Legal Aspects of Islamic Finance

LCA4592

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Securities?

- Securities: The generic term for any instrument traded on a stock exchange.
- Shares: a security representing a portion of the holder's capital in that company.
- S 2 of the CMSA 2007: Securities means:
  (a) debentures, stocks or bonds issued or proposed to be issued by any government;
  (b) shares in or debentures of, a body corporate or an unincorporated body; or
  (c) unit trusts or prescribed investments,
- and includes any right, option or interest in respect thereof, but does not include futures contracts
A capital market is a market for securities, where business enterprises (companies) and governments can raise long-term funds.

Primary market: securities are purchased directly from an issuing company

- Underwriting: The process of selling new issues to investors.
- IPO: A new stock issuance

Secondary market: the financial market where previously issued securities and financial instruments such as stocks, bonds, options and futures are bought and sold.
Regulatory Structure

- Ministry of Finance
- Securities Commission
- Bursa Malaysia
Governing Laws

- Capital Markets and Services Act 2007
- Securities Industry (Central Depositories Act) 1991
- Securities Commission Act 1993
- Companies Act 1965
- Offshore Companies Act 1990
- Labuan Financial Services and Securities Act 2010
Pre-1993: Capital market is under the auspices of Capital Issues Committee (MOF), Panel on TOM and FIC (PMD), (MITI), CCM and BNM. Established in 1993. Statutory body Regulating and developing capital market Supervising and monitoring the activities of the market institution To promote and maintain fair, efficient, secure and transparent securities market.
Roles of the SC

1. Registering authority for prospectus of corporation
2. Approving corporate bonds
3. Regulating securities and futures contract
4. Regulating take-over and merger
5. Regulating unit trust schemes
6. Licensing and supervising licensed institutions
A stock exchange is an entity that provides services for stock brokers and traders to trade securities.

Functions:
- Raising capital
- Mobilising savings for business
- Facilitating company growth
- Profit sharing
- Government capital raising
Bursa Malaysia

- Bursa Malaysia is an exchange holding company approved under Section 15 of the Capital Markets and Services Act 2007.

- Operates a fully-integrated exchange, offering the complete range of exchange-related services including trading, clearing, settlement and depository services.
The **Bursa Malaysia** or **Malaysia Exchange, MYX** previously known as **Kuala Lumpur Stock Exchange (KLSE, Bursa Saham Kuala Lumpur)**

- Dates back to 1930 when the Singapore Stockbrokers' Association was set up as a formal organisation dealing in securities in Malaya.
- In 1937 it was re-registered as the Malayan Stockbrokers' Association, but it still did not trade public shares.
- By 1960s, the Malayan Stock Exchange was formed and public trading of shares began in May.
Bursa Malaysia

- Kuala Lumpur Stock Exchange was re-named Bursa Malaysia in 2004.
- The main index for Bursa Malaysia is KLCI.
- In June 2006, a new index series jointly developed by Bursa Malaysia and FTSE Group was introduced known as FTSE Bursa Malaysia Index.
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<th>Subsidiaries</th>
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<td>Bursa Malaysia Securities Bhd</td>
<td>Provide, operate and maintain securities exchange</td>
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<td>Labuan International Financial Exchange Inc.</td>
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<td>Bursa Malaysia Bonds Sdn Bhd</td>
<td>Provide, operate and maintain registered electronic facility for secondary bond market</td>
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<td>Bursa Malaysia Securities Clearing Sdn Bhd</td>
<td>Provide, operate and maintain a clearing house for the securities exchange</td>
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<tr>
<td>Bursa Malaysia Derivatives Clearing Bhd</td>
<td>Provide, operate and maintain a clearing house for the futures and options exchange</td>
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<td>Bursa Malaysia Depository Sdn Bhd</td>
<td>Provide, operate and maintain a central depository</td>
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<td>Bursa Malaysia Depository Nominees Sdn Bhd</td>
<td>Act as a nominee for the central depository and receive securities on deposit for safe-custody or management</td>
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<td>Bursa Malaysia Information Sdn Bhd</td>
<td>Provide and disseminate prices and other information relating to securities quoted on exchanges within the group</td>
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<td>Bursa Malaysia Islamic Services Sdn Bhd</td>
<td>Operate all Islamic Markets businesses and activities initiated under Bursa Malaysia</td>
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Roles

- Front-line regulator- rules and regulations to ensure
  - Orderly and fair market
  - Secure, efficient and cost effective
  - Develop investor confidence
- Price discovery
- Infrastructure
- Avenue for capital raising
Objectives

- Promote orderly conduct and expansion of market for better investment
- Protect overall integrity of market-monitor financial standing of companies
- Protect investor interest
- Provide conclusive investment environment
- Develop the Malaysian capital market
Islamic Market

- Islamic Market products ie equities, derivatives, commodities, to debt securities, across all sectors and industries

- Sh. Compliance Stock: 88% of the securities currently listed on Bursa Malaysia

- Equity Indices: The FTSE Hijrah Shariah index (FBM Hijrah Shariah) and the FTSE Bursa Malaysia EMAS Shariah index (FBM EMAS Shariah)
Islamic Market

- Islamic Bond or sukuk: two-thirds of the global sukuk outstanding.
- Shariah ETF: Shariah-compliant investment instruments
- Islamic reits
- Shariah-based unit trust funds
Bursa Suq Al Sila

- Subsidiary of the BM.
- a commodity trading platform specifically dedicated to facilitate Islamic liquidity management and financing by Islamic banks
- SC, BNM, BM and MPOB, MPOA and MPOC.
- The fully electronic web based platform provides industry players with an avenue to undertake multi commodity and multi currency trades from all around the world.
Offshore Business???

- Taxation
- Simplicity and reporting
- Fees for incorporation
- Cost of operation
- Thin capitalisation
Established on 15 February 1996
International business and financial centre.
For capital market:
The Labuan Financial Services and Securities Act 2010 (LFSSA),
The Labuan Islamic Financial Services and Securities Act 2010 (LIFSSA),
The LFSSA, Part IV provides for the licensing of securities licensee with the following scope of business:

- Provide investment advice or administration services in respect of securities for purpose of investment; or
- Deal in securities; or
- Provide other activity as may be specified by Labuan FSA

The Labuan Islamic Financial Services and Securities Act 2010 (LIFSA), Part V provides for the licensing of Islamic securities licensee with the same scope of business as per the securities licensee above.
LIFX

- Launched 23 November 2000
- LFX is limited by shares and is wholly owned by Bursa Malaysia Berhad.
- a full-fledge Exchange with listing and trading facilities
- the listing of conventional and Islamic instruments.
- an efficient, cost effective access to capital market and practical alternative to existing domestic Exchanges