

SPECIAL FEATURE 2

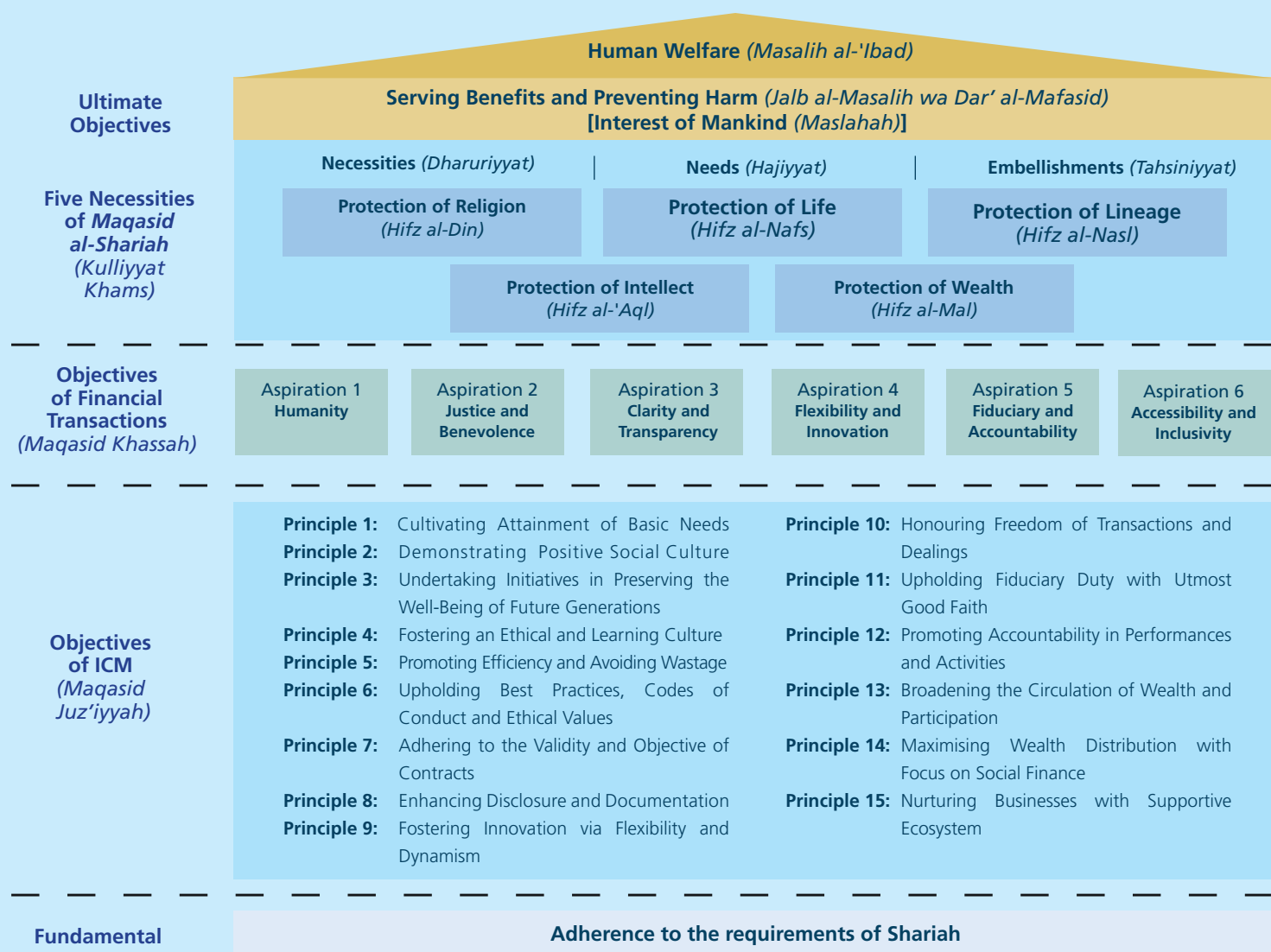
MAQASID AL-SHARIAH GUIDANCE ISLAMIC CAPITAL MARKET MALAYSIA

The Islamic finance core principles entail fostering financial inclusion, ethical conduct, and a stakeholder-driven approach, shaping a financial landscape that looks beyond profit to encompass the broader societal and ethical considerations.

Such ethical and moral considerations in Islamic finance can be sourced from the *maqasid al-Shariah* or higher objectives of Shariah. It is not only limited to prohibitive rulings to discourage immoral conduct and actions harmful to stakeholders and the community, but also takes on a holistic view for a righteous way of life, with the aim to preserve and promote the five necessities of mankind – religion, life, lineage, intellect, and wealth.

FIGURE 1

Illustration of the six Aspirations and 15 Principles of Maqasid al-Shariah in the ICM



As part of the SC's latest initiative to solidify ICM's impact to broader stakeholders, the *Maqasid Al-Shariah Guidance Islamic Capital Market Malaysia* (Guidance) was issued in November 2023. In line with the SC's CMP3, the Guidance is a fundamental effort in underpinning a strong and resilient industry to enhance ICM ecosystem's authenticity and align with the true spirit of Islamic finance.

It is envisioned that the Guidance will serve as a valuable reference document for all stakeholders, inspiring greater exploration of Islamic social finance tools, including *zakat* (almsgiving), *sadaqah* (charity), and *waqf* (Islamic endowment).

Anchored by the ultimate objective of attaining human welfare (*masalih al-'ibad*), the Guidance outlines six Aspirations that cover the main ethical dimensions of financial transactions, which are Humanity, Justice and Benevolence, Clarity and Transparency, Flexibility and Innovation, Fiduciary and Accountability, as well as Accessibility and Inclusivity. To support these overarching Aspirations, the Guidance then outlines 15 Principles, designed for practical application in ICM products and services.

Contributing to Society and the Real Economy Through ICM and SRI

Islamic finance shares many common underlying principles with sustainable finance and investing. Among others, both encourage economic expansion, financial stability, as well as the protection of the environment and the reduction of social inequalities.

The Guidance underscores the SC's commitment to enhance the role of the ICM in facilitating equitable growth, which, in turn, will help towards building and promoting sustainable and inclusive stakeholders economy. It is aimed to further facilitate the development of more innovative Islamic financial products and services as well as reinforce the SC's regulatory developmental efforts in sustainable and responsible investment (SRI), supporting areas such as environmental and climate action, through investments in renewable energy, conservation projects, and sustainable agriculture, among others.

The Principles and Aspirations outlined in the Guidance are also generally aligned with the broader goals of sustainable development, as encapsulated by the United Nations Sustainable Development Goals (SDGs). For example, Principle 1, which emphasises the attainment of basic needs and addressing issues such as poverty and food security aligns with SDG goals related to poverty eradication (SDG 1) and hunger alleviation (SDG 2). Likewise, Principles advocating for inclusive and sustainable economic growth such as Principle 13 and 15 correspond to SDGs focused on promoting decent work and economic growth (SDG 8). The alignment between the Guidance and the SDGs underscores the commitment of integrating sustainable practices across the ICM to advance the collective goal of achieving a more equitable, prosperous, and sustainable future for all.

Maintaining Confidence and Trust Through Adherence to Highest Ethical Standards

The Guidance also provides a foundation to be adopted, with each Principle and Aspiration integrating ethical elements to be applied in ICM products and services. To propel ICM to new heights, it is crucial for the industry to continue embracing best ethical practices. This will not only reinforce good governance and responsible stewardship, but also protect investors from harmful investment practices. As a result, this can enhance trust and confidence in the ICM, attracting more investors seeking sustainable and responsible financial solutions.

Bolstering ICM's Competitive Advantage Through Emphasis on the Substance Over Form

The commitment to focus more on the substance ensures that the ICM remains relevant and resilient in a rapidly evolving financial landscape, ultimately strengthening its competitive position in the long term.

This commitment involves prioritising the underlying principles and values behind financial transactions and products rather than merely adhering to procedural and transactional requirements. In practical terms, it is imperative for the substance or intended needs and objectives of transactions to be in line with the broader ethical considerations and societal welfare goals.

In the future, ICM envisions to follow closely the principles and aspirations outlined in the Guidance. Efforts are underway to enrich the existing SRI ecosystem, which is evident in the social finance landscape, through integration with fintech and also traditional Islamic finance instruments such as *waqf*.

To initiate adoption of the Guidance within the industry, five financial institutions, namely Maybank Islamic Bhd, CIMB Islamic Bhd, Bank Islam Malaysia Bhd, HSBC Amanah Malaysia Bhd and Standard Chartered Saadiq Bhd have expressed their commitment to adopt the Guidance in the Shariah Pronouncement of ICM products submitted to the SC. This will be one of the manifestations of the Guidance implementation in ICM products, taking a step towards aligning with the true spirit of Islamic finance.

By closer alignment to *maqasid al-Shariah*, the ICM seeks to foster an ecosystem that is inclusive and conducive for products and services.