

Decomposition of Funds Transfer Pricing Components in Islamic Bank: The Exposure Effect of Shariah Non-Compliant Event Rectification Process

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Abstract : The purpose of Funds Transfer Pricing (FTP) for Islamic Bank is to promote prudent liquidity risk-taking behavior of business units. The acquirer of stable deposits will be rewarded whilst a business unit that generates long-term assets will be charged for added liquidity funding risks. In the end, it promotes risk-adjusted pricing by incorporating profit rate risk and liquidity risk component in the product pricing. However, in the event of Shariah non-compliant (SNCE), FTP components will be examined in the rectification plan especially when Islamic banks need to purify the non-compliance income. The finding shows that the determination between actual and provision cost will defer the decision among Shariah committee in Islamic banks. This paper will review each of FTP components to ensure the classification of actual and provision costs reflect the decision on rectification process on SNCE. This will benefit future decision and its consistency of Islamic banks.

Keywords : fund transfer pricing, Islamic banking, Islamic finance, shariah non-compliant event

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