

# **Malaysia's Islamic Capital Market (ICM)**

## **An Overview**

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# Malaysia's ICM offers a comprehensive range of products and services

- **Wide range of products**
  - Shariah compliant stocks
  - Islamic unit trusts
  - Islamic REITs
  - Sukuk
  - Shariah compliant futures contracts
  - Islamic structured products
  - Islamic ETFs
- **Intermediaries offering specialised services**
  - Islamic fund management
  - Islamic stockbroking
  - Corporate Finance/Advisory
  - Islamic bank

# Within a facilitative environment

- **SC's statutory mandate to develop the capital market**
- **Facilitative regulatory framework**
  - Islamic Securities Guidelines
  - Islamic REITs Guidelines
  - Islamic Fund Management Guidelines
- **National level Shariah Advisory Council**
- **Well-developed Islamic banking and Takaful**
- **Clarity, consistency and continuity of policies**
- **Government commitment and support**
  - Malaysia International Islamic Financial Centre (MIFC) initiatives
  - Tax Incentives
  - Issuance of sovereign sukuk

# ICM showed strong growth in all segments in 2007

## KEY INDICATORS

	2006	2007
Market cap of Shariah-compliant stocks (RM mn)	548.4	<b>705.1</b>
Number of Shariah-compliant stocks on Bursa	886	<b>853</b>
Value of Sukuk approved (RM mn)	42.0	<b>121.3</b>
% of total bonds approved	55.4	<b>76.4</b>
NAV of Shariah-based unit trust (RM bn)	9.2	<b>16.9</b>
% of total industry	7.5	<b>10.0</b>
No. of Islamic UT funds	95	<b>128</b>

### Islamic Equities

- 853 stocks are Shariah-compliant or 86% of total listed stocks
- Islamic equity capitalisation grew by 28/6% to RM705.1 billion, accounting for 64% of total market capitalisation

### Sukuk

- Islamic sukuk approved tripled to RM121.3 billion accounting for 76% of total bonds approved
- 59 sukuk issues, predominantly based on musyarakah

### Islamic unit trusts

- Shariah-based unit trust NAV grew by 84%
- No of Shariah-compliant funds increased to 128

# Malaysia's strong reputation as a centre of innovation

## Centre of innovation

- First sovereign 5 year global sukuk of US\$600 million (2002)
- First rated Islamic residential mortgage backed securities (2005)
- First listed Islamic Real Estate Investment Trusts (2006)
- First Islamic ringgit bond issuance by World Bank of RM760 million (2005)
- First Islamic structured product (2007)

## Recent Landmark launches

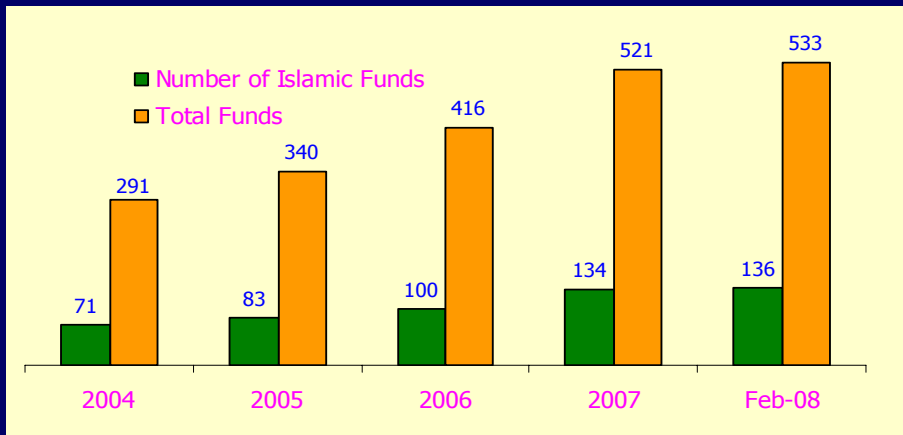
- Largest sukuk funding programme of RM60 billion by Cagamas
- Largest corporate sukuk of RM15.4 billion by Binariang
- Largest exchangeable sukuk of USD80 million by Khazanah
- RM3 billion Islamic stapled income securities by Telekom and Hijrah Pertama
- First Asian Islamic ETF launched by i-Valuecap Management recently

# Large proportion of listed stocks are Shariah-Compliant

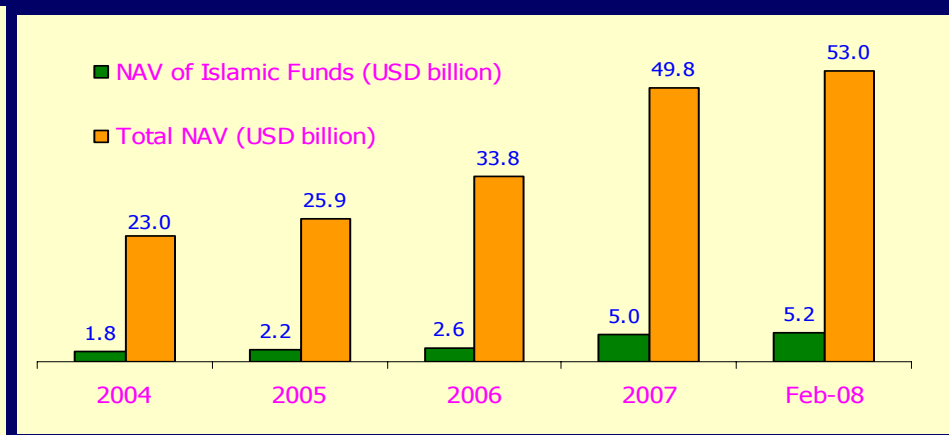
Number of Shariah-compliant securities	853 securities
% to total listed securities	86 %
<u>Market Capitalisation – Feb 2008</u>	
Shariah-compliant	USD207.2 bn
Total market	USD330.4 bn
% of Shariah-compliant securities to total market	62.7%

# Growing number of Islamic Unit Trust Funds and Islamic Real Estate Investment Trusts

## Number of Islamic Funds vs Total Industry



## Size of Islamic Funds vs Total Industry

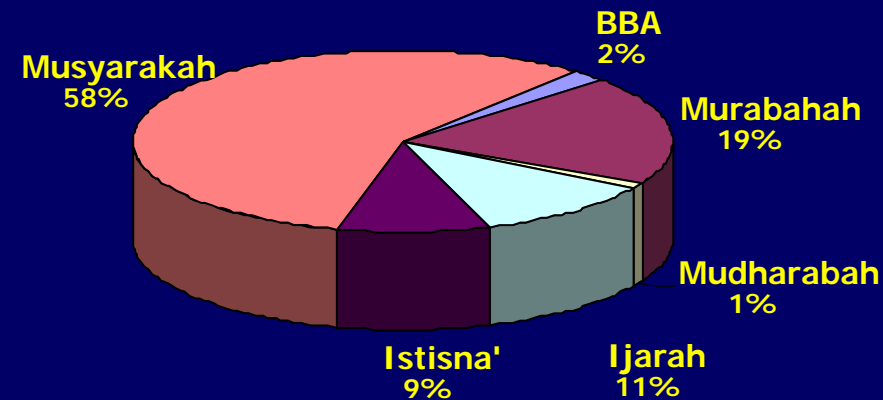


- Malaysia has the largest number of shariah-compliant funds in East Asia
- 136 funds (out of 533) in Malaysia are classified as shariah-compliant fund with an asset size of USD5.2 bn (Feb 2008)
- Various incentives are given to Islamic unit trust management companies / fund managers (e.g. 100% foreign ownership, tax exemptions on income for company and foreign professional employees)
- Guidelines for Islamic REIT issued in 2005
- Currently 2 Shariah-compliant REIT listed –
  - A hospital REIT; and
  - A plantation REIT (oil palm)

# Sukuk increasingly becoming the preferred investment/ financing tool

- Sukuk gaining prominence as the preferred structure
  - 76% of total bonds approved in 2007
  - 54% of total outstanding corporate bonds are Shariah-compliant
- Facilitative approval process
  - SC as one-stop approving agency for sukuk issuance (include bonds)
  - Pre-submission consultation is encouraged
  - Transparent and facilitative requirements

## Sukuk Approved in 2007 by Shariah principles





# Tax incentives

## Sukuk Issuers


- Tax neutrality – e.g. stamp duty exemption for issuance of sukuk approved by the Securities Commission
- Tax deduction on issuance cost for sukuk
- Company that established SPV is given a tax deduction on the issuance cost of the sukuk incurred by the SPV
- Liberalisation of the foreign exchange administration policies for sukuk fund raising activities

## Sukuk Investors

- No tax for non resident investors on income from both RM and non RM sukuk
- Income tax exemption for resident investors on income derived from non RM sukuk
- Income tax exemption for individuals and unit trust funds on income derived from RM sukuk

# Universal principles of securities regulation apply to ICM products and services

- ICM products and services must leverage on existing infrastructure
- ICM products and services must not compromise the universal goals of securities regulation

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- ❖ Protection of investors
  - ❖ Ensuring markets are fair, efficient & transparent
  - ❖ Reduction of systemic risk

- IOSCO Task Force on ICM - key issues and findings:
  - Conventional regulatory framework applicable to ICM products and services
  - ICM products and services may be introduced and developed within any existing well-structured securities market
- IFSB efforts in setting international prudential standards

# Further incentives announced in Budget 2008



- Islamic fund management companies allowed to be wholly owned by foreigners
  - Fund managers under this category are permitted to manage both institutional & retail funds
- US\$2 billion will be channeled by Employees Provident Fund to Islamic fund management companies
- Islamic fund management companies will be allowed to invest all their assets abroad
- Tax exemption for fund management companies on all fees related Islamic fund management activities until 2016
- 3 new stockbroking licenses will be issued to leading stockbroking companies that are able to source and intermediate business and order flows from the Middle East
- Income tax exemption to non-resident Islamic finance experts

# Thank You

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