SWIFT Certified Application

Islamic Finance
Label Criteria 2017

This document explains the business criteria required to obtain the SWIFT Certified Application - Islamic Finance 2017 label.

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Preface

Purpose of the document

This document explains the business criteria required to obtain the SWIFT Certified Application - Islamic Finance label 2017.

Audience

This document is for the following audience:

- Product Managers
- Project Managers
- Developers

Related documentation

Documentation (User Handbook)

- SWIFT Certified Application Programme Overview

  The document provides an overview of the SWIFT Certified Application Programme. It describes the benefits of the programme for SWIFT registered providers that have a software application they want to certify for compatibility with SWIFT standards, messaging services, and connectivity. This document also describes the application and validation processes that SWIFT uses to check such SWIFT compatibility. SWIFT's certification of an application is not an endorsement, warranty, or guarantee of any application, nor does it guarantee or assure any particular service level or outcome with regard to any certified application.

Partner Programme

- SWIFT Certified Application Technical Validation Guides

  The documents explain in a detailed manner how SWIFT validates the application so that this application becomes SWIFT Certified.

Murabaha

- Murabaha Message Usage Guidelines

Islamic Finance Rulebook

- Islamic Finance Rulebook Guidelines

Documentation (User Handbook)

- Standards MT Usage Guidelines

1   SWIFT Messages for Islamic Finance: High-Level Introduction

Overview of Islamic finance

Islamic finance refers to a system of banking activity that is consistent with the principles of Islamic law (Shari'ah). Shari'ah prohibits the making of money from money, that is, interest (Riba), as well as investing in businesses that provide goods or services considered contrary to its principles (Haram).

Amongst the common Islamic concepts used in Islamic banking are profit sharing (Mudharabah), safekeeping (Wadiah), joint venture (Musharakah), cost plus (Murabaha), and leasing (Ijarah).

Commodity Murabaha transactions

The initial scope of the SWIFT offering for Islamic Finance was targeted to Commodity Murabaha transactions.

Islam prohibits charging fixed interest on cash, but permits charging fixed profit on the sale of assets. Islamic banks therefore use a sale-based transaction (Murabaha) instead of a term loan for financing purchase of assets by their clients, especially for working capital requirements.

Murabaha is typically conducted in the following two scenarios:

- deposits (also referred to as **customer acceptance**): the customer of a bank makes a cash deposit with the bank

- credit purchase (also referred to as **customer placement**): the customer of a bank purchases an asset through the bank in order to obtain credit

Murabaha is a package of different contracts, which, when they are combined, makes up the overall transaction. The sequence of their execution is extremely important to ensure that the transaction is Halal.

Within each Master Murabaha Agreement, there are a number of templates used to facilitate the overall transaction between the bank and its customer. These templates are either faxed between the two parties, or in some cases transmitted through e-mail or proprietary systems. Typically a bank will have a different though similar agreement in place with each of its customers.

SWIFT MT messages for Commodity Murabaha

In collaboration with a number of Islamic banks, IIFM (International Islamic Financial Market) and the Shari'ah standard setting body AAOIFI (Accounting and Auditing Organisation for Islamic Financial Institutions), SWIFT has developed a solution for the secure, automatic, and standardised communication flows between Islamic banks and their customers under their existing Master Murabaha agreement.

This solution consists of:

- a set of ISO150022 standards already widely used by the financial industry for securities-related transactions, namely the MT 502, MT 509, and MT 515

- a rulebook and message usage guidelines to be applied to these messages in order to support Murabaha transactions

- a workflow of messages to follow in the customer acceptance and customer placement scenarios to ensure the sequence of execution is Shari'ah-compliant

In October 2010 the AAOIFI certified that SWIFT's Murabaha messages are in compliance with their international Islamic Finance standards.

Islamic Finance Rulebook

SWIFT and the Association of Islamic Banking Institutions Malaysia (AIBIM) launched Islamic Finance Rulebook ("Rulebook") in July 2015 for the purpose of promoting message standards in the Islamic banking and finance market.

With the growing internationalisation of Islamic finance, the Rulebook is being developed through collaborative efforts between SWIFT and AIBIM with the purpose of promoting message standards and automation.

The Rulebook aims to provide greater clarity around the usage of Shariah-compliant MT messages in order to expedite market harmonisation and increase Straight-through Processing to improve efficiency and reduce risks and cost.

The first version of the Rulebook covers three types of MT confirmation messages as follows:

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

Islamic Finance Rulebook will continue to evolve and serve as a master document for all SWIFT MT messages for Islamic Finance eventually. SWIFT Commodity Murabaha solution mentioned above will be integrated into a future version of the Rulebook.

2 SWIFT Certified Application - Islamic Finance Label

The SWIFT Certified Application label for Islamic Finance aims to certify vendor applications that support the creation, processing, and exchange of SWIFT messages for Murabaha or the master Rulebook. The label is awarded to business applications that successfully pass a series of technical, functional, and customer validations organised by SWIFT, to check that the applications respect a series of criteria.

3 SWIFT Certified Application - Islamic Finance Criteria 2017

3.1 Installed Customer Base

Live customer reference

A minimum of one live customer must use the application.

By customer, SWIFT means a distinct financial institution that uses the product to send and receive messages over SWIFTNet.

SWIFT reserves the right to contact the relevant customer to validate the functionality of the application submitted for a SWIFT Certified Application label. A questionnaire is used as the basis for the customer validation. The questionnaire can be in the form of a telephone interview, an e-mail, or a discussion at the customer site. The information provided by the customer is treated as confidential and is not disclosed, unless explicitly agreed with the customer.

3.2 Messaging

FIN protocol

The application must support the FIN protocol (for example, message validation).

In particular, the application must be able to generate the correct FIN header, body, and trailer blocks. It must also be able to parse and act upon any incoming messages as appropriate.

Related information

Standards on page 8

3.3 Direct Connectivity

Requirements

For direct connectivity, the vendor application must integrate with Alliance Access. A business application that does not connect directly to Alliance cannot be considered for a SWIFT Certified Application label.

The direct connection from the business application to Alliance Access can be achieved using one or more of the Alliance Access adapters:

• MQ Host Adapter (MQHA)

• Automated File Transfer (AFT)

• SOAP Host Adapter

The vendor must develop and test SWIFT application integration using Alliance Access 7.0 or 7.2. Proper support of either Alliance Access Release 7.0 or 7.2 is mandatory for the 2017 label.

Mandatory adapters

The SWIFT Certified Application - Islamic Finance label requires support for either Automated File Transfer (AFT) or an interactive link with MQ Host Adapter (MQHA) or SOAP for Alliance Access 7.0 or 7.2. The adapters must support the following messaging service and Standards:

Messaging service	Standards
FIN	MT

Note   *If the application supports several of the previously mentioned adapters, then the vendor may provide the appropriate evidence for some or all of them during the technical validation. SWIFT only publishes information for which evidence has been provided.*

SWIFTNet Release 7.2

A mandatory upgrade to the underlying technology behind SWIFT's interface products is planned for 2017. The aim of the release is to continue to provide a highly secure and efficient SWIFT service for our customers in the years ahead.

Note   *Release 7.2 support will become a mandatory requirement in 2018. SWIFT recommends that you test, plan, and prepare for this change accordingly during the course of 2017. Customers will expect statements about your readiness soon after general availability.*

More details on the SWIFTNet Release 7.2 can be found on www.swift.com:

- *Release 7.2*
- *User Handbook*

Local Authentication (LAU)

Local Authentication provides integrity and authentication of files exchanged between Alliance Access and any application that connects through the application interface. Local Authentication requires that the sending entity and Alliance Access use the same key to compute a Local Authentication file signature. With the increased number of cyber-attacks on the financial industry, customers will expect message signing with LAU from their application providers.

Note   *Although Local Authentication support is not mandatory to receive the 2017 SWIFT Certified Application label, SWIFT strongly encourages SWIFT Certified providers to plan for LAU support.*

3.4   Standards

The application must support all ISO15022 messages listed in the table according to the Standards Release 2017. The application must be able to support all fields and all mandatory and optional code words.

The application must be able to:

- generate any of these messages, validate them against the related syntax and semantic rules, and route them to the SWIFT Interface
- receive and parse any of these messages, and properly act upon them, according to the business transaction rules described in the Standards MT Message Usage Guidelines document.

List of MT messages required for the Murabaha solution

Mandatory/ Optional	MT	MT Name	Incoming	Outgoing
M	502	Order to buy or sell	v	v
M	509	Trade status	v	v
M	515	Client confirmation of purchase or sale	v	v
M	579	Certificate number	v	v
M	599	Free format message	v	v

List of MT messages required for the Islamic Finance rulebook solution

Mandatory/ Optional	MT	MT Name	Incoming	Outgoing
M	300	Islamic Foreign Exchange Confirmation	v	v
M	320	Islamic Placement Confirmation	v	v
M	620	Islamic Commodity Placement Confirmation	v	v

3.5 Message Reconciliation

SWIFT validates messages at different levels and provides notifications related to the validation and transmission results of the messages sent. The application must capture these notifications and ensure technical reconciliation, error handling, repair, and retransmission where appropriate.

3.6 Message Validation

FIN message validation level

FIN central services validate every FIN message against syntax and semantic rules. Messages that do not pass validation are rejected by the central system, incurring substantial cost for SWIFT users. To avoid this, partner applications must provide the same level of validation on the generated messages as the FIN central services do.

Standards Release 2017

The partner application must build and validate all messages types mandated for the label according to according to the Standards Release 2017.

this includes:

- message format and field specifications
- network validated rules
- usage rules
- Straight-Through Processing (STP) guidelines

The Standards Release 2017 becomes effective in November 2017. It will be available to vendors for testing on the integration testbed as of end April 2017 and for customer testing as of end July 2017. Vendors are expected to provide adequate testing time to their customers before these messages go live.

Commodity Murabaha message usage guidelines

In addition to the Standards MT Message Usage Guidelines, the partner application must respect the specific Murabaha rules that are described in the *SWIFT Commodity Murabaha Message Usage Guidelines* document.

The Murabaha specific rules relate to the following items:

- the usage of a specific message user header
- the master transaction reference
- the use of commodity identification and units
- proper referencing across messages
- usage of basket commodities messages

Islamic Finance Rulebook message usage guidelines

In addition to the Standards MT Message Usage Guidelines, the partner application must respect the specific rules that are described in the SWIFT Messages for Islamic Finance Message Usage Guidelines document.

3.7 Business Workflows

Murabaha solution

The application must be able to automatically generate correct MTs when an event occurs or when a user manually enters an event. Whenever possible, subsequent messages must be generated

automatically and/or pre-populated with appropriate fields, as described in the *SWIFT Commodity Murabaha Message Usage Guidelines* document.

More specifically the partner must demonstrate the ability of its application to execute the complete workflows from a bank's and a customer's perspectives in the two Murabaha scenarios. These scenarios are described below in more details and illustrated in the *SWIFT Commodity Murabaha Message Usage Guidelines* document.

The partner application must be able to generate the initial MT 502 message and all subsequent messages created by the bank or customer (typically, a bank as well). It must also be able to receive and act upon messages received from all other parties, including the brokers.

Note   *Playing the role of brokers and the creation and handling of the money transfer message (for example, MT 202) are out of scope of this label.*

3.7.1   Customer Scenarios

Customer acceptance scenario

The customer makes a cash deposit with its bank using, for instance, an MT 202. The bank uses the deposit to purchase a commodity in the customer's name. The bank then buys the commodity at an increased price from the customer. The customer therefore receives a profit on its initial deposit with the bank.
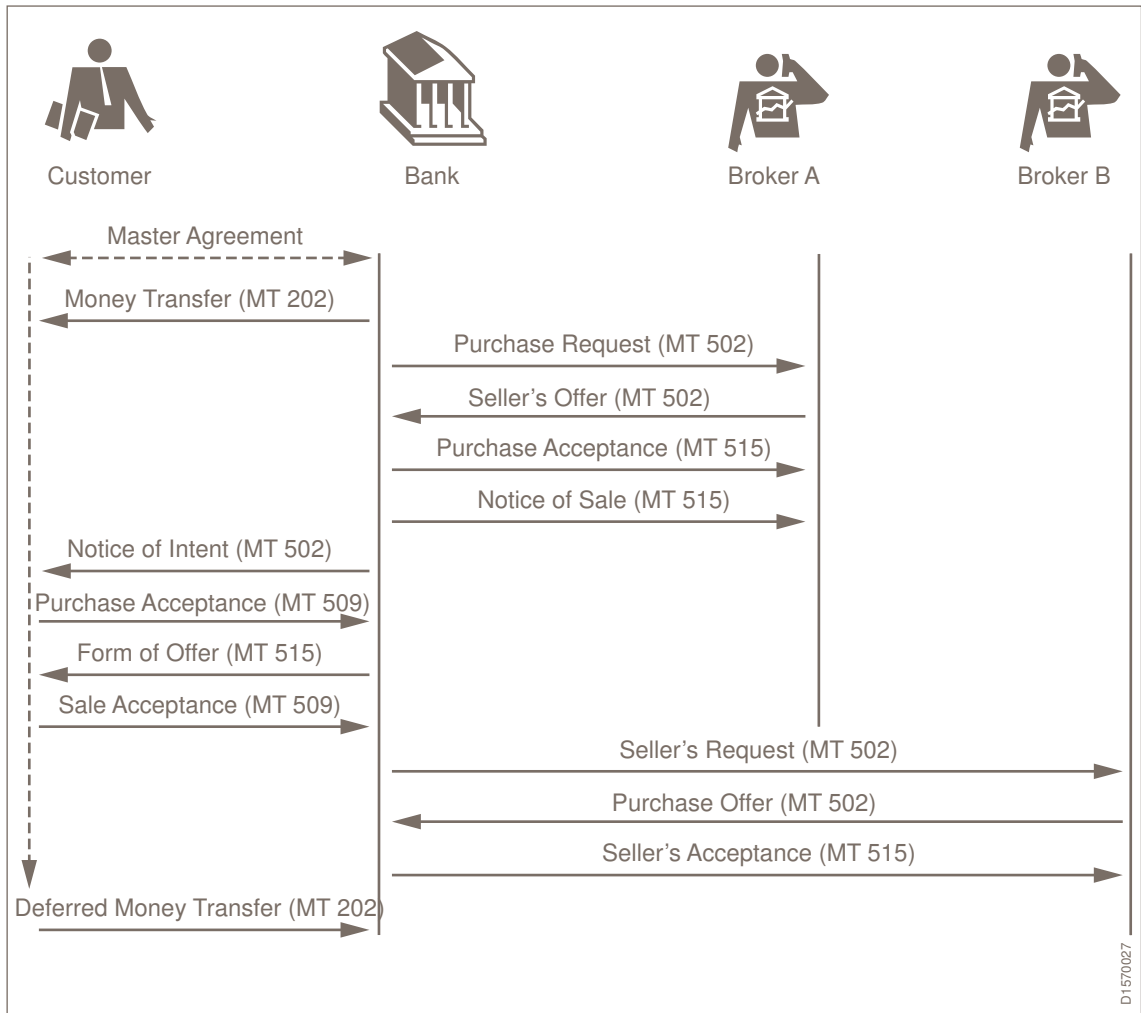
Customer placement scenario

The customer approaches the bank to obtain finance in order to purchase a specific commodity. The bank purchases the commodity and sells it to the customer at a profit. Since the client has no money, the client buys the commodity on a deferred payment basis.

3.7.2   Confirmation Flow Scenarios
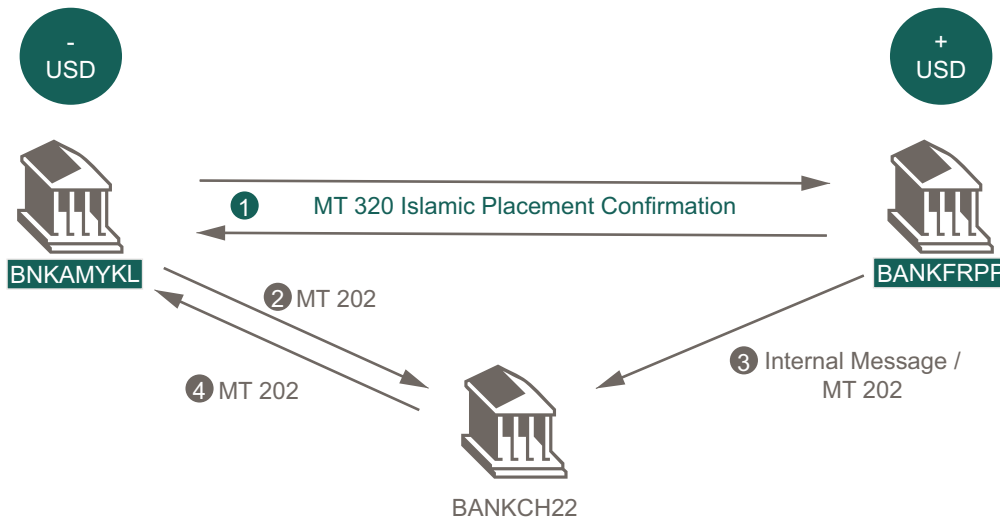
Islamic Foreign Exchange Confirmation Flow

BNKBMYKL buys 100,000 EUR against USD from ANYBDEBB. The rate is 1,3570. The deal is agreed via telephone. BNKBMYKL and ANYBDEBB exchange MT 300 messages to confirm the deal.
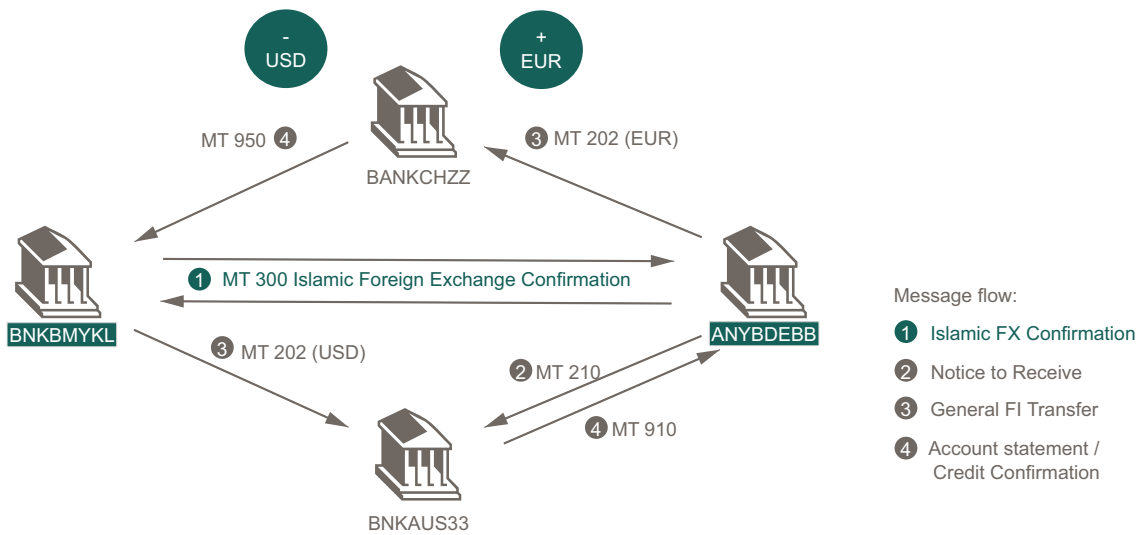
Islamic Placement Confirmation Flow

BNKAMYKL agrees to place 5,000,000 USD to BANKFRPP, at a profit rate of 4,2 % for a period of one year. BNKAMYKL and BANKFRPP exchange MT 320 messages (1) to confirm the deal. BNKAMYKL transfers the funds to BANKCH22 Lausanne branch on value date (2) At maturity, BANKFRPP instructs the Lausanne branch to transfer the principal and the profit to BNKAMYKL (3).

Islamic Commodity Placement Confirmation Flow

ABCDMYKL agrees to place 10234,40079 Tonnage of crude palm oil to BANKMYKL at a profit rate of 2.85% for a period of one day. ABCDMYKL and BANKMYKL exchange MT 620 messages to confirm the deal. ABCDMYK transfers the crude palm oil to the account of BANKMYKL held with Company Ltd, London (2). At maturity, BANKMYKL instructs Company Ltd, London to transfer the principal and the profit to ABCDMYKL (3).
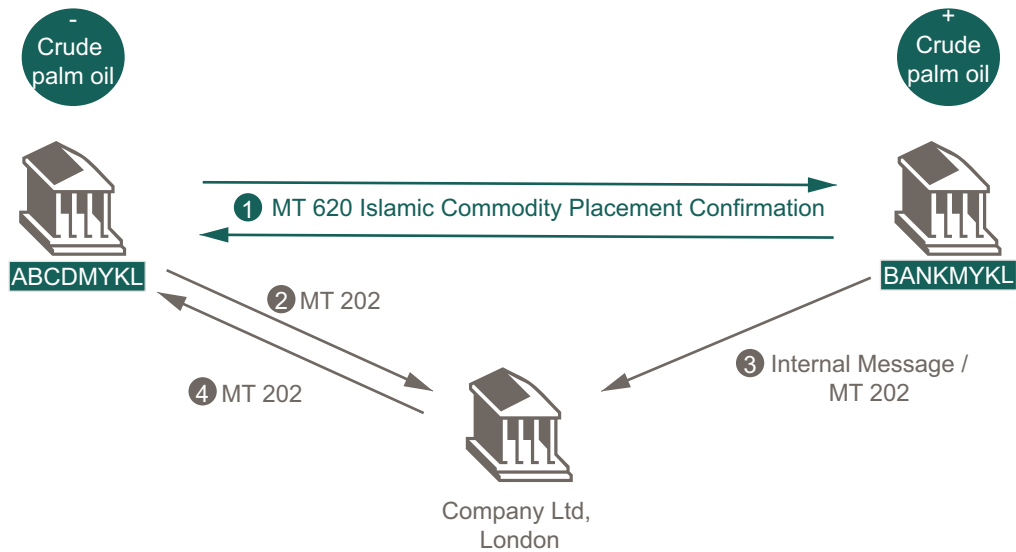
3.8 User Interface

Introduction

The application must have manual message entry, display, and repair capability for the MTs listed in section Business Workflows on page 10 as well as Murabaha transaction monitoring, audit trail, and user profile management functionality.

Message entry

The application must enable a user to manually input or modify the MT messages in a user-friendly way.

The following criteria enable to measure user friendliness:

- the use of field names rather than MT codes, as per the *SWIFT Commodity Murabaha Message Usage Guidelines*.

- the ability to create and re-use message templates with pre-filled fields (for example, templates per counterparty).

- the availability of drop-down lists, for example, to select Commodity Units and Commodity ID subfields. These lists must be configurable.

Message display

The application must be able to display all incoming and outgoing MT messages as they are carried over SWIFTNet.

Message repair

The application must validate user data input at field level and must flag any invalid entry, prompting the user to correct the input.

This includes but is not limited to flagging:

- mandatory fields
- invalid format of the Commodity Identification
- invalid Commodity Unit

Transaction monitoring

The application must provide a transaction monitoring screen that enables the user to track all incoming and outgoing messages related to the same Murabaha transaction.

User profile management

The application must provide a user profile management tool to ensure that only authorised users can perform specific tasks. The partner must demonstrate how their application handles user profile creation, update and deletion and how access is denied or an operation refused if a user is not entitled to perform it.

The partner must also demonstrate that the application supports the **four-eyes** principle by showing that a specific operation requires a second person to validate it before execution.

3.9 Reference Data Integration

The application must support the directories that are documented in this section.

Optional directories are clearly identified as such.

3.9.1 BIC Directory (Optional)

Overview

The application must provide access to the BIC Directory (or the eventual replacements of the BIC Directory: BIC Plus or BIC Directory 2018) both for message validation and as a look-up function in the message creation and message repair stations.

It is the responsibility of directory subscribers at all times to make sure that they use the latest version of the BIC Directory. As such, SWIFT expects the application to support the BIC Directory monthly update in an efficient manner without disrupting customer operations.

Retrieval functionality during message composition

The BICs contained in the BIC Directory, BIC Plus, and BIC Directory 2018 can be used in various fields of the SWIFT messages. The absence of BICs in these fields is one of the major obstacles to straight-through processing (STP) and causes manual intervention on the recipient side. SWIFT expects vendors to provide an integrated interface within their application to make it possible for users to retrieve and input correctly formatted BICs into the proper fields.

Search functionality

The user must be able to enter a number of search criteria, such as bank name or address, to perform a search, and to get a list of results. From this result window, the user must be able to select the required BICs and copy these into the different bank identifier fields of the message (that is, the transaction).

If the search criteria return no results, then the user must be alerted that no BIC is available. If the user manually enters an invalid BIC, then the application must send an alert notifying the user that this BIC is not valid.

Available format and delivery

Flat file in XML or TXT format.

Delivery

The BIC Directory, BIC Plus, and BIC Directory 2018 are downloadable in a manual or automated manner from the SWIFTRef Access Point in full and delta versions. Upon request, they can also be delivered through FileAct.

The BIC Directory, BIC Plus, and BIC Directory 2018 must either be copied into the application repository system or stored in the back office for access by the vendor application through a defined interface.

3.9.2 Bank Directory Plus (Optional)

Content

Bank Directory Plus contains the following information:

- All BIC11s from the ISO registry (more than 200 countries), from connected and non-connected financial institutions and corporates active on FIN, FileAct, and/or InterAct.
- All LEI (Legal Entity Identifier) from the endorsed LOUs (Local Operating Units).
- Name and address details for each BIC
- FIN service codes
- National clearing codes (160+ countries), including CHIPS, TARGET, and EBA data. For a limited number of countries (10+), national codes are also provided with name and address in local language (for example, China, Japan, Russia).
- Bank hierarchy information
- Country, currency, and holiday information
- Timezone information

Available formats

Flat file in XML or TXT format

Delivery

The Bank Directory Plus is downloadable in a manual or automated manner from the SWIFTRef Access Point in full and delta versions. Upon request it can also be delivered through FileAct.

3.9.3   IBAN Plus (Optional)

Content

The IBAN Plus directory contains the following information:

- IBAN country formats

  - IBAN country prefix

  - IBAN length

  - Bank code length, composition, and position within the IBAN

- Institution name and country

- Institution bank and branch codes in the formats as embedded in IBANs

- Institution BICs as issued together with the IBANs to the account holders

- Data for the SEPA countries and the non-SEPA countries that adopted the IBAN

- Updates to the file when new IBAN country formats are registered with SWIFT in its capacity as the ISO IBAN registry

The directory is ideal for accurate derivation of BIC from IBAN, covering 68 IBAN countries (including all SEPA countries).

Available formats

Flat file in XML or TXT format

Delivery

The IBAN Plus is downloadable in a manual or automated manner from the SWIFTRef Access Point in full and delta versions. Upon request it can also be delivered through FileAct.

3.9.4   SWIFTRef Business Applications (Optional)

Introduction

SWIFTRef offers a portfolio of reference data products and services. Data is maintained in a flexible relational database and accessible in a choice of formats and delivery channels matched to business needs.

Purpose

Application vendors are able to access BICs, National bank/Sort codes, IBAN data, payment routing data (including SEPA and other payment systems), Standard Settlement Instructions (SSIs), LEIs, MICs (Market Identification Codes), BRNs (Business Registration Numbers), GIINs (Global Intermediary Identification Numbers), and more. Through SWIFTRef, vendors can ensure that their applications support the most accurate and up-to-date reference and entity data for smooth payments initiation and processing.

Related information

Additional information about SWIFTRef for application vendors is available on swiftref.swift.com/swiftref-business-applications.

4   Marketing and Sales

Requirements

In order to maximise the business value of the SWIFT Certified Application - Islamic Finance label, collaboration between SWIFT and the vendor is expected. More specifically, the vendor must provide SWIFT, under a non-disclosure agreement, with the following information:

- A list of customers actively using the application in a SWIFT context

  The list must contain the institution name, location, and an overview of the integration scope (domain, features, and sites) for the current and previous year.

- A list of all customers active in the financial sector

- A product roadmap for 2017 and 2018 containing the plans for further developments, SWIFT support, and new releases

- A complete set of documentation, including feature overview, SWIFT adapters, workflow engine capability, and user manuals

In addition, the vendor must dedicate a page of their web site to describe the SWIFT Certified Application used in a SWIFT context.

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