



UNIVERSITI SAINS ISLAM MALAYSIA

جَامِعَةُ الْعُلُومِ الْإِسْلَامِيَّةِ الْمَالِيزِيَّةِ

ISLAMIC SCIENCE UNIVERSITY OF MALAYSIA

# Legal Aspects of Islamic Finance

LAB4112

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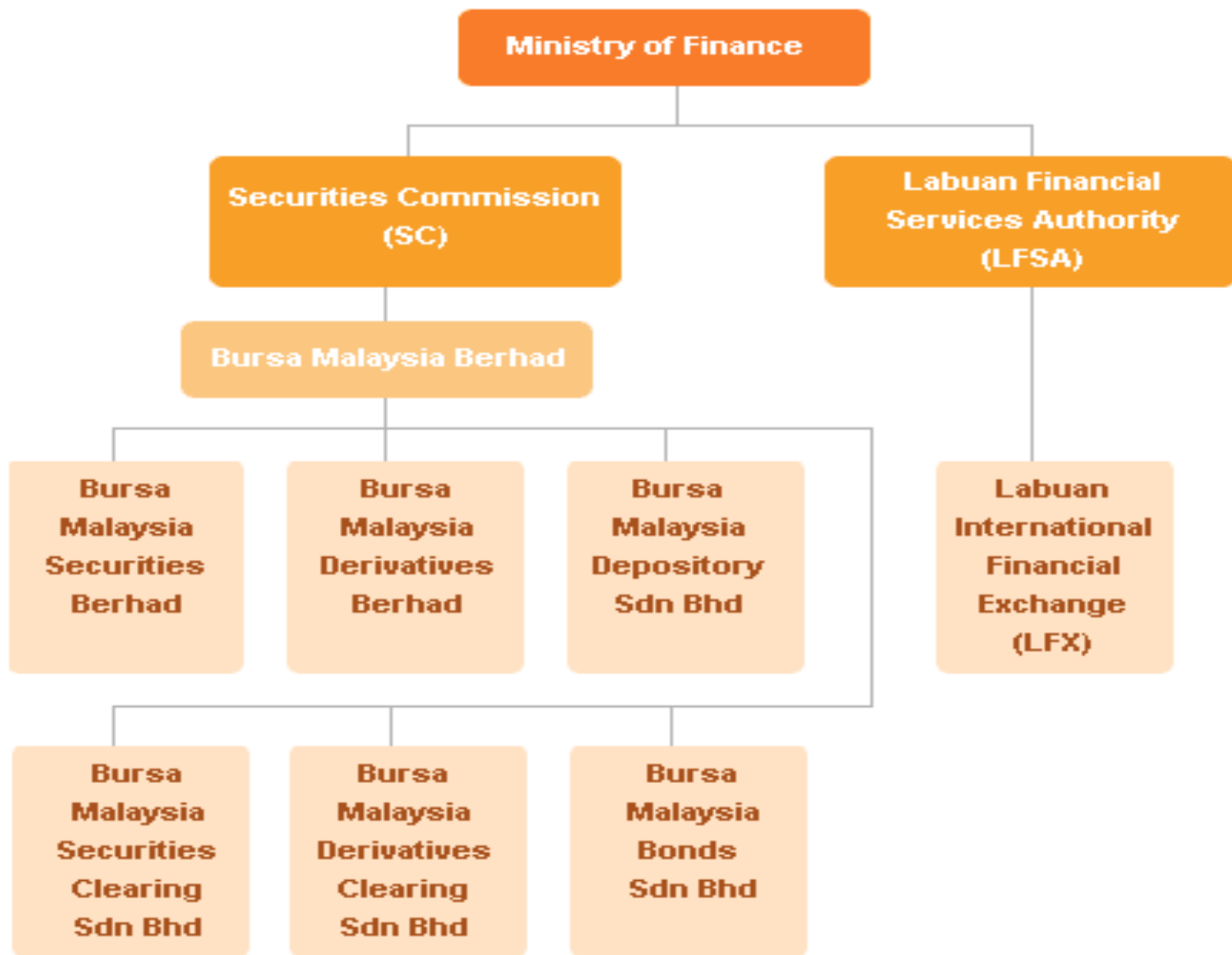
Labuan Financial Services Authority

# 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

# Capital Market

- 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

# Securities Commission

- 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

# Stock Exchange???

- 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

# Bursa Malaysia

- 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

<b>Subsidiaries</b>	<b>Principal Activities</b>
<b>Bursa Malaysia Securities Bhd</b>	<b>Provide, operate and maintain securities exchange</b>
<b>Bursa Malaysia Derivatives Bhd</b>	<b>Provide, operate and maintain a futures and options exchange</b>
<b>Labuan International Financial Exchange Inc.</b>	<b>Provide, operate and maintain offshore financial exchange</b>
<b>Bursa Malaysia Bonds Sdn Bhd</b>	<b>Provide, operate and maintain registered electronic facility for secondary bond market</b>
<b>Bursa Malaysia Securities Clearing Sdn Bhd</b>	<b>Provide, operate and maintain a clearing house for the securities exchange</b>
<b>Bursa Malaysia Derivatives Clearing Bhd</b>	<b>Provide, operate and maintain a clearing house for the futures and options exchange</b>
<b>Bursa Malaysia Depository Sdn Bhd</b>	<b>Provide, operate and maintain a central depository</b>
<b>Bursa Malaysia Depository Nominees Sdn Bhd</b>	<b>Act as a nominee for the central depository and receive securities on deposit for safe-custody or management</b>
<b>Bursa Malaysia Information Sdn Bhd</b>	<b>Provide and disseminate prices and other information relating to securities quoted on exchanges within the group</b>
<b>Bursa Malaysia Islamic Services Sdn Bhd</b>	<b>Operate all Islamic Markets businesses and activities initiated under Bursa Malaysia</b>

# 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

# LFSA

- 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),

# LFSA

- 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
- LIFX 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