

POLYTECHNIC SERIES

INVESTMENT FROM
ISLAMIC PERSPECTIVE
INTRODUCTION TO ISLAMIC
INVESTMENT



FAKILAH ANURUL MOHD AZLI NAVAMOHAN

INTRODUCTION TO ISLAMIC INVESTMENT



**FAKILAH ANURUL MOHD AZLI
NAVAMOHAN**

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PREFACE

In the name of Allah, The Most Gracious, The Most Merciful

Alhamdulillah, an extensive overview of Islamic investing is given to you in Introduction to Islamic Investment. We concentrate on ideas that will enable you to comprehend, and distinguish between conventional and Islamic investments, and benefit from the constantly expanding realm of opportunities provided by Islamic finance, particularly in relation to investment activities. This electronic book version is created in order to enhance students' comprehension and expertise. With any luck, this book will help you comprehend the Introduction to Islamic Investment. For this reason, the author sincerely regrets any flaws or mistakes that may have been introduced with the release of this electronic book. I appreciate you and have fun reading.

The author:

Fakilah Anurul binti Mohd Azli Navamohan

DEDICATION

I would like to convey our utmost gratitude to I would like to express my sincere gratitude to the Department of Community College and Polytechnic Education.

I certify that I am the original author of this module. To the best of my knowledge, it doesn't contain any content that has already been written or published by someone else. On the other hand, the e-book makes mention of any acknowledgment and credit that are due.

I also want to express my gratitude to everyone at Politeknik Nilai for their tireless efforts in making this book the best it can be. Lastly, I want to express my gratitude to my friends and family, without their help this book would not have been possible.

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Investment

Investment is a commitment or sacrifice of present resources over a period of time to generate future income.

It can be achieved by using current money, time, and effort to purchase assets with the expectation that the value would increase in the future.

The primary goal of investment is to enhance the wealth of any investor. However, the investment will deal with uncertainty, time, and money. An efficient investment is not a matter of luck but through strategic planning. To invest effectively, an investor needs to know the best strategy for the investment, when the best time is to invest, as well as the right amount to invest.



Islamic Investment



Islam does not segregate between religious matters and worldly life. **Islamic investment** is a unique form of socially responsible investment that needs to adhere to the Shariah law.

Islamic investment practices are much more scrutinized as they must comply with Shariah principles in financial decisions. With Islamic investment, the financial needs will be met and done in a fair, trustworthy, honest manner that ensures a more equitable distribution of wealth.

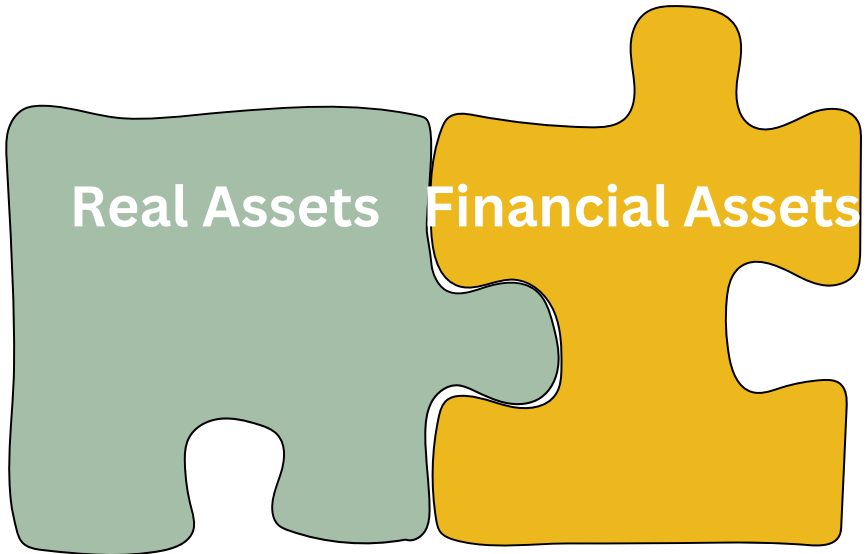
Islamic Investment

Nowadays, Islamic investing is beginning to be seen not only as a religiously guided investment but also as an ethical form of investing that promotes real economic activities that are socially desirable.

Islamic investment has become an alternative to conventional investment, especially for Muslim investor that seeks halal earnings from investment activities. At the same time, it also gives benefits to non-Muslim investors who wish to broaden their portfolio with Islamic instruments.

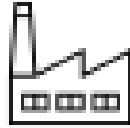
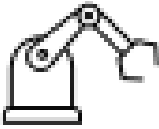


Categories of Assets for Investment



Categories of Assets for Investment

Real Assets

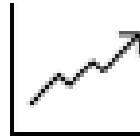
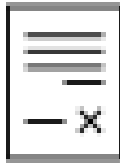


Real assets are referring to the tangible assets available in the physical form and have a finite monetary value such as machinery, factory, house, vehicles, etc.

Real assets are attractive to investors as they provide good returns, act as a hedge against inflation, and offer tax advantages through asset depreciation. Real assets, however, are less liquid since they are location dependent and difficult to trade.

Categories of Assets for Investment

Financial Assets



Financial assets are highly liquid assets in which the asset does not exist in physical form such as bonds, Sukuk, stock, derivatives, etc.

Financial assets are more mobile and liquid than actual assets since it is easily converted to cash, and have an economic worth.

Components of Investment

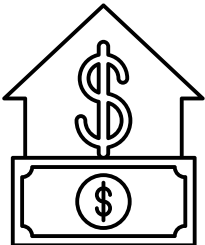
There are **three components** to the investment which are:



Resources – Time and money are limited but valuable. Matching the best securities according to preference is necessary.



Uncertainty – Risk is part of the investment. Efficient risk management is critical to maximizing the return on investment.



Opportunity cost – Opportunity cost is the value of an activity that must be given up to participate in another activity. Thus, one should be ready to forgo something in return for another.

Concept of Islamic Investment

- 1 Prohibition of *riba'*, *gharar* and *maisir*
- 2 Risk and profit sharing
- 3 Time value of money Islamically interpreted
- 4 Prohibition of speculation
- 5 Sanctity of contracts
- 6 Shariah approved activity

Concept 1:

Prohibition of *Riba'*, *Gharar* and *Maisir*

Riba' means an excess, increase, augmentation, expansion, or growth. Technically, riba' is an unlawful and effortless gain derived from quantitative inequality of the counter values in any transactions. The prohibition of riba' can be seen in 4 different revelations in Holy Quran:

Stage 1: Surah Al-Rum (Verse 39)

Moral denunciation

Draws a comparison between riba' and zakat
Motivate people at the early stage of Islam to abolish riba' in Islam and encourage zakat and charity

Stage 2: Surah An-Nisa' (Verse 161)

Riba' and the Jews

Condemned the practice of riba' in a stronger term by the Jews. Those taking riba' will be received severe punishment from Allah

Concept 1:

Prohibition of *Riba'*, *Gharar* and *Maisir*

Stage 3: Surah Al-Imran (Verse 130)

Categorical prohibition

Muslims must keep away from *riba'*. Emphasizes the prohibition of usury and excessive interest

Stage 4: Surah Al-Baqarah (Verse 275-281)

Al-Bai' as the alternative to *riba'*

Severely disapproval of taking *riba'*. Established a clear distinction between trade and *riba'*. Prohibits *riba'* completely and the causes of *riba'*

Concept 1:

Prohibition of *Riba'*, *Gharar* and *Maisir*



Gharar means uncertainty, hazard, chance, or risk. It is a signal of danger and deception. Many scholars argue that gharar is the branch of maisir.

Thus, Islam prohibits uncontrollable risks or uncontrollable obligations as it leads to speculation and can raise a sense of inequality among other parties.

There is no specific evidence from the Quran which connotes gharar. However, the prohibition of gharar is well established in the Sunnah. The famous companion Abu Hurayrah narrated that Prophet Muhammad ﷺ has prohibited gharar in all business and sale transactions.

Concept 1:

Prohibition of *Riba'*, *Gharar* and *Maisir*

It is prohibited to purchase or sell "the birds in the sky or the fish in the sea", "the catch of the diver" or "the unborn calf in its mother's womb" since all of those transactions are uncertain.

However, it is impossible to completely eliminate uncertainty from business interactions. As a result, major and minor gharar is distinguished by Shariah experts.

Concept 1:

Prohibition of *Riba'*, *Gharar* and *Maisir*



Maisir is a gambling or easy acquisition of wealth by chance in which one will gain at the cost of another.

Profit should be made through trading but not through the dishonest appropriation of the property of others.

Concept 1:

Prohibition of *Riba'*, *Gharar* and *Maisir*

The prohibition of maisir can be seen in the Holy Quran in two verses:

Al-Baqarah, 2:219

“They ask you about wine and gambling. Say, “In both, there is a great sin and some benefits for people. And their sin is greater than their benefit.” And they ask you as to what they should spend. Say, “The surplus”. This is how Allah makes His verses clear to you, so that you may ponder”

Al-Maidah, 5:93

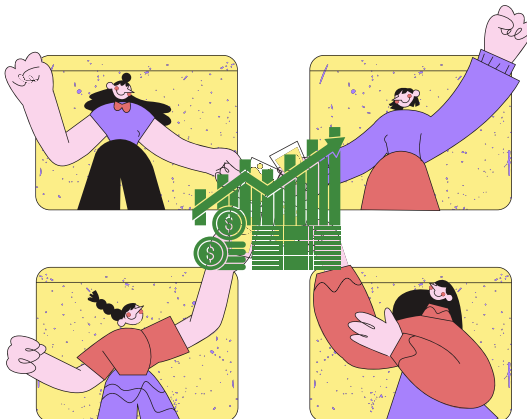
“There is no sin, for those who believe and do good deeds, in what they might have partaken earlier, if they fear Allah, and believe, and do good deeds; and again, fear Allah, and believe, and still again fear Allah and do good deeds. Allah loves those who are good in their deeds”

Concept 2:

Risk and Profit Sharing

In Islamic finance, all parties to a financial transaction are required to share in the associated risks and rewards. This principle is the primary distinction between conventional and Islamic finance. Risk and profit-sharing can be achieved through transactions and Islamic contracts. The relationship between parties in conventional finance merely is lender and borrower.

In contrast, in Islamic finance, the relationship between parties is buyer and seller or partnership. As such, it provides benefits to both parties in terms of financial stability, sustainable growth, and equitable share of the property.



Concept 3:

Time Value of Money Islamically Interpreted



The time value of money is fundamental to financial theory and is the basic element in the monetary system. The value of money today might be decreasing in the future due to inflation or per capita income or it might be increasing due to investment activities. Islam recognizes the time value of money when it only acts as capital.

According to Imam Al-Ghazali, money plays a role as a medium of exchange and a store of value but not as a commodity. Thus, when money is used as a commodity in trading activities, it diverts the main function of money as financial intermediation.

Concept 4:

Prohibition of Speculation



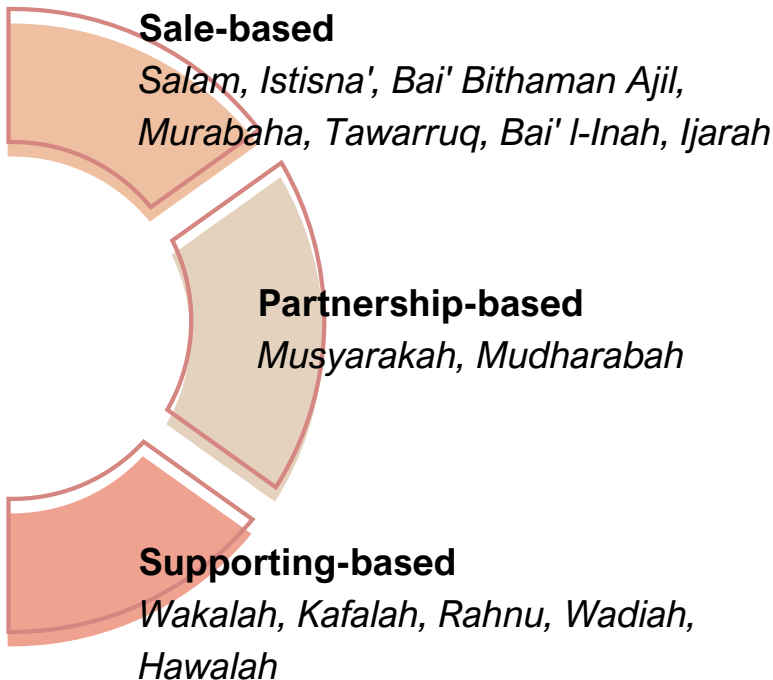
Speculation can be referring to pure chance since it will be exercised although the information is scarce.

As business and trading in financial instruments encounter risk, forming a theory or conjecture with firm evidence is a must to reduce the risk involved.

Thus, speculation should be avoided as it is similar to maisir.

Concept 5: Sanctity of Contracts

Islam upholds contractual obligations and disclosure of information as a sacred duty. Every contract needs to be fulfilled and every contracting party is obliged to honor what has been agreed upon accordingly. By doing so, it will be able to reduce the risk and asymmetric information, and moral hazard.



Concept 6:

Shariah Approved Activities

Nowadays, the awareness and demand from Muslim investors to participate in the Capital Market have increased. Thus, Islamic financial products and Islamic Capital Markets were established and developed to cater to those matters.

In Malaysia, securities traded on Bursa Malaysia are supervised by the Shariah Advisory Council (SAC) of the Securities Commission (SC).

Lists of shariah-compliant securities will be **updated twice a year**. This update is essential for helping Muslim investors identify Shariah-compliant companies for investment decisions. SAC will conduct investigations from various angles, including considering the views from within and outside the country before publishing the initial list of Sharia-compliant companies.

Saving



Saving is an act of sacrificing today's consumption for greater consumption in the future. It can be simply defined as deferred consumption.

Savings can be traced back as far as the Neolithic Period when early humans began building villages and farming. Since they produced more food than each farm could consume, they had to save and trade the surplus.

As the world developed, money became the medium of exchange to replace barter systems. Hence, people start to save money as it is a symbol of prosperity and success.

Saving

The establishment of banking institutions has encouraged people to save money in the bank as it is safer and more protected.

In Malaysia, bank deposits up to RM250,000 are protected by Perbadanan Insurans Deposit Malaysia (PIDM) in the event of a member bank becoming bankrupt. Thus, it makes the saving not entail any risk and are more secure.

This is how Deposit Insurance System (DIS) works in Malaysia:



Saving

Similarly, in Islam, it is permissible to save money as long as the obligatory rights (paying zakat, personal and family needs) have been fulfilled. Furthermore, saving is important as it can close the gap during any hardship. Allah encourages Muslims to make a plan in all aspects of life.

This can be seen in the story of Prophet Yusuf (AS) in the Holy Quran in which Prophet Yusuf (AS) interprets the dream of the King of Egypt.

Saving

"O Joseph!" (he said). "O man of truth! Expound to us (the dream) of seven fat kine whom seven lean ones devour, and of seven green ears of corn and (seven others) withered: That I may return to the people and that they may understand."

(Joseph) said: "For seven years shall ye diligently sow as is your wont: And the harvests that ye reap, ye shall leave them in the ear – except a little, of which ye shall eat. Then will come after that (period) seven dreadful (years), which will devour what ye shall have laid by in advance for them – (all) except a little which ye shall have (especially) guarded."

(Surah Yusuf, 12:46-48)

In the above verses of the Holy Quran, Yusuf (AS) interpreted the dream of the King and warned him of **seven years of calamity exactly after the seven years of abundance (good crops)**. He suggested to the King of Egypt to hold the reserves of corn in granaries during the good years which can be used in the difficult times to overcome the famine of seven years.

Saving vs Investment

Both saving and investment have a crucial role in our lives as it provides financial security for the future.

Saving

- Return on savings is relatively low
- Savings is safe as the risk of saving is none since it is protected by PIDM
- Saving is for smaller, short-term goals
- Saving is ready to access cash when needed
- There is no chance of losing the principle

Investment

- Investment expose to the changes in the market
- Risk on investment varies. Normally is risky.
- Investment use for long-term goals
- Longer wai to access invested funds as it needs to be liquidated
- There is a chance of losing the principle

Standard Setting Bodies in Investment Activities



BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA



Suruhanjaya Sekuriti
Securities Commission
Malaysia



BURSA MALAYSIA

FIMM

Federation of Investment Managers Malaysia

Labuan
Financial Services Authority



**ISLAMIC FINANCIAL
SERVICES BOARD**



BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Bank Negara Malaysia (BNM) is the central bank of Malaysia that started its operations on 26th January 1959. Bank Negara Malaysia is governed by the Central Bank of Malaysia Act 2009.

The roles of BNM:

- to promote monetary and financial stability through monetary policy
- to develop a sound, resilient, progressive, and diversified financial sector that serves to support the sectors of the real economy, and financial markets, including the foreign exchange market.
- developing the financial system infrastructure to ensure all economic sectors and segments of society have access to financial services.
- oversees the nation's payment systems infrastructure which emphasizes the efficiency and security of the financial systems.



BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

- manage domestic liquidity and exchange rates to ensure that monetary policy targets are achieved as well as manage external reserves to safeguard their value and optimize their returns.
- responsible for providing advice and assistance to the Government in the area of debt and fund management and contributing to domestic financial market development.
- promotes financial sector stability through the progressive development of sustainable, robust, and sound financial institutions and financial infrastructure, thus enabling a competitive local financial industry to be resilient against the changing future environment as well as leading initiatives to enhance access to financing.
- formulates and implements policies and strategies toward building and positioning Malaysia as a premier integrated Islamic Financial Centre and enhancing the financial capability of consumers.



Suruhanjaya Sekuriti
Securities Commission
Malaysia

The Securities Commission (SC) is a self-funded statutory body entrusted with the responsibility to regulate and develop the Malaysian capital market which was established on 1 March 1993 under the Securities Commission Act 1993.

Responsibility of SC:

- to promote and maintain fair, efficient, secure, and transparent securities and derivatives markets
- to facilitate the orderly development of an innovative and competitive capital market.
- rule-making, enforcing regulations on the capital market in ensuring sustainable market growth and development,
- supervising capital market activities and market institutions including the exchanges, clearinghouses, and registered market operators, and regulating all entities and persons.



Suruhanjaya Sekuriti
Securities Commission
Malaysia

In its effort to develop the Islamic capital market, the Commission established the Shariah Advisory Council (SAC) on 16 May 1996. Its establishment was endorsed by the Minister of Finance.

The roles of SAC:

- to develop the Islamic capital market (ICM).
- to ensure that implementing the Islamic capital market complied with Shariah principles.
- to advise the Commission on all matters related to the comprehensive development of the Islamic capital market
- to function as a reference center for all Islamic capital market issues. The SAC resolutions continue to be a scholarly reference avenue for ICM-related issues-particularly in providing greater consistency and clarity to issuers, intermediaries, and investors



Bursa Malaysia is an exchange holding company incorporated in 1976 and listed in 2005. As one of the largest bourses in ASEAN, Bursa Malaysia helps over 900 companies to raise capital across 50 economic activities through the Main Market, ACE Market, or LEAP Market.

The roles of Bursa Malaysia:

- to provide easy access to many investment products and services
- Connect domestic and foreign market participants to all types of opportunities to help them expand or invest with impact.
- offers a wide range of products, including equities, derivatives, offshore and Islamic assets, ETFs, REITs, and ETBS.
- establishing the world's first end-to-end Shariah investing platform (Bursa Malaysia-i), and the world's first end-to-end Shariah-compliant commodity-trading platform (Bursa Suq-Al-Sila').



Bursa Malaysia is also the world's biggest palm oil futures trading hub (Crude Palm Oil Futures (FCPO)). The contract has long been recognized and referenced as the global price benchmark for the palm oil industry.

Apart from that, Bursa Malaysia is the first emerging market to introduce the globally benchmarked FTSE4Good Bursa Malaysia Index in 2014, which measures the performance of companies demonstrating good environmental, social, and governance (ESG) practices.

In 2015, Bursa Malaysia joined the United Nations Sustainable Stock Exchanges (SSE) initiative, strengthening our commitment to promoting sustainable strategies among our issuers and the marketplace.



Labuan Financial Services Authority (Labuan FSA) is the statutory body responsible for the development and administration of the Labuan International Business and Financial Centre (Labuan IBFC).

The Labuan IBFC is strategically located in the heart of Asia Pacific, Labuan IBFC is well-positioned to tap into one of the fastest-growing regions in the world, presenting the perfect opportunity for businesses seeking to connect with Asia's economies and beyond.

Labuan IBFC provides a wide range of business and investment structures facilitating cross-border transactions, business dealings, and wealth management needs. These unique qualities offer sound options for regional businesses going global at penetrating Asia's burgeoning markets. Thus, Labuan FSA has a key role in licensing and regulating license entities operating within Labuan IBFC.

The roles of Labuan FSA :

- to administer, enforce, carry out, and give effect to the provisions of the Labuan IBFC laws
- to exercise, discharge, and perform such powers, duties, and functions by the laws
- to maintain the good reputation of Labuan IBFC as an international business and financial center
- to carry out research and commission studies on financial services in Labuan IBFC
- to make recommendations for the creation and improvement of facilities to enhance the attraction of Labuan IBFC as a center for financial services
- to collaborate with Labuan financial institutions and industry associations in advancing the development and growth of businesses and financial services in Labuan IBFC
- to advise and make recommendations to the government on matters relating to financial services in Labuan IBFC
- to carry out all such activities and undertake measures to enable appropriate administration of the Authority, or for other purposes, as mandated by the Minister



The Federation of Investment Managers Malaysia (FIMM) is a self-regulatory organization (SRO) for the unit trust industry.

FIMM started as the Federation of Malaysian Unit Trust Managers (FMUTM) on 7 August 1993. As of 6 September 2012, FIMM has 42 ordinary members; all unit trust management companies (UTMCs) are ordinary members of FIMM, which acts as a common platform for discussing issues related to unit trust and the Private Retirement Scheme industry.

At the same time, FIMM also plays a dual role as an industry body and public interest body, while advocating the growth of the unit trust and Private Retirement Scheme (PRS) in Malaysia.



The roles of FIMM:

- uphold public interest by enhancing market integrity, market efficiency, and investor protection
- register all members and organizations that wish to market and distribute Unit Trusts and PRS
- promote investor education and awareness programs to create an informed investing community
- balance the regulation over its members with the advocacy of their interests and the investing public
- demonstrate proactive monitoring of the industry behavior and fair and consistent disciplinary measures must be taken against any misconduct or non-compliance
- provide industry expertise in the development of the unit trust industry
- enhance the industry's sales practices and distribution standards by formulating a robust sales regime with adequate supervision and monitoring mechanism

- improve professionalism among UTCs and other distributors
- increase standards of testing and selection, qualifying examinations, and training to maintain high standards of entry, professional credibility, and expertise
- introduce a Continuing Professional Development (“CPD”) framework to keep distributors aligned with the latest industry developments



The Islamic Financial Services Board (IFSB), which is based in Kuala Lumpur, was officially inaugurated on 3rd November 2002 and started operations on 10th March 2003.

The roles of IFSB:

- serves as an international standard-setting body of regulatory and supervisory agencies that have a vested interest in ensuring the soundness and stability of the Islamic financial services industry,
- promotes the development of a prudent and transparent Islamic financial services industry by introducing new, or adapting existing international standards consistent with Shariah principles, and recommends them for adoption.
- complements the Basel Committee on Banking Supervision, the International Organization of Securities Commissions, and the International Association of Insurance Supervisors.



As of December 2021, there are 187 members of the IFSB comprising 81 regulatory and supervisory authorities, 10 international inter-governmental organizations, and 96 market players (financial institutions, professional firms, industry associations, and stock exchanges) operating in 57 jurisdictions.

Malaysia, the host country of the IFSB, has enacted a law known as the Islamic Financial Services Board Act 2002, which gives the IFSB the immunities and privileges that are usually granted to international organizations and diplomatic missions

Market for Investment Activities



Main Market is the prime market for established companies that have met the standards in terms of quality, size, and operations. The established companies should have an aggregate profit track record of at least RM20 million for the latest 3 to 5 years where the latest year's profit is at least RM6 million.

ACE (Access, Certainty, Efficiency) Market is sponsor-driven and for fast-growing companies with no requirements on historical profit track record. It was formerly known as the MESDAQ Market before 3 August 2009. Sponsors must assess the suitability of the potential issuers, taking into consideration attributes such as business prospects, corporate conduct, and adequacy of internal control. ACE Market provides companies with greater visibility via the capital market and a clearly defined platform to raise funds from both institutional and retail investors.

LEAP (Leading Entrepreneur, Accelerator Platform) Market is a platform for small and medium enterprises (SMEs) that have not met the requirements of the ACE Market to raise funds. The LEAP market is only accessible to sophisticated investors who have a net asset exceeding RM10 million or individuals with net personal assets exceeding RM3 million or whose gross annual income exceeds RM300,000.

	MAIN MARKET	ACE MARKET	LEAP MARKET
Approving authority	Securities Commission Malaysia	Bursa Securities	Bursa Securities
Mode of listing Profit test	Aggregate profit track record of at least RM20 million for the latest 3 to 5 years where the latest year's profit is at least RM6 million.	No minimum requirement	No minimum requirement
Market capitalization test	The total market capitalization of at least RM500million upon listing	No minimum requirement	No minimum requirement
Infrastructure project corporation test	Have rights to build and operate an infrastructure project in or outside Malaysia with a project cost of at least RM500 million	Not applicable	Not applicable
Public shareholder spread	25%	25%	10%
Moratorium on promoters	Must maintain entire shareholding for the first six months after listing	Must maintain entire shareholding for the first six months after listing Must maintain at least 45% shareholding for the next six months Promoters can dispose of the remaining shareholding up to a maximum of 1/3 per annum	Must maintain entire shareholding for the first twelve months after listing Must maintain at least 45% shareholding for the next thirty-six months Must maintain 45% shareholding until the company generates one full year of operating profits

Islamic Market

Markets and innovations in finance have funded production and trade that have underpinned the growth of the modern economy and society. As Islamic finance evolves, there is in need for a financial market that complies with the principles of shariah.

To promote Malaysia as the international hub of Islamic finance, Bursa Malaysia has established an Islamic Markets team, dedicated to the development of Shariah-compliant capital markets products and trading platforms. The product of the Islamic market is as follows:



بورصة سوق السلع
BURSA  Suq Al-Sila'

- a commodity trading platform specifically dedicated to facilitating Islamic liquidity management and financing by Islamic financial institutions.
- the world's first that aims to provide industry players with a regulated framework with defined codes of conduct governing commodity trade in support of Islamic interbank placements, client deposits, and financing as well as Sukuk issuances using the concepts of Murabahah and Tawarruq.
- an initiative to further enhance the Islamic Finance industry by embracing timeless Shari'ah principles with the efficacy of modern technology in today's complex financial markets.
- integrates the global Islamic finance and capital markets with the commodity market through one single engine.
- encompasses a hybrid market whereby participants may opt between voice broking or the automated web-based electronic system.



Live Responsibly Invest Responsibly Invest Shariah

Bursa Malaysia-i is the world's first integrated end-to-end Islamic securities exchange platform and the Marketplace for the trading of Shariah-compliant capital market instruments. Bursa Malaysia-i offers a comprehensive range of exchange-related facilities including listing, trading, clearing, settlement, and depository services, leveraging on the existing infrastructure with enhancements to incorporate Shariah-compliant features.

Bursa Malaysia-i provides investors seeking Shariah-compliant securities a new landscape in that they may access the Exchange's services, either directly or online via Islamic brokers, where investors would be able to experience comprehensive end-to-end Shariah investing. Through Islamic brokers, investors can access Shariah-compliant securities listed on Bursa Malaysia. The trade and post-trade services provided by Bursa Malaysia will be completely Shariah-compliant.

Islamic Capital Market

The Islamic Capital Market (ICM) is a component of the overall capital market in Malaysia. It plays an important role in generating economic growth for the country. The ICM functions as a parallel market to the conventional capital market and plays a complementary role to the Islamic banking system in broadening and deepening the Islamic financial markets in Malaysia. To this day, Malaysia's ICM remains a compelling destination for all stakeholders.

ICM transactions are carried out in ways that do not conflict with the conscience of Muslims and the religion of Islam. Here, there is an assertion of religious law so that the market is free from activities prohibited by Islam such as usury (riba), gambling (maisir), and ambiguity (gharar).

Self Check Questions

1. How does Islamic investment differ from conventional investment?
2. What is the difference between savings and investment?
3. Elaborate on **FIVE (5)** concepts of Islamic investment
4. Briefly explain the roles of any **THREE (3)** standard-setting bodies in investment activities
5. What are three markets available for investment purposes? What are the differences between the markets?

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