

## Pakistani and Malaysian money market instruments in the light of AAOIFI Shariah standards and jurisdiction standards: A Comparative and analytical study

الأدوات المالية في السوق النقدي الباكستاني والماليزي في ضوء معايير الشريعة لهيئة المحاسبة والمراجعة للمؤسسات المالية الإسلامية (AAOIFI) والمعايير القضائية: دراسة مقارنة تحليلية

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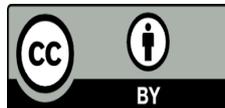
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القضائية: دراسة مقارنة تحليلية

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### Abstract

This study aims to provide a comparative and analytical exploration of Islamic money market instruments in Pakistan and Malaysia in light of AAOIFI Shariah standards and jurisdictional guidelines. The money market, traditionally rooted in conventional and commercial banking, has been adapted by the Islamic banking sector over recent decades to offer Shariah-compliant financial solutions. In Malaysia, Islamic money market instruments have expanded on a large scale, with multiple banks adopting diverse mechanisms. However, several Malaysian instruments—such as ABS (Islamic bonds), corporate bonds, Islamic commercial papers, Islamic medium-term notes, Khazanah bonds, Malaysian Islamic Treasury Bills, and sell-and-buy-back agreements—are considered non-compliant with AAOIFI Shariah standards due to elements of riba, conditional sales, and structures resembling conventional practices. Conversely, in Pakistan, Islamic money market instruments have been developed more cautiously under the supervision of the State Bank of Pakistan and Shariah boards, with banks like Meezan Bank, Bank Islami, and Faisal Bank playing a pivotal role in offering Shariah-compliant short-term financial products. This research highlights how Pakistan's approach tends to align more closely with AAOIFI guidelines, while Malaysia's system demonstrates innovation but also raises Shariah compliance concerns. The paper applies a qualitative and comparative methodology to analyze both jurisdictions, examining the extent of compliance with AAOIFI standards, identifying gaps, and suggesting ways to reconcile national practices with international Shariah principles. The findings aim to contribute to the discourse on harmonizing Islamic financial instruments globally while ensuring their conformity with core Islamic jurisprudential foundations.

**Keywords:** AAOIFI, Islamic Money Market, Shariah Standards, Malaysia, Pakistan, Jurisdiction

### 1.Introduction

There is no doubt that Islam is a complete code of life. Islamic teaching gives brightest light to see every path of life. Islamic guidance contained both theoretical and practical. Islamic

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education fulfils the basic needs about spiritual and moral, immortal and mortal world and life. Islamic guidance shows various aspects of both life modern and old age. Islam gives the systems to spend life better for both side individual and collective to welfare in this world and hereafter. Islamic principles and teachings organized so many successful systems, moral systems., political systems social systems economical systems. There is concerned system is an Islamic economical system. No doubt economical system is very important since beginning of life.

We know that every developed country is established by good economic condition, but it is based on **Riba**, uncertainty, gambling and harmful methods to gain money. <sup>(1)</sup>

These Riba based commercial and conventional systems are **creating unsolved problems** for worldwide particularly the poor countries and their peoples. In these circumstances is needed a welfare based economical system. Indeed, the Islamic economical is best **organized, moderate, flexible and good attributable**, due these reasons now days Islamic Economic, finance and banking system is growing rapidly.<sup>(2)</sup>

Islamic economical and banking system is introducing new ways and opening new doors for human welfare. This system is presenting Riba free and avoided uncertainty, gambling practices instruments, methods models, modes and services. In this system, any product or transaction which is against of Islamic laws will be rejected and refused. This system is covering both capital and money markets, particularly for these tow markets, various Islamic countries are presenting their products and services which are Shariah compliant. Our concerned portion of topic is Islamic money market instruments as:

1. Malaysian Islamic money market instruments in the light of AAOIFI Shariah standards and jurisdiction standards.

2. Pakistani Islamic money market instruments in the light of the AAOIFI and jurisdiction standards (state Bank Pakistan) .

Malaysian Islamic instruments are practiced in very large scale rather than other countries. For other Islamic countries, it is needed to explore and find out more products and instruments to run money market for better growth of Islamic economics, but it is very impotent to understand that the most of Malaysian money market instruments have not real shariah basis according to AAOIFI sharia standards. In the light of AAOIFI sharia standards, Malaysian Islamic money instruments are contained and based on RIBA, **GHARAR** and other unlawful basis.<sup>(3)</sup> So deep study to explore the sharia against element in Malaysian Islamic money market instruments is highly needed, like this scenario, conventional Pakistani Money market instruments are also based on non-sharia elements and principles.<sup>(4)</sup>

Other side, in Pakistan short term Islamic money market instruments which are sharia complaint, practiced under supervision Islamic banks like MEEZAN bank, Faisal bank, Bank Islami etc. With this study, we try to explore the sharia issues of Islamic money market in

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<sup>(1)</sup>Andri Soemitra, Rifki Ismal, Yaumul Khair Afif, Anggi Pratiwi Sitorus, Julfan Saputra, and Sabarudin Chaniago, *Islamic Perspective on Money Market and the Operation of Sharia Money Market* (2021),p :166.

<sup>(2)</sup>Janoearto Alamsyah and Mansur Masih, "Impact of Islamic Money Market Development on Islamic Bank Liquidity Management: A Case Study of Indonesia," MPRA Paper 106778 (University Library of Munich, October 2017),P:21, <https://mpra.ub.uni-muenchen.de/106778/>

<sup>(3)</sup>Madni, Atia, Rao Imran Habib, and Naureen Akhtar. "Short Term Liquidity Management: The Need for Shari'ah Compatible Financial Instruments." *Pakistan Journal of Social Sciences (PJSS)* 40, no. 1 (2020),p: 273

<sup>(4)</sup>Husain, Syed Tariq. "State and Need of an Islamic Inter-Bank Market in Pakistan." Paper presented at the *Islamic Financial Markets Conference*, Karachi, January 2007. Emirates Global Islamic Bank Ltd,p:6

Malaysian model and Pakistani model after that give the solution the problem in the light if AAOIFI standards and jurisdiction standards.

**2.Objectives of Study:** to explore the sharia issues of Islamic money market in Malaysian model and Pakistani model to give the solution the problem in the light if AAOIFI standards and jurisdiction standards.

**3.Trading in Islamic Money Market Instruments:**

Trading in Islamic Money Market Instruments represents the second part of the Islamic money market. Its purpose is to facilitate the location of business participants such as investment banking, but through the issuance/purchase of financial instruments. Money market instruments are more flexible than the previously described investment markets because these instruments can be easily transferred to the secondary market. This therefore allows banks that purchase commercial financial instruments to easily sell or liquidate them at any time without having to wait for the maturity of the instruments. Therefore, a secondary market is necessary to facilitate the commercialization of financial instruments before they are developed, thereby reducing risk and improving the market. Unlike investment banking, which is usually limited to approved banks, participants in this sector include financial institutions and nonfinancial institutions. The instruments available in the market vary in terms of risk profile, yield, maturity, marketability and liquidity.

**4.Malaysian Islamic Money Market instruments and their Sharia Basis and Principles**

**1.Government Investment Issue (GII)**

**Government Securities:**

is structured on the contract of **bai' al Inah** For example, the Central Bank will identify Shariah compliant assets and then invite Islamic finance companies to bid for these assets. The IFI offering the most competitive price will be selected as the buyer investor and will be able to purchase the assets through auction. The investment banks will sell the assets back to Bank Negara on a **bai bithaman ajil** (delayed sale) basis if the coupon is fixed or on a **Murabahah** (cost plus) basis if the GII is a zerocoupon measure. The proceeds of the purchase are securitized in the form of GII. Therefore, the amount to be collected by the investment company will be on the same basis if the GII is released according to the **bai bithaman ajil** principle, and on the same basis if the GII is issued as a murabaha deposit. Investment banks can hold the GIIs until maturity or sell them in the secondary market. At maturity, the Central Bank will repurchase the security by paying the full purchase price (or the par value of the GII) to the GII holder.<sup>6)</sup>

**2.Treasury Bills (MITB)**

**MITBs** are short term securities issued by the Malaysian government as an alternative to conventional treasury bills. Unlike GII, which was issued to finance the development expenditure of the Malaysian government, MITB was issued to finance the operational expenditure of the government. MITB's model is based on the principle of **baiâ inah**, where BNM will sell the government's assets through a competitive tender process to create the underlying work for the project on behalf of the Malaysian government. The distribution is based on the highest bid (or lowest bid). The price is determined after the revenue is estimated (dis counted). The winning bidder will pay the government. The bidder will then sell the asset back to the government at its par value within the loan period. The government

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<sup>6</sup>Hakim, Sam R. "Islamic Money Market Instruments." In *Handbook of Islamic Banking*, edited by M. Kabir Hassan and Mervyn K. Lewis, Chapter 11. Cheltenham, UK: Edward Elgar Publishing, 2007. Accessed August 20, 2025.p:12 <https://www.elgaronline.com/view/9781845420833.00021.xml>,

will provide MITB to candidates to represent the expenses incurred. MITBs are usually issued weekly, have an initial maturity of one year and are discounted.<sup>6)</sup>

### 3. Bank Negara Monetary Notes (BNMN)

A short-term financial instrument issued by the Central Bank to replace Bank National Bonds (BNNN). The contract used to be **bayal inah**, but has now been replaced by murabahah. As we have mentioned before, the announcement of BNMN is based on **Murabahah** products. Most of the announcements came from the announcement of FAST, which had a tenure of 1 to 12 months, but this has now been extended to three years. The debts arising from Murabaha products can be transferred in the secondary market according to the concept of **bi'âal-deyn**. New promotions can be in the form of discounts or coupons. While fee-based BNMN transactions use offers similar to existing BNNNs and Malaysian Islamic Treasury Bonds (MITB), the income from BNMN transactions uses business meetings for government resources.<sup>7)</sup>

### Bay al Inah's Sharia and Jurisprudence Principles and Fundamentals

**Bay al Inah** is the most widely used instrument in the Islamic finance sector in Malaysia. Malaysian Sharia and legal experts prove their strong Sharia and legal arguments, and legal scholars have every reason to prove that anything based on **Bay al Inah** can be used. Legal authorities and Bank Negara Malaysia have implemented this agreement. Now we will try to explain in detail, then we will examine these arguments one by one. In order to understand the importance of this agreement, it is necessary to first mention the meaning of **Bay al Inah**. **Bank Negara Malaysia's definition of Bai al Inah** states: "Bai inah refers to an arrangement whereby a property is sold to a buyer on a deferred basis and the property is subsequently purchased. The cash price is lower than the sale price, which satisfies the specific requirements of **bai al'inah**"<sup>8)</sup>

**Second definition:** The International Financial Services Council (Model body for Islamic Banking) has defined **Bai al inah** as: "The entity in relation to the seller sells the asset to the buyer for cash and later repurchases the asset on a deferred basis at a higher price than that at which the seller sold the asset to the buyer, repurchases an asset on a deferred basis at a higher price (This creates the value of the nominee).

**The importance and meaning of all terms** is the original definition of money created instantly. Green is similar to loans. Since **Bai al inah** is the seller, he will return the asset at its cost. The second stop in this transaction is the purchase and sale contract, which must comply with the rules of contract law.<sup>9)</sup> **Bai al Inah** is essentially a link between **bai mu'ajjal** and **bai'ajal**, a place of postponed sale and purchase.

**The establishment of Sharia in Bai al Inah.** The Shafi school of thought is practiced in Malaysia, where the Mazhab or Shafi ideas are accepted and followed. We refer to the decision and refer to the Usul al Fiqh path. The Shafi school of thought accepted the agreement because (apparently) it did not know the consequences of the idea, especially when it was not explained by either party. So in fact, thought is a matter between man and

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<sup>6)</sup> Atia Madni, Rao Imran Habib, Naureen Akhtar, "Short Term Liquidity Management: The Need for Shari'ah Compatible Financial Instruments. (2020), p:274

<sup>7)</sup> Issoufou, Chaibou. "Islamic Money Market and Application of Third-Party Guarantee for Economic Development." Department of Economics and Law, University Kuala Lumpur Business School, Malaysia. Received February 15, 2019; revised March 24, 2019; published July 20, 2019. p:10

<sup>8)</sup> Ibid.

<sup>9)</sup> Kureshi, Hussain, and Mohsin Hayat. *Contracts and Deals in Islamic Finance*. Singapore: John Wiley & Sons Singapore Pte. Ltd., 2015, 13, P: 14

God.<sup>(0)</sup> According to the view of Imam Shafii, Bay' ul Inah has been accepted as a view of Sharia and has been considered as another tool of Riba. Imam Shaf i said: "When a person buys something from someone else and accepts delivery and the price appears to be delayed, there is no obligation to sell the goods to the buyer or to someone else, the cash price is lower or higher than the purchase price, or it is purchased on credit or in exchange for other goods."<sup>(1)</sup>

**Bay al Inah Another argument regarding** the validity of the contract is the good principle of jurisprudence (usul al fiqh) **Sadde e zarya** this rule is rejected in the Shafi'i opinion, which means that Shafi'i wants to reject this rule and reject Bil al Inah because one of the reasons for rejecting it is one of the known this principle and makes Bay al Inah illegal because contract can lead to Riba and increase of Riba.

**Another argument regarding** the validity of Bel al Inah is that it is not Riba, it is not Riba, because Riba is the same as Bay al Inah. There is a very obvious difference between them, the first is a sale contract and the second is a loan contract. It will come as no surprise to readers that this agreement is controversial, as it has been around for over 1200 years. Scholars see it as an attempt to bypass the riba contract; however, the agreement allows a company that does not have money but has fixed assets to use its assets to raise money or funds, if it is permissible. This need is important for all businesses, but it is even more important for banks that have asset/liability mismatches.<sup>(2)</sup>

**Another argument** for the effectiveness of **Bay al Inah** is that it helps meet the needs of commercial enterprises with liquidity problems. **An important factor** in the business world; no organization can function without this solution. We know that this is very important. However, the student's comments on this need is to take bank deposits (the business is mainly short term loans and long term loans), bai al inah offers contract models that support short term needs. Banks have to use short term funds to finance long term assets, and in the absence of short-term funds, the only way to create short-term credit is the inah mechanism.<sup>(3)</sup>

**Check Another view is that Bay al Inah** has all the rules, principles and laws of Sharia and the laws of sales and contracts as follows:

Since Bai al Inah is a sales contract, the following must be observed in the Regulation: The contract is for the purchase and sale of commercial goods. A sales contract must have 14 elements:

1. There are two parties, the buyer and the seller.
2. Both parties must be in good faith.
3. Both parties must be able to fulfill the contract.
4. The content must have property or merchandise.
5. The property must be a licensed property.
6. The basis of after-sales service must be authorized.
7. The asset must have a purchase price and an approved payment method.
8. The seller must declare all aspects of the property in question.
9. The buyer has the right to inspect the property.
10. There must be approval (will sell) and acceptance (m purchase).
11. When a seller sells an asset, he relinquishes all title to the asset in exchange for the purchase price , whether the price is paid immediately or over time. Even if the buyer does

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<sup>(0)</sup>*Ibid.*, P:18

<sup>(1)</sup>*Kureshi Hussain, Mohsin Hayat ,Islamic Financial Contracts and Transactions, p: 18*

<sup>(2)</sup>*Ibid.*, P: 19

<sup>(3)</sup>*Ibid.*, P: 22

not pay for the asset, if the purchase was made on credit terms, the seller has no right to take the asset back, only the right to purchase the price. 12. The seller may take the property from the buyer under a rahn contract (discussed later) to ensure full payment. If the buyer fails to make full payment, the seller may remove the property, recover the unpaid portion of the purchase price and return it to the buyer. 13. The property must be in existence at the time of sale.<sup>(4)</sup>

**BAI AL INAH as a financial product:** bai al inah contracts can be used for both guaranteed products and property. Products: This application is useful for creating products such as credit cards, cash, personal finance products or any product that provides income or money that is not limited to customers. Fixed deposit products for the development of Islamic finance, where money is deposited in an Islamic bank for a fixed period of time in return for a pre agreed period and rate of return. In both the liabilities and assets of the business, the income used to determine the value of the loan is compared with the interest on the loan or deposit.<sup>(5)</sup>

**Change of ownership:** Assuming that the inah contract is given, we will examine the two sales contracts in detail. Sale is a place where a sale can be made, this is easy. The ownership of the asset passes from the parties A to the party B. Therefore, the sharia sale is valid when the purchase price is transferred from the buyer to the seller or the property is transferred from one party to the other. In order for a sales contract to be concluded for a particular asset, the seller must have title to the asset. Since there is no "real" sale or the seller immediately buys back the property, it may be questioned whether the property existed at the time of the initial sale. Does the property have to be in the seller's possession? Can the ownership of an asset change at any time due to a change of ownership? Advocates of bai inah argue that the difference between a bai al inah sales contract and a **riba** contract is in the sale of the basis. **Therefore**, scholars believe that the property must exist at the time of sale and be the property of the seller. In the execution of the contract, the answer is no. Although both parties have signed separate sales and contracts for each stage of the transaction, no actual tax is paid and the transfer of ownership of the assets is not recorded in a legal registry.<sup>(6)</sup>

**Relevant documents:** It may be asked which documents are used in this transaction. A purchase and sale agreement must be made for the first sale, and a separate purchase and sale agreement must be made for the second sale. However, no purchase and sale agreement can refer to another purchase and sale agreement, otherwise the transaction will be a condition of a contract based on another contract and cannot be enforced. The purchase and sale contract and the price must be paid on time. In this contract, the buyer undertakes to pay the price in the future, which he has to pay the debt.<sup>(7)</sup>

**Another argument** regarding the validity of the Bay al inah business is a separate document in part of this contract. Principle - The combination of two contracts in one contract or contract is invalid but there is no combination in the contract and there is no unity in the contract, so the Bay al Inah exchange sells and buys each other and does not buy against each other.

<sup>(4)</sup> Kureshi, Hussain, Mohsin Hayat *Islamic Financial Contracts and Transactions*, P: 14

<sup>(5)</sup> *Ibid.*, P: 19

<sup>(6)</sup> *Ibid.*, P: 20

<sup>(7)</sup> *Ibid.*, P: 21

**Another argument** can be said that the total income of the Inah bond in the bank's balance sheet is less than 33% and the bond should be used only in interbank transactions to the extent appropriate.<sup>(8)</sup>

**BAI AL INAH (Law) Bank Negara Malaysia Shariah Committee Decision;**

High Permitted bai al inah if two of the following conditions are met: The transfer must be in accordance with the procedures accepted by the **Shafi** school of thought and the terms of the contract are not ribawi products. Despite this decision, SAC acknowledged that this is still a problem for Sharia scholars from many countries. **Therefore**, in 2006, the Council decided in the regional meeting of Sharia scholars that the concept of bai al inah is still necessary for the development of Islamic banking, despite the pressure that its application should be supported by sound working procedures and data; More. IFI prohibits the use of this concept in its products.<sup>(9)</sup>

**AAOIFI Sharia standards about Bay al Inah.4**

**4/2** It should not be used as a trick for committing Riba such as agreement between two parties to practice Bay' al-'Inah or Riba al-Fadl.

**6/3/1** Muwata`ah to form up Riba tricks, in which the two parties agree to practice, for instance, Bay' al-'Inah or its reverse, or Bay' al-Wafa` (Bay' al-Raja`), or Riba al-Fadl. In this case, Shari`ah prohibits Muwata`ah and the contract so designed is invalid.<sup>(20)</sup>

■ The absence of any exceptional Shari`ah restriction in the particular case of combining constitutes the first control on contracts' combining due to the directives of the Prophet (Peace be upon Him) who has been quoted to have prohibited combining sale with lending or combining two sales in one deal or two transaction in one transaction.

■ The second control, which prohibits using Contracts' Combining as a trick for practicing Riba is based on the directives of the prophet (peace be upon him) which indicate prohibition of Bay' al-'Inah and Riba al Fadl. As regards Riba al-Fadl, it has been reported that the Prophet (Peace be upon Him) instructed one of his employees to sell his low-quality dates first and then buy the high-quality dates he wanted, instead of resorting to exchange of more quantity of low-quality dates for less quantity of high quality dates. Ibn Al-Qayyim said, "This indicates that the employee was directed to commence the process of purchasing the high-quality dates after the complete finalization of the former transaction; i.e., selling his low-quality dates. If, instead, he agreed beforehand with another party to conduct the two deals successively, the second contract will not become an independent contract, because it is a mere completion of the first one. The directives of the Prophet (Peace be upon Him), apparently necessitate two separate contracts that neither of them is related to or based on the other".

■ The third control, that prohibits using combined contracts as an excuse for dealing in Riba, is based on the directives of the Prophet (Peace be upon Him) which forbid combining lending with selling. In this regard, the Fuqaha unanimously agree that when the two parties stipulate in the loan contract that the borrower should reward the lender by offering him free accommodation, or grant him a present, or the borrower should make excessive repayment in terms of quantity or quality, the contract becomes null and void. In other words, any loan

<sup>(8)</sup>*Ibid.*, P: 22

<sup>(9)</sup>Kureshi, Hussain, Mohsin Hayat *Islamic Finance and Economics*, P: 21

<sup>(20)</sup>Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). *Shari`ah Standard No. 25: Combination of Contracts*. In *Shari`ah Standards*, 662–663. Manama, Bahrain: AAOIFI, 2017.

arrangement that comprises a prior condition on a benefit to be rendered to the lender by the borrower is considered Riba.<sup>1)</sup>

**3/2 It is not permissible** to use a bill of exchange or promissory note in transactions that require possession (of the counter-values), like deeming the two types of commercial paper as counter-values in the contract of Sarf (currency exchange) or as the counter-value for the capital (Ras al-Mal) in the contract of Salam.<sup>2)</sup>

#### **5. National Bank Money Notes (BNMN):**

These are short term financial instruments issued by the Central Bank to replace National Bank Money Notes (BNMN). The contract used to be bay al āinah, but now it has been replaced by murabahah. As we mentioned earlier, the announcement of BNMN is based on Murabahah products. Most of the announcements came from the announcement of FAST, which had a tenure of 1 to 12 months, but this period has now been extended to three years. Debts arising from Murabahah products can be transferred in the secondary market according to the **concept of biā al dayn**. New promotions may be in the form of discounts or coupons. Fee-based BNMN transactions use offers similar to existing BNMN and Malaysian Islamic Treasury Bills (MITB), while the income from BNMN transactions uses business meetings for government resources.<sup>3)</sup>

#### **6. Islamic Acceptance Bill (IAB):**

The Islamic Acceptance Bill (IAB) is the Sharia law equivalent to the conventional bank acceptance bill. An IAB is a bill of exchange issued by or against a bank to be paid on a specified date in the future to confirm a debt arising in a transaction. The promissory notes can be used as part of the business finance process to pay suppliers for shipments or purchases or to pay suppliers for exports or sales. The conditions set by Bank Negara for issuing IAB are as follows: the financial institution must be oriented towards fair trade, the products involved must be transparent and Shariah compliant, not related to sale or purchase accordingly, and the parties involved must be companies. According to the current BNM policy, the minimum value of IAB is RM50,000 and the maximum value is RM1,000. : In importing IAB, the Islamic bank will first appoint the client as its agent to purchase the desired asset from the exporter or seller on behalf of the bank. The property is then resold to the client at the price specified in the murabahah with a deferred payment agreement (up to 365 days).

Ultimately, the client pays the bank the price of the product and the money received by the bank. The transfer of goods from the bank to the customer refers to the debt benefited by the bill of exchange drawn by the bank for the total sale price and accepted by the customers on maturity. An Islamic bank, which is the depositor of the IAB, can hold the IAB until maturity, at which time it can receive the full sale price, or it can sell the IAB to a person at a discount before development using the bai'al dayn law. b) Export/Domestic Trade: After the exporter receives approval from the bank for financing the export trade and completes the necessary export documents for the export or sale contract, the information is sent to the exporter's bank. The exporter then receives a new letter from his bank, which acts as a transfer document on behalf of the IAB. A banker's acceptance represents the bank's promise to make full payment to the bill holder at maturity. The bank then purchases the IAB from the exporter at a discount according to the **Islamic bai aldayn rules**. The bank can hold the

<sup>1)</sup> Appendix (B) The Shari'ah Basis for the Standard ,P:662-663 ,(Shari'ah Standard No. (25) Combination of Contract

<sup>2)</sup> Shari'ah Standard No. (16) Commercial Papers (Revised Standard)

<sup>3)</sup> Sam R. Hakim, *Islamic Money Market Instruments*, 2007.p:8

IAB until maturity and receive the full sale price or sell the note to a third party at a discount before maturity.<sup>64)</sup>

**Bay al dain:**

There is no doubt that some financial transactions in the Malaysian model are based on Bay al dain. Bay al dain means selling the debt and this is permissible under Malaysian standards. Shariah Students and Shariah Advisory Committee approved the deal for **two reasons. 1)** The Malaysian Shariah Advisory Council approved the contract and a contract involving Bay al Dain.<sup>65)</sup>

**Second Reason:** In today's practice, Bay al dain is often used for commercial purposes and/or capital gains from the certificate of eligibility for debt trading.<sup>66)</sup> Banks go through a very rigorous process to arrange a home loan or a car loan and then sell it to another bank or agency at a discount. The bank or agency that purchased the debt is now entitled to receive all payments made by the customer. In most cases, customers do not even know that their mortgage has been sold to another bank.<sup>67)</sup>

**7.AAOIFI Sharia standards about Bay al Dayan**

**5. Sale of Debt to a Third Party other than the Debtor**

**5/1** It is not permitted to sell a monetary debt against cash or for a monetary debt. However, if the transaction is an assignment of debt, then it is not considered a sale of debt. See Shari'ah Standard No. (7): Hawala.

**5/2** It is permitted to sell a monetary debt for a commodity with spot delivery or for a usufruct or service wherein its subject-delivery can be ascertained at the time of sale. Hence, it is not permitted to sell a monetary debt against a commodity with deferred delivery, for example, making a debt owed by a third party as the Salam capital. See Item No. (3/1/4) of Shari'ah Standard No. (10): Salam and Parallel Salam. Similarly, it is not permitted to sell [a monetary debt] for a usufruct or a service with unascertained subject-delivery.

**5/3** It is not permitted to sell a commodity debt prior to taking its possession, whether it is sold against cash, commodity, usufruct, or service.

**5/4** It is not permitted to sell the debt if it was a usufruct or a service that is due and described (mawṣūfa fi dhima) (where the subject of delivery is not specific), regardless of whether [such usufruct or service] are sold for cash, commodity, usufruct, or service.

**5/5** It is not permitted to sell the debt to a third party if it has excessive gharar (uncertainty), such as:

**5/5/1** The debt is not established either by acknowledgment or by evidence.

**5/5/2** Lack of knowledge (jahāla) of the amount of debt.

**5/6** The consent of the debtor is not required for the sale of debt to a third party unless the debtor and the creditor have agreed otherwise.

**5/7** The buyer shall have the rescission option for misrepresentation (khayār al-taḡhīr) if the seller of the debt was aware of the debtor's insolvency or procrastination, but the buyer was not informed about that. See Item No. (2) of the Shari'ah Standard No. (48): Options for Breach of Trust.<sup>68)</sup>

<sup>64)</sup>Tag El-Din, Seif I. "Capital and Money Markets of Muslims: The Emerging Experience in Theory and Practice." *Kyoto Bulletin of Islamic Area Studies* 1–2 (2007): 54–71. Markfield, UK: Markfield Institute of Higher Education, pp. 58

<sup>65)</sup>Kureshi, Hussain, Mohsin Hayat *Islamic financial contracts and business*, P: 79

<sup>66)</sup>*Ibid.*, P: 80

<sup>67)</sup>*Ibid.*, P: 81

<sup>68)</sup>Shari'ah Standard No. (59): Sale of Debt

## 6. Discounting of Commercial Papers :

6/1 It is not permissible to discount commercial papers, but it is permitted to pay an amount that is less than the value of the paper to the first beneficiary prior to the date of maturity.

6/2 It is not permissible to sell commercial paper that has not become due for an amount similar to its value (Riba al-Nasi'ah) nor for an amount that is more than its value (Riba al-Nasi'ah plus Riba al-Fadl) <sup>29)</sup>

## 8. Acceptance for Payment of the Value of Commercial Papers:

8/1 Acceptance for paying the value of commercial paper on the part of the drawee is considered an undertaking and an obligation to pay the debt represented by the commercial paper to the holder on the date of maturity. This undertaking and obligation must be fulfilled according to the Shari'ah.

8/2 All parties whose signatures appear on the commercial paper including the drawer, the endorser and the guarantor are jointly responsible to pay to the holder the value of the paper in accordance with rules of liability, thus, the holder is entitled to have recourse to them severally or jointly after the refusal of the drawer (or the issuer in case of a promissory note) to pay.

8/3 Tangible security stipulated by the holder of commercial paper to ensure the securing of his right will be deemed a Mortgage (Rahn) and will be governed by the rules of Mortgage (Rahn)<sup>80)</sup>

## 8. Islamic Negotiable Instrument (INI):

This is a Shariabased instrument equivalent to a conventional certificate of deposit (CD). INI can be issued as bai bithaman ajil or mudaraba. **Instruments based on bai bithaman ajil** are called Negotiable Islamic Debt Certificates (NIDCs), while instruments based on mudaraba are called Islamic Negotiable Deposit Instruments (INIDs). The explanation of both will be discussed in the next section. a) Tax Deposit Certificate (NIDC):

NIDC is a document issued by an IFI that certifies that income has been deposited over a specified period. NIDC requires the importer to pay the deposit fee in addition to the revenue to the owner on a specific date in the future. This document is published in bai bithaman ajil. The escrow company will first determine the value of the asset based on the revenue and sell the asset to the investor at a cash price. The investor then agrees to sell the original asset back to the issuing bank at an increase over the original sales price paid over a specific period. To justify the debt sale, the company gives NIDC to the investors.

At maturity, the investor or depositor sends the NIDC to the depository institution and pays the face value along with the proceeds. NIDCs are the first promissory notes issued to companies. They can be sold at a discount before expiry. NIDC operates on a price basis, meaning that the principal price is determined by the price per RM100 face value. , at a future date, it must pay back the face value of the note along with the proceeds to the holder. It is based on the principle of Mudaraba (profit sharing). The investor is the ra al mal and the mudarib is the issuing bank. Like NIDC, INID is an asset and value market, meaning that the principal value is determined by the price per RM100 of the face value.<sup>(31)</sup>

<sup>29)</sup>Shari'ah Standard No. (16) Commercial Papers (Revised Standard

<sup>80)</sup>Shari'ah Standard No. (16) Commercial Papers (Revised Standard

<sup>81)</sup>Muhammad, Sabah Mohd Zulkifli, Mohd Faisal Ibrahim, and Hanudin Amin. "The Islamic Money Market." Chapter 5 in *Islamic Finance Studies*. Kuala Lumpur: Universiti Malaysia, March 2013. Accessed August 20, 2025, p:10. <https://www.researchgate.net/publication/313844959>.

### 7) Cagamas Sukuk:

Cagamas Berhad, National Mortgage Corporation was established to support poor credit. Designed as a special instrument for this purpose, Cagamas is a series of Islamic fixed income securities traded in the financial market. These securities are **Sanadat Mudarabah Cagamas and Sanadat Cagamas**. The main purpose of the property is to finance the purchase of Islamic real estate debt issued in accordance with the **principles of bai bithaman ajil** and the purchase of Islamic debt issued in accordance with the **principle of ijarah summa albai**.

According to the concept of Mudharabah, the sukuk holder suffers a loss that will reduce the value of the sukuk, while the profit is shared according to the profit sharing agreed between the sukuk holder and Cagamas. The coupons are paid every six months on the Coupon Day.

**b) Sanadat Cagamas:** Sanadat Cagamas, also known as Cagamas BAIS, is another type of Islamic security issued by Cagamas to finance the purchase of Islamic real estate debt and Islamic lease/purchase debt. However, this sanadat is **based on the bai bithaman ajil principle**, where the cost of purchasing the property is equal to the nominal value of the sanadat and the profit accepted is equal to the sanadat coupon. The coupons are paid every six months and can be used according to the maturity of the face. The term of the sanadat can be 10 years. If the term of the sanadat is more than 1 year, the standard rate of the sanadat will be similar to the fixed rate GII, if the term is less than 1 year, the standard rate will be according to the NIDC with a longer term. the standard rate of the sanadat will be More than 1 year<sup>(32)</sup>

### 9. Islamic Corporate Sukuk:

These are Shariah based contracts or Sukuk and are the first in the world. 2022. Sarawak Shell Company in Malaysia. They can be established according to various Islamic financial contracts such as **bai bithaman ajil, murabaha, salaam, istisna, ijarah, mudarabah, musharakah and wakalah**. Therefore, the pricing model will also be determined by the type of sukuk issued and the model discussed earlier will be applied accordingly.<sup>(33)</sup>

**Bay Bithsaman aljal and Its sharia basis:** This means selling where the price is to be paid within one month. A simple contract to delay payment is allowed without objection according to the Islamic law of sale and purchase. However, when this exchange is combined with formal and informal contracts, it is not allowed. Because the principles of Islamic law do not allow such transactions. Therefore, although such joint contracts are allowed under the Malaysian Convention, joint murabahah with Bay al Inah is not allowed.<sup>(34)</sup>

The schools, including **Ibn Taymiyyah and Ibn Qayyim**, believe that different contracts during the reign were combined with different conditions and were based on the content and spirit of Sharia law. This view of efficiency provides convenience for people and eliminates problems because they often have to combine different contracts into one plan to meet different needs. Since Sharia aims to provide convenience and comfort, Imam Abu Yusuf said:

*"Whoever facilitates has given importance; it is a command that allows the contract or events to be brought together in one transaction. The fundamental element of a contract is consent unless proven otherwise. Muslims are free to*

<sup>62</sup>Rahmawati, Hutagalung, "Money Market Mechanism Based on Sharia Principles." *International Journal of Humanities Education and Social Sciences (IJHESS)* 2, no. 1 (August 2022): 37–49. Accessed August 20, 2025, p. 40 <https://ijhess.com/index.php/ijhess>.

<sup>63</sup>*Ibid.*, p: 40

<sup>64</sup>Kureshi, Hussain Mohsin Hayat *Islamic financial contracts and trade*, p: 32,33

*make their contracts as they wish, as long as it does not violate the rules of Sharia. As mentioned earlier, many scholars such as Al Shatibi, Al Zaylaani, Al Bahuti, Ibn Qayyim, Ibn Taymiyyah and others believe that the first common decision is the law, as long as there is no violation of Sharia law. The points of ah have been determined in the sector. This is also based on the principle of maslahat musalah (without satisfactory evidence), which generally prohibits two contracts in one transaction without evidence. However, an important reason for this is that the financial assets that can be transferred in the bay al-wafa cannot be interest bearing assets.<sup>65)</sup>*

#### **10.AAOIFI Sharia Standards about Bay Bithsaman aljal**

■ The absence of any exceptional Shari'ah restriction in the particular case of combining constitutes the first control on contracts' combining due to the directives of the Prophet (Peace be upon Him) who has been quoted to have prohibited combining sale with lending, or combining two sales in one deal,(9) or two transaction in one transaction.

■ The second control, which prohibits using Contracts' Combining as a trick for practicing Riba is based on the directives of the prophet (peace be upon him) which indicate prohibition of Bay' al-'Inah and Riba al Fadl. As regards Riba al-Fadl, it has been reported that the Prophet (Peace be upon Him) instructed one of his employees to sell his low-quality dates first and then buy the high-quality dates he wanted, instead of resorting to exchange of more quantity of low-quality dates for less quantity of high quality dates. Ibn Al-Qayyim said, "This indicates that the employee was directed to commence the process of purchasing the high-quality dates after the complete finalization of the former transaction; i.e., selling his low-quality dates. If, instead, he agreed beforehand with another party to conduct the two deals successively, the second contract will not become an independent contract, because it is a mere completion of the first one. The directives of the Prophet (Peace be upon Him), apparently necessitate two separate contracts that neither of them is related to or based on the other".

■ The third control, that prohibits using combined contracts as an excuse for dealing in Riba, is based on the directives of the Prophet (Peace be upon Him) which forbid combining lending with selling. In this regard, the Fuqaha unanimously agree that when the two parties stipulate in the loan contract that the borrower should reward the lender by offering him free accommodation, or grant him a present, or the borrower should make excessive repayment in terms of quantity or quality, the contract becomes null and void. In other words, any loan arrangement that comprises a prior condition on a benefit to be rendered to the lender by the borrower is considered Riba.<sup>66)</sup>

#### **11. Sale and Purchase Agreement (SBBA):**

This is similar to the traditional **Sale and Purchase Agreement** (Repo) but structured according to Shariah compliant law. A traditional bank repurchase agreement is an agreement where the seller of a security sells the security to the buyer at an agreed price and buys the security back from the buyer the next day at the agreed price. The difference between the repurchase price and the original sale price is the interest earned by the buyer (who is also the

<sup>65)</sup> Rahman, Md. Habibur, and Noor Mohammad Osmani. "Combination of Contracts in Islamic Finance Practices in the Light of Hadith on Prohibition of 'Two Contracts in One Contract' (Bay'atan fi Bay'ah): A Shari'ah Investigation." Paper presented at the International Conference and Mukhtar on Prophetic Sunnah (ICMAS 2021), 2021, p:16-17

<sup>36)</sup> Appendix (B) The Shari'ah Basis for the Standard,P:662-663 ,(Shari'ah Standard No. (25) Combination of Contracts

lender). Under a **Post Sale Agreement** (Bay al wafa )(SBBA), the two parties enter into two separate agreements. The first agreement is an agreement between the seller (owner) of the security and the buyer (investor) of the security to purchase the security from both parties at a certain price.

The second type of agreement is a forward purchase agreement, where the buyer (investor) undertakes to sell the security back to the original owner and the buyer (investor) undertake s to buy the security back at a specified price at a later date. The original agreement was a fair sale, so the collateral would no longer be part of the seller's portfolio. Bank Negara requires that at least one party to the SBBA transaction be an Islamic bank, the maturity of the SBBA transaction should not exceed 1 year, and the minimum maturity should be at least RM50,000. The need for Shariah compliant financial instruments.<sup>67)</sup>

**Bay al Wafa and its sharia basis:**

Bay al Wafa, this contract means the “sale of the property”, if the seller repays the price of the property, the Bay al Wafa contract must comply with all the rules of purchase and sale contracts in Islamic law. SAC Malaysia said that in this contract, each contract is separate and not dependent on the other. SAC said: Th e Sharia issue here affects every contract sale and redemption which is a combination of two contracts or more sales. promise. A second sale cannot be made after the first sale. The contract should not be signed i n a way that clearly states that the original sale is subject to the right to purchase. It is permissible to sign the first sale contract in a contract that contains a promise or promise to make a second sale at a specified t ime in the future. The next transaction will be the next sale. Both parties can sign both a sales contract and a forward sales contract at the same time, but the first sale cannot be followed by a second sale.<sup>68)</sup>

**Islamic principles regarding reciprocity are discussed:** On the other hand, other schools such as Ibn Taymiyyah and Ibn Qayyim believe that the validity of the joint contract is the Law according to different provisions. The conditions are in accordance with the meaning and spirit of Sharia law. This view of efficiency provides convenience for people and eliminates problems because they often have to combine different contracts into one plan to meet different needs. Since Sharia aims to provide convenience and ease, Ima m Abu Yusuf said: "Whoever gives space has given importance;<sup>69)</sup>

**According to the principle** of transaction in Islamic economic law, an economic decision is the copying o f a contract or conditions into a contract or condition. The basic element of a contract is consent unless pr oven otherwise. Muslims are free to make their contracts as they wish as long as it does not violate the rul es of Sharia. As mentioned earlier, many scholars such as **Al-Shatibi, Al Zaylaani, Al Bahuti, Ibn Qayyim, Ibn Taymiyyah** and others believe that the first common decision is the l aw as long as there is no violation of Sharia law. The points of ah have been determined in the sector. This is also based on the principle of maslahat musalah (without satisfactory evidence), which generally prohi bits two contracts in one transaction without evidence. However, an important reason for this is that the financial assets that **can be transferred in bay al-wafa cannot be interest based assets.**<sup>40)</sup>

**Application of Bay al Wafa:** As a financial asset, Bay al Wafa is the sale of goods and the sale of sukuk. It meets the need for income from banks and other institutions. One of the

<sup>67)</sup>Atia Madni , Rao Imran Habib ,Naureen Akhtar , *Short Term Liquidity Management: The Need for Shari'ah Compatible Financial Instruments* (2020), p:276

<sup>68)</sup>Kureshi, Hussain Mohsin Hayat *Islamic Contract Finance and Business*, P: 14

<sup>69)</sup>Prof. Dr. Md. Habibur Rahman, *Dr. Noor Mohammad Osmani*, P:13-14

<sup>40)</sup>*Ibid.*,p: 16-17

main reasons for this is that Malaysia has done a lot of intellectual work in the field of Islamic finance, mainly based on the Shafi school of thought, whereas the Bay'ul Wafa contracts are only accepted as valid in the Hanafi school of thought. In a country like the United States, billions of dollars of US Treasury bonds are in circulation, and Party A and Party B can exchange large amounts of US Treasury bonds<sup>(41)</sup>

12.AAOIFI Sharia Standards about Bay al Wafa

**Bay' al-Raja' (Bay' al-Wafa')** It is a sale whereby the seller keeps the intention to buy back his sold commodity. One of the most popular forms of this type of sale is when one party, who wants to obtain an interest-bearing loan, agrees to sell an income-earning asset to the lender. The lender will thus become entitled income-earning asset to the lender. The lender will thus become entitled to the income of the asset as long as it remains in his ownership. The buyer then undertakes to return the sold asset to the seller whenever the seller pays back the same price to him. In this manner, the borrower (artificial buyer) succeeds to get the loan amount against payment of the agreed upon interest.<sup>(42)</sup>

**The second control**, which prohibits using Contracts' Combining as a trick for practicing Riba is based on the directives of the prophet (peace be upon him) which indicate prohibition of Bay' al-'Inah and Riba al Fadl. As regards Riba al-Fadl, it has been reported that the Prophet (Peace be upon Him) instructed one of his employees to sell his low-quality dates first and then buy the high-quality dates he wanted, instead of resorting to exchange of more quantity of low-quality dates for less quantity of high quality dates. Ibn Al-Qayyim said, "This indicates that the employee was directed to commence the process of purchasing the high-quality dates after the complete finalization of the former transaction; i.e., selling his low-quality dates. If, instead, he agreed beforehand with another party to conduct the two deals successively, the second contract will not become an independent contract, because it is a mere completion of the first one. The directives of the Prophet (Peace be upon Him), apparently necessitate two separate contracts that neither of them is related to or based on the other".<sup>(43)</sup>

**Rebuy Convention (and Reverse Ribo-REPO)-1/6/5 Definition:** Hey from Agreement between the parties on the sale of liquidable financial assets at a case price, Then purchased from the buyer at a later date at an unconsciously higher price It's probably sold on it. Their purpose is to manage the liquidity of enterprises at both the level of Central banks in implementing their monetary policies, or at the level of Commercial banks in their management of their cash liquidity in cases Existence of surplus or deficit; the contractor shall choose his or her status in the contract according to His purpose; if he wishes to obtain liquidity, it is him. The seller, for its part, is called buy-back), although it wishes toThe liquidity investment is the buyer, and the convention is called from In.

**2/6/5 Adaptation and Legitimate Governance:** Legalization of the Traditional Repurchase Convention as a loan legality: Legitimate adaptation of the traditional buy-up convention as a loan of legitimate criteria for interest with the encumbered financial assets; the sale does not have the effects of the transfer of security to the buyer and the entitlement to development, and those assets remain subject to (collateral) rather than the place of contract. Payable upon recovery represents interest on the loan, known as the rebound rate; therefore, this agreement

<sup>(41)</sup>Hussain Kureshi, Mohsin Hayat Islamic Financial Contracts and Transactions, p. 14

<sup>(42)</sup>Shari'ah Standard No. (25): Combination of Contracts Appendix (C) Definitions

<sup>(43)</sup>The Shari'ah Basis for the Standard ,P: 663 ,(Shari'ah Standard No. (25) Combination of Contracts

is legally forbidden; and in addition, most of these assets are forbidden, such as bonds and bank deposit certificates.<sup>(44)</sup>

### 13. Money Market Instruments in Pakistan

Mar Eyaa says about money market in Pakistan:

Money market is not some predetermined tee up like commodity market but a name given to all financial institutions dealing with short term credit financing. Here highly liquid financial instruments are traded having maturities of one year or less, unlike the Secondary market that is set up for trade in Long term and Equity Financing.

In Pakistan primary participants of money market are many like government of Pakistan, state bank of Pakistan, commercial, cooperative and saving banks.

Money Market Instruments Traded in Pakistan:

**1. Treasury bills (Short term):** Zero coupon bonds issued at discount to face value by SBP through PDs via opening of IPS account for 3, 6 and 12 months – Issued in multiples of Rs.5000-Risk free as borrower is GoP so no need of collateral Accepted as collateral by Banks-Return= $\{(Par\ value-Face\ value)*360/term\ of\ issue\}$

**2. Commercial Papers (Short term):** Zero coupon issued at discount to face value short term unsecured promissory notes issued by large financial institutions subject to strict requirements by SECP and SBP in order to finance their short term financing needs-Not backed by any form of collateral so only organizations with strong credit ratings can find buyers easily -Average maturity period is 30-35 days with maximum up to 270 days-Return= $\{(Par\ value-Face\ value)*360/term\ of\ issue\}$ -Can be offered to public like engro rupee certificates or directly to Financial Institutions.<sup>(45)</sup>

**3. Certificate of deposits/Investments (short to medium term):** A certificate of deposit is a promissory note issued by a bank. It is a fixed term time deposit (often one, three months, six months, or one to five years) with either a fixed or a variable profit rate and the principal amount to be held to maturity .that restricts holders from withdrawing funds on demand. When the CD matures, the entire amount of principal as well as interest earned is available for withdrawal-They carry a slightly higher rate of return as compared to MTBs due to the high risk exposure and a higher return than return on money in saving accounts of banks-COIs (Certificate of Investments) and CODs are often used interchangeably. The only difference between COI and CODs is that COIs can be issued only over 90 days whereas CODs can be issued for 30 days and over.<sup>(46)</sup>

**4. Repo and Reverse Repo Agreements (Short term):** Repurchase agreements are short term borrowing agreements where the borrower, in effect, sells securities to the lender with the stipulation that the securities will be repurchased on a specified date and at a specified, higher price. The securities serve as collateral for the loan .Most Repo agreements mark the collateral to market daily. If the value of the collateral drops below the required margin, then the borrower must send more securities to the lender to maintain margin or some money to reduce the principal outstanding. The party which lends securities (or borrows cash) is said to be doing the repo and the party which lends cash (or borrows securities) is said to be doing the reverse repo.

Example:

<sup>(44)</sup>Shari 'ah Standard No. (58) Repurchase

<sup>(45)</sup>Eyaa, Mar, and Am Raza. "Money Market Instruments in Pakistan." *Money Market Instruments Blog*. Posted December 5, 2016. Accessed August 20, 2025, p:7  
<https://moneymarketinstruments.wordpress.com>

<sup>(46)</sup> Ibid.

we assume a financial institution has Rs 1 million cash surplus. The borrowing dealer and lending company agree on 1 million RP loan collateralized by treasury bills, with the dealer agreeing to buy back the bills within a few days and the interest on loan. The annualized rate of interest paid on the loan is known as the repo rate. Repos can be of any duration but are most commonly overnight (one day) loans. Repos for longer than overnight usually weeks and months are known as term repos. There are also open repos that can be terminated by either side on a day's notice, these repos give borrower a contractual right to borrow up to a certain amount without entering to a new agreement.<sup>(47)</sup>

**6. Bankers Acceptance:** In financial terms acceptance means a vow to pay a definite amount of money. The person who will pay is called as the promissory while the one who will receive is the beneficiary. The document which is the evidence of this promise is called a draft. When this draft tells the promissory to pay the money on a predetermined specified date then this draft is termed as a time draft. The promissory puts his Signature The word accepted on top of his signatures and The date on which the amount will be paid. Now the promissory is legally obliged to pay the amount as mentioned in the draft to the beneficiary because it has been accepted properly by him according to all requirements of official acceptance. If the time draft is formally accepted by a bank, then it becomes a banker's acceptance. In case of a banker's acceptance the initial promissory is obliged to pay the sum of money and the interest money charged before or on the maturity date to the bank while the bank is obliged to pay the money to the beneficiary. The bank becomes the primary obligor. Banker's acceptance is usually used in trade; mostly for international business but is also frequently used for domestic dealing as well. The maturities of banker's acceptance mostly range from 30 to 180 days. It allows the international as well as national dealers to trade with each other. As the dealing firm have not met or may even never meet; have a problem of trust in each other. So banker's acceptance minimizes their risk. The promissory uses the bank's credit worthiness instead.<sup>(48)</sup>

#### 14. Financial Markets – Introduction and Basic concepts

State bank states about financial and money markets, basis and concepts:

**a. Introduction** Markets for trading financial instruments including money, bonds, stocks, and derivative are referred to as Financial Markets. Developed financial markets can play a key role of intermediating between the lenders (savers) and the borrowers (investors), reduce information asymmetries and allow central banks to implement and achieve objectives of monetary and exchange rate policies.

**b. Basic Financial Market terminologies/Money Market:** Money Market is a financial market in which only short-term debt instruments (maturity less than one year) are traded. MM is for transactions in wholesale short term loans and deposits and for trading short term financial instruments. Major players in the money market are:

Central Bank And Government, Primary Dealers/Market Makers, Banks, Non-bank financial Institution, Money Market Funds & Corporate, Money Market Brokers

**Repurchase/ Repo:** A repurchase agreement is the sale of a security with a commitment by the seller to buy the security back from the purchaser at a specified price at a designated future date. Basically a repurchase agreement is a collateralized loan, where the collateral is a security.<sup>(49)</sup>

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<sup>(47)</sup>Mar Eyaa and Am Raza, Money Market Instruments in Pakistan, Website Powered by WordPress.com. Posted on December 5, 2016

<sup>(48)</sup>Ibid.

<sup>(49)</sup>State Bank of Pakistan. "SBP Adopts More AAOIFI Shariah Standards for Islamic Banking Industry." Press

**Reverse Repurchase/ Reverse Repo:** A Reverse Repurchase is an agreement to purchase and resale of a security at a specific price and a specific future date. It is the mirror image of a Repo transaction. Provider of funds does Reverse Repo transaction. Overnight Money Market Repo Rate: The rate at which overnight repo deals are transacted in the money market.<sup>60)</sup>

**Call Money:** Funds placed with a financial institution without a fixed maturity date. The money can be “called” (withdrawn) at any time .It is a form of clean borrowing / lending in the MM for short term requirements without collateral.

**Delivery Versus Payment (DVP):** Clearing and settlement of transactions in money market instruments (MMIs) is through book-entry system of transferring ownership with delivery of the securities against payment i.e. Delivery Versus Payment (DVP).

**Over The Counter (OTC):** A secondary market in which dealers at different locations who have an inventory of securities stand ready to buy and sell securities “over the counter” to anyone who comes to them and is willing to accept their prices.<sup>61)</sup>

**Conclusion:** These mentioned above Pakistani Money Market Instruments which are used to contract under State Bank of Pakistan are not allowed according AAOIFI sharia standards. According to AAOIFI and Fiqh ul Hanafi Pakistani Money Market Instruments are based non – Islamic principles or prohibited way, like Riba and conditional buy or sell dependent on other transaction or conditions and so on. like this scenario, conventional Pakistani Money market instruments are also based on non-sharia elements and principles.

### 15. Islamic money Market in Pakistan by Meezan Bank Islamic Instruments

Available modes of financing:

**Murabaha:** Meezan Bank offers a convenient and easy to use solution for financing raw material and inventory requirements of the customer through Islamic mode of Murabaha. Murabaha is a sale transaction where the seller discloses the cost and profit to the buyer at the time of execution of sale. Murabaha is a short term Islamic facility for meeting asset based working capital requirement of customers where instead of providing a loan, Meezan Bank sells the required asset to the customer on spot or deferred basis.

**Musawammah:** Meezan Bank offers flexible and convenient import financing facility on the basis of Musawammah/ Murabaha. If the customer wants to finance its letter of credit, the Bank appoints the customer as its agent to import the goods and customer establishes the LC as an agent of the Bank. Upon receiving possession of the goods, the Bank sells the goods to the customer on a deferred payment basis.

**Istisna:** Meezan Bank offers an Istisna based solution to finance complete working capital requirements of its customers. Istisna is a type of sale transaction where the buyer places an order with the seller to manufacture certain asset and the sale is completed upon delivery of the asset to the buyer. Under this facility Meezan Bank provides funds to customers for manufacturing certain assets for the Bank and then, upon delivery, sells the assets in the market

**Running Musharakah:** This is a Shirkat-ul-aqd based financing facility offered to the customers where the Bank participates in the operating activities of the customer and shares profit and loss as per the actual performance of the business. This product is also used as a

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Release ERD/M&PRD/PR/01/2022-81, July 4, 2022. In AAOIFI Footprint Report 2022. Karachi: State Bank of Pakistan. MARKET TREASURY BILLS, Issued by GOVERNMENT OF PAKISTAN, Investor,:4

<sup>60)</sup>Ibid.,p:5

<sup>61)</sup>Ibid.,p:5

viable financing solution for Service Industry and Travel Agents whose financing needs are generally not addressed by other Asset backed products.<sup>62)</sup>

**Tijarah:** This is a working capital solution especially for those customers who sell their inventory on credit and require funds for operations during the credit period In Tijarah, the Bank purchases the finished goods from the customer and after taking the delivery, sells the goods in the market.

**Commodity Salam:** This is a working capital financing solution whereby the Bank and customer enter into a sale contract in which sale price is paid by the Bank in advance and customer delivers the commodity/goods on deferred basis upon delivery, the Bank sells the goods in the market.<sup>63)</sup>

**The Crux:** In Pakistan short term Islamic money market instruments which are sharia complaint in the light of AAOIFI Shariah standards, practiced under supervision Islamic banks like MEEZAN bank, Faisal bank, Bank Islami etc. In this research gives to reader new ways to explore and open new doors to make more acceptable methods to run Islamic money market instruments in the light of Shariah standards and principles.

### Conclusion

It is mentioned above discussion, the result can be easily found out that Malaysian model about Islamic money market instruments are very important to because it has large scale of products and modes services. Malaysian money market instruments based on particular school of thought. Some instruments of this model in light of AAOIFI Shariah standards and other school of thought like Fiq ul Hanafi are not followed. In Pakistan, money market instruments which are used to contract under State Bank of Pakistan based non sharia principles and against AAOIFI standards and Fiqu ul Hanfi .Other hand and Other side, in Pakistan short term Islamic money market instruments which are sharia complaint, practiced under supervision Islamic banks like MEEZAN bank, Faisal bank, Bank Islami etc. In this research gives to reader new ways to explore and open new doors to make acceptable methods to run Islamic money market instruments in the light of AAOIFI Shariah standards. These Standard are discussed in this research as principles to make Malaysian model applicable with AAOIFI principles.



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