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ISLAMIC FINANCE WEBINAR SERIES 3: PRACTICES AND OPPORTUNITIES IN ISLAMIC CAPITAL MARKET

Presenters:

Naila Firdausi, CFA, Fixed Income Analyst, PT Manulife Aset Manajemen Indonesia

Mohammad Shoaib, CFA, CEO, Al Meezan Investment Management Limited

Iggi Haruman Achsien, Head of Capital Market, National Sharia Board of Indonesian Council of Ulemas

Ridzham Zaidi Rizlzuwan, ICM Strategy & Industry Insight & Analytics, Securities Commission Malaysia

DON'T MISS THE PREVIOUS SESSIONS:

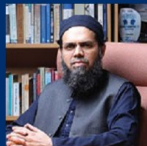
Islamic Finance Webinar Series Part 1: Fundamental Principles of Islamic Finance



ISLAMIC FINANCE WEBINAR SERIES: FUNDAMENTAL PRINCIPLES OF ISLAMIC FINANCE



Naila Firdausi Asa, CFA,
Fixed Income Analyst,
PT Manulife Aset
Manajemen Indonesia



Zeeshan Ahmed, PhD.,
Dean and an Associate
Professor,
Karachi School of Business
and Leadership (KSBL)
Pakistan



Adam Ng, PhD.,
Sustainable Finance Expert,
WWF -Malaysia



Mohammad Shoaib, CFA,
CEO,
Al Meezan Investment
Management Limited

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Islamic Finance Webinar Series Part 2: Innovation in Islamic Banking



ISLAMIC FINANCE WEBINAR SERIES 2: INNOVATION IN ISLAMIC BANKING



Mabroor Mahmood,
Principal – Infrastructure &
Corporate Finance,
Islamic Corporation for the
Development of the
Private Sector (ICD)



Ade Cahyo Nugroho,
CFO & Director,
Strategy of PT Bank
Syariah Mandiri



Justin Ong, CFA,
President,
CFA Society Malaysia



Syed Amir Ali, CFA,
CEO,
BankIslami

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WEBINAR PANEL



Naila Firdausi Asa, CFA,
Fixed Income Analyst,
PT Manulife Aset
Manajemen Indonesia



Iggi Haruman Achsien
Head of Capital Market,
National Sharia Board of
Indonesian Council of Ulemas



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ICM Strategy & Industry
Insight & Analytics,
Securities Commission
Malaysia



Mohammad Shoaib, CFA,
CEO,
Al Meezan Investment
Management Limited



Mukadima (Introduction) to Islamic Capital Market



Iggi H. Achsien, MBA

National Sharia Board – Indonesian Majelis of Ulemas

December 2020

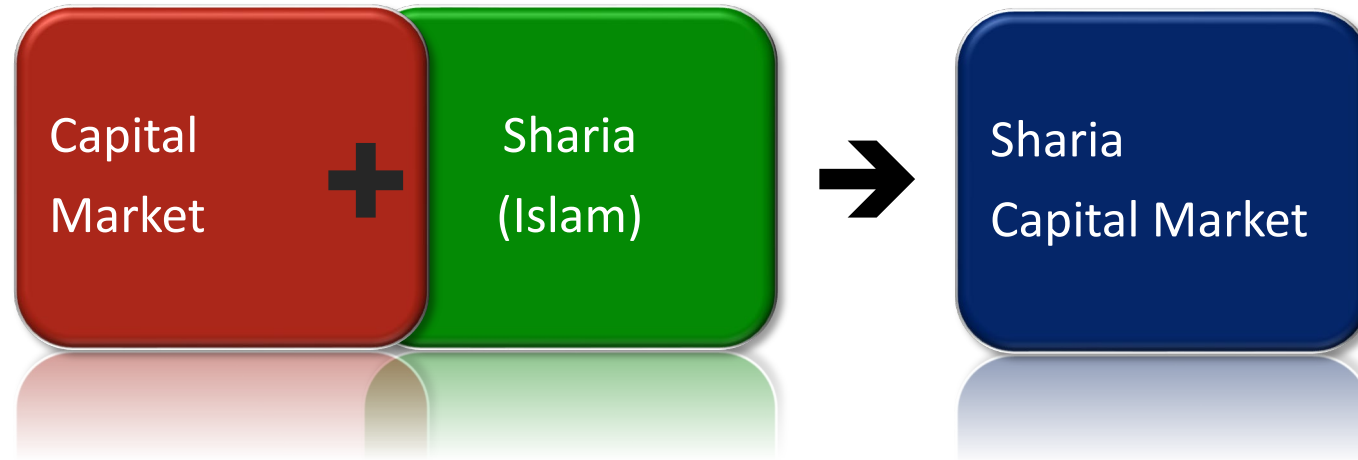
Iggi H. Achsien

Currently serve as member of Advisory Team for Vice President Republic of Indonesia. Tim Ahli Wakil Presiden RI, and as the Head of Islamic Capital Market of National Sharia Board of Indonesian Council of Ulemas.

Iggi is actively involved in Islamic Finance industry, as he has been known as pioneer in Sukuk market in Indonesia with issuance of the first Sukuk of Indosat Mudharabah in 2020. He was also involved in advising for structuring of the first Sukuk Negara issuance with Ministry of Finance. He also contributed for Global Islamic Finance Report (GIFR) 2015 and 2016.

Iggi has experiences in the field of investment banking, fund management, sharia banking and advisory in more than 20 years. He holds bachelor degree in Financial Management from Faculty of Economics University of Indonesia. He has completed Global Leadership Executive MBA program, a dual degree of Institut Teknologi Bandung (ITB) and Aalto University Finland.





Sharia شريعة

The way, the clear, way to be followed, way to water springs

Sharia lately is associated as Islamic Law (in comparison with *Fiqh*) which includes moral and ethical principles.

Sharia refers to an Islamic religious law that governs day-to-day life, including financial matters, transaction in capital market, etc

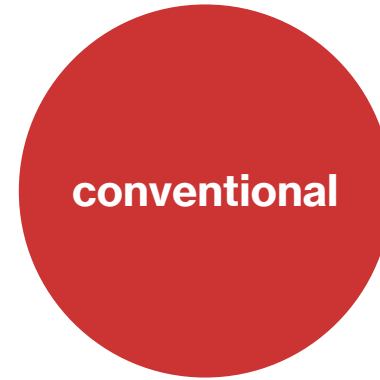
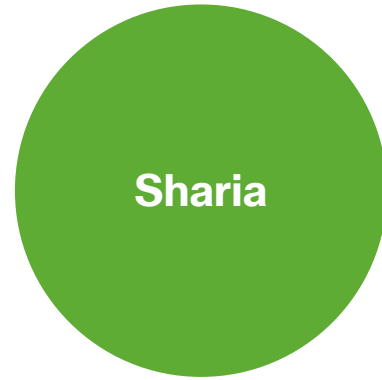
Maqoshid shariah (purpose or goals) is to achieve ***maslaha*** (benefit)

in protecting 5 principles:

1. *Din – Religion*
2. *Nafs – Life*
3. *Aql – Intellect*
4. ***Maal – Wealth***
5. *Nasab – Lineage*

In Islamic finance, elaboration on *Maal* (wealth or financial transaction) postulates five objectives:

1. continuity of the circulation of the wealth,
2. continuity of the investment of wealth,
3. achieving comprehensive communal prosperity,
4. financial transparency and
5. validation of financial ownership

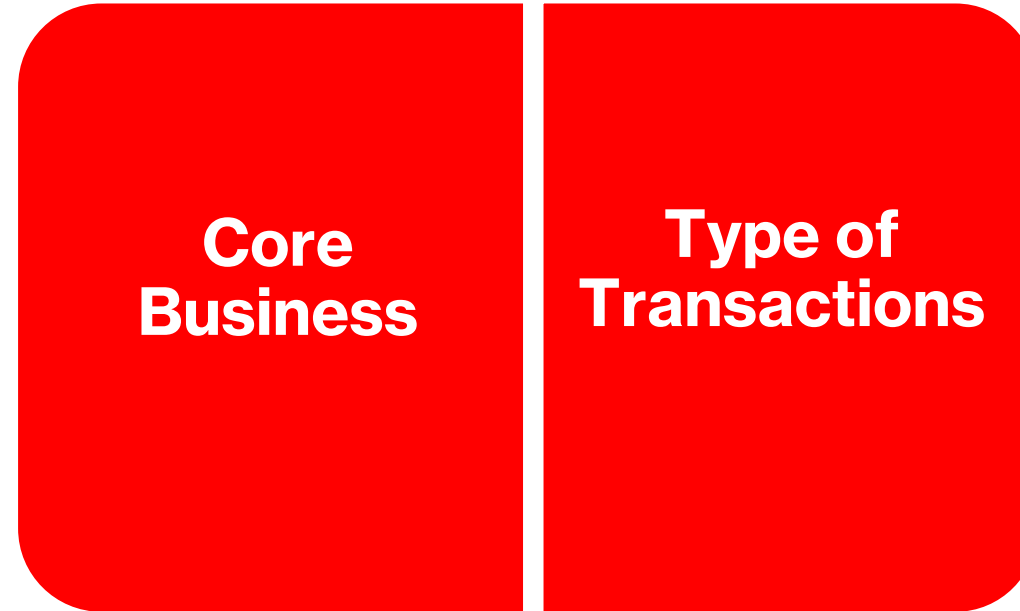


Sharia, in contrast with Conventional, doesn't have to be completely different:

1. The terms (or forms) may be the same, the difference lies in the content (substance)
– E.g. mutual fund
2. The substance may be similar, the terms (or forms) is different
– E.g. sukuk vs bonds
3. Sometimes you have to take two steps to make it *Halal* (sharia permissible)
4. Sharia doesn't leave *Insha Allah* **إِنْ شَاءَ اللَّهُ** (God Willing) behind

Basic prohibition in Islamic Capital Market

Anything is permissible unless there is specific prohibition



Type of transaction includes financial ratios, *riba* (margin), *maysir* (speculation), *bai al ma'dum* (short selling), *tadlis - taghrir* (mislead info), *ghabn fahisy* (insider trading)



Fatwa National Sharia Board Indonesia

Core Business Criteria, will exclude:

Operation involving gambling

Operation based on Riba and Gharar
(conventional financial institutions)

Activities of producing, distributing, and selling
non-halal foods

Activities of producing, distributing, and selling
haram products and services

DJIM

(Dow Jones Islamic Market):

Core Business Criteria, will exclude:

Alcohol

Tobacco

Pork-related products

Conventional financial services

Defense / Weapons

Entertainment (Music, hotels, casinos, cinema, etc)



Sukuk

Sukuk صكوك means 'certificate'.

Investment Sukuk (صكوك الإستثمار), means "securities of equal denomination representing individual ownership interests in a portfolio of eligible existing or future assets."

Type of Aqad frequently used: Mudharabah, Ijara, and Wakalah

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DISCUSSION



Naila Firdausi Asa, CFA,
Fixed Income Analyst,
PT Manulife Aset
Manajemen Indonesia



Iggi Haruman Achsien
Head of Capital Market,
National Sharia Board of
Indonesian Council of Ulemas



Ridzham Zaidi Rizlzuwan
ICM Strategy & Industry
Insight & Analytics,
Securities Commission
Malaysia



Mohammad Shoaib, CFA,
CEO,
Al Meezan Investment
Management Limited

Practices and Opportunities in Islamic Capital Markets

15 December 2020

Ridzham Zaidi Bin Rizluwan @ Razuan

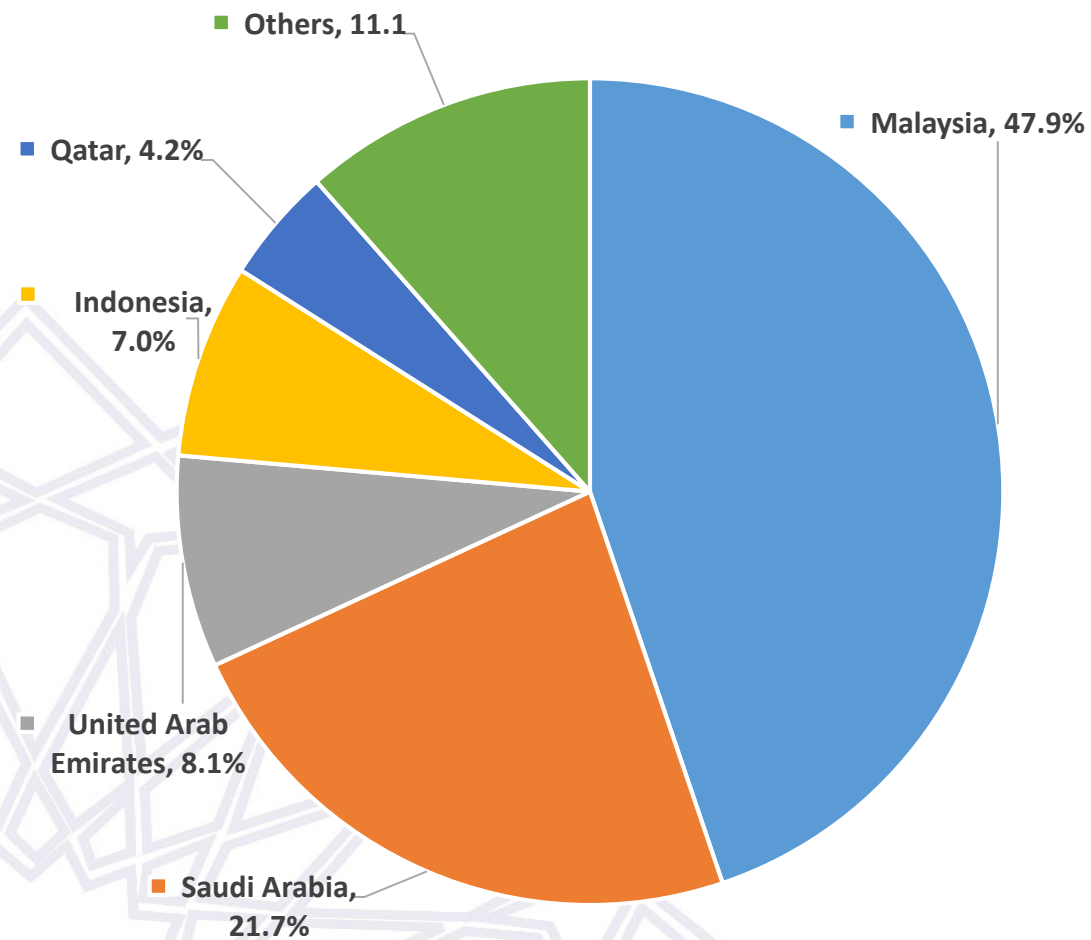
Assistant General Manager

ICM Strategy, Industry Insight & Analytics

Securities Commission Malaysia

Islamic Capital Markets : Global

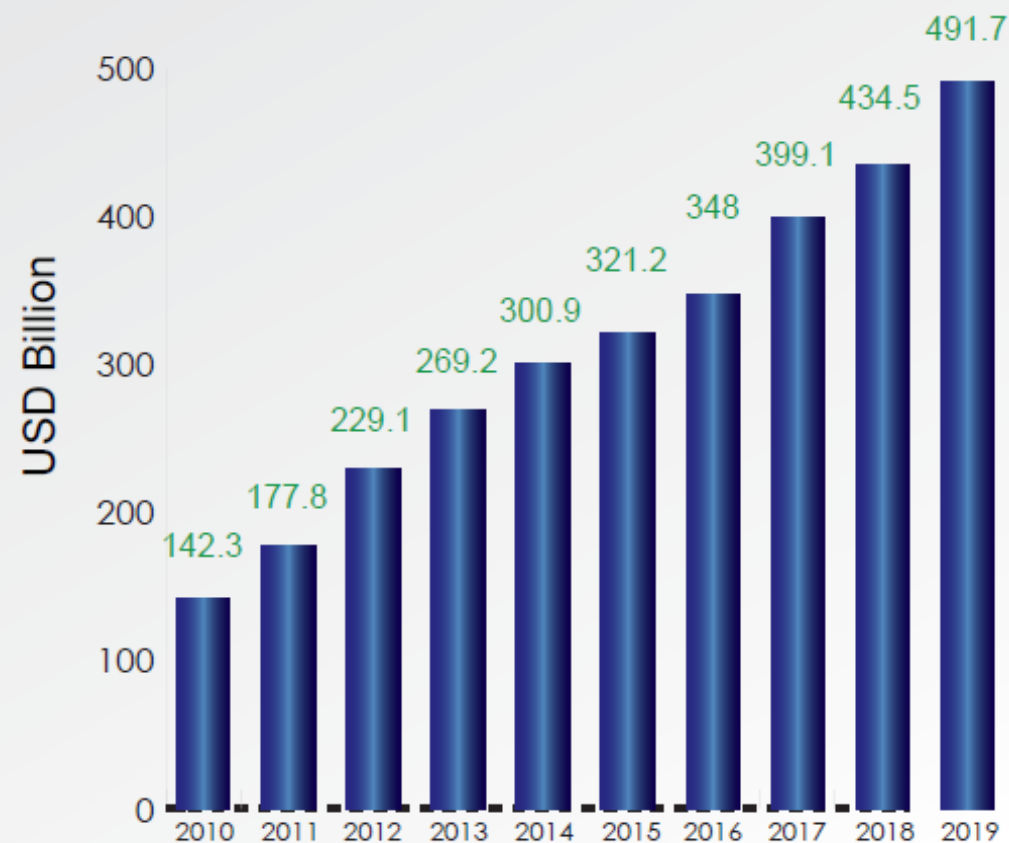
Global Sukuk Outstanding



Source: MIFC estimates

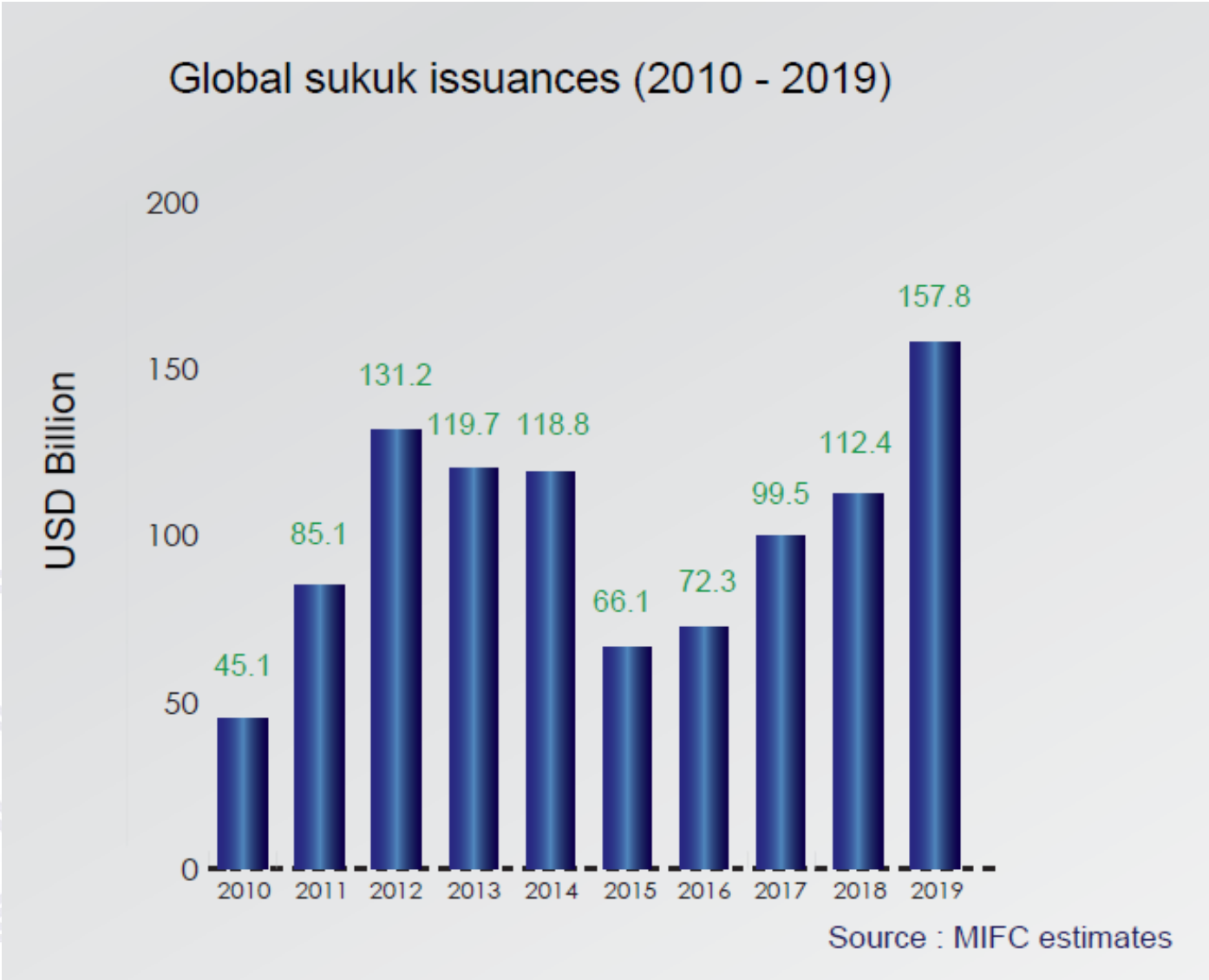
As at end 2019

Global sukuk outstanding (2010 - 2019)

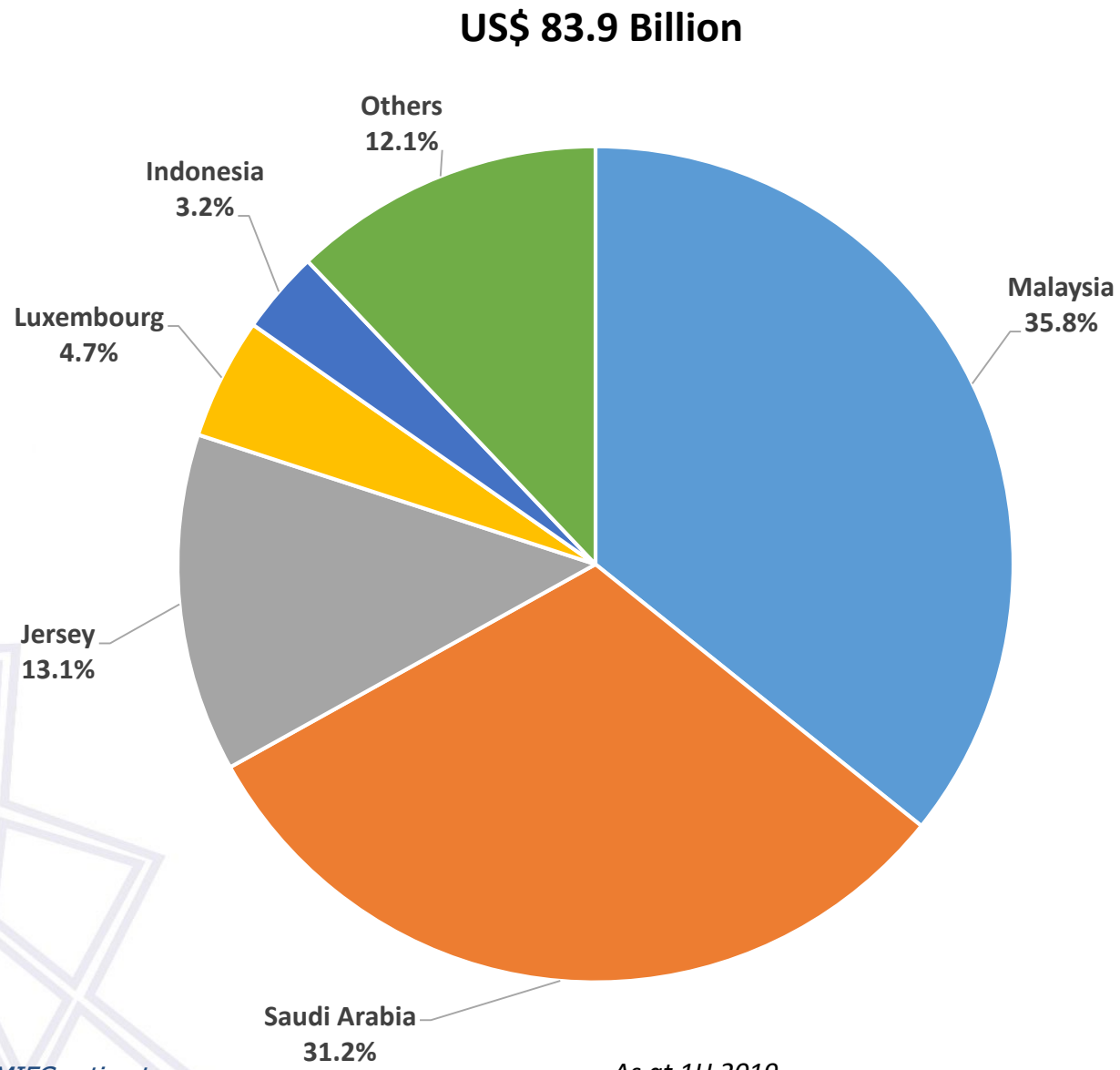


Source : MIFC estimates

Global Sukuk Issuances



Global Islamic Funds AUM



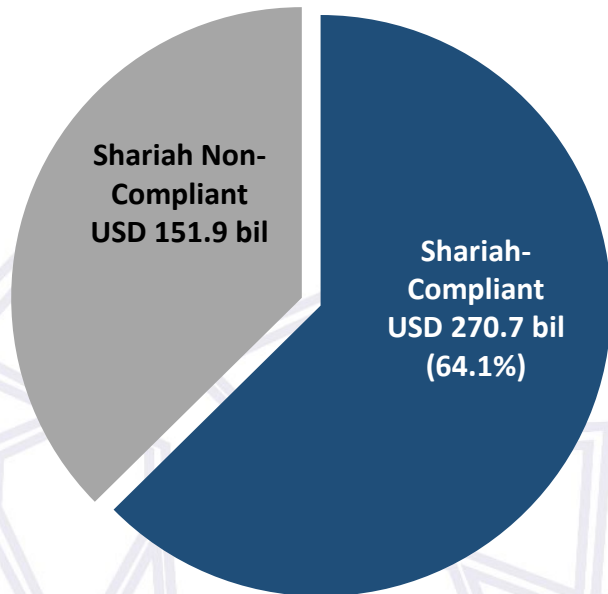
Source: MIFC estimates

As at 1H 2019

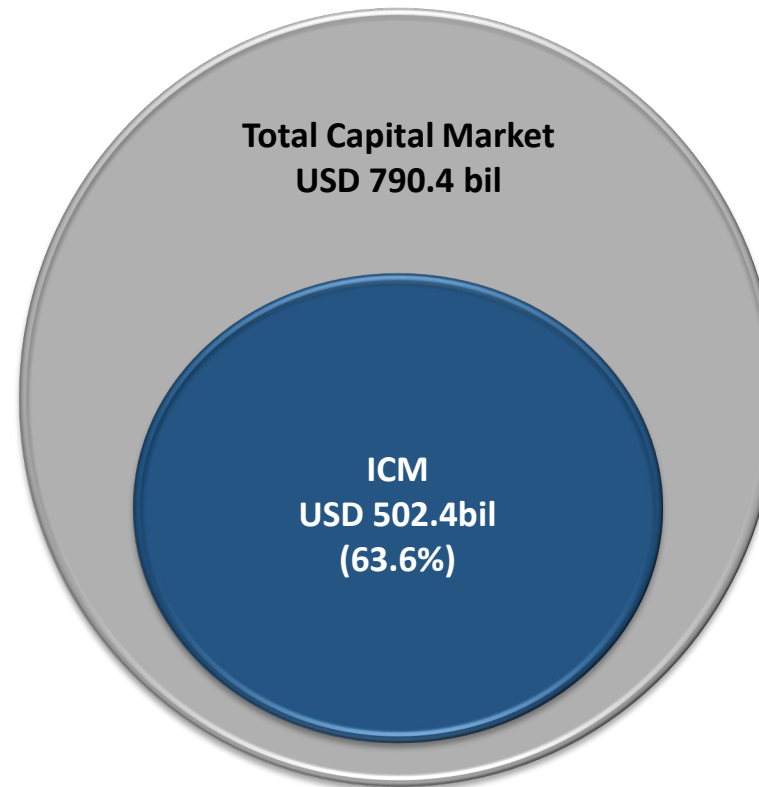
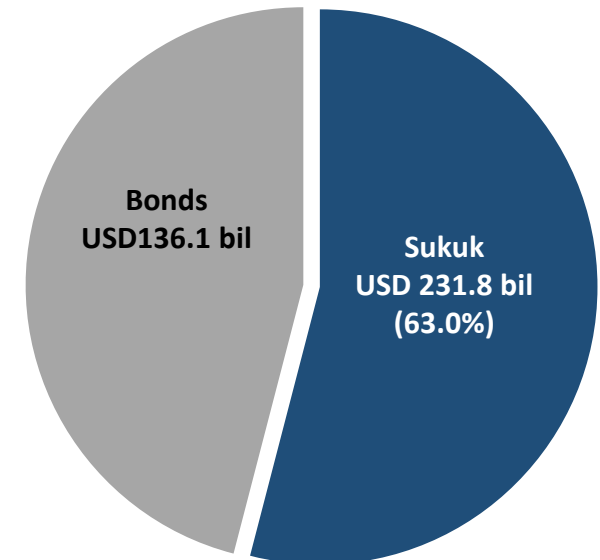
Islamic Capital Market : Malaysia

Malaysia: Islamic Capital Market

Total Equity Market
USD 422.5 bil



Total Debt Market
USD 367.9 bil

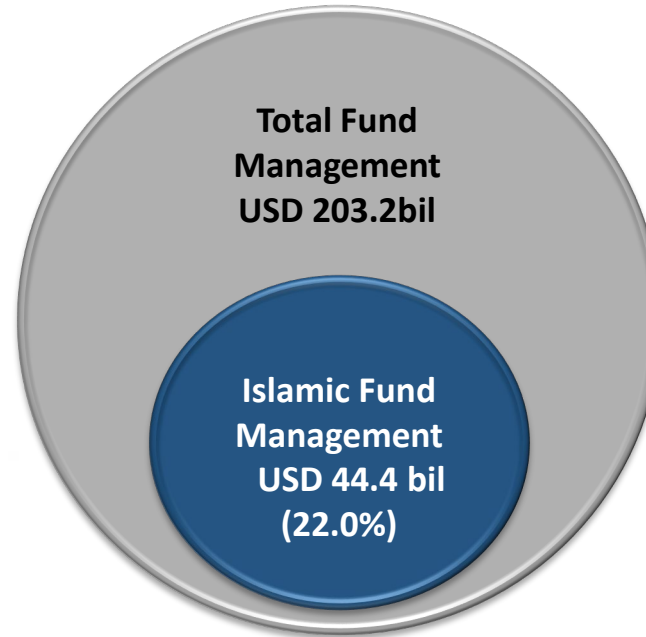
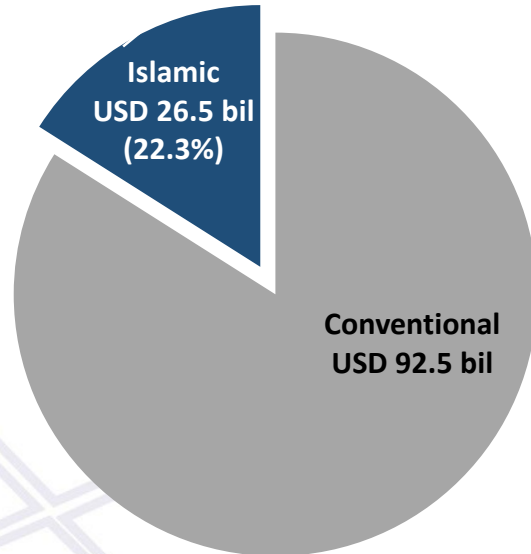


Malaysia: Islamic Fund Management Industry

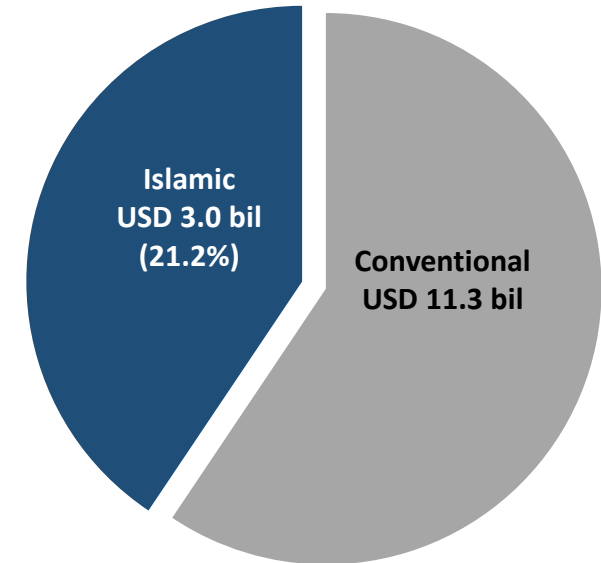


Suruhanjaya Sekuriti
Securities Commission
Malaysia

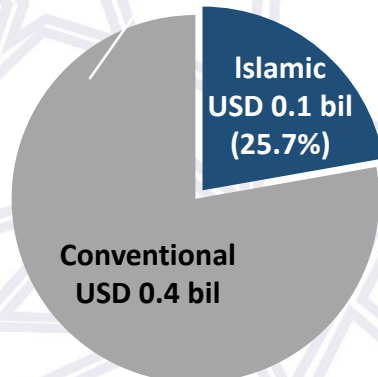
Unit Trust
Total: USD 119.0 bil



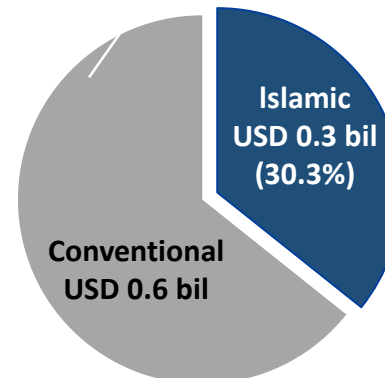
Wholesale Fund
Total: USD 14.3 bil



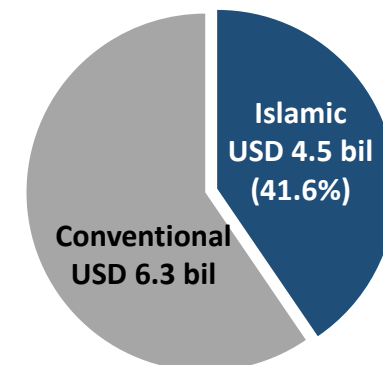
ETF
Total: USD 0.5 bil



Private Retirement Fund
Total: USD 0.9 bil



REITs
Total: USD 10.8 bil



*Thank
You!*

Ridzham Zaidi Bin Rizluwan @ Razuan
Assistant General Manager
ICM Strategy, Industry Insight & Analytics
Securities Commission Malaysia

RidzhamR@seccom.com.my



Indonesian Islamic Capital Market

“Everything in Red will turn into Green”



Islamic Capital Market

IDR Trillion

Instruments	2015	2016	2017	2018	2019	2020	MARKET SHARE
						October	October
Sharia Stocks	2.600,85	3.170,06	3.704,54	3.666,69	3.744,82	2.962,27	51,71%
% Growth	-11,74%	21,89%	16,86%	-1,02%	2,13%	-20,90%	
Corporate Sukuk	9,90	11,88	15,74	22,02	29,83	31,40	6,93%
% Growth	39,07%	19,98%	32,49%	39,90%	35,47%	5,26%	
Sharia Mutual Fund	11,02	14,91	28,31	34,49	53,74	71,42	13,79%
% Growth	-1,96%	35,30%	89,87%	21,83%	55,80%	32,91%	
Sovereign Sukuk	297,58	412,63	551,56	645,05	740,62	931,33**	19,01%
% Growth	44,39%	38,66%	33,67%	16,95%	15,34%	25,75%	

Source: OJK

IHSG

Indeks Harga Saham
Gabungan

INDEX

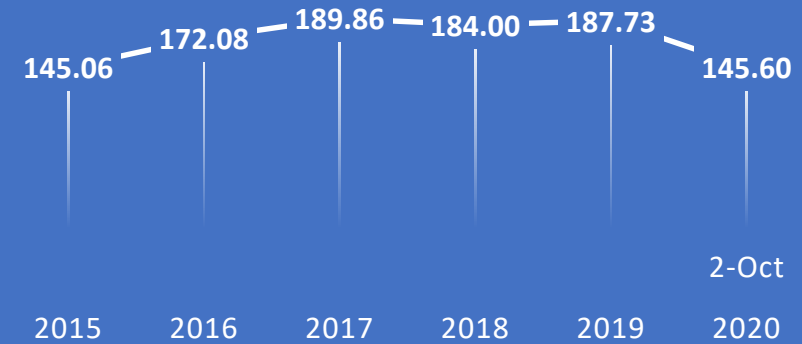
ISSI

Indeks Saham Syariah
Indonesia

IHSG



ISSI



JII



JII 70



JII30

Jakarta Islamic Index
(30 most Liquid)

JII70

Jakarta Islamic Index 70
(70 most Liquid)

Country Focus: Pakistan

December 2020

Mohammad Shoaib, CFA
Chief Executive Officer
Al Meezan Investment Management Ltd.

Country Focus: Pakistan

“Its (Pakistan) financial infrastructure for investors in listed equity is among the best in our universe. You can choose a sector and favorite company within that sector, as opposed to investing in whatever is available in similar markets. Stock-picking is key in our markets. Always will be.”

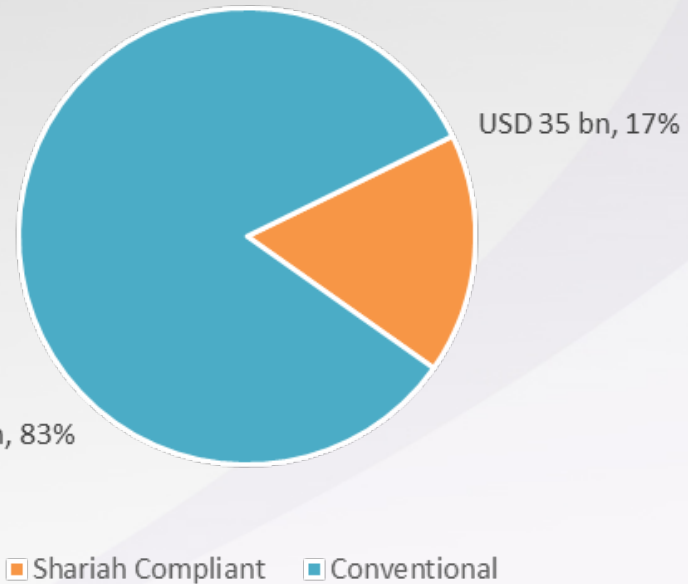
Mattias Martinsson, CIO & Founding Partner at Tundra Fonder AB

“2008 financial crisis was the outcome of the artificial economy not based on real assets, but on speculative transactions, especially in the exchange of derivatives as futures options and swapping loans turning the economy into a bubble waiting only to burst. All such transactions that have no assets underlying them were possible only in a system where money is treated as a commodity and is traded on the basis of interest. Islam has prescribed an interest free system based on real assets in which all stake holders share the rewards and risks of the commercial activities, where money is only a medium of exchange, and not the object of speculative trade itself. This is the only way to avoid financial crises.”

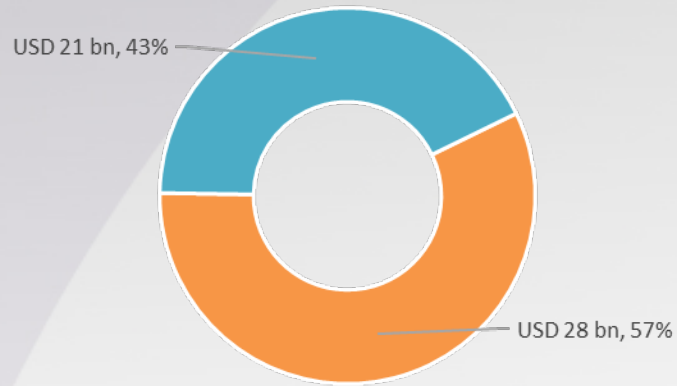
Justice (Retd.) Mufti Muhammad Taqi Usmani, Chairman-AAOIFI

Capital Markets

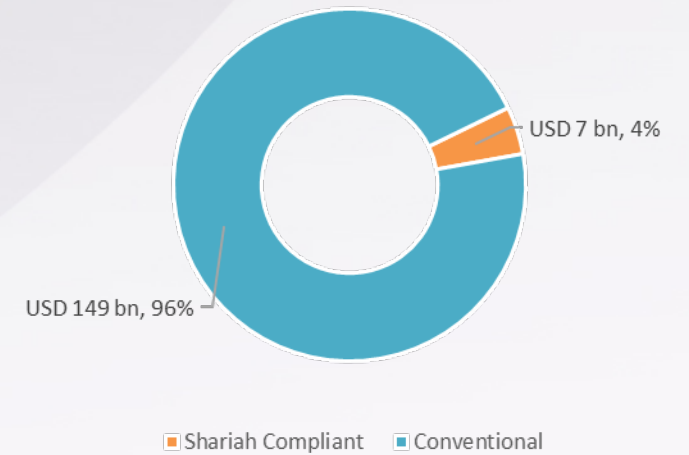
Total Capital Markets



Total Equity Market



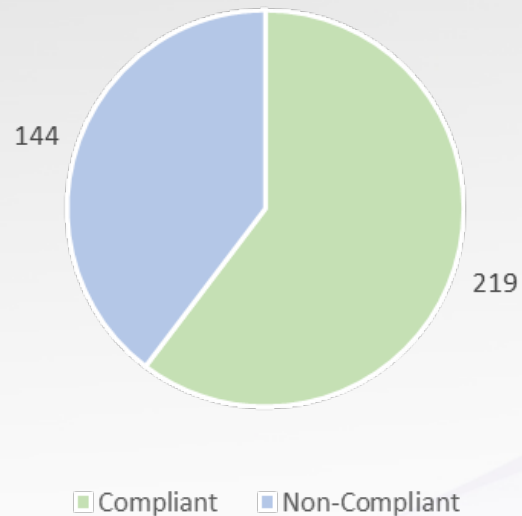
Total Fixed Income Capital Markets



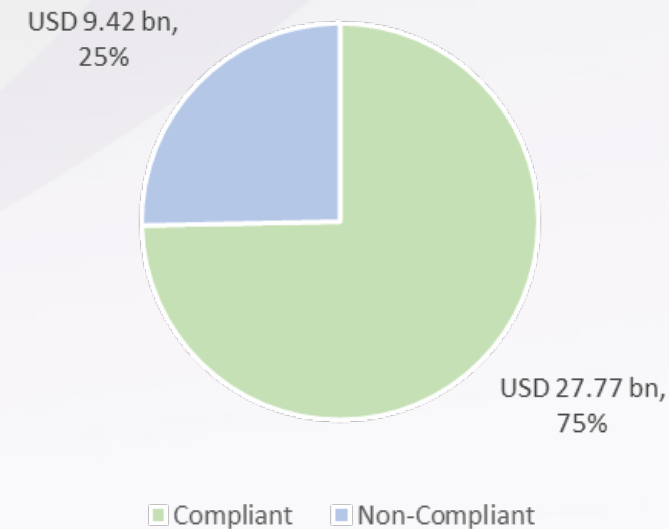
Equity: Islamic Indices

- The first Shariah-compliant index, KSE Meezan Index (KMI-30) was launched in 2008 and the following KMI All Share was launched in 2015.
- Out of 363 eligible companies in KMI All Share, 219 companies are currently Shariah compliant.

Number of Shariah Compliant Companies



Market Cap of Shariah Compliant Companies



Historical Returns of Indices

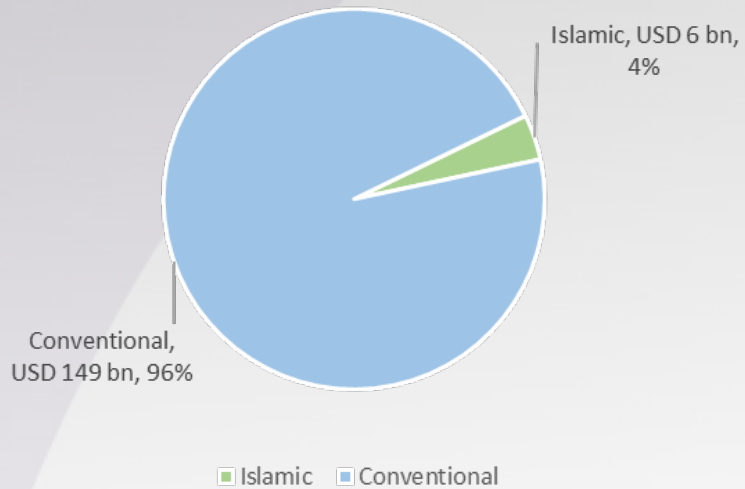
(Islamic v Conventional) USD Based Returns (%)

Comparing returns of last 10 years, we observe that on a CAGR basis, the Islamic indices have tended to outperform their conventional counterparts.

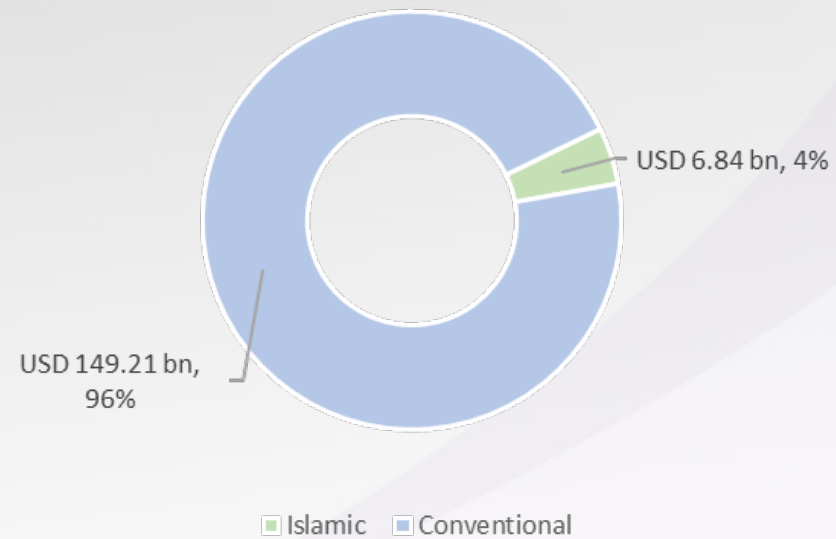
	Cumulative Returns	Annualized
KMI-30 Index (%)	211	10.4
KSE-100 Index (%)	186	9.6

Bonds/Sukuks

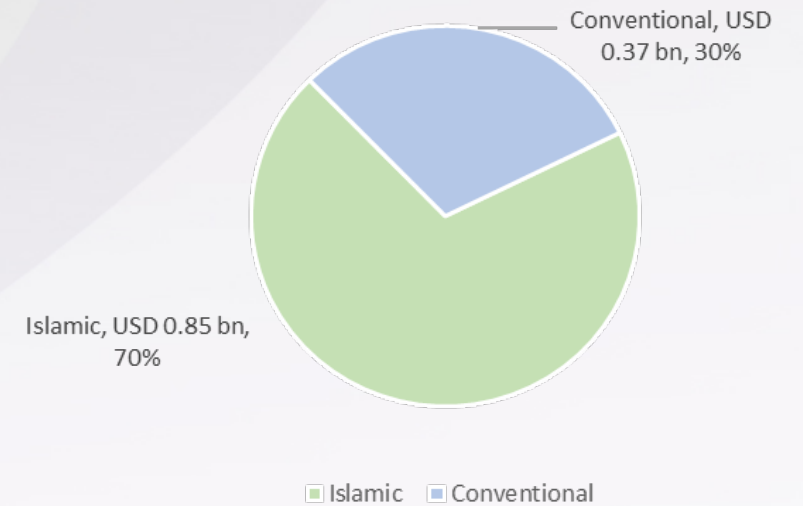
Government Debt Market



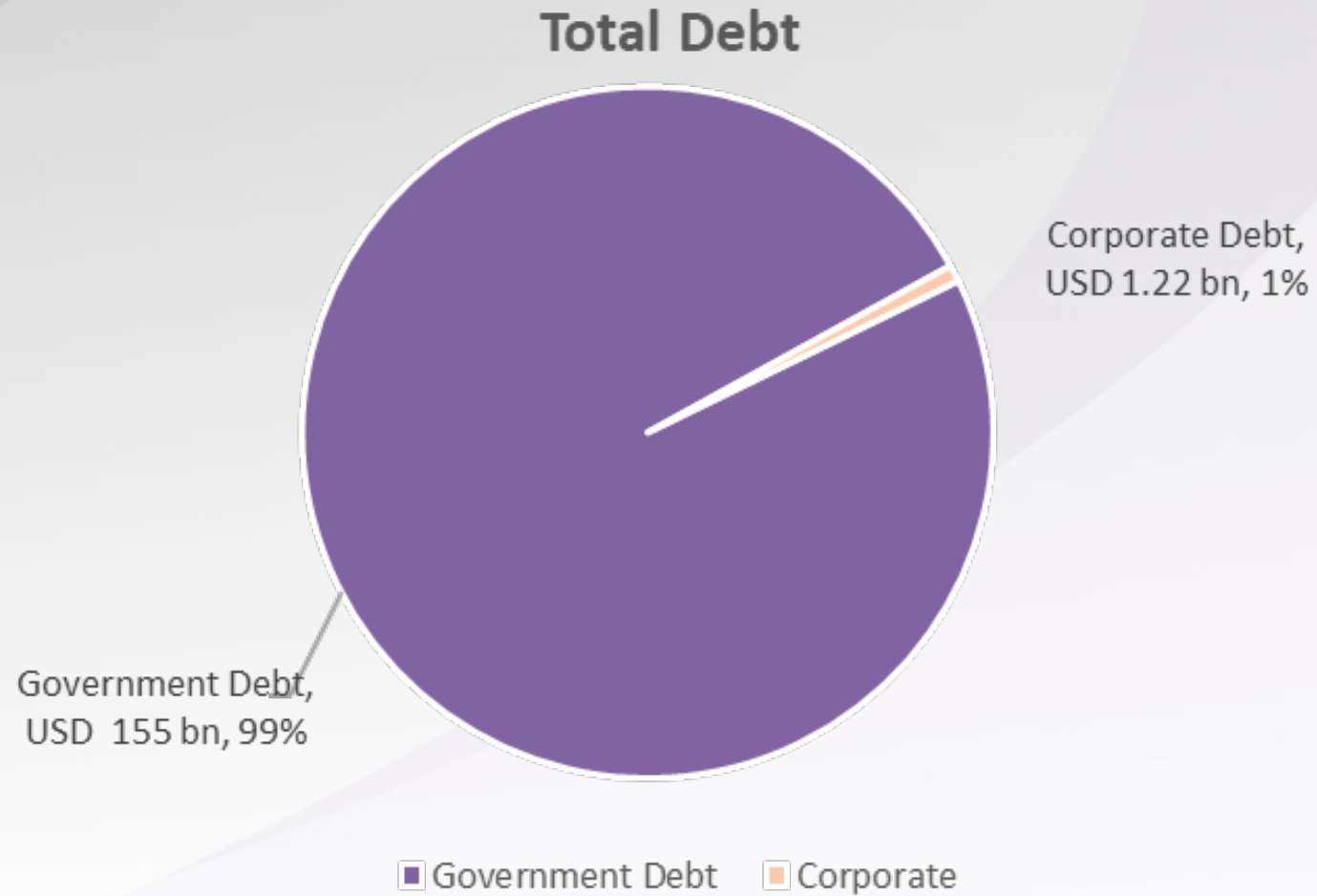
Total Bond Market



Corporate Debt Market

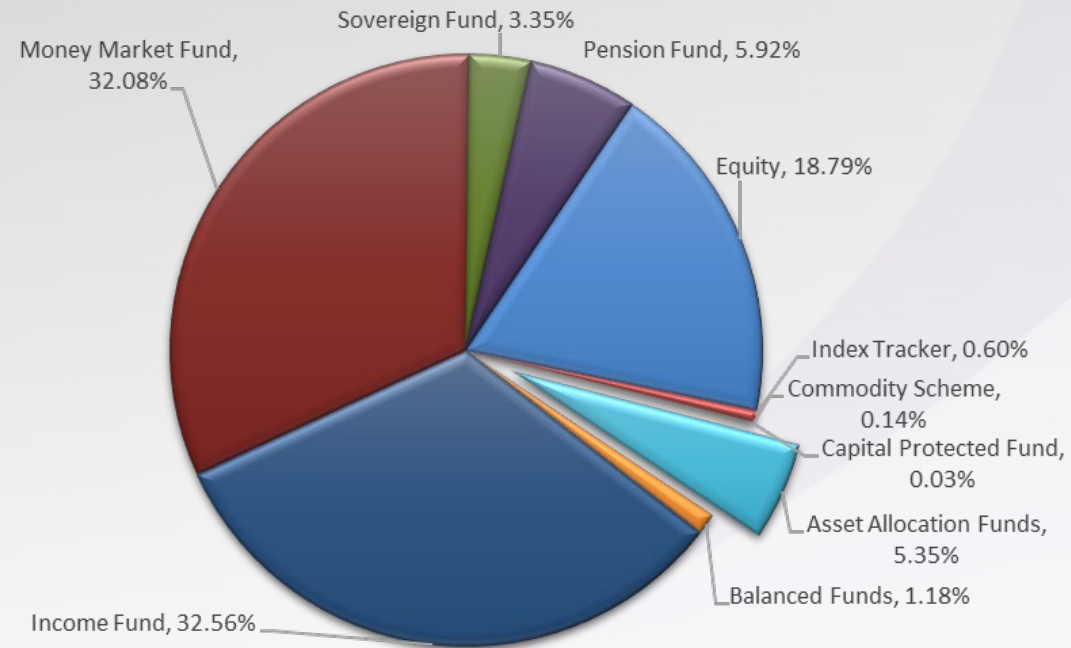


Bonds/Sukuks



Islamic Mutual Funds*

Shariah Compliant Mutual Fund Categories

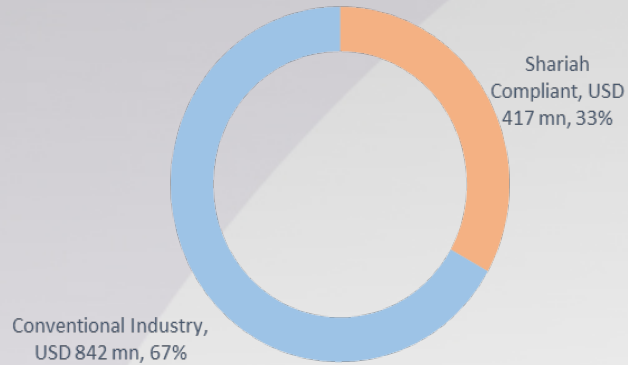


Total Industry AUM (USD)	USD 5.25 billion
Total Industry AUM (PKR)	PKR 872 billion
Islamic Mutual Funds 10-year CAGR	23%

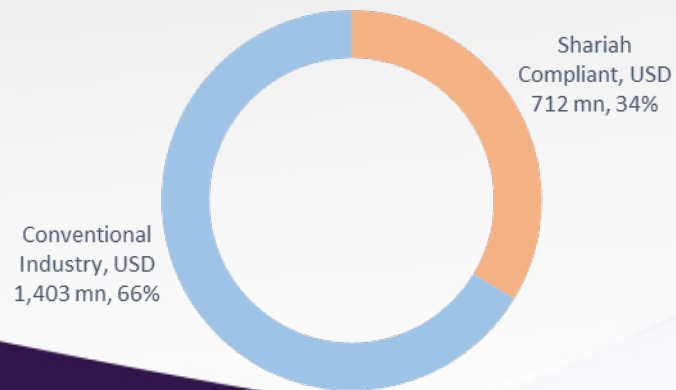
* Figures as of September 30, 2020.
USD equivalent amount calculated based on USDPKR rate at the date of issuance.

Islamic Mutual Funds

Equity Funds



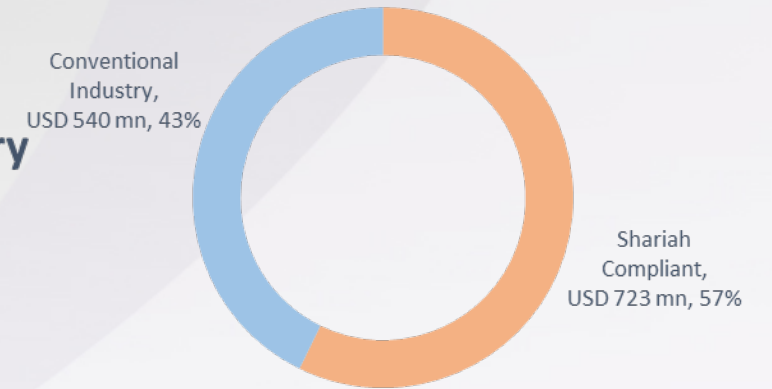
Money Market Funds



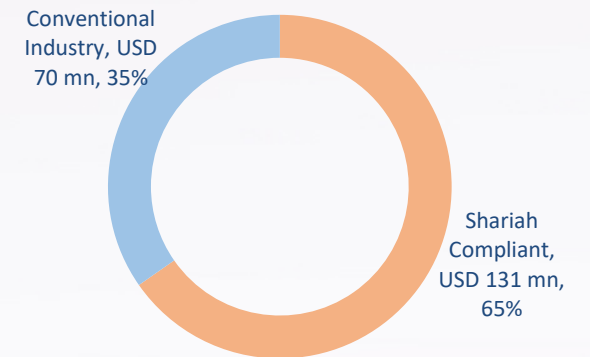
Market Share in the Mutual Fund Industry



Fixed Income Funds



Voluntary Pension Scheme



Other segments in Islamic Capital Markets

REIT

- At present, there is only one listed REIT in Pakistan's capital markets, **Dolmen City REIT (DCR)**. Net Asset Value of the REIT is currently over **USD 305 million**.

Commodities

- Pakistan Mercantile Exchange Limited (PMEX) is **Pakistan's first futures commodity market**, providing a **centralized and regulated place for commodity futures trading**.
- **The PMEX 1 Tola Gold Contract** (1 Contract = 1 Tola = 11.664 gram) offered provides for **physical delivery of gold**, thus making it acceptable with respect to Shariah compliance since delivery is assured to the buyer.

Takaful

- Currently there are **two full-fledged Takaful operators**, there are **22 Window Takaful operators** in general and family Takaful.
- Family Takaful segment's asset base stood at **USD 358 million** while General Takaful's asset base stood at **USD 46 million** as of September 2019.

Progress and Development in Pakistan's Islamic Capital Markets

Progress and Development in Pakistan's Islamic Capital Markets

- Pakistan Energy Sukuk-II (PES-II) issued in May 2020 at an issue size of PKR 200 billion (USD 1.2 billion).
- Collaboration by the Banking Industry and Government to launch of Roshan Digital Account (RDA).
- Launch of the first Islamic Exchange Traded Fund (ETF) in Pakistan, Meezan Pakistan ETF (MP ETF).
- Approval and launch of Murabaha Share Financing system in Pakistan.

Conclusion

- As shown in previous slides there is tremendous potential for further growth in Islamic Capital Markets of Pakistan.
- This is evident from the growth rates we have witnessed in Islamic Equities, Sukuks, Islamic Funds, and Takaful segments, which in recent years have grown by a much faster pace when compared to their conventional counterparts
- However, this rapid growth is hampered due to supply-side constraint, which lags behind the demand-side where there is still a lot of appetite for Islamic products. Thus this has an effect of restricting real growth potential of Islamic Capital Markets in the country

THANK YOU

THANK YOU

