Summary of the Shariah Advisory Council of Bank Negara Malaysia (SAC) Statement and Standards under Section 29(1) of the Islamic Financial Services Act 2013 (IFSA) and Section 33E(1) of the Development Financial Institutions Act 2002 (DFIA) on Proposed Paddy Financing Product Based on *Bai` Salam* Contract

Part I: SAC Statement pursuant to section 52(1)(a) of Central Bank Act 2009

The SAC in its 247th meeting dated 29 April 2025, ascertained that the proposed structure of paddy financing product based on *bai` salam* (forward sale)[1] contract is permissible, subject to the following conditions:

1. *Istibdal*[2] mechanism is permissible to address the issue of non-delivery of paddy in the event of early settlement, restructuring and negligence[3] by the farmer (customer). Nonetheless, this mechanism shall only be regarded as an exception and not the default recourse. This mechanism shall not form part of the product features to be promoted to the customers;

2. For restructuring when the outstanding financing amount is still within the commodity market price, *istibdal* is allowed to be implemented at the current market price, but without the arrangement of *tawarruq* in the process. To operationalise this, the IFI and the farmer may agree on a deferred payment plan to settle the debt from *istibdal*, and the farmer shall be granted *ibra'* (rebate) accordingly; and

3. When the outstanding financing amount exceeds the market price of the commodity, restructuring with *tawarruq* may be allowed, guided by the existing SAC ascertainment of Islamic law on rescheduling and restructuring[4].

Part II: Legal Provision and Applicability

2.1. Part 1 of the SAC Statement is made pursuant to section 52(1)(a) of the Central Bank of Malaysia Act 2009 (CBA) and section 55(2)(a) of the CBA.

2.2. Bank Negara Malaysia specifies Part 1 of this SAC Statement as standards under section 29(1) of the IFSA and section 33E(1) of the DFIA, effective on 17 October 2025 and applicable

[1] *Bai` salam* contract is a forward sale agreement where a seller agrees to deliver a specified commodity to a buyer at a future date in return for an upfront payment made upon entering into the contract. The commodity, quantity, quality, and delivery date are pre-determined in the contract.

[2] *Istibdal* in a *bai` salam* contract refers to the substitution or exchange of the originally agreed upon commodity with other subject matter. In the context of this statement, *istibdal* is referring to substitution of commodity (paddy) debt against money.

[3] The definition of negligence in the event of non-delivery of paddy by the farmer is contingent upon the availability status of the paddy in the market. The farmer is considered negligent if he fails to deliver the paddy even though it is still available in the market.

[4] An example of an applicable SAC statement that must be observed during restructuring is the prohibition of compounding profit, as decided during the SAC's 214th meeting on 30 June 2021. It states that IFIs cannot include accrued profit from the original financing in the new principal amount of restructuring and rescheduling (R&R) financing.

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to the following IFIs:

(i) licensed Islamic banks under the IFSA;

(ii) licensed banks and licensed investment banks approved under section 15(1) of the Financial Services Act 2013 (FSA) to carry on Islamic banking business; and

(iii) prescribed institutions approved under section 33B(1) of the DFIA to carry on Islamic financial business.

In the event there are any inconsistencies between the English and Bahasa Melayu versions, the Bahasa Melayu version shall prevail.