



malaysian ICM

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

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INNOVATING DEVELOPMENT OF WAQF ASSETS THROUGH ISLAMIC CAPITAL MARKET

The growing focus on *waqf* is in line with overall efforts to identify new growth drivers to broaden and strengthen the development of the Islamic finance industry. With Islamic finance gaining traction in many parts of the world, the development of *waqf* can play a significant role in attracting greater interest and participation.

A vibrant Islamic capital market (ICM) is one of the avenues and would be able to support development of *waqf* assets, fundamentally through the issuance of *sukuk* or any viable Shariah-compliant fund structures. It also offers a regime of well-regulated intermediary institutions capable of managing various asset classes in the marketplace, including *waqf* assets.

Sukuk are widely-used to finance specific economic activities in accordance with Shariah principles. *Sukuk* have flexible characteristics in which they can be structured to meet the medium to long-term financing requirements. *Waqf* development involving the issuance of *sukuk* is not entirely new to the market.

There have been successful *sukuk* issuances for the development of *waqf* assets in several jurisdictions e.g. Singapore and Saudi Arabia. These issuances demonstrate how *sukuk*, being a Shariah-compliant capital market instrument, can be innovatively structured to support financing for the development and redevelopment of *waqf* assets into viable income-generating properties.

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Nevertheless, it is important to note that the use of *waqf* assets as underlying assets in the structuring of *sukuk* may be subjected to *fatwa* issued by the relevant religious authorities regarding the permissibility of certain *sukuk* structures.

The ICM further offers the availability of Shariah-compliant financial products that have the potential as underlying investments for maximising returns and generating a consistent and sustainable flow of income stream to *waqf* institutions. Corporate and cash *waqf* are among the contemporary form of *waqf* and have recently gained new ground as being the more effective mode of developing *waqf*. These *waqf* have modelled themselves against more professionally-managed funds where *waqf* donors contribute cash or financial assets which are then managed professionally by asset or fund managers on behalf of the *waqf* institutions. The assets are then invested in Shariah-compliant financial products to generate sustainable returns to the *waqf* funds. Similar to structuring of *sukuk*, investments in Shariah-compliant financial products may also be subject to *fatwa* issued by the relevant religious authorities.

Efficient and professional management in the undertaking of *waqf* assets and fund has become an increasingly important component to value creation and ensures the sustainability of philanthropic activities. Islamic fund

“... These licensed intermediaries have resources and expertise in assessing, developing and managing waqf assets thereby creating opportunities for larger economic returns to the community.”

and asset managers are some of the more common intermediaries in ICM that provide the business of management of funds and other types of asset classes. These licensed intermediaries have resources and expertise in assessing, developing and managing *waqf* assets thereby creating opportunities for larger economic returns to the community. By leveraging on these available avenues, *waqf* institutions can broaden and enhance social impact projects as well as encourage sustainable and responsible development within the country.

SHARIAH PARAMETERS ON ISLAMIC EXCHANGE-TRADED FUND BASED ON GOLD AND SILVER

On 7 October 2014, the Securities Commission Malaysia (SC) issued the Shariah Parameters on *Islamic Exchange-traded Fund Based on Gold and Silver* (Islamic ETF Gold and Silver) as guidance and reference from the Shariah perspective to facilitate product development by industry participants. It forms part of the SC's initiatives to further develop the Islamic capital market in Malaysia through greater product innovation. It is the first set of Shariah parameters issued by the SC and endorsed by the Shariah Advisory Council (SAC).

The Shariah requirements for trading of these *ribawi* items are stated in the well-known hadith of the Prophet Muhammad (PBUH) related by 'Ubadah ibn al-Samit, narrated by Muslim as follows:

"(Exchange of) gold for gold, silver for silver, wheat for wheat, barley for barley, dates for dates, salt for salt (shall be) in equal quantities and hand to hand (spot). If they differ in type, you may trade in them as you wish provided it is hand to hand (without deferment on either side)."

Following the above hadith, *ribawi* items can be classified into two main categories as follows:

- (a) **As a measure of value (*al-thaman*)** – This refers to gold and silver which are used as currency to measure value of items valuable for sale and purchase. The modern currency (in the form of paper money) is classified as a *ribawi* item because it acts as a measure of value and medium of exchange.
- (b) **Staple and storable food** – This is represented by wheat, barley, dates and salt which are used as staple and storable food. In the Malaysian context, rice would be included as a *ribawi* item as it is the main staple food in the country.

The Shariah Parameters on *Islamic ETF Based on Gold and Silver* mainly outlines the following features:

1. Shariah requirements on trading of *ribawi*-based items

If the exchange transaction involves two *ribawi* items of the same type and effective cause (*'illah*) such as the exchange of gold for gold or wheat for wheat, the following requirements must be applied to avoid *riba*:

- (a) The exchange must be for equal quantity of the counter-values; and
- (b) It must be an 'on-the-spot' transaction in which both of the counter-values must be handed over at the time of the contract.

If the exchange involves *ribawi* items with the same effective cause but of different type, such as the exchange of gold for silver or wheat for dates, it must fulfil only one requirement; that it is done on-the-spot where the exchange of counter values takes place at the time of the contract.

The requirements as specified in the Shariah Parameters namely, spot and equal exchange, do not apply if the exchange involves different *ribawi* items of different categories such as the exchange of a medium of exchange (e.g. gold or money) with staple food (e.g. wheat).

2. The Shariah requirements for the establishment, structuring and trading of an Islamic ETF based on gold and silver as an underlying asset

The Islamic ETF units represent an equivalent amount of physical gold and silver bullions/bars held by the custodian on behalf of the Islamic ETF. Hence, the Islamic ETF units represent the unit holders' ownership of the gold and silver bullions/bars on a pro-rata basis.

The creation of the Islamic ETF units must be backed by physical gold and silver bullions/bars with specified quantity and quality.

At the inception and creation of the Islamic ETF units, the fund manager and the Shariah adviser of the Islamic ETF must verify that–

- (a) the gold and silver bullions/bars, with the correct quantity and quality as per the specification, are in existence; and
- (b) the gold and silver bullions/bars which form the underlying assets for the creation of the Islamic ETF units are allocated and segregated.

The trading of the Islamic ETF units between the buyer and seller must be carried out in cash and on spot basis. The Islamic ETF units can only be traded if the buyers have cash accounts or margin facility (via third-party financing).

The Islamic ETF units to be redeemed must be backed by physical gold and silver bullions/bars. The unit holders are entitled to redeem the Islamic ETF units in physical gold and silver bullions/bars or its equivalent in cash.

3. The roles of the Shariah adviser in an Islamic ETF based on gold and silver as an underlying asset

The Shariah adviser of the Islamic ETF must provide detailed reasoning on the Shariah compliance of the Islamic ETF in the Shariah pronouncement on the following:

- (a) Structure, creation and redemption of the Islamic ETF units; and
- (b) Trading of the Islamic ETF units in the secondary market.

The Shariah adviser of the Islamic ETF must conduct an annual audit including a site visit to the place where the gold and silver bullions/bars are kept to confirm its existence, quantity and other details such as record of its movement. This is to ensure that the Islamic ETF units created are backed by the actual gold and silver bullions/bars kept in the vault in a segregated and allocated manner.

The Shariah adviser of the Islamic ETF must also prepare a report on the annual audit, to be included in the Shariah adviser's compliance report to the unit holders.

Notwithstanding the details as set out in the Shariah Parameters, the endorsement of the SAC must be obtained prior to the issuance of any Islamic ETF based on gold and silver.

Details of the Shariah Parameters are available on www.sc.com.my/general_section/islamic-capital-market.

NEW SAC RESOLUTIONS (JULY–DECEMBER 2014)

New SAC resolutions made from July to December 2014 were published on SC's website to further strengthen the Shariah governance framework and support the internationalisation of Malaysia's ICM. These resolutions cover Shariah-related issues that arose from industry

proposals. The issuance of the new SAC resolutions enhances transparency and harmonisation of Shariah standards and promotes innovation and orderly development of ICM in the marketplace especially in relation to ICM products. The new SAC resolutions are reflected in Table 1.

Table 1
SAC Resolutions (July–December 2014)

	SHARIAH ISSUES	SAC RESOLUTIONS
1.	Utilisation of sukuk <i>ijarah</i> proceeds for refurbishment, expansion, repairs and/or maintenance of mixed assets which may also include retail space/lots that are leased to Shariah non-compliant tenants.	<p>Proceeds raised from sukuk, <i>ijarah</i> may be utilised for purpose of refurbishment, expansion, repairs and/or maintenance of mixed assets which may also include retail space/lots that are leased to Shariah non-compliant tenants provided that:</p> <ul style="list-style-type: none"> (i) The rentals received from Shariah non-compliant tenants must be below 20 per cent benchmark throughout the tenure of the sukuk, based on the SAC Shariah screening methodology for listed companies; and (ii) The refurbishment, expansion, repairs and/or maintenance are conducted on a general basis which does not suit any specific Shariah non-compliant tenants.
2.	Utilisation of sukuk <i>murabahah</i> proceeds for construction or acquisition of assets with mixed activities which include Shariah non-compliant entertainment / leisure activities.	<p>Proceeds raised from sukuk <i>murabahah</i> may be utilised for the construction or acquisition of assets with mixed activities which include Shariah non-compliant entertainment / leisure activities provided that:</p> <ul style="list-style-type: none"> (i) If the rentals received from Shariah non-compliant business activities can be determined, rentals received must be below 20 per cent of the total rentals received. (ii) However, if the rentals could not be determined, the issuer must ensure and confirm that the area used for Shariah non-compliant business activities in the mixed assets must be below 20 per cent of the net lettable area. <p>The abovementioned 20 per cent benchmark is only applicable at the point of issuance of the sukuk <i>murabahah</i>. The above requirement also is not applicable if the activities of the assets to be constructed cannot be identified.</p>
3.	Islamic foreign currency option based on <i>wa'd</i> .	<p>The Islamic Foreign Currency Option (FX Option-i) based on <i>wa'd</i> is permissible. This is essentially based on the <i>wa'd</i> which binds one of the parties (i.e the promisor) to enter into a currency exchange (<i>bay' al-sarf</i>) transaction on a future date with the counterparty (i.e the promisee) to receive the pay-off of the investment under <i>wakalah bi al-istithmar</i> based on a pre-determined conversion rate (strike rate) under the structure of the FX Option-i which have been agreed initially.</p> <p>In the event that the <i>wa'd</i> is exercised by the counterparty (as the promisee), the promisor is bound to exchange the original investment currency (base currency) into the selected alternative currency (alternate currency) thus resulting the promisor to receive the alternate currency from the counterparty in exchange of the base currency based on the terms and conditions which have been agreed under the <i>wa'd</i> arrangement.</p> <p>The Shariah requirement of <i>ba'i al-sarf</i> under the structure of the FX Option-i is met because the exchange rate (i.e. the strike rate) of these currencies (i.e. the base currency and the alternate currency) has been agreed upfront under the <i>wa'd</i> arrangement.</p>

For details, please refer to www.sc.com.my/general_section/islamic-capital-market

THE ROYAL AWARD FOR ISLAMIC FINANCE

The Royal Award for Islamic Finance (Royal Award), conferred every two years, recognises Islamic finance visionaries who contribute significantly to the growth of the global economy and social progress of communities around the world. Royal Award is spearheaded by the SC and Bank Negara Malaysia (BNM) under the Malaysia International Islamic Financial Centre initiative. In 2014, the Royal Award was presented to its third recipient, Dato' Dr Abdul Halim Ismail, by His Majesty the King of Malaysia.

The Royal Award recipient was selected by a panel of seven independent international jurors. A total of 48 nominations were received, comprising influential leaders with various backgrounds in the Islamic finance industry from the Middle East, Southeast Asia, Europe, North America and Africa.

Previous Royal Award recipients recognised for their efforts in advancing Islamic finance were Iqbal Khan in 2012 and Shaikh Saleh Abdullah Kamel in 2010.

DATO' DR ABDUL HALIM ISMAIL – 2014 ROYAL AWARD RECIPIENT



Dr Abdul Halim is recognised for his pivotal role in establishing the organisational structure and operating procedures of the first Islamic bank in 1983 known as Bank Islam Malaysia. He was appointed as the Managing Director of Bank Islam and Chairman of the board of Syarikat Takaful Malaysia, the nation's first Islamic insurance company.

In 1994, Dr Abdul Halim also helped to set up BIMB Securities, the first Islamic stockbroking company in Malaysia. Under his stewardship, both the industry and financial institutions flourished, making Islamic finance an increasingly attractive alternative and complement to conventional finance.

His vision and leadership also steered Bank Islam towards becoming a successful and robust Islamic financial institution upholding Shariah best practices. Bank Islam extended support, collaboration and training for Islamic banks which were subsequently set up within the region.

Dr Abdul Halim's expertise in Shariah law as well as Islamic banking and finance has led to his appointment on various Shariah boards of regulators, including SC, BNM and Labuan International Business and Financial Centre; and financial institutions. An academician by training, he was the Dean of the Faculty of Economics at the National University of Malaysia (UKM) from 1974 to 1977.

His distinguished qualifications and knowledge in Islamic economics and Islamic banking and finance have also been documented extensively in published articles for seminars and conferences, such as the 7th Meeting of Central Banks and Monetary Authorities and Islamic Banks of the Organisation of the Islamic Conference (OIC) Countries in Malaysia, and the IBC Islamic Banking Conference and Emirates International Forum in Dubai.

THE ROYAL PATRON FOR MALAYSIA'S ISLAMIC FINANCE INITIATIVE¹

On 17 September 2014, the Malaysia International Islamic Financial Centre (MIFC) Executive Committee, announced that His Royal Highness Sultan Nazrin Muizzuddin Shah Ibni Almarhum Sultan Azlan Muhibbuddin Shah Al-Maghfur-lah, Sultan of Perak Darul Ridzuan graciously consented to the role as the Royal Patron for Malaysia's Islamic Finance Initiative.

Under the patronage of His Royal Highness, it is envisaged that Malaysia's Islamic finance marketplace will continue to further strengthen the goodwill and strong bilateral relationships the country has established with other nations. Malaysia's Islamic finance marketplace has emerged as one of the key destinations in Islamic finance, particularly in Islamic banking, sukuk, Islamic equities and takaful markets. The marketplace is today characterised by a robust regulatory, supervisory, Shariah and legal framework, a deep primary and active secondary sukuk market, an efficient price discovery mechanism, a diverse

talent base with global capabilities, and an efficient system for multi-currency clearing and settlement.

His Royal Highness was proclaimed as the 35th Sultan of Perak Darul Ridzuan on 29 May 2014. He is Chancellor of the University of Malaya; Honorary Fellow of Worcester College, University of Oxford, and of Magdalene College, University of Cambridge; member of the Board of Trustees of the Oxford Centre for Islamic Studies, University of Oxford; Royal Patron of the Merdeka Awards Trust; Eminent Fellow of the Institute of Strategic and International Studies; Royal Fellow of the Malaysian Institute of Defence and Security. Prominent positions previously held include the President of the Perak Council on Islam and Malay Custom and Malaysia's Special Envoy to the United Nations Alliance of Civilizations Conference. His Royal Highness obtained a BA in Philosophy, Politics and Economics from the University of Oxford and a PhD in Political Economy and Government from Harvard University.

¹ Source: Extracted from www.mifc.com.

Waqf Assets: Development, Governance and the Role of Islamic Capital Market

The SC has taken a number of initiatives to explore effective ways to revive the role of *waqf* in economic and social development through the ICM. One such initiative is the 5th SC–Oxford Centre for Islamic Studies (SC-OCIS) Roundtable on Islamic Finance, themed 'Harnessing *Waqf* into a Bankable Social Financing and Investment Asset Class' held in March 2014. Various key issues surrounding the development of *waqf* assets and its potential were discussed among policy makers, senior industry practitioners, Shariah scholars and academia.

The book *Waqf Assets: Development, Governance and the Role of Islamic Capital Market* is made possible by the collective effort of staff members of the SC. Parts of the book have been extracted from the deliberations during the SC-OCIS Roundtable. The book focuses on leveraging Islamic capital market to enhance the development of *waqf* assets. It serves as a guide for interested parties who wish to explore opportunities of developing *waqf* assets through the Islamic capital market and provides recommendations on governance best practices.



To purchase please contact: SIDC Bookshop, Ground Floor, Securities Commission Malaysia, 3 Persiaran Bukit Kiara, Bukit Kiara, Kuala Lumpur
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UPDATED LIST OF SHARIAH-COMPLIANT SECURITIES

The SC released an updated list of Shariah-compliant securities approved by its Shariah Advisory Council (SAC). The list, which took effect on 28 November 2014, featured a total of 673 Shariah-compliant securities, which constituted 74 per cent of the total 905 listed securities on Bursa Malaysia. It included 40 newly-classified Shariah-compliant securities and excluded 30 from the previous list issued in May 2014. It also indicated that Shariah-compliant

securities are well represented in the different business sectors.

The full list, which is updated twice a year based on the companies' latest annual audited financial statements, is available on www.sc.com.my/islamic capital market. The next updated list will be available in May 2015.

Table 1
Shariah-compliant securities on Bursa Malaysia

Main Market/ ACE Market	Number of Shariah-compliant securities	Total securities*	Percentage of Shariah-compliant securities (%)
Consumer products	107	132	81
Industrial products	200	257	78
Mining	Nil	1	Nil
Construction	35	43	81
Trading/Services	146	205	71
Properties	67	86	78
Plantation	37	41	90
Technology	73	91	80
Infrastructure (IPC)	4	6	67
Finance	2	35	6
SPAC	2	3	67
Hotels	Nil	4	Nil
Closed-end fund	Nil	1	Nil
Total	673	905	74

* As at 24 November 2014

SC RE-ELECTED AS CHAIR FOR ISLAMIC FINANCE TASKFORCE

The SC continues to play an important role in positioning Malaysia's ICM in the international arena. During the third Standing Committee for Economic and Commercial Co-operation (COMCEC) Capital Market Regulators Forum of the Organisation of Islamic Co-operation (OIC) held in November 2014, the SC was re-elected as Chair of

the COMCEC Islamic Finance Task Force. As part of initiatives to enhance potential collaboration and co-operation in ICM for COMCEC member countries, specific work programmes covering capacity building and development of industry infrastructure have been identified for implementation in 2015.

MALAYSIA AND UAE COLLABORATE ON CAPACITY BUILDING FOR ISLAMIC CAPITAL MARKET

The SC and the United Arab Emirates (UAE) Securities and Commodities Authority (SCA) exchanged a memorandum of understanding (MoU) forging a strategic partnership in capacity building. Datuk Ranjit Ajit Singh, Chairman of the SC, and HE Abdullah Al-Turifi, Chief Executive Officer of the SCA, exchanged the MoU at the 10th World Islamic Economic Forum (WIEF) in Dubai with Prime Minister of Malaysia YAB Dato' Sri Mohd Najib Tun Razak witnessing the ceremony.

The MoU sets out the foundation for further co-operation between the SC and SCA, which includes allowing for collaborative initiatives in human capital development, with key emphasis on the development of capital market and financial services industry professionals in both Malaysia and the UAE. This is aimed at enhancing the mobility of talent and professionals between the two leading Islamic finance markets.

The MoU also enables collaboration in research and regional thought leadership events to jointly promote the

capital markets. Securities Industry Development Corporation (SIDC) SC's capital market talent development centre will drive this collaboration with the UAE authority.



COMPILATION OF LATEST SAC RESOLUTIONS

The SC has published the latest Compilation of Shariah Advisory Council (SAC) Resolutions as of 31 December 2014. The Compilation comprises resolutions in relation to the concept, ICM products and related issues for the benefit of the public. It consists of SAC resolutions resolved in 2013 and some resolutions resolved in 2014 including updates on some existing resolutions. The Compilation serves as an addition to the SAC resolutions included in the

Resolutions of the Securities Commission Malaysia Shariah Advisory Council (Second Edition).

The publication of the Compilation of SAC Resolutions on the SC website serves as guidance and reference to practitioners in the Islamic finance industry and the public in developing and expanding ICM products. Details are available on www.sc.com.my/general_section/islamic-capital-market.

SUSTAINABLE AND RESPONSIBLE INVESTMENT SUKUK FRAMEWORK

On 28 August 2014, the SC launched the Sustainable and Responsible Investment (SRI) Sukuk Framework to facilitate the financing of sustainable and responsible investment initiatives.

The launch of the SRI sukuk framework is in line with the initiative set out under the SC's *Capital Market Masterplan 2* to promote socially responsible financing and investment. With shifts in investor demographics, there are growing concerns over environmental and social impact of business and greater demand for stronger governance and ethics from businesses. The Malaysian capital market is well-positioned to capitalise on these changing trends and facilitate sustainable and responsible investing.

The introduction of the SRI sukuk framework is part of the SC's developmental agenda to facilitate the creation of an ecosystem conducive for SRI investors and issuers and is also in line with the rising trend of green bonds and social impact bonds that have been introduced globally to facilitate and promote sustainable and responsible investing. Combined with Malaysia's leading position in the global sukuk market, this framework will further enhance the country's value proposition as a centre for Islamic finance and sustainable investments.

The SRI sukuk framework is an extension of the existing sukuk framework. The additional areas addressed in the framework for the issuance of SRI sukuk include utilisation of proceeds and eligible SRI projects.

ELIGIBLE SRI PROJECTS

NATURAL RESOURCES	RENEWABLE ENERGY AND ENERGY EFFICIENCY	COMMUNITY AND ECONOMIC DEVELOPMENT	Waqf PROPERTIES/ASSETS
<ul style="list-style-type: none"> Sustainable land use Sustainable forestry and agriculture Biodiversity conservation Remediation and redevelopment of polluted or contaminated sites Water infrastructure, treatment and recycling Sustainable waste management projects 	<ul style="list-style-type: none"> New or existing renewable energy (solar, wind, hydro, biomass, geothermal and tidal) Efficient power generation and transmission systems Energy efficiency which results in the reduction of greenhouse gas emissions or energy consumption per unit output 	<ul style="list-style-type: none"> Public hospital/medical services Public educational services Community services Urban revitalisation Sustainable building projects Affordable housing 	<ul style="list-style-type: none"> Any projects that undertake the development of <i>waqf</i> properties / assets

ASEAN FRAMEWORK FOR CROSS-BORDER OFFERING OF COLLECTIVE INVESTMENT SCHEMES

On 25 August 2014, the ASEAN Capital Markets Forum (ACMF) announced that the ASEAN Framework for cross-border offering of collective investment schemes (CIS) is now operational in Malaysia, Singapore and Thailand (member jurisdictions).

This Framework allows fund managers operating in a member jurisdiction to offer CIS, such as unit trust funds, constituted and authorised in that jurisdiction to retail investors in other member jurisdictions under a streamlined authorisation process.

Within this Framework, qualified fund managers in Malaysia now have the opportunity to offer their products directly to investors in Singapore and Thailand. Correspondingly, Malaysian investors would benefit from a wider range of investment products that will be made available following the operationalisation of the Framework.

The announcement follows the signing of the Memorandum of Understanding for the ASEAN CIS Framework by the SC, the Monetary Authority of Singapore (MAS) and the

Securities and Exchange Commission, Thailand (SEC Thailand) in October 2013.

The member jurisdictions have also published the *Handbook for CIS Operators of ASEAN CISs*, which provides guidance to fund managers on various administrative and procedural matters including application procedures, the use of local distributors in the offering process, and the procedures for remittance of funds. The Handbook is available for download at http://www.theacmf.org/ACMF/upload/asean_cis_handbook.pdf.

The ASEAN CIS Framework could be a more effective distribution strategy for ASEAN players, especially those with limited resources to market their funds via international platforms.

More information on the ACMF Implementation Plan and the ASEAN Economic Community Blueprint 2015 can be found at:

<http://www.theacmf.org/>;

<http://www.asean.org/archive/5187-10.pdf>

CAPITAL MARKET INITIATIVES UNDER BUDGET 2015

On 10 October 2014, Malaysia's Prime Minister YAB Dato' Sri Mohd Najib Razak, presented Budget 2015 in which several initiatives related to capital market including ICM were unveiled.

► Exchange-traded bond and Sukuk

To boost domestic sukuk and bond issuance and trading, the Government introduced the exchange-traded bond and sukuk (ETBS). The Government proposes that the Malaysian Government Securities and Government Investment Issues be listed and traded in ETBS.

► Extension of *ijarah* and *wakalah* sukuk

The expenses incurred in the issuance of sukuk are given deduction from year of assessment 2003 until year of assessment 2015. The budget proposed that deduction for expenses incurred in the issuance of sukuk based on *ijarah* and *wakalah* principles be extended for another three years until year of assessment 2018.

MALAYSIA'S ISLAMIC CAPITAL MARKET – MOVING TO A NEW FRONTIER¹

The prospects for Islamic finance in 2014 remain positive. According to an industry report², the size of global Islamic finance assets is projected to surpass the US\$2 trillion mark and the industry is expected to continue to chart positive growth across all sectors. Within the Islamic capital market (ICM) segment, the global sukuk market is set to maintain its upward trajectory, spurred by a number of sovereign issuances in 2014. In June 2014, the UK became the first western country to issue a sovereign sukuk while Senegal priced its maiden sovereign sukuk in July. According to media report, other sovereigns including Luxembourg, Oman, South Africa and Tunisia were also expected to make debut issuances in 2014.

In the area of Islamic funds, the launch of two Malaysia-based Islamic funds in Hong Kong in 2014 represents a significant development as this reflects the growing international interest on other ICM products in international financial centres. The two Islamic funds – an equity fund and a balanced fund – are being offered under the mutual recognition agreement between the Hong Kong Securities and Futures Commission and SC on the cross offering of Islamic collective investment schemes. Such arrangements, bilateral and multilateral, serve to broaden the market reach and help to build scale for Islamic funds.

While Islamic finance has been gaining greater traction across the globe, there is a need for differentiated initiatives to cater for jurisdictions with varying levels of domestic development of the industry. Therefore a gradual approach may be required for certain jurisdictions while a more comprehensive, more assertive, approach can be adopted in markets where the ecosystem for Islamic finance is relatively developed. In the latter, continuous efforts to enhance product and service range as well as to seek new growth areas become more critical not only to ensure sustained development of the industry but also to promote greater connectivity and linkages between these markets and jurisdictions.

ICM DEVELOPMENTS IN MALAYSIA

Malaysia continuously pursues various initiatives to develop the different segments of the Islamic finance industry. Some of the recent developments in respect of the Islamic capital market are in the area of sukuk and collective investment schemes (CIS).

The sukuk market remains vibrant as it continues to generate greater interest from both the investors and issuers. In order to further broaden the participation in this market, the SC in August released the framework for the issuance of Sustainable and Responsible Investment sukuk, or SRI sukuk. The framework represents part of the SC's agenda to develop the SRI sector which has grown to become very significant globally, especially in the more developed countries. For example, the size of investment funds being managed according to SRI criteria globally stood at US\$11.2 trillion with 97 per cent of these assets being domiciled in Europe, the US and Canada³. The principles underlying SRI have been observed to be not dissimilar with those underlying Islamic finance, hence the SC believes the SRI sukuk initiative is timely in bringing together the growing SRI sector and Malaysia's well-developed Islamic finance industry.

In June, Malaysia also announced the removal of mandatory credit rating requirements effective 2017. This move is hoped to enable more small and medium corporations to gain access to the bond and sukuk market thus broadening the range of issuers and investors, as well as deepening the market and enhancing market liquidity, while at the same time aligning the practices with other international markets. This measure is anticipated to further enhance the vibrancy in the Malaysian sukuk market which currently accounts for 69 per cent of sukuk outstanding globally⁴.

¹ This article is extracted from the welcome remarks by Dato Dr Nik Ramlah Mahmood, the SC's Deputy Chief Executive, at the International Islamic Capital Market Forum, organised by the SC in Kuala Lumpur on 3 September 2014.

² Islamic Finance Outlook 2014, KFH Research Ltd, January 2014.

³ International Finance Corporation, 2011.

⁴ IFS.

On the regional front, one of the initiatives undertaken by the ASEAN Capital Market Forum (ACMF) as part of the regional capital market integration plan is the ASEAN CIS Framework. The ACMF, in August, announced that the ASEAN Framework for cross-border offering of CIS is now operational in Malaysia, Singapore and Thailand. This Framework enables fund managers operating in a member jurisdiction to offer CIS including Islamic CIS across other member jurisdictions under a streamlined authorisation process. This multilateral arrangement facilitates broader distribution of Islamic funds across the member countries. Malaysia, having the largest Islamic unit trust fund market in ASEAN with total NAV of US\$14.3 billion⁵, can potentially offer some of these funds in the other member countries while fund managers in the other countries can tap on the large investor base in Malaysia for Islamic fund products.

MOVING TO A NEW FRONTIER

Today, the ICM serves multiple roles in the economy and society of various jurisdictions, ranging from serving the needs and requirements of a Muslim community to being an integral component of a country's financial system. In view of the growing acceptance of its value proposition, the ICM has significant potential to expand into new frontiers where non-commercial considerations rank highly in determining the desired outcomes. These considerations may also contribute towards achieving *halalal thoyyiban* or holistic compliance and greater fulfillment of the objectives of Shariah (*maqasid al-Shariah*) for the ICM. Within this context, three areas that have the potential to be new catalysts for growth of the ICM are highlighted.

RESPONSIBLE INNOVATION

The first area is Responsible Innovation which, among others, includes Sustainable and Responsible Investing. Responsible Innovation is an approach that takes into account various environmental, social and economic concerns throughout the innovation process with a view to creating value for the society while respecting the environment.

“The SC’s new SRI sukuk framework for example will facilitate and encourage the issuance of sukuk to raise financing for Shariah-compliant projects that fulfill the Responsible Innovation criteria and enable investors to participate in such projects...”

With the increasing concern over environmental and social impact of business and the greater demand for stronger governance and ethics on corporations, the ICM is well positioned to benefit from the pursuit of Responsible Innovation to address these issues, as its underlying principles clearly resonate with the objectives of Responsible Innovation.

The SC's new SRI sukuk framework for example will facilitate and encourage the issuance of sukuk to raise financing for Shariah-compliant projects that fulfill the Responsible Innovation criteria and enable investors to participate in such projects, thus potentially growing the size and improving the depth and liquidity of the ICM.

HALAL INDUSTRY

The second area is the *halal* industry. Through years of creating awareness and promoting the development of *halal* industry, the industry has now emerged as one of the fastest growing business sectors in the world. The global *halal* market is estimated to be worth more than US\$2.3 trillion and the value of the *halal* food sector is reaching US\$700 billion annually⁶. The non-food sector is much bigger, and includes chemicals, healthcare, cosmetics, personal care and pharmaceuticals.

⁵ As at 30 Jun 2014, RM45.2 billion.

The ICM can play a greater role in connecting and supporting the value chain within both the food and non-food halal sectors through efficient and effective intermediation of fundraising and investment activities. To some extent, linkage between the ICM and the halal industry in Malaysia has been established through the Shariah screening process for listed companies as the screening criteria include financial ratio benchmarks that may influence companies that are involved in the *halal* industry to undertake Shariah-compliant financing and investing.

WAQF

The Islamic economic system is based on the components of *siyasi* (politics), *tijari* (trade) and *ijtima'i* (socio-economy). One of the thrusts of *ijtima'i* is *waqf* and therefore the third area is *waqf* development as it can play a meaningful role in providing social safety nets to society. Presently, the development of *waqf* assets in Malaysia has been limited largely for religious purposes. However contemporary solutions that leverage on Islamic finance can facilitate and accelerate the development of *waqf* assets on a larger scale and to achieve various social and economic outcomes. At the fifth annual Islamic Finance Roundtable jointly organised by the SC and the Oxford Centre for Islamic Studies (OCIS) held in March 2014 on the theme 'Harnessing Waqf into a Bankable Social

Financing and Investment Asset Class', various key issues surrounding the development of *waqf* assets and its potential were discussed. The Roundtable generally acknowledged that hitherto the development of *waqf* assets has been hampered primarily by issues relating to the three C's of Capital, Capability and Confidence. The SC is currently undertaking efforts to address the three C's within the context of ICM products and services in ways that would support the sustainability of *waqf* development.

CONCLUSION

The ICM has developed to become a viable alternative to its conventional counterpart as an avenue for fundraising and investment. Apart from its ability to attract broader participation by virtue of its compliance with Shariah requirements, the ICM operates based on principles that not only are universally accepted but, of late, are being increasingly prioritised. While this development augurs well for the future of the ICM, it also demands that product and service innovation initiatives, moving forward, be focused on promoting and achieving a delicate balance between commercial viability on the one hand, and sustainability and social equity on the other. In this regard, the SC aims to nurture a facilitative ecosystem that will enable the ICM to serve this objective in moving towards the new frontier.

⁶ World Halal Forum 2013.

MY WISHFUL THOUGHT ON THE DEVELOPMENT OF ISLAMIC BANKING AND FINANCE PRODUCTS FOR THE SOCIAL WELFARE SECTOR BY DATO' DR ABDUL HALIM ISMAIL¹

THE THREE SECTOR ISLAMIC ECONOMY

The Islamic economy may be conceived of as being made of three sectors. The first is the *siasi* sector. This is the government sector or public sector. In this sector, the Government deals with the private sector in the areas of economic activities, administration, maintenance of law and order and the like.

The second is the *tijari* sector. This is the private sector. In this sector, people deal among themselves largely in the areas of economic and social activities. This is the nerve centre of the economy.

The third is the *ijtimaai* sector. This sector may be referred to as social welfare sector. In essence, funds are raised in the Government and private sectors and distributed to the poor and needy.

THE DEVELOPMENT OF ISLAMIC BANKING AND FINANCE PRODUCTS SO FAR ONLY FOR GOVERNMENT SECTOR AND PRIVATE SECTOR

We have thus far developed Islamic banking and finance products to serve the Government sector in its relationships with the people in its economic and financial dealings. There is now a flow of funds from the government sector to the private sector and vice versa through various instruments of Islamic banking and finance. There are various types of Government Certificates, various types of sukuk and various types of investment management instruments.

The development of Islamic banking and finance is even more impressive within the private sector for the people to conduct economic activities and financial dealings

among themselves. Here an array of institutions has been set up. These include commercial banks, leasing companies, takaful companies, stockbroking companies, investment management services and the like. The contractual arrangements or *uqud* are also varied centering on *uqud al-ishtirak* (i.e. profit-sharing), *uqud al-mudayanat* (i.e. debt financing) and so on.

Another dimension of development in this area has been the increasingly cross-border dealings in the international arena.

In short, the development of Islamic banking and finance services for the government and private sectors thus far has been comprehensive and impressive.

THERE IS A VOID IN THE SOCIAL WELFARE SECTOR

However, the situation is in stark contrast in the *ijtimaai* or social welfare sector. Both the government and private sectors have a role to play in the social welfare sector. The duties here are almost solely to raise funds from the two sectors and distribute these funds to the poor and needy in the social welfare sector. And the function of Islamic banking and finance is to develop products and services to facilitate the flow of these funds.

But what has Islamic banking and finance done so far along this line of its duty? The answer is almost nothing. It is true that there is now the collection and distribution of *zakat* and, to some extent, of *waqf*. But this is done by the government sector, not the private sector, and largely not through banking and finance services.

Clearly, there is a void here.

¹ Public lecture by Dato' Dr Abdul Halim Ismail, the Recipient of the Royal Award for Islamic Finance 2014 at the Global Islamic Finance Forum 2014, Sasana Kijang, Kuala Lumpur, 4 September 2014.

ISLAMIC BANKING AND FINANCE TO BE IN LINE WITH ISLAMIC TEACHING

This is not, in my humble view, in line with what Islam stands for. Islam teaches a holistic approach. Any development should encompass all the three sectors. That is the whole *ummah*.

Verse *An Nur* 24: 36-37 the holy Quran states:

[Such niches are] in mosques which Allah has ordered to be raised and that His name be mentioned therein; exalting Him within them in the morning and the evening.

[Are] men whom neither commerce nor sale distracts from the remembrance of Allah and performance of prayer and giving of zakat. They fear a Day in which the hearts and eyes will [fearfully] turn about.

In these verses, in short, Allah SWT praises men and women who, while they daily conduct *tijarah* and *bai'*, this however does not cause them to ignore and neglect *zakat*.

Now, the term *tijarah* means trade in general. In detail, it includes all contractual activities of *al-mudharabah* and *al-musharakah* and all other *uqud al-ishtirak* (i.e. profit-sharing contract).

The term *bai'* means sale and purchase in general. In detail, it includes all contractual activities of *uqud al-muawadhat* (i.e. contract of exchange), in cash or deferred such as *al-bai'*, *al-murabahah*, *al-ijarah*, *al-istisna'* and the like.

Now we may ask: who are these people referred to in these verses as daily dealing in *tijarah* and *bai'*? The answer is: a group of them are officers in Islamic banking and finance. They develop the facilities and services of *tijarah* and *bai'* in their institutions, they offer them, and they operate them.

And, more, the verses continue to state while these men and women routinely do that, this does not cause them to ignore the remembrance of Allah, performance of prayers, and significantly the giving of *zakat*.

The term *zakat* or tithe is sometimes used interchangeably in Quran with *sadaqah* or charity. Hence *zakat* here may be taken to mean all form of *uqud al-tabarruat* (i.e. contract of charity) which includes *al-sadaqah*, *al-waqf*, and *al-hibah*.

“The form of organisation of a *sadaqah* house might be a foundation formed by the owner or a subsidiary company of the owner. An important requirement here is that the *sadaqah* house is owned and controlled by the banking group or any other organisation which is given the licence.”

Clearly, therefore, these verses of Quran are referring to the Islamic banking and financial dealings of *tijarah* and *bai'* which take place in the government and private sector, and *zakat* and *sadaqah* are supposed to take place in the social welfare sector. This is the holistic development of Islamic banking and finance in the three-sector Islamic economy.

It is therefore my wishful thought that from now on the Islamic banking and finance will embark on efforts to develop products and services for the social welfare sector. This is to be just one new line of development. Other lines of development may continue as usual.

INSTITUTIONAL FRAMEWORK

The service which we wish to develop revolves around *sadaqah*. To make things easy, let us take the existing *takaful* service as a model. And let us call the equivalent of a *takaful* company a *sadaqah* house (*bait as-sadaqah*). Therefore the *sadaqah* house would be in the business of providing products and services to collect various types of *sadaqah*, *waqf*, *hibah* and etc. mainly from the private sector and the needy in the social welfare sector.

The form of organisation of a *sadaqah* house might be a foundation formed by the owner or a subsidiary company of the owner. An important requirement here is that the

sadaqah house is owned and controlled by the banking group or any other organisation which is given the licence.

Like a *takaful* company, a *sadaqah* house would be a financial institution. It would operate in the Islamic banking system and the ICM. It is therefore under the supervision of Bank Negara Malaysia (BNM) and the SC as appropriate.

There should be a need for such an Act of Parliament and various BNM guidelines which specifically spell out important matters such as licensing and *sadaqah* houses, financial requirements and duties of *sadaqah* house; ownership, control and management of *sadaqah* houses; powers of supervision and control over *sadaqah* house; and the like.

Finally, in this area, if I may, I thought that in the initial five to 10 years, three to five licences may be given to the organisations which are preferably Islamic banking group.

PRODUCTS AND SERVICES: A SPECIAL PRODUCT OF SADAQAH JARIAH

We shall now turn to the possible products and services that a *sadaqah* house might offer. It might device a range of products and services through varying the nature of the related charities. For example, it might offer charities for specific or general purposes. Likewise, it might offer one-off charities, medium-term or long-term charities.

But I want to turn to a product which I consider to be very crucial in many ways at this stage of the development of the Islamic economy in Malaysia. The product is crucial to the giver, with a view to his life in the Hereafter (*akhirah*); crucial to the receiver, with a view to his long term sustenance and climbing out of poverty; and a challenge to the expertise and skills of Islamic banking and finance. The product is called, in the terminology of the related *hadith*, *sadaqah jariah* which means, approximately, charity in perpetuity. Charity, once given, is ongoing.

There is a famous Hadith on the substance of *sadaqah jariah*:

Abu Hurayrah (RA) reported that Allah's Messenger (PBUH) said: "When a human being dies, all of his deeds are terminated except for three types: an ongoing sadaqah, a knowledge (of Islam) from which

others benefit, and a righteous child who makes Du'aa for him."

(Muslim and others).

The *hadith*, in a liberal translation, says that when a person dies, all his channels of good deeds from which the reward flows will be stopped, except from three channels:

1. *sadaqah jariah*
2. beneficial knowledge which he has imparted and which people continue to practice, and
3. a pious son or daughter who continuously pray for him.

Now, let us strategically look at these three sources. Not many of us would have the beneficial knowledge and the opportunity to impart this knowledge, except perhaps for those who work in the teaching profession or in *dakwah* fields. Similarly, the pious son or daughter may not be reliable. A person may not have a son or daughter; or he has but the son and daughter may not be pious; or they are pious but unfortunately they may die before his die. Thus the best channel of the three is *sadaqah jariah*. This channel you can do it yourself here and now. You can plan and implement it how you want it to be.

As *sadaqah jariah* is charity in perpetuity, in essence in the category of charity, the principal charity amount is to be preserved intact forever, and only the profits are distributed regularly.

As mentioned earlier, the *sadaqah* house might accept this *sadaqah* in the form of the many Shariah contracts of *sadaqah*, *waqf*, *hibah*, etc. but it must make sure that it follows the variants of those contracts which transfer the ownership of the charity to the *sadaqah* house in perpetuity. This is to maintain the perpetual nature of the *sadaqah*.

In my view, it is highly advisable for the *sadaqah* house to accept *sadaqah* only in cash, but it may also wish to extend this to other Islamic banking and financial instruments such as shares and *sukuk* which may be converted to cash.

The *sadaqah* house may accept *sadaqah* at a minimum of, say, RM10 at one time at any time through deposit, bank transfers, salary deduction, etc.

I would like to point out the significance of this event. You would notice that through the sadaqah house, the Islamic banking and financial system would be able to offer to the Muslims the services of creating *sadaqah jariah* for themselves to everybody, at anytime and anywhere. This is a totally new phenomenon. Up to now, *sadaqah jariah* is only available through donating big-ticket items, such as land and buildings, only by the wealthy.

The mechanism for implementing *sadaqah jariah* would be for the *sadaqah* house to treat the principal amount of *sadaqah* as capital to be carefully preserved and prudently investing it to generate profits which will be regularly distributed. I would suggest that the investment should generally be confined to Islamic banking and financial instruments within the banking and financial institutions such as various types of deposit, investment accounts, sukuk and various investment management products.

In Malaysia, we need only to look at Lembaga Tabung Haji (LTH – Pilgrim Fund Board) and Permodalan Nasional Bhd (PNB) to be convinced that this method of investment will work and attain its objective. LTH has been successfully managing the deposit of its investors for the last 50 years, while PNB has done the same for its unitholders for the last 40 years.

My view is that the *sadaqah* house should provide this and other similar services at no loss to itself, but at a profit like any other financial institutions, although it might intentionally moderate its profit motive. Subject to the decision of the relevant religious supervisory council, *sadaqah* house should be allowed to charge the initial fee and annual fees on the amounts that it manages. Further, it is also my view that a *sadaqah* house should be allowed to keep all or a large part of the businesses that it generates within its respective banking groups, at arm's length.

We come now to a question which is perhaps on everyone's minds that is; will there be demand for this product? Will Muslims in the private sector give *sadaqah jariah*? Allow me to offer my views on this subject.

1. Regardless of the outcome, we in Malaysia have come to the stage where it has become our duty to organise our Islamic economy which integrally incorporates the social welfare sector.
2. There is healthy growth of population of Muslims in Malaysia. Their standard of living is continuously

“My view is that the Sadaqah House should provide this and other similar services at no loss to itself, but at a profit like any other financial institutions, although it might intentionally moderate its profit motive.”

improving. Their level of education is also improving. Consequently there is evidence now that their savings are increasing. *Sadaqah* is in a way a function of the level of income and savings.

3. In general, Muslims in Malaysia have become more conscious of the religious requirements placed on them. I am amazed at the term they use to describe this type of *sadaqah*. They say '*saham Akhirat*', i.e. stock of The Hereafter or investment for the 'Hereafter'.
4. Perhaps we could be guided by what has happened in the collection of *zakat* in the government sector. In Malaysia, the collection of *zakat* is nearly always undertaken by a body under the religious departments of the various states. The amounts collected appear to be continuously rising over the years. In some states, the collection is now in excess of RM100 million per state per year.
5. A large part of the success of the introduction of *sadaqah jariah* would hinge on how the *sadaqah* house manages the information flow, publicity and advertisement of the *sadaqah jariah*. For example, many Muslims would be touched if they are correctly and clearly explained the meaning of the verse of Al-Quran.

Verse *Al-Hashr* 59: 18 of the holy Quran states:

O you who have believed, fear Allah. And let every soul look to what it has put forth for

tomorrow – and fear Allah. Indeed, Allah is Acquainted with what you do.

This verse says that “You who believe, fear Allah, and everyone should look closely and carefully at what he has done to prepare for his future”, i.e. his days in the Hereafter. And then, gently inform him the *sadaqah jariah* is precisely one form of preparation that has been designed for his requirement.

Finally, the *sadaqah* house will need a clear and concise plan for the periodic distribution of the profits. Perhaps the individual *sadaqah* house may prefer to specialise in one or two specific areas such as the livelihood of the poor and the needy, health services, education services, and so on.

In the initial years, however, the *sadaqah* house may want to concentrate on getting the *sadaqah* and may opt to use the existing channels for distribution such as the State Religious Department, *dakwah* bodies and the Government Social Welfare Department to do the distribution on its behalf.

THE DIFFERENCE

People often ask me; what is the difference between Islamic banking and conventional banking? Now, if this movement catches on and becomes a reality, I shall tell the people; Islamic banking and finance is based on a three-sector Islamic economy, and it integrally incorporates the social welfare sector, whereas the conventional banking and finance does not.

NEWS ROUND-UP

7th International Islamic Capital Market Forum

To sustain its international profiling, the SC undertook several initiatives including the 7th International Islamic Capital Market Forum. Theme 'Malaysia's ICM: Moving to A New Frontier' it was held on 3 September in conjunction with the Global Islamic Finance Forum 2014. It featured senior industry practitioners who deliberated on new growth areas for the ICM such as integrating the *halal* market with Islamic finance and profiling Islamic investing alongside ethical and responsible investing. The event saw participation of more than 150 participants.

9th Islamic Markets Programme

The 9th Islamic Markets Programme (IMP), held from 11 to 14 August 2014, was directed towards individuals involved in any aspect of Islamic finance and would be most helpful in preparing professionals dealing with Islamic products and institutions. Themed 'Strengthening the Wellbeing of Societies', the IMP attracted 42 local and international participants including Islamic finance practitioners, members of academia and regulators. Renowned speakers both local and international shared their expert views and experiences at the programme.

Shariah Advisers Programme

The Shariah Advisers Programme, with the theme 'Exploring the Potential of Gold as Underlying Asset in ICM Products', was held on 16 October 2014. It served as a platform for participants to understand Shariah perspectives and requirements on gold trading, and to explore the potential of gold as an underlying asset in ICM products. About 100 participants comprising registered Shariah advisers with the SC and BNM as well as Shariah officers from the Islamic financial institutions attended the programme.

10th World Islamic Economic Forum

The SC's participation at the 10th World Islamic Economic Forum (WIEF), held from 28 to 30 October 2014 in Dubai, marked its first direct involvement in this major annual event on Islamic economy. The event was a good opportunity to profile Malaysia's ICM to a broad range of industry stakeholders, including potential issuers and institutional investors, especially from the Gulf Cooperation Council countries. In addition to participating as speakers, the SC organised an ICM programme and managed an exhibition booth to profile the value proposition and capabilities of Malaysia's ICM and its intermediaries as well as showcase the investment and fund-raising opportunities.

Industry participation and stakeholders' engagement

During the second half of 2014, the SC participated in the following events organised by various international organisations to promote and create greater awareness and participation in Islamic finance particularly the Islamic capital market:

- Global Islamic Finance Forum, 3–4 September (Kuala Lumpur, Malaysia);
- Training and Capacity Building for Board of Directors of National Bank of Kenya, 18 September (Kuala Lumpur, Malaysia);
- IFSB-FIS Workshop for Regulatory & Supervisory Authorities of the IFSB Member Countries (Islamic Capital Market Sector), 3–5 November (Kuala Lumpur, Malaysia);
- 11th Kuala Lumpur Islamic Finance Forum (KLIFF) 2014, 11–12 November (Kuala Lumpur, Malaysia);
- RAM's Annual Bond Market Conference, 11 November (Kuala Lumpur, Malaysia);
- KLIFF Roundtable In Islamic Finance 2014, 12 November (Kuala Lumpur, Malaysia);
- CIBAFI Technical Workshop on ICM, 17–19 November (Dubai, UAE);
- AAOIFI-World Bank Annual Conference on Islamic Banking and Finance, 18 November (Manama, Bahrain); and
- International Waqf Seminar, 7–10 December (Kuala Lumpur, Malaysia).

MALAYSIAN ICM – FACTS AND FIGURES

Shariah-compliant Securities on Bursa Malaysia

	Dec 2014	Dec 2013
Number of Shariah-compliant securities	673	650
Total listed securities	906	911
% to total listed securities	74.3	71.4
Market capitalisation (RM billion)		
Shariah-compliant securities	1,012.14	1,029.62
Total market capitalisation	1,651.17	1,702.15
% to total market capitalisation	61.3	60.5

Source: SC

Equity Market Indices

Equity market indices	31 Dec 2014	31 Dec 2013	% change
FBM KLCI	1,761.25	1,866.96	-5.7
FBM EMAS Shariah	12,507.03	13,051.60	-4.2
FBM Hijrah Shariah	14,468.70	14,323.63	1.0
DJIM Malaysia Titans 25	1,005.75	1,057.59	-4.9

Source: SC

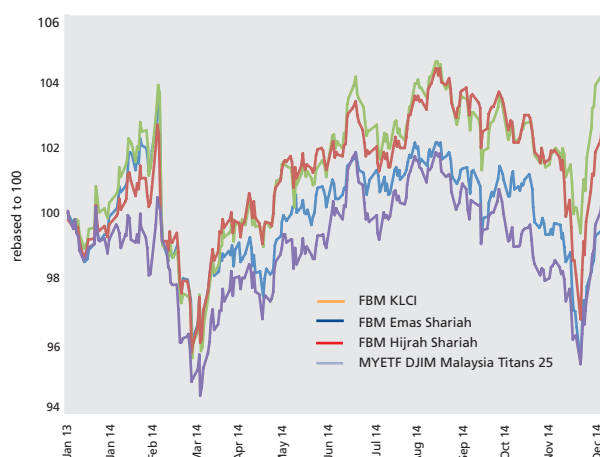
Sukuk

Corporate sukuk approved	2014	2013
Number of sukuk	47	49
Size of sukuk (RM billion)	76.07	99.13
Size of total bonds approved (RM billion)	138.15	148.07
% of size of sukuk to total bonds approved	55.1%	66.9%
Total sukuk issued (RM billion)	2014	2013
Size of sukuk issued	262.76	275.77
Size of total bonds issued	492.23	502.03
% of sukuk issued to total bonds issued	53.4%	54.9%
Total sukuk outstanding (RM billion)	2014	2013
Size of outstanding sukuk	576.31	512.13
Size of total outstanding bonds	1,109.71	1,030.89
% of outstanding sukuk to total outstanding bonds	51.9%	49.7%

Source: SC

Chart 1

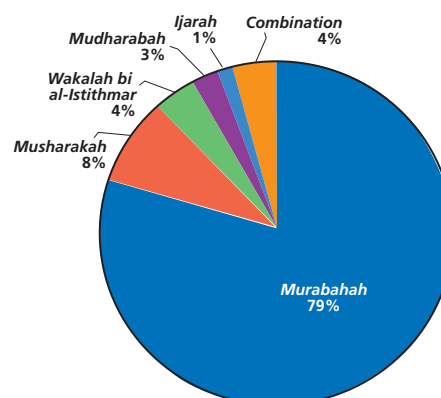
KLCI and Shariah index 1-year performance



Source: SC

Chart 2

Size of corporate sukuk approved based on Shariah principle in 2014



Source: SC

Sukuk Listing on LFX as at 31 December 2014

No.	Issuer name	Listing date
1.	Petronas Global Sukuk Ltd – US\$1.5 billion due 2014	14 Aug 09
2.	1Malaysia Sukuk Global Bhd – US\$1.25 billion due 2015	08 Jun 10
3.	Danga Capital Bhd – SG\$600 million Trust Certificates due 2015	12 Aug 10
4.	Danga Capital Bhd – SG\$900 million Trust Certificates due 2020	12 Aug 10
5.	Wakala Global Sukuk Bhd – US\$1.2 billion due 2016	07 Jul 11
6.	Wakala Global Sukuk Bhd – US\$800 million due 2021	07 Jul 11
7.	Danga Capital Bhd – CNY500 million Trust Certificates due 2014	21 Oct 11
8.	Pulai Capital Limited (Khazanah) - US\$357.8 million due 2019	22 Mar 12
9.	Indah Capital Limited – SG\$600 million Trust Certificates due 2019	25 Oct 13
10.	Exim Sukuk Malaysia Bhd – US\$300 million due 2019	20 Feb 14
11.	Cahaya Capital Limited – US\$500 million due 2021	19 Sep 14

Source: Labuan International Financial Exchange (LFX)

Islamic assets under management (AUM)

(RM billion)	Dec 2014	Dec 2013
Islamic AUM of FMCs	110.60	97.50
Total fund management industry	629.98	588.41
% Islamic AUM of FMCs to total industry	17.6	16.6

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

Source: SC

Number of launched funds

Unit trust funds (UTF)	Dec 2014	Dec 2013
Islamic UTF	188	178
Total industry	612	595
NAV Islamic UTF (RM billion)	46.66	42.82
NAV Total industry (RM billion)	343.02	335.51
% to total industry	13.6	12.8

Wholesale funds (WF)	Dec 2014	Dec 2013
Islamic WF	69	52
Total industry	230	193
NAV Islamic WF (RM billion)	23.45	16.43
NAV Total industry (RM billion)	73.30	59.45
% to total industry	32.0	27.6%

Sukuk Listing under Bursa Malaysia's Exempt Regime as at 31 December 2014

No.	Issuer name	Listing date
1.	1Malaysia Sukuk Global Bhd (Government of Malaysia)	08 Jun 10
2.	AmIslamic Bank Bhd	01 Oct 10
3.	Axiata SPV2 Bhd	19 Sep 12
4.	Cagamas MBS Bhd	14 Aug 09
5.	Cahaya Capital Limited	19 Sep 14
6.	CIMB Islamic Bank Bhd	29 Dec 09
7.	Danga Capital Bhd	31 Dec 09
8.	GE Capital Sukuk Limited (General Electric)	30 Nov 09
9.	Hong Kong Sukuk 2014 Limited	19 Sep 14
10.	IDB Trust Services Limited (Islamic Development Bank)	01 Dec 10
11.	Indah Capital Limited	25 Oct 13
12.	Khazanah Nasional Bhd	31 Dec 09
13.	Malaysia Airports Capital Bhd	30 Nov 10
14.	Petronas Global Sukuk Limited	13 Aug 09
15.	Pulai Capital Limited	22 Mar 12
16.	Rantau Abang Capital Bhd	31 Dec 09
17.	Sime Darby Bhd	28 Jan 10
18.	Sime Darby Global Bhd	30 Jan 13
19.	Tadamun Services Bhd (Islamic Development Bank)	24 Aug 10
20.	Wakala Global Sukuk Bhd	07 Jul 11

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

Private retirement schemes (PRS)	Dec 2014	Dec 2013
Islamic PRS	18	17
Total industry	46	44
NAV Islamic PRS (RM million)	207.50	79.52
NAV Total industry (RM million)	716.05	299.82
% to total industry	29.0	26.5

Exchange traded funds (ETF)	Dec 2014	Dec 2013
Islamic ETF	2	1
Total industry	6	5
Market Cap Islamic ETF (RM billion)	0.31	0.31
Market Cap Total industry (RM billion)	1.00	1.03
% to total industry	31.0	30.1

Number of launched funds

Real estate investment trusts (REIT)	Dec 2014	Dec 2013
Islamic REIT*	3	4
Total industry	16	17
Market Cap Islamic REIT (RM billion)	15.06	14.14
Market Cap Total industry (RM billion)	35.67	33.13
% to total industry	42.2	42.7

* including one stapled securities (equity + REIT)

Source: SC

List of companies offering Islamic stockbroking services as at 31 December 2014

No.	Company	Type
1.	BIMB Securities Sdn Bhd	Full Fledged
2.	Affin Hwang 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

List of Islamic fund managers as at 31 December 2014

No.	Company
1.	Aberdeen Islamic Asset Management Sdn Bhd
2.	AmlIslamic Funds Management Sdn Bhd
3.	Amundi Islamic Malaysia Sdn Bhd
4.	Asian Islamic Investment Management Sdn Bhd
5.	BIMB Investment Management Bhd
6.	BNP Paribas Investment Partners Najmah Malaysia Sdn Bhd
7.	CIMB-Principal Islamic Asset Management Sdn Bhd
8.	Eastspring Al-Wara' Investments Bhd
9.	Franklin Templeton GSC Asset Management Sdn Bhd
10.	Guidance Investments Sdn Bhd
11.	i-VCAP Management Sdn Bhd
12.	Kenanga Islamic Investors Bhd
13.	KFH Asset Management Sdn Bhd
14.	Maybank Islamic Asset Management Sdn Bhd
15.	Muamalat Invest Sdn Bhd
16.	Nomura Islamic Asset Management Sdn Bhd
17.	PMB Investment Bhd
18.	RHB Islamic International Asset Management Bhd
19.	Saturna Sdn Bhd
20.	Threadneedle Asset Management Malaysia Sdn Bhd

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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