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Contents

Islamic Fund and Wealth Management: Next Phase of Growth Trajectory

Islamic fund and wealth management is an integral component of Islamic financial system. This is attributed to the significant rise in income and wealth of certain Islamic countries over the last four decades as well as the emergence of Islamic finance as a viable alternative to conventional finance. The benefits of Islamic fund and wealth management cut across racial and religious boundaries as it not only benefit Muslims who wish to see their wealth preserved and enhanced within the Shariah framework, but also to non-Muslims who may view this from an ethical perspective of managing wealth.

Global wealth is projected to grow at an annualized rate of 4.8% over the five-year period to 2017, increasing the size from US$135 trillion in 2012 to US$171 trillion in 2017. Much of this growth is expected to take place in the emerging market, which are collectively projected to account for US$25 trillion or 69% of this increase. Asia Pacific ex Japan is likely to be the main growth driver, expanding by US$20 trillion and accounting for 79% of the total projected increase in the emerging market or 56% of the global increase.[1] Malaysia, given its established position as an international Islamic financial centre, is expected to play a significant role as a marketplace for Islamic fund and wealth management.

The articles "Positioning Malaysia as an Islamic Wealth Management Marketplace – A Regulator's Perspective" and "Malaysia: A Centre for Islamic Wealth Management" provide some insights on the role of Islamic capital market towards transforming Malaysia into a global marketplace for Islamic fund and wealth management.

[1] BCG Global Wealth 2013.

Positioning Malaysia as an Islamic Wealth Management Marketplace – A Regulator's Perspective[1]

Capitalising on Asian growth trends

The key trend in Asia over the last decade is its steady emergence as the new driver of global economic growth. Since 2000, developing Asia has consistently grown at a faster rate than the global economy, with GDP projected to expand at 5–6 per cent between 2014 and 2018.[2] Asia's consistent growth has translated into increasingly rapid wealth accumulation, with private financial wealth in this region forecast to grow at a cumulative annual rate of 11.4% over the next four years, reaching approximately US$48 trillion by 2017.[3] It was estimated that almost 90% of this growth would be due to new wealth creation, enabling the region to surpass even North America as the world's wealthiest.[4]

Closer to home, the advent of the ASEAN Economic Community in 2015 is expected to further accelerate wealth creation by increasing labour and capital mobility, thus facilitating business expansion and better matching between the supply and demand of skills and resources. The integrated ASEAN market offers an exciting prospect, with a population in excess of 600 million and combined GDP of over US$2 trillion.

This vast and expanding pool of wealth represents significant opportunity for the asset management industry in Malaysia. At a more fundamental level, this presents itself as an opportunity for us to recast our wealth management model into one that embodies the tenets of responsible finance, such as inclusiveness and sustainability. The development of a vibrant wealth management industry in Malaysia in accordance with the principles of Islamic finance could go a long way towards providing such a solution.

Building the Islamic wealth management segment in the capital market

In the Islamic context, the concept of wealth management covers all customer segments. It offers a myriad of solutions that can range from conservative investments to more aggressive plans for capital growth. Such solutions focus on not only the accumulation and preservation of wealth, but also its redistribution, with tax-favoured treatments for long-term investments and platforms for inter-generational wealth transfer.

Wealth management based on Islamic principles must not only look at the form but also the substance of transactions to fulfil the objectives of Shariah. That is, "(the) preservation of the world-order and regulation of the people's conduct in a way that protects against corruption and collapse. This can only be realised through the promotion of benefit and prevention of harm in all their manifestations."[5]

What sets Islamic wealth management apart are not only its areas of legal distinctiveness but also the underlying principles that it embodies. The Islamic wealth management industry incorporates social and responsible investing (SRI) as well as environmental, social and governance (ESG) principles. It must not only invest in Shariah-compliant

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1 This article is extracted from the public lecture delivered by Datuk Ranjit Ajit Singh, the SC Chairman, at the 2nd Public Lecture BNP-Paribas – INCEIF Centre for Islamic Wealth Management, Sime Darby Convention Centre, September 2013.

2 Source: IMF World Economic Outlook

3 Source: "Global Wealth 2013: Maintaining Momentum In A Complex World" Boston Consulting Group.

4 *Ibid.*

5 Ibn Ashur. Cited in 'Maqasid al Shariah, Ijtihad and Civilisational Renewal' by Mohammad Hashim Kamali. The International Institute of Islamic Thought, London – Washington.

products and businesses but also embody the concept of fairness and proportionate returns. There is significant scope for the Islamic wealth management industry to channel the assets under its management to fulfil a broader socioeconomic purpose, for example job creation. This could be done by deploying mandates from high net worth individuals into channels such as venture capital and private equity, which directly catalyse the expansion of economic activities and create employment opportunities.

Furthermore, the concept also requires wealth to be managed in a manner which promotes broad-based and equitable distribution of wealth and income. This is particularly because Islam is not favourable to the concept of *'kanz'*, which is the accumulation leading to excessive concentration of wealth among a small group of individuals.[6] In practice, this philosophy advocates the sharing of a certain proportion of wealth with the broader public, thus transforming private returns into shared prosperity for the whole community. Viewed from the Islamic capital market (ICM) standpoint, this could also include investment in early-stage private businesses with the aim of accelerating its growth and eventually enabling the broader public to become direct stakeholders in its success through public ownership via mechanisms such as stock exchange listings.

Another example of such a wealth distribution mechanism is *waqf* or philanthropic donations. The bequest of property or other assets to generate shared benefits for the society in perpetuity has been a common practice in many Muslim countries or communities; such as the *waqf* of the University of Al Azhar in Egypt or the Hamdard Waqaf in India. A number of universities in Turkey are also owned by *waqf* institutions. At present, *waqf* assets are estimated to be worth up to US$1 trillion globally.[7] In Malaysia, for example, *waqf* assets are estimated at around $325 billion, while in Egypt it is about US$82 billion, and US$267 billion in Saudi Arabia.[8] The development of *waqf* assets through a more formal and professional investment management approach that emphasizes on achieving sustainable impact represents a unique catalyst for growth of the global Islamic asset management industry.[9]

Moving forward, the focus shall be on finding ways to manage or develop *waqf* assets in a manner that could create significant and sustainable multipliers to the real economy. The ICM can facilitate this development through structures such as foundations or business trusts; creating cash instruments through retail CSR sukuk, and managing it within the eco-system housing the Islamic wealth management industry. What need to be addressed are the ways to manage or develop the *waqf* assets that could create significant and sustainable multipliers in term of economic activities. The ICM can facilitate this development through structures such as foundations or business trusts; creating cash instruments through retail CSR sukuk, and managing it within the eco-system that houses the Islamic wealth management industry.

Islamic wealth management in Malaysia: where we are today

In considering the opportunities for the development of the Islamic wealth management industry in Malaysia, it is clear that our well-established ICM, Islamic banking and takaful segments provide a sound foundation for orderly development. This encompasses the entire spectrum of the wealth management value chain, starting from wealth creation and enhancement to wealth preservation and distribution.

In the context of developing the Islamic fund and wealth management industry, legal and regulatory frameworks recently introduced by the SC include those on business trusts, private retirement schemes and exchange-traded retail sukuk in addition to earlier frameworks for Islamic REITs, ETFs, unit trusts and Islamic fund management. The SC also strives to ensure that the frameworks introduced are not only accompanied by the necessary safeguards for investors but are also benchmarked against international

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6 Source: "Islamic Wealth Management and Some Unconventional Thoughts" by Dr Mohammad Omar Farooq.

7 As waqf are classified under specific and general waqf, the actual value of waqf available for commercial development is less than that stated.

8 Islamic Finance News, September 2012.

9 Ashar Nazim, Director & Head of Islamic Financial Services, Ernst & Young.

standards for global recognition and facilitating cross-border transactions. In this regard, the SC continues to foster jurisdictional linkages, based on either multilateral or bilateral arrangements, to enable broader market access for Malaysia-based intermediaries. For example, the SC has in place mutual recognition agreements for cross offering of Islamic collective investment schemes with our counterparts in Dubai and Hong Kong respectively. On multilateral basis, the on-going ASEAN Capital Market Forum initiative includes the area of Islamic funds.

"In the context of the Islamic ecosystem, product and service innovation is critical in spurring the industry's development by broadening range, complexity and diversity in order to meet the demands, requirements and preferences of the clients or investors."

In addition to taking pro-active initiatives, the SC also focuses on facilitating industry participants that venture internationally and are seeking to distribute their products and services globally. For example, the SC has established regulatory linkages with Dublin and Luxembourg, two of the world's top fund administration centres, to facilitate Malaysia-based Islamic fund managers in launching Shariah-compliant Undertakings for Collective Investment in Transferable Securities (UCITs) funds for global passporting. Developing global capability and establishing an international distribution network will help to strengthen Malaysia's ambition to become an Islamic wealth management marketplace.

Another key feature is the parallel development of a Shariah governance framework. The SC has invested substantially in this area by putting in place the relevant Shariah infrastructure, as well as risk management tools and platforms, with the objective of providing certainty and consistency for ICM businesses and transactions. On this score, the Shariah Advisory Council (SAC) of the SC plays a pivotal role as a gatekeeper through the issuance of Shariah resolutions on ICM businesses and transactions. The recent review and revision of the Shariah screening methodology for equity securities illustrates one of the ways in which we have responded to the evolving needs of the ICM. The revised screening methodology is consistent with that adopted by international index providers and builds a strong case for greater cross-border investments into Malaysian securities for Shariah-compliant international portfolios.

Strategies moving forward

In view of the goals and objectives of Islamic wealth management, a holistic approach must be undertaken, as a simplistic adaptation of the conventional ecosystem is unlikely to yield the desired outcome. While the components of the Islamic wealth management ecosystem are generically similar to those of the existing conventional industry, the development strategy must take into consideration the present and expected future state of the overall Islamic finance sector, as well as the specificities of its social objectives, to ensure orderly and sustainable development.

In the context of the Islamic ecosystem, product and service innovation is critical in spurring the industry's development by broadening range, complexity and diversity in order to meet the demands, requirements and preferences of the clients or investors. In particular, investment products or structures that promote greater inclusiveness as well as socially responsible investing should be encouraged and emphasised. Furthermore, if Islamic wealth management is to be truly offered as an innovative solution in substance, it is important to ensure a steady and consistent flow of innovative and new range of products and services in the Islamic wealth management space. At the same time, a strategy to develop more platforms on which Shariah-compliant products and services can be made available should be pursued.

In addition to investment products for the purpose of wealth creation and accumulation, risk management tools are important to facilitate wealth protection and preservation. In this regard, the continuing development of the takaful segment and of suitable Shariah-compliant hedging instruments will add significantly to the strategy. Services in the area of wealth distribution such as estate planning and trust management and administration must also be developed further. With distribution being a key feature of the Islamic wealth management industry, these services as well as other related areas like *waqf* will contribute towards achieving the social goals of the industry.

Having a diverse range of service providers is another critical factor for a successful development of the Islamic wealth management industry. To help enhance the capabilities of Islamic fund managers, the SC had introduced the Islamic fund management license in 2007 with 19 such licences issued, to both Malaysian and multinational firms. An area of focus now should be on attracting private bankers to establish presence in the country to offer their services in the Islamic space. In the longer term, the strategy should also include encouraging the setting up of dedicated Islamic private banking firms.

The Islamic wealth management ecosystem must also encompass the necessary complement of advisors for Shariah, legal and tax issues, among others. Given its well-developed Islamic finance sector, Malaysia has an ample list of firms and individuals that currently provide these services. Nevertheless, for more robust development of the industry, these advisers should be encouraged to gain greater international exposure in order to enable them to advise on more complex transactions.

Infrastructure is also an important cluster within the ecosystem. Within this cluster, strong and facilitative regulatory, supervisory, legal, tax and Shariah governance frameworks are critical components to ensure orderly development as well as operational efficiency of the industry. Initiatives to strengthen and expand Malaysia's double taxation treaties with other jurisdictions and create an environment for efficient administration of Islamic funds and wealth must also be continued.

There is also a critical need to develop robust and comprehensive information infrastructure. Fund and wealth management is about making informed and timely investment decisions, and given the nature and competitiveness of the wealth management industry, the investment universe is global. As such, the scope of information must similarly be global and instantaneous. There are presently a number of information and news providers operating at international level in the Islamic finance space, and this infrastructure must continue to be enhanced and expanded.

Extensive and effective fund distribution channels are equally important infrastructure to support the Islamic wealth management industry. A present challenge for Islamic funds in general is their relatively short performance track record and more crucially their lack of scale for global distribution platforms. In this regard, establishing further linkages with other jurisdictions, on top of existing arrangements which were mentioned earlier, becomes critical to facilitate the distribution of Islamic funds.

The development strategy for the Islamic wealth management industry must also incorporate other forms of collaborations and partnerships that will help the industry to achieve scale and accelerate its progress. These arrangements, which may be among regulators, industry participants, service providers and other stakeholders, are especially important when taking into consideration the fact that Islamic finance has to co-exist with its much more established and significantly larger conventional counterpart in the global context.

Addressing the issue of scale requires a strategy on its own. There is significant scope for existing Islamic financial institutions to expand particularly in terms of resources, systems, network and distribution channels. This should be complemented by a strong and effective branding and profiling strategy which is crucial to help position the industry globally. The Malaysia International Islamic Financial Centre (MIFC) and the soon to be established Capital Markets Promotion Council have significant roles to play in driving effective branding, promotional and marketing initiatives in respect of Islamic wealth management-related activities.

Conclusion

Recognising that some of these strategic measures will likely take time to materialise, there is a need to identify areas with potential for quick win solutions. For instance, while we strive to achieve the social objectives associated with the wealth distribution aspect of Islamic wealth management, which may require the coming together of a number of factors over time, in the immediate term, we must take full advantage of all components of the ecosystem that are available to us today to develop the wealth creation and accumulation stage of the overall Islamic wealth management life cycle.

In this regard, industry players should focus on product development initiatives to further broaden and deepen the range of Shariah-compliant instruments. These initiatives should also include expansion of structures such as Islamic private equity in order to offer more alternatives to the investing clients. There is potential for significant development in the Islamic private equity space particularly in meeting demand for risk sharing instruments and structures, which may help to attract greater participation by investors who prefer such structures.

In conclusion, all of us should co-ordinate our resources and collaborate towards developing a viable, sustainable and vibrant Islamic wealth management industry that offers a truly unique value proposition – an industry that promotes financial inclusion, that contributes to the betterment of the social well-being of the community, and that generates real economic activities – an Islamic wealth management industry that appeals not only to Muslims, but also to the broader community that seeks to make a positive contribution for the common good.

Malaysia: A Centre for Islamic Wealth Management[1]

The Malaysian capital market in 2013

In 2013, the Malaysian capital market continued to demonstrate growth and resilience. This is a clear testimony to the SC's collective efforts over the years to deepen the market and widen the investor base, to increase market breadth and to ensure vigilance through effective supervision and enforcement. In 2013, as part of the growth strategy, the SC continued to facilitate greater product diversity, enabling access to a broader segment of investors and issuers through products like PRS and retail sukuk. While fulfilling the investment and financing needs of the real economy the SC also continues to focus on the need to ensure accessibility and inclusiveness.

"The equity and debt capital markets including the sukuk market continued to be an important source of financing for Malaysian businesses, with RM94 billion raised through initial public offerings (IPOs) and corporate bonds and sukuk during the year."

Thus, despite the volatile global environment last year, the Malaysian capital market showed considerable resilience – the stock market provided steady returns to investors, emerging as one of the top-performing major markets in Asia. The benchmark equity index rose by 10.5%, which helped boost market capitalisation to a record high of RM1.7 trillion. Efforts to encourage greater investments by institutional funds into small and mid-cap stocks, contributed towards the significant gains recorded by the domestic small-cap index which was up by almost 37% at year-end. Foreign investors meanwhile remained net buyers in terms of value at year end (+RM2.46 billion) while domestic institutional investors acted as a strong counter weight to foreign trading.

The Malaysian bond market, at RM1 trillion, is the third largest in Asia relative to the size of the economy. The depth of the market provided absorptive capacity for portfolios to be rebalanced across maturities in an orderly manner. Over time, issuances of longer duration bonds are consistent with global expectations and the growing importance of the capital market in providing long-term financing.

Fund raising activity in 2013 remained robust and continued to support the financing needs of the domestic economy. The equity and debt capital markets including the sukuk market continued to be an important source of financing for Malaysian businesses, with RM94 billion raised through initial public offerings (IPOs) and corporate bonds and sukuk during the year. Over the two-year period 2012–2013, RM240 billion was raised via the equity and corporate bond and sukuk market. Assets under management (AUM) grew by 16.5% to RM588 billion in 2013, demonstrating the importance of the investment management industry in mobilising domestic capital. Unit trust funds remain the main instrument for unlocking latent retail capital; net asset value of unit trust funds amounted to RM336 billion, equivalent to one fifth of stock market capitalisation.

Continued growth of the Malaysian Islamic capital market

The ICM which grew by 8.8% in 2013 and is now worth RM1.5 trillion continues to be an integral component

[1] This article is extracted from the keynote address delivered by Dato Dr Nik Ramlah Mahmood, SC Deputy Chief Executive, at the BNP-Paribas – INCEIF Centre for Islamic Wealth Management Symposium 2014, Kuala Lumpur on 30 April 2014.

of the Malaysian capital market, accounting for 56% of the overall market. About 71% of Malaysian public-listed companies (PLCs) are designated as Shariah compliant. Malaysia also maintained its position as the largest sukuk issuer in the world, accounting for 69% of global sukuk issuance.

Better wealth creation and investment opportunities for investors have also been made available by increasing the number of full-fledged Islamic fund management companies. Malaysian Islamic fund management industry, with RM97.5 billion in AUM is managed by 19 asset management companies licensed to exclusively manage Shariah-compliant funds. Of the total AUM, RM42 billion are in the form of Shariah-compliant unit trust funds which grew by 21% in 2013. Of particular relevance to the Islamic wealth management industry is the fact that in 2013, Malaysia had 52 Islamic wholesale funds with almost 15 billion units in circulation with total net asset value (NAV) of 16.43 billion. This represents almost 28% of the NAV of all wholesale funds in Malaysia.

By offering a multitude of financing and investment opportunities to domestic businesses and investors, the ICM also continue to leverage on Malaysia's core strengths to make significant strides in the international arena and is now increasingly more integrated with the international market. A milestone was achieved with the introduction of the revised screening methodology of listed stocks. The two-tier quantitative approach introduced in 2013 further aligned the SC screening process with international practices thus paving the way for greater inflow of foreign Islamic funds into the domestic market. By incorporating this two-tier quantitative benchmark approach comprising business activity and financial ratio benchmarks, the adoption of the revised methodology is envisaged to further enhance the attractiveness of the Malaysia Islamic equity market and fund management segments to international investors. With this in place, the wealth management industry should gain more traction with a wider market, especially from investors looking for Shariah compliant wealth management solution.

To ensure greater understanding, appreciation and acceptance of standards and rulings, the SC collaborated with global regulators to help facilitate standardisation of disclosure. With growing cross-border transactions, the SC continues to pursue cross-border linkages to ensure further integration of the Malaysian market with the international markets. Today, Malaysia has an ICM that not only supports domestic growth but also facilitates expansion of global intermediation. The latter can be seen, for instance, in the introduction of undertakings for collective investment of transferrable securities (UCITS) funds, the offering of foreign currency sukuk by local issuers and the issuance of ringgit sukuk by foreign corporations. Reflecting the increasingly international profile of our ICM, in 2013, the SC approved three foreign issuers to issue ringgit denominated sukuk and 13 foreign issuers to issue foreign currency-denominated sukuk in Malaysian market.

Harnessing the strength of Malaysian capital market for the Islamic wealth management industry

The journey towards becoming a centre for Islamic wealth management is neither easy nor quick. For one, Malaysia has to compete with established financial centres in the region and beyond. This is not to say that this aspiration is beyond the reach. This can be a reality because the Malaysian capital market offers numerous value propositions some of which are unique to the country.

A well-regulated capital market with depth diversity and breath

First, Malaysia has a capital market that has depth, diversity, breadth and resilience. The numbers cited earlier provide clear proof whether in the area of debt or equity market or fund management. Growth and resilience have been the hallmarks of Malaysian market since the aftermath of the Asian financial crisis. Malaysia also has a market that is internationally recognised as well-regulated with well- established investor protection regime and robust regulatory framework which are benchmarked against international standards. Malaysia has been independently assessed as being highly compliant with IOSCO Objectives and Principles of Regulation in the World Bank Financial Sector Assessment Program (FSAP) in 2012.

In fact, Malaysian capital market achieved 'fully implemented' for 34 out of 37 principles assessed, giving Malaysia the highest scoring of 92% among all post GFC – FSAPs. Malaysia has also been consistently ranked fourth for investor protection in the World Bank Doing Business Report. While the World Bank Corporate Governance (CG) *Report on Observance of Standards and Codes* recognised Malaysia as a regional leader in quality of CG standards, acknowledging the substantial improvement in our legal and regulatory framework. Among emerging markets, the SC is an early signatory of the IOSCO Multilateral Memorandum of Understanding (MMoU), the international benchmark for cross-border co-operation critical to combating violations of capital market laws. This reflects international recognition of Malaysia's capacity for cross-border enforcement.

The strength of Malaysian capital market is further seen by the fact that Malaysia is the first emerging market and the second ASEAN country to be recognised as an approved investment destination under China's Qualified Domestic Institutional Investor (QDII) scheme in June 2010. The QDII programme allows Chinese nationals to invest in overseas markets through approved institutions such as securities companies, fund management companies, commercial banks, trust companies and insurance companies. Approved institutions regulated by the Chinese banking regulator and securities regulator can invest funds pooled from their clients into Malaysian securities including equities, fixed income products and collective investment schemes approved by the SC. These institutions may also engage the services of licensed Malaysian fund managers to assist with QDII investments. This is yet another unique strength in positioning Malaysia as an Islamic wealth management centre.

The ASEAN Connectivity

The second value proposition is the ASEAN connectivity. Efforts are underway among the ASEAN capital market regulators to promote greater regional activity and investment. Towards creating an enabling environment for regional integration, Malaysia continues to pursue numerous initiatives for the harmonisation or mutual recognition of frameworks. The exchanges have established the ASEAN Trading Link and efforts to promote new products and building ASEAN as an asset class. Market-based initiatives to promote greater regional cross-border flows are being explored to facilitate cross-border fund raising, product distribution and investments (through trading links). Specific initiatives include corporate governance ranking for ASEAN PLCs and the framework for the cross-border offering of collective investment schemes. An MoU on the latter was signed by the SC Malaysia, Monetary Authority of Singapore and Securities and Exchange Commission of Thailand last year with implementation stated for later this year. This framework enables fund managers operating in a member jurisdiction to offer collective investment schemes constituted and approved in that jurisdiction to investors in other member jurisdiction under a streamlined authorisation process. Clearly, this arrangement will enlarge investment opportunities for investors by providing a more diverse range of investment while expanding opportunities for collective investment scheme operations.

Strong intermediation capabilities

The third value proposition is Malaysia's strong intermediation capabilities. While the challenge of building talent persists, it is a fact that the Malaysian capital market and the ICM offers strong intermediation capabilities. The presence of large domestic intermediaries with regional footprints and numerous global intermediaries, provides Malaysia with another competitive advantage. In addition, 19 fund managers are currently licensed to exclusively carry out Islamic fund management activities, Malaysia also has investment banks and stockbroking companies licensed to carry out a broad spectrum of capital market activities and a whole host of advisory companies licensed to carry out activities like corporate finance, investment advisory, financial planning, etc. Given that Malaysia ICM has over other markets, the depth of expertise in areas like structuring, advisory, Shariah, legal and accounting are important strengths.

A capital market well positioned to facilitate socially-responsible investments

The shifts in investor demographics (including that of high-net-worth individuals – HNWIs) have resulted in growing concern over environmental and social impact of business, heightened awareness of the need for equitable distribution of wealth and greater demands for stronger governance and ethics from businesses. Malaysian capital market is well- positioned to capitalise on these changing trends and facilitate socially-responsible investing (SRI). In fact Malaysia focus on SRI complements the strong position in Islamic finance. The SC aims to facilitate the flow of SRI funds into the capital market by nurturing a market eco-system that promotes sustainability.

This is being pursued through the SC "5-i" approach where we focus on investors, issuers, instruments, internal culture and information architecture. While the current dedicated pool of SRI funds in the market is small, Malaysia's deep pool of institutional liquidity can be a major driver for adoption of SRI strategies to make Malaysia a centre for Islamic finance and for sustainable investments. A framework for SRI sukuk is being finalised by the SC and is expected to be launched by the third quarter of this year. The SRI sukuk is the ICM's response to the rising trend of green bonds and social impact bonds that have been introduced globally to finance a wide range of sustainable activities such as those addressing the needs of a country such as infrastructure and small businesses.

The world's most comprehensive and innovative ICM

The key value proposition of Malaysia's ICM is its achievement in developing various capabilities and most importantly that these orderly developments have been set on a foundation of facilitative and sound regulatory framework that has been developed and enhanced over the years. Apart from meeting the regulatory needs, the framework also facilitate product development by the industry.

The establishment of the Shariah Advisory Council (SAC) by the SC in 1993, continue to be the most important catalyst for the development of the ICM in Malaysia. The SAC has made pronouncements that has encouraged innovation in the industry and proactive in facilitating new products related to risk management. The guidelines mooted out of pronouncements on unit trusts, REITS and Islamic securities for example, have ensured that the products are true-to-label but also enabled greater consistency and certainty for industry participants on Shariah issues.

"SAC has made pronouncements that not only encourage innovation in the industry but itself being proactive in facilitating new products especially those relating to risk management."

To enable wider global acceptability of products; product originators and fund managers for example, are allowed to tap expertise from local Shariah experts and other jurisdictions. The SC's guidelines allow the registration of local and foreign Shariah advisers.

The ability to tap international Shariah resources is not the only incentive to encourage the industry to develop or structure new and innovative products based on globally accepted Shariah structures. In addition, the Malaysian Government has also made available several tax incentives especially for products based on widely accepted structures to draw interests from foreign investors.

To further spur the growth of ICM activities, the Government has undertaken the approach to create a tax neutral environment that provides a level playing field between Islamic and conventional capital markets. Other tax incentives for issuers, intermediaries and investors are also introduced from time to time.

Malaysia's ICM is characterised by the diversity of market participants offering an extensive range of products and services, with many operating both domestic and international businesses in terms of their investor base and their investment assets. The Malaysian eco-system for Islamic finance, which include other service providers such as banking and takaful, provide the breadth of services necessary to a vibrant and successful ICM.

In ensuring that the ICM sustains its long-term growth, it must be able to offer a more distinctive value proposition that is all encompassing. Product innovation is a critical component of this. Today, shifts from products that resemble replications (from conventional) to those that are closely aligned to the *maqasid al Shariah*; such as those with more equitable risk-sharing based on real economic activities, as well more ethical in nature. The *maqasid* sets the needs for the creation of value through business affairs through corporate governance excellence that promote environmental protection, public good and sustainability. The SRI sukuk is one of them. Such innovations will certainly also spur the growth of segments such as private equity and venture capital.

The ICM offers three main value propositions for investors. First, is the greater diversification opportunities since the sector-profiles are typically different from conventional. Second, it has enabled financial inclusion to those who have been avoiding conventional investments due to religious considerations. And third, in view of the growing affluence in Muslim majority countries, ICM has created the opportunity for meeting this investment demand.

As a result of all the above, there is now a wide array of Shariah products and opportunities to fulfil the needs of the HNWIs and those looking for faith-based investing. Malaysian ICM is not only able to offer a comprehensive infrastructure but also the competitiveness and innovativeness of product solutions. Clearly, Malaysia is well on its journey towards becoming an Islamic wealth management centre.

Application of Maqasid al-Shariah in ICM Products

Islamic Capital Market (ICM) is one of the important components of the Islamic financial system. It complements the Islamic banking sector as an avenue for fund raising and financing activities where transactions in relation to such activities must be carried out in compliance with Shariah. The Shariah principles form fundamental and integral elements where all transactions and products must comply with Shariah. Therefore, it is imperative for the ICM to apply the *maqasid al-Shariah* (objectives of Islamic law) in its products structuring in order to conform to the essential feature of the ICM.

There are various types of products ranging from Islamic equities, sukuk, Islamic structured products, Shariah compliant derivatives etc. These products could apply various types of Shariah principles such as *musharakah*, *mudharabah*, *murabahah*, *ijarah*, *istisna'* and *wakalah* to facilitate the functioning and effectiveness of products in fulfilling market needs.

Similar to Islamic banking products, ICM products have its own set of objectives pursuant to its conception which observe the application of the *maqasid al-Shariah*. Among the *maqasid al-Shariah* is the protection of property which is part of the five fundamental essentials under the category of *dharuriyyat* (necessities/essentials). There are various measures available that can be taken to achieve the *maqasid al-Shariah* in ICM relating to the protection of property, among others are through a structured and organised platform, effective regulations and efficient governance.

Overview of maqasid al-Shariah

Based on views from various Shariah scholars, *maqasid al-Shariah* refers to the aim, objectives, intention or secrets which are desired to be achieved in connection with the legislation of a particular Shariah law.

According to Imam Al-Shatibi, the understanding of *maqasid al-Shariah* is an important fundamental factor in determining a particular ruling. *Maqasid al-Shariah* aims to gain benefit (*maslahah*) from the application of the Shariah ruling to mankind for their life in this world and the hereafter.

Similarly, Imam Al-Ghazali stated that: *"The objective of the Shariah is to promote the well-being of all mankind, which lies in safeguarding their faith (din), human self (nafs), intellect (`aql), posterity (nasl) and their wealth (mal). Whatever ensures the safeguard of these five serves public interest and is desirable."*

Maqasid al-Shariah can be divided into three categories as follows:

(1) *Dharuriyyat* (necessities/essentials)

Dharuriyyat refers to matters which are undoubtedly necessary, with no exception, on which the religious and worldly affairs of the people depend upon and the absence of which will lead to chaos. It must be protected and all measures for the purpose of safeguarding them must be taken. According to Imam al-Shatibi, *dharuriyyat* can be divided into protection of five fundamental essentials which are known as الضروريات الخمسة namely:

(i) Protection of religion (حفظ الدين)
(ii) Protection of life (حفظ النفس)
(iii) Protection of lineage (حفظ النسل)
(iv) Protection of intellect (حفظ العقل)
(v) Protection of property (حفظ المال)

Among the examples relating to the above are sale transaction (*bai`*) which falls under the category of protection of property (حفظ المال) and the prohibition of liquor which falls under the category of protection of intellect (حفظ العقل).

(2) *Hajiyyat* (need/complementary)

Hajiyyat refers to interests whose neglect leads to hardship but not to total disruption of the normal order of life. These interests, other than the five essentials above, are needed to alleviate hardship, so that life may be free from distress and predicament. It also acts as provisions that are aimed at removing hardships and/or facilitating life. Among the examples which may be considered as *hajiyyat* are permission to enter into the transaction of *mudharabah*, *musharakah* and *salam*.

(3) *Tahsiniyyat* (embellishments)

Tahsiniyyat refers to interests whose realisation leads to refinement and perfection in the customs and conduct of people at all levels of achievement. Among the examples which may be considered as *tahsiniyyat* are the permission to use comfortable things, eat delicious food and wear fine clothing.

Application of maqasid al-Shariah in ICM products

In the context of ICM products, the most relevant *maqasid al-Shariah* to be applied is the protection of property which falls under the category of *dharuriyyat*. This protection of property may be achieved through various ways through the following methods:

(1) Protection of property through structured and organised platform

The application of *maqasid al-Shariah* under this method, can be seen in the context of *sukuk ijarah*. Based on the normal structure of *sukuk ijarah* that involves sale and lease contracts, *maqasid al-Shariah* can be achieved by the relevant parties in the following manner:

(i) The originator benefits from purchasing back its assets from the sukukholders without losing it thereby protecting its wealth and property which is a fundamental *maqasid*.

(ii) The investment by investors (sukukholders) in *sukuk ijarah* together with the gain received from such Shariah-compliant investment reflects the accomplishment of the *maqasid al-Shariah* via sukuk.

(2) Protection of property through Shariah screening methodology

In equity investment, Shariah screening methodology is used by the relevant parties to ensure that the shares comply with the Shariah requirement in the following manner:

(i) Issuers will refer to the Shariah screening methodology prior to the initial public offering exercise in order to ensure that they comply with the benchmarks as set out therein whereupon the listing of their companies, their shares will be considered as Shariah-compliant shares.

(ii) Investors will refer to the Shariah screening methodology as a measure to assess whether the applicable shares comply with the criteria as stated in it or not to ensure that their investments will be in Shariah-compliant shares.

(iii) Intermediaries such as fund managers will refer to the Shariah screening methodology prior to channelling the funds under their management for investment to ensure that the applicable shares which they plan to invest comply with the benchmarks as set out in the screening methodology thus are considered as Shariah-compliant shares.

In this context, *maqasid al-Shariah* can be achieved by protecting of property (i.e. shares) to ensure that the shares are classified as Shariah compliant and the investment is in accordance with Shariah.

The application of *maqasid al-Shariah* in ICM products may also be achieved via protection of property through effective regulations and efficient governance.

As a conclusion, ICM is one of the important elements in Islamic financial system that has potential to become the envoy for the implementation of the righteous *maqasid al-Shariah*. In addition to the Shariah rulings, effective regulations and efficient governance, it could be certainly said that *maqasid al-Shariah* is the most complete mechanism to improve and add value to the current ICM products. The ICM products must be Shariah compliant not only in structures but also in the whole transactions for the purpose of investment and raising capital.

SC and OCIS Co-host Global Discussion on Developing Waqf Assets Through Islamic Finance

The SC and the Oxford Centre for Islamic Studies (OCIS) co-hosted the 5th Roundtable on Islamic Finance in Kuala Lumpur to discuss the development of *waqf*, an Islamic endowment, and how it can contribute towards broadening the Islamic finance industry globally.

Waqf has historically been an important instrument for development in Muslim societies. Today, there is a renewed interest to revive *waqf* institutions and unleash the potential value of Islamic social assets such as *waqf*. The global effort to harness *waqf* into a bankable social financing and investment asset class is also in line with the SC's strategy to identify new growth segments to further internationalise Malaysia's leading position in the Islamic finance industry.

SC Chairman, Datuk Ranjit Ajit Singh presenting the SC-OCIS 2013 Proceedings book to HRH Sultan Dr Nazrin Shah Muizzuddin

Themed "Harnessing Waqf Into a Bankable Social Financing and Investment Asset Class", the annual roundtable was attended by leading international industry practitioners and scholars from around the world. The two-day roundtable, held from 22 to 23 March 2014 discussed challenges and the potential of *waqf* in the philanthropic spheres, including issues of legislation, governance and professionalism, and capital. Three key topics discussed were:

- Challenges of developing an infrastructure of philanthropy;
- Philanthropy and society – unleashing the potential of Islamic social assets; and
- Enabling legislation to promote *waqf* development.

A select international group of about 70 key industry practitioners, senior academicians, Shariah scholars, standard setters and regulators participated in the Roundtable. HRH Sultan Dr Nazrin Shah Muizzuddin graced the Roundtable and delivered a Special Address. Overall, the Roundtable received positive comments and feedback primarily for the high quality of discussions and debate on a theme that is of significant relevance.

Malaysia and Hong Kong Enhance Cross-Border Partnership on Islamic Capital Market

The SC and Hong Kong Securities and Futures Commission (SFC) jointly organised a seminar on 17 June 2014 in Hong Kong in Islamic funds in response to the growing interest on Islamic Finance, including in the collective investment space.

The half-day event brought together over 100 policy makers, regulators and fund managers from Hong Kong and Malaysia to discuss a wide range of topics relating to Islamic funds and Islamic finance, from practical issues such as structuring and regulatory aspects of Islamic funds to a macro view on the Islamic fund industry landscape.

The seminar aimed to strengthen cross-border co-operation between the two markets in Islamic finance, especially in the area of fund management.

"The joint seminar is an excellent platform for market leaders and other capital market professionals to exchange views and explore the many opportunities that the linkage between Hong Kong and Malaysia offers," said Datuk Ranjit Ajit Singh, SC Chairman.

"Malaysia has been the Islamic funds gateway in Asia, linking the Middle East and Europe to this part of the world. While Hong Kong can leverage on Malaysia's Islamic fund management capabilities, Malaysia at the same time would benefit from Hong Kong's strength as an international financial centre," he said.

"This potent combination can add a new dimension to the global Islamic finance market. Today, we also see the launch of the first SFC-authorised Islamic balanced fund in Hong Kong under the Mutual Recognition Agreement between the SFC and the SC. We will continue our close co-operation with the SFC and work with other stakeholders to strengthen the Hong Kong – Malaysia Islamic finance proposition," added Datuk Ranjit.

The SFC-SC Joint Seminar on Islamic Funds was held on 17 June 2014 in Hong Kong

In her opening remarks, the SFC's Deputy Chief Executive Officer and Executive Director, Investment Products, International and China, Ms Alexa Lam, said Hong Kong is keen to further develop its Islamic finance market.

"We see Islamic finance as a valuable proposition, one which can contribute towards innovation and diversity in our financial market," she said. "Our robust infrastructure and world class reputation as well as first mover advantage in renminbi finance and products, all combine to make Hong Kong an excellent platform to further develop Islamic finance products for sale to investors domestic and internationally."

"The SFC and the SC have enjoyed a close and mutually beneficial relationship," Lam added. "The SFC will continue to work closely with the SC, as well as the global Islamic finance community, to develop Hong Kong's Islamic finance platform."

The event marks the ongoing mutual co-operation between the SC and SFC in the Islamic capital market area which will continue to cover initiatives on capacity building and promotion of educational programs concerning Islamic collective investment schemes and other Islamic investment products.

SC names new Shariah Advisory Council line-up 2014–2017

The SC announced the members of its Shariah Advisory Council (SAC) who will serve for a three-year period commencing 1 July 2014. The SAC is the central authority responsible for determining the Shariah principles of the Islamic capital market in Malaysia. The 11 SAC members are appointed by the His Majesty the King of Malaysia under section 316C of the *Capital Markets and Services Act 2007* (CMSA).

The SAC is a key pillar in the development of the Islamic capital market in Malaysia especially in facilitating innovation and ensuring a robust Shariah governance process. The SAC provides greater consistency and clarity to issuers, intermediaries and investors in the Malaysia's Islamic capital market. The SAC, given the expertise of its members, also plays an instrumental role in strengthening the country's position as a leading international Islamic financial centre.

Under the CMSA, the SAC is empowered to ascertain the application of Shariah principles on any matter pertaining to Islamic capital market business or transaction, and to advise the SC on any Shariah issue relating to Islamic capital market business or transactions. The SAC is also empowered to provide advice to any person on Shariah issues relating to Islamic capital market business or transaction.

SC SAC MEMBERS 2014–2017

1. **Tun Abdul Hamid Haji Mohamad**
   Former Chief Justice Malaysia
2. **Tan Sri Sheikh Ghazali Haji Abdul Rahman**
   Shariah Legal Advisor, Attorney General's Chambers
3. **Datuk Dr Mohd Daud Bakar**
   Group Chairman, Amanie Advisors
4. **Dato' Dr Abdul Halim Ismail**
   Chairman, Shariah Committee of Shariah-Compliant Funds of Amanah Mutual Bhd
5. **Dr Haji Zulkifly Muda**
   Terengganu Mufti
6. **Professor Dr Ashraf Md Hashim**
   Chief Executive Officer, ISRA Consultancy Sdn Bhd
7. **Professor Dr Engku Rabiah Adawiah Engku Ali**
   IIUM Institute of Islamic Banking and Finance (IIiBF), International Islamic University Malaysia
8. **Professor Mohamed Ismail Mohamed Shariff**
   Adjunct Professor, International Centre for Education in Islamic Finance and Founder of Mohamed Ismail & Co.
9. **Associate Professor Dr Aznan Hasan**
   Ahmad Ibrahim Kulliyyah of Laws, International Islamic University Malaysia
10. **Associate Professor Dr Asmadi Mohamed Naim**
    Dean, Islamic Business School, Universiti Utara Malaysia
11. **Dr Shamsiah Mohamad**
    Senior Researcher, International Shari'ah Research Academy for Islamic Finance (ISRA)

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Basel III Compliant Sukuk[1]

Basel Committee on Banking Supervision of Bank for International Settlements (BIS) released a package of measures in December 2010 to address the capital adequacy needs of banks, both conventional and Islamic, to strengthen the resilience of the global banking system. This package is called the 'Basel III Capital Adequacy Requirement for Banks'. The implementation of the Basel III requirement which was preceded by the Basel I and II have started since January 2014. This new set of rules requires banking institutions to meet a new minimum regulatory capital requirement to ensure soundness and stability of individual Banks as well as the long term soundness and stability of the global financial markets.

The Basel III capital adequacy requirement led to issuance of various sukuk by the Islamic banks in the GCC and recently in Malaysia using different Shariah principles to address the capital adequacy needs of Islamic banks. The issuances by the banks are aimed at stepping up their capital to meet the Basel III requirements in addition to working capital improvement. Bank Negara Malaysia (BNM) targets to implement the Basel III requirement in accordance to the globally-agreed levels and implementation timeline which provides for a gradual phase-in of the standards beginning 2013 until 2019.

BNM released *Capital Adequacy Framework for Islamic Banks* (Capital Components) in November 2012 which clarifies the use of sukuk as additional capital. As per the framework, sukuk issued against assets owned by an Islamic bank may be used by that bank as additional capital to meet regulatory minimum requirements. The minimum regulatory requirement under the framework to qualify for Tier 2 capital instrument, among others, are the five years minimum maturity of the sukuk and it should not have step-up features, such as periodic increases in the rate of return, giving an incentive for the issuer to redeem it. Furthermore, capital instruments structured using exchange-based contracts (*Murabahah*, *Tawarruq* or *Ijarah*) can either be written-off or converted into ordinary shares. Where the instrument is required to be written-off, the framework provides provisions for the write-off mechanism for Tier 2 capital instruments structured using exchange-based contracts for achieving principal loss absorption or loss absorbency at the point of non-viability as depicted in Table 1.

Table 1

Contracts	Write-off mechanism
Murabahah, Tawarruq	Write-off can be achieved through either of the following: i. Investor (as creditor) undertakes to waive his rights on debts at the point of non-viability, via a *wa'ad*; or ii. Investor (as creditor) agrees to waive his rights on debts at the point of non-viability in the legal documentations.
Ijarah	Write-off can be achieved subject to the following: i. Investor (as lessor) agrees to waive his rights on accrued rental at the point of non-viability as provided in the legal documentations131 with the lessee; and ii. Investor (as lessor) undertakes to transfer his ownership over the underlying asset (beneficial or otherwise) to the lessee without consideration, via a *wa'ad*.

Source: Bank Negara Malaysia Capital Adequacy Framework for Islamic Bank (Capital Components), November 2012.

To satisfy the Basel III requirements, an innovative new breed of Basel III compliant sukuk was issued to address the capital adequacy needs of Islamic banks. Such an innovation offers ample opportunities and potentials for sukuk underwriters to expand market shares and further boost the supply of sukuk in global markets. Basel III compliant sukuk can be an alternative funding source for institutions that face difficulties in raising capital through equity issuances as global financial instability depresses stock markets. The sukuk are an eligible instrument for both conventional and Islamic institutions on the condition that funds are utilised for Shariah-compliant activities.

[1] Source: Innovation for Growth – Basel III Creates a Golden Opportunity, www.mifc.com.

In Malaysia, AmIslamic was the first bank to issue Basel III sukuk in February 2014 to step up its capital standing to meet the regulatory requirement. Maybank Islamic followed suit and issued a *murabahah*-based Basel III Tier 2 sukuk in April 2014. This was followed by RHB Islamic and Public Bank Islamic which issued the same in May and June 2014 respectively. Hong Leong Islamic Bank issued Basel III sukuk using the *ijarah* structure in June 2014.

The Islamic finance industry now has an opportunity to leverage the use of the new breed Basel III compliant sukuk that could address the capital adequacy needs of Islamic banks as stipulated by the Basel III accords. The seeming continuous issuance of the Basel III sukuk and their performance in terms of subscriptions indicates the enthusiasm in this financial innovation by both investors and the issuers alike. Globally, sukuk are now playing an instrumental role in addressing the liquidity and capital adequacy needs of Islamic banks as stipulated by the Basel III accords. Basel III sukuk represent a milestone development in Shariah-compliant financial engineering which enables Islamic financial institutions to progress alongside their conventional counterparts.

Updated List of Shariah-compliant Securities

The SC released an updated list of Shariah-compliant securities approved by its Shariah Advisory Council (SAC). The updated list effective on 30 May 2014, features a total of 665 Shariah-compliant securities. These counters constitute 73% of the total 905 listed securities on Bursa Malaysia. The list includes 28 newly classified Shariah-compliant securities and excludes nine from the previous list issued in November 2013. It also indicates that Shariah-compliant securities are well represented in the different business sectors.

The full list, which is updated twice a year based on the companies' latest annual audited financial statements, is available on the SC website at www.sc.com.my. The next updated list will be available in November 2014.

Table 1
Shariah-compliant securities on Bursa Malaysia

Main Market/ ACE Market	Number of Shariah-compliant securities	Total securities*	Percentage of Shariah-compliant securities (%)
Consumer products	108	134	81
Industrial products	200	259	77
Mining	Nil	1	Nil
Construction	36	44	82
Trading/Services	141	204	69
Properties	64	85	75
Plantation	35	39	90
Technology	72	91	79
Infrastructure (IPC)	5	6	83
Finance	2	35	6
SPACs	2	2	100
Hotels	Nil	4	Nil
Closed-end funds	Nil	1	Nil
TOTAL	**665**	**905**	**73**

** As at 20 May 2014*
Source: SC

New Liberalisation Measures for Malaysian Capital Market[1]

At Invest Malaysia 2014, the removal of the mandatory requirement for corporate bond credit ratings and the abolishment of the barrier-to-entry for foreign credit rating agencies and unit trust management companies to operate in Malaysia were announced (Table 1). The removal of the mandatory corporate bond ratings and liberalisation of the local credit rating industry will be effective 1 January 2017. Foreign firms can now fully own unit trust management companies, as well foreign-owned credit rating agencies will be allowed in the local market from January 2017.

Table 1
Liberalisation measures

No.	Liberalisation measures	Effective date
1.	The mandatory requirement for credit ratings will be removed. A gradual approach is being adopted to provide industry players sufficient time to further refine mechanisms necessary to operate under the new regime. As such, flexibilities will be accorded with regard to credit ratings and the tradability of unrated bonds and sukuk from 1 January 2015.	1 January 2017
2.	International credit rating agencies with full foreign ownership will be allowed in the Malaysian market.	1 January 2017
3.	Foreign corporations will be allowed to own 100% shares in unit trust management companies, and there will be no barrier to entry for new foreign unit trust management companies coming into Malaysia.	With immediate effect

In addition to this, from 1 January 2015, flexibilities will be accorded with regard to credit ratings and the tradability of unrated bonds and sukuk. A gradual approach is being adopted to provide industry players sufficient time to further refine mechanisms necessary to operate under the new regime. With this move, many small enterprises can gain access to market-based financing thus helping those becoming corporate titans in the future.

The liberalisation of the corporate bond and sukuk market present greater opportunities for investors and corporations to capitalise on greater liquidity and market participation. Furthermore, the cost of issuing bonds could also be reduced and thus will make it easier for business. The changes were a positive development for the Malaysian capital market and were aligned with international markets, which had long allowed the issuance and tradability of unrated bonds and sukuk.

With the liberalisation of equity shareholding for unit trust, investors would have access to various fund managers and other investment products. The investors would have the opportunity to further diversify their investment portfolios and this could also present opportunities for local fund managers to work with the foreign fund managers to create new products. Previously in 2009, the Government introduced several liberalisation measures allowing foreign ownership of up to 70% in standalone investment banks, unit trust management companies, stockbrokers and insurance companies from 49% before.

[1] This article is extracted from Prime Minister Malaysia, Dato' Sri Mohd Najib Razak's speech at Invest Malaysia 2014 in June.

Innovation in Sukuk Securitisation and Islamic Hedging Instruments: Development and Challenges[1]

Securitisation continues to be a subject of much deliberation and debate among policymakers, regulators and market practitioners after the global financial crisis. And this is not unexpected as securitisation in fact has a key role within the financial system.

Securitisation injects much needed funding into the economy by enabling businesses and financial institutions to realise the value of cash producing assets. Lenders can get their loans off their books, transforming illiquid assets into liquid and tradeable capital market instruments. It also allows lenders to manage the risks arising from such loans by slicing the loans into different tranches based on credit quality and transferring the risk to different investors with different risk appetite. Additionally the ring fenced and segregated assets once decoupled from the risks of the originator can attract higher rating thus reducing the originator's cost funding. Thus securitisation allows businesses and financial institutions to realise the value of their assets, allowing them to support other economic activities. Investors on the other hand have access to another asset class that meets their risk-reward profile. This securitisation bridges the gap between financial and capital markets by converting financial assets into tradeable capital market products.

Given the pervasive benefits of securitisation to the financial system, to the capital market and to the economy as a whole, it is indeed unfortunate that the securitisation market has had to bear the blame for the global financial crisis due to among others to the securitisation of sub-prime loans, complex products such as CDOs being sold to investors who had little or no understanding of the products; over reliance on credit rating agencies for risk assessment; failure of investors to exercise due diligence on the products and risks not properly dispersed because in many instances the financial institutions were holding many of these products.

Despite the stigma of the global financial crisis, there is now increasing realisation that it will be a mistake to throw the securitisation 'baby out with the bath water' as this will affect the long term financing of the economy. And thankfully this is being realised by regulators and policymakers worldwide. Reuters reported the call by IOSCO Secretary General, David Wright for global regulators to intensify their efforts to revive a securitisation market tarnished by the financial crisis as banks who are the traditional suppliers of loan to be packaged into interest bearing bonds have become more cautious as they focus on rebuilding their capital buffer.

On the capital market front, the International Organization of Securities Commissions (IOSCO) issued a report on "Securitisation and Securitised Debt Instruments in Emerging Markets" in October 2010. The report highlights the challenges in the securitisation business model and regulatory framework which include wrong incentives in the value chain, inadequate risk management practices of investors; and inadequate regulation and oversight. The report also highlights that improved disclosure and transparency is required, as are improved risk management practices, elimination of arbitrage opportunities in capital regulation and alignment of incentives in remuneration arrangements. The perimeter of regulation should also be expanded to include key entities in the process such as CRAs.

The IOSCO report further identifies key recommendations to deepen securitisation markets in emerging market jurisdictions; in particular the report encourages regulators to:

- Collect a minimum set of data on securitisation markets;
- Enhance disclosure for both public and wholesale markets;
- Foster trading through public venues;
- Foster the development of pricing vendors which should be regulated;
- Develop a basic framework for key market participants;

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[1] This article is extracted from the keynote address delivered by Dato Dr. Nik Ramlah Mahmood, SC Deputy Chief Executive, at the 6th IFSB Legal Seminar on 'Innovation in Sukuk Securitisation and Islamic Hedging Instruments: Development and Challenges', 25 March 2014, Bandar Seri Begawan, Brunei

- Enhance business conduct obligations; and
- Align CRAs regulation with IOSCO Code of Conduct Fundamentals for Credit Rating Agencies.

In addition, IOSCO has issued a guide on "Disclosure Principles for Public Offerings and Listings of Asset-Backed Securities 2010 (ABS Disclosure Principles)" aimed at enhancing investors protection by providing guidance to regulators who are developing or reviewing their disclosure regimes for offerings and listings of asset-backed securities. Additionally, it has also issued a report on *'Principles for Ongoing Disclosure for Asset-Backed Securities 2012* to complement the ABS Disclosure Principles, emphasising on the requirement of ongoing disclosure and requirements to disclose material developments.

"The financial engineering in sukuk securitisation involves payment of face value and income derived from the cashflows generated by the securitised asset and legal or beneficial ownership of the underlying asset is transferred to the investors in the form of sukuk."

Arguably Islamic asset securitisation has not suffered the stigma of the sub-prime crisis. But that is probably because the size of this asset class is small, even within the sphere of Islamic finance. This is so despite the concept of Islamic securitisation being recognised through various guidelines. In Malaysia, the SC introduced the *Guidelines on the Offering of Asset-Backed Debt Securities* in 2001, which was revised in 2004 (ABS Guidelines) to further strengthen the asset securitisation framework. The ABS Guidelines provide for the issuance of both conventional bonds and sukuk via securitisation process.

"Securitisation transaction" in the ABS Guidelines is defined as an arrangement which involves the transfer of assets or risks to a third party where such transfer is funded by the issuance of debt securities or sukuk to investors. Payments to investors are principally derived, directly or indirectly, from the cash flows of the assets.

Under IFSB 15: Revised Capital Adequacy Standard for Islamic Financial Institutions Offering Islamic Financial Services [excluding Islamic Insurance (Takaful) Institutions and Islamic Collective Investment Schemes], sukuk is described as a securitisation process whereby the investors are protected against the financial problems of the originator and due to the ownership of the underlying assets, expose them to losses in case of the impairment of the securitised asset. The financial engineering in sukuk securitisation involves payment of face value and income derived from the cashflows generated by the securitised asset and legal or beneficial ownership of the underlying asset is transferred to the investors in the form of sukuk.

In 2013, Malaysia continued to dominate the global sukuk market with 69% share of total. Malaysian ringgit-denominated sukuk represented 67% of total sukuk issuances in 2013, totalling US$80.38 billion, followed by US Dollars with a 15% share worth US$17.98 billion. The growth of the Malaysian ABS market however has not caught up with the growth of the bond market. The SC had, between the period of 2004 and 2013, approved a total of 44 ABS proposals, of which nine were Islamic ABS. By way of comparison, during that period a total of 940 proposals for conventional private debt securities and sukuk were received. ABS thus represented 4.7% out of the total proposals approved by the SC. These ABS proposals involved various asset classes such as residential mortgages, plantation assets, commercial properties, credit card receivables and auto loan receivables.

One area where securitisation has contributed significantly to national economic development is in the securitisation of housing loans. In Malaysia, Cagamas, the national mortgage corporation plays a pivotal role in the development of ABS market – both conventional and Islamic ABS. Cagamas has to-date, issued five ABS, of which two were Islamic ABS. The first issuance of ABS by Cagamas involved the securitisation of government servant housing loan (GSHL), in 2005, pursuant to the *Housing Loan Fund Act 1971.* The said issuance represented a landmark for the Malaysian ABS market as it was the first residential mortgage-backed securities transaction backed by the Government assets. Subsequently, two Islamic ABS were issued – in 2005 and 2007 – under the principle of *musharakah* involving investment in a specifically identified pool of mortgage asset by the originator.

The securitisation exercise by Cagamas resulted in increased liquidity for the financial institutions, enabling them to grant more housing loans thus, making loans more accessible and affordable to potential house buyers. This enables the key social objective of increasing home ownership which is the basic necessity for the society, to be met. The Cagamas model has been a success and recognised by other countries as well as the World Bank.

Apart from Cagamas, Telekom Malaysia Bhd (TM), a government-linked corporation had also issued *sukuk Ijarah* known as Menara ABS in 2008. This Islamic ABS allowed TM, among others, to monetise its non-core assets in order to strengthen its core telecommunication business. As TM's *sukuk Ijarah* was structured based on ABS, it was important for TM to effect true legal sale of the underlying asset so that all rights and obligations attached to the assets would be transferred to the new owner. Menara ABS was a trust-owned SPV, set up for the securitisation of four office buildings owned by TM. With a value of just over RM1 billion, it represented Malaysia's largest Islamic securitisation exercise to date, as well as the largest sales on non-core assets of TM. This ABS exercise improved TM's balance sheet by allowing the company to offload some of its fixed assets.

Similar trend in Islamic ABS has been seen globally with the issuance of US$100 million *sukuk Wakalah* by FWU Group subsidiary in 2013 which securitised *takaful* policies as its underlying assets. The issuance represents an important step for FWU group to expand its funding sources into Shariah compliant capital markets. This Islamic securitisation exercise provides an opportunity for investors to participate and invest in a true ring-fencing of assets.

Another recent innovation worth mentioning is the issuance of the first structured covered sukuk in the region by Malaysia Building Society Bhd (MBSB) in 2013 (MBSB Covered Sukuk). This MBSB Covered Sukuk has similar characteristics with covered bonds which are debt obligations that are secured by portfolio of assets. It provides dual recourse to the investors i.e. the issuer in covered bonds is fully liable for all payments to the investors (while solvent) and in the event of insolvency of the issuer, the pool of assets serve to satisfy the covered bond debt and is separate and distinct from the issuer's other assets.

MBSB Covered Sukuk was structured under the Shariah principle of *murabahah*, backed by a pool of Shariah compliant personal financing receivables, which were sold via "true sale" from originator to the SPV. In this structure, the SPV was created for the purpose of isolating the pool of assets from the insolvency of MBSB which allows the investors to have dual recourse: firstly, to MBSB and secondly, to the pool of personal financing receivables as the financing receivable are separate and distinct from the MBSB's other assets. The credit risks of the MBSB Covered Sukuk were linked to MBSB. However, the MBSB Covered Sukuk is intended to be isolated from any default and bankruptcy proceedings against MBSB as the covered asset is able to service the obligations. In the event of MBSB's default, investors have preferred claim to the covered asset.

This structure enables MBSB to obtain better credit rating and lower its financing costs. The rating in this structure was notched up from MBSB's issuer credit rating reflecting the available credit enhancement from the covered asset and the transaction's structural features. With its dual recourse, the structured covered sukuk would appear to be more attractive to investors.

For the securitisation market to develop further, numerous issues need to be addressed. An appropriate and facilitative legal environment must be in place. One of the issues is with regard to the bankruptcy remoteness of the SPV. Some jurisdictions permit the creation of bankruptcy remote entity under trust law while in some others, the creation of those entities may be made under corporate law. Whatever the means of achieving it, legal clarity with regard to the status of the SPV is critical. The manner the asset is transferred from the originator to the third party, is also important, be it by way of true sale, equitable assignment, novation etc. From a securitisation point of view, the objective of the transfer is to achieve cost effective and clean sale and provide necessary legal protection to all parties.

Furthermore, if the asset being securitised is a fixed asset (e.g. property), then the transfer of the asset from originator to the third party must comply with other relevant laws (e.g. land law) and subject to the requirements as stated under those laws (e.g. in Malaysia, additional requirements under the National Land Code must be adhered to). In the event of default, the securitised asset is subject to the conditions attached to the assets which may result in investors having difficulties in enforcing them. The additional requirements under the respective laws may also incur additional costs on the part of the issuer or the originator.

Another challenge relating to securitisation is with regard to taxation especially if it involves cross border securitisation as the taxation issues can become complicated because the tax regime of more than one country must be considered. Issues to be considered include (i) whether a SPV is subject to taxation as an entity or is only a pass through conduit that would qualify it as a non-taxable entity; (ii) whether stamp duty and taxes may be imposed on the transfer of the securitised asset. In Malaysia for example, the real property gain tax on the disposal of the securitised asset has been exempted since year 2003.

Investors must be made aware of the technicalities and the risks associated with securitisation given the complexity of the process. For Islamic securitisation, it is important to ensure that the products are shariah compliant in all respects. Easy access to information on the products and the assets backing the products is crucial to ensure that investors obtain relevant and accurate information prior to investing in such products. Another challenge faced by originators of Islamic securitisation is the limited availability of Shariah compliant suitable assets.

Given the constraints and challenges surrounding securitisation transaction, be it from legal, taxation, accounting aspects, the responsibility for policy and regulatory formation in these areas rest with separate institutions in the respective country. Therefore, continuous dialogue and co-ordination between these institutions and relevant government agencies is vital to ensure consistencies in rules and regulations formulated within securitisation framework.

Streamlining and tightening the corporate governance regime at every level of transaction could minimise the risk typically link to securitisation. Exercising thorough due diligence without overly relying on CRAs would certainly benefit the investors in making informed investment decision.

“...continuous dialogue and co-ordination between these institutions and relevant government agencies is vital to ensure consistencies in rules and regulations formulated within securitisation framework.”

The infrastructure for securitisation which includes monitoring and supervision on the securitised asset and making available relevant and accurate information to the public may need to be further developed and strengthened. This can be achieved through strict observant of market discipline by market participants.

As global policymakers and regulators continue to pursue efforts to revive the conventional securitisation market that is still struggling to regain its credibility after the global financial crisis, there is a golden window of opportunity for Islamic securitisation to lead the way. By its very nature Islamic securitisation offers all the benefits of securitisation without some, if not all the weaknesses that led to the sub-prime crisis. While still at a stage of relative infancy, the inherent features of Islamic securitisation can potentially position this product as the catalyst for the revival of the securitisation market. The exclusion of complex structures such as CDOs for instance, acts as a natural risk mitigant that offers an enhance value proposition for investors.

On its part, IFSB as a standard setting body for the Islamic financial services industry, can provide leadership by introducing standards that will address key aspects of Islamic securitisation and support the orderly development of the market.

With the reform to the global financial market landscape, more innovations are expected in Islamic securitisation with diverse asset classes to further boost the Islamic finance market globally.

Global Sukuk Market: Sustained Momentum in 2014

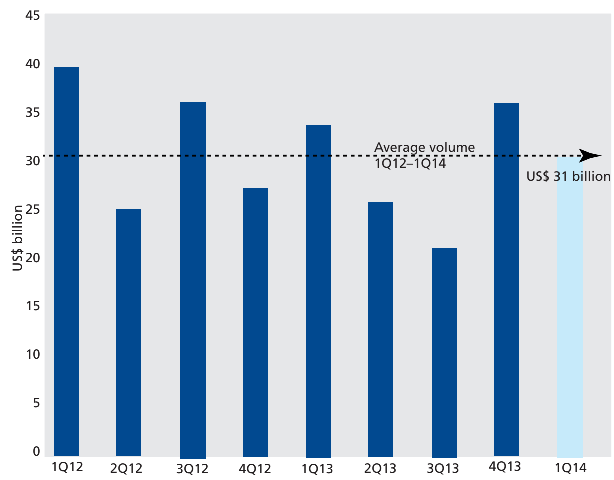
Global sukuk market begins 2014 with a sustained momentum as sovereign and quasi-sovereign issuers spearheaded the new sukuk issuances in 1Q2014. The volume of new sukuk issuances in the global sukuk market amounted to US$31.1 billion in 1Q14, which exceeded the average quarterly volume of US$31 billion (1Q12–1Q14), leading to expectations that the primary sukuk market will once again surpass the US$100 billion mark in new issuances volume this year. The expectations are further supported by a number of high profile issuances which remain in the pipeline for 2014 including debut sovereign issuances from the United Kingdom, Luxembourg, South Africa and Hong Kong, among others.

The global sukuk market recorded a new sukuk issuances volume of US$31.14 billion in 1Q14 which represented a sustained performance for the market (4Q13: US$36.73 bln; 1Q13: US$34.53 billion). Although the volume is 15.2% short of the volume produced in 4Q13, 1Q14's performance exceeded the average quarterly new sukuk issuances volume of US$31 billion since 1Q12 (Chart 1). The sustained performance in the sukuk market follows despite the commencement of the tapering exercise by the US Federal Reserve since January 2014 which has led to an increase in funding costs for issuers, particularly in emerging markets. The volume in 1Q14 has been spearheaded by a number of noteworthy sukuk issuances including the US$1.5 billion benchmark five-year sukuk issuance by the Islamic Development Bank (IDB), which is the largest transaction to date by the global multilateral entity.

The International Islamic Liqudity Management Corporation (IILM), is another noteworthy issuer which continues to expand its short-term sukuk programme with a current outstanding portfolio of US$1.35 billion. Maldives was a debut issuer in 1Q14 when it tapped the sukuk market for the first time with a 10-year corporate real estate sukuk raising US$3.9 million in proceeds for the issuer. The pipeline of issuances for the remainder of the year remains healthy with a number of high-profile debut issuances expected from sovereign issuers including the United Kingdom, Luxembourg, Hong Kong, Tunisia, South Africa, Senegal and Egypt, among others. Furthermore, the multilateral entity, Asian Development Bank (ADB) is also considering feasibility to float a maiden sukuk in 2014.

Chart 1

Global Sukuk Issuance Trend (1Q12–1Q14)



Source: KFH Research Limited

Malaysia continues to be the leading jurisdiction driving the global new sukuk issuances with a 63.05% or US$19.63 billion share of total issuances in 1Q14. Malaysia's share of new sukuk issuances have consistently exceeded more than 60% since 1Q12. The market has been tapped by a number of international issuers over the years including obligors based in the GCC countries, Singapore, Hong Kong, Kazakhstan, among others. Most recently, Singapore has once again tapped the Malaysian sukuk market in 1Q14 when Bumitama Agri, a Singapore-listed company, raised US$152 million in proceeds by issuing a Malaysian-Ringgit sukuk. A number of announced sukuk from international issuers remain in the Malaysian sukuk industry pipeline this year including potential issuances from the UAE-based First Gulf Bank, Bahrain-based Gulf International Bank and France-based Societe Generale.

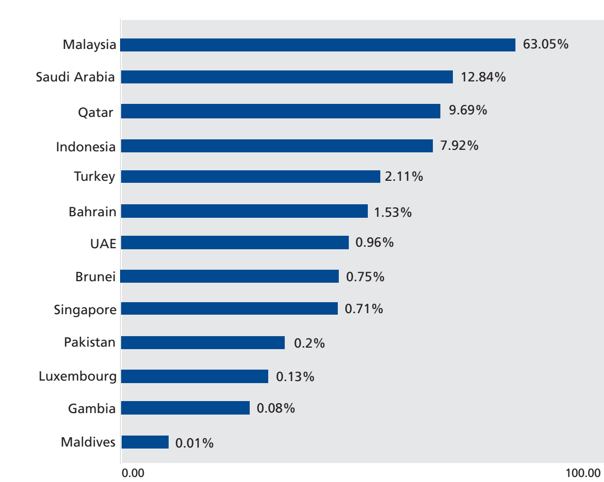
In the Gulf Cooperation Council (GCC) region, which is the second largest sukuk market after Malaysia, the volume of sukuk issuances in the GCC fell by 12.5% in 1Q14 as compared to the volume in 1Q13. Within the GCC region, the biggest drop in volume was recorded in the United Arab Emirates (UAE) which saw issuances drop by 92.1% to US$300 million in 1Q14 as compared to the US$3.82 billion volume in 1Q13. Saudi Arabia experienced a 17% decline in volume to US$2.5 billion (excluding IDB's US$1.5 billion issuance) as compared to the US$3.01 billion issuance in 1Q13. Particularly in the month of March, the only GCC-based issuances were short-term liquidity management sukuk by the Central Bank of Bahrain (excluding the multilateral IDB's US$1.5 billion sukuk).

Overall, among the various issuing jurisdictions, the most substantial y-o-y growth in volumes in 1Q14 as compared to 1Q13 were witnessed in Qatar (998.6% increase on the back of a huge US$3.02 billion sukuk issuance by the Central Bank of Qatar), Gambia (193.4%), Brunei (190.4%) and Bahrain (88%). The volumes in each of these jurisdictions were spearheaded by an increased supply of Shariah compliant papers by their respective central banks. (Chart 2)

Sovereign and quasi-sovereign sukuk issuers continue to be the key drivers of the global sukuk market with issuances worth US$25.43 billion or more than 81% share of the total issuances in 1Q14. Notably, sovereign issuers produced a volume of US$21.37 billion in 1Q14 which, in terms of absolute amount of issuances, represents the highest volume since 3Q12 when sovereign issuers had generated US$25.66 billion in volume. Malaysian Government-related entities have played an active role in spearheading the quasi-sovereign sector with large volume issuances by Syarikat Prasarana Negara Bhd (US$734.1 million), Khazanah Nasional Bhd (US$699.3 million) and also Perbadanan Tabung Pendidikan Tinggi Nasional (PTPTN) (US$760.3 million), among others. In contrast, the corporate sukuk issuances performance subdued in 1Q14 as the sector's share dropped to US$5.72 billion in 1Q14, a staggering 57.1% decrease as compared to the record corporate sukuk volume produced in 4Q13 worth US$13.29 billion. The decline in the corporate sukuk volume in 1Q14 stems mainly from the US Fed's tapering impact on sukuk funding costs as well as the slowdown in GCC sukuk issuances during the quarter. (Chart 3)

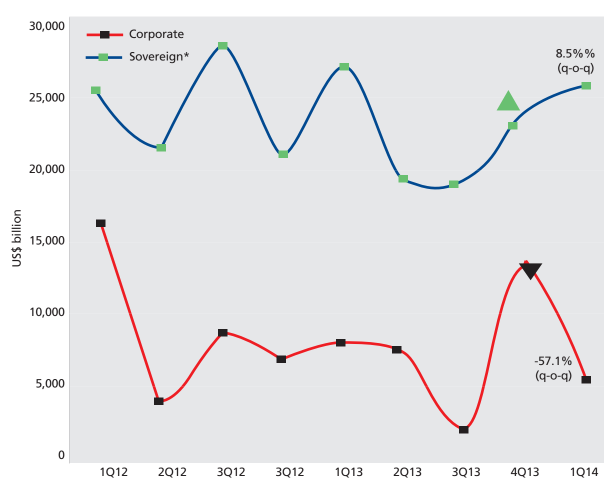
In terms of sukuk issuances by sector, during 1Q14, strong sukuk issuances emerged from the financial services sector which accounted for 23.5% share of total issuances (2013: 10%; 2012: 11.4%). This sector has been spearheaded by a growing trend where Islamic financial instituitions have begun to tap the sukuk market to raise capitalisation funds in order to comply with the Basel III standards of best practices that are being implemented in most jurisdictions gradually. Meanwhile, the government issuers continued to account for the major share of the new sukuk issuances in 1Q14 with an almost 60% share of all issuances [2013: 62%]. The other notable sector was the power and utility industry which accounted for a 9% share of the total issuances (2013: 9.4%). (Chart 4)

Chart 2
Global Sukuk New Issuances by Domicile and Share* (1Q2014)



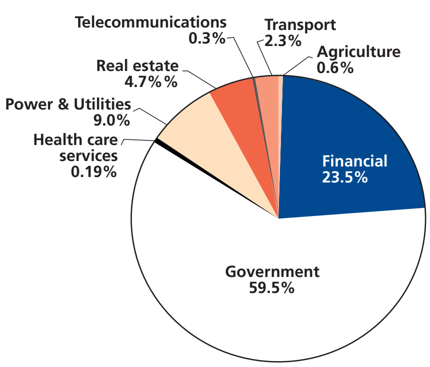
Sources: Bloomberg, IFIS, Zawya, KFH Research Limited
* Numbers in percentage indicate share of total issuances for each domicile (based on obligors' domicile)

Chart 3
Sukuk issuances by issuer type (1Q12 – 1Q14)



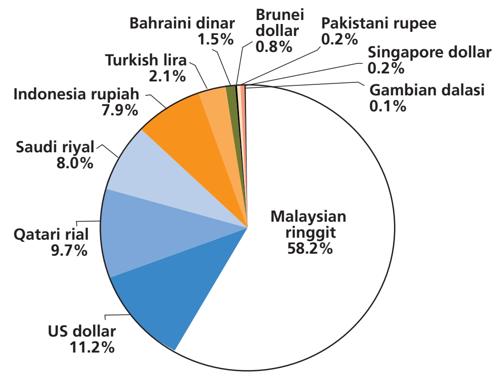
Sources: Bloomberg, IFIS, Zawya, KFH Research Limited
** Includes all government-related entities*

Chart 4
Sukuk issuance by sector (1Q14)



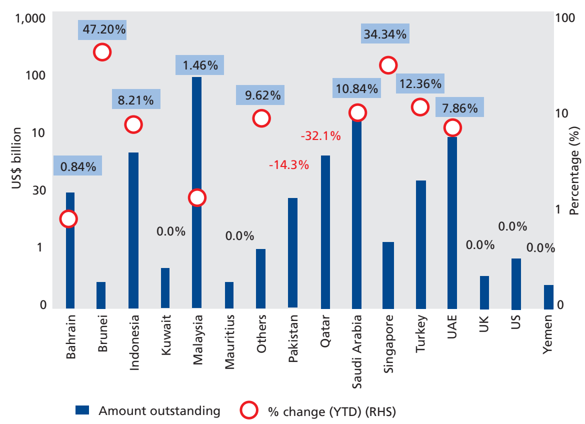
Sources: Bloomberg, IFIS, Zawya, KFH Research Limited

Chart 5
Sukuk issuances by currency (1Q14)



In terms of currency, issuances during the 1Q14 have largely been driven by local currency dominated sukuk, with the Malaysian ringgit representing the largest share of 58.2% of the issuance value [2013: 67.1%]. The US Dollars was the second most widely utilised currency accounting for a 11.2% share of the market [2013: 15.02%]. The GCC currencies have witnessed a sustained momentum in 1Q14 on the back of a surge in local currency denominated sukuk, mainly in Qatar, Saudi Arabia and Bahrain. The QAR-denominated sukuk represented a 9.7% share in 1Q14 [2013: 1.0%]; SAR 8.03% [2013: 9.1%]; and also BHD 1.5% [2013: 1.4%]. Other notable currencies utilised by issuers in 1Q14 include IDR with a 7.9% share [2013: 3.4%] driven by sovereign issuances; TRY at 2.1% share [2013: 1.6%] spurred by a TRY1.33 billion Turkish Sovereign Sukuk in February; and the rest of the currencies including PKR, SGD, BND and GMD had lower than 1% shares.

Chart 6
Sukuk outstanding (as at 1Q14) and y-o-y growth by domicile



Sources: Bloomberg, IFIS, Zawya, KFHR

Overall, global outstanding sukuk reached US$272.96 billion as at 1Q14, a 15.96% y-o-y growth since 1Q13. Malaysia stands out as the only sukuk market with global outstanding above US$100 billion while Saudi Arabia, the UAE, Qatar and Indonesia follow significantly behind. As at 1Q14, there was US$160.6 billion worth of sukuk yet to mature in Malaysia, while sukuk outstanding in the GCC totalled almost US$85.0 billion. In particular, the total GCC sukuk outstanding portfolio declined by 0.4% quarter-on-quarter (q-o-q) to value a just under US$85 billion in 1Q14, as compared to the US$85.3 billion outstanding as at end-2013. This decline in the GCC sukuk outstanding portfolio is partly on account of a huge US$9.07 billion sukuk redemption by the Central Bank of Qatar in January 2014.

In terms of sukuk performances for 1Q14, markets have generally reflected upon the macroeconomic fundamentals and characteristics of the issuing economies when pricing sukuk instruments. The yields on sukuk in the two largest sukuk markets of Malaysia and the GCC have generally eased in 2014 yield-to-date (YTD) on account of robust economic performances in the backdrop of the US Fed's tapering exercise. For example, in the Malaysian marketplace, the yields on the 5-year and 10-year benchmark sovereign sukuk have decreased 9.2 bps and 13.2 bps respectively 2014 YTD. The yields on the GCC sukuk instruments have generally eased by 50 bps to 70 bps 2014 YTD. On the other hand, yields on other emerging markets including Turkey and Indonesia have been severely affected. For instance, the yields on Turkish Lira Sovereign Sukuk Hazine 10/14 have increased by 72 bps 2014 YTD. As a result, there has been a considerable heterogeneity in yields between various jurisdictions in 1Q14.

Moving forward in the remainder of 2014, the global sukuk industry is expected to continue being one of the fastest growing segments of the Islamic finance industry and once again surpass the US$100 billion mark in new sukuk issuances. Over the years, the global pool of Shariah-compliant funds have become an attractive source for various sovereigns, government-related entities and corporates to tap into in order to meet their financing needs. A number of high profile issuances remain in the pipeline for 2014 including among others, debut sovereign issuances from United Kingdom, Luxembourg, South Africa, Senegal, Hong Kong, Tunisia and Mauritania. Malaysia will continue to be the global leader for sukuk issuances in 2014 as a number of infrastructural development projects stream in under the Malaysian government's economic transformation programme.

The GCC region is another critical driver for sukuk issuances on the back of vast infrastructure and capital expenditure plans in the region over the next ten years. Based on the announced pipelines, 2014 will also witness the return of France into the corporate sukuk sector after its inaugural and only issuance in 2012. Meanwhile, the more established markets of Indonesia, Pakistan, Turkey and Singapore also have sukuk announced in the pipeline for issuances in 2014. Overall, 2014 is likely to witness another exciting year for sukuk issuances as the industry continues to attract newer jurisdictions, including non-Muslim economies, into the fastest growing segment of the Islamic finance industry.

NOTE:

Global Sukuk Market: Sustained Momentum in 2014 *by Malaysia's Islamic finance marketplace. Our marketplace is a comprehensive Islamic finance ecosystem and business environment of infrastructure, innovation, expertise and deal flow, served by the Malaysia International Islamic Financial Centre (MIFC) Community, comprising the financial institutions, professional firms, regulators and government agencies founded on the launch of the MIFC initiative in 2006. For more information, please visit www.mifc.com.*

MALAYSIA
WORLD'S ISLAMIC FINANCE MARKETPLACE

News Round-up

International Conference on Shariah Objectives (*Maqasid Al-Shariah*) in Muamalat and Contracts

The conference, held on 28–29 January 2014 in Kuala Lumpur, was co-organised by the SC and International Institute of Advance Islamic Studies (IAIS) with a theme "Identification-Classification-Criteria and Applications to Mua'malat". The conference aimed to promote a better understanding and application of *maqasid al-Shariah* in the light of contemporary needs. The two-day conference which had four sessions witnessed participation of 25 international and local speakers. Tun Abdullah Haji Ahmad Badawi, the former Prime Minister of Malaysia and Patron of IAIS, delivered the opening address.

Industry Participation and Stakeholder Engagement

The SC continued to pursue its internationalisation agenda to support a sustainable development and growth of Islamic finance in particular the ICM. In the first half of the year, the SC participated in the following events organised by various international organisations:

- 32nd Meeting of IFSB Technical Committee, 4 March (Basel, Switzerland);
- 6th Seminar on Legal issues in the Islamic Financial Services Industry, 25 March (Bandar Seri Begawan, Brunei);
- 24th IFSB Council Meeting, 12th General Assembly and 9th Islamic Financial Stability Forum, 27 March (Bandar Seri Begawan, Brunei);
- IFN Indonesia Forum, themed Exploring Indonesia's Potential as a Global Player in Islamic Banking and the Islamic Capital Market, 15 April (Jakarta);
- IFSB/IRTI Mid Term Review of the IFSI Development: 10-Year Framework and Strategies, 19 May (Mauritius);
- 5th World Islamic Banking Conference Asia Summit, themed Bridging the World of Islamic Finance – Expanding the Boundaries of Islamic Finance: Complementing Domestic Growth With International Linkages, 2–4 June (Singapore); and
- Meetings with regulators and industry participants in Riyadh and Abu Dhabi in February 2014 to explore opportunities on cross-border linkages and investments.

10th Islamic Capital Market Graduate Training Scheme

The 10th Islamic Capital Market Graduate Training Scheme (ICMGTS) was held from 14 March to 15 May 2014. This eight-week programme saw the participation of 38 graduates. The ICMGTS is designed for graduates with the objective of transforming them into forward-thinking ICM professionals by acquiring sound technical knowledge and good communication skills to enter the industry. They will undergo training on five technical ICM modules and five soft skills modules.

Since its inaugural intake in 2009, the ICMGTS programme has produced 399 graduates. As at January 2014, about 87% of the total graduates have been employed in the industry while the rest are furthering their studies.

i-Advisor Continues to Attract Interest and Participation

The primary objective of the i-Advisor programme is to provide continuing professional development for practitioners in the Islamic finance industry. The programme, initially funded by the Capital Market Development Fund (CMDF) and organised by the Securities Industry Development Corporation (SIDC), is exclusively developed to integrate the theoretical and practical aspects of industry knowledge.

This year, the programme commenced on 27 March and is scheduled to end on 6 September 2014. The programme is offered on a modular basis with the duration of each module ranging from one to three days with 13 days in total for all six modules. Since its introduction in 2011, the programme has attracted about 600 participants from both local and abroad. These participants came from various background i.e. Shariah advisors (17%), academicians (11%) and practitioners (72%).

Malaysian ICM – Facts and Figures

Shariah-compliant securities on Bursa Malaysia

	Jun 2014	Jun 2013
Number of Shariah-compliant securities	666	800
Total listed securities	906	910
% to total listed securities	73.5%	87.9%
Market capitalisation (RM billion):		
Shariah-compliant securities	1,087.91	1,007.72
Total market capitalisation	1,770.42	1,598.81
% to total market capitalisation	61.4%	63.0%

Source: SC

Equity market indices

Equity market indices	30 Jun 2014	30 Jun 2013	% change
FBM KLCI	1,882.71	1,599.15	17.7%
FBM EMAS Shariah	13,387.34	11,003.17	21.7%
FBM Hijrah Shariah	14,718.65	11,853.05	24.2%
DJIM Malaysia Titans 25	1,064.82	936.71	13.7%

Source: SC

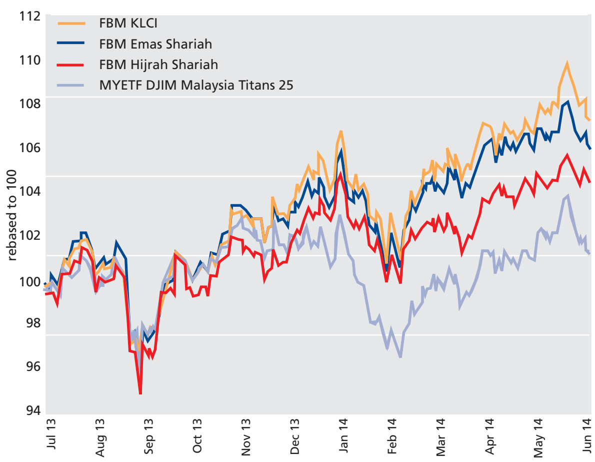
Sukuk

Corporate sukuk approved	H1 2014	H1 2013
Number of sukuk	17	23
Size of sukuk (RM billion)	21.69	25.97
Size of total bonds approved (RM billion)	35.39	46.24
% of size of sukuk to total bonds approved	61.3%	56.2%
Total sukuk issued (RM billion)	**H1 2014**	**H1 2013**
Size of sukuk issued	135.90	142.94
Size of total bonds issued	236.70	257.74
% of sukuk issued to total bonds issued	57.4%	55.5%
Total sukuk outstanding (RM billion)	**Jun 2014**	**Jun 2013**
Size of outstanding sukuk	544.60	492.02
Size of total outstanding bonds	1,058.90	998.82
% of outstanding sukuk to total outstanding bonds	51.4%	49.3%

Source: SC

Chart 1

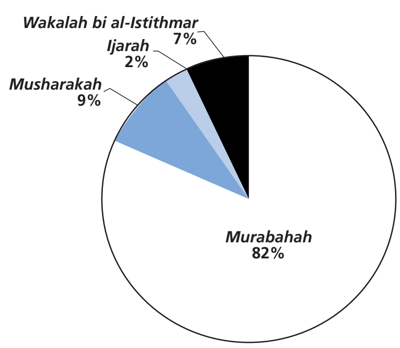
KLCI and Shariah index 1-year performance



Source: SC

Chart 2

Size of corporate sukuk approved based on Shariah principle in H1 2014



Source: SC

Sukuk listing on LFX as at 30 June 2014

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

Source: Labuan International Financial Exchange (LFX)

Sukuk Listing under Bursa Malaysia's Exempt Regime as at 30 June 2014

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

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

Islamic assets under management (AUM)

(RM billion)	Jun 2014	Jun 2013
Islamic AUM of FMCs	105.2	82.23
Total industry	628.4	555.32
% Islamic AUM of FMCs to total industry	16.7%	14.8%

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

Number of launched funds

Unit trust fund (UTF)	Jun 2014	Jun 2013
Islamic UTF	185	177
Total industry	601	599
NAV Islamic UTF (RM billion)	45.27	37.55
NAV total industry (RM billion)	354.26	326.40
% to total industry	12.8%	11.5%

Wholesale funds (WF)	Jun 2014	Jun 2013
Islamic WF	64	48
Total industry	217	185
NAV Islamic WF (RM billion)	17.75	15.73
NAV total industry (RM billion)	65.72	57.62
% to total industry	27.0%	27.3%

Private Retirement Scheme (PRS)	Jun 2014	Jun 2013
Islamic PRS	17	10
Total industry PRS	44	33
NAV Islamic (RM million)	122.37	26.57
NAV Total industry (RM million)	417.87	128.39
% to total industry	29.3%	20.7%

Exchange-traded funds (ETF)	Jun 2014	Jun 2013
Islamic ETF	2	1
Total industry	6	5
Market cap Islamic ETF (RM billion)	0.32	0.30
Market cap total industry (RM billion)	1.03	1.04
% to total industry	31.5%	28.8%

Real estate investment trusts (REIT)	Jun 2014	Jun 2013
Islamic REIT*	3	4
Total industry	16	17
Market cap Islamic REIT (RM billion)	14.3	16.05
Market cap total industry (RM billion)	34.1	37.89
% to total industry	41.9%	42.4%

* including one stapled securities (equity + REIT)
Source: SC

List of Islamic Fund Managers as at 30 June 2014

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

Source: SC

List of Islamic Stockbroking Companies as at 30 June 2014

No.	Company	Type
1.	BIMB Securities Sdn Bhd	Full Fledged
2.	Affin Investment Bank Bhd	Window
3.	AmInvestment Bank Bhd	Window
4.	CIMB Investment Bank Bhd	Window
5.	Jupiter Securities Sdn Bhd	Window
6.	Maybank Investment Bank Bhd	Window

Source: SC

We appreciate your feedback and comments. If you would like to know more about the Malaysian Islamic capital market or require further information from the Securities Commission Malaysia, please contact the following persons at the Islamic Capital Market Business Group:

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