JANUARY–JUNE 2016 VOL 11 NO 1

Suruhanjaya Sekuriti
Securities Commission
Malaysia

malaysian ICM

Bi-annual Bulletin on the
Malaysian Islamic Capital Market
by the Securities Commission Malaysia

Contents

Financing Infrastructure Development Through ICM

The Organisation of Economic Cooperation and Development estimates that by 2030, globally, US$71 trillion would be required for investments in public infrastructure such as road, rail, telecommunication, electricity and water (without taking into account seaports, airports and social infrastructure). Meanwhile, the Asian Development Bank (ADB) estimates that Asia needs to invest US$8 trillion in national infrastructure over the decade between 2010 and 2020.

The development of infrastructure is vital to support commerce and trade. It also forms an important determinant for long-term economic growth. To finance these infrastructure projects, massive investments are required and normally incurred during the initial stages of the projects. The operational lives of such projects are long, hence requiring longer financing tenures.

The Islamic capital market (ICM) has the means and ways to raise the much needed funds. Sukuk, which has gained significance acceptance as a source for long-term financing, can be leveraged to support the infrastructure financing needs. There are varieties of sukuk structures using different Islamic contracts such as *ijarah*, *murabahah* and *wakalah* or a combination thereof that are able to provide customised solutions. Sukuk is also backed by real economic activity as well as has the ability to tap a wider investor base from both Islamic and conventional spectrum. To help mobilise long-term capital, emerging and developing markets should accelerate

▶ *continue to page 2*

▶ *from page 1*

development of their local currency domestic bond and/ or sukuk market. This requires putting in place the ecosystem and enabling environment for a deep and liquid bond and/or sukuk market to flourish.

One of the examples on sukuk issuance for an infrastructure project financing in Malaysia was Danainfra Nasional Bhd's RM46 billion sukuk programme, to part finance the construction of the Mass Rapid Transit network in the Greater Kuala Lumpur urban area. Another mega project in the pipeline is the Pan-Borneo Highway in East Malaysia, estimated to cost RM27 billion, which will be funded partly with proceeds from the issuance of sukuk.

The fund management industry could also potentially become another important source of infrastructure financing. The setting up of an infrastructure fund provides an efficient investment channel for investors to capitalise on the infrastructure investment opportunities.

In this regard, various funding models of fund structures could be utilised to accommodate the channelling of funds to finance infrastructure development and these include hybrid structures that combine state financial support and privately launched infrastructure funds. ADB and Islamic Development Bank, for example, have launched Islamic infrastructure funds to support infrastructure projects in their member countries.

While not prevalent in mobilising capital for infrastructure project, the equity market does provide regulation for infrastructure project companies (IPC) to raise funds through the issuance of new shares and the listing of such companies on the stock exchange. In Malaysia, the listing of IPC is allowed under the Main Market of Bursa Malaysia subject to meeting the listing requirements. Such company must demonstrate it has the right to build and operate an infrastructure project in or outside the country with a minimum of RM500 million in project cost, among others. As at end-June 2016, there were four Shariah-compliant IPC listed on the Bursa Malaysia with total market capitalisation of RM45 billion.

> *"The fund management industry could also potentially become another important source of infrastructure financing. The setting up of an infrastructure fund provides an efficient investment channel for investors to capitalise on the infrastructure investment opportunities"*

Growing financing needs in the infrastructure sector present a valuable opportunity for ICM to raise funding for the infrastructure-related projects. This allows a growing number of countries to become familiar with ICM instruments especially as an avenue for alternative mode of financing, and ultimately will contribute towards greater economic growth of the countries in the long run.

Sources

[1] SC.
[2] Malaysia International Islamic Financial Centre (MIFC) website.
[3] Bursa Malaysia website.

Shariah Advisory Council Resolutions

The Shariah Advisory Council (SAC) of SC continues to be a scholarly reference centre for ICM-related issues particularly in providing greater consistency and clarity to issuers, intermediaries and investors. With the rapid growth of ICM in Malaysia, various issues have been discussed and resolved by the SAC.

CONCEPTS AND PERMISSIBILITY OF BINDINGNESS OF WA`D AND MUWA`ADAH

Wa`d

Wa`d* is a promise by a person or a party to perform certain task in the future. *Wa`d is *mulzim* (unilaterally binding) on the promisor if the *wa`d* is attached to any of the following:

(i) A particular action which is done by a party including the promisee in the future;
(ii) A particular time or date; or
(iii) A particular situation which will occur in the future.

The bindingness of *wa`d* shall take effect at the time when the *wa`d* is expressed.

Wa`d mulzim* is permissible based on the view of *fuqaha'* that *wa`d which is attached to conditions is binding. The types of conditions include a particular action, date/time and situation. This ruling may clarify the types and categories of conditions attached to *wa`d* that lead to the binding effect of *wa`d*, especially in the financial instruments that involve promise to enter into contract that is attached to a particular date/time in the future.

The promisor who breaches his *wa`d* is liable to pay *ta`widh* (compensation) based on actual loss suffered (if any) by the aggrieved promisee due to the breach of the *wa`d.*

Muwa`adah

Muwa`adah* is a bilateral promise between two persons or two parties to enter into a contract in the future. *Muwa`adah is *mulzimah* (bilaterally binding) on the promisors if the *muwa`adah* is attached to any of the following:

(i) A particular action which is done by a party including the promisee in the future;
(ii) A particular time or date; or
(iii) A particular situation which will occur in the future.

The bindingness of *muwa`adah* shall take effect at the time when the *muwa`adah* is expressed.

Muwa`adah mulzimah* is permissible because *muwa`adah is merely a promise and does not tantamount to a contract. Since the contract is yet to be entered into, it does not have the effect of a contract. For example, when *muwa`adah* is expressed in relation to sale and purchase contract, there is no requirement of delivery of the counter values between the respective promisors because the contract will only be entered into at a time which have been agreed in the future in the *muwa`adah* arrangement.

The promisor who breaches his promise in the *muwa`adah* is liable to pay *ta`widh* (compensation) based on actual loss suffered (if any) by the aggrieved promisee due to the breach of the promise.

ISLAMIC SECURITIES SELLING AND BUYING-NEGOTIATED TRANSACTION MODEL

The SAC had deliberated on an industry proposal on Islamic Securities Selling and Buying-Negotiated Transaction (iSSB-NT) Model, a Shariah-compliant alternative to the conventional Securities Borrowing and Lending-Negotiated Transaction (SBL-NT) Model[1]. The iSSB-NT Model is developed to address the needs to further grow the Shariah-compliant securities market in particular the Islamic exchange-traded fund.

The issue in deliberation was on the permissibility of the proposed iSSB-NT Model which is structured based on two outright *bai`* (sale) transactions that includes the feature of *wa`dan* (two unilateral promises/ undertakings), *khiyar al-shart* (conditional option)[2] and the provision of collateral as security for the indebtedness.

Pursuant to the above issue, the SAC had resolved that the proposed iSSB-NT Model is permissible.

IJARAH AGREEMENT AND MAL MUSHA` IN SUKUK IJARAH

Issues relating to *ijarah* agreement and *mal musha`* (undivided asset)[3] arose from an industry proposal relating to sukuk *ijarah*. In that proposal, the issuer proposed to issue sukuk *ijarah* in one lump sum with multiple series (bullet issuance with multiple series) on the issue date with different maturities.

Pursuant to the above issues, the SAC had resolved that–

(i) for sukuk *ijarah* with either bullet issue or multiple issues under sukuk programme with multiple series and maturities, the execution of Master Ijarah Agreement is allowed. However, the following particulars should be stated in details in the Master Ijarah Agreement or in the schedules attached to it:

(a) The proportionate interest in the leased assets;
(b) The maturity period; and
(c) The rental payments.

If the Master Ijarah Agreement only provides the general terms of *ijarah* and does not constitute a contract while the schedules provide the specific terms relating to *ijarah*, the SAC further agreed that each schedule must be signed by the lessor (or lessor via the trustee) and the lessee to constitute the schedules as contract between the two parties for the specific series of sukuk. However, if the Master Ijarah Agreement is considered as a contract, the SAC agreed that there is no requirement to sign each schedule which provided the specific terms relating to *ijarah* since the schedule will be deemed as part of the contract.

(ii) there is no Shariah issue if the proportionate interest in the asset is only specified via percentage in the case of *mal musha`*.

(iii) for the purpose of the redemption/retirement of the sukuk, it is allowed to have: (a) a single purchase undertaking for all series of the sukuk *ijarah*; and (b) the redemption for each series via an individual sale agreement specific to the relevant proportionate interest of the leased assets.

The SAC also resolved that for *ijarah* structure which does not provide purchase undertaking, there should be a mechanism, such as *hibah* (gift), etc., to give effect to the ownership transfer of the asset to the issuer/ owner. This mechanism is required to facilitate retirement/ redemption of the sukuk at each maturity.

APPLICATION OF BAI` AL-DAYN BI AL-SILA`

An industry proposal of Redeemable Convertible Unsecured Islamic Debt Securities (RCUIDS) was presented to the

1 SBL is the term used to describe a transaction where securities are transferred from the owner (the lender) to another party (the borrower). The borrower is obliged to return the securities to the lender either on demand or at the end of the loan term. As a fully collateralised transaction, securities lending is considered a low-risk activity and it is usually operating within a stringent legal and regulated framework.

2 *Khiyar al-shart* (conditional option) – an option to cancel a previous agreed sale within a specific number of days.

3 *Musha`* from the perspective of *fuqaha'* refers to joint ownership over an asset in proportion and physically undivided. However, if the asset which is jointly owned is divided among the partners, hence the feature of joint ownership (الشائع) cease to exist and it becomes specific ownership of the partners over the asset.

SAC. This proposal involved the issue of *bai` al-dayn bi al-sila`* (exchange of debt with commodity) where the obligation of the issuer to pay debt which arose following to the issuance of RCUIDS was undertaken by exchanging the RCUIDS (*al-dayn*) with commodity (*al-sila`*). In this context, the commodity was considered as payment 'in-kind' by the issuer to the RCUIDS holders based on the obligation of the issuer under the RCUIDS.

Pursuant to the above issue, the SAC resolved that *bai` al-dayn bi al-sila`* is permissible.

DEFERMENT OF PROFIT DISTRIBUTION TO JUNIOR SUKUKHOLDERS OF SUKUK STRUCTURED BASED ON `UQUD MU`AWADHAT (CONTRACTS OF EXCHANGE)

An industry proposal on the structure of sukuk *murabahah* (via *tawarruq* mechanism) involving the profit distribution to senior and junior sukukholders was presented to the SAC. The proposal was in relation to the issue of deferment of profit payment to junior sukukholders. In the context of principal and profit payment, senior sukukholders will be given priority before payment is made to junior sukukholders. Based on mutually-agreed terms by the sukukholders, if the sukuk issuer is unable to pay profit to junior sukukholders, the issuer will defer the payment of profit until the next payment date which is on a cumulative and non-compounding basis.

Pursuant to the above issues, the SAC resolved that deferment of profit distribution to junior sukukholders for sukuk structured based on *`uqud mu`awadhat* (contracts of exchange) is permissible by *Syara`*. It is permissible based on the concept of *tanazul* (waive of rights) and *taradhi* (mutual consent) between senior and junior sukukholders as follows:

(i) If there is a *musharakah* arrangement between senior and junior sukukholders, the concept of *tanazul* is applicable; and

(ii) If there is no *musharakah* arrangement between senior and junior sukukholders, the concept of *taradhi* between them is applicable.

GUARANTEE ON TA`WIDH, FEES AND EXPENSES

An industry proposal was presented to the SAC relating to sukuk *wakalah bi al-istithmar* (contract of agency for investment) which involved guarantee on *ta`widh*, fees and expenses. The guarantor in the proposed sukuk structure was the parent company of the issuer.

Pursuant to the above issues, the SAC resolved that *ta`widh* which was imposed on sukuk issued under *`uqud ishtirak* (contracts of partnership), *`uqud mu`awadhat* (contracts of exchange) or *`aqd wakalah* (contract of agency) may be included as part of the guaranteed amount under the *kafalah* contract or conventional guarantee for the said sukuk. This is because the amount payable arising from *ta`widh* is regarded as debt owed by the relevant party in a sukuk transaction.

The SAC also resolved that guarantee on fees and expenses are also permissible. Fees and expenses due under the sukuk *wakalah bi al-istithmar* could be guaranteed by the parent company of the issuer (as guarantor) as they are debts.

COMBINATION OF SALE AND LOAN (QARDH) CONTRACTS

The issue on the combination of sale and loan (*qardh*) contracts arose during the discussion for the proposal from industry on the structuring of sukuk based on *musharakah* contract. Therefore, an issue on whether the combination of the said contracts can be categorised as *bai` wa salaf* which is prohibited by Prophet Muhammad (PBUH) was presented to the SAC.

Pursuant to the above issue, the SAC resolved that, for any ICM proposal which includes the structure of sale contract and loan contract, there should not be any conditions in such proposal which indicates any link or connection between the sale contract and loan contract. It is because the conditional feature in the combination of sale contract and loan contract would fall under the prohibition in a hadith by Prophet Muhammad (PBUH) on *bai` wa salaf.*

The SAC also resolved that the main criteria of combination between sale and loan contracts that can be classified under *bai` wa salaf* are as follows:

(i) There is interconnectivity between sale and loan contracts; and/or

(ii) There is an opportunity by the contracting parties to take advantage or manipulate the pricing for the benefit of the creditor from the loan contract that has connection with *`uqud mu`awadhat.*

7TH SC-OCIS Roundtable on Influencing Change in Finance and Society: Public Policy and Legislative Priorities

The seventh SC-Oxford Centre for Islamic Studies (OCIS) Roundtable was held from 5 to 6 March 2016 in Kuala Lumpur with a theme 'Influencing Change in Finance and Society: Public Policy and Legislative Priorities'. A select group of about 50 key industry practitioners, senior academicians, Shariah scholars, multilateral organisations and regulators participated in this closed-door Roundtable. His Royal Highness Sultan Nazrin Muizzuddin Shah, Sultan of Perak Darul Ridzuan and the Royal Patron for Malaysia's Islamic Finance Initiative, graced the Roundtable and delivered a special address.

Participants discussed how public policies have in the past, facilitated the development of Islamic finance. In this context, Malaysia was highlighted as a successful case serving as a model for other countries. The next level is for transformational change driven by public policy to further progress Islamic finance by incorporating universal good values as also propagated by *maqasid Shariah*. The Shariah fraternity is also no exception in having to change their mindsets by learning how global finance has set sustainable objectives and to discover the convergence of the philosophy with Islamic finance.

The participants deliberated on the new role to be played by Shariah scholars in order to bring Islamic finance towards the mainstream. In this context, they discussed the need to change the Shariah advisory mindset and also to take responsibility and ownership in their roles beyond merely approving products and operational processes.

The roles of Public Private Partnerships (PPP) as effective agents of economic and societal change, and their use of Islamic finance were recognised as a very effective mechanism for growth in real economy and wealth creation. In fact, Malaysia's experiences as well as those of the IDB agencies have proven how such partnerships have, to some extent, facilitated social inclusion while reducing inequality within society. Overall, the Roundtable received positive comments and feedback primarily for high quality discussions and debates.

SC Chairman Receives Award for Contribution to ICM Regulation

The Chairman of the SC was accorded the prestigious award of 'Outstanding Contribution for the Development of the Islamic Capital Markets by a Regulator' at the 10th Sukuk Summit Awards of Excellence, held as part of the 2016 London Sukuk Summit on 25 May. Among the notable efforts made were the role to develop Islamic capital market standards with global standard setters, establishment of the world's first Islamic fund management framework as well as the world's first Sustainable and Responsible Investment sukuk framework.

Tan Sri Dato' Seri Ranjit Ajit Singh receives the award for 'Outstanding Contribution for the Development of the Islamic Capital Markets by a Regulator'

SC-OCIS Scholar in Residence Programme for Academic year 2016/17

The Scholar in Residence (SIR) Programme is an initiative to further research on contemporary issues in Islamic Finance. The Programme was set up in 2012 following a resolution made at the SC-Oxford Centre for Islamic Studies (OCIS) Roundtable, an annual flagship event under the SC and OCIS collaboration. Since its launch, three scholars have successfully completed their research on topical issues relevant to Islamic finance, while the fourth scholar is currently in residence as Visiting Fellow.

The Programme, as well as the broader collaboration with OCIS, is part of SC's ongoing thought leadership and capacity building initiatives to advance the global development of Islamic capital markets. Applicants and nominees for the Visiting Fellowship under the SIR Programme must be specialists in Islamic finance and/ or a closely related discipline, preferably with practical experience of policymaking with an international or comparative component, and must be able to demonstrate competence in conducting independent academic research.

The next Visiting Fellow for the academic year 2016/17 has been selected to take up residence in Oxford as well as conducting a research relating to equity finance in the current practices of Islamic finance. In addition, the Visiting Fellow is expected to give occasional lectures and conduct seminars, to engage in collaborative study and, upon request, to provide outreach to relevant institutions and the local community. The tenure of the Fellowship is for one academic year. The Visiting Fellow will also have membership of the Centre and enjoy full access to its facilities.

Apart from collaborating with global institutions like OCIS, the SC has also been working on other initiatives, including the publication of books and case studies, conducting applied research and offering professional development programmes, to enhance capabilities and promote greater innovation within the industry.

Updated List of Shariah-Compliant Securities

The SC released an updated list of Shariah-compliant securities approved by its SAC which took effect on 27 May 2016. The list featured a total of 669 Shariah-compliant securities, which constitute 74 per cent of the total 905 listed securities on Bursa Malaysia. It included 20 newly classified Shariah-compliant securities and excluded 15 from the previous list issued in November 2015.

The full list which is updated twice a year based on the companies' latest annual audited financial statements, is available on the SC website at www.sc.com.my.

Table 1
Shariah-compliant securities on Bursa Malaysia

Main Market/ ACE Market	Number of Shariah-compliant securities	Total securities*	Percentage of Shariah-compliant securities (%)
Consumer products	104	130	80
Industrial products	189	241	78
Mining	Nil	1	Nil
Construction	38	45	84
Trading/Services	150	211	71
Properties	68	95	72
Plantation	36	42	86
Technology	76	92	83
Infrastructure (IPC)	4	5	80
Finance	2	34	6
SPAC	2	4	50
Hotels	Nil	4	Nil
Closed-end fund	Nil	1	Nil
TOTAL	**669**	**905**	**74**

* *As of 19 May 2016*

SC Introduces Regulatory Framework to Facilitate Peer-to-peer Financing

In April 2016, the SC announced the regulatory framework for peer-to-peer financing (P2P), setting out requirements for the registration of a P2P platform as provided in the amended *Guidelines on Recognized Markets.*

The introduction of the new Chapter 13 in the Guidelines provides the duties and responsibilities of a P2P operator, and also the type of issuers and investors who can participate in P2P.

The framework will enable sole proprietorships, partnerships, incorporated limited liability partnerships, private limited and unlisted public companies to access market-based financing to fund their projects or businesses, via an electronic platform.

Submissions of applications to the SC from parties who are interested to operate a P2P platform started from 2 May and ended on 1 July 2016. They are locally incorporated and have a minimum paid-up capital of RM5 million.

The Guidelines also stipulate that the operator's board of directors must be fit and proper. Ongoing obligations are imposed on the P2P operator such as ensuring compliance with platform rules, having in place an efficient and transparent risk scoring system for issuer and contingency arrangement to ensure business continuity.

To protect investors, a P2P operator is required to ensure that monies obtained from investors are placed in a trust account until the minimum target amount is met. When an issuer makes repayment to the investor, the P2P operator is also obliged to place the investors' monies in a trust account. In order to enable investors to make an informed investment decision and understand the risks of their investment, the P2P operator must make available all relevant information to the investor.

"The P2P framework is part of SC's ongoing efforts to provide greater access to market-based financing through the application of technology solutions."

There is no investment limit imposed on sophisticated and angel investors while retail investors are strongly advised to limit their investment exposure in P2P to a maximum of RM50,000 at any point of time.

The P2P framework is part of SC's ongoing efforts to provide greater access to market-based financing through the application of technology solutions. In 2015, Malaysia became the first country in ASEAN to introduce a regulatory framework to facilitate equity crowdfunding, with six registered equity crowdfunding platforms expected to be fully operationalised in 2016. The amended *Guidelines on Recognized Markets* is available on the SC website and took effect on 2 May 2016.

Influencing Change In Finance and Society: Public Policy and Legislative Priorities[1]

The world economy and markets have gone through considerable gyrations. The sharp decline in oil prices, deepening concerns over China's economy and heightened geopolitical tensions, among others, have affected sentiments across the globe and contributed to the volatility.

Nonetheless, the Islamic finance industry has remained relatively resilient. Its total asset size is estimated at US$2 trillion with the potential to increase to US$3 trillion in the next few years, according to Standard & Poor[2]. However, it remains a small niche of about one per cent of the global financial system.

The size of the global ICM, measured by assets under management and sukuk outstanding, totalled almost US$380 billion in 2015, having grown at a compounded annual growth rate of 16.9 per cent over the past five years[3], reflecting the increasing significance of the market.

ICM and Islamic banking are now becoming systemically important in more than 10 jurisdictions – where the Islamic finance industry commands more than 15 per cent market share of the total financial market, with the number of such jurisdictions set to double over the next few years[4].

There are significant growth opportunities for Islamic finance in a number of untapped and nascent markets and market segments. In terms of markets, many Muslim countries have yet to establish a well-developed Islamic finance industry. Furthermore, some non-Muslim countries have expressed interest to enable Islamic finance activities in their jurisdictions. Such interest may be motivated by various reasons including to profile themselves as comprehensive international financial hubs, to promote bilateral trade and investment flows, and to offer stakeholders alternative choices of financial intermediation.

Market segments that offer new growth potential include Shariah-compliant sustainable and responsible investing (SRI), Islamic wealth management and market-based fundraising such as infrastructure and SME financing, crowdfunding and peer-to-peer (P2P) financing – while utilising delivery mechanisms ranging from the traditional to the state-of-the-art information and financial technology, or FinTech. FinTech in particular may offer significant opportunity to address 'traditional' challenges such as market access to drive business growth.

Case for Transformational Change

The aftermath of the devastating 2008 global financial crisis, which continues to impact economies, has brought about renewed ideas and concepts relating to transformational change in finance and society, the moral economy and the behavioural economy. Fundamental issues such as trust, public interest and equitable distribution emerging in the contemporary global discourse has become entrenched in the Islamic financial system.

Islamic finance has been the fastest growing market segment in international finance. More importantly, it has emerged as a viable alternative financial discipline that is subscribed by Muslims and non-Muslims. With its focus on financing the productive economy based on

1 This article is extracted from the special address by HRH Sultan Nazrin Muizzuddin Shah, Sultan of Perak Darul Ridzuan, Malaysia and Royal Patron for Malaysia's Islamic Finance Initiative, at the 7th SC-OCIS Roundtable on 5 March 2016 in Kuala Lumpur. The full speech is available at www.rajanazrin.com.

2 Islamic Finance Outlook 2015, Standard & Poor's Rating Services.

3 Zawya.

4 IMF Working Paper WP/14/219.

underlying real assets and a set of principles that are closely aligned with the principles of ethical and responsible finance, Islamic finance is well positioned to serve a broader audience and exert greater influence on achieving a balanced socio-economic development.

It is also instructive to note that Islamic finance is increasingly recognised as a trusted 'financial brand' for its universal ethical values and its role in promoting inclusiveness, and a just society amid some of the speculative activities and profit-driven motive in the wider global financial system. Paul Polman, CEO of Unilever, commented recently that "this is a great time for brands which can provide a beacon of trust for consumers. These days, CEOs do not just get judged by how well their share prices are doing, but by what impact they are having on society."

Public Policy as Enabler for Islamic Finance to Progress

In spite of the universal value proposition of Islamic finance and its potential to grow, Christine Lagarde, Managing Director of the International Monetary Fund, cautioned that "there is still a long way to go to fulfil the maximum potential of Islamic finance".

Inadequate public policy and legislation in jurisdictions where Islamic finance is offered may be an impediment to unlocking its maximum potential and promise. Without such policy and the concomitant enabling legislation and regulatory framework, the progress of the Islamic finance industry will continue to be tentative and fragmentary – based more on a 'rhetoric of aspirations' rather than on the substance of policy, laws and regulations.

"It is imperative that the governments and legislators in these jurisdictions have the will and commitment to undertake the necessary measures to facilitate the development and operationalisation of Islamic finance."

It is imperative that the governments and legislators in these jurisdictions have the will and commitment to undertake the necessary measures to facilitate the development and operationalisation of Islamic finance. Effective public policy and legislation are vital, especially in enabling recognition of the contracts applied to financing mechanisms, of profits as an alternative to interest charges and of the legal constructs to take into consideration the Shariah needs.

Even in non-Muslim jurisdictions that have enabled Islamic finance transactions, the governments had taken the necessary policy stance and adopted the relevant legislative measures to facilitate the development of Islamic finance in their markets. In certain cases, the governments would make appropriate pronouncement on their policy intention with some lead time, partly to gauge public reaction as well as to ensure smooth implementation. Irrespective of the approach, it is evident that a strong policy commitment is a prerequisite to having an ecosystem conducive for Islamic finance.

Public Policy Commitment and Legislative Priorities

Malaysia's long-established public policy commitment towards the development of Islamic finance has been instrumental in positioning the country as a vibrant international centre for Islamic finance. Co-ordinated execution of the policy is reflected through *inter alia* the formulation and implementation of facilitative legislation, regulatory and supervisory frameworks, Shariah governance framework and incentive regime for the three main segments of Islamic finance, namely ICM, Islamic banking and takaful.

For instance, the development of ICM in Malaysia became pronounced following the establishment by law of the Shariah Advisory Council (SAC) and the introduction of the Shariah screening methodology endorsed by the SAC for listed stocks. The resultant availability of the list of Shariah-compliant securities enabled wider investor participation in Islamic equities and contributed to the development of the Islamic unit trust and Islamic fund management industries.

Similarly, growth of the sukuk market in Malaysia has been facilitated by amendments to the tax laws which provide tax parity between sukuk transaction and that of conventional bonds. Furthermore, in support of the public policy, government agencies and government-related entities have also prioritised the usage of Islamic financial products and services. The narrations above demonstrate the collaborative involvement of various stakeholders in Malaysia, which is necessary to ensure effective implementation of such public policy.

The UK government has led the way in being the first non-Muslim country to issue sovereign sukuk in 2014. Its commitment was reaffirmed recently by Harriet Baldwin, Economic Secretary to the Treasury, who said "Developing the UK's Islamic finance market is a key part of our long-term plan to make Britain the undisputed centre of the global financial system[5]."

Drivers of Transformational Change

Having in place an effective public policy and legislation that is conducive for Islamic finance to develop and grow, sets the pathway and is a catalyst for effecting transformational changes that will promote financial inclusion and more efficient wealth redistribution as well as address the disconnect between finance and the real economy, hence contributing to greater economic and financial stability. The government and the legislature, therefore, play a key role in driving the change.

Such transformation must also essentially involve the various change agents including the individual, corporation, market and society. The individuals must exercise their purchasing power judiciously; the corporations must balance their commercial targets with appropriate social objectives; the market must adequately reward responsible and ethical players; and the society must ensure fair distribution and social equity.

"The role of Shariah scholars and advisers are also critical as they serve to ensure the transformations and changes are properly grounded in accordance with the Shariah."

The role of Shariah scholars and advisers are also critical as they serve to ensure the transformations and changes are properly grounded in accordance with the Shariah. It is therefore incumbent upon all stakeholders to play their part in effecting the transformational change that will further drive the Islamic finance industry towards achieving the economic and social outcomes that are consistent with the *maqasid al-Shariah.*

Conclusion

While the road ahead is long and arduous, with the strong commitment and involvement of all relevant stakeholders ranging from the government to the consumers, Islamic finance can become an increasingly prominent component of the global financial system that will also promote greater stability, inclusiveness and equity.

[5] http://www.womenieff.org/Press-Releases.

THE ROYAL AWARD
FOR ISLAMIC FINANCE™

BY INVITATION

Royal Award Presentation

14 November 2016 Kuala Lumpur

The Royal Award for Islamic Finance recognises individuals who have excelled in advancing Islamic finance globally through their outstanding contribution and achievement.

It focusses on the individual's personal contribution and his/her impact towards the development and advancement of non-commercial achievements related to Islamic finance.

His Majesty, the King of Malaysia, will present The Royal Award which is conferred every two years and 2016 marks the fourth cycle of the award presentation.

Past recipients of the award:
Dato' Dr Abdul Halim Ismail (2014)
Iqbal Khan (2012)
HE Shaikh Salleh Abdullah Kamel (2010)

The Medallion

Made entirely in 916 gold, the medallion is exclusively crafted by Royal Selangor, the renowned Malaysian brand with 125 years of heritage. The intrinsic value has historically been used by early civilisations for trade and commerce. The medallion is kept timeless to symbolise perpetual recognition of the recipients.

Contact RAIFsecretariat@seccom.com.my

www.theroyalaward.com

Organised by:

NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

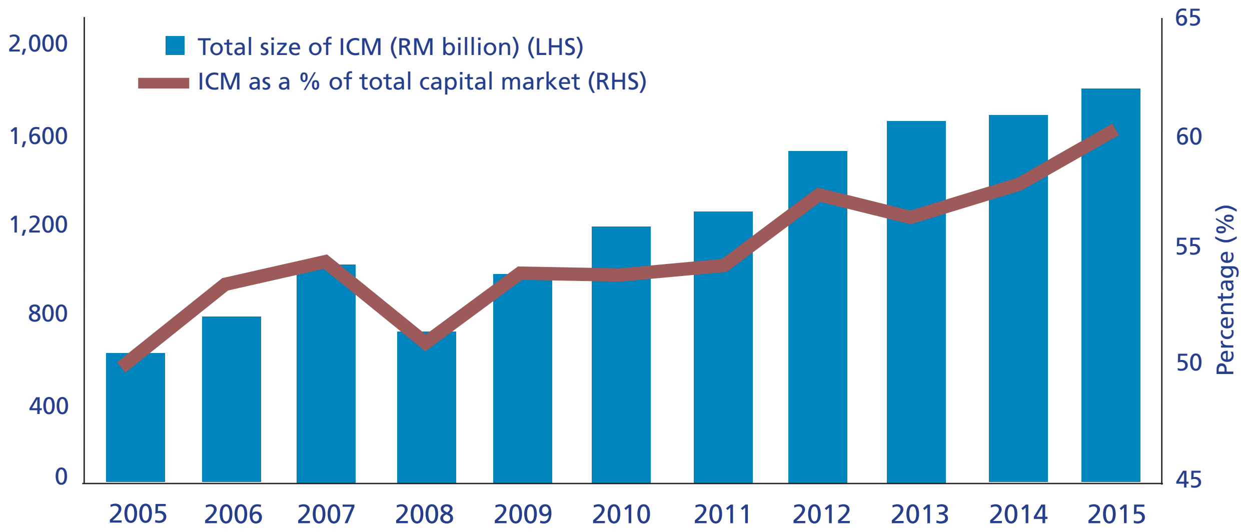
Suruhanjaya Sekuriti
Securities Commission
Malaysia

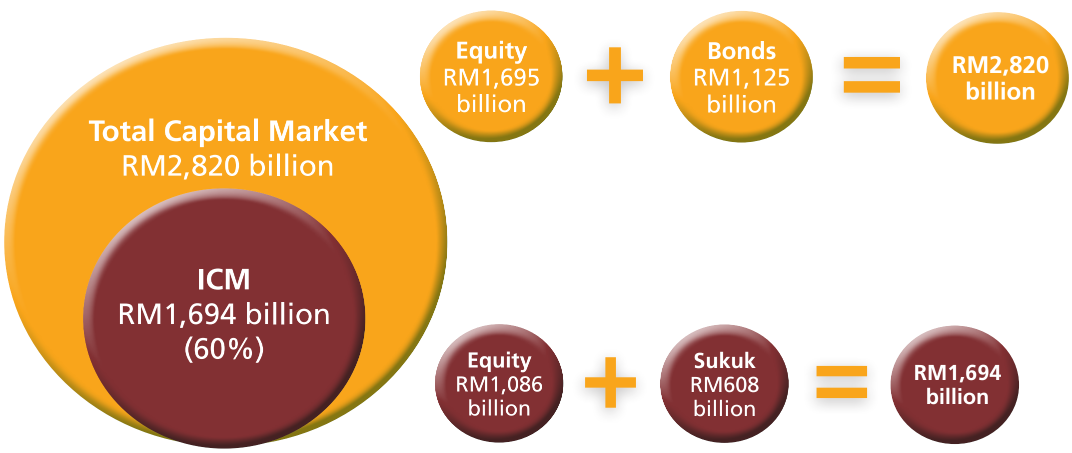
MALAYSIA
WORLD'S ISLAMIC FINANCE MARKETPLACE

UPHOLDING MALAYSIA'S GLOBAL LEADERSHIP IN ICM[1]

Malaysia's ICM has more than tripled in size between 2005 and 2015, reflecting a compounded annual growth rate of 11.7%. The market reached RM1.69 trillion by end-2015, representing 60% of the entire Malaysian capital market. As at end-2015, Malaysia continues to be the global leader in the sukuk market, commanding 54.3% of the global sukuk outstanding; while the assets under management (AUM) of its Islamic fund management industry remains as the world's second largest.

Chart 1
Growth of Islamic capital market





---

[1] This article is extracted from the *SC Annual Report 2015.*

Sukuk

In 2015, the SC approved and received lodgement of 50 PDS issues amounting to RM118.46 billion, of which 25 issues were sukuk valued at RM48.33 billion. The sukuk value represented 40.80% of the total new corporate bonds approved/lodged.

In terms of the underlying Shariah principle, sukuk *murabahah* led the Malaysian sukuk market this year based on approval size, representing RM32.1 billion or 66.42% of the total size of sukuk approved.

In 2015, corporate sukuk issuances represented 66.67% (2014: 76.08%) of total PDS issuances while corporate sukuk outstanding accounted for 71.65% (2014: 70.43%) of total PDS outstanding. Overall, sukuk issuances by Government and corporates in 2015 represented 43.57% (2014: 53.38%) of total bond issuances whereas total sukuk outstanding represented 54.05% (2014: 51.93%) of total bonds outstanding.

Shariah-compliant Securities

The SC released the updated list of Shariah-compliant securities approved by its Shariah Advisory Council (SAC) on 28 May and 27 November 2015.

The updated list which took effect on 27 November 2015 featured a total of 667 Shariah-compliant securities whereby it included 35 newly-classified Shariah-compliant securities and excluded 39 from the previous list issued in May 2015.

As at end December 2015, these securities constituted 73.86% of the 903 listed securities on Bursa Malaysia. The market capitalisation of Shariah-compliant securities stood at RM1.09 trillion or 64.09% of the total market capitalisation, an increase of 7.32% as compared to end 2014.

“In order to firmly establish Malaysia as an international ICM centre, the SC is formulating a blueprint for Islamic fund and wealth management. The blueprint will chart the medium and long-term strategic direction for the industry as well as map out strategies and recommendations to strengthen the country’s competitive edge.”

Islamic Unit Trust Funds

As at end 2015, the number of funds was 193 funds compared to 188 funds as at end 2014. The NAV of these funds saw an 11.70% increase from RM46.66 billion in 2014 to RM52.12 billion in 2015. By category, equity funds still dominated the market with 93 funds. This was followed by 33 sukuk funds and 26 balanced funds while the remainder of 41 comprised feeder funds, fixed income funds, money market funds and mixed asset funds.

Growing New Segments

Malaysia has sustained its solid foundation to continue pursuing its aspirations to further widen its international base and seize new growth opportunities in ICM. This includes tapping new growth segments, notably in Islamic fund and wealth management and *waqf* as well as enhancing existing capacity and capability.

In order to firmly establish Malaysia as an international ICM centre, the SC is formulating a blueprint for Islamic fund and wealth management. The blueprint will chart the medium and long-term strategic direction for the industry as well as map out strategies and recommendations to strengthen the country's competitive edge. These strategies are expected to reinforce the sustainability of the industry and will include, among others, strengthening global capabilities of our market intermediaries, expanding international connectivity and seizing new market opportunities.

Bridging social finance and ICM remains an important agenda in promoting public good and pursuing the larger objective of Shariah (*maqasid al-Shariah*). One of the focus areas towards achieving this goal is the development of the *waqf* industry. The SC has continued to engage with domestic and international stakeholders to create greater awareness of *waqf* and its potential development through the ICM for purposes of either fundraising or management of *waqf* assets by leveraging the capabilities of licensed fund or asset managers.

Building Capacity for the Future of ICM

The capital market talent pool is also continuously widened through the SC's graduate development programmes. The Islamic Capital Market Graduate Training Scheme (ICMGTS), for example, produces two batches of entry-level professionals trained on fundamental Islamic capital market knowledge and relevant soft skills every year. A total of 521 graduates have undergone this training scheme with SIDC since its launch in 2009, of which 85% have successfully found employment in the financial industry. In 2015, 80 graduates participated in the scheme.

Delivered by SIDC, the SC's annual flagship programmes for regulators, i.e. Islamic Markets Programme (IMP), supports its commitment towards knowledge sharing and co-operation among international regulatory bodies. The IMP is a senior-level programme for regulators and Islamic finance practitioners covering topics on

“...Cognisant of the varying levels of development of the Islamic finance industry, relevant training programmes have been designed for capital market regulators and related industry stakeholders.”

Shariah fundamentals, underlying concepts, mechanics of Islamic finance, global Islamic capital market developments to regulatory and current issues in the Islamic finance industry. IMP speakers are leading ICM experts from the SC and international industry practitioners. Since its establishment in 2006, a total of 439 regulators and industry participants from 38 countries have attended the IMP. In 2015, 50 participants attended the programme

The partnership with the Oxford Centre for Islamic Studies (OCIS) continues to provide a platform for intensive discussions and rigorous exchange of views related to Islamic finance. The sixth SC-OCIS Roundtable, themed 'Seeking Sustainability: Role of Islamic Finance in the Transformational Change', deliberated on the principles of ethics, profit and sustainability in the context of the global financial agenda, striking a balance between value and rule-based regulatory framework, and how Islamic finance can play a decisive role in the transformational change in the global financial system. The select group of about 40 key industry practitioners, senior academicians, Shariah scholars, standard setters and regulators from around the world, provided insightful and constructive views and suggestions, some of which would be pursued further through applied research and focus groups. One of the platforms for such research is the Scholar in Residence programme, which is a joint initiative between the SC and OCIS, and is an outcome of recommendations from an earlier roundtable.

The SC has also extended ICM capacity building initiatives beyond meeting the needs of domestic market in response to rising international demand which is in tandem with the growth of Islamic finance globally. Cognisant of the varying levels of development of the Islamic finance industry, relevant training programmes have been designed for capital market regulators and related industry stakeholders. This includes the sharing of regulatory and Shariah expertise through the organisation of international workshops, regulatory attachments or speaking engagements on general and technical aspects of ICM.

In May 2015, the SC launched a textbook entitled *Islamic Capital Markets: Principles and Practices* in partnership with the International Shari'ah Research Academy for Islamic Finance and Khazanah Nasional Bhd, to further develop capacity and skills in ICM domestically and internationally. Written by prominent scholars, academicians and industry experts, the textbook serves as a vital source of reference, covering comprehensive aspects of ICM including theories and practices as well as key principles and contemporary issues facing the ICM industry.

Focus in 2016

The SC will continue its regulatory reform to enhance market efficiency while emphasising good governance and conduct. It will also encourage innovations to broaden market access and efficiencies. Major initiatives relating to ICM among others include:

- Next phase for corporate bond and sukuk market: Efforts towards centralising information to enhance transparency, widen information access to investors and promote secondary market liquidity, as well as measures to expand the offering of bonds and sukuk to the retail market.

- Islamic Fund and Wealth Management (IFWM) Blueprint: Capitalising on the country's leadership in the Islamic fund management industry, the SC has formulated an IFWM Blueprint for Malaysia, which will be launched in 2016.

News Round-up

Islamic Capital Market Special Session

In conjunction with the Global Islamic Finance Forum 2016 from 10 to 12 May, the SC held an Islamic Capital Market Special Session, themed 'Islamic Wealth Management: Prospects and Opportunities.' Chaired by the SC, this session brought together panelists from BNP Paribas, PwC and OCBC Bank whereby discussions covered opportunities and challenges in developing the Islamic wealth management industry and the prospects for Malaysia to be a centre for Islamic wealth management.

14th Islamic Capital Market Graduate Training Scheme

The 14th Islamic Capital Market Graduate Training Scheme (ICMGTS) commenced from 3 June 2016 to 5 August 2016. A total of 39 Malaysian graduates took part in the programme which is designed to transform them into forward-thinking ICM professionals. Since 2009, ICMGTS has produced 521 graduates who have undergone training covering both soft skills and technical modules. About 80 per cent have been employed in the financial services industry.

Stakeholders Engagement

During the first half of 2016, the SC representatives participated in the following events organised by various organisations to support development and growth of Islamic finance particularly the ICM:

- Dialogue Session with Public Listed Companies (PLCs) 2016 Series, 24 February (Kuala Lumpur)
- Workshop on Shariah Audit for Islamic Finance, 8–9 March (Kuala Lumpur)
- Responsible Finance Summit, 30–31 March (Kuala Lumpur)
- IFSB Seminar on Islamic Capital Markets: Supporting Development Through Sukuk: Prospects and Initiatives, 10 April (Cairo)
- Islamic Finance Programme for the Minister of Finance and Treasury of Maldives, 25 April (Kuala Lumpur)
- Seminar on Sukuk Dynamics for Financial Economic Development, 27 April (Kuala Lumpur)
- Global Islamic Finance Forum 2016: Session – International Islamic Financial Market Workshop, 10 May (Kuala Lumpur)
- Asia-Pacific Financial Forum, 10 May (Kuala Lumpur)
- Briefing to Officials from Astana International Financial Centre of Kazakhstan, 25 May (Kuala Lumpur)
- Workshop on Legal Documentation for Sukuk and Islamic Funds, 17–18 May (Kuala Lumpur)
- London Sukuk Summit, 25 May (London)
- BNP Paribas – INCEIF CIWM Conference, 25 May (Kuala Lumpur)

Malaysian ICM – Facts and Figures

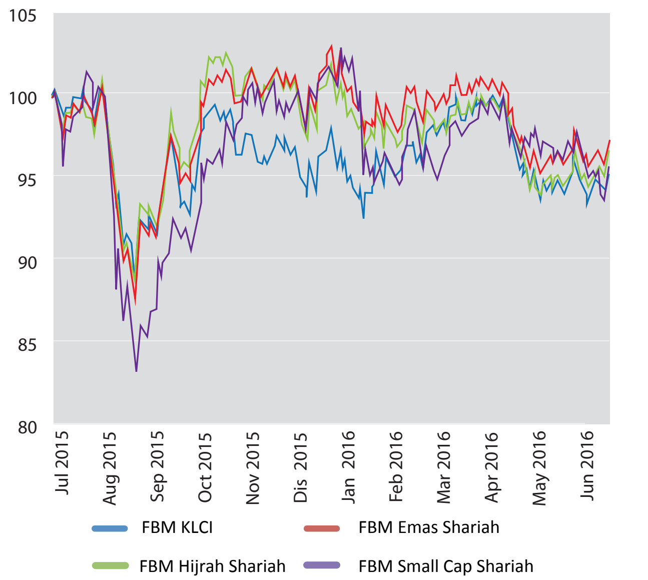
Shariah-compliant securities on Bursa Malaysia

	Jun 2016	Jun 2015
Number of Shariah-compliant securities	669	674
Total listed securities	905	905
% to total listed securities	73.9%	74.5%
Market capitalisation (RM billion):		
Shariah-compliant securities	1,033.53	1,022.63
Total market capitalisation	1,660.34	1,659.02
% to total market capitalisation	62.2%	61.6%

Source: SC

Chart 1

KLCI and Shariah Index 1-year performance



Source: SC

Equity market indices

Equity market indices	30 Jun 2016	30 Jun 2015	% change
FBM KLCI	1,654.08	1,706.64	-3.1%
FBM EMAS Shariah	12,102.94	12,208.85	-0.9%
FBM Hijrah Shariah	13,574.26	13,797.60	-1.6%
FBM Small Cap Shariah	14,277.07	14,760.14	-3.3%

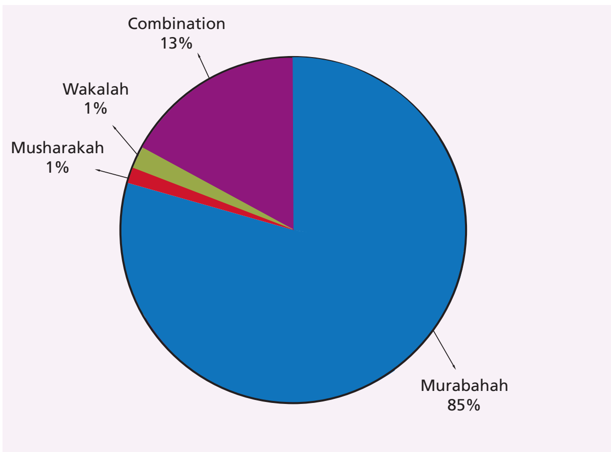
Source: SC

Sukuk

Corporate sukuk approved/ lodged	1H 2016	1H 2015
Number of sukuk	18	16
Size of sukuk (RM billion)	33.99	31.76
Size of total bonds (RM billion)	72.93	46.99
% of size of sukuk to total bonds	46.6%	67.6%
Total sukuk issued (RM billion)	**1H 2016**	**1H 2015**
Size of sukuk issued	62.66	58.98
Size of total bonds issued	124.36	111.32
% of sukuk issued to total bonds issued	50.4%	53.0%
Total sukuk outstanding (RM billion)	**Jun 2016**	**Jun 2015**
Size of outstanding sukuk	637.28	580.71
Size of total outstanding bonds	1,169.31	1,081.73
% of sukuk to total outstanding bonds	54.5%	53.7%

Chart 2

Size of corporate sukuk approved/lodged based on Shariah principle in 1H 2016



Source: SC

Sukuk listing on LFX as at 30 June 2016

No. of issuers	13
No. of programmes	13

Source: Labuan International Financial Exchange (LFX)

Sukuk listing under Bursa Malaysia's exempt regime as at 30 June 2016

No. of issuers	22
No. of programmes	28

Source: Bursa Malaysia

Islamic assets under management (AUM)

(RM billion)	Jun 2016	Jun 2015
Islamic AUM	138.47	117.40
Total AUM	676.27	657.40
% Islamic AUM to total AUM	20.5%	17.9%

Note: The AUM includes assets that are sourced from collective investment schemes as well as private mandates

List of companies offering Islamic stockbroking services as at 30 June 2016

No.	Company	Type
1.	BIMB Securities Sdn Bhd	Full Fledged
2.	Affin Hwang Investment Bank Bhd	Window
3.	AmInvestment Bank Bhd	Window
4.	CIMB Investment Bank Bhd	Window
5.	Jupiter Securities Sdn Bhd	Window
6.	Kenanga Investment Bank Bhd	Window
7.	Maybank Investment Bank Bhd	Window
8.	RHB Investment Bank Bhd	Window

Managed investment schemes

Unit trust fund (UTF)	Jun 2016	Jun 2015
Islamic UTF	198	193
Total industry	620	612
NAV Islamic UTF (RM billion)	54.46	52.12
NAV total industry (RM billion)	349.48	346.58
% to total industry	15.6%	15.0%

Wholesale fund (WF)	Jun 2016	Jun 2015
Islamic WF	98	76
Total industry	313	255
NAV Islamic WF (RM billion)	36.63	23.48
NAV total industry (RM billion)	94.37	75.03
% to total industry	38.8%	31.3%

Private retirement scheme (PRS)	Jun 2016	Jun 2015
Islamic PRS	20	18
Total industry	30	46
NAV Islamic PRS (RM million)	429.36	258.10
NAV total industry (RM million)	1,241.88	898.70
% to total industry	34.6%	28.7%

Exchange-traded fund (ETF)	Jun 2016	Jun 2015
Islamic ETF	4	3
Total industry	8	7
Market cap Islamic ETF (RM billion)	0.32	0.32
Market cap total industry (RM billion)	2.21	1.06
% to total industry	14.6%	30.2%

Real estate investment trust (REIT)	Jun 2016	Jun 2015
Islamic REIT*	4	3
Total industry	17	16
Market cap Islamic REIT (RM billion)	17.12	15.35
Market cap total industry (RM billion)	41.07	36.46
% to total industry	41.7%	42.1%

** Including one stapled securities (equity + REIT)*

List of Islamic fund managers as at 30 June 2016

No.	Company
1.	Aberdeen Islamic Asset Management Sdn Bhd
2.	AmIslamic Funds Management Sdn Bhd
3.	Amundi Islamic Malaysia Sdn Bhd
4.	Asian Islamic Investment Management Sdn Bhd
5.	BIMB Investment Management Bhd
6.	BNP Paribas Investment Partners Najmah Malaysia Sdn Bhd
7.	CIMB-Principal Islamic Asset Management Sdn Bhd
8.	Eastspring Al-Wara' Investments Bhd
9.	Franklin Templeton GSC Asset Management Sdn Bhd
10.	Guidance Investments Sdn Bhd
11.	i-VCAP Management Sdn Bhd
12.	Kenanga Islamic Investors Bhd
13.	KFH Asset Management Sdn Bhd
14.	Maybank Islamic Asset Management Sdn Bhd
15.	Muamalat Invest Sdn Bhd
16.	Nomura Islamic Asset Management Sdn Bhd
17.	PMB Investment Bhd
18.	RHB Islamic International Asset Management Bhd
19.	Saturna Sdn Bhd
20.	Threadneedle Asset Management Malaysia Sdn Bhd

Source: SC

We appreciate your feedback and comments. If you would like to know more about the Malaysian Islamic capital market or require further information from the Securities Commission Malaysia, please contact the following persons at the Islamic Capital Market Business Group:

Mohd Radzuan A Tajuddin
Tel: +603–2091 0644
E-mail: Radzuan@seccom.com.my

Syed Azhan Syed Mohd Bakhor
Tel: +603–2091 0673
E-mail: azhan@seccom.com.my

Azmaniza Bidin
Tel: +603–2091 0780
E-mail: azmaniza@seccom.com.my

Mohd Lukman Mahmud
Tel: +603–2091 0786
E-mail: lukman@seccom.com.my

Securities Commission Malaysia
3 Persiaran Bukit Kiara, Bukit Kiara
50490 Kuala Lumpur Malaysia
Tel: +603–2091 0770 Fax: +603–2091 0660
Website: www.sc.com.my