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

Contents

Building Blocks of Islamic Finance: Regulations and Shariah in Perspective

"The world in general is in search of a better financial system that, among others, can ensure more stability, efficient allocation of resources, just distribution, responsibility of investors, risk sharing, sustainability, entrepreneurship and innovation," said Dr Volker Nienhaus.[1]

In the past decade, we saw the rapid expansion of Islamic finance. The recent financial crisis, has undeniably demonstrated how the financial system globally had failed in delivering what it promised. As a result, more interest from the international community is given to Islamic finance, which has resulted in the industry expanding into non-Muslim countries in Europe, North America as well as Asia and Australia.

Evidently, Islamic finance is not totally unscathed by the crisis as it also faces stumbling blocks related to operational deficits and structural weaknesses. While Islamic finance is said to be more resilient compared to conventional finance due to its asset-backed attribute which ties Islamic finance to the real economy and its

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[1] Dr Volker Nienhaus is the third Visiting Scholar under the SC-UM Visiting Scholar Programme (VSP), an ongoing collaborative effort between the Securities Commission Malaysia (SC) and the University of Malaya (UM). He was formerly the President of the University of Marburg, Germany and was a member of the jury for The Royal Award for Islamic Finance 2010.

Bursa Malaysia retains its lead position as a sukuk listing destination

The year 2010 witnessed the global recovery in the sukuk market, with total global issuance reaching US$30 billion. This reflected a two-fold increase from 2008, where the total issuance stood at US$15 billion. Of the total amount of sukuk issued in 2010, about US$8.6 billion was listed on Bursa Malaysia which accounted for about 30% of the total global issuance. Among the notable listings were Sime Darby Bhd's RM4.5 billion *musyarakah* sukuk, the Malaysian Government's US$1.25 billion Global Sukuk Al-Ijarah and the Islamic Development Bank's US$3.5 billion sukuk. This has helped Bursa Malaysia maintain its lead position as a sukuk listing destination. Going forward, the global sukuk issuance for 2011 is expected to top the high level achieved in 2007.

Source: Bursa Malaysia Media Release

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risk-sharing spirit, it is unclear whether the success of Islamic finance is attributed to the wholesome adherence of Islamic principles and rules, such as prohibition on *riba', maisir or gharar*. For example, Dr Nienhaus debated the extent to which Islamic finance has delivered what it promises. He observed that while success has mostly been based on individual transactions or micro claims, nonetheless, these micro activities create a macro environment, which must be acknowledged.

Islamic financial institutions were a clear winner during the first round of the financial crisis in 2007–2008, demonstrating superb resilience when compared to conventional banks. The latter in particular are the iconic global investment banks that were leveraged and deeply involved in speculative trading activities and were defeated. Most of the largest global players fell into this category.

At the same time, there are conventional banks that were minimally affected by the financial crisis in 2007–2008. They fared relatively well but were often ignored. Dr Nienhaus explained that these are banks in emerging markets with a strong deposit base, prudent lending policies, that steer clear of speculative trading activities and have a strong regional commitment as well as limited international exposure. He believes that these economic characteristics, rather than the formal Shariah compliance of instruments and contracts and present in Islamic banks, enhanced their resilience to the crisis.

The picture is reversed for Islamic financial institutions (IFIs) in 2009. In an IMF working paper[2] , a sample of IFIs, which showed better profitability than conventional banks in the first round of the crisis, suffered sharp decline of profits.

While a default of any Islamic bank has been avoided so far, there were several bailouts and debt restructurings to the likes of the Investment Dar (Kuwait), Gulf Finance House (Bahrain), the Islamic mortgage providers Tamweel and Amlak (Dubai), Noor Islamic Bank (Dubai) as well as the intervention of the central bank of Qatar in favour of Islamic banks. Then there is the US government's rescue of Citigroup and AIG, which in turn saved their Islamic businesses. In the UK, the Islamic Bank of Britain – after five years in operation – attracted only 50,000 of 2.5 million potential customers in the UK, implying a market penetration rate of 2%. Following accumulated annual losses, the bank was saved by a massive intervention from its largest shareholder, Qatar Investment Bank.

[2] See Maher Hasan and Jemma Dridi: The Effects of the Global Crisis on Islamic and Conventional Banks: A Comparative Study. IMF Working Paper, WP/10/201. Washington 2010.

"With the need for transparency, market discipline is expected. As such, strengthening of rating processes, capacity building by means of educational and talent development are efforts towards enhancement of market discipline."

This brings us to the subject of crisis management, where the underdeveloped liquidity management inherent in many IFIs' infrastructure could have worsened the impact of the crisis.

Another major snag, as pointed out by Dr Nienhaus, is the accounting, auditing and reporting standards. With the need for transparency, market discipline is expected. As such, strengthening of rating processes, capacity building by means of educational and talent development are efforts towards enhancement of market discipline.

To overcome the deficits in the liquidity infrastructure of the Islamic finance industry, the Islamic Financial Services Board (IFSB) facilitated the establishment of the Islamic International Liquidity Management Corporation (IILM).[3] The primary objective of the IILM is to issue Shariah-compliant financial instruments in order to facilitate more efficient and effective liquidity management solutions for institutions offering Islamic financial services (IIFS), as well as to facilitate greater investment flows of Shariah-compliant instruments across borders.

Moving on to the subject of risk, there are essentially two risks in the economy, the first being risk of the real economy. If you are an entrepreneur who is introducing a new product, enhancing the productivity, or opening up a new market, you are facing the risk of business plan failure, and thus could suffer a loss. This type of risk is well known and there are already effective risk mitigation techniques available. In a completely debt-based system, the entrepreneur bears all the risks and the burdens. As a result, resources are not put to optimal use, with too little innovation, too little venture into new markets or the set up of new avenues for business.

Then there is a completely different risk which has appeared very forcefully in the recent financial crisis. This is the risk in the financial sector, which refers to banks using deposits to create credit, which in turn will create something where finance is no longer related to the real economy.

Dr Nienhaus refers to Basel III, which has refined some risk management requirements in Basel II and with some new aspects added. Yet there is limited relevance for Islamic finance (in particular regarding resecuritisation). He highlighted that the standards are only IFSB's published recommendations on risk management and not enforced in most jurisdictions. For instance, the near defaults of IFIs indicate that the risks of high leverage combined with maturity mismatch have not been assessed and addressed properly (with dangerous consequences during the economic downturn). Apart from this, there is overconcentration of financings and assets in one sector, as evidenced in the problems suffered in some but not all Gulf Co-operation Council (GCC) countries.

For this, he mentioned credit or counterparty risk in relation to legal uncertainty and doubtful enforceability of (clauses in) Shariah-compliant contracts and the lack of recognised restructuring and resolution procedures. Referring to a case where one IFI had made claims against another troubled IFI, a lack of precision in the documents of Islamic products caused much concern over the ranking, recourse and remedies of creditors. In addition, unclear or misunderstood clauses in Shariah-compliant contracts and products such as sukuk gave rise to lawsuits, bearing in mind the untested and untried legal qualities of many Shariah-compliant contracts.

Another concern is a lack of established procedures that has made the restructuring of Islamic debt instruments more cumbersome and time consuming than conventional restructurings. This is in respect of the multiple Shariah board approvals (both on the obligor and creditor sides) required and for which different Shariah interpretations need to be adhered to.

[3] See IFSB, Press Release dated 25 October 2010.

Another obstacle relates to the penetration rate of Islamic banks. Dr Nienhaus contends that the Islamic deposits account made up a low percentage from total liabilities with the bulk coming from the government and corporations. This implies, an unimpressive market penetration from the average household, despite all the initiatives and efforts afforded to the industry. With many still trying to understand the value-add of Islamic finance products, the reluctance of the average individual to put their money into Islamic banks is disconcerting.

"In reality, financial innovations are somewhat detaching finance from the real economy and are creating financial risks in the Islamic financial system, contrary to what it should be."

In reality, financial innovations are somewhat detaching finance from the real economy and are creating financial risks in the Islamic financial system, contrary to what it should be. And that of course is not only relevant for banking, it is also relevant for capital markets because both are closely linked. So right from the beginning, we have to consider innovation in the financial sector and who is driving this innovation, and in what direction.

Dr Nienhaus cites that in the last 5–7 years, the growth of Islamic finance globally, has been driven not by the Muslims; instead it has been driven by conventional banks, offering increasingly Islamic products, Islamic windows and converting conventional banks into Islamic banks. In most instances, banks that offer Islamic products are not doing it for the sake of Islam, but to tap into a very attractive market.

Therefore, financial innovation in the Islamic financial system (the banking system and to some degree the capital market) is geared towards creating instruments that can be replicated from global investment banks, including short selling and derivatives.

With the ambition to penetrate more Western markets, IFIs will increasingly be confronted with the codes and standards of the host countries. Western countries do not have specific rules for Shariah governance, but one can assume that regulators will expect the application of their general principles to Shariah boards which are at the core of the organisational structure of IFIs.

All the above are some pertinent areas that, if not tackled promptly, will remain as stumbling blocks for Islamic finance, and thwart further progress.

Sub-lease in ijarah contract

Sub-lease is defined as an agreement between the first lessee who now acts as a lessor (herein referred as sub-lessor), and a new lessee (herein referred as sub-lessee). Under a sub-lease, the sub-lessor will lease the whole or part of the property rented by him/her to the sub-lessee. Usually, the sub-lessee will be responsible for payment of the rental to the sub-lessor. The sub-lessor will be responsible for making rental payments and all charges incidental to the owner of the asset. The original lessor would also not be affected by the contractual obligation entered into between the sub-lessor and the sub-lessee.

A convenient way of extending a sub-lease is by executing the lease with reference to the head lease agreement (initial lease). The head lease is a lease between an owner of the asset and the tenant (head lessee) which gives overall contractual responsibility to that particular tenant.

Issues relating to sub-lease and views of Shariah scholars

Sub-lease of leased asset to third party and owner of asset (original lessor)

The Shariah Advisory Council (SAC) of the SC has resolved that the sub-lessor may sub-lease the leased asset to a third party provided that prior consent has been obtained from the owner of asset (original lessor). The SAC has also resolved that the sub-lease may lease back the asset to the original lessor. This is because, the sub-lessor is the owner of the *manfaah* (usufruct) of the asset. The Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) shares the same view on this.

Rental payment in the sub-lease

The SAC has resolved that the rental payment for sub-lease to a third party can be paid either lower, equal or higher than the head lease rental payment, on a spot or deferred basis. This ruling is consistent with that of the AAOIFI.

The SAC is of the view that the rental payment for sub-lease to the original lessor to be on either spot or deferred basis. However, the AAOIFI[1] is of the view that when the sub-lease is between the sub-lessor and owner of asset, the rental payment has to be on spot basis. This is because, the deferred rental payment is not permissible as it may lead to a contract of `inah.

Lease period of the sub-lease

According to the SAC, during the head lease period (between the original lessor and sub-lessor), the sub-lessor may lease the ijarah asset to a third party or the original lessor i.e sub-lease. The sub-lease period must, however, not exceed the duration of the head lease. It is not permissible because upon completion of the head lease, the *manfaah* (usufruct) is no longer owned by the sub-lessor, and the sub-lessor has to return the leased asset back to the original lessor.

Conclusion

Sub-lease in *ijarah* contract is not something new and it has been applied in numerous Islamic capital market products. With the application of various Islamic principles or contracts in financial products, the Islamic financial sector is increasing its product innovation in order to maintain a market leading and competitive positioning.

> *"the rental payment for sub-lease to a third party can be paid either lower, equal or higher than the head lease rental payment on a spot or deferred basis. This ruling is consistent with that of the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI)."*

[1] *AAOIFI Shariah Standard 2010, Clause 4/3. pg.113.*

Updated list of Shariah-compliant securities

The Securities Commission Malaysia (SC) released an updated list of Shariah-compliant securities approved by its Shariah Advisory Council (SAC). The updated list, which took effect on 26 November 2010, features a total of 846 Shariah-compliant securities. These counters constitute 88% of the total 961 listed securities on Bursa Malaysia.

The list includes 17 newly classified Shariah-compliant securities and excludes five from the previous list issued in May 2010. It also indicates that Shariah-compliant securities are well represented in all sectors of industry.

The full list which is updated twice a year is available at www.sc.com.my. It is also published in a booklet which can be obtained from the SC. The next updated list will be available in May 2011.

Budget 2011

Malaysia's government continues to play a vital role in supporting the development of ICM in order to strengthen its position as a premier Islamic capital market. In Budget 2011, the government announced that Bursa Malaysia will develop an international board to enable foreign securities to be listed including Shariah-compliant products.

The Government also proposed that expenses incurred for the issuance of Islamic securities pursuant to the principles of *murabahah or bai' bithaman ajil* based on *tawarruq* (a tripartite arrangement) be tax deductible with the objective of maintaining the competitiveness of the sukuk market. This incentive will commence from year of assessment 2011 until 2015. Aside from benefitting sukuk issuers who utilise any commodity trading platform in facilitating the sukuk issuance, this tax incentive will also strengthen Malaysia's position as the leading sukuk market.

Malaysia's unique value proposition[1]

In Malaysia, Islamic finance has evolved to provide a diverse range of viable investment and financing alternatives that are accepted by Muslim and non-Muslim investors, both domestic as well as international. This wide acceptance underscores the fact that Islamic finance is relevant and dynamic, and its values universal.

A recent survey by Kuwait Finance House Research shows that Malaysia has a clear lead over other jurisdictions in the development of Islamic finance. Malaysia obtained top ranking for regulatory and legislations, products and services, infrastructure, risk management and audit as well as for statistics, marketing and education; underscoring the fact that we have a well-developed, well-regulated and comprehensive Islamic financial system. Indeed, Malaysia offers global investors and issuers a unique value proposition.

While the Malaysian sukuk market is significant and vibrant, it is not Malaysia's only offering to international investors and issuers. For those seeking Shariah-compliant investments and opportunities, Malaysia offers a complete and mature Shariah-compliant financial system which comprises Islamic banking, takaful, and the Islamic capital market, the latter extending far beyond the sukuk market. Malaysia is also fast becoming a centre for Islamic funds and wealth management services, and for international Islamic banking services; as well as a centre for Islamic finance education, training, consultancy and research. All these sectors are supported by facilitative policies and underpinned by clear and robust regulatory as well as Shariah governance frameworks.

A vibrant sukuk market

In early December 2010, Malaysia witnessed the listing of Islamic Development Bank (IDB)'s US$3.5 billion trust certificate issuance programme. It was the first benchmark foreign currency sukuk issued by a multilateral development bank. The first issuance of US$500 million of the triple A-rated sukuk was 1.56 times oversubscribed, a clear indication of the strong demand for quality and liquid assets, not just by Islamic financial institutions but by fixed income investors across the globe. With investor distribution comprising 54% from the Middle East, 34% from Asia which includes 20% from Malaysia and 12% from Europe, this is clear proof of the global demand for quality sukuk.

The US dollar sukuk issuance by the IDB follows a string of other ringgit-denominated sukuk issued by corporates and multilateral agencies like the World Bank and National Bank of Abu Dhabi (NBAD). In fact, in August 2010, IDB listed its ringgit-denominated sukuk on Bursa Malaysia. This has also been well received.

The listing of the IDB's US dollar sukuk brings the number of sukuk listed on Bursa Malaysia to 19 with a total value of about US$27 billion. Its sukuk market has in fact experienced unprecedented growth in recent years. Between January to September 2010, over 55% of all bonds approved by the SC were sukuk. Malaysia still originates more than 60% of global sukuk outstanding.

Efforts in making Malaysia an international centre for sukuk issuance and listing are clearly showing results. The sukuk market has become the most significant and vibrant segment of the international Islamic financial system. Issuers regard sukuk as an attractive means of raising capital, while investors are increasingly seeing it as a new asset class in their investment universe. This has generated significant cross-border flows as funds are raised from beyond domestic financial markets and investors diversify their portfolios into assets from other jurisdictions.

Significant progress has been achieved particularly in positioning Malaysia as a centre for the origination, distribution and trading of sukuk as well as other capital market products. It is fair to say that the Malaysian sukuk market has now evolved into the world's largest.

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[1] This article is extracted from the address by the SC Chairman, Tan Sri Zarinah Anwar, at the International Shariah Investment Convention 2010, in Kuala Lumpur, on 1 December 2010.

The equity market

With 961 listed companies, Malaysia's stock exchange, Bursa Malaysia, offers the widest and largest selection of companies in ASEAN. Currently, 88% of the stocks listed on Bursa Malaysia making up 62% of total market capitalisation, are Shariah compliant.[2] Investors therefore have access to an extensive selection of stocks across diversified industries for broader and deeper investment portfolios. Dividend yields for Malaysian stocks are currently estimated at 3.4% which places it among the highest in the region. This is supported by sustainable earnings growth with return on equity estimated at almost 20%.[3]

The equity market offers investment opportunities in Malaysia's best and largest companies, some of which have strong regional presence. The listing of Petronas Chemicals Group Bhd in November 2010 further broadens the investment choice in Malaysian stocks. It is by far the largest IPO in the history of Malaysia and South East Asia, and had attracted heavy demand from investors. It is also now among the top Shariah-compliant stocks on Bursa Malaysia based on market capitalisation.

Bursa Malaysia is home to several of the world's largest plantation companies and is also the world centre for price discovery of crude palm oil. Of late, we have seen significant interest from foreign companies for listing on Bursa Malaysia. Now there are five China-based companies listed on Bursa Malaysia. Of these, three voluntarily sought and obtained Shariah-compliant status at their IPO.

Individual and institutional investors seeking *Shariah*-compliant investments can therefore access these companies through investing in Bursa Malaysia. Bursa Malaysia also operates a transparent and well-regulated commodity-trading platform known as Bursa Suq Al-Sila' to facilitate financing using *murabahah* and *bai` bithaman ajil*, based on the mechanism of *tawarruq*.

The fund management industry

The Islamic fund management industry constitutes the fastest growing segment of Malaysia's Islamic capital market with an annual compounded growth of more than 25% over the last five years. The Islamic fund management segment has been fully liberalised with attractive tax incentives offered by the government.

Malaysia now has 15 full-fledged Islamic fund managers operating in Malaysia including some of the biggest names in the international fund management industry.

We have 152 Islamic unit trust funds with a total NAV of RM23.02 billion (US$7.1 billion)[4].

In order to further develop our Islamic fund management industry and to enable Malaysian investment products to be offered abroad and foreign products to be offered to Malaysian investors, the SC has actively pursued mutual recognition arrangements (MRAs) with other strategically important markets. Currently, the SC has MRAs with the Dubai Financial Services Authority and the Securities and Futures Commission of Hong Kong, and discussions are ongoing with a few other jurisdictions to enter into similar arrangements. These agreements help to widen the industry's distribution network and promote exchange of ideas to enhance product offerings, especially for funds meant for regional distribution.

Strong regulatory and Shariah governance frameworks

A key aspect of Malaysia's regulatory approach is to ensure that investors in Malaysia's Islamic capital market receive the same degree of clarity, certainty and protection as investors in the conventional market. The SC emphasises a common regulatory approach to regulating our Islamic capital market based on IOSCO's objectives and principles of regulation.

The requirements for disclosure, transparency and governance therefore apply equally to Islamic and conventional products, thus ensuring that an investor in an Islamic product receives the same legal and regulatory protection and recourse that would be available to an investor of conventional products. In effect conformity to Shariah is achieved within a single regulatory paradigm with additional governance and

2 As at 26 November 2010
3 Source: Bloomberg
4 As at 30 September 2010

disclosure requirements. The SC has to ensure that these products and services are also true to label and that trust in Islamic products is safeguarded. Where existing frameworks do not or cannot offer parity of treatment, then these are either amended or enhanced by the introduction of specific new guidelines.

Uncertainty, lack of clarity and conflicting interpretations with respect to the Shariah will not inspire confidence and may slow down the pace of development. It is for this reason that the SC had recently introduced numerous amendments to our *Capital Market and Services Act 2007*. These changes strengthened the SAC and placed it on sound legal footing to ensure that the SAC will continue to play an important role in the development of the Islamic capital market. The law now recognises the SAC as the central authority for the ascertainment of Shariah principles for Islamic capital market in Malaysia. This is a crucial step in ensuring a clear and consistent development path for the Islamic capital market.

A gateway to ASEAN

Whilst Malaysia is itself an attractive investment destination, it is also a gateway to the rest of ASEAN. Malaysia is centrally located in the region which comprises a potential market of about 600 million people and a combined GDP of more than US$1.8 trillion. ASEAN collectively ranks as the ninth largest economy in the world and the third largest in Asia in terms of nominal GDP. In the first quarter of 2010, annual GDP growth rates in ASEAN countries ranged from 5.7% to 15.5%. ASEAN has established a reputation of according investors with stable and profitable returns on investment, not only for portfolio managers, but also for longer-term direct investors in both the real and financial sectors.

The capital market regulators in ASEAN are working very closely on numerous projects intended to make ASEAN an attractive asset class. In fact recently the Prime Minister launched the 7th ASEAN Finance Ministers' Investor Seminar. ASEAN countries offer tremendous opportunities for those seeking Shariah-compliant investments, particularly through investments in sukuk from the region or in regional funds. Malaysia thus is well positioned to provide the linkages to support investment flows into the region. It is the natural gateway for those seeking investment opportunities in the ASEAN region which is one of the fastest growing regions in the world.

As a regulator the SC is ready to be facilitative and to remove any regulatory impediments. The market will however have to do the rest.

Malaysia honours Shaikh Saleh Abdullah Kamel

The Royal Award for Islamic Finance has been awarded to Shaikh Saleh Abdullah Kamel for his visionary drive, extraordinary leadership and personal commitment in spurring the global accessibility of Islamic finance. His Majesty the Deputy Yang DiPertuan Agong and Sultan of Kedah, on behalf of His Majesty The Yang DiPertuan Agong presented the Royal Award at a gala dinner and award presentation on 25 October 2010.

Shaikh Saleh Abdullah Kamel's work spanning over four decades has fast-tracked the global adoption of Islamic finance and continues to have sustained financial, economic and social impact in the world. He is widely credited for pioneering the adoption of Shariah-compliant principles in banking and business.

Mohyedin Saleh Kamel received the Royal Award on behalf of his father.

In the absence of Islamic finance at the time, his deep personal adherence to Islamic principles led him to be one of the first individuals to devise Islamic contracts for use in his business operations in the 1960s. In 1969 he founded a group of companies, which amongst others, provides Shariah-compliant retail, corporate and investment banking and treasury services and is today a global organisation comprising subsidiaries in 12 countries with more than 300 branches. Shaikh Saleh Abdullah Kamel followed this by establishing the Islamic Arab Insurance Company in 1979, a pioneering takaful (Islamic insurance) company.

In his efforts to inspire and develop future talent and innovation, Shaikh Saleh Abdullah Kamel established the Islamic Economics Research Centre, King Abdulaziz University and Jeddah Center for Science and Technology in Saudi Arabia. He also founded the Saleh Kamel Centre for Islamic Economy, Al-Azhar University, Cairo and Saleh Kamel Center for Banking Studies and Research, King Saud University, Saudi Arabia. The endeavours of these institutions have led to the development of many tools, techniques and edicts.

A key aspect of Shaikh Saleh Abdullah Kamel's invaluable contribution is the annual Albaraka Symposium on Islamic Economics. Now in its 29th year, the Symposium is widely respected as a cornerstone of the development of Islamic finance. It gathers a worldwide audience of Shariah scholars, bankers and experts to discuss and form solutions for the future of the industry. The Symposium has resulted in more than 150 edicts that feed research and innovation, representing the backbone and basis for the activities of many Islamic financial institutions.

The selection criteria of the Royal Award for Islamic Finance assess both qualitative and quantitative aspects designed to honour the impact of exceptional contribution and reach in global Islamic finance. This includes financial innovation and pioneering work, exceptional leadership, adoption and acknowledgement within the industry, and inspiration and influence towards future progress and development.

The Royal Award is unique as it focuses on the individuals' record of achievement and outstanding contribution towards the development and advancement of Islamic finance globally. The Royal Award for Islamic Finance is spearheaded by the Malaysia International Islamic Financial Centre (MIFC) and endorsed by Bank Negara Malaysia (BNM) and the SC.

Posthumous recognition to father of modern Islamic banking

The 2010 Royal Award also included a special category - a posthumous recognition of the late Dr Ahmad El-Naggar, Father of Modern Islamic Banking. Dr Ahmad El-Naggar's first modern experiment with Islamic banking took the form of a savings bank based on profit-sharing. Through his introduction of the basic offering for Islamic banking, he was instrumental in providing for the community and establishing a platform for continuous development of the industry globally. To continue the advancement of Islamic finance, Dr Ahmad El-Naggar established the Institute of Islamic Banking and Economics in Cairo which provides for the intellectual and operational needs of Islamic banks and the development of a new generation of Islamic finance talent.

NEWS ROUND-UP

5th IFSB Seminar on Legal Issues

The 5th IFSB seminar on legal issues in the Islamic financial services industry was held from 2 to 3 December in Jakarta, Indonesia. The seminar brought together expert contributions from regulators, legal practitioners and consultants on pertinent issues and challenges faced in enhancing the legal framework of the evolving Islamic financial services industry. The SC Managing Director, Dato Dr Nik Ramlah Mahmood presented a paper entitled 'Shariah Compliance and Legal Framework in Stable Financial Markets' at the seminar.

The International Shariah Investment Convention

The International Shariah Investment Convention (ISIC), held from 30 November to 1 December 2010, was jointly organised by the SC, Bursa Malaysia and Amanie Business Solutions. This year's ISIC focused on finding the right path to help the Islamic finance industry, particularly Islamic funds and sukuk to regain the momentum they had previously gained prior to the global financial crisis. The key objectives were to discover the path to recovery and to initiate innovative products and structures in the journey to unlock the potential of Islamic investments and sukuk in a cross-border environment.

6th Shariah Adviser's Workshop

The SC organised the 6th Shariah Advisers' Workshop themed "Shariah Tools and Application: Contemporary Issues and Challenges" on 13 October 2010. The workshop was intended to provide the Shariah advisers with knowledge and understanding of the relevant Shariah tools such as *wa`d* (unilateral promise), *ju'alah* (reward), *wakalah* (agency) and *tanazu*l (waiver),and the their applications in Shariah product structures and Islamic financial transactions. The workshop also discussed some contemporary issues and challenges faced by the industry. More than 70 participants comprising Shariah advisers' registered with the SC and BNM, as well as Shariah-compliant officers of various Islamic financial institutions attended the workshop.

Workshop on Islamic Finance: Structure and Instruments, Jordan

The workshop was co-hosted by Central Bank of Jordan, BNM and Islamic Development Bank from 17 to 21 October 2010 in Amman, Jordan. Delegations from Malaysia included the SC, BNM, International Centre for Education in Islamic Finance, International Shariah Research Academy, Islamic Financial Services Board and CIMB Islamic Bank were invited as presenters and speakers at the workshop. The workshop, among others, highlighted Shariah principles relating to Islamic finance, Malaysia's experience in developing its Islamic financial system and the overview and functions of the sukuk market. The SC representative presented a topic on the "Regulatory Framework for Islamic Capital Market".

Industrial Securities Crime Investigation Course

The Royal Malaysia Police College organised a course on "Industrial Securities Crime Iinvestigation" from 18 to 29 October 2010. The SC representative presented a topic on "The Development of Islamic Capital Market in Malaysia" in the Islamic capital market session.

Sibos 2010

Facilitated and organised by Society for Worldwide Interbank Financial Telecommunication (SWIFT), Sibos, the world's premier financial services event was held in Amsterdam, Netherlands from 25 to 29 October 2010. The SC Managing Director, Dato Dr Nik Ramlah participated as a panellist in the Islamic finance session. Among the topics discussed were facilitating Islamic finance from regulator perspective, raising capital and myths and secrets in Islamic finance.

2nd Global Islamic Finance Forum 2010

Following the success of the inaugural Global Islamic Finance Forum (GIFF) in March 2007, BNM hosted the second GIFF from 25 to 28 October 2010. Themed "Islamic Finance: Opportunities for Tomorrow", GIFF 2010 brought together regulators, scholars and financial industry players who are key drivers in shaping Islamic finance globally. The SC Managing Director, Datuk Ranjit Ajit Singh delivered a keynote address on the Investors' Day entitled "Reinforcing the unique value proposition of Islamic finance".

King Abdullah I bin Hussein International Award for Year 2010

On 29 September 2010, Professor Mohammad Hashim Kamali, a member of the SC's SAC and also a Founding Chairman and CEO of the International Institute of Advanced Islamic Studies, received the King Abdullah I bin Hussein International Award for Year 2010 from His Majesty King Abdullah II bin al-Hussein at a ceremony in Amman, Jordan. The award was conferred in recognition of Professor Kamali's intellectual and academic contributions towards serving Islam and Muslims, and his active role in the fulfillment of the Royal Aal al-Bayt mission.

Malaysia ICM – Facts and Figures

Shariah-compliant securities on Bursa Malaysia

	Dec 2010	Dec 2009
No. of Shariah-compliant securities+	846	846
% to total listed securities	88%	88%
Latest market capitalisation:	**Dec 2010**	**Dec 2009**
Shariah-compliant (RM billion)	756.09	637.90
Total market (RM billion)	1,275.28	999.45
% of Shariah-compliant securities to total market	59.29%	63.83%

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

Equity market indices	31 Dec 2010	31 Dec 2009	% change
KL composite index (KLCI)	1,518.91	1,272.78	19.34%
FBM EMAS Shariah	10,058.15	8,509.52	18.20%
FBM Hijrah Shariah	10,456.86	9,312.02	12.29%
DJIM Malaysia Titans 25	847.10	750.94	12.81%

Islamic unit trust funds (UTF)

Number of approved funds	Dec 2010	Dec 2009
Islamic UTF	155	150
Total industry	584	565
Net asset value (NAV) of approved funds	**Dec 2010**	**Dec 2009**
Islamic UTF (RM billion)	24.04	22.08
Total industry (RM billion)	226.81	191.71
% to total industry	10.6	11.52

Islamic wholesale funds (WF)

Number of approved funds	Dec 2010	Dec 2009
Islamic WF	19	20
Total industry	112	93
Net asset value (NAV) of approved funds	**Dec 2010**	**Dec 2009**
Islamic WF (RM billion)	4.23	3.18
Total industry (RM billion)	18.66	13.96
% to total industry	23%	23%

Islamic exchange-traded funds (ETF)

Number of approved ETF	Dec 2010	Dec 2009
Islamic ETF	1	1
Total industry+	5	3
Net asset value (NAV) of approved funds	**Dec 2010**	**Dec 2009**
Islamic ETF (RM million)	626	657
Total industry (RM million)	1,247	1,178
% to total industry	50%	56%

+including bond ETF - ABF Malaysia Bond Index Fund

Chart 1

KLCI and Shariah Index Performance

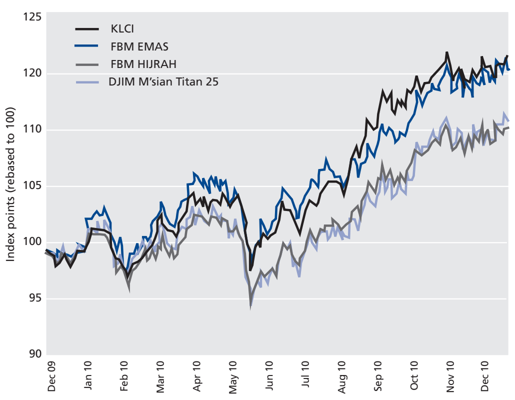
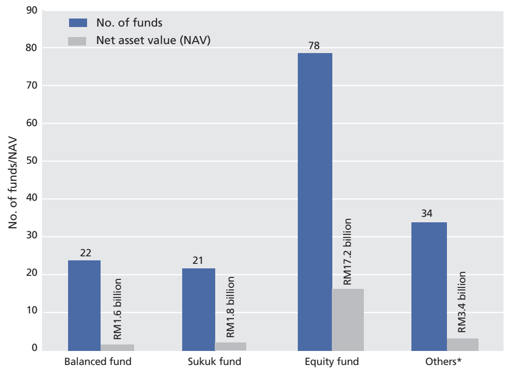


Chart 2

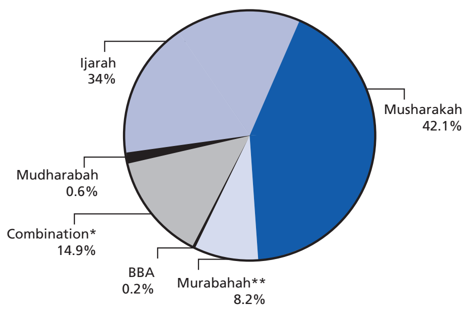
Islamic unit trust funds by category



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

Chart 3

Size of sukuk approved based on various Shariah principles in 2010



*Combination between multiple Shariah principles issuances
**Including commodity *murabahah*

Islamic real estate investment trusts (REIT)

Number of REITs	Dec 2010	Dec 2009
Islamic REIT	3	3
Total REITs	14	12
Market capitalisation	**Dec 2010**	**Dec 2009**
Islamic REIT (RM billion)	2.34	1.83
Total REITs (RM billion)	10.5	5.27
% to total REITs	22%	35%

Corporate sukuk

Sukuk approved	Dec 2010	Dec 2009
Number of sukuk	21	11
Size of sukuk (RM billion)	40.33	33.96
Size of total bonds approved (RM billion)	63.58	57.5
% of size of sukuk to total bonds approved	63%	59%
Sukuk issued	**Dec 2010**	**Dec 2009**
Size of sukuk issued (RM billion)	30.24	32.3
Size of total bonds issued (RM billion)	53.21	60.93
% of sukuk issued to total bonds issued	57%	53%
Sukuk outstanding	**Dec 2010**	**Dec 2009**
Size of outstanding sukuk (RM billion)	181	172
Size of total outstanding bonds (RM billion)	319	301
% of outstanding sukuk to total outstanding bonds	57%	57%

Sukuk listing on Bursa Malaysia's Exempt Regime

As at 31 December 2010

No.	Issuer name	Listing date
1	IDB Trust Services Limited (Islamic Development Bank)	1 Dec 2010
2	Malaysia Airports Capital Bhd	30 Nov 2010
3	AmIslamic Bank Bhd	1 Oct 2010
4	Tadamun Services Bhd (Islamic Development Bank)	24 Aug 2010
5	Nomura Sukuk Limited (Nomura Holdings PLC)	13 Jul 2010
6	1Malaysia Sukuk Global Berhad (Government of Malaysia)	8 Jun 2010
7	Sime Darby Bhd	28 Jan 2010
8	Rafflesia Capital Limited	31 Dec 2009
9	Cherating Capital Limited	31 Dec 2009
10	Paka Capital Limited	31 Dec 2009
11	Khazanah Nasional Bhd	31 Dec 2009
12	Danga Capital Bhd	31 Dec 2009
13	Rantau Abang Capital Bhd	31 Dec 2009
14	CIMB Islamic Bank Bhd	29 Dec 2009
15	G.E Capital Sukuk Limited (General Electric)	30 Nov 2009
16	Cagamas MBS	14 Aug 2009
17	Petronas Global Sukuk Limited	14 Aug 2009

Source: Bursa Malaysia (www.bursamalaysia.com)

For more information on sukuk listed on Bursa Malaysia, please visit: **Bursa Malaysia's Exempt Regime**

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

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