



# malaysian ICM



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

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## DRIVING SUSTAINABLE INVESTMENTS THROUGH GREEN SUKUK

Incorporating sustainable development goals have become the leading agenda for most global financial jurisdictions to inculcate value into investments. As presented in the *Capital Market Masterplan 2 (CMP2)* launched in 2011, the Securities Commission Malaysia (SC) has consistently been a strong proponent of long-term value creation and the sustainability agenda. The CMP2 outlines strategies to expand the role of the capital market which includes promoting socially responsible financing and investment as part of capital formation.

With the shifts in investor demographics, there are growing concerns over environmental and social impact of the business, requiring greater demand for stronger governance and ethics. These developments reinforce the SC's push for sustainable and responsible investment (SRI) with green financing identified as a potential growth area. With the rising trend of green bonds and social impact bonds that have been introduced globally to facilitate and promote SRI, green sukuk has emerged as a crucial component of Islamic finance towards a greener economy, making waves in both the green sector and sukuk market.

The launch of the world's first green sukuk by Malaysia marks another significant milestone in product innovation that strengthens Malaysia's position as a leading Islamic

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finance marketplace as well as its value proposition as a centre for sustainable finance. The first green sukuk is the result of the collaboration between the SC, Bank Negara Malaysia and the World Bank Group. This effort is aimed at developing an ecosystem that will facilitate the growth of green sukuk, and introduce innovative financial instruments to accommodate global infrastructure needs and green financing under the SC's SRI Sukuk framework.

Malaysia's experience in facilitating the green sukuk issuance by developing the necessary framework and ecosystem, for an enabling green sukuk market is set to become a model in bridging Islamic finance with SRI and the green industry. To complement the SRI Sukuk framework and promote greater utilisation of green sukuk as a fundraising channel, several tax incentives were introduced to attract green issuers. To be eligible for tax deductions under SRI Sukuk incentives, issuers utilising the SRI Sukuk framework towards green projects must ensure that proceeds raised are used to fund

SRI projects in the eligible sectors. In addition, the SC established a RM6 million Green SRI Sukuk Grant Scheme to incentivise the issuers to seek green certification by offsetting external review costs.

The SC's efforts to establish Malaysia as a leader in green sukuk market has resulted in three green sukuk issuances in 2017 for sustainable solar and building projects. These sukuk issuances have resulted in the world's largest corporate green sukuk to date and the first sukuk under the ASEAN Green Bond Standards (AGBS).

The development of the green sukuk market is viewed as timely and progressive given there is an increasing awareness and demand for green projects globally, which can only bode well for the future of green sukuk. With Islamic finance being commercially accepted and successful in certain jurisdiction, it is only natural for the next phase in Islamic capital market to incorporate the elements of green in its financing.

## SHARIAH ADVISORY COUNCIL RESOLUTIONS

The Shariah Advisory Council (SAC) plays a key role in the development of Islamic capital market (ICM) in Malaysia especially in facilitating innovation and ensuring a robust Shariah governance process. The SAC provides greater consistency and clarity for all issues arising from the structuring of ICM products. As at to date, among the ICM products that continues to develop and attract the interest of investors and issuers is sukuk. There are avenues for innovation in structuring sukuk where various Shariah principles and concepts may be applied based on the applicable structures adopted by the sukuk issuer. In this regard, the SAC continues to play its significant role in deliberating various Shariah issues relating to sukuk structuring. The following are several key resolutions relating to sukuk that were resolved:

### 1. QALB AL-DAYN IN SUKUK RESTRUCTURING

In general, *qalb al-dayn* refers to the conversion of an existing debt into a new debt and it can occur in the following situations:

- (i) Restructuring of debt or amount payable via an extension of the payment period which results in an increase of the original amount payable without terminating the existing contract; or
- (ii) Restructuring of debt or amount payable via termination of the existing contract and entering into a new contract with a new amount payable and an extended payment period.

Based on the two situations above, question arose whether *qalb al-dayn* in the restructuring of sukuk is permissible or not in the eye of Shariah.

The SAC had resolved that *qalb al-dayn* in the sukuk restructuring is permissible subject to the following conditions:

- (i) Execution of a new contract where it creates a new payment obligation and a revised payment period;

- (ii) Proceeds from the new contract may be used to pay the original outstanding debt which consequently results in the termination of the existing contract; and
- (iii) The debtor is categorised as *musir* (solvent) as determined by the sukuk trustee or the sukukholders.

### 2. ISSUANCE OF SUKUK MURABAHAH BEFORE THE EXECUTION OF COMMODITY MURABAHAH TRANSACTION

A sukuk structure based on the principle of *murabahah* (via *tawarruq* mechanism) was presented to the SAC. In the structure, the sukuk was issued based on the existence of the purchase order of commodity which was given by the sukuk issuer to the investors or its agent although the commodity *murabahah* transaction has yet to be executed. In the purchase order, the sukuk issuer promised to purchase the commodity from the investors or its agent at sale price (i.e. sale price with profit margin as agreed by the contracting parties) on deferred payment basis.

Based on the structure above, question arose whether Shariah permits or not, if the sukuk *murabahah* is issued based on purchase order although the commodity *murabahah* transaction has yet to take place.

The SAC had resolved that sukuk *murabahah* (via *tawarruq* mechanism) which is issued before commodity *murabahah* transaction occurs is permissible. This is due to the existence of the purchase order from the sukuk issuer to the investors or its agent based on *wa'd mulzim* (a unilaterally binding promise) and there is an element of certainty whereby all transactions which are managed by Bursa *Suq al-Sila`* occurs on the same day.

The SAC had also specified several conditions required to be disclosed in the documents for such sukuk structuring as follows:

- (i) *Wa`d* that is applied in the sukuk structure shall be *wa`d mulzim* on the sukuk issuer; and
- (ii) The sukuk cannot be traded on the secondary market until the commodity *murabahah* transaction is completed.

### 3. FLOATING PROFIT RATE AND COMBINATION OF FIXED AND FLOATING PROFIT RATES MECHANISMS IN SUKUK STRUCTURING BASED ON `UQUD MU`AWADHAT

Sukuk structuring based on *`uqud mu`awadhat* (contracts of exchange) such as *bai` bithaman ajil* (BBA), *murabahah* and *istisna`*,<sup>1</sup> the accepted profit rate by the investors are usually based on fixed rate which is agreed between the investors and sukuk issuer. However, from a Shariah perspective, question arose whether it is acceptable

or not, to structure sukuk using floating profit rate only or combination of fixed and floating profit rates mechanisms.

The SAC had resolved that floating profit rate and combination of fixed and floating profit rate mechanisms are permissible to be applied in sukuk structuring based on *`uqud mu`awadhat* such as BBA, *murabahah* and *istisna`*. The implementation of these two mechanisms is based on the principle of *ibra`*.

The SAC had also resolved that the sukuk issuer should state the following matters in relevant documents:

- (i) Floating profit rate or combination of floating and fixed profit rates mechanism that is used in sukuk structuring; and
- (ii) Clauses and formula on *ibra`*.

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<sup>1</sup> This resolution is not applicable for *ijarah* contract as resolutions pertaining to such contract are made separately.

## MALAYSIA'S GREEN SUKUK UNDER THE SC'S SUSTAINABLE AND RESPONSIBLE INVESTMENT SUKUK FRAMEWORK

With the SC's Sustainable and Responsible Investment (SRI) Sukuk framework gaining recognition in the market, green finance has also made its way into the market. Green finance covers the financing of investments that would generate environmental benefits as part of their project strategies to achieve sustainable development for the future. These environmental benefits include reducing all types of pollution and greenhouse gas emission, improving energy efficiency such as wind energy as well as taking measures to mitigate climate change.

The characteristics of green bonds or the structure of how they are formed are similar to conventional or standard bonds. The key difference of a green bond is that it looks at the impact it brings to the environment particularly any negative impact on climate change.

In 2014, the SC launched the SRI Sukuk framework to facilitate the financing of sustainable and responsible investment initiatives. These initiatives relate to SRI projects encompassing natural resources, renewable

energy and energy efficiency, community and economic development and *waqf* properties/assets. The framework forms part of the SC's developmental agenda to facilitate the creation of an ecosystem conducive for SRI investors and issuers which is aligned to the rising trend of green and social impact bonds/sukuk that have been introduced globally to promote sustainable and responsible investing.

The development of the SRI reinforces the SC's push for sustainable financing with green financing identified as a potential growth area by the SC. Green sukuk is issued under the SC's SRI Sukuk framework, which is aligned to the International Capital Market Association's Green Bond Principles – an internationally accepted and widely used standard for the development of national green bond guidelines.

By end of 2017, there were three green SRI sukuk issued in Malaysia totaling RM3.25 billion to finance solar projects and green buildings which are detailed in Table 1.

Table 1

### Green SRI sukuk issuances as at December 2017

| No. | Issuer                                   | Facility name                           | Size (million) | Adviser                         | Issue date       | Utilisation of proceeds   |
|-----|--|---|----------------|---------------------------------|------------------|---|
| 1.  | Tadau Energy Sdn Bhd                     | Green SRI Sukuk Programme               | Up to RM250    | Affin Hwang Investment Bank Bhd | 27 July 2017     | To part finance for a large scale solar project                                     |
| 2.  | Quantum Solar Park (Semenanjung) Sdn Bhd | Green SRI Sukuk                         | Up to RM1,000  | CIMB Investment Bank Bhd        | 6 October 2017   | To construct three 50-megawatt (MW) solar photovoltaic (PV) power plants            |
| 3.  | PNB Merdeka Ventures Sdn Bhd             | Merdeka ASEAN Green SRI Sukuk Programme | Up to RM2,000  | MIDF Amanah Investment Bank Bhd | 29 December 2017 | To fund an 83-storey office space, forming part of the Merdeka PNB118 tower project |

**(a) Tadau Energy Green SRI Sukuk Programme**

In July 2017, Malaysia made its stand on green financing and the global sukuk market with the issuance of the world's first green sukuk by Tadau Energy Sdn Bhd (Tadau Energy) under the SC's SRI Sukuk framework. Tadau Energy is a renewable energy and sustainable technology investment firm providing venture and growth capital across the renewable energy industry to support innovative, well-managed and rapidly-growing companies.

A RM250 million SRI sukuk named Green SRI Sukuk Tadau has a tenure of two to 16 years and has been assigned a long-term rating of 'AA3' by RAM Rating Services Bhd. Tadau Energy is undertaking a large-scale solar project of 50MW in Kudat, Sabah, under two 21-year power purchase agreements entered into with Sabah Electricity Sdn Bhd in December last year. Proceeds from the Green SRI Sukuk Tadau will be used to finance the project. Tadau Energy's goal is to conserve the environment by providing an environmentally friendly, clean and sustainable power supply.

The Center for International Climate Research (CICERO), a global provider of second opinions on the frameworks for green bond investments, has also rated this RM250 million green sukuk, recognising the significance of Tadau's projects with their long-term vision of a low carbon and climate resilient future by giving a 'Dark Green' certification. Typically, this will entail zero emission solutions and governance structures that integrate environmental concerns into all activities.

**(b) Quantum Solar Park Green SRI Sukuk**

Quantum Solar Park Malaysia (Quantum Solar) has issued the world's largest green sukuk worth RM1 billion to finance the construction of the largest solar power project of its kind in Southeast Asia. It is the second green sukuk issued under the SC's SRI Sukuk framework. The large-

scale solar photovoltaic plants are to be built in three of Malaysia's states – Kedah, Terengganu and Melaka.

The sukuk is issued through Quantum Solar's wholly-owned Quantum Solar Park (Semenanjung Sdn Bhd). The RM1 billion proceeds will be used to build three 50 megawatt (50MW) alternating current solar photovoltaic power plants concurrently, one each in Gurun (Kedah), Merchang (Terengganu) and Jasin (Melaka). Collectively, these projects are expected to generate and supply about 282,000 MWh of electricity annually to electric utility company, Tenaga Nasional Bhd, under the respective power purchase agreements over a period of 21 years. The project will cover a combined land area of almost 600 acres.

Rating agency, MARC has assigned a preliminary rating of "AA-IS" with a stable outlook for the proposed sukuk *murabahah*. With a combined capacity of 150MW, Quantum Solar will be the largest solar power producer in the country. The total project cost of about RM1.24 billion will be funded on an 80:20 sukuk-to-equity financing basis. Second opinion provider, CICERO, has rated this project and has given a 'Dark Green' rating based on the project type and policies guiding its implementation.

**(c) PNB Merdeka ASEAN Green SRI Sukuk Programme**

Malaysian government-linked investment firm, PNB has raised RM2 billion to fund its 83-storey office tower project, forming part of the Merdeka PNB118 tower. The 15-year tenure unrated green sukuk, Merdeka ASEAN Green SRI Sukuk Programme has adopted the newly launched *ASEAN Green Bond Standards*. The Merdeka PNB118 tower project, targeted for completion in 2020, is pre-certified at the highest level (Platinum) under the Green Building Index. The financing facility is the third, and largest yet, green sukuk to be issued in Malaysia.

## LAUNCH OF ASEAN GREEN BOND STANDARDS TO DRIVE SUSTAINABLE INVESTMENTS

The ASEAN Capital Markets Forum (ACMF) launched the *ASEAN Green Bond Standards* (AGBS) in November 2017 in conjunction with the ASEAN Capital Market Conference. The AGBS were developed based on the International Capital Market Association's Green Bond Principles (GBP), tailored to meet the needs and commitment of ASEAN. The AGBS label is to be used only for issuers and projects in the region and specifically excludes fossil fuel-related projects. It addresses the need to support efforts to protect the environment and helps in the allocation of resources towards climate-friendly investments.

The AGBS aim to provide more specific guidance on how the GBP are to be applied across ASEAN, in order to promote transparency and consistency in the ASEAN green bond market framework. To ensure that the ASEAN Green bonds benefit the region, eligible issuers are required to have a geographical or economic connection to the ASEAN region, and specifically exclude fossil fuel related projects.

PNB via its wholly-owned subsidiary PNB Merdeka Ventures Sdn Bhd, is the first issuer in the region to have pledged to adopt the AGBS for its sukuk issuance to finance the construction of the Warisan Merdeka Tower, the third tallest building in the world upon completion.

“*The revised Guidelines seek to facilitate the implementation of AGBS in our regulatory framework... .*”

Further to the launching of the AGBS, the SC also issued the revised *Guidelines on Issuance of Corporate Bonds and Sukuk to Retail Investors* and *Guidelines on Unlisted Capital Market Products* under the Lodge and Launch Framework. The revised Guidelines seek to facilitate the implementation of AGBS in our regulatory framework by introducing additional requirements for the issuance of the ASEAN Green Bonds or sukuk to retail and wholesale investors.

Among others, the guidelines set out requirements for issuers who wish to issue the ASEAN Green bonds and sukuk to adopt the AGBS in its issuance. The guidelines also set out prohibitions on issuers from using the label, 'ASEAN Green' for an issuance unless it complies with the relevant chapters in the Guidelines.

## SC CONTINUES TO LEAD DIGITAL INNOVATION IN MALAYSIA'S CAPITAL MARKET

The SC announced measures to liberalise bond and sukuk market for retail participation, and launched a centralised bond and sukuk information platform to provide easier access to information on corporate bond and sukuk known as Bond and Sukuk Information Exchange (BIX Malaysia). The centralised information platform will be an important component of the overall bond and sukuk market infrastructure. It is the first of its kind to consolidate price and credit information combined with an advanced search function and other useful tools to help investors make more informed investment decisions and enables greater participation in the bond and sukuk market.

BIX Malaysia, a non-profit information platform, serves as a comprehensive source of issuer, credit risk and price information which will democratise the Malaysian bond and sukuk market. The availability of a comprehensive bond and sukuk information, and ease of access through BIX will contribute towards transparency in both primary and secondary markets.

This free website platform, [www.bixmalaysia.com](http://www.bixmalaysia.com), will place Malaysia as a global benchmark for transparency and strengthen its position as a leading sukuk and bond hub in the region. The key feature of BIX is the advanced search and filter function that enables users to select and view the entire universe of bonds and sukuk by yield to maturity, credit rating, tenure, issuer or a combination thereof. BIX also offer tools such as a bond and sukuk selector, calculator and allows users to download a range of documents. Users of BIX will also have access to articles and educational videos to enhance their knowledge on bonds and sukuk market.

To pave the road for automated discretionary portfolio management services to be offered in Malaysia, the SC



**Bond+Sukuk  
Information  
Exchange**

*“The platform will place Malaysia as a global benchmark for transparency and strengthen its position as a leading sukuk and bond hub in the region.”*

also launched its Digital Investment Management (DIM) framework. The first digital investment manager is expected to be licensed in the first half of 2018.

The SC is also embarking on a pilot project to explore the usage of Digital Ledger Technology in the unlisted and over-the-counter markets space. Findings from the pilot project will form the basis of an industry blueprint. Concurrently, the SC is reviewing relevant regulations and guidelines to facilitate functional and effective use cases of digital assets in the capital market, including secondary market trading of established cryptocurrency and digital assets.

## 2018 BUDGET ON ICM

In the 2018 Budget, the Government of Malaysia (the Government) had announced several initiatives to ensure continued growth of the capital market, including ICM.

1. The Government will introduce the Alternative Trading system to stimulate the capital market and provide access to investment to enable a more efficient and significant transactions. The system will be introduced subject to compliance with all requirements and regulatory standards.
2. The Government will also address the constraints of small companies such as start-ups in obtaining financing to expand their market, and thus encourages venture capital activities through the following measures:
  - i. A sum of RM1 billion is provided by major institutional investors for investment in venture capital in main selected sectors co-ordinated by the SC;
  - ii. Expand income tax exemption to include management and performance fees received by venture capital management company, effective from the year of assessment, 2018 to 2022;
  - iii. To facilitate venture capital companies to invest in venture companies, it is proposed that the minimum investment in venture companies be reduced from 70% to 50%, effective year of assessment from 2018 to 2022;
  - iv. Companies or individuals investing in venture capital companies is provided tax deduction equivalent to the amount of the investment up to a maximum of RM20 million per annum; and
  - v. Extend the income tax exemption equivalent to the amount of investment made by an angel investor in venture companies to 31 December 2020.
3. The Government will continue to invigorate the sustainable and responsible investment (SRI) through the following measures:
  - i. Provide income tax exemption for recipients of the special Green SRI Sukuk grant totalling RM6 million; and
  - ii. Provide income tax exemption on income from management fee to be expanded to approve conventional SRI fund managers from the year of assessment, 2018 to 2020.

## UPDATED LIST OF SHARIAH-COMPLIANT SECURITIES BY SHARIAH ADVISORY COUNCIL

The SC released an updated list of Shariah-compliant securities approved by its SAC. The updated list, which took effect on 24 November 2017, features a total of 686 Shariah-compliant securities, constituting 76% of the total 902 listed securities on Bursa Malaysia.

The list includes 33 newly and reclassified Shariah-compliant securities and excludes 22 from the previous list issued in May 2017. The next updated list will be made available in May 2018 based on the review of the audited financial statements released up to 31 March 2018.

| Main Market / ACE Market | Number of Shariah-compliant securities | Total securities* | Percentage of Shariah-compliant securities (%) |
|--------------------------|--|-------------------|--|
| Consumer products        | 105                                    | 129               | 81   |
| Industrial products      | 193                                    | 235               | 82   |
| Mining                   | Nil                                    | 1                 | Nil  |
| Construction             | 46                                     | 49                | 94   |
| Trading / Services       | 156                                    | 218               | 72   |
| Properties               | 74                                     | 97                | 76   |
| Plantation               | 32                                     | 41                | 78   |
| Technology               | 75                                     | 87                | 86   |
| Infrastructure (IPC)     | 2                                      | 4                 | 50   |
| Finance                  | 2                                      | 33                | 6  |
| SPAC                     | Nil                                    | 3                 | Nil  |
| Hotels                   | 1                                      | 4                 | 25   |
| Closed-end fund          | Nil                                    | 1                 | Nil  |
| <b>TOTAL</b>             | <b>686</b>                             | <b>902</b>        | <b>76</b>                                      |

\*As at 20 November 2017

## NEW GUIDELINES ON SUSTAINABLE AND RESPONSIBLE INVESTMENT FUNDS

The SC issued the *Guidelines on Sustainable and Responsible Investment (SRI) Funds* to facilitate and encourage greater growth of SRI funds in Malaysia. The new SRI Funds Guidelines which enable funds to be designated as SRI funds will widen the range of SRI products in the market and attract more investors in the SRI segment.

The SRI Funds Guidelines will apply to fund products within the SC's oversight such as unit trust funds, real estate investment trust funds, exchange-traded funds and venture capital as well as private equity funds. It will also introduce additional disclosure and reporting requirements aimed to encourage greater transparency in investment policies and strategies of SRI funds. Fund managers that manage qualified SRI funds under these SRI Funds Guidelines will be eligible for tax incentives as announced in the recent 2018 Budget.

With Islamic funds being recognised as part of the SRI universe, Malaysia is currently the largest SRI funds market in Asia (excluding Japan). It has 30% share of the region's US\$52 billion fund assets. Malaysia is also the second largest Islamic funds market globally (by domicile) at 29% of the US\$56 billion global total asset under management (AUM).

The SRI Funds Guidelines will be applicable for both conventional and Shariah-compliant funds, enabling Malaysia to build its position as a regional Shariah-compliant SRI centre. This is in line with a strategic thrust identified under the SC's *Islamic Fund and Wealth Management Blueprint* launched in January 2017.

The introduction of the SRI Funds Guidelines is another significant step towards further development of the SRI ecosystem in the Malaysian capital market, reinforcing Malaysia's positioning in the regional SRI segment and global leadership in Islamic finance.

The development of SRI was identified as a key area of growth for the Malaysian capital market under the *Capital Market Masterplan*. In 2014, the SC introduced the SRI Sukuk framework, now widely acknowledged as a pioneering regulatory development that integrates the principles of Shariah with those of SRI. In July 2017, the world's first green sukuk was issued in Malaysia under the SRI Sukuk framework.

## TECHNICAL NOTE FOR THE ISLAMIC SECURITIES SELLING AND BUYING – NEGOTIATED TRANSACTIONS

On 5 December 2017, the SC published a Technical Note to provide clarification on the requirements for transactions under the Islamic Securities Selling and Buying – Negotiated Transactions (ISSBNT) framework introduced by Bursa Malaysia.

Under the *Capital Market and Services Regulations 2012*, a contract note is required to be issued by the Capital Market Services Licence (CMSL) holder in a securities transaction. The purpose of the requirement to issue a contract note is to enable the client to be well apprised of the details of the transaction which has been executed on his behalf.

One of the features under the ISSBNT is the “selling and buying” of securities. The ISSBNT model is based on a combination of two outright sale transactions under the ISSBNT agreement where the first sale is made on a deferred payment basis and the subsequent sale (back to the original seller) is made at an agreed price on a cash payment basis via a setting off mechanism.

The seller and buyer would have information of the ISSBNT transaction as they both have to provide trade confirmations for the execution of the selling and buying transactions which is made through their respective CMSL holders. Further, the relevant details of the securities would be reported to Bursa’s ISSBNT system by the CMSL holder.

Given that the parties have the relevant information in an ISSBNT transaction, the CMSL holder would not be required to issue contract notes for ISSBNT transactions on condition that:

- the ISSBNT transaction is carried out in accordance with the rules of Bursa Malaysia;
- the transaction is reported to Bursa’s ISSBNT system; and
- the CMSL holder maintains a record of information relating to the ISSBNT trade.

### ISLAMIC SECURITIES SELLING AND BUYING NEGOTIATED TRANSACTION

Bursa Malaysia Bhd (Bursa) has introduced the world’s first Shariah-compliant alternative to the conventional Securities Borrowing and Lending Negotiated Transaction (SBLNT) framework, called Islamic Securities Selling and Buying Negotiated Transaction (ISSBNT), to further develop the Shariah-compliant securities market.

The ISSBNT framework allows parties to undertake a transaction that delivers the equivalent outcome of conventional securities borrowing and lending transaction but is structured based on Shariah principles. The ISSBNT framework is based on the SBLNT model which has been in existence since 2009.

The ISSBNT is developed to provide a more facilitative trading environment and improve trading liquidity and velocity of securities whereby market participants have an alternative avenue that is compliant with Shariah principles.

## MALAYSIAN ICM IN 2017

The Malaysian capital market continued to grow and play a significant role in financing the domestic economy, while witnessing double-digit growth across all segments due to better economic fundamentals, corporate earnings recovery, growth in private investments, strong foreign investment inflows and higher investor participation. It grew 12.6% to RM3.2 trillion in 2017 with total capital raised amounting to RM146.6 billion, backed by a strong upward momentum in private investments. This underscores the capital market's depth and continuous ability to provide a facilitative and effective avenue for capital raising.

Stock market capitalisation expanded by 14.36% or RM1.91 trillion, while the bond market grew 10.15% to close at RM1.29 trillion as at end December. Corporate bond and sukuk issuances of RM124.9 billion exceeded the RM100 billion mark for the first time since 2012. Fundraising through the equity market was also higher in 2017 at RM21.7 billion compared to RM12.8 billion in 2016. The fund management industry also maintained its upward growth trajectory, expanding 11.48% to RM776.2 billion, reflecting stronger investor interest in the capital market. This growth was driven by an expansion of the unit trust industry, which saw net sales of RM45.2 billion in 2017, an increase from the RM26.0 billion of net sales in 2016.

Islamic capital market (ICM) made up 59.19% of Malaysia's capital market. Its market size increased by 11.9% to RM1,893.47 billion in 2017 compared to RM1,691.64 billion in 2016. This includes total market capitalisation of Shariah-compliant equities of RM1,133.83 billion and total sukuk outstanding amounted to RM759.64 billion (Chart 1). Malaysia continued to maintain its leading position with a market share of 38% in global sukuk issuances.

### Shariah-compliant securities

The SC released the updated list of Shariah-compliant securities approved by its SAC in May and November 2017, respectively. As at end December, these securities increased to 688 Shariah-compliant securities, constituting 76.19% of the 903 listed securities on Bursa Malaysia, excluding LEAP market securities. The market capitalisation of Shariah-compliant securities stood at RM1,133.83 billion or 59.46% of the total market capitalisation, an increase of 10.02% as compared to end 2016 (Chart 2).

Chart 1  
Size of ICM

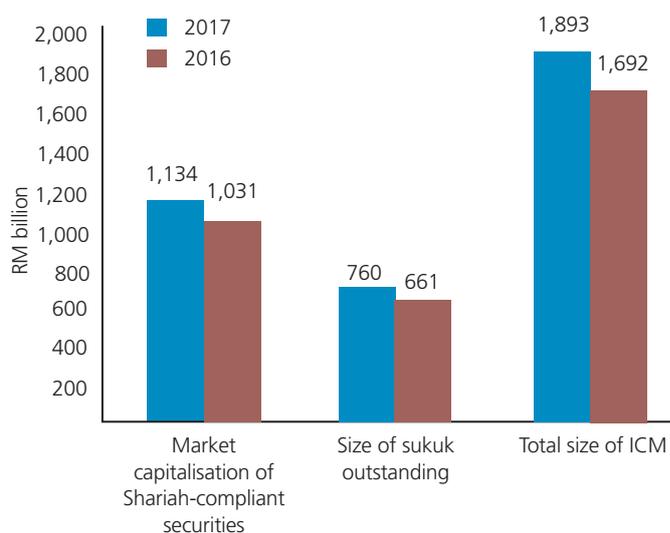
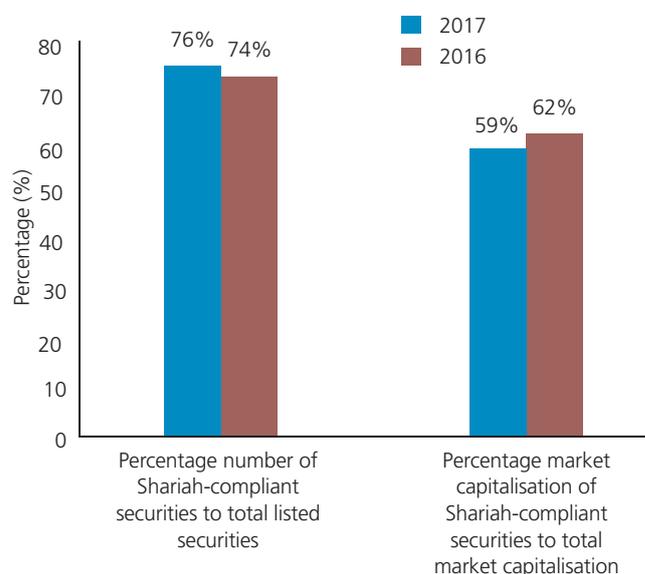


Chart 2  
Percentage of number and market capitalisation of Shariah-compliant securities



To augment the growth of the Shariah-compliant securities market, in particular Islamic exchange-traded funds, Bursa Malaysia introduced the Islamic Securities Selling and Buying – Negotiated Transaction framework. This framework would be the first of its kind to allow further development of

market infrastructure which is expected to enhance liquidity as well as facilitate better hedging and risk management activities by Islamic fund and wealth managers.

## Sukuk

The Malaysian bonds and sukuk market has, over the years, proven to be an efficient and effective source of financing for the public and private sectors while providing investment opportunities for various types of investors. From a nascent market of RM130 billion in 1997; the Malaysian bond and sukuk market has achieved significant growth over the past two decades to reach RM1.29 trillion in size. Today, it is the third largest market in Asia (relative to GDP) and the world's largest sukuk market.

In 2017, a total of 79 corporate bonds and sukuk had been approved, authorised and lodged with the SC amounting to RM187.92 billion of which 47 were sukuk valued at RM94.15 billion (Chart 3). The sukuk value represented 50.11% of the total new corporate bonds and sukuk approved and lodged.

The market also saw the lodgement of the world's first green SRI sukuk in June amounting to RM250 million. By end 2017, there had been four lodgements of green SRI sukuk totalling RM3.50 billion to finance solar projects and green building.

In terms of issuances, corporate sukuk represented 70.19% (2016: 75.68%) of total corporate bonds and sukuk issuances while sukuk outstanding accounted for 75.14%

(2016: 73.85%) of total corporate bonds and sukuk outstanding including three green SRI sukuk.

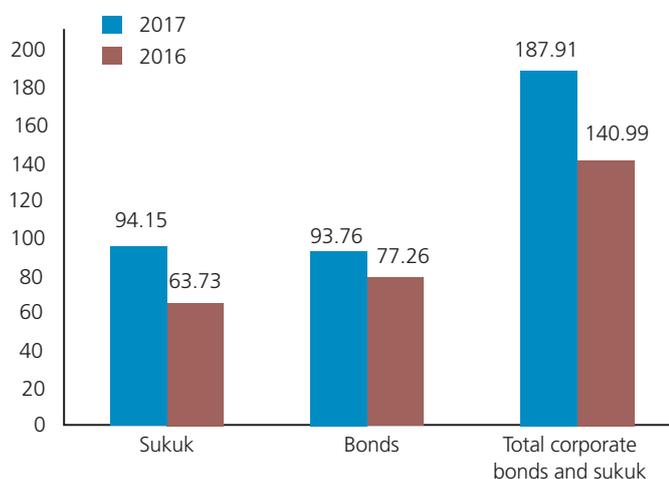
Overall, sukuk issuances by Government and corporates in 2017 represented 53.05% (2016: 53.81%) of total bond issuances whereas total sukuk outstanding represented 58.80% (2016: 56.36%) of total bonds outstanding.

## Islamic fund management

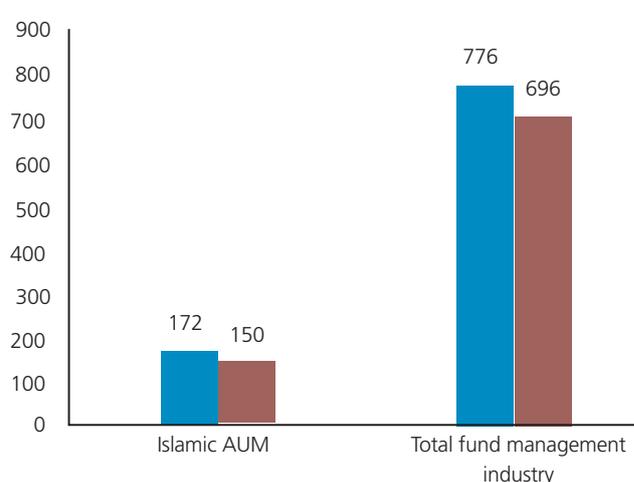
Malaysia's Islamic fund industry continues to lead in terms of global Islamic assets under management (AUM), with 36.5% share of global Islamic funds. The Islamic AUM (CIS and private mandates) stood at RM172.16 billion, registering 15.05% growth from RM149.64 billion as at end 2016 (Chart 4). As at end 2017, the number of Islamic CIS saw a decrease from 328 in 2016 to 324, in addition to 55 fund management companies managing 328 Islamic funds, with 20 full-fledged Islamic fund management companies and 35 fund management companies offering Islamic windows.

The SC launched its *Islamic Fund and Wealth Management Blueprint* (IFWM Blueprint) to catalyse the next phase of growth for ICM in 2017. The early implementation of the IFWM Blueprint saw the maiden public offering of *waqf* shares (a charitable endowment under the Islamic law that is non-transferable) by a corporate entity. This was followed by several green sukuk issuances and emergence of new players in fund administration and fund management in Malaysia.

**Chart 3**  
Corporate sukuk approved/lodged with the SC



**Chart 4**  
AUM of Islamic fund management



## NEWS ROUND-UP

### Launch of Sukuk Textbook

The SC and The International Shari'ah Research Academy for Islamic Finance (ISRA) released a joint publication on *Sukuk: Principles & Practices* in October 2017. The textbook was launched by His Royal Highness Sultan Nazrin Muizzuddin Shah at the Kuala Lumpur Islamic Finance Forum 2017 in Kuala Lumpur.

This is the second publication under the collaboration between SC and ISRA, following the success of the previous joint publication, *Islamic Capital Markets: Principles &*

*Practices* in 2015. The co-sponsors of these two initiatives are the SC and Khazanah Nasional Bhd.

The *Sukuk: Principles & Practices* textbook focuses on theories and practices governing sukuk across various jurisdictions while adopting a global perspective when discussing the subject. It serves as a vital source of reference for academicians, students and practitioners to gain greater understanding on sukuk, and in turn, contribute towards continuing growth and expansion of the sukuk market globally.



The official launch of the "Sukuk: Principles and Practices" textbook.

(From left):

- Raja Tan Sri Dato' Seri Arshad Raja Tun Uda, Board of Directors, Khazanah Nasional
- Tan Sri Muhammad Ibrahim, Governor, Bank Negara Malaysia
- Tan Sri Dato' Seri Ranjit Ajit Singh, Chairman, Securities Commission Malaysia
- His Royal Highness Sultan Nazrin Muizzuddin Shah, Royal Patron for Malaysia's Islamic Finance Initiative
- Dato' Adissadikin Ali, CEO, RHB Islamic Bank Bhd
- Datuk Dr Mohd Daud Bakar, Group Chairman, Amanie Advisors
- Abdul Aziz Abdul Jalal, CEO, Centre of Research and Training

## Technical Workshops on Green Bonds/ Sukuk and Green Finance

The SC, in association with Capital Markets Malaysia (CMM) and the World Bank Group (WBG), conducted a technical workshop focusing on green bonds and sukuk. The first workshop, titled 'Technical Workshop on Green Bonds/ Sukuk', was held in July 2017 to create a focus towards green bonds and sukuk, and to develop greater understanding of international trends on green finance. The workshop also discussed the current framework available for green initiative in Malaysia and how bonds/sukuk can be utilised as an appropriate funding solution.

The second instalment in the workshop series, 'Technical Workshop on Green Finance in Malaysia' was held in October 2017 by CMM in collaboration with WBG and Bursa Malaysia. Targeted to senior management of public-listed companies (PLCs) looking to potentially issue green bonds or green sukuk, the workshop agenda featured a series of panel sessions and presentations focusing on the concerns and interests of PLCs during the issuance stage. It provided participants with the latest trends on going green – and the development of the green sukuk market in Malaysia.

## 17<sup>th</sup> Islamic Capital Market Graduate Training Scheme

As Islamic finance is expanding globally, there is a strong demand for qualified Islamic finance professionals to drive the industry forward. The Islamic Capital Market Graduate Training Scheme (ICMGTS), designed for fresh graduates, is a career development programme to produce entry level professionals with strong fundamental knowledge and skills for the industry. The latest intake of the programme (17<sup>th</sup> ICMGTS) commenced on 29 September 2017 with 43 participants and ended on 30 November 2017.

Since the programme's inaugural intake in 2009, it has trained 639 graduates. Out of this, about 73% have been employed in the financial services industry.

## KLIFF Islamic Finance Awards Recognition to Wan Abdul Rahim Kamil



*Wan Abdul Rahim Kamil accepting 'Most Outstanding Contribution to Islamic Finance – Institutions and Individuals' award.*

The Kuala Lumpur Islamic Finance Forum (KLIFF) 2017 recognised Wan Abdul Rahim Kamil for his achievements in the category of 'Most Outstanding Contribution to Islamic Finance – Institutions and Individuals'.

Wan Abdul Rahim has been a long-standing member of the SC's Development and Islamic Markets team since 2007. He has helped to steer and guide the team in numerous initiatives, capacity building and thought leadership in ICM. Through his guidance, the SC and the Oxford Centre for Islamic Studies (OCIS) mooted the SC-OCIS Roundtable and the SC-OCIS Scholar-in-Residence initiatives which are highly valued by the industry.

For the past 13 editions, the KLIFF Islamic Finance Awards has honoured, recognised and acknowledged individuals and institutions that have played a fundamental role in developing the Islamic finance industry.

## Stakeholder Engagements

During the second half of 2017, the SC representatives participated as speakers in the following events organised by various organisations to support sustained development and growth of Islamic finance, particularly the ICM:

- Technical Workshop on Green Bonds/Sukuk, 10 July 2017 (Kuala Lumpur);
- UNPRI Responsible Investment Forum, 14 July 2017 (Kuala Lumpur);
- Autoriti Monetari Brunei Darussalam (AMBD) Islamic Investment Summit, 2–3 August 2017 (Brunei);
- Mesyuarat Jawatan Kuasa Fatwa Negeri Pulau Pinang, 14–15 August 2017 (Penang);
- Bengkel Kajian Trek Pengamal Profesional Siri Ke-2, 22 August 2017 (Kuala Lumpur);
- IFN Europe Forum, 11 September 2017 (London);
- Global Islamic Finance and Investment Group Meeting, 12 September 2017 (London);
- 2<sup>nd</sup> Global Ethical Finance Forum, 13–14 September 2017 (Scotland);
- Muzakarah Penasihat Syariah Kewangan Islam KLIFF Ke-12, 5 October 2017 (Kuala Lumpur);
- Islamic Markets Programme 2017, 9–11 October 2017 (Kuala Lumpur);
- Technical Workshop on Green Finance in Malaysia, 13 October 2017 (Kuala Lumpur);
- Bank Rakyat International Shariah Scholars Roundtable (iSHAR 2017), 30–31 October 2017 (Kuala Lumpur);
- World Islamic Economic Forum 2017, 21–23 November 2017 (Sarawak);
- 5<sup>th</sup> ASEAN Universities International Conference on Islamic Finance, 13–14 December 2017 (Brunei); and

## MALAYSIAN ICM – FACTS AND FIGURES

### Islamic capital market

|   | 2017         | 2016         |
|---|--------------|--------------|
|   | (RM billion) | (RM billion) |
| Market capitalisation of Shariah-compliant securities | 1,133.83     | 1,030.56     |
| Size of sukuk outstanding                             | 759.64       | 661.08       |
| Total size of ICM                                     | 1,893.47     | 1,691.64     |
| % ICM to total capital market                         | 59.19%       | 59.56%       |

### Capital market

|   | 2017         | 2016         |
|---|--------------|--------------|
|   | (RM billion) | (RM billion) |
| Total market capitalisation of securities | 1,906.84     | 1,667.37     |
| Size of outstanding sukuk and bonds       | 1,291.91     | 1,172.91     |
| Total size of capital market              | 3,198.75     | 2,840.28     |

### Shariah-compliant securities

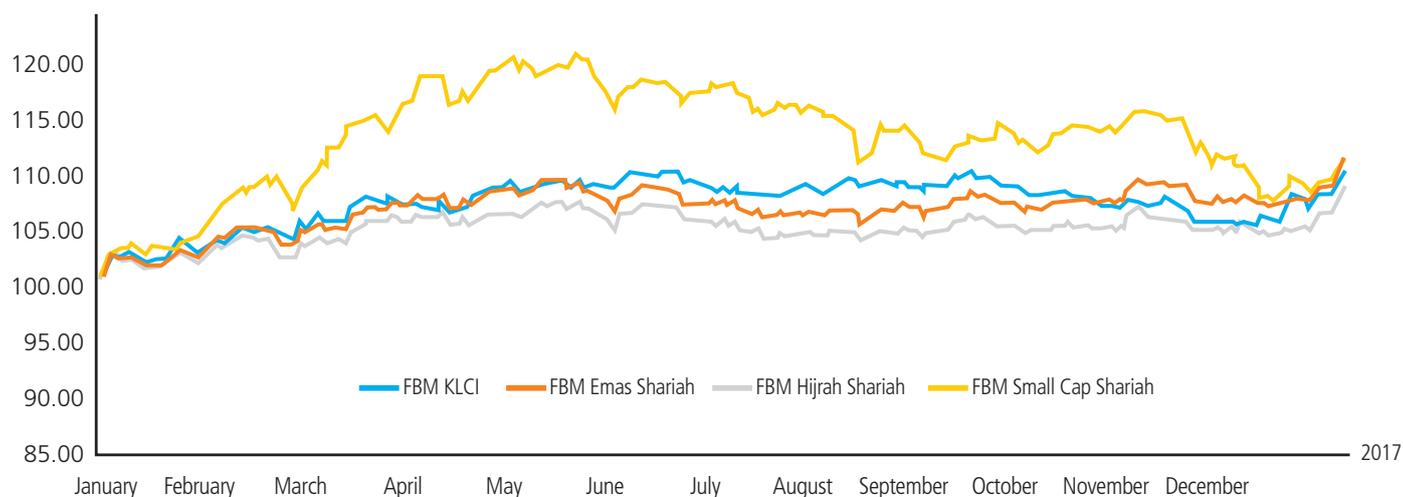
|  | 2017     | 2016     |
|--|----------|----------|
| <b>Number of securities:</b>                                     |          |          |
| Shariah-compliant securities                                     | 688      | 671      |
| Total listed securities  | 903*     | 904      |
| % of Shariah-compliant securities to total listed securities     | 76.19%   | 74.23%   |
| <b>Market capitalisation (RM billion):</b>                       |          |          |
| Shariah-compliant securities                                     | 1,133.83 | 1,030.56 |
| Total market capitalisation                                      | 1,906.84 | 1,667.37 |
| % of Shariah-compliant securities to total market capitalisation | 59.46%   | 61.81%   |

\* Excluding LEAP market securities

### Equity market indices

|                       | 2017      | 2016      | % change |
|-----------------------|-----------|-----------|----------|
| FBM KLCI              | 1,796.81  | 1,641.73  | 9.45%    |
| FBM EMAS Shariah      | 13,302.92 | 12,014.42 | 10.72%   |
| FBM Hijrah Shariah    | 14,528.19 | 13,427.77 | 8.20%    |
| FBM Small Cap Shariah | 15,288.03 | 13,759.07 | 11.11%   |

Chart 1  
FBM KLCI and Shariah indices 1-year performance



### Corporate sukuk

|   | 2017   | 2016   |
|---|--------|--------|
| <b>Sukuk approved/lodged</b>                              |        |        |
| Number of sukuk   | 47     | 32     |
| Size of sukuk (RM billion)                                | 94.15  | 63.73  |
| Size of total corporate bonds and sukuk (RM billion)      | 187.91 | 140.99 |
| % of sukuk to total corporate bonds and sukuk             | 50.11% | 45.20% |
| <b>Total issuance (long term)</b>                         |        |        |
| Sukuk issuance (RM billion)                               | 87.65  | 64.82  |
| Total corporate bonds and sukuk issuances (RM billion)    | 124.88 | 85.65  |
| % of sukuk to total corporate bonds and sukuk issuances   | 70.19% | 75.68% |
| <b>Total sukuk outstanding (long term)</b>                |        |        |
| Sukuk outstanding (RM billion)                            | 454.49 | 393.45 |
| Total corporate bonds and sukuk outstanding (RM billion)  | 604.88 | 532.76 |
| % of sukuk to total corporate bonds and sukuk outstanding | 75.14% | 73.85% |

### Government and corporate sukuk

|                                       | 2017     | 2016     |
|---------------------------------------|----------|----------|
| <b>Total issuance</b>                 |          |          |
| Sukuk issuance (RM billion)           | 168.68   | 129.45   |
| Total bonds issuances (RM billion)    | 317.94   | 240.56   |
| % of sukuk to total bonds issuances   | 53.05%   | 53.81%   |
| <b>Total sukuk outstanding</b>        |          |          |
| Sukuk outstanding (RM billion)        | 759.64   | 661.08   |
| Total outstanding bonds (RM billion)  | 1,291.91 | 1,172.91 |
| % of sukuk to total bonds outstanding | 58.80%   | 56.36%   |

### Sukuk listing

|                | Bursa Malaysia | Exchange-Traded Bonds & Sukuk (ETBS) | Labuan International Financial Exchange (LFX) |
|----------------|----------------|--------------------------------------|---|
| No. of issuers | 25             | 2                                    | 10  |

Source: Bursa Malaysia

### Corporate Green SRI sukuk

|  | 2017   |
|--|--------|
| <b>Sukuk approved/lodged</b>                   |        |
| Number of sukuk                                | 4      |
| Size of sukuk (RM billion)                     | 3.50   |
| Size of total corporate sukuk (RM billion)     | 94.15  |
| % of sukuk to total sukuk approved/lodged      | 3.72%  |
| <b>Total issuance</b>                          |        |
| Sukuk issuance (RM billion)                    | 1.94   |
| Total corporate sukuk issuances (RM billion)   | 87.65  |
| % of sukuk to total sukuk issuances            | 2.21%  |
| <b>Total sukuk outstanding</b>                 |        |
| Sukuk outstanding (RM billion)                 | 1.94   |
| Total corporate sukuk outstanding (RM billion) | 454.49 |
| % of sukuk to total sukuk outstanding          | 0.43%  |

### List of companies offering Islamic stockbroking services

| Company                             | Type         |
|-------------------------------------|--------------|
| 1. Affin Hwang Investment Bank Bhd  | Window       |
| 2. AmInvestment Bank Bhd            | Window       |
| 3. BIMB Securities Sdn Bhd          | Full Fledged |
| 4. CIMB Investment Bank Bhd         | Window       |
| 5. Hong Leong Investment Bank Bhd   | Window       |
| 6. Inter-Pacific Securities Sdn Bhd | Window       |
| 7. Jupiter Securities Sdn Bhd       | Window       |
| 8. Kenanga Investment Bank Bhd      | Window       |
| 9. Malacca Securities Sdn Bhd       | Window       |
| 10. Maybank Investment Bank Bhd     | Window       |
| 11. Public Investment Bank          | Window       |
| 12. RHB Investment Bank Bhd         | Window       |
| 13. TA Securities Holdings Berhad   | Window       |

Source: Bursa Malaysia

### Islamic assets under management (AUM)

|  | 2017   | 2016   |
|--|--------|--------|
| Islamic AUM (RM billion)                           | 172.16 | 149.64 |
| Total fund management industry (RM billion)        | 776.23 | 696.27 |
| % of Islamic AUM to total fund management industry | 22.18% | 21.49% |

### Islamic unit trust funds

|  | 2017   | 2016   |
|--|--------|--------|
| Islamic UTF                            | 213    | 198    |
| Total industry                         | 644    | 627    |
| NAV of Islamic UTF (RM billion)        | 77.78  | 60.91  |
| NAV of total industry (RM billion)     | 426.98 | 358.47 |
| % NAV of Islamic UTF to total industry | 18.22% | 16.99% |

### Islamic wholesale funds

|                                       | 2017   | 2016   |
|---------------------------------------|--------|--------|
| Islamic WF                            | 77     | 97     |
| Total industry                        | 295    | 313    |
| NAV of Islamic WF (RM billion)        | 37.72  | 35.71  |
| NAV of total industry (RM billion)    | 84.68  | 90.84  |
| % NAV of Islamic WF to total industry | 44.54% | 39.31% |

### Islamic private retirement scheme funds

|  | 2017   | 2016   |
|--|--------|--------|
| Islamic PRF                            | 25     | 25     |
| Total industry                         | 56     | 56     |
| NAV of Islamic PRF (RM billion)        | 0.72   | 0.51   |
| NAV of total industry (RM billion)     | 2.23   | 1.52   |
| % NAV of Islamic PRF to total industry | 32.29% | 33.55% |

### Islamic exchange-traded funds

|  | 2017   | 2016   |
|--|--------|--------|
| Islamic ETF  | 5      | 4      |
| Total industry   | 9      | 8      |
| Market capitalisation of Islamic ETF (RM billion)        | 0.47   | 0.42   |
| Market capitalisation of total industry (RM billion)     | 1.94   | 1.90   |
| % market capitalisation of Islamic ETF to total industry | 24.20% | 22.11% |

### Islamic real estate investment trusts

|   | 2017   | 2016   |
|---|--------|--------|
| Islamic REIT  | 4      | 4      |
| Total industry  | 18     | 17     |
| Market capitalisation of Islamic REIT (RM billion)        | 19.07  | 18.53  |
| Market capitalisation of total industry (RM billion)      | 46.48  | 44.31  |
| % market capitalisation of Islamic REIT to total industry | 41.02% | 41.82% |

### Islamic collective investment scheme AUM

|  |        |        |
|--|--------|--------|
| Number of Islamic Collective Investment Scheme (CIS) | 324    | 328    |
| AUM of Islamic CIS                                   | 135.76 | 116.08 |

**List of Islamic fund management companies**

| <b>Company</b>  | <b>Status</b> |
|---|---------------|
| 1. Aberdeen Islamic Asset Management Sdn Bhd            | Foreign       |
| 2. AIIMAN Asset Management Sdn Bhd                      | Local         |
| 3. Amlslamic Funds Management Sdn Bhd                   | Local         |
| 4. Amundi Islamic Malaysia Sdn Bhd                      | Foreign       |
| 5. BIMB Investment Management Bhd                       | Local         |
| 6. BNP Paribas Asset Management Najmah Malaysia Sdn Bhd | Foreign       |
| 7. CIMB-Principal Islamic Asset Management Sdn Bhd      | Joint venture |
| 8. Eastspring Al-Wara' Investments Bhd                  | Foreign       |
| 9. Franklin Templeton GSC Asset Management Sdn Bhd      | Foreign       |
| 10. Guidance Investments Sdn Bhd                        | Foreign       |
| 11. i-VCAP Management Sdn Bhd                           | Local         |
| 12. Kenanga Islamic Investors Bhd                       | Local         |
| 13. Maybank Islamic Asset Management Sdn Bhd            | Local         |
| 14. Muamalat Invest Sdn Bhd                             | Local         |
| 15. Navis Management (I) Sdn Bhd                        | Foreign       |
| 16. Nomura Islamic Asset Management Sdn Bhd             | Foreign       |
| 17. PMB Investment Berhad                               | Local         |
| 18. RHB Islamic International Asset Management Bhd      | Local         |
| 19. Saturna Sdn Bhd                                     | Foreign       |
| 20. Threadneedle Asset Management Malaysia Sdn Bhd      | Foreign       |
| 21. UOB Islamic Asset Management Sdn Bhd                | Foreign       |

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 Development and Islamic Markets.

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