

MIFC LEADERSHIP COUNCIL POSITION PAPER

ESTABLISHING ISLAH THROUGH ISLAMIC FINANCE

Building on the shoulders of 60 years of Islamic finance; co-creating the next wave towards a more inclusive and sustainable world

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Foreword



It is a fundamental axiom in finance and economics that the principal function of the financial system is to serve the real economy which, in turn, is to serve and support the creation of a more just and progressive society. If only it is as simple as that. While there has no doubt been much progress achieved in overall living standards and human development outcomes in the post-war period globally, there has increasingly been an unease over the last several decades - and especially since the Global Financial Crisis of 2008 - that this fundamental architecture of one of the world's key meta systems has been broken, reversed, or at least fractured.

To be sure, there has been much progress in global trade, investment, and development, over the last 80 years or so, and especially in the developing world, of which Malaysia is a part of. Nonetheless, it is also true that since the 1980s onwards with the Latin American debt crisis and the 1987 Wall Street crash, to the Asian Financial Crisis of 1998 and the Global Financial Crisis of 2008 and multiple other events and mini-crises through to the collapse of the Silicon Valley Bank in 2023, the gains from growth and development has often been eclipsed or soured by the ever increasing frequency and amplitude of such financial disruptions. Further, the deleterious symptoms of slower growth, higher cost of living, widening inequalities, and a burning planet have concomitantly become more pronounced. While the causes and transmission mechanisms of these poly-crises are no doubt complex and inter-related, much blame in popular and academic circles have often pointed to financial factors in its various guises as among its most critical root causes. These include the financialisation of the economy, the build-up in indebtedness, persistently long periods of unusual and loose monetary policy and low interest rates, and a short-term oriented and excessively unbridled financial capitalism.

Islamic finance, rooted in an ethical system and moral code shaped by divine guidance and rich tradition, has, in many ways run counter to these global trends. In the post-colonial period,

beginning with the last 60 or so years, Islamic finance has seen a rediscovery and increasing adoption among the Muslim *ummah* and nowhere more so than in Malaysia. The Islamic banking industry's share of total financing in the Malaysian financial system has increased significantly from experienced substantial growth since its inception in 1983, reaching 45.6%¹ while Islamic capital markets attributed to 64.4%² of equity and debt capital market in 2023, along with concurrent developments in the ecosystem for takaful and other non-banking financial institutions (NBFIs), in regulatory and standards making institutions and in research and academic facilities. Islamic finance has become the bedrock of a stable and progressive financial system, successfully anchoring Malaysia's journey of growth and development over our post-*Merdeka* period.

Yet, the overall global numbers tell another story: Muslims make up some 24%³ of the world population, 9%⁴ of global GDP and in spite of its outperforming growth, Islamic financial assets – as currently defined – at some USD4.5 trillion⁵ make up approximately just 1% or so of global financial assets of approximately USD450 trillion⁶. Furthermore, many of the poly-crises of our times – from inequality, environmental degradation and to add to that, conflict and displacement is afflicting the Muslim *ummah* disproportionately more.

¹ BNM Annual Report 2023

² SC Annual Report 2023

³ Yahoo Finance, Pew Research Centre

⁴ Salaam Gateway

⁵ Islamic Finance Development Indicator 2023

⁶ Financial Stability Board – Global monitoring report on non-bank financial intermediation 2023

It is in this context that we begin and anchor this Position Paper with the Arabic term "**Islah**". Linguistically, the term means to reform, to improve and to restore things to be in its state of *fitrah* of a natural, authentic, and good position. We take inspiration that the term *Islah* in the title of the classical text on the economics of purpose, *Islah al-Mal* (Restoration of Wealth) of Imam Ibn Abi Al-Dunya⁷ while primarily meaning reformation, it also stresses the importance of rehabilitation and restoration; to make things whole, productive, and purposeful again. Indeed, while we are grateful for the progress made in the post-*Merdeka* period, there must be a recognition that what brought us here will not be enough to take us to where we need to go. The time has come to inject a new sense of **Islah** or reforms in order to chart the next phase of growth and development.

It is also in this context that this Position Paper has three principal objectives. First, to take stock of the current state of development of Islamic finance in Malaysia and beyond. Second, to review and identify the case for change in light of existing challenges and opportunities based on current and future trends and developments in Malaysia and the world. And third, to make distinctive and actionable recommendations for policy makers, industry players, regulators, and scholars to chart the new wave that is required to take Islamic finance and indeed the overall discipline of Finance itself to better serve the real economy, and in the process to build and rebuild a more just and progressive society.

While we emphasise that Islamic finance must serve the real economic sector and ultimately society at large, we recognise that different Islamic economies have different conditions, levels and stages of development, and comparative advantages where different aspects of Islamic finance may apply. This Position Paper therefore does not recommend a one-size-fit-all approach, but rather aims at providing a pragmatic methodology on how to apply Islamic finance principles to develop the financial system best suited to different economies, while firmly anchored upon the Islamic ideals of attaining social justice and well-being in this world and the success in the next world.

This Position Paper has been the result of feedback and discussions with all manner of stakeholder groups covering, inter alia, industry players, industry groupings, regulators, standards bodies, think tanks, academic institutions, Islamic finance scholars and the media. Through more than 100 substantive engagement sessions, industry meetings, roundtable discussions, speeches, and communications in Malaysia and internationally over the last 18 months since its formation, the MIFC Leadership Council is indeed privileged to have covered such a fertile ground and would like to record our sincere gratitude to all the invaluable feedback and contributions.

It is in this vein that this Position Paper is running with the theme of "Establishing *Islah* through Islamic Finance" with the sub-text of "Building on the shoulders of 60 years of Islamic finance; co-creating the next wave towards a more inclusive and sustainable world"

The feedback and emerging conclusions are abundantly clear: Malaysia can rightly be proud, *alhamdulillah*, to have achieved so much for and through Islamic finance over the last 60-odd years. However, it would also be both prudent and opportunistic to recognise that given the confluence of key megatrends around the global challenges of inclusivity and sustainability and the increasing limitations and weaknesses of the global financial system, this is an opportune time for Islamic finance to take a more prominent role, for a step change to catalyse a new phase of growth and development, not just in order to meet our national aspirations and plans but to also potentially be a model for renewal for the *ummah* and the world.

It is in this vein that this Position Paper is running with the theme of "**Establishing *Islah* through Islamic Finance**" with the sub-text of "**Building on the shoulders of 60 years of Islamic finance; co-creating the next wave towards a more inclusive and sustainable world**". On behalf of the Council we would like to record our utmost thanks and appreciation to the many contributors and stakeholders who have helped to shape this Position Paper. As outlined, this Position Paper reviews and builds on the shoulders of the pioneers, builders and institutional architects over the last 60-odd years. It is not the end-all, but no doubt just a start, a humble effort to continue the process of renewal and *Islah* necessary to reclaim a more inclusive and sustainable financial commons through the deep power of Islamic finance. It is above all, a call to not just action, but more so to collective action. *Insha-Allah*, may we be guided to do so. Together.

Azman Hj. Mokhtar
Chairman
MIFC Leadership Council

⁷ Dr. Adi Setia, 'The Golden Mean & The Golden Rule: Iqti d, Livelihoods & The Economics Of Purpose'

Executive Summary

The MIFC Leadership Council Position Paper is arranged in three main sections. The report starts off by giving an overview of selected key developments of Islamic finance in the country from the early 1980s until the present day. It highlights the successful growth of the industry in the country, which has positioned Malaysia as a leading player in the global Islamic finance market. It also discusses the progress made in establishing a comprehensive regulatory framework that supports the development of Islamic finance.

The first section also delves into the Islamic finance landscape around the world. It examines the growth of the industry in various regions and identifies emerging trends and practices. By analysing the global landscape, the report aims to identify opportunities for collaboration and growth.

In the second section, the report explores the case for change in Islamic finance. It acknowledges the state of the global finance sector and its limitations, showcasing the need for alternative and more sustainable financial models. The report also identifies the current limitations of Islamic finance and proposes a set of principles for change. These principles emphasise the importance of inclusivity, sustainability, and ethical practices in shaping the future of Islamic finance.

This section also highlights ten shifts for change, drawing on the concept of "*Hijrah to Islah*." These shifts include enhancing financial literacy, fostering innovation, promoting responsible investment, and empowering entrepreneurs in finance, among others. These shifts aim to transform Islamic finance into a catalyst for positive change in society.

In the final section, the report calls for action and outlines five key thrusts for co-creating the next wave of Islamic finance and economics. These thrusts include strengthening collaboration among stakeholders, promoting research and development, enhancing market access, developing a sustainable financing framework, and building a robust talent pipeline.

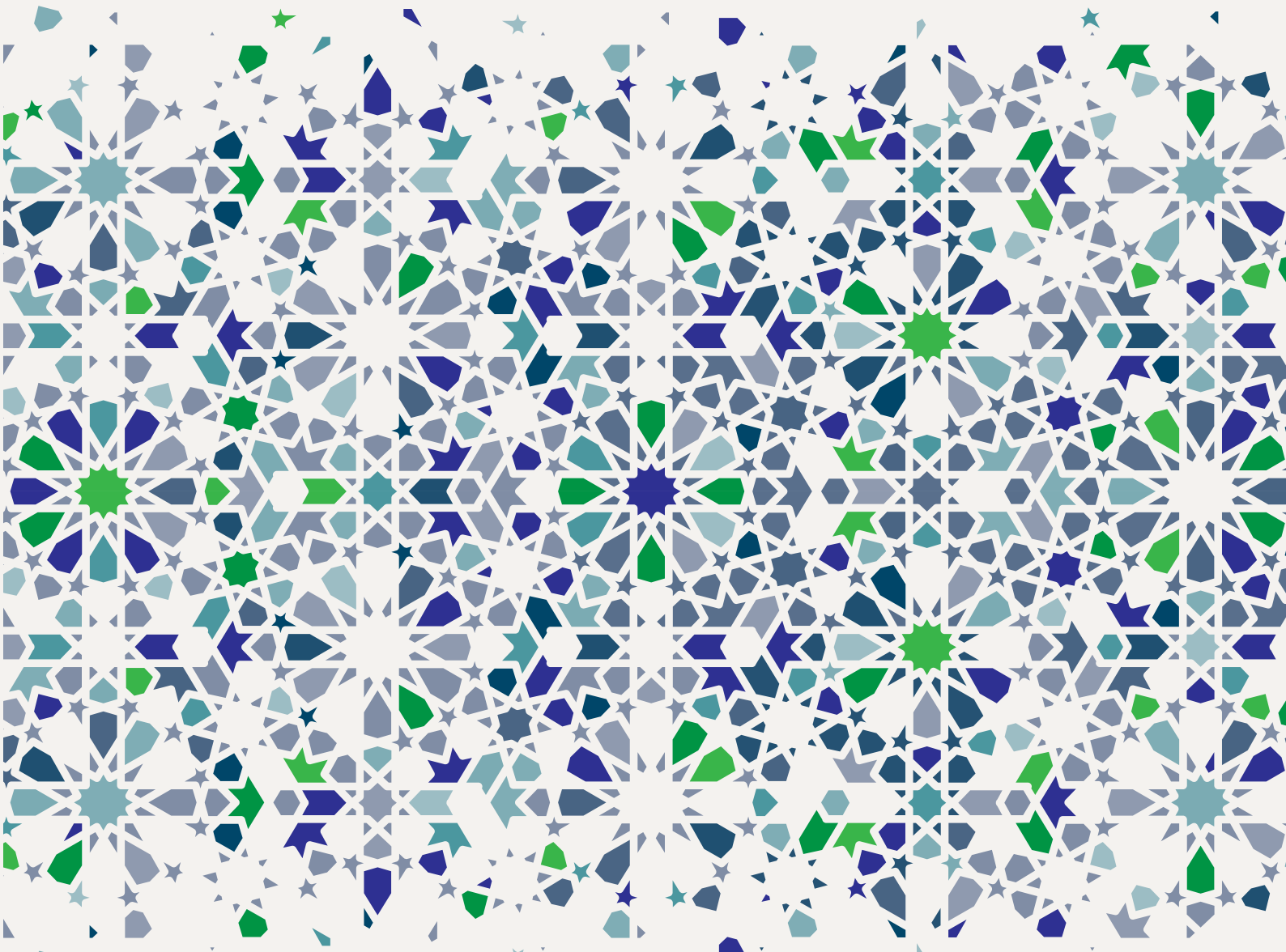
To kickstart the transformation, the report also presents 18 initial MLC Impact Projects (MIPs), which serve as tangible initiatives for the industry to adopt. These projects encompass various areas, including social impact investment, digital innovation, and talent development.

In conclusion, the Position Paper emphasises the importance of establishing the "*Islah*" through Islamic finance and provides a roadmap for building on the shoulders of 60 years of Islamic finance; co-creating the next wave towards a more inclusive and sustainable world. The MIFC Leadership Council hopes that by implementing the recommendations and embracing the suggested projects, Islamic finance will continue to evolve and make a positive impact on society.

Section

1

Islamic Finance in Malaysia and the World



i. DEVELOPMENT OF ISLAMIC FINANCE IN MALAYSIA

The origins of modern-day Islamic finance in Malaysia can be traced back to the establishment of the Hajj Pilgrims Savings Corporation (later renamed Lembaga Tabung Haji) in 1963 to help Muslims to save for their pilgrimage to Mecca. Indeed, the hajj, as the fifth pillar of Islam, not only personifies a significant transformative journey for Muslims, Tabung Haji as an institution serves as a crucial transformative point for a Shariah-based financial system in Malaysia.

In the 1970s, Malaysia experienced a new wave of Islamic resurgence that also reverberated around the world. This movement sought to integrate Islamic values and traditions into the daily lives of Muslims. It involved various reforms (*Islah*) and renewal (*Tajdid*) at the individual, societal, and national levels, all aimed at strengthening Islamic faith, including financial aspects of the lives of Muslims.



Phase 1: 1980s – 1990

This culminated in the establishment of Malaysia's first Islamic bank, Bank Islam Malaysia Berhad (Bank Islam) in 1983 and subsequently, the country's first takaful operator, Syarikat Takaful Malaysia Berhad in 1984, to meet the growing needs of Muslims for Shariah-compliant financial services. The Islamic Banking Act 1983, the Government Investment Act 1983, and the Takaful Act 1984 were enacted to facilitate Islamic finance operations. This period signaled the start of the modern Islamic finance *Islah* journey in the country. During this phase, the primary focus was for these early Islamic financial institutions (IFIs) to provide to provide Muslims with a viable, Shariah-compliant alternative to the established conventional system.

The commitment of the IFIs and support from the government and regulators were instrumental in setting the stage for the growth and development of Islamic finance in Malaysia for the upcoming decade and beyond.





Phase 2: 1990s to 2000

Islamic finance in Malaysia experienced further significant advancements and expansion, including in the Islamic capital market (ICM) such as sukuk and equity instruments. The issuance of the first sukuk, the Shell MDS sukuk in 1990 was a major milestone, laying the foundation for the development of Malaysia's ICM. Since its establishment in 1993, the Securities Commission of Malaysia (SC) has been instrumental in overseeing Malaysia's ICM.

In the banking system, the introduction of the Interest-free Banking Scheme in 1993 allowed conventional banks to establish Islamic windows, expanding the reach of Islamic finance within the country. Firewalls between the conventional and Islamic funds were put in place, which included separation of capital funds, cheque clearing system, clearing account with central bank, settlement account and reporting system. This period also saw the establishment of the country's second full-fledged Islamic bank in 1999, further enhancing the presence of Islamic banking in Malaysia.

Additionally, the introduction of the Islamic Interbank Money Market in 1994 provided Islamic banks with new short-term investment opportunities, contributing to the growth and

liquidity of the Islamic finance sector. The interbank market is integral to expanding the intermediation capability and the smooth functioning of the Islamic banking system.

Moreover, the establishment of the Shariah Advisory Councils of the SC and BNM in 1996 and 1997, respectively, played a crucial role in ensuring consistent application of Shariah principles across IFIs in Malaysia.

Overall, the second phase of Islamic finance in Malaysia from the 1990s to the 2000s marked a period of accelerated growth, characterised by the issuance of sukuk, expansion of Islamic banking, the introduction of new market mechanisms, and the enhancements to the regulatory ecosystem to oversee Shariah compliance, solidifying Malaysia's position as a key player in Islamic finance.

It has to be noted that one of the key factors behind Malaysia's success in Islamic finance up to this stage, and indeed in the following decades, is its pragmatic and gradual approach to development. This approach has contributed to ensuring Malaysia had a stable and progressive Islamic financial system.



Phase 3: 2000s to 2010

During this phase, efforts were made by BNM and the SC to strengthen the overall financial ecosystem and address gaps within it. The Financial Sector Masterplan 2001-2010 by BNM focused on institutional capacity enhancement and financial infrastructure development to support the growth of the industry. In developing regulatory frameworks, BNM pushed for the development of a coherent Shariah framework across Islamic finance sectors. Guidelines on Shariah Governance Framework for Islamic Financial Institutions was also introduced. Furthermore, institutions such as the International Centre for Education in Islamic Finance (INCEIF) and International Shariah Research Academy for Islamic Finance (ISRA) were established to enhance expertise and research in Islamic finance.

The SC also focused on solidifying the ICM under the Capital Market Masterplan (CMP1). Initiatives included the introduction of tax incentives for Islamic instruments, issuance of guidelines for Islamic products, and capacity building in the ICM.

During this period, Malaysia positioned itself as an Islamic finance hub by establishing the Malaysia International Islamic Financial Centre (MIFC) initiative, offering a comprehensive and progressive Islamic financial system to accelerate global Islamic finance development.



The Malaysia International Islamic Financial Centre (MIFC): Pioneering Islamic Finance on a Global Scale

What is the MIFC?

The Malaysia International Islamic Financial Centre (MIFC) is an initiative aimed at developing and promoting Malaysia as an international Islamic finance hub. Launched in 2006, it serves as a platform to connect industry players, regulators, and policymakers, fostering an ecosystem that promotes growth, innovation, and collaboration in the Islamic finance sector.

Key Objectives

The MIFC has set out several key objectives to ensure it remains at the forefront of the Islamic finance industry. These objectives include:

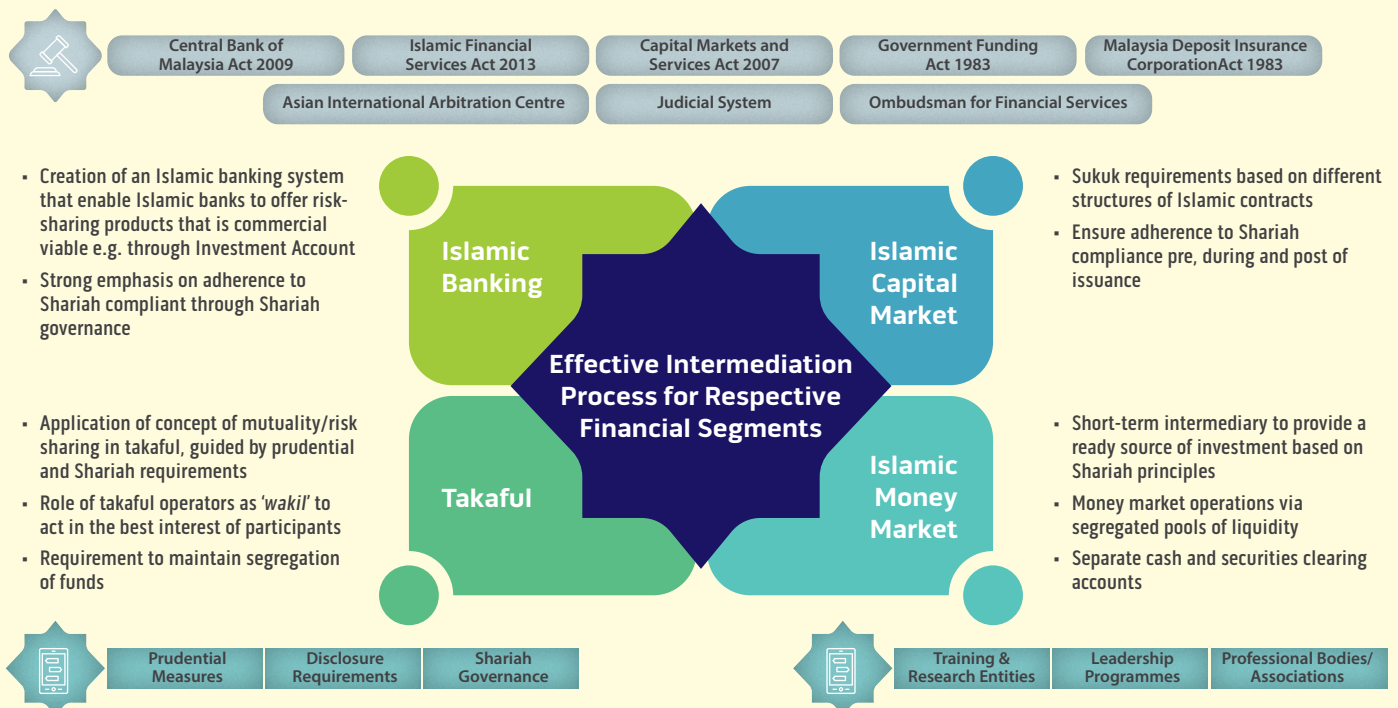
1. **Promoting Malaysia as the leading Islamic finance hub:** The MIFC aims to position Malaysia as the preferred destination for international financial institutions and investors seeking to tap into the Islamic finance market. Through continuous development, innovation, and infrastructure enhancement, the MIFC strives to maintain and enhance its competitive edge.
2. **Strengthening the industry ecosystem:** The MIFC facilitates collaboration between regulators, industry players, and professionals to encourage the development of comprehensive Islamic financial products and services. This collaborative approach ensures a conducive environment for growth and innovation within the sector.
3. **Developing human capital:** Recognising that a skilled workforce is essential for sustainable growth, the MIFC focuses on developing a pool of talent with expertise in Islamic finance. This is achieved through various educational and training programmes, scholarships, and research initiatives to enhance knowledge and skills within the industry.
4. **Encouraging innovation:** The MIFC actively promotes research and development, encouraging the creation of innovative Islamic financial products and services. By embracing technology and financial advancements, the MIFC aims to position Malaysia as a fintech leader in Islamic finance.

Achievements and Global Recognition

Since its launch, the MIFC has achieved notable milestones, positioning Malaysia as a leading Islamic finance hub on a global scale. In undertaking a holistic approach to drive the MIFC initiative, the MIFC Executive Committee was formed to streamline the associated delivery system to facilitate advancing the MIFC agenda. The Committee comprises a high-level group of top officials from the key relevant Ministries, Government departments and agencies, financial and market regulators and representatives from the banking and takaful sectors. Some of its achievements include:

1. **Global recognition:** Malaysia has gained international recognition as a leading Islamic finance hub, attracting numerous global financial institutions to establish their presence in the country. For the eleventh consecutive year, Malaysia maintains its global recognition as a leader in the Islamic Finance Development Indicator (IFDI). The MIFC's efforts have also contributed to Malaysia being selected as the host for prestigious international institutions, players, conferences and events in the Islamic finance arena.
2. **Diverse product offerings:** Malaysia's Islamic finance landscape offers a wide range of innovative products and services, such as Islamic banking, takaful, retakaful, sukuk, and Islamic wealth management. The MIFC has played a significant role in fostering the development and growth of these offerings. Today, Malaysia hosts more than 120 IFIs offering a wide spectrum of funding, investment and protection solutions and over 100 providers offering full range of ancillary services including Shariah, legal, technology and accounting services. The success of the Malaysian Islamic finance ecosystem is also evident by various innovative and cutting-edge financial structures including the world's first exchangeable sukuk and green sukuk.
3. **Robust ecosystem:** Over the years, significant focus was accorded to the development of financial infrastructures and institutions as well as addressing the unique needs of key constituents within the Islamic financial ecosystem. This has garnered trust and confidence from international investors and institutions. Globally, Malaysia is also active in their efforts to develop strong regulatory framework and support the international infrastructure e.g. the Islamic Financial Services Board (IFSB) and the International Islamic Liquidity Management Corporation.

Effective Functioning of the Islamic Financial System within the Dual Financial System



Source: Bank Negara Malaysia

Future Outlook

Looking ahead, as envisioned in the Financial Sector Blueprint 2022-2026, Malaysia aims to further sharpen its value proposition – specifically, to be a global gateway for Islamic finance markets in Asia and the OIC. This envisions Malaysia connecting Islamic finance opportunities in those markets with businesses, investors, and other stakeholders across the globe – including partnerships with other jurisdictions to advance areas of mutual interest. Guided by this vision, MIFC will continue to focus on driving innovation, enhancing talent development, and fostering collaboration between industry players and regulators. Additionally, efforts will be made to expand the reach of Islamic finance beyond Malaysia's borders, promoting cross-border investments and collaborations.

With the aim of strengthening Malaysia's position as a global gateway for Islamic finance and promoting stronger industry leadership, the MIFC Leadership Council (MLC) was introduced by BNM and the SC in October 2022. The formation of the MLC marks a notable advancement in empowering the industry to drive the MIFC agenda forward.



Phase 4: 2010s to the present

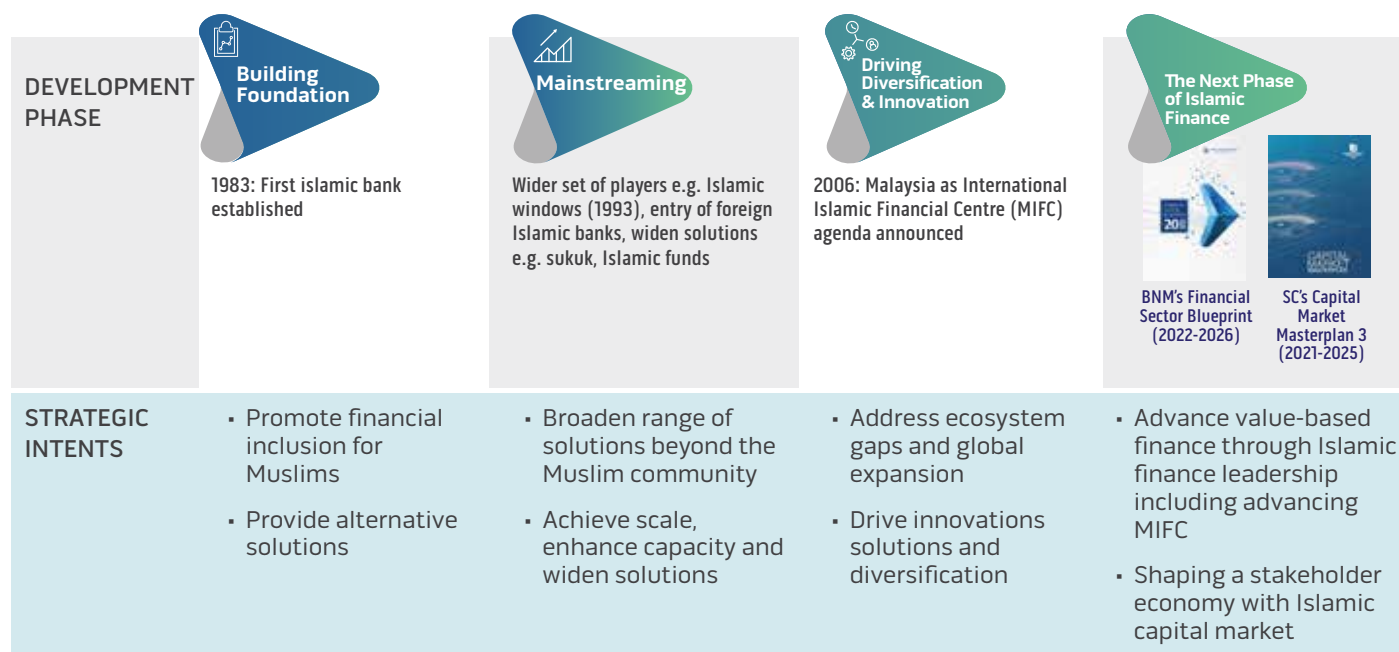
During this phase, the Financial Sector Blueprint 2011-2020 (FSBP 2011-2020) outlines measures to strengthen and diversify the Islamic financial ecosystem. The FSBP 2011-2020 also further cements Malaysia's leadership as an international Islamic financial centre, for example by enlarging the size and range of Islamic money market instruments to cater for different market needs. At the same time, the SC also began focusing on internationalisation and positioning Malaysia as a global ICM hub under the Capital Market Masterplan 2 (2011 - 2020) by introducing a revised screening methodology benchmarked against international practice and promoting Islamic wealth management products. Malaysia experienced significant progress in areas such as Shariah governance, innovation and product diversification, and digitalisation in Islamic finance. The enactment of the Islamic Financial Services Act 2013 (IFSA) led to enhanced regulation and supervision of IFIs. IFSA, among others, provides adequate legal basis to support the further strengthening of investment account operation that provides appropriate protection to investment account holders (IAH) whilst ensuring financial stability of the Islamic financial system. Additionally, in 2014, BNM initiated the issuance of Shariah standards, while the SC introduced the Sustainable and Responsible Investment (SRI)

Sukuk Framework. These advancements have played a pivotal role in shaping Malaysia's Islamic finance landscape and cementing the country's position as a leader in this field.

This continuous commitment is then translated into the Financial Sector Blueprint 2022-2026 and Capital Market Masterplan 3 (2021 - 2025), which focus on advancing on value-based finance through Islamic finance leadership, as well as broadening the ICM towards building a stakeholder economy respectively. Both documents emphasise long-term value creation by finding a balance between economic development and societal good. Further progress was also chartered in driving innovation and value-based finance in the industry. Initiatives such as Value-Based Intermediation (originally introduced in 2017) was expanded to the takaful sector in 2021 while the Maqasid Al-Shariah Guidance Islamic Capital Market Malaysia was issued in 2023 to further strengthen the ethical dimensions of Islamic finance.

Overall, these four phases highlight the steady development and significant milestones that have shaped Malaysia's Islamic finance system, enabling it to become a prominent player in the global Islamic finance industry today.

Phases of Development and Current Ecosystem in Islamic Finance



Source: Adapted from Chapter 5 of BNM's Financial Sector Blueprint 2022-2026 and SC's Capital Market Master Plan 3 (2021 - 2025)




Formation of the **MIFC Leadership Council (MLC)** in October 2022 as an initiative to support the aspiration



Current Strategic Thrusts of Islamic Financial Sector and Capital Market

Financial Sector Blueprint 2022 – 2026

Advance value-based finance through Islamic finance leadership

- A  Sharpen Malaysia's proposition as an international gateway for Islamic finance
- B  Strengthen policy enablers of value-based finance for greater impact
- C  Mainstream social finance

Capital Market Masterplan 3, 2021 – 2025

Shaping a stakeholder economy with SRI and ICM

Relevant to broader halal MSMEs	Relevant to environment	Relevant to society
Facilitate access for MSMEs in the halal economy	Empower investors and businesses that are responsible and sustainable	Enable socio-economic development of the nation, leveraging Islamic social finance

Islamic Finance Ecosystem in Malaysia

Growing market share

Islamic financing¹

45.6%

2018: 36.6%

Financing

Islamic deposits and investment accounts (IA)¹

42%

2018: 35.4%

Deposit and IA

Takaful fund assets²

14%

2018: 10.5%

Fund assets

Takaful net contribution

23.4%

2018: 19.7%

Net contribution

Deep capital market

Global and domestic sukuk

40.3%	Largest market share in global sukuk outstanding
USD800 mil	World's first sovereign US dollar sustainable sukuk
63.2%	Sukuk market share out of total domestic bonds/sukuk outstanding

Islamic equities

64.32%	Shariah market capitalisation out of total market capitalisation
81.51%	Shariah-compliant securities out of total securities listed and traded

Global recognition

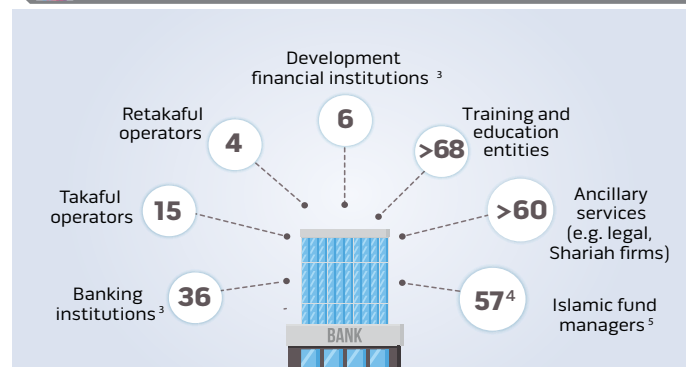
Ranked 1st – Islamic Financial Development Indicator 2023
Ranked 1st – Global Islamic Economy Indicator 2023/24
Ranked 1st – Global Islamic Fintech (GIFT) Index 2023/24



Enabling and comprehensive ecosystem



Diverse players offering wide range of services



Note:

¹ Includes Development Financial Institutions (DFIs)

² Not inclusive of the shareholders' fund assets

³ Inclusive of Islamic windows of commercial and investment banks

⁴ As of Dec 2022

⁵ Inclusive of Islamic windows of fund managers

⁶ Bursa Suq Al-Sila' (BSAS) is a commodity trading platform specifically dedicated to facilitate Islamic liquidity management and financing by Islamic financial institutions

⁷ Bursa Malaysia-i (BM-i) is a fully integrated Islamic securities exchange platform with a comprehensive range of exchange related facilities, that incorporate Shariah-compliant features

Source: Bank Negara Malaysia, Securities Commission Malaysia and Bursa Malaysia



In Support of



MIFC Leadership Council

The MIFC Leadership Council (MLC) was established in October 2022 as a joint initiative of BNM and the SC to drive the next phase of development in positioning Malaysia as an international Islamic financial centre. The Council serves as a platform to provide industry stewardship in enhancing Malaysia's proposition as a global marketplace and an international gateway for Islamic finance.

The roles of the MLC include providing thought leadership, driving strategy formulation, and monitoring industry initiatives to solidify Malaysia's leading position in Islamic finance.

The MLC is guided by national strategic development plans, including BNM's Financial Sector Blueprint 2022 - 2026 and the SC's Capital Market Masterplan 3 (CMP3). The Council also leverages the expertise of financial, corporate and academic experts as well as collaborate with relevant authorities and agencies to advance areas of mutual interest and support industry initiatives.

The formation of the Council was announced at the Global Islamic Finance Forum (GIFF) 2022, which focused on emerging developments in Islamic finance such as fintech and digitalisation, value-based innovation, and global opportunities for the Islamic finance industry to promote balanced, inclusive, and sustainable growth.

The former Bank Negara Malaysia Governor, Tan Sri Nor Shamsiah Mohd Yunus, in her speech at the GIFF 2022 said "The MIFC Leadership Council (MLC) will provide thought leadership, drive strategy formulation and implementation to enhance Malaysia's position as an international gateway for Islamic finance".



Mandate



Strategy



Action



Advocacy

A platform to lead the development and promotion of MIFC by identifying international opportunities, industry strategic priorities and monitoring industry initiatives. This includes accelerating the implementation of initiatives that will:

- Nurture new ideas, strategy or initiatives
- Deepen and diversify strategic linkages between domestic and international partners; and
- Deliver industry thought leadership.



Intended Outcomes



Improved global competitiveness of Malaysia's Islamic finance industry to tap opportunities outside Malaysia



More financial innovation delivering positive impact to economy, community and environment

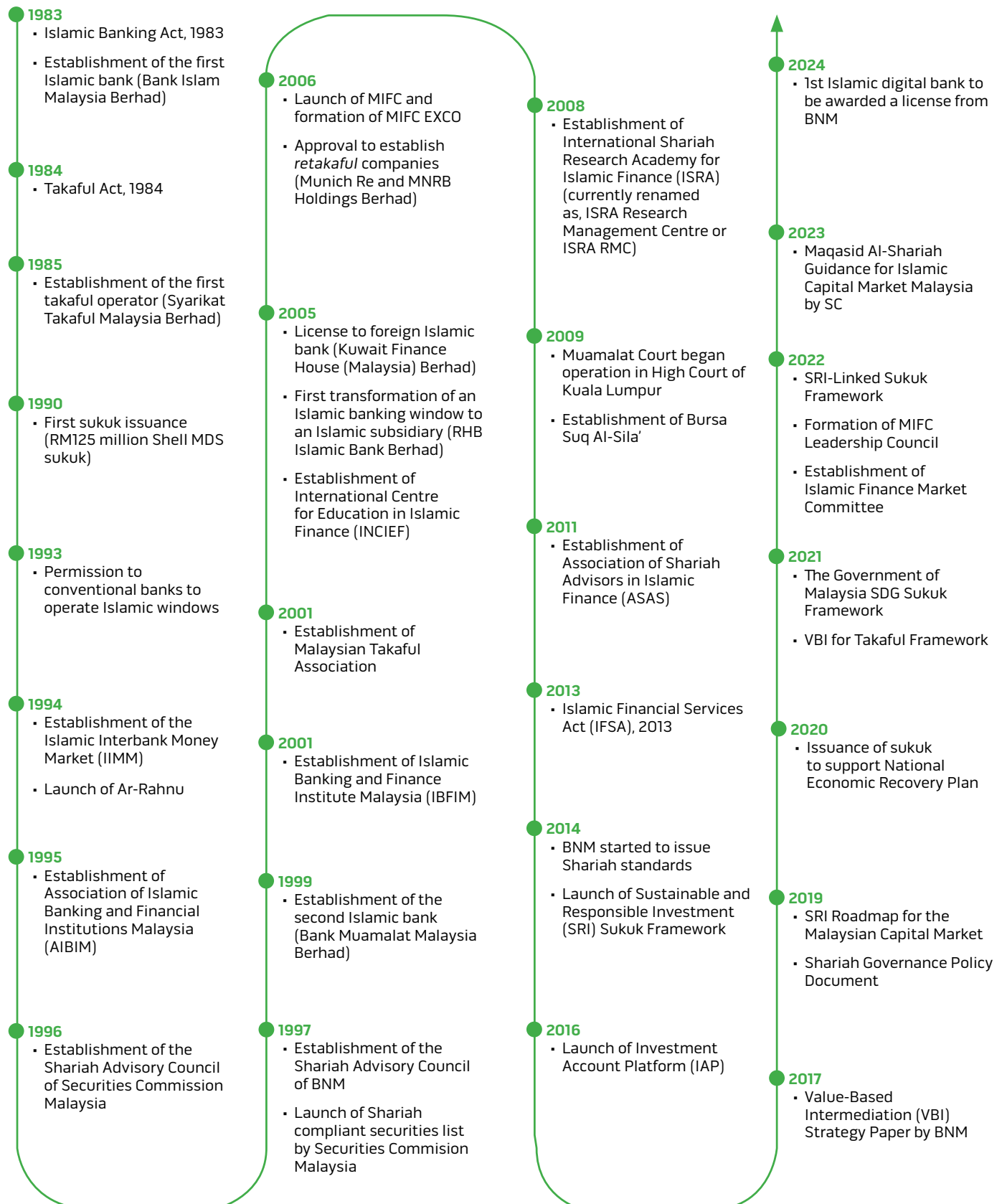


Deepen financial linkages and international partnerships



Sustained global thought leadership in Islamic finance

The following is a snapshot of Malaysia's Islamic finance journey so far.

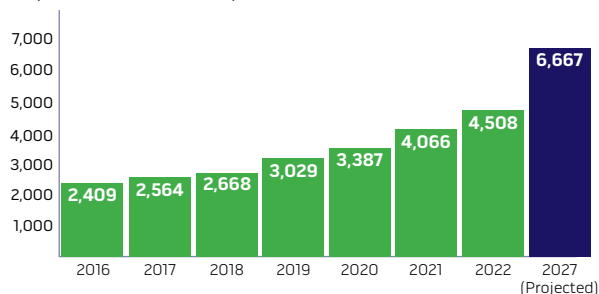


ii. THE ISLAMIC FINANCE LANDSCAPE AROUND THE WORLD

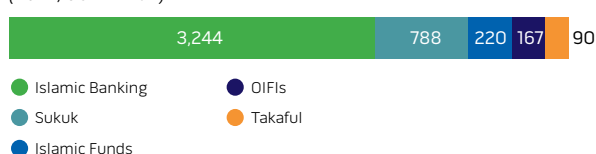
Malaysia's Islamic finance growth story is in tandem with the growing traction on Islamic finance around the world. Islamic finance has seen a steady increase across various global markets indicating a growing acceptance for Shariah-compliant financial products and services. Some key factors contributing to this growth include:

- 1. Global demand:** There has been a growing demand for Islamic financial products and services, not only in Muslim-majority countries but also in non-Muslim-majority countries where Islamic finance is seen as an alternative to conventional finance.
- 2. Regulatory support:** Many governments and regulatory authorities have taken steps to support the development of Islamic finance by introducing specific regulations and frameworks to accommodate Islamic financial activities.
- 3. Financial innovation:** The industry has seen an increasing diversification of Islamic financial products and services, offering commercially viable instruments to cater to a wider range of financial needs, including Islamic banking, takaful, sukuk, and Islamic investment funds.
- 4. Ethical appeal:** Islamic finance's adherence to Shariah principles, which prohibit the charging of interest and investment in certain industries such as gambling and alcohol, has attracted individuals and institutions looking for ethical and socially responsible investment opportunities..
- 5. Infrastructure development:** Many countries have invested in developing the necessary infrastructure, such as legal and regulatory frameworks, enabling licensing of Shariah-compliant financial institutions, and advance human capital development needs, to support the growth of Islamic finance.

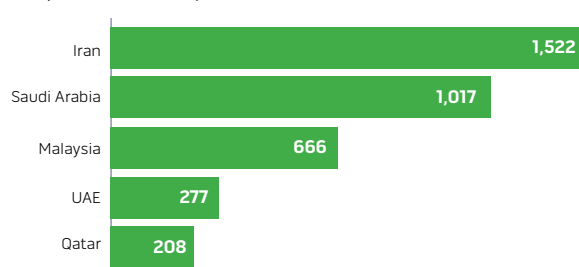
Islamic Finance Assets Growth
(2016-2022, USD Billion)



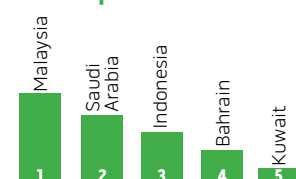
Islamic Finance Assets
(2022, USD Billion)



Top Countries in Islamic Finance Assets
(2022, USD Billion)



Most Developed Countries According to IFDI 2023



Source: Islamic Corporation for the Development of Private Sector – London Stock Exchange Group (2023), ICD-LSEG Islamic finance Development Report 2023

The chart above reveals a compelling narrative of the evolution and significance of Islamic finance on the global stage. From 2016 to 2022, Islamic financial assets experienced substantial growth, surging from USD2,409 billion to USD 4,508 billion, with projections anticipating further expansion to USD6,667 billion by 2027.

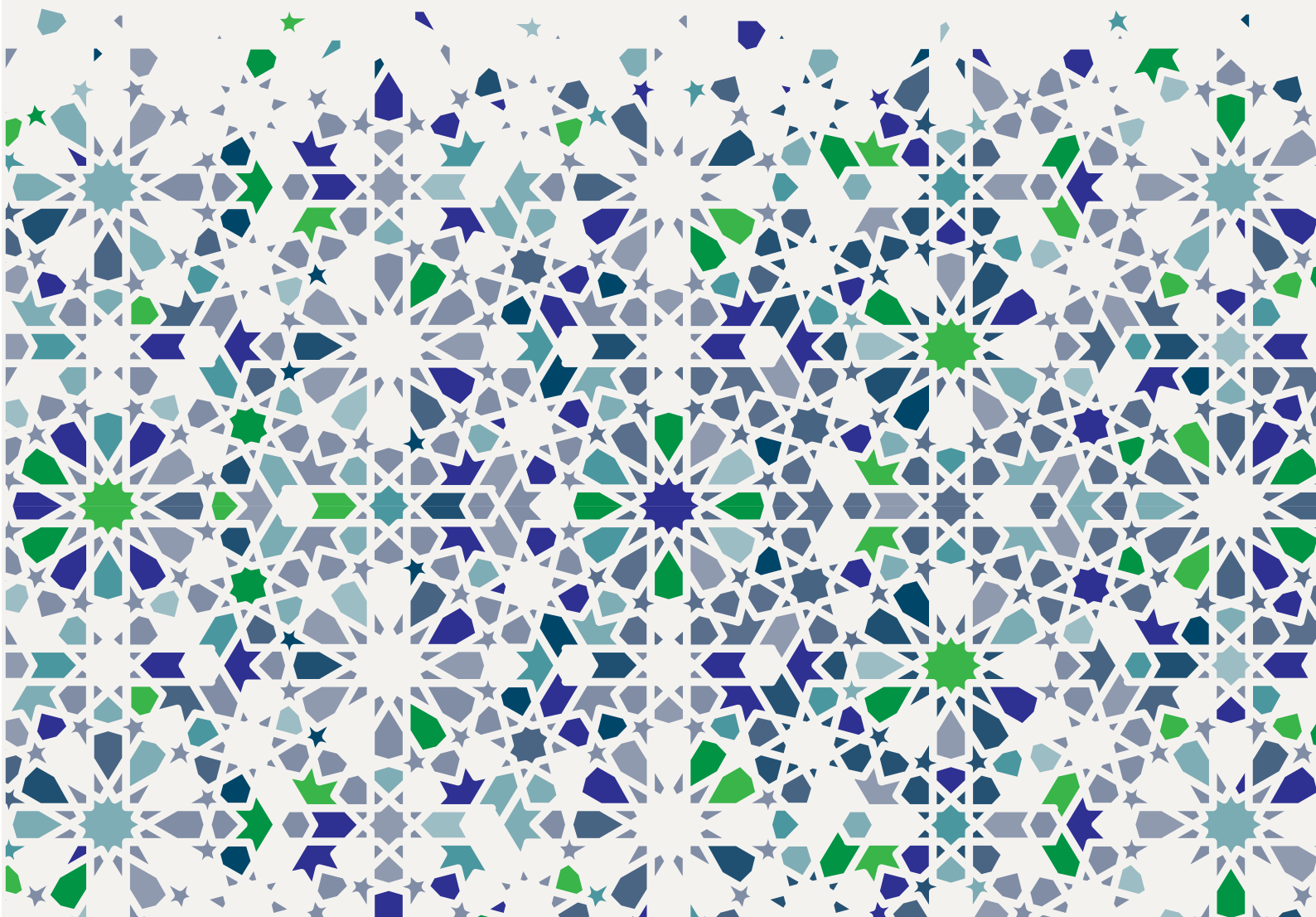
The distribution of these assets in 2022, as depicted in the graph, underscores the dominance of Islamic banking, which accounts for USD3,244 billion, followed by sukuk, Islamic funds, other Islamic financial institutions (OIFIs), and takaful.

Notably, the list of major countries in Islamic financial assets showcases Iran at the forefront with USD1,522 billion, trailed by Saudi Arabia, Malaysia, UAE, and Qatar. Additionally, Malaysia emerges as the leading nation according to the IFDI 2023, followed by Saudi Arabia, Indonesia, Bahrain, and Kuwait. This comprehensive overview underscores the robust growth and pivotal role played by various countries in shaping the landscape of Islamic finance globally, signaling its increasing significance and impact in the financial world.

Section

2

The Case and Opportunity for Change



i. THE STATE OF GLOBAL FINANCE

It is a fundamental axiom in finance and economics that the principal function of the financial system is to serve the real economy which, in turn, is to serve and support the creation of a more just and progressive society.

If only it is as simple as that. While there has no doubt been much progress achieved in overall living standards and human development outcomes in the post-war period globally, there has increasingly been an unease over the last several decades - and especially since the Global Financial Crisis of 2008 - that this fundamental architecture of one of the world's key meta systems has been broken, reversed, or at least fractured.

There are three elements of discontent with mainstream non-Islamic finance – social injustices, climate warming and ecological damage and ethical values. The current interest-based debt-driven financialisation of economic activity has tended to worsen market concentration, increased income and wealth inequality and also financial fragility. Debt-financing actually involves mostly risk-transfers, mostly to unsuspecting consumers, investors or those who are ill-equipped and prepared to assume such non-transparent risks. Equity finance involves risk-sharing, which together with ethical values as embodied in Shariah, makes up Islamic finance. A stronger equity base means that the global financial system will be less fragile and more just and resilient to shocks.

To be sure, there has been much progress in global trade, investment and development, over the last 80 years or so, and especially in the developing world, of which Malaysia is a part of. Nonetheless, it is also true that since the 1980s onwards with the Latin American debt crisis and the 1987 Wall Street crash, to the Asian Financial Crisis of 1998 and the Global Financial Crisis of 2008 and multiple other events and mini-crises through to the collapse of the Silicon Valley Bank in 2023, the gains from growth and development has often been eclipsed or soured by the ever increasing frequency and amplitude of such financial crises and events. Further, the deleterious symptoms of slower growth, higher cost of living, widening inequalities, and a burning planet have concomitantly become more pronounced. While the causes and transmission mechanisms of these poly-crises are no doubt complex and inter-related, much blame in popular and academic circles have pointed to financial factors in its various guises as among its most critical root causes. These include the financialisation of the economy, the build-up in indebtedness, persistently long periods of unusual and loose monetary policy and low interest rates, and a short-term oriented and excessively unbridled financial capitalism.



ii. THE COUNTERTRENDS AND CURRENT LIMITATIONS OF ISLAMIC FINANCE

Islamic finance, rooted in an ethical system and moral code shaped by divine guidance and rich tradition, in many ways has run counter to these global trends. In the post-colonial period, beginning with the last 60 or so years, Islamic finance has seen a rediscovery and increasing adoption among the Muslim *ummah* and nowhere more so than in Malaysia.

The Islamic banking industry's share of total financing in the financial system increased from 27.6% in 2013 to 45.6% in 2023⁸, while Islamic capital markets attributed to 64.4%⁹ of equity and debt capital markets in 2023. There is also notable progress in the takaful sector, with takaful net contribution comprises 23.4% of total net premium and contributions (2013: 14.1%)¹⁰. Alongside the concurrent developments in the eco-system for takaful and other NBFIs as well as the regulatory and standards developments supported by various institutions and in research and academic facilities, Islamic finance has become the bedrock of a stable and progressive financial system, successfully anchoring Malaysia's journey of growth and development over our post-*Merdeka* period.

Yet, the overall global numbers tell another story: Muslims make up some 24%¹¹ of the world population, 9% of global GDP¹² and in spite of its outperforming growth, Islamic financial assets – as currently defined – at some USD4.5 trillion¹³ make up approximately just 1% or so of global financial assets of approximately USD450 trillion¹⁴. Furthermore, many of the poly-crises of our times – from inequality, environmental degradation and to add to that, conflict and displacement is afflicting the Muslim *ummah* disproportionately more.

Islamic financial
assets is at
USD4.5
trillion¹³



⁸ BNM Annual Report 2023

⁹ SC Annual Report 2023

¹⁰ BNM Annual Report 2023

¹¹ Yahoo Finance, Pew Research Centre

¹² Salaam Gateway

¹³ Islamic Finance Development Indicator 2023

¹⁴ Financial Stability Board – Global monitoring report on non-bank financial intermediation 2023

After rapid growth in awareness and adoption of Islamic finance especially over the last 40 years since the formation of Bank Islam in 1983, there has been perception of some moderation of the pace of growth over the last decade or so. In the spirit of good and constructive *muhasabah* (self-reflection and review), anecdotally and through various discussions with academia, industry players and the public at large, while there is recognition and indeed appreciation of the tremendous progress made in establishing a comprehensive Shariah-compliant financial system in Malaysia and indeed the *ummah*, there has also been persistent and rising unease on various perceived and actual limitations of the current system. Inter alia, these include:

1. Many Islamic finance products being “conventional mirrors” i.e. while being in form distinctive and Shariah-compliant, in substance and in spirit, many are perceived to be no different in terms of its economic impact from financial products and structures in the conventional system.
2. The parallel development of Islamic finance by IFIs being subsidiaries of conventional banks and financial institutions has been a source of strength and pragmatism to date. Indeed, leading banks with an “Islamic First” strategy has seen Islamic finance developing at a faster rate and now accounting for an almost as large portion to its conventional counterpart. Nonetheless, for some IFIs being subsidiary to a conventional holding company, there remains ongoing debate as to whether such subsidiaries may face limitations in terms of scale and the ability to innovate and explore deeper integration with greater social dimensions as part of its core business.
3. There have been cases too, where these factors have resulted in certain situations where Islamic finance structures and products may be priced more expensive than its equivalent conventional ones due to the risk profile of certain Shariah contracts and funding structure. A case in point is higher capital requirement for equity-based Shariah contracts such as *musharakah* or *mudarabah* under Basel capital framework.
4. Much of the growth in Islamic finance has been driven by growth in the financing portfolios of IFIs and in the growth of the sukuk markets. While this is commendable and indeed much effort and good innovation has been achieved in creating a viable and working Shariah-compliant system, as debt levels around the world has grown significantly, including in the Islamic world, many commentators have emphasised on the need for Islamic finance to focus more on equity-based or participatory finance structures where risk and reward are more aligned. In addition, *qard hassan* and other forms of Islamic social finance (including zakat, waqf and sadaqah) also represents a fuller and more just manifestation of the beauty and just nature of the full spectrum of capital in Islamic finance.
5. The fractures and problems in the global financial system especially over the last 25 years or so since the Asian Financial Crisis through to the Global Financial Crisis has put increased scrutiny on the international financial architecture, on the unconventional monetary policy of quantitative easing and indeed the role and creation of money itself. While these issues are agnostic between Islamic and conventional systems, the difficulty of creating a truly authentic Islamic economic and financial system in such a system is a source of frustration to many and a limit to real growth and development in Islamic finance. These practices include quantitative easing, an unregulated or under-regulated shadow banking system, unbacked cyber securities, derivatives, and excessive speculation. At one level, the relatively small size of the Islamic financial system, dwarfed vis-à-vis the global conventional system means that the Islamic financial system in its interface with the global system will need to continue to be followers and price-takers. At another level, as Islamic finance discussions transcend into discussions of Islamic economics including the international political economy, counter narratives are arguing for a greater urgency in moving away from existing arguments for the status quo to remain under *darurah* (emergency) and *maslahah* (public good) principles towards creating a more self-contained and mutually reinforcing system involving greater collaboration among the Muslim ummah and other countries outside or more open to diversify away from the prevailing dollar-dominated global system.

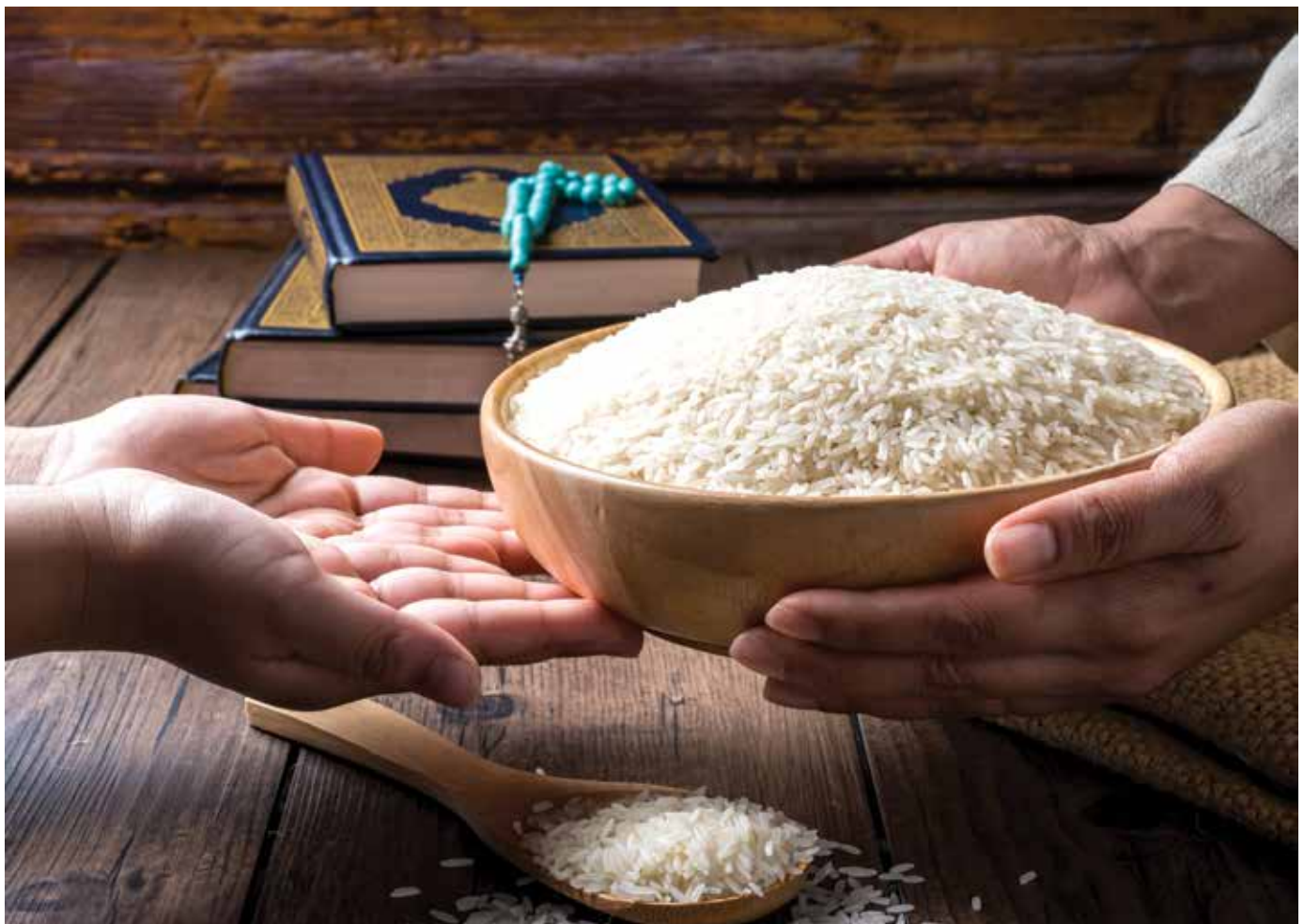
We should however not attribute the relative disadvantages of the Islamic economic system to Islamic finance alone. Much has to do with the strategic disposition of Islamic countries in their real economic development models. Many of the Islamic countries are rich in energy or natural resources, but relatively underdeveloped in human capital, particularly science and technology. Islamic countries also lack scale, since the markets are fragmented. There is clear evidence that the success of resource poor economies, such as Japan, Korea, Taiwan and China, show that knowledge-based strategies promote growth and productivity that can over-come resource-scarcity weaknesses.

Taiwan's technology-driven stock market, for example, has shown, that a devotion towards technology together with an active tech-driven stock market can create wealth that is today 241% of GDP, enables an ecosystem whereby technology is monetized to fund resources for further R&D, greater social justice and net zero goals. A debt-driven system is risk-adverse and mobilises resources either

Muslims make up some 24% of the world population, 9% of global GDP and in spite of its outperforming growth, Islamic financial assets – as currently defined – at some USD4.5 trillion make up approximately just 1% or so of global financial assets

through more debt or are constrained by willing lenders, vulnerable also to higher interest rates.

In short, the development of Islamic economies and finance are interdependent on each other, and we cannot separate real economic strategies from financial strategies and policies. We note however that discussion over Islamic finance can inform and help the formulation of more ethical and clearer real economic development options and strategies.



iii. THE CASE FOR CHANGE AND THE OPPORTUNITY FOR MALAYSIA AND ISLAMIC FINANCE

Notwithstanding these current and emerging challenges, as mentioned, the Islamic financial system in Malaysia is entering this period from a position of stability and relative strength. With a comprehensive and proven Shariah-compliant system, strong and experienced financial regulators in BNM, SC and Bursa Malaysia, and a strong institutional base including key economic institutions such as Petroliaam Nasional Berhad (Petronas), Government-linked Investment Companies (GLICs) and a full-suite of IFIs, Malaysia is well poised to capture the opportunities that come with the current limitations of the global financial system.

Indeed, in the course of the last 18 months since the inception of the MIFC Leadership Council (MLC) in October 2022, the feedback and conclusions coming from more than 100 substantive engagement and discussions with the industry players and other stakeholders is clear: Malaysia can rightly be proud, *alhamdulillah*, to have achieved so much for and through Islamic finance over the last 60-odd years. However, it would also be both prudent and opportunistic to recognise that given the confluence of key megatrends around the global challenges of inclusivity and sustainability and the increasing limitations and weaknesses of the global financial system, this is an opportune time for Islamic finance to take a more prominent role, for a step change to catalyse a new phase of growth and development, not just in order to meet our national aspirations and plans but to also potentially be a model for renewal for the *ummah* and the world.

It is in this context that we anchor this Position Paper with the Arabic term "*Islah*". Linguistically, the term means to reform, to improve and to restore things to be in its state of *fitrah* of a natural, authentic, and good position. We take inspiration that the term *Islah* in the title of the classical text on the economics of purpose, *Islah al-Mal* (Restoration of Wealth) by Imam Ibn Abi Al-Dunya¹⁵, while primarily meaning reformation also stresses the importance of rehabilitation and restoration; to make things whole, productive and purposeful again. Indeed, while we are grateful for the progress made, there must be a recognition that what brought us here will not be enough to take us to where we need to go. The time has come to inject a new sense of *Islah* or reforms in order to chart the next phase of growth and development.



Malaysia is well poised to capture the opportunities that come with the current limitations of the global financial system



¹⁵ Dr. Adi Setia, 'The Golden Mean & The Golden Rule: Iqti d, Livelihoods & The Economics Of Purpose'

iv. PRINCIPLES FOR CHANGE

Even if there is a realisation and desire for change, it is both a truism and a cliché to say that change is never easy, and managing change is indeed the hardest part of any transformation journey.

Balancing the need for more radical breakthroughs against a more evolutionary pathway is always at the core of such a journey. We should take comfort, if not inspiration, that many a time in our national history, *alhamdulillah*, Malaysia has chalked many great successes in financial and economic change management and innovation. To name a few:

1. The diversification of the economy from a colonial and post-colonial economy in the 1960s into a modern, progressive economy with growth and equity that has seen a sharp almost eradication of hard-core poverty. This period has seen the development of institutions such as Tabung Haji (1963), the formation of Permodalan Nasional Berhad or PNB (1978) and the Guthrie Dawn Raid (1981) and the birth of Petronas (1974) and its subsequent rapid growth as an exemplary national oil corporation.
2. The development of Islamic finance with the birth of Bank Islam in 1983 and the response of Malaysia's capital markets in the early 1990s especially to meet the needs for infrastructure of a rapidly growing nation. Critical sectors such as highways, electricity, telecommunications, airports, and others were successfully financed through domestic savings in public trust institutions such as Kumpulan Wang Simpanan Pekerja (KWSP), Kumpulan Wang Persaraan [Diperbadankan] (KWAP), PNB and Tabung Haji and in the process developing our own Islamic capital markets.
3. The successful response of Malaysia in facing the Asian Financial Crisis with a pragmatic and innovative mix of policies and institutions including temporary capital controls, Danaharta, Danamodal, banking consolidation and, subsequently, corporate restructuring through Khazanah Nasional Berhad and the GLC Transformation Programme from 2004 onwards.

Malaysia indeed *Boleh!* It is against this collective muscle memory that we should endeavour to chart a next wave of change, *insha-Allah*. As we embark on this step change, we propose these seven anchoring principles of change to help shape, remind and guide us:

1. **Pragmatism, Progressivism and Balance.** All the successful episodes of change management have been characterised by a blend of Pragmatism (that is to focus on what works, not on labels – the proverbial, "it doesn't matter whether a cat is white or black, as long as it catches mice") and Progressivism (i.e. to continuously push the boundaries of being better). Finding the balance, wisdom, and teamwork to do this will be key.
2. **Recognise the inevitable S-Curve.** In the theory and practice of change management, the framework of S-Curves is a foundational concept that is instructive to recognise. Essentially, a successful change programme inevitably will hit some plateauing and growing pains at some point and successful change managers recognise this as an inherent and normal part of such a journey. Islamic finance with its rapid history of growth and development over the last 40 years is arguably at the mature end of the first part of the S-Curve. If we accept this, the implication is clear that a refresh and new dynamism needs to be instilled as not only the risk of plateauing is evident but ominously, in a system as dynamic as finance and economics, it would be inevitable that plateauing and stagnation is an inevitable prelude to decline.



Balancing the need for more radical breakthroughs against a more evolutionary pathway is always at the core of such a journey



3. Strengthening the first part of the S-Curve: Build on the shoulders. We are not embarking on change from a position of weakness, let alone crisis. On the contrary, as discussed, we have much to be proud of, *alhamdulillah*, and can enter this period of change from a position of strength. We should build and strengthen further on the many existing and excellent programmes and initiatives. In addition to the well-developed Shariah-compliant ecosystem, existing and innovative programmes and frameworks such as Value-Based Intermediation (VBI), iTEKAD, Investment Accounts, SRI Sukuk, Maqasid Al-Shariah Guidance Islamic Capital Market, that are pushing the boundaries for Islamic finance, should be pushed ahead in earnest.

4. Seed and grow the second part of the S-Curve: a new *Islah* curve. The next wave, the next curve for Islamic finance, in building on the shoulders of a strong Shariah-compliant financial system, must endeavour to create a more Shariah-driven, Shariah-outcome and impact system that is closer to the ideals of being anchored on the Maqasid Al-Shariah and related concepts including moving from a Halal ecosystem to a Halal and *Tayyib* ecosystem. Such a new wave, a new curve we are proposing to term the *Islah* curve in Islamic finance. For the purposes of giving more body to this concept, we are outlining ten themes and shifts needed of what an *Islah*-curve could look like in terms of the pushing the boundaries of current practices.

5. Scaling the sustainability and inclusivity mountain together – collaborate with all that is good. There is a famous and instructive saying that wisdom is the lost property of all believers – use it where you find it.

Indeed, the problem of the global commons are many and complex and Islamic finance should continue to collaborate, synthesise, and ride on existing good trends in global economics and finance. These include the developments and practices around, inter alia, SDG, ESG, Sustainable Finance, Impact Investing, unlocking philanthropic capital and social responsibility. So long as these practices are not in contravention to our frames and practices, we can and should use them. Indeed, there is a case to be made that Islamic finance in its most authentic form as a *rahmatul lil alamin* (providing grace to all mankind and the environment), has much to contribute to the global solution in an increasingly fractured global financial system

6. Solve for national development objectives. The change journey of Islamic finance does not exist in a vacuum. Indeed, an anchoring principle and test of its utility rests on its ability to serve and support the real economy and society through national developmental needs and objectives. Some of these objectives are already in various national plans, inter alia, in the plans for a Madani Society, the Industrial Master Plan, the National Energy Transition Roadmap, among others.

7. Anchor on the MIFC mandate. Finally, the MIFC Leadership Council is a creation of policy – through the vision of the Financial Sector Blueprint (2022 - 2026) of BNM and the Capital Market Masterplan 3 (2021 - 2025) of the SC for a platform for a more industry-led programme to co-develop the next phase of Islamic finance. This will continue to be a foundational principle on this journey of change.

V. A HIJRAH TO ISLAH: TEN SHIFTS FOR CHANGE

The journey of change beyond new slogans and terms will, in the final analysis, be defined by its ability to engender real change. Ultimately, the proof or otherwise of the effectiveness and authenticity of such change is to be measured by its positive and sustained impact to improve lives, livelihoods and character of economies and societies and its constituent parts.

The third section on the call to action will begin to demonstrate what some of these initial examples of change within an *Islah* curve would look like through the tabling of examples in 18 impact and demonstration projects (termed MLC Impact Projects) under ten categories and areas of change. These are projects that have already started or are about to be launched together at or around the Global Forum of Islamic Economics and Finance on the 28th and 29th of May 2024 where this Position Paper is also to be launched.

Prior to that, in this segment of this section and further to the principles for change outlined above, we table below ten proposed shifts or themes of what a move or *Hijrah* to an *Islah* curve will look like:

1. **A shift from legal form to more equitable substance: From Halal to Halal and Tayyib.** While many instruments and products are already satisfying both form substance considerations, there is a need to widen and deepen this further. To truly deepen and manifest existing frameworks such as the VBI principles and the Maqasid Al-Shariah Guidance and to indeed move from a merely *Halal* (Shariah compliant) system to a more *Halal* and *Tayyib* (Shariah-driven and Shariah impact) system.
2. **A shift to deepen and broaden the Islamic financial instruments spectrum (1): increase equity risk capital formation.** This will mean unlocking more risk capital where risk and reward through participatory finance, *mudarabah* and *musharakah* structures takes place into the marketplace, through various channels of equity, private equity, and venture capital, among others, through the deployment of more capital from pools of savings. This will be key to create a more vibrant eco-system of capital providers, capital intermediaries and an entrepreneur base that is more inclusive, meritocratic and progressive.
3. **A shift to deepen and broaden the Islamic financial instruments spectrum (2): broaden and deepen philanthropic capital.** This includes the continued improvement and unlocking of existing channels of zakat, waqf, sadaqah and qard hasan under the Islamic social finance system, but to also channel new ideas and practices to include more efficient market-making mechanisms, to harness and combine with conventional practices such as CSR, endowments and provision of public goods.
4. **A shift in focusing Islamic finance to be within a greater understanding and linkage with Islamic economics and other related fields.** This would mean, inter alia, to locate more closely Islamic finance within foundational economic concepts such as the function and creation of money, of a just and equitable society and the building of a civilizational society. Topics such as the nature, role and function of money, the creation of money including fiat money, the fractional reserve banking system, the shadow banking system, the nature of production, consumption and distribution and so on can be expected to be among the areas of research to be delved into.
5. **A shift to make greater financial inclusion and access.** The injunction in the Holy Quran (Al-Quran, 59:7) is clear that wealth must not only circulate among the rich and therefore financial inclusion for the most needy is actually a clear obligation of the financial system.
6. **A shift to emphasise greater individual and societal empowerment through Islamic finance instruments.** Finance for all its importance and power is not the only enabling instrument in building the capacity and capability of those that are being financed – individuals, companies, entrepreneurs, or institutions. While finance is a necessary condition for development, it is not a sufficient condition in itself. There are other factors

including quality of management and governance and discipline of execution and operations among others. In this regard, finance and its instruments have the capacity to drive standards and behaviour through contract terms, covenants, and market requirements. For example, a *qard hasan* financing with performance standards will often give a better and lasting outcome than a straightforward charity through sadaqah and CSR funds. Or the utilisation of zakat and waqf funds to be more of a “teach them to fish” structures rather than “give them fish” is of the same vein.

7. **A shift to not just *amar ma'ruf*, but to also look for opportunities to apply *nahi munkar* practices through financial arrangements.** As we chart an *Islah* curve in Islamic finance within an overall *Islah* curve for national development, it is often observed that our national development pathway has been full of all manner of well-crafted transformation and development plans covering all manner of activities and sectors. This is of course good, but nonetheless, many if not most of these plans tend to be of the *amar ma'ruf* category: improving public transport, improving education, build better entrepreneurs, transition to net zero, and the like. Often, the eventual limitations and stumbling blocks of these plans has been the deep structural impediments around the realities of corruption, cronyism, cartels, bureaucracies, and power bases. The eight Structural Reform Initiatives of the now somewhat forgotten New Economic Model (2010) for example was an attempt at trying to address some of these through *nahi munkar* initiatives. Finance and Islamic finance has the potential to impose performance standards that begin to chip away at some of these structural impediments and this *Islah* curve should look into this possibility. For example, SRI Sukuks with strict performance standards and high accountability and transparency obligations are potent instruments to drive such key changes in doing *nahi munkar* and not just *amar ma'ruf*. One example demonstrated by one of the showcased demonstration projects is where zakat funds are being used in Kedah to help paddy farmers to overcome debilitating financial practices of cartels around the *sistem padi kuncha*.
8. **A shift to better harness technology and good innovation in Islamic finance.** In the golden age of Islam, technology and innovation were prevalent within the Islamic tradition, with Muslim scholars embracing scientific advancements and contributing to fields such as mathematics, astronomy, medicine, and architecture. Today, with the rise of fintech solutions, we have the opportunity to drive forward the growth of Islamic

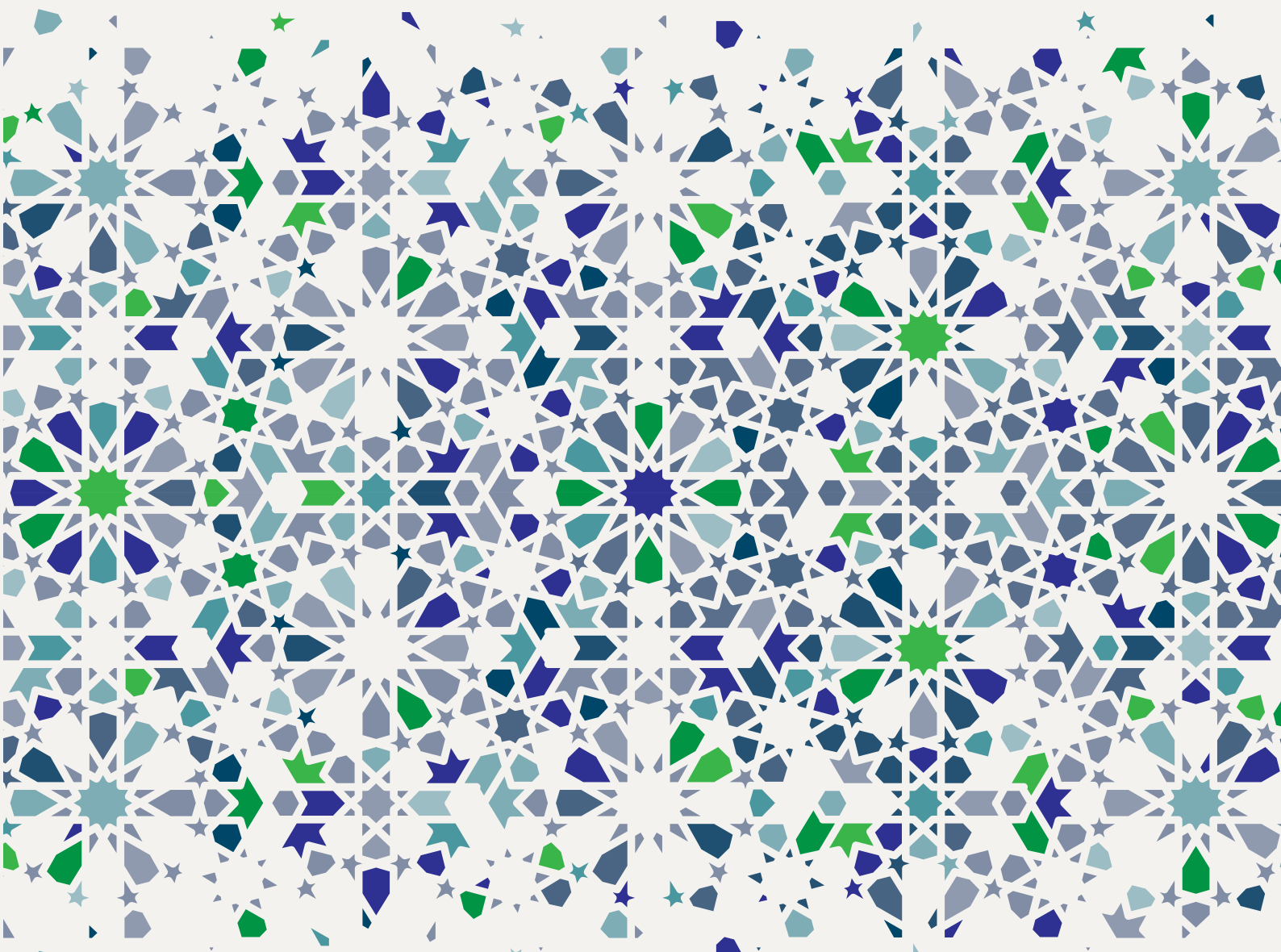
finance by utilising technology to enhance accessibility, transparency, and efficiency. It is crucial that we focus on developing innovative Shariah-compliant fintech solutions to stay competitive in the digital age. Overall, by harnessing technology and good innovation, we can ensure that Islamic finance remains relevant and competitive while upholding the highest standards of integrity and compliance.

9. **A shift to improve talent formation, capacity building and institution-building.** Much commendable work has already been done with a comprehensive institutional framework being established especially over the last 40 years or so. Nonetheless, in the spirit of continuous improvements, there is a compelling need to continue to prioritise talent formation, capacity building and institutional development in Islamic finance. This can be achieved through targeted education and training programmes focused on Shariah-compliant finance, as well as initiatives to develop specialised skills in areas such as Islamic banking, takaful, and sukuk. By nurturing talent and enhancing expertise within the industry, we can ensure a sustainable future for Islamic finance, uphold the principles of ethical finance, and meet the growing demand for Shariah-compliant products and services. Within this ambit, it is worth emphasising the obvious that the development of strong and capable institutions with the best standards and practices of governance, risk management and delivery capabilities among the industry players – from Islamic financial institutions, GLICs, think tanks, research and academic institutions, to state and federal religious councils managing zakat, waqaf and sadaqah among others, will ultimately be a very critical element for the sustained success for building this next curve.
10. **A shift to improve thought leadership and knowledge development.** The need for thought leadership and knowledge development in Islamic finance is paramount for promoting innovation, improving industry practices, and expanding its global acceptance. By investing in research, education, and collaborative platforms, we can drive innovation, foster a deeper understanding of Shariah principles, and address emerging challenges in the Islamic finance industry. Thought leadership initiatives will not only elevate the discourse surrounding Islamic finance but also contribute to its growth and global recognition. Through continuous learning, sharing insights, and promoting best practices, we can strengthen the foundations of Islamic finance, enrich the talent pool, and advance the industry towards greater sustainability and relevance in the financial landscape.

Section

3

A Call to Action: Co-creating The Next *Islah* Curve for Islamic Finance and Economics





The Position Paper has three main objectives, which are highlighted in the three main sections. First, it aims to assess the current state of development of Islamic finance in Malaysia and beyond, as detailed in Section 1. Second, it seeks to review and identify the need for change in response to existing challenges and opportunities, taking into account current and future trends and developments in Malaysia and globally. This is summarized in Section 2.

And third, and most importantly, this Position Paper is ultimately a call to action. And this section (Section 3) henceforth outlines distinctive and actionable recommendations for policy makers, industry players, regulators and scholars to chart the new wave that is required to take Islamic finance and indeed the overall discipline of finance itself to better serve the real economy, and in the process to build and rebuild a more just and progressive society. In particular, this section outlines:

- ◆ **Five key thrusts**
- ◆ **10 focus areas in seeding and developing a new *Islah* curve for Islamic finance**
- ◆ **18 initial MLC Impact Projects (MIPs) as a demonstration of the type of projects, products and practices that reflect the *Islah* required to chart the next wave of Islamic finance development that will manifest through the realisation of existing frameworks such as VBI and Maqasid Al-Shariah Guidance Islamic Capital Market and the application of moving from the Halal Shariah-compliant ecosystem towards a more *Tayyib*, Shariah-outcome ecosystem.**

i. FIVE KEY THRUSTS



Strengthening the S-Curve part 1: Strengthen existing initiatives and programmes

This would cover all existing initiatives under the comprehensive Islamic financial system to date. This includes in Islamic banking, Islamic capital markets, Islamic equities, takaful and other Islamic NBFIs and other complementary institutions in academia, research, and supporting institutions such as standards and industry groupings.



Seeding and developing part 2 of the S-Curve: Building a new *Islah* curve for Islamic finance

This is further categorised under ten focus areas of the new *Islah* curve in the segment that follows.



Demonstration effect through MLC Impact Projects

Many of these ideas and concepts, including *inter alia*, the concept of *Islah* and *Tayyib* can be potentially somewhat abstract and obscure if left without exemplars. It really comes to life when demonstrated in use cases and actual real-world applications. As we do industry developmental work, in creating a new wave for the industry, it is not possible nor practical to expect to immediately create a fully functioning ecosystem. This necessarily takes time, sequencing, path dependency and a gradual and dogged commitment of time, constancy and resources. As is often said, it is not possible nor even desirable to “boil the ocean”.

Nonetheless, to maintain the energy and momentum of a transformation journey, it is important to effect eventual system change through careful choice of deliverables and demonstration impact projects in key areas and at key moments. We call this technique “transformation acupuncture” and it has been applied in various homegrown wide scale national programmes such as the GLC Transformation Programme between 2005 and 2015 where ten focus areas of operational verticals such as leadership development, board governance, procurement and so on were combined with transformation programmes at key companies such as Tenaga Nasional Berhad, Telekom Malaysia Berhad, Sime Darby Berhad, Malayan Banking Berhad and CIMB Group

Berhad to effect needle-moving change that eventually spread to have a system-wide impact.

This Position Paper covers an initial set of 18 such MIPs under the 10 *Islah* focus areas outlined in the segments below. It is also worth to emphasise and caveat that these are an initial set of demonstration projects. It is also showcased based on what is currently in the various stages of discussion and pipeline as put together by various industry players. We note that a fuller and no doubt future list of MIPs can and should include other important aspects and areas currently absent or lightly covered from this initial list for example, in addressing *inter alia*, critical issues such as better social protection to address ageing, the national energy transition and climate adaptation, and food security. We hope that industry players will look at the demonstration effect from this initial list to spark constructive action to develop products, programmes and practices that will better address the many areas in the real economic sectors and in society that we no doubt will need to address in the months and years ahead.



Berjemaah: Doing this together

The nature of the change required, the scale and complexity of the financial sector and the wide array of players and stakeholders with its many silos and narrow interests means that this is a classic collective action imperative to address and indeed reclaim the problem of the global or at least national financial commons. Experience has taught us that the only sustainable way forward to address this is to build much mutual trust, networks and reciprocity to be embedded within the process of change. In particular, we must avoid the trap of being narrow in our outlook, hair-splitting and nit-picking in our orientation and most of in not being constructive in our interactions. Indeed, the loss of *ijtihad* has often been cited as a major cause of the decline and fall in Islamic civilization throughout our history. Investing in and developing the social capital and trust within the Islamic finance industry to chart this next wave, the *Islah* curve, will be key. In this regard, *insha-Allah* the MLC if mandated looks forward to playing our role to facilitate and complement the regulators and policy making bodies with the industry players and scholars, among others.

5 The discipline of execution and implementation

Ultimately, effective and sustainable change can only happen through the discipline of effective implementation and strong and disciplined execution. Inter alia, it means choosing the right things to get done (i.e. strategy), getting it done right, i.e. efficiently and with the right quality (i.e. operations and execution), and to do it all in the right way (i.e. ethics and governance). Key thrusts' such as this further illustrates the Council's intention for its recommendations to benefit the industry. In this regard, the Council further recommends the adoption of the following:

1. Adopt a programme management approach to implement what is essentially a transformation programme.
2. Establish an appropriate timeline for the programme including key milestones and deliverables. A typical programme of this scale, scope and ambition would be ten years, for example.
3. Establish and strengthen the day-to-day personnel required to monitor, drive, problem solve and develop the various programmes and projects. This is typically in the Secretariat or Transformation Management Office of such programmes.
4. Establish an appropriate mechanism of Oversight and Sponsorship Entity for the Programme. Given the scale and scope of a programme, this would typically involve a very high or even highest level of oversight and sponsorship involving the ministerial level appointments and at the level of the head of the relevant regulatory and policy-making bodies. Such a high-level oversight committee would meet periodically over the transformation period, typically on average 3 to 4 times a year. Drawing from past experience, in the case of the GLC Transformation Programme for example, between 2005 and 2015, 29 meetings of the Putrajaya Committee chaired by either the Prime Minister or the Minister in charge over the 10-year transformation period.
5. In establishing an ongoing Transformation Programme, such an Oversight and Sponsorship Entity, with the Secretariat, will need to establish detailed plans, targets, both qualitative and quantitative, milestones, roles and accountabilities within the ambit of an overall understanding and articulation of what would be a successful transformation programme.
6. Accountability, transparency, communications and periodic reporting. Once established, such a transformation programme would typically require and indeed will be strengthened through regular and consistent reporting through mechanisms and devices such as periodic public reports, regular stakeholder engagement sessions, and periodic press and conference appearances.



Investing in and developing the social capital and trust within the Islamic finance industry to chart this next wave, the Islah curve, will be key

ii. 10 MLC KEY FOCUS AREAS (MKFAs) AND 18 INITIAL MLC IMPACT PROJECTS (MIPs)

As mentioned above, giving body to the ideas and strategy of the *Islah* of Islamic finance and shifting from a Halal to *Tayyib* conception will ultimately be determined by the ability to demonstrate at the proverbial “three-feet level” to effectively create the required impact and outcomes. In this regard, we have outlined ten MLC Key Focus Areas (MLC KFAs or MKFAs) and within an 18 initial MIPs as tabulated below.

As mentioned above, it is worth highlighting again and as a caveat that this is an initial list of MIPs that is not intended to be the final and all-encompassing list. This is an initial set of ideas and projects that are ready to be announced and launched, reflecting a collective action from the industry and regulators. Indeed, quite a few are already in existence albeit we are taking this opportunity, coinciding with the launch of this Position Paper to call for a step-up in scale, ambition and speed as appropriate. There are already multiple potential MIPs in the pipeline as we can expect that over a ten-year period if adopted, there will *insha-Allah* be many more.

<div> <div>1</div> <div>MLC KEY FOCUS AREA (MKFAs)</div> </div> ADVANCING MIFC INTERNATIONAL AGENDA	
PROJECT (MIP)	1. Collaboration with Komite Nasional Ekonomi dan Keuangan Syariah, Indonesia (KNEKS) 2. Collaboration with Hong Kong Trade Development Council (HKTDC) 17. Collaboration with Finance Office of Presidency of The Republic of Türkiye (CBFO) 18. Collaboration with Islamic Finance Council UK (UKIFC)
OUTLINE	Collaboration meant to strengthen international linkages through various focused areas, including Islamic finance products innovation; facilitating and promoting the development of cross-border financial activities; and capacity building and education.
LINK TO ISLAH (REFER TO SECTION ON 10 SHIFTS FOR CHANGE)	Shifts 4 (Islamic Economics), 9 (Talent and Capacity Building) and 10 (Knowledge Development)

<div> <div>2</div> <div>MLC KEY FOCUS AREA (MKFAs)</div> </div> UNLOCKING PHILANTHROPIC CAPITAL	
PROJECT (MIP)	3. Social Exchange (an initiative by Securities Commission Malaysia)
OUTLINE	The Social Exchange will serve as a platform dedicated to funding projects and businesses that prioritise societal and environmental impact alongside profitability.
LINK TO ISLAH (REFER TO SECTION ON 10 SHIFTS FOR CHANGE)	Shifts 1 (More Substance), 3 (Philanthropic Capital) and 5 (Financial Inclusion)



MLC KEY FOCUS AREA (MKFAs)

3 UNLOCKING EQUITY RISK CAPITAL

PROJECT (MIP)	4. Dana Pemacu – a new special allocation for private markets investment in Malaysia (an initiative by KWAP)
OUTLINE	A total of RM6 billion has been allocated for Dana Pemacu, with 50% (or RM3 billion) to be Shariah-focused, unlocking the potential of Islamic equity capital in creating a more Shariah impactful and enhancing private markets.
LINK TO ISLAH (REFER TO SECTION ON 10 SHIFTS FOR CHANGE)	Shifts 1 (More Substance), 2 (Unlocking Equity Risk Capital) and 6 (Greater Empowerment)



MLC KEY FOCUS AREA (MKFAs)

4 STRENGTHENING WAQF

PROJECT (MIP)	5. Waqf-linked Sukuk
OUTLINE	Explore the issuance of waqf-linked sukuk as a mechanism to raise funds for impact projects such as schools, hospitals, etc.
LINK TO ISLAH (REFER TO SECTION ON 10 SHIFTS FOR CHANGE)	Shifts 3 (Philanthropic Capital), 5 (Financial Inclusion) and 6 (Greater Empowerment)



MLC KEY FOCUS AREA (MKFAs)

5 STRENGTHENING ZAKAT

PROJECT (MIP)	6. 'Project Hassan' (an initiative by MLC, LZNK, INCEIF, and AIBIM member banks)
OUTLINE	MLC, AIBIM and INCEIF University will collaborate with Lembaga Zakat Negeri Kedah to upscale zakat initiatives for the benefit of the <i>asnaf</i> (zakat recipients).
LINK TO ISLAH (REFER TO SECTION ON 10 SHIFTS FOR CHANGE)	Shifts 3 (Philanthropic Capital), 5 (Financial Inclusion), 6 (Greater Empowerment), 7 (<i>Nahi Munkar</i>)



MLC KEY FOCUS AREA (MKFAs)

ELEVATING KNOWLEDGE, CAPACITY BUILDING AND INSTITUTIONAL BUILDING

PROJECT (MIP) 7. Centre of Excellence for Islamic Economics (an initiative by INCEIF University and MLC)

OUTLINE An academic research centre to advance the field of Islamic economics and to better locate and link Islamic finance and Islamic economics.

LINK TO ISLAH
(REFER TO SECTION ON 10 SHIFTS FOR CHANGE) Shifts 9 (Talent, Capacity, and Institutional Building) and 10 (Knowledge)

PROJECT (MIP) 8. Development of a Global Programme for Islamic Economist (an initiative by BNM and implementation partners)

OUTLINE A programme aimed at cultivating a cadre of dynamic and highly skilled economists equipped with knowledge and expertise to address contemporary economic challenges.

LINK TO ISLAH
(REFER TO SECTION ON 10 SHIFTS FOR CHANGE) Shifts 9 (Talent, Capacity, and Institutional Building) and 10 (Knowledge)

PROJECT (MIP) 9. Issuance of a Discussion Paper on the Scholars Review of the *Tayyib* Concept (by ISRA-INCEIF University)

OUTLINE This project aims to thoroughly elucidate the essence of *Tayyib* and explore practical applications, ultimately serving as a reference for understanding and implementing the *Tayyib* concept.

LINK TO ISLAH
(REFER TO SECTION ON 10 SHIFTS FOR CHANGE) Shifts 1 (More Substance) and 10 (Knowledge)



MLC KEY FOCUS AREA (MKFAs)

STRENGTHENING TAKAFUL

PROJECT (MIP) 10. Maqasid Shariah Scorecard for Takaful (an initiative by Malaysian Takaful Association – MTA with INCEIF)

OUTLINE A measurement tool to demonstrate and validate VBIT based on Maqasid al-Shariah.

LINK TO ISLAH
(REFER TO SECTION ON 10 SHIFTS FOR CHANGE) Shifts 1 (More Substance) and 10 (Knowledge)

PROJECT (MIP) 11. Post-Retirement Medical Takaful Scheme (an initiative by MTA)

OUTLINE An innovative solution that addresses post-retirement medical coverage for pensioners.

LINK TO ISLAH
(REFER TO SECTION ON 10 SHIFTS FOR CHANGE) Shifts 5 (Financial Inclusion), 6 (Greater Empowerment)



MLC KEY FOCUS AREA (MKFAs)

ELEVATING INCLUSIVITY AND ENTREPRENEURSHIP

PROJECT (MIP)	12. Scaling-up iTEKAD (an initiative by BNM and AIBIM members)
OUTLINE	To expand the reach and effectiveness of BNM's iTEKAD initiative.
LINK TO ISLAH (REFER TO SECTION ON 10 SHIFTS FOR CHANGE)	Shifts 1 (More Substance), 3 (Philanthropic Capital), 5 (Financial Inclusion), 6 (Greater Empowerment), 8 (Tech and Innovation)
PROJECT (MIP)	13. Entrepreneurship (initiatives by AIBIM member banks)
OUTLINE	AIBIM member banks in collaboration with MLC to scale up their respective entrepreneurship programmes, to especially target MSMEs and include the "Pasar Malam Economy"
LINK TO ISLAH (REFER TO SECTION ON 10 SHIFTS FOR CHANGE)	Shifts 1 (More Substance), 3 (Philanthropic Capital), 5 (Financial Inclusion), 6 (Greater Empowerment), 8 (Tech and Innovation)



MLC KEY FOCUS AREA (MKFAs)

ELEVATING SUSTAINABILITY

PROJECT (MIP)	14. Biodiversity SRI Sukuk (an initiative by MOF)
OUTLINE	Issuance of a sukuk, with elements of SRI sukuk totalling up to RM1b as announced in the 2024 Budget involving for example, the planned replanting of degraded forests.
LINK TO ISLAH (REFER TO SECTION ON 10 SHIFTS FOR CHANGE)	Shifts 1 (More Substance), 4 (Islamic Economics).
PROJECT (MIP)	15. Greening Halal Business – (an initiative by MOF, BNM, IsDB and World Bank Hub in Malaysia)
OUTLINE	To assist and incentivise Halal companies to move towards greening their operations.
LINK TO ISLAH (REFER TO SECTION ON 10 SHIFTS FOR CHANGE)	Shifts 1 (More Substance), 4 (Islamic Economics), 8 (Tech and Innovation)



MLC KEY FOCUS AREA (MKFAs)

ACCELERATING ADOPTION OF DIGITAL INNOVATION & TECHNOLOGY

PROJECT (MIP)	16. Development of Shariah-compliant stock screening approach driven by technology (including AI, Big Data, Blockchain)
OUTLINE	Leveraging advanced technologies such as artificial intelligence for Shariah screening of public listed companies (PLCs), an approach that can facilitate development of broader spectrum of Shariah-compliant investment universe by incorporating elements such as Maqasid Al-Shariah and ESG into the screening methodology.
LINK TO ISLAH (REFER TO SECTION ON 10 SHIFTS FOR CHANGE)	Shifts 1 (More Substance) and 8 (Tech and Innovation)

CONCLUSIONS – A CALL TO ACTION: ESTABLISHING *ISLAH* THROUGH ISLAMIC FINANCE

We anchor the spirit of this Position Paper with the term “*Islah*”. Linguistically, the term means to reform, to improve and to restore things to be in its state of *fitrah* of a natural, authentic, and good position.

We take inspiration that the term *Islah* in the title of the classical text on the economics of purpose, *Islah al-Mal* (Restoration of Wealth) of Imam Ibn Abi Al-Dunya while primarily meaning reformation, it also stresses the importance of rehabilitation and restoration; to make things whole, productive, and purposeful again. Indeed, while we are grateful for the progress made in the post-*Merdeka* period, there must be a recognition that what brought us here will not be enough to take us to where we need to go. The time has come to inject a new sense of *Islah* or reforms in order to chart the next phase of growth and development.

To recap, this Position Paper has three principal objectives. First, to take stock of the current state of development of Islamic finance in Malaysia and beyond. Second, to review and identify the case for change in light of existing challenges and opportunities based on current and future trends and developments in Malaysia and the world. And third, to make distinctive and actionable recommendations for policy makers, industry players, regulators, and scholars to chart the new wave that is required to take Islamic finance and indeed the overall discipline of finance itself to better serve the real economy, and in the process to build and rebuild a more just and progressive society.

This Position Paper has been the result of feedback and discussions with all manner of stakeholder groups covering, inter alia, industry players, industry groupings, regulators, standards bodies, think tanks, academic institutions, Islamic

finance scholars and the media. Through more than 100 substantive engagement sessions, industry meetings, roundtable discussions, speeches, and communications in Malaysia and internationally over the last 18 months since its formation, the MIFC Leadership Council is indeed privileged to have covered such a fertile ground and would like to record our sincere gratitude to all the invaluable feedback and contributions.

The feedback and emerging conclusions are abundantly clear: Malaysia can rightly be proud, *alhamdulillah*, to have achieved so much for and through Islamic finance over the last 60-odd years. However, it would also be both prudent and opportunistic to recognise that given the confluence of key megatrends around the global challenges of inclusivity and sustainability and the increasing limitations and weaknesses of the global financial system, this is an opportune time for Islamic finance to take a more prominent role, for a step change to catalyse a new phase of growth and development, not just in order to meet our national aspirations and plans but to also potentially be a model for renewal for the ummah and the world.

It is in this vein that this Position Paper is running with the theme of “**Establishing *Islah* through Islamic finance**” with the sub-text of “*Building on the shoulders of 60 years of Islamic finance; co-creating the next wave towards a more inclusive and sustainable world.*”

It is also in this context, this Position Paper has outlined several key building blocks in developing this next wave, the *Islah* curve for and through Islamic finance:

7 Principles for Change (Section 2, pages 23 to 24)

1. Pragmatism, progressivism and balance
2. Recognition of an inevitable S-Curve
3. Strengthen existing Islamic finance initiatives – first part of the S-Curve
4. Seed, broaden and grow new Islamic finance initiatives – the second part of the S-Curve
5. Collaborate with conventional finance on all good and universal sustainability and inclusivity frameworks and programmes
6. Solve and support national development plans and programmes
7. Anchor and focus on MIFC mandate

10 Shifts for Change: A *Hijrah* to *Islah* (Section 2, pages 25 to 26)

1. Legal form to more equitable substance, from *Halal* to *Halal* and *Tayyib*
2. Increase equity risk capital formation
3. Broaden and deepen philanthropic capital formation
4. Better locate Islamic finance within Islamic economics
5. Greater financial inclusion and access
6. Greater individual and societal empowerment through Islamic finance instruments
7. Not just *amar maaruf*, but also *nahi mungkar*
8. Better harness technology and good innovation
9. Better talent formation and capacity and institutional building
10. Better thought leadership and knowledge development

5 Key Thrusts (Section 3, pages 29 to 30)

1. Build on the shoulders: strengthen existing initiatives
2. Develop a new *Islah* curve: seed, grow, develop new initiatives, broaden the frontiers
3. Demonstrate the power and potential through MIPs i.e. impact projects
4. *Berjemaah*: Do it together
5. Discipline of Execution and Implementation – programme management, strong oversight and sponsorship mechanism, establishment of quantitative and qualitative targets and communications and accountability mechanisms.

10 MLC Key Focus Areas (MKFAs) (Section 3, pages 31 to 34)

1. Advancing MIFC International Agenda
2. Unlocking Philanthropic Capital
3. Unlocking Equity Risk Capital
4. Strengthening Waqf
5. Strengthening Zakat
6. Elevating Knowledge and Capacity Building
7. Strengthening Takaful
8. Elevating Inclusivity and Entrepreneurship
9. Elevating Sustainability
10. Accelerating Adoption of Digital Innovation and Technology

18 initial MLC Impact Projects (MIPs) (Section 3, pages 31 to 34)

1. MLC collaboration with Komite Nasional Ekonomi dan Keuangan Syariah, Indonesia (KNEKS)
2. MLC collaboration with Hong Kong Trade Development Council (HKTDC), Hong Kong
3. Establish the Social Exchange for social enterprises (by the Securities Commission)
4. RM3b Shariah-based Dana Pemacu by KWAP
5. Waqf-linked Sukuk for Impact Projects
6. "Project Hassan" Smart Sawah Berskala Besar Asnaf (Smart SBBA) by Lembaga Zakat Negeri Kedah with INCEIF University and AIBIM member banks
7. Establishment of Centre of Excellence for Islamic Economics (an initiative by INCEIF University and MLC)
8. Development of a Global Programme for Islamic Economist (an initiative by BNM and implementation partners)
9. Issuance of a Discussion Paper on the Scholars Review of the *Tayyib* Concept (by ISRA-INCEIF University)
10. Development of a Maqasid Shariah Scorecard (by Malaysian Takaful Association)
11. Launch of a Post-Retirement Medical Takaful Scheme (by Malaysian Takaful Association)
12. Scaling up iTEKAD (by BNM, AIBIM member banks)
13. Elevating entrepreneurship financing schemes (by AIBIM member banks)
14. RM1b Biodiversity SRI Sukuk (by MOF)
15. Greening Halal Business – (an initiative by MOF, BNM, IsDB and World Bank Hub in Malaysia)
16. Development of Shariah-compliant stock screening approach driven by technology (e.g. AI, Big Data, Blockchain)
17. MLC collaboration with Finance Office of Presidency of The Republic of Türkiye (CBFO), Türkiye
18. MLC collaboration with Islamic Finance Council UK (UKIFC), United Kingdom

Taken together, these 50 items are collectively the initial building blocks in constructing a new wave, a new *Islah* curve for Islamic finance that will *insha-Allah* further advance Malaysia's national aspirations and to contribute to the ummah and indeed the world in making finance and Islamic finance serve the real economy in order to serve society to be more just, sustainable and progressive.

On behalf of the Council we would like to record our utmost thanks and appreciation to the many contributors and stakeholders who have helped to shape this Position Paper.

As outlined, this Position Paper reviews and builds on the shoulders of the pioneers, builders and institutional architects over the last 60-odd years.

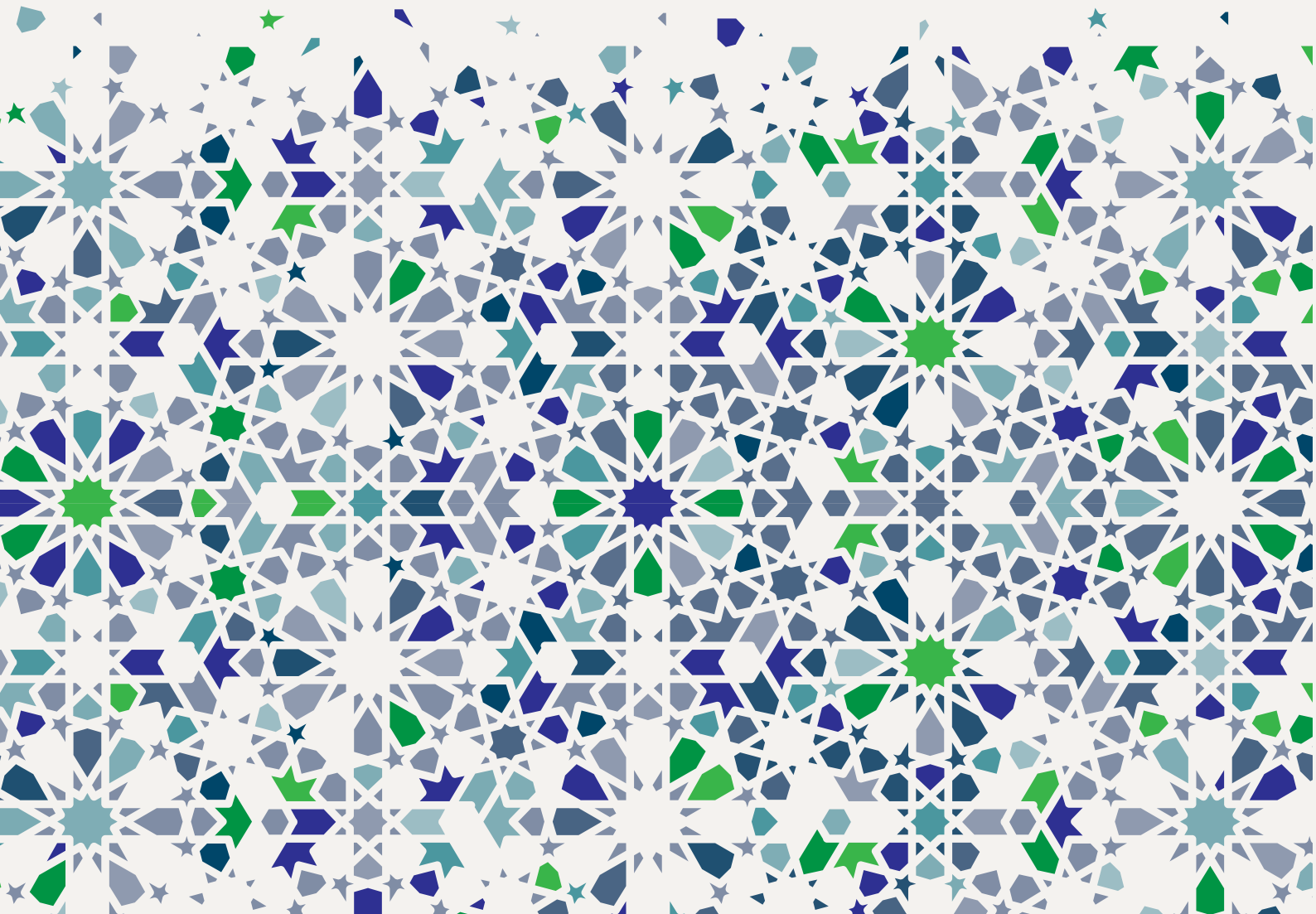
It is not the end-all, but no doubt just a start, a humble effort to continue the process of renewal and *Islah* necessary to reclaim a more inclusive and sustainable financial commons through the deep power of Islamic finance. It is above all, a call to not just action, but more so to collective action. May we join forces, work together and may Allah SWT guide and help us on this noble effort, *insha-Allah*.

وَبِاللّٰهِ التَّوْفِیْقُ



***Establishing Islah through
Islamic finance – Building
on the shoulders of 60
years of Islamic finance;
co-creating the next wave
towards a more inclusive
and sustainable world***

Appendices



i. Glossary

Term	Definition
Asnaf	In Islamic finance and charity, “asnaf” refers to the categories of eligible recipients of zakat (obligatory alms-giving). These categories include the poor, needy, debtors, those employed to administer zakat, new Muslims, captives, travellers in need, and those fighting in the cause of Allah.
Berjemaah	Based on the root word “jemaah”, it commonly refers to a congregation or group of people, particularly in the context of congregational prayer and collective spiritual activities. The concept of jemaah also extends to the idea of a collective community or assembly within Islamic teachings, emphasising the importance of unity and mutual support among believers.
Halal	Halal refers to what is permissible or lawful in Islamic law. It applies to various aspects of life, including food, finance, and general conduct, and is determined by adherence to Islamic principles and guidelines.
Hijrah	The concept of hijrah symbolises an essential aspect of Islam; it demonstrates faith, sacrifice, and resilience in the face of adversity. In the context of Islamic finance, hijrah refers to a growing trend among some Muslims to shift from conventional-based finance to shariah-compliant finance alternatives.
Islah	In the context of Islamic finance, Islah refers to the concept of reform and improvement within the financial systems to align them with Islamic principles and values. This involves the implementation of ethical practices, adherence to Sharia, and the promotion of financial transactions that are in accordance with Islamic teachings.
Mudarabah	Mudarabah is a form of partnership in Islamic finance, where one party provides the capital (the rab-ul-mal) and another party contributes expertise and labour (the mudarib). The profits generated from the business venture are shared based on a mutually agreed-upon ratio, while the losses are borne solely by the capital provider.
Musharakah	Musharakah is a form of partnership in Islamic finance where multiple parties contribute capital towards a business venture. Profits and losses are shared between the parties according to a predetermined ratio, while all partners also have joint management and decision-making authority in the venture.
Qard hasan	Qard al-hasan is an interest-free loan in Islamic finance, provided on a goodwill basis for welfare purposes. The borrower is only required to repay the principal amount borrowed, with no interest, and the lender may extend the repayment time or waive part of the loan in case of need.
Sadaqah	Sadaqah is a voluntary act of giving in Islamic tradition, which involves donating money, possessions, or time for the benefit of others. It is considered a form of charity and a means of earning spiritual rewards in the eyes of Allah.
Shariah	Shariah is the Islamic legal framework derived from the Quran and the teachings of Prophet Muhammad. It encompasses a wide range of principles and guidelines that govern various aspects of life, including finance, ethics, and personal conduct, for Muslims.
Sukuk	Sukuk are Islamic financial instruments that are similar to bonds, representing ownership in an underlying asset or project. They adhere to sharia principles and offer investors a way to participate in the economic development and growth of projects while complying with Islamic finance principles.
Takaful	Takaful is an Islamic insurance concept based on principles of mutual assistance and cooperation. It involves members contributing to a pool of funds, which are used to provide protection for participants against losses and risks according to sharia principles.
Tayyib	In the context of Islamic finance, tayyib refers to the concept of ethical and wholesome transactions, investments, and financial practices. It emphasizes conducting financial activities in a manner that is not only compliant with sharia principles but also aligns with values of goodness, purity, and social responsibility.
Waqf	Waqf is a concept in Islam where assets are permanently dedicated for charitable purposes, such as supporting public utilities and social welfare initiatives. The donated assets become inalienable, and the income generated from them is used to benefit the community.
Zakat	Zakat is an obligatory act of worship in Islam that requires Muslims to give a portion of their wealth, typically 2.5%, to those in need. It is viewed as a means of purifying wealth, fulfilling the needs of the less fortunate, and seeking forgiveness and blessings from Allah.

ii. Abbreviation

Abbreviation	Definition	Abbreviation	Definition
AIBIM	Association of Islamic Banking and Financial Institutions Malaysia	KNEKS	Komite Nasional Ekonomi dan Keuangan Syariah
ASAS	Association of Shariah Advisors in Islamic Finance Malaysia	KRI	Khazanah Research Institute
AVPN	Asian Venture Philanthropy Network Limited	Labuan FSA	Labuan Financial Services Authority
BM-i	Bursa Malaysia-i	LTH	Lembaga Tabung Haji
BNM	Bank Negara Malaysia	LZNK	Lembaga Zakat Negeri Kedah
BSAS	Bursa Suq Al-Sila'	MAAM	Malaysian Association of Asset Managers
CBA	Central Bank of Malaysia Act 2009	MATRADE	Malaysia External Trade Development Corporation
CBFO	Finance Office Of Presidency Of The Republic Of Türkiye	MDEC	Malaysia Digital Economy Corporation
CCM	Companies Commission of Malaysia	M-EXCO	Executive Committee
CIIF	Chartered Institute of Islamic Finance Professionals	MFPC	Malaysia Financial Planning Council
CMM	Capital Markets Malaysia	MIBA	Malaysian Investment Banking Association
CMP	Capital Market Masterplan	MIFC	Malaysia International Islamic Financial Centre
COP	United Nations Climate Change Conference	MIP	MLC Impact Projects
DFI	Development finance institution	MKFA	MLC Key Focus Areas
ESG	Environmental, social, and governance	MLC	MIFC Leadership Council
FIDE	Financial Institutions Directors' Education	MTA	Malaysian Takaful Association
FSBP	Financial Sector Blueprint	NBFI	Non-banking financial institutions
GDP	Gross domestic product	OCIS	Oxford Centre for Islamic Studies
GEFI	Global Ethical Finance Initiative	OIC	Organisation of Islamic Cooperation
GFIEF	Global Forum on Islamic Economics & Finance	SC	Securities Commission Malaysia
GIFF	Global Islamic Finance Forum	SDG	Sustainable Development Goals
GIFT	Global Islamic Fintech	SIDC	Securities Industry Development Corporation
HKSFPA	Hong Kong Securities & Futures Professionals Association	SOAS	School of Oriental and African Studies
HKTDC	Hong Kong Trade Development Council	SRI	Sustainable and Responsible Investment
IAH	Investment account holders	UKIFC	Islamic Finance Council UK
IAP	Investment Account Platform	VBI	Value-Based Intermediation
IBFIM	Islamic Banking and Finance Institute Malaysia	WIEF	World Islamic Economic Forum
ICIEF	International Conference on Islamic Economics & Finance		
ICM	Islamic capital market		
ICMR	Institute for Capital Market Research Malaysia		
IFDI	Islamic Finance Development Indicator		
IFI	Islamic financial institutions		
IFSA	Islamic Financial Services Act 2013		
IFSB	Islamic Financial Services Board		
IILM	International Islamic Liquidity Management Corporation		
INCEIF	International Centre for Education in Islamic Finance		
ISRA	"International Shariah Research Academy for Islamic Finance"		

iii. MLC Activities

a. Establishment

The MIFC Leadership Council (MLC) was established in October 2022 as a joint initiative of BNM and the SC to drive the next phase of development in positioning Malaysia as an international Islamic financial centre. The Council serves as a platform to provide industry stewardship in enhancing Malaysia's proposition as a global marketplace and an international gateway for Islamic finance.

The roles of the MLC include providing thought leadership, driving strategy formulation, and monitoring industry initiatives to solidify Malaysia's leading position in Islamic finance. The MLC is guided by national strategic development plans, including BNM's Financial Sector Blueprint 2022 - 2026 (FSB 2026) and the SC's Capital Market Masterplan 3 (CMP3). The Council also leverage the expertise of financial, corporate and academic experts as well as collaborate with relevant authorities and agencies to advance areas of mutual interest and support industry initiatives.

Tan Sri Azman Mokhtar chairs the Council, with the members comprising prominent local and international industry figures as well as representatives from BNM and SC. Appointed for an initial term of three years, the current Council lineup bring a wealth of experience and expertise vital for the council's objectives.

The MLC is an entity that was created to better drive the process of getting a more inclusive and industry-driven development of Islamic finance industry in this next stage of development under the FSBP 2022-2026 and CMP3 2021-2025, in the process of discharging this role, it is worth highlighting of what the MLC is not, in that while it makes recommendations and participates in generating ideas and programmes, it is not a regulatory and policy-making body, nor a financial intermediary or issuer of financial instruments. More importantly, in the course of its operations over the first 18 months, the MLC has gradually defined its role to cover three main functions:

1. To connect and convene various parts of the Islamic finance "ecosystem" both domestically and internationally;
2. To further the development and advocacy of thought leadership in Islamic finance; and
3. To curate and catalyse relevant initiatives and programmes in Islamic finance.

Members of the MIFC Leadership Council

The Council meets periodically to provide oversight as well as track the initiatives carried out by the MLC Secretariat. Since its formation to date, the Council has met seven times.



Tan Sri Azman Mokhtar
Chairman



**Adnan Zaylani
Mohamad Zahid**
*Member, Ex-Officio, Deputy Governor,
Bank Negara Malaysia*



**Sharifatul Hanizah
Said Ali**
*Member, Ex-Officio, Executive
Director of Islamic Capital
Market, Securities Commission
Malaysia*



Tan Sri Andrew Sheng
Member



**Dato Dr. Nik Ramlah
Nik Mahmood**
Member



**Dato' Mohammad
Faiz Azmi**
Member



**Dato' Abdul Rahman
Ahmad**
Member



**Prof. Datuk Dr. Mohamad
Akram Laldin**
Member



Rejina Rahim
Member



**Dato Paduka Iqbal
Ahmad Khan**
Member

Past members of the MLC are as follows:

- Datuk Shaik Abdul Rasheed bin Abdul Ghaffour (from October 2022 to September 2023)
- Datuk Zainal Izlan bin Zainal Abidin (from October 2022 to January 2023)

The Council is supported by an Executive Committee (M-EXCO) which was established in April 2024. Members of the M-EXCO are:

1. Tan Sri Azman Mokhtar, Chairman
2. Dato Dr. Nik Ramlah Mahmood
3. Siti Rosina Attaullah (representative of BNM)
4. Hamzil Mohamadan (representative of SC)

The MLC Secretariat was formed to support the Council (and thereafter, the M-EXCO) to execute its directions and plans. Members of the Secretariat comprise experienced subject-matter experts in the areas of banking, capital market, takaful, stakeholder engagement & communications, and project office management. Current members of Secretariat are:

1. Firdaus Suffian Abdul Latif - Interim Head of Secretariat (since 1 April 2024)
2. Hairul Azmie Abd Aziz (seconded from BNM)
3. Nik Izrin Thani (seconded from SC)
4. Dr Musliza Musa
5. Alina Nur Shaida Mohammad Ramly

Past members of the MLC Secretariat are as follows:

- Norfadelizan bin Abdul Rahman (Head of Secretariat from March 2023 to March 2024)
- Siti Rosina Attaullah (seconded from BNM from October 2022 to April 2023)

During its first year of operations, the MLC Secretariat was operationally linked to the Islamic Banking and Finance Institute Malaysia (IBFIM) through an agreement between BNM, the SC, and IBFIM. This arrangement tasked IBFIM with providing necessary support to the Secretariat until it could operate independently.

On 13 March 2024, the MLC received approval from the Companies Commission of Malaysia (CCM) for its incorporation as a company limited by guarantee, under the name MIFC Leadership Council Berhad. This approval signifies a significant step for the MLC Secretariat in transitioning towards independence from IBFIM, with the process expected to be finalised by the end of 2024.

b. Engagement Sessions

The Council, as it was established to provide industry stewardship in Islamic finance, has conducted over 100 engagement sessions with various key stakeholder groups up until the end of March 2024. These sessions, led by the MLC Chairman and/ or Head of Secretariat, aimed to foster dialogue and collaboration within the industry.

Throughout this period, the MLC Chairman participated in no fewer than 37 speaking engagements, both domestically and internationally. These engagements contributed towards promoting Islamic finance and establishing MLC as a thought leader in the field. Furthermore, they contributed to enhancing Malaysia's reputation in the global Islamic finance sector.



MEETINGS & ENGAGEMENTS

TOTAL
(AS AT 17 MAY 2024)

MLC Meetings	7
M-EXCO Meetings	3
MLC Engagements Sessions	58
Speaking Engagements	34
Total	102

Selected MLC Engagements

STAKEHOLDERS	DATE
AIBIM	7-Feb-23
Ethis Group	9-Feb-23
Fajr Capital	13-Feb-23
SC – Islamic Capital Market	18-Feb-23
IBFIM	23-Feb-23
Labuan Financial Services Authority	1-Mar-23
Ministry of Natural Resources, Environment and Climate Change	6-Mar-23
Capital Markets Malaysia	27-Mar-23
Malaysian Takaful Association	29-Mar-23
INCEIF University	3-Apr-23
Malaysia Digital Economy Corporation	5-Apr-23
Tawafuq Consultancy	5-Apr-23
BNM - Islamic Finance Department	11-Apr-23
PWC Malaysia	14-Apr-23
Khazanah Research Institute	28-Apr-23
Association of Shariah Advisors in Islamic Finance Malaysia	5-May-23
UK Islamic Finance Halal Economy Hybrid Group	9-May-23
The Participation Banks Association of Türkiye	12-Jun-23
Malaysian Association of Asset Managers	13-Jun-23
Global Ethical Finance Initiative / The Islamic Finance Council UK (UKIFC)	14-Jun-23
Khazanah Transformation Office	16-Jun-23
BNM iTEKAD Team	4-Jul-23
Bursa Islamic Market	6-Jul-23
Bank Islam	13-Jul-23
Bar Council Islamic Finance Committee	13-Jul-23
MATRADE	11-Aug-23
Lembaga Zakat Negeri Kedah	15-Aug-23
Economic Club Kuala Lumpur	15-Aug-23
Amanie Advisors	16-Aug-23
World Islamic Economic Forum	17-Aug-23
Chartered Institute of Islamic Finance Professionals	17-Aug-23
Malaysia Financial Planning Council	21-Aug-23
Bursa Malaysia CEO / Chairman	29-Aug-23
Silverlake	14-Sep-23
FIDE Forum	27-Sep-23
Astana Financial Centre	4-Oct-23
Arabesque Malaysia	7-Nov-23
Asian Venture Philanthropy Network Limited	9-Nov-23

STAKEHOLDERS	DATE
Lotus Bank, Nigeria	17-Jan-24
Hong Kong Trade Development Council	25-Jan-24
Malaysian Chamber of Commerce Hong Kong and Macau	25-Jan-24
Chengwei Capital, China	28-Jan-24
Ant Financial, China	28-Jan-24
China Policy Institute	29-Jan-24
Ministry of Finance, Gambia	29-Jan-24
Shanghai Development Research Foundation	30-Jan-24
Lembaga Tabung Haji	18-Feb-24
Investment Office of the Presidency of the Republic of Türkiye	21-Feb-24
Malaysian Investment Banking Association	29-Feb-24
Halal Development Corporation and Halal Industry Players	4-Mar-24
D-8 Malaysia Foundation	19-Mar-24
Investment Account Platform	26-Mar-24
Komite Nasional Ekonomi dan Keuangan Syariah	18-Apr-24
Hong Kong Securities & Futures Professionals Association	2-May-24
Lembaga Zakat Negeri Kedah & Association of Islamic Banking and Financial Institutions Malaysia	9-May-24
Wahed Invest	25-May-24



Selected Speaking Engagements

SPEAKING ENGAGEMENT	DATE
SOAS Finance Roundtable	7-Mar-23
London Islamic Finance Hybrid Group	13-Mar-23
Ethical Finance Asean 2023	28-Mar-23
Finance Roundtable - Harvard Club, NYC	18-May-23
Asia Asset Management Roundtable	30-May-23
Asia-Pacific Regional Consultation on the 2023 Human Development Report	7-Jun-23
Sasana Symposium	8-Jun-23
UK Islamic Finance Halal Economy Hybrid Group	11-Jul-23
SC Waqf and ICM Conference 2023	20-Jul-23
ICMR-SIDC Conference	25-Jul-23
Omar Suleiman Lecture	26-Jul-23
Kestrl: Future Proofing Islamic Banks	8-Aug-23
4th Salalah International Islamic Finance Conference	14-Aug-23
Majlis Jalinan Kerjasama iTEKAD	22-Aug-23
SC-OCIS Roundtable	24-25 Aug-23
SC-CMM Islamic Fintech for Social Good Roundtable	18-Sep-23
SDG Hive at Ethical Finance Global 2023	19&21Sep-23
GEFI Ethical Finance Global Summit 2023	20-Sep-23
Islamic Sustainable Finance and Investment Forum 2023	17-Oct-23
World Zakat and Waqf Forum 2023	19-Oct-23
SC World Bank Conference 2023	2-Nov-23
Invested Career Talk 2023 - UKM. Topic: Fireside Chat With Iconic Speakers	22-Nov-23
Lunch Talk with Dr Mike Rands, Master of Darwin College, Cambridge University on Sustainable Finance	23-Nov-23
Monaco Economic Forum	27-Nov-23
COP28 - Leveraging Islamic Finance for Sustainability	3-Dec-23
Adam Smith and Ibn Khaldun Lecture Series	4-Dec-23
Unlocking Islamic Finance Summit, GEFI	5-Dec-23
Asian Financial Forum 2024	25-Jan-24
HK Securities & Futures Professionals Association	25-Jan-24
15th International Conference on Islamic Economics & Finance	20-Feb-24
IIC Corporate Governance Conference 2024	5-Mar-24
Standard Chartered Islamic Financial Market Forum 2024	6-Mar-24
Affin Group's Islamic Finance Forum Series	3-Apr-24
Port Talk Goodenough College University of London	30-Apr-24

c. Communications and External Environment

Since its establishment, the MLC has received positive media attention, underscoring its significant role as a driving force in shaping Malaysia's financial services industry. Its initiatives, aimed at promoting Malaysia as a prominent financial hub, implementing strategies to attract investments, spearheading regulatory reforms, and bolstering the country's Islamic financial sector, have been spotlighted in news coverage.

While there has not been an extensive amount of publicity for the MLC, this is primarily due to the concentrated efforts on assembling the Position Paper and MIPs. These pivotal initiatives have been the primary focus, with the MLC strategically directing its resources and attention towards their successful development of the strategy and impending launch at GFIEF.

IFN Islamic Finance news

The World's Leading Islamic Finance News Provider

From Halal to Tayyib: Malaysia's next phase of growth

The Malaysia International Islamic Financial Centre Leadership Council (MLC) is spearheading several new projects to drive a paradigm shift within the Islamic finance industry, from Halal to Tayyib, according to the council's chairman, Azman Mokhtar. In an exclusive interview with IFN, the corporate figure also discusses how it is important for the country to develop venture capital and social finance to catapult its Islamic finance industry into a new era.

New curve

Malaysia's global Islamic finance leadership is widely acknowledged. Both its sovereign and corporate asset profiles, Sukuk issuers, the Takaful sector is consistently growing and new Islamic investment products continue to emerge while its banking sector has charted enviable growth, holding 41% of the country's total banking system loans at the end of 2022, official figures show.

"We have had a great run in the last 40 years as far as Islamic finance is concerned. We have built a curve; now we are building another curve, and

this curve needs to move from Shariah compliant to Shariah outcome," shared Azman.

By Shariah outcome, Azman means Tayyib, which essentially means being pure, ethical and wholesome. The Tayyib concept is seen as being closer to the ideals of Maqasid Shariah and is foundational to Islamic traditions. In comparison, Halal simply means to be permissible and lawful.

Take debt instruments such as Sukuk and Islamic mortgage products for example. While these are Halal in substance, some argue that these instruments fall short from the ideal of being Tayyib as generally they could be as or more expensive than conventional products and just as punitive.

Azman confirmed that the MLC is working on 10 flagship projects over the next few years to demonstrate the concept of Tayyib. He also said meetings with stakeholders abroad including

London and New York have generated substantial interest in the Tayyib concept.

Known as impact projects, these initiatives will be rolled out within the next three to five years.

"We simply cannot change a 600-year-old system overnight; we have got to start somewhere. To move from Halal to Tayyib, we need to demonstrate how to reach out to the public the current financial system does not fully reach," reasoned Azman, who added: "The western conventional system has had a very good run, but now it is perhaps in need of new ideas and doing. It is not only about the recent string of bank collapses, but also its failure to address both sustainability and inequality."

Fresh frontiers

While many may characterize the Malaysian Islamic finance market as matured, Azman, who is also the current chairman of Lembaga Tabung Haji, Malaysia's national Haj pilgrim fund board, recognizes the



Azman

continued on page 3

MIFC LEADERSHIP COUNCIL OUTLINES 3 STRATEGIES IN ADVANCING ISLAMIC FINANCE ECOSYSTEM



Selected key international engagement and linkages

The MLC plays a pivotal role in promoting Malaysia as an international gateway and a major Islamic financial hub on the global stage. Its primary objective is to position Malaysia as a top destination for Islamic finance, attracting foreign investors and driving growth in the country's financial sector.

To achieve this goal, the MLC has organised international roadshows to key financial centres such as the UK, Dubai, Hong Kong, China, and Indonesia for the last year or so. Through these engagements, the Council has not only fostered discussions on collaboration and investments but also expanded its engagements and linkages with key stakeholders in the global finance industry.

These engagements are hoped to position Malaysia as a leading player in the international Islamic finance market, making it an appealing choice for businesses and investors seeking opportunities in this dynamic sector.

United States*18 May 2023*

MLC was invited to chair a roundtable at the Harvard Club of New York City, where he gave a talk called "Scaling ESG in Islamic finance: From Halal to Tayyib," organized by Dr. Aamir Rehman. The discussion focused on how Islamic finance can contribute to the ESG goals.

**Türkiye***12 June 2023*

MLC had the opportunity to meet The Participation Banks Association of Türkiye, where the meeting shared development of Islamic finance in Malaysia and Türkiye. In separate occasion, MLC Chairman met Mr Tariq Akin, who is the Head of the Department of Participation Finance at Finance Office of the Presidency of the Republic of Türkiye, that discusses the evolution of Islamic finance in Türkiye.

**United Kingdom (London/Edinburgh)***18 – 21 September 2023*

MLC delivered a speech at the SC-CMM Islamic Fintech for Social Good Roundtable held in London. The purpose of the event was to examine the role of Islamic finance in the UK, considering both regulatory and industry perspectives. The aim was to find ways to promote its growth in the country.

Additionally, the chairman participated in the SDG Hive Event and attended the Ethical Finance Global Summit 2023 in Edinburgh. The objective was to further explore and emphasise the advantages of Islamic finance in relation to social finance and sustainability. The focus was on enhancing the impact of transitioning from Halal to Tayyib.

**Dubai***2-6 December 2023*

MLC was in Dubai to attend COP28. During his visit, he took part in a panel discussion titled "Leveraging Islamic finance for Sustainability: Opportunities and Best Practices." Additionally, he gave a lecture on the theories of Adam Smith and Ibn Khaldun. He also delivered a keynote address at the GEF's Unlocking Islamic finance Summit.



Hong Kong/ China

23 – 31 January 2024

MLC visited Hong Kong and China with the objective of forging stronger ties, explore new growth opportunities, and promote the advancement of Islamic finance in the region. In Hong Kong, he actively participated in two significant speaking engagements. Firstly, he engaged in a Fireside Chat at the Asia Financial Forum, where he shared insights on Islamic finance principles, practices, and their global impact. He also delivered an opening remark at a training session on Understanding Islamic finance for the members of the Hong Kong Securities & Futures Professionals Association.

In China, the MLC Chairman engaged in a series of productive one-on-one meetings and discussions with influential figures from various sectors. These included renowned venture capitalist and political scientist Eric Li, as well as Eric Jing, the Chairman and CEO of Ant Group.



Indonesia

18 April 2024

MLC met up with representatives from KNEKS to explore potential collaboration opportunities between both organisations. The discussions focused on areas of mutual interest and to identify potential projects or initiatives.



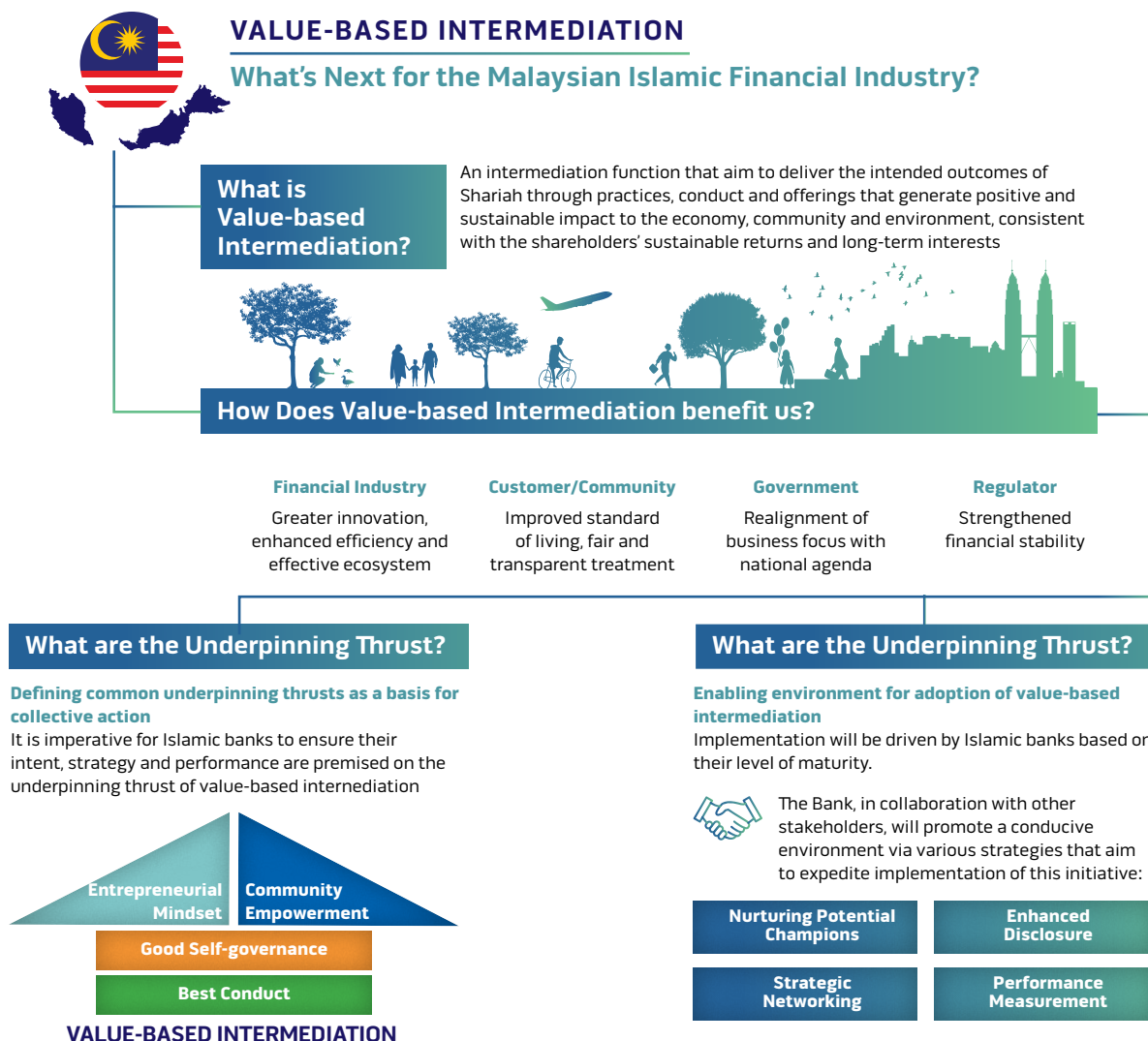
iv. Summary of Key Concepts and Frameworks

a. VALUE-BASED INTERMEDIATION

Launched by BNM in 2018, the Value-based Intermediation (VBI) that aims to make finance more beneficial for the economy and society, sustainably and ethically. VBI pushes for a positive societal impact from financial institutions, valuing ethical conduct and equitable practices without sacrificing profit.

BNM's VBI Strategy Paper provides a roadmap for financial institutions to incorporate environmental, social, and governance (ESG) into their operations. VBI helps mitigate risks and allows for investments in green and socially responsible ventures. The VBI's detailed implementation guide considers each institution's unique context, focusing on compliance, engagement, and education. Institutions should aim for clear sustainability targets and ethical financial services.

VBI's implementation can reshape financial services, aligning them with sustainability and social needs. Ethical financial institutions could gain a market advantage as demand grows for sustainable finance, driving substantial ecological and social benefits.

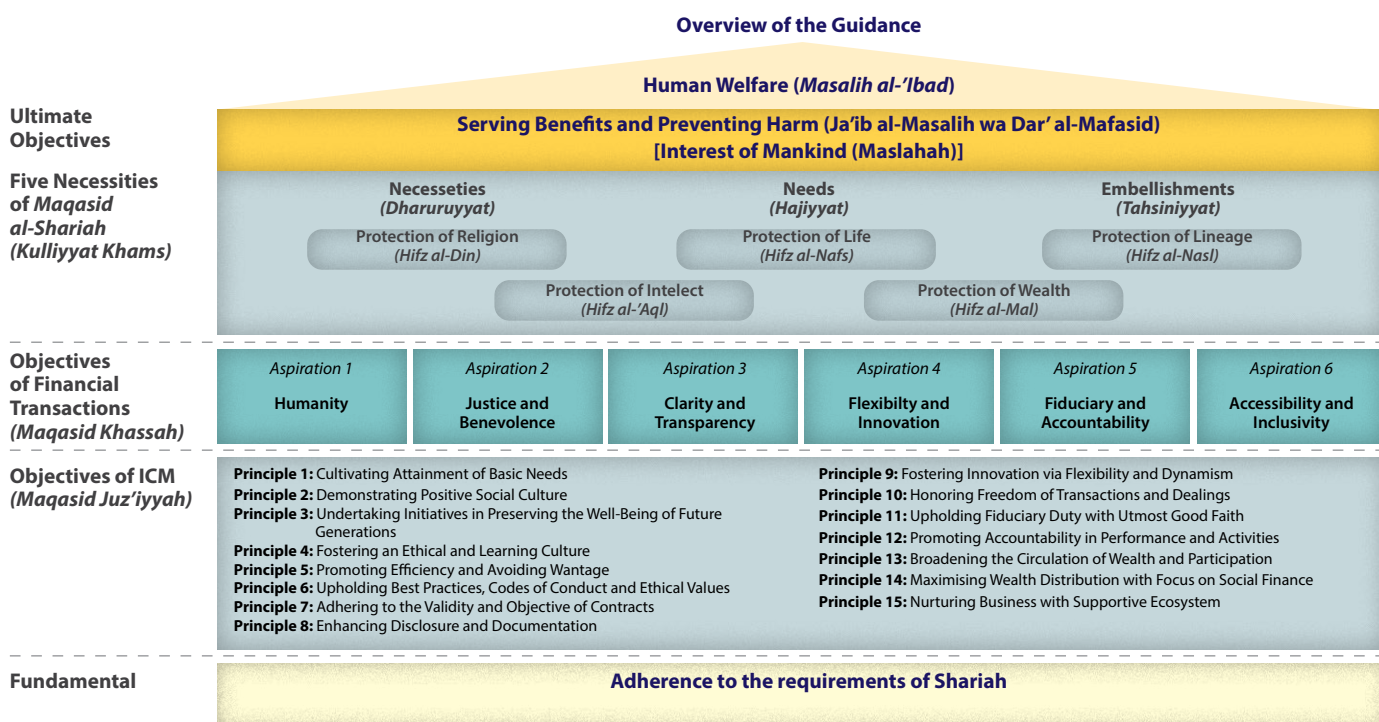


b. MAQASID AL-SHARIAH GUIDANCE ISLAMIC CAPITAL MARKET

In November 2023, the SC launched the world's first Maqasid Al-Shariah Guidance, a significant advancement promoting behaviors and investments aligned with Islamic principles of righteousness, moral conduct, and social good. This Guidance serves as an evaluative tool for the ethical, environmental, and social impacts of financial activities, aiming for a greater alignment with the objectives of Maqasid Al-Shariah.

The SC is further developing the operational use of the Maqasid Al-Shariah Guidance, refining strategies to integrate its principles into the ICM. This effort seeks to boost ethical impacts, stimulate innovation, and align market practices with Shariah objectives, utilizing research, stakeholder collaboration, and regulatory efforts to promote sustainable, inclusive growth.

Additionally, the SC aims to use this guidance to refine Shariah screening criteria, positioning Malaysia as a hub for Shariah-compliant socially responsible investments (SRI) and attracting ethical investors. By supporting endeavors like the Social Exchange, the SC wants to improve capital access for social enterprises and non-profits, addressing critical issues and promoting sustainable development by connecting them with a larger investor base.



c. SCHOLARS REVIEW OF TAYYIB CONCEPT BY ISRA RESEARCH MANAGEMENT CENTRE OF INCEIF UNIVERSITY

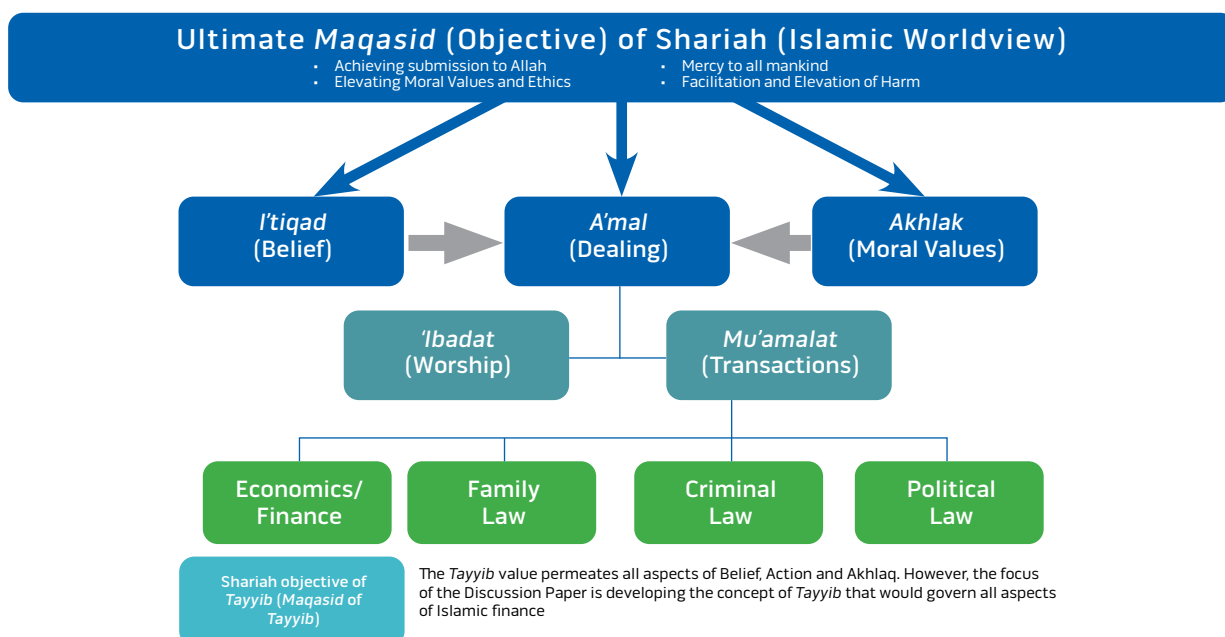
Extracted from the Executive Summary of the Discussion Paper on the Scholars Review of the Tayyib Concept (by ISRA-INCEIF University) as commissioned by MLC, May 2024.

The contemporary landscape of global finance is witnessing a paradigm shift towards ethical practices, and *Tayyib* stands as the Islamic finance industry's answer to this call. With an increasing global focus on sustainability, the *Tayyib* Concept positions itself as the pathway through which Islamic finance expands beyond Shariah compliance (Halal), to reach the heights of socially, environmentally, and economically beneficial (*Tayyib*). It not only answers the need for ethical financing but sets a precedent for the Islamic finance industry to emerge as a global leader in responsible financial practices.

The *Tayyib* Concept emerges as a timely response to the global imperative for the Islamic finance industry to pivot towards ethical financing, aligning seamlessly with the growing interest in sustainability. Positioned as a catalyst for Malaysia to take a global lead in the Islamic finance sector, *Tayyib* serves as a unifying force for countries and jurisdictions engaged in Islamic finance.

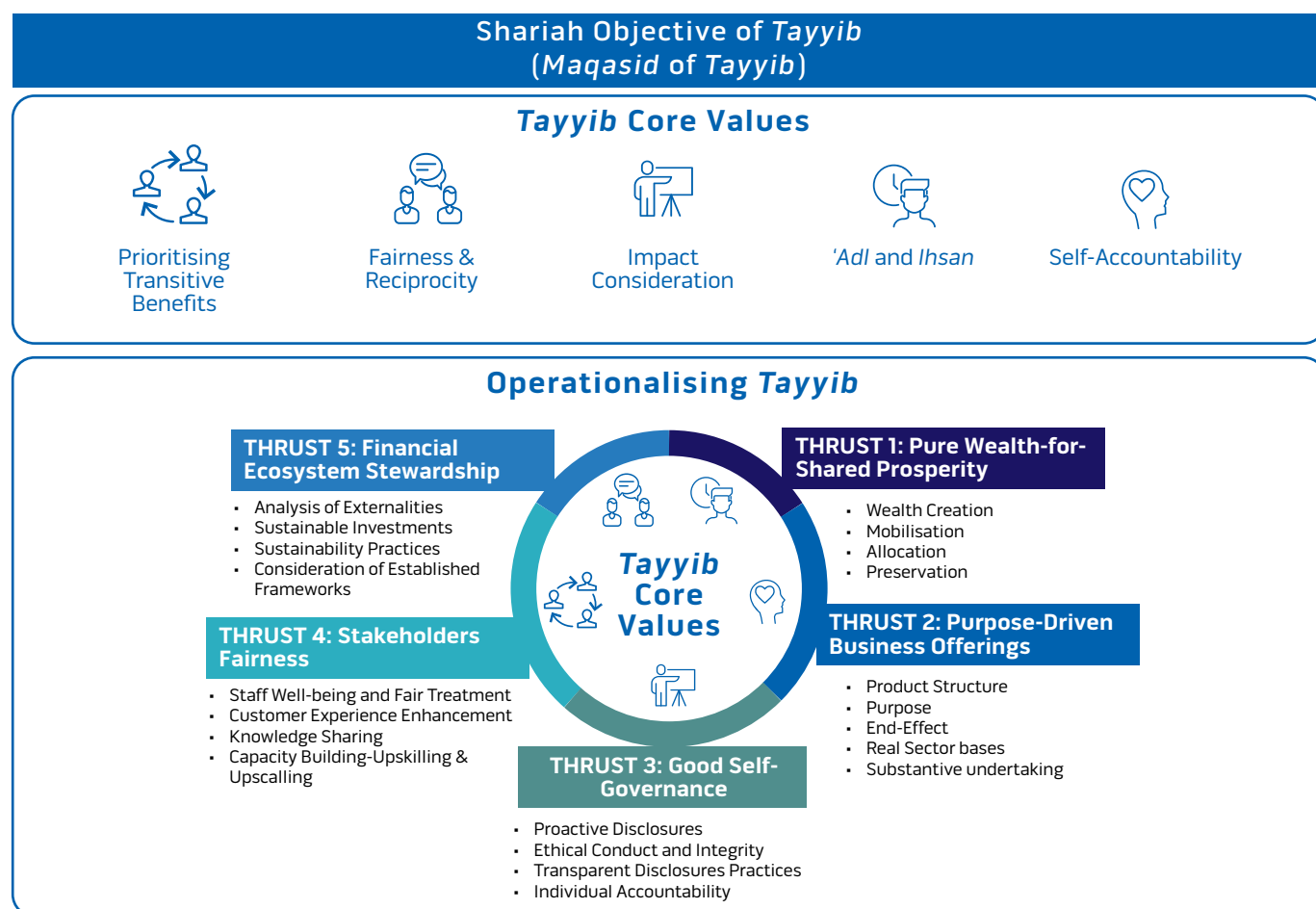
The conceptualisation of *Tayyib* was grounded in an exhaustive analysis of the references to *Tayyib* in the Quran and Sunnah. Defined as a Maqsid—an objective of Shariah—in Islamic finance, the *Tayyib* Core Values were directly derived from their Quranic and Sunnah mentions. Once established, these values were contextualised into five thrusts to resonate with the operational realities of the Islamic finance industry, resulting in a concept that is not only operational but also centered around key measurable aspects.

***Tayyib** is a status that is not only permitted (halal) but also ethically excellent, balanced, and wholesome across the entire financing process - from the means of acquisition to the resulting outcomes, taking into consideration immediate and future impact on individuals, institutions, society, and the environment. Tayyib emphasises moral soundness, fairness, transparency and quality in Islamic financial dealings.*



However, beyond being a national initiative, *Tayyib* serves as a rallying call for collaboration on a global scale. It calls for all Islamic financial markets globally to join hands in elevating the industry to new heights through a fundamental shift in the ethos centered around achieving the *Maqasid* of Shariah, creating a financial landscape where *Tayyib* considerations are integral to every financial decision.

The *Tayyib* Concept



In conclusion, as countries and jurisdictions worldwide embrace *Tayyib*, there is a unique opportunity for global collaboration to ensure Islamic finance becomes a leading model for ethical, sustainable, and responsible financial best practices. This alignment not only strengthens the industry's credibility but also paves the way for a future where Islamic finance stands as a beacon for financial integrity. We call upon regulators and policymakers to champion this *Tayyib* concept as a defining milestone, aligning us with the true *Maqasid* of Shariah for the evolution of Islamic finance.

The document lays forth the conceptual foundations for the *Tayyib* concept. Operationalising *Tayyib* requires a joint taskforce to adopt and integrate these guidelines into practice across Islamic financial institutions regionally and globally. By collectively embracing *Tayyib*, we can fulfill the promise of Islamic finance in advancing welfare for all.



In Support of



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