



malaysian ICM



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by the Securities Commission Malaysia

Contents

- 1 An Islamic economic perspective on the global financial crisis

SHARIAH

- 2 *Sukuk wakalah*: An innovation
- 3 Updated list of Shariah-compliant securities by the SC

CAPITAL MARKET DEVELOPMENT

- 4 *Sukuk*

REGULATORY

- 7 Greater flexibility for fund managers to manage wholesale funds

FEATURES

- 11 Re-examining approach and philosophies on the regulation of the markets
- 13 Rooting Islamic investments and strategic funds in light of the economic crisis
- 15 News Round-up

STATISTICAL UPDATES

- 18 Malaysian ICM – Facts and Figures

AN ISLAMIC ECONOMIC PERSPECTIVE ON THE GLOBAL FINANCIAL CRISIS¹

Islamic economics began at the end of the Second World War when Muslim nations that were under colonial rule sought for independence. With the impending independence, they were all geared up to devise a system that would serve the nation. As capitalism and communism were inappropriate models for them, they eventually adopted Islamic economics, which then became a branch of knowledge that was aimed at analysing, interpreting and resolving economic problems by referring to Islamic methodologies.

How does Islamic economics differ from conventional economics? Conventional economics is built around the idea of utility or satisfaction of individual wants, whereas Islamic economics has a wider perspective of utility in three ways. Firstly, utility encompasses spiritual as well as material values in life. Secondly, the concept of utility is extended temporarily from this life to embrace the hereafter. Thirdly, their well-being requires their concern for the welfare of others. Standard economics is concerned with individual utility maximisation whereas in Islam, well-being is concerned with looking after the welfare of others in the community.

As Islam extols trading, what needs to be done is to determine whether a particular form of trade and

¹ Extracted from the public lecture given by Visiting Professor Mervyn K Lewis at the Securities Commission Malaysia

SUKUK WAKALAH: AN INNOVATION

The structuring of *sukuk* in Malaysia has been based on underlying contracts categorised as *`uqud musamma*¹ and the Shariah principle of *wakalah* is one of the contracts that falls under *`uqud musamma*. Nonetheless, the *wakalah* principle has never before been used as an underlying contract for the issuance of *sukuk* in Malaysia.

Wakalah can be defined as a contract whereby a party authorises another party to act on its behalf based on agreed terms and conditions.

In addition to existing Shariah principles, the *wakalah* principle can also be used as an underlying contract in structuring *sukuk*, giving rise to *sukuk wakalah*.

Usually, *sukuk wakalah* involves the creation of a special purpose vehicle (SPV) that is appointed as a *wakil* or intermediary to manage the investment on behalf of investors or *sukuk* holders. The application of *wakalah* principle in structuring *sukuk* is consistent with the view of the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) relating to *sukuk wakalah bi al-istithmar*, classified under *sukuk musharakah*. According to AAOIFI, *sukuk wakalah bi al-istithmar* is defined as certificates which represent a project or a particular activity carried out according to the *wakalah* principle, where a *wakil* or a representative is appointed, to manage the project on behalf of the *sukuk* holder. Diagram 1 illustrates *sukuk wakalah bi al-istithmar* according to AAOIFI's view.

Table 1

| <i>Wakalah</i> principle according to Majalla al-Ahkam al-`Adliyyah | |
|---|---|
| <i>Wakalah Ghair Lazim</i> (<i>wakalah</i> which is not binding) | <i>Wakalah Lazim</i> (<i>wakalah</i> which is binding) |
| Basically, <i>wakalah</i> is a non-binding contract. | <i>Wakalah</i> will become a binding contract if it involves a third party's interest. |
| Example: A broker is appointed to sell or purchase a certain commodity on behalf of his client. | Example: A debtor deposits his property as security (collateral) for his debt. At the request of the creditor, the debtor appoints a person to sell the collateral in the event that the debtor fails to settle his debt within the specified time. |
| Both parties can rescind the contract at any time. | In financial context, both parties cannot rescind the contract except with the consent of the third party involved. |

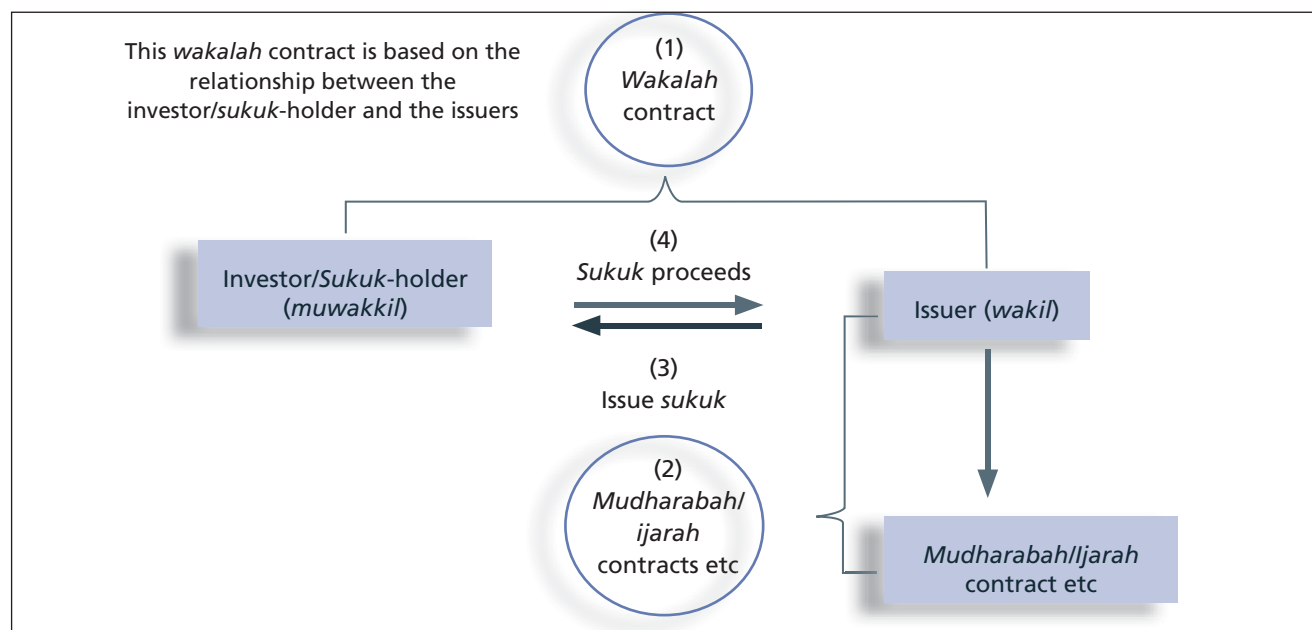
¹ *`Uqud musamma* is a contract based on Shariah principles specified by classical *fiqh* books known as nominated contracts.

How *sukuk wakalah* works

1. The *sukuk* holders (investors) and the issuer enter into a *wakalah* contract, whereby the issuer is appointed as *wakil* and acts according to the terms and conditions determined by the *sukuk* holders. As *wakil*, the issuer is entitled to receive a management fee. The *sukuk* holders, as *muwakkil*, assign the issuer to invest their [*sukuk* holders'] money/fund in Shariah-compliant activities or projects.
2. In order to generate income, the issuer enters into other contracts, such as *mudharabah*, *ijarah*, and so on, with other parties.
3. The issuer issues *sukuk wakalah bi al-istithmar* to the *sukuk* holders.
4. Proceeds from the *sukuk* issuance will be used by the issuer for investments in a particular project based on Shariah principles, such as *mudharabah*, *ijarah*, etc.

There is room for further development of *sukuk wakalah* in Malaysia and it is hoped that this new product will widen the scope of Shariah-compliant products in the country's capital market, and offer more opportunities for investors who are keen to invest in *sukuk*.

Diagram 1



UPDATED LIST OF SHARIAH-COMPLIANT SECURITIES

The SC released an updated list of Shariah compliant securities approved by its Shariah Advisory Council (SAC) which took effect on 29 May 2009. The updated list features a total of 848 securities which are classified as Shariah-compliant securities. These counters constitute 88 per cent of the listed securities on Bursa Malaysia.

The list includes 13 newly classified Shariah-compliant securities. It also excludes one company, which was included in the previous list issued in November 2008.

The booklet on the list is distributed free by the SC. The full list, which is updated twice a year, is available on the SC website at www.sc.com.my.

SUKUK

Interest in local capital-raising remains strong despite unfavourable global economic conditions. In the bond market for example, interest is seen in the second quarter where 13 private debt securities proposals were approved with the amount to be raised totaling RM17.6 billion, of which, five issues or RM5.9 billion were *sukuk* approval. This was a marked increase from the first quarter which saw only four *sukuk* approvals amounting to RM3.6 billion. Overall, this showed a good sign of recovery for the local *sukuk* market, which suffered a significant drop in volume from the global economic meltdown.

Below are the selected *sukuk* issuances in local *sukuk* market during the first half of 2009.

Sukuk Ijarah Programme for TSH Group

The SC approved up to RM100 million *Sukuk Ijarah* Commercial Papers Programme and up to RM300 *Sukuk Ijarah* Medium Term Notes Programme issued by TSH Sukuk Ijarah Sdn Bhd (Issuer), a special purpose company set up for the issuance of the *sukuk*.

Based on the structure, the issuer will from time to time enter into a sale and purchase agreement with the seller to purchase identified assets from the latter. Subsequent to the purchase, the issuer and the lessee will enter into an *ijarah* agreement whereby the issuer will lease the identified assets to the lessee for fixed *ijarah* payments. The lessee will also give a purchase undertaking to acquire the identified assets at an exercise price upon maturity and/ or occurrence of event of default.

The *Sukuk Ijarah* Commercial Papers Programme and *Sukuk Ijarah* Medium Term Notes Programme were assigned ratings of MARC-1 and AA- respectively by Malaysian Rating Corporation Bhd. The proceeds from the sale of the identified assets will be utilised by the seller to refinance an existing *sukuk* programme and for working capital requirements and capital

expenditure requirement of TSH Group which are Shariah compliant.

Sukuk issuance for Offshoreworks Capital Sdn Bhd

Offshoreworks Capital Sdn Bhd (Issuer) issued up to RM350 million *sukuk* comprising RM200 million *sukuk musharakah* and up to RM150 million *musharakah* Commercial Papers/ Medium Term Notes Programme. The issuer is a special purpose wholly-owned subsidiary of Offshoreworks Holdings Sdn Bhd. The proceeds from the issuance of the *sukuk* will be utilised to part-finance the acquisition of vessels and related equipment, refinance the group's existing borrowings and for working capital requirements, which are Shariah compliant.

Since the *sukuk* applies the principle of *musharakah*, a partnership is forged between the issuer and the investors to invest in the *musharakah* venture which involve the administration, maintenance and operation of *musharakah* assets, i.e. vessels. As partners to the *musharakah*, the investors will provide capital in cash while the issuer will contribute capital in kind. Any profit generated from the *musharakah* venture will be shared according to a pre-agreed profit sharing ratio, whereby excess profit above the expected profit to investors will be given to the appointed project managers as incentive fee.

The tenor of the *sukuk* is up to seven years and is assigned ratings of AA- and MARC-1/AA- by Malaysian Rating Corporation Bhd.

Sukuk Programme for Pinnacle Tower Sdn Bhd.

Sacofa Sdn Bhd (Sacofa), which was granted a 20-year exclusive concession by the State Government of Sarawak, opted to raise up to RM450 million via

the issuance of up to RM400 million Islamic Medium Term Notes Programme and up to RM50 million Islamic Commercial Papers Programme. Under the concession, Sacofa is to construct and maintain telecommunication towers and structures in Sarawak. The *sukuk* was issued by Pinnacle Tower Sdn Bhd, a wholly-owned special purpose vehicle of Sacofa.

The *sukuk* is structured under the principle of *musharakah* with an underlying *ijarah* transaction. The *musharakah* partners are namely the issuer (as *wakil* for the investors) and Sacofa, who will enter into a *musharakah* agreement from time to time for the purpose of undertaking the *musharakah* venture. Proceeds from the issuance of the *sukuk* to the investors will form the issuer's capital contribution into the venture while Sacofa will contribute capital either in cash or in kind. The *musharakah* venture involves the acquisition of completed assets from Sacofa (*musharakah* assets) and managing the assets in the venture. Following an *Ijarah* agreement to be entered under each *musharakah* venture, the *musharakah* assets will form the underlying assets for the *ijarah* transaction where they will be leased by the issuer (lessor) to Sacofa (lessee) for agreed rentals within the *ijarah* period.

The Malaysian Rating Corporation Bhd has accorded the ratings of AAA and MARC-1 to the *sukuk*. Proceeds from the sale of the *musharakah* assets will be used by Sacofa to refinance its subsidiary's existing *sukuk*, for capital expenditure purposes and to meet working capital requirements which are Shariah compliant.

Islamic Securities Programme by Danga Capital Berhad

The SC has approved the issuance of the Islamic Securities Programme by Danga Capital Bhd (issuer), a special purpose vehicle set up by Khazanah Nasional Berhad (Khazanah) to undertake the issuance of Islamic securities under the Islamic Securities Programme. The Islamic Securities Programme comprised ringgit denominated Islamic Securities Programme and an intended multi-currency Islamic Securities Programme by Danga Capital Bhd, with a total combined limit

of up to RM10.0 billion (or its equivalent in foreign currency) in nominal value. The issue was structured under the Shariah principle of *musharakah* and/or such other Shariah principles, to be determined prior to each issue.

Based on the *musharakah* structure, a partnership or a *musharakah* venture will be formed among the Islamic securities holders to invest in the respective portfolio units comprising a pool of Shariah-compliant assets to be identified by Khazanah, the owner of the portfolio. The Islamic securities holders will from time to time contribute capital to the *musharakah* venture which will be utilised to subscribe the relevant Islamic securities.

Khazanah, as the owner of the portfolio, will make a declaration of trust, to hold the portfolio for the benefit of the holders of the portfolio units. Under each issuance of the Islamic securities, Khazanah (as the initial owner of the portfolio units) will sell the portfolio units to Duyung Capital Bhd (SPV1). SPV1 in turn will sell the portfolio units to the Issuer who will purchase the portfolio units, for and on behalf of the Islamic securities holders.

The Islamic Securities Programme has been assigned a rating of AAA by RAM Rating Services Bhd. The proceeds from the Islamic Securities Programme will be utilised by the issuer to purchase the relevant portfolio units and thereafter, Khazanah will utilise the proceeds for its general investments, refinancing of borrowings and working capital requirements which are Shariah compliant.

Sukuk Musharakah Medium Term Notes Programme by Dawama Sdn Bhd

Dawama Sdn Bhd (issuer) partially issued the *Sukuk Musharakah* Medium Term Notes Programme (MTN Programme) which was structured under the Shariah principle of *musharakah*. It comprised Senior Medium Term Notes (Senior MTN) of up to RM120.0 million and Junior Medium Term Notes (Junior MTN) of up to RM20.0 million (collectively "*Sukuk Musharakah*").

The issuer was awarded a 12-year concession from Dewan Bahasa and Pustaka (DBP/Awarder) for the exclusive right to print and distribute school textbooks and other publications (Contract). Under the MTN Programme, the issuer will enter into a partnership arrangement with the prospective investors to undertake a business venture involving the undertaking and execution of the contract by the issuer (*musharakah* venture). The interests of the investors in the *musharakah* venture will be represented by the issuer, in its capacity as the agent (*wakeel*) and initial trustee for the investors. A declaration of trust will be declared by the issuer in favour of the investors over all the issuer's interest in the *musharakah* venture.

The contribution of the prospective investors in the *musharakah* venture will be in the form of cash (90%), through the subscription of the *sukuk musharakah*, while the issuer's contribution will be in kind (10%). Any profit generated from the *musharakah* venture will be shared according to a pre-agreed profit-sharing ratio while losses will be shared according to each partner's capital contribution. Any excess to the income generated from the *musharakah* venture will be paid to the Issuer as an incentive fee. Upon the occurrence of a dissolution event or any other events to be agreed between the parties, the issuer will purchase the investors' interest in the *sukuk* assets at an exercise price following to a purchase undertaking.

The Senior MTN and Junior MTN were rated A+IS and AIS, respectively, by Malaysian Rating Corporation Bhd. The first issuance of the Senior MTN will be utilised for the purpose of redemption of the issuer's existing facility while the Junior MTN will pay the redemption premium to the note holders under the issuer's existing facility and Shariah-compliant working capital requirements in relation to the contract. The proceeds from subsequent issues of the MTN Programme will be utilised for Shariah-compliant working capital requirements in relation to the contract.

Sukuk Programme by Seafield Capital Bhd

Seafield Capital Bhd (issuer), is a special purpose

company, through which Expressway Lingkaran Tengah Sdn Bhd (ELITE) will issue Islamic securities to meet its funding requirements. ELITE is the concessionaire for the 63-km North-South Expressway Central Link, the Kuala Lumpur International Airport Extension Link and the Putrajaya Link.

The Issuer had, in May 2009, partially issued Islamic Medium Term Notes (*Sukuk*) up to RM1.5 billion *Sukuk* Programme. The *Sukuk* Programme was structured under the Shariah principle of *Musharakah* where the investors will from time to time enter into a partnership arrangement between themselves to invest in the respective trust units of the concession assets (*musharakah* venture) by subscribing the *sukuk* issued by the issuer.

The trust unit is a fraction of the holders of the trust unit's undivided interest in the concession assets (trust units) comprising of ELITE's beneficial rights under a concession agreement and the supplemental thereof and all rights, entitlements (including income) and benefits of ELITE in relation to its toll expressway business (concession assets). ELITE (in its capacity as the beneficial owner of the concession assets) will declare a trust on the concession assets, to be held by itself as the concession assets trustee for the benefit of trust units' holders.

Under this structure, ELITE as the initial owner of the trust units will sell the trust units to Puncak Tulus Sdn Bhd (SPV1), which in turn sells the trust units to the issuer. ELITE is under the obligation pursuant to a purchase undertaking to purchase the *sukuk* holders' interest in the *musharakah* venture at an exercise price upon occurrence of certain events.

The *Sukuk* Programme has been accorded a rating of AA2 by RAM Rating Services Bhd. The proceeds from the *Sukuk* Programme will be utilised by the Issuer to purchase the trust units from SPV1. ELITE will utilise the proceeds from the sale of the trust units to refinance ELITE's existing borrowings, fund related expenses relating to the *Sukuk* Programme and the balance thereof, for ELITE's general funding, capital expenditure and working capital requirements.

GREATER FLEXIBILITY FOR FUND MANAGERS TO MANAGE WHOLESALE FUNDS

The SC introduced the *Guidelines on Wholesale Funds* which give greater flexibility for licensed fund managers to provide innovative products, including those which incorporate alternative investment strategies. The guidelines came into effect on 18 February 2009.

The new guidelines replace the *Guidelines on Restricted Investment Schemes* and the provisions on wholesale funds in the *Guidelines on Unit Trust Funds* (UTF Guidelines). It has been rationalised and streamlined to make it easier for fund managers to offer wholesale and retail products. Now, fund managers only need to refer to one set of guidelines for wholesale products.

The guidelines enable fund managers to meet the more complex requirements of sophisticated or professional investors, like high net worth investors and institutional investors. As wholesale funds can only be offered to qualified investors and not the general public, the guidelines do not prescribe any quantitative requirements or restrictions on investments of the fund.

In addition, new flexibilities have been introduced. They include easing the restriction on leverage; expanding the list of qualified investors; removing the limits to the number of investors; and relaxing on of certain administrative requirements.

To safeguard the interest of investor, provisions on disclosure in the information memorandum and on reporting to investors have been enhanced. Fund managers are required to provide clear disclosure to investors and comply with the minimum content

“The SC has also amended the UTF Guidelines to remove all provisions relating to wholesale funds, and to provide further clarification and greater flexibility to certain rules.”

requirement of the information memorandum. The frequency of reporting to investors has also been increased to a quarterly basis from the previous annual basis.

For fund managers managing wholesale Islamic funds, they must also comply with the *Guidelines on Islamic Fund Management* and the resolutions of the SC's Shariah Advisory Council. The SC has also amended the UTF Guidelines to remove all provisions relating to wholesale funds, and to provide further clarification and greater flexibility to certain rules. The amendments include allowing fund managers to use futures contract for hedging purposes; place deposits with, and borrow from, foreign financial institutions to improve efficiency in relation to foreign investments; and obtain short-term bridging facility for trade settlement purposes.

Additionally, the UTF Guidelines have been amended to include provisions on corporate governance; facilitate improvements in registration and lodgment of deed; and to require monthly reporting to the SC.

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exchange is just or unjust. The Quran and Hadith extensively address the prohibitions of usury, gambling, *gharar*, extravagance, hoarding, fraud, corruption, and encourage benevolent and mutual co-operation between individuals in both market and non-market transactions.

Where then does Islamic economics stand in the context of the current global economic and financial crisis?

Subprime originated from mortgage equity withdrawals in the US housing market – where existing home owners borrowed money against the rising value of their house through undertaking of new finance and consumed it. To further fuel credit, there was the charter given to Fannie Mae and Freddie Mac, the two giant housing lenders to promote “the American dream” affordable housing, and there were a lot of lending to first-time homebuyers. Lax lending practices ruled where good lending practices were ignored. Statistics showed that 43% of US first home buyers were given loans to value of 100% with almost negligible buffer in terms of the value of the loan and the value of the homes. Credit was predicated on home prices appreciating perpetually.

So “ninja” borrowers were born – borrowers with no income, no job, and no assets. Through collateralised debt obligations (CDO), these mortgages together with other sub-prime loans were packaged into very complex packages. The most established banks were also fooled or sucked into the game by originating and buying the CDOs with what they called liquidity puts, which was if the value of the CDOs fell, then counter-party banks would take them back at face value.

Dr Axel Weber, the president of Deutsche Bundesbank in a paper in 2008 saw the causes as being three-folds:

- Lax lending policies in terms of the valuation of loans which were not confined only to the United States but also to some parts of Western Europe;
- Weaknesses in credit transfer processes through which this risk was spread throughout the world through mortgage-backed securities; and
- Overly optimistic assessments of structured securities, such as collateralised debt obligations (CDOs).

From an Islamic perspective, the causes are viewed as being fundamentally rooted in greed, *gharar*, speculation, poor governance, fixed-interest debt under usurious practices and what is termed as financialisation.

Greed

Greed was certainly aplenty right up and down the mortgage chain. Wall Street bankers gained fees from bundling and distributing mortgage-backed securities. So sophisticated was this process that in the end they were issuing CDOs not by buying actual mortgages, but by putting together CDOs based on derivatives, that is, credit default swaps. This meant that the same parcel of underlying mortgages could be packaged several times with the banks earning very generous fees each time the CDOs were repackaged and sold.

Hedge funds were large buyers of the CDOs which were very cheap. Although some of them or parts of them were given AAA credit rating, similar to the US government sovereign rating, CDOs offered higher yields. So why not buy them? One good question was why were they offering high yields if they had the same credit rating as the US treasuries?

Until the end of 2006, banks were lending to less creditworthy borrowers, where nearly 50% of mortgages were contributed by subprime lenders or what is known as Alt-A Lender or alternative “A”-lenders. 80% of the mortgages were signed up by mortgage brokers and not the banks. There were teams of mortgage brokers with independent mortgage brokers going out persuading people to take up loans and to no surprise, they were offered higher commissions for writing mortgages which were to riskier borrowers, subprime and Alt-A mortgages which had higher interest rates. Home buyers were attracted by the low-teaser rates offered initially on mortgages. Naturally the (teaser) rates would increase over time as an economic reactionary phase.

Such is the power of greed. The world has to treat greed much like corruption that is – it is endemic and incurable. Hence, greed has to be countered by external controls such as regulation, supervision, transparency and accountability. The Quran, for example, recognises that there will be people who are

driven by greed. However, the faithful person relies on altruism, co-operation, brotherhood, fraternity, affection and mutual respect to reign in greed and selfishness. So effectively, self-restraint is expected under Islam to counter greed. This is an effective constraint because there will always be areas when regulation cannot reach or prove ineffective.

Gharar

Gharar signifies ambiguity, uncertainty, or lack of specificity in contracts. Islam prohibits *gharar* and insists that information be easily accessible to all without any confusion. This requirement were not met in the US by option adjustable rate mortgages (ARM) which is described by *Business Week* as the riskiest and most complicated home loan product ever created. Eighty per cent of option ARM borrowers make a minimum payment. What does this means? An option ARM offers the borrower a number of options. Either they can make full payment of interest and some repayment of principal or they can make interest payment only or also the option with making minimum payment. Bear in mind that minimum payment does not even cover the interest portion.

Eighty per cent of option ARM borrowers opted for the minimum payment. When you don't make the minimum payments, the interest that you should be paying, but is not paid, is compounded to the balance of the loan. When the balance of the loan hits say 115% of the original value, then the whole mortgage contract readjusts. You are then required to pay a contracted rate of interest and no longer have the options of making the minimum payment.

Unfortunately not all borrowers understood the option ARM contract and they believed they could make minimum payment. They probably did not realise that the low payments were only temporary and that the less paid initially, the more was added to the balance of mortgage.

Speculation

Speculation with the element of gambling (*maisir*) is prohibited in Islam because it destroys the moral economic and social fabric of society. In the old model of western investment banking, the risks were limited to the underwriting of the securities issued i.e. while securities were in process of being floated. The

investment bank bore the risk of the flotation. But this was only for a short period and, at a few of weeks. The investment banks earned fees from giving advice and most of the revenue came from fees associated with investment advisory and mortgage acquisitions.

In the new investment banking model in the US, the big five on Wall Street earned 54% of their revenue from proprietary trading. To give an example of how things changed over the years, between 1975 and 1985, the finance industry in the US earned 16% of corporate profit. That rose to 30% in the 1990s. In the 2000s, that increased to 41%. As we saw in terms of the investment banking market, much of this was paid out in the form of bonuses. The economists called this the banking bonus record. The finance industry grew so big that it gobbled the economy like a monster.

Merrill Lynch, for example, in one quarter at the end of 2008 had losses which wiped out all the profit they had earned over five years. Of course the problem was those profits and bonuses paid out could not be taken back. Executives and traders took the profits in the boom and the shareholders bore the losses in a bust.

Governance

Governance also went missing from many Western banks. The banks created through derivatives and other off-balance sheet activities, a giant shadow-banking system. In particular, large banks formed structured investment vehicles (SIVs) off-balance sheet. The SIVs bought long-term and high yielding assets such as CDOs and through short-term borrowings, borrowed 15–20 times the equity. The banks were not backstopping these SIVs as they were separate corporate entities and had their own shareholding. They also told regulators that they did not need to hold capital against the risks being undertaken in the SIVs. When the bank runs occurred on the SIVs, the banks were concerned about reputational risks and they took them back in the balance sheets. These off balance-sheet activity escaped regulation as banks said they did not need to keep capital against it and the regulators didn't object strongly enough. But they were not the only one who went missing. Bank boards also went missing and did not perform their prime duty looking after the interest of the shareholders. So governance went missing in many Western banks.

In contrast, the Islamic system has an extra layer of

supervision in the Islamic banking system. The Shariah supervisory boards ensure that the activities of Islamic banks are in line with the Shariah. So this provides a discipline over the sort of activities that can be undertaken by Islamic banks.

Leverage

Islam prohibits usury and interests. A number of prominent Western economists have argued quite clearly that debt and leverage can cause small economic shocks to be magnified into larger investment and output fluctuation. Irvin Fisher particularly argued what he called, the debt deflation hypothesis that the excess amount of debt or leverage can cause deflation in the economy and he argued this was one of the causes of the Great Depression in 1929.

There were clearly substantial amounts of debts and leverages in the lead up to the global financial crisis. In the US housing market, housing income gearing, that is the ratio of debt to household disposable income, was at a record level. This has never been as high before in the US as it was in 2006. Similarly the ratio of interest to household disposable income was also at a record level in the US. So there was a large amount of leverage among the household sector in the US which left them extremely exposed when housing values fell.

High leverage has been a feature of Wall Street for quite some time. Leverage grew extremely high throughout 2000. For example, the leverage was 30:1 in 2002 and that rose to 41:1 in 2007. This borrowing or the leverage came through a succession of short-term debt that was rolled-over in the commercial paper market and short-term money market in the US. When the market became wary and wouldn't roll the paper over, the credit crunch ensued.

It is easy to see the severity of the matter. If the leverage was 33:1, then a drop in 3% in the value of portfolio can wipe out the bank's entire capital. So quite clearly, leveraging is risky. Leveraging cuts both ways. It can magnify earnings greatly during the upswing, but it can also accentuate the down swing. Economists had warned of this several years earlier.

Financialisation

In the West, we have seen the phenomenon known as financialisation. Financialisation is where the value of

financial asset greatly exceeds that of tangible asset. In some countries, such as Iceland being the extreme case, financial liabilities became eight times larger than GDP. In the United Kingdom, the financial asset liabilities became four times larger than GDP. So the financial sector grew much faster, than the rest of economy. The two parts, the real parts of economy and the financial part of the economy have not kept in harmony and have not kept in balance.

By contrast, in the Islamic system, financing is based on real goods. Islamic financial instruments involve buying and selling of commodity as part of financial transactions. This means that under the Islamic system financing expands with real economic growth. This constrains the excessive growth of debt and credit creation through the banking system. Under the Islamic system, there has been no decoupling of financial activity from tangible asset investment as in the West.

Resolving the crisis

From the Islamic economic perspective, the Islamic principles are a preventative medicine. That is, if greed had been contained by self restraint, if mortgage borrowers had been fully informed about the essence of financial contracts, if speculation and risky trading was forbidden or restrained, if religious principles were written into bank governances, if usury was banned and financing based on real assets, and if the financial sector had moved in harmony and did not outstrip real activity in the economy, then the Islamic position is that the conditions that arose might have been avoided and the crisis might not have happen.

As preventative medicine, Islamic economics offers few prescriptions on how to solve the crisis. However, it does have a stand on some of the positions that have been taken and some of the actions that have occurred. We have seen stimulus packages which involved printing money and the creation of budget deficits. Islam has a clear position on money creation and budget deficits. This comes from the precepts in the Holy Quran and the Sunnah. Under Islam, the debasement of money is not allowed. This comes from *qiyas* (analogy) from the provision in the Holy Quran of corrupting weights and measures. Money is a form of measure, it's a way we measure standards in term of transactions. By analogy, the debasement of money would not be allowed under Islam.

RE-EXAMINING APPROACH AND PHILOSOPHIES ON THE REGULATION OF THE MARKETS¹

In Malaysia, Islamic finance has evolved to provide a diverse range of viable investment and financing alternatives that are accepted by Muslim and non-Muslim investors, both domestic as well as international. Malaysia's Islamic financial services industry is a core segment that fits seamlessly within its capital markets, with the additional requirements have made it increasingly appealing to a broader audience. A key aspect of Malaysia's regulatory approach is to ensure that investors in ICM receive the same degree of clarity, certainty and protection as investors in the conventional market. Our emphasis is on a common regulatory approach to regulating ICM based on IOSCO's objectives and principles of regulation.

Development of the Malaysian ICM

Malaysia is probably among the few markets in the world where the ICM is dominant. About 87% of the listed securities on Bursa Malaysia accounting for approximately 65% of total market capitalisation are Shariah-compliant. This suggests that Malaysia offers an attractive Islamic equity value proposition. Investors seeking Shariah-compliant equities in Malaysia will find the widest offering of small- and medium-sized companies in ASEAN and the Middle East, operating in diverse industries from plantations, resources and properties to manufacturing, services and technology.

The strength of Malaysia's ICM creates a brand differentiation and offers a sustainable competitive advantage. Malaysia was a pioneer in the global *sukuk* market. This market has experienced high growth and Malaysia remains firmly established as one of the largest issuers of *sukuk* globally. In 2008, about 60% of the world's *sukuk* outstanding was originated from Malaysia. The growth trend in *sukuk* issues is likely to

continue in 2009. In the first quarter of 2009, *sukuk* issuances totalled RM6.4 billion with three large issues of between RM1 to RM2.5 billion. Latest projections suggest that there could be a revival in the global *sukuk* market this year following a sharp drop last year, with at least US\$10 billion of *sukuk* expected to be issued. The demand is reflected in the over-subscription of the US dollar-denominated sovereign *sukuk* issued by Indonesia recently. The *sukuk* received US\$4.7 billion worth of subscriptions, seven times higher than the US\$650 million of *sukuk* offered by the Indonesian government. In addition, the first issuance of an Islamic corporate debt in Europe worth EUR1 billion (US\$1.3 billion) is also expected to be launched in June by a French financial institution.

Furthermore, the Malaysian investment management industry is expected to grow further in 2009. The industry is the fastest growing segment in Malaysia's capital market, expanding at 24% annually and the share of Shariah assets have continued to rise. Malaysia is home to more Islamic funds than anywhere else in the world and largest after Saudi Arabia in asset terms.² Islamic funds currently account for 12% of the total net asset value of the country's unit trust industry. In fact, Islamic unit trust funds showed more resilience than the conventional funds in their performance last year.

Recently Islamic fund management industry was fully liberalised. A wide range of tax and other incentives are also available to attract international players. There has been strong interest from leading international fund management companies to establish operations in Malaysia. In addition, the Malaysian ICM has a pioneering and innovative culture and a track record for commercialising product innovation.³ Today there is a diversified array of products ranging from Shariah-

¹ This article is based on the keynote address of the SC Chairman, Tan Sri Zarinah Anwar, delivered at the Islamic Finance Asia Summit, in Kuala Lumpur on 28 April 2009.

² The Cerulli Report, November 2008.

³ With many firsts—

- i. First sovereign five year global *sukuk* of US\$600 million in 2002 (Govt. of Malaysia);
- ii. First global *sukuk* of US\$150 million issued by Guthrie Bhd in 2001;
- iii. First Islamic residential mortgage backed securities issued by Cagamas Bhd in 2005;

compliant equities, *sukuk*, unit trust funds, Islamic ETFs, REITS, structured products and derivatives. Many recent product offerings provide features, such as capital protection, with a portion invested in structured products like swaps, options and hedging instruments for a wide range of underlying assets ranging from currencies to commodities.

As Malaysia's ICM strives for maturity and sophistication, two points become evident. First, the role of the private sector is critical in leading the growth of the capital market. Meanwhile, regulators will seek to facilitate higher levels of market participation. Second, there is a need to strengthen the international dimension of the ICM. Malaysia's thriving Islamic finance sector needs to be open and connected, and explore and provide opportunities for tie-ups with other thriving centres around the world. The government's decision to allow up to five international law firms with expertise in international Islamic finance to practice in Malaysia, and the availability of the new Islamic bank licences will help Malaysia to be a global Islamic financial hub.

Strengthening linkages with GCC and other markets

Increasing co-operation and linkages between the Gulf Co-operation Council (GCC) states and the various other markets is critical to building a thriving global Islamic financial market. Malaysia's efforts in gradually liberalising capital market intermediation services, have brought positive changes to the demography and landscape of its capital market. Malaysia now seeks to establish linkages with other markets at several levels. First, Malaysia has increasingly opened its doors to foreign players in the area of broking, fund management and advisory industries. Similarly, Malaysia's intermediaries are also looking to expand to the region, either individually or through partnerships.

Secondly, Malaysia welcomes foreign companies to raise funds or list products in its market. For example, *sukuk* issuances, denominated in ringgit or foreign currencies (US dollar), in Malaysia will benefit from the strong base of Malaysian investors to anchor the distribution of a major issue. In addition, there is a strong pool of expertise to help structure the transaction, as well as an established and tested regulatory framework that caters to both Shariah and legal requirements.

To venture into greater cross-border flows, there are challenges in maintaining a strong investor protection regime across borders. The promotion of a thriving global market for Islamic products is therefore dependent on strong co-operation among regulators to maintain a high level of investor protection across borders. This requires the evolution of an international Islamic securities regulatory and supervisory framework that is compatible with international best practices even as regulations are fine-tuned to cater for the specific characteristics of Islamic structures and processes.

The SC is a signatory to the IOSCO Multilateral MOU and has established close working ties with fellow securities regulators worldwide to ensure cross-border supervision and enforcement efforts. Specifically in relation to Shariah regulation, there is also a need to promote greater internationalisation and convergence of Shariah practices to facilitate more cross-border transactions. Malaysia, for example, has started to facilitate the registration of foreign Shariah scholars. International Shariah scholars have been appointed to sit as members of the SC's Shariah Advisory Council. Similarly, local scholars are also encouraged to sit on other similar councils internationally. In addition, the SC has published the resolutions of its SAC on ICM issues in several languages to facilitate greater cross-border discussion and deepen understanding of Shariah interpretations across borders.

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- iv. First Islamic ringgit bond issuance of RM500 million by a multilateral financial institution in 2005 (International Finance Corporation);
 - v. First listed Islamic real estate investment trust in 2006; and
 - vi. First Islamic structured product in 2007.
- And, with landmark issues such as—
- i. Largest *sukuk* funding programme of RM60 billion by Cagamas;
 - ii. Largest corporate *sukuk* of RM15.4 billion by Binariang GSM;
 - iii. Largest exchangeable *sukuk* of US\$850 million by Khazanah;
 - iv. RM3 billion Islamic stapled income securities by Telekom and Hijrah Pertama; and
 - v. First Asian Islamic ETF launched by i-Valuecap Management in 2008.

ROOTING ISLAMIC INVESTMENT AND STRATEGY FUNDS IN LIGHT OF THE ECONOMIC CRISIS¹

Origins and Importance of VC industry

The first venture capital company in Malaysia was established in 1984, when the Singapore-based South East Asian Venture Investment (SEAVI) set up Malaysian Ventures with a fund size of approximately RM13.8 million. Since then, the Malaysian venture capital industry has grown in providing financing to companies where direct bank lending or financing through the equity or debt market is hard to obtain.

Venture capital activity is now recognised as an engine of economic growth. It stimulates new business activities leading to the creation of new companies, thus increasing employment level while acting as a catalyst towards greater innovation in science and technology.

The capital market has also benefited from venture capital as investee or VC-backed companies are listed on the local stock exchange which serves as an exit for the venture capitalists. Venture capitalists provide the pipeline to the stock exchange, creating a capital market with greater depth and breadth.

Commitment and support from the government

The Malaysian venture capital industry is privileged to have received immense support from the government. As at end-2008, RM2.2 billion was sourced from the government which represented about 48% of the total funds under management by the industry. Funding from the government has been prevalent at each stage of the funding spectrum i.e. from the pre-seed right up to late stage as administered by various Ministries and government-backed venture capital companies.

Apart from funding, the government also set up the Malaysian Venture Capital Development Council (MVCDC) in January 2005 under the chairmanship of the

SC. With Council members drawn from both the public and private sectors, its main task includes advising the government on overall development of the VC industry and to facilitate greater co-ordination of strategies and initiatives relating to the VC industry.

Complementing the efforts, the government also accorded attractive tax incentives for VC industry players. Budget 2009 granted a five-year tax exemption on venture capital companies investing at least 30% of their funds in seed, start-up or early stage financing.

Performance of the VC industry

Funds under management as at end of 2008 grew by 38% to RM4.57 billion from RM3.308 billion in 2007, of which 48% were funds committed by the government agencies.

During 2008, a total of 134 investee companies received funding amounting to RM477 million. The year saw Japan Asia Investment Co. (JAIC), one of the largest venture capital company in Japan, making its entry as the first foreign venture capital corporation (VCC) registered with the SC. Furthermore, Musharaka Venture was launched as the first Islamic venture capital fund in Malaysia following the release of the *Guidelines and Best Practices of Islamic Venture Capital* in May 2008.

To drive greater vibrancy into the industry, easily available information on venture capital activities is vital for greater awareness and the creation of more venture capital activities. The first edition of the *Venture Capital and Private Equity Directory 2009* provides information on venture capital industry performance, venture capital companies and management companies, the regulatory framework, tax incentives etc. This directory, serves as a single reference point to create the much-needed awareness among industry players from both the venture capitalist and entrepreneurial

¹ This article is based on the keynote address of Goh Ching Yin, delivered at the 2nd Islamic Venture Capital and Private Equity Conference 2009, in Kuala Lumpur on 20 May 2009.

side, on the various requirements, benefits and funding availabilities that currently exist in the venture capital and private equity market.

Moving up the value chain

The government's commitment to move the economy up the value chain is clearly reflected under the Ninth Malaysia Plan where efforts will be intensified to generate new sources of wealth in technology and knowledge-intensive sectors.

In this regard, access to financing, including venture capital financing for SMEs is crucial. The venture capitalists play an important role not only in funding but also in inculcating excellence, high performance culture and good corporate governance in start-up companies, to position Malaysia as a preferred destination for investments in ICT services and facilities, and biotechnology. Evidence to this success stories include JobStreet Corporation Bhd, mTouche Technology Bhd, e-pay Asia Limited and Green Packet Bhd.

Malaysia's edge under MIFC's initiatives

Malaysia has built the lead in Islamic finance with the adoption of an internationally accepted legal framework and regulatory best practices and an evolving Shariah governance framework under the purview of the SC's Shariah Advisory Council (SAC). Besides being strategically located between the eastern and western regions that makes opportunities logistically viable, Malaysia has continuously develop its Shariah capabilities in terms of its product offerings spectrum.

In recognising the need to develop the skill sets of Islamic finance professionals, various incentives are extended to attract experienced Islamic scholars to reside in Malaysia, share their experiences and build the talent pool needed to grow the industry. Incentives include withholding tax exemption on income received by non-resident experts in Islamic finance; relaxation of foreign equity ownership rules for foreign companies to be locally established; and facilitative immigration policies or "Green Lane" for expatriates in Islamic finance and their immediate family members. By promoting knowledge sharing, Malaysians will stand

to gain in the long term by having the necessary human capital to become an international center of Islamic finance.

Opportunities for the industry

The current financial and economic crisis has opened doors for greater opportunities. In supporting this, the SC recently allowed the establishment and listing of Special Purpose Acquisition Company (SPAC) on Bursa Malaysia as a new vehicle for private equity.

A SPAC is basically a shell company which has no operations but goes public with the intention of merging with or acquiring operating companies or businesses with the proceeds of its initial public offering. It is observed that SPACs listed abroad are usually formed by a small group of professional managers with relevant private equity, corporate finance and/or industry experience. A SPAC, which is a pooled investment vehicle, allows public investors to invest in private equity-type transactions which ordinarily are the domain of private equity players and hedge funds.

Essentially, investors will be relying on the management team's experience in a certain industry, and its ability to identify attractive acquisition targets and secure proprietary deals. Once a SPAC has merged with or acquired an existing operating company/business, it will focus on conducting business for profit. Certainly, it is hoped that the listings of SPAC will generate greater interest in private equity investments.

Complementing this, the SC also announced the revamp of the MESDAQ Market to become the ACE Market where sponsor advisers play a greater role in bringing listings to the market. The ACE Market will be opened to companies of all sizes and from all sectors, with no prescribed minimum operating history or profit track record requirements for entry to the alternative market. These flexibilities accorded will enhance the ACE Market as an avenue to float and/or exit for the venture and private equity players.

In sum, the VC industry has the commitment and support of the government. Today the importance of VC to the overall economic well being and the opportunities abound despite the financial crisis.

NEWS ROUND-UP

SC Chairman wins prestigious award at London Sukuk Summit

Tan Sri Zarinah Anwar was honoured on 2 July when she received the “Most Outstanding Contribution to the Development of Islamic Capital Market” at a gala dinner awards ceremony, held in conjunction with the London Sukuk and Islamic Capital Markets Summit 2009. She also delivered a keynote address on the Islamic capital market which was themed, “Innovating for the Future: The Next Generation of Post Credit Crunch Sukuk Structures/Preparing for the Next Wave of ICM Offerings”.

Tan Sri Zarinah commented, “It is heartening to note that our efforts are being recognised, also at the international level. There is tremendous interest in and acknowledgement of our role in the development of the Islamic capital markets.”

According to the Chairman, many at the conference expressed their appreciation for the efforts that



SC Chairman wins prestigious award at London Sukuk Summit

the SC has taken to move so far ahead. “They are keen to consult with us on outstanding issues and challenges affecting the development of the Islamic capital markets and seek our views and involvement in moving things forward.”

First Visiting Scholar, Prof Mervyn K. Lewis

In March, The SC entered into an MOU with Universiti Malaya to organise the Visiting Scholars’ Programme. The programme aims to facilitate greater collaboration between members of academia through the sharing of knowledge and expertise in the area of Islamic finance. Under this programme, prominent and distinguished academicians will be attached as visiting scholars at University of Malaya’s School of Business and Accountancy.

The inaugural SC-Universiti Malaya collaboration on the Visiting Scholar Programme commenced on 3 May with Prof Mervyn Lewis. Prof Lewis is currently a Professor of Banking and Finance at the School of Commerce, University of South Australia.

On 16 April, he delivered a public lecture from his

latest research paper at the SC entitled, “An Islamic Economic Perspective on the Global Economic Crisis”, which studies and analyses the global crisis from the Islamic economics perspective. During the lecture Prof Lewis shared his views on how the global credit crisis could have been averted if the West had practised what has been propagated in Islam – that is to defer greed when optimising shareholders’ wealth.

Prof Lewis also conducted a closed-door lecture on 22 April entitled, “The Origins of the Sub-Prime Crisis: Inappropriate Policies or Both”. Representatives from the SC, Bank Negara Malaysia, Bursa Malaysia, Labuan International Business and Financial Centre, Islamic Financial Services Board and Malaysia Accounting Standards Board attended the lecture.

4th Islamic Markets Programme

The SC held its fourth Islamic Markets Programme (IMP) from 22–26 June in Kuala Lumpur. The programme, with the theme “Seizing Opportunities while Strengthening Resilience”, could not have come at a better time. Islamic finance, which escaped the full brunt of the global financial crisis, has shown great potential amidst the current gloom as it offers a value proposition based on socially responsible and ethical practices as well as sound risk management principles.

The annual SC-IMP is organised by the SIDC as one of

the initiatives undertaken by the SC to develop the talent pool for the Islamic capital market, as well as promoting knowledge sharing on the Islamic capital market. It provides an important platform for the discussion of topics ranging from product innovation, human capital development, and interpretation of Shariah principles to issues of ethics and governance.

The five-day programme saw the participation of 40 delegates from several countries, including Kyrgyzstan, Uzbekistan, Morocco, Croatia, Gambia, Cambodia, Ivory Coast, Turkey, Djibouti and Pakistan.

MIFC road shows to United Arab Emirates, Qatar and Singapore

The SC participated as one of the MIFC delegations in the Malaysian Services Exhibition MSE 2009 to promote Islamic financial services from Malaysia to the GCC region. Organised by the Malaysia External Trade Development Corporation, the MSE2009 was held in Dubai, United Arab Emirates from 17 to 19 March 2009.

The MIFC also held roadshows in Qatar and Singapore in conjunction with the 2nd Annual Leaders in Islamic Finance Summit (20–21 April 2009) and IFSB Summit (6–8 May 2009) respectively. In both road shows, the SC showcased the ICM milestones and business opportunities available in Malaysia.

Shariah Advisers’ Workshop

On 19 March, the SC organised the Shariah Advisers’ Workshop themed, “Developing Islamic Alternative Strategy Funds”. The focus was on hedge funds, particularly on its trading methods and the various investment strategies adopted in order to maximise returns. The workshop aimed to serve as a catalyst towards greater awareness and understanding among

Shariah advisers on hedge funds. It would also help to enhance their role within the industry once there is a sustainable demand to introduce Islamic Alternative Strategy Funds in the market. The workshop was attended by more than 40 participants comprising Shariah advisers and Shariah officers of Islamic financial institutions.

Expert Talk Series

This year the SC organised its inaugural Expert Talk entitled "Venture Capital and Its Islamicity" on 27 March. The talk was delivered by Prof Dr Murat Cizakca, a prominent economic historian and lecturer from Turkey who has conducted extensive research on the practices of private equity and venture capital under the Ottoman Empire. It attracted more than 50 participants from various institutions including Islamic and investment banks, venture capital companies, private companies, government agencies and law firms.

The second Expert Talk on Bursa Commodity House (BCH) was held on 6 April. It was jointly organised by

ICMD and Bursa Malaysia (Bursa) to update relevant departments in the SC on the latest development of BCH. The talk was attended by more than 50 staff from the SC as well as officers from Inland Revenue Board.

The third Expert Talk was organised on 18 June on "Role of Trustees in *Sukuk* Structuring". It was delivered by Idrus Ismail (Senior Counsel), and Ahmad Lutfi (Partner) from Azmi & Associates. The talk discussed how trustees can add value to the structuring and attracted more than 80 participants from regulatory bodies, trustees, financial institutions, law firms and local universities.

Islamic Finance Asia Summit and Islamic Venture Capital Conference

The Islamic Finance Asia Summit was held from 28–29 April by Euromoney Seminars. Its objectives were: to look at how Islamic finance has responded to the credit crunch; new products and innovations; developments in different jurisdictions across Asia; and provided a view on how the industry would look in the future.

The 2nd Islamic Venture Capital Conference themed 'Rooting Islamic Investments and Strategic Funds in Light of the Economic Crisis', was held from 20–21 May by Malaysian Venture Capital Association and the Islamic Banking and Finance Institute Malaysia. The conference focused on the important role of Islamic finance in the socio and economic development of Islamic countries.

Malaysia International Halal Showcase 2009

The world's largest *halal* trade fair, Malaysia International Halal Showcase (MIHAS 2009), was held from 6 to 10 May. Among others, the objective of MIHAS 2009 was to ease the sourcing and selling of global quality

halal products, including Islamic financial products. The SC set up an exhibition booth to showcase the Malaysian Islamic capital market covering key strategic developments as well as its various products and services.

MALAYSIA ICM – FACTS AND FIGURES

Shariah-compliant securities on Bursa Malaysia

| | | | |
|--|---------------------|------------------|-----------------|
| Number of Shariah-compliant securities – May 2009* | 848 | | |
| % to total listed securities | 88% | | |
| Latest market capitalisation – 30 June 2009 | (RM billion) | | |
| Shariah-compliant | 521.24 | | |
| Total market | 817.94 | | |
| % of Shariah-compliant securities to total market | 63.7% | | |
| Equity market indices | 29 May 09 | 30 Jun 09 | % change |
| KL Composite Index (KLCI) | 1,044.11 | 1,075.24 | 2.98% |
| FBM EMAS Shariah | 7,340.85 | 7,445.71 | 1.42% |
| FBM Hijrah Shariah | 7,980.21 | 8,133.37 | 1.92% |
| DJIM Malaysia Titans 25 | 642.06 | 654.86 | 1.99% |

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

Shariah-based unit trust funds

| | | |
|--|-----------------|-----------------|
| Number of approved funds | Dec 2008 | Jun 2009 |
| Shariah-based | 149 | 143 |
| Total industry | 579 | 551 |
| Net asset value (NAV) of approved funds | Dec 2008 | Jun 2009 |
| Shariah-based (RM billion) | 17.19 | 19.71 |
| Total industry (RM billion) | 134.40 | 164 |
| % to total industry | 12.8% | 12% |

Note: Effective January 2009, wholesale funds were excluded from the above statistics.

Islamic exchange-traded funds (ETF)

| | | |
|--|-----------------|-----------------|
| Number of approved ETF | Dec 2008 | Jun 2009 |
| Shariah-based | 1 | 1 |
| Total industry* | 3 | 3 |
| Net asset value (NAV) of approved funds | Dec 2008 | Jun 2009 |
| Shariah-based (RM million) | 482.73 | 544.8 |
| Total industry* (RM million) | 1,022.91 | 1,104.6 |
| % to total industry | 47.2% | 52.9% |

Note : Islamic ETF-DJIM MyETF-DJIM25 was launched on 22 January 2008.
* including bond ETF - ABF Malaysia Bond Index Fund.

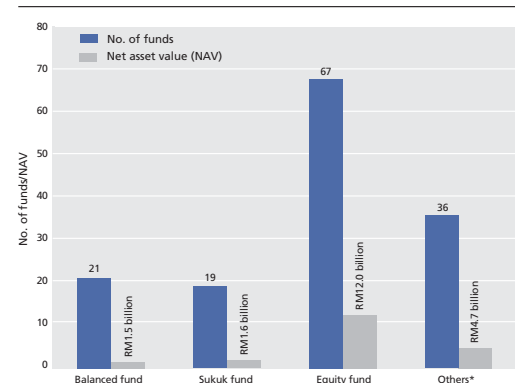
Islamic real estate investment trusts (REITs)

| | | |
|------------------------------|-----------------|-----------------|
| Number of REITs | Dec 2008 | Jun 2009 |
| Islamic REIT | 2 | 3 |
| Total REITs | 13 | 13 |
| Market capitalisation | Dec 2008 | Jun 2009 |
| Islamic REIT (RM million) | 1,241.04 | 1,488.01 |
| Total REITs (RM million) | 4,070.02 | 4,612.46 |
| % total industry | 30.5% | 32.3% |

Chart 1
Performance of KLCI vs Shariah Indices



Chart 2
Shariah-based unit trust funds by category

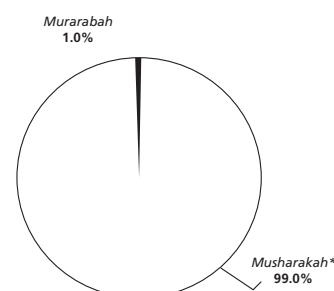


*Including feeder funds, fixed income funds, money market funds and structured products.

Corporate sukuk

| Sukuk approved | 2008 | Q1 2009 | Q2 2009 |
|--|-------------|-----------------|-----------------|
| Number of <i>sukuk</i> | 47 | 4 | 5 |
| Size of <i>sukuk</i> (RM billion) | 43.23 | 3.6 | 10.9 |
| Size of total bonds approved (RM billion) | 139.99 | 10.6 | 22.9 |
| % of size of <i>sukuk</i> to total bonds approved | 30.9% | 34.0% | 47.4% |
| Sukuk issued⁺ | 2008 | Q1 2009 | Q2 2009 |
| Size of <i>sukuk</i> issued (RM billion) | 20.8 | 6.6 | 10.3 |
| % of <i>sukuk</i> issued to total bonds issued | 43.7% | 62.6% | 52.0% |
| Sukuk Outstanding | 2008 | Mar 2009 | Jun 2009 |
| Size of outstanding <i>sukuk</i> (RM billion) | 152.8 | 161.29 | 167.8 |
| % of outstanding <i>sukuk</i> to total outstanding bonds | 57% | 57.5% | 58.2% |

Chart 3
Sukuk approved based on various Shariah-principle asset funds



*include one combined issue size limit of RM5.0 billion (or its equivalent in foreign currency) with Multi-currency Subordinated Debts Programme approved in March 2009.

⁺ includes the approval combination issuances (conventional bonds and *sukuk*).

RM-denominated sukuk approved by the SC in Q1 and Q2 2009

| Issuer | Shariah Principle | Size of Issues (RM million) | Date of approval | Rating |
|----------------------------------|--------------------------|------------------------------------|-------------------------|------------------|
| Unique Wealth Management Sdn Bhd | <i>Musharakah</i> | 1,000.00 | 30 Jan | AA- |
| Pinnacle Tower Sdn Bhd | <i>Musharakah</i> | 450.00 | 3 Feb | AAA MARC-1 |
| Telepal SPV Sdn Bhd | <i>Murabahah</i> | 150.00 | 2 Mar | AA |
| ABS Passage Bhd | <i>Musharakah</i> | 2,000.00 | 16 Mar | AAA AA2 B3 |
| CIMB Islamic Bank Bhd | <i>Musharakah</i> | 2,000.00 | 22 May | AA |
| CIMB Bank Bhd | <i>Musharakah</i> | 5,000.00* | 28 May | AA |
| Jati Cakerawala Sdn Bhd | <i>Musharakah</i> | 855.00 | 12 Jun | AA3 |
| UMW Holdings Bhd | <i>Musharakah</i> | 800.00 | 22 Jun | MARC-1 AAA |
| United Growth Bhd | <i>Musharakah</i> | 2,200.00 | 24 Jun | AA2 |

* Combined issue size limit of RM5.0 billion (or its equivalent in foreign currency) with Multi-Currency Subordinated Debts Programme approved in March 2009.

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 Department:

Mohd Radzuan A Tajuddin (Head of Department)

Tel: 03-6204 8000 ext 8718

E-mail: Radzuan@seccom.com.my

Badlishah Bashah

Tel: 03-6204 8000 ext 8373

E-mail: badlisha@seccom.com.my

Zainol Ali

Tel: 03-6204 8000 ext 8666

E-mail: zainol@seccom.com.my

Azmaniza Bidin

Tel: 03-6204 8000 ext 8280

E-mail: azmaniza@seccom.com.my

Securities Commission Malaysia
3 Persiaran Bukit Kiara Bukit Kiara
50490 Kuala Lumpur Malaysia
Tel: 03-6204 8000 Fax: 603-6201 5082
Website: www.sc.com.my