

Investor guide to Islamic Finance in Malaysia

Islamic fund management company

MIFC
MALAYSIA INTERNATIONAL
ISLAMIC FINANCIAL CENTRE

PRICEWATERHOUSECOOPERS 

Introduction

Islamic Fund Management Companies (IFMC) are foreign Islamic fund managers that are licensed by the Securities Commission of Malaysia to manage mandates according to Shariah principles. These IFMCs can be wholly foreign-owned and can invest in foreign currency Islamic funds.

There are currently eight licensed IFMCs which constitute about 9% of the total fund management companies in Malaysia. Of the eight players, six have equity participation from foreign multinational players. With more than 85% of the equity market being Shariah-compliant, Malaysia is also the world's largest issuer of Islamic Sukuk and currently has fourteen Islamic-based wholesale funds.

ACKNOWLEDGMENT

We would like to acknowledge Securities Commission Malaysia, Malaysia International Islamic Financial Centre and other organisations for the use of information extracted from their publications and websites.

Tremendous growth and interest in Islamic finance for the last ten years have led to the establishment of more than 155 Islamic funds in Malaysia. As at June 2009, the total net asset value of Islamic funds stood at RM22.12 billion (US\$6.24 billion).

Scope of business activity

Fund management as defined in the Guidelines on Islamic Fund Managers has the same definition in the Capital Markets Securities Act 2007 which means undertaking on behalf of any other person or persons, whether on a discretionary authority granted by such person or persons or otherwise, the management of a portfolio of securities or futures contracts.

Generally, securities and futures contracts include, among other things, government stocks or bonds, shares or debentures, unit trusts, and future and exchange-traded options. They exclude currency or interest rate swaps, and forward exchange rate contracts.

Eligibility criteria

Foreign and local fund managers intending to set-up a foreign Islamic fund management business in Malaysia are required to apply and register with the Securities Commission. There are two stages to the application process: upon obtaining an approval in principle for the establishment of an IFMC, applicants must then submit an application for a fund manager licence.

Modes of entry

All IFMCs must be incorporated as a local Malaysian entity.

100% foreign equity ownership allowed.

Capital requirements & licensing fee

The minimum paid-up capital for an IFMC is RM2 million (US\$570,000). Minimum shareholders' fund of the same amount is to be maintained at all times.

The annual renewal licensing fee is RM2,000 (US\$570) for any first regulated activity, and RM1,000 (US\$290) for any subsequent additional regulated activity.

Application requirements

Applications to establish an IFMC shall be made to the Securities Commission providing information relating to its:

- financial soundness;
- compliance and risk management capabilities;
- track record in fund management activities;
- geographical presence;
- brand value and expertise in various markets, products and services; and
- technological capabilities.

Applicants are also required to provide information on its proposed business model in Malaysia and its value proposition for the overall development of the capital market.

Upon obtaining the approval for establishment of an IFMC, the fund management company must then be incorporated under the Companies Act 1965 via the Companies Commission of Malaysia.

Application process

The license application is a two-stage process, which consists of an establishment stage and a licensing stage. Applicants with no local presence are required to undertake both stages of the process while applicants with local presence need not undertake the first stage.

*** Note:**

The application for establishment under Stage 1 is submitted to the Securities Commission at:

Investment Management Supervision Department
 Securities Commission Malaysia
 3, Persiaran Bukit Kiara
 Bukit Kiara
 50490 Kuala Lumpur
 MALAYSIA

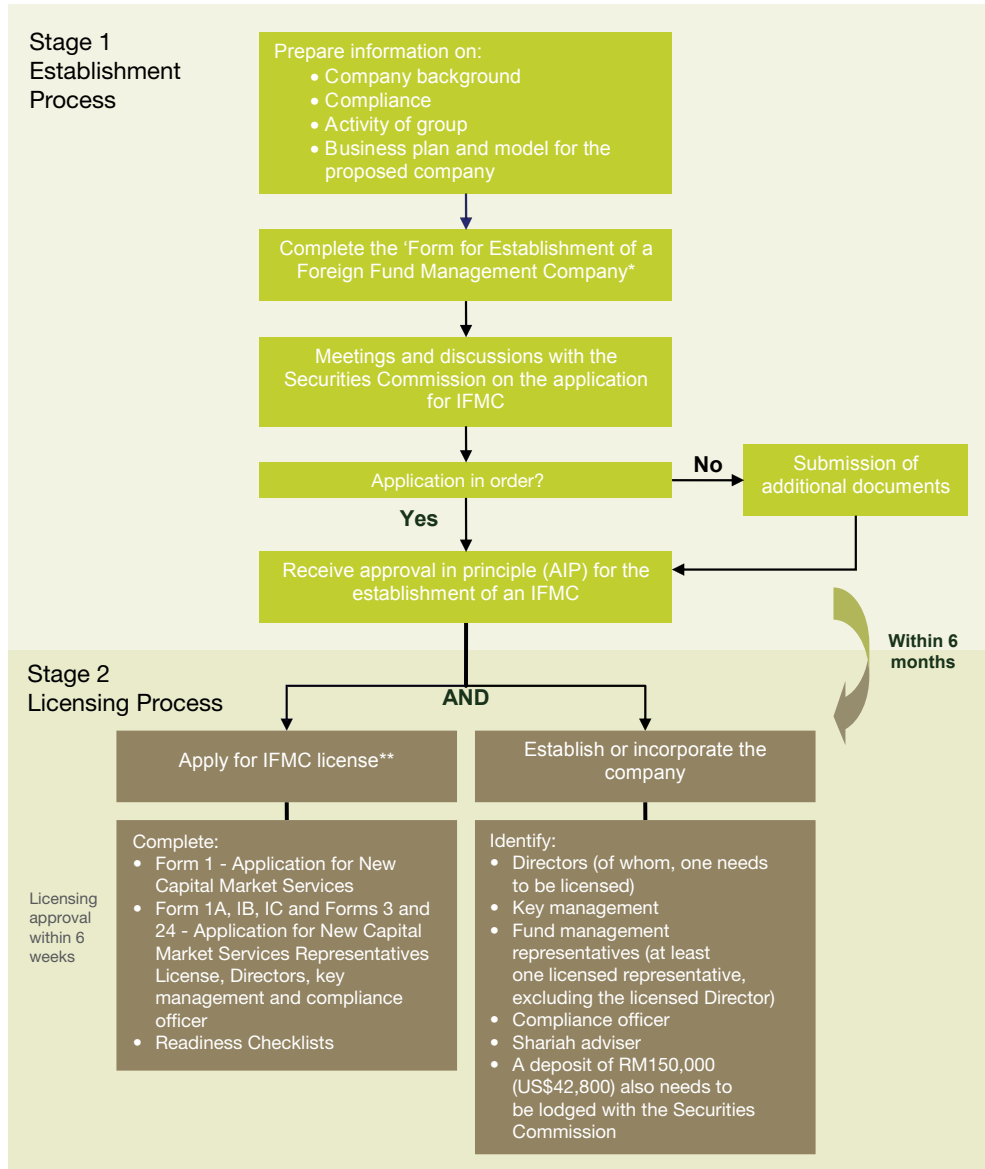
Telephone: +60 (3) 6204 8777
 Facsimile: +60 (3) 6201 5078
 Email: cau@seccom.com.my
 Website: www.sc.com.my

**** Note:**

The application for licensing under Stage 2 is submitted to the Securities Commission at:

Licensing Department
 Securities Commission Malaysia
 3, Persiaran Bukit Kiara
 Bukit Kiara
 50490 Kuala Lumpur
 MALAYSIA

Telephone: +60 (3) 6204 8777
 Facsimile: +60 (3) 6201 5078
 Email: cau@seccom.com.my
 Website: www.sc.com.my



Regulatory requirements

Islamic Fund Managers must be licensed under the Securities Commission. As such, in establishing an IFMC, the following regulatory structures apply / should be adhered to:

- Capital Market Services Act 2007;
- The Securities Commission Licensing Handbook;
- Application for Establishment of Foreign Fund Management Companies Under the Special Scheme;
- Guidelines on Islamic Fund Management; and
- Guidelines on Compliance Function for Fund Managers.

IFMC are required to comply with the following:

- Appoint as Shariah adviser, an individual or a corporation, or an Islamic bank or a licensed institution approved by Bank Negara Malaysia to carry on an Islamic banking business (non-resident Shariah advisers may also be appointed); and
- Ensure that its investment activities are limited to Shariah-compliant investments.

The IFMC shall at all times, also observe the following:

- maintain all accounts in accordance with Shariah principles;
- undertake appropriate Shariah compliant risk management techniques and tools for its Islamic fund management business; and
- perform internal audits to monitor Shariah compliance.

In addition, the Islamic fund manager is expected to prepare at least annually, a written disclosure and declaration to the board of directors of the Islamic fund manager and the Securities Commission that the Islamic fund management business has been carried out in accordance with Shariah principles.

Government incentives

- Income tax exemption on all income derived from a business of providing fund management services to local and foreign investors up to 2016;
- Income tax exemption on income received by non-resident experts in Islamic finance;
- Islamic fund management companies are allowed to invest all their Shariah funds abroad; and
- Fast and easy immigration approval for expatriates in Islamic finance and their family members.



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