

## Islamic financial industry development in Malaysia

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**المخلص:** في السنوات الأخيرة ، شهدت المؤسسات المالية الإسلامية تطورات مماثلة لتلك التي في المؤسسات المالية الدولية ، من أجل الالتزام بقواعد الشريعة الإسلامية لتحقيق نظام قانوني عادل. المقصود بذلك هو أن تكون مختلفة عن المؤسسات المالية التقليدية من حيث الأهداف والعمليات والمبادئ والممارسات. ومن أجل الوصول إلى دور صناعة التمويل الإسلامي في ماليزيا ، تم تحليل الإحصاءات ، وبين ذلك بأن ماليزيا كانت واحدة من البلدان التي حاولت توسيع نطاق الأعمال التجارية في الصناعة المالية الإسلامية.

**الكلمات المفتاحية:** نمو، مالية، الصناعة المالية، الصناعة المالية الإسلامية، ماليزيا.

**Abstract :** Significant developments in Islamic financial institutions like the international financial institutions in recent years. The purpose was to abide by Islamic law to reach a fair legal system. Designed to be different from traditional financial institutions in terms of objectives, processes, principles and practices. In order to reach the role of the Islamic finance industry in Malaysia, the statistics were analyzed, indicating that Malaysia among countries that tried to expand the deal in the Islamic financial industry, where the study found the evolution of Islamic banking which positively impacted on the Malaysian economic growth.

**Key Words:** Growth, Finance, Islamic financial industry, financial industry, Malaysia.

**JEL Classification :** G3, H5, O11.

**Introduction:**

In the past few years, the world has turned to Southeast Asia to look forward to the Asian miracle of the Asian Tigers, especially Malaysia. Malaysia is one of the largest Islamic countries in the Islamic world. Islamic finance, including Islamic sukuk, which has been very successful in Malaysia.

The Islamic financial industry is witnessing an important stage of its growth, development and spread, and its increasing interest in Islamic and non-Islamic countries. This is due to the reluctance of traditional transactions for economic or religious reasons. This has necessitated the search for a legitimate alternative that enables Muslims and even others to invest their money and employ them in real projects that are far from *riba*. Hence, the idea of Islamic financial markets began to emerge, in response to the desire of Muslims, which has become widespread and widespread throughout the world. The opportunity offered by this market to investors to diversify their portfolios with a significant portfolio of Islamic investment instruments.

The products of the Islamic financial industry have a significant role in the international financial markets because of the various tools offered by Islamic finance. And increased demand, especially in light of the slight impact of Islamic banks from the effects of the global financial crisis, and draws attention to Islamic banking.

The question what is the reality of Islamic finance industry in Malaysia?

In order to answer the problem presented, the following hypotheses are formulated: The Islamic financial industry has witnessed a great development especially in recent years, characterized by diversity in products and even the various economic sectors.

This study aims at identifying the most important differences that distinguish the Islamic financial industry from the traditional financial industry as well as its location in the Malaysian economy.

In order to achieve this, the descriptive approach was adopted to present the Malaysian economy in general and the historical approach to follow the most important stages of development in the Islamic financial industry as well as the analytical approach to read, analyze and interpret all data related to the financial industry using illustrative tools such as tables.

**Previous studies.**

- Chafia Kataf (2014), "A comprehensive study of the role of Islamic financial instruments in the activation and development of the Islamic financial market - an empirical study of the experiences of some Arab and Islamic financial markets", PhD thesis in economic sciences, Setif University 1, Algeria. The researcher concluded that Islamic sukuk and investment funds play an important role in activating and developing the Islamic financial market.
- A study of Nasba Measouda (2013), "towards an Islamic model of the capital market - the experience of Malaysia as a model", - PhD thesis in economics, specialization: money and finance, University of Mohammed Khaider, Biskra,

Algeria. In this study, the researcher concluded that there is a need for an Islamic capital market, its support of Shariah-compliant investment instruments, its ethical and legal supervision, as well as the Malaysian government's attempt to develop the Islamic capital market as an alternative to the existing traditional financial markets. With the provisions of Islamic law.

- Saad Ibtisam, (2016), "The Role of Islamic Finance Mechanisms in Raising the Financial Efficiency of the Banking System - Malaysian Experience as a Model-" PhD thesis in Economics, Department of Economic Sciences, Mohammed Kheider Biskra University, Algeria. This study focused on Islamic banking industry in Malaysia and found that it accounts for about 21% of Malaysia's banking industry.

The difference in this study from the rest of the studies is a complement to previous studies on Islamic sukuk and financial markets, but the difference lies in the study focusing on the Islamic financial industry with its various tools during the period 2001-2017.

## **1. Islamic banking in Malaysia.**

Through this requirement will publicize the Malaysia State and Islamic banking system.

### **1.1. Brief State of Malaysia.**

This element will be dedicated to the definition of the State of Malaysia and the Islamic banking system recognition.

#### **1.1.1- Definition of the State of Malaysia.**

Malaysia is a highly developed Islamic country that has made tremendous strides in the last four decades human and economic development became the first industrial state in the Islamic world as well as the first in the field of exports and imports in Southeast Asia, has been able to establish advanced infrastructure as well as diversification its national income sources from industry, agriculture, minerals, oil and tourism, and made progress in tackling poverty unemployment and corruption and the reduction of indebtedness to large levels.

Malaysia focuses on the Islamic principle. Emphasis on adherence to ethical values, justice and economic equality with an emphasis on indigenous development. The Muslim majority of Malays encourages them to work in productive sectors (Ali Ahmed Dardj, 2015, p:1362).

And Malaysia is an Islamic State in South Asia and is a peninsula, a State aspiring to catch up with industrialized countries by 2020. (Azzeddine Cherroun, 2016, p:236).

Malaysia is credited with developing and the promotion of the idea of Islamic finance, being the leading Islamic country in this field, and witnessing significant growth in the field attracting capital, which is one of the most important international financial centers.

The most important resources that abound, Tin, wood, iron, copper, bauxite, natural gas, with a population of some 32.05 million in 2017. As the Malaysian community consists of several ethnic groups including Malaysian 58, and the other from China, India and others, professing different religions, including Islam, Christianity, Buddhism, Hinduism and the Malaysian language is the official language. (Azzeddine Cherroun, 2016,p:236).

It consists of thirteen 11 State in West Malaysia and two in the East, with Kuala Lumpur, estimated 229.7 thousand square kilometers, its currency ringgit, religion Islam, either by the Royal regime, the Malay language.

Malaysia limits from North Kingdom of Thailand and the South China Sea, either from the South it is bordered by Indonesia, the separation between themselves and crux Straits Singapore, West the dossier Strait separated them from Indonesia, bordered by Borneo State of Indonesia from East. (Hadj Ibrahim Abd Elrahman and Khayenas rabie, 2008,p1-2).

### **1.1.2-Demographics in Malaysia:**

Malaysia demographics in consists of three main elements:(Hadj Ibrahim Abd Elrahman and Khayenas rabie, 2008, p:2).

- Malay concentrated on the West coast of East Malaysia and the vast majority are clustered in cities, ports, this component represents about half the population or more, 10 million By about sixty percent of the total population, are native to Malaysia,
- Chinese are coming from South China during the period of British colonialism, representing five million by thirty per cent of the total population;
- The Indian their colonialism came too in the 21st century The past, representing 1.5 million, ten percent of the total population.

Malaysia is a country with an average income has transformed its economy from the years 1970 to 1990 from a producer of raw materials to many productive sectors as a result of the growth of exports and of the most important indicators (Malaysian economy indicators, **2018**) :

- Gdp296.4 billion dollars in the end of 2016;
- GDP growth rate of 1.4 %;
- The per capita GDP of 11,028 dollars;
- The share of gross domestic product sectors: agriculture 22406 million. MYR industry 14093 million MYR, and the inflation rate of 1.4%, 9.9 million employment;
- Industry and processing industries of rubber, palm oil industry, optical industries, electronic industries, Tin industry, petroleum industries, food industries;
- The average per capita income rose from 600 in 1980 to 11,028 H H 2018;
- Exports rose to 84467 MYR Million Per month in the year 2018;

- Unemployment dropped to 3.3% The first trimester of the year 2018, Rate also fell under the poverty line to 6.8%.

And we identified the state of Malaysia and thorough consideration of the various indicators on the clear to us that Malaysia is a country with great strength, the unique leap where managed in a few years of astronomical growth rates after the state of some raw materials only turned in a few years to an exporter of many products in various sectors where exports achieved a growth rate of 90.2% (Alam estimated the proportion of exports from 5% to 95.2%), and made serious efforts to eliminate the poverty rates in the country has been able to reduce the rate of poverty in 18 years from 52% to 5.5%, poverty rates ended by 46.5%.

All these indications are that Malaysia country strong and has a strong economic will it managed during a brief period of fantastical growth rates were not taken into account.

## **1-2- The Islamic banking system in Malaysia.**

This component will be allocated to the study of the Islamic banking system in Malaysia.

### **a- The Islamic savings system.**

Early efforts to develop Islamic financial services in Malaysia began With the birth of the Tapong Haji Foundation, established in November 1962, the work began on September 30, 1963. Under the title of a plan to improve the economy of pilgrims in 1959. These The idea in the light of the urgent need to develop a mechanism to encourage Muslims to collect their savings, where Muslims have resorted in the past to finance various traditional means and save money. For the journey of the Holy Places. There are also some Muslims who have taken refuge (Mohamad Akram Laldin, 2008,p:4) . There to sell their livestock and other property in order to earn enough money.

These practices had resulted in negative financial and social effects on them(Mohammad Ghazal, p:160) ;

- To enable Muslims to savings gradually support expenditures during the pilgrimage and other useful purposes;
- enable Muslims from effective participation in investment activities allowed in Islam through saving;
- to protect pilgrims and ensure the welfare and interests savings during the pilgrimage through the provision of various facilities and services.

This fund was established in order to collect the savings of the Malaysian Muslims, for the performance of the pilgrimage, the goal was primarily to provide for the safety of those savings of use with regard to, inter alia the pilgrims inside the homeland and sacred places in the first and expanding later in the investment area by diversifying investment activities that comply with the Islamic Shariah.

Thus, the safety of the pilgrimage, one of the tributaries which represented

the emergence of Islamic finance in Malaysia, to chart savings of Muslim individuals and remunerative revenues them free of usury, and provide an Islamic alternative to form the first nucleus of the emergence of Islamic banking in Malaysia. (Mohamad Akram Laldin, p: 4-5).

#### **b. The emergence of Islamic banks in Malaysia.**

Started Malaysia's commitment to the development of Islamic banking system in 1983 when it began its first Islamic Bank Islam Malaysia (BIMB ""), although the Malaysian Islamic banking system has been able in the years that followed from the perception of itself as an alternative to traditional banking, Majdi business, but there are some points that must be addressed to make the system more feasible and acceptable to Malaysians and Muslims in other countries. (Mohammad Ghazal, p:160)

There are four main reasons why Islamic Bank is important in Malaysia (Wan Sulaiman Bin Wan Yusoff Alfattani, p:407):

- To response the need of Muslim Community.
- To provide Islamic Fund as an alternative for Muslim community.
- To support economic growth.
- To fulfill the demand for the whole Malaysian.

Where an institution (BIMB) recorded strong growth after a year of its inception, doubling the total assets of \$170.7 million at the end of 1983 to 369.8 million dollars at the end of 1984, with the sharp increases in deposits of \$91.0 million to \$274.9 million and loans of \$40.7 million to \$249.8 million.

It was a Bank Islam Malaysia (BIMB) a pioneer in Islamic banking and financial system in Malaysia since its inception more than a decade, where the expansion of the list of services provided by very quickly(Sudin Haron, Nora fifah Ahmad, 2000, p:1).

The World Bank has expanded through a network of 80 branches and 1,200 staff, and included in the main board of the Kuala Lumpur Stock Exchange on 17 January 1992.

But the Islamic regime did not begin to take off in earnest until March/April 1993, when the Central Bank introduced a project known as ' free ' banking system (or interest-free banking system), this arrangement allows traditional banks offer Islamic products within their institutions(Sudin Haron, Norafifah Ahmad, 2000, p:2) .

With the advent of Malaysia as the first State to implement a dual banking system in which Islamic and conventional regimes coexist and work simultaneously. These institutions were required to separate their Islamic banking activities from traditional banking transactions to ensure there is no confusion between funds.(Mohamad Akram Laldin, p: 10-11).

In 1997, Bank Negara Malaysia The establishment of the National Advisory Council of shariah on Islamic Banks and Takaful Companies among the basic objectives of this council being the only competent legislative Bank Negara

counseling and advice, with the coordination of legal issues pertaining to Islamic banking and finance.

In 1999, a second Islamic bank was established known as the "Bank of Malaysia berhad transactions".(Mohamed Ridza Abdullah, 2011, p:1).

In the same year enter the Bank Negara Islamic banking concept which allowed financial institutions to Islamic Windows operations converted to Islamic banks. As Malaysia's Islamic banking system began to flourish and become more competitive because it paved the way for foreign banks such as the Asian Finance Bank and Kuwait Finance House to start operations in Malaysia.(Mohammad Ghazal, p:161).

In 2002, former Prime Minister Mahathir Mohamed of establish Islamic financial services Board, to develop international standards consistent with the risk of Islamic financial institutions, to ensure the quality and stability of the Islamic financial system, made up of this body of central banks: Malaysia, Saudi Arabia, Indonesia, Iran, Kuwait, Pakistan, the Islamic Development Bank.

At present, Malaysia contains 19 Islamic Bank, including global Moslem State, the estimated total assets of around 68 billion dollars.(Mohamed Ridza Abdullah, p:1).

### **1.3. The Islamic capital market in Malaysia.**

The Islamic capital market is one of the components of the capital market in Malaysia. It plays an important role in generating economic growth of the country. And the Islamic capital market as a market parallel to the conventional capital market, and plays a complementary role of Islamic banking in broadening and deepening the Islamic financial markets in Malaysia.

## **2. The Islamic capital market in Malaysia.**

This will be addressed through the element to the definition of the Islamic capital market in Malaysia, the most important characteristics that distinguish it.

### **2.1. Islamic finance niche in the overall financial system:** (Ibtisam saad, 2016, p:345)

Give Islamic banking project strong impetus to Islamic finance in Malaysia, where I knew the Islamic banking movement upward, average annual growth record 49% .

Assets during the period 1995-1999 in the Islamic banking sector continued generation strong growth of assets by 30% to 1.47 billion RM, Malaysia is today a leader in the global Islamic finance industry in terms of organization and uniformity and issue instruments which represents more than half the global version in 2015, agency "Fitch" in its report for the year 2015 that Islamic banking in Malaysia 390 million RM reached with end of 2015, equivalent to 27% home loan banking system (0.25%) 2014 (as its ratio amounted to funding growth 2.16%

in Islamic 2015) the traditional banking system: 2.5% annual growth rate reached 2.18 % since 2011, compared with an average of 0.7 % growth to traditional bank.

**Table (01): Evolution of total assets, deposits and loans in the Malaysian Islamic banks 2008-2015**

|      | Assets        |                 |              | Deposits      |                 |                | Loans           |                 |              |
|------|---------------|-----------------|--------------|---------------|-----------------|----------------|-----------------|-----------------|--------------|
|      | Islamic banks | Islamic Windows | Total assets | Islamic banks | Islamic Windows | Total deposits | Islamic Windows | Islamic Windows | Total credit |
| 2008 | 181360        | 6740            | 188099       | 149 932       | 4770            | 154 702        | 99 857          | 574             | 100 432      |
| 2009 | 219848        | 8702            | 228550       | 181 877       | 6962            | 188 839        | 128 207         | 659             | 128 866      |
| 2010 | 253516        | 8867            | 262382       | 211 837       | 5116            | 216 953        | 154 066         | 508             | 154 575      |
| 2011 | 320519        | 8131            | 328649       | 261 542       | 4845            | 266 387        | 190 938         | 446             | 191 384      |
| 2012 | 367686        | 8268            | 375954       | 301 537       | 4919            | 306 457        | 227 655         | 397             | 228 052      |
| 2013 | 426430        | 7093            | 433523       | 345 889       | 3058            | 348 947        | 277 491         | 428             | 277 920      |
| 2014 | 455411        | 7027            | 462438       | 398 041       | 2639            | 400 680        | 329 643         | 532             | 330 174      |
| 2015 | 526 347       | 9 021           | 535 368      | 399 321       | 3 340           | 402 661        | 383 494         | 974             | 384 468      |

**Source :** - Ibtisem saad,2016,p:196.

- Bank Negara Malaysia, **Monthly Statistical Bulletin**, Malaysia, Dec 2015.

## 2.2. The concept of Islamic capital market in Malaysia.

There are long-term and long-term investment and financing opportunities that are fully compliant with Islamic and non-Islamic Shariah - free and binding activities such as riba, gambling, gharar, etc, a different financial market opportunities to finance economic activities through Shariah-compliant financial and investment resources.

To ensure the commitment of Islamic capital market activities by Islamic principles under the control of legal advisers and experts in legitimate transactions.(Mohammad Ghazal, p:161).

## 2.3. The characteristics of the Islamic capital market in Malaysia.

It has the following characteristics:(Morei Ali Dou and others, 2015,p79)

- Subject to Malaysian Islamic Capital Market, the control of the advisory board of the forensic
- To ensure that these activities conform to the provisions of Islamic Shariah law, the Committee does not interfere directly in the work of this market where access to information on the market by the competent department, as responsible for the study and analysis of market activities and presented for discussion and to take the appropriate decisions and advisory opinions;

- That all operations and transactions of the Malaysian capital market of all the taboos of like Riba and gharar, and facilitator where gambling to make sure that the companies listed in the Malaysian stock exchange does not deal the prohibitions of legitimacy, but operating in the PATENCY where exclusion of usury banks and companies(Abdul Hamid Vedjle, p:191), wineries and; t o submit to the control and supervision of the different bodies concerned, especially the Malaysian securities as long as they did not contradict.(Rukia Kassab, 2016,p:15).

#### **2.4. The genesis of Islamic capital market in Malaysia.**

Dating Islamic investment activities in Malaysia origination to the early 1960s when the pilgrims Fund was created the year 1962, the real beginning of the evolution of the banking system in Malaysia with the establishment of the first Islamic Bank, Bank Islam Malaysia year is 1983, and this led to the emergence of Islamic transactions window in traditional business known as interest-free banking system, as described previously.

The real development of Malaysia's capital market dates back to the early 1990s when a company called MDS sdnbhd, Islamic tradable Sukuk, first floated in the local market in 1990 and financed the expansion from “Shell” (Mesaoud anasbah, p: 255) , Followed by the issuance of several other financial instruments, which led to the deepening and consolidation of Islamic financial instruments in the Islamic capital market in the Malaysian expansion. In February 1994, "BMB Securities SdnBhd" was found in accordance with the provisions of the Securities Industry Act 1983 "Securities Act 1983", official practice began operations of the same year, then began to establish Islamic brokerage firm Windows Islamic investment funds.( Abd Elhamid Vijel, **p:192**)

With the start of the Islamic capital market, there were many questions by clients particularly Muslim investors and private companies about the commitment of the Islamic market, prompting the Malaysian Finance Ministry and Malaysian securities to form a Committee to study activities Transactions in this market in depth. Fundamental steps taken by this body forming Islamic capital market section of Islamic Capital Market Department \_ ICMD in 1994, in addition to legal Committee to study Islamic financial instruments in late 1994, and a year later turned into legal Advisory Committee and became A broader and more comprehensive responsibility.(Mesaoud nasbah, **p:255**)

On 17 April the movement index Prices of all the ordinary shares that are compatible with the provisions of the shariah listed in the main panel in the Malaysian stock exchange, and called it "Making Shariah Index", where more than two thirds of shares listed on the Malaysian stock exchange is of stocks that are compatible with the provisions of the shariah law in accordance with the Advisory Committee of the Securities Commission of Malaysia. In order to measure the performance of Shariah-compliant stocks listed and listed on the main board in the Malaysian stock exchange.(Nabil Khalil Taha Samour, **2007**, p:101)

These positive developments are an essential step in the building and organization of the Islamic capital market in Malaysia, where he is under the control of the Advisory Committee in conjunction with the administrative body of the Malaysian financial securities, and has contributed to the essential contribution in the development of this market. (Mesaoud nasbah, p:256).

### **3. The importance of Islamic capital market in Malaysia and most traded instruments.**

Islamic capital market plays in Malaysia was of great importance in mobilizing savings Muslim investors who do not want to invest their money in projects that contravene the provisions of the religion, which also traded instruments vary.

#### **3.1. The importance of Islamic capital market in Malaysia.**

The Malaysia's Islamic capital market to meet the increasing demands of Malaysian Muslims audience on Islamic financial instruments, the market offers many services including:(Nabil Khalil, Taha Samour, 2007, p;101).

Providing investment opportunities and financial instruments compatible with Islamic Shariah. Allows the Islamic capital market in Malaysia Muslim investors an opportunity to invest in sectors that do not deal said: If you want we will consider legality and also oversees the supervision of these activities to ensure that the Committee on the legitimacy of the ensure the conformity of the activities of this market, the provisions of Islamic law, and this is what strengthens the confidence of investors in the market, as well as to protect their legal rights and adapting them to the provisions of the Islamic Shariah, this allows the market opportunity for exporters in the issuance of financial instruments that are compatible with the provisions of the Islamic Shariah, such as equity, Islamic instruments and negotiable instruments in this market to strengthen the confidence of the Muslim audience exporting entities legitimate financial instruments.

- Supervision and control of legitimacy on all transactions in the market. The Malaysian Securities Commission works to develop and strengthen the Islamic capital market, local and global level in cooperation with market participants, as the main regulatory authority, as the body of the main objectives of the Malaysian Islamic capital market make Malaysia an International Center Islamic capital market, to achieve this objective the Commission worked foreign investors for investing in local projects, through the promotion of Islamic financial instruments traded on the local market at the global level, through seminars, courses, etc.
- The development and strengthening of the capacity of the Malaysian economy: contribute to the Islamic capital market in the Malaysian economic development, especially in the development projects in the public and private sectors, through the mobilization of surplus funds money holders, and directed to useful investments and compatible with the provisions of Islamic Shariah

law, consistent with the desire of investors to invest in the Islamic investment projects that generate them legitimate revenue and profit away from usury, which is religiously prohibited. It also contributes to this market in attracting foreign capital and invest it in local projects that do not deal Forbidden Transactions, this situation has led to the development of the Islamic financial system in Malaysia, where the Malaysian economy has achieved high rates of economic growth.

Through the above arguably the Islamic capital market in Malaysia plays great importance in the development of the Malaysian economy and strengthened Islamic capital market offers many financial instruments Islamic Shariah compliant and far cry from all the taboos that forbade us posted the Islam, it allows for local and foreign investors the opportunity to invest their money in investment projects free of all taboos.

### 3.2. The Islamic capital market instruments in Malaysia.

The Tools of the Islamic capital market in Malaysia can be divided into three main sections could be clarified in the following:

**a- The Islamic property:** property tools include Islamic financial stocks especially compatible with the provisions of the Islamic Shariah and listed in the main panel in the Malaysian stock exchange, shares such as Islamic investment funds, which can be transferred from one person to another in a manner of sale or gift, or making Shariah Index of financial instruments, but is a measure to learn stock market performance compatible with the provisions of Islamic Shariah law in Malaysia (Abd Elhamid Fijel, **P:190**), the most important elements and components of the Islamic property as follows: (abou Abdullah Ali, Belqasab Al-Sharif, p: 5-6).

**a- Ordinary shares:** consist of shares issued by shareholding companies whose main activities are not legally prohibited. These shares are listed on the Malaysian Stock Exchange. They are the shares of companies allowed by the Malaysian Securities Authority and can be invested by Muslim investors.

- **Islamic investment funds:** These funds raise the funds of small investors as well as their senior clients in the form of investment units, which are entrusted to manage them by specialists and specialists to employ them in companies recognized by the Shariah Advisory Committee in accordance with Islamic investment formulas and Islamic transactions. The provisions of Islamic law listed on the Malaysian Stock Exchange.
- **Shariah Index:** The index is a standard account number that reflects the evolution of the prices of dealing in a given market, whether in excess or in decreasing, a measure to identify the performance of the stock market in general. The Malaysian bourse is based on the Shariah Index to measure the movement of all the Shariah compliant equities listed on the main board and its investment performance.

### b. The Islamic instruments.

Which are the instruments permitted by the Advisory Committee in the Malaysian securities, which are issued in accordance with the principles of Islamic law, these instruments are issued on the basis of contracts of like modarabah legitimate investment, participation, murabaha, ijara, and others, as well as subject to these instruments and observe the provisions of the control of the legitimacy of the governing the issuance and circulation of these provisions differ varies depending on the contract or the formula that was issued on the basis of the instrument, among the most important characteristics of these instruments that the return to be on the basis of profit and not on the basis of interest rates, which is a fixed percentage of the capital.(Kassab paper, p: 15).

The Islamic instruments can be classified as exporters as follows:(Nabil Taha Hives beaver, p:108-109).

- **Islamic instruments** : These instruments are issued by the Malaysian government, is the investment certificates have been developed according to the principle of good loan by the Malaysian government as a step to support the movement of Islamic banking in Malaysia, the purpose of issuing this certificate is for the government to acquire the necessary funds to finance its expenditures on the development projects, the value and the return on these certificates do not determine in advance.

**Table (02):Corporate Sukuk Statistics**

**Unit: RM Bil**

| <b>Years</b> | <b>Month</b> | <b>Corporate Sukuk Outstanding</b> | <b>Corpoeate Sukuk New Issuance</b> | <b>Corporate Sukuk Redemption</b> |
|--------------|--------------|------------------------------------|-------------------------------------|-----------------------------------|
| <b>2015</b>  | //           | 361.33                             | 57.57                               | 20.93                             |
| <b>2016</b>  | //           | 393.45                             | 64.82                               | 32.70                             |
| <b>2017</b>  | ///          | 454.49                             | 87.65                               | 26.62                             |
| <b>2018</b>  | Jan 2018     | 461.04                             | 8.29                                | 1.74                              |
|              | Feb 2018     | 464.05                             | 5.91                                | 2.90                              |
|              | Mar 2018     | 472.80                             | 9.31                                | 0.55                              |
|              | Apr 2018     | 478.51                             | 8.67                                | 2.96                              |

**Source:** BNM FAST

- **Islamic sukuk issued by companies:** The words of one of the financial instruments are medium or long-term investment by private companies, the idea was put forward of these instruments in Malaysia in 1990, this is one of the forms of the prominent trading instruments in the market.

**Table (03):Corporate sukuk approved and lodged with the SC**  
**Unit: RM million**

| Sukuk | Shariah-compliant |           | Total instruments approved by the Malaysian Securities Commission |           |
|-------|-------------------|-----------|-------------------------------------------------------------------|-----------|
| Years | Number            | The value | Number                                                            | The value |
| 2001  | -                 | 13.5      | -                                                                 | 30.31     |
| 2002  | 34                | 17.6      | 171                                                               | 56.01     |
| 2003  | 31                | 12        | 118                                                               | 47.3      |
| 2004  | 49                | 16.16     | 124                                                               | 47.84     |
| 2005  | 77                | 43.317    | 127                                                               | 62.662    |
| 2006  | 64                | 42.018    | 116                                                               | 75.832    |
| 2007  | 60                | 122.102   | 120                                                               | 158.802   |
| 2008  | 47                | 43.234    | 99                                                                | 139.99    |
| 2009  | 11                | 33.955    | 34                                                                | 57.485    |
| 2010  | 26                | 40.328    | 59                                                                | 63.853    |
| 2011  | 45                | 82.403    | 85                                                                | 112.330   |
| 2012  | 41                | 71.091    | 81                                                                | 103.299   |
| 2013  | 51                | 99.129    | 88                                                                | 148.074   |
| 2014  | 49                | 96.070    | 80                                                                | 138.146   |
| 2015  | 31                | 56.834    | 50                                                                | 118.464   |
| 2016  | 32                | 63.729    | 56                                                                | 140.989   |

**Securities commission: Malaysia Annual Report:**(2001, p1-45)\_ (2002 p2-26 )\_ (2003, p 2-43)\_ (2004, p2-22)\_ (2005,p2-21)\_ (2006, p6-45)\_ (2007, p6-49) \_ (2008, p 6-55) \_ (2009, p6-51)\_ (2010, p6-54)\_ (2011, p6-53) \_ (2013,p:135), (2015,p:169),(2017,p157).

In 2017, a total of 79 corporate bonds and sukuk were approved, authorized and lodged with the SC, amounting to RM187.92 billion of which 47 were sukuk valued at RM94.15 billion. The sukuk value represented 50.11% of the total new corporate bonds and sukuk approved and lodged.

The market also saw the lodgment of the world's first green SRI sukuk in June, amounting to RM250 million. By end 2017, there had been four lodgments of green SRI sukuk totaling RM3.50 billion to finance solar projects and green building. In terms of issuances, corporate sukuk represent 70.19% (2016: 75.68%) of total corporate bonds and sukuk issuances while sukuk outstanding accounted for 75.14% (2016: 73.85%) of total corporate bonds and sukuk outstanding, including 3 green SRI sukuk.

Overall, sukuk issuances by Government and corporate in 2017 represented 53.05% (2016:53.81%) of total bond issuances whereas total sukuk outstanding represented 58.80% (2016: 56.36%) of total bonds outstanding. (SCM, 2017,p157-158).

### c- Trust fund industry:

There were 12 schemes with 56 funds in the private retirement scheme (PRS) industry as at 31 December 2017. The total industry NAV of RM2.23 billion as at 31 December 2017 represented an increase of 46.71% compared to a total NAV of RM1.52 billion as at 31 December 2016.

There were 7 eligible issuers of structured warrants in 2017. The SC received and registered 5 base prospectuses and 12 supplementary prospectuses a total of 925 term sheets for the offering of structured warrants were registered in 2017, representing an increase of 26.37% compared to the 732 term sheets registered in 2016. The increase was attributable to the active issuance by issuers in meeting investor interest during the year. The year also saw an increase in issuances of structured warrants based on shares from 537 in 2016 to 788 in 2017. In addition, issuances of structured warrants based on ETFs increased to 17 in 2017 compared to 2 in the previous year.

The term sheets registered in 2017 enabled the structured warrants issuers to offer up to a total of 48.25 billion structured warrants.(B.N.M, 2017, p:153).

**Table (04): Overall status of unit trust fund industry**

|                                                    | 31 December 2017 | 31 December 2016 |
|----------------------------------------------------|------------------|------------------|
| No. of funds launched                              | 644              | 627              |
| – Conventional                                     | 431              | 429              |
| – Shariah-compliant                                | 213              | 198              |
| Units in circulation (billion units)               | 562.39           | 496.85           |
| No. of accounts (million)**                        | 20.08            | 19.34            |
| Total NAV (RM billion)                             | 426.98           | 358.47           |
| – Conventional (RM billion)                        | 349.20           | 297.56           |
| – Shariah-compliant (RM billion)                   | 77.78            | 60.91            |
| % of NAV to Bursa Malaysia market capitalisation** | 22.39            | 21.50            |

**Source :** Bank Negara Malaysia, Annual Report 2017, Malaysia, p:152.

### d-Brokerage services.

Play the role of financial intermediaries financial intermediary class between surplus and deficit units, as this category play an important role in managing and organizing exchanges of Shariah-compliant stocks listed on the stock exchange of Malaysia and Islamic investment funds, where all transactions are free from All elements are legally forbidden as usury and gambling monopoly etc, and services providing information for buyers and sellers were all matters relating thereto.

\* Including unit holders accounts with institutional unit trust advisers (IUTA) that operate nominee account system.

\*\* The comparison made between the total NAV of the unit trust funds industry and Bursa Malaysia's market capitalisation is not an indication of the actual amount invested in Bursa Malaysia by the unit trust funds.

The most important sections of the mediation services available in this market:

- **Islamic Brokerage:** "mediation between the seller and the buyer in the Ijara contract", where some companies provide brokers in Malaysia Islamic brokerage service to help Muslims and non-Muslims from the investment in the stocks that are compatible with the provisions of the Islamic Shariah law and included in the Malaysian stock exchange, which allows circulation of the Advisory Committee of the Securities Commission of Malaysia.

- **Investment Management:** The management of the securities portfolio by firms with specific qualifications and specifications designated for the purpose of investments on behalf of their clients."

Islamic investment funds are working in Malaysia to collect funds from the owners of the small savings, the formation of investment based on the principle of diversification of financial instruments for risk reduction and diversification, where to invest these funds in investments of terra nullius and compatible with the provisions of the Islamic Shariah.

- **Legitimate oversight:** The Supreme Shariah Legal Committee is under the control of the Islamic Financial Market Advisory Committee of Malaysia, which works in cooperation with the Malaysian Islamic Capital Market Department, which examines the financial instruments traded in this market, as well as the independent legal consultants who play an important role in the Sukuk Islamic.

**Table (5): Size Islamic capital market (ICM)**

| Islamic capital market                                | 2017<br>RM billion | 2016<br>RM<br>billion |
|-------------------------------------------------------|--------------------|-----------------------|
| Market capitalisation of Shariah-compliant securities | 1,133.83           | 1,030.56              |
| Size of sukuk outstanding                             | 759.64             | 661.08                |
| Total size of ICM                                     | 1,893.47           | 1,691.64              |
| % of ICM to total capital market                      | 59.19%             | 59.56%                |

Source : Bank Negara Malaysia, **Annual Report 2017**, Malaysia, p:160.

## Conclusion:

Through our study of the Islamic capital market in Malaysia and most important tools in circulation, we can say that the Islamic capital market in Malaysia is virtually all market activities from the taboos of legitimacy which has forbidden by Islam, like Riba, and gambling monopoly...., it is based on investment in projects dealing with Islamic financial instruments that are consistent with the provisions of Islam, as it is subject to regulatory control by the legitimacy of the work of the conduct and control of all its operations to ensure that they operate according to the religious standards approved by the Advisory Council.

With regard to the instruments that are dealt with in this market are divided into three main sections, where we find the tools of property, which, in turn, are divided into ordinary shares, Islamic investment funds index and the shariah, the second type of these tools is the Islamic instruments which is divided into the government, Islamic instruments.

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