



# SWIFT Messages for Islamic Finance

## Message Usage Guidelines

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<b>Author</b>	Kiyono Hasaka & Tom Alaerts - SWIFT APAC

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# 1 Executive Summary

## 1.1 An introduction to SWIFT and standards

SWIFT is a well-established international standards body that operates a very reliable and highly secure financial global network linking more than 9,500 financial institutions and more than 1,000 corporates across 212 countries.

Standardised financial messages developed by SWIFT and its member institutions allow for excellent Straight-through Processing (STP), thereby resulting in reduced risk and cost. Currently the majority of standardised messages used are the “FIN MT” messages, with MT standing for Message Type<sup>1</sup>. These messages are identified by a three digit number. For example, the ones beginning with the digit 5 are messages for the automation of securities-related transactions. These messages are centrally validated, ensuring that the receiver only receives syntactically correct messages.

## 1.2 An introduction to MT messages for Islamic Finance

This document describes the usage of MT messages (“Rulebook”) for Islamic Finance in response to the growing significance of the Islamic banking and finance market, and with the purpose of promoting message standards. Here, the term Islamic Finance is broadly defined as the financial services designed to comply with the principles of Islamic law (known as *Shariah*).

The purpose of the Rulebook is to provide greater clarity around *Shariah*-compliant FIN MT message usage in order to expedite market harmonization and increase STP.

This Rulebook is being developed through collaborative efforts between SWIFT and the Association of Islamic Banking Institutions Malaysia (“AIBIM”).

# 2 General principles

## 2.1 Relation to the Service Description

These message usage guidelines form an integral part of the service description. For more information about the service description, please refer to the following link:

[https://www2.swift.com/uhbonline/books/protected/en\\_uk/ufsd\\_20130726/index.htm?subpage=ufsd.pdf](https://www2.swift.com/uhbonline/books/protected/en_uk/ufsd_20130726/index.htm?subpage=ufsd.pdf)

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<sup>1</sup> In addition to maintaining the FIN MT messages, there is a new generation of XML-based messages (also called ISO 20022 messages). While these are out of the scope of this document, the suggested approach can easily be adopted or translated towards the new XML messages.

## 2.2 Usage Rules

In general the messages must be implemented as described in the SWIFT User Handbook, and in addition, the rules in this Rulebook must be followed for correct processing of the flows.

## 2.3 Solution usage follow-up

The users should check every working day for incoming messages and process them.

Currently there is no expected customer response times or specific customer availability requirements are defined but it is recommended to respond within one working day.

### Adoption

Full adoption of the solution by the Islamic finance industry is expected to take a few years. In the transition phase, not all financial institutions will be using the service. Some workflows are likely to involve financial institutions that have not yet implemented the principles described in this document. Each member of the service is recommended to follow these principles with other parties, even if a workflow involves a party that is not a member of this service.

## 2.4 Various notes

- This is a technical solution that does not imply adherence to a specific legal framework; such a framework is left to the customers to determine.
- Codes used in the message structure are the technical codes, which are in the context of this Rulebook, does not imply specific business obligations. **The definitions in this Rulebook of fields, codes and qualifiers replace the UHB definition.**
- There is a SWIFT solution available for Commodity Murabahah to automate and standardise a funds transfer flow and a commodity trade flow. Certified by Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI), the Message Usage Guidelines for SWIFT's Murabahah solution dated 1 November 2010 is available from the following link:

[http://www.swift.com/products\\_services/islamic\\_finance\\_murabaha](http://www.swift.com/products_services/islamic_finance_murabaha)

This SWIFT solution will be integrated into a future version of this Rulebook.

## 2.5 Endorsement of the Rulebook for Islamic finance messages

The SAC of AIBIM has come to a decision that the rulebook is in compliance with the requirements of Shariah. A copy of the endorsement is available from SWIFT upon request.

## 3 SWIFT Messages for Islamic Finance

### 3.1 Message User Group

Message User Group (MUG) is a group of users that have registered to use specific messages within a controlled user community. The MUG is available for Islamic Finance practice covering all FIN MT messages. It also serves as a good registration mechanism and enforces processing of messages in accordance with the Islamic Finance practice.

In order to start using the Islamic Finance messages defined in this Rulebook, users are required to take the following two steps:

- 1) Register BIC 11 (BIC 11 is mandatory for conventional banks and optional for full-fledged Islamic banks)
- 2) Subscribe to the MUG. By using the dedicated Islamic Finance BIC 11 and MUG, users would certify adherence to this Rulebook.

#### 3.1.1 How to register BIC 11

The BIC 11 is an eleven-character-BIC that comprises your eight-character Business Identification Code and a three-character branch code. You can register any branch code or rename the existing one and indicate in the Branch Information: “Islamic Finance”. The use of the branch code and this Rulebook segregates the Islamic Finance messages from the conventional finance messages. Below illustrates an example:

XXXX	XX	XX	XXX
4-character	2-character	2-character	<b>3-character</b>
Institution	Country code	Location code	<b>Branch code – you can register your preferred branch code</b>

The following is an example of Maybank in KL, Malaysia with the branch code 001 for Islamic Finance messaging:

BIC 11: MBBEMYKL001

Branch Information: Islamic Finance

As the first step, you can register the BIC 11 from the following website link:

[https://www2.swift.com/formz/main/index.cfm?form\\_config=branch\\_code\\_creation&form\\_roadmap=http://www.swift.com/ordering/order\\_products\\_and\\_services/index.page](https://www2.swift.com/formz/main/index.cfm?form_config=branch_code_creation&form_roadmap=http://www.swift.com/ordering/order_products_and_services/index.page)

Please note that there is a one-time registration fee of EUR75 per branch code.

Please also refer to **Appendices A**, sample on how to complete BIC 11 registration form.

### 3.1.2 How to subscribe to MUG

After the BIC 11 registration, you can subscribe to the MUG for Islamic Finance from the following link:

[http://www.swift.com/ordering/old\\_ordering\\_configuration/existing\\_customers/43718/messaging\\_services/change\\_subscription/fin\\_service\\_configuration/register\\_to\\_a\\_message\\_user\\_group.page?](http://www.swift.com/ordering/old_ordering_configuration/existing_customers/43718/messaging_services/change_subscription/fin_service_configuration/register_to_a_message_user_group.page?)

Please also refer to **Appendices B**, sample on how to complete the MUG subscription form.

In addition, a directory will be created by the subscribed institutions for the MUG.

## 3.2 Message Types for Islamic Finance

This Rulebook will continue to evolve and eventually cover all FIN MT messages in a mid-run, and ISO 20022 messages in a long-run. However, for the first version of this publication, three types of FIN MT messages are reviewed to become *Shariah*-compliant as follows:

- MT 300 (Islamic Foreign Exchange Confirmation)
- MT 320 (Islamic Placement Confirmation)
- MT 620 (Islamic Commodity Placement Confirmation)

In addition, the purpose of this Rulebook is to include all practices that use Islamic financial instruments including but not limited to below:

- Mudarabah (profit sharing)
- Murabahah (cost-plus-sales contract)
- Wadiah (deposit safe keeping)
- Sukuk (Islamic bonds)

The definition and business models of the Islamic Finance practices mentioned above can be found in the **Appendices D**.

The use of FIN MT 300, MT 320 and MT 620 messages over SWIFT does not fundamentally change the current process executed between banks, their customers and brokers. The Master Agreement of FX and placement confirmation remains in place. Islamic Finance terms interpreted in the Rulebook are simply applied and exchanged with the Message User Group using standardised messages via SWIFT.

This solution offers an electronic, automatable alternative to the current manual communication, hence reducing risk, cost and improving efficiency. The service framework comprises a common market practice Rulebook, messaging standards and services. Together, these components provide an efficient platform for exchanging Islamic finance messaging.

### 3.3 Market Practice Rule for Islamic Finance

In the context of Islamic Finance, the below messages and fields must be used as follows:

#### 3.3.1 FIN MT 300

- 1) Message Name: “Islamic Foreign Exchange Confirmation”
- 2) Field 77D: Terms and Conditions – use the following optional codes to interpret Islamic concepts in the following FX transactions:

- i) SPOT
- ii) FWRD

When structured format is used for bilaterally agreed codes, each code must be put between slashes and appear at the beginning of a line. Each character in a code must be in upper case.

#### **EXAMPLE**

*:77D:/SPOT/clarifying information if required*  
Or  
*:77D:/FWRD/clarifying information if required*

Field 77D may refer to Master Agreements which have been put in place on a bilateral basis. It may also refer to local regulations or to specific conditions applicable to the trade. Please refer to the **Appendices C** for a sample message of MT 300.

#### 3.3.2 FIN MT 320

- 1) Message Name: “Islamic Placement Confirmation”
- 2) Field 17R: Party A’s Role:
  - i) B means Acceptance
  - ii) L means Placement

#### **EXAMPLE**

*:17R:B*  
Or  
*:17R:L*

- 3) Field 30X: means Next Profit/Hibah Due Date
- 4) Field 34E: means Currency and Profit/Hibah Amount
- 5) Field 37G: means Indicative Profit/Hibah Rate

- 6) Field 72: You can use the following codes to express the Islamic finance concepts in the transaction:

Concepts	Codes
Wakalah	WAKH
Wadiah	WADH
Mudarabah	MDBH
Profit Sharing Ratio for Mudarabah concept	MPSR
Additional Fee for Wakalah concept	WAKF

“Profit Sharing Ratio” for Mudarabah for Placement/Acceptance is expressed as follows: /MPSR/Placement/Acceptance

**EXAMPLE**

*:72:/MDBH/additional Mudarabah information if required  
/MPSR/70/30*

The order of the format is Placement first, followed by Acceptance. The above example illustrates 70% of the profit shared by Placement and 30% by Acceptance.

“Additional Fee” for Wakalah is expressed as follows:

**EXAMPLE**

*:72:/WAKH/additional Wakalah information if required  
/WAKF/USD10000.00*

Please refer to the **Appendices C** for a sample message of MT 320.

### 3.3.3 FIN MT 620

- 1) Message Name: “Islamic Commodity Placement Confirmation”
- 2) Field 77D: Terms and Conditions – use the following optional code structures to interpret Islamic agreement type and agreement date:

- i. IMMA
- ii. CMMA

IMMA means Interbank Murabahah Master Agreement. CMMA means Corporate Murabahah Master Agreement. Each code of the agreement can be followed by the date of the agreement in the year, month and date format.



When structured format is used for bilaterally agreed codes, each code must be put between slashes and appear at the beginning of a line. Each character in a code must be in upper case.

**EXAMPLE**

:77D:/IMMA/20110823  
*/clarifying information if required*  
Or  
:77D:/CMMA/20110823  
*/clarifying information if required*

- 3) Field 17R: Party A's Role:
  - iii) B means Acceptance
  - iv) L means Placement

**EXAMPLE**

:17R:B  
Or  
:17R:L

- 3) Field 30X: means Next Profit Due Date
- 4) Field 34a: means Currency and Profit Amount
- 5) Field 37G: means Profit Rate
- 6) Field 72: You can use the following codes to express the Islamic finance concepts in the transaction:

Concepts	Codes
Murabahah	MRBH

Please refer to the **Appendices C** for a sample message of MT 620.

## 4 Revision record

<b>Revision</b>	<b>Date</b>	<b>Author</b>	<b>Description</b>	<b>Sections affected</b>
1.0	14 Aug 13	Tom Alaerts &Kiyono Hasaka	First version of document	All
1.1	3 Sep 13	Kiyono Hasaka	Second version of document	Section 3 & Appendices A
1.2	12 Feb 14	Kiyono Hasaka	Third version of document	Section 3 & Appendices
1.3	18 Jun 14	Kiyono Hasaka	Forth version of document	Section 3 & Appendices C
1.4	4 Nov 14	Kiyono Hasaka	Fifth version of document	Section 2 & 3
1.5	18 June 15	Kiyono Hasaka	Sixth version of document	Section 1, 2 & 3

**End of document**

## Appendices A

### Sample on how to register BIC 11 for Islamic Finance



How to register BIC  
11 for Islamic Finance

## Appendices B

### Sample on how to subscribe to Message User Group for Islamic Finance



How to subscribe to  
Message User Group

## Appendices C

### MT 300 Sample Message



MT 300 Sample  
Message.xlsx

### MT 320 Sample Message



MT 320 Sample.xlsx

### MT 620 Sample Message



MT 620 Sample.xlsx

## Appendices D

### Terminology for Islamic Finance

The term Islamic Finance is broadly defined as the financial services designed to comply with the principles of Islamic law (known as *Shariah*). *Shariah* prohibits the payment or receipt of interest (known as *riba*, or usury) for lending money. Investing in businesses that provide goods or services considered contrary to *Shariah*, notably alcohol, pork, pornography and armaments is sinful and prohibited (*haraam*). Islamic finance also forbids speculation thereby futures contracts and options are not permissible.

Islamic financial services are developed by applying the appropriate Islamic financial contracts to suit the financial needs of users. The following are the main contracts commonly used in Islamic Finance defined by Islamic Financial Services Board:

- 1) “**Muḍārabah**” is a contract between the capital provider and a skilled entrepreneur whereby the capital provider would contribute capital to an enterprise or activity, which is to be managed, by the entrepreneur as the Muḍārib (or labour provider). Profits generated by that enterprise or activity are shared in accordance with the terms of the Muḍārabah agreement whilst losses are to borne solely by the capital provider unless the losses are due to the Muḍārib’s misconduct, negligence or breach of contracted terms.
- 2) “**Murābahah**” A Murābahah contract refers to a sale contract whereby the institution offering Islamic financial services sells to a customer a specified kind of asset that is already in their possession at cost plus an agreed profit margin (selling price).
- 3) “**Wakālah**” An agency contract where the customer (principal) appoints the institution offering Islamic financial services as an agent (wakīl) to carry out business on their behalf.
- 4) “**Wadī’ah yad al-dhaman (Qard)**” - An amount deposited whereby the depositor is guaranteed his/her fund in full.
- 5) “**Sukūk**” - Certificates of equal value representing undivided shares in ownership of tangible assets, usufruct and services or (in the ownership of) the assets of particular projects or special investment activity, as the case may be.

**Source: Islamic Financial Services Board (2010), “LIST OF TERMINOLOGIES AND DEFINITIONS USED IN THE IFSB DOCUMENTS”** at <http://www.ifsb.org/terminologies.php#>