

Malaysia — at the forefront of SRI and Islamic finance

The global financial market is at an interesting juncture: it is seeing the confluence of two rapidly-growing financial segments — Islamic finance and socially responsible investing (SRI), underscoring the growing sophistication of Muslim investors who are gravitating toward a more ethical approach in their Shariah compliant investment strategy. And facilitating this convergence is Islamic finance heavyweight, Malaysia.

Already a world leader in the Islamic finance landscape with 60% of its entire capital market value (or RM1.7 billion (US\$409.98 million) at the end of 2015) Shariah compliant, Malaysia is taking the lead in promoting the SRI proposition parallel to the values of Islamic finance.

Most significantly, Securities Commission Malaysia (SC) launched the SRI Sukuk framework in 2014 to facilitate the financing of SRI initiatives using Islamic finance. Part of the SC's developmental agenda to facilitate the creation of an ecosystem conducive for SRI investors and issuers, this pioneering development placed Malaysia on the map and opened the doors for Khazanah Nasional's groundbreaking Ihsan Sukuk the

following year which paved the way for philanthropists and corporate social responsibility investors to tap the Islamic capital market.

Incorporating SRI elements into Islamic instruments essentially broadens the pool of investors attracting both Shariah and ethically-inclined conventional investors, simultaneously raising the profile of Sukuk issuers.

"They will access a new segment of investors around the world and be able to source funding through a new asset class," agreed Mohamed Rafe Mohamed Haneef, CEO of CIMB Islamic Bank. "Additionally, there will be a tax deduction on expenses incurred in the issuance of Sukuk Ijarah and Wakalah, which is extended until the year of assessment 2018."

Apart from a wider investor base, marrying SRI and Islamic finance principles also lead to diversification opportunities for investors — allowing them exposure to a new asset class anchored in both the real economy and a commitment to societal welfare, while at the same time, not compromising on returns.

"[Investors] will be able to ensure that investment is based on a widely accepted investment approach that is socially responsible and able to deliver comparable returns to conventional investments over [a] longer period of five to 10 years," said Rafe.

Shifting from negative screening to a more proactive adoption of environmental, social and corporate governance as well as socially responsible considerations in Islamic investment and business practices have aligned risk and reward in a more sustainable manner.

"Islamic finance serves as an effective model for responsible finance. Responsible finance can evolve beyond finance's traditional role as a passive intermediary of funds to have the potential to enable and shape social outcomes," concluded Rafe.☺

Note: The source of this article is www.capitalmarketsmalaysia.com. Capital Markets Malaysia (CMM) was established by the SC to further develop and position Malaysia's capital market — classified as an advanced emerging market in the FTSE Global Equity Index Series in 2013 — on the international front.



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