

Enabling Growth through the ICM

The Islamic capital market (ICM) is well placed to support the development of the halal economy. Today, there are various alternative market-based funding opportunities available in the ICM to encourage greater growth and participation within the halal industry. As part of the ongoing efforts to further enhance the ecosystem for Shariah-compliant fundraising activities through the equity crowdfunding (ECF) and peer-to-peer financing (P2P financing) platforms as well as the development of halal economy, the SC launched the *Shariah Screening Assessment Toolkit for the Unlisted Micro, Small and Medium Enterprises (Toolkit)*.

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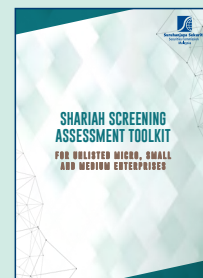


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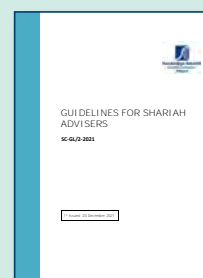
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Enabling Growth through the ICM¹

Recognising the Crucial Role of Micro, Small and Medium Enterprises for the Halal Economy and ICM

The halal economy and the ICM are natural economic partners. There are key synergies and convergence between the two since both are governed by the same principles of Shariah. The integration between the two worlds supports the potential of a holistic halal economy that is both ethical and sustainable, and supported by end-to-end Shariah compliance throughout its value chain.

In the last eight years, Malaysia has ranked number one in the State of the Global Islamic Economy Report², which monitors key indicators of Islamic economies. This positions Malaysia as the leading country across a broad number of sectors in the Islamic economic space such as Islamic finance, halal food, travel, pharmaceutical and cosmetics. Furthermore, the report highlighted multiple opportunities across Islamic finance, halal products and lifestyle sectors, with potential for further development within Malaysia's halal industry.

One key driving force for Malaysia's halal economy is the micro, small and medium enterprises (MSMEs). They are also the backbone of the Malaysian



economy, contributing close to 40% of GDP³.

However, the past one and a half years have been an extremely challenging and difficult period for these smaller businesses. The global response to the pandemic has affected all businesses, but the MSMEs were one of the hardest hit segments.

Considering the critical role they play in the Malaysian economy, greater effort must be given to ensure the MSMEs are able to pull themselves

out of the current quagmire, to flourish again. This includes providing suitable capital market solutions to serve them, as well as broadening and facilitating their access to the ICM.

An area that could play a critical role in the growth and success of the MSMEs is the halal economy. Therefore, appropriate and effective measures must be put in place to support a comprehensive end-to-end Shariah-compliant ecosystem for emerging businesses in the halal economy. This does not only mean

¹ This article is extracted from a keynote address delivered virtually by Datuk Syed Zaid Albar, Chairman, SC, for the SC-HDC Forum on 5 August 2021.

² Report produced by DinarStandard.

³ SMEs contribution to GDP increased to 38.9% in 2019. Source: Department of Statistics Malaysia.

halal products and services, but also Shariah-compliance from a business transaction perspective.

With the collective effort of the relevant stakeholders, the MSMEs role in the halal economy can be taken to a new level.

Market-based Islamic Fundraising to Spearhead Halal Economy Growth

Malaysia's ICM makes up more than 60% of the country's overall capital market and plays an important role in financing the Malaysian economy. For halal industries, Shariah-compliant financing completes their operational integrity and unlocks new sources of ethical and economically viable funding.

In recent years, the introduction of ECF and P2P financing frameworks by the Securities Commission Malaysia (SC) has provided businesses and entrepreneurs, particularly MSMEs, additional fundraising avenues through the capital market.

Since their introduction, alternative market-based fundraising platforms have benefited close to 3,000 MSMEs⁴. Despite the uncertainties of 2020, total amount raised were more than 5.5 times for ECF and 1.2 times for P2P financing platforms compared to 2019.

The offering of Shariah-compliant solutions by these platforms have also increased. As at end-July 2021, there were six platform operators providing Shariah-compliant offerings. More

In recent years, the introduction of ECF and P2P financing frameworks by the SC has provided businesses and entrepreneurs, particularly MSMEs, additional fundraising avenues through the capital market.

than RM1.6 million had also been successfully raised using Islamic investment notes on P2P financing platforms.

This rising trend is poised to continue with increased interest in Shariah-compliant offerings from potential issuers, as well as investors. Therefore, the SC is fully committed towards facilitating a conducive funding ecosystem for the development of the halal economy.

Because of this well-developed ecosystem, Malaysian MSMEs in the halal segment can expect to benefit from Shariah-compliant funding options that meet their business needs.

Given that Malaysia's halal economy is projected to grow to US\$113.2 billion in 2030⁵, better funding access will certainly assist halal industry players to capitalise on opportunities for expansion. In the long term, market-based funding obligations will also provide MSMEs the necessary discipline to better manage their cash flows and finances.

Shariah Screening Assessment Toolkit for Unlisted MSMEs

The Toolkit is part of the SC's ongoing efforts to enhance the ecosystem for Shariah-compliant fundraising activities. It is a major initiative by the SC to provide guidance in screening the Shariah status of unlisted MSMEs. It will primarily benefit ECF and P2P financing platform operators as well as Shariah advisers.

The Toolkit includes a series of assessment questions that are based on the Shariah screening methodology for the MSMEs, which has been endorsed by the SC's Shariah Advisory Council (SAC). The SC anticipates that the introduction of the Toolkit will encourage more Shariah-compliant offerings on alternative market-based fundraising platforms. It will also result in more diversified Islamic investing across asset classes and economic sectors and enable end-to-end Shariah-compliance among MSMEs in the halal sector.

⁴ As at end 2020.

Shariah Advisory Council Resolutions

The SAC plays a significant role in contributing to the comprehensive development of the ICM in Malaysia. The SAC actively reviews and updates resolutions on various Shariah-related issues in relation to ICM to ensure that the transactions that are undertaken comply with Shariah requirements. The SAC also ascertain the appropriate Shariah principles that can be applied to facilitate new and innovative ICM products to be consistent with the latest development in the marketplace. Among the resolutions that was issued by the SAC are as follows:



SHARIAH SCREENING METHODOLOGY FOR UNLISTED MSMEs

The SC acknowledges the importance of MSMEs to the development of Malaysian economy as it contributes more than a third to the local gross domestic product (GDP). Hence, as part of the efforts to develop this segment, the SAC introduced a new Shariah screening methodology for unlisted MSMEs. It has been adopted in the Shariah Screening Assessment Toolkit for Unlisted MSMEs issued by the SC.

In determining the Shariah status of the MSMEs, the SAC has taken into account the current situation and limitation that the MSMEs are facing.

RESOLUTION

The SAC had resolved that the Shariah screening methodology for unlisted MSMEs should adopt a two-tier quantitative approach in determining the Shariah status of unlisted MSMEs. The quantitative approach is as follows:

(A) Business Activity Benchmarks

In determining the Shariah status of unlisted MSME, the contribution of Shariah non-compliant activities to the revenue and profit before taxation of the MSME should be computed and compared against the relevant business activity benchmarks as follows:

RESOLUTION

(i) The 5% benchmark

The 5% benchmark is applicable to the following businesses/activities:

- conventional banking and lending;
- conventional insurance;
- gambling;
- liquor and liquor-related activities;
- pork and pork-related activities;
- non-halal food and beverages;
- Shariah non-compliant entertainment;
- tobacco and tobacco-related activities;
- interest income¹ from conventional accounts and instruments (including interest income awarded arising from a court judgement or arbitrator);
- dividends² from Shariah non-compliant investments; and
- other activities deemed non-compliant according to Shariah principles as determined by the SAC.

For the above-mentioned businesses/activities, the contribution of the Shariah non-compliant businesses/activities to the revenue or profit before taxation of the MSME must be less than 5%.

(ii) The 20% benchmark

The 20% benchmark is applicable to the following businesses/activities:

- rental received from Shariah non-compliant activities; and
- other activities deemed non-compliant according to Shariah principles as determined by the SAC.

For the above-mentioned businesses/activities, the contribution of Shariah non-compliant businesses/activities to the revenue or profit before taxation of the MSMEs must be less than 20%.

(B) Financial Ratio Benchmarks

In determining the financial ratio benchmarks for unlisted MSMEs, the SAC had resolved the following:

(i) Total cash over total assets

Cash only includes cash placed in conventional accounts and instruments.

The ratio, which is intended to measure *riba* and *riba*-based elements within a company's statements of financial position, must be less than 33%.

(ii) Total debt over total assets

Debt only includes interest-bearing debt.

The ratio, which is intended to measure *riba* and *riba*-based elements within a company's statements of financial position, must be less than 49%.

The SAC had also resolved that the benchmark for the total debt over total assets ratio will be reduced from less than 49% to less than 33% after two years from the date of the issuance of the Toolkit.

^{1 2} Interest income and dividends from Shariah non-compliant investments should be compared against the revenue.

List of Shariah-Compliant Securities by the Shariah Advisory Council

The SC released the *List of Shariah-Compliant Securities*, which took effect on 26 November 2021.

The list featured 751 Shariah-compliant securities, representing 79% of the 948 listed securities on Bursa Malaysia (including securities on the LEAP Market). It included 33 newly classified Shariah-compliant securities and excluded 25 from the previous list issued in May 2021.

The next list will be made available in May 2022, based on the review of the audited financial statements released up to 31 March 2022.

Table 1

List of Shariah-Compliant Securities

Main / ACE / LEAP Markets by Sector	Number of Shariah-compliant securities	Total securities*	Percentage of Shariah-compliant securities (%)
Industrial products & services	223	269	83
Consumer products & services	146	199	73
Property	89	99	90
Technology	86	105	82
Construction	56	61	92
Plantation	35	43	81
Transportation & logistics	30	35	86
Energy	26	34	76
Health care	23	24	96
Telecommunications & media	22	31	71
Utilities	11	13	85
Financial services	4	33	12
Closed-end fund	Nil	1	Nil
SPAC	Nil	1	Nil
Total	751	948	79

* As at 22 November 2021.



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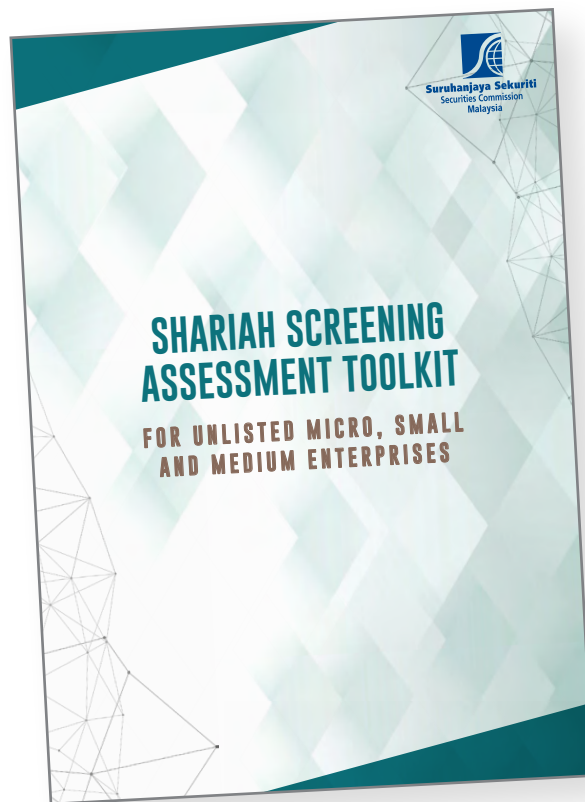
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Launch of Shariah Screening Assessment Toolkit for Unlisted MSMEs

The SC introduced the Toolkit in August 2021 as part of the ongoing efforts to enhance the ecosystem for Shariah-compliant fundraising activities through the ECF and P2P financing platforms as well as the halal economy. The Toolkit serves as a guidance in screening the Shariah status of the MSMEs in the unlisted market.

The Toolkit is intended to benefit the ECF and P2P financing platform operators, Shariah advisers, as well as any interested parties. It includes a series of assessment questions that are based on the Shariah screening methodology for the MSMEs, which has been endorsed by the SAC of SC.

In establishing the Toolkit, it is also envisaged that investors will have greater opportunity to diversify their investment universe via access to the Shariah-compliant unlisted market. This will also enable more diversified Shariah-compliant investment portfolios across asset classes and economic sectors.



 [Click to access the Toolkit online](#)



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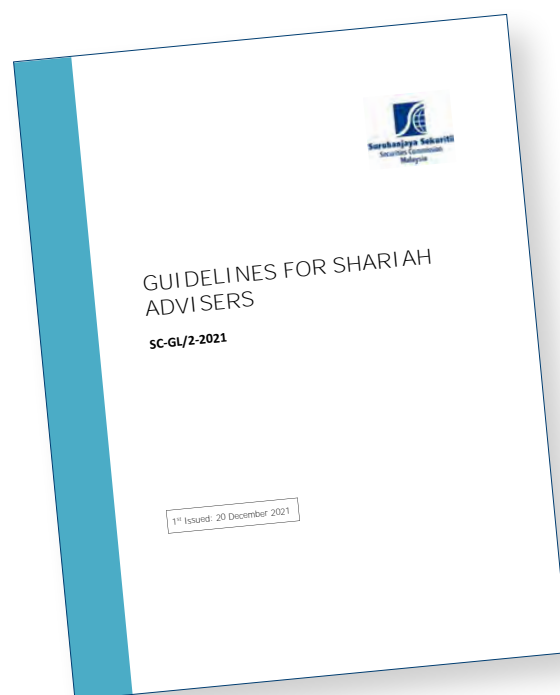
Revised Guidelines for Shariah Advisers

The SC issued revised *Guidelines for Shariah Advisers (Guidelines)* on 20 December 2021. The Guidelines set out the requirements for the registration of Shariah advisers. The Guidelines also prescribe greater professionalism for Shariah advisers in terms of conduct requirements and continuous obligations.

The new Guidelines which takes effect on 1 January 2022 will replace the Registration of Shariah Adviser Guidelines.

The Guidelines set out the following requirements:

- (i) Prescribing the service of “providing advice to others concerning compliance with Shariah matters” as a capital market service under section 76A of the *Capital Markets and Services Act 2007* (CMSA);
- (ii) Streamlining the registration requirements for both local and foreign Shariah advisers;
- (iii) Streamlining the fit and proper criteria applicable to Shariah advisers;
- (iv) Imposing continuous obligations on Shariah advisers including ensuring its directors, Chief Executive and Shariah committee members (for financial institutions) being fit and proper, attend at least three SIDC CPE-approved courses on capital market annually, and to report to the SC where the Shariah adviser is no longer fit and proper; and
- (v) Introducing a new chapter on conduct requirements for Shariah advisers including requirement for Shariah advisers to act honestly and to uphold Shariah principles as well as having adequate arrangements in place to identify and effectively manage or mitigate conflicts of interest.



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Summarised below are the key changes in the Guidelines:

	Requirements in the Guidelines	Previous Requirements	Revised Requirements
(1)	Qualification	The applicant should have at least a degree in Shariah, particularly in <i>fiqh muamalat</i> or Islamic jurisprudence from an institution recognised by the Malaysian government.	Holds, at minimum, a degree in any of the following: (a) Shariah; or (b) Law, with a focus on Shariah; or (c) Islamic studies; in which the degree must include study in <i>fiqh muamalat</i> (Islamic transaction/commercial law) or <i>usul fiqh</i> (Islamic jurisprudence).
(2)	Experience	The applicant should- (a) have at least two years of relevant experience and/or exposure in Islamic finance; or (b) have at least one year of relevant experience and/or exposure in Islamic finance and have attended at least five relevant Islamic finance courses/workshops.	An applicant must have at least three consecutive years of relevant working experience in Islamic finance preceding the application.
(3)	Continuous Professional Development	<ul style="list-style-type: none"> A registered Shariah adviser is encouraged to keep abreast with current developments in Islamic finance. The applicant when applying for registration or renewal of registration is encouraged to notify the SC of any relevant experience in Islamic finance, such as— <ul style="list-style-type: none"> (a) courses attended; (b) courses facilitated; or (c) contribution made to the development of Islamic finance. 	The Shariah adviser and the Shariah officer (in the case where the Shariah adviser is a corporation), must attend three Continuing Professional Education (CPE) - approved courses on capital market by Securities Industry Development Corporation (SIDC) annually before the anniversary date of their registration.
(4)	Validity/Tenure of Registration	The registration will be valid for a period of three years after the date it is issued or on such later date as may be specified by the SC in writing.	One-time initial registration with no expiry date (perpetual).
(5)	Imposition of fees for registration	No fee requirement.	Subject to fees. However, the SC granted a fee waiver for a period of three years from the effective date of the Guidelines.
(6)	Conduct Requirements	No conduct requirement.	New requirements.

Connecting Islamic Capital Market to Shape a Sustainable Future

Special Address¹

by Datuk Syed Zaid Albar, Executive Chairman, SC

Introduction

- 1 Over the last 20 months, the world has suffered profoundly across multiple dimensions and while we grapple to contain the virus and its impact on public health, livelihoods, society and markets, we are also facing very real concerns about the future of our economies.
- 2 Even prior to the pandemic, it was predicted that no Southeast Asian country would meet any of the Sustainable Developmental Goals (SDGs) by 2030. Then, the pandemic hit us, and the global economy plunged into its deepest recession since the Second World War. Malaysia's economy saw its worst performance since the 1998 Asian Financial Crisis².
- 3 However, despite the devastating effects of the pandemic, Malaysia's capital market has proven to be resilient. In 2020, the country's capital market registered an overall growth of 7% compared with 3% in 2019.
- 4 This is largely due to the ICM segment, which increased by 11%, compared to 8% the previous year³.
- 4 Malaysia continues to lead the sukuk market, accounting for approximately 45% of total global sukuk outstanding⁴. As for Islamic funds, Malaysia remains one of the top three jurisdictions, accounting for over 29% of total global assets under management or AUM.
- 5 This is exciting for many different reasons. The stronger performance of the ICM is a reason for optimism. This is especially so when globally, we are now on an economic recovery path despite the continuous uncertainties.
- 6 It is also relevant as there are a confluence of longer-term megatrends that are expected to reshape our global landscape. This includes intensifying efforts to address our climate change challenge and overall sustainability. As climate risk becomes increasingly intertwined with investment risk and returns, the new wave of climate action is expected to reshape the fundamentals of finance. The recent UN Climate Change Conference (COP26) in Glasgow was seen as a watershed moment for a sustainable future.
- 7 Financial regulators around the world, including Malaysia, have also launched various initiatives to facilitate development policies to catalyse growth in this space. It centred on standards of disclosures as well as guidelines for investment products and taxonomies.
- 8 Another notable megatrend that will have a significant impact to economic recovery, is the accelerated adoption of technological innovations. The advent of technology is transforming how issuers undertake fundraising activities, redefining intermediation, shaping new investor behaviour and revamping clearing and settlement infrastructures,

¹ The special address was delivered virtually for the Islamic Capital Market Summit 2021 on 7 December 2021.

² <https://www.straitstimes.com/business/economy/malaysias-economy-shrinks-faster-than-expected-in-q4-on-tighter-covid-19-curbs>.

³ <https://www.ddcap.com/icm-continues-its-resilience-and-dominance-in-rm3-4-trillion-malaysian-capital-market-despite-impact-of-covid-19-in-2020-surpassing-rm2-3-trillion-with-66-market-share/>.

⁴ <https://themalaysianreserve.com/2021/08/09/malaysia-leads-sukuk-market-in-2020/>.

making the ecosystem more dynamic than ever before.

- 9 To this end, the increased use of technology is promoting more innovation and efficiency by providing investors with easier and better access to financial products and services.

- 10 I will address this digital trend later in my remarks.

Shaping Stakeholder Economy Through ICM via Sustainable Agenda

- 11 Long-term value creation is key to shaping a sustainable future, which in essence is the foundation of a stakeholder economy.

- 12 This concept entails businesses assuming greater responsibilities beyond short-term profits to account for the needs of stakeholders – from shareholders and employees to the environment, society, and community. The sustainability agenda calls for corporates to take into account the wider impact of their actions and business practices.

- 13 As I said earlier, this inclusive stakeholder economy of exemplary corporate citizenship is in line with the principles of the Islamic economic system. The emphasis is on the rights of stakeholders in risk sharing, property rights, and sanctity of contracts. This includes the accumulation and redistribution of wealth to achieve a balanced

and sustainable socio-economic development.

- 14 I am confident that through the SC's strategic framework, the ICM will be able to expand even further. Increasingly, it has become an avenue to facilitate the intermediation of capital to sustainable and responsible businesses to meet the needs of a broader set of stakeholders.

- 15 Recognising the importance of sustainable and responsible investments, or SRI in short, and its contribution to advancements in environmental, social and governance (ESG) practices, the SC encouraged the growth of SRI sukuk and SRI funds. Measures included establishing dedicated regulatory frameworks such as the SRI Sukuk Framework and providing strategic direction and guidance via our *Islamic Fund and Wealth Management Blueprint*.

- 16 These regulatory efforts have helped position Malaysia as a regional centre for Shariah-compliant SRI, laid the foundations for SRI offerings in Malaysia and facilitated greater sustainability advocacy.

- 17 Given their similarities, the ICM has been a strong advocate for sustainable finance. This is reflected by the *maqasid al-Shariah*, which underlines the essence of sustainable economic development and encompasses key aspects of life

and community. This includes inclusivity and facilitating investments for social causes.

- 18 By understanding the concept and objectives of *maqasid al-Shariah*, we can appreciate its emphasis on a righteous life and its alignment with sustainability. It seeks to promote economic well-being, social justice, optimising natural resource consumption, and alleviating and reducing income disparities.

- 19 Innovations in segments such as SRI sukuk and *waqf* have demonstrated how the ICM facilitates capital formation for commercial purposes, while also contributing to positive environmental and societal outcomes.

- 20 These outcomes facilitated the first SRI social sukuk issuance to fund trust schools in 2015 and the world's first green sukuk in 2017 to address global funding gaps in green financing. This was followed by an increase in the volume of SRI sukuk issuances for projects such as solar power plants, green buildings, hydropower, and affordable housing. On 21 January this year, the SC announced an expansion of the SRI Sukuk and Bond Grant Scheme to assist issuers in defraying up to 90% of the external review costs. As of end-November, it has benefitted 12 issuers with a total issuance of US\$1.3 billion.

21 For the *waqf* segment, in 2017, the offering of *waqf* shares structured under a social enterprise model was the first of its kind globally. Dividends from the *waqf* shares were used to subsidise shop lots' rental rates for single mothers and lower income groups. Such innovative ICM instruments and initiatives are consistent with the social aim of reducing inequality. The Waqf-Featured Fund Framework launched in 2020 will help broaden the range of innovative ICM products and provide the investing community with access to Islamic funds that allocate all or part of the funds' returns towards socially impactful activities.

22 Even with all these in place, there is still tremendous potential for the ICM, to expand its reach to the broader stakeholder economy through sustainable initiatives. Along with growing interest to invest responsibly, efforts will be made to enhance investor access to Shariah-compliant companies with good ESG practices.

23 This will encourage companies to consider all of their relevant stakeholders including impact to the society and environment in their business decision, which will further elevate the socially responsible and ethical values of Shariah-compliant companies.



24 In this regard, guidance is essential to incorporate Shariah requirements and ESG standards for investors seeking such investments, as well as companies aspiring to adopt ESG practices. This guidance will leverage the SC's Shariah screening and internationally recognised screening methodologies.

25 In order to have greater impact on Malaysia's socio-economic development, the SC will look into expanding the use of the ICM framework as a reference point, and its products and services as funding sources for further development of the Islamic social finance sector.

26 In line with the *maqasid al-Shariah*, the key objective of the Islamic wealth management and distribution system is to alleviate hardship among the underprivileged.

27 Moving forward, there may be opportunities to integrate impact assessments with Islamic social finance instruments. This will enable investors to measure whether the capital invested has achieved its desired outcome.

28 Impact investing is another model that Islamic markets can potentially expand on as it is a natural fit with Islam's views on the nobility of doing permissible business and returning profits back to society. While ESG seeks to identify non-financial risks that may impact the valuation of a company, impact investing on the other hand seeks to make a measurable, positive environmental or social impact.

29 This entails knowledge sharing, research capabilities, and coordination with impact stakeholders through a

facilitative regulatory and developmental environment for social finance innovation. Structured platforms for collaboration are another avenue to enable the impact investment ecosystem to progress.

- 30 The SC's extensive network of both domestic and regional stakeholders can be leveraged to achieve this. We can then harness our collaborative efforts to develop thought leadership capabilities in sustainable finance, cater to regional capacity building needs, champion innovation and research, and guide the broader economy on a path of long-term value creation.

Accelerating Digital and Technology Adoption in ICM

- 31 A further step change which is now apparent is the novel application of a number of technologies, such as blockchain, the 'Internet of things' (IoT) and AI or artificial intelligence. Fintech applications are known to provide significant value propositions such as alternative fundraising options, and affordability of financial services. Perhaps an unintended consequence of the pandemic is the accelerated application of fintech unlocking hitherto unrealised potential for financial inclusion by providing access to the underserved segments, such as SMEs.

“Collectively, the ECF and P2P financing platforms have raised RM1.95 billion (US\$460 million) of which, more than RM80 million (US\$18million) was raised through a Shariah-compliant manner”

- 32 At the height of the pandemic last year, funds raised through ECF and P2P financing platforms in Malaysia increased by 457%⁵. Since April 2020, a total of more than RM1.3 billion (US\$313 million) has been raised. ECF and P2P financing have aided close to 4,000 MSMEs⁶ since their inception. Collectively, the ECF and P2P financing platforms have raised RM1.95 billion (US\$460 million) of which, more than RM80 million (US\$18 million) was raised through a Shariah-compliant manner.

- 33 As MSMEs are an engine of growth of the Malaysian economy, the recently introduced Toolkit by SC aims to support their growth and development by providing access to fundraising on alternative platforms. We are also confident that its introduction will spur more Shariah-compliant offerings through the ECF and P2P financing platforms. It can in fact lay the foundation for fintech solutions that will lead to the creation of a comprehensive end-to-end Shariah-compliant ecosystem for MSMEs.

- 34 Fintech will also be leveraged as an enabler for innovative solutions, particularly with a focus on the halal economy. These digital solutions will facilitate connectivity by allowing issuers, investors, and intermediaries access to existing and new markets in a more efficient and cost-effective manner, thereby accelerating the growth of the industry.

- 35 As part of our efforts to promote economic recovery and financial inclusion, the SC has taken steps to empower investors through a variety of strategies, one of which is to widen investment options through accessible and high-quality investment advice. This is addressed through the use of robo-advisors or digital investment managers or DIM in short. Since the introduction of the DIM framework in 2017, and the issuance of the first

⁵ SC Annual Report 2020.

⁶ "Welcome Remarks by Datuk Syed Zaid Albar", SCXSC Fintech Conference 2021.

Islamic DIM licence in 2019 - DIM entrants have contributed significantly to the growth of AUM. There are currently eight licensed DIMs, one of which offers dedicated Islamic fund management services. Collectively, they manage an estimated RM16 billion of funds. This year, the eight licensed DIM holders have opened 90%⁷ more DIM accounts compared to last year.

36 These developments demonstrate that there is a strong value proposition in positioning an Islamic capital market empowered with technology as a catalyst for long-term sustainability and economic recovery.

37 In July 2020, the Shariah Advisory Council of the SC issued a resolution that recognised digital assets as assets (*mal*) from a Shariah perspective. This signified a landmark milestone in ICM where trading digital assets on regulated digital asset exchanges is permissible. Moving forward, this ruling is expected to facilitate greater product innovation in digital assets that will attract broader participation in this asset class.

38 To further develop a supportive Islamic fintech innovation ecosystem for Malaysia's ICM, the SC and the UN Capital Development Fund launched FIKRA in May this year. FIKRA is the world's first regulator-led Islamic Fintech Accelerator Programme that seeks to identify and scale promising Islamic fintech solutions. This initiative is intended to promote new ICM offerings, increase ICM accessibility, and enhance social finance integration.

Closing Remarks

39 The ICM has many tools at its disposal to shape a sustainable future, both through technological advancements and sustainable initiatives.

40 On a final note, in keeping with the CMP3's goal of promoting a competitive and inclusive ecosystem, and the SC's long-standing effort to recognise the contributions made to the Islamic finance industry, allow me to share some recent development on the Royal Award for Islamic Finance (The Royal Award). The Royal Award was first established in 2010 as a joint

initiative of the SC and Bank Negara Malaysia (BNM) and it recognises outstanding and inspiring individuals who have contributed significantly to the advancement of the Islamic financial services industry.

41 The global nominations for The Royal Award opened from December to March 2022 and two new categories will be introduced to further promote the development of Islamic finance globally, which are the Emerging Leader and the Impact Challenge categories.

42 The new categories will recognise young international talent who have made outstanding contributions to the advancement of innovative ideas and innovative solutions in Islamic finance, with emphasis on impacted communities globally.

43 With that, I hope that the upcoming discussions will spur more innovative solutions for the ICM to thrive, increasing its relevance and connectivity in the world today.

Thank you.

[Click here to watch the speech](#)

⁷ Welcome Remarks by Datuk Syed Zaid Albar", SCXSC Fintech Conference 2021.

Envisioning Tomorrow: Pioneering the Fintech Wave¹



Introduction

Malaysia's deliberate and structured policy measures over the last three decades have played a significant role in spurring the growth of the Islamic financial sector into the well-established ecosystem that relevant stakeholders are familiar with today.

Malaysia's ICM is a recognised global leader with a strong core comprising Shariah-compliant equity, sukuk and fund management, which offers a wide range of Islamic products and

services for both Islamic and conventional investors. Due to Malaysia's strategic approach, the Islamic fintech sector is set to develop into an important enabler for future growth.

Islamic fintech can further drive the expansion of Islamic offerings and connectivity, across a wide range of exciting sectors such as the halal industry, sustainable and responsible investments, and Islamic social finance sector. With global Islamic finance assets projected to be worth

US\$3.7 trillion in 2024², the application of fintech as an enabler can boost its appeal. Furthermore, Islamic fintech transactions within Islamic countries are expected to more than double in the next four years³.

Advancing Islamic Fintech

The challenges brought about by COVID-19 has sent a clear signal for businesses to accelerate their digital agility and adaptability as the new

¹ This article is extracted from a keynote address delivered virtually by Datuk Syed Zaid Albar, Chairman, Securities Commission Malaysia for the Islamic Fintech Leaders Forum on 24 August 2021.

² State of the Global Islamic Economy Report 2020/2021 by Salaam Gateway and DinarStandard.

³ Global Islamic Fintech Report 2021 by DinarStandard and Elipses.

environment transformed their business models, customer and supply-chain interactions as well as their internal operations. From a capital market perspective, digital advances have the potential to accelerate the upscaling of existing capabilities, open new market segments, and provide better solutions for fundraising.

The pandemic has adversely affected the MSMEs as they have suffered from the lockdown restrictions across the world. Most of the MSMEs either have had to close their operations or suffered sharp falls in revenues. The SC has long recognised the importance of MSMEs to the economy and through dedicated regulatory frameworks, the SC have facilitated the growth of digital operators such as ECF and P2P financing platforms. These alternative market-based platforms have enabled businesses and entrepreneurs which includes MSMEs to raise funds through the capital market.

Amounts raised through the SC's registered ECF and P2P financing platforms increased in 2020, by more than 5.5 times for ECF and 1.2 times for P2P financing. This means local MSMEs were able to access the much-needed funds to maintain their businesses despite the uncertain environment. As the economy recovers, the SC anticipates funding amounts as well as Shariah-compliant offerings through these channels to also increase. The SC envisages that the introduction of the Toolkit will also encourage more Shariah-

compliant offerings through ECF and P2P financing platforms.

Another market segment that has benefitted tremendously from the innovative technological solutions is fund management. The emergence of digital investment management or robo-advisory services has increased the provision of customised investment solutions to the retail market. These were previously available only to institutions and high-net-worth investors.

The SC issued the first Islamic DIM licence in 2019, which has been well received. With the anticipated increase in the demand for Shariah-compliant portfolios, the SC welcomes more of such DIM or robo-advisory Islamic providers as it paves the way towards greater financial inclusion in the capital market. Additionally, the SC also believes there are opportunities to increase fintech use in the traditional fund management process, which will enhance efficiencies as well as investors' experience in this area.

Islamic fintech also offers much promise for digital sukuk issuances. The Malaysian government issued its first ever digital sukuk, *Sukuk Prihatin* in 2020 with subscription solely through digital payment facilities. A number of these digital bonds have relied on blockchain solutions to secure their distribution and delivery process. These blockchain solutions, has the potential to enhance the end-to-end traceability of bonds and sukuk. This

“
As the Islamic fintech industry players strive to bring to light more innovative market solutions, it is crucial to provide engagement platforms that catalyse and nurture new Islamic digital business models, products and services.”

will greatly enable green sukuk and bonds to improve the reporting and transparency of their 'green' credentials.

Facilitating Innovation within the Islamic Fintech Ecosystem

As the Islamic fintech industry players strive to bring to light more innovative market solutions, it is crucial to provide engagement platforms that catalyse and nurture new Islamic digital business models, products and services.

With this objective in mind, the SC launched FIKRA, to enhance the domestic Islamic fintech ecosystem. It



is a collaborative initiative with the United Nations Capital Development Fund, to connect with innovative start-ups, to identify and scale up promising Islamic fintech solutions.

In its first year, FIKRA identified three distinct challenge areas to focus on, namely new ICM offerings, ICM accessibility and social finance. One of the areas ripe for innovation and change is Islamic social finance. This is a growing segment that can facilitate wider and deeper positive impact to society and communities. Whilst there are Islamic social finance instruments such as *waqf*, *zakat* and *qard'ul hassan* in existence, solutions are required to enhance their

structures, accessibility and appeal to investors as well as issuers.

Apart from the areas identified by FIKRA, another segment that can benefit from Islamic fintech innovation is digital assets. In this instance, regulatory facilitation can engender trust and confidence in this asset class and its related products. In July 2020, the Shariah Advisory Council of the SC has resolved that digital assets are recognised as assets (mal) from a Shariah perspective. Thus, the trading of digital assets on regulated digital asset exchanges is permissible. Moving forward, this ruling is expected to facilitate greater product innovation in digital assets,

and in turn, attract broader participation in this asset class.

Conclusion

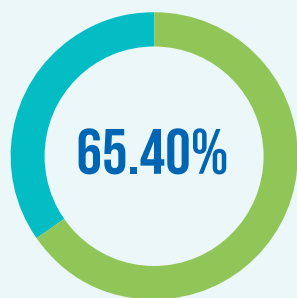
In conclusion, the SC believes that one of the next waves of Islamic finance transformation will potentially be in the form of a digital wave. As a regulator, the SC intends to facilitate this, and it is crucial all stakeholders work collectively towards the digital advancement of the Islamic economy. From Malaysia's perspective, the country has the foundation to undergo a seamless Islamic digital transformation towards transitioning to an Islamic fintech hub.

Malaysian ICM Builds Momentum

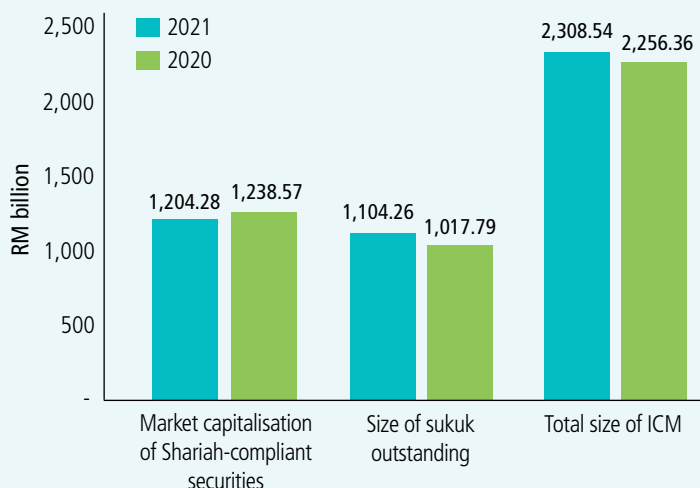
Size of ICM

RM2,308.54 BILLION

AS AT END DECEMBER 2021



Size of ICM to total size of capital market in 2021



79.03%

Listed Shariah-compliant securities from 949 total securities in Bursa

750

Shariah-compliant securities

199

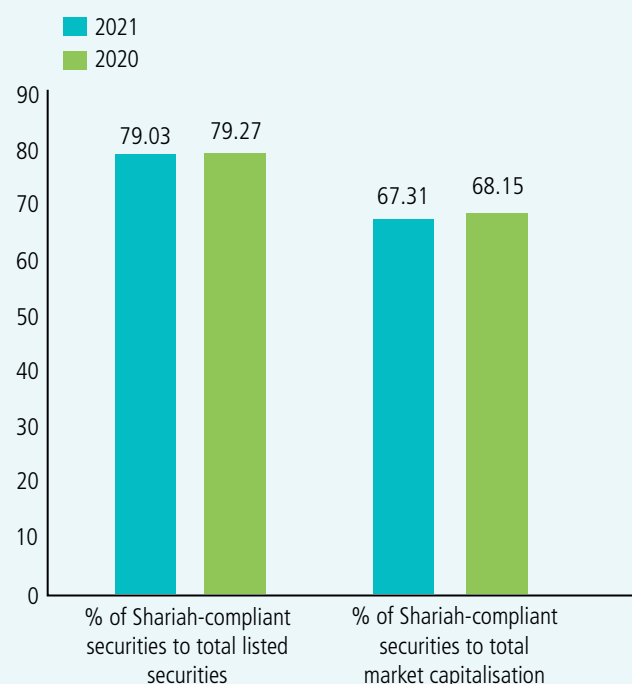
Shariah non-compliant securities

The ICM remains a key component to the Malaysian capital market, contributing 65.40% to its total size. The size of the ICM increased to RM2,308.54 billion as at end 2021 from RM2,256.36 billion as at end 2020. This comprised a total market capitalisation of Shariah-compliant securities of RM1,204.28 billion and total sukuk outstanding amounting to RM1,104.26 billion.

Shariah-Compliant Securities

As at December 2021, Shariah-compliant securities increased to 750 from 742 as at end 2020, which constituted 79.03% of the 949 listed securities on Bursa Malaysia. The market capitalisation of Shariah-compliant securities stood at RM1,204.28 billion or 67.31% of the total market capitalisation, a decrease of 2.77% as compared to end 2020.

Percentage of number and market capitalisation of Shariah-compliant securities





9 issuers issued SRI sukuk in 2021



RM2.81 billion Corporate SRI sukuk issuance in 2021

Sukuk

Corporate sukuk issuances represented 79.98% (2020: 73.61%) of total corporate bonds and sukuk issuances while corporate sukuk outstanding accounted for 81.42% (2020: 81.03%) of total corporate bonds and sukuk outstanding.

Total sukuk issuances in 2021 represented 62.91% (2020: 61.07%) of total bonds and sukuk issuances whereas total sukuk outstanding represented 63.43% (2020: 63.26%) of total bonds and sukuk outstanding.

Nine issuers issued SRI sukuk in 2021, bringing the total of SRI sukuk issuers to 21 since 2015. Corporate SRI sukuk issuance in 2021 amounted to RM2.81 billion, which was 3.07% of total corporate sukuk issuance, while corporate SRI sukuk outstanding grew to RM8.11 billion as at December 2021 from RM5.40 billion in 2020, constituting 1.29% of total corporate sukuk outstanding.

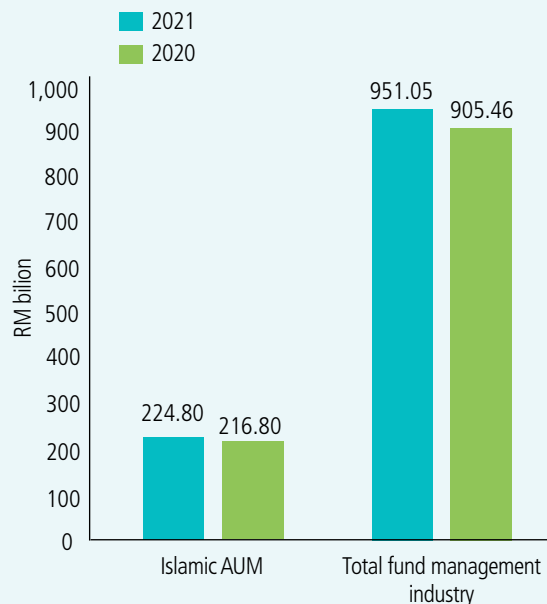
Islamic Fund Management

Islamic AUM as at December 2021 stood at RM224.80 billion, registering a 3.69% increase from RM216.80 billion as at end 2020. The number of Islamic CIS (unit trust funds, Waqf funds, private retirement schemes, real estate investment trusts and exchange-traded fund), stood at 386 as at December 2021 including 16 Islamic SRI funds. There were 57 fund management companies (FMCs) managing Islamic funds, with 24 full-fledged Islamic fund management companies (IFMCs) and 33 FMCs offering Islamic windows as at December 2021.

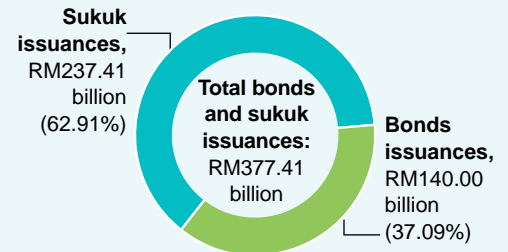


**ISLAMIC AUM
RM224.80
BILLION**

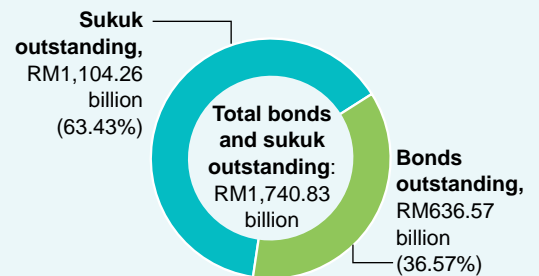
Islamic fund management industry



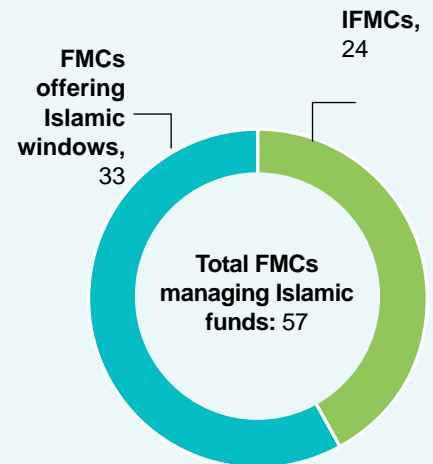
Sukuk issuances



Sukuk outstanding



FMCs managing Islamic funds



**Islamic AUM as at December 2021:
RM224.80 billion**

Note:
AUM is sourced from CIS and private mandates.

News Round-up

The Royal Award for Islamic Finance calls for global nominations and introduces two new prizes

The call for global nominations was announced on 3 December 2021 and the submission for nominations is until 25 March 2022. The prestigious award recognises an outstanding and inspiring individual who has contributed significantly to the advancement of the Islamic financial services industry. The Royal Award initiative is jointly led by BNM and the SC.

An independent international seven-member jury, chaired by former Chairman of the World Islamic Economic Forum Foundation, Tun Musa Hitam, will select a deserving individual to be the sixth recipient of The Royal Award. One of the main criteria in the selection of The Royal Award is the individual's innovative and pioneering work in Islamic finance. The nominee should also possess exceptional leadership attributes and be widely acknowledged within the Islamic financial services industry.

In conjunction with The Royal Award 2022, the Organising Committee is pleased to announce the addition of



two new prizes: Emerging Leader Prize and Impact Challenge Prize. The Emerging Leader Prize recognises and celebrates young international talent who have made outstanding contributions to the advancement of innovative ideas in Islamic finance. The Prize is open to individuals aged 40 and below, who have served in their area of expertise in Islamic finance for at least five years.

The Impact Challenge Prize aims to bring greater recognition to digital and innovative solutions based on Islamic finance principles or Islamic finance enablers, which can improve the economic and social resilience of financially impacted communities

globally. The inaugural Impact Challenge Prize is organised in collaboration with The World Bank Group Inclusive Growth and Sustainable Finance Hub in Malaysia as a technical partner and supported by the Malaysia Digital Economy Corporation.

Further information can be found online at <http://www.theroyalaward.com>.

For enquiries, email to RAIFSecretariat@seccom.com.my.

Islamic Capital Market Talent Development

The Islamic Capital Market Talent Development (ICMTD) programme (formerly known as the Islamic Capital Market Graduate Training Scheme – ICMGTS) is a capacity-building initiative by the SC and run by the SIDC since 2009.

The ICMTD programme which is funded by the Capital Market Development Fund (CMDF) aims to facilitate the development of human capital for the ICM. The content for the ICMTD programme has been enhanced to equip its graduates with the knowledge and skills that are suited for advisory roles in offering capital market products and services.

The ICMTD programme industry focused modules are conducted through a wide variety of methodologies which include virtual classrooms, hands-on workshops, business simulation projects, case study discussions, presentations and e-learning. The programme also comprises internship opportunities for participants to kick-start their careers in ICM, thus simultaneously channelling fresh talents for future developmental needs of the Malaysian capital market.

The ICMTD programme encompasses a two-month intensive virtual classroom training, followed by a three-month internship at selected financial institutions and companies. The intensive virtual training includes

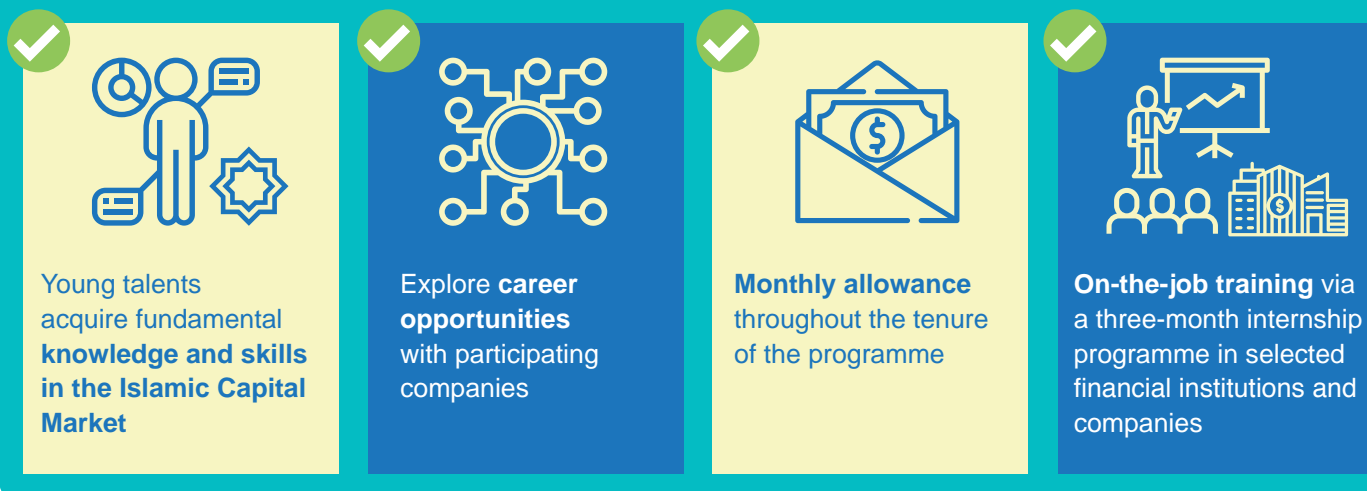
technical modules, soft skills modules and e-learning modules, anchored on the following five building pillars:



The previous intake of the ICMTD programme concluded their training on 22 December 2021 and are currently undergoing their internship placement at selected financial institutions and companies registered with SIDC for this programme. The application for upcoming ICMTD cohort is expected to be opened by June 2022.

For enquiries, email to enquiryICMTD@sidc.com.my or visit www.sidc.com.my.

Programme Highlights



SC and HDC Co-Host Inaugural Forum on Shariah-Compliant Fundraising For MSMEs

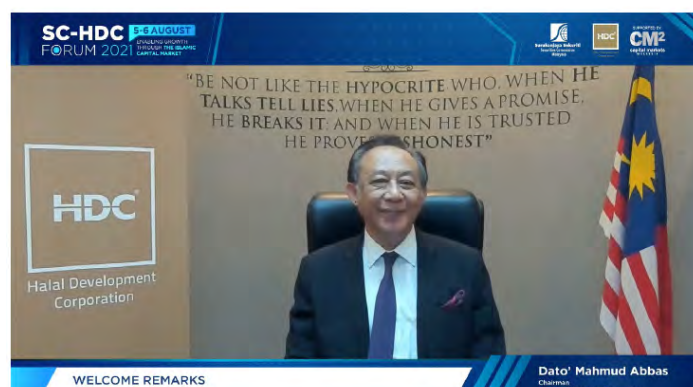
The SC and Halal Development Corporation Bhd (HDC) jointly hosted the inaugural SC-HDC Forum 2021, themed 'Enabling Growth through the ICM'. Supported by Capital Markets Malaysia (CMM), the two-day Forum was held virtually on 5-6 August 2021.

The forum aimed to reach out to the MSMEs in the halal ecosystem and promote alternative fundraising options i.e. ECF and P2P financing, as a means to support the growth of the halal economy.

The event is part of SC's continuous efforts to spur the development of the ICM through the participation of MSMEs in the halal economy via Shariah-compliant market based fundraising options.

The SC is anticipating greater interest and participation from MSMEs in the ICM, given the robust framework and facilitative ecosystem for Shariah-compliant fundraising activities.

The event comprised key presentations on halal economy, panel discussions on market-based financing by topic experts, in-depth case studies by various corporations, networking sessions for the attendees and in conjunction with the forum, the SC launched the Toolkit.



Virtual Workshop on Advancing the ICM through Financial Technology

The Secretariat of the Committee for Economic and Commercial Cooperation of the Organization of Islamic Cooperation (COMCEC) Capital Market Regulators Forum invited member countries and regulatory authorities to develop capacity building project proposals via COMCEC Project Funding.

The SC's proposal in organising a workshop with the title "Advancing the Islamic Capital Market through Financial Technology" under the category of "Finance" was selected in 2019. The submission was done through the Ministry of Finance Malaysia (MOF). However, due to the global pandemic, the implementation of the COMCEC Project Funding was postponed to 2021.

The three-day virtual workshop, which was organised from 6 to 8 September 2021, attracted the attendance of close to 30 participants and observers from seven member countries namely, Kuwait, Maldives, Pakistan, Egypt, Brunei, Turkey and Malaysia.



The virtual workshop provided an engaging platform for regulatory and supervisory authorities from the Organisation of Islamic Cooperation (OIC) member countries to understand how fintech can spur greater growth of the ICM and how to deal with potential risks of fast-moving technologies. Participants shared their jurisdictional experiences in fintech development for the ICM and the implementation of proactive and innovative regulatory approaches.

The virtual workshop also enabled participants to provide policy recommendations on how to advance the ICM in their respective jurisdictions by leveraging fintech.

A post-workshop report encapsulating key takeaways, discussions, and policy recommendations of the workshop, was published in Q4 2021 for the benefit of all OIC member countries. The report serves as a key reference in advancing the ICM through fintech.

SC-OCIS Strategic Collaboration 2021



A. SC-OCIS Roundtable

The annual SC and Oxford Centre for Islamic Studies (OCIS) roundtable (Roundtable) is organised with the objective of furthering global thought leadership in Islamic finance. Since its inception in 2010, the Roundtable continues to stimulate discussion and discourse on Islamic finance to facilitate the developmental agenda of the ICM.

The 12th SC-OCIS Roundtable was successfully organised virtually on 23-24 September 2021, with the theme 'Transforming Islamic Finance through Impact Finance and Social Agenda – Based on Maqasid Al-Shariah'. The Roundtable was graced by His Royal Highness Sultan Nazrin Muizzuddin Shah, Sultan of Perak Darul Ridzuan and the Royal Patron for Malaysia's Islamic Finance Initiative who delivered a special address. Attended by a select group of 60 delegates from across the globe, the discourse revolved around the need for a new social contract and how Islamic finance can be a beacon to lay the foundations for a new form of a balanced approach of markets-based system and greater social objectives. The discussion also steered into the Fourth Industrial Revolution, how innovation in science and technology could reconcile the debt-based economy and driving better funding solution in achieving the core virtues and values of Islamic finance.

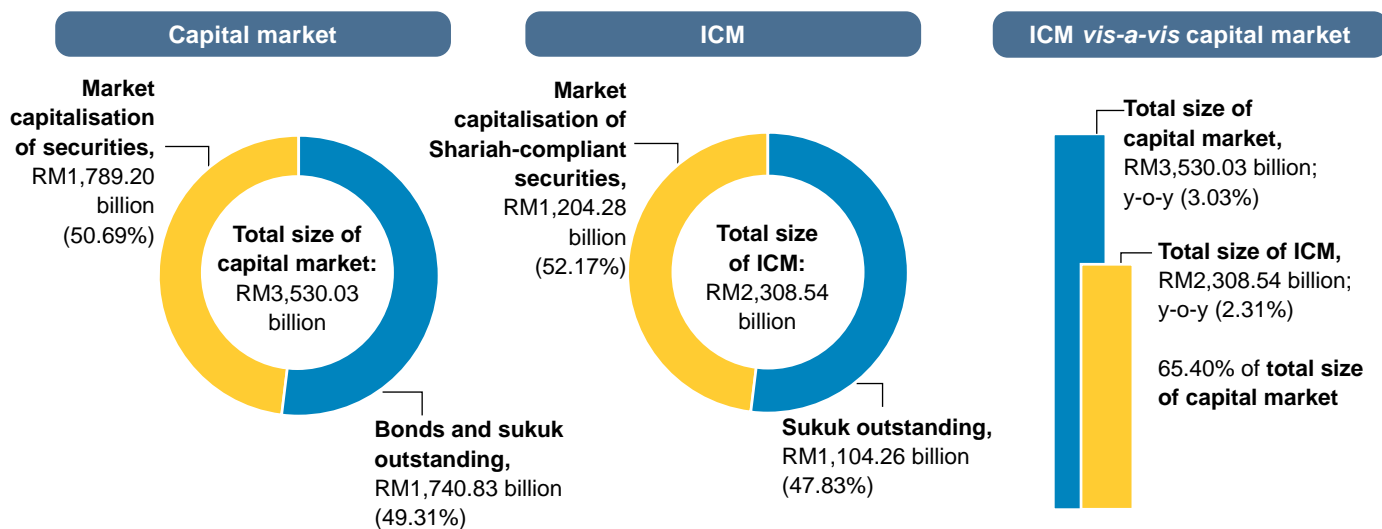
B. Scholar in Residence Programme

The Scholar-in-Residence (SIR) Programme is a research initiative on contemporary issues in Islamic finance, particularly relating to ICMs. The programme is part of the SC's continuous efforts to spur knowledge-building initiatives for global development of the ICM. Since its establishment in 2012, the programme has already received participation attracting scholars and industry practitioners alike from Southeast Asia, Middle East, Europe and Americas.

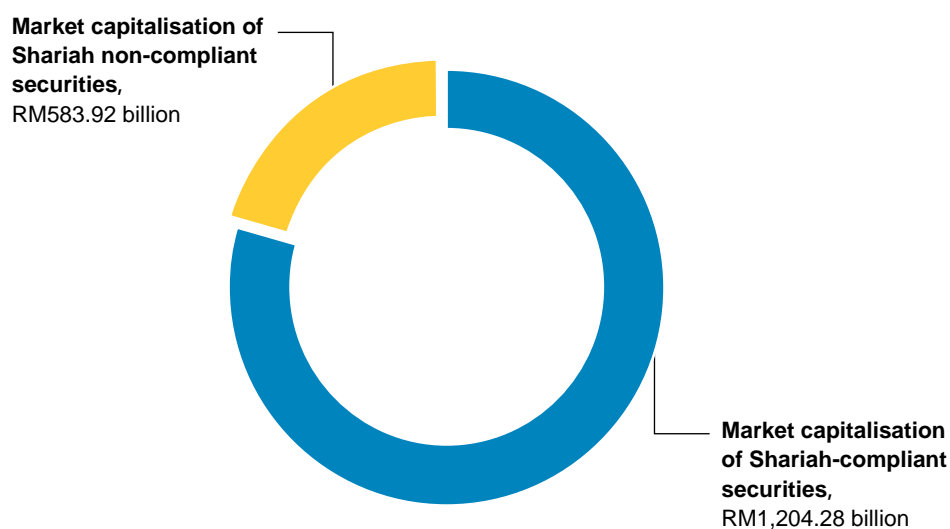
For the 2021/2022 academic year, the SC and OCIS have agreed for the Visiting Fellowship to be awarded to Ms Shabnam Mokhtar from SHAPE Knowledge Services with her research titled, *Dissecting Sustainability and Impact Investing: An Empirical Analysis*.

Malaysian ICM – Facts and Figures

Size of Capital Market and ICM as at December 2021

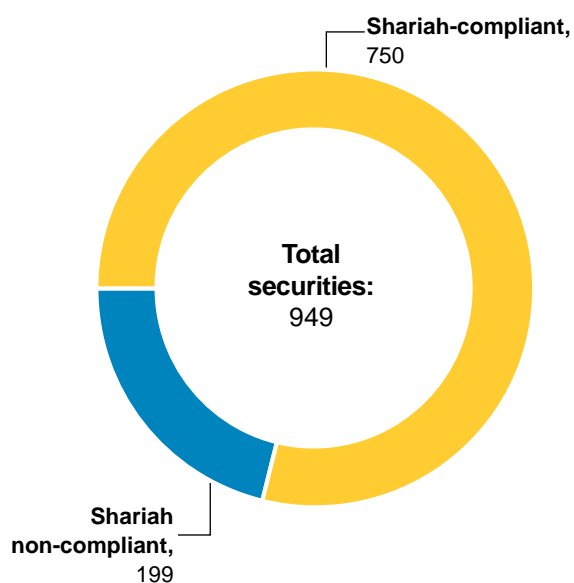


Shariah-Compliant Securities as at December 2021

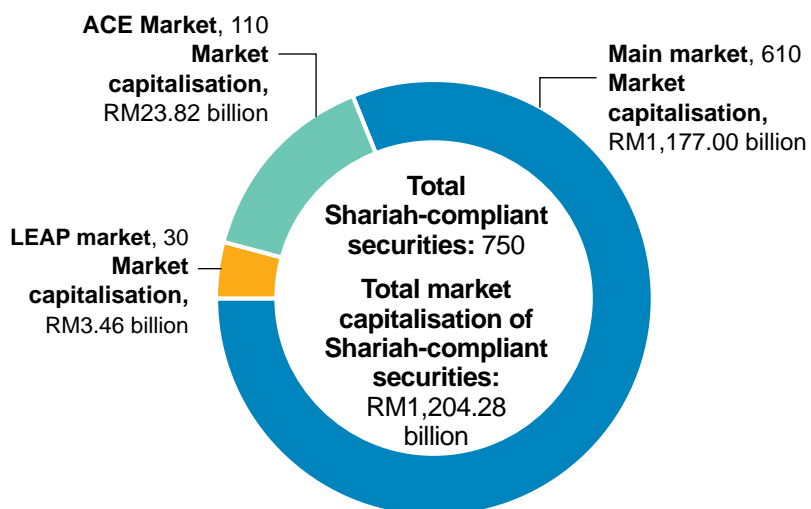


Shariah-Compliant Securities as at December 2021

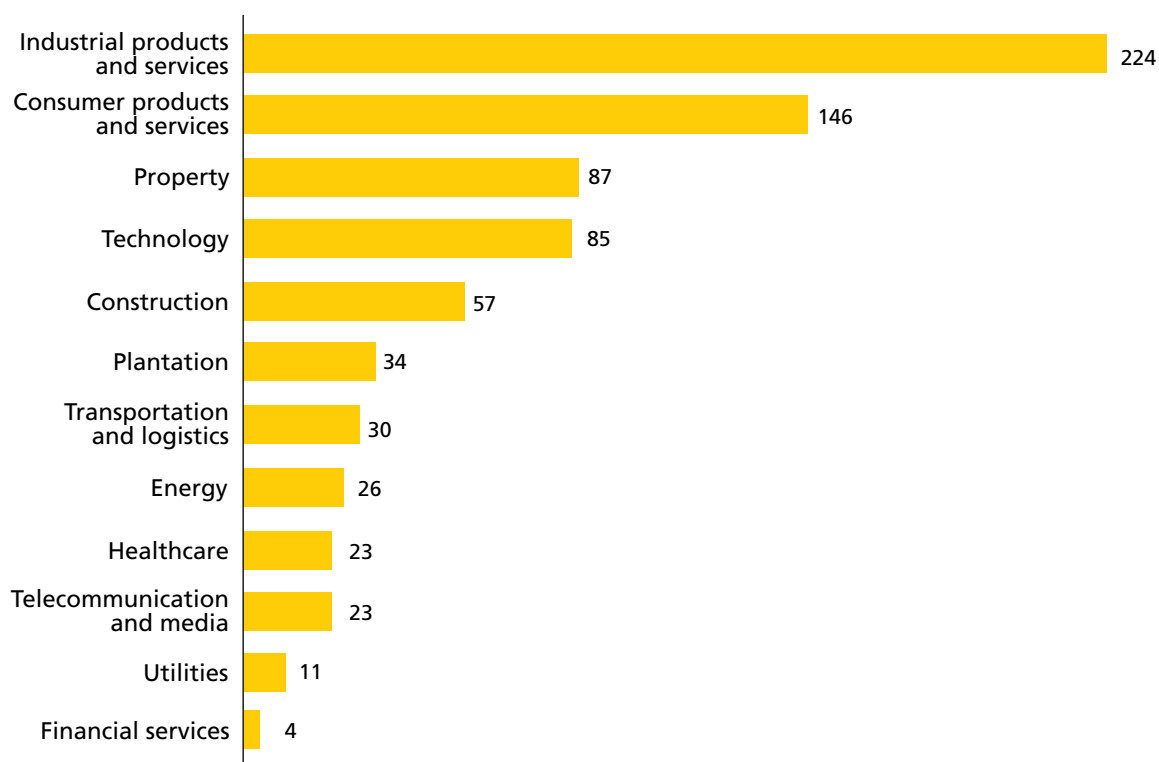
Total securities



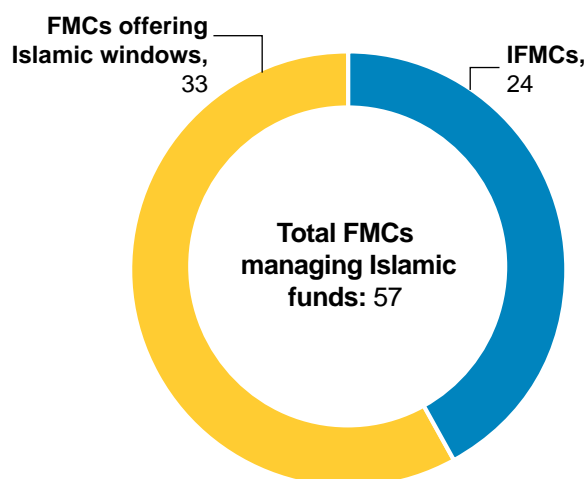
Shariah-compliant securities



Breakdown by sectors for Shariah-compliant securities



Islamic Fund Management as at December 2021



**Islamic AUM as at December 2021:
RM224.80 billion**

Note:
AUM is sourced from CIS and private mandates.

List of Islamic Fund Management Companies	
No	Company
1	Abbas IM Sdn Bhd
2	Aberdeen Standard Islamic Investments (M) Sdn Bhd
3	AIIMAN Asset Management Sdn Bhd
4	AmlIslamic Funds Management Sdn Bhd
5	Amundi Islamic Malaysia Sdn Bhd
6	BIMB Investment Management Bhd
7	BNP Paribas Asset Management Najmah Malaysia Sdn Bhd
8	Eastspring Al-Wara' Investments Bhd
9	Franklin Templeton GSC Asset Management Sdn Bhd
10	Guidance Investments Sdn Bhd
11	Hong Leong Islamic Asset Management Sdn Bhd
12	i-Vcap Management Sdn Bhd
13	Kenanga Islamic Investors Bhd
14	Maybank Islamic Asset Management Sdn Bhd
15	MIDF Amanah Asset Management Bhd
16	Muamalat Invest Sdn Bhd
17	Nomura Islamic Asset Management Sdn Bhd
18	Pheim Islamic Asset Management Sdn Bhd
19	PMB Investment Bhd
20	Principal Islamic Asset Management Sdn Bhd
21	RHB Islamic International Asset Management Bhd
22	Saturna Sdn Bhd
23	UOB Islamic Asset Management Sdn Bhd
24	Wahed Technologies Sdn Bhd

Islamic Fund Management as at December 2021

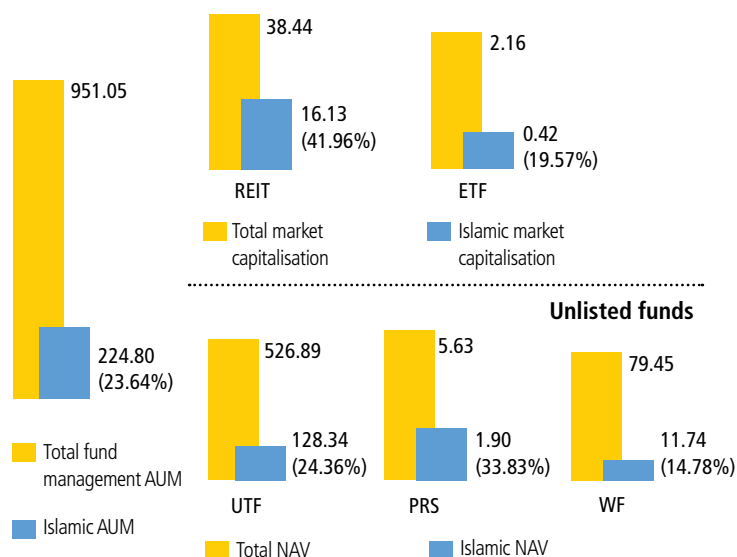
List of FMCs with Islamic Windows

No	Company
1	Affin Hwang Asset Management Bhd
2	AIA Pension And Asset Management Sdn Bhd
3	Amanahraya Investment Management Sdn Bhd
4	Amara Investment Management Sdn Bhd
5	AmFunds Management Bhd
6	Amundi Malaysia Sdn Bhd
7	Apex Investment Services Bhd
8	Areca Capital Sdn Bhd
9	BOS Wealth Management Malaysia Bhd
10	Eastspring Investments Bhd
11	Franklin Templeton Asset Management (M) Sdn Bhd
12	Ifast Capital Sdn Bhd
13	Inter-Pacific Asset Management Sdn Bhd
14	KAF Investment Funds Bhd
15	Kedah Islamic Asset Management Bhd
16	Kenanga Investors Bhd
17	Kumpulan Sentiasa Cemerlang Sdn Bhd
18	Manulife Asset Management Services Bhd
19	Maybank Asset Management Sdn Bhd
20	Navis Management Sdn Bhd
21	Nomura Asset Management Malaysia Sdn Bhd
22	Opus Asset Management Sdn Bhd
23	OUA Asset Management Sdn Bhd
24	Permodalan BSN Bhd
25	Pheim Asset Management Sdn Bhd
26	Phillip Capital Management Sdn Bhd
27	Principal Asset Management Bhd
28	PTB Unit Trust Bhd
29	Public Mutual Bhd
30	RHB Asset Management Sdn Bhd
31	Singular Asset Management Sdn Bhd
32	TA Investment Management Bhd
33	UOB Asset Management (M) Bhd

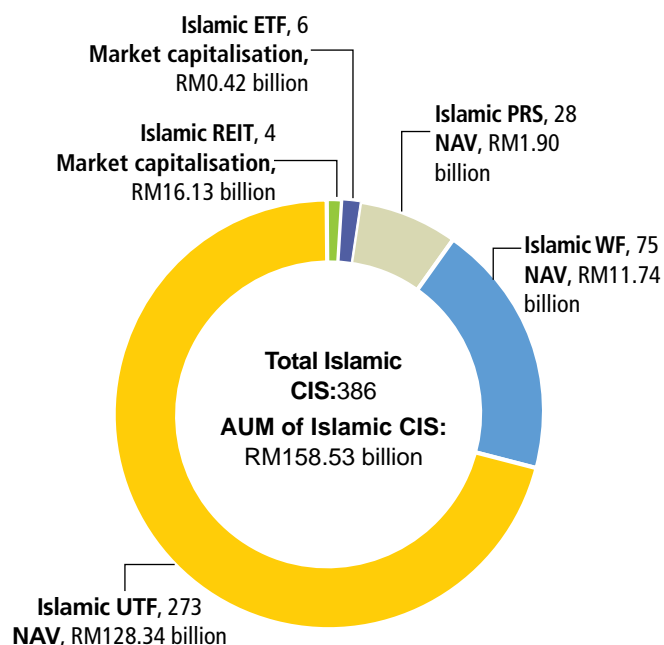
Fund Management Industry

RM in billion

Listed funds

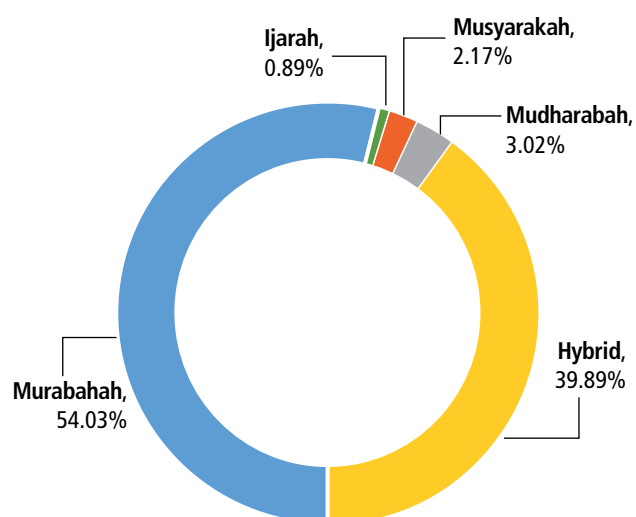


Islamic CIS

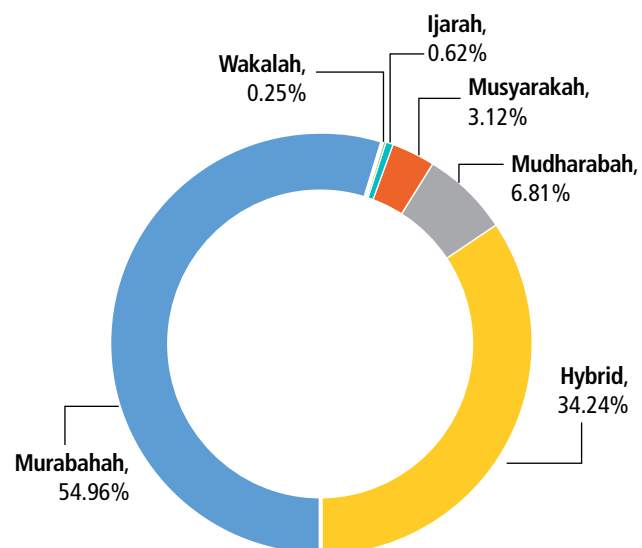


Sukuk Issued by Shariah Principle

Q4 2021

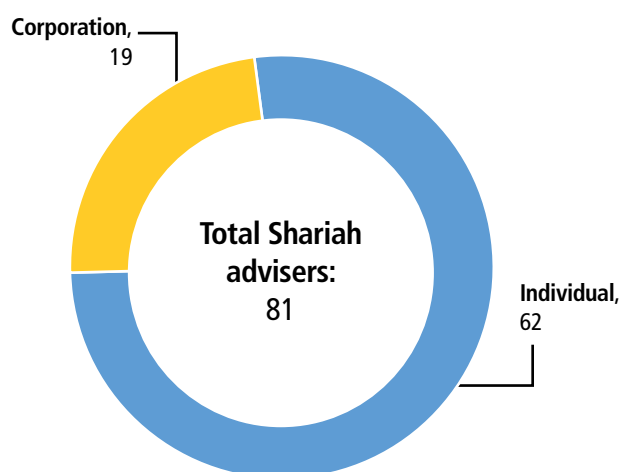


Q4 2020

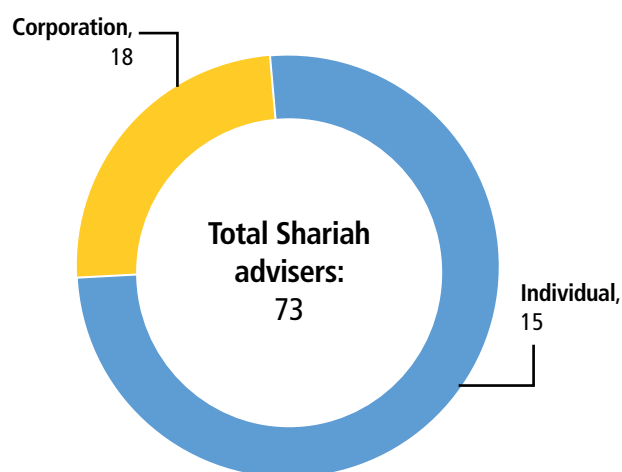


Registered Shariah Advisers

Q4 2021



Q4 2020



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We appreciate your feedback and comment.


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