



malaysian ICM



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

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ROBUST FUND-RAISING ACTIVITIES IN 2012

The Malaysian capital market grew by 19% from RM2.1 trillion at end-2011 to RM2.5 trillion at end-2012. The Malaysian ICM contributed to the growth momentum with an increment of 22.6% to RM1.4 trillion as at end-2012, spurred by the strong performance of both sukuk and equities.

Today, Malaysian sukuk market continues to grow, dominating the global sukuk market with 77% of sukuk issuance in 2012 (see Chart 1). Total issuance of sukuk in Malaysia amounted to RM326.5 billion in 2012 which is represented by more than 80 local and foreign issuers. These issuances surpass 2011's record total sukuk issuances of RM185 billion. The issuance of PLUS Bhd's RM30.6 billion sukuk at the beginning of 2012 marked a significant milestone as it was the single largest global issuance of sukuk. As at end-2012, the total value of sukuk outstanding rose by 35.8% year-on-year to RM474.5 billion. Malaysia represents 68% of global sukuk outstanding (see Chart 2), maintaining Malaysia at the forefront of the sukuk market.

The framework for retail bonds and sukuk introduced in 2012 will broaden the range of investment products available to retail investors. It will allow them access to a relatively low-risk instrument, thus facilitating diversification for risk management. Furthermore, retail sukuk offers investors another Shariah-compliant investment option; and issuers, an opportunity to reach a wider investor base.

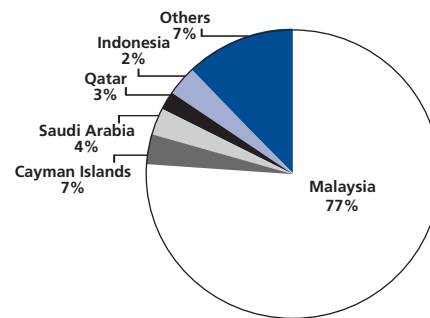
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In order to incentivise the participation of individual investors, it was announced in the 2013 Budget that stamp duty exemption be given for instruments relating to transactions on retail sukuk and bonds. For issuers, double deduction on additional expenses incurred for the issuance of retail sukuk and bonds has also been proposed to enhance the cost competitiveness for domestic and foreign issuers to raise capital in Malaysia.

As for Islamic equities, Shariah-compliant securities listed on Bursa Malaysia had a market capitalisation of RM942.2 billion at end-2012, representing 64% of total market capitalisation. Shariah compliance review at pre-IPO stage continued to be healthy in which the SC received several applications, among others from the two largest IPOs during the year i.e. Felda Global Venture and IHH Healthcare. Both companies collectively raised almost RM16 billion through their IPOs which helped bolster Islamic equities in 2012. They had applied to the SC Shariah Advisory Council for determining their Shariah-compliant status prior to their listing.

The SC announced in June 2012, a revised screening methodology to determine the Shariah-compliant status of listed companies. A two-tier quantitative approach was adopted to enhance the robustness of the screening process. The two tiers entailed the streamlining of existing business activity benchmarks and inclusion of new financial ratio benchmarks. The revised methodology will increase the competitiveness of and further develop Malaysia’s Islamic equities and fund management, at both the domestic and international levels.

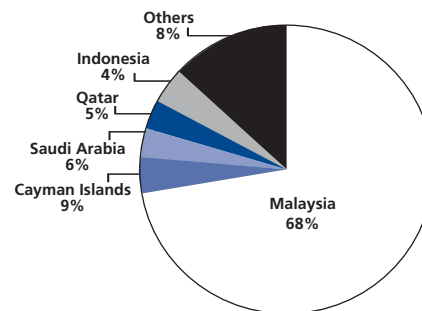
Chart 1
Sukuk issued in 2012 by country



Total sukuk issued in 2012: US\$143.4 billion

Source: IFIS

Chart 2
Sukuk outstanding as at 2012 by country



Total sukuk outstanding as at end-2012: US\$267.6 billion

Source: IFIS

METHODOLOGY IN DETERMINING SHARIAH STATUS OF A SPECIAL PURPOSE ACQUISITION COMPANY (SPAC)

Introduction

The SC's new framework on the listing of a Special Purpose Acquisition Company (SPAC) which comes under the new *Equity Guidelines* aims to make the Malaysian stock market more competitive as a marketplace for issuing shares and IPO in the region – an aspiration of both the SC and Bursa Malaysia.

Due to differences in the characteristics of the SPAC against ordinary listed companies, a tailored Shariah compliance review method specific to the SPAC must be provided.

Brief Explanation on SPAC

A SPAC is a shell company that has no operations but goes public with the intention of merging with or acquiring operating companies or businesses with its IPO proceeds. SPACs could be used as vehicle to promote private equity activities and encourage corporate mergers and acquisitions.

The salient IPO requirements on SPACs are as follows:

- A SPAC must raise a minimum of RM150 million through its IPO;
- At least 90% of the gross proceeds from the IPO must be deposited in a trust account;
- A custodian must be appointed to safeguard the proceeds in the trust account;
- A SPAC must demonstrate that the members of its management team have the experience, qualification and competence to achieve the SPAC's business strategy.

The main requirements on qualifying acquisitions by SPACs are as follows:

- A SPAC must complete a qualifying acquisition within 36 months of its listing on Bursa Securities;

“ SPACs could be used as vehicles to promote private equity activities and encourage corporate mergers and acquisitions”

- Public investors who vote against a qualifying acquisition must be entitled to receive, in exchange for their securities, a pro rata portion of the monies in the trust account, provided that the qualifying acquisition is approved and completed within the given timeframe;
- The qualifying acquisition must account for at least 80% of the amounts held in the trust account;
- If a SPAC is unable to complete the business acquisition within the specified time frame, the SPAC must be liquidated and the proceeds held in the trust account be distributed to the public security holders on a pro rata basis.

A qualifying acquisition is the SPAC's initial acquisition of business(es) which account for at least 80% of the amount held in the trust account. A SPAC may acquire a business that is domiciled locally or abroad. However, the SPAC should not be acquiring a business purely for investment purposes; rather, it should acquire a sizeable business with a view that this would form its core business i.e. the business which provides the principal source of operating revenue or after-tax profits and which comprises the principal activity of the SPAC.

The Rulings of SC Shariah Advisory Council on SPAC

The SAC has decided that in order for a SPAC to be classified as Shariah compliant, the company should fulfil the following criteria:

- i. The proposed business activity should be Shariah compliant;
- ii. The proceeds raised from the IPO should be placed in an Islamic account; and
- iii. If the proceeds are invested, the investment should be Shariah compliant.

Shariah Justification

For the purpose of classifying a SPAC as Shariah compliant, the proceeds must be placed in an Islamic account because conventional deposit accounts involve *riba*.

Prohibition from engaging in activities that involve *riba* is as follows:

Allah S.W.T. stated in the Quran:

"Allah S.W.T. permitted purchase-sale and forbid riba."

(Surah Al-Baqarah: 275)

Allah S.W.T. stated in the Quran:

"O ye who believe, do not consume usury, doubled and fear Allah, that ye may prosper."

(Surah Ali-Imran:130)

IPO proceeds raised by a SPAC that was deposited in the trust account by the *Equity Guidelines* are allowed to be invested in any financial instrument before commencing operations. However, it must be invested in Islamic financial instruments, such as the Islamic money market, sukuk and others.

In addition, the businesses conducted by the SPAC must be Shariah compliant to qualify as Shariah-compliant companies.

Conclusion

The introduction of SPACs will create the growth of new companies by entrepreneurs and allow experienced managers to identify and explore suitable business opportunities. As observed worldwide, a SPAC listing is usually established by a small group of professional managers with expertise in private equity, corporate finance and who possess the right industry experience.

Raising investment funds through SPACs will enable the public to invest in private equity-type transactions that are usually dominated by private equity players and hedge fund managers.

CAPITAL MARKET LAWS AMENDED TO DRIVE INNOVATION AND PROMOTE MARKET EFFICIENCY

The SC announced the *Capital Markets and Services (Amendment) Act 2012* (CMSA 2012), together with the issuance of several guidelines, aimed at encouraging market and product innovation, promoting market efficiency, and allowing more informed investment decisions.

The CMSA 2012 introduced a new approval framework that will facilitate the offering of a broader array of capital market products, effectively benefiting issuers, intermediaries and investors. The new approval framework distinguishes listed and unlisted capital market products, given their distinct characteristics and differing risk profiles, and applies the appropriate level of regulation commensurate with the risks attached. This enhances approval efficiency without compromising investor protection.

The amendments among others prescribed the definition of ICM products and Islamic securities. Under the amendments, ICM products encompass Islamic securities, unit trust schemes, derivatives, private retirement schemes (PRS), any product or arrangement which is based on securities or derivatives or any combination thereof; and any other capital market product structured in compliance with Shariah principles. Islamic securities include shares, units in a unit trust schemes or prescribed investments structured in compliance with Shariah principles, Islamic structured products, and sukuk.

The SC also released the following:

1. The new *Business Trusts Guidelines* which allows for greater fund-raising flexibility and provides investors with an opportunity to invest in a new asset class;
2. The new *Guidelines on Sales Practices of Unlisted Capital Market Products* to promote responsible conduct in the development and sale of unlisted capital market products.
3. The revised *Guidelines on Private Debt Securities* and *Guidelines on Sukuk* to allow public-listed companies and banks to offer bonds and sukuk to retail investors;

In addition, the SC established a consolidated *Capital Market Compensation Fund* to include private retirement schemes, as well as claims arising from mis-selling of products.

The relevant guidelines, a series of FAQs on the salient features of the CMSA 2012, the *Sales Practices Guidelines* and relevant changes effected by the amendments are available on the SC website.

Amendments Highlight for Prescription of ICM Products and Islamic Securities

1. Capital Markets and Services (Prescription of Capital Market Product) (Islamic Capital Market Product) Order 2012

Objective

To prescribe ICM products as a capital market product and provide clarity and transparency on the offering of ICM products in Malaysia

Inclusion

ICM products encompass Islamic securities, unit trust schemes, derivatives, private retirement schemes (PRS), any product or arrangement which is based on securities or derivatives or any combination thereof; and any other capital market product structured in compliance with Shariah principles.

2. Capital Market & Services (Prescription of Islamic Securities) Order 2012

Objective

Seek to repeal the current order and has the effect of widening and clarifying the range of products that fall within the definition of Islamic securities

Inclusion

Islamic securities include shares, units in a unit trust schemes or prescribed investments structured in compliance with Shariah principles, Islamic structured products and sukuk.

New Guideline Highlight

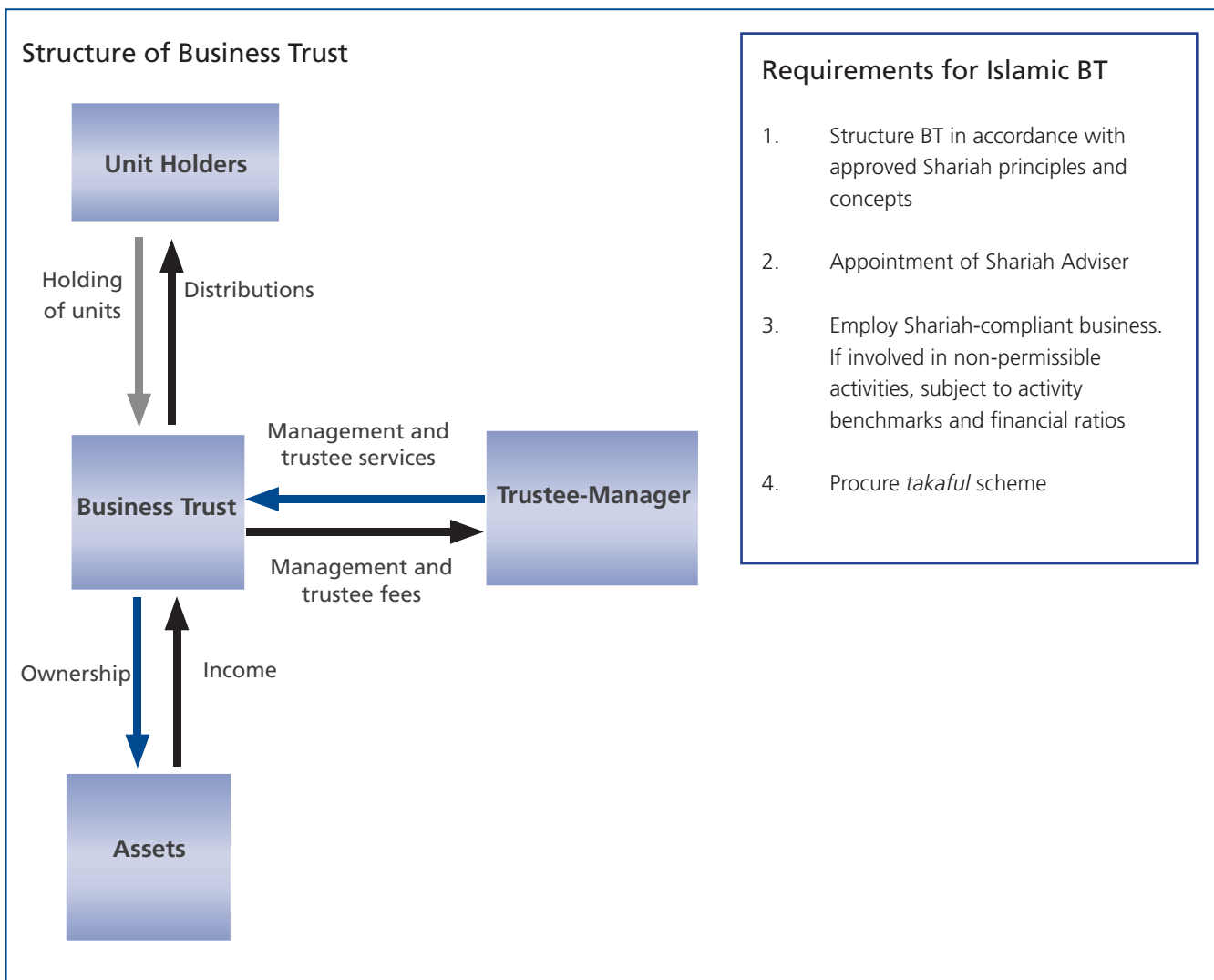
Business Trusts Guidelines

A Business Trust (BT) is a unit trust scheme under the *Capital Markets and Services Act 2007*. Unlike a typical unit trust scheme, the activity of a BT is to manage and operate a business, similar to how a company manages and operates its business.

The person managing and operating a BT is a corporation called the trustee-manager (TM). The TM manages the business of the BT and is also the trustee who holds the

assets of the BT on trust for the unit holders (or investors in the BT). Typically, when a BT is structured, a provision is included in its deed for payment of regular distributions, although a quantum is usually not specified, from the residual cash flows of the BT (if any). This provision cannot be changed without amending the deed, and to do so, unit holders with no less than 75% of the voting rights in the BT must be present to vote and agree to such an amendment.

As announced by the Prime Minister in Budget 2013, BTs will be given income tax, stamp duty and real property gains tax treatments similar to that of a company.



PRIVATE RETIREMENT SCHEMES FACILITATE DEVELOPMENT OF ISLAMIC FUND MANAGEMENT

The final component of the private retirement schemes (PRS) was launched on 18 July 2012 by Dato' Sri Mohd Najib Tun Razak, Prime Minister of Malaysia with the establishment of the private pension administrator and the approval by the SC of the first set of PRS.

This follows from the establishment of the legal framework for the PRS via amendments to the *Capital Markets & Services Act 2007* in October 2011 and the issuance of *PRS Guidelines and Regulations* in April 2012, as well as the approval of eight PRS.

PRS are voluntary retirement savings schemes structured by private sector fund providers licensed and approved by the SC. This voluntary scheme, intended to complement the EPF, will enable contributors to select fund managers or providers and the types of funds in which to channel their contributions. The funds under the PRS are also subject to the SC's approval.

PRS are intended to provide employees and the self-employed with an additional avenue to save for their retirement. A range of funds will be available to meet the individual's retirement goals and investment profile. It also offers an opportunity for employers to make additional voluntary contributions towards the retirement savings of their employees.

To incentivise participation in PRS, individuals are granted tax relief of up to RM3,000 and employers are provided tax deduction on contributions to PRS made on behalf of their employees above the statutory rate and up to 19% of employees' remuneration. Tax exemption is also provided on income received by the PRS funds.

The first set of PRS comprising 24 funds by several PRS providers was approved by the SC and offered to the public from September 2012. A PRS provider is required to offer a minimum of three core or 'default option' funds under a scheme, to cater to the different contributor risk profiles, and can offer a maximum of seven. Nevertheless, to encourage the offering of Shariah-compliant funds, the guidelines allow a provider that intends to offer both conventional and Shariah-compliant options to offer up to 10 funds.

The PRS is expected to facilitate the development of Islamic fund management and promote product innovation as it presents fund managers with an opportunity to serve another market segment and to broaden their distribution channels.

WIDER ACCESS TO BONDS AND SUKUK FOR RETAIL INVESTORS

On 7 September 2012, the SC launched the Malaysian retail bonds and sukuk framework that provides retail investors direct access to invest in bonds and sukuk.

This launch was in line with the initiative of the SC's Capital Market Masterplan 2 to facilitate greater retail participation in the bond and sukuk market. The framework enables retail bonds and sukuk to be issued and traded either on the exchange (Bursa Malaysia) or over-the-counter (OTC) via appointed banks. In this regard, the SC approved Bursa Malaysia's relevant rules and listing requirements to facilitate the offering of retail bonds and sukuk.

During the introductory phase, retail investors will be able to invest in bonds and sukuk issued or guaranteed by the Malaysian government. Issuances by these issuers will naturally be subject to their own funding needs and requirements.

In the next phase, retail investors' access to bonds and sukuk will be expanded to include among others, issuances by public-listed companies and banks licensed under the *Banking and Financial Institutions Act 1989* or *Islamic Banking Act 1983*.

This phased approach will provide retail investors time to gain the necessary understanding and familiarity with investing and trading in bonds and sukuk. The SC, Bursa and the market will work closely to increase the level of awareness and knowledge of investors in the bond and sukuk market.

Subsequent to the launching of the framework, Malaysia's first retail sukuk was issued by DanaInfra Nasional Bhd amounting to RM300 million to partly fund the mass rapid transit project in the Klang Valley. The issue will be traded on the stock exchange as the first exchange traded bonds and sukuk (ETBS).

FREQUENTLY ASKED QUESTIONS ON RETAIL BONDS AND SUKUK

1. Why is the SC introducing the retail bonds and sukuk framework?

The retail bonds and sukuk framework is intended to meet retail investors' demand for access to a wider range of investment products. This is in line with the SC's Capital Market Masterplan 2 initiative to promote greater retail participation in the bond and sukuk market.

Access for retail investors to bonds and sukuk was largely available through bond and sukuk unit trust funds and exchange traded funds. With the retail bonds and sukuk framework, retail investors will now have direct access to bonds and sukuk. Issuers will now have access to a larger pool of investors.

2. What are the key components of the retail bonds and sukuk framework?

Retail bonds and sukuk may be issued and traded either on the exchange (Bursa Malaysia) or over-the-counter (OTC) via appointed banks. In developing this framework, the SC sought industry input and feedback, and took into consideration practices adopted in other countries. In this regard, the framework is consistent with international practices and development initiatives.

The broadening of access to the retail market is supported by an investor protection framework comprising–

- a robust disclosure regime which includes prospectus and continuous disclosure requirements and checks and balances in the form of a trustee and trust deed;

- mandatory credit rating for all bonds and sukuk that are offered to the retail market by a registered credit rating agency; and
- investor education initiatives to enhance investor understanding and knowledge of investing in bonds and sukuk.

Certain categories of issuers may be exempted from some of these requirements e.g. Malaysian government or government guaranteed issuances.

3. Who can issue bonds and sukuk to retail investors?

The retail bonds and sukuk market will be introduced in phases to provide retail investors time to gain the necessary understanding and familiarity with investing and trading in bonds and sukuk.

Under the first phase, the eligible issuers are the Malaysian government and any company whose issuances are guaranteed by the Malaysian government. Issuances by these issuers will naturally be subject to their own funding needs and requirements.

The second phase of the retail bonds and sukuk framework will be expanded to include the following issuers:

- A public company listed on Bursa Malaysia (PLC);
- A bank licensed under the *Banking and Financial Institutions Act 1989* or *Islamic Banking Act 1983*;
- Cagamas Bhd; and
- An unlisted public company whose bond and sukuk issuance is guaranteed by Danajamin Nasional

Berhad, Credit Guarantee and Investment Facility or any of the eligible issuers above.

4. Can PLCs continue to issue loan stocks in the first phase of the retail bonds and sukuk framework?

Yes, they can under the existing regulatory requirements.

5. How would the current loan stocks listed and quoted on Bursa Malaysia fit into the retail bonds and sukuk framework?

Those currently listed and quoted on Bursa Malaysia will continue to be traded under their current category as loan stocks, until expiry.

6. Where can I get information on the retail bonds and sukuk offered?

For retail bonds and sukuk, issuers are required to provide retail investors with a prospectus and would also need to meet with the relevant continuous disclosure requirements. Investors can access information on bonds and sukuk that they have invested in through Bursa Malaysia's website, banks from whom they have purchased the bonds and sukuk, media announcements that may be made from time to time and any other platform as designated by the SC.

Where the bonds and sukuk are issued or guaranteed by the Malaysian government, they would be exempted from the prospectus requirement. However, where they are issued and traded on Bursa Malaysia, they would need to comply with the relevant continuous disclosure requirements.

CAPITAL MARKET INITIATIVES UNDER BUDGET 2013

With the theme “Prospering the nation, enhancing the well-being of *rakyat*: A promise fulfilled”, Malaysia’s Prime Minister Dato’ Sri Mohd Najib Tun Abdul Razak tabled Budget 2013 in the Parliament on 28 September 2012. Budget 2013 attempts to improve the welfare of Malaysians, ensure sustainable economic growth and reduce the fiscal deficit, as the country moves towards becoming a high-income nation by 2020.

In his speech, the Prime Minister unveiled several initiatives in Budget 2013 relating to the capital market, as follows:

1. Retails bonds and sukuk framework

The retail bonds and sukuk framework launched in September 2012 allows retail investors to have direct access to bonds and sukuk. This is part of the SC’s plan to facilitate greater retail participation in the bonds and sukuk market.

In order to incentivise the participation of retail investors, the government via Budget 2013 proposed that stamp duty exemption be given on instruments relating to the subscription of retail bonds and sukuk. The incentive is valid for instruments executed from October 2012 to December 2015.

On the supply side, in order to encourage companies issue retail bonds and sukuk under the proposed framework, double deduction is given on additional expenses for the issuance of retail bonds and sukuk from year of assessment 2012 to 2015. Consequently, additional costs such as rating rationale fee, underwriting and placement fees, facility agency fee, advertising cost and cost of printing prospectuses can

be cut down. This will make it more cost effective for domestic and foreign issuers to raise capital in Malaysia.

2. Framework on the issuance of AgroSukuk

It was also announced that the SC will provide a framework on the issuance of AgroSukuk for companies in the agriculture sector to raise capital for financing agricultural activities and agro-based industries. To encourage the issuance of AgroSukuk, the government proposed that expenses for issuing them be given a double deduction from year of assessment 2013 to 2015.

3. Capital Market Promotion Centre

To ensure an effective and holistic promotion of the Malaysian capital market internationally, the SC will establish a Capital Market Promotion Centre. The centre will adopt an integrated approach across various segments in the capital market and provide consistent initiatives to position Malaysia as a centre of investment and fund raising.

4. Graduate Representative Programme

The SC will introduce the Graduate Representative Programme to increase the supply of professionals to support growth of the capital market. The programme will be implemented in collaboration with the private sector to train 1,000 graduates to meet the needs of the securities and derivatives industry.

IQBAL KHAN IS SECOND RECIPIENT OF THE ROYAL AWARD FOR ISLAMIC FINANCE



Prominent Islamic banker, Iqbal Khan, was selected as the second recipient of the prestigious Royal Award for Islamic Finance (The Royal Award). He received the Royal Award from His Majesty the Yang di-Pertuan Agong during a Gala Dinner on 19 September 2012. The Royal Award was presented to Iqbal Khan for his dedication, drive and extraordinary leadership in accelerating the global growth and accessibility of Islamic finance.

Iqbal Khan has had a prominent role in the course of facilitating, promoting and innovating Islamic finance on a global scale. His passion in providing ethical, community-based financial services has led him to increase further interest among international financial institutions, regulators and academia towards Islamic finance.

Iqbal Khan was instrumental in establishing a number of institutions and initiatives in the Islamic finance industry, including Citi Islamic Investment Bank, the Islamic Finance Project at Harvard University, Meezan Bank, HSBC Amanah and most recently Fajr Capital, of which he is Founding Board Member and Chief Executive Officer.

He also had an important role in innovating and promoting global sukuk as a mechanism to raise capital by sovereign governments. With his leadership and dedication, Iqbal Khan motivated the push for global sovereign sukuk and led the Shariah thought-process towards greater understanding of the concept of foreign currency global sukuk. Successfully proven in creating the evolutionary move from basic banking and finance to more sophisticated product structures, global sovereign sukuk have today become the mainstream fundraising instrument for sovereigns.

Apart from helming Fajr Capital Limited, Iqbal Khan is also presently Chairman of the Executive Committee and board member of Jadwa Investment in Saudi Arabia.



In 2006, he received the Euromoney Award for Outstanding Contribution to Islamic Finance, and was nominated and voted by the Islamic Financial News as the Best Individual Islamic Banker for 2005. He was also recognised by the US House of Representatives in 2000 for his contributions in the field of finance and economics. In the same year, he won the LARIBA Award for Excellence in Islamic Banking Practitioner's Division.

The first recipient of The Royal Award in 2010 was Dallah Albaraka Group Founder Shaikh Saleh Abdullah Kamel of Saudi Arabia.

UPDATED LIST OF SHARIAH-COMPLIANT SECURITIES

The SC released an updated list of Shariah-compliant securities approved by its SAC. The updated list, which took effect on 30 November 2012, features a total of 817 Shariah-compliant securities. These counters constitute 89% of the total 923 listed securities on Bursa Malaysia.

The list includes 13 newly classified Shariah-compliant securities and excludes five from the previous list issued in May 2012. It also indicates that Shariah-compliant securities are well represented in all sectors of the industry.

The full list which is updated twice a year is now available at www.sc.com.my. It is also published in a booklet which can be obtained from the SC. The next updated list will be available in May 2013.

SHARIAH-COMPLIANT SECURITIES

Table 1

Newly classified Shariah-compliant securities

No.	Stock Code	Name of Securities
1.	0173	Catcha Media Bhd
2.	5216	Datasonic Group Bhd*
3.	5222	Felda Global Ventures Holdings Bhd*
4.	5226	Gabungan AQRS Bhd
5.	5209	Gas Malaysia Bhd*
6.	5220	Globaltec Formation Bhd
7.	5225	IHH Healthcare Bhd*
8.	3786	Malaysian Airline System Bhd
9.	0172	OCK Group Bhd
10.	5201	Oldtown Bhd
11.	1724	Paramount Corporation Bhd
12.	0177	Pasukhas Group Bhd
13.	5219	Pestech International Bhd*

* The securities of these companies have been classified as Shariah compliant at IPO stage

Table 2

Newly classified Shariah non-compliant securities

No.	Stock Code	Name of Securities
1.	8761	Brem Holdings Bhd
2.	2135	Gopeng Bhd
3.	4464	Naim Indah Corporation Bhd
4.	0053	OSK Ventures International Bhd
5.	4022	Tadmax Resources Bhd

Table 3

Shariah-compliant securities on Bursa Malaysia

Main Market/ ACE Market	Shariah- compliant securities	Total securities ¹	Percentage Of Shariah- compliant Securities (%)
Consumer Products	125	135	93
Industrial Products	253	263	96
Mining	1	1	100
Construction	43	45	96
Trading / Services	178	206	86
Properties	74	87	85
Plantation	39	42	93
Technology	95	97	98
Infrastructure (IPC)	7	7	100
Finance	2	35	6
Hotels	Nil	4	Nil
Closed End Fund	Nil	1	Nil
TOTAL	817	923	89

¹ As at 26 November 2012

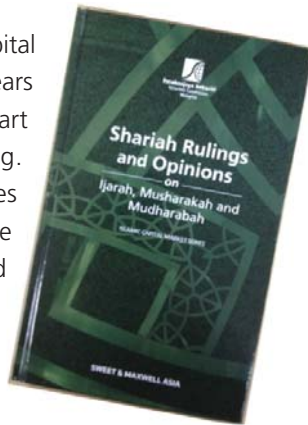
ICM BOOK SERIES

Shariah Rulings and Opinions on Ijarah, Musharakah and Mudharabah

The steady development of the Islamic capital market (ICM) across the globe in recent years has positioned it as a significant counterpart to conventional interest-based financing. As the need for global funding continues to grow, ICM products have attracted the interest of many market participants, and not just the Muslims.

The book, *Shariah Rulings and Opinions on Ijarah, Musharakah and Mudharabah* is a compilation of rulings and opinions on Islamic financing applications. These rulings and opinions deal with the basic *ijarah*, *musharakah* and *mudharabah*, their application in the issuance of sukuk, and further issues pertaining to each application in sukuk.

With the aim of giving readers a clear understanding and guidance on *fiqh* in the ICM, the rulings and opinions in this compilation are drawn from twelve well accepted and authoritative bodies and scholars:

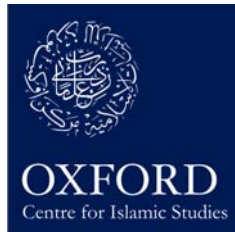


- Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI)
- Bank Indonesia
- Bank Negara Malaysia
- Dallah Al-Baraka
- Dallah Al-Baraka (Research)
- Islamic Fiqh Academy
- Kuwait Finance House (KFH)
- Majelis Ulama' Indonesia
- Securities Commission Malaysia
- Sheikh Hussain Hamed Hassan
- Sheikh Muhammad Taqi Usmani
- Sheikh Nazih Kamal Hammad

This compilation is a useful Shariah business resource for bankers, investors, regulators, lawyers and all who are concerned that market transactions are carried out in ways that comply with Islamic principles.

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SC-OCIS ROUNDTABLE SEEKS TO FURTHER PROMOTE GLOBAL THOUGHT LEADERSHIP IN ISLAMIC FINANCE



The Securities Commission Malaysia (SC) and the Oxford Centre for Islamic Studies (OCIS) have on-going collaboration with the overall objective of facilitating a more informed debate and greater levels of research, while providing more clarity and certainty on the process of articulating and approaching Islamic finance issues in a systematic way.

This shared aim has culminated in the successful and well regarded SC-OCIS Roundtable & Forum, a strategic platform for intellectual discourse among scholars, industry practitioners, regulators, intermediaries and investors alike in order to bring about greater awareness and understanding on topical issues relating to Islamic finance globally. This annual roundtable is held alternately in Kuala Lumpur and Oxford.

This collaboration between the SC and OCIS seek to achieve the following objectives:

- To reflect on the relevance of the development of the ICM to the development of international financial system, by contributing to successful economic and financial reform aimed at not only a progressive but also sustainable ecosystem both at the national and global level;
- To share innovative practices of the conventional financial industry and in translating the Islamic finance vision into actions to facilitate paradigm shifts reoriented to sustainable development;
- To stimulate continuing debates on emerging issues in international finance as a driving force in sustainable human capital development; and
- To promote networking of individuals, institutions and organizations committed to international financial reform for a more secured financial market and economy.
- To contribute to the body of knowledge.

The SC and OCIS are pleased to announce that the 4th SC-OCIS Roundtable will be held at Ditchley Park, Oxfordshire on 9–10 March 2013. The theme, “Completing the Islamic financial system cycle: from a Shariah-compliant to a Shariah-based approach” aims for a transition from a mere Shariah-compliant structure to an all-encompassing Shariah-based approach. In order to facilitate dialogue and debate, this closed-door roundtable will comprise a selected small group of key industry practitioners, senior academicians, Shariah scholars, standard setters and regulators from around the world. His Royal Highness Raja Dr Nazrin Shah, the Regent of the state of Perak Darul Ridzuan, Malaysia and the Financial Ambassador of the Malaysia International Islamic Financial Centre (MIFC), will grace the roundtable and deliver a special address.

SC-OCIS Roundtable is by invitation only

ENSURING SUSTAINABLE GROWTH IN ICM¹

Introduction

Though affected to a certain extent by the global weakness caused by the global financial crisis, Islamic finance has nevertheless achieved a remarkable growth over the past three decades. The industry is currently estimated to be worth US\$1.1 trillion by end-2012 and is expected to grow to US\$1.8 trillion by 2016. However, in comparison, Islamic financial assets still constitute less than 1% of the total global financial assets.

At the home-front, the Islamic capital market (ICM) has contributed significantly to the development of the overall capital market in Malaysia. Between 2000 and 2010, the period of the first Capital Market Masterplan, the ICM more than tripled in value to RM1.05 trillion, growing at an annualised rate of 13.6%. Sukuk expanded at a rate of 22.2% per annum over the same period and made up 28% of the ICM at end-2010. As at July 2012, Malaysia's sukuk outstanding accounts for 69% of global sukuk outstanding (US\$153.88 billion out of total US\$ 233.18 billion). The total value of sukuk issued from Malaysia in 2011 accounted for 73% or US\$67 billion of sukuk issued globally. During the first half of 2012, the total value of sukuk issued from Malaysia was US\$50.0 billion.

Shariah-compliant securities on Bursa Malaysia has a market capitalisation of RM931 billion representing 65% of total market capitalisation as at July 2012. The NAV of Shariah-compliant unit trust funds has also grown to RM33 billion in 2011 from just RM1.7 billion in 2000.

The SC believes that this growth momentum is sustainable. In fact, under the Second Capital Market Masterplan (CMP2), the ICM in Malaysia is projected to grow further at an average rate of 10.6% per annum over the ten-year period to 2020, to take its value to almost RM3.0 trillion by the end of year 2020.

Growth Strategies

Statistics show how fast the industry has grown. While facts and figures for Islamic finance are very encouraging, it is imperative to remain cognizant of the challenges facing the industry which, if left unaddressed, may retard its growth momentum in the future.

The CMP2, launched in 2011, outlined the growth strategies for Malaysia's capital market. To sustain the ICM growth achieved, the CMP2 identified the need to strengthen the service and operational infrastructure, promote Shariah-based approach, and increase international collaboration on Shariah research and product development.

Implementation of the CMP2 has begun in earnest. We have embarked on various initiatives intended to support and enhance the growth of the capital market in general and especially so for the ICM. These initiatives include the following:

First: Widening of Asset Classes

To create new business models for both issuers and intermediaries, the SC recently introduced the legal framework for business trusts, including Islamic business trusts.

“To sustain the ICM growth achieved, the CMP2 identified the need to strengthen the service and operational infrastructure, promote Shariah-based approach, and increase international collaboration on Shariah research and product development.”

¹ This article is extracted from the keynote address delivered by Dato Dr Nik Ramlah Mahmood, the SC's Deputy Chief Executive, at the IFN 2012 Issuers & Investors Asia Forum, in Kuala Lumpur on 2 October 2012.

Providing the platform for the establishment of an Islamic business trust is consistent with our aim of promoting more risk-sharing Shariah-based products. This initiative is in part a response to the call for more participatory type of products. It is hoped that the market will seize the opportunity to realise the vast potential of a more flexible proposition and for the issuer, having a wider investor base for the industry and promoting risk diversification.

Second: Facilitating Cross-Border Transactions

In the sukuk market, our intermediation capability in originating, arranging and distributing sukuk issuances is well known – not just by foreign issuers tapping the deep ringgit market, but by Malaysian issuers structuring foreign currency sukuk globally.

Recent quasi-sovereign and corporate issuers such as those from Kazakhstan, Abu Dhabi and Singapore underscores Malaysia's growing significance as a centre of intermediation for Islamic finance. Similarly, it is noteworthy that even Malaysian companies are now diversifying their funding mix, seeking non-ringgit capital via the global sukuk market. The recent issuance of renminbi sukuk by a Malaysian corporate, which attracted wide international participation, is yet another clear demonstration of our domestic intermediation capability in structuring and distributing global mandates. This trend towards increasing cross-border transactions is expected to grow and sustain as Malaysia's lead in Islamic finance is further entrenched by the implementation of the various growth strategies.

Third: Revised Screening Methodology

In view of the developments and sophistication of the Islamic finance industry since the introduction of the screening methodology in 1995, the SC announced in June 2012, a revised screening methodology to determine the Shariah-compliant status of listed companies. Under this revised methodology, a two-tier quantitative approach which applies the business activity benchmarks and the newly established financial ratio benchmarks is adopted. In

addition, the existing qualitative assessment will continue to be applicable.

The streamlining of the business activity benchmarks and the inclusion of the financial ratio benchmarks will enhance the robustness of the screening methodology for listed securities and, in turn, is expected to bolster the competitiveness of Malaysia's Islamic equity market and Islamic fund management industry at both domestic and international levels, in line with the growth strategies of the CMP2.

Fourth: Framework for Retail Bonds and Sukuk

In September 2012, the SC launched Malaysia's retail bonds and sukuk framework which allows retail investors direct access to a wider range of investment products, such as bonds and sukuk.

This launch is in line with the initiative to facilitate greater retail participation in the bond and sukuk market. Retail bonds and sukuk to be issued can be traded either on the exchange (Bursa Malaysia) or over-the-counter (OTC) via appointed banks. This initiative will further improve liquidity in the secondary trading in the bond and sukuk market.

Fifth: Private Retirement Scheme

In July 2012, the SC launched the Private Retirement Scheme (PRS). This new voluntary scheme will help to promote the innovation of new Shariah-compliant investment products and potentially increase the amount of money going into Islamic investments. The PRS will not replace the EPF but instead complement it. Contributors will be able to allocate savings to a wide range of products offered by private-sector fund management firms.

Under the PRS, fund managers are required to offer a minimum of three "core" products catering to different investor risk profiles. A maximum of seven products can be launched under the scheme by a single PRS provider, but as an added incentive, under the guidelines, a provider can offer up to 10 products if it offers both conventional and Shariah-compliant options.

Way Forward: Developing Talent Pool and Capacity Building

Growth brings new challenges. The continued growth and sustainably of the Islamic finance industry is dependent on the ability to manage potential vulnerabilities to the system by observing good governance, maintaining prudential standards and managing risks. These require focused initiatives to develop and strengthen efforts for capacity building and talent development.

In this regard, the SC successfully organised the Islamic Capital Market Graduate Training Scheme (ICMGTS) with the 7th intake graduating in September 2012. As a measure of its success, 95% of the graduates from the earlier six batches have been absorbed into the industry. Similarly, in 2011, the SC embarked on a programme to provide continuous professional development in the areas of Shariah, ICM, finance, regulatory, legal, accounting, auditing and tax via the I-Advisor modules. The participation of Shariah advisers and market professionals has been encouraging, proving again the effectiveness of such programmes in developing talent and capability within the industry. The importance of these efforts cannot be underestimated as without the appropriate talent pool the growth opportunities for ICM will be limited.

Fostering Greater Connectivity and Regional Collaboration

The internationalisation of the ICM is underpinned by the need to foster greater connectivity and regional collaboration. Greater connectivity between jurisdictions is now being shaped with developments in regulatory frameworks by certain jurisdictions to facilitate cross-border distributions. Growth has brought with it globalisation, and local capital market development can no longer be addressed in isolation. Instead, it needs to be approached in the context of broader global issues now.

Collaborative arrangements may be made in the areas of product development and distribution, Shariah advisory and research, capacity building and regulatory supervision, to name a few. In order to facilitate development in these areas,

initiatives to harmonise and standardise certain aspects of the industry have been undertaken with the primary objective of creating an enabling environment for Islamic finance to truly flourish at the international level.

For instance, the SC had in 2012 co-organised a roundtable with two key standard-setting organisations, the Islamic Financial Services Board (IFSB) and the International Organization of Securities Commissions (IOSCO), to discuss and deliberate on the need to enhance disclosure requirements in the ICM. Similar international initiatives can also be seen in other segments of Islamic finance, all with the main aim of broadening and deepening the industry globally.

Conclusion

In considering the need for a sustainable development of the ICM, we should not overlook the other underlying elements that will guide the process towards achieving this objective. In this regard, virtues of strong governance, disclosure, proper due diligence, transparency, ethics, and corporate as well as social responsibility need to be observed.

We have been fortunate to take lessons from the global financial crisis, and it has given us the opportunity to revisit our business model; to build one that will ensure public good and promote greater shared prosperity and economic stability through greater equitability and trust.

The industry has recorded tremendous achievements within these three decades. As it progresses, it must continue to overcome the mentioned challenges, build scale and reach the critical mass in order to sustain growth and put the industry in a position of strength.

In conclusion, the outlook for ICM remains promising and it is also expected that the current growth momentum will sustain moving forward, as we continue to support and invest in the key drivers for growth. The orderly development of Malaysia's ICM remains the key commitment and priority of the SC. However, the responsibility to achieve sustainability lies not just with the regulators but also with the investors, issuers and other stakeholders.

BOOK REVIEW: *SHARIAH RULINGS AND OPINIONS ON IJARAH, MUSHARAKAH AND MUDHARABAH*

The development of Islamic finance may be attributed to the efforts of Shariah scholars, and the current mainstreaming of scholars into the industry provides the catalyst for further innovation and growth to the industry. The compilation of *Shariah Rulings and Opinions on Ijarah, Musharakah and Mudharabah* is a collection of Shariah views on structures, products and other issues related to especially sukuk structures. Associate Professor Dr Shamsiah Mohamad, a member of the Shariah Advisory Council (SAC) of Securities Commission of Malaysia (SC) has written a review of the book. Her observations are summarized below, highlighting the gist of issues covered.



The book entitled *Shariah Rulings and Opinions on Ijarah, Musharakah and Mudharabah* is a compilation of Shariah views and decisions issued by 12 well-accepted and authoritative bodies and scholars, namely Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI), Bank Indonesia (BI), Bank Negara Malaysia (BNM), Dallah al-Baraka (DB), Dallah al-Baraka (Research) (DBR), Islamic Fiqh Academy (IFA), Kuwait Finance House (KFH), Majelis Ulama' Indonesia (MUI), Securities Commission Malaysia (SC), Sheikh Hussain Hamed Hassan (HHH), Sheikh Muhammad Taqi Usmani (MTU) and Sheikh Nazih Kamal Hammad (NKH).

The publication of this book benefits all parties, not only those involved in the sukuk industry and students in higher tertiary education but also members of the public interested in finding out more details on Shariah decisions related to *ijarah*, *musharakah* and *mudharabah*. The various Shariah views and decisions in this book offers a useful exposure to readers apart from allowing them to increase their knowledge especially when it comes to the differences in

views which are not uncommon in the history and tradition of Islamic laws and jurisprudence.

This book is divided into three parts. The first part focuses on *ijarah*, followed by the second part which discusses *musharakah*, and the third part is about *mudharabah*. Each part is accompanied by three chapters. The first chapter in each part focusses on the basic application for each of the three Shariah principles. The second chapter goes into detail on the application of each Shariah principle in sukuk. While the third chapter discusses secondary issues for each *ijarah*, *musharakah* and *mudharabah* sukuk.

In the *ijarah* section, a total of 49 Shariah issues were compiled based on Shariah views/decisions from various institutions and individuals. Table 1 indicates the Shariah issues in the *Ijarah* chapter and from which institutions/individuals they were derived from.

In the *musharakah* section, 45 Shariah issues were raised and compiled by the institutions and individuals. Table 2 indicates the Shariah issues in the *musharakah* chapter and from which institutions/individuals they were derived from.

In the *mudharabah* section, there were 33 Shariah issues. Table 3 indicates the Shariah issues in the *mudharabah* chapter and from which institutions/individuals they were derived from.

Among the strengths of this book is its comprehensive compilation on the Shariah issues relating to *ijarah*, *musharakah* and *mudharabah*. This book is especially different as each of the issues come with Shariah views/decisions from a multiple of parties.

Meanwhile, from the weakness point of view, there were repetitions regarding several issues in various places such as the floating rate issue in the *ijarah* section. This in some way may confuse readers. Apart from that, the titling aspect was a little vague or unsuitable. For example, in page 206, the title for item 9.14 which was 'Securitization' did not represent the Shariah views of this topic but instead, it was

a discussion over tradability of sukuk. In fact, this item was again repeated under item 9.16 which was titled 'Tradability of sukuk.' Overall, the weaknesses of this book were relatively few and minor and did not deny the importance

of this book as a valuable source for parties looking to deepen their knowledge on Islamic capital market especially those related to *ijarah*, *musharakah* and *mudharabah* sukuk.

Table 1

Shariah issues in *Ijarah*

Shariah Issue	Institution/Individual
1. Contemporary definitions SC	SC, AAOIFI
2. Conditions for the <i>ijarah</i> assets	SC, AAOIFI
3. Operating <i>ijarah</i> or operating lease	SC
4. Financial lease or financial <i>ijarah</i> (<i>ijarah muntahiyah bi al-tamlik</i>)	IFA, DB, AAOIFI, SC
5. Transfer of ownership and required documentations upon ownership transfer	AAOIFI, SC, IFA
6. The promise of sale or gift must be unilateral	AAOIFI, IFA, SC, BNM
7. Provision for transfer of ownership in <i>ijarah</i>	DBR, SC
8. Sub-lease of leased asset by lessee	AAOIFI, KFH, DB, SC
9. Sale and lease back	DB, AAOIFI
10. Forward lease (<i>ijarah mawsufah fi al-zimmah</i>)	SC, AAOIFI, KFH
11. Future <i>ijarah</i> (<i>ijarah mudhafah ila al-mustaqbal</i>)	AAOIFI, MTU, SC
12. <i>Ijarah</i> principal payment/rental structures	DBR, AAOIFI, MTU
13. Floating rate mechanism	AAOIFI, DB, SC, MTU, SC
14. Advance rental	DBR, AAOIFI, SC
15. Usage of leased asset	KFH, AAOIFI, SC
16. Conditions on underlying assets	SC
17. Partnership in <i>ijarah</i> asset	AAOIFI, DBR
18. Sub-lease of leased asset to third party by lessee	AAOIFI, MTU, SC
19. Lease of leased asset to other party by owner of asset (lessor)	AAOIFI, DBR, SC, DB
20. Successive leases	AAOIFI, IFA
21. Sale of leased asset by lessor	AAOIFI
22. Consent from lessee	AAOIFI
23. Provision on guarantee on commitment to lease	AAOIFI, SC
24. Provision of guarantee on rental payment and principal	AAOIFI, SC

Shariah Issue	Institution/Individual
25. Initial contract cancelled and replaced by new contract	DBR, SC
26. Definition of <i>ijarah</i> sukuk	AAOIFI, IFA
27. Issuance of <i>ijarah</i> sukuk	AAOIFI, DB, IFA
28. Nature of underlying asset	SC
29. Asset-backed security	AAOIFI
30. Permissibility of asset securitisation	AAOIFI, SC
31. Among the features of <i>ijarah</i> securitisation	MTU
32. Tradability of <i>ijarah</i> sukuk	AAOIFI
33. Rate of lease rental and lease period	SC
34. Floating rate mechanism of <i>ijarah</i> sukuk	SC, AAOIFI
35. Transfer of ownership of <i>ijarah</i> asset	AAOIFI, DBR
36. Purchase undertaking for <i>ijarah</i> sukuk	AAOIFI
37. Redemption	AAOIFI
38. Guarantee on principal and income	IFA
39. Maintenance of assets and damages to assets	AAOIFI, DBR, KFH, IFA, SC
40. Maintenance by the lessee	DBR, AAOIFI, SC
41. Maintenance by the lessor	DBR, KFH, AAOIFI, SC
42. Insurance (<i>takaful</i>) of lease asset	DBR, AAOIFI, SC
43. Right to reimburse the maintenance expenses	KFH, SC
44. Rebate (<i>ibra'</i>)	SC
45. Compensation (<i>ta'widh</i>)	AAOIFI, SC, BNM
46. Rescission of <i>ijarah</i> due to defects	DBR
47. Expiry of the <i>ijarah</i> contract	AAOIFI, SC
48. Termination of <i>ijarah</i> contract	AAOIFI, SC
49. Termination due to the asset not bearing usufruct	AAOIFI, SC

Table 2

Shariah issues in *Musharakah*

Shariah Issue	Institution/Individual
1. Contemporary definitions of <i>al-sharikah</i>	MTU, SC, AAOIFI
2. Offer and acceptance (<i>sighah</i>)	AAOIFI, MUI
3. Contractual parties	AAOIFI
4. Participation with non-Muslims or conventional banks	AAOIFI, DB, MUI
5. Capital: Form of capital	AAOIFI, MUI
6. Work and labour	AAOIFI, MUI
7. Profit	AAOIFI, MTU, DB, KFH, MUI
8. Loss	AAOIFI, MTU, IFA, MUI, DBR
9. Partnership of ownership (<i>sharikah al-milk</i>)	AAOIFI
10. <i>Sharikah al-Inan</i>	AAOIFI, DBR
11. <i>Sharikah al-mufawadah</i>	AAOIFI, DBR
12. Partnership in labour/services (<i>sharikah al-amal</i>)	AAOIFI
13. <i>Sharikah al-wujuh</i>	AAOIFI, DBR
14. Stock company	AAOIFI, IFA
15. Issues under stock company: underwriting	AAOIFI, IFA
16. Issues under stock company: bearer shares	AAOIFI, IFA
17. Issues under stock company: preference share	AAOIFI, IFA, DB, SC
18. Issues under stock company: bonus and discount	AAOIFI, IFA
19. Issues under stock company: dealing in shares through <i>riba</i>	AAOIFI, IFA
20. Issues under stock company: selling shares that one does not own	AAOIFI
21. Joint-liability company	AAOIFI, IFA
22. Partnership in commendams	AAOIFI
23. Company limited by shares	AAOIFI
24. Allotment/particular partnership (<i>muhassah</i>)	AAOIFI
25. Sharecropping partnership (<i>muzara'ah</i>)	AAOIFI

Shariah Issue	Institution/Individual
26. Irrigating partnership (<i>musaqah</i>)	AAOIFI
27. Agricultural partnerships and their banking application	DB
28. Diminishing <i>musharakah</i> (<i>musharakah muntahiyah bi al-tamlik</i>)	AAOIFI, SC, IFA
29. Termination of <i>sharika</i>	AAOIFI, MTU
30. Termination of <i>musharakah</i> without closing the business	MTU
31. Definitions of <i>musharakah</i> certificates	AAOIFI, SC
32. Third party guarantees on capital in partnership contract	AAOIFI, MTU, IFA, MUI, SC
33. Fee on guarantee (<i>kafalah</i>)	SC, NKH
34. Stipulating loans when profits fall below prescribed percentages	MTU, AAOIFI, SC
35. Partners/sukuk manager to guarantee profit	AAOIFI, HHH, SC
36. Distribution "on account of profit" in case of loss or no profit	HHH, AAOIFI
37. <i>Tanazul</i> in the case where the realised profit exceeds expected level of profit	AAOIFI, SC
38. <i>Tanazul</i> in the case of where the realised profit is the same/less than an expected level of profit	SC
39. <i>Tanazul</i> in the event of default/dissolution	SC
40. The manager's promise to repurchase at face value	AAOIFI, MTU
41. Purchase undertaking in the event of default	SC
42. Promise to waive (<i>wa'd bi tanazul</i>)	SC
43. Underlying asset of <i>musharakah</i> sukuk	SC
44. Distribution of profit and payment of fees	AAOIFI
45. Pre-specification of return on investment as an absolute or pre-specified amount or as a percentage of capital	AAOIFI, SC, IFA

Table 3

Shariah issues in *Mudharabah*

Shariah Issue	Institution/Individual
1. Contemporary definitions	MTU, SC, AAOIFI
2. Restricted <i>mudharabah</i>	AAOIFI, MTU
3. Unrestricted <i>mudharabah</i>	AAOIFI, MTU
4. <i>Sighah (ijab and qabul)</i>	MUI
5. Contracting parties (capital provider and entrepreneur)	AAOIFI
6. Entrepreneur (<i>mudharib</i>)	AAOIFI, IFA, MTU
7. Capital provider (<i>rabb al-mal</i>)	AAOIFI, MTU, MUI
8. Capital	AAOIFI, MUI
9. Profit	AAOIFI, IFA, DB, MTU
10. Loss	AAOIFI, MUI, MTU
11. Termination or liquidation of <i>mudharabah</i> contract	AAOIFI, IFA, DB, MTU
12. Definitions of <i>mudharabah</i> sukuk	AAOIFI, IFA, SC
13. <i>Mudharib's</i> guarantee on capital	AAOIFI, IFA, DB, MUI
14. Third party guarantee on capital	AAOIFI, IFA, SC
15. Mixing of capital by the <i>mudharib</i>	AAOIFI, IFA
16. Fixed wage to the investment agent	DB
17. Bearing the expenses in <i>mudharabah</i> contract	AAOIFI, IFA, DB
18. Term commitment and timing of <i>mudharabah</i>	IFA

Shariah Issue	Institution/Individual
19. Fee for <i>mudharib</i>	AAOIFI, MTU
20. Capital of <i>mudharabah</i> in the form of receivables	AAOIFI, MUI
21. Distribution of profit prior to recovery of capital	AAOIFI, IFA
22. The level of realized profit exceeding the level of expected profit	AAOIFI, IFA, DB, SC
23. The deduction of entitlement	IFA, DB
24. Waiver of right to claim (<i>tanazul</i>)	SC
25. Liquidity funding	AAOIFI, MTU
26. Ownership of assets underlie the sukuk	AAOIFI, IFA
27. Securitization	AAOIFI
28. Purchase undertaking	AAOIFI, IFA
29. Tradability of sukuk	AAOIFI, IFA
30. The investment trustee	IFA
31. Using of benchmarks for profit or returns	HHH
32. Collateral (<i>rahn</i>) as protection from negligence	SC
33. Utilization of proceeds in sukuk issuance	AAOIFI, SC

NEWS ROUND-UP

The Royal Award for Islamic Finance 2012

The Royal Award for Islamic Finance (The Royal Award) was conferred on its second recipient, Iqbal Khan, by His Majesty the Yang di-Pertuan Agong during a gala dinner on 19 September 2012.

Established in 2010, The Royal Award for Islamic Finance was spearheaded by the Malaysia International Islamic Financial Centre (MIFC) initiative and supported by Bank Negara Malaysia and the Securities Commission Malaysia. The recipient of The Royal Award was selected by an independent and international jury comprising prominent individuals with diverse backgrounds, namely Tun Musa Hitam as Jury Chairman, Tun Abdul Hamid Mohamad, Professor Dr Volker Nienhaus, Professor Dr Abbas Mirakhor, Dr Mohamed Ali Elgari, A Riawan Amin and Dr Yahia Abdul-Rahman.

The award selection criteria focused on both qualitative and quantitative aspects to honour an individual's exceptional contribution to the global development of Islamic finance, in the areas of financial innovation, exceptional leadership and vision, serving as an inspiration and influence towards future progress and development in this arena.

A total of 32 nominations were received, comprising influential leaders with various backgrounds in the Islamic finance industry from the Middle East, Europe, Africa, North America and Asia Pacific.



Standing Committee for Economic and Commercial Co-operation (COMCEC) Capital Markets Regulators Forum Meeting

COMCEC is one of the three standing committees of the OIC and monitors the decisions on economics and commercial co-operation by the OIC. At the 27th session of the COMCEC on 16 September 2011, the COMCEC Capital Market Regulators Forum was established which aims to offer a co-operation platform for COMCEC capital market regulatory bodies. The main focus is to support market development and reinforce capabilities of regulatory bodies.

The first meeting of the COMCEC Capital Markets Regulators Forum was held on 26–27 September 2012 in Istanbul, Turkey. At the meeting, the SC was elected as the chair for the Islamic Finance Task Force. The primary objective of the Task Force is to establish strategies and policy recommendations for development and internationalisation of Islamic finance among COMCEC member states.

Public Lecture Series by Iqbal Khan

The SC organised a public lecture entitled, “Our markets, our values – A principles-based approach to creating value in Muslim majority markets”, by prominent Islamic banker Iqbal Khan, recipient of The Royal Award for Islamic Finance on 3 December 2012.

Iqbal Khan elaborated on the developments and key issues in the Muslim-majority markets including values which had fundamentally driven the history and development

of the Islamic finance industry. This served as a platform for intellectual discussion and learning; providing an opportunity for the business community, academics, students and the public to understand the developments in Islamic finance globally. The public lecture was attended by more than 200 participants. Also present was Raja Dr Nazrin Shah, the Regent of Perak, who is also the financial ambassador for MIFC.

IFSB-IOSCO Roundtable

Following the 2004 IOSCO Islamic Capital Market Fact Finding Report and the 2008 IOSCO Report on Analysis of The Application of IOSCO’s Objectives and Principles of Securities Regulation for Islamic Securities Products, which assessed the compatibility of IOSCO’s core principles to Islamic capital market products and recommended that thematic work on disclosure standards for Islamic funds and sukuk be conducted, the Islamic Financial Services Board (IFSB) and the International Organisation of Securities Commissions (IOSCO) collaborated with the SC to organise a high-level roundtable, themed “Disclosure requirements for Islamic capital market products” on 18 September 2012 in Kuala Lumpur.

The purpose of the roundtable was to bring together senior regulators, international standard setting bodies, academia and leading capital market practitioners to debate and share their views and experiences in the development

of international regulatory standards and best practices relating to disclosure requirements for ICM products.

Several topics were covered during the panel discussions, including–

- comparative evaluation of regulatory and best practices on disclosure of ICM products;
- issues arising from inadequate disclosure requirements for ICM products; and
- the importance of a strong disclosure regime in facilitating cross-border activity and development of ICM products and services.

The roundtable attracted about 50 local and international participants from 16 jurisdictions.



6th International Islamic Capital Market Forum (IICMF)

The 6th IICMF was held on 20 September 2012 in conjunction with the Global Islamic Finance Forum 2012 (18–20 September, hosted by BNM). The 6th IICMF featured panel sessions showcasing Malaysia's position in the ICM. Panels comprising SC representatives, international and domestic investment and commercial bankers, fund managers, issuers and lawyers covered diverse topics in ICM. The event was attended by more than 130 participants.

7th Shariah Advisers Workshop

The 7th Shariah Advisers Workshop themed "Dissecting sukuk *musharakah*" was held on 9 October 2012 to enhance knowledge and skills among Shariah advisers. Participants comprised Shariah advisers registered with the SC and Shariah officers of the Islamic financial institutions. The workshop attracted more than 80 participants.

7th Islamic Capital Market Graduate Training Scheme (ICMGTS)

The 7th ICMGTS was held from 9 July to 27 September 2012 with the participation of 42 graduates. ICMGTS is designed for graduates to transform themselves into forward-thinking ICM professionals by acquiring sound

technical knowledge and good communication skills essential to enter the industry. In this programme, graduates underwent eight weeks of training on six technical ICM modules and five soft skill modules.

SC-OCIS Scholar-in-Residence Programme

Dr Amir Shaharuddin from the Islamic Science University of Malaysia (USIM) has been selected as the first Visiting Fellow of the SC-OCIS Scholar-in-Residence Programme. The inaugural SC-OCIS Scholar-in-Residence programme opened for nominations in April 2012 and attracted 12 applications from Islamic finance practitioners and academicians from around the world.

As a visiting fellow, Dr Amir will be conducting research on "Developing a model for harmonisation of Shariah rulings in Islamic finance" to analyse the differences in practices between jurisdictions. He will also attempt to formulate the basis upon which contemporary *fiqh* issues in Islamic finance can be resolved with minimal discrepancy. Upon completion of his residency, Dr Amir will present his findings at an international forum jointly identified by the SC and OCIS.

The Islamic Financial Services Board (IFSB) Seminar on the Role of Islamic Finance in the Development of Africa

The first IFSB Seminar focusing on the Islamic financial services in Africa was held on 6–7 September in Mauritius. The seminar, hosted by the Bank of Mauritius, was organised with the following objectives:

- To discuss the potential outlook for Islamic financial services in the development of Africa, the building blocks of Islamic financial services, and some major instruments of Islamic financial services and

products; and

- To present the opportunities and future challenges for regional co-operation in developing the soundness and stability of the Islamic financial services industry in Africa.

The SC delivered a presentation on sukuk.

MALAYSIAN ICM – FACTS AND FIGURES

Shariah-compliant securities on Bursa Malaysia

	Dec 2012	Dec 2011
No. of Shariah-compliant securities ⁺	817	839
% to total listed securities	89%	89%
Market capitalisation (RM billion)		
Shariah-compliant securities	942	806
Total market capitalisation	1,466	1,285
% to total market capitalisation	64%	63%

+ The SAC of SC releases the updated Shariah-compliant securities list twice a year in May and November

Islamic unit trust funds (UTF)

No. of launched funds	Dec 2012	Dec 2011
Islamic UTF	169	164
Total industry	589	587
NAV (RM billion)	Dec 2012	Dec 2011
Islamic UTF	35.4	27.9
Total industry	294.9	249.5
% to total industry	12%	11.2%

Islamic wholesale funds (WF)

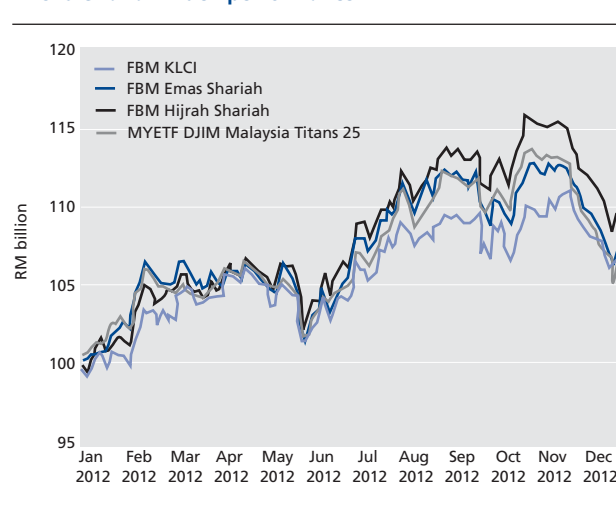
Number of launched funds	Dec 2012	Dec 2011
Islamic WF	41	28
Total industry	171	133
NAV (RM billion)	Dec 2012	Dec 2011
Islamic WF	16.2	7.3
Total industry	52.5	27.4
% to total industry	30.9%	26.6%

Islamic assets under management* (AUM)

(RM billion)	Dec 2012	Dec 2011
Islamic AUM	79.56	64.23
Total industry	505.06	423.58
% to total industry	16%	15%

* includes assets that are sourced from collective investment schemes as well as private mandates

KLCI & Shariah index performance



Equity market indices

Equity market indices	31 Dec 2012	31 Dec 2011	% change
FBM KLCI	1,688.95	1,530.73	10%
FBM EMAS Shariah	11,520.73	10,300.29	12%
FBM Hijrah Shariah	12,674.93	11,022.63	15%
DJIM Malaysia Titans 25	994.11	883.19	13%

Islamic exchange traded funds (ETF)

Number of ETF	Dec 2012	Dec 2011
Islamic ETF	1	1
Total industry	5	5
NAV (RM billion)	Dec 2012	Dec 2011
Islamic ETF	0.293	0.411
Total industry	0.923	1.030
% to total industry	31.7%	40%

Islamic real estate investment trusts (REIT)

No. of REIT	Dec 2012	Dec 2011
Islamic REIT	3	3
Total industry	16	15
Market capitalisation (RM billion)		
Islamic REIT	3.5	2.9
Total industry	24.6	16.3
% to total industry	14.2%	17.8%

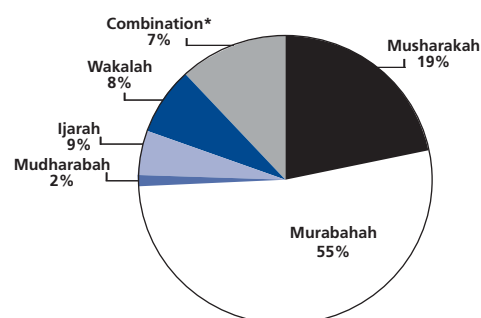
Sukuk

Corporate sukuk approved	2012	2011
Number of sukuk	41	44
Size of sukuk approved (RM billion)	71.1	78.9
Size of total bonds approved (RM billion)	103.3	112
% of sukuk approved to total bonds approved	68.8%	70.4%
Public and corporate sukuk issued (RM billion)		
Size of sukuk issued	326.5	185
Size of total bonds issued	637.4	518.8
% of sukuk issued to total bonds issued	51.2%	35.7%
Public and corporate sukuk outstanding (RM billion)		
Size of outstanding sukuk	474.5	349.3
Size of total outstanding bonds	1,006.8	845
% of outstanding sukuk to total outstanding bonds	47.1%	41.3%

List of companies offering Islamic stockbroking services as at December 2012

No.	Company	Type
1.	BIMB Securities Sdn Bhd	Full Fledged
2.	Affin Investment Bank Bhd	Window
3.	AmlInvestment Bank Bhd	Window
4.	CIMB Investment Bank Bhd	Window
5.	Jupiter Securities Sdn Bhd	Window
6.	Maybank Investment Bank Bhd	Window

Size of corporate sukuk approved based on Shariah principle in 2012



* Combination between multiple Shariah principles

Sukuk listing on LFX as at December 2012

No.	Issuer Name	Listing Date
1.	Paka Capital Limited	14 Mar 08
2.	Petronas Global Sukuk Ltd	14 Aug 09
3.	1Malaysia Sukuk Global Bhd	8 Jun 10
4.	Danga Capital Bhd – SG\$600 million trust certificates due 2015	12 Aug 10
5.	Danga Capital Bhd – SG\$900 million trust certificates due 2020	12 Aug 10
6.	Wakala Global Sukuk Bhd – US\$1.2 billion due 2016	7 Jul 11
7.	Wakala Global Sukuk Bhd – US\$800 million due 2021	7 Jul 11
8.	Danga Capital Bhd – CNY500 million trust certificates due 2014	21 Oct 11
9.	Pulai Capital Limited (Khazanah) – US\$357.8 million due 2019	22 Mar 12

Source: Labuan International Financial Exchange (LFX)

Sukuk listing under Bursa Malaysia’s Exempt Regime as at December 2012

No.	Issuer Name	Listing Date
1.	Axiata SPV2 Bhd	19-Sep-12
2.	Pulai Capital Limited	22-Mar-12
3.	Wakala Global Sukuk Bhd	7-Jul-11
4.	IDB Trust Services Limited (Islamic Development Bank)	1-Dec-10
5.	Malaysia Airports Capital Bhd	30-Nov-10
6.	Amlslamic Bank Bhd	1-Oct-10
7.	Tadamun Services Bhd (Islamic Development Bank)	24-Aug-10
8.	1Malaysia Sukuk Global Bhd (Government of Malaysia)	8-Jun-10
9.	Sime Darby Bhd	28-Jan-10
10.	Paka Capital Limited	31-Dec-09
11.	Khazanah Nasional Bhd	31-Dec-09
12.	Danga Capital Bhd	31-Dec-09
13.	Rantau Abang Capital Bhd	31-Dec-09
14.	CIMB Islamic Bank Bhd	29-Dec-09
15.	G.E Capital Sukuk Limited (General Electric)	30-Nov-09
16.	Cagamas MBS Bhd	14-Aug-09
17.	Petronas Global Sukuk Limited	14-Aug-09

For more information on Sukuk listed on Bursa Malaysia, please visit www.bursamalaysia.com

List of Islamic fund managers as at 31 December 2012

No.	Company
1.	Aberdeen Islamic Asset Mgmt Sdn Bhd
2.	Amlslamic Funds Mgmt Sdn Bhd
3.	Amundi Islamic M’sia Sdn Bhd
4.	Asian Islamic Investment Mgmt Sdn Bhd
5.	BIMB Investment Management Berhad
6.	BNP Paribas Invest. Partners Najmah M’sia Sdn Bhd
7.	CIMB-Principal Islamic Asset Mgmt Sdn Bhd
8.	Eastspring Al-Wara' Investments Bhd
9.	Franklin Templeton GSC Asset Mgmt Sdn Bhd
10.	i-VCAP Management Sdn Bhd
11.	Kenanga Islamic Investors Berhad
12.	KFH Asset Management Sdn Bhd
13.	Muamalat Invest Sdn Bhd
14.	Nomura Islamic Asset Mgmt Sdn Bhd
15.	OSK-UOB Islamic Fund Mgmt Bhd
16.	Reliance Asset Mgmt (M) Sdn Bhd
17.	RHB Islamic Asset Mgmt Sdn Bhd
18.	Saturna Sdn Bhd

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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