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PART A PRELIMINARY

1. Foreword

- 1.1 *Skim Perbankan Islam (SPI)*¹ is an Islamic banking initiative introduced by Bank Negara Malaysia in March 1993 with the objective of disseminating and promoting Islamic banking on a wider scope by allowing licensed institutions under the Banking and Financial institutions Act 1989 (BAFIA) to offer Islamic banking services using their existing infrastructures and brand name.
- 1.2 The purpose of the Guidelines is to facilitate the participation of licensed institutions in the SPI, through a set of standard and comprehensive guidelines to assist the licensed institutions in carrying out their SPI operations in a systematic way; and to ensure that the SPI operations undertaken by the licensed institutions would be fully Shariah compliant. The Bank may, from time to time, amend the Guidelines.
- 1.3 The scope of the Islamic banking business of the SPI commercial banks is restricted to their commercial banking license under the BAFIA. For the SPI investment banks, the scope of the Islamic banking business shall encompass the scope of business of the merchant banking license under the BAFIA. Please refer to **Appendix I** for the details of the business activities of the SPI licensed institutions.
- 1.4 Investment banks that undertake only fee-based activities, for example, lead arranger for *sukuk* are exempted from the Guidelines.

¹ The term "*Skim Perbankan Tanpa Faedah (SPTF)*" was changed to "*Skim Perbankan Islam (SPI)*" as per the circular issued by Bank Negara Malaysia on "*Langkah-langkah Pengukuhan Perbankan Islam*" dated 12 November 1998.

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- 1.5 To participate in the SPI, a licensed institution is required to submit an application to the Bank and it shall be forwarded to:

**Pengarah
Jabatan Perbankan Islam dan Takaful
Bank Negara Malaysia
Jalan Dato' Onn
50480 Kuala Lumpur**

2. Legal provisions

- 2.1 The Guidelines are issued pursuant to Section 124 and Section 126 of the BAFIA.

3. Applicability

- 3.1 The Guidelines are applicable to all licensed institutions under the BAFIA that participate in the SPI.

4. Issuance date

- 4.1 The guidelines were first issued on 1 July 1993, with amendments and additional requirements made subsequently. This document was last updated on **2 November 2012**.

5. Policies superseded (where relevant)

- 5.1 The relevant guidelines and circulars as listed in **Appendix II** will be superseded.

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6. Definition and Interpretation

6.1 Unless the context otherwise requires, the following expressions shall bear the following meanings hereby respectively assigned to them, namely:

“**branch**” means the branches of commercial banks or investment banks that participate in the SPI;

“**IBD**” means the Islamic banking division set up at the head office, main office or central office of the banks to administer, manage and conduct all matters pertaining to the SPI;

“**IBF**” means the Islamic banking fund set up by the banks to fund the operations of SPI;

“**SPI**” means the Islamic banking scheme provided by licensed institutions to conduct banking business based on Islamic principles;

“**SPI licensed institutions**” mean the commercial banks and the investment banks that participate in the SPI.

“**the Bank**” means Bank Negara Malaysia, a body corporate which continues to exist under the Central Bank of Malaysia Act 2009.

PART B POLICY REQUIREMENTS

7. Pre-Requirements

Minimum Requirements

7.1 The licensed institution is required to comply with the minimum requirements as stipulated by the Bank before they are allowed to participate in the SPI. The requirements are as follows:

- (a) the licensed institution is financially sound;
- (b) there are no major adverse inspection findings against the licensed institution;
- (c) it complies with all statutory requirements and provisions of law, as well as guidelines issued by Bank Negara Malaysia from time to time;
- (d) it complies with the minimum risk-weighted capital ratio (RWCR) of 8%;
- (e) it complies with the minimum capital requirements:
 - i. locally incorporated foreign banks: RM300 million
 - ii. domestic commercial banks: RM2 billion as a group²
 - iii. investment banks: RM500 million individually or RM2 billion as a group

Application

7.2 The licensed institution is required to submit an application to participate in the SPI to Bank Negara Malaysia, outlining the following:

- (a) Purpose of the participation;
- (b) Products to be offered under the SPI and its structure;
- (c) Investment avenues;
- (d) Method of segregating the funds of SPI from the funds of conventional banking;

² The aggregated amount held by the commercial bank and investment bank in the group. Gazetted on 7 February 2001 and came into force on 31 December 2001

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- (e) Identification of branches where the SPI is to be conducted;
- (f) Infrastructure and logistic requirements, including manpower and training programme; and
- (g) Financial disclosure.

8. Post-Requirements

Islamic Banking Division³

- 8.1 Once the application to participate in the SPI has been approved by the Bank, the licensed institution is required to set up an Islamic Banking Division (IBD) at the head office.
- 8.2 The IBD shall be responsible to prepare a business plan for the SPI operations in terms of operationalising the SPI, as well as to develop policies and procedures pertaining to the SPI operations. This includes system and product development, marketing, processing, approving limits, branch supervision, business development and credit control.
- 8.3 The SPI licensed institutions must ensure that the IBD is provided with the necessary support by the other divisions/ departments to ensure smooth implementation of Islamic banking operations, particularly in areas where similar infrastructure is shared. The SPI licensed institutions must also ensure that the IBD is provided with the level of resources that commensurate with the expected cost and profitability of the IBD.
- 8.4 The IBD must ensure that the submission of statistical report to the Bank is complete, accurate and timely.

³ Effective 2 January 1999, the SPI licensed institutions were required to upgrade the Islamic Banking Unit (IBU) to Islamic Banking Division (IBD) as per the circular issued by Bank Negara Malaysia on “Langkah-langkah Pengukuhan Perbankan Islam” dated 12 November 1998.

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- 8.5 IBD are required to ensure that all regulatory standards⁴, directives and guidelines issued by the Bank are fully observed at all time. SPI licensed institutions shall observe separate compliance on regulatory prudential requirements, which include the minimum capital adequacy ratios encompassing core capital ratio (CCR) of 4% and RWCR of 8%, statutory reserve and liquidity requirement, single customer credit limit and financial and risk disclosure requirements.
- 8.6 The IBD is required to establish suitable criteria to ensure the staffs manning the Islamic banking operations are proficient, qualified, and knowledgeable as well as committed in the discharge of their duties and responsibilities. Continuing training and education programme should be provided to enable staff of the SPI licensed institution to enrich their knowledge, understand and appreciate the virtues of Islamic banking as well as to keep them abreast with the latest development relating to Islamic banking.
- 8.7 The IBD shall be headed by a Muslim senior management officer of the SPI licensed institution, at least the level of the Assistant General Manager (AGM). The position of the AGM should be equivalent to the status of other key functional heads to enable him to deal effectively with his peers and superiors when discharging his duties and responsibilities. The AGM should possess relevant background on Islamic banking and sufficient banking experience to enable him to perform his duties and responsibilities with regard to Islamic banking effectively.
- 8.8 The IBD must adhere to other roles and responsibilities as determined by the licensed institutions or Bank Negara Malaysia from time to time.

⁴ SPI are required to observe and comply with all prudential requirements applicable to Islamic banking institutions licensed under Islamic Banking Act 1983 (IBA), unless specified otherwise in specific guidelines.

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Islamic Banking Fund

8.9 The SPI licensed institutions are required to maintain an Islamic Banking Fund (IBF), with the minimum of:

- (a) RM20 million for commercial banks; and
- (b) RM6 million for investment banks.

The minimum amount of IBF is subject to change from time to time as specified by the Bank. SPI licensed institutions must clearly segregated IBF from the capital funds designated for conventional banking operations.

8.10 The IBF should be funded by way of an allocation by head office of the licensed institution and to be placed under the IBD to fund the operations of the SPI. The IBF should be utilised for overhead expenses and matters relating to the operations of SPI.

8.11 Income generated from operation of the SPI may be used for dividend payment to shareholders of SPI licensed institution provided that the minimum requirement on IBF and RWCR compliance requirement for its Islamic banking asset portfolio have been complied with. Otherwise, the income earned from SPI operations must be retained in IBF.

8.12 The IBF must be clearly segregated from the capital designated for conventional banking operations and cannot be reallocated to the conventional banking operations.

Placement of Conventional Deposits

8.13 In the event of shortage of funds, the SPI licensed institution may place its conventional deposits in the IBF in the form of Specific Investment Accounts. Such deposits shall be placed under the contract of *Mudharabah* with the condition that the SPI licensed institution has exhausted all avenues to obtain additional funds from the Islamic inter-bank money market. Notification to the Bank must be carried out prior

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to any transfer; and placement of the fund must be reported in the monthly report to the Bank.

- 8.14 The placement shall be carried out in the following manner:
- (a) The purpose of the transfer is to meet the SPI's financing needs;
 - (b) The amount transferred should not be less than RM1 million; and
 - (c) The investment period should not be less than six months.

Physical Set-up

- 8.15 The SPI licensed institutions are required to display the word "**SKIM PERBANKAN ISLAM**" and the Islamic banking logo⁵ at its premises that offer Islamic banking products and services. The logo should also be displayed on all documents related to Islamic banking products and services, such as saving books, brochures, pamphlets, application forms for opening of account and financing and other related documents, where necessary. Please refer to **Appendix IV** for the details of the logo.

Documentation

- 8.16 All documents (including ledgers, registers, pay-in-slips, cheques, receipts and passbooks) used for SPI operation must be appropriately marked, so as to easily distinguish them from the other documents of the banks. The abbreviation on Shariah concept shall be prominently marked on all application forms and other related stationery / documents in distinctive colour, if possible.

⁵ The Islamic financial institutions were required to use the Islamic banking logo as per the circular issued by the Bank on "*Logo Perbankan Islam*" dated 20 September 2001.

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Takaful Coverage⁶

- 8.17 The banking facilities offered under the SPI should be adequately insured, where necessary, against possible risks. SPI licensed institutions are required to offer Takaful plan as a **first choice** to customers who apply to obtain Islamic financing which require coverage. If the customers reject the Takaful plan or Takaful plan is not available in the market, the Islamic licensed institutions can offer insurance coverage to the customers.
- 8.18 Only Takaful plan shall be used, if the coverage forms part of the Islamic financing package. SPI licensed institution is not allowed to include the premium of conventional insurance as part of the Islamic financing package. However, customers are allowed to take conventional insurance coverage for their Islamic financing provided that the insurance was obtained from other sources and does not form part of the Islamic financing package. Thus, the SPI licensed institutions must ensure that the Islamic financing package can be offered separately for this purpose.

System and Control

- 8.19 The SPI licensed institutions must ensure the system and control as well as internal auditing of the SPI operations are in place to ensure the smoothness of SPI operations.
- 8.20 SPI licensed institutions are required to devise a separate system of accounting entries and maintenance of records for all transactions and to prepare a separate daily trial balance of the operations of the SPI. The SPI licensed institutions must be able to know the daily balances of their assets and liabilities which relate to SPI operation. The licensed institution must introduce specific account codes for all

⁶ As per the circular issued by Bank Negara Malaysia on "*Perlindungan Takaful bagi Pembiayaan Secara Islam*" dated 21 October 2004.

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ledgers for Islamic banking business to ensure proper accountability of the funds and accounts.

9. Investment Activities of SPI Licensed Institutions

- 9.1 The Islamic financial instruments that can be invested by SPI licensed institutions include the Bank, Government and corporate sukuks, money market instruments and other capital market instruments

10. System and Clearing Network of SPI Licensed Institutions

Real-Time Electronic Transfer of Funds and Securities System (RENTAS)

- 10.1 To participate in the RENTAS system for its SPI operations, the SPI licensed institutions are required to submit an application to the Bank (for attention: *Pengarah, Jabatan Dasar Sistem Pembayaran*). This is to facilitate smooth and organized trading of scripless securities and funds transfer on Islamic banking principles, where the SPI licensed institutions are required to segregate the IFTS and SSTS accounts from the conventional IFTS and SSTS accounts.
- 10.2 In order to separate the SPI accounts from the conventional accounts, the SPI licensed institution is required to open an Islamic SPI current account at the Bank. Application should be submitted to *Pengarah, Jabatan Pengurusan dan Operasi Matawang*, indicating the purpose of the account, list of authorized signatories and Board Resolution /Power of Attorney. Further details relating to the procedures on the application to participate in RENTAS system may be referred to the Unit RENTAS, *Jabatan Dasar Sistem Pembayaran* Bank Negara Malaysia.
- 10.3 The IBD shall be exempted from the yearly membership subscription

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fee of RM5,000 if the SPI licensed institution is already a member of RENTAS.

Cheque Clearing System (applicable to commercial banks only)

- 10.4 The SPI commercial banks are also required to open separate clearing accounts at the Bank branches for its Islamic banking transactions. Once the clearing accounts are opened, the bank shall inform the Bank in writing, and the letter duly signed by the authorized signatories of the account holder on the commencement date, and after which the Bank will assign separate state codes for cheques issued under SPI.
- 10.5 To facilitate efficient sorting of cheques between SPI cheques and conventional cheques at manual cheque clearing centres, the colours of the SPI cheques must be green-shaded.

Settlement of Net Clearing and Unpaid Items

- 10.6 The SPI commercial banks should note the following arrangements:
- (a) The consolidated balance of each licensed institution's clearing position (Conventional and SPI) will be available through RENTAS system at midnight,
 - (b) Funds due from the surplus of Net Clearing position (including compensation) may only be used after settlement of Net Clearing figures
- 10.7 The Bank will monitor the current accounts of each SPI commercial bank to ensure that the SPI commercial bank adhere to the stipulated deadlines for funding of accounts to facilitate timely settlement of the clearing differences, UPI allotments redemptions, profit payments etc. Penalties may be imposed on the SPI commercial bank which fails to comply with the requirements.
- 10.8 The SPI commercial banks are required to give Day 1 value for cheques and other items deposited by their customers before they are

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sent for clearing at SPICK. Withdrawal of cash against these items, however, will be permitted only after the fate is known.

- (a) For the purpose of pledge, the amount of GIIIs to be deposited with the Bank by each SPI commercial bank will be determined by the Bank on a case by case basis;
- (b) The financing by the Bank to the SPI commercial banks will be automatically repaid on the following business day that is. On day 2 through a debit against the SPI commercial banks' clearing account with the Bank; and
- (c) If the SPI commercial banks borrow from the Bank more than 3 times in a calendar month, a penalty of RM1,000 will be charged by the Bank on the bank.

APPENDICES

Appendix 1 Scope of Business Activities of the SPI Licensed Institutions

SPI Commercial Banks	SPI Investment Banks
Approved business:	
<ul style="list-style-type: none"> Receiving deposits on savings accounts, current accounts, investment accounts or other similar accounts. 	<ul style="list-style-type: none"> Receiving deposits on investment accounts and short-term deposit accounts (for example call money deposits, overnight funds and Islamic repo) – subject to a minimum deposit threshold of RM500,000¹
<ul style="list-style-type: none"> Paying collecting cheques drawn by or paid in by customers. 	
<ul style="list-style-type: none"> Domestic commercial bank – Business of hire purchase and leasing activities. Locally incorporated foreign bank – Industrial hire purchase for industrial equipment and heavy machinery of not less than RM200,000. 	
<ul style="list-style-type: none"> Business of consultancy and advisory services relating to corporate and investment matters. 	<ul style="list-style-type: none"> Business of consultancy and advisory services relating to corporate and investment matters.
<ul style="list-style-type: none"> Business of making or managing investment on behalf of any persons. 	<ul style="list-style-type: none"> Business of making or managing investment on behalf of any persons.
<ul style="list-style-type: none"> Provision of finance² 	<ul style="list-style-type: none"> Provision of finance – bridging financing.
<ul style="list-style-type: none"> Provision of financial guarantee to any persons. 	<ul style="list-style-type: none"> Provision of financial guarantee to any persons.
<ul style="list-style-type: none"> Dealing in foreign currencies and gold. 	<ul style="list-style-type: none"> Dealing in foreign currencies
<ul style="list-style-type: none"> Money remittance services. 	
<ul style="list-style-type: none"> Agents for unit trust or property trust, credit cards-i and takaful. 	
<ul style="list-style-type: none"> Factoring business 	

¹ Circulars on Acceptance of Deposits by Investment banks issued on 8 May 2007

² Includes financing, leasing business, factoring business, purchase of bills of exchange, promissory notes, certificates of deposits, debentures or other negotiable instruments, the acceptance or guarantee of any liability or duty of any person in accordance with Shariah principles.

<ul style="list-style-type: none"> • Provision of safe deposit box facilities. 	
<ul style="list-style-type: none"> • Intermediation role for example payment intermediation 	
<ul style="list-style-type: none"> • Such other business as the Bank with the approval of the Minister prescribe 	<ul style="list-style-type: none"> • Such other business as the Bank with the approval of the Minister prescribe
<i>Prohibited Activities:</i>	
<ul style="list-style-type: none"> • Any business that does not comply with Shariah. 	<ul style="list-style-type: none"> • Any business that does not comply with Shariah.
<ul style="list-style-type: none"> • Underwriting of equities. 	<ul style="list-style-type: none"> • All other activities not prescribed as Merchant Bank Business.

Appendix 2 List of Superseded Guidelines/ Circulars

		Issuance Date
1.	Guidelines on “Skim Perbankan Tanpa Faedah” for Commercial Banks	1 July 1993
2.	Guidelines on “Skim Perbankan Tanpa Faedah” for Merchant Banks	1 July 1993
3.	Implementation of “Skim Perbankan Tanpa Faedah”	13 September 1993
4.	Langkah-langkah Pengukuhan Perbankan Islam	12 November 1998
5.	Skim Perbankan Islam untuk Syarikat-syarikat Diskaun	31 December 1998
6.	Pematuhan Nisbah Berwajaran Risiko bagi Portfolio Perbankan Islam	19 November 2001
7.	Measures to Further Strengthen Islamic Banking Operations	11 November 2005

Appendix 3 Islamic Banking Logo



Specification:

- i. **Colour**
 - (a) Blue colour as the background as well as the shape of the outer logo. The wordings under the logo are also in blue.
 - (b) The white colour is to shape the inner logo and the Arabic word “Pa” and “Alif” which can also be read as the alphabet “P” and “I”
- ii. **Logo size and wordings**
 - (a) **Logo** – for the logo that is displayed within the head office and branches, the minimum size used shall be **7” x 6.5”**. For the logo printed on the documents, such as cheque books and saving account books, the size can be modified to follow the size of the documents; and
 - (b) **Wordings** – The words “**PERBANKAN ISLAM**” shall be in capital letters with font “**Calligrapher**” and size of 60 point. For the States that require the licensed institutions to use the Arabic words on all their display board, the font shall be in “**Kufi**” version.