



malaysian ICM

Suruhanjaya Sekuriti
Securities Commission
Malaysia

Quarterly Bulletin of
Malaysian Islamic Capital Market
by the Securities Commission Malaysia

Contents

The Social Dimension of Islamic Finance	1
CAPITAL MARKET DEVELOPMENT	
The Royal Award for Islamic Finance	3
Updated List of Shariah-compliant Securities by the SC	3
SHARIAH	
<i>Ijarah Mudhafah Ila Mustaqbal</i> (Future Lease)	4
REGULATORY	
Amendment to the CMSA 2007 on the Establishment of Shariah Advisory Council	9
FEATURES	
Sukuk: Transferring Best Practices	10
News Round-up	12
STATISTICAL UPDATES	
Malaysian ICM – Facts and Figures	14

THE SOCIAL DIMENSION OF ISLAMIC FINANCE

Introduction

The growth of the Islamic finance industry within the past decade has been unparalleled. In 2000, the total assets of Islamic banks stood at only US\$1.9 billion. The figure in 2009 exceeded US\$1 trillion, of which assets of the top 500 Islamic banks expanded by 28.6% to US\$822 billion.¹ What deserves mention is the petro-dollar boom has further fuelled the rapid growth of Islamic finance over the past decade. With a booming economy, Islamic finance products and services that were tailored to the needs of high net-worth individuals, institutions and consumer credit saw increased demand. Since these Shariah-compliant products are constructed based on conventional products, whether intentionally or unintentionally, the outcome is the present state of “chasing money” witnessed in Islamic finance. Tun Dr Mahathir Mohamed, former Prime Minister of Malaysia, has lamented that the very rich Muslim countries have shown an unwillingness to invest their money in a way that could improve the situation in the Muslim world, which points to the trend of “chasing money”.²

page 6 ►►

¹ “Islamic Finance Is Likely to Advance in 2010 on Firm Growth and Widening Geographic Reach”, Standard & Poor’s Ratings Services, 2010.

² “Islamic Finance - New Hope for the Future of the Muslim World”, keynote address delivered by Tun Mahathir Mohamad on 3 May 2010 at the Malaysia Islamic Finance showcase dinner in Manama, Bahrain, in conjunction with the 7th Islamic Financial Services Board (IFSB) Annual Summit.

THE ROYAL AWARD FOR ISLAMIC FINANCE

Honouring outstanding contribution
to Islamic finance



THE ROYAL AWARD FOR ISLAMIC FINANCE

The Royal Award for Islamic Finance recognises one exceptional individual who has excelled with outstanding performance and contribution in Islamic finance globally.

Once every two years, under the Malaysia International Islamic Financial Centre (MIFC) initiative, a global search for award nominations is conducted. All nominations will undergo a rigorous evaluation process conducted by an independent international jury comprising eminent individuals, Shariah scholars, academicians and Islamic finance practitioners from around the world.

His Majesty the Yang di-Pertuan Agong of Malaysia will present this prestigious award to the selected award recipient in a special by-invitation-only ceremony to be held in Kuala Lumpur, 25 October 2010.

THE ROYAL AWARD FOR ISLAMIC FINANCE

Malaysia is on a global search for an exceptional individual in the field of Islamic finance as part of its plan in providing further impetus to deepen the body of knowledge and cross-border application of Islamic finance. Inspired by ethical principles that drive the industry, this prestigious recognition is unique as it focuses on the individual's outstanding contribution and its impact towards the advancement of Islamic finance globally, rather than being based on the commercial value of a deal.

His Majesty the King of Malaysia, Tuanku Mizan Zainal Abidin, who has bestowed royal patronage on the award initiative, will present The Royal Award for Islamic Finance (The Award) to the winner at a gala dinner on 25 October 2010 in Kuala Lumpur.

The Award is spearheaded by the Malaysia International Islamic Financial Centre (MIFC). In implementing The Award, the Securities Commission Malaysia (SC) has established a special taskforce, which is headed by its Chairman, Tan Sri Zarinah Anwar.

Seven eminent individuals, Shariah scholars, academicians and Islamic finance practitioners from around the world form an independent jury panel for The Award, and will undergo a rigorous selection process of the winner. The 7-member jury is chaired by the former Deputy Prime Minister of Malaysia and the Chairman

of the World Islamic Economic Forum Foundation (WIEF), Tun Musa Hitam. The members comprise:

- Tun Abdul Hamid Mohamad, former Chief Justice of the Federal Court of Malaysia and member of the Shariah Advisory Council of Bank Negara Malaysia and the SC;
- Professor Dr Volker Nienhaus, former President of University of Marburg, Germany;
- Professor Dr Abbas Mirakhor, former Executive Director of the IMF and Holder of the First INCEIF Chair in Islamic finance (2010);
- Dr Mohamed Ali Elgari, Professor of Islamic Economics at King Abdul Aziz University, Saudi Arabia;
- Riawan Amin, Chairman of the Indonesian Association of Islamic Banks; and
- Dr Yahia Abdul-Rahman, Founder, Chairman and CEO of LARIBA Bank of Whittier, US

The logo for The Award comprises the shape of five diamonds that represents the five pillars of Islam as well as the principles of Islamic finance namely good governance, transparency, fairness, faith and risk sharing.

UPDATED LIST OF SHARIAH-COMPLIANT SECURITIES BY THE SC

The SC released an updated list of Shariah-compliant securities approved by its SAC. The updated list took effect on 31 May 2010.

The list features a total of 847 Shariah-compliant securities that constitute 88% of the total 960 listed securities on Bursa Malaysia. These companies represent 63 per cent of the total market capitalisation. It includes 12 newly classified Shariah-compliant

securities and excludes three from the previous list issued in November 2009. It also indicates that Shariah-compliant securities are well represented in most sectors of industry.

The full list of Shariah-compliant securities is updated twice a year and is available at www.sc.com.my. The next updated list will be available in November 2010.

IJARAH MUDHAFAH ILA MUSTAQBAL (FUTURE LEASE)

Ijarah mudhafah ila mustaqbal is a lease contract of an existing asset whereby both the lessee and the lessor have agreed at the time of the contract execution, that the delivery of the usufruct of the leased asset will take effect at a specified future date.

Ijarah mudhafah ila mustaqbal has been approved by the Shariah Advisory Council (SAC) of the SC and can be applied to Islamic finance products.

The Views of Classical and Contemporary Shariah Scholars on the Permissibility of *Ijarah Mudhafah ila Mustaqbal*

The Hanafi, Maliki and Hanbali schools of thought have approved *ijarah mudhafah ila mustaqbal*. The Hanafi school of thought, however, considers this type of *ijarah* contract as non-binding (*ghair mulzim*) to the contracting parties. Both parties may terminate (*fasakh*) the contract without consent from the other party, as long as the leased period has not commenced. Nevertheless, once the lease period has started, the lessor may not terminate the contract or prevent the lessee from leasing the asset.

Their arguments for the permissibility of the said *ijarah* are as follows:

i. Hadith of Aisyah r.a.:

حديث عائشة قالت : " واستأجر رسول الله صلى الله عليه وسلم وأبو بكر رجل من بني الدئل هاديا خريتا وهو على دين كفار قريش، فدفعنا إليه راحلتيهما، وواعده غار ثور بعد ثلاث ليال فأتاهما براحلتيهما صبح ثلاث "

'Aisyah said: Rasulullah SAW and Abu Bakar r.a. hired a man from Bani al-Dail, a kafir Quraisy as a tour guide. The man was asked to meet the Prophet and Abu Bakar after three nights. He came to meet them to show the direction on the morning of the third day.

The *hadith* narrates that at the time of the *hijrah* to Madinah, Rasulullah SAW and Saidina Abu Bakar r.a. had hired a man from the Quraisy tribe to be a tour guide (*mursyid li al-tariq*) but his work was to start only on the third day. This shows that the particular *ijarah* contract took effect on the third day after the contract was made. The act of Rasulullah SAW and Saidina Abu Bakar r.a. justifies the permissibility of future *ijarah* contracts.

ii. Rasulullah SAW said:

المسلمون على شروطهم إلا شرطا أحل حراما أو حرم حلالا

All the conditions agreed upon by the Muslims are upheld, except a condition which allows what is prohibited or prohibits what is lawful.

Riwayat Abu Daud and al-Hakim

If this *hadith* is applied to *ijarah mudhafah ila mustaqbal*, it shows that as long as the terms and conditions specified in the *ijarah* contract fulfill Shariah requirements, and also is mutually agreed upon by the contracting parties then it is permissible.

The Syafi'i school of law does not approve *ijarah mudhafah ila mustaqbal* as they view that the leased period must commence at the time when the contract is executed and cannot be delayed. It is not permissible to have a gap between the time of

"Based on contemporary practices, the SAC has also recommended that the lessor may impose an advance rental on the lessee upon execution of the contract to safeguard the interest of both contracting parties."

execution of the contract and effective lease period. The Syafi'i school, however, does allow *ijarah mudhafah ila mustaqbal* in cases where there is an extension of the existing lease period, provided that the extension is executed before the expiry of the first lease period.

Contemporary Shariah scholars such as Wahbah al-Zuhaili and Abdul Sattar Abu Ghuddah also approve the application of *ijarah mudhafah ila mustaqbal* in Islamic finance.

Issues Relating to Ijarah Mudhafah Ila Mustaqbal

1. Method of lease payment

Hanafis and Hanbalis view that the lease payment of *ijarah mudhafah ila mustaqbal* commences at the future date whenever the lessee enjoy the usufruct of the leased asset and not at the time of execution of the contract. The contract is void and considered as *fasid*¹ if it states that immediate rental payment has to be made at the time when the contract is executed.

The Hanafis further elaborates that since the said contract is non-binding, the lessee is not obliged to pay the rent immediately; as the lessee has yet to enjoy the usufruct from the leased asset.

According to the Malikis, rental payment should be paid immediately at the time of execution of the contract under the following situations:

- i. If it is stipulated in the contract;
- ii. If it is based on customary practice (*'uruf*);
- iii. If it involves forward lease (*ijarah mawsufah fi zimamah*); and
- iv. If it is a fee (*ujrah*) which is paid in the form of in-kind (*'ayn*).

Contemporary scholars such as Sheikh Taqi Usmani, allows *ijarah mudhafah ila mustaqbal* on condition

that the rental payment is payable only when the leased asset has been delivered to the lessee.

After reviewing the various opinions above, the SAC has resolved that the method of rental payment is subject to mutual consent of the contracting parties under any of the following situations:

- i. The lease payment would commence at a future date whenever the lessee enjoy the usufruct of the leased asset;
- ii. Based on the terms and conditions of the contract; or
- iii. Based on *'uruf*.

Based on contemporary practices, the SAC has also recommended that the lessor may impose an advance rental on the lessee upon execution of the contract to safeguard the interest of both contracting parties. The advance acts as the lessee's commitment to lease the asset at future date. The lessee can opt to terminate the contract before the lease period commences, where the advance payment can either be refunded or forfeited subject to the terms and conditions of the contract.

2. Non-delivery of leased assets

Referring to Diagram 1 on page 11, in the event that the lessor fails to deliver the asset on the contractual date of 1 January 2011 but delays delivery to 1 February 2011, the lessee has the right not to pay the rental between the two dates. If rental payment has already been made, the lessor should either–

- i. deduct the portion of rental that has been made accordingly; or
- ii. extend the leased period accordingly.

¹ Void due to defect.

cover page ►►

A fallout from the rapid growth is criticisms that Islamic finance lacks differentiation in products and services as available in conventional finance, and is slanted towards bankable Muslims and non-Muslims customers. Amidst its celebrated achievements, Islamic finance has also been discredited for a large segment of Muslim societies across the world remaining in a derelict state.

This article highlights areas which have not kept up with the pace of which Islamic finance has grown and also covers some of the commercially viable efforts which have been initiated to address the financial needs of the poor. The purpose is to encourage further assessment of Islamic principles in developing financing programmes that meet the needs of the poor.

To begin with, the current Islamic finance model has yet to unleash the goodness of the Islamic economic system, and its capacity for equity, stability and growth. Islamic finance is the product of financial engineers trying to design structures that can deliver the same economic outcome of conventional banking products while meeting requirements of Shariah. The end result is the mere modification of an already existing system to meet constraints.³

The underprivileged

Since ancient times, poverty, which is a state when one lacks a usual or socially acceptable amount of money or material possessions, has existed in societies. A familiar phrase “obscene wealth and abject poverty” has evolved and refers to the disparity between the rich and the poor. If we examine the asset profile of Islamic banks, there seems little difference with that of conventional banks. Assets are debt based, typically spread out between consumer, retail, corporate and real-estate financing, mortgages, leases, hire-purchase, trade-finance, treasury and structured products as well as derivatives. Micro-financing remains miniscule implying that the poor segment of the society, for their sheer lack of a source of income, collateral and

track record, continues to have limited access to credit or loans.

The poor who ekes out a living has little choice but to rely on illegal money lenders. The poverty cycle eventually leads them to a life of crime by virtue of being economically displaced. On the other side of the coin, the illegal lenders channel the money collected into a web of other illegal activities. All these lead to decadence in the social infrastructure.

Wealth distribution from the perspective of Islam

Wealth belongs to God Almighty and a person has no right to satisfy his fancies, as extravagance and wastage are scorned. Muslims are taught that money should be earned, invested and spent in approved (*halal*) avenues. Only then will he, his family and the society (*ummah*) obtain rewards for this life and also for thereafter.

Wealth distribution is one of the basic principles governing *Fiqh al-Muamalat* (Islamic commercial law) which forms the core foundation of all commercial transactions in Islam.

Verse 36:71 of the holy Quran states:

أَوَلَمْ يَرَوْا أَنَّا خَلَقْنَا لَهُمْ مِنَّا عَمَلَتْ أَيْدِيَنَا أَنْعَامًا
فَهُمْ لَهَا مَلِكُونَ ﴿٧١﴾

*Have they not seen that, among the things made by
Our own hands, We have created cattle for them,
and thus they acquired the right of property over
them?*

This verse shows the relevance of wealth distribution in Islam. It throws ample light on the fundamental point that “wealth”, in whatever form, is “the property” of Allah, and it is He who has bestowed upon man the right to exploit it. Allah has the right to demand that

³ “Wither Islamic Finance”, Dr Abbas Mirakhor, SC-OCIS Roundtable, Kuala Lumpur, 15 March 2010.

man should subordinate the exploitation of wealth according to the commandments of Allah. Man has the “right of property” over the things he exploits, but this right is not absolute or arbitrary or boundless— it carries along with it certain limitations and restrictions which have been imposed by the real owner of the “wealth”. We must spend it where He has commanded it to be spent, and refrain from spending where He has forbidden.

Underpinning this principle is that “... wealth and property should be circulated among the general public and actively transferred from one hand to another in the form of expenditures and investments”.

Wealth distribution from the perspective of Islam is a means of establishing a natural and practical economic system. There exists neither compulsion nor force, thus allowing each individual to function according to his ability, aptitude and choice.

One of the important ways how Islam accomplishes the distribution of wealth to the poor is through *zakat*, which is also a means of purifying one’s wealth. Another underlying feature of *zakat* is the mitigation of wealth concentration in the hands of a few.

For those who are physically able to work, they need not rely on *zakat*. It is more suitable to give them some form of financing, subsidies or grants to enable

them to be “self sustaining” and generate income for themselves. The disadvantage of this is that grants and subsidies are meant to be temporary and can be crutches when recipients over-rely on them; once removed, the recipients would fall flat on their faces. Subsidies and grants can also put pressure on a country’s economy.

Financings in the form of *qardh hassan* or *mudharabah* are more productive than charity and subsidies. Clearly, recipients are much better off when they receive these types of financing which act as an incentive for them to work harder in order to earn a living and repay what they owe. The money can then be recycled back into the system.

Private sector wealth distribution models

There have been attempts and efforts to address the financial needs of the underprivileged and the poor segment of society. Mit Ghamir Local Savings Bank of Egypt formed in 1963 is an example of how a pioneer in modern Islamic banking successfully alleviated most of the problems related to debt and poverty among those in rural areas. The bank’s initiative improved standard of living for many among the poor who had previously relied on money-lenders.

We have also seen government-run development banks making good strides towards uplifting the standards of the poor. There are, however, inherent weaknesses in development banks: they are run with much bureaucracy, are not far-sighted, prone to corruption and lack business acumen. Moreover, a prime disadvantage is its heavy reliance on the government which has to continually inject funds into the banks.

Successful Micro-Credit Models

Another area which has been minimally developed is micro-finance, specifically the non-collateral, non-pawn type of micro-financing which is granted on the spirit of entrepreneurship and the community. This micro-

“Wealth distribution from the perspective of Islam is a means of establishing a natural and practical economic system. There exists neither compulsion nor force, thus allowing each individual to function according to his ability, aptitude and choice.”

⁴ *Building Social Business Model: Lesson from the Grameen Experience*, HEC Paris – Working Paper 913, February 2009 by Muhammad Yunus, Bertrand Moingeon & Laurence Lehmann-Ortega.

finance model which is promoted by Grameen Bank is referred to as the “social business” model.⁴

Similar to the principles of Islamic finance, the social business model seeks for the betterment of society and promotion of economic development and co-operation.

It is the achievement of Grameen that deserves emphasis. Premised upon the entrepreneurship qualities of the borrower, the Grameen micro-credit model requires no collateral and provides training. Statistics⁵ related to Grameen are impressive: about 21% of its clients managed to lift their families out of poverty within about four years of participation. Repayment rate is at an unprecedented rate of 98%. Interest rates were lower than what was charged by the government bank's lending rate. Extreme poverty declined from 33% amongst its participants.

Conclusion

The boom in Islamic finance over the past decade is characterised by expansion in size of Islamic finance asset, involvement in mobilising finance for large-scale and long term projects, creation of Shariah-compliant investment opportunities for high net-worth individuals as well as providing services to cater for middle and upper class needs. Nonetheless, there remains the poor segment of society who finds difficulty in accessing credit facilities and other financial support services in the formal Islamic financial system for the same reason that the conventional financial institutions turn them away.

Efforts to reach the poor and assist in raising their socio-economic well-being have been documented but these have been sporadic. More needs to be done and the private sector, particularly Islamic banks and financial institutions, can play a more significant role. There are extensive opportunities for these institutions to tap in mobilizing funds and servicing the poor segment of society. Rather than depending heavily on the government, charitable institutions and non-governmental organisations for a helping hand, basic principles of Islamic finance should be explored and utilized when developing financing programmes that would enable the poor to get a head start in small businesses, with the main objective of improving their livelihood.

In this respect, how can the Islamic capital market contribute nurturing socio-economic development? At the same time, how can ICM products and instruments provide impoverished Muslims with access to appropriate financing?

From the top-to-bottom approach, innovations can be applied to sukuk, venture capital as well as specialised funds, via replication of the *modus operandi* of the social business models. Such ICM products could mobilise sizeable funds, which are then utilized towards providing financing to the poor segment of society.

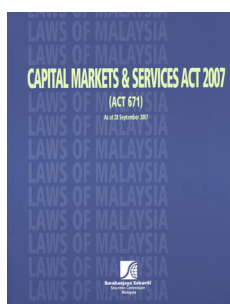
The micro-credit industry could also be propped up with the eventual securitisation of their assets through sukuk. At the end of the day, if this proves to be successful, *maqasid Shariah* of Islamic finance in mobilising funds to reach the needy would be realised.

⁵ *Building Social Business Model: Lesson from the Grameen Experience*, HEC Paris – Working Paper 913, February 2009 by Muhammad Yunus, Bertrand Moingeon & Laurence Lehmann-Ortega.

AMENDMENT TO THE CMSA 2007 ON THE ESTABLISHMENT OF SHARIAH ADVISORY COUNCIL

The establishment of the SC's Shariah Advisory Council (SAC), a world first at the level of the regulator, forms the most important measure that the SC has initiated to boost the development of the ICM. The SAC was informally established in 1994 and formalised in 1996. Since then the SAC has not only been an enabler but also a catalyst for innovation in the ICM. The members of the SAC have shown exemplary commitment, dedication and willingness to explore new frontiers for the ICM.

The establishment of the SAC, brought about by the *Capital Markets and Services Act (Amendment) 2010* which came into force on 1 April 2010, further provides for a strong and robust framework to



the SAC's pivotal role as well as enhancing the SC's regulatory oversight of the Islamic capital market, products and participants. The list of sections which have been inserted in the principle Act is as presented in the table below. The full text on these sections is available at www.sc.com.my.

Sections	
316A	Establishment of SAC for ICM
316B	Functions of SAC
316C	Appointment of members of SAC
316D	Secretariat to SAC
316E	Advice or ruling of SAC
316F	Reference to SAC for ruling from court or arbitrator
316G	Effect of Shariah ruling
316H	SAC ruling prevails

SUKUK: TRANSFERRING BEST PRACTICES¹

The global financial crisis underscores the interconnectedness of markets. The sharing of learning and the transfer of knowledge through ties with other markets are, therefore, important. Lessons and experiences learned and shared can help mitigate the risk of contagion which can be devastating to the world economies. At the regulatory level, co-operation and exchange of information have been greatly intensified in recent years.

In the Islamic markets, the transfer of knowledge through a forum such as this, paves the way to progress through sharing and innovation. Developing relationships between jurisdictions and learning from our peers' experiences are valuable in efficiently moving towards a stronger Islamic finance industry. We all have much to contribute, but may not realise at times that we are in a position to do so because we are so entrenched in trying to move forward on our own.

The sukuk market saw a lull in activity towards the end of the global financial crisis, fuelled by the tightening of liquidity. At the same time the pronouncement made with regard to certain sukuk structures being inconsistent with the spirit of the Shariah also had some impact. The debate was on whether the asset tied to the sukuk could be at a pre-determined price (creating a guarantee, which is unacceptable in Islamic law) and whether the sukuk was actually asset backed rather than asset based. The latter issue is one that poses legal challenges to issuers and investors in respect of the legal claim to the underlying assets.

The challenges to do with the rights of investors and their claim on assets, and the responsibility of issuers to act in a fair and transparent manner do not just lie with the issuing agencies; they also have to do with jurisdictions and the laws of the land. Many jurisdictions have made amendments to the law to help the sukuk market grow while the laws in many other

"The challenges to do with the rights of investors and their claim on assets, and the responsibility of issuers to act in a fair and transparent manner do not just lie with the issuing agencies; they also have to do with jurisdictions and the laws of the land. "

jurisdictions have yet to be changed. Another challenge facing the sukuk market is that, with a greater volume of issuances, there will be a need for common standards and methodologies for analysis. This is to enable sukuk to be assessed through standardised financial analysis instead of by way of due diligence. A decade ago, no one would have imagined the growth we have achieved in the last ten years.

The range of sukuk instruments available to investors in Malaysia is unparalleled and these issuances come from a broad spectrum of issuers. The recent issuance of the Malaysian Sovereign sukuk led to overwhelming demand with the issue being oversubscribed by almost five times, and with investors coming from the Middle East, Asia, the US, and other regions; making the issuance a truly global one. This reinforces the acceptability of sukuk as a viable investment alternative notwithstanding the challenges raised earlier. The product advantage of sukuk is the Shariah-compliance process which results in additional disclosures relative to conventional corporate bond issuances. Thus, it has been observed that the multi-layered securitisations (like CDOs), which are complex and lacking in clarity, are unlikely to pass the Shariah-screening process. As was seen, a great deal of contractual ambiguity surrounded these instruments that fed the worst of

¹ This article is extracted from the welcoming remarks delivered by the SC Chairman, Tan Sri Zarinah Anwar, at the 4th International Islamic Capital Market Forum, in Kuala Lumpur, on 1 July 2010.

the global financial crisis. It is the prohibition on undue ambiguity in contracts that excluded these types of instruments in Islamic finance.

We have seen positive developments in the sukuk market in the aftermath of the global financial crisis with global issuances in 2009 increased to US\$23 billion² (of which US\$9.7 billion were from Malaysia)

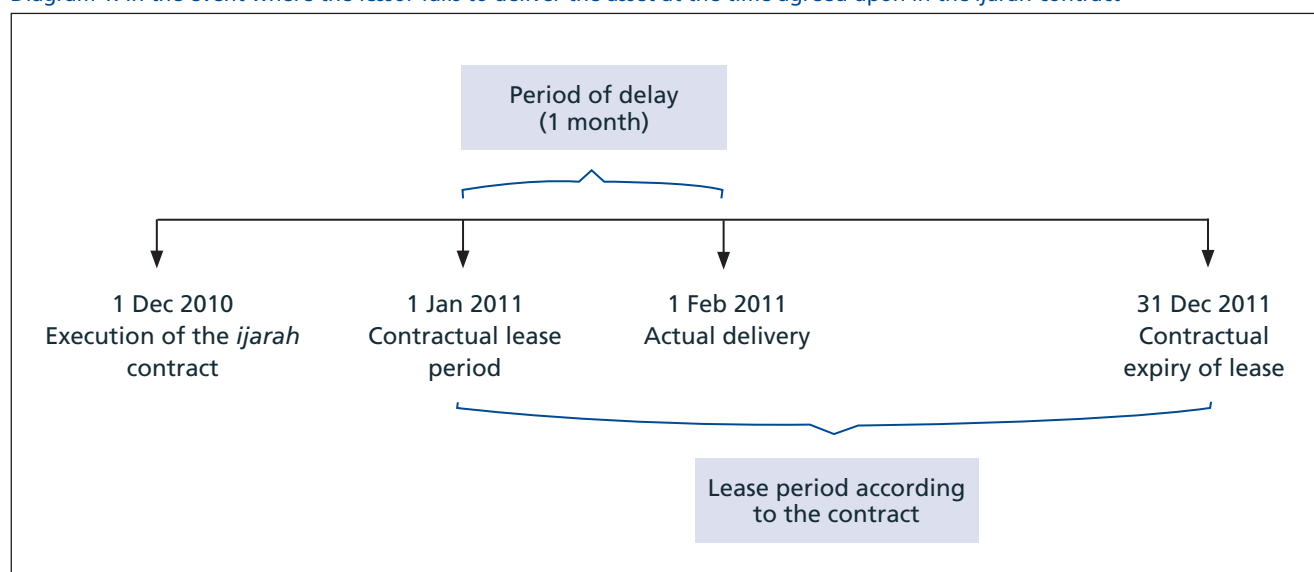
from US\$19 billion³ in 2008, during the crisis. This demonstrates continued demand for sukuk in general, although there will always be a continuing demand for sukuk by investors who are permitted to invest only in Shariah-compliant instruments. The growing interest in sukuk funds within the global Islamic fund management industry also indicates great potential for the continued growth of the sukuk market.

² Source: S&P.

³ Source: IIFM.

page 5 ►►

Diagram 1: In the event where the lessor fails to deliver the asset at the time agreed upon in the *ijarah* contract



Conclusion

The development of Islamic financial products is growing rapidly and witnessing numerous underlying Islamic contracts used in structuring financial products.

Ijarah mudhafah ila mustaqbal is another type of lease contract that can be applied in financial products to facilitate the industry needs. Although it is not widely applied, this contract is seen to be one of Islamic contracts in innovating new Islamic financial products.

NEWS ROUND-UP

Road show to United Arab Emirate and Saudi Arabia

The Malaysia International Islamic Financial Centre (MIFC) organised a road-show to the United Arab Emirate (UAE) and Saudi Arabia from 26 April to 2 May. At the road show, MIFC players sought new partners in international business ventures and potential new shareholders. They also established relationships with key institutional investors in the UAE and Saudi Arabia for potential investment

opportunities including sukuk and asset management mandates and generated interest in Islamic banking and takaful businesses in Malaysia.

The road show was led by His Royal Highness Raja Dr Nazrin Shah and supported by a delegation of more than 32 organisations, comprising regulators and intermediaries from the financial industry.

Islamic Capital Market Graduate Training Scheme

The third Islamic Capital Market Graduate Training Scheme (ICMGTS) was held from 11 June to 5 August with a total of 43 students enrolled in the programme. Similar to previous ICMGTS, graduates were exposed to a combination of structured and experiential learning comprising lectures, illustrative examples, case studies, simulation, and interaction to equip them with the necessary technical knowledge and skills to enter the industry.



6th Shariah Advisory Council Members of Islamic Finance Institutions Muzakarah

The Muzakarah was organised by Jabatan Kemajuan Islam Malaysia in collaboration with the International Shariah Research Academy for Islamic Finance on 31 May at the Putrajaya International Convention Centre. The objectives of the programme, among others, were to enhance collaboration and

standardisation in Shariah at the national level, discuss selected topics on relevant Shariah issues, and seek recommendations and effective strategies in an effort to promote Malaysia as international hub for Islamic finance. During the event, the SC presented a paper on the application of *ibra'* in sukuk issuance.

Expert Talk Series

On 13 May, the SC began its first Expert Talk Series for this year entitled "Islamic Profit Rate Swap". The talk, delivered by a representative from Standard Chartered

Bank Malaysia Bhd, discussed on the application of risk management tools for Islamic financial institutions and corporate to meet the market challenges.

Malaysia International Halal Showcase 2010

The Malaysia International Halal Showcase (MIHAS) 2010, a dedicated tradeshow where only halal certified products and services were displayed, was held from 23 to 27 June. Organised by the Malaysia External Trade Development Corporation, MIHAS provided a one-stop platform for networking, meeting the leading pioneers of the halal industry and establishing contacts. The SC participated in the event in showcasing the Malaysian Islamic capital market, covering key strategic development, and various products and services.



MALAYSIA ICM – FACTS AND FIGURES

Shariah-compliant securities on Bursa Malaysia

Number of Shariah-compliant securities – May 2010*	847		
% to total listed securities	88%		
Latest market capitalisation – June 2010	(RM billion)		
Shariah-compliant	666.34		
Total market	1,044.35		
% of Shariah-compliant securities to total market	63.8%		
Equity market indices	30 June 2009	30 June 2010	% change
KL Composite Index (KLCI)	1,075.24	1,314.02	22.21%
FBM EMAS Shariah	7,445.71	8,764.17	17.71%
FBM Hijrah Shariah	8,133.37	9,275.39	14.04%
DJIM Malaysia Titans 25	654.86	745.78	13.88%

* The SAC of the SC releases the updated Shariah-compliant securities list twice a year in May and November

Islamic unit trust funds (UTF)

Number of approved funds	June 2009	June 2010
Islamic UTF	143	156
Total industry*	551	575
Net asset value (NAV) of approved funds	June 2009	June 2010
Islamic UTF (RM million)	19.71	22.68
Total industry* (RM million)	164	207.11
% to total industry	12.02%	10.95

+ including feeder funds, fixed income funds, money market funds and structured products
Note: Effective January 2009, wholesale funds was excluded from the above statistics

Islamic exchange-traded funds (ETF)

Number of approved ETF	June 2009	June 2010
Islamic ETF	1	1
Total industry*	3	3
Net asset value (NAV) of approved funds	June 2009	June 2010
Islamic ETF (RM million)	584.808	651.08
Total industry* (RM million)	1,104.629	1,168.99
% to total industry	53%	56%

+ including bond ETF - ABF Malaysia Bond Index Fund
Note: Islamic ETF- DJIM MyETF-DJIM25 was launched on 22 January 2008

Islamic real estate investment trusts (REITs)

Number of REITs	June 2009	June 2010
Islamic REIT	3	3
Total REITs	13	12
Market capitalisation	June 2009	June 2010
Islamic REIT (RM million)	1,488.01	1,941.98
Total REITs (RM million)	4,612.45	5,624.31
% total industry	32%	35%

Chart 1
Performance of KLCI vs Shariah indices

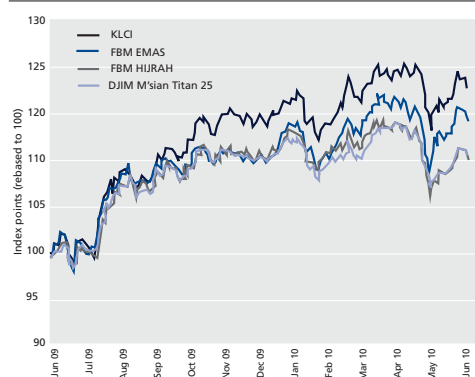
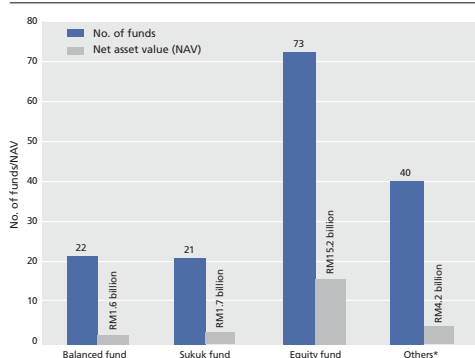
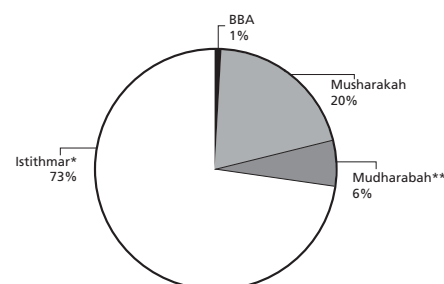


Chart 2
Shariah-based unit trust funds by category



*Including feeder funds, fixed income funds, money market funds, structured products and mixed asset funds

Chart 3
Size of sukuk approved based on various Shariah principle as at Q2 2010



*Including an issuance of RM5 billion by Cagamas Bhd which comprises of a combination of Shariah principles (ijarah, bai', wakalah and bai' bithaman ajil).

**Including an issuance of RM135 million by LBS Bina Group Bhd which comprises of a combination with murabahah principle.

Corporate Sukuk

Sukuk approved	Q2 2009	Q2 2010
Number of sukuk	5	7
Size of sukuk (RM billion)	5.85	6.87
Size of total bonds approved (RM billion)	17.9	10.51
% of size of sukuk to total bonds approved	33%	65%
Sukuk issued	Q2 2009	Q2 2010
Size of sukuk issued (RM billion)	10.3	7.3
% of sukuk issued to total bonds issued	52%	48%
Sukuk outstanding	June 2009	June 2010
Size of outstanding sukuk (RM billion)	168	170
% of outstanding sukuk to total outstanding bonds	58%	56%

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

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