THE 303RD SHARIAH ADVISORY COUNCIL OF THE SECURITIES COMMISSION MALAYSIA MEETING (13 AUGUST 2026)

EXTENSION OF THE APPLICABILITY OF THE DEBT RATIO BENCHMARK UNDER SHARIAH SCREENING METHODOLOGY FOR UNLISTED MICRO, SMALL AND MEDIUM ENTERPRISES (MSMEs)

INTRODUCTION

The Shariah Advisory Council (SAC) of the Securities Commission Malaysia (SC) previously approved the Shariah Screening Methodology for Unlisted Micro, Small and Medium Enterprises (MSMEs) as a facilitative mechanism to support the assessment of Shariah-compliant investment opportunities in the MSME segment.

Under such methodology, the financial ratio benchmark for total debt over total assets (Debt Ratio) of less than 49 percent was applicable for the MSMEs until 6 August 2026.

In view of the expiry of the applicable period, the SAC deliberated on revising the Debt Ratio benchmark to less than 33 percent or further extending the existing benchmark of less than 49 percent.

RESOLUTION

The SAC had, at its 303rd meeting held on 13 August 2026, resolved to extend the applicability of the Debt Ratio benchmark of less than 49 percent for the MSMEs for a further period of six (6) months, effective from 7 August 2026.

SHARIAH JUSTIFICATION

The permissibility of the above SAC resolution on the less than 49 percent benchmark for the Debt Ratio in determining the Shariah status of the MSMEs companies together with the extension of the applicability of the Debt Ratio is based on *maslahah* (public interest) and *hajah* (need) which is supported by the following justifications:

1. Some of the Shariah scholars opined that *maslahah* and *hajah* can be used as the basis and consideration in determining an Islamic ruling and it is an exception from the general ruling.

2. The benchmark for the Debt Ratio of less than 49 percent that is determined for MSMEs can be supported by the Shariah scholars' views on *qadr al-hajah* (level of the need) whereby certain rate can be determined in the context of mixture of *halal* (permissible) and *haram* (prohibited) in someone's wealth based on the estimation of the need or *hajah* depending on the situations during a period of time and to avoid the abuse of the concept of *hajah* itself.

3. To facilitate the growth of MSMEs industry from two perspectives as follows:

   (i) From companies' perspective, it is to facilitate the growth of more Shariah-compliant MSMEs companies in the future due to the nature and background of the MSMEs companies which includes:

(a) MSMEs companies have limited knowledge about ICM or Islamic finance particularly on the technical knowledge in relation to funding since their focus are to run business;

(b) Most MSMEs companies are in form of sole proprietorship; and

(c) The rationale for the implementation of such Debt Ratio for five (5) years and to be extended for another six (6) months from August 2026 is to educate, create and increase awareness to the MSMEs in relation to ICM.

(ii) From investors' perspective, they do not have control over the management of the MSMEs companies including the method of fund raising either through Shariah-compliant or conventional mechanism. Hence, for MSMEs companies that comply with such benchmark and be classified as Shariah-compliant, it will provide opportunity for Islamic investors to invest in such MSMEs companies with limited knowledge and exposure in ICM or Islamic finance. Even though MSMEs companies involve in the element of *riba* through conventional funding, such element does not relate with the income to investors thus the income received by Islamic investors is considered as Shariah-compliant income.