

Pronouncement of the Shariah Committee of Bursa Malaysia Islamic Services Sdn Bhd

In the Name of Allah, the Most Gracious the Most Merciful

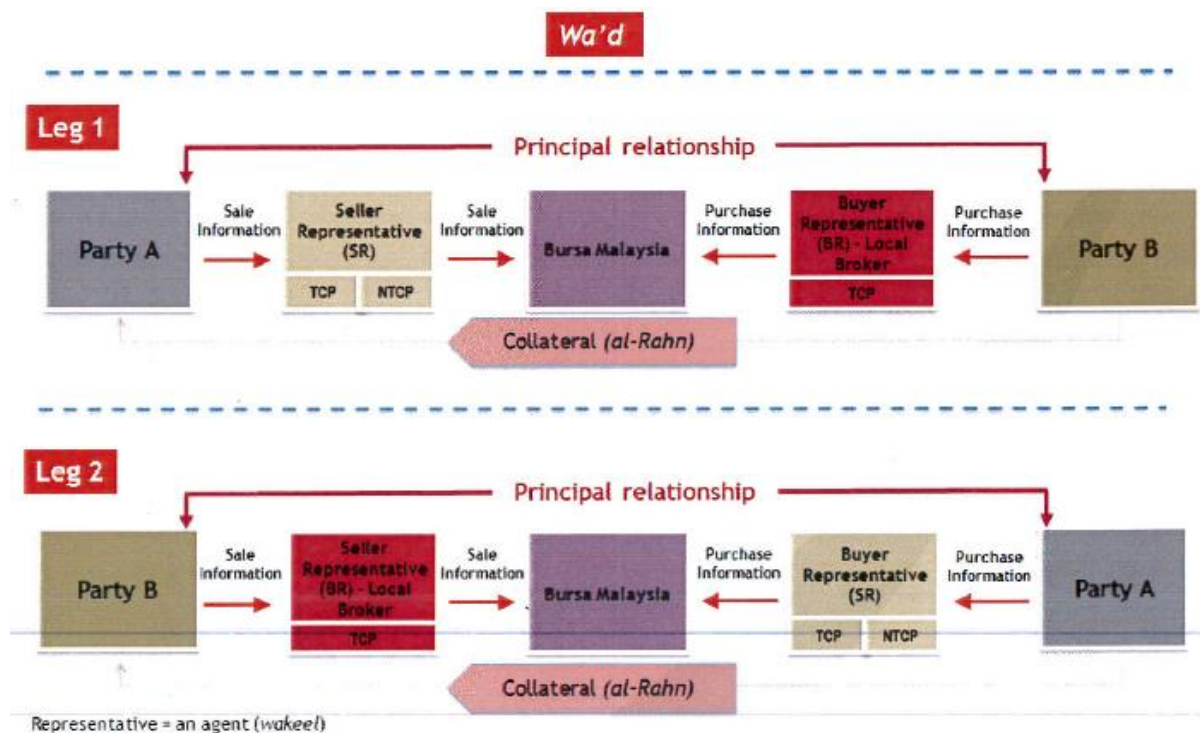
24 Ramadhan 1435H – 22nd July 2014

Subject: Islamic Securities Selling and Buying (iSSB)

All praise is due to Allah, prayers and peace be upon the last Prophet Mohammad, and be upon his relatives and all his companions,

The Shari’ah Committee of Bursa Malaysia Islamic Services Sdn Bhd (“BMIS”) in its meeting held on 22 July 2014 at its Main Office in Kuala Lumpur, endorsed Bursa Malaysia’s proposal (SC Memo No. 8 and No. 12 of 2014) concerning the structure of iSSB as a Shari’ah compliant alternative to Securities Borrowing and Lending (“SBL”).

The iSSB structure is designed based on SBL – Negotiated Transaction (“NT”) model with customisation, as illustrated below;



The key criteria of the model are as follow;

- i. Each transfer of securities from a principal contracting party to another is supported by a contract of sale (*bay'*)
- ii. The concept of *wa'd* (unilateral promise) is applicable to reflect the commitment of the principal contracting parties. The *wa'd* document which shall be executed by Party B spells out the undertaking to sell similar securities to Party A (Leg 2) while granting Party A an option to purchase upon occurrence of stipulated trigger events.
- iii. Under the principle of *khiyar al-shart*, Party B may be granted a certain grace period to rescind the Leg 1 transaction and return the purchased securities to Party A without any cost to be incurred. For the avoidance of doubt, provided Party B is the owner and in possession of the purchased securities, it reserves the right to exercise the option (*khiyar*) based on mutually agreed terms and condition. Party B may lose the right should there be any impediments that would prevent from returning the securities to Party A, e.g., disposal of the purchased securities.
- iv. A group of securities being sold at each Leg 1 and Leg 2 would normally be considered as two (2) different assets of sale. In principle, the purchased set of securities at Leg 1 could have been sold earlier (short selling), and the securities sold later at Leg 2 could be another set of securities but from the same counter or with the same stock code. Further, it can be of the same or different number of units, e.g., in the case of partial recall.

In the event the purchased securities at Leg 1 are in the process of corporate action such as merger, acquisition, winding up, delisting, etc., Leg 2 is to take place upon certain trigger event before the corporate action comes into effect. However, if for whatever reason, the Leg 2 could not be completed before the event, it could not be executed due to the non-existence of the stock, or its Shariah compliance status has changed, or no longer exists in the form mentioned in the *wa'd*.

- v. All risks and liability of the securities will be borne by the legal owner at any particular point in time. The legal owner has complete right or ownership on the securities, including selling it to a third party.
- vi. Imposition of minimum time gap of two (2) market days (T+1) between Leg 1 and Leg 2 is applicable.
- vii. Sales value for both legs takes into consideration market price of the securities at contracted date, fees, and dividend payout, as demonstrated by the following formula;



Leg 1: **Selling Price = MPt x Q**

Where,

MPt : Market Price of the shares at contracted date

Q : Quantity of the shares

Leg 2: **Selling (Exercise) Price = (MPt x Q) – MI – D**

Where,

MI : Monthly Installment (reflects the “lending fee” in conventional SBL)

D : Dividend

- viii. The indebtedness shall be secured against acceptable collateral which must be in the following order;
- Cash or cash equivalent instruments
 - Shariah compliant securities
 - Sukuk (Malaysia)
 - Sukuk (Foreign)
 - Sovereign bonds (Foreign)

For item viii(b) above, in the event the pledged securities turns to be Shariah non-compliant, immediate replacement with an approved substitute is obligatory.

For item viii(c) above, discounting the coupon component, pledged sovereign bonds will only be valued up to the principal amount.

- ix. The imposition of compensation changes at actual cost is permissible on defaulting party.

Should there be any changes in or additions to the process, structure, or mechanism as what has been presented; it must be submitted to the Shari'ah Committee for review and approval.

And prayers and peace be upon the last Prophet Mohammad, and be upon his relatives and all his companions.