



# malaysian ICM



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

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## PROGRESSIVE INITIATIVES FOR SUSTAINABLE ICM DEVELOPMENT

The rapid development of the Islamic capital market (ICM) over the years has been driven by numerous initiatives led by both regulatory authorities and industry players. These initiatives have resulted in the diversity and competitiveness of ICM products and services, thus offering investors and issuers more choices and opportunities in the capital market.

On its part, the Securities Commission Malaysia (SC) continues to undertake various important initiatives that are aimed at ensuring the orderly development and sustainability of ICM, as well as the overall capital market, over the long term.

Arising from the introduction by the SC of the Sustainable and Responsible Investment (SRI) Sukuk Framework last year, Khazanah Nasional Bhd announced, in May 2015, a RM1 billion Sukuk Ihsan Programme as the first SRI sukuk in Malaysia. This significant development has contributed not only to further innovation in the ICM space but also to the integration of the principles of Shariah and SRI, thus broadening the market potential.

On another front, the SC jointly with the International Shariah Research Academy (ISRA) launched a textbook on Islamic Capital Markets which serves to support the need for sustained capacity building in the ICM. The textbook will be a valuable teaching and reference material for both the academic and professional communities in developing the relevant knowledge and skillsets that can be applied by ICM practitioners.

In June this year, the Lodge and Launch framework for wholesale products was introduced. This framework shortens the time-to-market for wholesale capital market, including ICM products by enabling these products to be launched once the required information is lodged with the SC via its online submission system.

# 10<sup>th</sup> ISLAMIC MARKETS PROGRAMME

Revving Up Islamic Finance  
to the Next Phase of Growth  
and Development

7–10 September 2015

Conference Hall 2, Securities Commission Malaysia



## ABOUT THE PROGRAMME

The 2015 Islamic Markets Programme will discuss strategies to drive Islamic finance into the next phase with renewed energy and enthusiasm.

Invited speakers will present and discuss emerging product innovation trends, appropriateness of facilitative governance frameworks and its supervisory oversight challenges. It will provide an excellent opportunity for participants to engage directly with subject matter experts and to evaluate the underlying value proposition of the Islamic finance industry and the shared value creation initiatives that are reshaping the Islamic finance landscape for its next phase with respect to quality, consistency and transparency in the marketplace.

The current shortage of trained and qualified practitioners in Islamic finance will be also deliberated. Among the pertinent issues is the challenge of building a sustainable talent pool with the right competencies to propel the Islamic financial services industry to new heights.

This programme will suggest ways to promote the Islamic finance industry's expanding value proposition through innovation of ideas among policymakers, academics and practitioners to promote socially and environmentally responsible financial business communities across global markets.

This programme is presented in two distinct parts:

**PART 1** is a ONE-day introductory workshop presenting the landscape of the Islamic financial services industry and discussing the role of the Islamic capital market within the broader Islamic financial services industry. It will provide an overview of the Islamic capital market, explain the fundamentals and Islamic finance principles, Islamic financial services ecosystem, its key products and players.

**PART 2** is a THREE-day programme that will present and evaluate the next phase of the growth and development of Islamic finance.



## WHO SHOULD ATTEND

Senior regulators, academicians and financial industry practitioners.

Registration closes on 1 September 2015

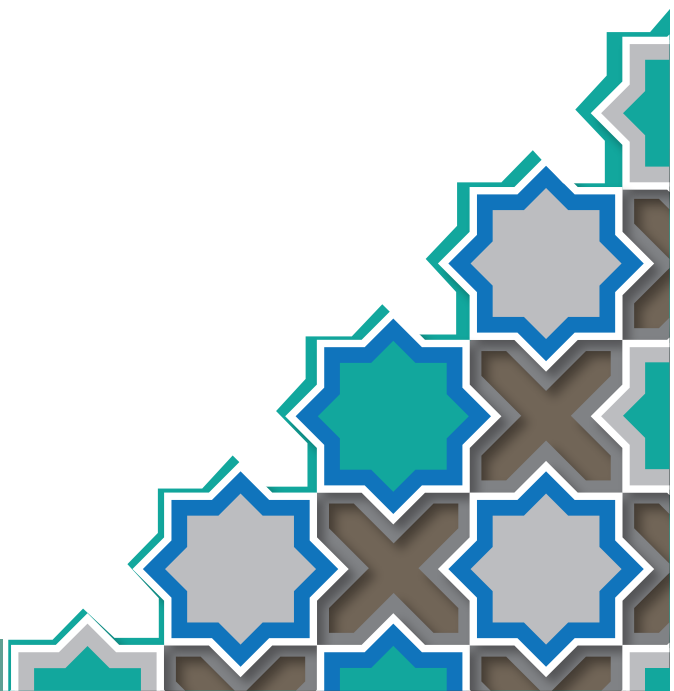
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## MALAYSIAN CAPITAL MARKET GREW TO RM2.76 TRILLION IN 2014<sup>1</sup>

The Malaysian capital market grew to RM2.76 trillion in 2014, equivalent to 2.6 times the size of the Malaysian economy, and remained resilient in an environment of global uncertainties.

The capital market continued to be an important source of financing for the economy, with RM91.9 billion raised through initial public offerings (IPOs) and private debt securities (PDS). Capital raising exceeded RM90 billion for the third consecutive year, illustrating the capital market's deepened capacity to meet Malaysia's real economy financing needs.

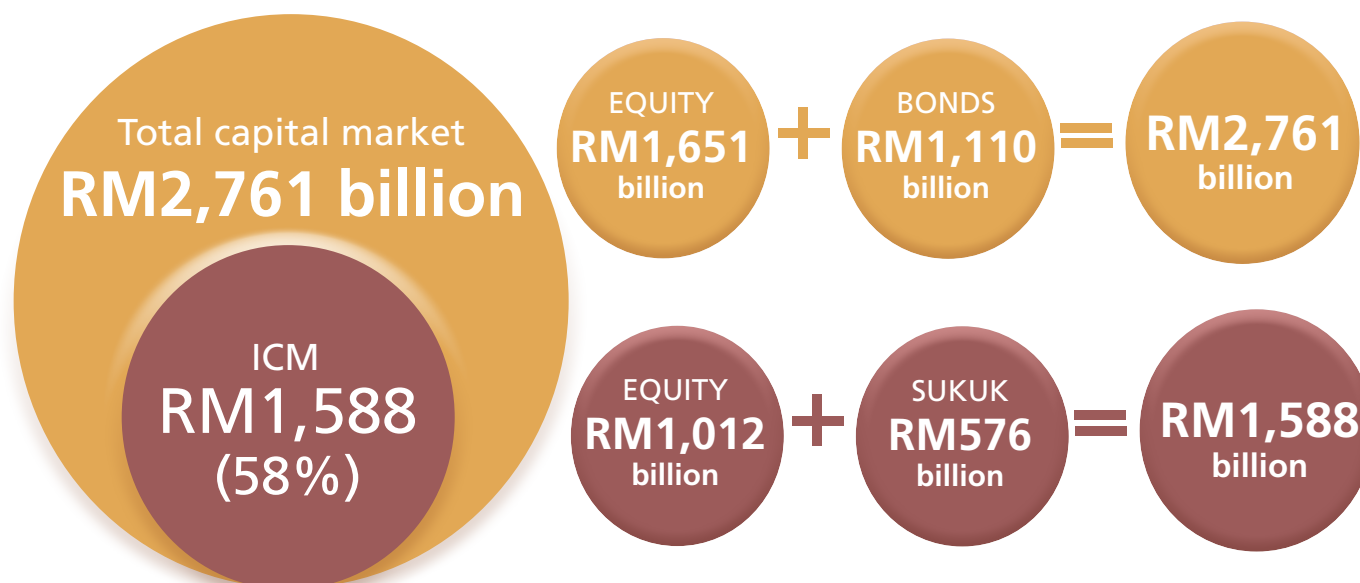
Malaysia affirmed its global leadership in the ICM, having grown at an average of 12% per annum over the last five years to RM1.59 trillion in 2014, accounting for 58% of the capital market. By end-2014, 74% of Malaysian listed companies were classified as Shariah compliant with market capitalisation of more than RM1 trillion. Malaysia also retained its position as the largest sukuk market in the world, accounting for 66% of global issuances.

Fund management continued to be the fastest-growing market segment with assets under management (AUM) surpassing the 600-billion ringgit milestone for the first time to reach RM630 billion (+7.1%) by year end. Islamic AUM grew to RM111 billion from RM98 billion in 2013, reflecting the industry's ability to develop under Malaysia's facilitative ICM environment.

Growth was driven by the expansion of channels for managed investments, with the net asset value of the unit trust industry growing to RM343 billion – the largest in Southeast Asia. The nascent Private Retirement Schemes (PRS) segment, which more than doubled its AUM and membership to RM716.1 million and 128,977 members respectively, forms the third pillar of Malaysia's pension framework and is poised to become an area of future growth in the investment management industry.

The operationalisation of the ASEAN Framework for Cross-border Offering of Collective Investment Schemes also enabled Malaysian investors and fund providers

ICM is a key component of the Malaysian capital market



As at December 2014

<sup>1</sup> This article is extracted from the SC Annual Report 2014.

greater access to opportunities in the ASEAN region and serves as another driver for growth.

## Promoting fair and efficient markets

In 2014, the SC embarked on the first phase of a comprehensive regulatory review to enhance efficiencies and promote greater competition in the capital market. The first package of reforms resulting from this review comprises a revamp of the wholesale market framework, including the liberalisation of corporate bond and wholesale product approvals through the SC's Lodge and Launch framework, as well as revisions to the licensing regime which allow for new classes of market participants such as boutique fund managers and alternative market operators. At the same time, investor protection was heightened through regulatory amendments in areas such as disclosures and take-overs and mergers.

To foster compliance and enable early detection of systemic risk, the SC further broadened the perimeter of its market surveillance activities and strengthened the existing oversight framework for auditors and public-listed companies (PLCs). Supervisory efforts focused on the governance of market institutions and intermediary conduct as well as their capacity to manage risks emerging from threats to cyber-security and the financing of illicit activities.

To safeguard market integrity and deter potential misconduct, the SC continued to deploy its full range of enforcement powers against those responsible for committing breaches of securities laws and regulatory non-compliance. Underscoring the severity with which it regards market abuse, the SC filed 63 criminal charges against two PLC directors, a chief executive officer and a remisier for insider trading offences with the High Court also affirming the conviction and imprisonment of two former PLC directors for market manipulation.

## Promoting active and informed investor participation

The enforcement of regulatory discipline in the capital market was complemented by SC's efforts to strengthen levers of self and market discipline through corporate governance. The launch of the *Malaysian Code for Institutional Investors* – the first in Southeast Asia and second in Asia as well as emerging markets – marked a watershed moment for investor activism in the country with signatories voluntarily pledging to harness their influence in strengthening the governance culture of investee companies and the capital market ecosystem.

The SC's sustained efforts to strengthen corporate governance in Malaysia, which include encouraging greater board diversity and profiling well-governed

*Securities Commission Malaysia (SC) Executive Team  
at the launch of SC's Annual Report 2014*



companies through the ASEAN Corporate Governance Scorecard, among others, have been highlighted in a number of recent international assessments, with the ACGA-CLSA CG Watch 2014 commending Malaysia as one of the few markets which have shown consistent improvement in corporate governance.

To encourage broader and more informed retail investor participation, the SC launched the InvestSmart™ education and outreach campaign comprising a suite of programmes tailored to engage investors throughout Malaysia across multiple platforms. By connecting with investors on Facebook, Twitter and a mobile app, in addition to ongoing roadshows and workshops, the SC aims to expand its reach across all segments of the investing public, particularly the younger and more tech-savvy demographics.

## Expanding investment avenues

Developmental efforts in 2014 focused on enhancing the capital market's capacity to support growth in the real economy by expanding access to capital market financing for smaller and innovative businesses while also facilitating sustainable and socially responsible investments.

Recognising the role of small and medium enterprises (SMEs) in spurring job creation and economic growth, the SC developed the SME Investment Partners programme which enables SMEs to obtain non-collateralised financing and management expertise from a pool of qualified private investors. The formulation of a framework for equity-based crowdfunding also illustrates SC's ongoing efforts to establish a regulatory safe harbour for financial innovation.

The launch of the Sustainable and Responsible Investment (SRI) sukuk framework provided impetus for greater availability of investible assets for investors, and capitalised on synergies from the close alignment between the principles of socially responsible investment and the ethics of Islamic finance. Initiatives to enhance the SRI information architecture, such as the introduction of the Environmental, Social and Governance (ESG) index and ongoing efforts to

encourage the adoption of integrated reporting in Malaysia also collectively facilitate the profiling of SRI to both the domestic and international audience.

## Moving forward

To achieve greater regulatory efficiency, SC will undertake a review of primary market regulations regarding capital raising, disclosure and retail fund approvals. To accelerate the internationalisation of the ICM, the SC will also develop a blueprint to enhance Malaysia's Islamic fund and wealth management value proposition which will be released by the end of the year. At the same time, the SC will continue to broaden financing avenues and build greater scale across market segments, including intensifying efforts to broaden and increase PRS participation.

To effect the regulatory streamlining and market development efforts pursued in 2014, the following guidelines were released on 9 March 2015:

- *Guidelines on Unlisted Capital Market Products under the Lodge and Launch (LOLA) Framework; and*
- *Guidelines for Private Equity and Venture Capital*

Further initiatives to be progressively implemented in 2015 include measures to shorten approval turnaround time for funds, including the release of *Fund Disclosure Guide*, and facilitate expansion of business models including new categories of licences for boutique fund management companies and broadening the range of permissible activities for fund management companies, which allows them to provide investment advice to clients via advisory mandates. The SC will also issue new categories of licences for dealing in securities for new business structures leveraging on technology.

As the current chair of the ASEAN Capital Markets Forum (ACMF), the SC will continue to drive the ASEAN capital market integration agenda while promoting inclusive access for Malaysian investors, issuers and market intermediaries to opportunities arising from greater regional interconnectivity.



## 6TH SC-OCIS ROUNDTABLE ON SEEKING SUSTAINABILITY: ROLE OF ISLAMIC FINANCE IN THE TRANSFORMATIONAL CHANGE

The SC and the Oxford Centre for Islamic Studies (OCIS) in their ongoing collaboration with the objective of furthering global thought leadership in Islamic Finance, held the 6th SC-OCIS Roundtable from 14 to 15 March 2015 in Ditchley Park, Oxfordshire. Themed 'Seeking Sustainability: Role of Islamic Finance in the Transformational Change', the Roundtable looked into principles of ethics, profit and sustainability 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. A select group of about 40 key industry practitioners, senior academicians, Shariah scholars, standard setting bodies, multilateral organisations and regulators participated in the closed-door Roundtable.

His Royal Highness Sultan Nazrin Muizzuddin Shah, Sultan of Perak Darul Ridzuan and Royal Patron for Malaysia's Islamic Finance Initiative delivered the Special Address. Overall, the Roundtable received positive comments and feedback primarily for the high quality of discussions and debate.

Participants agreed that the ideas, viewpoints, opinions and issues raised would require in-depth research work in order to contribute towards shifting the Islamic finance industry to one which places values, common good and sustainability as among its prime objectives. In this regard, the SC will introduce a new collaborative research arrangement with OCIS that will strengthen the rigor of the research process and ensure wider acceptability of the end findings.



## SCAND ISRA LAUNCH TEXTBOOK ON ISLAMIC CAPITAL MARKETS: PRINCIPLES AND PRACTICES

The SC and the International Shari'ah Research Academy for Islamic Finance (ISRA) launched a joint publication titled *'Islamic Capital Markets: Principles and Practices'*. It was launched by the Deputy Chief Executive Dato Dr Nik Ramlah Mahmood at the IFN Asia Forum in Kuala Lumpur on 26 May 2015. Khazanah Nasional Bhd was a co-sponsor of this initiative.

The ICM has evolved substantially over the past three decades and expanded in terms of diversity of stakeholders, infrastructure, products and services, capabilities as well as its geographical reach. The launch of the textbook is timely in view of the expanding role of the ICM across the globe. It serves as a vital source of reference to academicians, students and practitioners on the key principles underlying the ICM operations and its practices.

The impressive growth in Islamic finance globally has created a strong demand for Islamic finance professionals, including those trained in the ICM, to help develop and drive the industry forward. As the market gears up for further growth, it is imperative that the industry participants, members of the academia and regulators pool their resources to ensure a sustainable supply of qualified and skilled talent.

As the co-publisher and co-sponsor of the textbook, the SC is confident that the textbook will foster the continued growth of the industry and enhance the skills of the ICM talent pool.

ISRA, being an instrumental institution in promoting applied Shariah research in the field of Islamic finance, believes that the publication of this new textbook culminates another milestone in fulfilling crucial information and knowledge needs of the academia, industry, regulators and other stakeholders after the success of its previous textbook, *'Islamic Financial System: Principles and Operations'*.

The textbook offers in-depth body of knowledge on ICM and articulately and critically presents the theories and concepts of ICMs without losing sight of their practical aspects.



(From left) The ISRA Chief Executive Officer Prof. Mohamad Akram Laldin; SC Deputy Chief Executive Dato Dr Nik Ramlah Mahmood; and Khazanah Nasional Bhd Chief Financial Officer Mohd Izani Ghani at the launch of *'Islamic Capital Markets: Principles and Practices'* at the IFN Asia Forum 2015, Kuala Lumpur.

Written by prominent scholars, academics and industry experts, the textbook features contemporary issues facing the Islamic finance industry, using various case studies to show how theory interacts with practice.

It effectively covers a variety of essential topics related to Islamic capital markets, including Shariah, regulatory and corporate governance frameworks, risk management, accounting and taxation, sukuk, equity market, unit trust funds, ETFs, REITs, private equity and venture capital, derivatives and structured products.

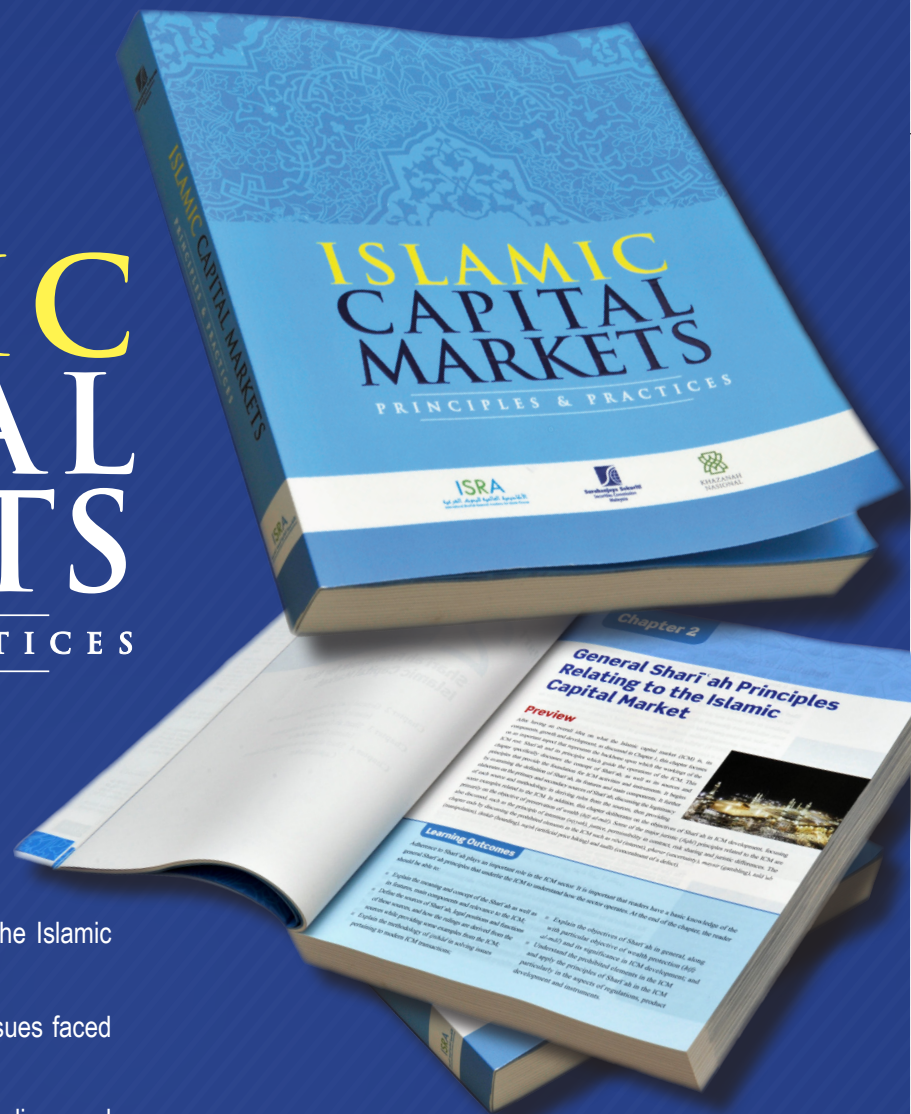
Exceptional due diligence has been given to ensure that the information in the textbook is comprehensive, precise, reliable and up to date. The discussions are not confined to any specific jurisdiction; rather, they adopt an analytical approach towards the relevant issues across different countries. Each chapter contains relevant case studies and supporting charts, diagrams, tables and figures in order to facilitate comprehension. Multiple choice questions and discussion questions are also provided at the end of each chapter to challenge the understanding of the reader.



NEW RELEASE

# ISLAMIC CAPITAL MARKETS

PRINCIPLES & PRACTICES



## KEY FEATURES OF THE BOOK

- It elucidates the principles and practices of the Islamic capital market with an academic rigour.
- It sheds light on the cutting-edge practical issues faced by the industry.
- Every chapter contains relevant case studies and supportive illustrations.
- Multiple Choice Questions (MCQs) and discussion questions are provided at the end each chapter.

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## KEY SUBJECTS

Shari'ah framework, Regulatory framework, Corporate and Shari'ah governance, Risk management, Accounting and taxation, *Sukuk*, Islamic equity market, Islamic unit trust, REITs and ETFs, Islamic private equity and venture capital, Islamic derivatives and hedging and Islamic structured investment products.

## MARKET AND AUDIENCE

- Academics, researchers, scholars, regulators, practitioners and students
- Universities, research houses, libraries, Islamic financial institutions, regulatory bodies and authorities

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# ISLAMIC CAPITAL MARKET CAPACITY BUILDING PROGRAMMES FOR OIC MEMBER COUNTRIES



## ISLAMIC CAPITAL MARKET CAPACITY BUILDING PROGRAMMES

The SC organised the Islamic Capital Market Capacity Building Programmes from 31 May to 4 June 2015 in Dubai, United Arab Emirates. Funded by the Standing Committee for Economic and Commercial Cooperation of the Organization of Islamic Cooperation (COMCEC), the programmes were targeted at the regulatory and supervisory authorities who are responsible for the development of ICM in their respective jurisdiction.

Two specialised ICM workshops were offered i.e. Islamic Capital Market Workshop: Level 1 and Islamic Capital Market Workshop: Level 2. These workshops are aimed at promoting awareness, developing and strengthening domestic capacity as well as identifying issues and gaps that need to be addressed in facilitating the development of an ICM. The workshops would also enable participants to make policy recommendations necessary for the development of ICM infrastructure in their respective countries.

A total of 17 OIC member countries participated in the workshops, represented by 47 participants from 23 organisations. The participants had the opportunity to share with and learn from one another and better

appreciate the importance of more collaborative arrangements between regulatory and supervisory authorities.

Outcome of discussions and proposals from the workshops will be compiled and distributed in the form of a report for subsequent follow-up implementation programmes as well as policy recommendations and serve as reference/benchmark for countries in developing their ICM.



## FIRST RINGGIT-DENOMINATED SUSTAINABLE AND RESPONSIBLE INVESTMENT SUKUK<sup>1</sup>

Khazanah Nasional Berhad via its Special Purpose Vehicle, Ihsan Sukuk Berhad, had launched Malaysia's first RM1 billion SRI sukuk programme, where the first tranche of RM100 million was issued in June 2015. It is the first programme approved under the SC's SRI Sukuk framework. The Sukuk Programme has been assigned an initial rating of AAA(s) by RAM Rating Services Bhd, reflecting Khazanah's role as the credit obligor under the structure of the SRI Sukuk. The structure of the SRI Sukuk is in accordance with the Islamic principle of *wakalah bi al-istithmar*.

The inaugural issuance proceeds of this sukuk will be channelled to Yayasan AMIR, a not-for-profit foundation initiated by Khazanah in 2010, to manage its cashflow for the deployment of the Trust Schools Programme for schools identified in 2015.

The social impact of this 'Pay for Success' structure is measured using a set of pre-determined key performance indicators (KPIs), which will be measured over a 5-year observation timeframe. If at maturity, the KPIs are met, the sukukholders will forego a pre-agreed percentage of the nominal amount due under the SRI Sukuk as part of their social obligation in recognising the positive social impact generated by the Trust Schools Programme. On the other hand, if the KPIs are not met, the sukukholders will be entitled to the nominal amount due under the SRI Sukuk as agreed at issuance.

CIMB Investment Bank Bhd is the sole Lead Arranger, and Amanie Advisors Sdn Bhd and CIMB Islamic Bank Bhd are the Joint Shariah Advisors for the RM1 billion Sukuk Programme.

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<sup>1</sup> Source: [www.khazanah.com.my](http://www.khazanah.com.my)

## AL-SALAM ISLAMIC REIT<sup>2</sup>

Johor Corporation (JCorp) plans to list an Islamic REIT with RM900 million worth of assets by the third quarter of 2015. The securities, to be known as the Al-Salam Islamic REIT, is expected to offer an annual dividend yield of 6% to 6.3% upon the first year of its listing.

Al-Salam REIT is the second Islamic REIT by Johor Corp after Al-'Aqar Healthcare REIT. It has set a target to achieve asset size of RM2 billion within three years of its listing. It intends to have an additional RM500 million worth of assets within 12 months of its listing.

Al-Salam REIT will be acquiring 31 assets worth about RM900 million from Damansara Assets Sdn Bhd and QSR Brands (M) Holdings Sdn Bhd (QSR), as its initial portfolio. Properties to be acquired from Damansara Assets include Menara Komtar, @Mart hypermarket, KFCH International College and Komtar JBCC which is a retail mall in Johor Bahru. Assets from QSR include the KFC and Pizza Hut chain of restaurants and selected industrial assets. AmanahRaya will be Al-Salam's trustee while Damansara REIT Managers Sdn Bhd will be the REIT's manager.

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<sup>2</sup> Source: [www.theedgemarkets.com](http://www.theedgemarkets.com)

## UPDATED LIST OF SHARIAH-COMPLIANT SECURITIES

The SC released an updated list of Shariah-compliant securities approved by its Shariah Advisory Council (SAC). The list, which took effect on 29 May 2015, featured a total of 674 Shariah-compliant securities, which constitute 75% of the total 903 listed securities on Bursa Malaysia. It included 19 newly classified Shariah-compliant securities and

excluded 13 from the previous list issued in November 2014.

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](http://www.sc.com.my). The next updated list will be made available in November 2015.

*Table 1*  
**Shariah-compliant securities on Bursa Malaysia**

| Main Market/<br>ACE Market | Number of Shariah-<br>compliant securities | Total securities* | Percentage of Shariah-<br>compliant securities |
|----------------------------|--|-------------------|--|
| Consumer products          | 104  | 129               | 81   |
| Industrial products        | 196  | 250               | 78   |
| Mining                     | Nil  | 1                 | Nil  |
| Construction               | 36   | 43                | 84   |
| Trading/Services           | 153  | 210               | 73   |
| Properties                 | 68   | 89                | 76   |
| Plantation                 | 37   | 42                | 88   |
| Technology                 | 72   | 90                | 80   |
| Infrastructure (IPC)       | 4  | 6                 | 67   |
| Finance                    | 2  | 35                | 6  |
| SPAC                       | 2  | 3                 | 67   |
| Hotels                     | Nil  | 4                 | Nil  |
| Closed-end fund            | Nil  | 1                 | Nil  |
| <b>TOTAL</b>               | <b>674</b>                                 | <b>903</b>        | <b>75</b>                                      |

\* As at 25 May 2015



# SC INTRODUCES MAJOR REFORM IN APPROVAL REGIME WITH LODGE AND LAUNCH FRAMEWORK

On 15 June 2015, the SC brought into effect the Lodge and Launch framework for wholesale products and the *Guidelines on Unlisted Capital Market Products* issued on 9 March 2015, a major reform in the SC funds and product approval regime which will significantly reduce time-to-market for wholesale products.

The Lodge and Launch framework is intended to shorten time-to-market by enabling wholesale products to be launched once the required information is lodged with the SC via its online submission system, as compared to the previous 14–21 days approval timeframe. Wholesale products that are covered under the framework include wholesale funds, structured products, bonds, sukuk and asset-backed securities.

The introduction of this framework is in line with SC’s new regulatory philosophy which advocates proportionality of regulation and recognises the maturity of the Malaysian capital market and the sophistication of investors within the wholesale market.

With this liberalisation, SC will increase its focus on conduct regulation and product surveillance to ensure that all who are involved in the wholesale market discharge their due diligence and disclosure obligations as well as uphold the principle of fair treatment of investors.

The Guidelines for the Lodge and Launch framework supersedes the existing guidelines on the various wholesale products. The Guidelines, Lodgement Kit and frequently-asked questions and answers are available for reference on SC’s website at [www.sc.com.my](http://www.sc.com.my).

## Comparison between previous and new regime

|                       | PREVIOUS REGIME   | NEW REGIME  |
|-----------------------|---|---|
| APPROVAL PROCESS      | Approval required   | No approval under Lodge and Launch Framework  |
| APPROVAL TIME CHARTER | 14–21 Days  | 0 days  |
| DISCLOSURE DOCUMENT   | Lodgement of– <ul style="list-style-type: none"><li>• Information Memorandum(if any);</li><li>• Disclosure Document (if any); and</li><li>• Product Highlights Sheet (except for private debt securities and sukuk)</li></ul> | Lodgement Form (Lodge and Launch)<br><br>Lodgement of– <ul style="list-style-type: none"><li>• Disclosure Document (if any)</li><li>• Product Highlights Sheet (except for private debt securities and sukuk)</li></ul> |

## Frequently Asked Questions on the General Requirements of the Guidelines on Unlisted Capital Market Products Under the Lodge and Launch Framework

### When will the requirements under the Guidelines be implemented?

The Guidelines on Unlisted Capital Market Products under the Lodge and Launch Framework (the Guidelines) were first issued on 9 March 2015 to enable the industry to familiarise with the Lodge and Launch framework. This practice is in line with the current practice for the issuance of new guidelines. Based on the feedback received from the industry during the familiarisation period, relevant amendments have been made to the Guidelines. These Guidelines are effective on 15 June 2015.

### Will the Lodge and Launch framework be applicable to unlisted capital market products which have been approved, authorised or recognised under section 212 of the CMSA prior to the effective date of the Guidelines?

The Guidelines, particularly provisions relating to continuous obligations, will also be applicable to unlisted capital market products which have been approved, authorised, or recognised prior to the effective date of the Guidelines. However, the information and documents which have been submitted earlier to the SC need not be lodged for an unlisted capital market product which was approved, authorised or recognised prior to the effective date of the Guidelines, unless specified by the SC.

### Apart from the Guidelines, are there any other guidelines which are applicable to persons involved in the offering of unlisted capital market products?

Yes. The Guidelines are in addition to and not in derogation of any other guidelines issued by the SC or any requirements as provided for under securities laws. As such, persons licensed by the SC, who are involved in the offering of an unlisted capital market product, such as a wholesale fund for example, must still comply with the Licensing Handbook and the Guidelines on Compliance Function for Fund Management Companies.

### Do I need to follow in verbatim the wordings in Appendix A which provides for Responsibility Statement and Statement of Disclaimer under the Guidelines on Sales Practices of Unlisted Capital Market Products (Sales Practices Guidelines) in preparing a Product Highlights Sheet (PHS) for unlisted capital market products under the Lodge and Launch Framework?

As stated under paragraph 3.11 of the Sales Practices Guidelines, Appendix A is a guidance on the information that should be included in the PHS.

As such, the product issuer need not replicate in verbatim, so long as the scope set out under paragraph 3.09 of the Sales Practices Guidelines is complied with. For example, for unlisted capital market

products under the Lodge and Launch framework, the Statement of Disclaimer should make reference that the product has been lodged with the SC instead of using the term 'authorisation by the SC'.

### How is a lodgement for a wholesale fund, private debt securities (PDS), sukuk, structured product or asset-backed securities (ABS) made to the SC?

A lodgement must be made online via a system which will be available on the SC's website on the effective date of the Guidelines.

### When does a lodgement take effect?

The effective date of a lodgement is after the clearance of the fee payment due.

### What will happen to an application for an approval, authorisation or recognition of a wholesale fund, PDS, sukuk, structured product or an ABS that has been submitted on or before 14 June 2015, but that is still pending decision by the SC, upon the effective date of the Guidelines?

Such applications will continue to be assessed under the approval, authorisation or recognition regime.

### What are the applicable fees under the Lodge and Launch framework?

The relevant fees for the Lodge and Launch framework will be provided under the SC's Fees Regulations pertaining to the same.

### Is there a cut-off date for an application for an unlisted capital market product to be submitted manually prior to the effective date of the Guidelines?

The cut-off date for the manual submission of the application for an unlisted capital market product is 14 June 2015.

### What will happen to an application for an unlisted capital market product that has been submitted manually after 14 June 2015?

Any submission made manually after 14 June 2015 will not be accepted by the SC. Such application must come under the Lodge and Launch framework.

### What will happen if I fail to meet the submission and/or reporting timelines as set out in the Guidelines?

Failure to meet the submission and/or reporting timelines as set out in the Guidelines would tantamount to a breach of the Guidelines and result in an enforcement action being taken.

## SC RELEASES NEW GUIDELINES TO FACILITATE EQUITY CROWDFUNDING

The SC in February 2015 released the *Guidelines on Regulation of Markets* under Section 34 of the *Capital Markets and Services Act 2007* (CMSA) to introduce new requirements for the registration of equity crowdfunding (ECF) platforms and provide governance arrangement for the operator of such platforms.

The Guidelines require the operator's board of directors to be fit and proper and have the ability to operate an orderly, fair and transparent market. As the operator plays a critical role in ensuring confidence in the ECF platform, the Guidelines entrust the operator with obligations to ensure issuers' compliance with platform rules.

Under this framework, an eligible issuer can raise up to RM3 million within a 12-month period. Issuers will be able to tap on investments from retail, sophisticated as well as angel investors, subject to the investment limits as provided in the Guidelines.

ECF investors are given a 6-day cooling off period, within which they may withdraw the full amount of their investment. In addition, if there is any material adverse change relating to an issuer, the investors must be notified of such change. The investors will be given the option to withdraw their investment if they choose to do so within 14 days after the said notification.

In September 2014, SC released its public response paper on the proposed ECF framework having reviewed the comments and feedback received from various stakeholders on the proposed ECF framework.

ECF is a new form of fundraising that allows start-up or other smaller enterprises to obtain capital through small equity investments from relatively large numbers of investors, using online portals to publicise and facilitate such offers to crowd investors.

The *Guidelines on Regulation of Markets* under Section 34 of CMSA will replace the *Guidelines on Regulation of Markets* (issued in September 2007) and had been effective since 10 February 2015.

## SIX EQUITY CROWDFUNDING PLATFORMS REGISTERED

In June 2015, the SC announced the list of six registered equity crowdfunding platforms at the Synergy and Crowdfunding Forum (SCxSC) 2015, giving small businesses and entrepreneurs greater access to capital. The six platforms are Alix Global, Ata Plus, Crowdonomic, Eureeca, pitchIN and Propellar Crowd+. They are expected to start operations by end of 2015.

The SC first introduced the concept of equity crowdfunding as a channel for fundraising to the wider Malaysian public at the first SCxSC forum in September 2014. A call for registration to become ECF operators was released in February 2015. A total of 27 applications to operate an equity crowdfunding platform in Malaysia were received from a diverse group of interested parties, both foreign and domestic. The overwhelming response reflected the attractiveness and confidence from operators on the new fundraising framework.



From left: Daniel Goettfert of Alix Global, Sam Shafie of pitchIN, Datuk Ranjit Ajit Singh, Securities Commission Malaysia (SC) Chairman, Elaine Lockman from Ata Plus, Teh Kim Seng of Propellar Crowd+, Chris Thomas from Eureeca, and Leo Shimada from Crowdonomic.



## ACMF FACILITATES CROSS-BORDER FUNDRAISING AND INVESTMENTS

The ASEAN Capital Markets Forum (ACMF) announced in March 2015 that the SC, the Monetary Authority of Singapore (MAS), the Securities and Exchange Commission (SEC), Thailand and the Singapore Exchange (SGX) signed a memorandum of understanding (MoU) to establish a Streamlined Review Framework for the ASEAN Common Prospectus.

The signing ceremony was attended by senior ASEAN regulators and representatives from regional bodies. It was held in conjunction with the 22<sup>nd</sup> ACMF meeting in Kuala Lumpur hosted by the SC, the current Chair of ACMF.

The Streamlined Review Framework, an initiative under the ACMF Implementation Plan endorsed by the ASEAN Finance Ministers, will enhance ASEAN's attractiveness as a fundraising centre. Under the Framework, issuers planning to offer or list equity or plain debt securities can now expect a shorter time-to-market and faster access to capital across signatory countries through a streamlined review process.

The MoU signatories target to implement the Framework by the third quarter of 2015 with a handbook to be jointly issued. The handbook will provide guidance on the various administrative and procedural matters including the criteria for issues, the application procedures and the review timeline.

The ACMF meeting also announced the authorisation for five funds as Qualifying Collective Investment Schemes (CIS) under the ASEAN Framework for cross-border offering of CIS, which was implemented in August 2014. The five qualified funds were approved by the SC and MAS while the SEC Thailand is in the process of reviewing one fund application. These qualified funds are allowed to be offered to retail investors in the signatory countries including Malaysia, Singapore and Thailand.

As at 30 June 2015, 11 funds were approved as Qualifying Collective Investment Schemes (CIS) under the ASEAN Framework for Cross-Border Offering of CIS including two Islamic funds. These qualified funds are allowed to be offered to retail investors in the signatory countries including Malaysia, Singapore and Thailand.

The member countries also endorsed the ASEAN Capital Market Development Programme, aimed at extending mutual assistance to all markets within the region to facilitate individual and regional market development. This inclusive programme will be tailored to the needs of specific countries and aligned with the objectives of the ACMF in achieving greater regional interconnectivity.

The ACMF meeting has also approved the proposal to develop a five year Action Plan from 2016 to 2020. The ACMF Action Plan 2016-2020 will focus in ensuring seamless access to capital and investments within a connected regional market.

The ACMF was set up in 2004 to promote freer flow of capital and greater connectivity of ASEAN capital markets. Other key initiatives under ACMF include the ASEAN Trading Link among regional exchanges; the framework for Expedited Entry of Secondary Listings to allow for faster time-to-market for corporates seeking secondary listings; and the ASEAN Disclosure Standards to facilitate multi-jurisdiction offerings of equity and plain debt. The ACMF has also worked to profile ASEAN as an asset class through the ASEAN Corporate Governance Scorecard, which has elevated the visibility of well governed ASEAN PLCs to the international investing community.

More information on the ACMF Implementation Plan and the ASEAN Economic Community Blueprint 2015 can be found at the ACMF website [www.theacmf.org](http://www.theacmf.org) and [www.asean.org](http://www.asean.org).

## SEEKING SUSTAINABILITY: ROLE OF ISLAMIC FINANCE IN THE TRANSFORMATIONAL CHANGE<sup>1</sup>

Debate and discussion on the issue of sustainability have been a frequent agenda in various forums in recent years as the world continues to face widespread environmental degradation and inequitable distribution of wealth and resources. These issues have posed significant challenges for governments and policy makers in formulating economic and social development policies.

Some have argued that the global financial system, which is based on the free market economy and places consumerism as a primary measure for progress and prosperity, has failed. Further, this argument contends that the model of the current financial system has not only led to the collapse of financial markets but has also resulted in adverse social and environmental consequences as well as misallocation of resources due to the sole pursuit of profitability. These negative consequences include climatic imbalances leading to global warming as well as food and water shortages, and socio-economic issues such as child labour and persistent poverty.

According to the World Bank, 14.5% of the world's population in 2011 lived in poverty, defined as those with daily income of US\$1.25 or less. The distribution of the poor, by region, ranged from a high of 46.8% in Sub-Saharan Africa to a low of 0.5% in Europe and Central Asia. This substantial disparity among regions represents yet another challenge in addressing the issue of sustainable, equitable and inclusive global economic growth. In 2014, the numbers remain relatively unchanged with over one billion people worldwide still living in extreme poverty.

If the model of the current financial system is to be transformed to one that facilitates economic growth while ensuring sustainability, it is imperative for financial regulators and policy makers to devise strategies that achieve mutually reinforcing outcomes that fulfil both objectives. Nevertheless, in developing these strategies,

it is necessary to first identify and understand the challenges posed by current practices that act as a serious hindrance in achieving sustainability.

### Overreliance on debt

First, the overreliance on debt. The OECD states that “high debt levels can create vulnerabilities, which amplify and transmit macroeconomic and asset price shocks”. They also “hinder the ability of households and enterprises to smooth consumption and investment and of governments to cushion adverse shocks”. In the book *House of Debt*, an analysis of the recent recession in the US suggests that “the real cause of the post-crisis slump was not the damage to the banks, but the run-up in household debt that came before, which became an anchor on consumption when house prices subsequently collapsed”<sup>2</sup>.

The leveraging effect of debt exacerbates the negative impact on the financial markets and the economy during periods of downturn. Overreliance on debt will likely cause severe disruptions to the market as well as to socio-economic stability and should therefore be addressed if we are to strive towards greater sustainability in the financial system. The concern in respect of debt supports Islam's view that debt is strongly discouraged and that an equity-based model or contract is preferred as it is consistent with the *maqasid al Shariah* or objectives of Shariah.

Islam's abhorrence of debt is premised, among others, on the likelihood that access to debt may induce a person to spend beyond his means. It follows then that when a person spends in accordance with his level of wealth or income, the probability of being in financial distress is significantly mitigated and he is therefore able to sustain his lifestyle. By extension, this line of argument can be applied to the

<sup>1</sup> This article is extracted from the special address by HRH Sultan Nazrin Muizzuddin Shah, Sultan of the State of Perak Darul Ridzuan, Malaysia and Royal Patron for Malaysia's Islamic Finance Initiative, at the 6th SC–OCIS Roundtable, on 14 March 2015 at Ditchley Park, Oxfordshire, UK. The full speech is available at [www.rajanazrin.com](http://www.rajanazrin.com).

<sup>2</sup> “*House of Debt: How They (and You) caused the Great Recession and How We Can Prevent it from Happening again*”. A. Mian and A. Sufi, University of Chicago Press.

broader financial system. Furthermore, the risk-sharing element of an equity-based contract promotes a more equitable relationship between the contracting parties that collectively becomes a more sustainable arrangement.

### **Dominance of self-interest**

Second, the dominance of self-interest. The root cause of most of the recent financial crises is manifested in the steadfast attachment to self-interest which becomes the key driver of economic behaviour, with profit being the primary consideration of most decisions.

The management and governance of financial affairs should not be dominated by the parochial need to maximise financial returns and enhance shareholder value. Decisions on financial returns must also fulfil the obligation and responsibility to ensure that actions and outcomes do not threaten society, the environment and future generations.

Islam in fact views the management of the economy to be subservient to humankind and should be administered responsibly and prudently, under the concept of *khalifah* or human stewardship. Greed and exploitation could thus be avoided, and decisions would be guided by values that could reap rewards even into the distant future. As HRH Sultan Nazrin Muizzuddin Shah had posited during the speech at the Khazanah Megatrends Forum in Kuala Lumpur in 2014, "...if we accept the notion that we are trustees, rather than ultimate controllers, over the resources in existence today, and that we owe an implicit duty for preservation and prudence, then the ethos of sustainability should be at the heart of our pursuit of growth".

### **The lack of values-based leadership**

Third, the lack of values-based leadership. In view of short term, financial-linked key performance indicators, many business leaders traditionally view their role in instilling positive values within their organisations, at best, as secondary. For a few, this role may even be considered a distraction. A compromise on these business values is an inevitable result when profit maximization is clearly and singularly placed as the top priority in such organisations.

*“...if we accept the notion that we are trustees, rather than ultimate controllers, over the resources in existence today, and that we owe an implicit duty for preservation and prudence, then the ethos of sustainability should be at the heart of our pursuit of growth.”*

Complicating the relationship between business values and profits within an organisation is its management culture, which is essentially moulded by either rules-based or values-based considerations. Rules-based, being a legalistic orientation, typically leads to mere obedience to the letter of the law, and therefore may result in inattention towards achieving the public good, intentionally or otherwise.

On the other hand, a values-based approach prescribes to a set of ethical standards, moral principles as well as religious and cultural beliefs that propagate the need to take into consideration both the commercial and social outcomes of a decision. Values based leadership requires looking beyond rules and regulations in order to achieve the public good<sup>3</sup>.

Islamic finance incorporates within its structure the code of *akhlak* or ethics, as clearly spelt out in the Quran and Hadith. A Hadith related by Abu Said states that, “the truthful and trustworthy businessman will be in the company of Prophets, saints and martyrs on the Day of Judgement”. Values-based elements such as adherence to strong ethical and moral values therefore are already inherent in Islamic finance.

It is encouraging to note that an increasing number of commercial enterprises are now placing non-financial outcomes as an important part of the key performance

<sup>3</sup> Business Ethics Insight, Oct 12 2012, Michael Josephson.



indicators for management. As Bob McDonald, former Chairman, President and CEO of Procter & Gamble, said, “Companies must do well to do good and must do good to do well”.

### Transformational change for sustainability

The pursuit of profit has been prevalent since early civilisation. Lü Bu-wei, a Chinese Prime Minister in 246 BC under Emperor Ying Zheng, provided an interesting observation on this subject:

*“In making judgments, the Early Kings were perfect, because they made moral principles the starting point of all their undertakings and the root of everything that was beneficial. This principle, however, is something that persons of mediocre intellect never grasp. Not grasping it, they lack awareness, and lacking awareness, they pursue profit. But while they pursue profit, it is absolutely impossible for them to be certain of attaining it.”<sup>4</sup>*

– Lü Buwei 246 BC, Chinese Prime Minister under Emperor Ying Zheng

We are now living in an era where the crises we face arise, to a large extent, from the decline in values, morals and ethics that has consequently led to economic, social

and ecological imbalances. Islam emphasises that values such as equitability and the proper and efficient allocation of resources, and not merely financial returns, be central to any economic decision. Another Hadith refers to the prohibition on hoarding for the purpose of raising prices. It is through this proper recognition and adoption of values that the motion for sustainable development could and should be set.

Moving forward it is imperative to find long-term solutions that will drive both growth and sustainability by taking into consideration the well-being of society, economic prosperity and the environment. In other words, we should strive for solutions that address present needs without endangering the welfare of future generations. We should seek solutions that provide equitable outcomes without compromising ethical and moral values.

Islamic finance can and ought to offer a model that address these needs; where the fiduciary responsibility of institutions includes their role as *khalifah*; where risks and returns are shared equitably; and where a key objective is achieving the public good. Not only are values incorporated into the decision-making process but social and developmental objectives are also being advocated. The ability of Islamic finance to meet international prudential standards and investor protection expectations is also a crucial and compelling factor to institutionalise it into the transformational change of the global financial industry.

<sup>4</sup> The Annals of Lü Bu-wei, Lu Shi Chun Qiu.

## INNOVATION IN THE SUKUK MARKET: RECENT REGULATORY AND MARKET INITIATIVES<sup>1</sup>

The global sukuk market has continued to see significant growth over the last few years. As at end of 2014, the size of sukuk outstanding US\$301 billion globally, with Malaysia making up 57% of the total market. The market has grown at a CGAR of almost 20% over the last five years. According to KFH Research, total sukuk issuance reached US\$18.8 billion in 2014 last year, just slightly lower than the record in 2013, which was US\$119.7 billion.

The decline in oil prices and concerns on the exchange rate volatility in emerging markets has to a certain extent dampened the sukuk market in 2015. Global sukuk issuances for the first quarter of 2015 declined to US\$18.7 billion from US\$24.2 billion in the fourth quarter of 2014.

Malaysia's ICM has maintained its growth trajectory, growing at an annualised growth rate of 12% over the last five years. The ICM size reached RM1.64 trillion as at end of April 2015 as compared to RM1.59 trillion as at end of 2014. Malaysia remained the world's largest sukuk issuer, accounting for 66% of global issuances. Islamic assets under management stood at RM116.2 billion representing 17.6% of all assets under management. Of this figure, RM49.1 billion is in Shariah-compliant unit trust funds. In part, growth on the ICM has been characterised, driven and supported by innovation.

In the conventional financial markets, its innovation is typically driven by the market. Policy makers and regulators will only step in and take a more interventionist role when the innovation in the market causes harm to investors, threatens the fair and orderly operation of the market, or poses systemic risks. Many examples of this can be seen in many parts of the world, especially after the global financial crisis.

In the Islamic financial services industry, more specifically the ICM, nevertheless, policy makers and regulators have a significant role in developing the market and facilitating

innovation. There are several factors for this. Firstly, the Islamic market is still in a state of relative infancy, unlike the conventional market. Secondly, facilitating growth and innovation in the ICM often involves complexities such as regulatory, legal, tax and Shariah aspects that cannot be resolved by the industry alone.

Over the last decade, the sukuk market globally has seen a commendable degree of innovation as it continues to gain traction in existing markets and expanding to new markets. This is driven firstly by the need to keep pace with the level of sophistication in the global financial market, to ensure that sukuk remains viable, relevant, and competitive and continues to meet the commercial demands of issuers and investors.

*“In the Islamic financial services industry, more specifically the ICM, nevertheless, policy makers and regulators have a significant role in developing the market and facilitating innovation.”*

Moreover, innovation in sukuk is driven by the growing calls for Islamic finance to embrace the true objectives of Shariah (*maqasid al-Shariah*), to ensure that the core values embedded in the *maqasid al-Shariah* are reflected in such products. This includes incorporating sustainable values towards the environment and society by ensuring Islamic finance incorporate environment, social and governance (ESG) principles and are accessible to a larger segment of society.

<sup>1</sup> This article is extracted from the keynote address delivered by Dato Dr Nik Ramlah Mahmood, SC Deputy Chief Executive, at the London Sukuk Summit 2015, on 3 June 2015.

Yet another driver of innovation in the sukuk market is the desire to ensure the link to the real sector especially through wider use of risk-sharing structures. Financing that is linked to the real sector allows Islamic finance to be differentiated from conventional finance and more appealing to investors.

The SC plays a pivotal role in driving the development of the ICM in Malaysia. More recently, the SC has played a pivotal role in driving innovation in the sukuk market through the introduction of sustainable and responsible investment (SRI) Sukuk.

The *Capital Market Masterplan 2* (CMP2 from 2011 to 2020) first identified the importance of sustainability and responsibility and recognised that the role of the capital market can be expanded to support this agenda by providing market-based solutions that will bring scale and financial discipline and mobilise investments to companies, projects and products that promote sustainable development. It is recognised that socially responsible investments are gaining traction and that increasingly investors are favouring investments in companies that value ethical practices, governance and sustainability. It is also recognised that there are significant areas of convergence between ethical finance and Islamic finance.

As such, in August 2014 the SC, working closely with industry experts and our Shariah Advisory Council (SAC), introduced a new chapter in the issuance of SRI Sukuk within the existing *Sukuk Guidelines* to facilitate the financing of sustainable and responsible investment initiatives. The introduction of a framework for SRI Sukuk is intended to address shifts in investor demographics, growing concerns over environmental and social impact of business and stronger demand from the marketplace for governance and ethical conduct. It also seeks to meet the demand of both retail and institutional investors for access to a wider range of investment products and to facilitate greater participation in the sukuk market.

Based on the guidelines, the SRI Sukuk issuer must ensure that proceeds from such sukuk issuance are utilised for the purpose of funding eligible SRI projects. These are projects for the preservation and protection of the environment and natural resources; conservation of energy; promoting the use of renewable energy; reducing greenhouse gas emission and improving the quality of life for society. The guidelines further identify the

*“The SAC of the SC played a significant part in facilitating and supporting Shariah innovation. The very fact that the guidelines expressly allow the proceeds from the issuance of an SRI Sukuk to be channeled towards developing waqf (endowment) assets reflects the foresight and wisdom of the SAC in linking SRI with socially oriented agenda benefiting the society at large.”*

type of projects under each of the above category. The issuer is obligated to ensure that the prospectus or disclosure document include details of the eligible SRI project and a statement that the issuer has complied with the relevant environmental, social and governance standards or recognised best practices relating to the eligible SRI project. Where the sukuk is to be offered to retail investors, an independent party must be appointed to undertake an assessment of the eligible SRI project. The report by the independent party must be disclosed in the offering documents.

The issuer is also required to provide annual reporting via newsletters, website, updates, annual report or any other communication channels to investors. Information disclosure through these channels includes the amount earmarked for SRI project; amount utilised and unutilised and project effectiveness and outcomes.

The Shariah aspects of the SRI Sukuk guidelines were carefully crafted so as to ensure the universality of its application. The SAC of the SC played a significant part in facilitating and supporting Shariah innovation. The very fact that the guidelines expressly allow the proceeds from



the issuance of an SRI Sukuk to be channeled towards developing *waqf* (endowment) assets reflects the foresight and wisdom of the SAC in linking SRI with socially oriented agenda benefiting the society at large.

Mere guidelines without actual issuance will not bring about innovation in the sukuk market. It is thus most heartening to note that in May 2015, Khazanah Nasional Bhd announced a RM1 billion Sukuk Ihsan Programme as the first social impact sukuk in Malaysia. The structure of the sukuk is based on the principle of *wakalah bi al-istithmar*. Khazanah Nasional will use the proceeds to fund up to 20 selected government schools under Trust Schools Programme, with clear key outcomes that are linked to SRI-based on voluntary 'step-down yield' mechanism with the sole aim of enhancing the quality of government-run schools. If at maturity, a pre-determined set of KPIs are met, sukukholders will forego a pre-agreed percentage of the nominal amount due to them as part of their social obligation in recognising the positive social impact generated by the programme. In fact, the first tranche of RM100 million was expected to be issued on 3 June 2015, thus, the specifics of the profile of investors and other details on the Khazanah SRI sukuk could be obtained very soon.

A similar sukuk, albeit not under Malaysia's SRI Sukuk framework, was issued last year by the World Bank through the International Finance Facility for Immunisation (IFFIm), raising US\$500 million via a floating rate commodity murabahah structure to accelerate the availability of funds for immunisation programmes and health system strengthening by Gavi, the Vaccine Alliance. It was the first charity-driven sukuk in the ICMs and provides institutional investors with an SRI that will help protect tens of millions of children against preventable diseases.

While the SRI Sukuk is a significant development, as it is a top-down initiative initiated and facilitated by the

regulators, it must be recognised that in Malaysia as in other markets, there are other recent innovations in the sukuk market that were driven by the market.

For instance, Malaysia Building Society Bhd was the first issuer of a RM3 billion Structured Covered Sukuk Commodity Murabahah Programme. The sukuk in this case is supported by a portfolio of securitised assets and the sukukholders have dual recourse, first to the issuer (when solvent), and then to a pool of securitised assets (upon the issuer's default) and in the process enhances the credit quality of the issuer and attracts lower cost of funding.

Basel III compliant sukuk is yet another innovation by the market. Four Malaysian banks issued such sukuk, following the first issuance in 2012 by Abu Dhabi Islamic Bank of Basel III Compliant Perpetual Sukuk Mudharabah worth US\$1 billion.

Although exchangeable sukuk have been around since 2006 (when Khazanah issued the first such sukuk exchangeable into Telekom Malaysia shares), innovation in this space continues. Last year, Khazanah Nasional successfully auctioned a US\$500 million exchangeable sukuk. Said to be a novel structure, the sukuk is the first exchangeable sukuk based on the combined Islamic principles of *mudarabah* and *murabahah*.

As the sukuk market gains greater traction in the global financial market, more innovative products will be introduced either initiated by the market, by policy makers and regulators or by Shariah scholars and researchers. In Malaysia, the SC will roll-out the Lodge and Launch approval regime. This will allow wholesale products to be offered to sophisticated investors immediately after the lodgement of relevant documents. By 2017, the mandatory requirement for credit rating for bonds or sukuk will be removed. It is expected that these initiatives to further spur innovation in the capital market, including the sukuk market.

# MALAYSIA: A GLOBAL CENTRE FOR ISLAMIC WEALTH MANAGEMENT<sup>1</sup>

Islamic wealth management encompasses all customer segments, as it benefits those seeking to preserve and enhance their wealth within the Shariah framework as well as investors pursuing an ethical perspective to managing wealth. Islamic wealth management offers a myriad of financial solutions that can range from conservative investments to more aggressive plans for capital growth. These solutions focus on not only the accumulation and preservation of wealth, but also its redistribution, with tax-favoured treatments for long-term investments and platforms for intergenerational wealth transfer.

In 2014, the size of the global Islamic AUM stood at approximately US\$73 billion. The market was led by Saudi Arabia and Malaysia, which together held more than 62% of Islamic AUM.

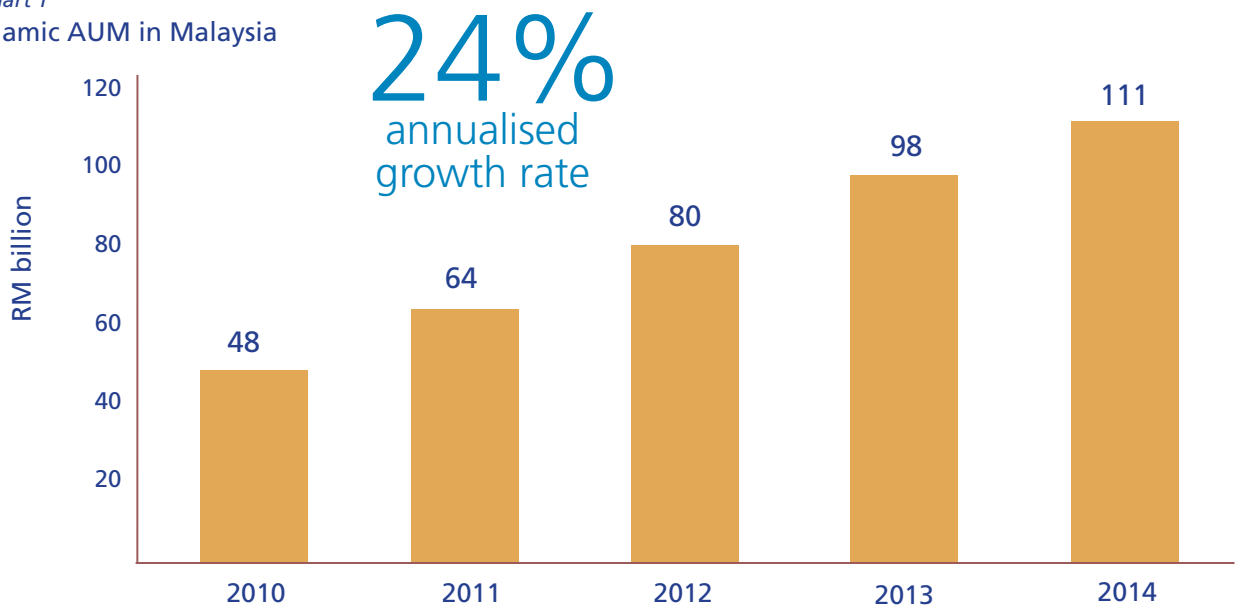
In Malaysia, Islamic AUM has registered a 24% annualised growth rate over the last five years. The significant growth of the Islamic fund management industry in the country reflects the growing preference for Shariah-compliant investments among both retail and institutional investors. The industry has benefitted from a comprehensive

ecosystem, comprising a facilitative Shariah, regulatory and governance framework, wide range of Shariah-compliant assets as well as diverse selection of fund managers and other service providers.

Looking ahead, the development of Islamic wealth management industry globally is expected to catalyse further growth of Islamic fund management activities. Global private financial wealth is projected to increase from US\$152 trillion in 2013 to US\$198 trillion in 2018<sup>2</sup>, an annualised growth rate of 5.4% over the five-year period. Asia Pacific ex Japan, home to majority of the Muslim population, will be the main growth driver as the size of wealth in the region is expected to expand by US\$24 trillion, accounting for 52% of the total projected global increase. This is attributed to the expectation of continued strong Gross Domestic Product growth and high savings rate in developing economies that are expanding rapidly<sup>3</sup>.

Malaysia, with its well-developed Islamic fund management industry, is poised to capitalise on the opportunities arising from the projected growth in private wealth and

Chart 1  
Islamic AUM in Malaysia



Source: SC

<sup>1</sup> This article is extracted from the SC Annual Report 2014.  
<sup>2</sup> The Boston Consulting Group – Global Wealth 2014 “Riding A Wave Of Growth”.  
<sup>3</sup> Ibid.

## FEATURES

strengthen its competitive positioning in the global Islamic fund and wealth management space. There will be continued emphasis on strengthening the ecosystem with due focus on enhancing scale and strengthening market infrastructure.

Malaysia offers breadth and depth in terms of the availability of Islamic assets and securities. These include Shariah-compliant equities, sukuk and Islamic money market which facilitate the establishment of Islamic collective investment schemes as well as the creation of structured products to meet the diverse return requirements and risk profiles of different groups of individual and institutional investors. This is further supported by active product innovation and development by market players.

Several measures have been implemented in recent years specifically aimed at spurring further growth and internationalisation of Malaysia's Islamic fund management industry. This includes the issuance of licences to operate Islamic fund management businesses by the SC, with allowance to invest their entire AUM abroad. There are

presently 20 licensed Islamic fund management companies operating in the country, out of which 10 are foreign-owned, eight are locally-owned and two are local-foreign joint ventures.

Initiatives to establish and strengthen bilateral and multilateral arrangements for cross border offering of Islamic funds are ongoing with a view to promoting further expansion of markets, thereby providing new opportunities for Islamic fund and wealth managers to grow their business. The government has also accorded tax exemption until 2016 for all fund management companies on fees derived from the management of Shariah-compliant investment mandates, including Islamic real estate investment trusts and Islamic business trusts.

Leveraging on our strong base in the Islamic funds industry, we will continue to strengthen the ecosystem to promote market vibrancy, pave the way for further growth and support greater internationalisation, establishing Malaysia as the global marketplace for Islamic fund and wealth management.

## NEWS ROUND-UP

### 12th Islamic Capital Market Graduate Training Scheme

The 12th Islamic Capital Market Graduate Training Scheme (ICMGTS) commenced on 14 May 2015 and ended on 10 July 2015. This eight-week programme saw the participation of 39 graduates from both local and foreign universities. The ICMGTS is designed for graduates with the objective of transforming them into forward-thinking ICM professionals by acquiring sound technical knowledge and good communication skills to enter the industry. They underwent training on five technical ICM modules and five soft skills modules. Since its inaugural intake in 2009, the ICMGTS programme has produced more than 400 graduates. Of this, about 85% have been employed in the industry.

### Stakeholders Engagement

During the first half of 2015, the SC representatives participated as speakers in the following events organised by various organisations to support a sustainable development and growth of Islamic finance particularly the ICM:

- International Islamic Banking & Finance Law (IIBFL) Conference , 4–5 February (Kuala Lumpur, Malaysia)
- Malaysia Financial Planning Council (MFPC) 2nd Conference on Islamic Wealth Management & Financial Planning, 26 March (Kuala Lumpur, Malaysia)
- Workshop – Legal Documentation for Sukuk & Islamic Funds, 14–15 April (Kuala Lumpur, Malaysia)
- Islamic Wealth Management Symposium, 28 April (Kuala Lumpur, Malaysia)
- 5th ISRA-IRTI-Durham University Strategic Roundtable Discussion, 29–30 April (Kuala Lumpur, Malaysia)
- Seminar – Sukuk and Securitization, 26 May (Kuala Lumpur, Malaysia)
- Bengkel Pemeraksanaan Tanah Wakaf, 1–3 June (Johor Bharu, Malaysia)
- IIFM Industry Seminar on Islamic Financial Markets, 2 June (Singapore)

## MALAYSIAN ICM – FACTS AND FIGURES

## Shariah-compliant securities on Bursa Malaysia

|  | Jun 2015 | Jun 2014 |
|--|----------|----------|
| Number of Shariah-compliant securities     | 674      | 666      |
| Total listed securities                    | 905      | 906      |
| % to total listed securities               | 74.5%    | 73.5%    |
| <b>Market capitalisation (RM billion):</b> |          |          |
| Shariah-compliant securities               | 1,022.63 | 1,087.91 |
| Total market capitalisation                | 1,659.02 | 1,770.42 |
| % to total market capitalisation           | 61.6%    | 61.4%    |

Source: SC

## Equity market indices

| Equity market indices   | 30 Jun 2015 | 30 Jun 2014 | % change |
|-------------------------|-------------|-------------|----------|
| FBM KLCI                | 1,706.64    | 1,882.71    | -9.4%    |
| FBM EMAS Shariah        | 12,208.85   | 13,387.34   | -8.8%    |
| FBM Hijrah Shariah      | 13,797.60   | 14,718.65   | -6.3%    |
| DJIM Malaysia Titans 25 | 965.82      | 1,064.82    | -9.3%    |

Source: SC

## Sukuk

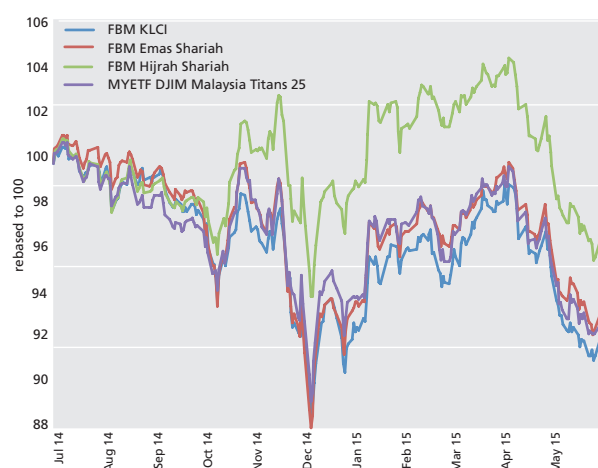
| Corporate sukuk approved                          | H1 2015         | H1 2014         |
|---|-----------------|-----------------|
| Number of sukuk                                   | 16              | 17              |
| Size of sukuk (RM billion)*                       | 31.76           | 21.69           |
| Size of total bonds approved (RM billion)         | 46.99           | 35.39           |
| % of size of sukuk to total bonds approved        | 67.6%           | 61.3%           |
| <b>Total sukuk issued (RM billion)</b>            | <b>H1 2015</b>  | <b>H1 2014</b>  |
| Size of sukuk issued                              | 58.98           | 135.90          |
| Size of total bonds issued                        | 111.32          | 236.70          |
| % of sukuk issued to total bonds issued           | 53.0%           | 57.4%           |
| <b>Total sukuk outstanding (RM billion)</b>       | <b>Jun 2015</b> | <b>Jun 2014</b> |
| Size of outstanding sukuk                         | 580.71          | 544.60          |
| Size of total outstanding bonds                   | 1,081.73        | 1,058.90        |
| % of outstanding sukuk to total outstanding bonds | 53.7%           | 51.4%           |

\* Including combined issuances amounting RM8.5 billion

Source: SC

Chart 1

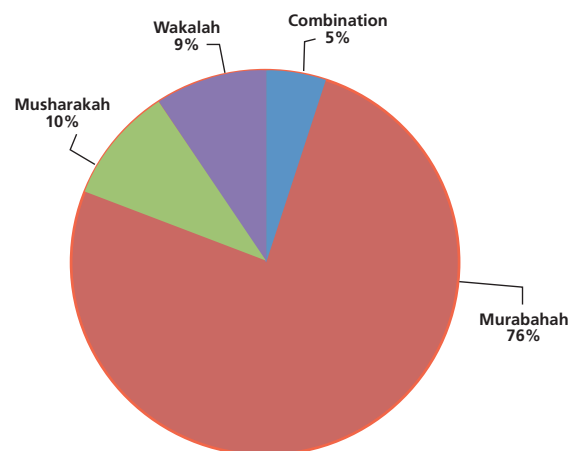
## KLCI &amp; Shariah Index 1 Year Performance



Source: SC

Chart 2

## Size of corporate sukuk approved based on Shariah principle in H1 2015



Source: SC



### Sukuk listing on LFX as at 30 June 2015

| No. | Issuer name  | Listing date |
|-----|--|--------------|
| 1.  | 1Malaysia Sukuk Global Bhd – US\$1.25 billion due 2015                           | 08-Jun-10    |
| 2.  | Danga Capital Bhd – SG\$600 million Trust Certificates due 2015                  | 12-Aug-10    |
| 3.  | Danga Capital Bhd – SG\$900 million Trust Certificates due 2020                  | 12-Aug-10    |
| 4.  | Wakala Global Sukuk Bhd – US\$1.2 billion due 2016                               | 07-Jul-11    |
| 5.  | Wakala Global Sukuk Bhd – US\$800 million due 2021                               | 07-Jul-11    |
| 6.  | Indah Capital Limited – SG\$600 million Exchangeable Trust Certificates due 2019 | 25-Oct-13    |
| 7.  | Exim Sukuk Malaysia Bhd – US\$300 million Multi-currency Senior Sukuk due 2019   | 20-Feb-14    |
| 8.  | Cahaya Capital Limited – US\$500 million Multi-currency Senior Sukuk due 2021    | 19-Sep-14    |
| 9.  | PETRONAS Global Sukuk Ltd – US\$1.25 billion Trust Certificates due 2020         | 19-Mar-15    |
| 10. | Malaysia Sovereign Sukuk Bhd – US\$1 billion Trust Certificates due 2025         | 23-Apr-15    |
| 11. | Malaysia Sovereign Sukuk Bhd – US\$500 million Trust Certificates due 2045       | 23-Apr-15    |

Source: Labuan International Financial Exchange (LFX)

### Islamic assets under management (AUM)

| (RM billion)                            | Jun 2015 | Jun 2014 |
|---|----------|----------|
| Islamic AUM of FMCs                     | 117.40   | 105.20   |
| Total fund management industry          | 657.40   | 628.40   |
| % Islamic AUM of FMCs to total industry | 17.9%    | 16.7%    |

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

Source: SC

### List of companies offering Islamic stockbroking services as at 30 June 2015

| 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.  | Maybank Investment Bank Bhd     | Window       |

Source: Bursa Malaysia

### Sukuk Listing under Bursa Malaysia's Exempt Regime as at 30 June 2015

| No. | Issuer name                   | Description  |
|-----|-------------------------------|--|
| 1.  | 1Malaysia Sukuk Global Bhd    | US\$1.25 billion Trust Certificates  |
| 2.  | AmlIslamic Bank Bhd           | RM3 billion Senior Sukuk Musharakah Programme<br>RM2 billion Subordinated Sukuk Musharakah<br>RM3 billion Subordinated Sukuk Murabahah Programme |
| 3.  | Axiata SPV2 Bhd               | US\$1.5 billion Multi-currency Sukuk Issuance Programme  |
| 4.  | Cagamas MBS Bhd               | RM2.05 billion Sukuk Musharakah 2005<br>RM2.11 billion Sukuk Musharakah 2007   |
| 5.  | Cahaya Capital Limited        | US\$500 million Exchangeable Trust Certificate   |
| 6.  | CIMB Islamic Bank Bhd         | RM2 billion Junior Sukuk Programme   |
| 7.  | Danga Capital Bhd             | RM10 billion Multi-currency Islamic Securities Programme   |
| 8.  | GE Capital Sukuk Limited      | US\$500 million Trust Certificate  |
| 9.  | Hong Kong Sukuk 2014 Limited  | US\$1 billion Trust Certificate due 2019   |
| 10. | Hong Kong Sukuk 2015 Limited  | US\$1 billion Trust Certificate due 2020   |
| 11. | IDB Trust Services Limited    | US\$10 billion Trust Certificate   |
| 12. | Indah Capital Limited         | SG\$600 million Exchangeable Trust Certificate   |
| 13. | Khazanah Nasional Bhd         | RM20 billion Sukuk Musharakah Programme  |
| 14. | Malaysia Airports Capital Bhd | RM1 billion Islamic Medium Term Notes Programme  |
| 15. | Malaysia Sovereign Sukuk Bhd  | US\$1 billion Trust Certificate due 2025<br>US\$500 million Trust Certificate due 2045   |
| 16. | Petronas Global Sukuk Limited | US\$1.25 billion Trust Certificate   |
| 17. | Sime Darby Bhd                | RM4.5 billion Islamic Programme  |
| 18. | Sime Darby Global Bhd         | US\$1.5 billion Multi-currency Sukuk Programme   |
| 19. | Tadamun Services Bhd          | RM1 billion Trust Certificate  |
| 20. | Wakala Global Sukuk Bhd       | US\$2 billion Trust Certificate  |

Source: Bursa Malaysia

### Number of launched funds

| Unit trust fund (UTF)           | Jun 2015 | Jun 2014 |
|---------------------------------|----------|----------|
| Islamic UTF                     | 190      | 185      |
| Total industry                  | 614      | 601      |
| NAV Islamic UTF (RM billion)    | 48.99    | 45.27    |
| NAV Total industry (RM billion) | 355.72   | 354.26   |
| % to total industry             | 13.8%    | 12.8%    |

| Wholesale Funds (WF)            | Jun 2015 | Jun 2014 |
|---------------------------------|----------|----------|
| Islamic WF                      | 76       | 64       |
| Total industry                  | 255      | 217      |
| NAV Islamic WF (RM billion)     | 23.48    | 17.75    |
| NAV Total industry (RM billion) | 75.03    | 65.72    |
| % to total industry             | 31.3%    | 27.0%    |

| Private Retirement Scheme (PRS) | Jun 2015 | Jun 2014 |
|---------------------------------|----------|----------|
| Islamic PRS                     | 18       | 17       |
| Total industry                  | 46       | 44       |
| NAV Islamic PRS (RM million)    | 258.10   | 122.37   |
| NAV Total industry (RM million) | 898.70   | 417.87   |
| % to total industry             | 28.7%    | 29.3%    |

| Exchange-traded funds (ETF)            | Jun 2015 | Jun 2014 |
|--|----------|----------|
| Islamic ETF                            | 3        | 2        |
| Total industry                         | 7        | 6        |
| Market Cap Islamic ETF (RM billion)    | 0.32     | 0.32     |
| Market Cap Total industry (RM billion) | 1.06     | 1.03     |
| % to total industry                    | 30.2%    | 31.5%    |

| Real estate investment trusts (REIT)   | Jun 2015 | Jun 2014 |
|--|----------|----------|
| Islamic REIT*                          | 3        | 3        |
| Total industry                         | 16       | 16       |
| Market Cap Islamic REIT (RM billion)   | 15.35    | 14.30    |
| Market Cap Total industry (RM billion) | 36.46    | 34.10    |
| % to total industry                    | 42.1%    | 41.9%    |

\* Including 1 stapled securities (equity + REIT)

Source: SC

### List of Islamic Fund Managers as at 30 June 2015

| No. | Company   |
|-----|---|
| 1.  | Aberdeen Islamic Asset Management Sdn Bhd               |
| 2.  | AmlIslamic 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



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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:

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