



ICM CONSULTATION PAPER NO. 1/2018

INDUSTRY FEEDBACK ON THE ROLE OF BURSA MALAYSIA BERHAD IN THE ISLAMIC CAPITAL MARKET ("ICM") INDUSTRY

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Bursa Malaysia Berhad ("Bursa Malaysia") invites your written comments on the issues set out in this ICM Consultation Paper by **Friday, 16 March 2018** via:

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Respondents to this ICM Consultation Paper are requested to use the reply format as stipulated in **APPENDIX 1, APPENDIX 2, and APPENDIX 3.**

Kindly contact the following persons if you have any queries in relation to this ICM Consultation Paper:

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Please see our Personal Data Notice as set out in **APPENDIX 4** to this ICM Consultation Paper.

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1 Executive Summary

1.1 Purpose of the ICM Consultation Paper

This Consultation Paper seeks inputs from the Islamic capital market (“ICM”) participants on development of the ICM industry in Malaysia in general and the role of Bursa Malaysia in particular. An ample and sufficient space is provided for the participants to contribute in the exercise. The collected inputs will be assessed and are expected to provide Bursa Malaysia with a preliminary indication of the market concerns and demand as well as its expectation towards Bursa Malaysia as an exchange or a marketplace facilitating the ICM industry.

1.2 Structure of the ICM Consultation Paper

The key areas of this open-ended consultation are divided into three (3) main categories and reflected in the following manner:

| No. | Area of Consultation | Details (Section 2.4) |
|-----|----------------------------|--------------------------|
| 1 | Securities | A |
| 2 | Derivatives | B |
| 3 | Commodity Trading Platform | C |

2 Details of the Consultation

2.1 Background

Bursa Malaysia is an exchange holding company established under the laws of Malaysia, approved by the Minister of Finance on the recommendation of the Securities Commission Malaysia (“SC” or “the Commission”).

According to the Capital Markets and Services Act 2007 (Act 671) (“CMSA”), the Minister may in writing, on the recommendation of the Commission, approve a body corporate as an exchange holding company, subject to any terms and conditions as he thinks fit, if he is satisfied that it is appropriate to do so –

- (a) for the protection of investors;
 - (b) in the public interest; or
- for the proper regulation of a stock market of a stock exchange or a futures market of a futures exchange.

Bursa Malaysia which is approved by the Minister under the law of the government is responsible to act in the interest of the public by virtue of protecting the investors and ensuring proper regulation of stock and futures markets.

2.2 Bursa Malaysia and ICM

Steered by the principle that Shariah compliance is the most important reason or purpose for the existence of ICM products and services, Bursa Malaysia believes in intellectual investment that would generate value propositions especially to the society and the country.

In 2005, Bursa Malaysia established ICM Division, followed by the successful launch of FTSE Bursa Malaysia EMAS Shariah Index, FTSE Bursa Malaysia Hijrah Shariah Index and the introduction of the Best Practices in Islamic Stockbroking Services Undertaken by Participating Organisations in 2007.

About two (2) years later, Bursa Malaysia established its wholly-owned Islamic subsidiary namely Bursa Malaysia Islamic Services Sdn Bhd (“BMIS”). All Shariah-compliant business activities are designated to this Shariah-compliant subsidiary. The main activity of BMIS is providing, operating and maintaining a Shariah-compliant commodity trading platform, known as Bursa Suq al-Sila’ (“BSAS”).

BSAS is among the Shariah-compliant commodity trading platforms that efficiently and effectively facilitates Shariah-compliant transactions of Islamic financial institutions (“IFIs”) in managing the liquidity of financial markets. The consistent and significant increase in the Average Daily Value (“ADV”) of trading activities on BSAS has proved the wider acceptance of the market participants from Shariah as well as business points of view.

From having only a Shariah adviser, Bursa Malaysia has established a Shariah committee in 2012 to further improve the advisory capacity, the perspective to be looked at, the in-depth deliberation on issues, and the ability to advise on contemporary issues and updates on *fatwas*.

Bursa Malaysia’s strong commitment as one of the leading organisations of the ICM industry in Malaysia and ASEAN has been further evident by consistent and regular engagements with the Securities Commission Malaysia (“SC”) for advice and feedback and with the Shariah Advisory Council (“SAC”) of the SC for necessary deliberation and approval. A list of initiatives have been brought up and deliberated at series of engagements with the key thrusts of the industry such as the trading concept and commodities traded on BSAS, the concept of Islamic Securities Selling and Buying – Negotiated Transaction (“ISSBNT”) Model as a Shariah-compliant alternative to the conventional Securities Borrowing and Lending (“SBL”), the Shariah Investing platform under Bursa Malaysia-i, etc. covering securities market, derivatives market, and commodity *murabahah* market.

Since years, Bursa Malaysia has taken on the responsibility to support the progress of Islamic finance including organisations of forums, seminars, fairs, etc. with the objective to promote Shariah-compliant investing activities and to engage with public in order to understand their concerns in relation to investment in stock market. Besides, Bursa Malaysia frequently involves in Islamic conferences and seminars as partner, co-organiser, or participant in support of Islamic finance agenda.

Bursa Malaysia has gained various international appreciations, recognitions and awards, such as:

- i. 'Best Islamic Exchange 2017' at the Global Islamic Finance Awards 2017;
- ii. 'Most Innovative Global End-to-End Shariah-compliant Investing Platform Asia 2017' for Bursa Malaysia-i, at the Global Banking & Finance Review Awards 2017;
- iii. 'Best Commodity Trading Platform Asia' for Bursa Suq Al-Sila (BSAS), at the Global Banking & Finance Review Awards 2017;
- iv. 'Best Islamic Exchange Asia 2017' for the Islamic capital market, at the Global Banking & Finance Review Awards 2017;
- v. 'Best Islamic Exchange 2016' for Bursa Malaysia's Islamic Capital Market Performance at the Global Islamic Finance Awards 2016;
- vi. 'Best Islamic Finance Facilitation Platform Asia 2016' at the Global Banking & Finance Review Awards 2016;
- vii. 'Best Islamic Exchange Asia 2016' at the Global Banking & Finance Review Awards 2016;
- viii. 'Best Islamic Exchange 2015' at the Global Islamic Finance Awards 2015;
- ix. 'Best Interbroker for Islamic Transactions 2015' in the 10th Islamic Finance News Service Providers Poll; and
- x. 'Best Islamic Finance Facilitation Platform Asia 2015' at the Global Banking & Finance Review Awards 2015.

From the perspective of supply, Bursa Malaysia has been engaging public listed companies ("PLCs") emphasising the value propositions of them operating a Shariah-compliant business that would enable the securities to be classified as Shariah-compliant. Bursa Malaysia also provides guidance to the companies on possible access to Shariah-compliant banking facilities to expedite the process of meeting the requirement of Financial Ratio Benchmarks of the Shariah screening methodology adopted by the SAC of the SC.

Prior to Initial Public Offer ("Pre-IPO"), a potential public listed company will undergo Shariah screening exercise by the SAC of the SC on a voluntary basis. In the spirit of providing abundant supply of Shariah-compliant securities to the market, Bursa Malaysia has been advising the investment banks coordinating the IPO process to encourage the company to apply for the Shariah-compliant status endorsement from the SAC of the SC. This has been done via continuous engagements with the parties involved.

From the perspective of demand, Bursa Malaysia has been engaging institutional investors to provide update on the progress and development of Shariah-compliant securities and services encouraging them to explore investment opportunities within the scope of Shariah-compliant. Bursa Malaysia has made visible to institutional as well as retail investors the Shariah-compliant securities through its variety of communication media including via the official website of Bursa Malaysia, its renowned interactive portal of Bursa Marketplace (“BursaMKTLP”) as well as through series of roadshows with retail investors and dialogue sessions with institutional investors.

Strengthening the rapport with key market players, Bursa Malaysia under the Shariah Centre of Excellence initiative has since years been actively collaborating with various entities (government agencies, advisory firms, as well as private organisations) hosting various discussions on ICM-related issues. This is guided by Bursa Malaysia’s strategic long-term plan to continue engaging various parties to explore more fruitful collaborative efforts for the betterment of the ICM industry.

Sessions with other stakeholders at fund management level as well as intermediaries undertaking stock broking services have also been built magnificently especially post-introduction of the end-to-end Shariah Investing platform of Bursa Malaysia-*i* in 2016. The introduction of the platform has in many ways improved the visibility of the relevant entities especially those who undertake Islamic stock broking services.

The Best Practices for Islamic Stockbroking Services Undertaken by Participating Organisations introduced in 2007 has also been enhanced in 2016. Consistent series of engagements with Participating Organisations of Bursa Malaysia Securities have been held emphasising the need to undertake Shariah compliant stock broking activities while providing necessary guide and education to the investors on how to ensure their investing activities comply with Shariah principles.

2.3 Objectives

Bursa Malaysia plays a significant role in upholding *maqasid* (the objectives of) Shariah through facilitating ICM industry from the perspective of a stock exchange as a marketplace.

In order to serve the industry better, Bursa Malaysia initiates this consultation with the following objectives;

- (a) To better understand issues or concerns of the ICM participants at various levels;
- (b) To obtain a clearer indication about the expectation of the participants towards Bursa Malaysia Berhad and its role in developing the ICM industry; and
- (c) To analyse the outcome of the consultation for improvement and further development of ICM offerings.

2.4 Areas of Consultation

A. Securities

Bursa Malaysia has a wide range of products such as equities and bonds that offer considerable potential for capital growth and are long term risk investments. They involve company shares which represent part ownership by the investor in a particular company.

Currently, Bursa Malaysia is actively promoting investment in securities that complies with Shariah principles. Bursa Malaysia-*i*, an end-to-end Shariah compliant exchange-related platform was launched on 5 September 2016. There are 76% Shariah compliant securities, 4 Shariah Indices, 5 Islamic ETFs, and 4 Islamic REITS are currently traded on the exchange.

Further details on Securities and Bursa Malaysia-*i* are available on the Bursa Malaysia's website at <http://www.bursamalaysia.com/market/securities/> and <http://www.bursamalaysia.com/market/islamic-markets/products/bursa-malaysia-i/>.

Bursa Malaysia has also introduced the Shariah-compliant alternative to Securities Borrowing and Lending ("SBL") known as the Islamic Securities Selling and Buying – Negotiated Transaction ("ISSBNT") on 12 December 2017 to further facilitate market liquidity and profit optimisation.

Further details on ISSBNT are available on the Bursa Malaysia's website at <http://www.bursamalaysia.com/market/products-services/islamic-securities-selling-buying-negotiated-transaction-issbnt/issbnt-circulars>.

Participants are invited to provide feedbacks using the reply format as stipulated in **APPENDIX 1**.

B. Derivatives

Bursa Malaysia Derivatives Berhad (BMD) is a subsidiary of Bursa Malaysia Berhad established in 1993. BMD provides, operates and maintains equity, interest rates, bond, agricultural commodity (crude palm oil and palm kernel), metal commodities (gold and tin) futures and options market trading and settlement services. BMD products are available on the CME Globex electronic trading platform for greater distribution of the Malaysian derivatives offerings to the global market.

The SAC of the SC at its 11th meeting on 26 November 1997 resolved that the futures contract on crude palm oil is permissible as it is in accordance with Shariah principles. At its 13th meeting on 19 March 1998, the SAC resolved that the mechanism for stock index futures contracts does not contradict Shariah principles. Therefore, stock index trading is allowed as long as it is Shariah

compliant, and this is done by ensuring that the index component is made up of Shariah compliant securities.

Further details on Derivatives are available on the Bursa Malaysia's website at <http://www.bursamalaysia.com/market/derivatives/>.

Participants are invited to provide feedbacks using the reply format as stipulated in **APPENDIX 2**.

C. Commodity Trading Platform

Bursa Malaysia offers a holistic range of innovative Islamic Market products from equities and commodities to sukuk.

BSAS is a commodity trading platform specifically dedicated to facilitate Islamic liquidity management and financing by Islamic financial institutions. Initiated as a national project, BSAS exhibits the collaboration of Bank Negara Malaysia (BNM), SC, Bursa Malaysia Berhad and the industry players in support of the Malaysia International Islamic Finance Centre ("MIFC") initiative. It receives close co-operation and strong support of the Ministry of Plantation Industries and Commodities through the Malaysian Palm Oil Board ("MPOB"), Malaysian Palm Oil Association (MPOA) and Malaysian Palm Oil Council ("MPOC").

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.

Further details on BSAS are available on the Bursa Malaysia's website at <http://www.bursamalaysia.com/market/islamic-markets/products/bursa-suq-al-sila-bsas/>.

Participants are invited to provide feedbacks using the reply format as stipulated in **APPENDIX 3**.

APPENDIX 1 Securities

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Name of Respondent : BIMB Securities Sdn Bhd
 Contact Person & Contact Number : 03-2613 1700
 E-mail Address : helpdesk@bimbsec.com.my

| NO | ISSUE | COMMENTS |
|----|--|--|
| 1. | How do you see the current development of the ICM industry from securities market perspective? | The development of the ICM industry from securities market perspective is encouraging. |
| 2. | How do you see the role of Bursa Malaysia Berhad in the development of the ICM industry? | - There must be a timeframe set for the introduction of Islamic PO to transform into full fledged PO. Given 3 years grace period for the said purpose should suffice. This is to ensure there is a level of playing field and progression of ICM to a more matured and efficient Shariah compliant eco system. |
| 3. | Which area do you think Bursa Malaysia can do better to facilitate the ICM industry? | Time lag between the listing of IPO and SC take at least 6 months to review & update the Shariah status. In order to bridge the gap, should authorise the Shariah Adviser to conduct screening at pre-IPO level for SC approval. It will also relieve the function and entrust the Shariah adviser to perform ongoing or continuous screening for Shariah compliant status be it for retail or institutional client. For Shariah compliant stock, the Shariah Adviser have a role to play so as the PLC's continuous role in ensuring their stock is Shariah compliant. |
| 4. | What are other/ additional infrastructure and/ or information that Bursa Malaysia should provide for <u>institutional</u> investors to facilitate their execution of investment activities in a Shariah-compliant manner? | - decoupling of the financial institution into conventional & Islamic financial institution and to list it on Bursa e.g. Maybank Islamic, RHB Islamic as currently there is not sufficient listed Shariah compliant financial institution i.e. only BHB & Takaful - Shariah status at the IPO level. Shariah audit cost to be included in the IPO offering for Shariah adviser to provide Shariah services and generate more interest to be Shariah Adviser in the market. Thus, they provide support and improve the Shariah eco system. |
| 5. | What are other/ additional infrastructure and/ or information that Bursa Malaysia should provide for <u>retail</u> investors to facilitate their execution of investment activities in a Shariah-compliant manner? | - decoupling of the financial institution into conventional & Islamic financial institution and to list it on Bursa e.g. Maybank Islamic, RHB Islamic as currently there is not sufficient listed Shariah compliant financial institution i.e. only BHB & Takaful - Shariah status at the IPO level. Shariah audit cost to be included in the IPO offering for Shariah adviser to provide Shariah services and generate more interest to be Shariah Adviser in the market. Thus, they provide support and improve the Shariah eco system. |
| 6. | What are other/ additional infrastructure and/or information that Bursa Malaysia has to provide for retail investors to move away from investment scams and consider the many legal investment alternatives on Bursa Malaysia? | - there is not sufficient visibility of information in educating or awareness program. Put out SCAM alert info at all channels which is reachable by the public. Example to put life sizes posters at locations where public at large congregate such as: (a) shopping centre, cinema etc. (b) school, colleges, universities. - Continuous and periodical campaigns such as display scam info using bill board, screen along the road side, publish in the newspapers and websites of all PLCs to promote awareness to the society. - PLC may sponsor for the above and such advertisement should be tax allowable. |

| NO | ISSUE | COMMENTS |
|-----|--|---|
| 7. | What are the things that you like most about Shariah Investing on Bursa Malaysia-i platform? | No comment. |
| 8. | What are the mediums that you think Bursa Malaysia should use in instilling the Shariah Investing principles among the society? | -We opined that education is the most suitable and effective channel. Bursa should educate the investor to invest i.e. investment instead of trading i.e. short term speculating and anticipate quick returns |
| 9. | In your opinion, what is the best approach to improve and/ or increase awareness on Shariah-compliant capital market products and services, and Shariah investing on Bursa Malaysia-i amongst the public and industry? | <ul style="list-style-type: none"> - To encourage investors to trade through full fledged Shariah compliant stockbroking company. - to reachout and focus on smaller group by batches so that the education in promoting Shariah investing will be more effective rather than seminar for mass crowd as their level of understanding and objectives are different, and also cost effective. |
| 10. | How do you think Bursa Malaysia can help future generations in undertaking investments in a Shariah-compliant manner? | <ul style="list-style-type: none"> - to introduce syllabus for schools/university student in Shariah investment. - ongoing campaigning on Shariah investing such as investing game, quiz competition, quiz etc. - To spread the success stories of successful investors, create cartoon movies, caricatures & the likes. |
| 11. | Would you like to share any other comments about ICM or Bursa Malaysia from securities market perspective? | <ul style="list-style-type: none"> - Lack of education and promotion on multi-currency securities (MCS) investment in trading of MCS particularly on: <ul style="list-style-type: none"> o Expedite payment transfer and clearance for settlement of trades o Facilitate retail community to trade multicurrency easily |

APPENDIX 2 Derivatives

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 Facsimile: +603-2072 4261

Name of Respondent :
 Contact Person & Contact Number :
 E-mail Address :

| NO | ISSUE | COMMENTS |
|----|---|----------|
| 1. | What are the things that you like most about Bursa Malaysia Derivatives? | N/A |
| 2. | In your opinion, how critical is derivatives products to ICM? | |
| 3. | Which area do you think Bursa Malaysia can do better to facilitate the industry? | N/A |
| 4. | Would you like to share any other comments about ICM or Bursa Malaysia from derivatives market perspective? | N/A |

APPENDIX 3 Commodity Trading Platform

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Name of Respondent :
 Contact Person & Contact Number :
 E-mail Address :

| NO | ISSUE | COMMENTS |
|----|--|----------|
| 1. | What are the things that you like most about Bursa Suq al-Sila' (BSAS) commodity trading platform? | N/A |
| 2. | Which part of the platform do you think Bursa Malaysia can do better to facilitate the industry? | N/A |
| 3. | What exactly are the other financial transactions that you think should be able to be supported by BSAS? | N/A |
| 4. | Would you like to share any other comments about ICM or Bursa Malaysia from commodity trading perspective? | N/A |

APPENDIX 4 Bursa Malaysia's Personal Data Notice

In relation to the Personal Data Protection Act 2010 and in connection with your personal data provided to us in the course of this consultation, please be informed that the Bursa Malaysia's personal data notice ("Notice") is available at www.bursamalaysia.com. Kindly ensure that you read and are aware of the Notice.

If you are submitting personal data of an individual other than yourself ("data subject"), please ensure that prior to such submission, you have provided the data subject with written notice of the Notice unless section 41 of the Personal Data Protection Act 2010 ("PDPA") applies or Bursa Malaysia otherwise specifies in connection with the PDPA.

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*Berhubung Akta Perlindungan Data Peribadi 2010 dan berkenaan semua data peribadi anda yang diberikan di dalam proses konsultasi ini, sila ambil maklum bahawa notis Bursa Malaysia mengenai data peribadi ("Notis tersebut") boleh didapati di [www.bursamalaysia.com](http://www.bursamalaysia.com). Sila pastikan yang anda membaca dan memahami Notis tersebut.*

*Jika anda mengemukakan data peribadi individu pihak ketiga ("Subjek Data"), anda mesti memastikan bahawa Subjek Data telah diberi notis bertulis mengenai Notis tersebut terlebih dahulu kecuali seksyen 41 Akta Perlindungan Data Peribadi 2010 ("APDP") terpakai atau Bursa Malaysia sebaliknya menyatakan berkenaan dengan APDP.*

**[End of Appendix]**