



# malaysian ICM



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

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## BROADENING ALTERNATIVE FINANCING AVENUES

The Malaysian capital market continues to play a vital role in facilitating financing of the economy and in other new growth areas. While traditional sources of funding such as banking, public equity and debt remain relevant, alternative avenues of financing such as equity crowdfunding (ECF), peer-to-peer financing (P2P), venture capital (VC) and private equity (PE) are fast gaining acceptance from the industry which complement the traditional funding channels. These alternative fundraising channels raised RM808.4 million in 2018, illustrating the capital market's ability to play a significant role in the funding needs of underserved issuers such as micro, small and medium enterprises (MSMEs).

The SC's focus on MSMEs is pertinent as this segment traditionally faces challenges in obtaining financing, which is why efforts to develop sources of alternative financing are particularly critical to catalyse growth in this area. These alternative financing avenues succeed because they enabled underserved issuers to connect with traditionally untapped pools of investors while offering cheaper, faster and more convenient delivery channels. Each avenue is also tailored to meet the unique needs of businesses at every stage of their business lifecycles.

Although challenges persist in MSME's access to finance, the visible growth in alternative financing avenues has been positive and reflects the role of the private sector in providing financing to companies in various stages of development. Since 2015, 693 MSMEs have successfully raised capital amounting to RM261.52 million through ECF and P2P platforms. In 2018 alone, 616 MSMEs raised RM195.11 million through these platforms.

## SHARIAH ADVISORY COUNCIL RESOLUTIONS

Since its establishment in 1996, the Shariah Advisory Council (SAC) of the SC continues to play its role in the development of Islamic capital market (ICM) in Malaysia. Various issues relating to ICM were tabled, discussed and resolved by the SAC. This effort is to ensure ICM in Malaysia continues to develop by welcoming innovations in structuring capital market products. In this regard, the SAC resolutions continue to be a scholarly reference for ICM-related issues particularly in providing greater consistency and clarity to issuers, intermediaries and investors. The following are several key resolutions that have been resolved by the SAC:

### (1) SHARIAH SCREENING METHODOLOGY FOR LISTED SECURITIES OF A STOCK EXCHANGE HOLDING COMPANY

Under the law, the Stock Exchange Holding Company (SEHC) has the obligation to facilitate capital raising and trading activities which include services for the listing, trading, clearing, settlement and depository of both Shariah-compliant and Shariah non-compliant listed securities (Activities Beyond Control). The SEHC also offers its own products comprising Shariah-compliant and Shariah non-compliant products to be listed and traded on the stock exchange as well as other services and activities (Activities Within Control).

In determining the Shariah status of the SEHC that involved in Activities Beyond Control and Activities Within Control, the SAC had deliberated what is the most appropriate Shariah screening methodology to be applied for the SEHC.

#### RESOLUTION

The SAC had resolved that due to the nature of the SEHC as a national exchange that undertakes Activities Beyond Control and Activities Within Control, a specific two-tier business activities benchmark would be applicable in determining its Shariah status as follows:

#### a. 5 per cent Benchmark

For Activities Within Control, the contribution from the Shariah non-compliant activities to the group revenue or group profit before taxation (PBT) must be less than 5 per cent; and

#### b. 33 per cent Benchmark

For Activities Beyond Control, the contribution from the Shariah non-compliant activities to the group revenue or group PBT must be less than 33 per cent.

The financial ratio benchmark will continue to be applicable to the SEHC.

### (2) SHARIAH NON-COMPLIANT ASSETS AS COLLATERAL IN ICM PRODUCTS

The SAC had deliberated on the issue of Shariah non-compliant assets as collateral in ICM products. The issue in deliberation was on the permissibility of using Shariah non-compliant assets as collateral in ICM products.

#### RESOLUTION

The SAC resolved the following:

- (1) Assets which are valuable and recognised by Shariah may be used as collateral in ICM products. These assets include:
  - (i) A physical asset that is used to carry out activities which are Shariah-compliant and/or Shariah non-compliant; and
  - (ii) A financial asset that is Shariah-compliant and/or Shariah non-compliant.

(2) In the case where Shariah non-compliant financial asset is used as collateral, the SAC resolved as follows:

**(i) Ordinary Shares and Preference Shares**

- (a) Shariah non-compliant ordinary shares and preference shares of companies listed on Bursa Malaysia; and
- (b) Shariah non-compliant ordinary shares and preference shares of unlisted companies,

may be accepted as collateral provided that the core business of the companies is Shariah-compliant based on the confirmation by the Shariah advisers registered with the SC. The total value of the Shariah non-compliant ordinary shares and preference shares may be accepted as the collateral value.

**(ii) Shariah Non-Compliant Financial Asset other than Ordinary Shares and Preference Shares**

Shariah non-compliant financial asset other than the ordinary shares and preference shares as stated in item (2) (i) (a) and (b) above may be accepted as collateral provided that the value of the collateral is limited to the Shariah-compliant portion only. In this regard:

- (a) The collateral value of the Shariah non-compliant financial asset which is based on interest such as conventional fixed deposit certificate and conventional bond are limited to the principal amount of such instruments; and
- (b) The collateral value of the Shariah non-compliant unit trust fund is limited to the initial investment and any additional investment by the investors.

**(3) ADVANCE PART PAYMENT WHEN THE REALISED PROFIT RATE IS LESS THAN THE EXPECTED PROFIT RATE (SHORTFALL)**

In the issuance of sukuk, a situation called a 'shortfall' will happen when the realised profit rate did not achieve the expected profit rate. In general, in sukuk *musharakah*, *mudharabah* and *wakalah*, profit distribution will be made based on the profit distribution ratio which was agreed by both contracting parties (i.e. between sukuk issuer and investors/sukukholders). The contracting parties agree with the expected profit rate that may be derived from *musharakah* and *mudharabah* ventures or investment made through a *wakil* under the *wakalah* principle.

In the event where the realised profit rate is less than the expected profit rate (shortfall), there is a current practice among industry practitioners where the difference between the two profit rates will be paid by the sukuk issuer in the form of *qardh* (loan) as an advance part payment. However, a question arose whether this practice is allowed from the Shariah perspective in the above sukuk structuring.

**RESOLUTION**

The SAC had resolved that the sukuk issuer is allowed to make advance part payment to the sukukholders when the realised profit rate is less than the expected profit rate (shortfall) in sukuk issuance structured under the principles of *musharakah*, *mudharabah* and *wakalah*.

The advance part payment may be implemented in the form of *qardh* provided by the issuer. This payment is not a guarantee of profit on *musharakah*, *mudharabah* and *wakalah*. This is due to the reason that the advance part payment made by the sukuk issuer will be set-off from the exercise price under the contract of sale and purchase of asset pursuant to the purchase undertaking or sale undertaking upon the occurrence of default or upon the maturity of sukuk.

## SC-WORLD BANK-IOSCO CONFERENCE 2019: ENHANCING FINANCIAL INCLUSION THROUGH ISLAMIC FINANCE AND FINTECH

As a global pioneer in Islamic finance, Malaysia aims to harness the growth of Islamic finance and financial technology (Fintech) to enhance financial inclusion and open up access to financial services for the underserved individuals as well MSMEs.

One third or over 1.7 billion of the world's adult population, many of them in developing countries have no access to financial services. According to the Global Findex Database, formal account penetration rates in 40 out of the 48 member countries in the Organisation of Islamic Cooperation (OIC) is lower than the world's average of 50 percent.

This issue along with elements required for the sustainable use of Islamic finance to address financial inclusion were discussed during a conference in April 2019, jointly organised by the SC, World Bank Group Global Knowledge and Research Hub (World Bank Group), and the International Organization of Securities Commissions (IOSCO) Asia Pacific Hub. Themed 'Islamic Finance: A

Catalyst for Financial Inclusion', the Conference was the third collaboration between the SC and the World Bank Group, with IOSCO Asia Pacific Hub as a co-organiser for the 2019 Conference. It gathered about 300 local and international delegates comprising development practitioners, policymakers, regulators and experts.

The Conference explored the use of Islamic finance instruments including policy, regulatory and institutional elements to support financial inclusion, in contributing to the efforts to counteract poverty and fostering shared prosperity. It also featured discussions on enhancing access to financing for MSMEs including the role of Islamic social finance such as *waqf* and *zakat*, in enabling greater access to financial services to enhance social well-being and drive economic activities. The use of technology to support Islamic finance in facilitating greater inclusion was also deliberated. Additionally, case studies on crowdfunding and blockchain were presented at the conference.



(From left to right) Abayomi A. Alawode, Head, Islamic Finance, Finance, Competitiveness and Innovation, The World Bank Group, Datuk Syed Zaid Albar, SC Chairman, Dr. Firas Raad, Country Manager, Malaysia, East Asia and Pacific, The World Bank Group, Datuk Zainal Izlan Zainal Abidin, SC Deputy Chief Executive.



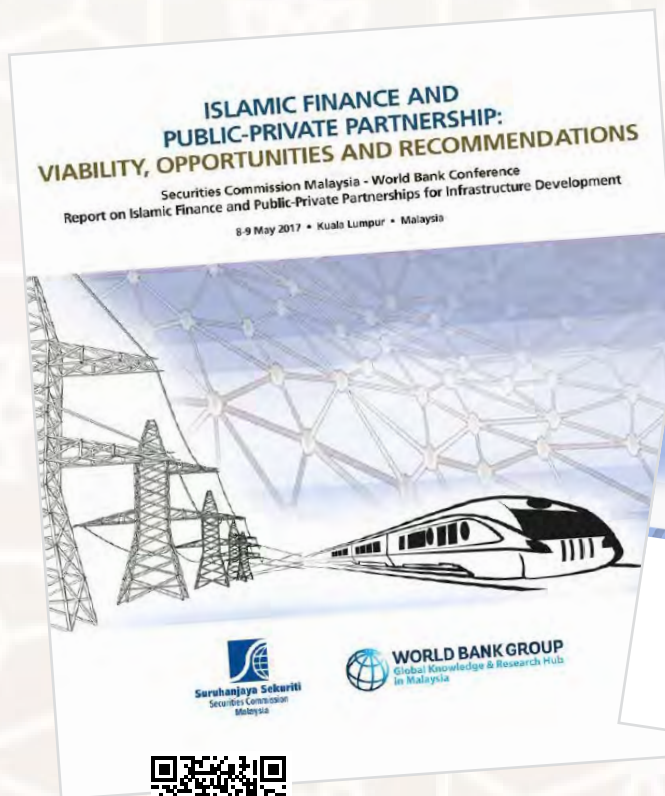
Among the international delegates who attended comprised development practitioners, policymakers, regulators and experts

Publications of the  
**Securities Commission Malaysia-World Bank  
Conferences of 2017 and 2018**

are currently available at [www.sc.com.my](http://www.sc.com.my) or  
scan the QR Codes to download

The Securities Commission Malaysia (SC) and World Bank Group Global Knowledge and Research Hub (World Bank) Conference was launched in 2017, following which the International Organization of Securities Commissions (IOSCO) Asia Pacific Hub joined as a co-organiser in 2018. This Conference serves as a leading platform to raise awareness on the universal value propositions of Islamic finance and broaden its reach globally.

These two publications produced by the SC and World Bank are based on the insightful presentations and discussions gathered from a panel of speakers and participants comprising development practitioners, policy makers, regulators and experts during the Conference.



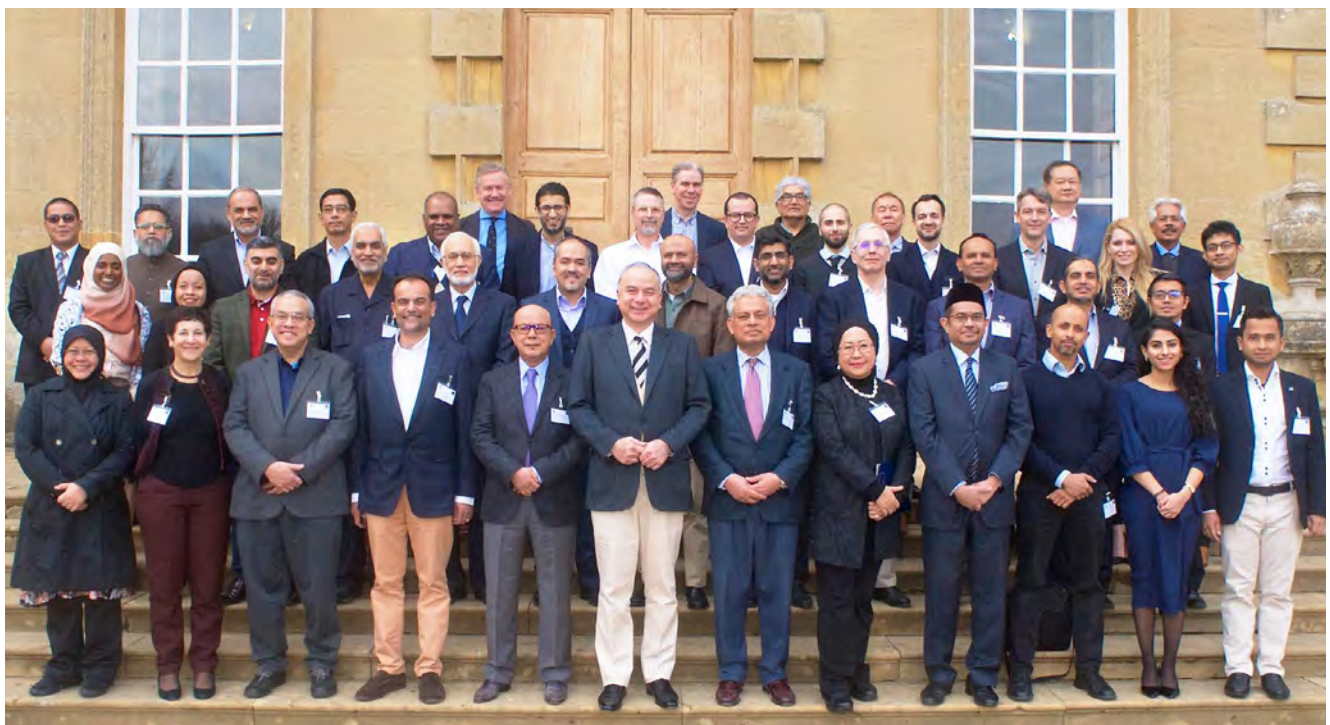
## 10<sup>TH</sup> SC-OCIS ROUNDTABLE ON IMPACT INVESTING

The 10<sup>th</sup> SC-Oxford Centre for Islamic Studies (OCIS) Roundtable themed 'Impact Investing as an Extension to the Islamic Economy' was held at Ditchley Park, Oxfordshire, UK from 23 to 24 March 2019. This year marks the 10<sup>th</sup> anniversary of the highly interactive and constructive thought-leadership collaboration between the SC and OCIS. The Roundtable is organised to further global thought leadership in Islamic finance.

The theme on impact investing is in line with the SC's agenda in aligning sustainable finance with the Sustainable Development Goals (SDGs) which can be achieved through innovative ICM products and instruments. The congruence of the 17 SDGs with the *maqasid al-Shariah* presents significant opportunity for Islamic finance to play an integral role in addressing the comprehensive social and environmental agenda.

Graced by His Royal Highness Sultan Nazrin Muizzuddin Shah, Sultan of Perak Darul Ridzuan and the Royal Patron for Malaysia's Islamic Finance Initiative (MIFC) who

delivered a special keynote address, the Roundtable deliberated among a selected group of 45 delegates. Discussions focused on the alignment between the underlying principles of impact investing and Islamic finance, creation of an enabling ecosystem for social impact investing, development of venture philanthropy structures as well as social impact bonds and sukuk as an attractive proposition for financing the delivery of social services.



HRH Sultan Nazrin Muizzuddin Shah, Sultan of Perak Darul Ridzuan and the Royal Patron for MIFC, with SC Chairman, Datuk Syed Zaid Albar together with other local and international delegates.

## MALAYSIA CHAMPIONS SUSTAINABILITY AGENDA AT SUSTAINABLE CAPITALISM FORUM

As part of initiatives to develop Malaysia's value proposition as an Asian centre for Sustainable and Responsible Investment (SRI) and green financing by virtue of its leadership position in Islamic finance, Capital Markets Malaysia (CMM), an affiliate of the SC, hosted the Sustainable Capitalism in South East Asia Forum in London on 27 March 2019.

A global pioneer in Islamic finance, Malaysia is taking the lead in positioning Shariah-based investing to responsible investors worldwide given its natural alignment to the principles of SRI.

International recognition of this alignment by organisations such as the UN-backed Principles for Responsible Investments (UNPRI) and the Global Sustainable Investment Alliance (GSIA) places Malaysia at the forefront of the sustainable investment market (ex Japan) on account of its Islamic funds.

The SC will continue to facilitate the development of Malaysia's sustainable financing and investment ecosystem, leveraging our position as a leader in the ICM, to encourage innovation and collaboration in advancing the global sustainability agenda. Malaysia has also championed the use of Islamic finance through the issuance of green sukuk as an innovative financing mechanism for funding the SDGs.

The SC paved the way for the convergence of Islamic instruments and sustainable financing with the

*“The SC will continue to facilitate the development of Malaysia's sustainable financing and investment ecosystem, leveraging our position as a leader in the ICM, to encourage innovation and collaboration in advancing the global sustainability agenda.”*

introduction of the SRI Sukuk Framework in 2014, which facilitated the issuance of the world's first green sukuk out of Malaysia in 2017. As at June 2019, six green sukuk have been issued to finance solar and small hydropower projects and green buildings. Malaysia is also home to the world's first SDG Sukuk issued in 2018.

Speakers at the forum, panellists representing HSBC, PwC, Nomura Asset Management, PRI, Maybank Islamic and the United Nation Development Programme (UNDP), among others, discussed on the setting of global SRI trends to influence growth in Asia and how the synergies between Islamic finance and SRI which are expected to further contribute to the growth of the sustainable finance and investment ecosystem in Asia.

## NEW ECF, P2P FINANCING OPERATORS AND PROPERTY CROWDFUNDING FRAMEWORK

On 17 May 2019, Minister of Finance, YB Tuan Lim Guan Eng met with representatives of the industry at a Fintech Roundtable organised by the SC to discuss the progress of the industry in fostering digital innovation to meet the financing needs of MSMEs and to enable greater financial inclusion for Malaysian issuers and investors.

The SC announced eight new Recognized Market Operators comprising three ECF and five P2P financing platforms, in line with its efforts to continue to facilitate development of innovative digital solutions which democratise access to investments while broadening financing options available for all Malaysians.

With the addition of the new ECF and P2P financing players, which will operationalise by the end of the year, there are now 21 market-based financing platform operators registered in Malaysia. As at June 2019, the ECF and P2P financing markets have provided close to RM432 million of alternative financing for nearly 1200 Malaysian MSMEs.

The SC also released a new property crowdfunding framework following the amendments made to its *Guidelines on Recognized Markets*. This is pursuant to an initiative announced in Budget 2019 to provide an alternative financing avenue for first-time homebuyers. Property crowdfunding offers similar potential to ECF and P2P financing platforms as it will provide investors access to a new investment option.

To support the integrity of the scheme and protect investors' interests, the revised guidelines list out the requirements and obligations of a property crowdfunding platform operator. These include minimum shareholders' funds of RM10 million; obligation to provide fair, clear and timely information to both homebuyers and investors prior to participating in a property crowdfunding campaign; and exit certainty at the end of the agreed tenure.

The property crowdfunding framework was issued after taking into consideration, among others, feedback and input from members of the public including industry players during a public consultation organised by the SC.



Minister of Finance, YB Tuan Lim Guan Eng and SC Chairman, Datuk Syed Zaid Albar met with representatives of the Fintech industry at a Fintech Roundtable organised by the SC



## UPDATED LIST OF SHARIAH–COMPLIANT SECURITIES BY SHARIAH ADVISORY COUNCIL

The SC released an updated list of the Shariah–compliant securities approved by its SAC which took effect on 31 May 2019. The list features a total of 689 Shariah–compliant securities which constitute 77 per cent of the total 897 listed securities on Bursa Malaysia.

The list includes 14 newly-classified Shariah–compliant securities and excludes 10 from the previous list issued in November 2018. The next updated list will be made available in November 2019 based on the review of the audited financial statements released up to 30 September 2019.

Main Market / ACE Market	Number of Shariah–compliant securities	Total securities*	Percentage of Shariah–compliant securities (%)
Consumer products & services	133	195	68
Industrial products & services	209	251	83
Energy	28	32	88
Construction	50	53	94
Transportation & logistics	28	35	80
Property	77	100	77
Plantation	35	44	80
Technology	77	88	88
Utilities	10	13	77
Financial services	3	34	9
Health care	16	17	94
Telecommunications & media	23	33	70
SPAC	Nil	1	Nil
Closed-end fund	Nil	1	Nil
<b>TOTAL</b>	<b>689</b>	<b>897</b>	<b>77</b>

\* As at 27 May 2019

## UPDATES ON SC'S FRAMEWORK ON DIGITAL ASSETS

The *Capital Markets and Services (Prescription of Securities) (Digital Currency and Digital Token) Order 2019* came into force on 15 January 2019 whereby digital currencies and digital tokens (collectively known as 'digital assets' in this Order) are prescribed as securities and regulated by the SC.

The offering of such instruments and associated activities will require authorisation from the SC, and it must comply with relevant requirements. Digital assets and the underlying blockchain technologies can potentially create innovation in both old and new industries; they also have a role to play as an alternative fundraising avenue for entrepreneurs and new businesses; and as a new asset class for investors.

Following the coming into force of this order, the SC amended its *Guidelines on Recognized Markets* to introduce new requirements for electronic platforms that facilitate the trading of digital assets. Under the revised guidelines, any person who is interested in operating a digital asset platform is required to apply to the SC to be registered as a recognised market operator (RMO). The new framework is part of the SC's efforts to promote innovation while ensuring investor protection in the trading of digital assets.

The SC has announced that it has registered three RMOs to establish and operate digital asset exchanges (DAX) in Malaysia. The three registered DAX operators are: Luno Malaysia Sdn Bhd, SINEGY Technologies (M) Sdn Bhd and Tokenize Technology (M) Sdn Bhd. The new RMOs were given up to nine months to fully comply with all regulatory requirements.

DAX operators who have not been approved by the SC are required to cease all activities immediately and return all monies and assets collected from the investors. Operating a DAX without the authorisation from the SC is an offence under securities laws and a person in breach may be liable to a fine or imprisonment term or both.

Members of the public are advised to be mindful of the risks related to trading in digital assets, including risks of trading on exchanges that are not registered with the SC. To verify if a digital asset operator is registered with the SC, the information is available at <https://www.sc.com.my/development/digital/digitalassets>.

## REVISIONS ON EQUITY GUIDELINES AND GUIDELINES ON LISTED REITs

The SC had released revisions to the following guidelines:

1. The *Equity Guidelines* (EG) was revised to enhance the disclosure requirements of circulars related to proposals that would result in a significant change in the business direction or policy of a listed corporation, including back-door listings and reverse take-overs. The revised EG took effect on 13 March 2019.

The key amendments made were to include additional disclosure provisions relating to Special Purpose Acquisition Companies (SPAC). Other amendments consist of cross-referencing to provisions pertaining to infrastructure project corporations (IPC) and mineral and petroleum (MOG) in the *Prospectus Guidelines*.

2. The revised *Guidelines on Listed REITs* was issued and took effect on 18 June 2019 with the following amendments:

- (a) Roles and Responsibility of a Management Company
  - Amended requirements for the appointment of a designated person in relation to a REITs' investment in non-real estate assets where such function is to be undertaken internally; and
  - Removal of the requirements for a REIT's chief executive to be appointed on a full time basis.
- (b) Trustees
  - Removal of the entire requirements in relation to the trustee of a REIT as the

relevant obligations are now set out in the Guidelines on the Registration and Conduct of Capital Market Services Providers.

- (c) Meetings of Unit Holders
  - Amended requirements for a REIT to hold its annual general meeting within four months of the REIT's financial year end instead of six months.
- (d) Appointment of Proxies and Depositing of the Proxy Forms
  - Amended requirements to streamline with the Companies Act 2016 and the updated FAQs issued by the Companies Commission of Malaysia.
- (e) Application for Approval and Lodgement
  - New requirements were incorporated to allow the registration and lodgement of a REIT's supplementary or replacement deed to the SC to be made by the management company instead of just the principal adviser.
- (f) Schedule B: Contents of a REIT's Annual Report
  - Amended requirements to allow the REIT's management expense ratio to be computed on a quarterly basis instead of on a daily basis; and
  - Removal of the requirements to disclose the REIT's portfolio turnover ratio in the annual report.

## ISLAMIC FINANCE: A CATALYST FOR FINANCIAL INCLUSION<sup>1</sup>

Providing access to financial services is a universally shared vision for all nations, including Islamic countries. This is a basic requirement that defines our modern day society. However, in reality, access to financial services is neither uniform nor consistent.

The inability to access, in some cases, the most basic of financial products and services prevents some segments of a country's population from fully participating in its growth and prosperity. It translates into costs for the nation as inequalities in terms of opportunities and wealth can hinder economic growth; instead of reaching its optimal potential.

This is why financial inclusion is quintessential. It remains a priority in the global reform agenda given its significance in stimulating growth and employment, and poverty reduction. It also enables shared prosperity for all segments of society, leading to better social well-being.

The United Nations (UN) prominently features financial inclusion as a target in eight out of the 17 Sustainable Development Goals (SDGs) in its 2030 Agenda. The Middle Eastern countries have also collectively demonstrated their commitment through a dedicated Arab Financial Inclusion Day, held in of April 2019.

Indeed, collaborative efforts have led to a global rise in financial inclusion. However, the fact remains, gaps still exist. More than 46 million individuals from Islamic countries<sup>2</sup> have chosen to exclude themselves from formal financial services due to religious reasons. With the world's Muslim population projected to increase to a quarter of global population figures by 2030, we must address this financial 'exclusion' and not let the number of disadvantaged ummah grow.

Islamic finance will therefore have a prominent role to play in helping to address the needs of the world's Muslim population for Shariah-compliant formal financial services. Additionally, it possesses the ability to move beyond its core base, and attract a larger constituent due to the common universal values it embodies.

### Islamic capital market: Enhancing societal returns

The ICM has long championed innovative approaches to enhance societal returns. Shariah-based financial contracts, including project-based financing instruments and Islamic social solidarity instruments, can be utilised for financial inclusion.

The SRI sukuk can serve social objectives through projects funded from their proceeds, such as improving the quality of education in schools<sup>3</sup>. Available mechanisms allow investors to forego a portion of their investments when

“The ICM has long championed innovative approaches to enhance societal returns. Shariah-based financial contracts including project-based financing instruments and Islamic social solidarity instruments.”

<sup>1</sup> This article is extracted from a speech by Datuk Syed Zaid Albar, Chairman, Securities Commission Malaysia at the SC – World Bank – IOSCO Asia Pacific Hub Conference 2019 on 29 April 2019 in Kuala Lumpur.

<sup>2</sup> Calculations based on The Global Findex Database 2017: Measuring Financial Inclusion and the Fintech Revolution

<sup>3</sup> Khazanah Nasional Berhad's Sukuk Ihsan raises funding to address the quality of education via the Trust Schools Programme

social obligations are met. The accessibility of such sukuk to retail investors also encourages wider public participation in projects that impact their communities and nations.

On the other hand, social solidarity instruments in an Islamic economic system are intended specifically to safeguard the rights of the less able through the income and wealth of the more able. *Zakat* (tithe), *sadaqah* (charitable acts) and *waqf* (endowment) are channels for the promotion of social protection and poverty alleviation.

The principles underlying *waqf*, for instance, allow for the financing of socially-beneficial endeavours. In addition, capital or funding could be raised through issuance of *waqf* shares, sukuk or fund to undertake, not only welfare, but also commercially-driven activities within the economy.

### Widening access to funding for entrepreneurs and corporates

Entrepreneurs, as well as MSMEs are critical enablers for greater financial inclusion. They help in job creation and contribute to the country's economic revenue and activities. They also generate wealth in the form of salaries and returns to shareholders.

Yet, globally, they face the biggest challenge in obtaining financing. In this regard, the capital market provides both conventional and Shariah-compliant avenues for them to access alternative sources of financing. Equity crowdfunding, peer-to-peer financing platforms, as well as venture capital and private equity, are available to meet their needs at different stages of their businesses. These alternatives sources of financing are aimed at connecting under served issuers with untapped pools of investors.

Moving forward, with technological advancements and increased digitisation of these alternative delivery channels, it will no doubt reduce costs, and enhance their speed, convenience and appeal. Nevertheless, even as individuals gain access to financial services offered digitally, they may be encumbered due to low levels of digital literacy and awareness. Therefore, in adopting transformative technology, measures to increase investor education and awareness are equally important towards building trust and confidence.

From an Islamic capital market perspective, more innovative alternative sources of market-based financing must be further encouraged. Given the projected growth of the global halal market to US\$7.7 trillion in size by 2030<sup>4</sup>, further expansion of these Shariah-compliant alternatives will provide the necessary support for global halal businesses to expand their frontiers.

### The role of policymakers in achieving greater socioeconomic benefits

A private sector-driven approach to the development of market-based products and its supportive ecosystem has its merits and resultant benefits. However, it also has its limitations, particularly when there is a need to prioritise socioeconomic outcomes over investment returns.

It is essential that policymakers take a more active role in the introduction and development of Islamic products for financial inclusion to ensure better levels of adoption and take up. There must also be buy-in from all stakeholders. My own private sector experience has taught me that to achieve the intended outcomes, effective coordination and mobilisation of resources is pivotal.

Malaysia itself exemplifies the value of policymakers engaging in early-stage development of the ICM. This approach has served the country well with Malaysia having a long and distinguished track record of innovation in Islamic finance. With government support, a comprehensive framework covering regulatory, legal, tax and Shariah governance that promotes Islamic product innovation has been firmly established.

As a result of all these concerted efforts undertaken, Malaysia has been acknowledged as a leading Islamic economy ecosystem for the fifth year running in the State of the *Global Islamic Economy Report*<sup>5</sup>.

The potential of Islamic finance in enabling greater financial inclusion is vast. Islamic market solutions applied in the right manner will benefit countless lives and communities. Collectively, we must chart a clear direction. This is crucial to ensure that our efforts have the desired impact and will remain sustainable in the long run.

<sup>4</sup> Halal Industry Development Corporation

<sup>5</sup> State of the Global Islamic Economy Report 2018/2019

# ISLAMIC FUND MANAGEMENT: EMERGING CATALYSTS TOWARDS A WEALTH OF OPPORTUNITIES<sup>1</sup>

## Developing an Islamic Fund Management Ecosystem

On the global scale and despite heightened competition, Malaysia continues to be a leader in ICM, with sukuk and Islamic fund markets which are among the largest in the world. As at end 2018, the ICM was valued at RM1.88 trillion, representing approximately 61% of Malaysia's overall capital market. It is supported by a vibrant industry comprising local and foreign fund management companies, stockbrokers and advisers with comprehensive ICM capabilities. Industry-led innovation in tandem with the SC's developmental initiatives also resulted in a diverse range of Islamic investment products including unit trust funds, wholesale funds, private retirement schemes, ETFs and REITs.

Such an achievement was decades in the making, and rooted in Malaysia's holistic approach towards developing an ICM ecosystem. Driven by the SC, the approach drew on the insights of Shariah experts, industry professionals as well as stakeholders such as institutional investors. The outcome was a facilitative regulatory apparatus within an institutionalised Shariah governance framework, which is supported by a Shariah-cognisant tax, legal and accounting framework that provides clarity and commercial certainty. These efforts consolidated interest from investors, issuers and intermediaries in what was then a nascent industry, and enabled Malaysia to leverage its competitive advantage in this area.

The SC, in particular, recognises the Islamic fund management industry as an important channel for mobilising capital into Shariah-based investments, and the industry landscape has changed significantly over the past decade. In 2008, there were only five Islamic fund management companies and 30 fund management companies with Islamic windows. Today, the numbers have grown to 22 Islamic fund management companies with a further 31 fund management companies operating through Islamic windows, with assets under management of RM158.8 billion.

This expansion was supported by the SC's initiatives to grow Malaysia's Islamic fund management industry by providing a conducive regulatory and commercial environment. These include the introduction of the *Guidelines on Islamic Fund Management* in December 2007, tax exemption on fees received for managing Islamic funds and liberalisation of foreign ownership in Islamic fund management companies without any restrictions on overseas investments. All these initiatives provided clarity and a conducive business environment for the industry to develop and grow especially on the domestic front.

At the same time, the SC strove to internationalise the Islamic fund management industry by establishing linkages with other jurisdictions to facilitate the industry's cross-border expansion. For example, the SC has signed mutual recognition agreements with the regulatory authorities of Dubai and Hong Kong to enable cross-border Islamic fund transactions. The SC has also instituted arrangements with the regulatory authorities of Ireland and Luxembourg to facilitate the offering of Malaysia's Islamic Undertakings for Collective Investment in Transferable Securities (UCITS) products. As part of its regionalisation strategy, the SC as part of the ASEAN Capital Markets Forum (ACMF) has also launched the ASEAN Collective Investment Scheme framework with participation from Malaysia, Singapore and Thailand in 2014 to facilitate cross-border offering of collective investments schemes (CIS) including Islamic CIS.

## Driving synergies between ICM and sustainable investing

Having grown so prodigiously, what is the next step for this industry? In January 2017, the SC launched the *Islamic Fund and Wealth Management Blueprint* with a vision to establish Malaysia as a leading international centre for Islamic fund and wealth management. It charts the medium and long-term strategic direction for the industry while mapping out strategies and recommendations to strengthen the

<sup>1</sup> This article is extracted from a speech by Datuk Syed Zaid Albar, SC Chairman, at the Nomura Islamic Asset Management 10<sup>th</sup> Anniversary Investment Forum on 18 February 2019 in Kuala Lumpur.

“It is pertinent to highlight the concurrent focus on and the commonalities between the principles of Islamic finance and SRI including the emphasis on ethical business practices and positive social outcomes.”

country's competitive edge. The Blueprint outlines three mutually reinforcing strategic thrusts, namely strengthening Malaysia's positioning as a global hub for Islamic funds, establishing Malaysia as a regional centre for Shariah-compliant SRI and developing Malaysia as an international provider of Islamic wealth management services.

It is pertinent to highlight the concurrent focus on and the commonalities between the principles of Islamic finance and SRI including the emphasis on ethical business practices and positive social outcomes. Internationally, SRI is gaining momentum, particularly among institutional funds and investors, as illustrated in the 25% growth in global sustainable investment in assets under management (AUM) from US\$18.28 trillion in 2014 to US\$22.89 trillion in 2016. With Islamic funds recognised as part of the SRI universe, Malaysia is currently the largest market for SRI funds in Asia ex-Japan, with a 30% share.

Given this structural pivot in investor preference, the SC has identified SRI and as well as the closely-related Islamic fund and wealth management segment as one of the growth drivers for the next phase of Malaysia's capital market development. In 2017, the SC issued the *Guidelines on*

*Sustainable and Responsible Investment Funds* to facilitate and encourage further growth of SRI funds in Malaysia. Moreover, the growing pool of SRI assets represents potential scope for fund administration and investment support services firms to serve both Islamic and SRI funds segments.

### Adapting to digitisation and demographic shifts

Looking ahead, digitisation and demographic changes will continue to reshape markets, and it is critical for market participants to adapt to opportunities and risks arising therefrom. A key driver of future industry growth is the shift in investment preferences for an emergent generation of investors. The Millennials, in particular, are accounting for a growing share of the investor base with studies identifying their greater awareness on SRI and their propensity to align investment decisions with social causes and personal values. Millennials also see businesses as agents for socioeconomic change, and the ability of our intermediaries to respond to this trend, and cultivating this generation of socially-aware digital natives will enhance the value proposition and competitive advantage for Malaysia's fund management industry.

When properly harnessed, technology can also strengthen business intelligence through data analytics, enhance investor experience and drive efficiency, for example through the use of technology to manage Shariah and SRI portfolios by integrating the relevant processes into the fund management system. Alternative financing channels and new business models such as ECF, P2P financing and digital investment management also offer new opportunities for both entrants and incumbents, thus providing for more inclusive access to the capital market.

## NEWS ROUND-UP

### SC-OCIS Scholar in Residence Programme 2019/2020

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

The selected scholar (Visiting Fellow) 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. This includes conducting occasional lectures and seminars, engaging in collaborative study as well as providing outreach to relevant institutions and the local community.

There were 49 applicants for this year's programme, with applications received from Malaysia, Pakistan, UK, Saudi Arabia, India, France, Bangladesh, Turkey and Bahrain. Following a thorough assessment of the 11 shortlisted candidates, the SC and OCIS awarded the SIR fellowship for academic year 2019/2020 to Tarik Akin, Senior Project Director at the Department of Strategy and Co-ordination, Presidency of the Republic of Turkey. Tarik will conduct his research based on his proposal, 'Is Risk-Sharing Asset-Based Redistribution a Viable Solution to Tackle Wealth Inequality?'

### Stakeholder Engagements

The SC representatives participated as speakers in the following events organised by various organisations during the first half of 2019:

- Workshop on Shariah: Risk, Review and Audit for Islamic Finance – Centre for Research and Training (CERT), 12-13 February 2019 (Kuala Lumpur)
- Green Conference - Malaysian Industrial Development Finance (MIDF), 21 March 2019 (Kuala Lumpur)
- Sustainable Capitalism in South East Asia Forum – Capital Markets Malaysia (CMM), 22 March 2019 (London)
- 15<sup>th</sup> KLIF 2019 – Kuala Lumpur Islamic Finance Forum (KLIF), 9 April 2019 (Kuala Lumpur)
- Muzakarah Penasihat Syariah Kewangan Islam KLIF ke-13 - Cabaran Baru dalam Industri Sukuk – KLIF, 11 April 2019 (Kuala Lumpur)
- IFN Asia Forum 2019 – Islamic Finance News (IFN), 24 April 2019 (Kuala Lumpur)
- 9<sup>th</sup> Annual Malaysia Roundtable – Pensions and Investments: Moving to a Sustainable Future – Asia Asset Management, 27 June 2019 (Kuala Lumpur)



## MALAYSIAN ICM – FACTS AND FIGURES

### Islamic capital market

	1H 2019	1H 2018
	(RM billion)	(RM billion)
Market capitalisation of Shariah-compliant securities	1,095.23	1,083.65
Size of sukuk outstanding	918.46	818.41
Total size of ICM	2,013.69	1,902.06
% ICM to total capital market	62.05%	60.49%
Year on year growth	5.87%	9.62%

### Capital market

	1H 2019	1H 2018
	(RM billion)	(RM billion)
Total market capitalisation of securities	1,752.56	1,771.05
Size of outstanding bonds	1,492.61	1,373.29
Total size of capital market	3,245.17	3,144.34

### Shariah-compliant securities

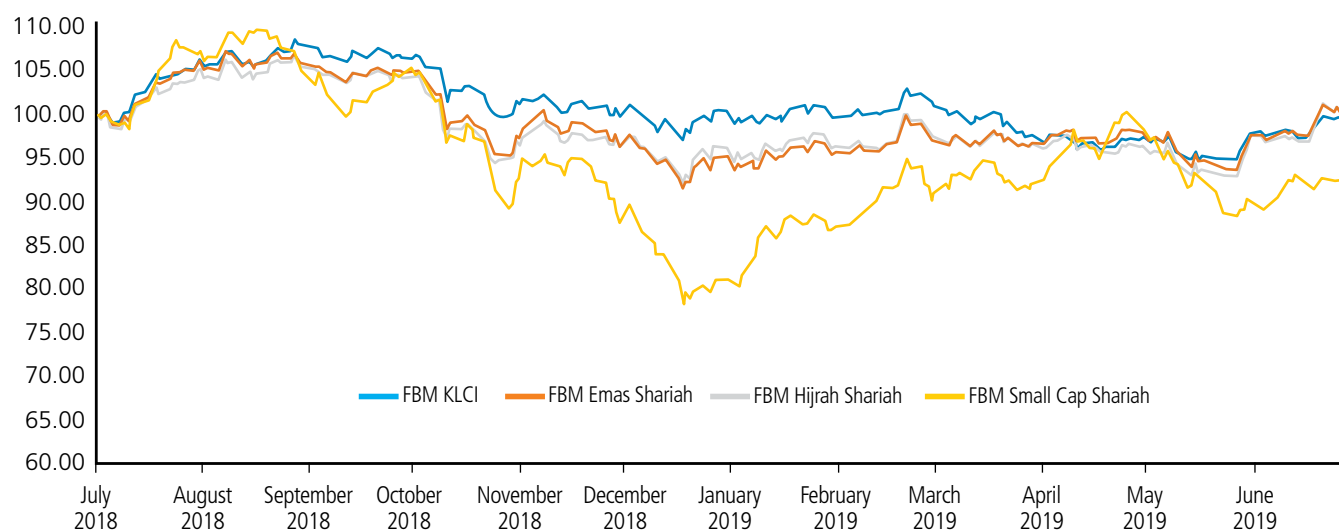
	1H 2019	1H 2018
<b>Number of securities:</b>		
Shariah-compliant securities	697	692
Total listed securities	920	907
% of Shariah-compliant securities to total listed securities	75.76%	76.30%
<b>Market capitalisation (RM billion):</b>		
Shariah-compliant securities	1,095.23	1,083.65
Total market capitalisation	1,752.56	1,771.05
% of Shariah-compliant securities to total market capitalisation	62.49%	61.19%

### Equity market indices

	1H 2019	1H 2018	% change
FBM KLCI	1,672.13	1,691.50	-1.15%
FBM EMAS Shariah	12,132.94	12,092.55	0.33%
FBM Hijrah Shariah	13,672.68	13,594.48	0.58%
FBM Small Cap Shariah	11,439.16	12,327.61	-7.21%

Chart 1

FBM KLCI and Shariah indices 1-year performance



### Corporate sukuk

	1H 2019	1H 2018
<b>Sukuk approved/lodged</b>		
Number of sukuk	18	12
Size of sukuk (RM billion)	81.80	16.69
Size of total corporate bonds and sukuk (RM billion)	108.52	38.63
% of sukuk to total corporate bonds and sukuk	75.38%	43.20%
<b>Total issuance (RM billion) (long term)</b>		
Sukuk issuance (RM billion)	65.15	41.92
Total corporate bonds and sukuk issuances (RM billion)	78.43	55.73
% of sukuk to total corporate bonds and sukuk issuances	83.07%	75.22%
<b>Total sukuk outstanding (RM billion) (long term)</b>		
Sukuk outstanding	544.67	482.33
Total corporate bonds and sukuk outstanding	697.24	638.63
% of sukuk to total corporate bonds and sukuk outstanding	78.12%	75.53%

### Government and corporate sukuk

	1H 2019	1H 2018
<b>Total issuance (RM billion)</b>		
Sukuk issuance	136.95	99.36
Total bonds issuances	216.19	191.01
% of sukuk to total bonds issuances	63.35%	52.02%
<b>Total sukuk outstanding (RM billion)</b>		
Sukuk outstanding	918.46	818.41
Total outstanding bonds	1,492.61	1,373.29
% of sukuk to total bonds outstanding	61.53%	59.59%

### Sukuk listing

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

Source: Bursa Malaysia

### Corporate green SRI sukuk

	1H 2019	1H 2018
<b>Sukuk approved/lodged</b>		
Number of green SRI sukuk	1	1
Size of corporate green SRI sukuk (RM billion)	0.47	0.24
Size of total corporate sukuk (RM billion)	81.79	16.69
% of corporate green SRI sukuk to total corporate sukuk approved/lodged	0.57%	1.44%
<b>Total issuance (RM billion)</b>		
Corporate green SRI sukuk issuance	0.02	0.47
Total corporate sukuk issuances	65.15	41.92
% of corporate green SRI sukuk to total corporate sukuk issuances	0.03%	1.12%
<b>Total sukuk outstanding (RM billion)</b>		
Corporate green SRI sukuk outstanding	2.87	2.41
Total corporate sukuk outstanding	544.67	482.33
% of corporate green SRI sukuk to total corporate sukuk outstanding	0.53%	0.50%

Chart 2

### Sukuk by principle approved/lodged 1H 2019

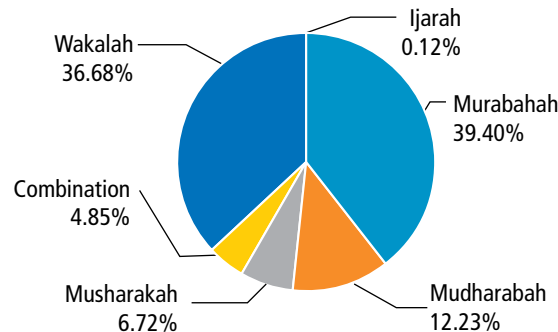
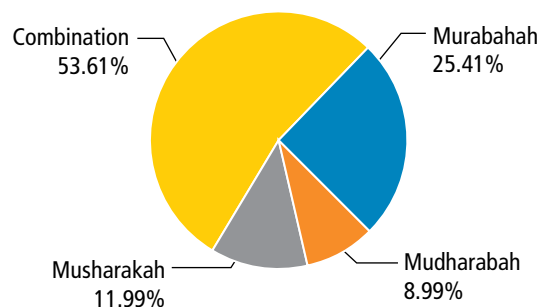


Chart 3

### Sukuk by principle approved/lodged 1H 2018



### Islamic assets under management (AUM)

	1H 2019	1H 2018
Islamic AUM (RM billion)	172.89	163.58
Total fund management industry (RM billion)	803.26	757.22
% of Islamic AUM to total fund management industry	21.52%	21.49%

### Islamic unit trust funds (UTF)

	1H 2019	1H 2018
Islamic UTF*	230	227
Total industry	670	645
NAV of Islamic UTF (RM billion)	96.22	75.90
NAV of total industry (RM billion)	467.15	417.86
% NAV of Islamic UTF to total industry	20.60%	18.16%
* Note: this includes 1 SRI fund		

### Islamic wholesale funds (WF)

	1H 2019	1H 2018
Islamic WF*	64	73
Total industry	311	288
NAV of Islamic WF (RM billion)	21.09	34.20
NAV of total industry (RM billion)	62.74	84.10
% NAV of Islamic WF to total industry	33.61%	40.67%
* Note: This Includes 1 SRI fund		

### Islamic private retirement scheme funds (PRS)

	1H 2019	1H 2018
Islamic PRS	25	25
Total industry	56	56
NAV of Islamic PRF (RM billion)	0.92	0.74
NAV of total industry (RM billion)	2.99	2.32
% NAV of Islamic PRF to total industry	30.77%	31.90%

### Islamic exchange-traded funds (ETF)

	1H 2019	1H 2018
Islamic ETF	6	6
Total industry	12	10
Market capitalisation of Islamic ETF (RM billion)	0.57	0.55
Market capitalisation of total industry (RM billion)	2.09	2.03
% market capitalisation of Islamic ETF to total industry	27.27%	27.03%

### Islamic real estate investment trusts (REIT)

	1H 2019	1H 2018
Islamic REIT	4	4
Total industry	18	18
Market capitalisation of Islamic REIT (RM billion)	17.83	17.61
Market capitalisation of total industry (RM billion)	44.11	43.09
% market capitalisation of Islamic REIT to total industry	40.42%	40.87%

### Islamic collective investment scheme (CIS)

	1H 2019	1H 2018
Number of Islamic CIS	334	335
AUM of Islamic CIS (RM billion)	136.63	129.00

### List of Islamic fund management companies

Company	Status
1. Aberdeen Standard Islamic Investments (Malaysia) Sdn Bhd	Foreign
2. ALLMAN 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. Eastspring Al-Wara' Investments Bhd	Foreign
8. Franklin Templeton GSC Asset Management Sdn Bhd	Foreign
9. Guidance Investments Sdn Bhd	Foreign
10. i-VCAP Management Sdn Bhd	Local
11. Kenanga Islamic Investors Bhd	Local
12. Maybank Islamic Asset Management Sdn Bhd	Local
13. MIDF Amanah Asset Management 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. Principal Islamic Asset Management Sdn Bhd	Joint Venture
19. RHB Islamic International Asset Management Bhd	Local
20. Saturna Sdn Bhd	Foreign
21. Threadneedle Asset Management Malaysia Sdn Bhd	Foreign
22. UOB Islamic Asset Management Sdn Bhd	Foreign

### 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 Amanah Investment Bank Bhd	Window
12. Public Investment Bank Bhd	Window
13. RHB Investment Bank Bhd	Window
14. TA Securities Holdings Bhd	Window
15. UOB Kay Hian Securities Sdn Bhd	Window

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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