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Development, Growth and Challenges of Islamic Capital Markets: Comparative Insights from the Malaysian, Indonesian, United Arab Emirates and Brunei Markets

^aSyed Faiq Najeeb^bMirza Vejzagic

^{a,b}*INCEIF, The Global University of Islamic Finance, Lorong Universiti A, 59100, Kuala Lumpur Malaysia*

Abstract

Despite initiatives and discussions in many countries to introduce Islamic capital markets, the share of non-banking assets in the global Islamic finance industry remains small. Islamic banking continues to dominate the Islamic finance portfolio with a gigantic 80.9% contribution towards the total Islamic finance assets as at year end 2011. Based on such statistical reality, one may wonder, what are the current growth and development trends of Islamic Capital Markets (ICMs)? To this end, this paper assesses the development, growth and challenges of Islamic Capital Markets in Malaysia, Indonesia, United Arab Emirates, and Brunei and critically analyses the fundamental factors that contribute towards the liquidity, volume and trends of the Islamic Capital Markets in these countries. Using Malaysia as a benchmark, this paper provides a comparative analysis on the performance of the various sectors of Islamic capital markets such as equity markets, debt markets, fund management markets, liquidity markets, etc. amongst the four sample countries. In addition, the paper examines the local authorities' initiatives' and future plans for firmly establishing Islamic Capital Markets in their jurisdictions and further recommends potential policies that could be introduced to maximize economic gains and societal welfare from Islamic Capital Markets for the Muslim population in general. Overall, the findings from the paper are expected to attract significant interest from Islamic finance stakeholders, in particular to understand how local authorities and other players could possibly be instrumental in shaping the development of Islamic Capital Markets.

Keywords: Islamic capital markets, Islamic finance, Islamic equity, debt and hybrid^{*} instruments

^{**} Corresponding author: *E-mail address:* faiq.najeeb@gmail.com

1. Introduction

With average annual growth rates ranging from 15% to 20% per annum over the past decade, Islamic finance is no longer an alien concept in major countries of the world (IIFM, 2012). Having a modest USD 150 billion worth of assets at about mid-1990s, Islamic finance now commands approximately USD 1.6 trillion worth of global assets as forecasted for the year end 2012 (KFHR, 2012). Though still small compared to conventional finance industry (Islamic finance is about 1.6% of total world financial assets), the growth rates have been nothing but spectacular, promising of a strong future potential. As per Islamic Finance industry experts, the overall worth of Islamic financial assets are expected to surpass the USD 6.5 trillion mark by the year 2020 (GIFF, 2012).

The interest in incorporating Islamic Finance has emerged not only from Muslim markets and jurisdictions, but also from non-Muslim markets and investors. Countries such as Australia, China, France, Germany, Italy, Japan, Korea, Luxembourg, Singapore and United Kingdom have all undertaken measures to introduce Islamic Finance in their financial systems. Growing number of conventional banks have introduced parallel Islamic banking in their conventional operations (IFSB, 2010).

The introduction of Islamic finance during the 1970s had predominantly been based on developing Shari'ah compliant banking systems (Hanif, 2011). However, post 1990s, there has been considerable interest in terms of developing appropriate Shari'ah compliant capital market products and services such as Islamic securitized assets (Sukuks), Islamic equities, Islamic investment funds, etc (IFSB, 2011). Yet, despite initiatives and discussions in many countries to introduce Islamic capital markets in their jurisdictions, the share of non-banking assets in Islamic finance remains relatively small. Islamic banking continues to dominate the Islamic finance portfolio with a gigantic 80.9% contribution towards the total Islamic finance assets as at year end 2011 (Grewal, 2012). Based on such statistical reality, one may wonder, what are the current growth and development trends in Islamic Capital Markets (ICMs)? How are various Islamic

finance aspirants contributing to its growth? What are the strengths which allowed certain jurisdictions to remarkably progress in the growth of their ICMs? What are the problems and challenges faced by others that hinder ICM development? What are the opportunities available for jurisdictions to develop ICMs and how could it contribute towards the welfare of the society?

This paper endeavours to address such questions by examining the growth, development and challenges of ICMs in four jurisdictions: Malaysia, Indonesia, United Arab Emirates and Brunei. Each sample country has its own unique characteristics which makes the research and end results all the more interesting: Malaysia being the leader in creative development of Islamic finance products; Indonesia being the largest Muslim country in terms of population, United Arab Emirates being the most progressive financial centre from the Middle East and Brunei being a tiny but oil-rich Muslim nation. The rest of the paper is organized as follows: Section 2 briefly reviews the concept and origins of ICMs including the various sectors and products associated with it; Section 3 provides an in depth comparative analysis into the growth, development and trends of various sectors of ICMs; Section 4 critically analyses the strengths and challenges which spurred/hindered growth and development in sample countries and discusses the future opportunities available to these countries including any formal plans to spearhead their ICMs; Section 5 then provides policy recommendations which Muslim nations could effectively use to develop and grow their Islamic capital markets; Section 6 finally states the conclusion; Section 7 provides the references and Section 8 appendices makes up the end of the paper.

2. Islamic Capital Markets: *Background and Origins*

The point of contention in conventional capital markets from an Islamic point of view arises in some of the underlying structures of products in the equity, debt and derivatives markets that are tainted with elements not in compliance with Shari'ah (Islamic Law).

The Islamic financial system is based on the fundamentals of Shari'ah that requires gains from investments to be earned in an ethical and socially responsible manner that comply with teachings of Islam (DeLorenzo, 2000). Shari'ah requires investments to be free from *riba* (interest rates), *gharar* (uncertain outcomes), *maysir* (gambling), and prohibited commodities (liquour, pork, etc.) while further complying with the contractual requirements of investments/trading as required in Islamic Law of Contracts (Rosly, 2005). Therefore equity investments which are associated with activities deemed impermissible by Shari'ah are prohibited for Muslim investors.

Similarly, Shari'ah advocates socially responsible investments that forbid fixed interest earnings while encouraging profit-sharing, partnership, leasing and sale-based contracts (Girard and Hassan, 2008). Consequently, conventional debt-based instruments such as treasury bills, corporate bonds, certificates of deposits and preferred stocks are prohibited to be used as means of incomes or source of funds (Merdad et al, 2010). Also prohibited are conventional insurance products as they involve uncertainties in outcomes which are contingent on insured events occurring and Islamic principles require commercial transactions to be free from ambiguity. Therefore, several derivative products such as trading of futures, warrants, options, as well as short-selling and anything speculative is prohibited (El-Gamal, 2000). Shari'ah also prohibits investments in non-productive and/or potentially harmful activities such as pure games of chance, prostitution, production and/or distribution of non-permissible products such as alcohol, tobacco, pork, pornography and arms (Hassan, 2001). Hence, the need for Islamic capital markets arises in order to provide the Muslim population of the world access to financing and investment opportunities that are in compliance with their religious beliefs.

The process of identifying and producing Shari'ah compliant alternatives to conventional capital market instruments involves a team of Shari'ah qualified scholars screening the underlying structures and activities of proposed investments to ensure they

comply with Shari'ah and hence be endorsed with a 'Shari'ah compliant' label. So for example in Islamic equities, scholars from the Shari'ah Supervisory Boards would screen all equities traded on the conventional boards to identify stocks that are free from prohibitive elements as dictated by Shari'ah which would then subsequently be listed on an Islamic stock index. The Shari'ah Supervisory Boards, for practical considerations and to serve the best interests of society, allow investments in partially 'contaminated' ventures (Merdad et al, 2010). For instance, it is permissible to invest in securities of companies with gross interest-bearing debt less than 33% of total assets. Similarly, it is permissible to invest in securities of companies with interest income less than 5% of total. Accounts receivables and cash accounts may not exceed 50% of total assets revenues (Elfakhani et al, 2007). These are exceptions made on the basis of the current environment since without these exceptions, Islamic investors would be practically excluded from nearly all capital market investments (Wilson, 2004).

The listing of Shari'ah compliant equities and indices effectively allows development of Islamic mutual funds and structured products by the Islamic finance suppliers. Here, Malaysia has taken lead in many instances. For example, Malaysia established two Islamic unit trust funds way back in 1993 effectively paving way for the development of the Islamic fund management industry (MIFC, 2011). Malaysia is also noted for its creative leadership in launching the first Islamic Real Estate Trusts (REITs) in the world and the introduction of Asia's first Islamic Exchange Traded Fund (ETF) spearheading efforts in developing Islamic capital market structured products (MIFC, 2011).

On the debt component of Islamic capital markets, Malaysia is once again regarded to be the pioneer in issuing 'sukuks' which are Islamic finance equivalents of debt financing instruments (bonds). The Malaysian central bank issued Government Investment Issues (GIIs) way back in 1983 to help address the liquidity management issues in their first Islamic bank, Bank Islam (Cizaka, 2011). Ten years later when the Islamic banking segment was opened for competition, central bank of Malaysia

introduced an Islamic money market on 3rd January 1994 marking an important milestone in the liquidity management of Islamic banks (Khiyar, 2012). Since then, Malaysia has positioned itself as the global leader in sukuk issuances and in provision of liquidity management services for Islamic financial institutions (IFIs) (MIFC, 2012). Lately, research and efforts have been directed towards developing Islamic derivative instruments that could provide effective risk management facilities. In the following section, the paper now provides an in depth comparative analysis on the growth and development of Islamic capital markets in the four sample countries: Malaysia, Indonesia, United Arab Emirates and Brunei.

3. Islamic Capital Markets: *Development and Growth*

The Islamic capital market sectors considered in this analysis include Islamic equities, Islamic mutual funds, Sukuks, Liquidity Management Facilities, Structured Products – REITs and ETFs, and Islamic Derivatives. The statistics and figures quoted in this section have been drawn from a wide variety of sources including among others GIFF (2012) reports, GIFR (2011; 2010) reports, IFIS Global Reports (2012), KFH Research Reports (2012), PWC Islamic finance Reports (2012), E&Y Islamic Banking Competitiveness Reports (2011; 2012), SC/BNM Malaysia Reports (2011; 2012); etc. A full and separate list of references particularly used for sourcing statistics is available at the end of this paper. Whenever there was a discrepancy in figures quoted from different sources, the lower value figure is used since that is a certain figure in comparison to higher figures which may be overstated.

3.1. Islamic Equities / Islamic Mutual Funds

The indexing of Islamic equities and subsequent development of Islamic mutual funds industry has rapidly expanded over the past two decades to become an important emerging component of the Islamic finance industry. As per KFH Research report by

Grewal (2012), year ended 2011, there were a total of 876 Islamic funds with assets under management amounting to almost USD 60 billion or 4.5% of the total Islamic finance assets. Islamic funds mostly invest in listed Shari'ah compliant equities followed by sukuks and money market instruments. For instance, in the year 2011, 46.9% of the total Islamic assets under management were in the form of listed equities while another 22.2% were in the form of money market instruments. **Figure 1** below illustrates the complete breakdown of Islamic mutual fund investments based on asset class for the year 2011. As of 2011, the Islamic fund management industry spanned over 36 countries with average annual growth rates over the past 5 years ranging from 12% to 15% globally (GIFF, 2012).

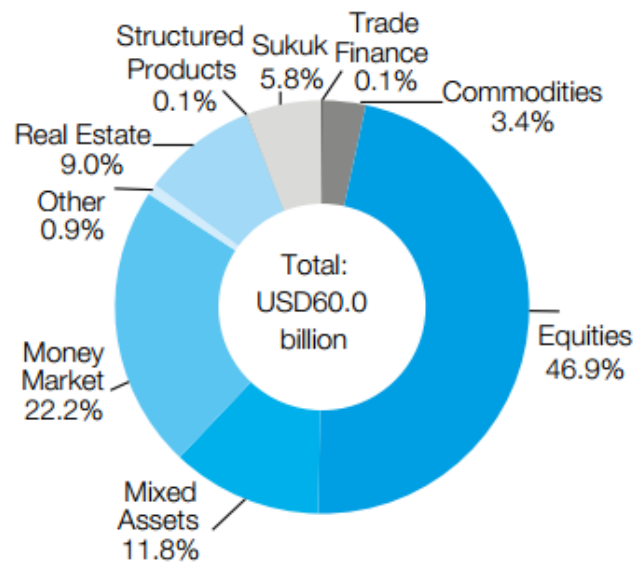


Figure 1: Islamic Funds by Asset Class as in the year 2011. Source: Global Islamic Finance Forum Report (2012)

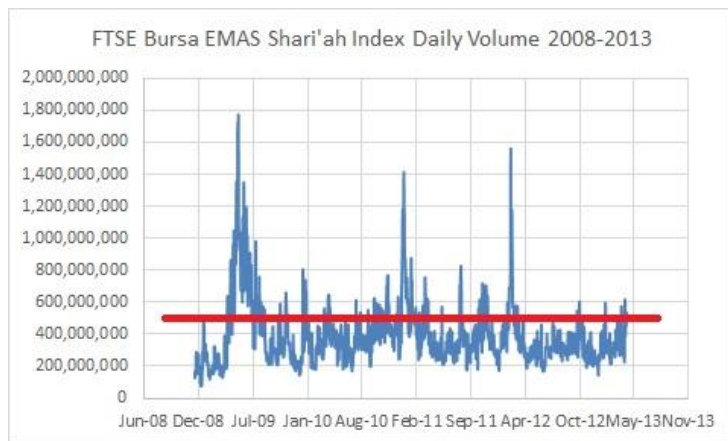


Figure 2: Malaysian Islamic Equity Index Trading and Trend 2008-2013. *Source: Datastream*

Among the four sample countries, Malaysia has the most active and liquid Islamic equity market. Year ending 2012, it had a total of 817 Islamic securities indexed on the Bursa Malaysia Shari'ah Index representing 89% of all securities listed and bearing a market capitalization of more than USD 300 billion. **Figure 2** above illustrates the daily volume and trend of the activity in the FTSE Bursa Malaysia EMAS Shari'ah Index over the past 5 years (2008-2013). Apart from a few minor outliers, the trend in the average daily trading volume has remained consistent over the past 5 years as indicated by the red line in figure 2. In terms of mutual funds, during the year ended 2011, Malaysia had a total of 169 Islamic funds bearing total net assets value of almost USD 12 billion. This positioned Malaysia as the second largest market in the Islamic mutual funds industry having an overall share of 21.8% of the market, second to Saudi Arabia which had a 33.2% share in the industry.

The Indonesian Islamic equity market follows next with (as at year end 2011) a total of 214 Islamic listed stocks representing 43% of all securities listed and bearing a market capitalization of USD 171.4 billion. The Indonesian Islamic equity market has remained active over the past 5 years (2008-2013) as illustrated by **Figure 3** below. However, the trend in its activity shows a downward slope post financial crisis as

indicated by the red line in figure 3. Meanwhile, in terms of Islamic mutual funds, Indonesia had 54 Islamic funds having net assets value of approximately USD 1.2 billion. Compared to its neighbour Malaysia, the Indonesian share in the Global Islamic mutual funds market has remained relatively small at 2.4%. However, this is higher than UAE's share as discussed below.

The UAE Islamic equity market comes third with a total of 93 Islamic equity stocks listed bearing a market capitalization of USD 40.2 billion. The UAE equity market has suffered tremendously post financial crisis with average daily trading volume trend falling sharply during the years 2008-2013. **Figure 4** below illustrates this result. As indicated by the red line, the market has witnessed steep declines in daily trading volumes while the green circle post-2011 illustrates the activity is at a bare minimum indicating ill-liquidity in the market. Not surprisingly, the number of Islamic funds in UAE remain small at 17 with an asset value of a dismal USD 233 million. Similarly, the share of UAE Islamic mutual funds in the Global Islamic mutual funds industry was a mere 0.46%.

Finally, Brunei has no Islamic equity Indices and funds as yet. Currently, the Islamic Bank of Brunei shares are the only ones trading in the local bourse, which remains underdeveloped and lacks liquidity (Maierbrugger, 2013). **Table 1** in the following page summarizes the key statistics of the Islamic equities and mutual funds industry for the sample countries till the year end 2011.

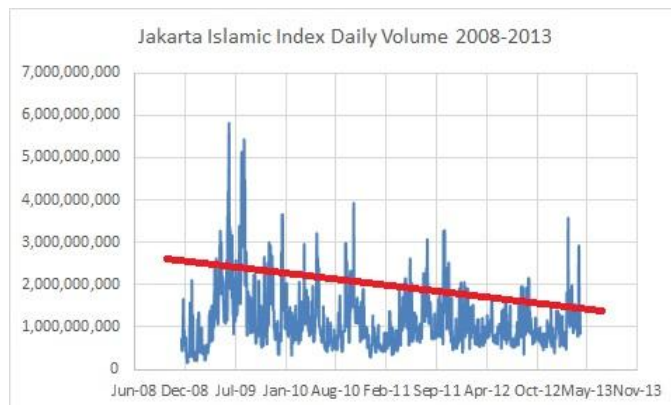


Figure 3: Indonesian Islamic Equity Index Trading and Trend 2008-2013. *Source: Datastream*



Figure 4: United Arab Emirates Islamic Equity Index Trading and Trend 2008-2013. *Source: Datastream*

Table 1. Islamic Equity and Mutual Funds Statistics as at year end 2011

	No. of Islamic Equities	Market Cap (USD)	No. of Islamic funds	Total Assets (USD)	Global Market Share**
Malaysia*	817	300.7 billion	169	11.8 billion	21.8 %
Indonesia	214	171.4 billion	54	1.2 billion	2.4 %
U.A.E.	93	40.2 billion	17	233 million	0.46 %

* December 2012 figures except for Global Market Share which is from December 2011. ** Global Market Share of each country's mutual funds' assets as a proportion of total Islamic mutual funds industry assets. *Source: Various – refer to Data and Statistics section at the end of this paper.*

It is quite interesting to note several non-Islamic jurisdictions have relatively larger shares of Islamic mutual funds as compared to the Muslim countries. For instance, United States has a 6.4% share of total Islamic funds, much higher than Indonesia (2.4%) and UAE (0.46%). Similarly, other jurisdictions such as Cayman Islands, Luxembourg, Ireland, Jersey, etc. have larger shares as compared to Indonesia and UAE. **Figure 5** below illustrates the complete breakdown of Islamic mutual fund investments based on domicile for the year 2011. Intuitively, such observations could be due to lesser number of stocks, ill-liquidity and low trading volumes of Islamic equities in Muslim jurisdictions (for e.g. in UAE as discussed above). Taxation issues also play a role in choice of locations where the funds are incorporated (for e.g. Cayman Islands, Isle of Jersey, etc.). We will discuss these issues further in Section 4 of this paper which examines the strengths, challenges and opportunities of Islamic capital markets.

3.2. Sukuks

Sukuk or Islamic debt instruments represent the second largest asset class in the Islamic financial industry accounting for 13.5% of the global Islamic finance assets as at year end 2011. The amounts of Sukuk outstanding in the same year equalled USD 178.2 billion with a record amounts of new issuances worth USD 85.1 billion (Grewal, 2012). The sukuk industry has maintained exceptional momentum over the past 5 ½ years (2006-1H2012) achieving a CAGR of 28.3%. Malaysia remains the largest issuer to date with more than USD 234.1 billion worth of sukuks issued as at end of June 2012 (1H2012). The comparative total GCC sukuk issuances until 1H2012 was USD 92.4 billion.

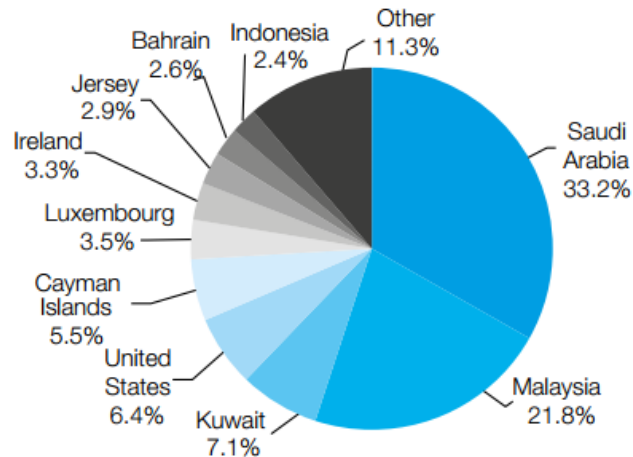


Figure 5: Islamic Funds by Domicile as in the year 2011. Source: *Global Islamic Finance Forum Report (2012)*

The Malaysian Sukuk industry is well developed and has continued its stable growth over the past 5 years (2006-2011) with a CAGR of 33.9% and a global market share of 71.6% as at year end 2011. **Figure 6** below shows the amounts of Sukuk outstanding for Malaysia over the past 5 ½ years (2006-1H2012). Comparatively, while the global market share of Indonesia remained small at 3.1% as at 2011, the growth in the Indonesian Sukuk market has been exponential and the CAGR over the past 5 years (2006-2011) has been recorded at a massive 160.7%. **Figure 7** below shows the exponential growth in the amounts of new Sukuk issuances for Indonesia over the past 5 ½ years (2006-1H2012).

Meanwhile, the UAE sukuk market has been in trouble following the high profile restructurings and delayed payments of the Dubai sovereign sukuku during the years 2009-2010. Even though the UAE share in the global sukuk markets remains higher than Indonesia at 4.8%, over the past 5 years (2006-2011) the CAGR of sukuku in UAE have been a timid 2.2%. Finally, the Brunei sukuku market has remained stagnant with no issuances in the year 2011 and the total outstanding a mere USD 856.5 million. **Table 2** below summarizes the results of the sukuk markets for all four countries during

the years 2006-2011 while **Figure 8** in the following page illustrates the Top 15 new sukuk issuers of 2011. Malaysia, Qatar and UAE take the top 3 spots while Indonesia comes at 5th position in 2011. It is quite interesting to find Hong Kong at the 12th position amongst the Top 15 new sukuk issuers of 2011.

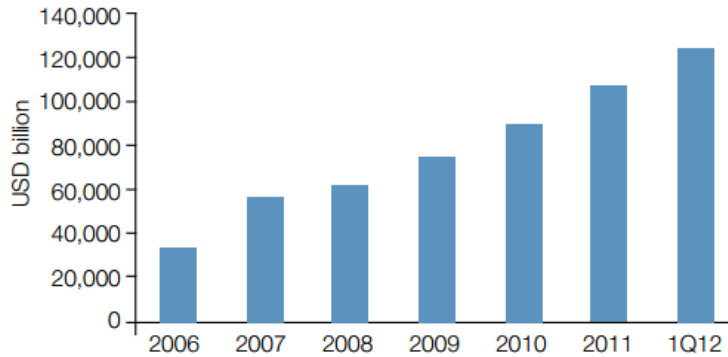


Figure 6: Malaysian Sukuk Outstanding 2006-1Q2012. *Source: IFIS Global Sukuk Report (2012)*

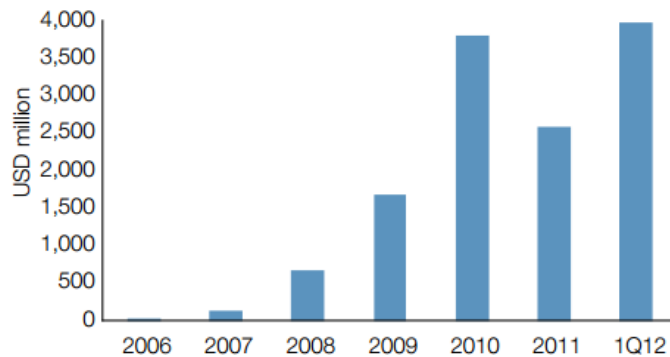


Figure 7: Indonesian New Sukuk Issuances 2006-1Q2012. *Source: IFIS Global Sukuk Report (2012)*

Table 2. Sukuk Industry Statistics as at year end 2011

	Total Sukuk Outstanding (USD)	Amounts Issued 2011 (USD)	CAGR 2006-2011	Global Market Share*
Malaysia	107 billion	60.9 billion	33.90%	71.60%
Indonesia	8.3 billion	2.6 billion	160.70%	3.10%
U.A.E.	12.4 billion	4.1 billion	2.20%	4.80%
Brunei	856.5 million	n/a	n/a	n/a

* Global Market Share based on new issuances for the year 2011. Source: Various – refer to Data and Statistics references section at the end of this paper.

3.3. Liquidity Management Facilities

Malaysia has the honour of establishing the world's first Islamic inter-bank money market (IIMM) on 3rd January 1994 marking an important achievement in the liquidity management solutions for Islamic banks (Khiyar, 2012). Structured on the foundations of conventional money markets, the Malaysian IIMM provides Islamic banks with all facilities that a conventional money market provides to conventional banks such as inter-bank deposits, cheque clearing systems, etc. The instruments used in the IIMM are Shari'ah compliant equivalents of conventional instruments such as Mudarabah Investment Issues, Negotiable Notes, Accepted Bills, Sell and Buy Back Agreements, etc. (BNM, 2012). The Malaysian IIMM is highly liquid providing considerable ease in liquidity management of Islamic financial institutions. In 2012 alone, the value of IIMM transactions conducted through the money market brokers exceeded USD 251 billion (BNM, 2013). The 2012 value of transactions marks a 20.7% increase from the 2011 volume which was approximately USD 208 billion (BNM, 2013).

In addition to the IIMM, Malaysia took another leap forward by establishing the first ever Shari'ah-compliant commodities exchange platform called the Bursa Suq al-Sila in

August 2009. The Bursa Suq Al-Sila (BSAS) is the world's first end-to-end Islamic multi-currency commodity trading platform to enhance liquidity management for Islamic financial institutions (Al Falah Consulting, 2012). This fully-electronic platform facilitates sukuk structuring, Islamic financing and investment transactions including inter-bank placements and customer deposits, by applying the concept of murabaha and tawarruq. As per the CEO of Bursa Malaysia Datuk Tajuddin Atan, the daily average trading value on BSAS during 2012 was nearly USD 500 million as compared to approximately USD 165 million value in 2010, thus recording a three-fold increase.

In contrast, Indonesia has a relatively new Islamic capital market and a rather underdeveloped IIMM. Prior to 2008, Bank Indonesia used to issue Sukuk Wadiah (SWBI) based on wadiah principles to manage liquidity of Islamic banks on a bilateral basis. In 2008, it switched to a Sukuk Bank Indonesia Shariah (SBIS) structured on a ju'alah contract with no underlying assets. Due to no presence of underlying assets, SBIS could not be traded and could only be exchanged with the central bank. Subsequently beginning 2009, sukuks structured on a repo and ijarah arrangements were issued by Bank Indonesia that were tradable in the IIMM. However, the IIMM in Indonesia was not as successful as in Malaysia. The yearly value of IIMM transactions marginally grew from USD 4.2 billion (2008) to USD 5.4 billion (2009) and then to USD 5.8 billion (2010) with a wide disparity in transaction volumes (between USD 0.3 million to USD 70.8 million per transaction) (Bank Indonesia, 2011).

As per the Bank Indonesia (2011) report, Islamic banks preferred to place their liquidity with BI instead of trading in IIMM. Among the 34 Islamic financial institutions, only 60% had transactions in IIMM. Within these 60%, only 6-7 banks were actively participating in IIMM. As a matter of fact, the share of conventional banks volume in IIMM was rapidly enlarging (2008: 37%; 2009: 49%; 2010: 65%). **Figure 9** below illustrates these statistics. As a result in 2011, a series of workshops were conducted jointly by Bank Negara Malaysia and Bank Indonesia (BI) to possibly

allow Bank Indonesia to synergize from the successful Malaysian experience with their IIMM (Bank Indonesia, 2011). On a separate note, The Jakarta Futures Exchange (JFX) operates as a platform for trading of Shari'ah-compliant products such as cocoa and coffee to allow Islamic banks to manage liquidity through interbank transactions.

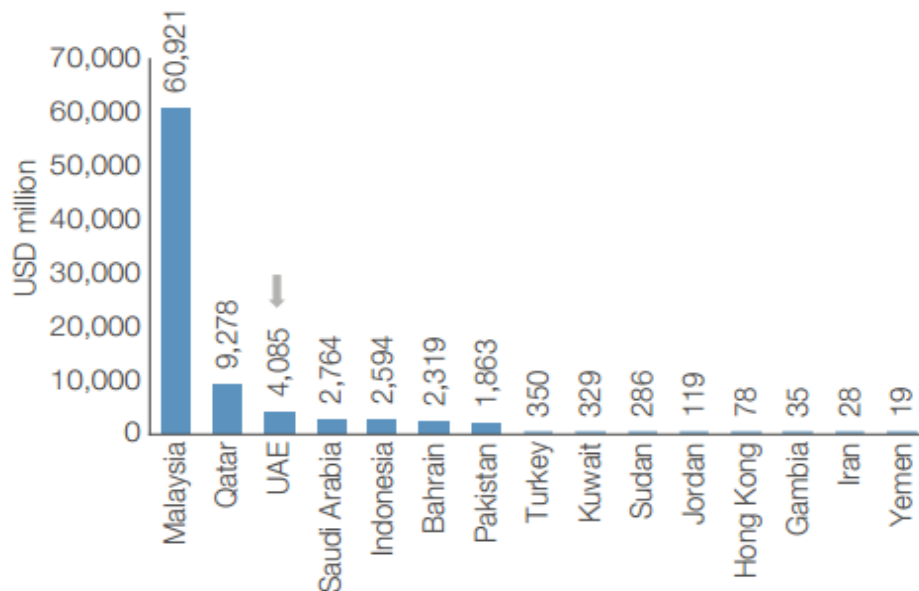


Figure 8: New Sukuk Issuances by Countries 2011. *Source: IFIS Global Sukuk Report (2012)*

Years	Share of Volume		Share of Frequency	
	Sharia	Conventional	Shariah	Conventional
2008	63%	37%	83%	17%
2009	51%	49%	87%	13%
2010	35%	65%	68%	32%

Figure 9: Indonesian Islamic Interbank Money Market Statistics 2008-2010. *Source: Bank Indonesia (2011)*

In the case of UAE, the Central Bank of UAE (CBUAE) started issuing Islamic Certificates of Deposits from November 2010 to help Islamic banks invest their excess liquidity and earn profits on their investments (Chilwan, 2012). These certificates are based on commodity murabaha structures and are issued for tenors ranging from 1 week to 1 year. Subsequently, from June 2011 onwards, the CBUAE introduced the Collateralized Murabaha Facility (CMF), a Shari'ah-compliant liquidity facility, which accepts the Central Bank's Islamic Certificates of Deposits (CDs) as collateral in exchanging for providing commodities on credit to Islamic banks who may then generate liquidity by selling these commodities in the spot market. Any bank wishing to avail this facility would be required to sign a Collateralised Murabaha Facility Agreement with the CBUAE (Gulf Base, 2011). The facility is denominated in AED with minimum amounts of AED 1 million, rising in multiples of AED 1 million. The minimum tenor is overnight and the maximum is three months. The maturity of the Islamic CD that is used for collateral must be longer than the CMF. The bank pledges an Islamic CD as collateral to secure the deferred payment.

Though this facility is not as efficient and liquid as the Malaysian Bursa Suq Al-Sila or the Malaysian IIMM, it is a progressive step towards liquidity management of Islamic banks in UAE. The data on volumes of the CMF are not readily available although statistics indicate that as of year-end 2011, Islamic banks in UAE held as much as USD 3.3 billion worth of CB Islamic Certificates of Deposits which represents about 10% of the overall volume. Alternatively, there is a Liquidity Management Centre (LMC) in Bahrain where Dubai Islamic Bank has a 25% shareholding and this facility could also be used by Islamic banks in UAE to alleviate liquidity problems. Additionally, a considerable volume of liquidity management by Islamic banks in UAE is done through bilateral initiatives using sukuks, mudarabah or wakalah placements with other Islamic and international banks (Chilwan, 2012).

Finally, the case of Brunei is the least attractive in terms of liquidity management. There are no Islamic money market initiatives of any kind and the two Islamic banks in Brunei generally rely on lease-based arrangements for liquidity with conventional finance companies (Ebrahim and Joo, 2001). The government of Brunei has recently developed a short-term local currency sukuk programme in order to provide the necessary benchmark for future corporate capital market issuances (GIFF, 2012). But apart from that, the Brunei Islamic liquidity markets are virtually non-existent.

3.4. Structured Products – REITs and ETFs

Out of the USD 60 billion Islamic funds industry as at year end 2011, the share of structured products excluding Real Estate is a negligible 0.1 % as illustrated in Figure 1 earlier. Therefore, in this section we concentrate on REITs and ETFs alone and the Derivatives sector is considered in the next sub-section 3.5. Malaysia has led the way in the creative development of both type of structured investments. In November 2005, the Shari'ah Advisory Council of the Securities Commission of Malaysia released guidelines for Islamic REITs which paved way for the establishment of the first Islamic REIT in the world on 28th June 2006 called the Al-Aqar KPJ REIT (Samad, 2009). The Al-Aqar REIT invested in 6 hospitals and the market value of the properties were estimated at USD 138 million. Malaysia introduced a second Islamic REIT in the subsequent year when on 8th February 2007, Al-Hadaharah Boustead REIT was listed on the main board of Bursa Malaysia. The Al-Hadaharah Boustead REIT underlying assets were plantation estates and the initial investments were valued at USD 136 million. In 2009, Malaysia introduced a third Islamic REIT called the AXIS REIT which was the world's first Islamic industrial/office REIT (Dusuki, 2011). As at December 2012, Malaysia had three Islamic REITs out of a total of 16 REITs in the country and the market capitalization is estimated to be more than USD 1 billion representing 14.2% of the REITS industry market capitalization (SC, 2012). **Table 3** in

the following page illustrates the Islamic REITs statistics for Malaysia for the years 2011 and 2012.

Table 3. Malaysian Islamic REITs Statistics 2011-2012. *Source: Securities Commission of Malaysia (2012)*

No. of REIT	Dec 2012	Dec 2011
Islamic REIT	3	3
Total industry	16	15
Market capitalisation (RM billion)		
Islamic REIT	3.5	2.9
Total industry	24.6	16.3
% to total industry	14.2%	17.8%

In stark comparison, Indonesian Islamic financial industry is yet to have an Islamic REIT established in the country even though the Capital Market and Financial Institution Supervisory Agency of Indonesia (CMFISA) legalized such property companies in 2007. Despite being the world's most populous Muslim country, Indonesia has nil Islamic REITs and as a matter of fact, the first company considering establishing an Islamic REIT in Indonesia is the Al-Aqar group of Malaysia that owns two hospitals in Indonesia (Jakarta Globe, 2012). As per the Al-Aqar Executive Director Yusiani Sidek, Al-Aqar would register a trust in Indonesia provided it gets tax incentives and clearer rules from authorities on foreigners owning land. To date, an Islamic REIT is yet to be established in Indonesia although CMFISA received an application for a conventional REIT last year over which negotiations are taking place (Jakarta Globe, 2012).

UAE joined the Islamic REIT business much later in November 2010 when Dubai Islamic Bank partnered with Eiffel Management, a pioneer of REITs in France to

establish the Emirates REIT incorporated in the Dubai International Financial Centre (DIFC). The initial portfolio of the Emirates REIT were management of 7 owner occupied properties secured on about 15 year leases, and worth approximately USD 46 million (2011). A second Islamic REIT, DIFX Islamic REIT was announced in 2011 and was scheduled to be a joint venture between DIFC, Abu Dhabi Commercial Bank (ADCB) and the real estate division of Australia's Macquarie Bank with initial investment estimated at USD 2 billion. However, the launch of the REIT has been indefinitely postponed and there is no news about its status to date (ReitInfo, 2012).

Finally, an extensive review into the Islamic finance literature concerning Brunei yielded no fruitful information that could indicate any future plans for Islamic REITs or ETFs in Brunei. The capital markets in Brunei remain underdeveloped and ill-liquid and it appears there are no genuine efforts from authorities to capitalize on the global growth of the Islamic finance industry (Maierbrugger, 2013).

The analysis now moves towards Islamic exchange traded funds (IETFs) and amongst our sample countries, Malaysia took lead to launch Asia's first 1st Islamic ETF on 22nd January 2008 called the Dow Jones Islamic Market Malaysia Titans 25 Index (MIFC, 2011). As of 31st August 2012, the MyETF-DJIM25 was the largest Shari'ah equity ETF valued at almost USD 95.5 million. **Table 4** in the following page lists the world top 5 Islamic ETFs in terms of fund size as at 31st August 2012. The 2nd and 3rd spot on the list are occupied by Islamic ETFs in Ireland and France while the 4th and 5th spot are taken by Islamic ETFs in Saudi Arabia.

The Indonesian capital markets are yet to launch an Islamic ETF and according to Muhammad Mihajat (2011), an Islamic finance expert and consultant in Indonesia, it appears the Indonesian practitioners are not seriously concerned about the development of Islamic structured investments such as IETFs and IREITs. He quotes unnamed practitioners of the Jakarta Stock Exchange who express scepticism on the viability of Islamic ETFs in Indonesian markets. According to these practitioners, Islamic ETFs are

not attractive to investors in Indonesia who prefer investments in mutual funds instead. Nonetheless, its unfortunate IREITs and IETFs have not been developed in the Indonesian capital markets. It is pertinent to mention there are three conventional ETFs that have exposures to Indonesian stock markets but they are incorporated and managed in the US.

Finally, the UAE markets too do not have any Islamic ETFs and similar to Indonesia, the general opinion of the practitioners is that there may not be sufficient appetite for such products in the GCC region. For instance, the chief economist at Riyadh-based Saudi-French Bank (Banque Saudi Fransi), claimed in an interview on 5th October 2010, the process of deleveraging and shocks from the crisis still hound the investors in the GCC region and hence there is unlikely to be any appetite for ETFs or other structured investments in general in the region in the near future. Nonetheless, UAE launched their first conventional ETF in March 2010 when National Bank of Abu Dhabi launched the NBAD Dow Jones UAE 25 ETF which combines 25 of the most traded stocks in the country. However, 6 months since the date of launch, the NBAD ETF Net Asset Value fell by 6.6 percent (Bloomberg, 2010).

On a positive note, NASDAQ-Dubai (formerly called the DIFX) which is an established platform for Sukuk issuances in UAE, plans to introduce a range of innovative Islamic instruments in collaboration with regional and international market participants to foster and strengthen the Islamic finance industry in UAE (Nasdaq-Dubai, 2012). As per their website, Islamic instruments expected to be introduced include IREITs, IETFs and other Islamic structured securities. However, no further details or expected timeline for launch was given.

In summary, only Malaysia is actively involved in IREITs and IETFs followed by UAE having one IREIT, and currently none in Indonesian and Brunei markets.

Table 4. World's Top 5 Islamic ETF Statistics 2012. * As at 31st August 2012. Source: I-VCAP (2012)

ETF Name	Domiciled	ETF Type	Index Tracked	Fund Size Total Assets (USD million) *
MYETF DJ ISLAMIC TITANS 25	Malaysia	Equity	DJIM TITANS 25	95.5
iSHARES MSCI WORLD ISLAMIC	Ireland	Equity	MSCI WORLD ISLAMIC	55.5
EASYETF DJ ISLAMIC MTK TTN 100	France	Equity	DJIM TITAN 100	28.8
FALCOM SAUDI EQUITY	Saudi Arabia	Equity	F30 FALCOM SAUDI EQUITY	50.5
NEWGOLD	South Africa	Commodity	Gold price in Rand	17.8

3.5 Derivatives

Traditionally, derivatives have been frowned upon by Shari'ah scholars due to presence of tainted elements such as Riba, Gharar, Maysir, etc. in their inherent structures. Consequently, the Islamic finance players faced an un-competitive environment as their exposures remained unhedged while their conventional competitors could subscribe to a variety of derivative instruments to manage their risks. In recognition of a legitimate need to protect investors against various financial risk exposures and market volatility, some Shari'ah scholars have taken the view that certain hedging arrangements may be allowed, provided that the instrument itself is structured in a Shariah-compliant manner (Dusuki, 2009). A detailed proposal on Islamic derivatives for hedging risks is given by Shaikh Hussain Hamid Hassan who is a prominent Islamic finance scholar from the Middle East. According to Hassan (2009), Islamic derivatives are needed on the basis of Maslahah and hence he approves Islamic derivative instruments provided they fulfil three conditions:

1. The underlying contracts in structuring Islamic derivatives are Shari'ah compliant.
2. The subject matter of these contracts is halal.
3. They are only used for hedging purposes and not for speculation leading to Maysir.

Although there are no consensus achieved on the issue of Islamic derivatives, Islamic financial institutions have come up with various over-the-counter (OTC) products structured using wa'ad (promise), murabahah (markup sale), tawarruq (3 party sale-resale), salam (future sale) and arbun (sale by deposit) contracts as Islamic versions of hedging instruments. Islamic hedging instruments which are currently being structured and used in Islamic finance include Islamic FX forward, Islamic FX Swap, Islamic Cross-Currency Swap, Islamic Profit-Rate Swap and Islamic Options (Dusuki, 2009).

In recent years, formal development of Islamic derivatives market has taken pace and a monumental achievement was the introduction of a standardized Tahawwut (hedging) Master Agreement (TMA) jointly developed by the International Swaps and Derivative Association (ISDA) and the Bahrain-based International Islamic Financial Market (IIFM) (GIFR, 2011). TMA agreement delivers a standardized ready to use contractual framework that could effectively reduce transaction costs (such as documentation costs) for parties engaging in Islamic derivatives contracts thereby serving the competitiveness of the Islamic derivatives industry. On 28th March 2012, IIFM and ISDA further launched a standard contract template to supplement the TMA (The Edge, 2012). Currently the IIFM/ISDA templates provide documentations for Islamic profit rate swaps and Islamic FX Swaps and with wider market practice and demand, the framework could be extended to include other derivative products.

Given the OTC nature of Islamic derivative transactions, its exact volume remains unknown (New Horizon, 2010). Even Malaysia which has been quite progressive in all Islamic capital market areas does not have an exchange-traded Islamic derivatives

listing. It is intuitively expected that the Islamic derivatives trading remains a trivial part of the several trillion dollar conventional derivatives industry. Nonetheless, we analyse some of the developments that have taken place concerning Islamic derivatives in each of our sample countries.

In Malaysia, the development of Islamic derivatives started as early as 2006 when Bank Islam and Bank Muamalat executed a pro forma master agreement for documentation of Shari'ah compliant derivative transactions in the region. Subsequently, CIMB Islamic introduced the world's first Islamic derivative product called Islamic profit rate swap in 2007 (Financial Times, 2010). The development of Islamic swap products in Malaysia since then has been quite encouraging. In early 2008, Kuwait Finance House Malaysia innovatively introduced the KFH Ijarah Rental Swap-i product that seeks to provide hedging solutions for lease-based contracts that have rentals benchmarked to fluctuating rates (Hussin, 2008). To protect against foreign exchange rates exposures, Standard Chartered Malaysia in July 2008 executed the first Islamic Cross-Currency Swap with Bank Muamalat Malaysia for an amount of USD 10 million. Very recently in 2012, Bank Islam Malaysia launched a new Shari'ah-compliant derivative product called an Islamic Dual Currency Investment-i (DCI-i) (The Edge, 2012). There are some other type of Shari'ah compliant hedging contracts that make use of commodities and these have been in practice in Malaysia since as early as 2003 where notably, the crude palm oil futures contracts (FCPO) traded on Bursa Malaysia were deemed permissible by the SAC (GIFR, 2011).

The development of Islamic derivatives in UAE on the other hand is quite limited as compared to Malaysia. An extensive research into various sources uncovered a number of law firms (for e.g. Simmons and Simmons, Linklaters LLP, etc.) and Islamic banks (for e.g. Standard Chartered Saadiq, Barclays Capital Dubai, etc.) that are willing to draft and offer Shari'ah compliant derivatives (Zawya, 2013). However, there is no evidence to indicate Islamic derivative products have taken off in the country. A number

of reasons concerning this observation is given in various reports. For instance, Muneer Khan the head of Islamic finance department at law firm Simmons and Simmons claims that firstly, the TMA contract is very technical putting off a lot of Islamic institutions in the region and secondly many still question the Shari'ah compliance of hedging products, which are often associated with speculation. In contrast, Harris Irfan, the head of Islamic products at Barclays Capital believes the lack of demand currently is due to the flat market conditions (Arabian News, 2010). In an interview published by Reuters (2011), Afaq Khan, CEO of Standard Chartered Saadiq UAE echoed same comments, "You want to hedge when there's volatility. There's no urgency at the moment, not because there's no interest, but primarily because of the market." Finally, there seem to be no guidelines from the Central Bank of UAE concerning Shari'ah parameters of Islamic derivatives as was the case in Malaysia where SAC of Bank Negara Malaysia introduced guidelines of Islamic hedging instruments.

In the case of Indonesia, there were news reports in 2011 which stated the Shari'ah board of Indonesian capital markets were planning to introduce Shari'ah compliant derivatives that would enable Indonesian Islamic banks and investors to protect themselves against fluctuations in interest rates and currencies (Jakarta Post, 2011). However, since then there is no updates or any other kind of reports that could indicate whether the Shari'ah board has taken any decision in this regard. A thorough analysis of the Indonesian capital markets website also yielded no results other than listing of conventional derivatives. Interestingly, we came across a news report which stated CIMB Islamic from Malaysia was eyeing possibilities to introduce Shari'ah compliant structured investments and derivatives in both Indonesia and Singapore markets (Reuters, 2011).

Finally, an extensive research into the Islamic finance literature concerning Brunei yielded no fruitful information that could indicate any future plans for Islamic derivatives in Brunei. The only mention of Islamic derivatives for Brunei was briefly in

Ebrahim and Joo (2001) who advocated Brunei monetary authorities to design, develop and implement Islamic hedging and risk minimizing facilities such as Islamic swaps to enhance the profitability of Islamic banks while simultaneously reducing their risk exposures. The paper now proceeds to Section 4 which discusses the strengths, challenges and opportunities for growth and development of Islamic capital markets.

4. Islamic Capital Markets: *Strengths, Challenges and Opportunities*

In the previous section, we examined the development and growth of various sectors of Islamic capital markets including Islamic banking and Takaful in our four sample countries. In this section, we critically analyse the fundamental factors that contributed towards the growth of the Islamic Capital Markets in these countries and further discuss future opportunities available including any formal plans to spearhead ICMs in these countries.

4.1. Malaysia

Our analysis in the previous section convincingly demonstrates Malaysia's creative leadership and dedication to the development and growth of Islamic finance. In all sectors of Islamic capital markets, Malaysia had the largest market share amongst our sample countries. Total Islamic financial assets of Malaysia stood at a significant USD 272.5 billion as at year end 2011. On a hindsight, it appears the crucial factor which uniquely supports Malaysia's Islamic financial pursuit has been the strong and unwavering political support to the industry from the highest leadership in the country. An upcoming paper by Najeeb and Ibrahim (2013) discusses this factor in great detail.

The Malaysian government and Bank Negara Malaysia in particular have been at the forefront by incorporating regulatory laws as early as 1983 and continuously monitoring and amending laws to spearhead the growth and development of Islamic finance in Malaysia. Notable regulations include the Islamic Banking Act (1983), Takaful Act

(1984), Banking and Financial Institutions Act (1989), Capital Market and Services Act (2007), Malaysia Deposit Insurance Corporation Act (2006), Central Bank of Malaysia Act (2009), Labuan Islamic Financial Services and Securities Act (2010), and the recent comprehensive Islamic Finance Services Act (2012) and Capital Markets and Services (Amendment) Act 2012 (CMSA 2012) which were gazetted as an act in March 2013 (BNM, 2013). These acts provided the Malaysian Islamic financial industry substantial support in the form of level playing field against conventional competitors. For example, amendments to tax laws to provide tax neutrality to Islamic financial trade transactions allows Islamic financial institutions to compete with conventional institutions on a comparable basis. Similarly, the Malaysian Deposit Insurance Corporation guarantees deposits of up to RM 250,000 per depositor per member bank thus safeguarding interests of Islamic depositors as is done for conventional depositors in conventional banks (GIFF, 2012).

Notably, Malaysia has centralized the Shari'ah Advisory council at both central bank and securities commission level to enhance coherence and consistency in Shari'ah rulings in the country which is a major facilitation to the industry. Forward and innovative thinking by the SAC has provided Malaysia with an advantage of having the only organized Islamic money market along with a highly active Islamic capital market. Close links between the industry players, SAC and Bank Negara has allowed progressive development of laws, products and Shari'ah guidelines to ensure practical developments of Islamic financial products in the industry. To develop relevant talent and skills required in Islamic finance, Bank Negara has set up INCEIF, the only university in the world fully dedicated to postgraduate Islamic finance studies; and ISRA, a centre fully dedicated to Shari'ah research in Islamic finance.

Nonetheless, there exists challenges for Malaysia to sustain its growth momentum as its intra-regional and inter-regional neighbours scramble to grab a share in the growing Islamic financial industry. Intra-regional competitors include Singapore, Indonesia,

Hong Kong, etc. while inter-regional competitors include Saudi Arabia, UAE, Qatar, non-Muslim jurisdictions, etc. From an opportunity point of view, the Islamic financial industry is still relatively infant as the majority of the Muslim population all over the world remains untapped. Being an open economy with a well-developed institutional infrastructure and more importantly political willingness, Malaysia should continue its current policies and strategies concerning Islamic finance which should allow it to continue its market leadership in the Islamic financial industry.

4.2. Indonesia

Compared to their progressive neighbour, the Indonesian Islamic financial industry remains nascent and although growth has picked up in recent years, there are reasonable grounds to suspect the slow responsiveness of the authorities to introduce favourable policies are to blame for such a trend. According to the Indonesian country guide in GIFF (2012), the Indonesian regulatory approach towards Islamic finance has been a case-by-case evaluation in comparison to the Malaysian model where the authorities take a pro-active role. To date, there are only a few regulations concerning Islamic finance such as Bank Indonesia's regulation on Shari'ah banking committees, Shari'ah commercial banks, Shari'ah business units, etc. The capital market regulator 'Bapepam' has also introduced a few laws to regulate Islamic financial instruments. In terms of tax neutrality, only recently in 2009 Indonesia has made a few amendments regarding issues such as income tax on sukuk coupons, double taxation on sale contracts, etc. Earlier in Section 3 of this paper, we had observed how some Malaysian companies such as CIMB Islamic and Al-Aqar were willing to establish Islamic derivatives and REITs in Indonesia provided the government provides favourable treatment through regulatory enactments to allow level-playing field.

On a constructive note, recently in 2010 the Indonesian Ministry of Finance and Bapepam have formulated the Capital Market and Non-Bank Financial Industry Master

Plan (2010-2014) that incorporates a development strategy for soundly establishing Islamic capital markets in the country with measures planned all the way through to 2014 (GIFF, 2012). At the same time, Bank Indonesia has been consulting with Bank Negara Malaysia to derive from the successful Malaysian model and all these are positive steps which may lead to a prosperous Islamic finance industry in Indonesia over the next 5 years or so (Bank Indonesia, 2011). Thus, the path of development and growth of Islamic capital markets in Indonesia seems to be on the right track, albeit a bit late.

The challenge for Indonesia is to overcome its late entry into the market against well-established jurisdictions all over the world. A subsequent challenge would also be to educate the masses and the other industry stakeholders regarding Islamic financial principles, products and investments. We had seen earlier in Section 3 how the Islamic money market in Indonesia was quite ill-liquid as most Islamic banks in Indonesia preferred bilateral arrangements with Bank Indonesia. Nonetheless, given that the Islamic financial industry barely constitutes 4% of the Indonesian financial industry, the opportunity for growth in the most populous Muslim nation is simply tremendous. Combined with appropriate support from the authorities, Indonesia has potential to be the largest Islamic finance hub in the world given its massive population.

4.3. United Arab Emirates

The case of UAE is rather unusual as it appears member states (precisely Dubai and Abu Dhabi) are taking separate individual initiatives and measures in terms of financial development in the country. Key Islamic finance regulations on a federal level and by the UAE Central Bank remain scarce. To date, there are only three main regulations, the Federal Law No. 6 of 1985 for Islamic Banking, Federal Law No. 4 of 2000 for Capital Markets and Federal Law No. 6 of 2007 for Takaful. In contrast, Dubai produced its own Law No. 9 of 2004 for establishing the Dubai International Financial Centre

(DIFC) along with an independent regulatory authority Dubai Financial Services Authority (DFSA) to supervise day-to-day operations of DIFC (DIFC, 2013). To date, there are no central Shari'ah bodies and the CBUAE of requires individual Islamic institutions to form their own SSBs with a minimum of three members. According to the UAE country guide of GIFF (2012), there are proposals to establish a Higher Shari'ah Authority (HSA) consisting of Shari'ah Legal and Banking personnel to oversee Islamic financial institutions. The HSA would be attached to the Ministry of Justice and Islamic Affairs.

In terms of incentives, there are no nationally propagated incentives for the Islamic financial industry. We did find some incentives claimed by the DIFC in their website in the form of 100% tax exemption, 100% foreign ownership, full repatriation of capital and profits, quick approval procedures, etc. But one may critically ask, how are these benefits any different from other Free Trade Zones established by Dubai for non-Islamic financial institutions? In terms of government plans, it appears the government is bent on pushing the UAE sukuks market alone as opposed to the overall Islamic capital markets. News reports quote the Prime Minister and Vice President of UAE, Shaikh Mohammed as saying, "Transforming Dubai into a global centre for Islamic sukuk is intended to cement confidence in our economy among international financial circles."

Overall, the role of Islamic capital markets in UAE looks bleak as there are no government-led pro-active initiatives to develop sound Islamic capital market instruments. This observation isn't surprising given that Dubai always aimed to be the world's financial centre, albeit in a conventional sense. We did find a number of institutions who are eager to offer Shari'ah compliant products and structured investments but the challenge for them is to motivate authorities to provide favourable platforms and policies to make such initiatives viable. The badly hit post crisis economy presents another challenge in the form of scant investor confidence in the region. Besides, the member states of UAE need to collaborate and formulate a joint strategy to

develop Islamic capital market policies for the country. Finally, the highly competitive and rivalrous nature of GCC markets presents another challenge for the sound functioning and growth of the UAE Islamic capital markets.

4.4. Brunei

Finally, the tiny country of Brunei with a population of about 350,000 has mildly progressed in terms of Islamic banking and Takaful. But its Islamic capital markets are virtually non-existent with the exception of Sukuk issuances. It is rather unclear whether such non-existence is due to lack of knowledge and demand from the population or failure of the Brunei government in promotion of Islamic capital market instruments. To date, key regulations of Islamic finance in Brunei concern only with Islamic Banking (Islamic Banking Order 2009) and Takaful (Takaful Order 2008). In addition, favourable tax incentives have been extended to ensure IFIs are not impeded by unfavourable taxation in comparison to conventional institutions. Like Malaysia, Brunei also has a centralized Shari'ah Financial Supervisory Board to supervise the Islamic financial services industry. Other than that, there are no exciting developments in the Brunei Islamic finance industry.

As mentioned earlier, 20 years since the first Islamic institution was set up in 1991, it is not directly clear why the Islamic finance industry remains stagnant. Brunei has several advantages such as a large proportionate Muslim population, political stability, oil-and-gas-induced wealth and general stability (Goh De No, 2012). Yet, progress remains lacklustre and Brunei is not pacing fast enough compared to other regional players. An intuitive temptation is to simply label the market as unviable given a small relative population. Nonetheless, wealth management, equities and structured investments are important for the protection of citizens' wealth and given the large Muslim population and high GDP per capita in Brunei, there is a great opportunity for

Islamic capital markets to flourish. Further qualitative studies are required to determine the exact cause of inactiveness in terms of ICM development in Brunei.

5. Policy Recommendations

The need for Islamic capital markets in today's highly competitive and globalized world is an essential necessity for the financial inclusion of the Muslim population. Undoubtedly, Islamic capital market instruments provide a basis for a large number of people, seeking Shari'ah compliant solutions, to participate in financing and investing of projects of the economy. Such inclusion allows Muslims to enjoy growth in their wealth as the economy progresses (Ayub, 2006). To date, Islamic capital market instruments such as equity investments and sukuk have been used to fund projects in both public and private sectors, including those of infrastructure, such as roads, bridges, ports, airports, etc. where large amounts of financing are required. Without securitization and resulting capital market instruments, these projects would only be reserved for the wealthy segments of the society while excluding the masses – a case where the rich get richer and poor get poorer as envisioned by Karl Marx (Usmani, 2008). Islamic capital markets allow active participation of Muslims in wealth creation as the products are Shari'ah compliant.

Our in depth analysis in the four sample countries allows some key policy recommendations to be made concerning effective growth and development of Islamic capital markets which could be used by Muslim leaders and other Islamic finance stakeholders to spearhead ICMs in their domains. These recommendations are as follows:

a) Strong political-backing from leadership and relevant pro-active regulatory support in the form of laws and legislations is critical to the success of ICMs development.

b) Close collaborations between regulatory authorities and industry stakeholders can result in practical innovation of products and instruments that are viable and reflective of demands in the market.

c) Centralized Shari'ah bodies can instil greater confidence amongst the public concerning the Shari'ah validity of ICM products while ensuring consistency in rulings.

d) Widespread knowledge on the principles and products of ICMs amongst the population can help create a market for various ICM products.

e) Some Shari'ah harm needs to be tolerated initially in structuring various ICM products as long as the benefits to the public (Maslahah) are greater. This is to allow the ICMs to take root and subsequently the structuring could move towards more compliance.

f) Strong and unified legal frameworks are essential to instil investor confidence concerning protection of investments in an event of default, fraud, etc.

Based on our extensive analysis in this paper, Malaysia is the only country in our sample that has efficiently managed to account for all the factors listed above (in addition to others), to achieve a progressive, robust and well established Islamic capital markets framework. Indonesia is closely following suit although it needs to improve on factors **a, b and d**. As far as UAE is concerned, it needs to improve on factors **b, c, e and f**. Finally Brunei needs to improve on all factors as it currently has no formal frameworks of Islamic capital markets.

6. Conclusion

In conclusion, protection of wealth is one of the five overall objectives of Shari'ah (Maqasid Al-Shari'ah). Without Islamic capital markets, the Muslim population of the world is excluded from various financing and investment opportunities. Islamic capital markets enable Muslims to actively participate in the overall progress of the economy without compromising on their religious beliefs.

In this regards, Malaysia's progress in the Islamic finance industry has been nothing but exemplary for the rest of the world. Having a Muslim population of only 61%, it has achieved feats which nations having 90% and above Muslim populations have failed.

In this paper, we comprehensively identified and examined the development, growth and challenges of Islamic capital markets in four sample countries: Malaysia, Indonesia, United Arab Emirates and Brunei. Based on results from our analysis, we provided some key policy recommendations that could be used by Muslim leaders for the effective growth and development of Islamic capital markets in their jurisdictions. Surely, it is now time for Muslim nations to wake up and strive to develop sound Islamic financial frameworks. Without a well-functioning Islamic financial system, Muslims all over the world are at risk of accumulating sins when dealing in prohibited conventional finance transactions. Islamic Capital Markets and the overall Islamic financial industry aims to provide Shari'ah compliant solutions. It is the duty of every stakeholder to support and help realize these solutions. And Allah Knows Best!

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