

Shariah Advisory Council (SAC) of Securities Commission (SC) Resolution No. 72

Collateral Assets in Islamic Capital Market Products

The SAC of SC had resolved the following:

1. Asset which is valuable and recognised by Shariah may be used as collateral in ICM products. These assets include:
 - i. A physical asset that is used to carry out activities which are Shariah-compliant and/or Shariah non-compliant; and
 - ii. A financial asset that is Shariah-compliant and/or Shariah non-compliant.
2. In the case where Shariah non-compliant financial asset is used as collateral, the SAC resolved as follows:
 - i. Ordinary Shares and Preference Shares
 - a) Shariah non-compliant ordinary shares and preference shares of companies listed on Bursa Malaysia; and
 - b) Shariah non-compliant ordinary shares and preference shares of unlisted companies, may be accepted as collateral provided that the core business of the companies is Shariah-compliant based on the confirmation by the Shariah advisers registered with the Securities Commission Malaysia. The total value of the Shariah non-compliant ordinary shares and preference shares may be accepted as the collateral value.
 - ii. Conventional Insurance

An asset must be covered through takaful scheme. However, if the asset is already covered under an existing conventional insurance policy, the entire value of the conventional insurance policy coverage may be accepted as collateral. Such conventional insurance policy may be maintained until its expiry.

Once the conventional insurance policy expires, such asset must be covered by takaful scheme. If the takaful scheme is not available or is not commercially viable as determined by the Shariah adviser, such asset may be covered under a conventional insurance policy and the entire value of such conventional insurance policy coverage may be accepted as collateral.

However, in the event that the policyholder still renews the existing conventional insurance policy of its asset without taking into consideration the takaful scheme coverage, the value of the conventional insurance policy acceptable as collateral is only limited to the Shariah-compliant portion which constitutes the total amount of premium paid by the policyholder.
 - iii. Shariah Non-Compliant Financial Asset other than Ordinary Shares, Preference Shares and Conventional Insurance Shariah non-compliant financial asset other than the ordinary shares and preference shares as stated in item (2)(i)(a), (2)(i)(b) and (2)(ii) above may be accepted as collateral provided that the value of the collateral is limited to the Shariah-compliant portion only. In this regard:

- a) the collateral value of the Shariah non-compliant financial asset which is based on interest such as conventional fixed deposit certificate and conventional bond is limited to the principal amount of such instruments; and
- b) the collateral value of the Shariah non-compliant unit trust fund is limited to the initial investment and any additional investment by the investors.

Reference:

Resolutions Of The Shariah Advisory Council Of The Securities Commission Malaysia,

<https://www.sc.com.my/api/documentms/download.ashx?id=83f46cef-97ee-4c9f-993d-d710ff9b600b>