

OVERVIEW OF MALAYSIAN STOCK MARKET

This topic is intended as a brief introduction by way of providing an overview of the stock markets. We will examine the stock exchange which provides the market for trading securities, and the particular characteristics of the Malaysian stock Market, as well as look at the players who invest in the stock market.

ISLAMIC CAPITAL MARKET

The Islamic capital market (ICM) is represented by both equity and bond markets. The fundamental ICM criterion is that financial transactions must conform to Shariah principles. The prohibited conducts stated under Shariah principles are riba and gharar. Riba literally means an increase or addition. Technically, it denotes any increase of advantage in a loan transaction obtained by the lender as the condition of the loan. Gharar denotes deception, uncertainty or ambiguity, where there exists an element of deception in the trade or exchange through ignorance of the goods or price, or through faulty description of the goods.

Milestones

In Malaysia, Islamic equity investments started as early as the mid-1960s when Tabung Haji was established. This was followed by various initiatives through the decades. Notably in the 1980s, Malaysia enacted the Islamic Banking Act 1983 and the Takaful Act 1984 respectively. This paved the way for the creation of Malaysia's first Islamic bank and first takaful company, and thereafter the development of more Islamic financial institutions and the growth of the industry as a whole.

In 1990, Shell MDS successfully issued the first Islamic private debt securities. Other notable developments and accomplishments included the establishment of the first Islamic equity unit trust fund in 1995 and the establishment of full-fledged Islamic stockbroking company BIMB Securities in 1994.

Today, Malaysia possesses one of the world's most advanced Islamic capital markets, which grew by 13.6% annually from RM293.7 billion in 2000 to slightly over RM1 trillion in 2010. By June 2018, this has grown to RM1.9 trillion, comprising 60.49% of Malaysia's capital market assets.

As in the first Capital Market Masterplan (CMP1) launched in 2001, the development of the ICM continues to be one of the SC's main agendas in the Capital Market Masterplan 2 (CMP2). Launched in April 2011, the CMP2 provides the strategic blueprint for the development of the Malaysian capital market over the next 10 years, including growth strategies to strengthen Malaysia's position as a global ICM hub.

Regulatory Framework

The sub-components of the ICM are Islamic equity, sukuk, Islamic funds, unit trusts, Islamic real estate investment trusts (i-REITs), Islamic structured products, Islamic venture capital, Islamic derivatives, Islamic exchange traded funds (i-ETFs), Shariah indices and Islamic stockbroking. There are various stakeholders or participants who play different roles in the ICM, including investment and commercial bankers, investors, issuers, trustees, fund managers, stock brokers and takaful operators.

As the ICM runs parallel to the conventional capital market, the regulatory frameworks of the capital market are applicable to the ICM, except in a few circumstances where specific laws, regulations and guidelines are provided exclusively for the operation of the ICM.

All matters pertaining to the conventional and the Islamic capital markets come under the jurisdiction of the Ministry of Finance. The governing authorities of the

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ICM are the SC, Bank Negara Malaysia, Labuan Financial Services Authority (Labuan FSA) and Bursa Malaysia.

The SC set up the Shariah Advisory Council in May 1996 to assist in the development of the ICM.

Shariah Advisory Council (SAC)

The Shariah Advisory Council (SAC) is tasked with assessing and evaluating existing instruments and ensuring the operations and workings of the ICM are in accordance with all Shariah principles.

The core functions of the SAC are:

- (a) To be responsible for advising the SC on all matters pertaining to the systematic development of the ICM, including the development of new instruments based on the various Islamic concepts; and
- (b) To serve as a focal point of reference on all matters and issues relating to the ICM and Shariah principles.

State muftis, Shariah scholars and academics and leading corporate figures in Islamic finance represent the SAC. The members of the SAC are appointed every two years.

Shariah Principles and Concepts

The verification of existing capital market instruments and the structuring of new ICM instruments to ensure compliance with the Shariah principles involve the application and reference of various Islamic concepts. Some of the frequently used principles and concepts are listed below.

- **Al-kafalah** refers to the guarantee provided by a person to the owner of goods, who has placed or deposited his/her goods with a third party. The guarantor must meet any subsequent claim by the owner with regard to his/her goods, if the third party does not meet it.
- **Al-wakalah** refers to a situation where a person nominates another person to act on his/her behalf.
- **Istisna'** is a contract of acquisition of goods by specification or order, where the price is paid progressively in accordance with the job completion progress. This is practised, for example, in the purchase of a house that is to be constructed and where the payments made to the builder or developer are according to the stage of work completed. In the case of bai al-salam, the full payment is made in advance to the seller, i.e. before the delivery of the goods. In Islamic financing, the applications of bai al-salam and istisna' are purchasing mechanisms, whereas murabahah and bai bithaman ajil are used for financing sales.
- **Al-wadiah yad dhamanah** (safekeeping with guarantee) refers to goods and deposits which have been deposited with another person, who is not the owner, for safekeeping. As wadiah is a trust, the depository becomes the guarantor and therefore, guarantees repayment of the whole amount of the deposits, or any part thereof, outstanding in the account of the depositors, when demanded. The depositors are not entitled to any share of profits but the depository may provide returns as a gift or as a token of appreciation.
- **Bai al-dayn** (debt trading) refers to debt financing, i.e. the provision of financial resources required for production, commerce and services by way of sale/purchase of trade documents and papers. Only documents evidencing debts arising from bona fide commercial transactions can be traded.
- **Bai al-istijrar** refers to an agreement between the client and the supplier, whereby the supplier agrees to supply a particular product on an ongoing basis, for example monthly, at an agreed price and on the basis of an agreed mode of payment.

OVERVIEW OF MALAYSIAN STOCK MARKET

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- **Bai bithaman ajil (deferred payment sale)** is similar to the concept of murabahah, except that the sale of goods is on a deferred payment basis at a price which includes a profit margin agreed to by both parties.
- **Balsa/am** refers to an agreement whereby payment is made immediately (price is fully settled) while goods are delivered by an agreed date (future delivery).
- **Ijarah (leasing)** refers to a contract under which a bank buys and leases out equipment required by its clients for a rental fee. The duration of the lease and the rental fees are agreed in advance. Ownership of the equipment remains in the hands of the bank. This type of contract is a classic Islamic one, and is now gaining popularity worldwide.
- **Mudharabah (trust financing)** is an agreement between two parties: one provides 100% of the capital for the project, and the other party known as mudharib manages the project using his/her entrepreneurial skills. Profits arising from the project are distributed according to a predetermined ratio. Any losses accruing are borne by the provider of capital. The provider of capital has no control over the management of the project.
- **Murabahah (cost-plus financing)** is a contract of sale between the bank and its client for the sale of goods at a price, which includes a profit margin, agreed by both parties. As a financing technique, it involves the purchase of goods by the bank as requested by its clients. The goods are sold to the client with a mark-up. Repayments, usually in instalments, are specified in the contract.
- **Musharakah (partnership financing)** is an Islamic financing technique that involves a partnership between two parties who both provide capital towards the financing of a project. Both parties share profits on a pre-agreed ratio but losses are shared on the basis of equity participation. Either both or one of the parties may carry out management of the project. Musharakah is a very flexible partnership arrangement where the sharing of the profits and management of the project can be negotiated and pre-agreed by the parties.

Bursa Malaysia Securities Berhad

Bursa Malaysia Securities Berhad has established an Islamic Markets division dedicated to the development of Shariah-compliant capital market products and services as well as trading platforms. Among others, the ICM products and services available in Bursa Malaysia are as follows:

- (a) Bursa Suq Al-Sila'
- (b) Bursa Malaysia-i
- (c) Islamic Capital Market
 - (i) Shariah-compliant listed equities
 - (ii) Sukuk
 - (iii) Islamic Real Estate Investment Trusts
 - (iv) Islamic Exchange Traded Funds
 - (v) Islamic Securities Selling and Buying — Negotiated Transaction

Bursa Suq

Bursa Suq Al-Sila' (BSAS) is a commodity trading platform specifically dedicated to facilitate Islamic liquidity management and financing by Islamic financial institutions. The fully electronic web-based platform provides industry players with an avenue to undertake multi-commodity and multi-currency trades from all around the world.

All businesses and activities of BSAS are managed by Bursa Malaysia Islamic Services Sdn. Bhd. (BMIS), a wholly-owned subsidiary of Bursa Malaysia which is regulated, transparent and fully Shariah-compliant.

OVERVIEW OF MALAYSIAN STOCK MARKET

This topic is intended as a brief introduction by way of providing an overview of the stock markets. We will examine the stock exchange which provides the market for trading securities, and the particular characteristics of the Malaysian stock Market, as well as look at the players who invest in the stock market.

Market days of BSAS are from Sunday to Friday, with Saturday closed for trading but open for settlement. The main trading session is from 9.00 a.m. to 11.40 p.m., with pre-opening from 7.00 am. There is continuous trading except on Fridays where the market is closed from 1.00 p.m. to 2.00 p.m.

Currently, the following approved commodities are traded on BSAS: Crude Palm Oil, Plastic Resins, Palm Olein, Softwood Timber-Softwood, Timber-Hardwood.

Bursa Malaysia-i

Bursa Malaysia-i is a fully integrated Islamic securities exchange platform with listing, trading, clearing, settlement and depository services, leveraging the existing Bursa Malaysia infrastructure while incorporating Shariah-compliant features.

Investors who wish to participate in end-to-end Shariah investing can invest in Shariah-compliant securities listed on Bursa Malaysia through the Bursa Malaysia-i platform by interfacing with Islamic Participating Organisations. Islamic Participating Organisations offering services on a “full-fledged” basis means Islamic stockbroking services are provided on a fully Shariah-compliant basis. Participating Organisations that offer Islamic stockbroking services on a “Window” basis means Islamic stockbroking services are provided not on a full-fledged basis.

The investment instruments of Bursa Malaysia-i platform are those listed on the Markets of Bursa Malaysia Securities Berhad that are Shariah-compliant. Shariah-compliant securities in an investor’s CDS account are tagged with the “SP” code, which indicates “Shariah-compliant securities”. Islamic Participating Organisations and conventional Participating Organisations have segregated trading channels and post-trade clearing of trades done via the Islamic Participating Organisations will be undertaken and guaranteed by Shariah-compliant Bursa Malaysia Securities Clearing Sdn Bhd. Settlement of trades between the Islamic Participating Organisations and Bursa Malaysia will be done through Islamic Financial Institutions.

All types of investors, whether retail or institutional, domestic or international, can have access to Bursa Malaysia-i.

An investor who wishes to trade on Bursa Malaysia-i must open a Shariah-compliant trading account and not use a conventional trading account to trade on Bursa Malaysia-i. The trading of Shariah non-compliant securities is prohibited on Bursa Malaysia-i. However, there is no restriction to investing in Shariah-compliant securities through conventional Participating Organisations as these securities are listed on Bursa Malaysia. An investor is allowed to execute trading transactions on Bursa Malaysia-i using margin financing provided by the Islamic Participating Organisation, whereby the financing structure is Shariah-compliant in nature. However, the investor’s eligibility for margin financing and collaterals is determined by the Islamic Participating Organisation.

Shariah-compliant Listed Equities

The SAC approves and updates stocks listed on Bursa Malaysia classified as Shariah-compliant securities. The list of Shariah-compliant securities is updated and published every May and November and provides investment reference for Islamic indices and unit trust funds, takaful funds, Islamic stockbroking companies’ services and investors looking for Shariah-compliant investments. The list meets the following objectives:

OVERVIEW OF MALAYSIAN STOCK MARKET

This topic is intended as a brief introduction by way of providing an overview of the stock markets. We will examine the stock exchange which provides the market for trading securities, and the particular characteristics of the Malaysian stock Market, as well as look at the players who invest in the stock market.

- (a) Facilitate investors seeking investment in Shariah-compliant shares listed on Bursa Malaysia
- (b) Centralise Shariah decisions related to securities domestically
- (c) Enhance disclosure and transparency
- (d) Promote the development of ICM
- (e) Encourage the development of Islamic instruments.

The SAC screens listed shares based on a certain methodology comprising quantitative and qualitative assessments. As a preliminary screening, companies which activities are not contrary to Shariah principles will be classified as Shariah-compliant securities. Listed companies will be deemed as Shariah non-compliant if they are involved in the following core activities:

- (a) Financial services based on riba (interest)
- (b) Gaming and gambling
- (c) Manufacture or sale of non-halal products or related products
- (d) Conventional insurance
- (e) Entertainment activities that are non-permissible according to Shariah
- (f) Manufacture or sale of tobacco-based products or related products
- (g) Stockbroking or share trading on Shariah non-compliant securities
- (h) Other activities deemed non-permissible according to Shariah

For companies with activities comprising both permissible and non-permissible activities, the SAC measures level of contribution of these activities towards turnover and profit before tax of a company. The SAC uses benchmarks based on Ijtihad (Shariah-based reasoning). The contributions of non-permissible activities have to be less than the benchmark of 5% or 20% (depending on the type of activity) in order to be classified as Shariah-compliant.

The SAC subsequently assesses the financial management of the company by applying financial ratio benchmarks (it must be less than 33%). The financial ratio benchmarks are Cash over Total Assets and Debt over Total Asset and are intended to measure riba and riba-based elements within a company's statements of financial position. Note that these financial ratios are not calculated in the same manner as its conventional counterparts.

In addition, the SAC takes into account the qualitative considerations at the same time. These include public perception or image of the company's activities from the perspective of Islamic teaching. Furthermore, the core activities of the company are important and considered maslahah ('beneficial' in general) to the Muslim ummah (nation) and the country, and the non-permissible element is very small, and involves matters such as umum balwa (common plight) and the rights of the non-Muslim community which are accepted by Islam.

As at the November 2019, 696 securities are classified as Shariah-compliant, representing 77% of securities listed on the Main Market and ACE Market of Bursa Malaysia.

OVERVIEW OF MALAYSIAN STOCK MARKET

This topic is intended as a brief introduction by way of providing an overview of the stock markets. We will examine the stock exchange which provides the market for trading securities, and the particular characteristics of the Malaysian stock Market, as well as look at the players who invest in the stock market.

Table 2: List of Shariah-compliant Securities by the Shariah Advisory Council of the Securities Commission Malaysia

Main Market/ ACE Market	Number of Shariah-compliant securities	Total securities*	Percentage of Shariah-compliant securities (%)
Consumer products and services	139	194	72
Industrial products & services	215	255	84
Energy	27	32	84
Construction	49	54	91
Transportation & logistics	29	35	83
Property	78	97	80
Plantation	34	44	77
Technology	76	91	84
Utilities	10	13	77
Financial Services	3	34	9
Health care	16	17	94
Telecommunications & media	20	32	63
SPAC	Nil	1	Nil
Closed-end fund	Nil	1	Nil
Total	696	900	77

*As at 29 November 2019
Source: <https://www.sc.com.my>

Shariah-compliant indices

Bursa Malaysia together with FTSE Russell, has launched three Shariah indices:

- FTSE Bursa Malaysia Hijrah Shariah Index
- FTSE Bursa Malaysia EMAS Shariah Index
- FTSE Bursa Malaysia Small Cap Shariah Index

In addition to serving as performance benchmark, the indices are designed for the creation of structured products and are referred to by tracking funds. The consultants of these indices are screened as tested on market capitalisation, free float and liquidity.

Sukuk

Sukuk is the Islamic alternative to bonds. As bonds represent debt capital with a fixed interest return and principal guarantee, they violate the Islamic rule of earning money from riba. A sukuk represents obligations of the issuer (the company or firm needing the funding, be it a corporation or a sovereign) to the sukuk holders.

OVERVIEW OF MALAYSIAN STOCK MARKET

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In Malaysia, the SC regulates the issuance of sukuk via the framework provided under the Islamic Securities Guidelines (Sukuk Guidelines) while the SAC regulates the Shariah component. The underlying relationship between the issuer and sukuk-holders could be based either on a sale transaction (murabahah, salam, or istisna'), a lease transaction (ijarah) or equity and agency relationships (musharakah, mudharabah and wakalah). Sale and lease transactions are naturally certain in their payment characteristics, whereas the equity and agency structures are naturally uncertain. Many sukuk transactions have been executed by combining different forms of transactions in order to craft a sukuk which has fixed income characteristics similar to traditional bonds.

Green Sukuk

Green sukuk is a Shariah-compliant Sustainable and Responsible Investment (SRI) instrument where the proceeds are used to fund specific environmentally sustainable infrastructure projects and address the Shariah concern for protecting the environment. The objectives of these green projects include climate change mitigation, climate change adaptation, natural resource conservation, biodiversity conservation and pollution prevention and control. According to the Asean Green Bond Standard 2018, the green projects can be included under but are not limited to the following categories:

- Renewable energy
- Energy efficiency
- Pollution prevention and control
- Environmentally sustainable management of living natural resources and land use
- Terrestrial and aquatic biodiversity conservation
- Clean transportation
- Sustainable water and waste water management
- Climate change adaptation
- Eco-efficient and/or circular economy adapted products, production technologies and processes
- Green buildings which meet regional, national or internationally recognised standards or certifications.

The world's first green sukuk was issued in Malaysia by Tadau Energy Sdn Bhd on 27 July 2017 for RM250 million under the SC's Sustainable and Responsible Investment (SRI) Sukuk Framework. The framework is the result of collaboration between the SC, Bank Negara Malaysia and the World Bank group to develop an ecosystem that facilitates the growth of green sukuk and introduces innovative financial instruments to address global funding gaps in green financing. As at April 2018, there were five green sukuk issued in Malaysia as below:

OVERVIEW OF MALAYSIAN STOCK MARKET

This topic is intended as a brief introduction by way of providing an overview of the stock markets. We will examine the stock exchange which provides the market for trading securities, and the particular characteristics of the Malaysian stock Market, as well as look at the players who invest in the stock market.

Table 3: Green Sukuk Issuance in Malaysia as at April 2018

	Issuer	Issue Size (RM Million)	Issue Date	Tenure (Years)	Utilisation of proceeds
1	Tadau Energy Sdn Bhd	250.00	27 July 2017	16	To finance 50 megawatt (MW) solar power plants in Sabah
2	Quantum Solar Park (Semenanjung) Sdn Bhd	1,000.00	6 October 2017	18	To finance three 50 MW solar power plants in Kedah, Melaka, and Terengganu
3	PNB Merdeka Ventures Sdn Bhd	2,000.00	29 December 2017	15	To fund an 83-storey office space, forming part of the Merdeka PNB 118 tower project in Kuala Lumpur
4	Sinar Kamiri Sdn Bhd	245.00	30 January 2018	18	To finance a 49 MW solar power plant in Perak
5	UiTM Solar Power Sdn Bhd	240.00	27 April 2018	240	To finance a 50 MW solar power plant in Pahang

In order to promote greater utilisation of green sukuk as a fundraising channel, several incentives were introduced to attract green issuers which include:

- (a) Tax deduction until year of assessment 2020 on issuance cost of green sukuk approved or authorised by or lodged with the SC
- (b) Income tax exemption for green sukuk issuers for applications received by the SC from 1 January 2018 to 31 December 2020.
- (c) Tax incentive for green technology activities in energy, transportation, building, waste management and supporting services activities.
- (d) Financing incentives under the Green Technology Financing Scheme (GTFS) with total funds allocation of RM5 billion until 2022.

Sources: <https://www.sc.com.my> and <http://www.fm.net>

Shariah-compliant Exchange Traded Funds

An Exchange Traded Fund (ETF) is a financial product that exhibits the best of open-ended fund and listed stock features such as diversification, cost effectiveness, simplicity and transparency. An ETF is passively managed in general as ETF aims to replicate the performance of a particular market index, either by investing all (full replication) or substantially all (strategic sampling) in the constituent securities.

A Shariah-compliant Exchange Traded Fund (i-ETF) tracks a benchmark index where its constituents are Shariah-compliant companies. In addition, the management of i-ETF has to strictly observe the Shariah principles and Islamic investment guidelines.

The operation of i-ETF is also overseen by a Shariah board, committee or advisor that would conduct Shariah-compliant audits and reviews. To ensure continuous Shariah compliance, Shariah screening is undertaken at the time of investment decision and subsequently throughout the investment period. The i-ETF is purified from time to time by identifying, separating and donating to charity any Shariah non-compliant income.

OVERVIEW OF MALAYSIAN STOCK MARKET

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Islamic Real Estate Investment Trusts

A real estate investment trust (REIT) is a collective investment scheme in real estate. An Islamic Real Estate Investment Trust (i-REIT) is the Shariah version of the conventional REIT. Compared to a conventional REIT, the income of i-REIT:

- (a) Must be from Shariah-permissible activities; or
- (b) In case of mixed activities, must adhere to the 20% benchmark as determined by the SAC.

In addition, a Shariah committee or Shariah advisor must also be appointed to advise the fund manager on Shariah compliancy matters. Both REIT and i-REIT receive similar tax treatment on stamp duty, real property gains tax as well as corporate tax in Malaysia. The regulatory framework is also similar for both, with the exception that i-REIT must additionally comply with Shariah requirements.

Islamic Securities Selling and Buying – Negotiated Transaction

In late 2017, Bursa Malaysia introduced the Islamic Securities Selling and Buying – Negotiated Transaction (ISSBNT) framework for parties to undertake a transaction that delivers the equivalent outcome of a conventional securities borrowing and lending transaction but is structured based on Shariah principles. The ISSBNT framework is based on the Securities Borrowing and Lending – Negotiated Transaction (“SBLNT”) model which has been in existence since 2009.

Other Shariah-compliant Instruments

Besides ordinary shares, other existing capital market instruments which have been classified as Shariah-compliant by the SAC are warrants, call warrants, transferable subscription rights (TSRs), crude palm oil and crude palm kernel oil futures contracts. In addition to this, the SAC has also endorsed the structure and issuance of Khazanah Zero-Coupon Bonds as a Shariah-compliant instrument. The structuring and trading of Khazanah-Zero Coupon Bonds involved the application of Islamic principles such as murabahah and bai-al-dayn. In addition, there are many issues of sukuk.

For the whole of 2017, sukuk based on various Islamic concepts such as mudharabah, murabahah, musharakah, istisna, ijarah and bai bithaman ajil amounting to RM168.68 billion were issued. The amount of sukuk issued in proportion to the entire issuance of bonds and sukuk (both corporate and government) in 2017 was 53.05%. The amount of sukuk outstanding in the same year was RM759.64 billion and it constituted 58.80% of the total amount of bonds and sukuk (both corporate and government) outstanding.

In the fund management industry, as at end of 2017, approved Islamic funds in collective investment schemes (including unit trusts, wholesale funds, REITs, ETFs that are Shariah-compliant) had assets under management (AUM) of RM135.76 billion. This amount added to private mandate investments totalled RM170.83 billion, which was 22.01% of AUM in the fund management industry.