



malaysian ICM



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

Contents

Boosting Islamic Finance Through Digitisation	1
SHARIAH	
Shariah Advisory Council Resolutions	2
DEVELOPMENT	
Budget 2019: New Capital Market Measures	5
Honouring Excellence in Islamic Finance: The Royal Award 2018	6
Regulation of Digital Assets in Malaysia	7
Shariah Advisers Programme 2018	7
Updated List of Shariah-compliant Securities by Shariah Advisory Council	8
Global Institutions Advocate Islamic Finance to Fund the United Nation's Sustainable Development Goals	9
Issuance of World's First UN SDG Sukuk	9
Launch of World's First ESG Sukuk Fund	10
REGULATORY	
Liberalisation of the Framework for Retail Investment in Malaysia's Corporate Bond and Sukuk Market	11
ETF Guidelines Revised to Expand Investment Opportunities	11
FEATURES	
SC's Digital Markets Strategy - Embracing Technology	12
Malaysian ICM in 2018	14
News Round-up	16
STATISTICAL UPDATES	
Malaysian ICM – Facts and Figures	18

BOOSTING ISLAMIC FINANCE THROUGH DIGITISATION

The capital market has evolved significantly over the last decade with emerging technologies revolutionising its various aspects. The industry is embracing the digital revolution as an engine of growth for the capital market to harness new capabilities to provide better access and convenience for issuers and investors.

In line with this, the Securities Commission Malaysia (SC) has formulated the Digital Markets Strategy as a holistic digital agenda, focused on enhancing access to finance, increasing investor participation, augmenting the institutional market and developing synergistic ecosystems. These strategies focus on facilitating innovative market-based solutions and developing a conducive digital finance ecosystem.

The SC recognises that such initiatives may prove transformative for the capital market including Islamic capital market (ICM), given its potential capacity to disrupt incumbents and reinvent existing intermediation channels through greater ease of entry and use, cost-effective yet powerful analytics as well as shorter response cycles. As a proactive regulator, the SC continues to develop policies to allow this new industry to prosper under clear guidelines and rules. Hence, the growth and success of this new segment is a contingent with the support of comprehensive policies, guidelines and frameworks.

Following the *Capital Markets and Services (Amendment) Act 2015*, as part of its efforts to introduce a newly recognised market framework to facilitate the establishment of alternative trading platforms, the SC released the *Guidelines on Recognized Markets* (RMO Guidelines). These guidelines facilitate the offering of capital market products on a recognised market including equity crowdfunding (ECF), peer-to-peer (P2P) financing as well as digital asset exchange which is scheduled to be revised in 2019. The guidelines among others require recognised market operators to appoint a Shariah adviser in cases where an ICM product is offered. It also includes the roles of Shariah adviser and requirements to disclose the name of the adviser and structure of the product when it is offered.

SHARIAH ADVISORY COUNCIL RESOLUTIONS

The Shariah Advisory Council (SAC) of the SC serves as the highest authoritative body for the ascertainment of the application of Shariah principles relating to ICM in Malaysia. Various issues in relation to ICM are discussed and resolved by the SAC. These resolutions serve as a reference to practitioners and the public in developing and expanding ICM products and services for the Islamic finance industry. The following are several key resolutions that have been resolved by the SAC:

(1) PAYMENT OF DEBT IN THE INVESTMENT CURRENCY BY USING THE ALTERNATE CURRENCY BASED ON THE CURRENCY EXCHANGE RATE THAT IS DETERMINED IN THE WA`D ARRANGEMENT

In the Islamic Dual Currency Investment (IDCI) which is based on the principle of *murabahah* (via *tawarruq* arrangement), there is a main issue that arises in relation to the payment of debt in the investment currency (Investment Currency) by using the selected alternate currency (Alternate Currency) based on the currency exchange rate that is determined in the *wa`d* arrangement.

In the IDCI structure, the investor gives *wa`d* to the bank where the investor agrees to receive the *murabahah* sale price in the Alternate Currency on the maturity date of the IDCI based on the exchange rate which was agreed in the *wa`d* arrangement. In the event that the Investment Currency is stronger than the Alternate Currency, the bank shall exercise the *wa`d* and consequently, *bai` al-sarf* (currency exchange) will be executed. The investor will receive the *murabahah* sale price from the bank in the Alternate Currency based on the exchange rate which was agreed in the *wa`d* arrangement.

The Shariah issue discussed by the SAC is related to the payment of the *murabahah* sale price in the Alternate Currency through the execution of *bai` al-sarf* on the maturity date of the IDCI, based on

the exchange rate which was agreed in the *wa`d* arrangement.

RESOLUTION

The SAC had resolved the following:

A. WA`D FOR THE EXECUTION OF BAI` AL-SARF THAT IS NOT ASSOCIATED WITH INDEBTEDNESS

If *wa`d* for the execution of *bai` al-sarf* is not associated with indebtedness, the determination of the currency exchange rate may be agreed in the *wa`d* arrangement by the parties involved based on:

- (i) any exchange rate which was agreed in the *wa`d* arrangement; or
- (ii) the prevailing currency exchange rate.

The agreed currency exchange rate may be applied when *bai` al-sarf* is executed.

B. WA`D FOR THE EXECUTION OF BAI` AL-SARF THAT IS ASSOCIATED WITH INDEBTEDNESS

(1) Determination of the Currency Exchange Rate on the Debt Payment Date

Payment of debt in the Alternate Currency through the execution of *bai` al-sarf* on the debt payment date is permissible, subject to the following conditions:

- (i) The currency exchange rate shall be based on the prevailing currency exchange rate or any rate agreed upon by the parties involved, on the debt payment date; and

- (ii) The debt that has been identified for payment in the Alternate Currency shall be fully paid on a spot basis on the debt payment date.

(2) Determination of the Currency Exchange Rate at a Pre-Agreed Exchange Rate in the Wa`d Arrangement

Payment of debt in the Alternate Currency through the execution of *bai` al-sarf* on the debt payment date based on the exchange rate which was agreed in the *wa`d* arrangement is not permissible unless the following requirements are fulfilled:

- (i) The debt in the Investment Currency must be fully paid in the same currency on the specified date; and
- (ii) The conversion of the Investment Currency into the Alternate Currency shall only occur on the day of the execution of *bai` al-sarf* based on the exchange rate which was agreed in the *wa`d* arrangement, upon the full payment of the debt in the Investment Currency.

Wa`d for the currency exchange that is provided by the promisor shall only be for the purpose of the execution of *bai` al-sarf*.

(2) NATURE OF SHARES

Shares are units of ownership interest of the shareholders in a corporation or financial asset that provide for an equal distribution in any profits, if any are declared, in the form of dividends. The two main types of shares are ordinary shares and preferences shares.

Since shares are part of the capital market instruments, the SAC had discussed to determine the status or nature of shares from the perspective of asset category in Shariah whether it resembles currency, debt, *`ayn* (physical assets) of the company or an asset in its own category.

RESOLUTION

The SAC resolved that shares are assets which can be categorised as *mal mithli*¹ that represent the right of ownership of the shareholders in the company. Shares do not resemble currency, debt and *`ayn* of the company.

(3) APPLICATION OF BAI` SALAM PRINCIPLE IN SHARES TRADING

Bai` salam is a sale and purchase contract whereby at the time when the contract is executed, the purchaser has made full payment of the purchase price prior to the delivery of goods by the seller where both contracting parties have agreed on the following:

- (1) Specification of characteristics, types and quantity of *muslam fih* (*salam* goods); and
- (2) The delivery of goods is made at the time and place which has been determined.

When the principle of *bai` salam* is applied in the context of trading of ordinary shares of Shariah-compliant Listed Companies on Bursa Malaysia (Shariah-Compliant Listed Shares), the purchase price for the Shariah-Compliant Listed Shares must be paid in full upon the execution of the contract.

¹ *Mal mithli* refers to something that is easy to obtain in the market and is similar in physical form. Even if there are any differences, they are not too obvious and normally people do not take into consideration of those particular differences.

The types of the Shariah-Compliant Listed Shares (i.e. the name of the company of the Shariah-Compliant Listed Shares) and the quantity of these shares must also be determined upon the execution of the contract. Meanwhile, the delivery of the Shariah-Compliant Listed Shares will take place at a time which has been determined in the future as agreed by both parties.

RESOLUTION

The SAC had resolved as follows:

- (1) The application of *bai` salam* principle in the trading of the Shariah-Compliant Listed Shares is permissible.
- (2) The Shariah-Compliant Listed Shares can be used as *muslam fih* (*salam* goods) since these shares can be categorised as *mal mithli* (asset that is homogenous in nature).
- (3) The trading of the Shariah-Compliant Listed Shares using the principle of *bai` salam* is subject to the following conditions:

- (i) The Shariah-Compliant Listed Shares cannot be determined specifically and limited (*ta`yin*) which cause difficulty in receiving and delivering the *muslam fih*. Therefore, it is not permitted to determine specific serial numbers, specific owner or the like on the required Shariah-Compliant Listed Shares;
 - (ii) The company's name and quantity of the Shariah-Compliant Listed Shares must be determined; and
 - (iii) The date for the delivery of the Shariah-Compliant Listed Shares must be determined.
- (4) *Bai` salam* does not occur in the sale and purchase transaction of the Shariah-Compliant Listed Shares which is executed through the trading and settlement system in Bursa Malaysia where the settlement of payment and the delivery are made on T+3 day. This transaction is a normal sale and purchase transaction because the settlement of payment and the delivery on the T+3 day is recognised as a spot transaction based on *`urf tijari*².

² *`Urf tijari* refers to customary business practice which is acceptable by the community and does not contradict with *Syara`*

BUDGET 2019: NEW CAPITAL MARKET MEASURES

Budget 2019 has identified key priorities to support the transition of the Malaysian economy towards a more balanced, sustainable and inclusive growth.

Technology has encouraged product innovation and created new ways and means of doing business in the age of digital disruption. Leveraging these advancements, three new initiatives were announced in Budget 2019 to broaden retail investors' participation and stimulate more innovative market-based financing options:

- The SC will put in place a regulatory framework to regulate digital asset exchanges and initial coin offerings (ICOs) to facilitate a fair and orderly development of this nascent market. These regulations are expected to take effect in the first quarter of 2019.
- A Co-Investment Fund (CIF), with a grant of RM50 million, will be established to enable the Government to co-invest with private investors in financing the development of new businesses especially for the micro, small and medium enterprise (MSME) segment, through ECF and P2P financing platforms.
- The introduction of property crowdfunding platforms, which will be regulated by the SC under a crowdfunding framework will provide alternative financing options to first-time home buyers and give investors exposure to the property sector through smaller investment amounts. This initiative forms part of a series of the Budget 2019 measures to facilitate home ownership.

“The SC is supportive of innovative ideas that tap on the transformative power of technology to democratise investments...”

Budget 2019 also announced the establishment of a Special Committee on Islamic Finance led by the Ministry of Finance. Together with the extension of tax incentives for sukuk *ijarah* and *wakalah*, this reinforces Malaysia's position as a global leader in Islamic finance. Additionally, the extension of incentives for retail sukuk and bonds will encourage more issuances of such instruments and attract greater retail participation in the capital market.

The SC will also be reviewing the details of the proposed structure and RMO Guidelines to facilitate the establishment of property crowdfunding platforms as announced in Budget 2019. The SC is supportive of innovative ideas that tap on the transformative power of technology to democratise investments, allowing more financing options for Malaysians to buy their first homes and enhance their socio-economic well-being. The framework will balance the promotion of innovation with ensuring proper safeguards to protect the integrity of the scheme and investors' interest.

To ensure proper governance of this alternative home ownership financing scheme, platform operators are required to register with the SC and fulfil eligibility, transparency and financial requirements.

HONOURING EXCELLENCE IN ISLAMIC FINANCE: THE ROYAL AWARD 2018

On 3 October, the SC and Bank Negara Malaysia (BNM) jointly organised The Royal Award for Islamic Finance 2018 (The Royal Award). The 2018 award presentation ceremony was held in conjunction with the Global Islamic Finance Forum 2018 (GIFF 2018).

Among the guests were Tuan Lim Guan Eng, Minister of Finance, Dato' Seri Mohamed Azmin Ali, Minister of Economic Affairs and more than 300 guests consisting of senior officials of various local and international financial institutions, regulators, multilateral agencies, academic institutions, ambassadors as well as Shariah scholars from across the globe.

His Royal Highness Sultan Nazrin Muizzuddin Shah, Sultan of Perak and the Royal Patron for Malaysia's Islamic Finance Initiative conferred the Royal Award to Tan Sri Dr Zeti Akhtar Aziz, former Governor, BNM. Tan Sri Dr Zeti was honoured with the prestigious award for her achievements and exceptional leadership in expanding the frontiers of Islamic finance in the domestic and global financial arena.

Established in 2010, the biennial Royal Award initiative, spearheaded by BNM and the SC under the Malaysia International Islamic Financial Centre (MIFC) initiative, recognises individuals who have excelled in advancing Islamic finance globally through their outstanding contributions and achievements.

The recipient was selected by a panel of an independent seven-member international jury comprised of industry experts in Islamic finance who are from diversified professional background, headed by Tun Musa Hitam, Chairman of the World Islamic Economic Forum (WIEF) Foundation.



Joining HRH Sultan of Perak, Sultan Nazrin Muizzuddin Shah during the award presentation were Minister of Finance, Tuan Lim Guan Eng, Minister of Economic Affairs, Dato' Seri Mohamed Azmin Ali, Chairman of the Jury Panel of The Royal Award, Tun Musa Hitam, BNM Governor, Datuk Nor Shamsiah Mohd Yunus and SC Chairman, (then) Tan Sri Ranjit Ajit Singh.

“The Jury went through a very stringent and rigorous selection process on the merits and achievements of each nominee before arriving at a final decision. Widely recognised for her role in the global advancement of Islamic finance, Tan Sri Dr Zeti’s contribution, dedication and leadership in the development of Islamic finance industry serves as an inspiration for the next generation.”

– Tun Musa Hitam
Chairman of the Jury Panel of The Royal Award

REGULATION OF DIGITAL ASSETS IN MALAYSIA

The SC and BNM issued a joint press release on Regulation of Digital Assets in Malaysia to provide clarity on the regulatory approach for the offering and trading of digital assets in Malaysia. In this regard, digital assets are referred as digital currencies and digital tokens.

The issuances of digital assets via ICO and the trading of digital assets at digital asset exchanges in Malaysia will be regulated by the SC. Regulations are currently being put in place to bring digital assets within the remit of securities laws to promote fair and orderly trading as well as to ensure investor protection.

ICO issuers and digital asset exchanges which are involved in the issuance or dealing of digital assets with a payment function will need to comply with relevant BNM laws and regulations relating to payments and currency matters. In addition, ICO issuers and digital asset exchanges are subject to the SC's *Guidelines on Prevention of Money Laundering and Terrorism Financing*.

In order to implement the regulatory framework on digital assets, the SC and BNM will enter into the co-ordination arrangements to ensure compliance with laws and regulations are under the purview of both regulators.

SHARIAH ADVISERS PROGRAMME 2018

The Shariah Advisers Programme themed *Innovating Avenues for Sustainable Growth of Islamic Capital Market* was held on 19 September 2018. A total of 86 participants attended the programme which served as a platform for participants to enhance their skills and knowledge while enabling them to keep abreast with the latest developments on sustainable growth within the ICM.

The programme provided an opportunity for participants to gain exposure on regulatory updates of new products and structures such as the Waqaf Saham Larkin Sentral. Participants are also able to gain the understanding on the difference between alternative Shariah-compliant model and the conventional securities borrowing and lending negotiated transaction (SBLNT) framework. Panel sessions held were focused on Fintech from both technical and Shariah perspectives which were shared by prominent scholars from different backgrounds.



UPDATED LIST OF SHARIAH-COMPLIANT SECURITIES BY SHARIAH ADVISORY COUNCIL

The updated list which took effect on 30 November 2018 features 689 Shariah-compliant securities. These securities constituted 76 percent of the total 902 listed securities on Bursa Malaysia.

The list included 33 newly-classified Shariah-compliant securities with an exclusion of 34 from the previous list issued in May 2018. The next updated list will be made available in May 2019 based on the review of the audited financial statements released up to 31 March 2019.

Main Market / ACE Market	Number of Shariah-compliant securities	Total securities*	Percentage of Shariah-compliant securities (%)
Consumer products & services	133	194	69
Industrial products & services	208	254	82
Energy	29	32	91
Construction	50	52	96
Transportation & logistics	27	35	77
Property	76	101	75
Plantation	36	44	82
Technology	76	88	86
Utilities	11	14	79
Financial services	2	34	6
Healthcare	17	18	94
Telecommunications & media	24	33	73
Special purpose acquisition company	Nil	2	Nil
Closed-end fund	Nil	1	Nil
TOTAL	689	902	76

* As at 26 November 2018

GLOBAL INSTITUTIONS ADVOCATE ISLAMIC FINANCE TO FUND THE UNITED NATION'S SUSTAINABLE DEVELOPMENT GOALS

On 27 September 2018, the SC, together with the United Nations Development Programme (UNDP) and the Islamic Development Bank (IsDB) hosted a forum titled, 'Achieving the SDGs: Unleashing the Potential of Islamic Finance' on the sidelines of the 73rd UN General Assembly. The forum officiated by the Prime Minister of Malaysia, Tun Dr Mahathir Mohamad advocated the use of Islamic finance to close the funding gaps in achieving the UN's Sustainable Development Goals (SDGs).

Discussions were on Islamic finance providing innovative financing mechanisms for the private sector to support the 2030 Agenda for Sustainable Development. The SC, UNDP and IsDB have also committed to collaborate further to leverage Islamic finance in funding the SDGs through capacity building workshops, awareness initiatives and international dialogues specifically to promote green sukuk as a funding mechanism.

ISSUANCE OF WORLD'S FIRST UN SDG SUKUK

HSBC Amanah Malaysia Bhd (HSBC Amanah) launched the world's first UN SDG sukuk in October 2018. The sukuk is the world's first ever benchmark sustainable sukuk issuance by a financial institution referencing the UN SDGs as use of proceeds.

The RM500 million senior unsecured fixed rate SDG sukuk were offered from HSBC Amanah's existing multi-currency RM3 billion sukuk programme, which was approved by the SC in 2012. The proceeds will be utilised for the working capital in the ordinary course of HSBC Amanah's Islamic banking business to finance eligible businesses and projects in accordance with the HSBC SDG Bond Framework. These projects also contribute towards the UN SDGs such as:

- SDG 3 – Good Health and Well-Being
- SDG 4 – Quality Education
- SDG 6 – Clean Water and Sanitation
- SDG 7 – Affordable and Clean Energy
- SDG 9 – Industry, Innovation and Infrastructure
- SDG 11 – Sustainable Cities and Communities
- SDG 13 – Climate Action

The sukuk issuance is also in line with the Value-based Intermediation (VBI) initiative championed by BNM, which seeks to shift the focus of the Islamic finance industry to integrate environmental and social tenets into banking activities. It is a prime example of how to create innovative financing for the SDGs. This marks a milestone in aligning Islamic finance with the SDGs.

LAUNCH OF WORLD'S FIRST ESG SUKUK FUND

The world's first environmental, social and governance (ESG) sukuk fund was launched by BIMB Investment Management Bhd in August 2018. The BIMB ESG Sukuk Fund is the first of its kind in the world which integrates the principles of ESG criteria into the investment portfolio strategy to determine a company's performance. This in turn allows the best performing companies to be selected based on both financial and non-financial performance with respect to sukuk returns and credit risk profile.

The fund combines both Shariah and ESG principles in its domestic and foreign sukuk issuance selection criteria. It also applies Arabesque S-Ray™ in its ESG screening, which systematically combines over 200 ESG metrics with news and data signals from over 50,000 sources across 15 languages.

In addition to their credit risk profile and financial performance, sukuk issuers are also analysed on their ESG performance, which would provide insights and understanding of a company's management quality and its positioning for long-term financial success. The sukuk issuances are also assessed on their performance on the normative principles of the United Nations Global Compact (UNGC) (i.e. human rights, labour rights, environment, anti-corruption).

The fund is the first sukuk fund in Malaysia approved under the SC's Guidelines on Sustainable and Responsible Investment (SRI) Funds introduced in 2017 to facilitate and encourage greater growth of SRI funds in Malaysia. It allows funds designated as SRI funds to widen the range of SRI products in the market, attracting more participants within this investing segment.

LIBERALISATION OF THE FRAMEWORK FOR RETAIL INVESTMENT IN MALAYSIA'S CORPORATE BOND AND SUKUK MARKET

The SC announced the liberalisation of its regulatory framework to facilitate greater retail access to the Malaysian bond and sukuk market. Qualified issuers are no longer required to make disclosures through a prospectus, enabling them to only issue a product highlight sheet. The range of corporate bonds and sukuk that can be offered to retail investors have also been expanded beyond plain vanilla bonds. In addition, the SC is introducing a new seasoning framework to enable

retail investors to access existing corporate bonds and sukuk which are currently traded by sophisticated investors in the over-the-counter (OTC) market.

The liberalisation forms part of the SC's continued efforts to further develop this market, allowing a more efficient issuance process for corporate bonds and sukuk to be offered to retail investors.

ETF GUIDELINES REVISED TO EXPAND INVESTMENT OPPORTUNITIES

The SC revised its *Guidelines on Exchange-Traded Funds* to allow for the issuances of a more diversified range of exchange-traded funds (ETFs) in the market. These included futures-based ETFs, synthetic ETFs, physical commodity ETFs and smart beta ETFs. The introduction of an array of ETFs aims to promote competitive growth and facilitate product innovation in the market. It also provides new investment opportunities and exposure for investors with varying risk appetites.

These enhancements are in tandem with global trends as the Asian ETF market is expected to see an annual

growth rate in assets of 18% by 2021. Currently, Malaysia has 10 listed ETFs with a combined market capitalisation of about RM1.98 billion as at December 2018.

Futures-based ETFs such as Leveraged and Inverse ETFs will pave the way for a more cost-effective and transparent channel for investors to access the traditionally sophisticated futures market. Leveraged ETFs use futures contracts to provide a multiple of the underlying index's daily return (positive or negative) while Inverse ETFs allow investors to gain from downward market.

SC'S DIGITAL MARKETS STRATEGY – EMBRACING TECHNOLOGY¹

The SC's focus on digitisation may not be intuitive for a regulator, but it fits into its statutory mandate to not only regulate but also develop the Malaysian capital market. If deployed within a framework of robust safeguards, technology and innovation could be harnessed to transform markets for the benefit of investors, intermediaries and the economy at large. As part of its efforts, the SC has introduced the Digital Markets Strategy in 2016 which outlines several key objectives.

Enhancing access to financing

Recognising the capital market's role in financing the real economy, the first objective of the SC's Digital Markets Strategy is to enhance access to financing. The SC placed particular focus on the financing needs of businesses that currently may be underserved by the traditional financial sector.

The SC's focus on micro small and medium enterprises (MSMEs) is pertinent as they are not only the titans of the future but also serve as a space to nurture creativity and innovation. This segment traditionally faces challenges in obtaining financing, which is why efforts to develop sources of alternative financing are particularly critical to catalyse growth in this area.

The market-based financing initiatives namely ECF and P2P financing have continued to show a strong progress. Both platforms have collectively raised more than RM200 million for almost 500 MSMEs across various sectors including hi-tech, education, retail, F&B as well as consumer products, and have also attracted a new demography of investors, particularly those aged 35 years and below.

To build on this success and scale up the segment, the SC will assess new applicants who are interested in

“The market-based financing initiatives namely ECF and P2P financing have continued to show a strong progress.”

operating the ECF and P2P financing platforms. More details will be provided to the public by the SC in the first half of 2019.

Moreover, the Government has also announced an allocation of RM50 million to co-invest in ECF and P2P financing campaigns alongside private investors. This injection of capital will boost the development of market-based financing channels for small businesses, and the SC will continue to work closely with the industry to further strengthen this market.

Increasing investor participation

Such efforts to facilitate the demand for capital must be met in equal measure with efforts to stimulate supply of capital. For this reason, the SC has also focused on initiatives to increase investor participation, which would encourage greater inflows of funds into the capital market. Significant effort has therefore gone into facilitating innovation in the portfolio management industry particularly in providing value, customisation and a more cost-effective experience to investors.

¹ This article is extracted from a speech by Datuk Syed Zaid Albar, SC Chairman at the Synergistic Collaborations by SC (SCxSC) Fintech Conference 2018 on 28 November 2018 in Kuala Lumpur.

FEATURES

To spur growth in this area, the SC introduced the Digital Investment Management Framework in May 2017, which creates a category of fund managers who are licensed to offer automated discretionary portfolio management services. Under this framework, applicants must demonstrate a clear digital value proposition that places the users or investors at the heart of value creation.

The SC has received strong interest from new and existing players to apply for this licence with parties ranging from start-ups to fund managers and financial institutions. While the first Digital Investment Manager licence was awarded in October 2017, more applications are currently under assessment.

Driving efficiencies through digitisation

Even as digitisation paves the way for the emergence of new players and business models, it is critical for incumbents to weather the wave of disruption by innovating and embracing the promise of technology.

The SC continues to encourage intermediaries to pursue operational efficiencies and has set up the Broking Industry Digitisation Group (BRIDGe) in 2017. This initiative brings together regulators, brokers and the exchange and market infrastructure operators. Three work streams have been formed to develop practical solutions on how technology could be used to drive back office efficiencies and enhance investor experience, specifically in terms of client onboarding, post-trade and settlement as well as corporate actions. These groups have been deep in discussion and will be looking to share some concrete solutions in the near future.

Developing synergistic ecosystems

A sustainable Fintech ecosystem requires co-ordination and synergies among its participants. In 2015, the SC launched the Alliance of Fintech Community (aFINity)

which now counts over 200 industry participants as its members. Since its inception, more than 200 engagement sessions have been conducted including one-on-one meetings, focus group discussions and speaking engagements.

Under aFINity, a series of innovation labs were held to explore various uses of emerging technology within the capital market. The first project in this innovation lab was Project Castor where the technical implementation and feasibility of using distributed ledger technology (DLT) as the underlying market infrastructure for unlisted and OTC markets were explored.

Project Castor has now been completed. A document titled *Capital Market Architecture Blueprint in a Decentralised World* was published, which outlines the SC's vision for a future multi-tiered market environment. Such an environment will contain both centralised and decentralised markets, with the latter underpinned by DLT. The launch of the Blueprint will also be accompanied by a microsite at www.castor.my which provides further technical details on this project.

Conclusion

Ultimately, while the demand for a seamless digital investment experience is typically associated with the younger generation, it would not be a surprise if this will soon be the bare minimum of what is expected by investors from their financial services providers. Therefore, it is not enough to merely adopt technology – it will be vital to embrace it.

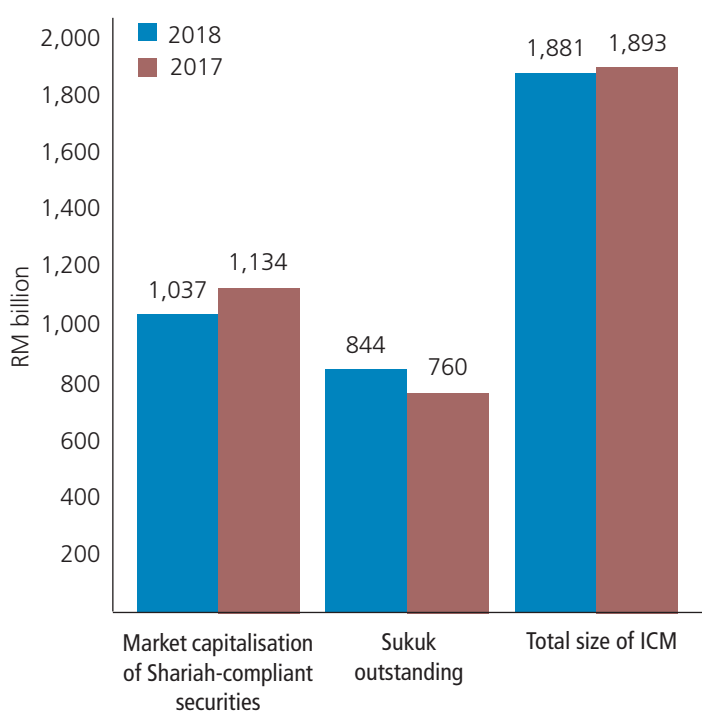
As a regulator, the SC strongly encourages the market to pursue responsible innovation. Therefore, rest assured that the SC will continue to facilitate efforts to further develop the capital market while ensuring that investors will enjoy an enhanced value proposition within a framework which protects the rights and interests of all parties involved.

MALAYSIAN ICM IN 2018

Malaysia’s capital market recorded a total size of RM3,106.15 billion as at end 2018 compared to RM3,198.76 billion as at end 2017, which represented a decrease of 2.90%. This comprises equity market capitalisation of RM1,700.37 billion and domestic bonds and sukuk outstanding, which rose to RM1,405.78 billion. The fund management industry with assets under management (AUM) of RM743.58 billion played a key role in savings intermediation.

ICM represented 60.55% of Malaysia’s capital market. Its market size recorded RM1,880.73 billion as at end 2018 in comparison with RM1,893.47 billion as at end 2017. This comprises total market capitalisation of Shariah-compliant equities of RM1,036.52 billion and total sukuk outstanding of RM844.21 billion (Chart 1).

Chart 1
Size of ICM

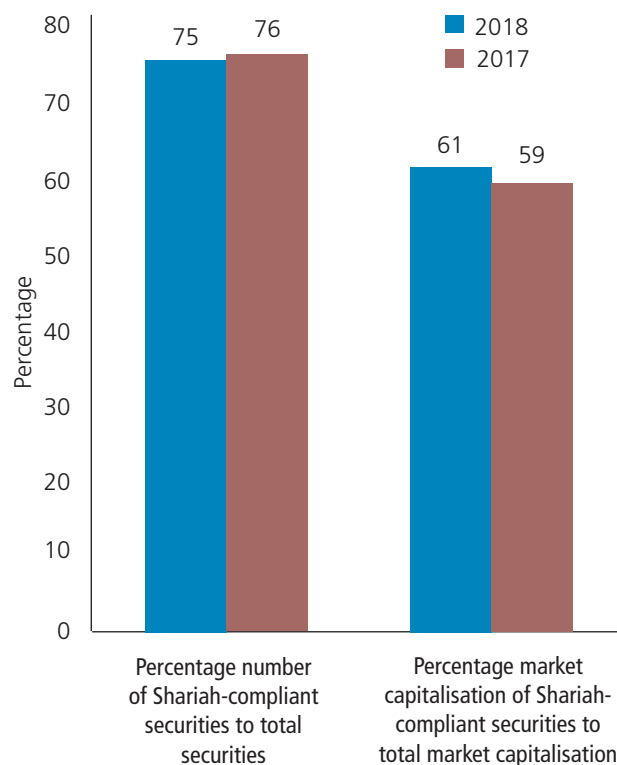


Shariah-compliant securities

The SC released the updated list of Shariah-compliant securities approved by its SAC in May and November 2018, respectively. The updated list effective 30 November 2018 featured a 689 Shariah-compliant securities. The list included 33 newly-classified Shariah-compliant securities and excluded 34 from the previous list issued in May 2018.

As at end December 2018, these securities remained at 689 Shariah-compliant securities, which constituted 75.30% of the 915 listed securities (including LEAP market) on Bursa Malaysia. The market capitalisation of Shariah-compliant securities stood at RM1,036.52 billion or 60.96% of the total market capitalisation, indicating a decrease of 8.58% as compared to end 2017 (Chart 2).

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



Sukuk

In 2018, a total of 58 ringgit-denominated corporate bonds and sukuk were approved and lodged with the SC amounting to RM89.87 billion, of which 32 were sukuk valued at RM50.97 billion (Chart 3). The sukuk value represented 56.72% of the total new ringgit-denominated corporate bonds and sukuk approved and lodged. In terms of issuances, corporate sukuk represented 68.92% (2017: 70.19%) of total corporate bonds and sukuk issuances while sukuk outstanding accounted for 76.01% (2017: 75.14%) of total corporate bonds and sukuk outstanding.

Overall, sukuk issuances by Government and corporates in 2018 represented 51.80% (2017: 53.05%) of total bond and sukuk issuances whereas total sukuk outstanding represented 60.05% (2017: 58.80%) of total bonds and sukuk outstanding.

Islamic fund management

The Islamic AUM stood at RM158.83 billion registering 7.74% decrease from RM172.16 billion as at end 2017 (Chart 4). The number of Islamic collective investment

schemes (CIS) saw an increase from 324 in 2017 to 335 as at end 2018. During the year, two Islamic SRI funds were launched, one each for unit trust and wholesale funds. As at end 2018, there were 53 fund management companies managing Islamic funds, with 22 full-fledged Islamic fund management companies and 31 fund management companies offering Islamic windows.

SRI and Green Sukuk

Building on its strength in the ICM, the SC pursued initiatives to establish Malaysia as a regional centre for sustainable finance. Following the internationally recognised issuance of the world's first green sukuk in Malaysia in 2017, the SC established a RM6 million Green SRI Sukuk Grant Scheme in 2018 to incentivise issuances of green SRI sukuk by defraying up to 90% of external review costs in relation to obtaining green certification. Four applications for the grant have since been approved, supporting RM2.2 billion in funds raised. Attesting to the growing demand for SRI assets, the world's first ESG sukuk fund was also launched in Malaysia in 2018 under the SC's *Guidelines on SRI Funds*.

Chart 3
Corporate sukuk approved/lodged with the SC

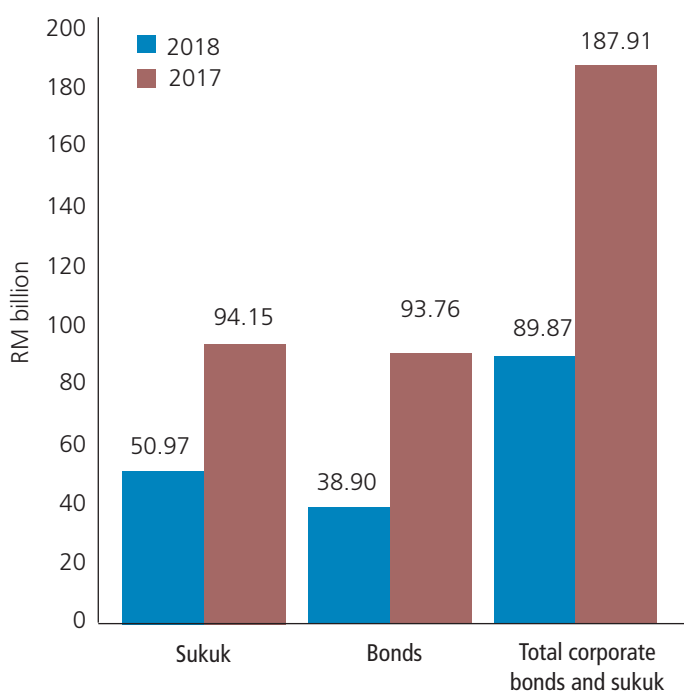
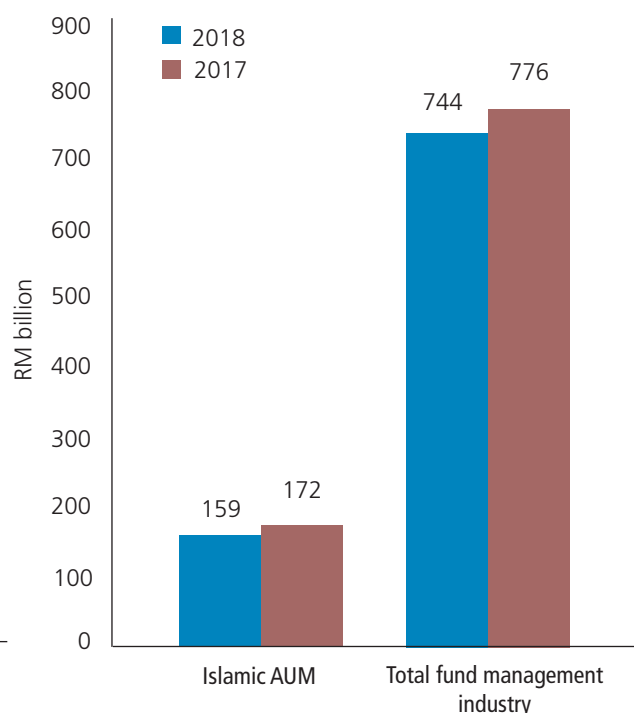


Chart 4
AUM of Islamic fund management



NEWS ROUND-UP

Appointment of New SC Chairman

Datuk Syed Zaid Albar was appointed as the new SC Executive Chairman on 1 November 2018. Datuk Syed Zaid replaced Tan Sri Dato' Seri Ranjit Ajit Singh who retired on 31 October 2018.

Datuk Syed Zaid has 38 years' experience in the legal profession with extensive experience in the advocacy of the regulatory framework relating to securities law and capital markets.

Admitted as an Advocate and Solicitor of the High Court of Malaya in 1980, Datuk Syed Zaid served in Skrine & Co and later founded his own legal firm Albar & Partners. He studied law at the University of Westminster in the UK and later qualified as a Barrister-at-Law from Lincoln's Inn, London in 1979.

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 aimed at producing entry level professionals with strong fundamental knowledge and skills for the industry.

The latest intake of the programme (19th ICMGTS) commenced on 29 September and completed on 30 November 2018. Since the programme's inaugural intake in 2009, it has produced 681 graduates. Out of this, about 87% have been employed in the financial services industry.

SC-OCIS Scholar in Residence Programme 2018/2019

The SC and the Oxford Centre for Islamic Studies (OCIS) have opened nominations for the eighth Visiting Fellowship at the OCIS under the Scholar in Residence (SIR) Programme in Islamic Finance for 2019/20 academic year, commencing October 2019.

The SIR Programme is a research initiative on contemporary issues in Islamic finance, particularly relating to ICM. As part of the broader collaboration with OCIS, the programme is one of the SC's ongoing thought leadership and capacity building initiatives in advancing the global development of ICM.

The selected Scholar will take up residence in Oxford to conduct research and participate in a range of academic activities at OCIS. In addition, the Visiting Fellow is expected to give occasional lectures and conduct seminars, engage in collaborative study and organise outreach to relevant institutions and the local community.

The SIR Programme was set up in 2012 following a resolution made at the SC-OCIS Roundtable on Islamic Finance, an annual flagship event. Since its launch, six scholars have successfully completed their respective research on topics of contemporary relevance to the field of Islamic finance. Under the 2018/2019 Programme, two scholars are currently in residence as Visiting Fellows over a six-month period each.

SIDC Islamic Capital Market Series

The ICM Series is one of the initiatives by the SC to provide continuous professional development relating to ICM. It is developed with the objective of defining key issues and challenges in the market. It also aims to equip ICM practitioners in becoming more innovative in addressing ICM issues.

Funded by the Capital Market Development Fund (CMDf) and organised by the Securities Industry Development Corporation (SIDC), the ICM Series is offered on a modular basis with a total of six modules in 2018 ranging from one to two days for each module. Each programme covers key aspects of ICM including Shariah rule-making processes, legal and regulatory requirements as well as the Islamic equity and sukuk market. Conducted throughout 2018, the first programme commenced on 28 July 2018 and completed on 18 November 2018.

Stakeholders Engagement

As part of its support for sustained development and growth in Islamic finance, particularly the ICM, the SC representatives participated as speakers in the following events organised by various organisations during the second half of 2018:

- Signature Financial Planning Symposium – Financial Planning Association of Malaysia (FPAM), 23 July 2018 (Kuala Lumpur)
- Chartered Financial Analyst (CFA) Society Malaysia Career Day 2018, 4 August 2018 (Kuala Lumpur)
- Workshop on Islamic Fund and Structured Products – Centre for Research and Training (CERT), 9 August 2018 (Kuala Lumpur)
- World Bank – International Shari’ah Research Academy (ISRA) Waqf Roundtable – International Centre for Education in Islamic Finance (INCEIF), 13 September 2018 (Kuala Lumpur)
- Training & Capacity Building for the Board of Directors – Centre for Research and Training (CERT), 17-21 September 2018 (Kuala Lumpur)
- Kursus Pengurusan Kewangan dan Perbankan Islam – ILIM, 18-20 September 2018 (Kuala Lumpur)
- 2nd Kuala Lumpur International Sukuk Conference – Malaysian Rating Corporation (MARC) and Amanie Group, 20 September 2018 (Kuala Lumpur)
- Program Simposium Wakaf Pulau Pinang 2018 – Majlis Agama Islam Negeri Pulau Pinang, 29 September 2018 (Pulau Pinang)
- Sustainable Finance Forum – The World Bank Group (WBG) Global Knowledge and Research Hub Malaysia and the World Wildlife Fund (WWF), 2 October 2018 (Kuala Lumpur)
- International Greentech & Eco Products Exhibition & Conference Malaysia (IGEM) 2018, 17 October 2018 (Kuala Lumpur)
- Brunei Darussalam Islamic Capital Market (BICAM) Conference 2018, 22-23 October 2018 (Brunei)
- Joint-Seminar on Islamic Capital Markets – Islamic Financial Services Board (IFSB)-International Islamic Liquidity Management (IILM)-International Islamic Financial Market (IIFM), 13 November 2018 (Abu Dhabi)
- 6th ASEAN Universities International Conference on Islamic Finance (AICIF), 14-15 November 2018 (Philippine)
- World Bank Seminar, From Evolution to Revolution: 10 years of Green Bonds, 16 November 2018 (Washington)
- Taiwan Sukuk Forum, Trading and Pricing of Sukuk, Restructuring of Sukuk, 5-6 December 2018 (Taiwan)

MALAYSIAN ICM – FACTS AND FIGURES

Islamic capital market

	end 2018	end 2017
	(RM billion)	(RM billion)
Market capitalisation of Shariah-compliant securities	1,036.52	1,133.83
Size of sukuk outstanding	844.21	759.64
Total size of ICM	1,880.73	1,893.47
% ICM to total capital market	60.55%	59.19%
Year on year growth	-0.67%	9.62%

Capital market

	end 2018	end 2017
	(RM billion)	(RM billion)
Total market capitalisation of securities	1,700.37	1,906.84
Size of bonds outstanding	1,405.78	1,291.91
Total size of capital market	3,106.15	3,198.75

Shariah-compliant securities

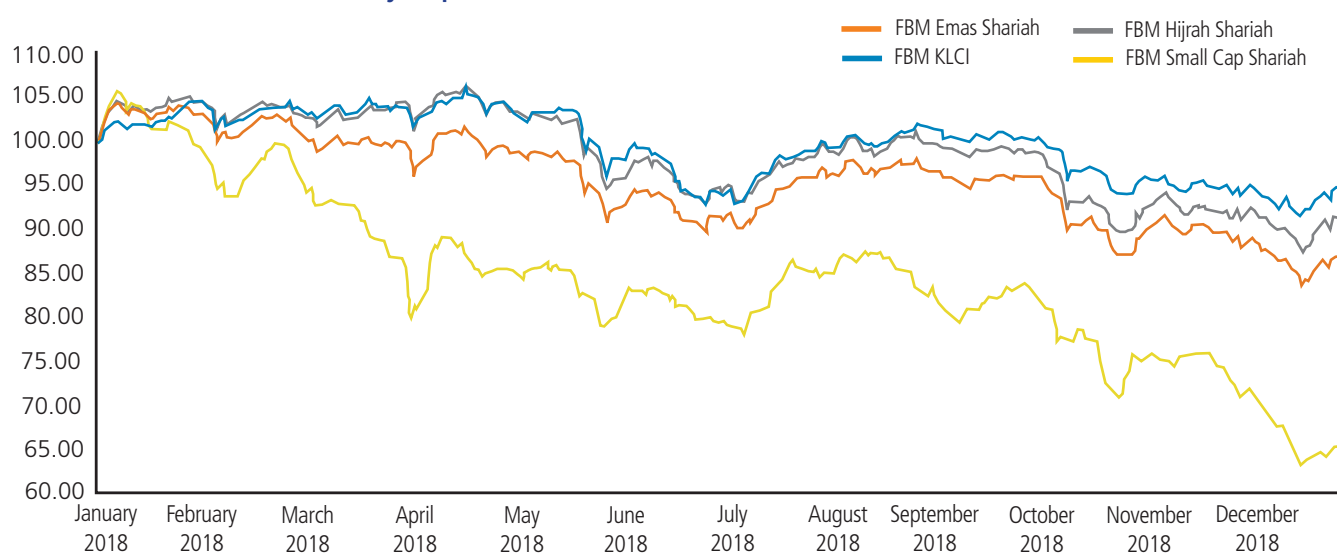
	end 2018	end 2017
Number of securities:		
Shariah-compliant securities	689	688
Total listed securities	915	905
% Shariah-compliant securities to total listed securities	75.30%	76.02%
Market capitalisation (RM billion):		
Shariah-compliant securities	1,036.52	1,133.83
Total market capitalisation	1,700.37	1,906.84
% Shariah-compliant securities to total market capitalisation	60.96%	59.46%

Equity market indices

	end 2018	end 2017	% change
FBM KLCI	1,690.58	1,796.81	-5.91%
FBM EMAS Shariah	11,504.43	13,302.92	-13.52%
FBM Hijrah Shariah	13,110.33	14,528.19	-9.76%
FBM Small Cap Shariah	9,968.29	15,288.03	-34.80%

Chart 1

FBM KLCI and Shariah indices 1-year performance



Corporate sukuk

	2018	2017
Sukuk approved/lovedged		
Number of sukuk	32	47
Size of sukuk (RM billion)*	50.97	94.15
Size of total corporate bonds and sukuk (RM billion)	89.87	187.91
% sukuk to total corporate bonds and sukuk approved/lovedged	56.72%	50.11%
Total issuance (RM billion) (long term)		
Sukuk issuance [^]	72.68	87.65
Total corporate bonds and sukuk issuances	105.45	124.88
% sukuk to total corporate bonds and sukuk issuances	68.92%	70.19%
Total sukuk outstanding (RM billion) (long term)		
Sukuk outstanding [#]	497.21	454.49
Total corporate bonds and sukuk outstanding	654.11	604.88
% sukuk to total corporate bonds and sukuk outstanding	76.01%	75.14%

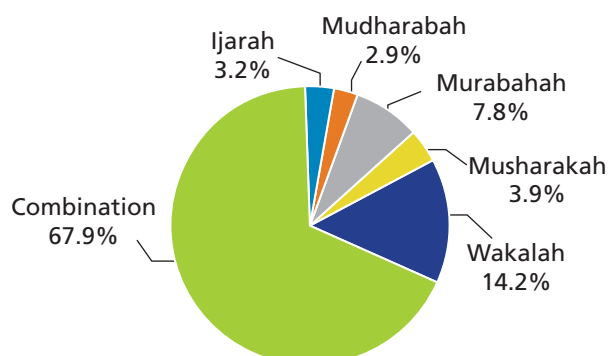
Notes:

- * Note: this includes 2 green SRI sukuk lodged totalling RM0.44 billion in size
- [^] Note: this includes 2 green SRI sukuk issuances totalling RM0.47 billion
- [#] Note: this includes 5 green SRI sukuk outstanding totalling RM2.41 billion

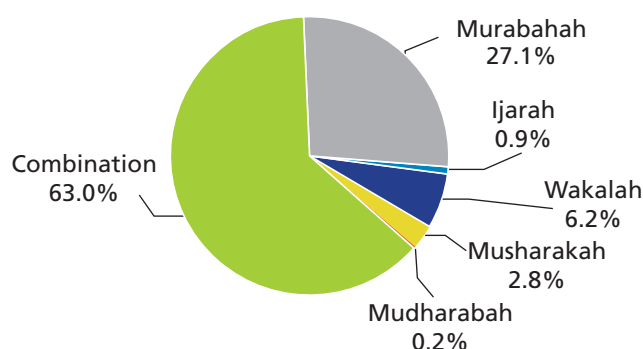
Government and corporate sukuk

	2018	2017
Total issuance (RM billion)		
Sukuk issuance	199.90	168.68
Total bonds issuances	385.93	317.94
% sukuk to total bonds issuances	51.80%	53.05%
Total sukuk outstanding (RM billion)		
Sukuk outstanding	844.21	759.64
Total outstanding bonds	1,405.78	1,291.91
% sukuk to total bonds outstanding	60.05%	58.80%

Sukuk by principle approved/lovedged in 2018



Sukuk by principle approved/lovedged in 2017



Islamic assets under management (AUM)

	end 2018	end 2017
Islamic AUM (RM billion)	158.83	172.16
Total fund management industry (RM billion)	743.58	776.23
% Islamic AUM to total fund management industry	21.36%	22.18%

Islamic unit trust funds (UTF)

	end 2018	end 2017
Islamic UTF	224*	213
Total industry	650	644
NAV of Islamic UTF (RM billion)	83.45	77.78
NAV of total industry (RM billion)	426.18	426.98
% NAV of Islamic UTF to total industry	19.58%	18.22%

*Note: this includes 1 SRI fund

Islamic wholesale funds (WF)

	end 2018	end 2017
Islamic WF	76*	77
Total industry	307	295
NAV of Islamic WF (RM billion)	23.58	37.72
NAV of total industry (RM billion)	64.95	84.68
% NAV of Islamic WF to total industry	36.30%	44.54%

*Note: this includes 1 SRI fund

Islamic private retirement scheme (PRS) funds

	end 2018	end 2017
Islamic PRS	25	25
Total industry	56	56
NAV of Islamic PRS (RM billion)	0.82	0.72
NAV of total industry (RM billion)	2.68	2.23
% NAV of Islamic PRS to total industry	30.60%	32.29%

Islamic exchange-traded funds (ETF)

	end 2018	end 2017
Islamic ETF	6	5
Total industry	10	9
Market capitalisation of Islamic ETF (RM billion)	0.55	0.47
Market capitalisation of total industry (RM billion)	1.98	1.94
% market capitalisation of Islamic ETF to total industry	27.78%	24.20%

Islamic real estate investment trusts (REIT)

	end 2018	end 2017
Islamic REIT	4	4
Total industry	18	18
Market capitalisation of Islamic REIT (RM billion)	17.19	19.07
Market capitalisation of total industry (RM billion)	41.43	46.48
% market capitalisation of Islamic REIT to total industry	41.49%	41.02%

Islamic collective investment scheme

	end 2018	end 2017
Number of Islamic Collective Investment Scheme (CIS)	331	324
AUM of Islamic CIS (RM billion)	125.59	135.76

Sukuk listing

	Bursa Malaysia's Exempt Regime	Exchange-Traded Bonds & Sukuk (ETBS)	Labuan International Financial Exchange (LFX)
No. of issuers	25	2	9

Source: Bursa Malaysia

Islamic structured products

	end 2018	end 2017
Number of Islamic programmes	4	–
Number of total programmes	21	20
% number of Islamic programmes to total programmes	19.05%	–
Size of Islamic programmes (RM billion)	15.05	–
Size of total programmes (RM billion)	100.05	100.00
% size of Islamic programmes to total programmes	15.04%	–

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. Inter-Pacific Securities Sdn Bhd	Window
7. Jupiter Securities Sdn Bhd	Window
8. Kenanga Investment Bank Bhd	Window
9. Malacca Securities Sdn Bhd	Window
10. Maybank Investment Bank Bhd	Window
11. MIDF Investment Bank Bhd	Window
12. Public Investment Bank	Window
13. RHB Investment Bank Bhd	Window
14. TA Securities Holdings Bhd	Window
15. UOB Kay Hian Securities Sdn Bhd	Window

Source: Bursa Malaysia

List of Islamic fund management companies

Company	Status
1. Aberdeen Standard Islamic Investments (Malaysia) Sdn Bhd	Foreign
2. AIIIMAN Asset Management Sdn Bhd	Local
3. AmIslamic Funds Management Sdn Bhd	Local
4. Amundi Islamic Malaysia Sdn Bhd	Foreign
5. BIMB Investment Management Bhd	Local
6. BNP Paribas Asset Management 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. Maybank Islamic Asset Management Sdn Bhd	Local
14. MIDF Amanah Asset Management Bhd	Local
15. Muamalat Invest Sdn Bhd	Local
16. Navis Management (I) Sdn Bhd	Foreign
17. Nomura Islamic Asset Management Sdn Bhd	Foreign
18. PMB Investment Bhd	Local
19. RHB Islamic International Asset Management Bhd	Local
20. Saturna Sdn Bhd	Foreign
21. Threadneedle Asset Management Malaysia Sdn Bhd	Foreign
22. UOB Islamic Asset Management Sdn Bhd	Foreign

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 Development and Islamic Markets.

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

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

Nik Izrin Thani Nik Norzrul Thani
Tel: +603–2091 0654
E-mail: izrint@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

© **Securities Commission Malaysia**

All rights reserved. No part of this publication may be reproduced, stored in or introduced into a retrieval system, or transmitted in any form or by any means (graphical, electronic, mechanical, photocopying, recording, taping or otherwise), without the prior written permission of the Securities Commission Malaysia.