It strictly stipulates that the entire instruments that are issued under the Act must be Shariah compliant. This refers to the Islamic interbank money market. Equally, the Payment Systems Act 2003 (Act 627) was also enacted by the Malaysian parliament to make provisions for the regulation and supervision of the payment systems, the payment instruments and other related matters in the country. The intent of the Act is to help Bank Negara Malaysia (BNM) on the achievement of one of its main objectives, which is the advancement of a sound fiscal structure and monetary stability in Malaysia. This is done through the promotion of reliable, efficient and smooth operation of the national payment and settlement systems. Thus, the Act provides for the approved payment instruments in the country and states that “payment instrument” means any instrument, whether tangible or intangible, that enables a person to obtain money, goods or services or to otherwise make payment’. This includes the payment instruments that are under the operation of the Islamic money market.

Hence, the Act is applicable to both the operator and issuers of the instrument alike. It required that before a payment instrument can be issued, documents and information about the instrument must be submitted to the Central Bank of Malaysia for its approval. In addition, it is required that the prescribed fee must be paid to the Central Bank and a written approval must be obtained.

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16 Section 2, Payment Systems Act 2003 (Act 627).
17 Section 2, Payment Systems Act 2003 (Act 627).
Nevertheless, the Central Bank can modify the submitted document or impose some restriction on it.

Furthermore, the Securities Industry (Central Depositories) Act 1991 is one the law that governs the market. It regulates the “debt securities”. This includes ‘debentures, bonds, notes, or other similar instrument representing or evidencing indebtedness. That is, whether such instrument is secured or otherwise’. The said instruments are specifically those that are listed. That is, “listed deposited security” such as the instruments of the Islamic interbank money market that are quoted on the official list of a stock exchange. Other Acts in the category of the Securities Industry (Central Depositories) Act 1991 are the National Land Code (NLC) 1963 and the Companies Act 1965.

Some other major regulatory law as far as the Islamic interbank money market is concerned is the ‘Resolutions of Shariah Advisory Council of Bank Negara Malaysia’. The Resolution mandates that the products and instruments of the Islamic bank and finance, including the Islamic interbank money market must conform to Shariah principles. Hence, the Resolutions are the embodiment of the Shariah deliberation and interpretation that are imperative in assuring compliance with Shariah. The methodology that is adopted in the Resolutions is the harmonization of Shariah interpretations from various Schools of Islamic law. It is believed that such method will pave way for a comprehensive and wholesome development of the Islamic banking and finance and it will strengthen the Shariah regulatory and supervisory oversight of the industry.

The scope of the resolution covers all the products of the Islamic financial institutions. That is, including the Islamic interbank money market (IIMM). This is because all the institutions are subject to the regulation of Central Bank of Malaysia. This is

21 Section 25, (2) (a) Payment Systems Act 2003 (Act 627).
22 Section 25, (2) (b) Payment Systems Act 2003 (Act 627).
26 Companies Act 1965.
27 Paragraph 1, Resolutions of Shariah Advisory Council of Bank Negara Malaysia.
28 Paragraph 5, Resolutions of Shariah Advisory Council of Bank Negara Malaysia.
29 Paragraph 5, (i) Resolutions of Shariah Advisory Council of Bank Negara Malaysia.
inclusive of the financial institutions that participate in the Islamic Banking Scheme, as well as the development financial institutions that carry out Islamic Banking Scheme under the Development Financial Institutions Act 2002 (DFIA) and the takaful companies that are registered under the Takaful Act 1984. All the institutions are the participants in the activities of the Islamic interbank money market. The foregoing is the discussion of the fundamental regulatory laws of the Islamic interbank money market in Malaysia. However, beside these paramount laws, Bank Negara Malaysia (BNM) has developed various guidelines to ensure the smooth running of the market. The said guidelines are discussed below.

**Administrative Guidelines of IIMM**

In addition to the Statutes and Acts that constitute the legal framework of the Islamic interbank money market, various Guidelines have also been developed by the regulatory authorities, which are Bank Negara Malaysia and the Securities Commission, for the smooth running of the market. The guidelines can be categorized into the general guidelines that are paramountly applicable to all the instruments of the market, and the specific guidelines that are only related to a particular instrument of the Islamic interbank money market.

In another word, the guidelines that are applicable to the Islamic money market in Malaysia are two types. These are general guidelines and the specific guidelines. The general Guidelines of the IIMM in Malaysia eight different guidelines that are put in place the regulatory authorities.

One of the Guidelines is Skim Perbankan Islam which was issued by the Central Bank of Malaysia to help the conventional banks to participate in the Islamic banking business. The term ‘Skim Perbankan Islam (SPI)’ means “Islamic banking scheme. It is provided for licensed institutions to conduct banking business based on Islamic principles.” That is, an Islamic banking initiative that is

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32 Development Financial Institutions (DFIA), Act, 2002.

33 Paragraph 5, (iv) Resolutions of Shariah Advisory Council of Bank Negara Malaysia.

34 Paragraph 1.1 Skim Perbankan Islam (SPI).
introduced by Bank Negara Malaysia. The objective of the scheme is to facilitate the promotion of Islamic banking on a wider scope. That is, by allowing the institutions that are licensed under the Banking and Financial institutions Act 1989 (BAFIA) to participate in the offering of Islamic banking services on the basis of their existing infrastructures.35

Thus, the guideline stipulates that all the licensed institutions that want to participate in the Islamic banking scheme must comply with a set of standard and comprehensive guidelines that are put in place to assist the institutions in carrying out their SPI operations. That is, in order to ensure that the undertaken SPI scheme is Shariah compliant.36 Therefore, this in turn allows all the banks that are licensed under BAFIA to be able to participate in the Islamic interbank money market.

Another important guideline in the operation of Islamic interbank money market is the ‘Guidelines on Securities borrowing and Lending Programme under RENTAS (SBL), 2001.37 The rationale behind the introduction of the Guidelines is to provide for a uniform set of rules for the governing of the conduct and obligations of the market participants. That is, as regards to the transaction in the borrowing and lending of securities.38 It is basically issued pursuant to section 126 of the Banking and Financial Institutions Act 1989 (BAFIA).39 Parties are mandated to comply with it.

Therefore, as an integral part of the regulatory framework, that governs the SBL vis-a-vis the Islamic Interbank money market (IIMM), the Guidelines provide for the procedures, terms and conditions for the practices of the market and that of the participants. It also provides for the Depository and Paying Agency Agreement (that is, the Lead Arranger/Facility Agent) which are centred to the operation of the Islamic interbank money market.40

Another guideline is the Guideline on the Offering of Islamic Securities, 2004. It defines ‘Islamic securities’ as ‘any securities issued pursuant to any Shariah principles and concepts

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35 Paragraph 4.1 Skim Perbankan Islam (SPI).
36 Paragraph 2.1 Skim Perbankan Islam (SPI).
39 Section 126, Banking and Financial Institutions Act 1989 (BAFIA).
that are approved by the *Shariah* Advisory Council (SAC)*. Therefore, as earlier mentioned, segments of the instruments of the Islamic interbank money market are traded through the stock exchange. The ‘Guidelines on the Offering of Islamic Securities, 2004’ vested the regulatory power of such instruments in the Securities Commission. It requires that any ‘person who issues, offers for subscription or purchase, or makes an invitation to subscribe for or purchase (“issue, offer or invitation”), Islamic securities’ must apply for the approval of the Security Commission in compliance with the Section 32 of the Securities Commission Act 1993 (SCA)*.

Therefore, the Guidelines stipulate the criteria for the issuance, offer or invitation for each of the Islamic securities that fall under the purview of the Securities Commission Act 1993. Some of the requirements are pertaining to the compliance with the registration and disclosure requirements in respect of prospectuses, as well as the trust deeds as required by the Securities Commission Act 1993.

The Guidelines on the Offering of Private Debt Securities, 2003 is applicable to the Private Debt Securities, and it governs the activities of ‘any person who issues, offers for subscription or purchase, or makes an invitation to subscribe for or purchase debentures’. It requires that such person must apply for the approval of the Securities Commission pursuant to the provision of Section 32 of the Securities Commission Act 1993. Thus, debenture in this context includes ‘private debt securities, such as, bonds, notes, loan stocks and commercial papers, whether convertible into equity or not and whether redeemable or otherwise.’ “Debenture” is used synonymously with the term “private debt securities”.

In short, the Guidelines stipulate the criteria which must be met, with regards to any issue, offer or invitation to private debt securities which comes under the ambit of the Securities Commission Act 1993. It stipulates that a ‘public company must ensure that the

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41 Paragraph 1.05 (a), Ibid.
requirements in the Securities Commission’s issued Guidelines are complied with in respect of all corporate transactions that are undertaken by it. That is, any issue, offer or invitation to private debt securities by a public company’.\textsuperscript{49}

One more important operational Guideline of the Islamic Interbank Money Market (IIMM) is the ‘Guidance Notes on Sell and Buy Back Agreement Transactions, 2002.’ Technically, ‘Sell and Buy Back Agreement (SBBA)’ is an Islamic financial instrument, which was developed for the Islamic Interbank Money Market (IIMM). It creates room for the IIMM participants to source their funding requirements from each other. Its introduction was as a result of the rapid development of Islamic banking system, which necessitated the need to create additional instruments for IIMM to address the impeding needs. Thus, the SBBA represents one of the solutions to address the absence of instrument in IIMM.\textsuperscript{50} The National Shariah Council for Islamic Banking and Takaful of Bank Negara Malaysia (BNM) approved the SBBA mechanism as being akin to the repurchase (repo) agreement and conformed to the Shariah principles.\textsuperscript{51}

Therefore, the objective of the Guidance Notes is to assist the market participants on the conduct of SBBA transactions.\textsuperscript{52} The scope of its operation covers the SBBA transactions that are undertaken by Islamic banking institutions which are comprised of the Islamic banks that are licensed under the Islamic Banking Act 1983 (IBA), and other financial institutions that participate in the Islamic Banking Scheme (SPI) that are licensed under the Banking and Financial Institutions Act 1989 (BAFIA).\textsuperscript{53} However, the instruments that are eligible for the SBBA transaction are the scripless securities, which are under Real Time Electronic Transfer of Funds and Securities system.\textsuperscript{54}

\textsuperscript{50} Paragraph 1.1, Guidance Notes on Sell and Buy Back Agreement Transactions, 2002.
\textsuperscript{51} Paragraph 1.2, Guidance Notes on Sell and Buy Back Agreement Transactions, 2002.
\textsuperscript{52} Paragraph 2.1, Guidance Notes on Sell and Buy Back Agreement Transactions, 2002.
\textsuperscript{53} Paragraph 3.1, Guidance Notes on Sell and Buy Back Agreement Transactions, 2002.
\textsuperscript{54} Paragraph 3.3, Guidance Notes on Sell and Buy Back Agreement Transactions, 2002.
The ‘Guidelines on Regulate Short Selling of Securities in the Wholesale Money Market, 2005’ is the framework for the regulation of the Malaysian Government’s Securities (MGS) that are subject to the regulation of the Principal Dealers (PD), that is the Central Bank, as well as the interbank participants. The objective of the Guidelines is to improve the liquidity in the secondary market and to develop the domestic bond market, as well as promoting the activities of the repo and securities borrowing and lending market. It also sets out the terms and conditions for short selling of securities that are permitted by Bank Negara Malaysia (BNM) in the wholesale money market. However, it does not apply to the trading of “when-issued” which is also an instrument of the Islamic interbank money market.

The Guidelines on the Specimen Reports and Financial Statements for Licensed Islamic Banks (GP8-i) which was issued in August 2003 to benchmark reporting requirement of Islamic banks (IBs) is also relevant to the regulatory activities of the Islamic interbank market (IIMM), as it includes reporting of the activities of the IIMM. The Guidelines (GP8-i) sets out the minimum requirements for the presentation and disclosure of reports and financial statements of Islamic banks.

The second part is the Specific Guidelines. Supplementing the general regulatory guidelines are the specific guidelines that are mainly developed for the regulation of specific instruments of procedure. The guidelines, are four in numbers and they are discussed as follows.

The ‘Guideline on Accepted Bills-I (AB-i)’ is the Guideline that governs the operation of Accepted Bills-i ("AB-i"), which is one

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of the instruments of the Islamic money market in Malaysia. The objective of the bill is to encourage and promote both domestic and foreign trade through an Islamic financing mechanism. The instrument is structured in the contract of *al-Murabahah* (cost-plus) and *Bay’ al-Dayn* (debt trading). In short, there are two types of financing arrangement under the AB-i facility. These are the imports, the local purchases and the exports, and the local sales.

The Guidelines on Bankers Acceptances (2004) became effective on 1st of April 2004. Its purpose is to provide a uniform set of procedures, practices, conditions and limitations to govern the creation and trading of Bankers Acceptances in Malaysia. The application of the Guidelines covers the Bankers Acceptances that are denominated by Ringgit (RM) and are drawn and accepted by a bank in Malaysia.

The Guideline provides uniform conditions, limitations, procedures and practice for the issuance and trading of the ‘Islamic Negotiable Instruments’ in the Islamic interbank money market. The instrument was initially introduced as a conventional interest based instrument which was known as ‘Negotiable Instruments of Deposits’ in 1979, for the commercial banks, merchant banks and other finance companies to mobilize savings domestically and as an instrument of the money market.

However, the instrument has been modified to conform to the Shariah compliant requirement and it was structured in the contract of *Bay’ bi al-Thman ‘Ajil* (deferred payment sale) and *al-Mudarabah* (profit sharing). Therefore, it was renamed ‘Islamic Negotiable Instrument. It represents one of the important instruments of the Islamic interbank money market.

In addition, the Issuing Procedure for Islamic treasury Bills (ITB) is a regulatory document that outlines the procedures for the conduct and participation of FAST Members in Islamic Treasury Bill (ITB) Tender. The Bill is structured in the Shariah compliant contract of *Bay’ al-Inah* which is double transactions that is entered into between two parties whereby one party (the Government) undertakes to sell an asset to successful participants on cash basis and

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61 Paragraph 1, Guideline on Accepted Bills-I (AB-i).
62 Paragraph 1, Guideline on Accepted Bills-I (AB-i).
64 Guidelines on Islamic Negotiable Instruments, at 1.
65 Guidelines on Islamic Negotiable Instruments, at 1.
66 Paragraph 1.1, Issuing Procedure for Islamic Treasury Bills (ITB).
subsequently will purchase the same asset back from the buyer at higher price which is normally at par on a credit basis.67

Thus, Bank Negara Malaysia undertakes these activities on the basis of this procedure on behalf of the Malaysian Government, which is the issuer of Islamic Treasury Bill (ITB). The Central Bank initiates for tenders by posting the information on the Stock code of the issue, which will be generated from the facility code that is created.68 Such information will include the stock details, which are consited of the issued amount, tenure, maturity dates69, and the asset code70 through FAST at least three business days before the closing date of the tender.71 The ITB Sale and Purchase Agreement represent the sale and purchase of the Government’s asset that is identified by the asset code (DZ01442F) between parties, which are the Central Bank, and the Islamic Banking Institutions that wish to participate in the ITB tender four.

Thus, enormous interwoven statutes and guidelines regulate the Malaysia Islamic interbank money market. Other important guidelines in the legal framework of the Islamic interbank money market in Malaysia (IIMM) include; Guidelines for Standing Facilities, 2004,72 Guidelines on Negotiable Instruments of Deposits, 2006,73 Guideline Notes on Repurchase Agreement, 2006,74 Depository and Paying Agency Agreement (the Lead Arranger/Facility Agent),75 and Procedure for the Creation of an AB-i.76,77 However, apart from these Guidelines the operations of the market are also regulated by various Rules and Framework.

Rules and Framework of IIMM
The ‘Rules on the Scripless Securities under the Real Time Electronic Transfer of Funds and Securities (RENTAS) system, 2006’ are the rules that govern the settlement of the transactions in primary and

67 Paragraph 1.2, Issuing Procedure for Islamic Treasury Bills (ITB).
68 Paragraph 2.1.1, Issuing Procedure for Islamic Treasury Bills (ITB).
69 Paragraph 2.1.2, Issuing Procedure for Islamic Treasury Bills (ITB).
70 Paragraph 2.1.3, Issuing Procedure for Islamic Treasury Bills (ITB).
71 Paragraph 2.1, Issuing Procedure for Islamic Treasury Bills (ITB).
74 Guideline Notes on Repurchase Agreement, 2006.
75 Depository and Paying Agency Agreement (the Lead Arranger/Facility Agent).
76 Procedure for the Creation of an AB-i.
77 Procedure for the Creation of an AB-i.
secondary market in government securities and unlisted corporate debt securities which take place through the Scripless Securities Trading System (SSTS). The system is part of the Real Time Electronic Transfer of Funds and Securities (RENTAS). The, Real Time Electronic Transfer of Funds and Securities (RENTAS), which was established by Bank Negara Malaysia, in 1999, is comprised of the Interbank Funds Transfer System (IFTS), which deals with large-value funds transfers, as well as the Scripless Securities Trading System (SSTS), which allows for book-entry settlement and recordkeeping of holdings of scripless debt securities.\(^78\)

Under this practice, the sale and purchase of securities from one party to another is carried out through a book entry and intra-day settlement of funds in the cash settlement account that is maintained in Central Bank of Malaysia, Bank Negara Malaysia. The function of the Real Time Electronic Transfer of Funds and Securities (RENTAS) system is to simultaneously process, transfer and settle Scripless transactions and interbank funds. That is, through its straight-through-processing (STP) in the real-time. Moreover, the Real Time Electronic Transfer of Funds and Securities (RENTAS) system is a ‘DvP Model 1 system’. That is ‘delivery versus payment system. This enables the securities and funds settle gross process to continue throughout the day.\(^79\)

Another important procedural Rule in the Islamic interbank money market is the rules on ‘Fully Automated System for Issuing/Tendering (FAST)’. Bank Negara Malaysia (BNM) launched the Rules on September 1996 for the purpose of automating the tendering procedure of Government Securities/Bank Negara Papers, which are issued through the principal dealers (PD) network. Its implementation includes commercial papers and medium term notes which are issued via tender/private placement.\(^80\)

FAST is integrated with BIDS (Rules on Bond Information and Dissemination System) by Bank Negara Malaysia, to constitute a centralized database system that provides information on the term of issues, prices and details of trades and relevant news on various debt securities. Thus, the integration of the two systems enable FAST

\(^78\) Paragraph 1, Rules on the Scripless Securities under the Real Time Electronic Transfer of Funds and Securities (RENTAS) SYSTEM, 2006.

\(^79\) Paragraph 1, Rules on the Scripless Securities under the Real Time Electronic Transfer of Funds and Securities (RENTAS) SYSTEM, 2006.

\(^80\) Paragraph 1, Rules on Fully Automated System for Issuing/Tendering (FAST), 2005.
to be the sole entry for primary market activities while BIDS continue to handle the secondary activities, in term of the provision of quotations, reporting of trades and dissemination of information.\textsuperscript{81} The activities of FAST include domestic money market tender and debt market,\textsuperscript{82} as well as the creation of secondary notes and repo tender transactions, which is interfaced with the RENTAS system with online printing of SSTS forms and execution of Repo transactions between BNM and the approved interbank institutions through FAST.\textsuperscript{83}

The Bond Information and Dissemination System (BIDS) are the platform from where information is disseminated to enhance transparency in the secondary market. The Rules is developed in 1997 by Bank Negara Malaysia, and (BNM), to create a room for computerised and a centralised database of Ringgit debt securities. It also provides information on the terms of issues, prices of trades, details of trades done, including transactions on Repo activities and other relevant information on the various debt securities that are issued by both the Government of Malaysia and the corporate sector. Financial institutions have the obligation of reporting the details of the trade done within 10 minutes of execution into the Bond Information and Dissemination System (BIDS), while the rating agencies are required, on the other hand, to update the issuer ratings.

Therefore, the information that is selected from Bond Information and Dissemination System (BIDS) will be shared on a near real-time basis with major Newswire services like Reuters and Bloomberg. Moreover, the information from Bond Information and Dissemination System (BIDS) will be transmitted to the Islamic Interbank Money Market website for the purpose of wider information dissemination.\textsuperscript{84} However, while BIDS continue to handle the information on the primary market, it has been substituted by EPT (Electronic Trading Platform) since 10th March 2008 for the

\begin{itemize}
\item \textsuperscript{81} Paragraph 2, Rules on Bond Information and Dissemination System (BIDS), 2001.
\item \textsuperscript{82} Paragraph 3, Rules on Bond Information and Dissemination System (BIDS), 2001.
\item \textsuperscript{83} Paragraph 4, Rules on Bond Information and Dissemination System (BIDS), 2001.
\item \textsuperscript{84} BIDS: BOND INFORMATION AND DISSEMINATION SYSTEM, see <http://bondinfo.bnm.gov.my/portal/server.pt?open=514&objID=27267&parentname=CommunityPage&parentid=4&mode=2&in_hi_userid=22874&cached=true>, (28/05/2012).
\end{itemize}
information on the secondary market. It is the ETP that carries out electronic secondary market trading as well as reporting since then.85

This is the rules that are applicable to the participants and operation of the security services of MyClear. That is, the participants that are using the services that are provided by Malaysian Electronic Clearing Corporation Sdn. Bhd. (MyClear). Myclear is a subsidiary of Bank Negara Malaysia (BNM) and is incorporated under the Companies Act 1965.

The operation of MyClear includes the Sistem Penjelasan Informasi Cek Kebangsaan Secara Elektronik (eSPICK). That is ‘the national image-based cheque clearing system’. It also operates the Real Time Electronic Transfer of Funds and Securities System (RENTAS) on behalf of Bank Negara Malaysia (BNM). This is in addition to the operation of securities settlement system and depository, real-time gross settlement system and the Fully Automated System for Issuing /Tendering (FAST). Thus, the Section 6 of the Payment Systems Act 200386 provided that both eSPICK and RENTAS are designated payment systems.

In short, Bank Negara Malaysia, (BNM) is empowered to establish systems for funds settlement, debt securities settlement, securities depository and securities tendering under the Section 44 of the Central Banking Act (CBA) 200987. The operation of MyClear is by the virtue of a Service Level Agreement between MyClear and Central Bank of Malaysia, which also includes RENTAS and FAST.

The ‘Shariah Governance Framework for Islamic Financial Institutions’ is introduced for the purpose of actualizing the Shariah compliance of the activities of the Islamic financial institutions which is the aspiration of Bank Negara Malaysia. Thus, the introduction of the Framework is aimed at ensuring that the operation of the overall Islamic financial system is in accordance with Shariah principles. This is done through the imposition of two-tier Shariah governance infrastructure that comprises two vital components. These are the Shariah advisory body at Bank Negara Malaysia (BNM) and the Internal Shariah Committee that is formed in each of the respective

85 Bursa Malaysia Berhad, ELECTRONIC TRADING PLATFORM FOR BONDS, User Manual for Trading Participant Members, and Execution Participant Members, at i.
86 Section 6 of the Payment Systems Act 2003.
87 Section 44 of the Central Banking Act (CBA) 2009.
Islamic financial institutions, as required by the *Shariah* Governance Framework for Islamic Financial Institutions.\(^{88}\)

Moreover, the *Shariah* Advisory Council (SAC) of Central Bank of Malaysia, Bank Negara Malaysia is a body, which was established under section 51 of the Central Bank of Malaysia Act 2009. \(^{89}\) This positioned the *Shariah* Advisory Council (SAC) of Central Bank of Malaysia, Bank Negara Malaysia as the highest authority for the determination of Islamic law for the purposes of Islamic financial business. The *Shariah* Advisory Council (SAC) of Central Bank of Malaysia, Bank Negara Malaysia, is *inter alia* empowered to ascertain the relevant Islamic law on any financial matter and issue a ruling upon the reference that is made to it. It is also vested with the function of advising the Central Bank and the Islamic Financial Institutions on any *Shariah* issues relating to Islamic financial business operations, activities or transactions.\(^{90}\) on the Islamic interbank money market (IIMM).\(^{91}\)

**Conclusion**

To sum up, it can be observed from the foregoing that the entire necessary legal and regulatory framework for the smooth running of the Islamic interbank money market in Malaysia has been put in place in the country. The IIMM legal framework is comprised of the applicable laws and the regulatory authorities, which is Bank Negara Malaysia and the Securities Commission. The legal and regulatory framework of the Islamic interbank money market in Malaysia (IIMM) is viable and formidable for the advancement of the market in the country and it is recommended as a model framework for other emerging markets of the Islamic interbank money market across the world.

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\(^{89}\) Section 51 of the Central Bank of Malaysia Act 2009.


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