



malaysian ICM



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

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POSITIONING MALAYSIA AS A HUB FOR INVESTMENT SUPPORT SERVICES

Malaysia is internationally recognised as the leader in Islamic finance and a key global marketplace for Islamic financial activities with a full range of Islamic financial offerings. The fund management industry is a key component of the Malaysian capital market. Its development and growth are largely supported by the comprehensive and well-established Islamic capital market ecosystem which place Malaysia in a strong position to further enhance the development of investment support services such as fund administration. Advancing Malaysia's positioning as a hub for investment support services has been identified as one of the recommendations within the Securities Commission Malaysia (SC) *Islamic Fund and Wealth Management Blueprint* (Blueprint) launched in January 2017.

Malaysia actively promotes shared services and outsourcing activities under the segment of the Business Services industry. This segment has been successfully built and has hosted many international providers. These competitive strengths can be leveraged in the operational, tax and human capital infrastructure to attract more international fund administration service providers to establish their regional and international base in Malaysia. At the same time, further development of domestic firms will also be facilitated.

The presence of a broad range of international and domestic firms will enhance competitive positioning of the industry providing a spectrum of fund administration service offerings including custody, trustee, clearing, fund accounting and transfer agency services. Malaysia will be recognised as a international hub for fund administration, thereby enhancing its competitiveness in attracting a wide array of international funds, especially Islamic and sustainable responsible investment (SRI) funds, to be domiciled in the country.

SHARIAH ADVISERS PROGRAMME 2018



Innovating Avenues for Sustainable Growth Islamic Capital Market



19 September 2018
8:30am - 4:30pm

Conference Hall 2
Securities Commission Malaysia



Assoc Prof Dr Aznan Hasan
Deputy Chairman,
Shariah Advisory
Council, SC



Prof Dr Engku Rabiah Adawiah
Member,
Shariah Advisory
Council, SC



Prof Dato' Dr Norbik Bashah Idris
Head, Islamic
Fintech & Blockchain
Research Group,
KICT, IIUM



Haji Jamaludin Md Ali
Chief Executive,
Waqaf An-Nur
Corporation
Berhad



Dr Marjan Muhammad
Head, Research
Quality Assurance
Office, ISRA



Muhammad Hasan Yunus
Senior Manager,
Islamic Capital
Markets,
Bursa Malaysia



Mohd Hariz Daud
Assistant
General Manager,
Development and
Islamic Markets, SC



Zureena Mohamed
Senior Manager,
Development and
Islamic Markets, SC

Topics covered:

- ▶ Regulatory Updates on New Developments of the Islamic Capital Market in Malaysia
- ▶ Alternative Shariah-Compliant Model to the Conventional SBL-NT
- ▶ Waqaf Saham Larkin Sentral
- ▶ Fintech - Blockchain, ICO, Smart Contract, Cryptocurrency and Shariah Issues

Who should attend:

- ▶ Shariah Advisers
- ▶ Capital Market Practitioners
- ▶ Bankers
- ▶ Islamic Finance Consultants
- ▶ Lawyers
- ▶ Academicians and Students
- ▶ Regulators

Fee structure:

Individuals	: RM300 / person
Group of 3	: RM750 / group
Students	: RM100 / person

Contact persons:

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SHARIAH ADVISORY COUNCIL RESOLUTIONS

The Shariah Advisory Council (SAC) of the SC is the highest authoritative body for the ascertainment of the application of Shariah principles relating to Islamic capital market (ICM) in Malaysia. The SAC is a reference centre for all ICM issues and provides advice on all matters pertaining to ICM that are supervised and regulated by the SC in order to ensure its consistency with Shariah principles. The SAC provides Shariah resolutions and rulings on various ICM issues as guidance and reference to the public and practitioners in the Islamic finance industry in order to facilitate the development and innovation of ICM products and services. Among the resolutions that have been resolved by the SAC are as follows:

(1) PREFERENCE SHARES

The SAC had discussed the status of preference shares whose underlying shares are classified as Shariah-compliant securities. While deliberating the issue, the SAC took note of its existing resolution on the permissibility of basic preference shares which are non-cumulative based on *tanazul*, which was resolved in its 20th meeting held on 14 July 1999 (Existing Resolution on Preference Shares). The issue in discussion was whether preference shares whose underlying shares are classified as Shariah compliant would also be classified as Shariah-compliant securities.

Resolution

The SAC had resolved that preference shares are classified as Shariah-compliant securities provided that:

- (i) The underlying shares are classified as Shariah-compliant securities; and
- (ii) The preference shares are non-cumulative in accordance with the Existing Resolution on Preference Shares.

(2) EARLY REDEMPTION CHARGES

Issue of imposing early settlement charges with regard to early redemption arises in the context of ICM particularly in sukuk issuance/structuring based on *`uqud mu'awadhat* (contracts of exchange). The deliberation was on the permissibility of imposing early settlement charges in the form of additional amount that may be considered as redemption premium with regard to early redemption.

Resolution

The SAC had resolved that the sukukholders may impose early settlement charges with regard to early redemption up to the unearned profit within the deferred sale price subject to mutual agreement.

(3) INTER-COMPANY ADVANCES OF SUKUK PROCEEDS

The SAC had discussed the issue of the proceeds raised from any issuance of sukuk that will be advanced to the parent company and/or its subsidiaries or other party as inter-company advances. The deliberation was on whether inter-company advances of sukuk proceeds from the issuer to parent company, its subsidiaries, group of companies or other parties may be undertaken either through Shariah-compliant mode of financing or conventional loan with interest.

Resolution

The SAC had resolved that inter-company advances of sukuk proceeds from the issuer to the parent company, its subsidiaries, group of companies or other parties should be executed via Shariah-compliant mechanism only.

(4) KAFALAH (GUARANTEE) IN SUKUK STRUCTURING

Kafalah generally means guarantee. It is defined as a contract which combines one's *zimmah* (liability) with another person's *zimmah*. In sukuk structuring, there are sukuk which involve guarantee from certain parties as follows:

- (i) third party;
- (ii) *wakil* (i.e sukuk issuer) or sub-*wakil*¹ appointed by sukuk issuer;
- (iii) party related to the sukuk issuer such as parent company, subsidiary² and sister companies³; or
- (iv) associate company⁴ of the sukuk issuer.

With the existence of the guarantor, the credit capacity of the sukuk can be upgraded.

The issue of *kafalah* in sukuk structuring does not only involve parties who can and cannot guarantee as well as the amount to be guaranteed, however it also involves some other issues that require the SAC's decision.

Resolution

The SAC had resolved that *kafalah* in sukuk structuring is permissible with regard to the following resolutions:

(A) Shariah Principle for Guarantee in Sukuk Structuring

The application of the principle of *kafalah* for guarantee facility by the guarantor in sukuk structured based on *`uqud mu`awadhat* (contracts of exchange), *`uqud isytirak* (contracts of partnership) and *`aqd wakalah* (agency contract) is permissible. *Kafalah* may be provided either with or without the imposition of fee.

(B) Application of Kafalah in Sukuk Structuring

The principle of *kafalah* that is permissible in sukuk structuring must be executed separately from the underlying contract of sukuk whereby any termination of the underlying contract would not affect the *kafalah* and vice-versa.

(C) Parties who can Guarantee and Amount to be Guaranteed

(1) Sukuk Structured Based on *`Uqud Mu`awadhat*

- (i) **Parties who Can Guarantee**
For sukuk structured based on *`uqud mu`awadhat*, *kafalah* may be provided by any party.

- (ii) **Amount to be Guaranteed**
The amount that may be guaranteed by any party is the amount due and payable under any obligation arising from the relevant contracts including *ta`widh*, fees and expenses imposed on the sukuk. The guarantee on such amount is permissible since it is related to the financial liability.

(2) Sukuk Structured Based on *`Uqud Isytirak*

Parties who Can Guarantee and Amount to be Guaranteed

For sukuk structured based on *`uqud isytirak*, *kafalah* may be provided by the following parties:

- (i) **Third Party and Amount to be Guaranteed**

¹ Sub-*wakil* refers to *wakil* who is appointed by sukuk issuer (whereby sukuk issuer is a *wakil* of sukukholders).

² The definition of parent company (which is also known as a holding company) and subsidiary is as defined in the *Companies Act 2016*.

³ Sister companies refers to the subsidiaries under the same parent company.

⁴ The definition of associate company has the meaning given to "associate" under the accounting standards issued or adopted by the Malaysian Accounting Standards Board (MASB).

- (a) Third party must fulfil the following criteria:
- (aa) Not a contracting party;
 - (bb) Separate in terms of legal entity and financial liability; and
 - (cc) Not in the category of related party in terms of majority ownership of shares, whereby the third party has majority ownership over the guaranteed party or the guaranteed party has majority ownership over the guarantor i.e. parent company and subsidiary.
- (b) Amount that may be guaranteed by the third party is as follows:
- (aa) *Musharakah* and *mudharabah* capital;
 - (bb) The payment of any amount due and payable to the sukukholders upon dissolution of *`aqd musharakah* and *mudharabah*; or
 - (cc) *Ta'widh*, fees and expenses imposed on the sukuk.

The guarantee on the amount as stated in items (bb) and (cc) above is permissible since the guarantee is related to the financial liability.

(ii) **Party related to the Sukuk Issuer and Amount to be Guaranteed**

(a) **Parent Company or Subsidiary of the Sukuk Issuer**

Basically, parent company or subsidiary of the sukuk issuer cannot guarantee sukuk issuer⁵ in terms of capital and profit of *musharakah* and *mudharabah*. This is because both companies are related parties to each other based on full ownership or majority ownership of shares between both of them.

However, those companies are allowed to guarantee the sukuk issuer but the amount that may be guaranteed is limited to the following amount only:

- (aa) The payment of any amount due and payable to the sukukholders upon dissolution of *`aqd musharakah* and *mudharabah*; or
- (bb) *Ta'widh*, fees and expenses imposed on the sukuk.

The guarantee on the amount as stated in items (aa) and (bb) above is permissible since the guarantee is related to the financial liability.

⁵ In this context, if a sukuk issuer is a parent company, then its subsidiary cannot guarantee the sukuk issuer. Likewise, if the sukuk issuer is a subsidiary company, then its parent company also cannot guarantee the sukuk issuer.

(b) Sister Companies of the Sukuk Issuer

In the context of *kafalah*, although sister companies are included under the category of related party to the sukuk issuer, it may guarantee the sukuk issuer⁶. This is because a sister company is separate from other sister companies in terms of entity and financial liability. Therefore, sister company fulfils the third party criteria and the amount that may be guaranteed is as stated in item (2)(i)(b) above, i.e. in relation to the amount that may be guaranteed by the third party.

(iii) Associate Company of the Sukuk Issuer and Amount to be Guaranteed

Associate company may provide guarantee to the sukuk issuer. This is because the ownership of shares in the associate company would not render the associate company to be related to the sukuk issuer. Therefore, the associate company is considered a third party and the amount that may be guaranteed is as stated in item (2)(i)(b), i.e. in relation to the amount that may be guaranteed by the third party.

(3) Sukuk Structured Based on `Aqd Wakalah**Parties who can Guarantee and Amount to be Guaranteed**

For sukuk structured based on `aqd *wakalah*, *kafalah* may be provided by the following parties:

(i) Third Party, Sister Companies and Associate Company of the Sukuk Issuer and Amount to be Guaranteed

Kafalah may be provided by a third party, sister companies and associate company of the sukuk issuer⁷. The amount that may be guaranteed by the relevant parties are as follows:

- (a) The nominal amount of sukuk and/or profit/rental arising from contracts under *`uqud mu`awadhat*;
- (b) The principal/capital amount arising from contracts under *`uqud isytirak* and *`aqd wakalah*;
- (c) Any amount due and payable to the sukukholders upon dissolution of *`aqd wakalah*; or
- (d) *Ta`widh*, fees and expenses imposed on the sukuk.

⁶ Clarification in relation to the third party, sister companies and associate company of the sukuk issuer are as stated in items 2(i), 2(ii)(b) and 2(iii) above.

⁷ In this context, if the sukuk issuer (i.e. as *wakil*) is the parent company, then its subsidiary cannot guarantee the sukuk issuer. Likewise, if the sukuk issuer is a subsidiary company, then its parent company also cannot guarantee the sukuk issuer.

The guarantee on the amount as stated in items (a), (c) and (d) above is permissible since the guarantee is related to the financial liability.

(ii) **Wakil (i.e. Sukuk Issuer) or Sub-Wakil Appointed by the Sukuk Issuer and Amount to be Guaranteed**

Kafalah may be provided by a *wakil* (i.e. sukuk issuer) or sub-*wakil* appointed by the sukuk issuer. The amount that may be guaranteed by the relevant parties is limited to the following amount only:

- (a) Amount due and payable under any obligation arising from contracts under *`uqud mu`awadhat*;
- (b) The payment of any amount due and payable to the sukukholders upon dissolution of *`aqd wakalah*; or
- (c) *Ta`widh*, fees and expenses imposed on the sukuk.

The guarantee on the amount as stated in items (a), (b) and (c) above is permissible since the guarantee is related to the financial liability.

(iii) **Parent Company or Subsidiary of the Sukuk Issuer**

Basically, parent company or subsidiary of the sukuk issuer

cannot guarantee sukuk issuer⁸ in terms of capital and profit of *wakalah*. This is because both companies are related parties to each other based on full ownership or majority ownership of shares between both of them.

However, those companies are allowed to guarantee the sukuk issuer but the amount that may be guaranteed is limited to the following amount only:

- (a) Amount due and payable under any obligation arising from contracts under *`uqud mu`awadhat*;
- (b) The payment of any amount due and payable to the sukukholders upon dissolution of *`aqd wakalah*; or
- (c) *Ta`widh*, fees and expenses imposed on the sukuk.

The guarantee on the amount as stated in items (a), (b) and (c) above is permissible since the guarantee is related to the financial liability.

(D) **Conventional Guarantee If *Kafalah* Cannot Be Procured**

If the guarantee based on the principle of *kafalah* cannot be procured from Islamic banks or *kafalah* providers, then conventional guarantee is allowed to be procured.

SC-WORLD BANK-IOSCO CONFERENCE 2018

The SC, World Bank Group Global Knowledge and Research Hub (World Bank) and International Organization of Securities Commissions (IOSCO) Asia Pacific Hub held a joint conference in May 2018. Themed 'Harnessing Islamic Finance for a Green Future', the Conference is the second collaboration between the SC and the World Bank Group, with the IOSCO Asia Pacific Hub taking part as the co-organiser. About 200 local and international delegates comprising policymakers, regulators, industry players and media were present.

The Conference discussed the use of Islamic finance to support climate mitigation and adaptation efforts, including the use of Islamic finance instruments to finance renewable energy and energy efficiency projects. It also explored the policy, regulatory and institutional elements required for the sustainable use of Islamic finance to address climate change.

The Conference deliberated on a wide range of matters, among others:

- An overview of green finance instruments currently in use around the world (e.g. green funds, bonds and equities), the global trend of

green bond markets and demand for large green infrastructure projects;

- The links between Islamic finance and green finance as well as innovative Islamic instruments such as green sukuk;
- The enabling environment for Islamic green finance, including the role of international institutions and regulatory authorities in establishing the required ecosystem, particularly on the guidelines/framework for issuing green project financing;
- The current state of the green sukuk market (sovereign and corporate), the potential for growth and the challenges that need to be addressed in order to fulfil its potential, as well as the significant role played by second opinion providers in preserving the credibility of this asset class;
- Case studies on how sukuk has been used to support certified green projects, highlighting key aspects, facilitating factors, challenges faced and solutions provided and the experiences in using sukuk; and



[From left to right]:

- Jose De Luna Martinez, Lead Financial Sector Specialist, Finance, Competitiveness and Innovation Global Practice, The World Bank
- Richard Record, Lead Economist and Acting Country Manager for Malaysia, The World Bank
- Tan Sri Dato' Seri Ranjit Ajit Singh, Chairman, SC
- Datuk Zainal Izlan Zainal Abidin, Deputy Chief Executive, SC
- Abayomi A. Alawode, Lead Financial Sector Specialist and Head of Islamic Finance, Finance, Competitiveness and Innovation, The World Bank
- Foo Lee Mei, Chief Regulatory Officer, SC



- The development and prospects for Islamic green finance, as well as existing and potential products and platforms that could apply Islamic green finance, creating new opportunities to this asset class.

Malaysia's leading efforts for convergence of Islamic and green financing following the country's issuance of the world's first green sukuk in July 2017, along with the numerous enabling components for this class of innovative, inclusive and sustainable financial assets, were also discussed and showcased at the joint conference.

THE ROYAL AWARD FOR ISLAMIC FINANCE 2018

The Royal Award for Islamic Finance will be accorded at a special ceremony on 3 October 2018 in Kuala Lumpur. Following a global call for nominations from January to March 2018, 53 submissions were received for 30 candidates. This is the highest number of nominations received since the biennial award was introduced in 2010. The Royal Award recognises Islamic finance leaders and visionaries who have contributed significantly to the growth of Islamic finance globally and social progress of communities around the world.

Spearheaded by the SC and Bank Negara Malaysia, The Royal Award is unique as it focuses on the individual's outstanding contribution and its impact towards the global development of Islamic finance, beyond commercial achievements.

Tun Musa Hitam, Chairman of the World Islamic Economic Forum (WIEF) Foundation, continues to head the seven-member jury which comprises outstanding Islamic finance scholars and industry leaders:

- Tan Sri Zarinah Anwar, Chairman, Institute of Corporate Directors Malaysia;
- Dato' Ahmad Tajudin Abdul Rahman, Shariah Advisory Council Member, SC;
- Mushtak Parker, Editor, Islamic Banker;
- Dr Mulya Effendi Siregar, President Commissioner, PT Bank Mandiri Syariah;
- Dr Hamed Hassan Merah, Chief Executive Officer, Saudi Centre for Commercial Arbitration; and

- Professor Rodney Wilson, Former Adjunct Professor, INCEIF

The Jury applies rigorous selection criteria to assess an individual's exceptional contribution which include driving policy development, growing and developing the market, advocating for Islamic finance, pioneering innovation, expanding the frontiers of knowledge, and exercising exceptional leadership and influence.

This year witnesses a particularly exceptional pool of candidates for the Jury to consider. The pool of candidates is geographically diverse and covers a wide spectrum of stakeholder groups in Islamic finance including Shariah, academia, market practitioners, research institutions, government agencies and multilateral organisations.

Previous recipients of The Royal Award are Professor Datuk Dr Rifaat Ahmed Abdel Karim (2016), former Chief Executive Officer of International Islamic Liquidity Management; Dato' Dr Abdul Halim Ismail, founding member of Malaysia's first Islamic bank (2014); Iqbal Khan, Chief Executive Officer, Fajr Capital (2012); and Shaikh Saleh Abdullah Kamel, Founder, Dallah al Baraka Group (2010). The Royal Award in 2010 also recognised the late Dr Ahmad El-Naggar, who is often referred to as 'Father of Modern Islamic Banking', with a posthumous honourable mention.



UPDATED LIST OF SHARIAH-COMPLIANT SECURITIES BY SHARIAH ADVISORY COUNCIL

The SC released an updated list of Shariah-compliant securities approved by its Shariah Advisory Council (SAC). The updated list which took effect on 25 May 2018 features a total of 693 Shariah-compliant securities. These securities constitute 77% of the total 901 listed securities on Bursa Malaysia.

The list includes 17 newly-classified Shariah-compliant securities and excludes seven from the previous list issued in November 2017.

The next updated list is available in November 2018, based on the review of the audited financial statements that will be released up to 30 September 2018.

Main Market / ACE Market	Number of Shariah-compliant securities	Total securities*	Percentage of Shariah-compliant securities (%)
Consumer products	106	128	83
Industrial products	195	230	85
Mining	Nil	1	Nil
Construction	48	51	94
Trading / Services	154	217	71
Properties	75	99	76
Plantation	34	43	79
Technology	75	88	85
Infrastructure (IPC)	3	4	75
Finance	2	32	6
SPAC	Nil	3	Nil
Hotels	1	4	25
Closed-end fund	Nil	1	Nil
TOTAL	693	901	77

* As at 21 May 2018.

NEW GUIDELINES ON LISTED REITs AND REVISED UNLISTED REIT GUIDELINES

The new *Guidelines on Listed Real Estate Investment Trusts* was issued in March 2018, and came into effect on 9 April 2018. The existing guidelines on real estate investment trusts (REITs) had been consequently revised to apply only to unlisted REITs – both conventional and Islamic REITs. These revised guidelines also took effect on 9 April 2018.

Key enhancements under the new Guidelines on Listed REITs include:

- Liberalisation on the scope of permitted activities that can be undertaken by REITs. A listed REIT is now allowed to undertake property development activities, including the acquisition of vacant land for purposes of development to expand their portfolio of income-generating real estates. A REIT may also enter into lease arrangements and acquire real estates with income support arrangements, subject to certain conditions;
- Enhancements relating to Islamic REITs to facilitate further development and provide clarity on the

treatment of existing and new tenants as well as post-listing acquisitions. Amendments include allowing Islamic REITs to enter into new or renewal agreements with tenants whose activities are Shariah non-compliant. An Islamic REIT is also allowed to acquire real estate post-listing, subject to certain conditions; and

- Other enhancements include allowing REITs to repurchase their own units, fixing the leverage limit of a REIT to 50% of the REIT's total asset value, enabling the removal of the REIT manager by way of a resolution passed by a simple majority of unit holders voting at a general meeting, as well as requiring real estates of a REIT to be revalued by an independent valuer at least once every financial year.

In view that the requirements for Islamic REITs have been included in the new Guidelines on Listed REITs and the revised Guidelines on REITs, the *Guidelines for Islamic Real Estate Investment Trusts* (which was first issued on 21 November 2005) is no longer in effect.

AMENDMENTS TO SCHEDULE 5 OF CMSA

Schedule 5 of the *Capital Markets and Services Act 2007* (CMSA) has been amended to streamline post-listing requirements for listed unit trust schemes, REITs, exchange-traded fund (ETF) and closed-end fund (CEF) with that of listed corporations. In this regard, post-listing offering or the issuance of units is exempted from the requirement to obtain the SC's prior approval under section 212 of the CMSA. However, such subsequent issuances by listed unit trust schemes would be governed under *Bursa Malaysia Securities Berhad Main Market Listing Requirements*. The amended Schedule 5 came into force on 1 April 2018.

Consequent to the amendments made to Schedule 5, Bursa Malaysia has also amended the Main Market Listing Requirements. The amendments to the Main Market Listing Requirements entail Bursa Malaysia's review of its post-listing framework of listed unit trust schemes and as such, took effect on a staggered basis, commencing from 9 April 2018. This is to coincide with the effective date of the new Guidelines on Listed REITs and revised Guidelines on REITs.

MALAYSIA – POTENTIAL HUB FOR GLOBAL ISLAMIC FUND ADMINISTRATION¹

Global sustainable investment assets under management (AUM) reached US\$22.89 trillion in 2016², compared with US\$18.28 trillion in 2014³, an increase of 25%. With Islamic funds being recognised as part of the sustainable and responsible investment (SRI) universe, Malaysia is currently the largest SRI funds market in Asia (excluding Japan) with 30% market share. The substantial size of SRI AUM provides significant potential for fund administration and investment support services firms to serve both the Islamic and SRI funds segments.

The SC's *Islamic Fund and Wealth Management Blueprint* (Blueprint) launched in January 2017, provides opportunity for the development of investment support services. One of the Blueprint's three strategic thrusts is to strengthen Malaysia's positioning as a global hub for Islamic funds. Another strategic thrust is to establish Malaysia as a regional centre for Shariah-compliant SRI which will add to the range of investment product offerings and significantly broaden the investor base.

Today, Malaysia is internationally recognised as the leader in Islamic finance and a key global marketplace for Islamic financial activities. Malaysia's Islamic financial ecosystem has developed to such an extent that it is able to offer a full range of Islamic financial services. Malaysia is the only country in the world with a regulatory framework for Islamic fund management companies. As at end 2017, there were 55 fund management companies managing Islamic funds, with 20 full-fledged Islamic fund management companies and 35 fund management companies offering Islamic windows including global managers.

The fund management industry, a key component of the Malaysian capital market, expanded its overall AUM by 11.5% in 2017 to RM776.2 billion. Islamic AUM rose to RM172.2 billion, registering a higher growth rate of

“Our Islamic financial ecosystem has developed to such an extent that we are able to offer a full range of Islamic financial services. Malaysia is the only country in the world with a regulatory framework for Islamic fund management companies.”

15.1% compared to that of the overall industry. A percentage of 22% of the total industry AUM is Islamic. Malaysia now leads the global Islamic funds industry with a 36.5% share of global AUM.

The development and growth of the Islamic fund management industry in Malaysia are largely supported by the comprehensive and well-established Islamic capital market (ICM) ecosystem. As at end 2017, ICM represents 59.2% of Malaysia's overall capital market with a size of RM1.89 trillion as compared to RM1.69 trillion in 2016.

Malaysia's leadership in Islamic funds must be leveraged to develop and enhance the country's positioning as a hub for global fund administration and investment support services that serves the global asset managers especially those specialising in Islamic as well as SRI segments.

Technology plays a significant role as an enabler in the financial services sector. Similarly, for the fund administration industry, the influence and impact of digital finance is multi-fold. It enhances efficiency, enables

¹ This article was extracted from a speech by Datuk Zainal Izlan Zainal Abidin, Deputy Chief Executive, Securities Commission Malaysia at the INCEIF “Malaysia – the Potential Hub for Global Islamic Fund Administration” Conference on 28 March 2018 in Kuala Lumpur.

² Global Sustainable Investment Alliance, *Global Sustainable Investment Review* 2016.

³ Global Sustainable Investment Alliance, *Global Sustainable Investment Review* 2014.

deeper data analytics, facilitates more customised reporting and promotes transparency, among others. In other words, it enhances the customer experience. At the same time, the prevalence of technology can enable a country like Malaysia to compete effectively with the more established markets especially if the industry in the country is able to create and offer substantive, value-adding service differentiation that capitalises on technological capabilities.

Malaysia also has a vast pool of skilled talents. Taking the accounting field for example, according to the Malaysian Institute of Accountants, more than 34,000 of its members are currently employed in various business sectors locally and abroad⁴. There are also graduates from more than 400 local institutions of higher learning comprising universities, polytechnics and industrial training institutes⁵ searching for suitable jobs in the market. Based on data from the Ministry of Education, there have been about 6,000 accounting graduates annually since 2012⁶. In this regard, the development of the fund administration and investment support services industry could be a viable avenue for some of them to pursue their careers.

Furthermore, as Malaysia offers an English-proficient business environment, it is one of the attractive factors for international firms to consider in setting up their businesses here. The latest EF English Proficiency Index has ranked Malaysia under the 'high' category in terms of English language proficiency among non-native speakers globally and has placed the country as the second highest in Asia.⁷

In terms of cost efficiency, the government continues to be committed in establishing Malaysia as an attractive shared services and outsourcing destination with initiatives to ensure the creation of high value-add jobs. According to Frost & Sullivan, Malaysia possesses a young, educated, productive and dynamic workforce at very competitive costs compared to other countries in Asia, with total labour force in the country of about 13.5 million and high literacy rate of about 93%.

Malaysia also offers competitive rates for office space rental. Information provided by InvestKL shows that the average monthly rental for office space in Kuala Lumpur was US\$14.7 per square metre (US\$/sqm) in the first quarter of 2016, compared with US\$69.8/sqm in Singapore and US\$190.3/sqm in Hong Kong. This data reflects Malaysia's clear cost advantage over the two international financial centres in this region⁸.

The Malaysian capital market is also recognised as having a robust and effective regulatory framework which serves to provide trust and confidence to market participants. The establishment of the International Organization of Securities Commissions (IOSCO) Asia Pacific Hub in Malaysia in 2017, the first ever IOSCO office outside its Madrid headquarters, demonstrates global recognition of Malaysia's ongoing efforts and success towards building an orderly and well-regulated capital market of international stature.

Malaysia's geographical location acts as a gateway for fund administration firms to establish and scale up their business in this part of the world. Being at the heart of ASEAN, the country's strategic location offers excellent connectivity with other major markets in Asia, making it 'a venue of choice' for businesses that seek to establish significant and long-term presence in the region.

Malaysia has also been ranked third in the A.T. Kearney 2017 Global Services Location Index, a position it has retained since 2004. The assessment takes into consideration three categories comprising business environment, financial attractiveness, people skills and availability in ascertaining the Index rankings, which cater primarily to decisions related to Business Process Outsourcing.

The fund administration companies of today need to build partnerships with their clients. They need to be partners rather than service providers to their customers in order to capitalise on the current business landscape and operating environment which will continue to change and evolve. On its part, Malaysia certainly has significant competitive advantages to become a global hub for Islamic fund administration and investment support services.

⁴ <http://www.mia.org.my/v2/discover-mia/discover-mia.aspx>.

⁵ Frost & Sullivan, "Why Outsource To Malaysia", page 3.

⁶ MOHE, <http://graduan.mohe.gov.my/skpg-report/ProgramPengajian/SubBidangK.aspx>.

⁷ <https://www.ef.com/epi/regions/asia/malaysia/>

⁸ http://www.investkl.gov.my/Invest_In_KL-@-10_Reasons_to_Invest_in_Greater_KL.aspx.

HARNESSING ISLAMIC FINANCE FOR A GREEN FUTURE¹

In 2015, the world took a major leap forward on the green agenda when 195 countries gathered at the Paris Climate Change Agreement on the world's first universal climate treaty. This milestone paved the way for policymakers, governments and the private sector to initiate and execute policies on sustainable developments with the objective of achieving economic prosperity underpinned by greater social inclusion, reduction of environmental degradation and preservation of the natural ecosystem. To achieve the Paris targets however, efforts are required to mobilise private capital for green development, reduce the higher costs related to green financing activities and gain investor trust with reliable long-term opportunities.

Given the need for large-scale investments to fund sustainable development, it quickly became clear that the financial community must play a key role to facilitate investments towards sustainable technologies and businesses, finance growth sustainably and contribute to the creation of low carbon and climate resilient

economy. Estimates indicate that the world would need up to US\$90 trillion worth of infrastructure investments² by 2030. Against this backdrop, green sukuk has the potential to be an integral form of financing globally.

Over the past few years, many financial institutions and policymakers around the world have taken steps towards integrating considerations of environmental, social and governance (ESG) into financial frameworks, to propel the momentum forward on financing climate action and sustainable developments. The United Nations estimates that approximately 300 policy and regulatory measures targeting sustainability were in place across 60 countries in 2017 and that these measures are growing at an average of 20% a year since 2010³.

To enable policy cohesiveness between governments and private sector participants, the World Bank and United Nations outlined a sustainability roadmap in 2017 which integrates sustainability considerations into its operations including the full costing of positive and negative externalities, leading to a reorientation of the flow of resources toward more inclusive and sustainable activities. The High Level Expert Group established by the European Union (EU) Commission also outlined action plans to reduce barriers to a green economy in EU which included, among others, establishing a common definition of green for all financial institutions, enabling retail investors access to responsible investing, enabling mandatory disclosure of climate-related risks, integrating environmental risks into supervisory activities and linking investor duties to investment horizon and sustainability preferences⁴.

The ASEAN region also saw developments with the introduction of the ASEAN Green Bond Standards (GBS) in 2017 through the ASEAN Capital Markets Forum (ACMF). This has introduced a uniform set of rules for

“Islamic finance shares similar underlying principles as that of sustainable finance such as financial stability and economic growth, poverty alleviation and wealth distribution, financial and social inclusion as well as environmental preservation.”

¹ This article was extracted from a speech by Tan Sri Dato' Seri Ranjit Anjit Singh, Chairman, Securities Commission Malaysia at the Securities Commission Malaysia – World Bank – IOSCO Asia Pacific Hub Conference 2018 themed “Harnessing Islamic Finance for a Green Future” on 14 May 2018 in Kuala Lumpur.

² *The Sustainable Infrastructure Imperative: Financing for Better Growth and Development*, United Nations.

³ *Amid Growing Momentum, UN and World Bank Lay Out Roadmap for Sustainable Financial System*, Nov 2017.

⁴ *Financing a Sustainable European Economy, Final Report 2018 by the High Level Expert Group on Sustainable Finance*, 2018.

green bonds across ASEAN which therefore, enhances the transparency for issuers, reduces due diligence cost and enables investors to make more informed investment decisions. Against a backdrop of strong infrastructure demands, ASEAN stands to see significant growth in the adoption of the GBS.

Malaysia played a leading role in the adoption of the ASEAN GBS, with PNB Merdeka Ventures Sdn Bhd to raise fund for the construction of an 83-storey office building. To date, a total of RM690 million has been raised from a 15-year tenure-secured green sukuk programme totaling up to RM2 billion programme (US\$481.9 million). This building will form part of the Merdeka PNB118 Tower project in Kuala Lumpur. Apart from being the first building in Malaysia that will satisfy the triple green building platinum accreditations locally and internationally, it will also be the third tallest building in the world.

Islamic finance shares similar underlying principles as that of sustainable finance such as financial stability and economic growth, poverty alleviation and wealth distribution, financial and social inclusion as well as environmental preservation. This has allowed for Islamic finance to capitalise on these similarities to become a natural vehicle to propagate the elements of green finance.

However, the Middle East and Southeast Asia which are among the largest Islamic markets still see relatively low penetration of ESG and green assets compared to the growth and adoption of Islamic finance. Greater convergence of SRI and Islamic finance can see significant expansion of green finance in these regions over time.

In Malaysia, the SC introduced the SRI Sukuk Framework, as part of its strategy to develop the SRI ecosystem in Malaysia. The SRI Sukuk Framework has since been acknowledged as a pioneering regulatory development that integrates the principles of Shariah with those of SRI. This leverages Malaysia's strength as a global leader in Islamic finance for infrastructure development to channels sukuk for climate-friendly investments, which

will further enable Malaysia to work towards a win-win scenario of closing the gap for both infrastructure and green finance.

In July 2017, the world's first green sukuk was launched in Malaysia under the SRI Sukuk Framework by Tadau Energy – a RM250 million sukuk for the purpose of undertaking a solar project to provide environmentally friendly, clean and sustainable power supply. This is followed by four other issuances, bringing the total green sukuk issued to date to approximately RM2.41 billion (US\$611 million).

Building on Malaysia's strength as one of the largest sustainable investment market in Asia ex Japan, with a 30% market share including Islamic funds, the SC introduced guidelines on SRI funds in 2017 to provide greater transparency for investors, and enable fund managers to distinguish their SRI funds according to the fund's strategies. This will enhance the Malaysia's fund management industry by broadening the range of investment fund products available in the market, and contribute to the growth of Islamic wealth management in Malaysia, as envisaged under the country's *Islamic Fund and Wealth Management Blueprint*.

These developments showcase Malaysia's value proposition as a centre for sustainable finance and investment, and more importantly our commitment for ICM to be a key driver for the green agenda. This sets the stage for further opportunities to maximise both Islamic and green finance, and expand it across to other asset classes, including positive screening to incorporate ESG into Shariah-compliant equities, sukuk for *waqf* development, venture philanthropy and impact investing, social bonds and more.

Islamic finance can be a catalyst for the growth of green developments in Malaysia and globally. It will require continued collaboration with global and local stakeholders to converge in standards and reporting, as well as to spur innovation, to reduce barriers and cost for issuers and increase transparency and awareness for investors.

NEWS ROUND-UP

SC-OCIS Scholar in Residence Programme 2018/2019

The SC-Oxford Centre for Islamic Studies (OCIS) Scholar in Residence Programme (SIR) is an initiative to further research on contemporary issues in Islamic finance. The Programme was set up in 2012 following a resolution made at the SC-OCIS Roundtable, an annual flagship event under the collaboration.

The selected scholar will take up residence in Oxford to conduct research relating to the development of Islamic finance, and to participate in a range of academic activities at OCIS. The Visiting Fellow is also expected to give occasional lectures as well as to engage in collaborative study.

Unlike previous years, where only one scholar was selected for each academic year, the SIR Programme in 2018/2019 will have two scholars pursuing their research at the OCIS over a 6-month period for each scholar.

The two scholars are Dr Siew Peng Lee from Universiti Tunku Abdul Rahman (UTAR) with her research entitled 'The Integration of ESG Screens to Shariah-Compliant Companies for Sustainable Development', and Dr Hashim Jusoh from Universiti Sultan Zainal Abidin (UNIZA) with his research entitled 'An Exploratory Study on the Adoption of a Shariah-Compliant Stock Index Futures in the Malaysian Capital Market'.

Stakeholders Engagement

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

- Pembangunan Aset Wakaf Menjana Pendapatan: Fungsi Pasaran Modal, 28 February 2018 (Kuala Lumpur)
- Franklin Templeton Global Islamic Forum, 25 April 2018 (Kuala Lumpur)

- Islamic Finance News Asia 2018 – Driving Sustainable Growth through Malaysia's Islamic Capital Markets and Banking System, 7 May 2018 (Kuala Lumpur)
- IIFM Seminar on Islamic Financial Market, 8 May 2018 (Kuala Lumpur)
- Workshop on Sukuk: Structuring, Issueing and Trading, 10 May 2018 (Kuala Lumpur)

MALAYSIAN ICM – FACTS AND FIGURES

Islamic capital market

	1H 2018	1H 2017
	(RM billion)	(RM billion)
Market capitalisation of Shariah-compliant securities	1,083.65	1,113.08
Size of sukuk outstanding	818.41	718.41
Total size of ICM	1,902.06	1,831.49
% ICM to total capital market	60.49%	59.28%
Year on year growth	3.85%	9.62%

Capital market

	1H 2018	1H 2017
	(RM billion)	(RM billion)
Total market capitalisation of securities	1,771.05	1,838.18
Size of outstanding bonds	1,373.29	1,251.63
Total size of capital market	3,144.34	3,089.81

Shariah-compliant securities

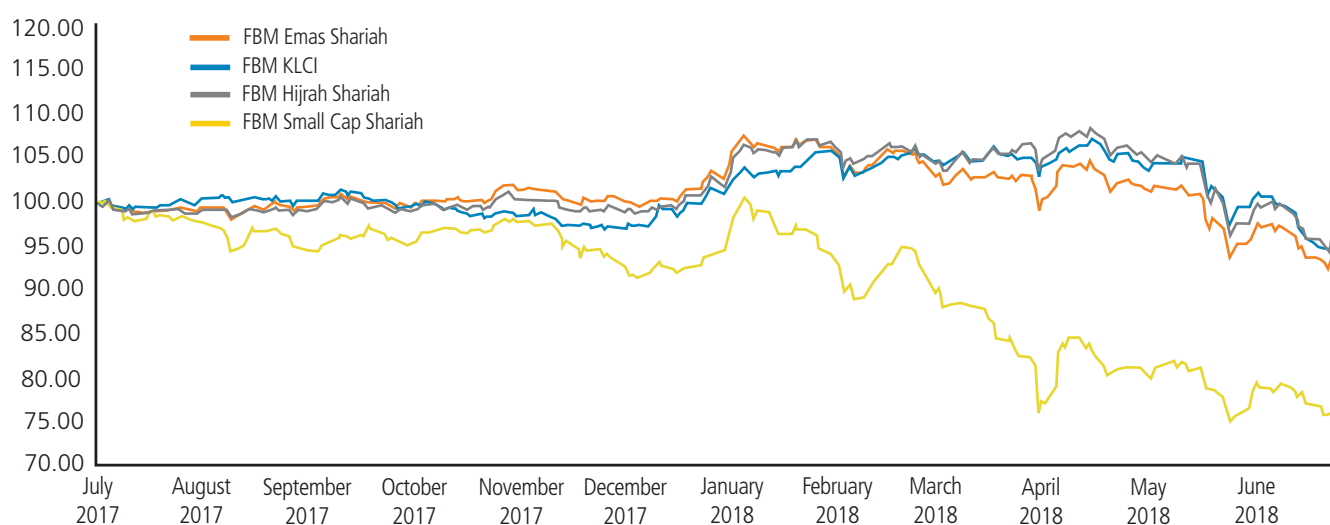
	1H 2018	1H 2017
Number of securities:		
Shariah-compliant securities	692	677
Total listed securities	907	901
% of Shariah-compliant securities to total listed securities	76.30%	75.14%
Market capitalisation (RM billion):		
Shariah-compliant securities	1,083.65	1,113.08
Total market capitalisation	1,771.05	1,838.18
% of Shariah-compliant securities to total market capitalisation	61.19%	60.55%

Equity market indices

	1H 2018	1H 2017	% change
FBM KLCI	1,691.50	1,763.67	-4.09%
FBM EMAS Shariah	12,092.55	12,822.15	-5.69%
FBM Hijrah Shariah	13,594.48	14,064.20	-3.34%
FBM Small Cap Shariah	12,327.61	16,225.87	-24.02%

Chart 1

FBM KLCI and Shariah indices 1-year performance



Corporate sukuk

	1H 2018	1H 2017
Sukuk approved/lodged		
Number of sukuk	15	19
Size of sukuk (RM billion)	16.69*	28.27
Size of total corporate bonds and sukuk (RM billion)	38.63	60.74
% of sukuk to total corporate bonds and sukuk	43.20%	46.54%
Total issuance (long term)		
Sukuk issuance (RM billion)	41.92^	36.64
Total corporate bonds and sukuk issuances (RM billion)	55.73	54.78
% of sukuk to total corporate bonds and sukuk issuances	75.22%	66.89%
Total sukuk outstanding (long term)		
Sukuk outstanding (RM billion)	482.33#	421.96
Total corporate bonds and sukuk outstanding (RM billion)	638.63	571.73
% of sukuk to total corporate bonds and sukuk outstanding	75.53%	73.80%

Notes:

* This includes 1 green SRI sukuk lodged totalling RM0.24 billion in size.

^ This includes 2 green SRI sukuk issuances totalling RM0.47 billion.

This includes 5 green SRI sukuk outstanding totalling RM2.41 billion.

Government and corporate sukuk

	1H 2018	1H 2017
Total issuance		
Sukuk issuance (RM billion)	99.36	79.01
Total bonds issuances (RM billion)	191.01	148.24
% of sukuk to total bonds issuances	52.02%	53.30%
Total sukuk outstanding		
Sukuk outstanding (RM billion)	818.41	718.41
Total outstanding bonds (RM billion)	1,373.29	1,251.63
% of sukuk to total bonds outstanding	59.59%	57.40%

Sukuk listing

	Bursa Malaysia	Exchange-Traded Bonds & Sukuk (ETBS)	Labuan International Financial Exchange (LFX)
No. of issuers	25	2	10

Source: Bursa Malaysia

Islamic assets under management (AUM)

	1H 2018	1H 2017
Islamic AUM (RM billion)	163.58	159.53
Total fund management industry (RM billion)	757.22	750.65
% of Islamic AUM to total fund management industry	21.49%	21.25%

Islamic unit trust funds (UTF)

	1H 2018	1H 2017
Islamic UTF	227	206
Total industry	645	637
NAV of Islamic UTF (RM billion)	75.90	69.54
NAV of total industry (RM billion)	417.86	409.45
% NAV of Islamic UTF to total industry	18.16%	16.98%

Islamic wholesale funds (WF)

	1H 2018	1H 2017
Islamic WF	73	86
Total industry	288	302
NAV of Islamic WF (RM billion)	34.20	34.94
NAV of total industry (RM billion)	84.10	81.89
% NAV of Islamic WF to total industry	40.67%	42.67%

Islamic private retirement scheme (PRS) funds

	1H 2018	1H 2017
Islamic PRS	25	25
Total industry	56	56
NAV of Islamic PRS (RM billion)	0.74	0.58
NAV of total industry (RM billion)	2.32	1.74
% NAV of Islamic PRS to total industry	31.90%	33.43%

Islamic exchange-traded funds (ETF)

	1H 2018	1H 2017
Islamic ETF	6	4
Total industry	10	8
Market capitalisation of Islamic ETF (RM billion)	0.55	0.43
Market capitalisation of total industry (RM billion)	2.03	1.93
% market capitalisation of Islamic ETF to total industry	27.03%	22.29%

Islamic real estate investment trusts (REIT)

	1H 2018	1H 2017
Islamic REIT	4	4
Total industry	18	18
Market capitalisation of Islamic REIT (RM billion)	17.61	17.95
Market capitalisation of total industry (RM billion)	43.09	44.71
% market capitalisation of Islamic REIT to total industry	40.87%	40.15%

Islamic collective investment scheme

	1H 2018	1H 2017
Number of Islamic Collective Investment Scheme (CIS)	335	325
AUM of Islamic CIS (RM billion)	129.00	123.44

List of companies offering Islamic stockbroking services

Company	Type
1. BIMB Securities Sdn Bhd	Full Fledged
2. Affin Hwang Investment Bank Bhd	Window
3. AmInvestment Bank Bhd	Window
4. CIMB Investment Bank Bhd	Window
5. Hong Leong Investment Bank Bhd	Window
6. Inter-Pacific Securities Sdn Bhd	Window
7. Jupiter Securities Sdn Bhd	Window
8. Kenanga Investment Bank Bhd	Window
9. Malacca Securities Sdn Bhd	Window
10. Maybank Investment Bank Bhd	Window
11. MIDF Investment Bank Bhd	Window
12. Public Investment Bank Bhd	Window
13. RHB Investment Bank Bhd	Window
14. TA Securities Holdings Bhd	Window

List of Islamic fund management companies

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

Source: Bursa Malaysia

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

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