

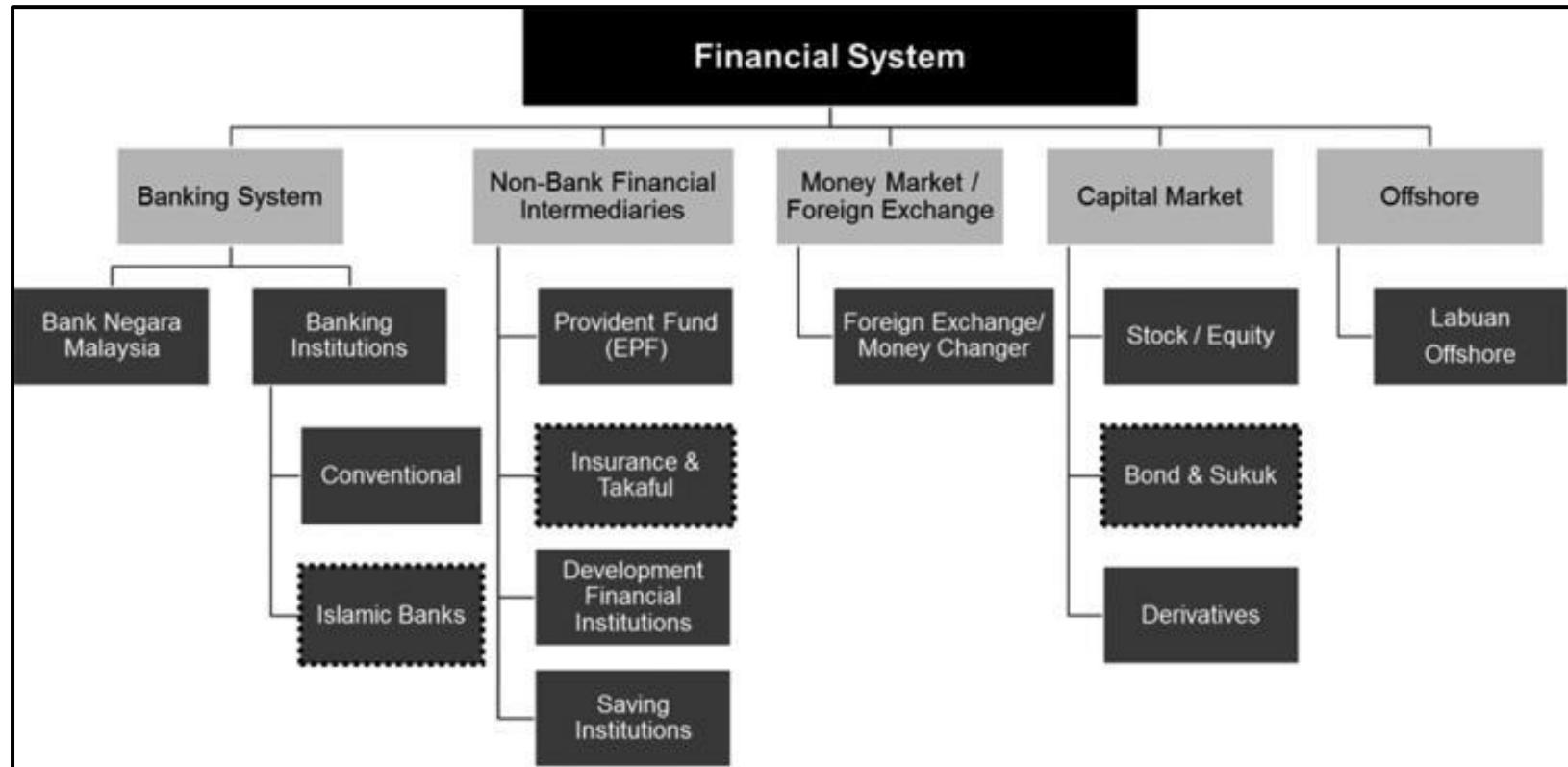
Chapter 3: Institutions and Markets



Chapter Content

1. Islamic Financial System.
2. Islamic Financial Institutions.
3. Infrastructure institutions supporting IFS in global development.
4. Other international bodies supporting Islamic finance.
5. Islamic Financial Markets
6. Shari'ah governance





ISLAMIC FINANCIAL SYSTEM

4 Common Types of Derivatives



Exchange Traded Stock Options



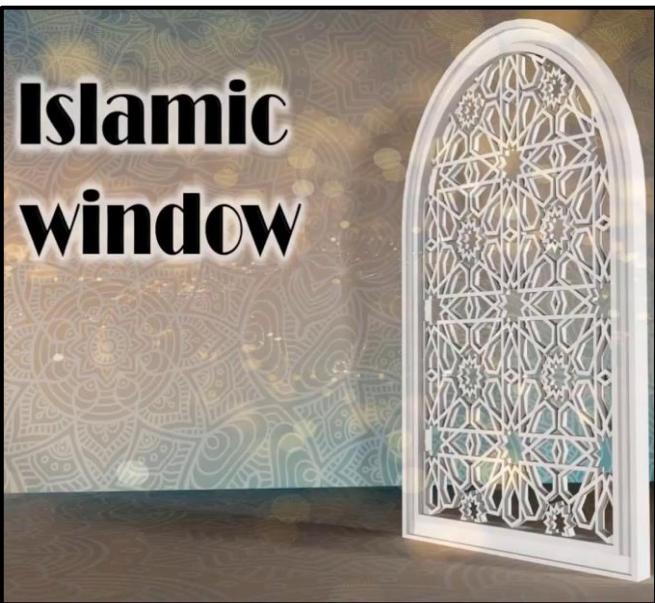
Employee Stock Options



Swaps



Futures Contracts

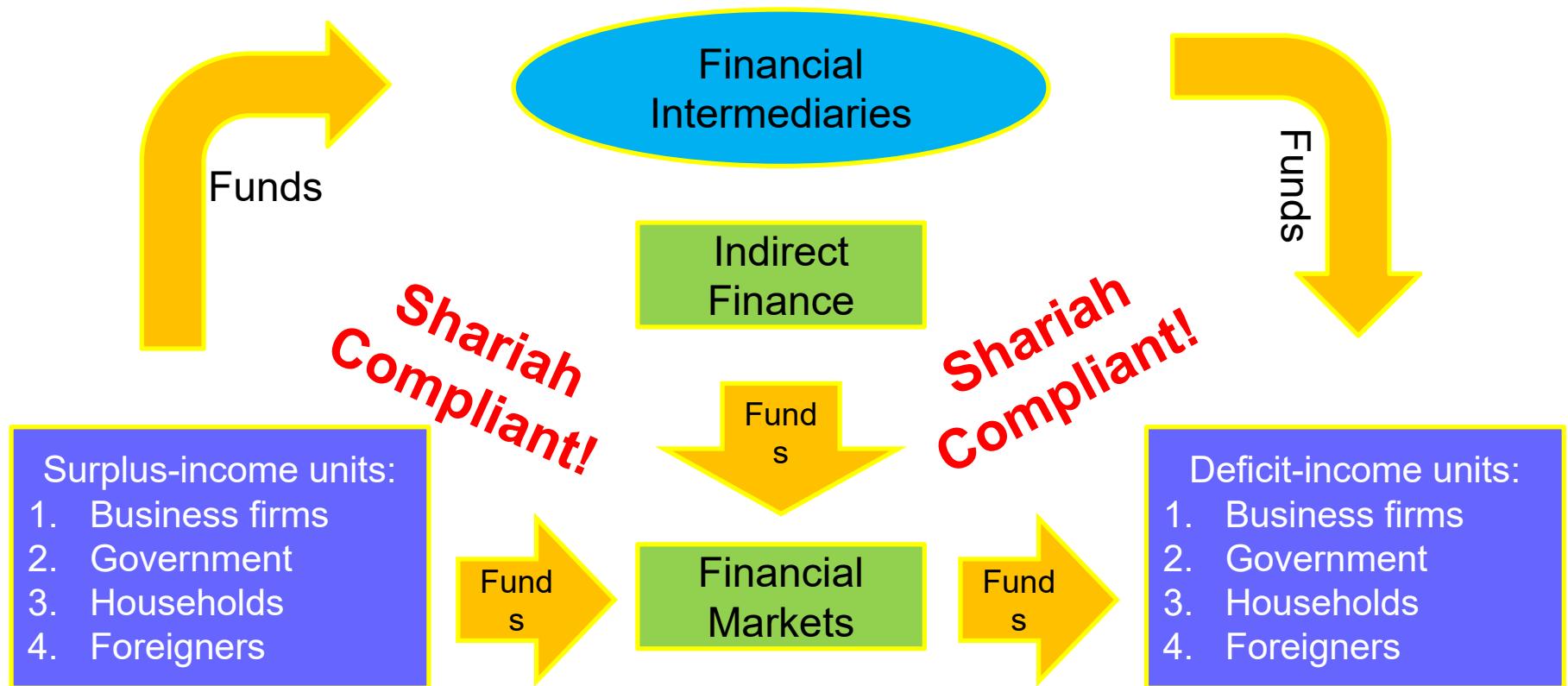


- The number of Islamic windows of conventional banks has risen to 350, almost equal to total number of Islamic banks world-wide
- There are countries that allow **only** Islamic Windows and **not** full-fledged Islamic banks (Ethiopia through a Directive effective from October 1, 2011)
- There are also countries that do **not** allow Islamic Windows, like Malaysia (for retail banking), Lebanon and Qatar
- “An Islamic Window is a separate department within a conventional bank, which operates under strict guidance by an independent Shari’ a Advisory Board (comprising Muslims scholars of repute, credibility and due social recognition) to develop and offer Islamic financial products to the clients that demand such products.”
- An Islamic Window may offer its products and services through conventional branches or dedicated Islamic branches of the conventional bank

Introduction

- The Islamic financial system is similar to the structure of the conventional financial system.
- The Islamic financial system also consists of financial institutions (Islamic banks, Islamic insurance (*takaful*) companies, Islamic mutual funds and other finance companies) and markets that also bring lender and borrowers together.

Overview of the Financial System



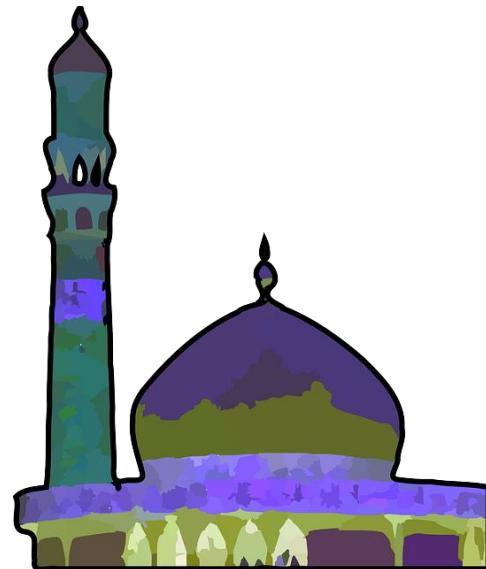
IFIs and markets facilitate the channeling of investable funds from SFUs to DFUs.

Modern Day Islamic Banking: Two Categories

**Islamic banks co-existing
with interest-based banks**



**Islamic banks operating
under a binding and all-
embracing Islamic
banking system**



Islamic banks co-existing with interest-based banks

A single Islamic bank operating in a country



Al-Hilal Islamic Bank
Kazakhstan

More than one Islamic bank operating in the same country



Egypt, Qatar, Bahrain and Bangladesh

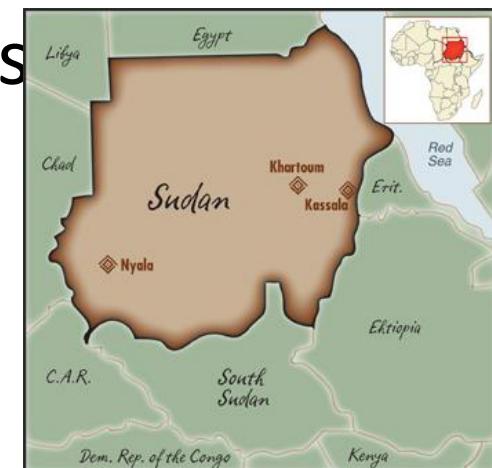
Conventional banks providing Islamic financing and investments “*Islamic Windows*”



Malaysia, Qatar, Bahrain and Saudi Arabia

Islamic banks operating under a binding and all-embracing Islamic banking system

- Banks in Sudan and Iran where the conduct of the entire banking system is based on Shari'ah.
- In Iran, all banks have been nationalized since the inception of the Islamic Revolution in 1979 while Sudan has government banks as well as banks owned by the private s



Malaysian Islamic Financial System

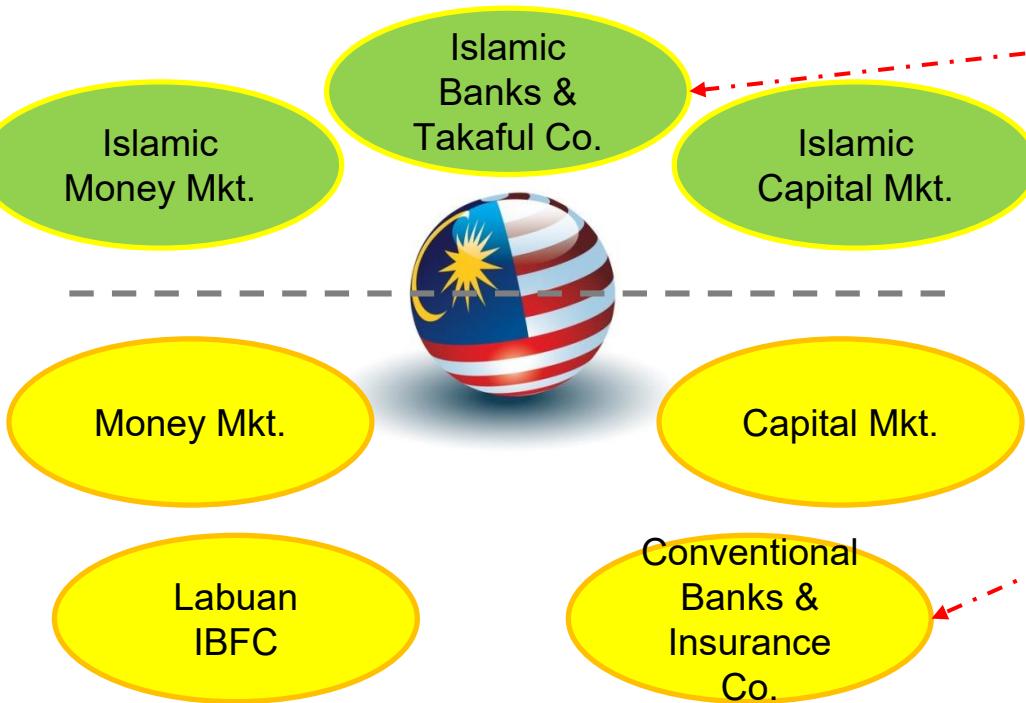
Islamic
Banking
Institution

Islamic
Money and
Capital
Markets

Takaful
Industry

Non-Banking
Institutions

Malaysian Islamic Financial System



In Malaysia, Islamic legislation and banking regulations exist side-by-side with those for the conventional banking system.

Market Participants/
Stakeholders

Major Components of Islamic Financial Services

Islamic Banking

Financing

Deposit

Investment

Islamic Capital Market

Equity

Islamic Securities

Funds and Unit Trusts

I-REITs

Venture Capital/ Private Equity

Derivatives

Takaful/ Islamic Insurance

Takaful

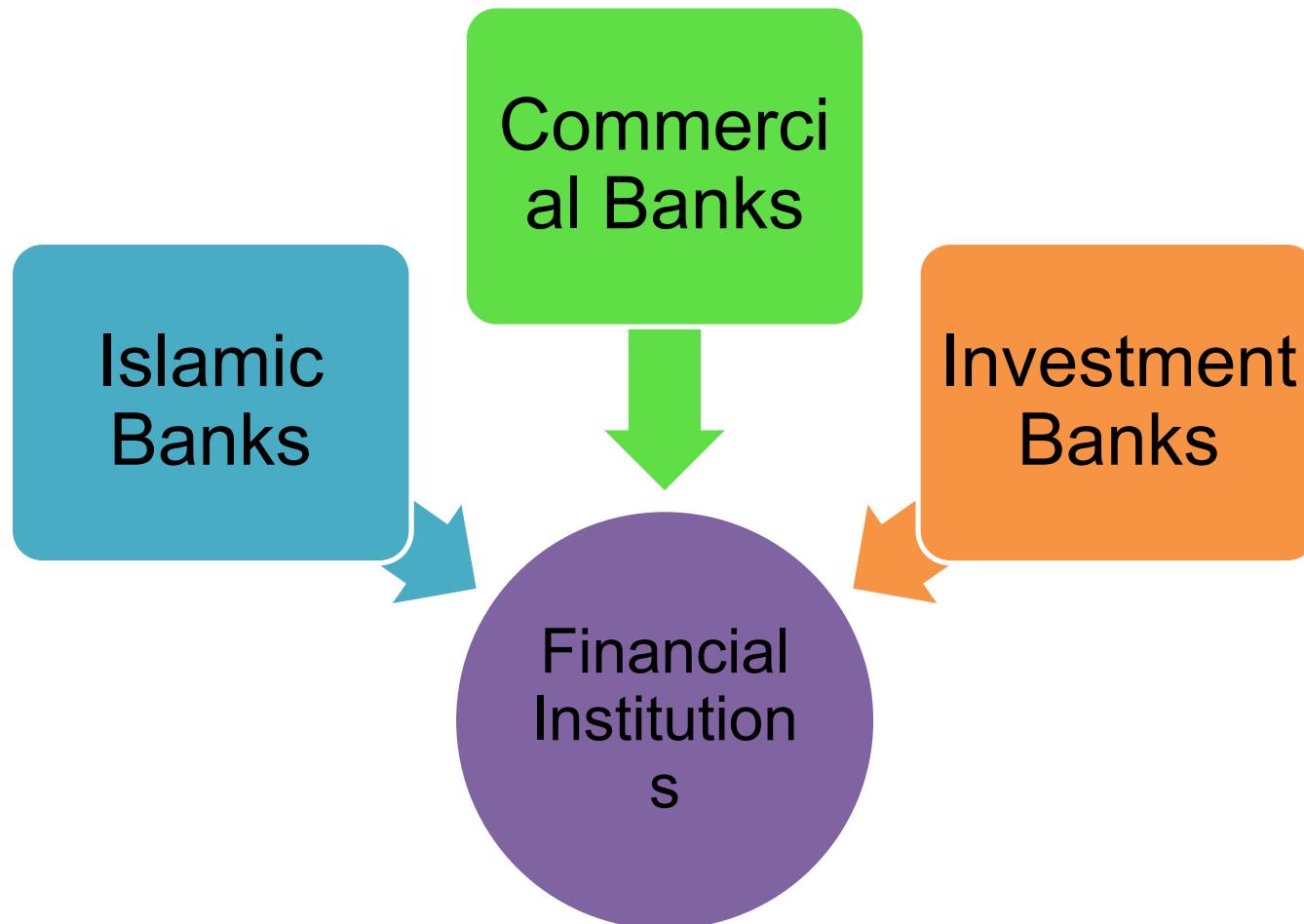
Retakaful



Islamic Banks | Islamic Insurance (Takaful) Companies | Mutual Funds or
Unit Trusts | Other Finance Companies | Islamic Institution of Waqf

ISLAMIC FINANCIAL INSTITUTIONS

Financial Institutions Offering Islamic Banking Services



Development of Islamic Banks

1975	1977	1978	1979	1980	1983
Dubai Islamic Bank	Faisal Islamic Bank of Sudan	Faisal Islamic Egyptian Bank & Islamic Bank of Jordan	Islamic Bank of Bahrain	International Islamic Bank of Investment and Development, Luxembourg	BIMB

Currently, there are 300 Islamic financial institutions operating in about 100 countries worldwide; with more than 300 Islamic equity funds managing assets in excess of USD5 billion.



Islamic Banking System

- BNM adopted a step-by-step approach; the first step to spread the virtues of Islamic banking was to disseminate Islamic banking on a nation-wide basis, with as many players as possible and to be able to reach all Malaysians.
- BNM allowed the existing banking institutions to offer Islamic banking services using their existing infrastructure and branches.
- This is the most effective and efficient mode of increasing the number of institutions offering Islamic banking services at the lowest cost and within the shortest time frame.

Islamic Banking System

- In October 1996, BNM issued a model financial statement for the banking institutions participating in the SPI requiring the banks to disclose the Islamic banking operations (balance sheet and profit and loss account) as an additional item under the Notes to the Accounts.



- The first Islamic Bank in Malaysia established after the enacting of the Islamic Banking Act (IBA) in 1983.
- BIMB commenced operations on 1 July 1983.
- In line with its objectives, the banking activities of the bank are based on Shariah principles; carrying out its activities on an interest free basis.

First step in the government's efforts to instill Islamic values into the country's economic and financial systems as a replacement for the current Western-base economic system (NST 6 July 1982) – Tengku Razaleigh





- It currently has a paid up capital of RM 100 million and an authorized capital of RM 500 million
- BIMB has proved to be a viable banking institution with its activity expanding rapidly throughout the country with a network of 80 branches and 1,200 employees.
- The bank was listed on the Main Board of the Kuala Lumpur Stock Exchange on 17 January 1992.



- On 1 October 1999, a second Islamic bank, namely Bank Muamalat Malaysia Berhad (BMMB) commenced operations.
- The establishment BMMB was the effect of the spin-off following the merger between Bank Bumiputra Malaysia Berhad (BBMB) and Bank of Commerce (Malaysia) Berhad (BOCB).

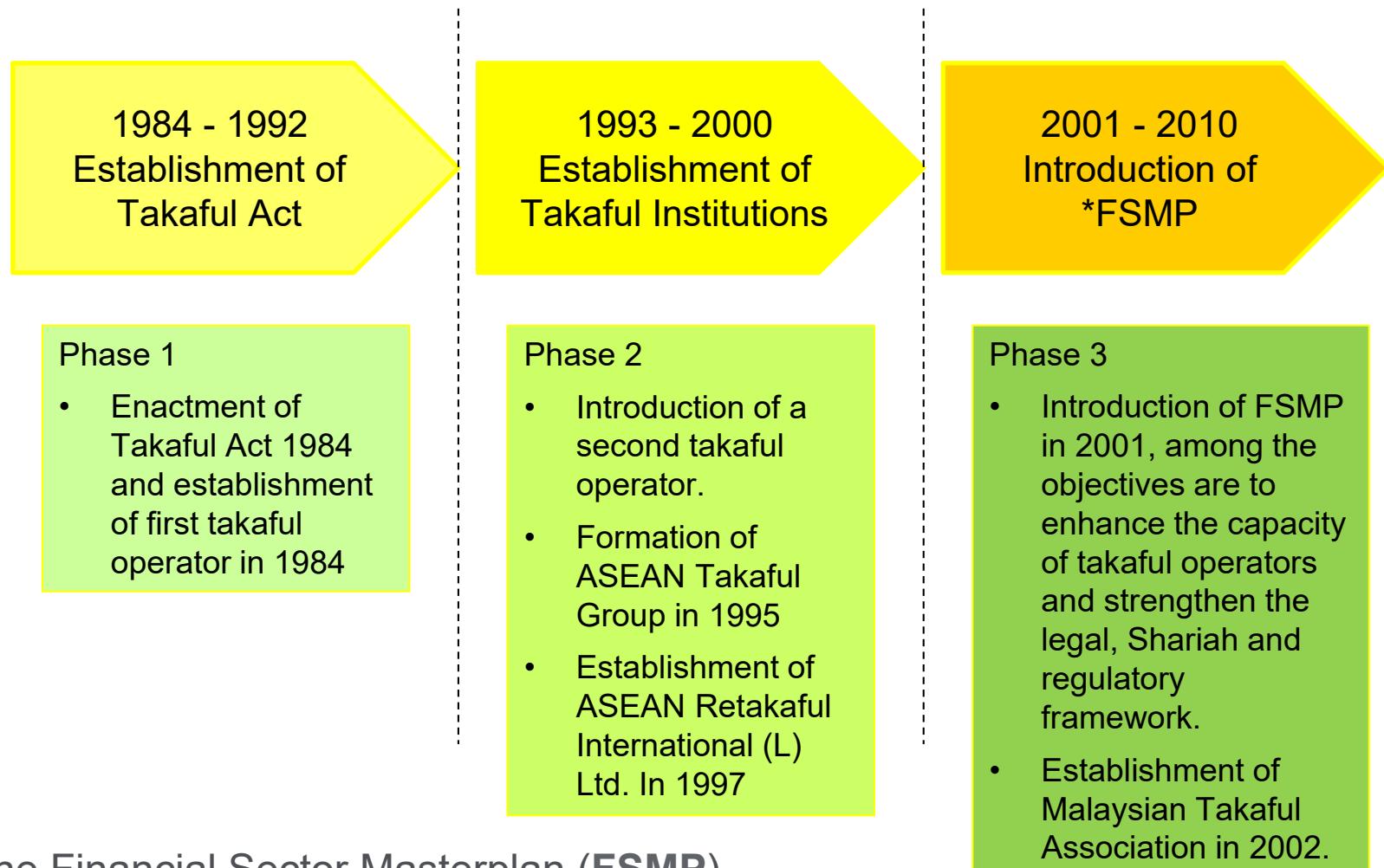


- MBSB Bank Berhad, a full-fledged Islamic Bank was incorporated on 28 November 2005 is a wholly owned subsidiary of Malaysia Building Society Berhad.
- On 6 Nov 2017, MBSB entered into a Share & Purchase Agreement with the shareholders of Asian Finance Bank Berhad for the proposed acquisition by MBSB of the entire equity interest in AFB.
- AFB became a wholly owned subsidiary of Malaysia Building Society Berhad on 7 February 2018.
- AFB undertook a rebranding exercise and on 2 April 2018 it changed its name to MBSB Bank Berhad.

**Islamic Banks**

No.	Name	Ownership
1	Affin Islamic Bank Berhad	L
2	Al Rajhi Banking & Investment Corporation (Malaysia) Berhad	F
3	Alliance Islamic Bank Berhad	L
4	AmBank Islamic Berhad	L
5	Bank Islam Malaysia Berhad	L
6	Bank Muamalat Malaysia Berhad	L
7	CIMB Islamic Bank Berhad	L
8	Hong Leong Islamic Bank Berhad	L
9	HSBC Amanah Malaysia Berhad	F
10	Kuwait Finance House (Malaysia) Berhad	F
11	Maybank Islamic Berhad	L
12	MBSB Bank Berhad	L
13	OCBC Al-Amin Bank Berhad	F
14	Public Islamic Bank Berhad	L
15	RHB Islamic Bank Berhad	L
16	Standard Chartered Saadiq Berhad	F

Development of the Malaysian Takaful Industry



9. The nature of *retakaful*: risk sharing or transferring risks?*

Abu Umar Faruq Ahmad, Ismail Bin Mahbob and Muhammad Ayub

INTRODUCTION

Takaful has emerged in the global Islamic finance industry from the fundamental Islamic principles of brotherhood, mutual assistance for risk sharing and cohesion utilising the charitable contract of donation (*tabarru'*). Since risks are inevitable both at individual and institutional levels, *takaful* has been innovated as an Islamic alternative to conventional insurance to help individuals and organisations mitigate these risks. The aim of *retakaful* is to provide cover to *takaful* operators (TOs) to reduce or mitigate the financial impact to their respective *takaful* funds (TFs) arising from the occurrence of such risks.

In general, a *retakaful* arrangement is structured along the same lines as that of conventional reinsurance. However, unlike insurance and reinsurance where risks are transferred from the original insured to the insurance company and then from the insurance company to the reinsurer, the concept of *retakaful*, like *takaful*, is based on risk sharing. The *retakaful* operators (RTOs) manage the TFs on behalf of their respective participants. It is fundamental to this structure that the contributions from participants are pooled and used for payment of loss claims. Participants in fact are owners of the pool. Underwriting surplus (UWS) belongs to participants and deficit if any in the TFs and therefore should be covered by participants. This study responds to a question that is frequently asked as to how the theory of risk sharing transforms to *retakaful*, which is thought to be an alternative to conventional reinsurance based on risk transfer to the reinsurer. It aims to examine *inter alia* whether or not in *retakaful*, risks are actually shared amongst participants or transferred to

RTOs. This and other related issues in *retakaful* will be examined from the *shari'ah* perspectives.

The chapter is divided into six sections. The second section deals with the concept, structure and significance of *retakaful* to the industry. The third section analyses the *wakala-waqf retakaful* business model. The fourth section defines risk, risk sharing and risk transferring from both conventional reinsurance and *retakaful* perspectives. The in-depth analysis of the core research, namely, the *shari'ah* rulings on the issues related to risk transfer, is undertaken in the fifth section. The final section of the study evaluates the findings and offers concluding remarks.

THE CONCEPT, STRUCTURE AND SIGNIFICANCE OF RETAKAFUL

Literal Meaning of *Retakaful*

If *retakaful* is taken as one word it would not have any linguistic origin. However, if the word is considered as the combination of two separate words, 're' and '*takaful*', we could then look into their respective etymological origin. The word 're' is a prefix, occurring originally in loanwords from Latin, used with the meaning 'again' or 'again and again' to indicate repetition, or with the meaning 'back' or 'backward' to indicate withdrawal or backward motion. On the other hand, *takaful* is derived from the Arabic root-word *لـكـفـلـ*, which means guarantee, surety, warrant, responsibility and protection.

Origin of the Word *Retakaful*

No one can claim to be the first user of the word *retakaful*. It was in fact freely used probably in an attempt to Islamise or Arabicise components of the industry's supply chain. The term was officially acknowledged when the first Asian RTO, Asean Retakaful International (L) Limited (ARIL) incorporated the word in its name. Replicating the popular description of reinsurance as 'insurance for insurance companies', *retakaful* has since been conveniently explained as 'Takaful for Takaful Companies', which in fact is *takaful* for 'Takaful Pools' managed by *takaful* companies. Since then, many quarters have attempted their versions.¹

* The authors acknowledge the support of the International Shari'ah Research Academy for Islamic Finance (ISRA), Kuala Lumpur, in carrying out this study.

¹ Mahbob, Ismail, 'Contract of Exchange in Retakaful: The Need to Revisit to Ascertain its Validity', Term paper submitted to INCEIF for partial fulfilment of the requirements of CIFP programme, 2010.

Takaful Operation in Malaysia

- Participants contribute a sum of money into a common fund, which will be used to mutually assist the members against a defined loss or damage.
- A takaful operator is entrusted to manage the fund, who runs the operation commercially as a business venture for profit.
- Sources of income for the operator are from:
 - Profit from the investment of its shareholders' fund;
 - Agency/ wakalah fee;
 - Share of investment profit of takaful funds; and/ or
 - Surplus of the takaful funds.

Underlying Concepts

Takaful

- Derived from an Arabic word which means joint guarantee, whereby a group of participants agree to jointly guarantee among themselves against a defined loss.

Tabarru'

- Tabarru' means donation, gift or contribution. Participant in a takaful scheme agrees to relinquish, as a donation, a certain proportion of the contribution into a takaful fund to assist other participants faced with difficulties;
- It embraces the elements of shared responsibility, joint indemnity and mutual protection; and
- It is the core of the takaful system that makes the uncertainty element allowable under the takaful act.

Takaful operators are designed based on the following contract model:

Mudharabah model

- Under this model, the participants/ policyholders are entitled for the profit (on the part of their funds) only if the Takaful operator earns profit.
- The profit-sharing basis is pre-determined, where the Shariah committee approves the profit-sharing ratio for each year in advance.
- Most of the expenses are charged to the shareholders.

Wakalah (Agency) Model

- Under this model, the surplus of policyholders' funds investments – net of the management fee or expenses – goes to the policyholders.
- The shareholders charge Wakalah fee from contributions that covers most of the expenses of business.
- The fee rate is fixed annually in advance in consultation with Shariah committee of the company.
- In order to give incentive for good governance, management fee is related to the level of performance.

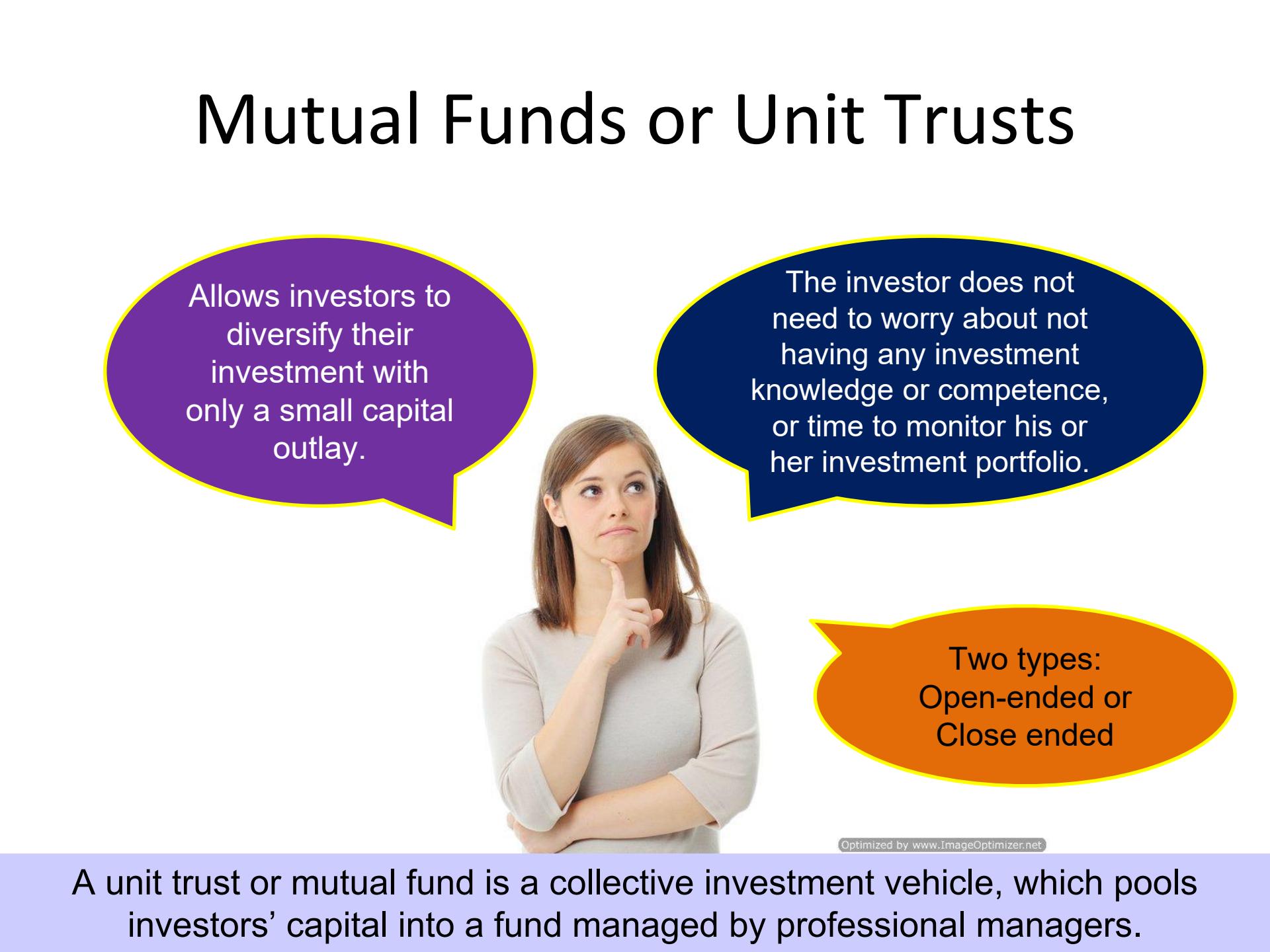
HYBRID: Combination of Wakalah and Mudarabah Models

Distinction between Conventional Insurance and Takaful

Conventional Insurance	Takaful
Conventional insurance companies invest their funds in non-Shariah or interest-based avenues/ instruments.	Takaful operators undertake only Shariah compliant business investment and the profits are distributed in accordance with the pre-agreed ratios as stipulated in the Takaful Agreement.
Conventional insurance uses contract model that is perceived to be gharar and may involve riba transactions.	Takaful uses contract model that is in line with the requirement of Shariah. In Takaful, insured is the participants that contributes to the Takaful funds.
Conventional insurance offers a loan to its insured and the loan granted is charged with a certain amount of interest. The interest is similar to riba since in Islam, the lender is restricted from extracting any extra amount from the borrower.	In investments, participants act as capital provider and Takaful operator as the entrepreneur, responsible to manage the invested funds.

As of 2018, there are 12 Takaful operators operating under the jurisdiction of BNM.

Mutual Funds or Unit Trusts

A woman with brown hair, wearing a light grey long-sleeved shirt, is shown from the waist up. She is looking upwards and to the right with a thoughtful expression, her right hand resting against her chin. Three speech bubbles originate from her head, each containing text about mutual funds.

Allows investors to diversify their investment with only a small capital outlay.

The investor does not need to worry about not having any investment knowledge or competence, or time to monitor his or her investment portfolio.

Two types:
Open-ended or
Close ended

A unit trust or mutual fund is a collective investment vehicle, which pools investors' capital into a fund managed by professional managers.

Islamic Mutual Funds or Unit Trusts

- What distinguishes a Shari'ah-compliant unit trust or mutual fund from a conventional one is basically the assets invested in by the fund.
- A Shari'ah compliant unit trust fund can only invest in assets and securities that have been pronounced as compliant to Shari'ah principles and guidelines.

Islamic Unit Trust Fund: Things to consider



The fund must be managed by an Islamic fund manager and authorized by regulators to do so.



Payment of zakat may also be an item of consideration. Can be deducted from the fund or left to investors to make the zakat payments themselves.

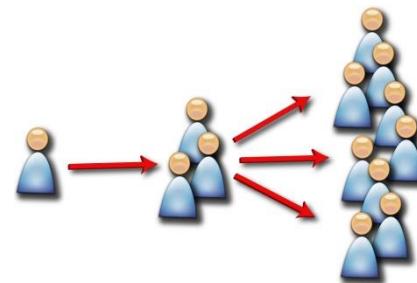


An independent Shari'ah advisor or committee needs to be appointed.

This committee is responsible in ensuring that the fund complies with Shari'ah in all aspects of its operation, including maintenance of accounts and risk management practices.



Purification of earnings attributable to assets owned by the fund may take place.



Moral dimension of sales and marketing must be addressed to ensure that it is ethical. Avoid misleading representations and lack of complete disclosure.

Unit Trust

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[Important Notes](#)

[SIDREC's FAQ](#)

[Payment Safety Advice](#)

[Do's And Don't As A UTC](#)

Unit Trust is a form of collective investment that allows investors with similar investment objectives to pool their savings, which are then invested in a portfolio of securities or other assets managed by investment professionals.

A professional fund manager will then invest the pool of funds in a portfolio which may include the asset classes listed below:

1. Cash / Money Market Instruments
2. Fixed Income / Sukuk
3. Local Equities
4. Regional Equities
5. Global Equities

With these various types of asset classes, you have the opportunity to decide on a wide range of unit trust investments that fit your risk appetite.

Benefits & Features

1. Diversification
2. Ready Access to Funds
3. Professional Management
4. Investment Exposure
5. Investment Cost

Method Of Investing

Consult our Unit Trust Consultants and we will provide you financial advice that suits your goals and risk profile, with no obligations.

1. **Lump Sum Purchase**

Make a one-time investment on a fund and take immediate advantage of the underlying market.

2. **Reinvestment of Income**

The amount of the distribution is used to purchase additional units.

3. **Regular Saving Investment**

Make regular investments every month and even out market risks in the long run.

4. **EPF Members Investment Scheme**

This plan allows you to withdraw your EPF savings to invest in EPF-approved Unit Trust Funds.

Fund Houses

Bank Islam distributes a wide range of Unit Trust Funds that caters for a variety of investment objectives, investment strategies and risk tolerance level i.e. equity fund, balance fund, mixed asset fund, sukuk fund, income fund and money market fund.

The Unit Trust Funds distributed by Bank Islam Malaysia Berhad are managed by professional fund managers i.e. BIMB Investment Management Berhad and Eastspring Investments Berhad, which has vast experience in fund management:

1. **BIMB Investment Management Berhad**

2. **Eastspring Investments Berhad**

a. **Eastspring Investments Dana Al-Ilham**

b. **Eastspring Investments Dana Dinamik**

c. **Eastspring Investments Dinasti Equity Fund**

d. **Eastspring Investments Dana al-Islah**

e. **Eastspring Investments Islamic Income Fund**

f. **Eastspring Investments Islamic Small-cap Fund**

g. **Eastspring Investments Islamic Equity Income Fund**



- Perbadanan Wang Simpanan Bakal-Bakal Haji was set up in November 1962, and began its operation on 30 September 1963 to help Muslims to save enough money without involving in activities deemed haram in Islam.
- The corporation is to manage the savings of Muslims, intending to perform the Hajj pilgrimage, was the result of a working paper entitled "*Rancangan Membaiki Ekonomi Bakal-Bakal Haji*" presented by Royal Professor Ungku Aziz in 1959 to improve the economy of intending pilgrims.



Objectives:



Enable Muslims to gradually save enough money to meet the cost of performing the Hajj or other beneficial expenses;



Enable Muslims, through the use of their savings, to take active part in capital investment in a way, halal to Islam, and



Provide protection, supervision and welfare to Hajj pilgrims.

Islamic Institution of Waqf

- The Quran enlighten on two built-in stabilizers that helps to solve problems of poverty:



Zakat which channels funds from the rich (subject to certain rates) and redistributes the proceeds to the poor, the needy and other Quran designated causes.



The institution of Waqf, large scale voluntary donations can help to shoulder the financing of major public schemes that are currently financed through taxation and fiscal spending (schools, hospitals, roads, street lighting etc).

More than 60% of the Quran emphasizes on Muslims to spend liberally in the way of Allah (swt).

Islamic Institution of Waqf

- Waqf is a possible complement to state-owned financial institutions.
- In Islamic history waqf played a dominant role in providing public goods like education and healthcare.
- They can be supplemented by zakat collections waiting for distribution to those who deserve it.
- The zakat-waqf sector can devote itself especially to financing the poor.
- The interface of zakat-waqf establishment with profit-motivated financial institutions could be through technical support and international guarantees.

3. Roles and Importance of Waqf Educational Institution

Waqf educational institutions are considered as a platform of great social importance because Muslims are the agents of community development. The institutions do not only provide the opportunity to society in obtaining Islamic education through waqf property, as the institutions are often used as a platform that gives opportunities for Muslims to do welfare. Actually Muslims need to be aware that Waqf is a crucial investment to produce *ulama'* who should be the community leaders. This is due to the fact that the graduates are not only excellent in academic but most of them have become important figures who had contributed in the development of country. The graduates of waqf educational institution had proven that they are not only excellent in academic but often become people who are highly righteousness and ethical. Furthermore, these graduates would become key figures in educating people about religious learning at *surau* and mosques to provide religious life awareness to public. This role is usually unable to be played by the other institutions' graduates.



4. Society Motive in Donating their Property in Education Sector

There are many factors that drive the society especially Muslims to donate their property in this country for the interest of Islamic education. Four factors have been identified as the most prominent:

4.1 Looking for Allah's Blessing

Wealth and property are the pride and splendour of humans, so people who are willing to donate could be considered as people who find seek to find Allah's blessing. Therefore, the Waqf practice is an important medium to draw oneself closer to Allah. By willingly giving away things that are most loved, one is deemed to get Allah's blessings. This practice is being urged by Islamic doctrine which can guarantee favourable rewards in after world. It is also can be a source in developing the economy of Muslims, especially in this state.

"The example of those who spend their wealth in the way of Allah is like a seed [of grain] which grows seven spikes; in each spike is a hundred grains. And Allah multiplies [His reward] for whom He wills. And Allah is all-Encompassing and Knowing. Those who spend their wealth in the way of Allah and then do not follow up what they have spent with reminders [of it] or [other] injury will have their reward with their Lord, and there will be no fear concerning them, nor will they grieve," (al-Baqarah 2:261-262)

In Allah's words above, He reminds the people about the benefits of spending wealth for religious purposes. Everyone needs to understand that "cost in Allah's way" includes all welfare and good practices like helping in hospital construction, learning institution, residence, help people in need, help old people and other good practices and welfare.

4.2 The Spread of Islamic Religion

The spread of Islamic religion is one of the most encouraged methods by Islamic religion to create a caring society, to tighten the gap between the rich and the poor with viewing the sacrifices as a symbol of cooperation among Muslims in order to strengthen the relationship. However, most people donate their property for the purpose of education to ensure the continuation and propagation of Islamic religion in a much effective manner. Apart from that, there are also some parties who donate their property in education as a showcase of support in contributing the effort to curb social illness among the young members of the community.

4.3 The Purpose of Nations' Education

There are some *waqifs* who donate their property because they do not have heir to inherit the property. Therefore, the *waqifs* donate the property for education in educating his own nation. For example, waqf land of SMU (A) Bustanus Saadah, Morak has been donated by Che Wok Bin Che Su because he has no children and relatives to inherit the land (Ahmad Zaki, 2008).

4.4 Encouraging the Development of Economy

There are some *waqifs* who donate their property to assist the development of the socio-economic status of the *ummah*. For instance, Syeikh Juned Tola had taken the initiative to generate economy by planting vegetables, fruits etc on the waqf land donated by him. He himself taught the right agricultural techniques to his students. Industrially and economically, he had invited several industrialist and clog makers to come to Padang Rengas and opened up an industry there. As a result of this effort, Padang Rengas at the end of 1930 hosted almost 30 units of shop that belonged to Malays, consisting of coffee shops, laundrettes, rubber shops, retails, barbershops and many others.



Islamic Financial Services Board (IFSB) | International Islamic Financial Market (IIFM) | International Islamic Liquidity Management Corporation (IILM) | Accounting and Auditing Organization for Islamic Finance Institutions (AAOIFI)

INFRASTRUCTURE INSTITUTIONS SUPPORTING ISLAMIC FINANCIAL INSTITUTIONS IN GLOBAL DEVELOPMENT



ISLAMIC FINANCIAL SERVICES BOARD

- The Islamic Financial Services Board (IFSB) was established on 3rd November 2002 in Kuala Lumpur.
- Serves as an international standard-setting body of regulatory and supervisory agencies
- Ensures the soundness and stability of the Islamic financial services industry, including banking, capital market and insurance.
- Promotes the development of a prudent and transparent Islamic financial services industry through introducing new, or adapting existing international standards consistent with Shariah principles, and recommend them for adoption.



ISLAMIC FINANCIAL SERVICES BOARD

- An international standard-setting organization that promotes and enhances the soundness and stability of the Islamic financial services industry
 - issuing global prudential standards and guiding principles for the industry i.e. banking, capital markets and insurance sectors.
 - conducts research and coordinates initiatives on industry related issues, as well as organizes roundtables, seminars and conferences for regulators and industry stakeholders.



ISLAMIC FINANCIAL SERVICES BOARD

- IFSB complements the work of the Basel Committee on Banking Supervision, International Organisation of Securities Commissions and the International Association of Insurance Supervisors.
- Malaysia has enacted a law known as the Islamic Financial Services Board Act 2002, which gives the IFSB the immunities and privileges that are usually granted to international organizations and diplomatic missions.

Objectives

To promote the development of a prudent and transparent Islamic financial services industry through introducing new, or adapting existing, international standards consistent with Shariah principles, and recommending these for adoption

To provide guidance on the effective supervision and regulation of institutions offering Islamic financial products and to develop for the Islamic financial services industry the criteria for identifying, measuring, managing and disclosing risks, taking into account international standards for valuation, income and expense calculation, and disclosure.

To liaise and cooperate with relevant organizations currently setting standards for the stability and the soundness of the international monetary and financial systems and those of the member countries.

To enhance and coordinate initiatives to develop instruments and procedures for efficient operations and risk management.

To encourage cooperation amongst member countries in developing the Islamic financial services industry.

To facilitate training and personnel development in skills in areas relevant to the effective regulation of the Islamic financial services industry and related markets.

To undertake research into, and publish studies and surveys on, the Islamic financial services industry.

To establish a database of Islamic banks, financial institutions and industry experts.

Any other objectives which the General Assembly of the IFSB may agree from time to time.

IFSB Standards, Guiding Principles and Technical Note for the Islamic financial services industry:

Risk Management
(IFSB-1)

Capital Adequacy
(IFSB-2)

Corporate Governance (IFSB-3)

Transparency & Market Discipline (IFSB-4)

Supervisory Review Process (IFSB-5)

Recognition of Ratings on Shariah-Compliant Financial Instruments (GN-1)

Development of Islamic Money Markets (TN-1)

Governance for Collective Investment Schemes (IFSB-6)

Special Issues in Capital Adequacy (IFSB-7)

Guiding Principles on Governance for Islamic Insurance (Takaful) Operations (IFSB-8)

Conduct of Business for Institutions offering Islamic Financial Services (IIFS) (IFSB-9)

Guiding Principles on Shariah Governance System (IFSB-10)

Standard On Solvency Requirements For Takaful (Islamic Insurance) Undertakings (IFSB-11)

Guidance Note In Connection With The Risk Management And Capital Adequacy Standards: Commodity Murâbahah Transactions (GN-2)

Guidance Note On The Practice Of Smoothing The Profits Payout To Investment Account Holders (GN -3)



- IIFM is the international Islamic financial services industry's standard setting organization focused on the Islamic capital & money market (ICMM) segment of the industry.
- Its primary focus lies in the standardization of Islamic financial products, documentation and related processes at the global level.
- IIFM was founded with the collective efforts of the Central Bank of Bahrain, Islamic Development Bank, Autoriti Monetari (i.e. Monetary Authority) Brunei Darussalam, Bank Indonesia, Central Bank of Sudan and the Bank Negara Malaysia (delegated to Labuan Financial Services Authority) as a neutral and non-profit organization.

Objectives



Work in partnership with its member & non-member financial institutions, regulators, law firms and other market participants on unification of Islamic Financial Market particularly standardization of Islamic Capital & Money Market products, documentation and related process.



Development and promotion of the Islamic Capital and Money Market



Act as a market body in the development and maintenance of uniformity, assisting with standards benchmarking for transparency and robustness of Islamic financial markets under the guidance of the IIFM Shariah Advisory Panel.



Other broader objectives are issuances of guidelines, recommendations, infrastructure development and to promote the emergence and integration of Islamic Financial Market into mainstream global financial markets.

Function/ Role



Addressing the product and documentation standardization needs of the industry



Facilitate unification, Shari'ah harmonization and legal reforms in Islamic financial markets



Providing universal platform by bringing regulatory bodies, financial institutions, law firms, stock exchanges, industry associations, infrastructure service providers and other market participants on a common platform through the creation of project specific global working groups and committees



Shariah advisory panel consisting of renowned scholars, hence, ensuring wider Shariah acceptance



- Established on 25 October 2010, the current shareholders are from the central banks and monetary agency of Indonesia, Kuwait, Luxembourg, Malaysia, Mauritius, Nigeria, Qatar, Turkey, the United Arab Emirates and the Islamic Development Bank.
- Membership of the IILM is open to central banks, monetary authorities, financial regulatory authorities or government ministries or agencies that have regulatory oversight of finance or trade and commerce, and multilateral organizations.
- Hosted by Malaysia and headquartered in Kuala Lumpur. As an international institution, the IILM enjoys a range of privileges and immunities conferred by the IILM Act 2011 issued by Malaysia.



- An international institution established by central banks, monetary authorities and multilateral organizations to create and issue short-term Shari'ah-compliant financial instruments to facilitate effective cross-border Islamic liquidity management.
- The IILM aims to enhance cross-border investment flows, international linkages and financial stability.

Objectives

To facilitate cross-border liquidity management among institutions offering Islamic financial services by making available a variety of Shari'ah-compliant instruments, on commercial terms, to suit the varying liquidity needs of these institutions.



To foster regional and international co-operation to build a robust liquidity management infrastructure at national, regional and international levels.

An Islamic
international
autonomous non-
profit corporate body
that prepares
accounting, auditing,
governance, ethics
and Shari'an
standards for IFIs
and the industry.



AAOIFI



**International
Accounting Standards
Board**

Developed for
conventional
institutions and
insufficient to cater
for and report on
Islamic financial
transactions.



هيئة المحاسبة والمراجعة للمؤسسات المالية الإسلامية
Accounting and Auditing Organisation for Islamic Financial Institutions

- In Islamic finance there are unique rules, restrictions and requirements regarding business and investing.
- In order to be considered acceptable, transactions must adhere to the principals under Shariah.
- The Accounting and Auditing Organization for Islamic Financial Institutions sets compliance standards for institutions that wish to gain access to the Islamic banking market.
- AAOIFI is continually updating its scope to include the various new financial instruments entering markets around the world.
- E.g. new hedging mechanisms would first need to be discussed and accepted by the AAOIFI before any member would offer these services.



هيئة المحاسبة والمراجعة للمؤسسات المالية الإسلامية
Accounting and Auditing Organisation for Islamic Financial Institutions

- A non-profit organization that was established to maintain and promote Shariah standards for Islamic financial institutions, participants and the overall industry.
- The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) was created on February 26, 1990 to ensure that participants conform to the regulations set out in Islamic finance.
- The founding and associate members, as well as the regulatory and supervisory authorities of the AAOIFI, define the acceptable standards for various functions. This includes areas such as accounting, governance, ethics, transactions and investment.



Islamic Development Bank (IDB) | Educational and Training Institutes – INCEIF and IBFIM | Islamic International Rating Agency (IIRA)

OTHER INTERNATIONAL BODIES SUPPORTING ISLAMIC FINANCE



Islamic Development Bank

Together We Build A Better Future

- Established in pursuance of the Declaration of Intent issued by the Conference of Finance Ministers of Muslim Countries held in Jeddah in December 1973.
- The purpose of the Bank is to foster the economic development and social progress of member countries and Muslim communities individually as well as jointly in accordance with the principles of Shariah i.e., Islamic Law.



Islamic Development Bank

Together We Build A Better Future

Functions:



To participate in equity capital and grant loans for productive projects and enterprises besides providing financial assistance to member countries in other forms for economic and social development.



Accept deposits and to mobilize financial resources through Shari'ah compatible modes.



To establish and operate special funds for specific purposes including a fund for assistance to Muslim communities in non-member countries, in addition to setting up trust funds.



Assist in the promotion of foreign trade especially in capital goods, among member countries; providing technical assistance to member countries; and extending training facilities for personnel engaged in development activities in Muslim countries to conform to the Shari'ah.



Islamic Development Bank

Together We Build A Better Future

- The present membership of the Bank consists of 56 countries.
- The basic condition for membership:
 - The prospective member country should be a member of the Organization of the Islamic Conference;
 - Pay its contribution to the capital of the Bank; and
 - Be willing to accept such terms and conditions as may be decided upon by the IDB Board of Governors.
- Up to the end of June 1992, the authorized capital of the Bank was two billion Islamic Dinars (ID). By December 2005 the Board of Governors of decided to increase the authorized capital to ID 30 billion and the subscribed capital to ID 15 billion.



Islamic Development Bank

Together We Build A Better Future

- The Bank's principal office is in Jeddah in the Kingdom of Saudi Arabia.
- Four regional offices were opened in Rabat, Morocco (1994), Kuala Lumpur, Malaysia (1994), Almaty, Kazakhstan (1997), and Dakar, Senegal (2008).
- The Bank also has field representatives in twelve member countries i.e. Afghanistan, Azerbaijan, Bangladesh, Guinea Conakry, Indonesia, Iran, Nigeria, Pakistan, Sierra Leone, Sudan, Uzbekistan and Yemen.

Education and Training

FINANCIAL SECTOR MASTERPLAN (Bank Negara Malaysia: 2001)

- “... to increase the pool of bankers and takaful operators who are knowledgeable and competent, efforts will be directed to promote human capital development to support the envisaged growth of the industry via establishing an industry-owned institution on Islamic banking and finance dedicated to train and supply a sufficient pool of Islamic bankers and takaful operators as required by the industry ...”

CAPITAL MARKET MASTERPLAN (Securities Commission: 2001)

- “ ... to develop local expertise to ensure the availability of a pool of skilled professionals who are well - versed in Shariah matters and are able to provide a range of relevant high quality value - added advisory and intermediation services.”



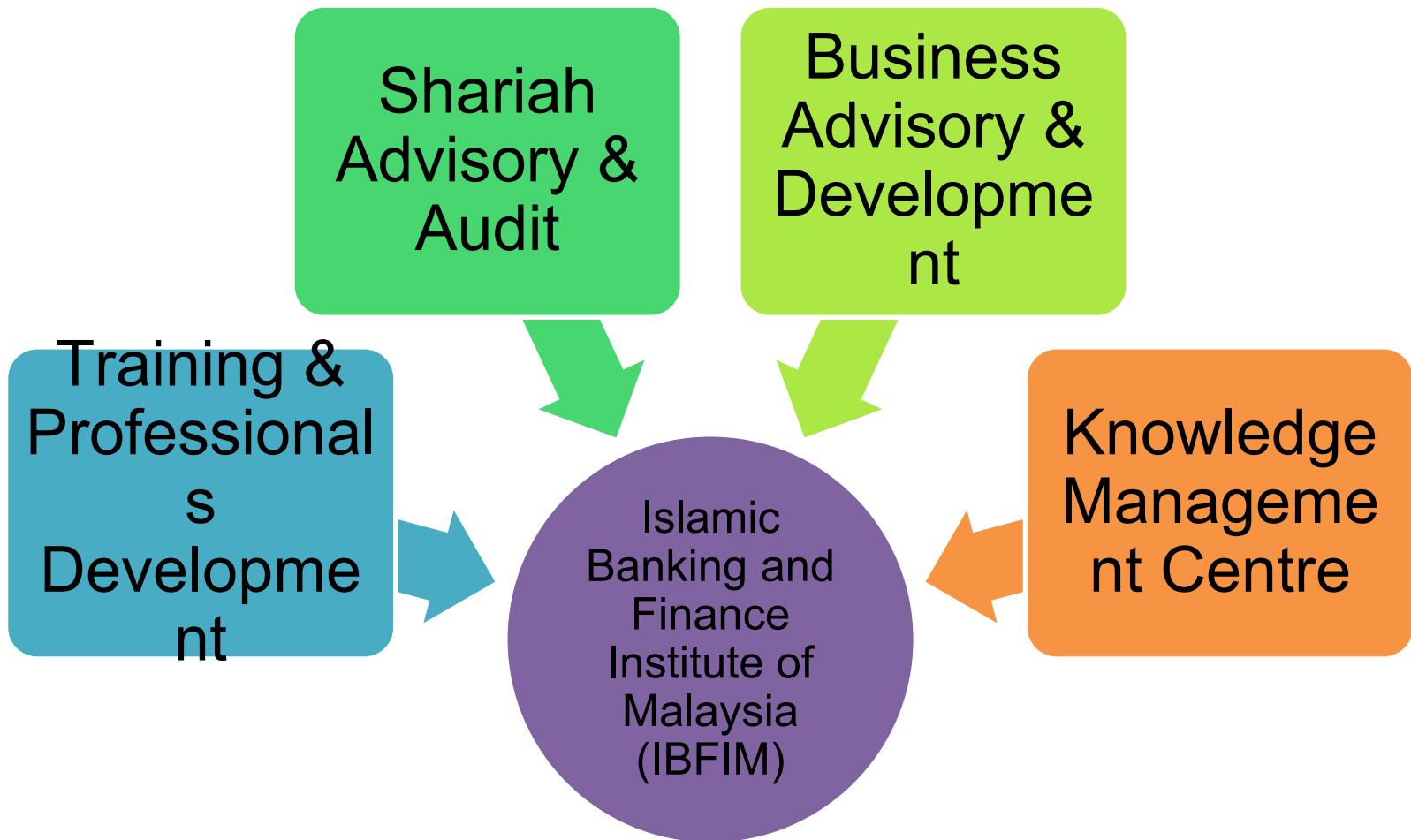
- INCEIF is the acronym for International Centre For Education In Islamic Finance. It was set up by Bank Negara Malaysia (Central Bank of Malaysia) in December 2005 to meet this global demand.
- The university was established as part of the Malaysian Government's initiative to further strengthen the country's position as an international Islamic finance centre.
- It is the only university in the world that is wholly dedicated to postgraduate study in Islamic Finance.



- The university is structured to deliver training and knowledge through both academic programmes and industry services.
- There are three academic programmes;
 - Chartered Islamic Finance Professional (CIFP),
 - Masters in Islamic Finance (MIF), and
 - PhD in Islamic Finance.
- The flagship programme is the CIFP which is a professional qualification aimed for practitioners in the Islamic financial services industry.
- The objective of all three programmes is to produce high calibre professionals for the global Islamic financial services industry.



- Islamic Banking and Finance Institute of Malaysia (IBFIM), an industry-owned institute dedicated to producing well-trained, high competence personnel and executives with the required talent in the Islamic finance industry.



Training and Professional Development

- Covers Islamic Banking, Takaful and Islamic Capital Market
- Based on industry needs
- Competency based and practical oriented
- Designed by practitioners
- Quality Assurance process adhering to strict Standard Operating Procedure with two level industry panel endorsements
- Conducted by practitioners
- Progression route (leading to higher qualifications)

Shariah Advisory and Audit

- Registered and licensed by the Securities Commission of Malaysia
- Provide and delivering Shariah opinions, acceptable to all four schools of law
- Shariah Advisory Services, both local and international, for:
 - Islamic Banking and Takaful institutions;
 - Unit trusts, Mutual funds, High Net-Worth Individuals and Asset Management companies;
 - Issuance and structuring of Sukuk and Islamic REITs;
 - SMEs, Leasing companies, cooperatives;
 - IT / software companies and solution providers

Business Advisory and Development

Islamic
Banking

Takaful

Fund
Management

Islamic
Capital
Market

Islamic
Wealth
Management

Knowledge Management Centre (KMC)

- Established to serve as One Stop Islamic Finance Reference Centre for the Islamic finance industry. It provides wide range of research materials and references to facilitate research and product development in Islamic finance.
- In line with its role as a centre of reference for Islamic finance, KMC is currently equipped with over 13,000 Shariah books in Arabic, English and Malay and over 800 titles of special collection on history of money, banking and finance.



الوكالة الإسلامية الدولية للتصنيف Islamic International Rating Agency

- Established in 2005 in Bahrain to develop methodologies and benchmarks for issue/issuer ratings, and assess risk profiles of Islamic financial institutions.
- These are used by potential investors in assessing various Islamic products offered in the market.
- The main purpose of establishment is to play a pro-active role in the development of financial markets by providing an assessment of the risk profile of entities and instruments which can be used as a basis for investment decisions.
- IIRA is the sole rating agency established to provide capital markets and the banking sector in predominantly Islamic countries.

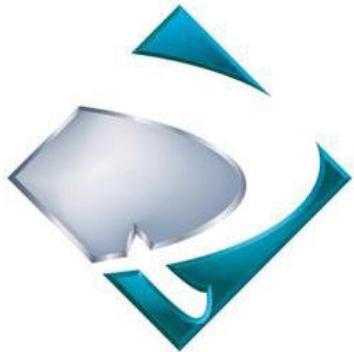


الوكالة الإسلامية الدولية للتصنيف

Islamic International Rating Agency

Credit rating	Sovereign rating	Corporate Governance Rating	Shari'ah Quality Ratings
<p>Covers both Islamic banks and institutions and their products, such as sukuk, as well as conventional banks and financial institutions and their products such as bonds and commercial paper.</p> <p>The likelihood that an entity will repay its debt obligations in a timely manner.</p>	<p>Assesses the creditworthiness of the government of a country, that is, its ability and willingness to fully service its financial obligations on time.</p>	<p>Assesses the governance system of banks, corporations and financial institutions against international best practices and local regulatory requirements, thus providing guidance for improving governance systems.</p>	<p>Evaluate the level of compliance with the Shari'ah principles</p>

IIRA offers sovereign ratings, credit ratings, Shari'ah quality ratings and corporate governance ratings.



الوكالة الإسلامية الدولية للتصنيف
Islamic International Rating Agency

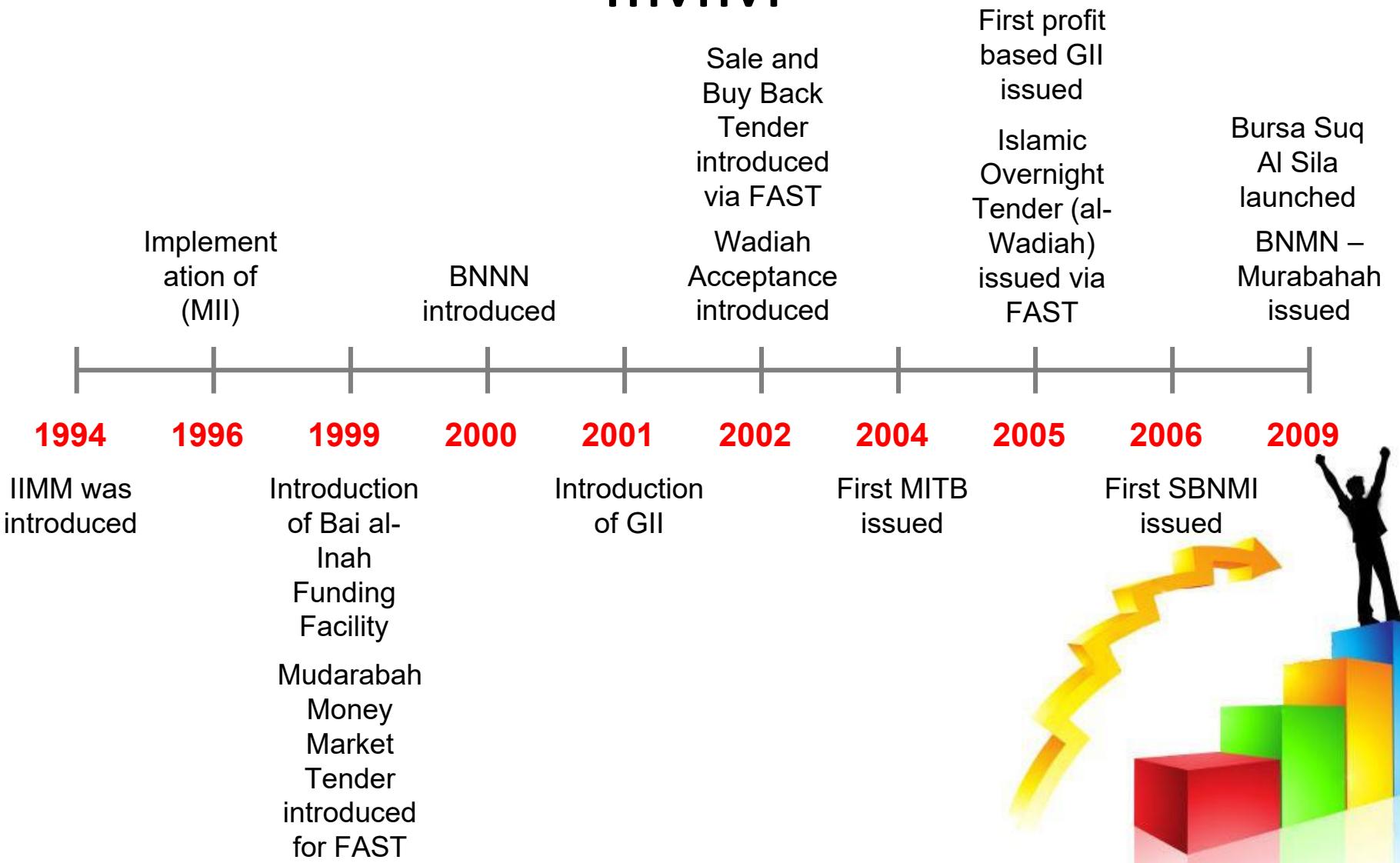
- IIRA is structured in a way to preserve its independence.
- It has a board of directors and a completely independent rating committee.
- Its Shari'ah board comprises of 19 scholars prominent in both shari'a interpretation and modern financial practices.



Islamic money market and instruments | Islamic capital market and instruments

ISLAMIC FINANCIAL MARKETS

Development Of BNM Operations in IIMM



Islamic Interbank Money Market (IIMM)

- Introduced by BNM on January 3, 1994.
- The scope of activities:
 - the purchase and sale of Islamic financial instruments among market participants (including the Bank),
 - inter bank investment activities through the Mudaraba Interbank Investment (MII) Scheme; and
 - a cheque clearing and settlement system through an Islamic Inter bank Cheque Clearing System (IICCS).

Islamic Inter bank Money Market (IIMM)

- The Islamic financial instruments that are currently being traded in the IIMM on the basis of Bai al Dayn, are the Green bankers acceptances, Islamic accepted bills, Islamic mortgage bonds and Islamic private debt securities.
- The total cumulative volume of transactions in the IIMM since January 1994 is about RM2.5 billion.
- In addition, financial institutions can sell Government Investment Issues (GIIs) to the Central Bank as and when required to meet their liquidity needs.

Islamic Inter bank Money Market (IIMM)

- GIIs are government securities issued on an Islamic basis, which financial institutions can also buy from the Central Bank, depending on availability.
- Although there were no major teething problems during the implementation of the IIMM, one drawback the scheme continues to face is the inadequate amount of tradable Islamic papers.

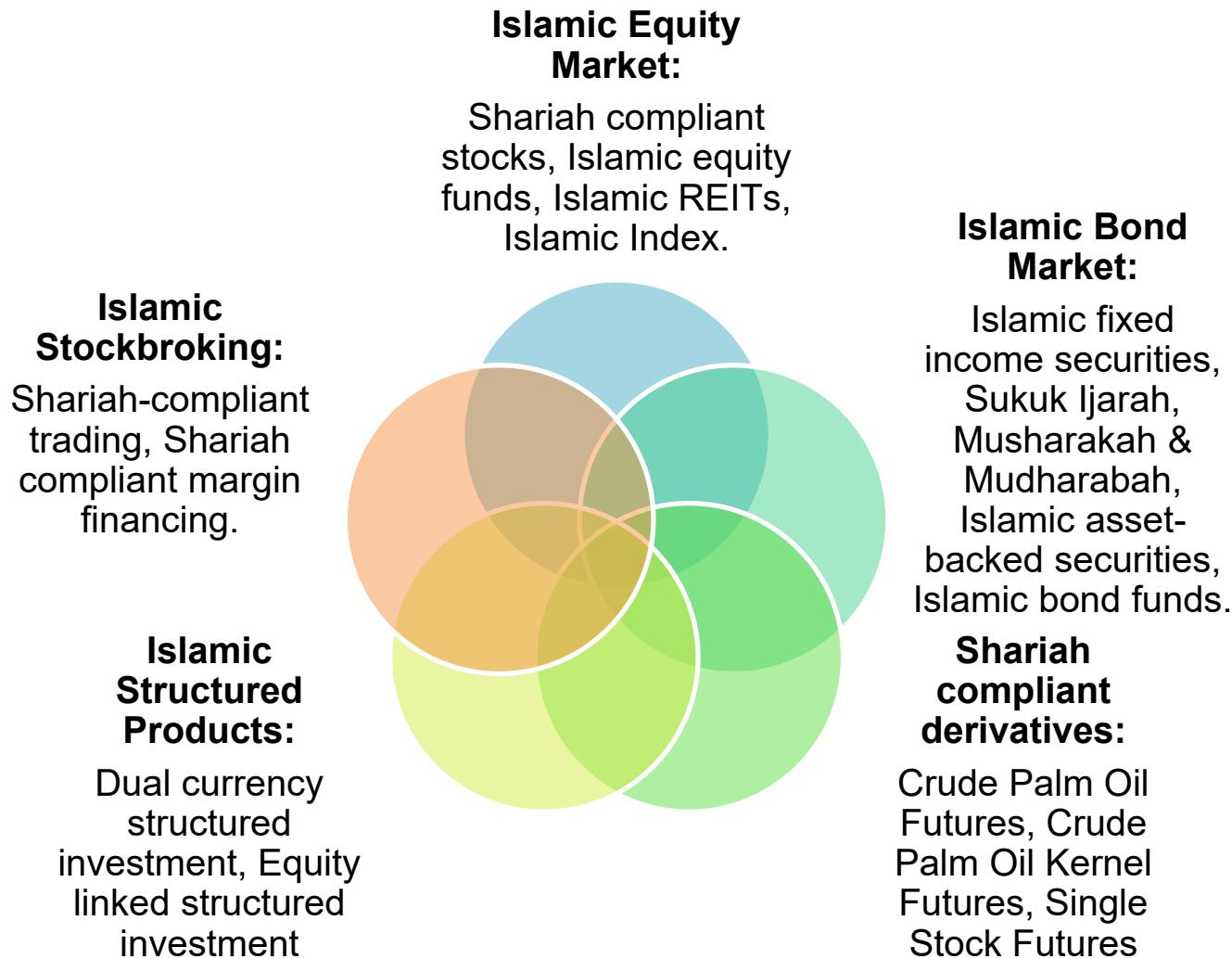
What is the Islamic Capital Market?

Islamic Capital Market (ICM) refers to a market where fund raising activities are carried out in ways that do not conflict with the teachings of Islam.

In other words, ICM represents an assertion of Islamic law (Shariah) in the capital market transactions where the market should be free from the involvement of prohibited activities by Islam such as *riba*, *maisir* and *gharar*.



Malaysian Islamic Capital Market



Overview of Malaysian ICM

In the early periods of Islamic financial system:

- ICM played a relatively minor role
 - Islamic banking was first introduced in 1983
 - Islamic bank provided most of Islamic financing facilities for Islamic economic activities
 - ICM was driven by individual initiatives i.e. Tabung Haji



Today ICM is one of the most important components in the capital market in Malaysia

- ICM plays similar important role as other capital market components:
 - Diversify part of the Islamic banking risks
 - Address Islamic investment and liquidity needs
 - Allow issuers to manage their distinct financing requirements
 - Broaden and deepen the Islamic financial system in Malaysia
 - Malaysia as an Islamic financial hub

Overview of Malaysian ICM

Since early 1990s, significant development was more apparent:

- Introduction of ICM products:
 - First Islamic bond was issued by a multinational company i.e. Shell MDS
 - Classification of “halal counters” by Bank Islam
- Increased demand for ICM products and services
 - Capital raising & financing
 - Investment
 - Liquidity
- Requires a more holistic approach towards broadening and deepening Malaysian Islamic financial system

As the main thrust of ICM is compliance with Shariah:

- SC set up Shariah Advisory Council (SAC) in 1996
 - Functions to advice SC on ICM matters
 - Provides Shariah guidance to industry
 - Promotes harmonization and convergence of Shariah opinions
 - Comprises prominent Shariah scholars, jurists and Islamic finance practitioners.

Fundamental Aspects of ICM

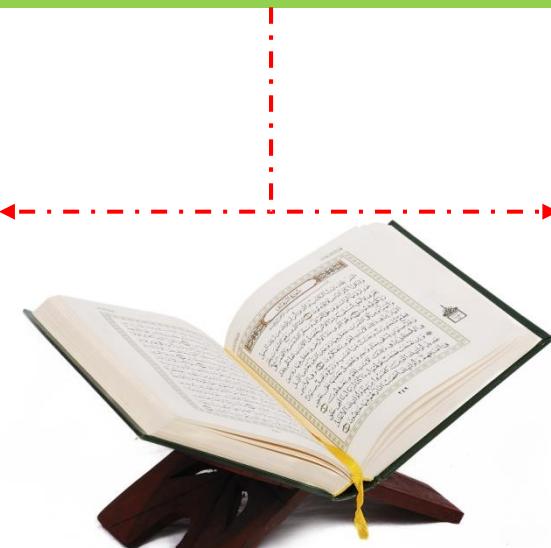
Basis of Shariah decisions in the capital market is guided by:

Primary sources:

- Quran
- Sunnah

Secondary sources:

- Ijma' (consensus of Shariah scholars)
- Qiyas' (analogy)



It is important that all aspects of ICM products and services undergo Shariah compliance review process before they can be classified as permissible and valid.

Fundamental Aspects of ICM

Islamic contracts are the underlying principles for all ICM products & services:

Sale/ Purchase principles:

- Bai' Bithaman Ajil
- Bai' Inah
- Murabahah
- Istisna'
- Salam

Profit/ Loss Sharing principles:

- Mudharabah
- Musyarakah

Rental/ Hire Purchase:

- Ijarah
- Ijarah Thumma Bai

Loan Principle:

- Qard Hassan



Role of Regulators and Industry platform in ICM



Suruhanjaya Sekuriti
Securities Commission
Malaysia



Bank Negara
Malaysia



BANK NEGARA MALAYSIA

CENTRAL BANK OF MALAYSIA

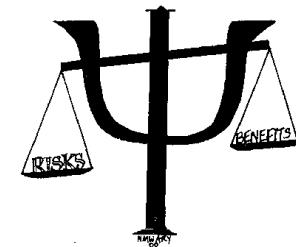
- The IFSA provides BNM with powers to supervise and regulate Islamic banks, similar to the case of other licensed banks.
- Its main objectives as defined in the Central Bank of Malaysia Act 1958 are to:



Issue currency and keep the reserves safeguarding the value of the currency.



Act as a banker and financial adviser to the Government.



Promote monetary stability and a sound financial structure.



Promote the reliable, efficient and smooth operation of national payment and settlement systems and to ensure that the national payment and settlement systems policy is directed to the advantage of Malaysia.



Influence the credit situation to the advantage of Malaysia.

Securities Commission (SC)

Establishment	On March 1 st 1993, as part of initiatives under the 6 th Malaysia Plan (1991 – 1995)
Accountability	Reports to the Minister of Finance and tables accounts to the Parliament annually
Membership	Comprises 9 members, appointed by the Minister of Finance consisting of: <ul style="list-style-type: none">• Executive Chairman• Deputy Chief Executive• Representatives of the private sector• Representative of the government
Role	To act as the single body that regulates and promotes the development of the capital market



Securities Commission (SC)

- “Promote and maintain fair, efficient, secure and transparent securities and futures market and to facilitate the orderly development of an innovative and competitive capital market.”



Licensing and supervising all licensed persons;



“...and 847 e-mails asking me to support anti-spam legislation!”

Regulating all matters relating to unit trust schemes;



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Supervising exchanges, clearing houses and central depositories;



Regulating all matters relating to securities and futures contracts;



Development of the capital market



Regulating the take-over and mergers of companies;

Regulations in Islamic Capital Market

- The ICM runs as a parallel market to the conventional capital market.
- The applicable regulatory framework of the Capital Market are similarly applicable to the ICM.
- Except in a few exceptional circumstances – specific to ICM.

Legislation on Islamic Capital Market

- There are a number of legislations that govern the Malaysian ICM, however among the significant legislations are:
 1. Capital Market Services Act 2007
 2. Securities Commission Act 1993
 3. Companies Act 1965
 4. Financial Services Act 2013
 5. Islamic Financial Services Act 2013

Guidelines on Islamic Capital Market (ICM)

- The Securities Commission (SC) has issued a number of guidelines to regulate the capital market. Some of the guidelines and regulations that are relevant to ICM are:
 1. Guidelines on Islamic Fund Management
 2. Guidelines for Islamic Real Estate Investment Trusts
 3. Guidelines on the Offering of Islamic Securities
 4. Guidelines on Unit Trust Funds
 5. Guidelines on the Offering of Structured Products
 6. Guidelines on the Offering of Asset-Backed Securities
 7. Guidelines and Best Practice of Islamic Venture Capital.

Equity Market

- Shariah Criteria for Listed Companies
 - SAC uses both qualitative and quantitative approaches to classify the halalness of the Shariah-compliant of the ordinary shares/ equity.
- RHB Islamic Index
 - RHB Islamic Index was the 1st Islamic equity index in the country launched by RHB in 1996.
- Shariah Index
 - In 1999, the KLSE Shariah Index was launched by Bursa Malaysia.
- Islamic Stock Broking (Islamic Stock broking companies that are available in Malaysia):
 - BIMB Securities Sdh Bhd
 - Islamic Stock Broking (ISB) unit, AmlInvestment Bank Group (launched in August 2008).

Islamic Debt Market

- The Malaysian Islamic Debt Market has also been an important alternative source of financing.
- As of first quarter of 2009, a total of RM91.65 billion worth of bonds and Sukuk went to market as compared to RM97.30 billion issued in the first three months of the previous year.
- Over the past four years (2005 – 2008), besides conventional bond market, the Sukuk market has been enjoying healthy annual growth rates.

Islamic Debt Market

- As of 31 Dec. 2008, the bond market was worth RM583.8 billion as compared to the domestic equities market, which was valued at RM663.8 billion (The Star, 31 January 2009)
- In terms of composition of Shariah contracts, the Al-Bai Bithaman Ajil and Murabahah Sukuk has been the preferred choice to finance projects and gestation periods.

Islamic Market Index

- Created for people who wish to invest according to Islamic investment guidelines.
- The indexes track Shariah compliant stocks from around the world, providing Islamic investors with comprehensive tools based on a truly global investing perspective.

Islamic Market Investing

- Certain businesses are incompatible with Shariah Law.
- Thus, stocks of companies in these businesses are not considered suitable for Islamic investing.
- Incompatible lines of business include :
 - Alcohol
 - Pork-related products
 - Conventional financial services (banking, insurance, etc.)
 - Entertainment (hotels, casinos/gambling, cinema, pornography, music, etc.)
- Shariah scholars also do not advise investments in tobacco manufacturers or defense and weapons companies.



BNM Shari'ah Advisory Council and role

SHARI'AH GOVERNANCE

Shari'ah Governance

- Shari'ah governance and transparency is a very critical area in Islamic finance.
- The institution of the Shari'ah board plays an essential role in the aspect of Shari'ah supervision, monitoring, auditing and issuing legal rulings.
- The Shari'ah board is an independent body entrusted with the duty of directing, reviewing and supervising the activities of the IFIs for the purpose of Shari'ah compliance and issuing legal rulings pertaining to Islamic banking and finance.

Shariah Advisory Council of Bank Negara Malaysia (SAC)

- Established in May 1997 as the highest Shariah authority in Islamic finance in Malaysia.
- The SAC has been given the authority for the ascertainment of Islamic law for the purposes of Islamic banking business, takaful business, Islamic financial business, Islamic development financial business, or any other business, which is based on Shariah principles and is supervised and regulated by Bank Negara Malaysia.
- As the reference body and advisor to Bank Negara Malaysia on Shariah matters, the SAC is also responsible for validating all Islamic banking and takaful products to ensure their compatibility with the Shariah principles.
- In addition, it advises Bank Negara Malaysia on any Shariah issue relating to Islamic financial business or transactions of Bank Negara Malaysia as well as other related entities.

Shariah Advisory Council of Bank Negara Malaysia (SAC)

- In the recent Central Bank of Malaysia Act 2009, the role and functions of the SAC was further reinforced whereby the SAC was accorded the status of the sole authoritative body on Shariah matters pertaining to Islamic banking, takaful and Islamic finance.
- While the rulings of the SAC shall prevail over any contradictory ruling given by a Shariah body or committee constituted in Malaysia, the court and arbitrator are also required to refer to the rulings of the SAC for any proceedings relating to Islamic financial business, and such rulings shall be binding.
- Consisting of prominent Shariah scholars, jurists and market practitioners, members of the SAC are qualified individuals and have vast experience in banking, finance, economics, law and application of Shariah, particularly in the areas of Islamic economics and finance.

Shariah Advisory Council of Bank Negara Malaysia (SAC)

b) BANK NEGARA MALAYSIA'S NATIONAL SHARIAH ADVISORY COUNCIL³

The National Shariah Advisory Council on Islamic Banking and Takaful (NSAC) was established on 1 May 1997. The primary objectives of the NSAC are as follows:

- To act as the sole authoritative body to advise BNM on Islamic banking and Takaful operations;
- To co-ordinate Shari'ah issues with respect to Islamic banking and finance (including takaful); and
- To analyse and evaluate Syari'ah aspects of new products/schemes submitted by the banking institutions and takaful companies.

NSAC is an independent advisory body which is established under the section 16B of the Central Bank of Malaysia Act 1958 and the core functions of NSAC can be summarized are as follows⁴:

- To act as the authoritative body under the law for the ascertainment of Shariah in Islamic banking, finance and takaful businesses.
- To have jurisdiction over the Islamic financial institutions under the regulation and supervision of BNM
- To be referred by the court in its proceedings relating to Shariah matters in Islamic banking and financial business disputes,
- To act as an advisory body to BNM

- To examine and endorse the validity of application of Shariah in Islamic financial products submitted by the Islamic financial institutions (IFIs)
- To issue Shariah resolutions and decisions relating to Islamic banking and takaful issues

Securities Commission's Shariah Advisory Council

- The Shariah Advisory Council of the SC (SAC) was established under Section 18 of the Securities Commission Act 1993.
- It is a committee that was entrusted to ensure that the running of ICM does not contradict to Shariah.
- Besides acting as a reference centre for ICM-relating issues, SAC is also responsible to advise SC on all matters related to the development of the ICM.
- Members of the SAC are qualified individuals who can present Shariah opinions and have vast experience in the application of Shariah, particularly in the areas of Islamic economics and finance.

Securities Commission's Shariah Advisory Council

- Today, various capital market products are available for Muslims who only seek to invest and transact in ICM.
- Such products include the SC list of Shariah-compliant securities, *sukuk*, Islamic unit trusts, Shariah indices, warrants (TSR), call warrants and crude palm oil futures contract.
- As of August 2008, about 85% of securities, or 843 stocks listed on Bursa Malaysia are Shariah-compliant.

Securities Commission's Shariah Advisory Council

a) SECURITIES COMMISSIONS (SC)¹⁷

Securities Commission was established in 1 March 1993 (under the Securities Commission Act 1993) and its regulatory functions include the following¹⁸:

- Supervising exchanges, clearing houses and central depositories;
- Registering authority for prospectuses of corporations other than unlisted recreational clubs;
- Approving authority for corporate bond issues;
- Regulating all matters relating to securities and futures contracts;
- Regulating the take-over and mergers of companies
- Regulating all matters relating to unit trust schemes;
- Licensing and supervising all licensed persons;
- Encouraging self-regulation; and
- Ensuring proper conduct of market institutions and licensed persons.

Apart from discharging its regulatory functions, SC is also obliged by statute to encourage and promote the development of the securities and futures markets in Malaysia¹⁹.

b) SECURITIES COMMISSION'S SHARIAH ADVISORY COUNCIL (SC, 2008)²⁰

Established under the section 18 of the Securities Commission Act 1993 (SCA), Shariah Advisory Council of the SC (SAC) is a committee that was entrusted to ensure that the running of the Islamic capital market (ICM) are not contradict to Shariah. Besides acting as a reference centre for ICM-related issues, SAC is also responsible to advise the SC on all matters related to the development of the ICM.

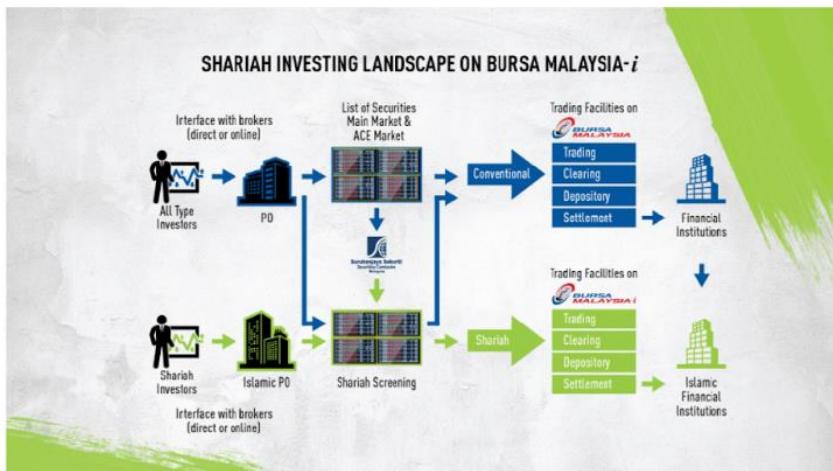
Bursa Malaysia mainly works through three markets

Main Market	ACE market	LEAP Market
This is the main market where shares are traded in general.	ACE (Access, Certainty, Efficiency) is meant for start-ups and new companies which intend to go public.	This is an alternative market suitable for SMEs to raise funds

The stock exchange houses various types of Shariah Compliant products and has a dedicated team to manage and promote Islamic capital market products and trading platforms as mentioned below:

1- Bursa Suq Al-Sila' (BSAS)

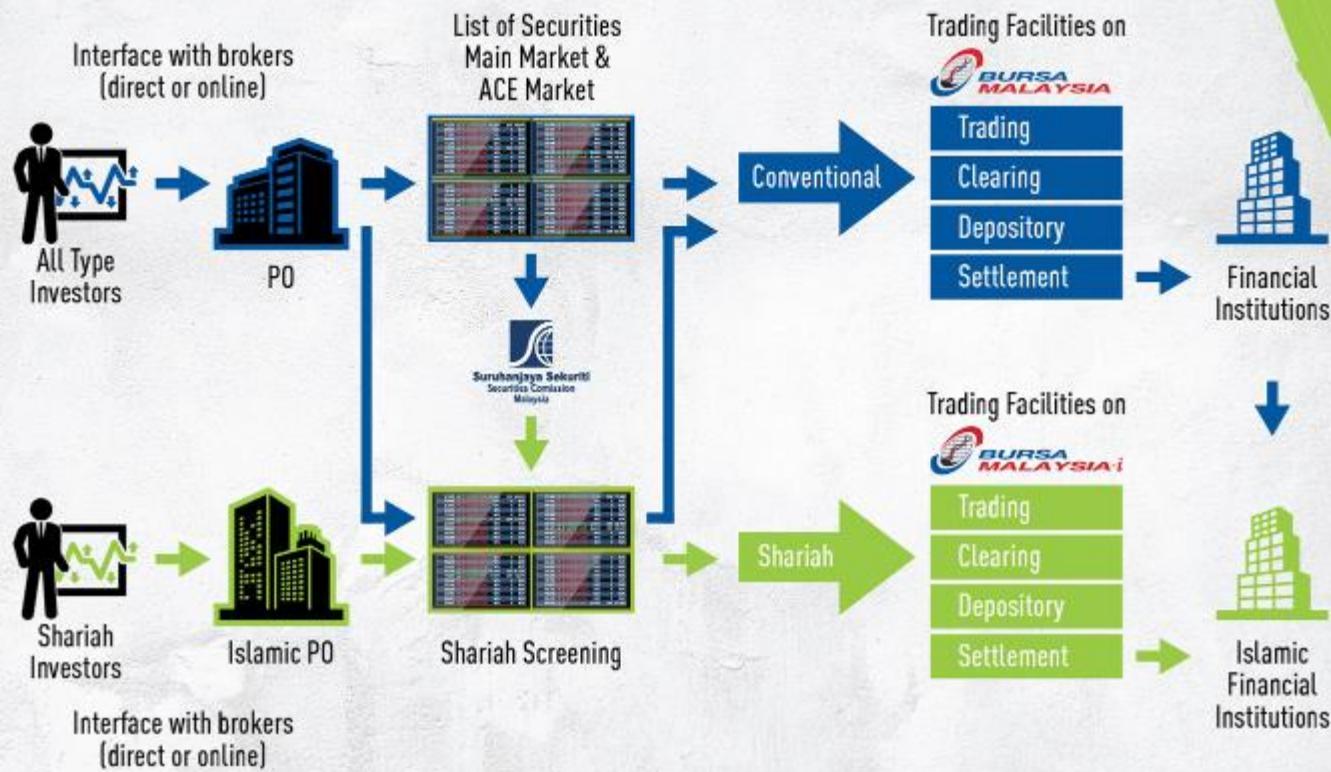
This is a trading platform that facilitates financing and investing in sharia compliant commodity products on BSAS, a number of commodities approved by Shariah Board of the Shariah Advisory Council of Securities Commission Malaysia are listed.



2- Bursa Malaysia-i

Bursa Malaysia-i offers exchange related services including listing, trading, depository, clearing and settlement to enhance existing infrastructure to incorporate shariah compliant features

SHARIAH INVESTING LANDSCAPE ON BURSA MALAYSIA-i



3- Islamic Capital Market

Islamic Capital Market in Malaysia accommodates the below:

i -Stocks (Shariah Compliant Listed Equities)

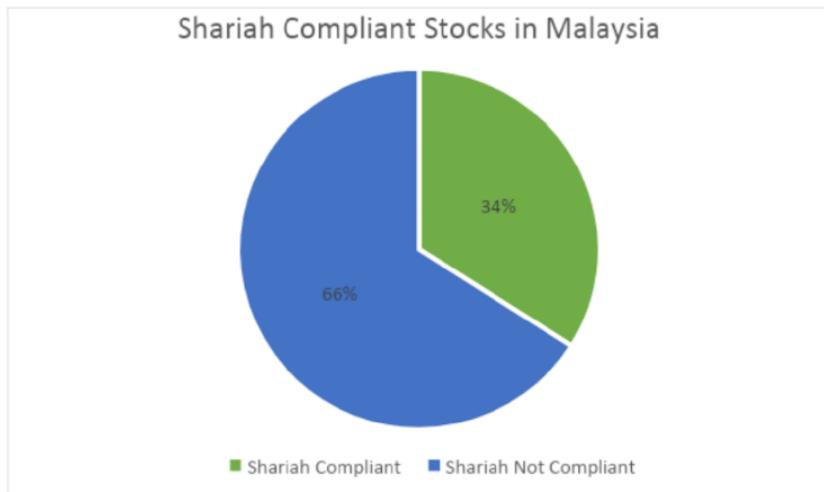
i-ETFs (Shariah-compliant Exchange Traded Funds)

i-REITs (Shariah-compliant Real Estate Investment Trusts)

ETBS (Exchange Traded Bonds and Sukuk)

Others (Business Trusts, Stapled Securities)

Here you can access [list of Shariah Compliant stocks approved by the SHARIAH ADVISORY COUNCIL](#)



Number of Stocks listed on Bursa Malaysia

According to the latest data, a total of 801 companies were listed on the Malaysian stock exchange, the Bursa Malaysia. Out of them, 305 stocks are Shariah Compliant.



OTHER INITIATIVES

Malaysia as an International Islamic Financial Centre

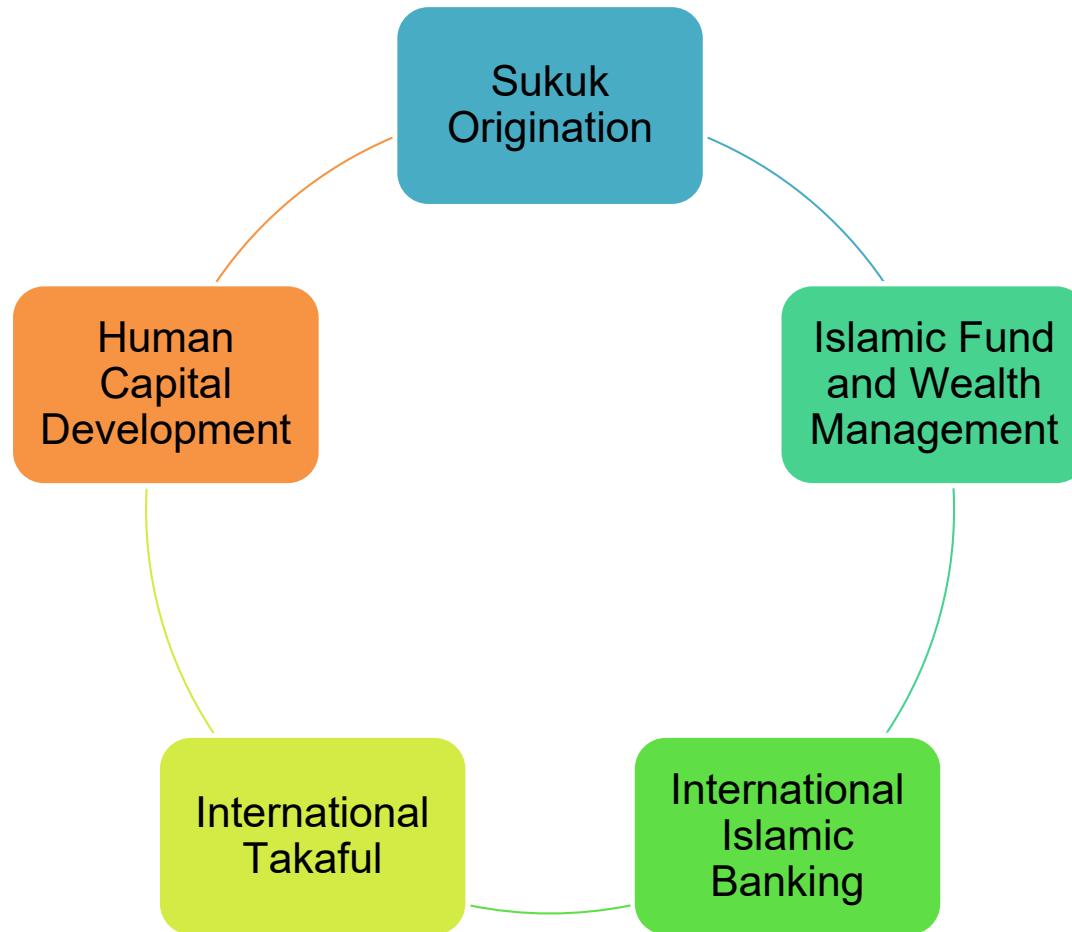
- On August 2006, the Malaysian Government launched the Malaysia International Financial Centre (MIFC) initiatives.
- MIFC is a collaborative effort formed by Malaysia's financial and market regulators together with top officials from relevant Government agencies and participants from the banking, *takaful* and capital market sectors.

Malaysia International Financial Centre

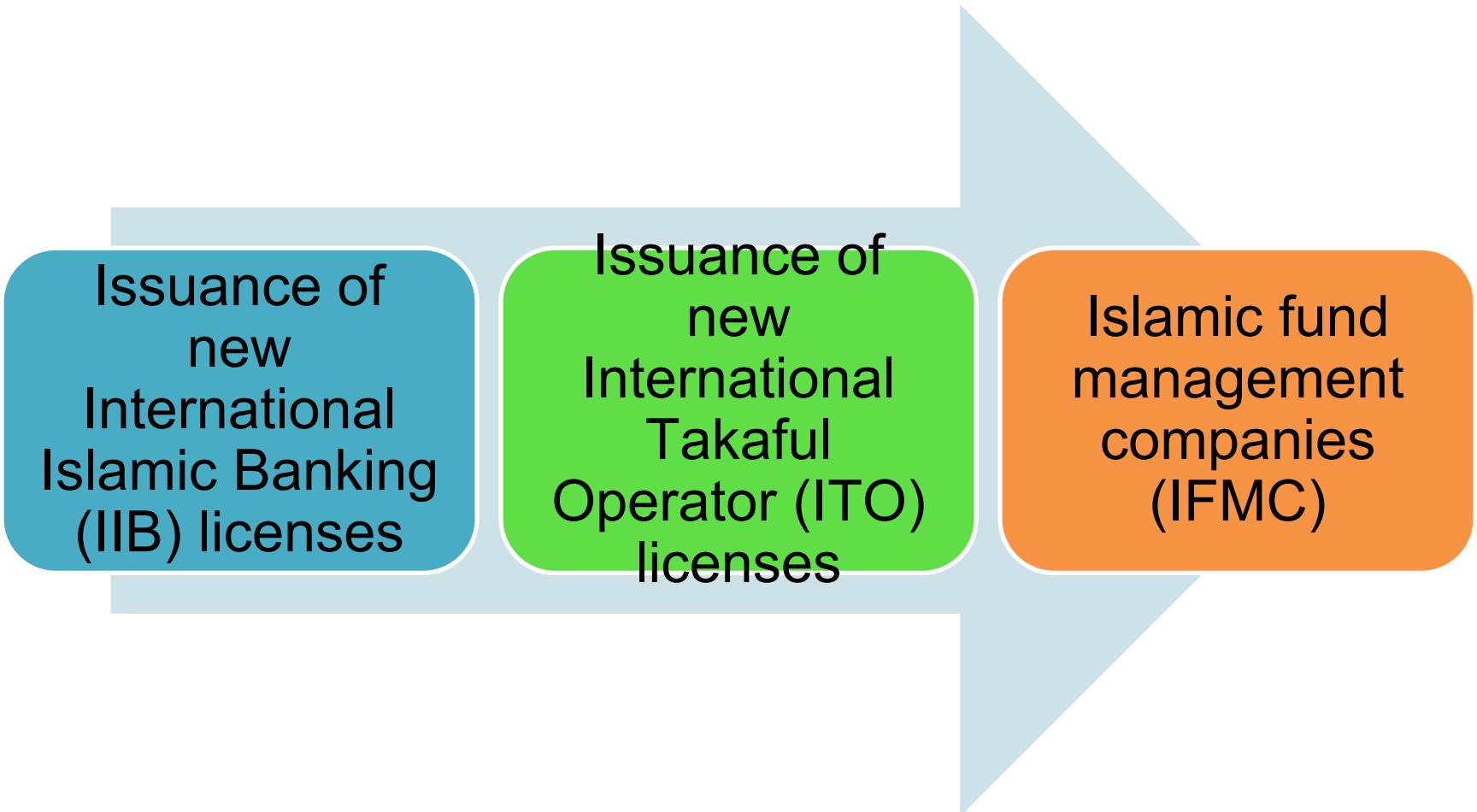
- The establishment of the MIFC is to accelerate the process of bridging and strengthening the relationship between international Islamic financial markets and thereby expand the investment and trade relations between the Middle East , West Asia and North Africa with East Asia.

Malaysia International Financial Centre

- Under the MIFC initiatives, Malaysia offers strong value propositions as a key provider of Islamic financial services, with five focus areas:



Incentives



Issuance of new International Islamic Banking (IIB) licenses

Issuance of new International Takaful Operator (ITO) licenses

Islamic fund management companies (IFMC)



Useful websites!

Islamic Money Market

<http://www.islamic-world.net/islamic-state/malay-islamoneymarket.htm>

Islamic Development Bank

<http://www.isdb.org/>

Takaful Companies

http://www.islamic-world.net/economics/takaful_intro.htm

Islamic Capital Market

<http://www.sc.com.my/sub.asp?pageid=&menuid=267&newsid=&linkid=&type>

Securities Commission

<http://www.sc.com.my>

Securities Commission's Shariah Advisory Council

http://www.sc.com.my/eng/html/icm/icm_default.html

Islamic Financial Services Board (IFSB)

<http://www.ifsb.org/>

Islamic Banking and Finance Institute of Malaysia (IBFIM)

<http://ibfim.com/v2/>

Development of BNM Operations in Islamic Interbank Money Market

<http://iimm.bnm.gov.my/index.php?ch=4&pg=4&ac=22#9>



Useful websites!

International Islamic Financial Market
(IIFM) <http://www.iifm.net/>

International Islamic Liquidity Corporation <http://www.iilm.com/>

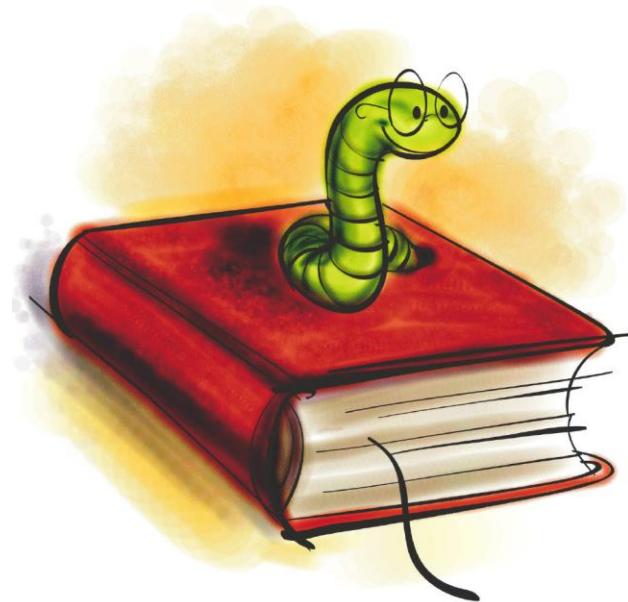
Accounting and Auditing Organization for
Islamic Financial Institutions (AAOIFI) <http://www.aaoifi.com/aaoifi/>

Islamic International Rating Agency (IIRA) <http://www.iirating.com/>



References

1. International Shari'ah Research Academy (2011). Islamic Financial System: Principles and Operations. International Shari'ah Research Academy (ISRA), Kuala Lumpur.





End of Chapter 2

ANY QUESTIONS