



malaysian ICM



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

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ESTABLISHING MALAYSIA AS A LEADING INTERNATIONAL CENTRE FOR ISLAMIC FUND AND WEALTH MANAGEMENT

Malaysia has been widely recognised as the world leader in Islamic capital market (ICM) with a market size of RM1.7 trillion, which has more than doubled over the last decade. As the only country in the world with a framework for Islamic fund management companies, it now houses 20 full-fledged Islamic fund managers including large international firms. Combined with other fund management companies operating Islamic windows, Malaysia has RM149.6 billion worth of Islamic assets under management (AUM), which is among the largest in the world.

The launch of Malaysia's *Islamic Fund and Wealth Management Blueprint* (Blueprint) represents the country's focused and concerted efforts in leveraging its well-established Islamic fund management industry. As part of the holistic development of Malaysia's Islamic markets and consistent with the *Capital Market Masterplan 2*, the Blueprint will also drive greater internationalisation of the Islamic fund and wealth management industry through enhanced cross-border capabilities and connectivity.

The Blueprint has identified strategies and key initiatives to strengthen Malaysia's positioning as a global hub for Islamic funds and develop the country as an international provider of Islamic wealth management services. It also aims to establish Malaysia as a regional centre for Shariah-compliant sustainable and responsible investment (SRI), leveraging Malaysia's position as the largest SRI market in Asia.

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The Blueprint also addresses three entry-point projects under the National Key Economic Area (NKEA) for financial services, namely to spur the growth of the nascent wealth management industry, to accelerate and sustain a significant asset management industry, and for Malaysia to become the global hub for Islamic finance. This aligns with Malaysia's Economic Transformation Programme, signifying the strategic importance of this Blueprint.

Initial work programmes arising from the Blueprint's recommendations will include the formulation of the framework for SRI funds, the setting up of a global capacity building centre for ICM and the introduction of a digital investment services framework, which will be implemented on a phased approach.

SHARIAH ADVISORY COUNCIL RESOLUTIONS

The Shariah Advisory Council (SAC) of the Securities Commission Malaysia (SC) continuously plays its crucial role in providing guidance as a reference centre for Shariah matters in ICM-related issues. In line with the positive growth of ICM in Malaysia, the SAC has discussed and resolved the following issues:

(1) PURIFICATION OF TAINTED INCOME BY INVESTORS

The purification of dividends received and excess capital gained from the disposal of Shariah non-compliant securities after the date of announcement, as well as capital gained and dividends received from the disposal of Shariah non-compliant securities which were mistakenly invested (Tainted Income) to be undertaken by the investors themselves instead of the fund manager of the Islamic funds is permissible subject to the following conditions:

- (i) Upon receipt of the Tainted Income, the fund manager shall deposit the Tainted Income into a separate account which is segregated from the account of the Islamic fund;
- (ii) The fund manager shall distribute the Tainted Income to the investors as soon as practically possible which shall be advised by the Shariah adviser of the Islamic fund;
- (iii) The fund manager shall inform/notify the investors of their obligations to purify the Tainted Income in accordance with the Shariah principles upon the distribution of the Tainted Income to the investors; and
- (iv) The processes and procedures for the purification of the Tainted Income by the investors shall be clearly disclosed in the prospectus/offering document.

The SAC also resolved that it had no objection for the fund manager to utilise a portion of the Tainted Income to pay all cost associated with the distribution of the Tainted Income.

(2) COLLATERAL FOR ISLAMIC SHARE MARGIN FINANCING

The current practice by the Islamic Participating Organisations (POs) is to accept only Shariah-compliant securities as collateral for Islamic share margin financing (Islamic SMF).

However, when such securities are subsequently reclassified to Shariah non-compliant securities (SNCS) by the SAC in its biannual review, the Islamic POs would automatically exclude such securities as collaterals resulting in margin call and/or forced selling. Therefore, an issue was raised on whether it is permissible for the Islamic POs to maintain Shariah-compliant securities, which have been reclassified to SNCS, as collaterals for Islamic SMF. The SAC has resolved that it is permissible until the end of the Islamic SMF tenure.

(3) UTILISATION OF SUKUK PROCEEDS

As a general ruling, the proceeds raised from any issuance of sukuk based on various Shariah principles must be utilised for Shariah compliant purposes only. The SAC has further resolved that utilisation of the sukuk proceeds for the following purposes are also Shariah compliant:

(i) Refinancing of Conventional Borrowings

The sukuk proceeds may be utilised to refinance (wholly or partly) conventional borrowings.

(ii) General Business

The sukuk proceeds may be utilised for general business of the issuer including for general corporate purposes, working capital requirements and capital expenditures provided that the principal activities of the issuer are Shariah compliant based on the following business activity benchmarks (Benchmarks):

- (a) 5% in respect of businesses/activities as specified in Appendix 1; or
- (b) 20% in respect of businesses/activities as specified in Appendix 2.

(iii) Construction of Building Consisting of Shariah Compliant and Shariah Non-Compliant Activities (Building with Mixed Activities)

The sukuk proceeds may be utilised for construction of the Building with Mixed Activities provided that the floor area to be used for the Shariah non-compliant activities is less than 49% of the total floor area.

If the construction involves Building with Mixed Activities as well as building with fully Shariah-

compliant activities, the denominator for computing the 49% benchmark shall be based on the total floor area of the Building with Mixed Activities only.

(iv) Refurbishment, Expansion, Repair and/or Maintenance of the Building with Mixed Activities

The sukuk proceeds may be utilised for refurbishment, expansion, repair and/or maintenance of the Building with Mixed Activities subject to these conditions:

- (a) If the revenue received from the Shariah non-compliant activities in the Building with Mixed Activities could be determined, the said revenue computed against the total revenue from the Building with Mixed Activities must be less than the following Benchmarks:
 - (i) 5% in respect of businesses/activities as specified in Appendix 1; or
 - (ii) 20% in respect of businesses/activities as specified in Appendix 2; or
- (b) If the said revenue could not be determined, the issuer must ensure and confirm that the section/area used for Shariah non-compliant activities must be less than 20% of the total floor area of the Building with Mixed Activities.

The refurbishment, expansion, repair and/or maintenance of the Building with Mixed Activities must be done on a general basis and not on any specific area where Shariah non-compliant activities are carried on in the said Building with Mixed Activities.

(v) Operation and Management of the Building with Mixed Activities

The sukuk proceeds may be utilised for the operation and management of the Building with Mixed Activities by the issuer provided that the revenue received from the Shariah non-compliant activities in the said Building with Mixed Activities, computed against the total revenue from the Building with Mixed Activities must be less than the following Benchmarks:

- (a) 5% in respect of businesses/activities as specified in Appendix 1; or
- (b) 20% in respect of businesses/activities as specified in Appendix 2.

(vi) Acquisition of the Building with Mixed Activities

The sukuk proceeds may be utilised for acquisition of the Building with Mixed Activities provided that the revenue received from the Shariah non-compliant activities in the said Building with Mixed Activities to be acquired by the issuer, computed against the total revenue from the Building with Mixed Activities must be less than the following Benchmarks:

- (a) 5% in respect of businesses/activities as specified in Appendix 1; or
- (b) 20% in respect of businesses/activities as specified in Appendix 2.

The Benchmarks as specified above are only applicable at the point of issuance of the sukuk.

Appendix 1

- (i) Conventional banking;
- (ii) Conventional insurance;
- (iii) Gambling;
- (iv) Liquor and liquor-related activities;
- (v) Pork and pork-related activities;
- (vi) Non-halal food and beverages;
- (vii) Shariah non-compliant entertainment;
- (viii) Tobacco and tobacco-related activities; and
- (ix) Other activities deemed non-compliant according to Shariah as determined by the SAC of SC.

Appendix 2

- (i) Share trading;
- (ii) Stockbroking business;
- (iii) Rental received from Shariah non-compliant activities; and
- (iv) Other activities deemed non-compliant according to Shariah as determined by the SAC of SC.

SC UNVEILS FIVE-YEAR ISLAMIC FUND AND WEALTH MANAGEMENT BLUEPRINT

On 12 January 2017, the SC launched its five-year *Islamic Fund and Wealth Management Blueprint* (Blueprint) to drive further development and growth of Malaysia's Islamic capital market. Officiating the Blueprint launch on behalf of the Prime Minister, Dato' Sri Mohd Najib Tun Razak was Datuk Seri Johari Abdul Ghani, Finance Minister II. Taking into account global trends including the rising affluence in Asia-Pacific and emerging Muslim economies, the Blueprint aims to leverage Malaysia's well-developed Islamic capital market ecosystem to establish Malaysia as a leading international centre for Islamic fund and wealth management.

In conjunction with the launch of the Blueprint, SC organised the International Fund Forum (IFF) 2017, featuring prominent market strategists and senior representatives from leading fund houses. The IFF attracted over 300 international and domestic industry stakeholders. The speakers shared their thoughts on global economic and market outlook, and prospects for the investment management industry arising from shifts in international wealth trends and growing emphasis on sustainable and responsible investment.

Prior to the IFF, Datuk Seri Johari Abdul Ghani also met with 20 international senior industry experts from leading global fund management and investment institutions at a closed-door dialogue. Attendees included representatives from Hong Kong, Korea, Singapore and UK. The dialogue covered topics on domestic, regional and global relevance including investment viewpoints, market perspectives and opportunities in Malaysia's economic and corporate landscape.



From Left to Right: Datuk Seri Muhammad Ibrahim, Governor Bank Negara Malaysia, Tan Sri Dato' Seri Ranjit Ajit Singh, Chairman of SC, Datuk Seri Johari Abdul Ghani, Finance Minister II, Senator Dato' Lee Chee Leong, Deputy Finance Minister II and Zainal Izlan Zainal Abidin, Managing Director, Development and Islamic Markets, SC.



International Fund Forum 2017

PROFESSOR DATUK RIFAAT AHMED ABDEL KARIM NAMED RECIPIENT OF THE ROYAL AWARD FOR ISLAMIC FINANCE 2016

On 14 November 2016, the Royal Award for Islamic Finance 2016 (The Royal Award) accorded Professor Datuk Rifaat Ahmed Abdel Karim as the fourth recipient, recognising his outstanding contribution to Islamic finance. He received The Royal Award from His Majesty, King of Malaysia, Yang di-Pertuan Agong, Tuanku Abdul Halim Mu'adzam Shah ibni Almarhum Sultan Badlishah, during a Gala Dinner held in Kuala Lumpur.

The Royal Award held biennially, recognises individuals who have excelled in advancing Islamic finance globally through their outstanding performance and contributions. Spearheaded by SC and Bank Negara Malaysia, the Royal Award is unique as it focuses on the individual's outstanding contribution and its impact towards the global development of Islamic finance, beyond commercial achievements.

The Royal Award is also intended to inspire personalities to contribute towards the Islamic finance industry by pioneering certain fields of Islamic finance either through policymaking, implementation, institutionalisation, standards setting, industry building, education, Shariah, innovation, etc. Individuals of such quality would influence

the development and growth of the Islamic finance industry.

Professor Datuk Rifaat was recognised for his instrumental role in the establishment of two international standards setting bodies namely the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and the Islamic Financial Services Board (IFSB), and his contribution towards the development of various international standards on Shariah and accounting as well as prudential and disclosure standards. In 2012, Professor Datuk Rifaat assumed the position of CEO of International Islamic Liquidity Management Corporation, an international institution established by central banks, monetary authorities and multilateral organisations to issue short-term Shariah-compliant tradable financial instruments to facilitate cross-border liquidity management among Islamic banks.

Previous recipients of The Royal Award were Dato' Dr Abdul Halim Ismail, founding member of Malaysia's first Islamic bank (2014), Mr Iqbal Khan, CEO of Fajr Capital (2012) and Shaikh Saleh Abdullah Kamel, founder of the Dallah al Baraka Group (2010).



From left to right: Fourth recipient of The Royal Award, Professor Datuk Rifaat Ahmed Abdel Karim, Tan Sri Dato' Seri Ranjit Ajit Singh, Chairman of SC, His Royal Highness, Sultan of Perak, Sultan Nazrin Muizzuddin Shah, His Majesty, King of Malaysia, Yang di-Pertuan Agong, Tuanku Abdul Halim Mu'adzam Shah ibni Almarhum Sultan Badlishah, Datuk Seri Muhammad Ibrahim, Governor of Bank Negara Malaysia, Datuk Seri Johari Abdul Ghani, Finance Minister II and Tun Musa Hitam, Chairman, Jury Panel of The Royal Award.

Note:

- His Majesty, King of Malaysia, Yang di-Pertuan Agong, Tuanku Abdul Halim Mu'adzam Shah ibni Almarhum Sultan Badlishah from 13 December 2011 until 12 December 2016.
- Professor Datuk Rifaat Ahmed Abdel Karim was Chief Executive Officer, International Islamic Liquidity Management Corporation from October 2012 to December 2016.

COMCEC CAPITAL MARKETS REGULATORS FORUM

In October 2016, at the fifth meeting of the Standing Committee for Economic and Commercial Cooperation of the Organization of Islamic Cooperation (COMCEC) Capital Markets Regulators Forum, the Islamic Finance Task Force, led by SC, presented a capacity building initiative pertaining to Shariah governance. The initiative aims to promote continuous professional development for Shariah scholars

among COMCEC member countries whereby a training programme has been identified for the enhancement of Shariah scholars' skills and capacity. This capacity building programme is expected to enhance collaboration and co-operation among COMCEC member countries. During the meeting, SC was also re-elected as chairman of the Islamic Finance Task Force for another two years.

SC-OCIS SCHOLAR IN RESIDENCE PROGRAMME IN ISLAMIC FINANCE AT THE OXFORD CENTRE FOR ISLAMIC STUDIES FOR ACADEMIC YEAR 2017/18

In December 2016, SC and the Oxford Centre for Islamic Studies (OCIS) opened the nominations for the sixth Visiting Fellowship at OCIS under the Scholar in Residence (SIR) Programme in Islamic Finance, for the academic year commencing October 2017.¹

The SIR Programme is an initiative to further research on contemporary issues in Islamic Finance, particularly in the area of Islamic capital markets. The Programme, as well as the broader collaboration with OCIS, is part of SC's ongoing thought leadership and capacity building initiatives to advance the development of Islamic capital markets globally.

The selected scholar will take up residence in Oxford commencing October 2017 for the academic year 2017/18, to conduct research relating to the development of Islamic finance on a topic of contemporary relevance to this field, and to participate in a range of academic activities at OCIS.

In addition, the Visiting Fellow will be expected to give occasional lectures and conduct seminars, to engage in collaborative study, and upon request, to provide outreach to relevant institutions and the local community. The tenure of the Fellowship is for one academic year.

The programme was set up in 2012 following a resolution made at the SC-OCIS Roundtable, an annual flagship event under the collaboration. Since the launch of the Programme, four scholars have successfully completed their research on topical issues relevant to Islamic finance. The fifth Scholar is currently in residence as a Visiting Fellow.

Applicants and nominees for the Visiting Fellowship under the SIR Programme must be specialists in Islamic finance and/or from a closely related discipline, and must be able to demonstrate competence to conduct independent academic research.

¹ The closing date for submission ended in February 2017.

UPDATED LIST OF SHARIAH-COMPLIANT SECURITIES

Securities Commission Malaysia (SC) released an updated list of Shariah-compliant securities approved by its Shariah Advisory Council (SAC) which took effect on 25 November 2016. The list featured a total of 672 Shariah-compliant securities which constitute 74% of the total 904 listed securities on Bursa Malaysia.

It included 34 newly classified Shariah-compliant securities and excluded 30 from the previous list issued in May 2016. The full list which is updated twice a year based on the companies' latest annual audited financial statements is available on SC website at www.sc.com.my.

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	102	130	78
Industrial products	187	239	78
Mining	Nil	1	Nil
Construction	41	46	89
Trading/Services	152	215	71
Properties	76	95	80
Plantation	34	41	83
Technology	72	90	80
Infrastructure (IPC)	4	5	80
Finance	2	33	6
SPAC	2	4	50
Hotels	Nil	4	Nil
Closed-end fund	Nil	1	Nil
TOTAL	672	904	74

* As at 21 November 2016

ISLAMIC CAPITAL MARKETS

PRINCIPLES & PRACTICES



KEY FEATURES OF THE BOOK

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

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KEY SUBJECTS

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

MARKET AND AUDIENCE

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

MALAYSIA FIRST IN ASEAN TO REGULATE P2P FINANCING

In November 2016, SC announced six registered Peer-to-Peer (P2P) financing platform operators in Malaysia to widen funding avenues for small and medium enterprises (SMEs) following the introduction of the P2P financing framework issued in April 2016. B2B FinPAL, Ethis Kapital, FundedByMe Malaysia, ManagePay Services, Modalku Ventures and Peoplender are the six registered operators, expected to be fully operational in 2017. This makes Malaysia the first country in ASEAN region to regulate P2P financing.

The SC was also the first to put in place a regulated framework for equity crowdfunding (ECF) in 2015 to provide early-stage financing for start-up entrepreneurs, aims to address funding needs of SMEs to raise working capital or capital for growth. As of October 2016, 11 Malaysian SMEs have raised a total of RM8 million via the six ECF platforms.

In his opening address at the SCxSC Digital Finance Conference 2016, Tan Sri Dato' Seri Ranjit Ajit Singh, SC Chairman, highlighted that SC's digital agenda are to achieve four key objectives, namely to enhance access to financing, increase investor participation, augment the institutional market and develop a synergistic ecosystem. Market-based financing including P2P and ECF will help enhance access to financing for entrepreneurs and SME businesses in Malaysia.

“The SC will also introduce its Digital Investment Services Framework in 2017 to meet the investment needs of the emerging digital generation and increase investor participation.”

The SC will also introduce its digital investment services framework in 2017 to meet the investment needs of the emerging digital generation and increase investor participation. This will allow approved licensees to offer automated discretionary portfolio management which is a more cost-effective, accessible and convenient channel for investors to manage and grow their wealth.

While the SC advocates the benefits of digital finance, it is also mindful of the new forms of risks and challenges posed by technology. The SC has issued a cyber-risk framework to raise wider awareness and put in place guidelines to improve industry-wide resilience.

SC INTRODUCES INITIATIVES TO ENHANCE COMPETITIVENESS, IMPROVE EFFICIENCY OF UNIT TRUST INDUSTRY

In July 2016, SC announced new initiatives to enhance the competitiveness and efficiency of the Malaysian unit trust industry. Amendments to the relevant guidelines reflecting these initiatives took effect on 15 August 2016. Key changes include an expedited approval process for non-complex retail unit trust funds to reduce time to market, and removing the need for prospectuses to be renewed on an annual basis for greater operational efficiency.

As part of SC's efforts to continuously improve approval and authorisation processes for greater market efficiency without compromising investor interest, SC liberalised the authorisation regime for wholesale products, including wholesale funds, with the Lodge and Launch framework in 2015. Applying the same principle of regulatory proportionality, SC introduced an expedited authorisation process for non-complex funds that reduce time to market.

“The amendments will enable issuers to only provide updates on changes in the prospectuses via notifications, supplementary prospectuses or where appropriate, replacement prospectuses. This will also help ensure that changes are highlighted to investors and they receive such information expeditiously.”

Consultations with the industry and Federation of Investment Managers Malaysia have supported SC's view that unit trust issuers ought to be provided greater flexibility in offering funds to investors while empowering the industry to be more responsible by encouraging self-discipline and market discipline. Investors also stand to benefit from this new process as issuers are able to refocus their efforts into bringing more product offerings to the market in a shorter time.

Currently, the authorisation period for retail unit trust funds can take up to three months as the 15 business days authorisation process only begins after all complete information is received. With the expedited framework, applications for non-complex retail funds will receive authorisation from SC within 10 business days after submission. Applicants are responsible to ensure that applications are complete and accurate at the time of submission. SC will authorise their funds based on such representations. The existing authorisation framework will continue to apply for all other types of retail funds.

In addition to enhancements in the approval process, the 12-month validity period for prospectuses was also removed. Issuers no longer need to reissue and reprint the prospectus on an annual basis and will benefit from savings on reissuance costs. The amendments will enable issuers to only provide updates on changes in the prospectuses via notifications, supplementary prospectuses or where appropriate, replacement prospectuses. This will also help ensure that changes are highlighted to investors and they receive such information expeditiously. Certain information previously disclosed in prospectuses such as information on fund performance will be reflected in the Product Highlights Sheets that are provided for investors to enable them to make an informed investment decision.

The relevant guidelines namely *Guidelines on Unit Trust Funds*, *Prospectus Guidelines for Collective Investment Schemes* and *Guidelines on Sales Practices of Unlisted Capital Market Products* as well as a series of FAQs, including the expedited authorisation process, are available on SC website for reference.

GUIDELINES TO ENHANCE CYBER RESILIENCE OF THE CAPITAL MARKET

In October 2016, SC issued new guidelines to enhance cyber resilience of the capital market by requiring capital market entities to establish and implement effective governance measures to counter cyber risk and protect investors.

The *Guidelines on Management of Cyber Risk* (Guidelines), among other requirements, clearly stipulate the roles and responsibilities of the board and senior management in building cyber resilience of a capital market entity. The Guidelines have also mandated the entity to identify a responsible person to be accountable for the effective management of cyber risk.

These measures aim to ensure that cyber risk is managed in an optimised manner, in light of the changing landscape in the market. These Guidelines require regulated entities to have in place a risk management framework to minimise cyber threats, implement adequate measures to identify potential vulnerabilities in their operating environment and ensure timely response and recovery in the event of a cyber breach. In this regard, regulated entities are required to implement adequate physical and systems security arrangements.

The involvement of the board and senior management is important to ensure that the capital market entity puts adequate focus on cyber risk issues, determines risk tolerance and priorities, as well as allocates sufficient resources to cyber risk. These Guidelines require the entity to outline the roles and responsibilities of the board, responsible person and key personnel in critical functions to manage cyber risk.

“These Guidelines require the entity to outline the roles and responsibilities of the board, responsible person and key personnel in critical functions to manage cyber risk.”

To enable SC to engage effectively with capital market entities and share information on cyber breaches and potential cyber threats, regulated entities are required to report cyber incidents. This engagement will enhance industry's awareness, and preparedness in dealing with cyber risk. It will also provide a platform for SC to collaborate with market entities and stakeholders to enhance cyber resilience on an ongoing basis.

These Guidelines will be implemented in phases. Entities will be selected for the different phases based on, among others, size, nature of activities and market share.

The *Guidelines on Management of Cyber Risk* which took effect on 31 October 2016 is available on SC website.

ISLAMIC FUND AND WEALTH MANAGEMENT BLUEPRINT — LEADING NEW SEGMENT IN ASIA

Culminating from an assessment of market segments which Malaysia could further develop, the Islamic fund and wealth management as well as sustainable and responsible investment segments have been clearly identified to have significant potential in driving further growth of Malaysia's ICM and enhancing its international competitiveness.

The *Islamic Fund and Wealth Management Blueprint* (Blueprint) with a vision to establish Malaysia as a leading international centre for Islamic fund and wealth management has been developed to chart the medium and long-term strategic direction for the industry. It leverages Malaysia's existing strength in Islamic finance and taps into global niche opportunities in underdeveloped and new market segments. To strengthen Malaysia's competitive edge, the Blueprint sets out three strategic thrusts with recommendations to be implemented over a five-year period. Key highlights of the thrusts and recommendations are as follows:

THRUST #1

Strengthen Malaysia's positioning as a global hub for Islamic funds

The emphasis of this strategic thrust is to widen the international base of the Islamic fund management industry by accelerating efforts to scale up the size of operations and offerings as well as strengthening international distribution capabilities. Given the increasingly global nature of investing and more sophisticated requirements of investors, critical aspects of expanding scale and distribution include greater regulatory co-operation and market connectivity with other jurisdictions and participants as well as enhancing the ability to tap specialised skill sets and access global products.

THRUST #2

Establish Malaysia as a regional centre for Shariah-compliant sustainable and responsible investment

In view of the commonalities in their underlying principles, there are opportunities for greater alignment between



Islamic investing and SRI. However, both are at comparatively early stages of development and considerable effort will be required to unlock the substantial synergies between these two disciplines. Critically, this strategic thrust will focus on enhancing and strengthening the SRI ecosystem. Furthermore, it will mutually reinforce other strategies to promote Malaysia as a regional centre for sustainable investments. The development of the Shariah-compliant SRI market segment will therefore have the potential to attract greater domestic and international participation. This will broaden and deepen the Islamic fund and wealth management industry.

THRUST #3

Develop Malaysia as an international provider of Islamic wealth management services

The Islamic wealth management industry is still at a nascent stage of development compared with other segments of the Islamic capital market. Malaysia, with its comprehensive Islamic finance ecosystem and track record in innovation, is in an advantageous position to play a lead role in shaping the concept and driving the development of Islamic wealth management services. Hence, this strategic thrust will focus on efforts to deepen and broaden the suite of Shariah compliant wealth management solutions while enhancing the supporting market infrastructure and creating a more

conducive and enabling environment. In tandem with the second thrust, the provision of Islamic wealth management services will also aim to attract investors seeking SRI solutions. Efforts will be directed towards promoting and differentiating aspects of Islamic wealth management across the value chain of wealth generation, accumulation, preservation and distribution, including product and service innovation aligned to the tenets of the *maqasid al-Shariah* and utilisation of *waqf* assets and structures.

Recommendations

1. Provide enabling frameworks to support innovation in Islamic markets.

The SC will apply its regulatory philosophy of proportionality to ensure the regulatory framework facilitates innovation and fosters the emergence of new market segments, products and services. The design of effective legal, regulatory and Shariah governance frameworks to underpin innovation and developmental efforts in new market segments will also require sharing experience and knowledge with the global community of Islamic scholars and market regulators as well as undertaking appropriate market research.

2. Enhance market access and international connectivity.

Malaysia's existing bilateral and multilateral regulatory co-operation arrangements with international jurisdictions will be periodically reviewed to ensure they remain facilitative and relevant, including types of products and use of digital technologies. At the same time, efforts to establish similar co-operation with other jurisdictions on the bilateral and multilateral front will be pursued to further expand market linkages and connectivity.

3. Develop a vibrant ecosystem to accelerate growth of Shariah-compliant SRI.

Given Malaysia's global leadership in Islamic funds segment and regional leadership in SRI, the next stage in the developmental process is to generate sufficient critical mass by tapping into the substantial synergies between Islamic investing and SRI. Initiatives will be undertaken therefore to

strengthen collaboration between domestic and international intermediaries, market participants and regulators with a view to expand demand for SRI assets and accelerate the innovation of SRI products based on Shariah principles. Measures will also be introduced to expand the incorporation of the elements of public good, within the realm of the *maqasid al-Shariah*, into product development.

4. Promote the growth of private equity.

Priority will be placed on enhancing the ecosystem for the private equity market. The areas to be addressed will include, but are not limited to, greater mobilisation of risk capital for investments in private equity, enhancing efficiency of exit mechanism and strengthening of skill sets of private equity firms. In addition, steps will be taken towards expanding the choice of legal structures to accommodate private equity activities.

5. Facilitate new digital business models, products and services for Islamic fund and wealth management.

In alignment with the digital finance agenda, efforts will be directed towards facilitating the introduction of new digital business models, products and services through appropriate regulatory initiatives underpinned by principles of proportionality and transparency. These will include enabling digital investment management, undertaking information-sharing, and distribution of Islamic products and service offerings on cross-border basis.

6. Advance Malaysia's positioning as a hub for investment support services.

Malaysia actively promotes shared services and outsourcing activities under the segment of the Business Services industry, which is part of the National Key Economic Area (NKEA) under the country's Economic Transformation Programme. This segment has been successfully built and has todate hosted many international providers. There are opportunities to leverage the competitive strengths in operational, tax and human capital infrastructure to attract more international fund administration service providers to establish their regional and international base in Malaysia. At the same

time, further development of domestic firms operating in this market segment will be facilitated.

7. Spur institutional participation in Islamic funds.

The *Capital Market Masterplan 2* recommends that a strategy be implemented to increase the diversity of Islamic investment strategies and styles. In tandem with this, an investment fund will be established to enhance and broaden the global capability of Malaysia's Islamic fund managers and attract the participation of institutional and global investors.

8. Develop facilitative market infrastructure for Islamic wealth management.

Market infrastructure is a key component of a vibrant and effective fund and wealth management industry ecosystem. Availability of an enabling infrastructure will ensure efficient delivery of service to the clients and a cost-effective platform for service providers which will further strengthen the competitiveness of the industry and attract broader participation. To achieve this, initiatives will be launched to develop and enhance market infrastructure and platforms that will enable efficient provision of Islamic wealth management services. Close collaboration and co-ordination among relevant stakeholders will also be undertaken to identify opportunities in this area.

9. Strengthen intermediation capabilities to support greater internationalisation.

In this context, Malaysia will continue to provide an enabling environment for the intermediaries to operate. Relevant factors including but not limited to rules and regulations, talent, taxes and infrastructure, will be regularly reviewed and where necessary enhanced to support the country's ability to sustain its value proposition as a place to conduct Islamic wealth management and SRI business. Intermediaries and service providers in new areas within the industry's value chain, such as technopreneurs will also be encouraged to set up operations in the country to ensure a comprehensive ecosystem.

10. Fortify talent pipeline for Islamic wealth management.

Malaysia will continue to enhance and broaden its capacity building initiatives for developing talent in Islamic finance including the Islamic wealth management segment. These initiatives will include collaborations among regulators, industry players, training and academic institutions and other stakeholders to achieve wider reach and ensure relevance of programme content as well as encourage sharing of costs. Among others, the initiatives will involve enhancing the competency framework and introduce accreditation in the Islamic wealth management industry to complement existing programmes within the fund management market.

11. Provide targeted incentives to strengthen international competitiveness.

It is imperative to ensure that the overall environment for Malaysia's financial and capital market is internationally competitive. This may require measures to minimise friction costs while incentives will be considered on a selective basis to reinforce targeted strategies. Towards this end, various strategies will be explored to build up demand, attract the necessary talent and facilitate the transfer of technology to elevate capabilities in Islamic fund and wealth management services. Regular benchmarking reviews of regulations, the operational infrastructure and incentive system will be undertaken and changes made where it is necessary to ensure the overall environment is enabling, conducive and internationally competitive.

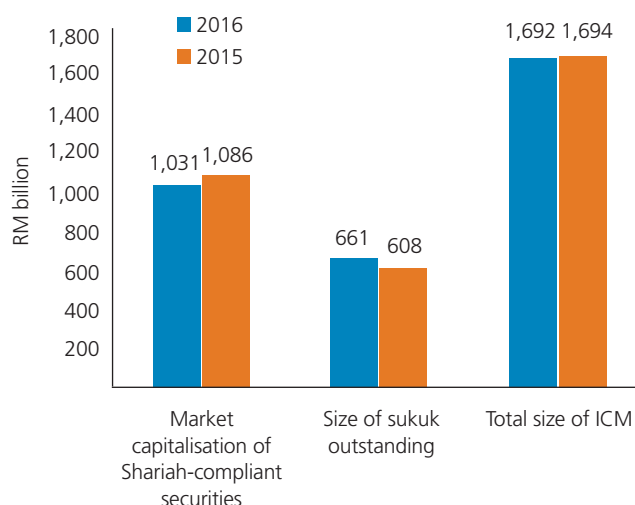
The Blueprint recommendations are focused on addressing impediments to growth and innovation, identifying potential opportunities for collaboration and partnership as well as accelerating the process of building scale. These recommendations will exploit synergies between the internationalisation of the Islamic fund management industry, the scaling up of the international operations of Malaysian intermediaries and the strength of Malaysia's robust and facilitative market frameworks.

The Blueprint is available on SC website for reference.

MALAYSIA'S ICM IN 2016

The Islamic capital market accounted for 59.56% of Malaysia's capital market. The market size stood at RM1,691.64 billion in 2016 comparable to RM1,694.11 billion in 2015. This encompasses total market capitalisation of Shariah-compliant equities of RM1,030.56 billion and total sukuk outstanding amounted to RM661.08 billion (Chart 1).

Chart 1
Size of Islamic capital market



Shariah-compliant securities

As at end December 2016, the Shariah-compliant securities constituted 74.23% of the 904 listed securities on Bursa Malaysia. The market capitalisation of Shariah-compliant securities stood at RM1.03 trillion or 61.81% of the total market capitalisation, a decrease of 5.12% as compared to end of 2015 (Chart 2).

Sukuk

In 2016, 56 corporate bonds and sukuk were approved and lodged with SC, amounting to RM140.99 billion, of which 32 were sukuk valued at RM63.73 billion (Chart 3). The sukuk value represented 45.20% of the total new corporate bonds and sukuk approved and lodged.

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

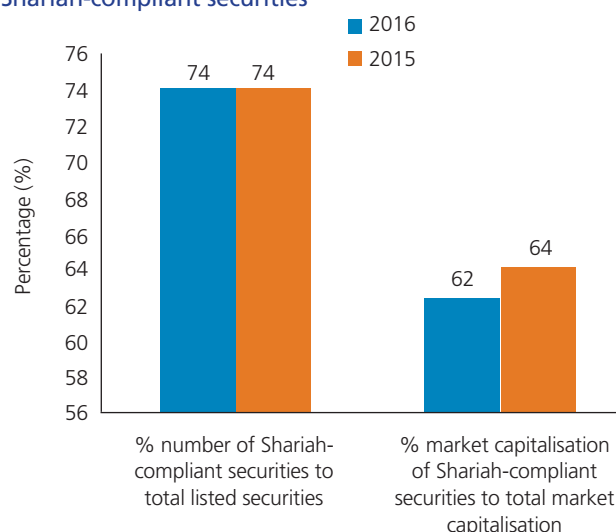
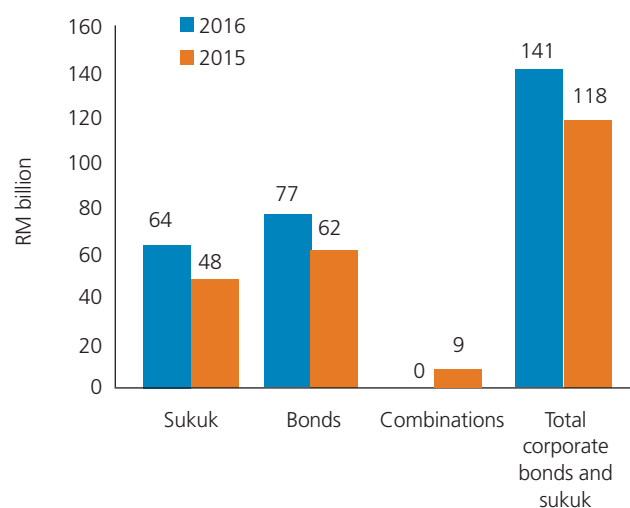


Chart 3
Corporate sukuk approved/lodged



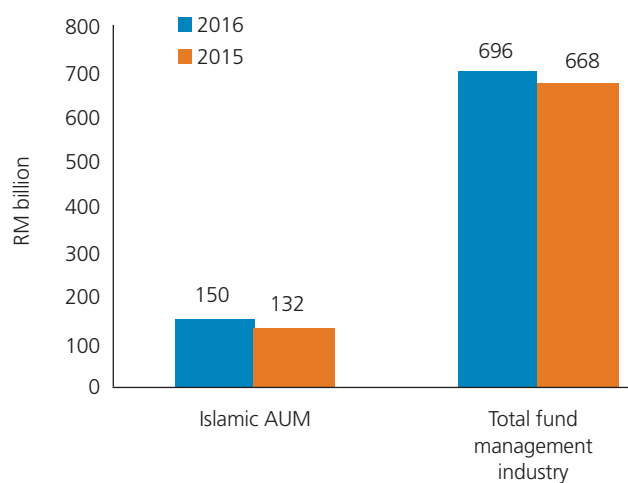
In terms of issuances, corporate sukuk represented 75.68% (2015: 66.67%) of total corporate bonds and sukuk issuances while sukuk outstanding accounted for 73.85% (2015: 71.65%) of total corporate bonds and sukuk outstanding.

Overall, sukuk issuances by Government and corporates in 2016 represented 53.81% (2015: 43.57%) of total bond issuances whereas total sukuk outstanding represented 56.36% (2015: 54.05%) of total bonds outstanding.

Islamic fund management

The Islamic AUM (CIS and private mandates) stood at RM149.64 billion, registering 13.04% growth from RM132.38 billion as at end 2015 (Chart 4). The number of Islamic CIS also grew from 314 in 2015 to 328 as at end 2016, making it the world's largest in terms of number of fund, which stood at RM116.08 billion of AUM. There were 20 full-fledged Islamic fund management companies operating in Malaysia, with 31 fund management companies offering Islamic windows.

Chart 4
AUM of Islamic fund management



NEWS ROUND-UP

Islamic Capital Market Special Session at the 12th World Islamic Economic Forum

On 3 August 2016, the Islamic Capital Market Special Session was held as part of the 12th World Islamic Economic Forum in Jakarta, Indonesia. This session titled, 'Growing the Syariah Mutual Fund Industry' was aimed at gaining a better understanding of the Islamic fund industry landscape at the ASEAN level and exploring potential opportunities and prospects of the market. The SC moderated the discussion and was supported by a panel of distinguished experts from the Chair of Indonesia's Association of Mutual Funds, PT RHB-OSK Asset Management Indonesia and Amundi Malaysia. The session had a good attendance, signifying interests in Islamic funds around the region. It also provided opportunities for Malaysia and Indonesia's fund managers to exchange ideas and explore cross-border collaborative opportunities in the Islamic funds market.

11th Islamic Markets Programme

The 11th Islamic Markets Programme, held from 15 to 17 August, focused on contemporary topics which are typically discussed in advanced markets. It was designed for market practitioners comprising regulators, industry participants and Shariah professionals. Themed 'Enhancing Sustainability of Global Businesses: Role of the Islamic Capital Market', the programme attracted 62 participants from Cambodia, Indonesia, Kenya, Maldives, Nigeria, Singapore, and Taiwan, as well as participants from Malaysia. Participants explored business ideas and best market practices to promote convergence of the Environmental, Social and Governance (ESG) criteria with Islamic principles. The discussions, exchange of ideas and information were useful in the various efforts to promote market-based Islamic solutions in driving the agenda for sustainable development of global businesses, investments and financing.

Shariah Professionals Programme for Islamic Capital Market

The Shariah Professionals Programme for ICM with an objective to identify and address key issues as well as challenges in the market provides participants with continuous professional development relating to ICM. Funded by the Capital Market Development Fund and organised by the Securities Industry Development Corporation, the programme is offered on a modular basis with duration of each module ranging from half day to two days. A total of 48 participants comprising industry practitioners and academicians attended this year's programme.

15th Islamic Capital Market Graduate Training Scheme

As Islamic finance is expanding globally, there is a strong demand for qualified Islamic finance professionals to drive the industry forward. The Islamic Capital Market Graduate Training Scheme (ICMGTS), designed for fresh graduates, is a career development programme to provide and develop entry-level professionals with strong fundamental knowledge and skills for the industry. The 15th ICMGTS, commenced from 30 September to 26 November 2016, was attended by 41 Malaysian graduates. Since its inception in 2009, it has produced more than 600 graduates whereby about 80% of them have been employed in the financial services industry.

Shariah Advisers Programme

The Shariah Advisers Programme, themed 'Sukuk: Driving Growth through Innovation', was held on 24 November 2016. Close to 100 participants attended the programme, comprising mainly registered Shariah advisers with SC and Bank Negara Malaysia as well as Shariah officers from the Islamic financial institutions. The programme provides opportunity for participants to gain exposure on numerous innovative sukuk structures and Shariah issues that have emerged pursuant to various structures adopted in the market. It also serves as a platform to enhance participants' knowledge and skills as well as enabling them to keep abreast of the latest development in the sukuk market which could contribute in driving the international competitiveness of Malaysia's sukuk market.

Stakeholders Engagement

During the second half of 2016, SC representatives participated in the following events organised by various organisations to support the development and growth of Islamic finance particularly the ICM:

- Seminar on Recovery for Islamic Finance, 27 July (Kuala Lumpur)
- Workshop on Shariah and Legal Issues in Islamic Banking and Capital Market, 2-3 August (Kuala Lumpur)
- Khazanah Breakfast Roundtable at the 12th World Islamic Economic Forum, 3 August (Jakarta)
- BNM's Training Programme for the National Bank of Ethiopia, 15 August (Kuala Lumpur)
- Malaysia Investment Seminar, 26 September (London)
- Seminar on Malaysia's Islamic Capital Market 2016, 27-28 September (Kuala Lumpur)
- Awqaf Sukuk Workshop, 13 October (Dubai)
- The Islamic Finance Sukuk Seminar, 14 October (Kuala Lumpur)
- Dialogue Session with Public-Listed Companies, 18 October (Kuala Lumpur)
- Jawhar Roundtable on Waqf 2016, 24-26 October (Port Dickson)
- UNEP Finance Initiative 2016 Global Roundtable, 25 October (Dubai)
- The Malaysia-US Chamber of Commerce Conference, 9-10 November (Washington DC)
- 13th Kuala Lumpur Islamic Finance Forum, 21-22 November (Kuala Lumpur)
- KLIFF Shariah Forum, 23 November (Kuala Lumpur)
- IFSB Roundtable on Disclosure Requirements for ICM Products, 30 November (Kuala Lumpur)
- 4th ASEAN International Conference on Islamic Finance, 6 December (Malacca)
- Meeting of Expert Panel on Financing IPT Development and Investment Using Islamic Capital Market Instruments and Waqf, 23 December (Kuala Lumpur)
- Workshop on Awqaf Sukuk, 27 December (Jeddah)

MALAYSIAN ICM – FACTS AND FIGURES

Size of Islamic capital market

	2016 (RM billion)	2015 (RM billion)
Market capitalisation of Shariah-compliant securities	1,030.56	1,086.18
Size of sukuk outstanding	661.08	607.93
Total size of ICM	1,691.64	1,694.11
% of ICM to total capital market	59.56%	60.08%

Shariah-compliant securities

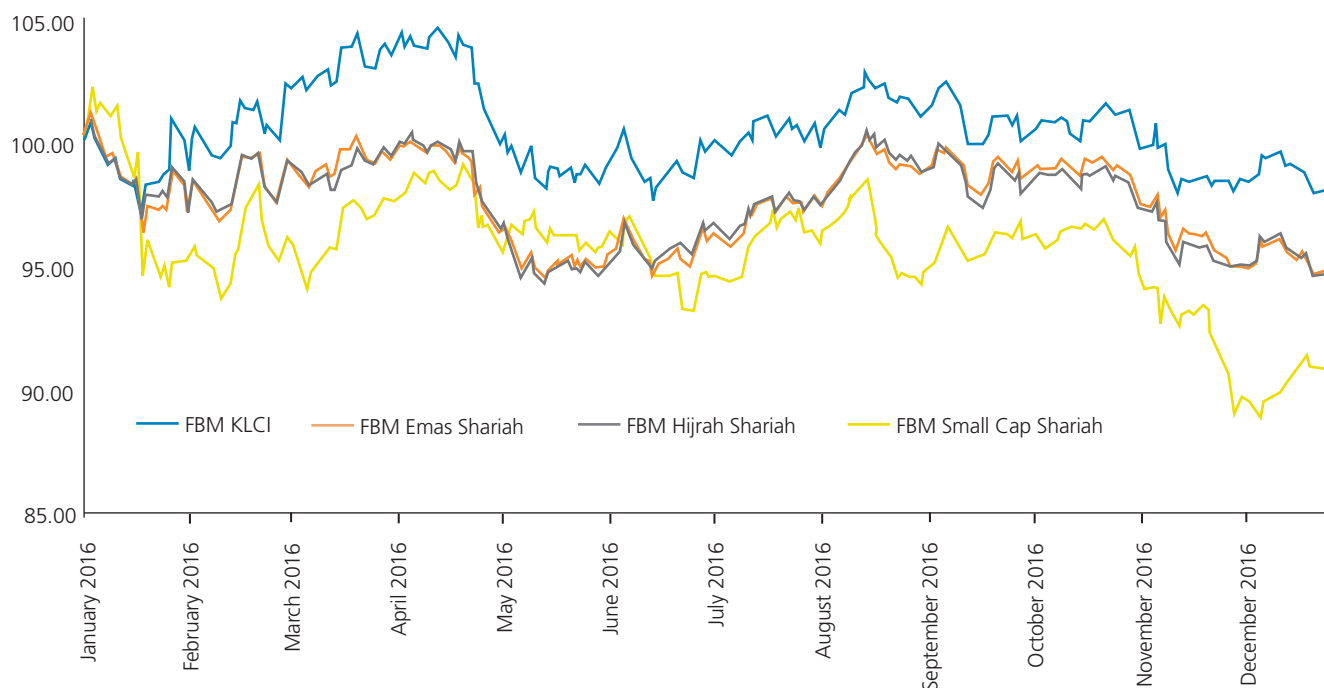
	2016	2015
Number securities		
Shariah-compliant securities	671	667
Total listed securities	904	903
% of Shariah-compliant to total listed securities	74.23%	73.86%
Market capitalisation (RM billion):		
Shariah-compliant securities	1,030.56	1,086.18
Total market capitalisation	1,667.37	1,694.78
% of Shariah-compliant securities to total market capitalisation	61.81%	64.09%

Equity market indices

Equity market indices	2016	2015	% change
FBM KLCI	1,641.73	1,692.51	-3.00%
FBM EMAS Shariah	12,014.42	12,800.65	-6.14%
FBM Hijrah Shariah	13,427.77	14,332.58	-6.31%
FBM Small Cap Shariah	13,759.07	15,189.64	-9.42%

Chart 1

KLCI and Shariah Indices 1-Year Performance



Sukuk

Corporate sukuk	2016	2015
Sukuk approved/lodged		
Number of sukuk	32	25
Size of sukuk (RM billion)	63.73	48.33
Size of total corporate bonds and sukuk (RM billion)	140.99	118.46
% of sukuk to total corporate bonds and sukuk	45.20%	40.80%
Total issuance (RM billion)		
Sukuk issuance	64.82	57.57
Total corporate bonds and sukuk issuances	85.65	86.35
% of sukuk to total corporate bonds and sukuk issuances	75.68%	66.67%
Total sukuk outstanding (RM billion)		
Sukuk outstanding	393.45	361.33
Total corporate bonds and sukuk outstanding	532.76	504.33
% of sukuk to total corporate bonds and sukuk outstanding	73.85%	71.65%
Government and corporate sukuk		
	2016	2015
Total issuance (RM billion)		
Sukuk issuance	129.45	117.70
Total bonds issuances	240.56	270.15
% of sukuk to total bonds	53.81%	43.57%
Total sukuk outstanding (RM billion)		
Sukuk outstanding	661.08	607.93
Total bonds outstanding	1,172.91	1,124.84
% of sukuk to total bonds	56.36%	54.05%

Sukuk listing under Bursa Malaysia's exempt regime as at 31 December 2016

No. of Issuers	21
No. of Programmes	26

Source: Bursa Malaysia

Sukuk listing on LFX as at 31 December 2016

No. of Issuers	10
No. of Programmes	12

Source: Labuan International Financial Exchange (LFX)

Islamic assets under management (AUM)	2016 (RM billion)	2015 (RM billion)
Islamic AUM	149.64	132.38
Total fund management industry	696.27	667.88
% of Islamic AUM to total fund management industry	21.49%	19.82%
Islamic unit trust funds		
	2016	2015
Islamic UTF	198	193
Total industry	627	612
NAV of Islamic UTF (RM billion)	60.91	52.12
NAV of total industry (RM billion)	358.47	346.58
% NAV of Islamic UTF to total industry	16.99%	15.04%
Islamic wholesale funds		
	2016	2015
Islamic WF	97	93
Total industry	313	293
NAV of Islamic WF (RM billion)	35.71	31.66
NAV of total industry (RM billion)	90.84	84.53
% NAV of Islamic WF to total industry	39.31%	37.45%
Islamic private retirement funds		
	2016	2015
Islamic PRF	25	20
Total industry	56	50
NAV of Islamic PRF (RM billion)	0.51	0.38
NAV of total industry (RM billion)	1.52	1.17
% NAV of Islamic PRF to total industry	33.55%	32.48%
Islamic exchange traded funds		
	2016	2015
Islamic ETF	4	4
Total industry	8	8
Market cap of Islamic ETF (RM billion)	0.42	0.36
Market cap of total industry (RM billion)	1.90	1.71
% Market cap of Islamic ETF to total industry	22.11%	21.05%
Islamic real estate investment trusts		
	2016	2015
Islamic REIT	4	4
Total industry	17	17
Market cap of Islamic REIT (RM billion)	18.53	16.11
Market cap of total industry (RM billion)	44.19	37.48
% Market cap of Islamic REIT to total industry	41.93%	42.98%
NUMBER OF ISLAMIC FUNDS		
	328	314
AUM OF ISLAMIC CIS		
	116.08	100.63

List of Islamic Fund Management Companies

Company	Status
1. Aberdeen Islamic Asset Management Sdn Bhd	Foreign
2. AllMAN Aset Management Sdn Bhd	Joint venture
3. AmlIslamic Funds Management Sdn Bhd	Local
4. Amundi Islamic Malaysia Sdn Bhd	Foreign
5. BIMB Investment Management Bhd	Local
6. BNP Paribas Investment Partners Najmah Malaysia Sdn Bhd	Foreign
7. CIMB-Principal Islamic Asset Management Sdn Bhd	Joint venture
8. Eastspring Al-Wara' Investments Bhd	Foreign
9. Franklin Templeton GSC Asset Management Sdn Bhd	Foreign
10. Guidance Investments Sdn Bhd	Foreign
11. i-VCAP Management Sdn Bhd	Local
12. Kenanga Islamic Investors Bhd	Local
13. KFH Asset Management Sdn Bhd	Foreign
14. Maybank Islamic Asset Management Sdn Bhd	Local
15. Muamalat Invest Sdn Bhd	Local
16. Nomura Islamic Asset Management Sdn Bhd	Foreign
17. PMB Investment Bhd	Local
18. RHB Islamic International Asset Management Bhd	Local
19. Saturna Sdn Bhd	Foreign
20. Threadneedle Asset Management Malaysia Sdn Bhd	Foreign

List of companies offering Islamic stockbroking services

Company	Type
1. BIMB Securities Sdn Bhd	Full fledged
2. Affin Hwang Investment Bank Bhd	Window
3. AmInvestment Bank Bhd	Window
4. CIMB Investment Bank Bhd	Window
5. Hong Leong Investment Bank Bhd	Window
6. Jupiter Securities Sdn Bhd	Window
7. Kenanga Investment Bank Bhd	Window
8. Malacca Securities Sdn Bhd	Window
9. Maybank Investment Bank Bhd	Window
10. RHB Investment Bank Bhd	Window
11. TA Securities Holdings Bhd	Window

Source: Bursa Malaysia

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:

Mohd Radzuan A Tajuddin
Tel: +603–2091 0644
E-mail: radzuan@seccom.com.my

Syed Azhan Syed Mohd Bakhor
Tel: +603–2091 0673
E-mail: azhan@seccom.com.my

Azmaniza Bidin
Tel: +603–2091 0780
E-mail: azmaniza@seccom.com.my

Mohd Lukman Mahmud
Tel: +603–2091 0786
E-mail: lukman@seccom.com.my

Securities Commission Malaysia
3 Persiaran Bukit Kiara, Bukit Kiara
50490 Kuala Lumpur Malaysia
Tel: +603–2091 0770 Fax: +603–2091 0660
Website: www.sc.com.my

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