



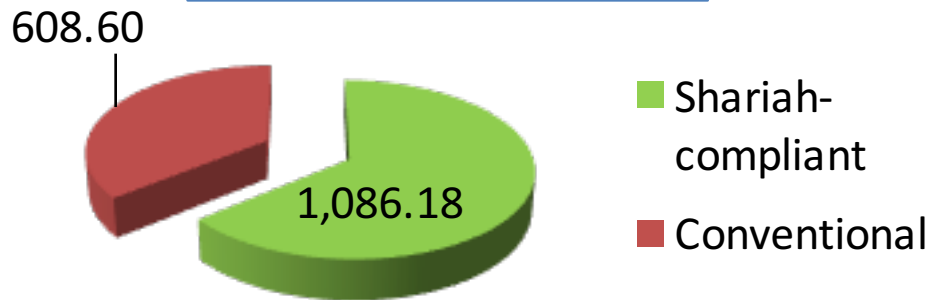
Investor Education and Financial Capability in Islamic Finance Context:

Khairul Ridzwan Abdul Kuddus
Investor Affairs and Complaints

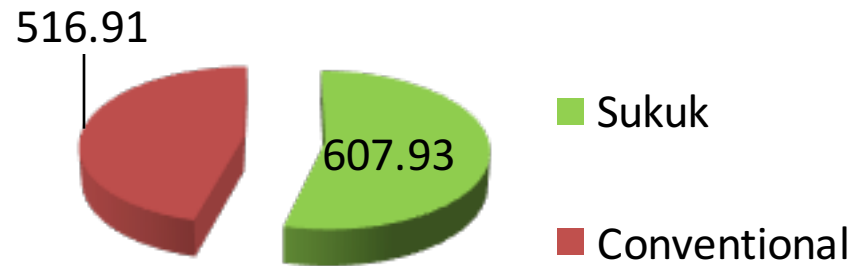
Snapshot of Islamic capital market statistics in Malaysia

- ❑ Size of Malaysia's Islamic capital market is RM1.69 trillion
- ❑ The Islamic capital market is 60% of overall capital market
- ❑ Compounded annual growth rate of 11.7% between 2005 and 2015

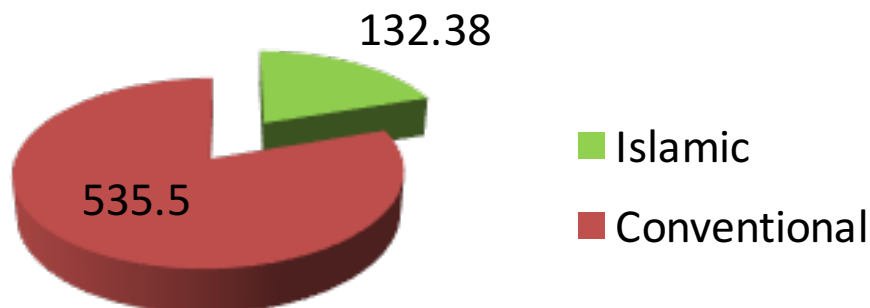
Market cap (RM' bil.)



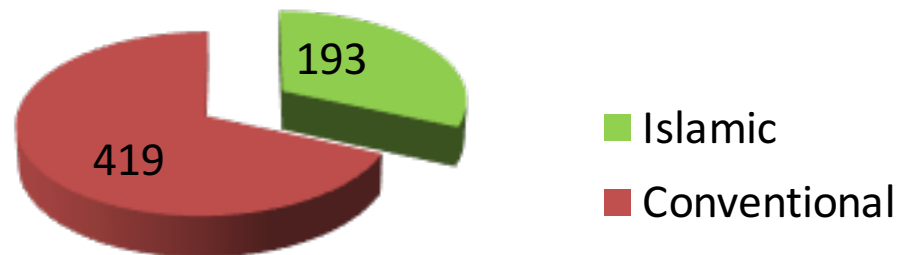
Bonds outstanding (RM' bil.)



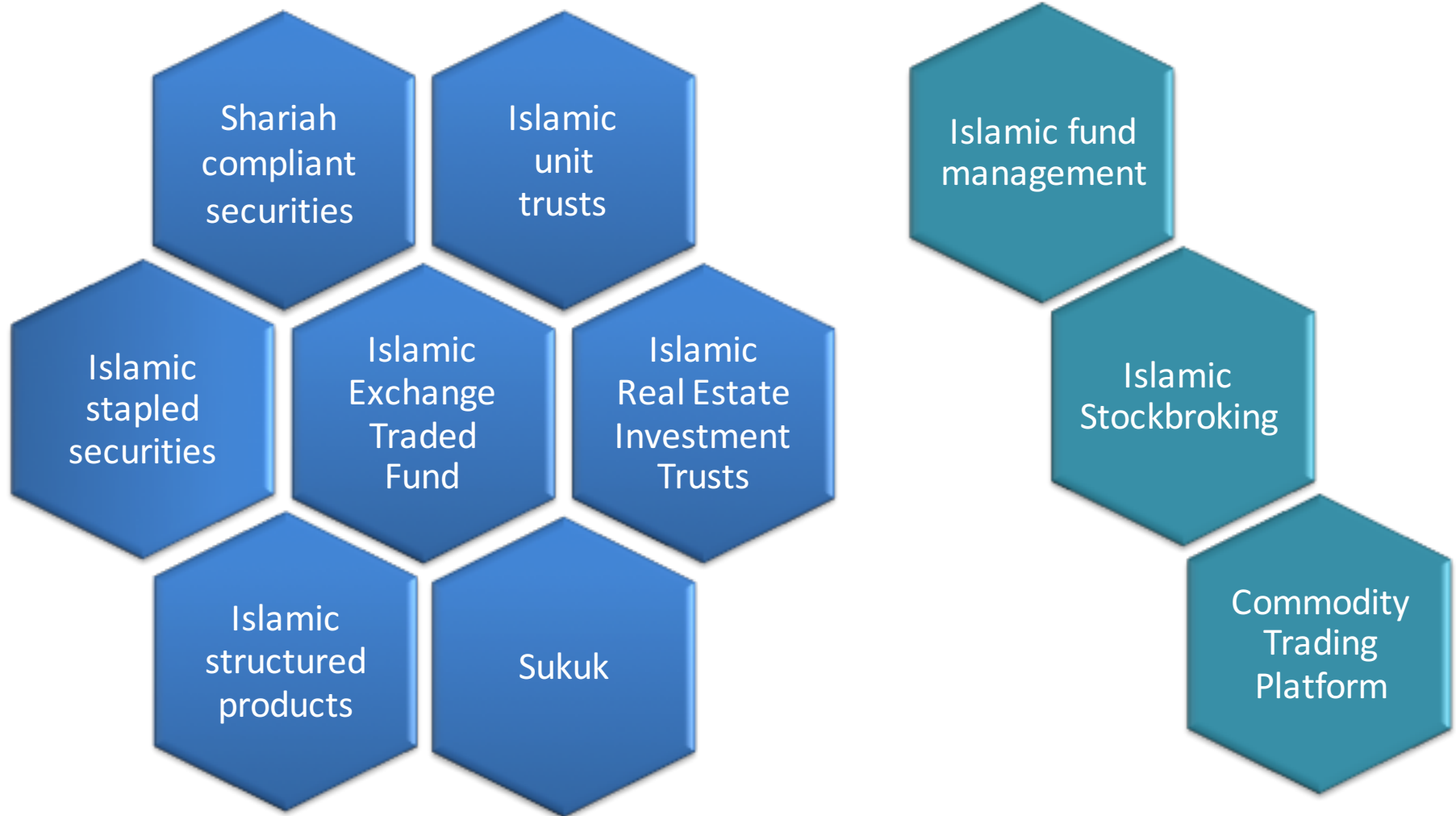
AUM (RM' bil.)



No. of UT funds



Comprehensive range of ICM products and services



Regulation of ICM is part of the overall capital market regulations

ICM business and transactions accord same level of investor protection as in conventional market, e.g. process of regulation, supervision and enforcement;

Common regulatory approach to regulating ICM products – same liability on the part of the intermediaries, e.g. due diligence and representation; and

Disclosure, transparency and governance apply equally to both conventional and Islamic products, hence same legal and regulatory protection.

A two-tier regulator framework

Tier 1

General Regulatory Requirements

- **Bonds/Sukuk** – trust deed, mandatory rating, eligible person
- **Unit trust/Islamic unit trust** – management company, trustee, investment committee
- **REITs/Islamic REITs** – at least 50% investment in real estate

Applicable
to both
conventional
and Islamic
products

Tier 2

Shariah – specific requirements

- **Sukuk** – Approved Shariah principles, Shariah adviser, utilisation of proceeds
- **Islamic unit trust** – Shariah adviser, investments, annual certification by the Shariah adviser
- **Islamic REITs** – tenants' activities and rental income must comply with Shariah requirements

Applicable
to Islamic
products

Robust Shariah governance framework is fundamental for ICM

Tier 1

National Shariah Advisory Council at the SC

- SAC recognised as the central authority for the ascertainment of Shariah principles for Islamic finance
- Comprises prominent Shariah scholars, jurists and market practitioners
- Acts as a reference point for industry
- Publication of Resolutions of the SAC

Tier 2

Shariah Advisers / Committee at the Industry Level

- Mandated by regulation
- To advise, review and endorse compliance of products/services with Shariah principles
- For Islamic capital market, must be registered with SC based on compliance with the Registration of Shariah Advisers Guidelines
- For Islamic banking, must adhere to the Shariah Governance framework issued by the central bank (Bank Negara Malaysia)

Progression of the guidelines for the issuance of sukuk

Guidelines on the Offering of PDS (2000)

- Govern issuance of both conventional and Islamic PDS
- Provisions on Islamic PDS embedded in the same guidelines

Guidelines on Sukuk (2012)

- Specific provision on Shariah rulings applicable to all types of Sukuk;
- Specific provision on Shariah rulings applicable to specific types of Sukuk;
- Requirement for the appointment of Shariah advisers; and
- submission of documents and information.
- Providing greater clarity to ensure compliance of Shariah rulings and principles endorsed by the SAC of the SC;

Guidelines on Sukuk (2014)

- Introduction of **Sustainable and Responsible Investment (SRI) Sukuk framework** to facilitate financing of sustainable and responsible investment initiatives.
- The additional areas for the issuance of SRI sukuk include utilisation of proceeds, eligible SRI projects, disclosure requirement, appointment of independent party and reporting requirement.

Guidelines on the Offering of Islamic Securities (2004)

- Facilitate the introduction of a wider range of Islamic instruments, particularly those issued under the Shariah principles of *Mudharabah* or *Musharakah*
- Guidelines are released pursuant to the prescription by the Minister of Finance that securities using *Musharakah* or *Mudharabah* principles, as well as Sukuk issuances, are classified as “securities” through the Securities Commission (Prescription of Islamic Securities) Order 2004 (Prescription Order).
- Complement strategic initiatives in the Capital Market Masterplan (CMP) to facilitate the development of a competitive and innovative Islamic capital market, attractive to both local and the global markets.

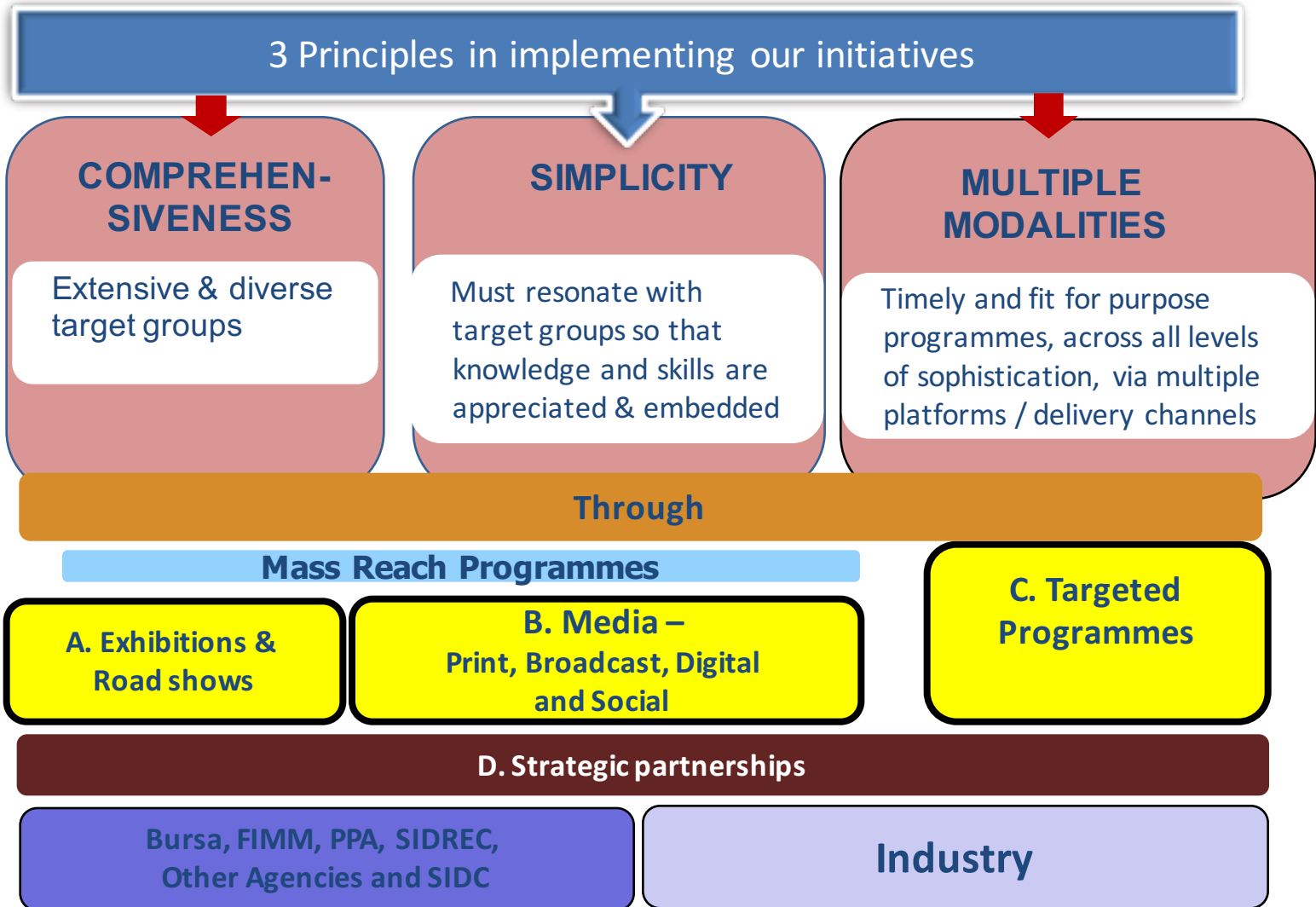
Guidelines on Unlisted Capital Market Products for the Lodge and Launch Framework (2015)

- Intended to shorten time-to-market by enabling wholesale products to be launched once the required information is lodged with the SC via its online submission system, as compared to the current 14-21 days approval timeframe.
- Wholesale products that are covered under the framework include wholesale funds, structured products, bonds, sukuk and asset-backed securities.
- In line with SC’s new regulatory philosophy which advocates proportionality of regulation and recognises the maturity of the Malaysian capital market and the sophistication of investors within the wholesale market.
- The Guidelines for the Lodge and Launch framework supersedes the existing guidelines on the various wholesale products.

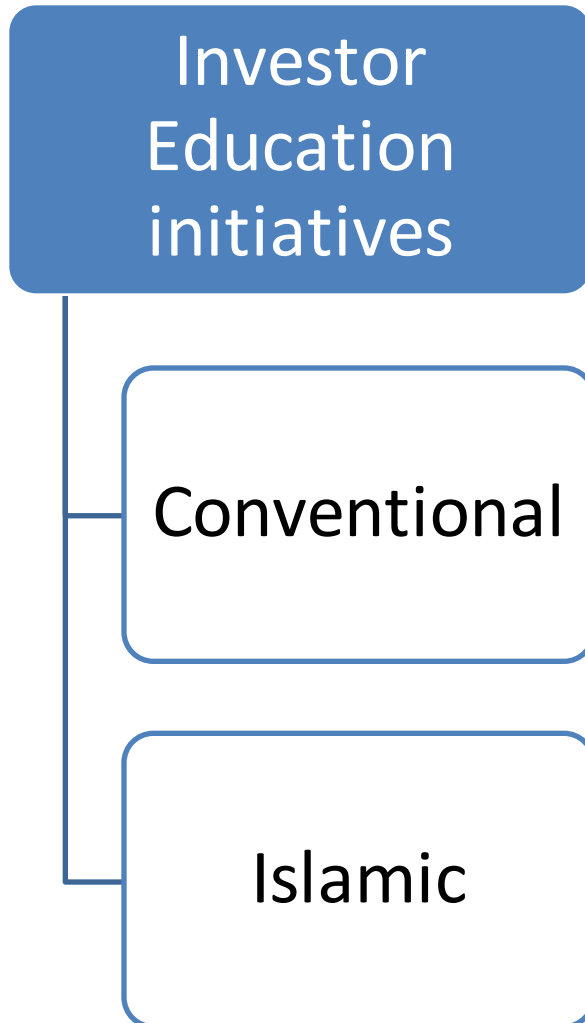
Guidelines on Issuance of Private Debt Securities and Sukuk to Retail Investors (2015)

- To facilitate retail participation in the bond and sukuk market.
- Enables retail bonds and sukuk to be issued and traded either on the exchange (Bursa Malaysia) or over the counter (OTC) via appointed banks.

Investor Education is carried out through InvestSmart



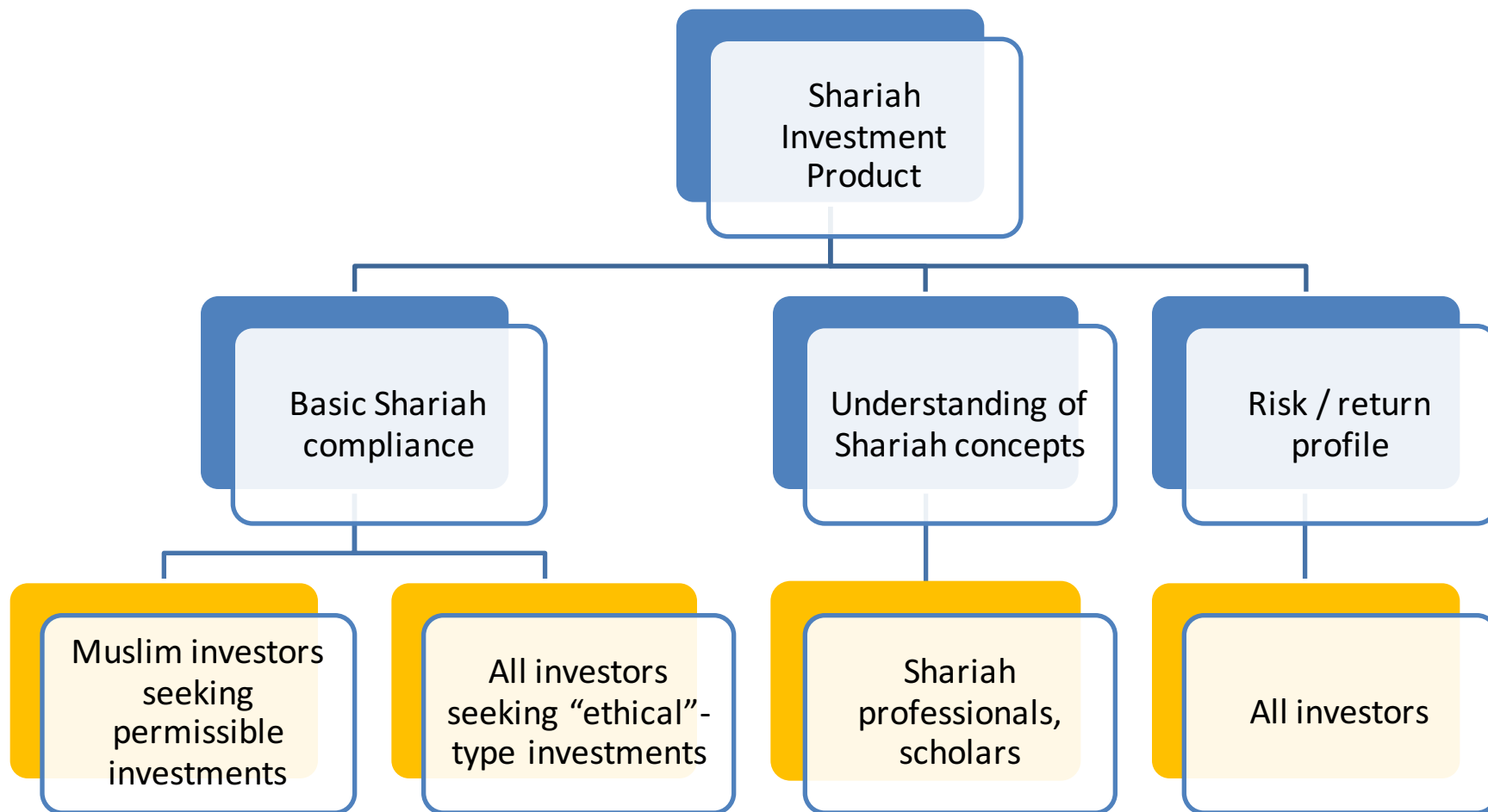
SC Malaysia's approach to Investor Education



- SC's Islamic investor education initiatives are done as part of our overall investor education initiatives
- In line with recommendations of IOSCO's ICM Task Force in 2004*

** "The conventional securities regulation framework and principles equally apply to the ICM, with the addition of some form of a Shariah approval or certification process - no need to formulate separate regulatory principles for the for the Islamic capital market. By extension, IOSCO's objectives and principles of securities regulation can be applied to the Islamic capital market"*

Investor Education approach to ICM products



How ICM fits into overall IE initiatives

Exhibitions and outreach programmes

- Participating in Halal exhibitions
 - Malaysia International Halal Showcase (MIHAS)
 - Halal Malaysia
- Outreach programmes and roadshows

Seminars for general public

- ICM is incorporated into financial capability programmes. Examples :
 - Be Money Wise (BMW) seminars
 - Retail investor seminars on unit trusts and the stock market

Websites and publications

- Making list of Shariah-compliant securities publicly available
- Islamic unit trust funds, Islamic ETFs, etc

IE for ICM products: Observations and Lessons Learnt

“Education” on Shariah-compliant products through information

- List of Shariah-compliant stocks
- Types of Shariah-compliant collective investment schemes

“Halal” is more than technical compliance

- Scammers take advantage of “Shariah compliant” label
- Product must not only be Shariah-compliant but legally compliant

Level of acceptance by investors

- 60.4% of Malaysian population are Muslim
- Muslims accept certification by national Shariah body, SAC
- Non-muslims persuaded by commercial considerations (if lower cost, higher returns) or ethical element
- Regulators ensure level of protection for conventional and Islamic is the same

IE for ICM products: Observations and Lessons Learnt (cont'd)

Risk and return are key considerations

- Tenets of smart investing must be inculcated whether conventional or Islamic
- Regulators ensure parity of safeguards

Shariah certification

- National-level SAC instrumental in ensuring general acceptance of Shariah-compliant products
- Regular dissemination of list of Shariah-compliant products
- High level of trust in SAC pronouncements: Important factor in encouraging financial participation in the (largely Muslim) rural heartland

Shariah concepts and methodologies

- Transparency to ensure acceptance
- Of interest mainly to scholars and professionals

Thank You