

# Bai' al-Sarf (Currency Exchange)

Bank Negara Malaysia issued the Shariah Standards on bai' al-sarf that took effect in April 2019 which aim to promote end-to-end Shariah compliance and sound banking practices as well as to safeguard consumer interests. In this regard, the Shariah standards set out salient features and essential conditions of bai' al-sarf including the regulatory and supervisory expectations for the operational requirements on governance and oversight, structuring, risk management and market conduct.

The rules of Bai' al-sarf is derived primarily from the well known hadith:

"Gold is to be paid for by gold, silver by silver, wheat by wheat, barley by barley, dates by dates, and salt by salt - like for like, equal for equal, payment being made on the spot. If the species differ, sell as you wish provided that payment is made on the spot".

Hadith: Muslim

## What is Bai' al-sarf?

Bai' al-sarf refers to a contract of exchange of money for money of the same or different type. Money is a medium of exchange that shall be in the form of currency, gold, silver, or other forms accepted by Shariah

## Salient features of Bai' al-sarf

### 1 Delivery of currency:

The delivery and taking possession of the exchanged currency in all bai' al-sarf transactions, regardless of the currency, shall take place in full before the contract session ends

### 2 Same currency:

In the event that the exchanged currencies are the same, the transaction shall be done at par

### 3 Different currency:

In the event that the exchanged currencies are different, the transaction may be done at the prevailing currency rate or mutually agreed rate at the time of the execution of the bai' al-sarf contract

### 4 Possession of currency:

The possession of the exchanged currency shall be in the form of physical possession (qabd haqiqi) or constructive possession (qabd hukmi)

## Component Bai' al-sarf

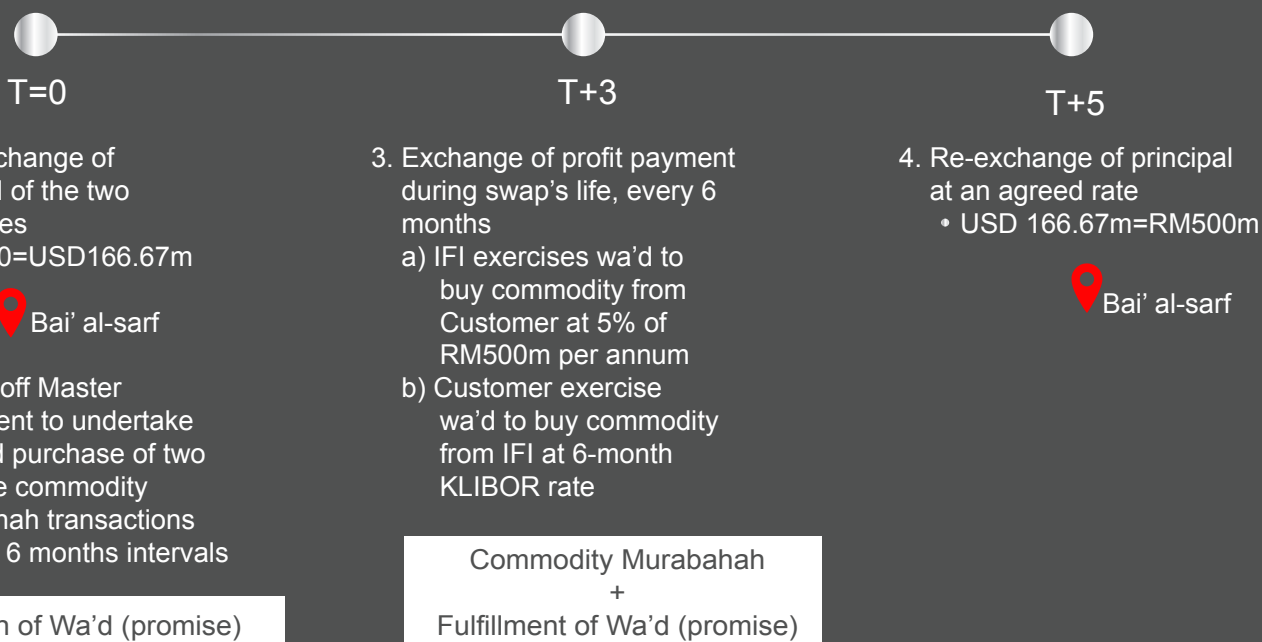


## Illustration of Bai' al-sarf application

Bai' al-sarf may be applied either as a supplementary transaction or as the main underlying contract of a product.

### Example 1: Bai' al-sarf application in foreign exchange investment product

Bai' al-sarf as supplementary contract for currency conversion in a foreign currency trading products such as cross currency swap



Source: Policy Document Bai' al-Sarf, Bank Negara Malaysia

For more information on the Shariah Standards of Bai' al-sarf, please visit

[www.bnm.gov.my](http://www.bnm.gov.my)

[www.mifc.com](http://www.mifc.com)

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