SURUHANJAYA SYARIKAT MALAYSIA
COMPANIES COMMISSION OF MALAYSIA
(Agensi di bawah KPDNHEP)

Interest Schemes Blueprint

2020 – 2024

New Vision Structure on National Shared Prosperity

This 5-year Blueprint is a strategic plan that develops and charts a new vision structure for the interest schemes industry and to revolutionize the Malaysian interest schemes sector

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INTRODUCTION

“The objective of regulation is essentially to provide protection to potential investors in a wide range of investments that goes beyond shares or debentures of a company by regulating public offering of interests – other than shares or debentures”

Prologue

The Companies Commission of Malaysia intends to develop a new vision structure for the interest schemes industry and to revolutionize the Malaysian interest schemes sector; to develop a more dynamic, effective and high value-added interest schemes financial market with a key focus on greater shared prosperity; strengthening and safeguarding the regulatory and supervisory regime; and raising the standards of governance and risk management.

In order to realize this new vision structure, the Companies Commission of Malaysia intends to conduct a comprehensive study and to formulate a blueprint that will incorporate, embody, chart and achieve the objectives of the interest schemes development plan.

Interest Schemes Milestones

Year	Milestones
	Interest schemes were previously regulated under the now-repealed Companies Act 1965 and provisions in the Act were utilised to regulate long-term memberships offered by golf, recreational and timeshare clubs
1992	• Issuance of the Policy Guidelines and Requirements for Sales of Club Memberships • Issuance of the Policy Guidelines and Requirements for Timesharing Arrangements
2000	• Issuance of the Additional Policy Guidelines and Requirements for Sale of Club Memberships • Issuance of the Additional Policy Guidelines and Requirements for Timesharing Arrangements
2002	• Update of the Policy Guidelines and Requirements for Sales of Club Memberships • Update of the Policy Guidelines and Requirements for Timesharing Arrangements • Update of the Additional Policy Guidelines and Requirements for Sale of Club Memberships • Update of the Additional Policy Guidelines and Requirements for Timesharing Arrangements
2005	• The High Court, in *NV Multi Corp Bhd v Suruhanjaya Syarikat Malaysia*, expanded the definition of interest schemes to include purchase of burial plots, urns and columbarium niches offered by memorial parks
2007	• The first investment scheme was approved by the Companies Commission of Malaysia, pooling financial contributions from the public on which the subscribers earned profits

2008	• The Federal Court, in *NV Multi Corporation Berhad v Suruhanjaya Syarikat Malaysia*, affirmed the decision that burial lots and urn compartments are "interest" within the definition of section 84(1) of the then Companies Act 1965
2010	• Issuance of the Policy Guidelines and Requirements on the Issuance of Advertisements in relation to Registered Interest Schemes • Issuance of the Policy Guidelines and Requirements for Sale of Share Farming Grower's Plot
2012	• The first *Mudharabah Al-Mua'ddat* Shariah-compliant interest scheme was launched
2017	• The Interest Schemes Act 2016 *[Act 778]* came into operation on 31 January 2017 • The Interest Schemes Regulations 2017 came into effect on 31 January 2017 • Issuance of the Consultative Document on Guidelines for Interest Schemes • Issuance of the Consultative Document: Guidelines on Accounting for Interest Schemes
2018	• Interest Schemes Industry Development Plan • Interest Schemes Industry Blueprint Initiative

"Division 5 of Part IV of the Act is enacted with the underlying purpose of protection of the public at large of their interest in such a scheme as this one provided by the Respondents. S. 84 indeed cast a wide net. When the State of Kansas first enacted its maiden securities registration law in 1911, it was announced that "The state was the hunting ground of promoters of fraudulent enterprises ... so barefaced ... that it was stated they would sell building lots in the blue sky."
This gave birth to legislations now commonly known as "blue-sky" laws, such as the one found in Division 5 of our Act."

Justice Abdull Hamid Embong
Suruhanjaya Syarikat Malaysia v NV Multi Corporation Berhad
Civil Appeal No W-01-41-2005 and W-02-523-2006

FOREWORD
by YB DATUK SERI SAIFUDDIN NASUTION BIN ISMAIL
Minister of Domestic Trade and Consumer Affairs

The Interest Schemes Blueprint 2019 carries the theme, "*New Vision Structure on National Shared Prosperity*" which reflects the hidden potential of interest schemes in Malaysia that is currently governed under the Interest Schemes Act 2016.

The Blueprint has identified the various working models of interest schemes such as the right-to-use scheme (without a financial return), the investment scheme (with financial return), the hybrid or combination scheme of an investment model and right-to-use model and the *Shariah* compliant interest scheme.

Local entrepreneurs should be innovative as the business landscape is vastly changing. The ridesharing services is a good example. It is a business model where the business operator does not own any inventories. Instead, it is a digital platform-based business model.

The interest schemes platform can also offer new innovative business model. With the implementation of this Blueprint, I hope more businesses will have interest to structure and innovate their current business model to utilise interest schemes as an alternative fund-raising platform for their business expansion.

Apart from that, the Small and Medium Enterprises (SMEs) have always been at the forefront of this Ministry's focus and efforts. Several programmes, financial assistance, loans and grants have been implemented to help SMEs improve their ability to compete.

The availability of "small schemes" within the context of interest schemes is specifically targeted at SMEs as an alternative fund-raising platform of a fund size of a minimum of RM1 million to a maximum of RM10 million.

I express my appreciation to the Companies Commission of Malaysia for launching this Interest Schemes Blueprint. The Blueprint is a significant initiative that supports the objectives of this Ministry to promote the development of a viable, competitive, sustainable and conducive business environment for Malaysia.

Datuk Seri Saifuddin Nasution bin Ismail

MESSAGE
from NOR AZIMAH ABDUL AZIZ
Acting Chief Executive Officer, Companies Commission of Malaysia

In 2018, SSM embarked on a comprehensive study to formulate a comprehensive 5 year development plan (2020-2024) to create dynamic and game-changing strategies together with concrete action plans in developing and growing the interest schemes industry for Malaysia. The Blueprint's objective is not limited to meeting the industry's potential under the Interest Schemes Act 2016 but to also transcend the boundary of the current legal framework to include new and future growth areas that will revolutionise the Malaysian interest schemes industry.

There are many growth strategies and recommendations outlined in the Blueprint. I am especially excited at the various innovative business models that have been identified which include, the membership or right-to-use scheme without any financial return that extends beyond a 12-month period, the investment scheme that incorporates a fund-raising model with the promise of a financial return, the hybrid scheme that incorporates both financial return and the right-to-use model and the *Shariah* compliant scheme.

I am also eager to see the implementation of the key initiatives comprising the trading platform for the facilitation of the primary and secondary offerings of interest schemes units and products, the strategic partnerships and alliances between ministries, regulators, agencies, financial institutions and market players and the possibility of creating a regime of regulated market intermediaries or outsourcing to third parties service providers in respect of the offering of interest schemes units and products.

Taking a leaf from the famous "blue-sky" laws, there is no limit on how far the definition of interest schemes can go. There is a huge potential in the industry sectors that can potentially utilise the interest schemes platform. This is evident from the Blueprint's identification of such sectors - ecotourism, agro-tourism, farm stay, medical/wellness tourism, ride sharing, education, vehicle charter etc. The possibilities are endless.

I would like to express my heartfelt gratitude to all the members, consultants and academic researchers of the Blueprint committee for providing the strategic direction and valuable guidance in the formulation of this Blueprint. I would also like to thank the SSM team for their dedication, unceasing efforts and hard work in the formulation of this Blueprint.

The implementation work begins with the publication of this Blueprint. I look forward to the support of all stakeholders in the interest schemes industry in realising the aspirations of this Blueprint.

Nor Azimah Abdul Aziz

CHAPTER 1
INTRODUCTION

1.1 Overview

A new vision structure for the interest schemes industry is planned to be developed to revolutionise the Malaysian interest schemes sector. This new vision structure is known as the Interest Schemes Industry Development Plan. The three main objectives of this plan include developing a more dynamic, effective and high value-added interest schemes in the financial market with a key focus on greater shared prosperity; to strengthen and safeguard the regulatory and supervisory regime under the Interest Schemes Act 2016 as well as to raise the standards of governance and risk management among industry players.

In view of the above-mentioned vision structure, this Interest Schemes Blueprint is formulated. It is a comprehensive plan to reposition its market share and status within the next 5 years, in line with the digitalisation in business besides the rapid growth and frequent change of the financial market. The blueprint aims to redefine the standards based on the new Interest Schemes Act 2016; identify its challenges and formulate growth strategies for interest schemes; and to propose the industry game changer beyond the traditional method in both domestic market and international market.

1.2 Background of the Law

The absence of independent law regulating interest schemes were evident prior to the enforcement of the Interest Schemes Act 2016. This is because interest schemes were primarily governed under Part IV of Division 5 of the Companies Act 1965.

Fundamentally, the objective of the law is to protect investors who have invested beyond shares or debentures of a company by regulating the public offering of interests – other than shares or debentures.

Thus, the legislature and judicial intentions are clear: to protect the general public from unscrupulous schemes. However, more often than not, promoters responded to the law by designing increasingly more sophisticated schemes in attempt to circumvent the law. Hence, it is important for the law to develop accordingly to provide greater protection to the general public.

1.2.1 The New Law

On 31 January 2017, a new law governing interest schemes has come into force known as the Interest Schemes Act 2016[1]. The matters primarily dealt with by the Interest Schemes Act 2016 comprises of the registration of schemes[2], nature of schemes[3], types of schemes[4], trust deed/contractual agreement[5], trustees[6], prospectus/product disclosure statement[7], management company[8], accounts and audit[9], meetings[10], winding up[11] and enforcement[12].

[1] Interest Schemes Act 2016 [*Act 778*], which together with the Companies Act 2016, effective on 31 January 2017
[2] Sections 3, 10, 11, 12, 13 and 14 of the Interest Schemes Act 2016
[3] Section 4 of the Interest Schemes Act 2016
[4] Sections 5, 6, 7 and 8 of the Interest Schemes Act 2016
[5] Sections 19, 20 and 21 of the Interest Schemes Act 2016
[6] Sections 22, 23, 24, 25 and 26 of the Interest Schemes Act 2016
[7] Sections 27 to 41 of the Interest Schemes Act 2016
[8] Sections 44 to 50, 76 to 80, 82 and 87 of the Interest Schemes Act 2016
[9] Sections 51, 52, 53 and 54 of the Interest Schemes Act 2016
[10] Sections 55, 56, 57, 58, 59, 60 and 61 of the Interest Schemes Act 2016
[11] Sections 62, 63, 64, 65, 66, 67 and 68 of the Interest Schemes Act 2016
[12] Sections 70, 71, 72, 73, 74 and 75 of the Interest Schemes Act 2016

Apart from the above, other important provisions in the Interest Schemes Act 2016 includes: The *First Schedule*, reads together with section 20[13] which specifies the covenants to be included in a Trust Deed or a Contractual Agreement[14]; and the *Second Schedule*, reads together with section 32[15] which specifies the contents required to be stated in the prospectus or product disclosure statement[16].

Under the new definition of "interest" in section 2(1) of the Interest Schemes Act 2016, the definition now specifically excludes "… any capital market product as defined in Section 2 of the Capital Markets and Services Act 2007." Presumably, the phrase was provided to give greater clarity between the difference of an interest schemes product and a capital market product (as opposed to the narrower definition of prescribed investment in the previous law). There is also a corresponding section to the exemption powers found earlier in Section 96 of the Companies Act 1965. Section 73(1) of the Interest Schemes Act 2016 states that the Minister may, by notice published in the *Gazette*, exempt any company or class of companies from complying with all or any of the provisions of the Interest Schemes Act 2016 in relation to any interest or class of interests specified in the notice[17].

[13] Section 20(2) (*b*) of the Interest Schemes Act 2016 provides that the Registrar shall not grant his approval to a trust deed and a contractual agreement unless the trust deed or the contractual agreement contains the covenants as set out in the First Schedule

[14] There are three types of covenants to be included – (*i*) covenants binding the management company; (*ii*) covenants binding the management company in respect of trustees and auditors; (*iii*) covenants binding the trustee

[15] Section 32(1) of the Interest Schemes Act 2016 provides that every prospectus or product disclosure statement issued under this Act shall comply with the requirements relating to the contents of the prospectus or product disclosure statement as specified in the *Second Schedule*

[16] There are two parts in the *Second Schedule* – (*i*) matters required to be stated in the prospectus or the product disclosure statement; (*ii*) reports to be set out in the prospectus or the product disclosure statement

[17] See also: Section 73(2) of the Interest Schemes Act 2016 states that the notice in subsection (1) may provide that an exemption may be subject to the terms and conditions specified in the notice

1.3 Consultancy Process

The Companies Commission of Malaysia (Suruhanjaya Syarikat Malaysia (SSM)) began to review the interest schemes in light of the emergence of the new Act. In the course of this review, SSM identified the challenges and proposed the growth strategies through various methods which include conducting an online survey (hereafter referred to as the Survey) by distributing electronic survey questionnaires to relevant stakeholders including past or existing interest schemes owners, operator and managers to collect key information in order to develop this blueprint.

As a follow up to the Survey, a dialogue session was held to introduce and share SSM proposals and initiative to the participants. The dialogue questions and answers (Q&A) session's was conducted using an online real-time conference question and answer tool. Thus, the session allows a detailed and useful exchange of information as well as engagement with the stakeholders. It also enables participants to effectively participate and engage with SSM as regulator.

Subsequent to the dialogue session, a lab session was also conducted. Selected participants in the dialogue session were invited to the lab session. The lab session was divided into 5 core groups. Each group was led by 1 moderator, 2 or 3 roving moderators, and assisted by 1 rapporteur. The lab session was conducted through brainstorming sessions to discuss, exchange, generate new ideas, solutions and draws conclusion for the specific problems that were posed by each core group.

The outcome of this research includes findings from the Survey, dialogue and lab session which is now incorporated in this blueprint. The collective inputs from various stakeholders in developing this blueprint will elevate interest schemes status to a higher level.

1.4 The Organisation of the Blueprint

The structure of the remaining chapters of the blueprint are as follows:

Chapter 2: Interest schemes legal framework reviews the conventional structure of interest schemes under the new Act.

Chapter 3: Shariah compliant interest schemes present the Islamic securities market overview; Islamic fund structures; and Shariah contracts and their application in Shariah Compliant Interest Schemes.

Chapter 4: Interest schemes as an alternative financing provides the comparison between capital market and interest schemes as well as to propose interest schemes as an alternative financing for companies. This chapter also reviews and identifies the potential growth of interest schemes.

Chapter 5: Challenges of interest schemes identifying the existing gaps and problems/issues relating to interest schemes growth and provide the solution to address the problems.

Chapter 6: Growth strategies reviews the performance of interest schemes in the past 10 years and recommend effective strategies to uplift the market share and status of interest schemes in the next 5 years.

Chapter 7: Game changer and rebranding proposes the game changer in line with the current era of digitisation of capital market and promote interest schemes as an alternative method of funding for business beyond the traditional financing options. In addition to the above, this chapter also suggests the rebranding strategies, which will increase the market share of interest schemes in domestic market and penetrate the international market.

1.5 The Effectiveness of the Blueprint

In order to ensure the effectiveness of the blueprint, SSM will work closely with all the stakeholders to address the identified problems and to implement the growth strategies efficiently. These measures will pave the way for SSM to bring interest schemes to a new height in both domestic and international markets.

CHAPTER 2
INTEREST SCHEMES LEGAL FRAMEWORK

2.1 Interest Schemes: An Overview

The Interest Schemes Act 2016 came into force on 31 January 2017. It is the first stand-alone legislation governing the interest schemes industry in Malaysia. Prior to that, the law governing interest schemes are administered under Part IV of Division 5 of the Companies Act 1965 (*now repealed by the Companies Act 2016*).

Among the main objectives of the new Interest Schemes Act 2016 are to:

(a) Remove obstacles on growth to allow offering of interests by all companies;
(b) Recognise interest schemes offered outside Malaysia by foreign companies that are registered under the Companies Act 2016;
(c) Enhance the governance of framework to ensure that the interest of schemes' owners is always protected;
(d) Enhance the rights and protection of interest holders; and
(e) Introduce Shariah principles into interest schemes.

2.2 Towards a Better Regulation of Law

2.2.1. Definition of "Interest Schemes" under the Previous Companies Act 1965

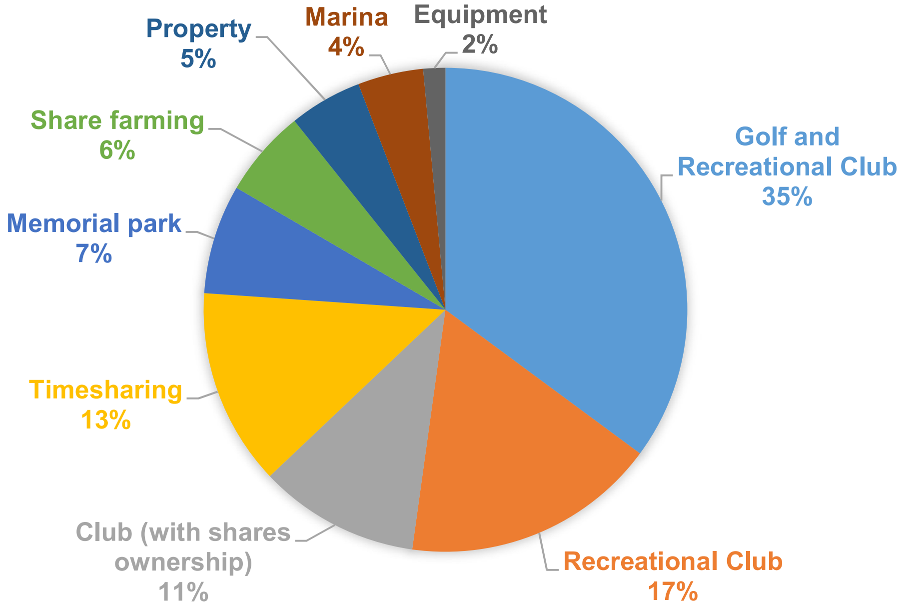
Before the coming into force of the new Interest Schemes Act 2016, the term "interest" is define under Section 84(1) of the Companies Act 1965 as: A right to participate or interest in any: (a) profit, assets or realisation of any financial or business undertaking or scheme, whether in Malaysia or elsewhere; (b) common enterprise in which the holder expects profits, rent or interest, whether in Malaysia or elsewhere; (c) time-sharing scheme; or (d) investment contract.

2.2.2 Problems with the Definition of "Interest Schemes" under the Previous Companies Act 1965

The previous statutory definition mainly divided the interest schemes into four categories: (a) profit, assets or realisation of a business; (b) common enterprise with expectation of profits, rent or interest; (c) time-sharing scheme; and (d) investment contract. The definition is deemed too restrictive as it compartmentalises the schemes. Also, it is confusing because it is neither inclusive nor encompassing.

Thus, over the past decade, the categories of registered interest schemes were very limited. From the total of registered interest schemes in year 2017 (see Figure 2.1 below), 63% of the schemes comprise of golf and recreational club schemes followed by time sharing scheme and memorial park scheme at 13% and 7%, respectively. Evidently, the interest schemes industry is underutilised as an alternative funding mechanism with only 13% of the registered schemes are of profit/investment in nature, under the category of share-farming, property and equipment.

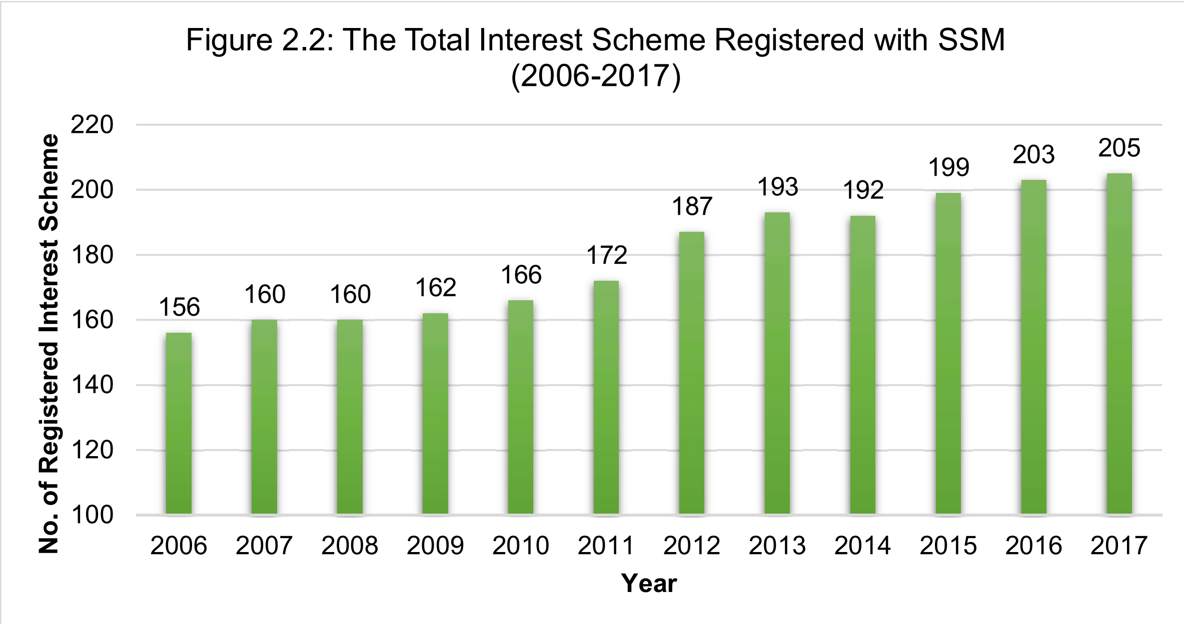
Figure 2.1: Registered Interest Schemes in Year 2017 by Categories



Source: *SSM Annual Report 2017*

Figure 2.2 exhibits the total interest schemes registered with SSM from 2006 to 2017. Based on the trend over the past 11 years, it is observed that the total number of registered interest schemes in Malaysia has increased by 31.4% from 156 schemes in year 2006 to 205 schemes in year 2017.

In terms of monetary worth, the total value of the registered interest schemes has surged more than 132% within 7 years (from RM10.2 billion in year 2011 to RM23.7 billion in year 2017).



Source: *SSM*

2.2.3 Improvement of the Definition of "Interest Schemes" from the Companies Act 1965 to the Interest Schemes Act 2016

Today, the statutory definition of the term 'interest' under the new Interest Schemes Act 2016 has improved significantly. Such development is welcomed by the stakeholders. To the regulator, the interest schemes industry will become better regulated; to the industry players it serves as an alternative funding mechanism, not only to public companies but also to small medium enterprises

(SMEs); and to the investors, it will serve as an alternative investment vehicle to the public. Hence, such changes will certainly shift the interest schemes industry to a new paradigm.

(i) Definition of "Interest"

According to Section 2 of the Interest Schemes Act 2016, the term "interest" means any interest or right to participate, whether in Malaysia or elsewhere in any:

(a) investment scheme,

(b) time-sharing scheme, or

(c) recreational membership scheme,

whether or not the interest or right is evidenced by a formal document or relates to a physical asset.

Despite the term "investment", an "interest" under the Interest Schemes Act is clearly different in nature, compared with other asset classes such as shares, capital market products and financial products.

Exclusion in the term "interest":
The definition of the term 'interest' in Section 2 of the Interest Schemes Act specifically excludes the following:

(i) any shares in or debenture of a corporation;

(ii) a capital market product as defined in Section 2 of the Capital Market and Services Act 2007;

(iii) any interest in a partnership agreement; or

(iv) any participatory interest in any product offered by the licenses regulated under the Financial Services Act 2013 and the Islamic Financial Services Act 2013, approved issuers of a designated payment instruments regulated under the Financial Services Act 2013 and the Islamic Financial Services Act 2013 and development financial institutions prescribed under the Development Financial Institutions Act 2002.

(ii) Nature of schemes

Section 4 of the Interest Schemes Act 2016 further defines that a scheme shall either be:

a) Investment Scheme;

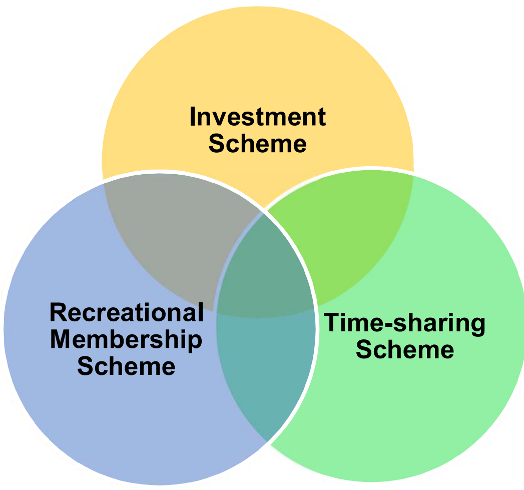
b) Recreational Membership Scheme;

c) Time-sharing Scheme; or

d) A combination of such schemes.

Under sub-section (5), a scheme may be in the form of a Shariah compliant scheme.

Figure 2.3: Nature of Schemes



Thus, based on the current legal context, an interest scheme may be offered as:

1. A single nature interest scheme;
2. A combined scheme, with both for right to use/enjoy the property/facilities and the right for profits/financial benefits;
3. A Shariah compliant single nature interest scheme; or
4. A Shariah compliant combined scheme, with both for right to use/enjoy the property/facilities and the right for profits/financial benefits.

The new Interest Schemes Act 2016 provides a clear description of the characteristics of each nature of interest schemes under Section 4, compared to the now repealed Companies Act 1965 which merely defined “time-sharing scheme” in its interpretation section.

The key characteristics of the respective nature of schemes under the new Interest Schemes Act 2016 are summarised in Table 2.1 below.

Table 2.1: Nature of Interest Schemes

Nature of Schemes	Investment Scheme	Recreational Membership Scheme	Time sharing Scheme
Contribution by Interest Holder(s)	Money or money worth	Money	Money
Consideration to Interest Holder(s)	(i) Right or interest to profits or assets or realisation of any financial or business undertaking of the scheme; or (ii) Contribution is pooled or used in common enterprise to produce financial benefits or benefits consisting of rights or interests in property for profits, rent or interest	Right or interest to use or enjoy any sport, recreational, holiday or other related facilities	Entitle to use, occupy or possess property to which the scheme relates, for two or more periods whether in Malaysia or elsewhere
Additional Condition(s)	Holder does not have day-to-day control over the operation of the scheme	Minimum operating period of not less than 12 months, whether or not on a recurring basis	Minimum operating period of not less than 3 years

(iii) Types of Schemes

Under the new Interest Schemes Act 2016, an interest scheme can be categorised into three different types i.e. small scheme, premium scheme and foreign scheme (see Table 2.2 below).

Fundamentally, the small scheme has the lowest requirements on the offering company. In order to offer a small scheme to the public for subscription, any company limited by shares with paid up capital of RM500,000 will be eligible to offer such scheme, regardless of whether it is a public company or a private company. This allows more industry players, particularly SMEs to have access to interest schemes as an alternative funding mechanism. Furthermore, a small scheme is later convertible into a premium scheme.

On the other hand, all interest schemes previously registered under the repealed Companies Act 1965 are automatically categorised as premium scheme. In line with the previous law requirements, the type of company qualified to offer a premium scheme is restricted to a public company limited by shares.

Under the premium scheme category, the requirement of the minimum paid up capital of the offering company depends on the fund size of the interest schemes to be offered. For instance, if a company intends to offer an interest scheme with a value up to RM50 million, this requires the company to have at least RM1 million in paid up capital. If a company offers an interest scheme with higher fund size, it will then be required to have a higher paid up capital (see Table 2.2 below).

Therefore, by classifying the interest schemes into different types, it benefits the stakeholders. As the regulator, SSM will be able to better regulate the industry according the different types of schemes offered. Besides that, it encourages more industry players to participate in offering interest schemes based on respective needs and qualifications. Also, it enables investors to identify and choose the right registered schemes based on the investors' risk appetite.

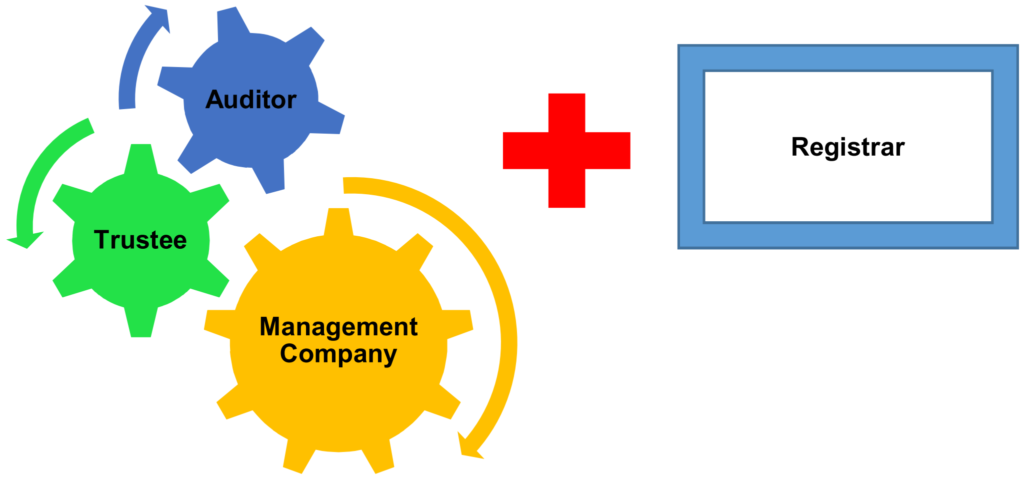
Table 2.2: Classification on Types of Interest Schemes

Types of Schemes	Small Scheme	Premium Scheme	Foreign Scheme
Offering Company	Company limited by shares (both public and private)	Public company limited by shares	Foreign public company limited by shares
Paid up Capital	RM500k	^RM 1mil / *RM 2 mil / #RM 5mil	RM 5 mil
Fund Size	RM 1 mil - RM10 mil	^RM10 mil - RM 50 mil/ * more than RM50mil / # more than RM100 mil	Unlimited
Offer Documents	1. Product Disclosure Statement 2. Contractual Agreement	1. Prospectus 2. Trust Deed	1. Prospectus 2. Trust Deed
Convertibility	Convertible to premium scheme	-	-

2.3 Enhancement of Interest Holders' Protection

The enhancement of rights and protection of interest holders serves as one of the primary objectives in introducing the new Act. Essentially, the law spells out the roles and duties of each stakeholder in an interest scheme i.e. the management company, the trustee and the auditor. In addition, greater authority has been granted to the Registrar to regulate matters concerning interest schemes.

Figure 2.4: Stakeholders in Promoting Interest Holders' Protection



2.3.1 The Stakeholders under an Interest Scheme

(i) Management Company

The Management company is defined as a company incorporated under the Companies Act 2016 or corresponding to the previous written law, by or on behalf of which the interests have been or are proposed to be issued.

Among the duties and obligations imposed on the management company under the Interest Schemes Act 2016 includes taking all reasonable steps and exercise due diligence to ensure scheme is managed according to the Act and offering documents. Besides that, keeping accounting records as sufficiently explain the transactions of the schemes and to keep a register of interest schemes holder in respect of each trust deed or contractual agreement.

(ii) Trustee

A management company is obligated under the law to appoint a trustee to act for the interest holders, prior to the registration of a scheme. Only a company registered under the Trust Companies Act 1949 or any other person approved by the Minister is eligible to be appointed as the trustee.

The trustee plays a vital role in monitoring the rights and interest of the interest holders vigilantly, in addition to ensuring the covenants in the offering documents are delivered. The Act also imposed on the trustee, duty to report to Registrar when there is non-compliance of the Act, the trust deed, contractual agreement, prospectus or product disclosure statement or the scheme is unable to meet its obligations as they fall due.

(iii) Auditor

Previously, under the repealed Companies Act 1965, there is absence of specific provision with regard to auditor (apart from requiring a clause to be inserted in the trust deed concerning trustee's duty to cause the account be audited). With the coming into force of the new Interest Schemes Act 2016, a management company is now required by law to appoint an auditor for the purpose of auditing the whole of the business of the scheme administered by the management company.

The auditor owes duties towards the interest holders. There are specific provisions under the new Act concerning the duties and obligations of the auditor which include reporting to the interest holders on the financial statements, the scheme's accounting and other records related to the financial statements and the report shall be circulated to the interest holders.

2.3.2 Powers of the Registrar

Fundamentally, the Interest Schemes Act 2016 has granted vast range of powers to the Registrar. Specifically, to ensure the interest of the interest holders are better preserved and also all the stakeholders i.e. the management company, the trustee and the auditor comply with the law's requirements.

Among the powers of the Registrar include power to impose other conditions for registering any types of the interest schemes; power to suspend or revoke the certification of authorisation; power to grant stop order or interim stop order; power to intervene in the management of a scheme; and power to terminate unregistered scheme.

Hence, with more intense power granted to the Registrar under the new Interest Schemes Act 2016, the interest schemes industry will grow resiliently in reinforcing investor trust and confidence.

CHAPTER 3
SHARIAH COMPLIANT INTEREST SCHEMES

3.1 Islamic Securities Market Overview

The Islamic finance industry encompasses the full spectrum of financial services activities including banking, insurance and securities.

In 2008, the International Organization of Securities Commission (IOSCO), in its report “Analysis of the Application of IOSCO’s Objectives and Principles of Securities Regulation for Islamic Securities Products”, has estimated that the Islamic finance industry’s international market growth at approximately 15% per annum, with a total worth of approximately US$800 billion worldwide (as at June 2008).

The said report also found that although, initially, the development of Islamic finance consisted largely on the expansion of banking and trade-related financing activities. Nonetheless, the Islamic securities market have thereafter experienced significant growth (much of which has been the Sukuk and Islamic funds).

The Global Islamic Finance Report indicated that the Islamic financial assets exceeded US$1 trillion in 2010 and the global Islamic financial services industry stood at US$2.293 trillion in 2017.

Based on the report, it is assumed that the potential size of the industry will grow by at least 10% annually. This assumption was based on the following factors: (a) global Muslim population continues to grow; (b) awareness about Islamic banking and finance continues to increase; and (c) the per capita income and wealth held by Muslims are also rising, in line with the trends of other faith-based groups.

3.2 Shariah Compliant Interest Schemes in Malaysia

Under the previous Companies Act 1965, there was no direct provisions to recognise a Shariah compliant interest schemes. However, that did not prevent SSM to successfully approve and register the country's first *Mudharabah Al-Mua'ddat* Shariah compliant interest schemes in 2012; followed by a second *Mudharabah Al-Mua'ddat* scheme in 2014.

Currently, the new Interest Schemes Act 2016 has officially recognised a "Shariah compliant scheme" to mean "… a scheme referred to in Section 4 of which the trust deed and prospectus or contractual agreement and product disclosure statement, whichever is applicable, are in compliance with the Shariah framework under Section 43."

The Interest Schemes Act 2016 specifically empowers SSM to approve a Shariah compliant scheme. Section 43(1) of the Interest Schemes Act 2016 provides: "A trust deed, contractual agreement, prospectus or product disclosure as required under this chapter may be issued in accordance with Shariah principles as approved by the Commission."

In line with this new development, SSM established a Shariah Advisory Committee to assist the Commission. In Section 43(2) of the Interest Schemes Act 2016 provides that: "The Commission shall have the power to establish a Shariah Advisory Committee to advise the Commission and the Registrar on the appropriate Shariah framework to be adopted and approved for the purposes of this Act."

3.3 Islamic Fund Structures

The IOSCO, in its report "Analysis of the Application of IOSCO's Objectives and Principles of Securities Regulation for Islamic Securities Products", explained that Islamic funds are normally structured using the accepted types of Islamic finance contracts. One notable feature of the modern Islamic finance industry is that transactions are normally structured using a set of underlying contract types which were used in the early Islamic period.

An Islamic financial product would commonly refer to the main underlying contract (for example, *Musharaka*, a partnership structure, or *Ijara*, a lease structure). Other contract types that can be used include *Murabaha* (cost plus mark-up), *Muradaba* (where working capital is placed with an entrepreneur to trade), *Salam* (commodity-based spot payment/deferred delivery) and *Istisna* (manufacturing-based spot payment/deferred delivery).

Islamic funds are normally structured using the accepted types of Islamic finance contracts. The contract between the investor and the manager is generally one of the following:

(a) *Mudaraba*: This is the structure most akin to a conventional collective investment scheme, where investors provide the capital to another person (called *Mudarib*) who will have the day-to-day control of the investor funds and will use their expertise to manage those funds within agreed parameters;

(b) *Musharaka*: This is akin to a partnership structure where all the participants are investors with participation in the profit or losses incurred by the enterprise. However, only some partners will be involved in the management of the enterprise (like the general partner in a conventional limited partnership);

(c) *Wakala*: This is a principal-agent relationship in which the fund manager acts as the agent of investors in investing their fund within a pre-agreed investment strategy. The primary fee will normally be fixed, for example as a percentage of assets.

In addition, an Islamic collective investment scheme must operate in accordance with Shariah principles, not only in its relations with investors but also in its investment and other fund management activities. This include the following:

(a) The prohibition against interest (*riba*) will prevent a fund lending or borrowing at interest, or investing in interest-bearing securities;

(b) The fund may not invest in unethical or socially detrimental activities such as those involving alcohol, pornography or gambling. Also, it may not invest in conventional financial institutions, or enterprises which receive or pay substantial amounts in interest;

(c) Where an investment produces a small proportion of its return from unacceptable sources, for example, a trading company which also arranges interest-bearing loans for its customers, the investment may be regarded as acceptable if it is "purified" by giving the unacceptable proportion of the return to charity;

(d) The prohibition against *gharar* (excessive uncertainty / ambiguity) will also limit some types of contract.

3.4 Shariah Contracts and their Application in Shariah Compliant Interest Schemes

A Shariah Compliant Interest Schemes must be based on any recognised Shariah contract. '*Aqad* or contract derives from the root word/verb *'aqada*, which means to knit, knot, tie, put together, join, combine, fix, conclude, form, engage or contract.[18]

Its general definition connotes "every act which is undertaken with sincerity and firm determination regardless whether it emerges from a unilateral intention such as *waqf* (endowment) and *wasiyyah* (bequest) or from a mutual agreement among the contracting parties such as sale and hire."

'*Aqad* also refers to "the conjunction of an offer emanating from one of the two contracting parties with the acceptance of the other in the manner that affects the

[18] J Milton Cowan, *A Dictionary of Modern Written Arabic*, Librairie Du Liban: Beirut, 1980, at 627-628.

subject matter of the contract."[19] This means that there is no contract unless these three elements which include the presence of offer and acceptance, two contracting parties and subject matter.

The form of Shariah contracts that may be used depends on types of interest schemes framework and platform. The variation of contract models can come in the form of sale-based contracts, lease-based contracts, equity-based contracts, agency-based contracts or agricultural-based contracts.

Contract Models	**Shariah Equivalent**
Sale-based contracts	*istisna'*, *bay' bithaman ajil*, *bay' salam*, *murabahah* & *musawamah*
Lease-based contracts	*al-ijarah* & *al-ijarah muntahia bi al-tamlik*
Equity-based contracts	*musharakah*, *musharakah mutanaqisah* & *mudarabah*
Agency-based contracts	*wakalah* & *wakalah bi istithmar*
Agriculture-based contracts	*muzara'ah*, *musaqah* & *mugharasah*

[19] Abd al-Karim Zaydan, *Al-Madkhal li Dirasat al-Shari'ah al-Islamiyyah*. Risalah Publishers: Beirut-Lebanon, 2003, at 242.

3.4.1 Sale-based Contracts

Bay‘

Bay‘ refers to an exchange of property (for property) in a specified manner. This is conducted by means of mutual consent to transfer ownership or take possession (permanently). *Bay‘* is recognised based on *Qur'an, Hadith* and *Ijma‘*.

A management company can invite the public to subscribe for *Bay‘* Shariah Compliant Interest Schemes for the purpose of using the funds mobilised from the subscribers (who later qualify as the interest holders) to purchase rights to utilise room usage on the basis of the time-sharing principles. The interest holders will be entitled to use or occupy the rooms/part of the building as per the terms of the contract.

Alternatively, a management company can also invite the public to subscribe for *Bay‘* Shariah Compliant Interest Schemes for the purpose of using the funds mobilised from the subscribers to acquire assets (such as building or land) that will be used for leasing to the third party for profit. The profits derived will then be shared among the interest holders.

Apart from leasing purposes, the building can, alternatively, be renovated and re-sold to the third parties for profits. For land, it can be cleared and levelled, after which the title of such land will be converted to its land usage and condition (e.g. from agricultural to residential or commercial). Such land will then be disposed to third parties' profits. The profits derived will then be shared among the interest holders.

Bay‘ al-musawamah

Bay‘ al-musawamah refers to a sale by mutual consent, completed and concluded through negotiations between the seller and buyer, with no reference to be made to the original price[20] in which its legality is similar to that of bay‘. Likewise, the application of *bay‘ al-musawamah* in Shariah Compliant Interest Schemes is similar to that of bay‘.

<u>Bay‘ al-murabahah</u>

Bay‘ al-murabahah connotes a sale of a commodity. The sale will be at the price at which the seller has purchased, with the addition of a stated profit (made known to the seller and buyer). It is essentially sale of goods at the price at which it was purchased with a specified agreed profit, either in a percentage or a flat amount[21].

Murabahah is permissible in Islam based on several authorities from the Quran, Hadith and *Ijma‘*. Additionally, the permissibility of *murabahah* is also according to *qiyas* (analogy) where the Prophet (P.B.U.H) approved the *tawliyah* sale (sale based on cost price - the sale on the mark-up will be equally permissible on the basis of analogy on the *tawliyah* sale). The determination of cost and making the cost known to the purchaser is common in both the *tawliyah* and *murabahah* sales.

A management company can invite the public to subscribe the *Murabahah* Shariah Compliant Interest Schemes for the purpose of using the funds mobilised from the subscribers (who would later qualify as interest holders) to purchase rights to utilise room usage on the basis of the time-sharing principles.

In order to comply with *murabahah* principles, the management company must reveal the actual cost of the purchased assets and the actual profit generated from the sale transaction. The interest holders will be entitled to use or occupy the rooms/part of the building as per the terms in the contract.

Similarly, a management company can also invite the public to subscribe the *Murabahah* Shariah Compliant Interest Schemes for the purpose of using the funds

[20] See also ISRA Compendium for Islamic Financial Terms Arabic – English, at 79.
[21] ISRA Compendium for Islamic Financial Terms Arabic – English, at 70.

mobilised from the subscribers to acquire assets (such as building or land) that will be used for leasing to the third party for profit (the management company must reveal the actual cost of the purchased assets and the actual profit generated from the sale transaction). The profits derived will then be shared among the interest holders.

Besides for leasing purposes, the building can, alternatively, be renovated and re-sold to the third parties for profits (the management company must reveal the actual cost of the purchased assets and the actual profit generated from the sale transaction). For land, it can be cleared and levelled, after which the title of such land will be converted in its land usage and condition (e.g. from agricultural to residential or commercial). Hence, such land will then be disposed to third parties' profits. The profits derived will then be shared among the interest holders.

Bay' bithaman ajil

Bay' bithaman ajil refers to the sale and purchase transactions for the financing of an asset on a deferred and instalment basis with a pre-agreed payment period. The legality of *bay' bithaman ajil* is derived from the Islamic principle of permitted sale and forbidden *riba*[22]; and to put in writing, it refers to transactions involving future obligations in a fixed period of time[23]. Its legality is also based on various Hadith and *Ijma'.*

A management company can invite the public to subscribe the *bay' bithaman ajil* Shariah Compliant Interest Schemes for the purpose of using the funds mobilised from the subscribers (who would later on qualify as interest holders) to purchase rights to utilise room usage on the basis of time-sharing principles.

In order to comply with the *bay' bithaman ajil* principles, the subscription payment may be paid on deferred payment or instalment basis for specified period of time.

[22] *Surat al-Baqarah*, 2:275.
[23] *Surat al-Baqarah*, 2:282.

The interest holders will be entitled to use or occupy the rooms/part of the building as per the terms in the contract.

Similarly, a management company can also invite the public to subscribe the *bay‘ bithaman ajil* Shariah Compliant Interest Schemes for the purpose of using the funds mobilised from the subscribers to acquire assets (such as building or land) that will be used for leasing to the third party for profit (the subscription payment may be paid on deferred payment or instalment basis for specified period of time). The profits derived will then be shared among the interest holders.

Apart from leasing purposes, the building can, alternatively, be renovated and re-sold to the third parties for profits (the subscription payment may be paid on deferred payment or instalment basis for specified period of time). For land, it can be cleared and levelled, after which the title of such land will be converted in its land usage and condition (e.g. from agricultural to residential or commercial). Therefore, such land will then be disposed to third parties' profits. The profits derived will then be shared among the interest holders.

Bay‘ salam

Bay‘ salam refers to a sale of goods where the price is paid immediately but the goods will only be delivered at a future specified date, provided that the goods have been measured and weighed. It is essentially a sale with immediate payment against future delivery (paying in advance for something to be delivered later), that is to say, to purchase something with money paid in advance, thereby giving credit.[24]

The legality of *bay‘ al-salam* is derived from the Qur'an.[25] It is also based on various *Hadith* and *Ijma‘*. The recognition of *bay‘ al-salam* is supported by *Istihsan* and *‘Urf* on the basis of fairness, equity and needs of the people (it facilitates the

[24] *Majallat al-Ahkam al-‘Adliyyah*, article 123.
[25] *Surat al-Baqarah*, 2:282.

peoples such as farmers, gardeners, merchants and others who need money for their living expenses and working capital to operate their businesses).

A management company can invite the public to subscribe the Salam Shariah Compliant Interest Schemes for the purpose of using the funds mobilised from the subscribers (who would later on qualify as interest holders) to purchase/inpost specified types of goods/commodities such as rice, sugar, wheat and the likes that will be delivered at certain future date of delivery. Upon receiving such goods/commodities, they will be sold to third parties for profits. Incomes and profits for the sale transaction will be shared among the interest holders.

<u>Istisna‘</u>

Istisna‘ means the giving of an order to a labourer or artisan to make a definite article with an agreement to pay a definite price for that article when it is ready[26].It is essentially a contract with any skilled person for the manufacture of any particular thing[27]. The legality of *istisna‘* is derived from various Hadith of the Prophet (P.B.U.H) and on *istihsan* as it is universally accepted by the people due to necessities of business and the need of people.

A management company can invite the public to subscribe the *Istisna‘* Shariah Compliant Interest Schemes for the purpose of using the funds mobilised from the subscribers (who would later qualify as interest holders) to construct and build an apartment/condominium/building that will later be sold or leased to a third party for profit. The construction may be carried out by the management company itself or the contractor who carries out the construction work for the management company by way of parallel *istisna‘*. The subscription payment may be paid upon conclusion of the *istisna‘* contract or in stages according to the completion of work or deferred payment upon completion of the apartment /condominium/building or instalment

[26] al-Kasani, *Bada’i‘ wa sana’i‘*, vol. 6, p. 267.
[27] *Majallat al-Ahkam al-‘Adliyyah*, article 124.

basis for specified period of time as per agreement. The incomes and profits from the sale transaction will be shared among the interest holders.

3.4.2 Lease-based Contracts

Al-ijarah

Al-ijarah refers to "the transfer of usufruct or *manfa'ah* (the use of an object or the service of a person) for a consideration (in the case of hiring of things, rent or *ujrah*; in the case of hiring of persons, wages or *ajr*"[28]. This definition indicates that *al-ijarah* involves – (*a*) usufruct; (*b*) consideration; (*c*) hiring of things; and (*d*) hiring of persons.

The legality of *al-ijarah* is based on the Qur'an, Hadith and *ijma'*[29]*.* The principle is approved due to the need and the clear benefit to utilise the usufruct of different articles (goods and services). Similar to the sale of such goods and services, the lease of the usufruct is also permitted. Furthermore, with *al-ijarah* the burden of a person who is not able to own the property is eased; the difficulty of a person who does not have time/expertise to perform certain task is facilitated; the need of a person who wants to purchase then own certain merchandise /goods/property is fulfilled; and the trouble for a contractor to develop certain project is resolved.

The management company can invite the public to subscribe the *Ijarah* Shariah Compliant Interest Schemes for the purpose of using the funds mobilised from the subscribers to utilise rooms or part of the building on the basis of *ijarah* for a designated period of time. The interest holders will then be entitled to use or occupy the room/part of the building based on time-sharing principles.

Similarly, the management company can also invite the public to subscribe the *Ijarah* Shariah Compliant Interest Schemes for the purpose of using the funds

[28] Noel J. Coulson, *Commercial Law in the Gulf States*, p. 22.
[29] Quran, Al-Qasas: 27.

mobilised from the subscribers for leasing of the assets (such as building or land) that will be used for sub-letting to the third party for profit. The incomes and profits will be shared among the interest holders.

<u>Al-ijarah muntahia bi al-tamlik</u>

Al-ijarah muntahia bi al-tamlik means leasing that ends with transfer of ownership. It refers to an *ijarah* contract which have the ultimate purpose of the lessee owning the leased asset and shall contain a mechanism for the transfer of ownership of the leased asset to the lessee from the lessor during or at the end of the lease period".[30] The asset is leased to the lessee and in consideration the lessee pays an agreed monthly leasing payment to the lessor. It is agreed that at the end of the lease period, the lessor will transfer ownership of the asset to the lessee by one of the following methods –

(a) Transferring the asset to the lessee through sale with a token or other consideration, or by accelerating the payment of the remaining amount of leasing payment, or by paying the market value of the leased asset;
(b) Transferring the asset to the lessee through gift; and
(c) Transferring the asset to the lessee through gift contingent upon the payment of the remaining instalments.

The management company can invite the public to subscribe the *al-ijarah muntahia bi al-tamlik* Shariah Compliant Interest Schemes for the purpose of using the funds mobilised from the subscribers to utilise rooms or parts of the building on the basis of *ijarah* for designated period of time. After the expiry of the lease period, the asset will be transferred to the holders either through gift or sale.

[30] BNM, *Shariah Standards*, at 414; See also, Nazih Hammad, *Fiqh of Contemporary Financial and Banking Transactions*, AlBaraka: Jeddah, at 102-103.

3.4.3 Equity-based Contracts

Musharakah

Musharakah refers to a partnership between two or more parties, whereby all parties will share the profit or bear the loss from the partnership. Its legality is based on the Qur'an[31], Hadith and *ijma'*.

The management company can invite the public to subscribe the *Musharakah* Shariah Compliant Interest Schemes for the purpose of using the funds mobilised from the subscribers to invest in Shari'ah compliant investment/business. In order to comply with *musharakah* principles, the management company must contribute certain amount of its capital to the scheme. The interest holders and the management company are both considered as partners in the scheme. The profits (or losses) from the investment will be shared between the interest holders and management company.

Musharakah mutanaqisah

Musharakah mutanaqisah, or also known as *musharakah muntahiyah bi tamlik* refers to a form of partnership contract whereby the co-partner allows his partner/customer to buy partnership assets in one payment or in instalment based on terms agreed by both parties. It is essentially a form of partnership in which one partner promises to buy the equity share of the other partner gradually until the titleof the equity is completely transferred to him.

The term of buying and selling should not be stipulated in the partnership contract. The buying partner is only allowed to give a promise to buy and is independent of the partnership contract. The buying and selling agreement is also independent of

[31] Surat al-Nisa', 4:12.

the partnership contract. It is not permitted that one contract be entered into as a condition for concluding the other.

The management company can invite the public to subscribe the *musharakah mutanaqisah* Shariah Compliant Interest Schemes for the purpose of using the funds mobilised from the subscribers to invest in Shariah compliant investment/business. To comply with the *musharakah mutanaqisah* principles, the management company must contribute some amount of capital to the scheme. The interest holders and the management company will both be considered as partners. All the profits from the investment will be shared between the interest holders and management company. The management company will purchase the interests/shares belonging to the interest holders in stages until the ownership of the scheme belongs to the management company (or vice versa).

<u>Mudarabah</u>

Mudarabah is a contract between a capital provider (*rabbul mal*) and an entrepreneur (*mudarib*). The *rabbul mal* provides the capital to be managed by the *mudarib*. Profits generated from the capital is shared between the *rabbul mal* and the *mudarib* according to a mutually agreed profit-sharing ratio. Financial losses are borne by the *rabbul mal*, provided such losses are not due to the *mudarib*'s misconduct (*ta'addi*), negligence (*taqsir*) or breach of specified terms (*mukhalafah al-shurut*). The legality of *mudarabah* is based on the Qur'an[32], Hadith and *Ijma'.*

The management company can invite the public to subscribe the *Mudarabah* Shariah Compliant Interest Schemes for the purpose of investment in a Shariah compliant investment/business. The interest holders are the investors and the management company will be the agent manager who carries out the investment. All the profits from the investment will be shared between the interest holders and management company. However, all losses will be borne by the interest holders

[32] Surat Jumu'ah, 62:10.

unless due to misconduct, negligence or breach of the terms and conditions by the management company.

Alternatively, the management company can give the funds to another investment company, also on a *mudarabah* basis, for investment in Shariah compliant investment. The profits from the investment will be shared between the investment company and the management company.

3.4.4 Agency-based Contracts

Wakalah

Wakalah as the authorisation of person (*al-wakil*) by another (*al-muwakkil*) to dispose of something (*al-muwakkal fih*) during his lifetime provided that he has the right to do so and such things are liable to be represented. *Wakalah* involves – (*a*) two contracting parties: *wakil* (agent) and *muwakkil* (principal); (*b*) subject matter (*al-muwakkal fih*); (*c*) representation is made during lifetime that excludes *al-wasiyyah* (bequest); and (*d*) representation is made by a person who has legal capacity. The legality of *wakalah* is based on the Qur'an[33], Hadith and *Ijma'.*

The management company can invite the public to subscribe the *Wakalah* Shariah Compliant Interest Schemes for the purpose of using the funds to purchase and sell the assets for profits. Although the management company acts as the agent, any profits derived from such activities belong to the interest holders.

Wakalah bi istithmar

Wakalah bi al-istithmar refers to as an investment agency contract where the investor (the principal) appoints investment manager as an agent to undertake investment activities on behalf of the principal for a fee. The capital that the

[33] Surat al-Kahf, 18:19.

customer provides will be used for the investment activities. The management company is paid an agreed agency fee for such activities that must be carried out prudently in order to avoid any element guaranteed by the agent on the investment returns[34] to be compromised.

The management company may invite the public to subscribe to the *Wakalah bi istithmar* Shariah Compliant Interest Schemes to invest in the Shariah compliant business activities. The interest holders pay the fees to the management company as per agreed in the contract. Any profits derived from the business belong to the interest holders.

3.4.5 Agricultural-based Contracts

Muzara'ah

Muzara'ah is a share-cropping/agricultural partnership. The owner of a piece of land allows a farmer to grow crop in return for a specified fraction of the total yield[35]. *Muzara'ah* is defined as "a type of partnership where one party supplies the land and the other work that is to say, cultivates the land, on terms that the produce is to be divided between them."[36]

The management company can invite the public to subscribe the *Muzara'ah* Shariah Compliant Interest Schemes for the purpose of using the funds to grow crops. The interest holders will be entitled to the respective shares in the crops. The management company will be the cultivator who undertakes growing crops and all related tasks. The funds realised through subscription are used to cover cultivation costs.

[34] *Ibid.*, at 143.
[35] ISRA Compendium for Islamic Financial Terms Arabic – English, at 285.
[36] *Majallat al-Ahkam al-'Adliyyah*, article 1431.

Alternatively, the funds can also be used to purchase the land for the purpose of growing crops. The interest holders will be entitled to shares in the land.

Musaqah

Musaqah is an irrigation partnership in which the owner of an orchard turns over a specified number of fruit-bearing trees to another person who will then exchange them for a specified portion of the total yield of the trees[37]. It is, in essence, "a type of partnership whereby one party supplies the trees and the other tends them on the terms that the fruit produced is to be shared between them."[38]

A management company can invite public to subscribe the *Musaqah Shariah* Compliant Interest Schemes for the purpose of using the funds mobilised from the subscribers in the irrigation of fruit-bearing trees on the basis of *musaqah*. The interest holders become entitled to the shares in the crop. The management company is the cultivator who undertakes irrigation of the fruit-bearing trees. The funds realised through the subscription could also be used in caring for the trees in terms of pest control, fertilizers and pruning.

Alternatively, the *Musaqah* Shariah Complaint Interest Schemes can also be used to purchase land that has fruit-bearing trees and to be maintained by the cultivator on the basis of *musaqah*. The interest holders are the landlords who will be entitled to the shares in the crop.

Mugharasah

Mugharasah is a type of partnership where one party (land owner) presents a barren piece of land to another (planter) in order for the planter to cultivate the land in return for a common defined share of the trees, fruits and land. It is, in essence,

[37] ISRA Compendium for Islamic Financial Terms Arabic – English, at 286.
[38] *Majallat al-Ahkam al-'Adliyyah*, article 1441.

to give access to uncultivated land to a cultivator to plant for a specified period, with the land and trees to be shared between them[39].

The management company can invite the public to subscribe the *Mugharasah* Shariah Complaint Interest Schemes for the purpose of using the funds mobilised from the subscribers to purchase land that will be used for plantation of fruit-bearing trees by the cultivator on the basis of *mugharasah*. The interest holders are the landlords who will be entitled to the shares of the trees.

[39] See ISRA Compendium for Islamic Financial Terms Arabic – English, at 291.

CHAPTER 4
INTEREST SCHEMES AS AN ALTERNATIVE FINANCING

The trend of business financing has transformed over the decade with the emergence of alternative financing options. This chapter provides an insight of the role of alternative financing and overview of the current financing trend in Malaysian business market. Besides that, it also outlines how interest schemes play its part as one of the alternative financing options in the market.

4.1 The Role of Alternative Financing for Business Growth

The 2016-2020 Eleventh Malaysia Plan (hereafter called 11 MP), is Malaysia's 5-year plan of the lengthy 2020 Vision Plan that was launched in the year 1991 (see Figure 4.1). The 11 MP comprises of six strategic thrusts along with six game changers to address the goals set out in Vision 2020 and act as a catalyst for Malaysia to achieve an advanced economy status and inclusive nation. National Transformation Policy (hereafter called NTP) was developed by the Malaysian government to function as the core philosophy of national administration during the period of 2011 to 2020. Furthermore, the NTP was also formulated as a national roadmap and maintains the focus of the nation by means of a New Economic Model with the aim to transform Malaysia comprehensively and holistically into an advanced economy (high value-added and high-income economy).

Figure 4.1 Malaysia's Development Plans and Policies

Source: *Economic Planning Unit, Prime Minister's Department, Malaysia*

To achieve the status of advanced economy, both 11 MP and NTP listed that the accessibility of finance in different sectors, for instance service sector, manufacturing sector, agricultural sector and others, is one of the key areas which needed to be strengthen earnestly. This challenge is further supported by central bank of Malaysia, Bank Negara Malaysia (hereafter called BNM). According to the 2011-2020 Financial Sector Blueprint prepared by BNM, the efficiency and effectiveness of Malaysian financial system to allocate financial resources plays a vital role to support the objective of 11 MP and NTP. Specifically, in transforming Malaysia to become a high value-added and high-income economy. The financial sector has a crucial role in intermediating funds in the region as well as in other emerging economies through globalisation, greater regional economic and financial integration. Thus, a more diversified, efficient, competitive and stable financial system is a prerequisite for a successful transformation of the Malaysian economy. In other words, the market should not only provide and rely solely on the traditional way of financing, but also develop a market-based funding solution and provide alternative way of financing to business operating in Malaysia, for instance interest schemes that provided by SSM.

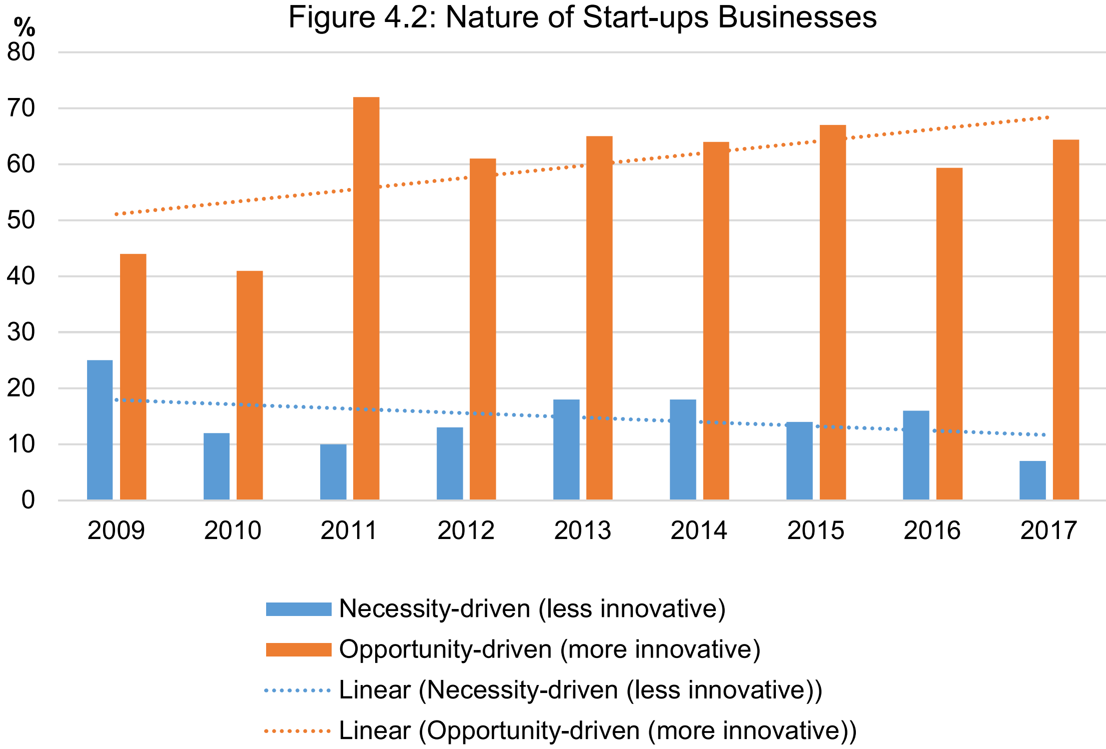
The sources of financing for business in Malaysia have evolved gradually over the last decade whereby the banking sector of Malaysia continues to play a major role as a provider of financing. In the light of 2016 Financial Stability and Payment Systems Report formulated by BNM, the most significant development in business financing was the increase usage of alternative financing in funding activities, which correspondingly decreases the dependence on bank financing.

According to BNM, Malaysian business communities have increasingly utilised the Information and Communication Technology (hereafter called ICT) in their business operation. In addition, the opportunity-driven entrepreneurs attempt to digitise their business model by leveraging on the presence of internet in order to seek opportunities, enjoy the benefits and conveniences that provided by the internet.

Figure 4.2 shows the nature of start-ups business. Based on Figure 4.2, the early stage of entrepreneurial activities in Malaysia has increased consistently mainly due to the opportunity-driven business rather than necessity-driven business. Essentially, the opportunity-driven business indicates that the businesses are more likely to use and deploy innovation to capitalise their operation. On the other hand, necessity-driven business implies that the businesses are initiated due to the economic conditions of an individual and were less likely to employ innovation to capitalise their operation. Hence, this shows that the Malaysian economy is moving towards the digital economy[40] and it leads to the rise of new sources of financing in order to meet the change in financing demand.

[40] Economy activities that are knowledge-based with higher deployment of technology.

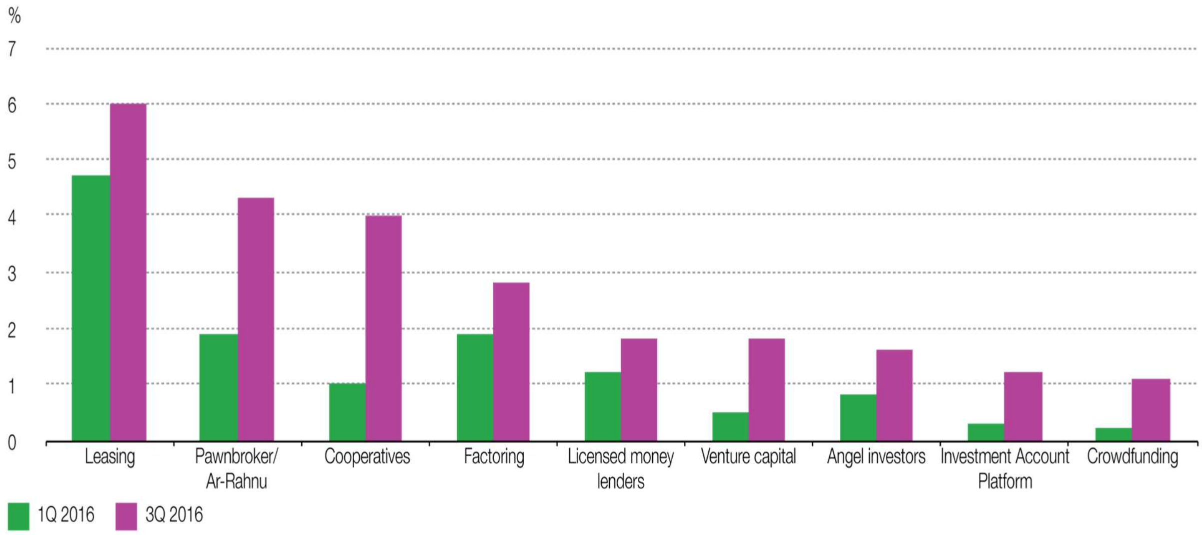
Figure 4.2: Nature of Start-ups Businesses



Sources: *GEM Global Reports from 2009 to 2017/2018*

However, such nature of business start-ups faced challenges in raising funds from traditional form of financing and business community started to seek alternative financing for their business operation. Figure 4.3 exhibits the usage of alternative financing. According to Figure 4.3, it clearly indicates there is a switch of financing preferences among Malaysian business community. This can be observed in the increasing trend of using different financing options when compared between the first quarter of 2016 and third quarter of 2016. Hence, these findings conclude there is a growing importance in the role of alternative financing to the Malaysian business community. Besides that, alternative financing is also vital in changing the Malaysian financial landscape in order to sustain Malaysian business and economy growth. Also, it can assist Malaysia's effort in achieving an advanced economy status.

Figure 4.3: Usage of Alternative Financing



Source: *SME Corporation Malaysia Survey, as cited in Bank Negara Malaysia*

Essentially, the evolvement of alternative financing could help to bridge the financing gap by offering new financing opportunities for more innovative and early-stage businesses in Malaysia. Hence, it raised question on which of the market-based financing options has the best interest for the operators, investors as well as stakeholders.

4.2 The Current Financing Trend and Opportunities in the Malaysian Market

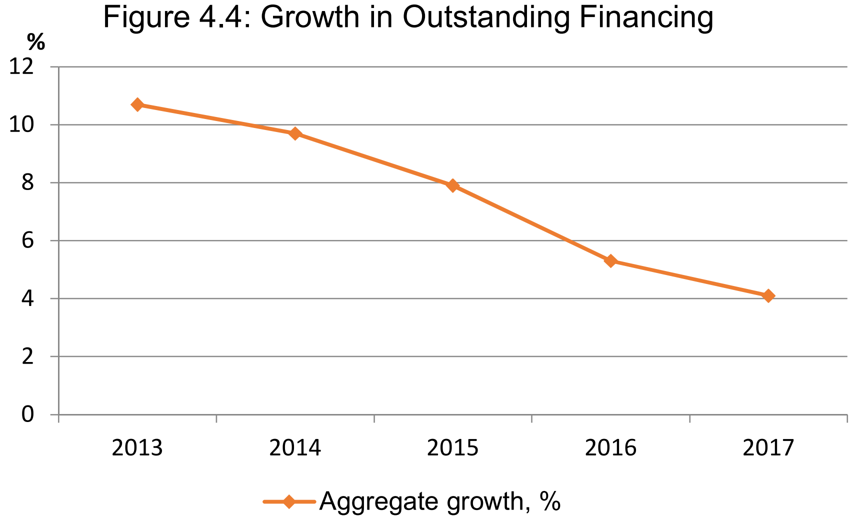
4.2.1 Overview of Bank Financing in Malaysia

Undeniably, banking sector plays a vital role in the financial system and more importantly, the economy as a whole. As one of the key components of the financial system, banks perform the role of channeling and allocating funds from depositors to borrowers efficiently in the market.

Throughout these years, the banking sector remained its sound financial position due to the robust governance and risk management. Higher profits along with sound asset quality in year 2017 had further strengthened the capital position of the banks. Therefore, the stable funding conditions made the banks a viable available option in terms of financial needs for both businesses and households.

Banks continued to maintain a strong level of capitalisation in the market although the total outstanding financing by banks recorded a moderate growth of 4.1 % in year 2017, which was lower compared to 5.3 % in year 2016 (refer to Figure 4.4).

Figure 4.4: Growth in Outstanding Financing

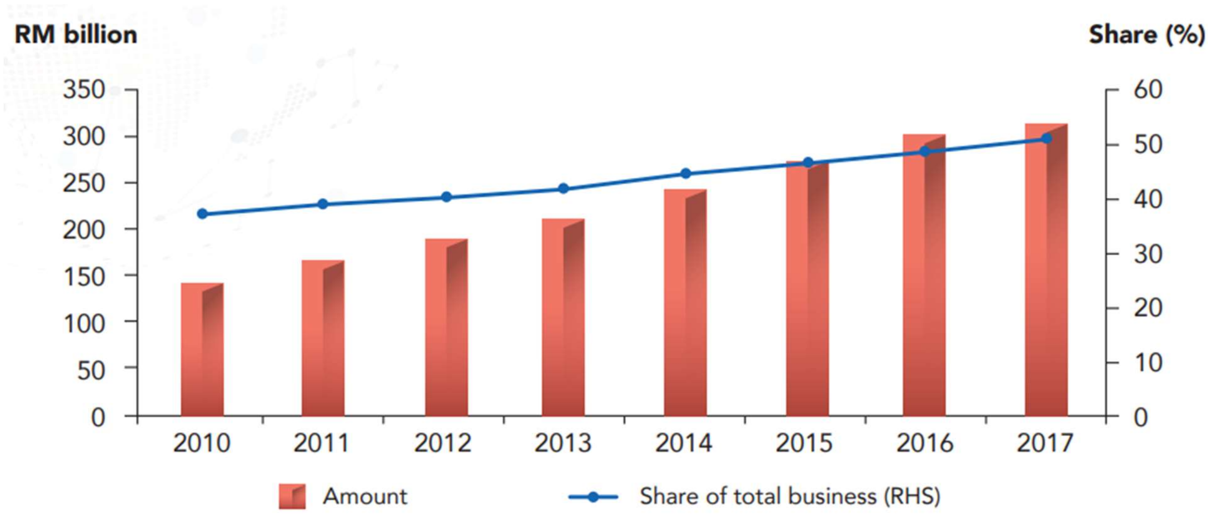


Sources: *Bank Negara Malaysia*

SMEs are the backbone of the economy in Malaysia. Despite of the slower growth rate in total outstanding financing by banks, the banks remained supportive in terms of financing needs for SMEs. In year 2017, the financing extended by banks to SMEs recorded a lower expansion rate at 6%, as compared to 9.5% in year 2016. Besides that, the approval rate of SMEs' bank financing application by banks also demonstrated a decreasing trend. A slightly lower rate of about 77% in year 2017, as compared to the approval rate in year 2016 and 2015 (77.3 % and above 80 %, respectively), even though the share of SMEs financing showed a slightly increase to about 53 % of total business financing by banks at the end of 2017 (BNM, 2018).

Based on the SME Annual Report 2017/18, SMEs remained as the biggest player in total business financing portfolio. SMEs' financing outstanding continued to grow at a faster rate of 5.3% as compared to large corporation (-2.6%). The total SME accounts for financing outstanding increased to 800,808 accounts (with the amount of RM315.7 billion) at the end of 2017, as compared to 770,903 accounts (with the amount of RM299.8 billion) at the end of 2016 (refer to Figure 4.5).

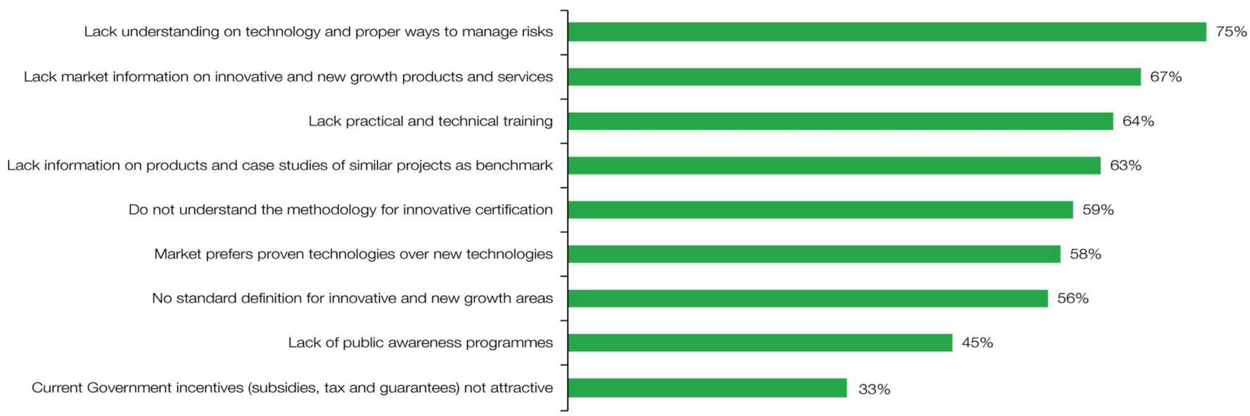
Figure 4.5: Financing Outstanding of SMEs



Source: *SME Corporation Malaysia*

Nonetheless, the 2016 Financial Stability and Payment Systems Report pointed out that the opportunity-driven businesses faced difficulty in accessing traditional forms of financing for their business start-up or operation. It was mainly due to the characteristics of bank financing, which are usually incompatible with the new growth ventures and the innovative financing and it became key challenges to banks. The characteristics and challenges include (i) the credit evaluation process that require banks to collect and analyse a large volume of historical and quantitative data; (ii) the increasing number of banks employing the credit scoring models that accentuate cyclicality in bank lending; (iii) the reliance on collateral lending[41] reflected by a certain degree of organisational inertia, whereby banks have been relatively slow to develop domain expertise in new growth areas or adopt new approaches and technologies for managing risks (see Figure 4.6). This eventually causes the new growing businesses faces greater challenges to access bank-based financing, especially during the downturns of economic.

Figure 4.6: Key Challenges in Financing Innovative and New Growth Areas

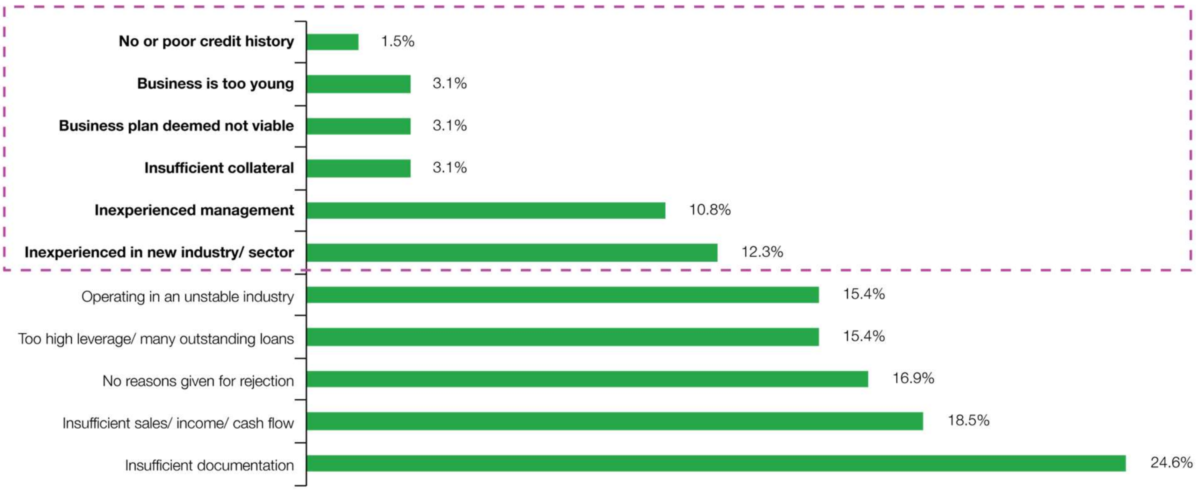


Source: *Bank Negara Malaysia*

[41] In Malaysia, collateral lending is mainly in the form of commercial and residential real estate, remained as a key feature of lending to those lesser-known businesses with a limited track records, and collateral was often utilised by banks as a buffer at the time when the loan turns into non-performing loan.

Figure 4.7 shows the causes of bank rejecting loans. Based on Figure 4.7, one of the main obstacles leading to business denied from accessing bank-based financing is the lack of adequate sales to demonstrate applicants' abilities in repaying the loan, in which accounted for 18.5% out of total rejected loans. This is followed by the businesses which possessed too many outstanding loans and operate in an unstable industry which recorded 15.4%. Meanwhile, the remaining obstacles have higher impact towards the early stages of businesses. This is primarily because the early stages of businesses normally do not have or only have a poor credit history which is more commonly known as the Central Credit Reference Information (CCRIS), inadequate collateral, inexperience in both management and new industry. Thus, leading to businesses facing difficulty in securing a bank-based financing.

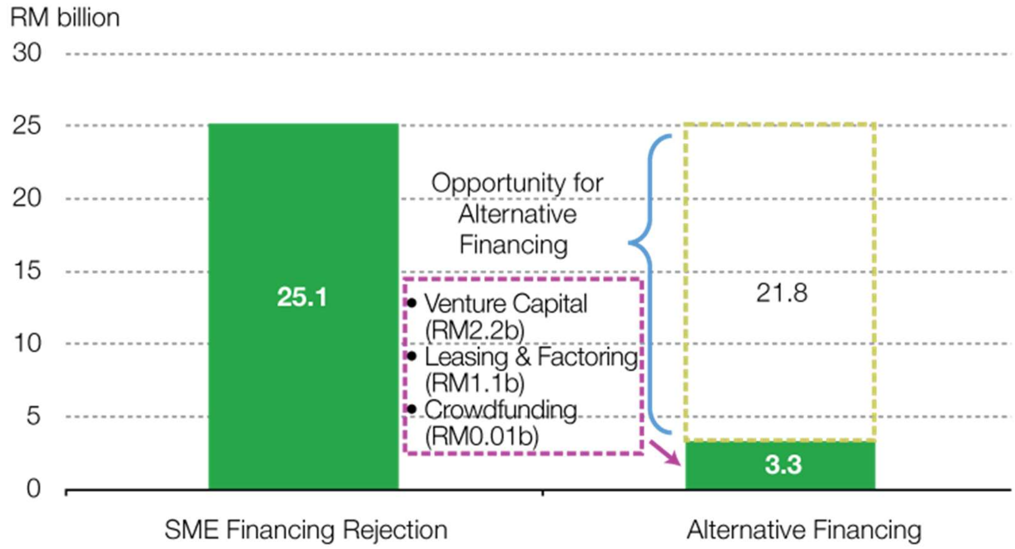
Figure 4.7: Causes of Bank Rejecting Loans, as Quoted by SMEs



Source: *SME Corporation Malaysia Survey, as cited in Bank Negara Malaysia*

The conclusion drawn from Figure 4.7 indicates that the obligation of banks is to protect the interest of depositors and this restricts the banks from undertaking excessive risk; although higher risks lead to higher returns. Even if riskier businesses undergoes a sufficient credit-screen by banks, borrowers always have strong incentives to utilise funds for riskier projects as they could reap all the upside accrues whereas the banks and depositors would have to suffer the downside risks on interest and principal repayments if the business goes into default (BNM, 2017). As a result, banks want to avoid excessive risks because riskier business could lead to an unfavourable outcome to the investors. Hence, it caused banks to reject SMEs from accessing the traditional forms of financing, which amounted to RM25.1 billion worth of financing rejected (refer to Figure 4.8).

Figure 4.8: Financing Gap of SMEs as at 2015



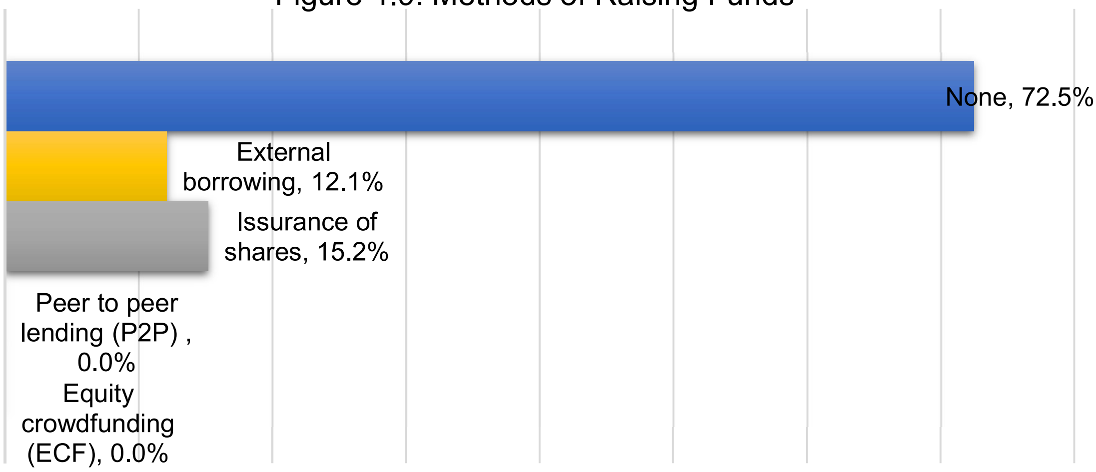
Source: *Bank Negara Malaysia*

During the review period of 11 MP, robust domestic demand and buoyant exports contribute to a steady growth to all the economic sectors in Malaysia. However, the main economic sectors still struggle with issues and challenges that impede efforts towards achieving sustainable growth and greater prosperity. One of the challenges is the access to financing in Malaysia, especially for SMEs as well as agricultural-based businesses. The main reason of these businesses limited access to financing was due to inability to comply with the terms and conditions imposed by the conventional financing system. Besides, the market lacks alternative financing mechanisms to support the growth and development of small businesses.

Therefore, the alternative financing has great potential to grow in existing market and the development of alternative financing is crucial in order to assist in bridging the financial gap (about RM21.8 billion) by offering new financing opportunities for innovative and early-stage businesses. This is only feasible with the presence of protection on the interest of operators, investors as well as stakeholders through a more comprehensive laws and regulation.

4.2.2 Interest Schemes as Alternative Financing

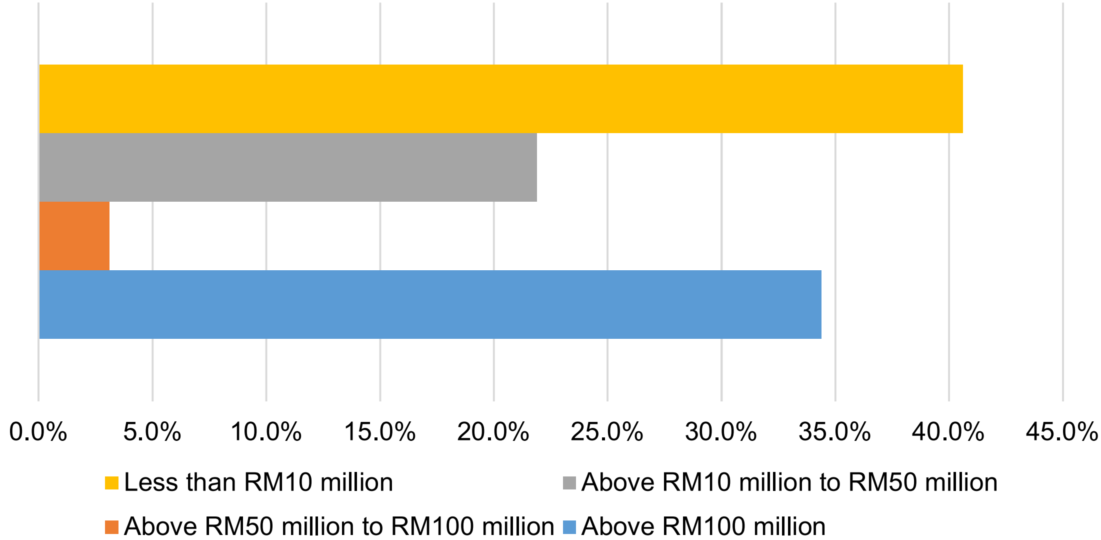
Figure 4.9: Methods of Raising Funds



Source: *SSM*

Figure 4.9 indicates the number of respondents raised funds by other platforms. According to Figure 4.9, the Survey shows that there were only about 12.1 % of the respondents (4 out of 33 respondents) raised funds by external borrowing. The number was surprisingly low and great attention should be given on this matter as it would influence the growth of Malaysian economy.

Figure 4.10: Intended Fund Size to be Raised via Interest Schemes



Source: *SSM*

Figure 4.10 exhibits the intended fund size to be raised via interest schemes by respondents. Based on Figure 4.10, the Survey indicates that there were approximately 40% of the respondents intend to raise funds valuing less than RM10 million through interest schemes, whereas the remaining 60% of the respondents intend to raise funds valuing more than RM10 million via interest schemes. Therefore, interest schemes play a crucial role as an alternative financing in the market.

As SMEs' activities continue to grow, especially with the development of new types of businesses that are innovative, traditional forms of financing will not be able to cater for new areas of growth in the economy. Consequently, the access to financing model for SMEs are reshaped with attention shifting to the expansion of non-traditional financing avenues and platforms. Given the crucial role of SMEs in driving Malaysian economy[42], regulators realised the necessity to develop a

[42] SMEs make up approximately 97% of business establishments in Malaysia. In 2017, SMEs contributed approximately 37.1% of the country's Gross Domestic Product (GDP) and 66% of the country's workforce (DOSM 2018).

supportive capital market-based fundraising mechanism for this important business segment. In line with this, SSM developed interest schemes with the new Interest Schemes Act 2016 to make the fundraising accessible for different level of business., Concurrently, to protect the interest holders, operators as well as stakeholders with a more comprehensive laws and regulations. The interest schemes are not designed merely for SMEs and sophisticated investors[43], it also provides listed companies and any other foreign companies with a more visible, transparent, effective and efficient fundraising platform in the market. This initiative is believed to improve fundraising activities in Malaysia.

The interest schemes serve as one of the alternative sources of financing in the current market. It assists many types of businesses for instance SMEs, agricultural-based businesses and others, in raising fund for their business operations, besides, narrowing the existing financial gap in the market simultaneously. Although the approval rate of bank financing is considered high (about 77%), yet they are some businesses still unable to obtain financing from banks.

According to BNM, one of the main reasons for rejection of bank financing is insufficient sales/income/cash flow. While it is indisputable that these are important requirements, financial institutions generally have a lower risk appetite thus imposes these requirements on borrowers. Although businesses are unable to achieve the threshold set by the financial institution on the sales turnover/income/cash flow, they should not be categorised as non-viable business. Therefore, companies may choose to register interest schemes with SSM to raise funds for its operation. Compared to the threshold set by the financial institutions, potential operators of interest schemes are required to provide the sales turnover as one of the supporting documents when computing the returns or profits to the

[43] Any person who falls within any of the categories of investors set out in Part 1, Schedule 6 and 7 of the CMSA and includes a Venture Capital corporation, Venture Capital Management corporation, Private Equity corporation and Private Equity Management corporation registered with the Securities Commission. These investors are individuals with more than RM3 million in assets or more than RM300,000 in annual income, and corporates with net assets of more than RM10 million.

interest holders. This enable the potential operator to raise funds through offering of interest schemes while giving certain level of assurance to the potential investors.

Furthermore, the potential operators are allowed to register interest schemes and have fundraising activities regardless of the number of outstanding loans that they currently possess. The number of outstanding loans has discouraged the banks to provide traditional forms of financing to the businesses due to high gearing ratio increases the possibility of the loans turning into bad debts or default loans. Hence, banks are reluctant to take excessive risks that will jeopardies the interest of depositors. Nonetheless, the number of outstanding loans does not reflect the financial capacity of a business. It could simply mean that the potential operators need more financing for their business to grow. In line with this, interest schemes could serve as an alternative avenue to the potential operators to raise fund for their business expansions or developments, and at the same time, to achieve a sustainable economy growth and greater prosperity in Malaysia.

In addition, businesses that operate in unstable industry usually face challenges in raising funds from bank financing as it appeared to have higher risks to the banks. This restriction essentially impedes the growth of a business if the business needs more funding to develop and operate. However, these businesses are welcomed to raise fund by using interest schemes as long as they are able to fulfill the capital requirements, pass the profit test as well as provide the operating history, management capability and continuity for registration of interest schemes. Thus, it is believed that with the assistance of interest schemes, it could help these businesses to grow and narrow the financing gap in Malaysia.

Similarly, both interest schemes and bank financing require businesses to have either a satisfactory financial track record or good credit history (for instance, no record of persistent losses, low capital commitment, excessive leverage and history of delinquency or defaults), experience in management and industry to qualify to raise fund from these two platforms. Nevertheless, one of the unique feature of the interest schemes is that the potential operators do not need to provide any collateral when raising funds through interest schemes. Furthermore, SSM will not seize any collateral if the business goes default, whereas banks require collateral to reduce the risks when business default. It becomes one of the key constraints for businesses to get financing from banks, especially SMEs and microenterprise. Hence, by eliminating the requirement of collateral, the Malaysian business community, particularly the SMEs, are now able to raise funds from alternative financing platform (interest schemes) for their business expansion or further development.

In conclusion, with the conveniences provided by interest schemes, it is believed that interest scheme plays an important role as an alternative form of financing to bridge the financial gap in Malaysia, meanwhile to support the growth and development of Malaysian business in order to achieve a sustainable economy growth as well as greater prosperity.

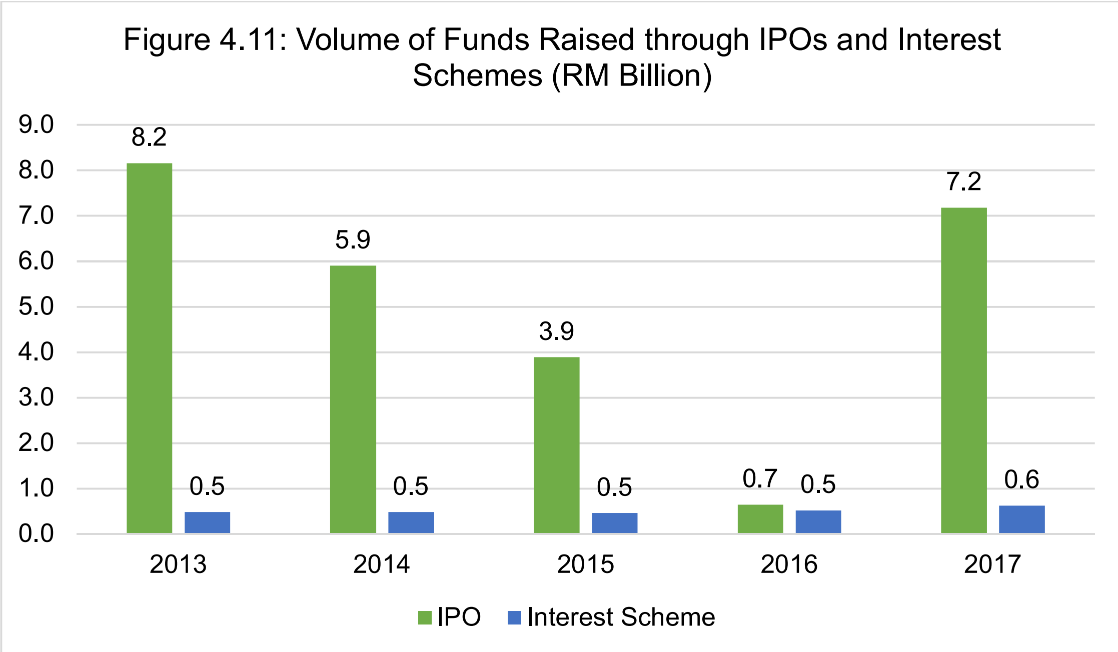
4.3 Initial Public Offering and Interest Schemes

4.3.1 Overview of IPOs in Malaysia

Conventionally, companies which have insufficient capital and are unable to obtain fund expansion, can opt to publicly float their company through an Initial Public Offering (IPO). In Malaysia, companies can choose to list their companies on Bursa Malaysia but they do not need to solely rely on public listing for fund raising efforts as interest schemes is also a worthwhile alternative.

4.3.2 Interest Schemes as a Source of Alternative Financing.

IPO’s have successfully aided companies to raise funds in Malaysia. Figure 4.11 indicates the amounts of funds raised via IPOs and interest schemes in Malaysia from 2013 to 2017.



Source: Securities Commission Malaysia

Although the amount of funds raised via IPOs seem to outperform interest schemes every year from 2013 to 2017, interest schemes can still be an effective alternative source of fund raising to companies in Malaysia.

According to the findings from the Survey on methods of raising funds, it is observed in Figure 4.9 that there were only around 15.2% of respondents who raised funds through issuance of shares whereas 72.5% of the respondents indicated that they have not obtained any financing through any of the methods above. Hence, this implies that interest schemes have the potential to be an alternative source of financing especially for SMEs in Malaysia.

Among the 3 equity markets which are available in Bursa Malaysia, the Leading Entrepreneur Accelerator Platform (LEAP) Market is specifically targeted to SMEs. However, this market is only accessible to Sophisticated Investors. Under interest schemes, management companies are allowed to advertise and sell their interest to all individuals or entities. As such, SMEs would have a larger number of potential targeted investors via offering interest schemes. They could consider interest schemes as a mode of alternative funding.

SMEs which choose to raise funds through the LEAP Market can also raise funds through interest schemes. Hence, companies do not need to solely rely on fundraising by listing their shares on the LEAP Market. Under the Interest Schemes Act 2016, companies can either choose to register a small scheme, premium scheme or foreign scheme. Under the small scheme, the company must be limited by shares incorporated under the Companies Act 2016 or corresponding previous law, has a constitution which specifies management of interest schemes as one of its main objectives, meets the minimum amount of paid up capital and will not raise funds exceeding SSM's guidelines. On the other hand, a premium scheme must be offered by a public company limited by shares, has a constitution which specifies management of interest schemes as one of its main objectives and meets the minimum amount of paid up capital as determined by SSM. Fundamentally, funding and credit is deemed to be one of the biggest challenges faced by the companies, so it is advantageous to have an alternative source of financing.

Shares or equity effectively means ownership of a company. When a company chooses to list their shares on Bursa Malaysia, shareholders will own a part of the company and will have a say in the direction of the company, through voting. However, the eligibility of ownership is not present under interest schemes. The Interest Schemes Act 2016 specifically mentions that the interest or right of the company which is sold must not include shares in or debenture of a corporation and also is not a capital market product as defined in Section 2 of the Capital Markets and Services Act 2007. Therefore, management companies have autonomy in managing their company and making decisions. This could be appealing to some companies and can turn to interest schemes to raise funds.

When investors purchase shares of a company, they will only be able to sell it if there is a willing buyer at that time. If there are no willing buyers, the investor has no choice to but to keep the shares until a willing buyer comes by. This system is however different when it comes to interest schemes. According to Section 47 of the Interest Schemes Act 2016, management companies are obliged to buy back units from their investors should they want to sell them. This is a very attractive feature to potential investors as they can exit the system anytime. For management companies, they can use this as a very powerful and attractive marketing tool when approaching potential investors. Hence, companies should consider undertaking interest schemes as an alternative source of financing.

4.4 Crowdfunding and Interest Schemes

4.4.1 Overview of Crowdfunding

In the wake of the 2008 financial crisis and the increasing access to web-based technology, a new form of capital acquisition has emerged in the form of crowdfunding. This is one of the many disruptions to the traditional financial sector - the emergence of Financial Technology (FinTech).

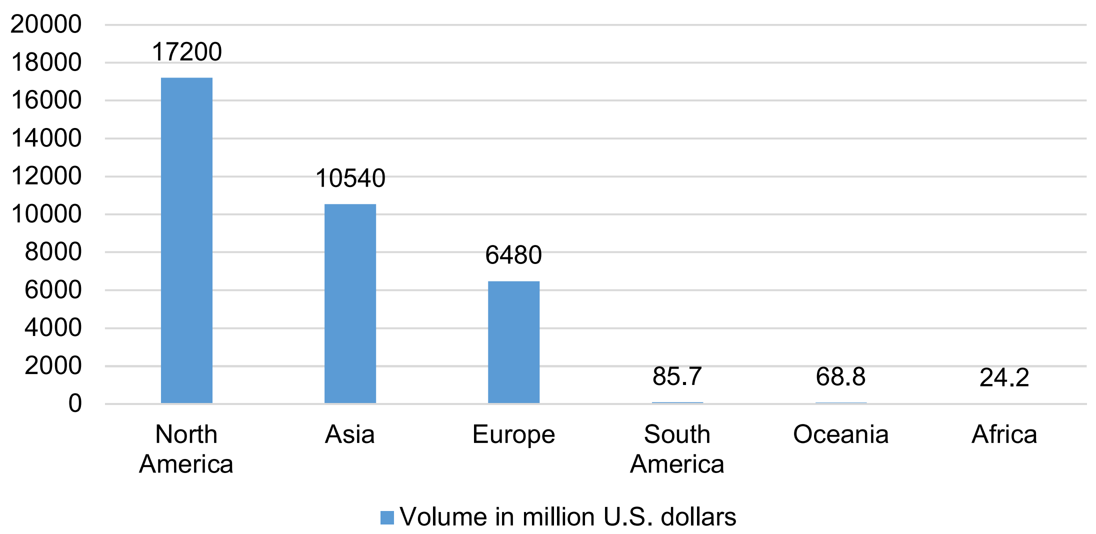
Crowdfunding is the practice of obtaining funding by soliciting contributions from many people especially from the online community.[44] Generally, there are 2 major categories of crowdfunding: a donation crowdfunding model and an investing crowdfunding model.[45]

According to Fundly (2018), a crowdfunding platform which was established in 2009, in 2017, $34billion was raised globally by crowdfunding, out of which $25billion was raised through P2P lending, $5.5billion was raised through reward and donation crowdfunding and $2.5billion was raised through equity crowdfunding.[46]

[44] Definition from Merriam-Webster Dictionary (2019)
[45] World Bank (2013) Crowdfunding's Potential for the Developing World, infoDev, Washington
[46] Statistics from Fundly (2018).

Figure 4.12 shows the volume of funds raised through crowdfunding from various regions in 2017. North America has the highest amount of funds raised at $17.2 billion. Asia follows next with $10.54 billion and Europe with $6.5 billion. Next on the list is South America ($85.7 million), Oceania ($68.8 million) and lastly Africa ($24.2 million).

Figure 4.12: Volume of Funds Raised through Crowdfunding by Region in 2017 (million U.S. dollars)



Source: Fundly (2018)

There are a few key factors facilitating the development of a crowdfunding ecosystem. These include a regulatory framework which promotes transparency, social media market penetration and internet usage as well as a regulated marketplace that facilitates capital formation and investor protections.[47]

In line with these developments, Securities Commission (SC) has developed a regulatory framework for both Equity Crowdfunding (ECF) and Peer to Peer Lending (P2P). Malaysia is the first country in Association of Southeast Asian Nations (ASEAN) to have such regulatory framework. It was introduced in 2015 and was fully operationalised in 2016.

[47] World Bank (2013) Crowdfunding's Potential for the Developing World, infoDev, Washington

4.4.2 Interest Schemes as a Source of Alternative Financing.

Table 4.1 below shows the volume of funds raised through ECF, P2P and interest schemes, respectively in 2016 and 2017. Based on Table 4.1, it is observed that there has been tremendous growth in the volume of funds raised through ECF. A comparison cannot be made for P2P as operations only begun in 2017. As for interest schemes, there was a marginal growth in the amounts raised in these two years.

Table 4.1: Volume of Funds Raised through ECF, P2P and Interest Schemes in 2016 and 2017 (RM Million)

Year	ECF	P2P	Interest Schemes
2016	10.4	N/A	519.08
2017	32.74	37.15	626.15

Source: Securities Commission (SC) Malaysia

Although the Malaysian business community has raised funds through ECF and P2P for the past few years, however the contribution of ECF and P2P was insignificant in the market, as compared to interest schemes. Based on the results of the Survey as seen in Figure 4.9, none of the respondents had fund raising activities through ECF and P2P. Thus, it indicates that interest schemes can be an alternate form of financing for companies as there is an opportunity to raise more funds under the interest schemes as compared to ECF and P2P.

Furthermore, there are availability of 3 types of interest schemes for the companies to choose from, specifically, a small scheme, premium scheme and foreign scheme.

Under the small scheme, companies can raise funds between RM1 million to RM 10 million and must have a paid-up capital of RM500, 000. On the other hand, for the premium scheme, the fund size is dependent on the companies paid up capital. If a company has a paid-up capital of at least RM 1 million, they can raise funds between RM10 million to RM50 million. However, if a company has a paid up capital of RM2 million and above, they can raise funds of more than RM50 million and if the paid up capital is RM5 million and above, they can raise funds of more than RM100 million. As for the foreign scheme, the minimum paid up capital is RM5 million and there is no limit to the funds raised.

In addition, both ECF and P2P have different requirements as compared to interest schemes due to the different nature of fund raising and risk exposure. Through ECF a company can only raise funds up to RM3 million within 12 months, regardless of number of projects and can only utilise the platform to raise a maximum of RM5 million.[48]

On the other hand, P2P does not have a limit to the amount of which can be raised. It is noted that not all funds raised during the fund-raising campaign can be kept by the issuer. Essentially, the issuer can keep the funds if it reaches at least 80% of the target amount. Failing which, the money is returned to the investor.[49] Also, if the funds raised exceed the investor's target, they are unable to keep the funds and it will be returned to investors.[50] In a nutshell, the management companies have greater opportunity to raise more funds through interest schemes.

Generally, investors are always advised to diversify their investment portfolio when making investment decisions. In Malaysia, investors can choose between various types of investment tools such as purchasing shares, Real Estate Investment Trusts (REITS), unit trusts, ECF and P2P. The primary reason investors are advised to diversify their investment portfolio is to reduce their risk exposure. Particularly, individuals who choose to invest in crowdfunding campaigns are repeatedly warned by regulators and platform operators to be wise when making investment decisions as it is a risky investment opportunity.

[48] Guidelines on Recognised Markets Chapter 13 paragraph13.19
[49] Guidelines on Recognised Markets Chapter 14 paragraph 14.27
[50] Guidelines on Recognised Markets Chapter 14 paragraph 14.28

In United States (US), the 3 most popular platforms for crowdfunding are Kickstarter, GoFundMe and Indiegogo. Based on data from Kickstarter which started its operation in 2009, as of 21 October 2018, there have since been 36.5% successful projects and 63.6% unsuccessful projects.[51] Although many people choose to invest on crowdfunding platforms, essentially, they are looking to diversify their investment portfolio. Management companies can use this fact to their advantage to market their interest schemes. Therefore, interest schemes have the potential to develop as a form of alternative financing by tapping into the market of investors who seek to diversify their investment portfolio.

In addition, management companies can sell their interest schemes units to any interested investors. However, there are restrictions to the types of investors and also their investment limit for ECF and P2P. Sophisticated investors, angel investors and retail investors have different investment limits for both ECF and P2P. Since fund-raising is difficult for companies, especially for SMEs, companies can use interest schemes as an alternative mode of financing as there are no limitations to the types of investors and their investment amount. Hence, management companies will be able to tap into a larger potential investor base and increase their likelihood of gaining more investors.

Investors participating in P2P lending are locked into the financing term and are unable to exit prematurely. Moreover, if the borrowing company defaults on their repayment, investors must bear the entire burden. Contrarily, interest schemes holders have an avenue to sell off their units in a secondary market, if they choose to. On top of that, management companies are also obliged to buy back the units if investors opt to sell them, as stipulated in Section 47. The interest schemes benefit both the potential investors and management companies. Firstly, the potential investors of interest schemes have a flexible investment choice and as for management companies, interest schemes can function as a marketing tool to

[51] Data from Kickstarter (2018).

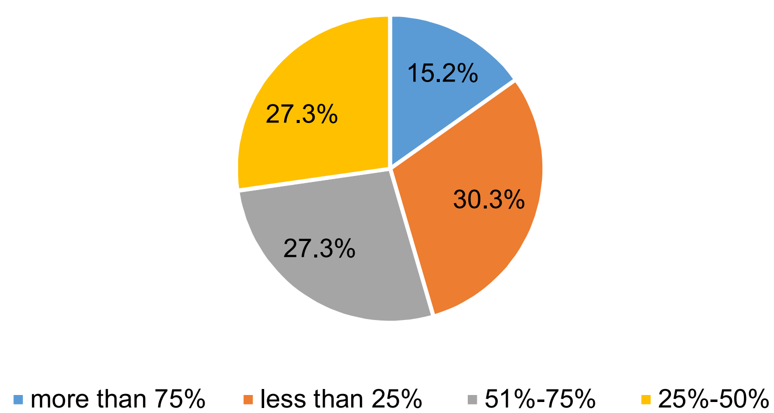
attract potential investors. Hence, interest schemes can be utilised by firms as a form of alternative financing.

CHAPTER 5
CHALLENGES OF THE INTEREST SCHEMES

The new Interest Schemes Act of 2016 intends to preserve the balance of the financial ecosystem by encouraging creativity and innovation in the business model, to have interest schemes business model as the emerging new form of wealth, and to open endless possibilities for companies in structuring the interest units to fit the dynamic economic environment. However, since the introduction of interest schemes in Malaysia under the repealed Companies Act 1965, the industry has shown a slow growth rate (see Table 6.1 below).

In addition, industry players find it challenging to get subscribers for their memberships/units. Figure 5.1 shows the percentage of memberships/units in interest schemes sold. As presented in Figure 5.1 below, based on the Survey, a total of 57.6% of respondents only managed to sell 50% or less of their memberships/units (with 30.3% of the respondents sold less than 25% of their membership/units and 27.3% of respondents sold between 25% to 50% of their membership/units) whereas 27.3% sold between 51% to 75% of the memberships/units and only as low as 15.2% of the respondents managed to sell more than 75% of their memberships/units.

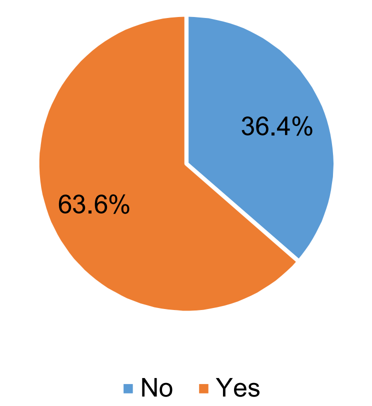
Figure 5.1: Percentage of Memberships/Units in Interest Schemes Sold



Source: *SSM*

Figure 5.2 indicates the achievement of the minimum target of memberships or interest units. According to Figure 5.2, the Survey indicated that 36.4% of the respondents have not met the minimum sales target for the interest units. On the other hand, 63.6% of the respondents believed they met the minimum sales target of the interest units offered. Nonetheless, the reasons quoted by the respondents revealed that the high percentage of respondents who met their minimum sales targets are insignificant as memberships are more likely to be sold to investors who are familiar with the management's companies' products or companies set low targets such as 100 units or no specific target are given. Based on the above observation, despite having a total of 63.6% of the respondents declaring meeting the minimum target of interest units, the interest schemes industry in the market is still less attractive considering that the plausible explanation from them is that meeting their minimum target is due to low or none target specification for the investors.

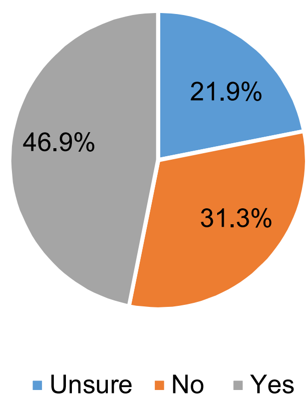
Figure 5.2: Achievement of the Minimum Target of Memberships or Interest Units



Source: *SSM*

Figure 5.3 demonstrates the utility of capital adequacy and fund size structure of interest schemes into future fund-raising plans. As presented in Figure 5.3, the findings from the Survey also revealed that, generally the industry players have a pessimistic perception on raising fund through interest schemes. A total of 53.2% of the respondents have no confidence in the proposed capital adequacy and fund size structure will be useful to their future fund-raising plans (with 46.9% indicated that they do not believe so and 21.9% are unsure that it could be). On the other hand, only 46.9% of the respondents have faith that the proposed capital adequacy and fund size structure can be utilised into their future fund-raising plans.

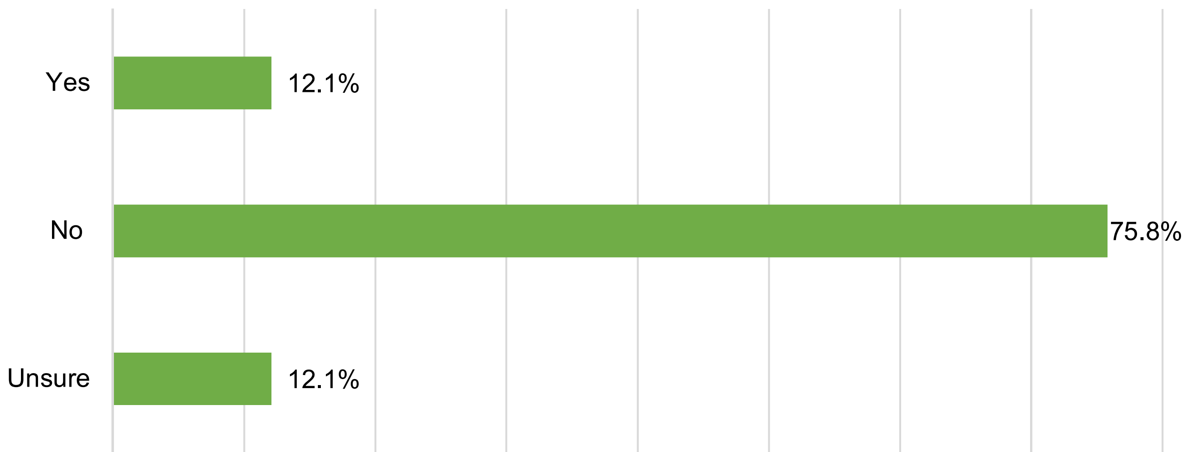
Figure 5.3: Utility of Capital Adequacy and Fund Size Structure of Interest Schemes into Future Fund-Raising Plans



Source: *SSM*

The survey's finding is observed as per Figure 5.4 which indicates intention to register an additional scheme. 12.1% of the respondents indicated that they are considering to register an additional scheme which supplements their current business model or an independent model whereas 87.9% of the respondents is either unsure or have no intention to register an additional scheme (with 75.8% of the respondents indicate that they have no intention to do so and 12.1% unsure).

Figure 5.4: Intention to Register an Additional Schemes



Source: *SSM*

Acknowledging the fact that interest schemes remain unpopular among the businesses and investors, this chapter thus attempt to identify the challenges faced by the interest schemes industry. This is undertaken by taking into consideration of the enquiries posed by the participants during the lab session.

During the lab session, participants were divided into five groups in a brainstorming session to discuss, exchange, generate new ideas, and provide recommendations to solve the specific issues that were raised. The questions were divided into three-fold. Firstly, on the current challenges that faced by the industry players and their expected challenges if the interest schemes platform were utilised. Secondly, opportunities that may derive from the interest schemes platform. Lastly, with the identified “challenges” and “opportunities”, the participants are then invited to share their ideas, solutions and strategies to realise these opportunities. Overall, this chapter will address the challenges in the interest schemes industry that need to be addressed so that business may thrive and prosper through interest schemes.

SET BACK IN THE INTEREST SCHEMES INDUSTRY

5.1. Lack of Awareness

Interest schemes have not invited much attention from both the companies/industry players and the public/investors. One of the main reasons being provisions with regard to interest schemes were embedded within the repealed Companies Act 1965 for the past decades. Although effort is made to pass an independent law to govern the interest schemes industry, business and public are still generally ignorant on the existence of the interest schemes despite new law has been introduced and since came into force.

This contention is supported by the participants' views during the lab session which shown lack of public awareness with regards to the interest schemes as one of the main issues that hinder the growth of the interest schemes industry. The respondents opined that the public awareness on interest schemes is relatively low as not many companies, organisations and public are aware of the availability of interest schemes as a mode of fund raising (for operators/management companies) as well as mode of investment (for investors). Between, some companies raised fund using interest schemes like model but are not aware that it is regulated under the law while some investors invested into unapproved schemes without knowing that it should be regulated by the law.

In addition, it is still not known to many that the new law now provides private limited companies an opportunity to raise fund using the interest schemes (previously under the repealed Companies Act 1965, only a public limited company is entitled to raise fund under the interest schemes model).

Lack of public awareness on the interest schemes limits the growth potential of the interest schemes industry and hinder the move to boost interest schemes as an alternative funding mechanism for the businesses and as an alternative asset of investment for the investors.

SSM recognised the importance of creating public awareness in the implementation of the new Interest Schemes Act 2016. In order to create more awareness on the law on interest schemes, SSM organised a number of awareness programmes. In 2016, SSM had conducted eight awareness programmes which reached out to 1,368 participants, On the other hand, in 2017, SSM organised three major conferences that reached out to 1,302 participants across the nation. Despite the efforts, SSM recognised that there is still a big gap between the adult population in Malaysia as opposed to the number of public exposed to and aware of the existence of interest schemes industry. Thus, SSM will look into taking certain growth strategy that will enable information of interest schemes industry to educate businesses and public.

5.2. Low Confidence on the Effectiveness of Interest Schemes

The sluggish growth of the interest schemes industry compared to the expectation is primarily due to the lack of awareness by the public on the existence of interest schemes as an alternative mode of financing for business and as alternative investments. This resulted to pessimism of companies and investors on the future of the interest schemes industry contributed by past experience of the existing interest schemes players and the investors. Thus, despite the introduction of the new law, the Survey revealed that there is still relatively low percentage of the existing players who interested to register for additional schemes. (see Figure 5.2 above).

5.3. Illegal or Unregistered Schemes in the Market Hampered the Image of Registered Interest Schemes

The illegal investment schemes manipulate the grey areas in the definition of 'interest schemes' created under the repealed law and have resulted to irreversible negative perception of interest schemes in the market. This is evident by concerns raised by participants during the lab session raises specifically regarding the mushrooming of the illegal or unregistered schemes in the market. Fundamentally, there were concern of the presence of too many unregistered or unlawful schemes in the market that lead to bad publicity for genuine market players. Moreover, the investors fear that current law and regulations may not be adequate to curb scams or illegal businesses, particularly, when the unlawful or unregistered schemes are conducted through the internet and overseas.

Besides, investors who had prior bad experiences dealing with any illegal investment schemes may view registered interest schemes as an illegal get-rich-quick scheme. Thereupon, the legitimate interest schemes will be considered as part of unlawful money games even though they are registered and regulated.

Hence, the effects of illegal or unregistered schemes to the public in the market is irreversible. The impact of the unfavourable public opinion on the illegal investment schemes will not only jeopardise the interest schemes as an alternative funding mechanism for the businesses but also reduce investors' confidence and create uncertainties for other industry players as well as potential investors in the market.

SSM have diligently plays its role to protect the public from illegal schemes by increasing the number of inspections on company and businesses. In 2015 alone, the number of inspections conducted on companies and businesses websites amounting to 2,744 cases and this figure has increased drastically to 4,610 cases in 2016, and 4,510 cases in 2017, respectively. Likewise, the same increasing trend is observed on the numbers of inspections on company and business advertisements. For example, in 2015 the number of inspections is 1,156 cases and the number increased to 2,534 cases in 2016 and 2,535 cases in 2017, respectively. Furthermore, SSM also attempted to curb the growing numbers of illegal investment and interest schemes by conducting special operation on illegal investments that involved other law enforcement agencies in effort to reduce the numbers of the illegal or unregistered schemes in the market. However, the booming of illegal investment schemes inside and outside of the country resulting to investors of illegal schemes losing money is proved to be one of the biggest challenges for SSM to regain public confidence on the regulated schemes.

5.4. Exclusion of Interest Schemes as One of the Investment Vehicles by the Financial Planners in Malaysia

Generally, almost all of the financial planners in Malaysia do not include interest schemes in recommending investment vehicles to their clients (investors). This may due to various reasons such as lack of awareness on the regulated interest schemes among the financial planners, low confidence levels on the successfulness of interest schemes, lack of quality investment opportunities and illiquidity nature of the units acquired in interest schemes, which lead to units in interest schemes not being considered as one of the investment vehicles in the portfolio recommendation of financial planners. Thus, indirectly causing the interest schemes industry unable to attract more potential investors particularly sophisticated investors as this group of investors are more likely to engage and follow the advice of financial planners. Also, it has negative impact on the sale of the investment units and subsequent dealing thereof. Essentially, SSM should engage with the financial planners effectively by influencing them to include interest schemes as one of the investment vehicles to their clients.

5.5. Absence of Tax Incentives

The unavailability of tax incentives affects both the management companies and the investors. Specifically, the sale of the units of interest schemes by the management companies is indirectly affected. Furthermore, the management companies experienced lower profit margin and lower distribution to the interest holders due to the nonexistence of tax incentives which causes higher chargeable income (compared to other products where tax incentives are granted). On the other hand, as for the investors, absence of tax incentives discourage investment in the industry as the interest holders (in an investment scheme) are required to pay personal tax on the distribution/return received from the investment in interest schemes while the return from investing in other vehicles such as shares/stocks are not taxable following the implementation of single tier systems. Hence, investors are generally more attracted to share/stocks compared to interest schemes.

The importance of the availability of tax incentive and/or allowance for both companies and investors were also highlighted by the participants during the lab session. It is recommended for certain tax incentive/allowance made available to the companies as well as the investors in order to make interest schemes more attractive to potential investors.

5.6. Laws and Regulations

It is acknowledged that there are flaws in the laws and regulations of the interest schemes industry which has been addressed and rectified under the new Interest Schemes Act 2016.

Although with the implementation of the new Act, there were concerns raised by the participants during the lab session. Particularly, they were uncertain about the investors' rights and protection due to the inadequacy of the current regulation to safeguard the investors in the event of mismanaged schemes. Besides that, if the interest schemes industry were to allow participation of the foreign players, there are also doubts whether the rights of local operators will be protected by the regulators. Moreover, the participants also highlighted their concern on the ability of the current interest schemes structure to attract the high net worth individuals and corporate investors. Additionally, one of the questions raised in the lab session is regarding the availability of other laws and policies to ease foreign investors travelling to Malaysia and enjoy their rights on their investments as well as facilities.

Furthermore, the lab session also discovered that participants considered the current requirements and eligibilities for interest schemes are not friendly and rigid towards the sub-micro business. For instance, there are too many restrictions on

SMEs and start-ups. This causes inability of small business to register for interest schemes due to the high requirements set by SSM. Also, the participants proposed that regulator accept either intellectual property or research and development as backing assets. This is undertaken in the event of new start-ups/SMEs do not have tangible assets to boost investors' confidence. Besides that, the participants also indicated that there might be a potential market to attract foreign operators, subject to the convenience of setting up the scheme. In addition, the participants suggested that the current law should regulate operators by implementing stern action against any operators that commit fraud in offering/managing a scheme. The participants also highlighted that there should be a proper collaboration framework for the registration, licensing and accreditation of intermediaries in order for the interest schemes to be implemented smoothly and in a timely manner.

In conclusion, the Interest Schemes Act 2016 is still considered as a new law. Hence, some concern raised are pre-matured while others are worth consideration by the regulators in preparing the relevant guidelines and amending the laws as and when necessary.

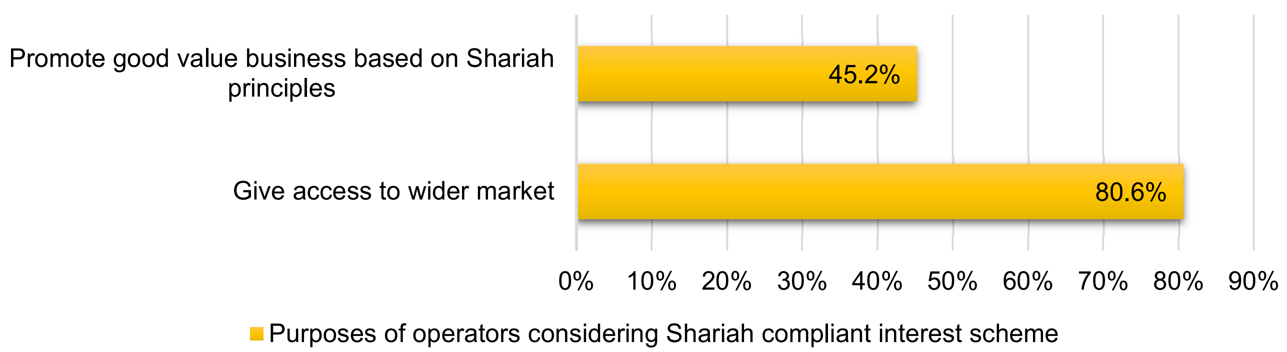
5.7 Challenges in Developing the Shariah Compliant Interest Schemes Structure and Framework

Although *Mudharabah Al-Mua'ddat* Shariah compliant interest schemes were approved and registered in 2012 and 2014 respectively, there were no proper legal and regulatory structure and framework in place accorded by the previous Companies Act 1965 and guidelines.

Despite the operators' confidence in the ability of the Shariah compliant interest schemes in granting them access to a wider market share both domestically and internationally. Figure 5.5 shows the purposes of operators consider Shariah compliant interest schemes. This include obtaining alternative financing and selling their market products and services (agreed by 80.6% of the respondents in the

Survey) as well as promoting socially responsible, sustainable and value-based business based on Shariah Principles (agreed by 45.2% of the respondents in the Survey). However, there are limited number of Shariah compliant schemes offered presently.

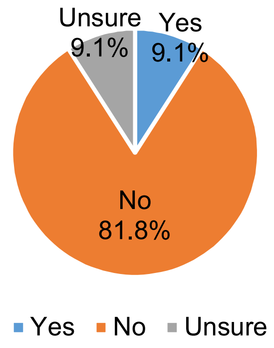
Figure 5.5: Purposes of Operators Consider Shariah Compliant Interest Schemes



Source: *SSM*

Although Section 43(1) of the Interest Schemes Act 2016 empowers SSM to approve Shariah compliant scheme, but it has yet to invite sufficient interest from the market players. Figure 5.6 indicates the potential of utilising Shariah compliant schemes. Based on Figure 5.6, the findings of the Survey shows that only 9.1% of the respondents indicated that their current business model or products includes some sort of Shariah compliant or *Halal* certification, approval, accreditation, recognition or license which will potentially be utilised as a form of fund raising in a Shariah compliant interest schemes, while 81.8% of the respondents disagree and 9.1% of the respondents were unsure.

Figure 5.6: Potential of utilising Shariah compliant schemes



Source: *SSM*

The low number of affirmative answers from the respondents are largely due to the shortcoming in the legal framework of Shariah compliant interest schemes, such as:

5.7.1 Inexistent of Shariah Advisory Committee and Shariah Framework

Despite the Shariah compliant interest schemes are recognised under the new law, the workings of Section 43(2) of the Interest Schemes Act 2016 to establish the Shariah Advisory Committee has yet to be implemented.

The two essential elements that deterred the development of Shariah compliant interest schemes is the inexistent of Shariah Advisory Committee and an appropriate Shariah framework to be adopted and approved.

5.7.2 Insufficient Legal Provisions

There are only two general provisions in the Interest Schemes Act 2016 that makes reference to the Shariah compliant interest schemes. This, arguably, is inadequate and incomprehensive to introduce and develop the Shariah compliant interest schemes. Business are unsure how to develop a Shariah compliant interest scheme in the absence of such guidelines.

5.7.3 Insufficient Regulatory Information, Guidelines and Explanatory Notes

Furthermore, there is insufficient regulatory information, guidelines and explanatory notes available to potential operators as well as the technical requirements of the application and registration of a Shariah compliant interest scheme.

CONCLUSION

Overall in the lab session with reference to Category 1 (questions relating to current issues and problems), the recurring questions posed by participants are essentially related to regulation and tax, investor protection and costs. On the other hand, with regards to Category 2 (questions about potential opportunities in utilising the interest schemes platform), the most popular issues raised are those relating to alternative financing and lifestyle innovation. The challenges faced by interest schemes industry indicates that the industry is immature at the current stage, nonetheless, by addressing the relevant challenges, interest schemes will remain as an alternative funding mechanism for the modern business environment as well as an alternative investment vehicle for the public.

CHAPTER 6
GROWTH STRATEGIES

6.1. Overview - Interest Schemes Growth Rate

Table 6.1: Number of Registered Interest Schemes 2006-2017

Year	No. of registered interest schemes							
	Golf and/or recreational club	Timesharing	Marina	Memorial Park	Share Farming	Equipment	Property	Total
2017	129	27	9	15	12	3	10	205
2016	128	27	9	15	11	3	10	203
2015	128	27	9	12	10	3	10	199
2014	127	27	9	9	10	3	10	195
2013	127	27	9	8	10	2	10	193
2012	127	27	9	5	9	2	8	187
2011	126	26	9	3	6	1	1	172
2010	126	25	9	3	3	0	0	166
2009	125	24	9	3	1	0	0	162
2008	123	24	9	3	1	0	0	160
2007	123	24	9	3	1	0	0	160
2006	120	24	9	3	1	0	0	157

Source: *SSM Annual Reports 2006-2017*

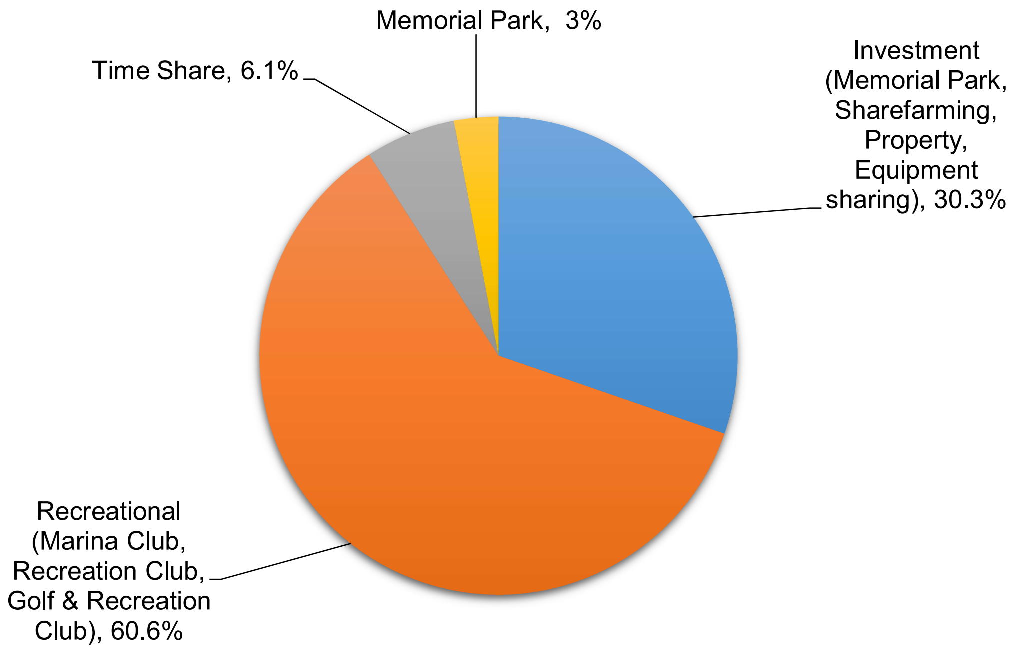
Table 6.1 shows the number of registered interest schemes from 2006 to 2017. The interest schemes offered are categorised into 7 sectors, namely golf and/or recreation club sector, timesharing sector, marina sector, memorial park sector, share farming sector, equipment sector and property sector. The golf and/or recreation club has the largest registered scheme, followed by memorial park and share farming. Also, the equipment and property interest schemes were offered from 2011 onwards. It is observed that the number of registered schemes show a moderate upward trend as the number of registered schemes increased by 30.6%, from 157 schemes in 2006 to 205 schemes in 2017. Based on the above statistics, there is an increasing trend in the number of interest schemes offered within the range of 1% (the lowest) in 2014 to 8.7% (the highest) in 2012 with the exception of 2008 in which the growth rate is stagnant.

The main contributing factor leading to the surge in the number of registered schemes in 2012 stems from the new schemes offered in the property sector. The number of schemes in this sector increased eightfold from 1 to 8 schemes. On the other hand, the low increment rate of interest schemes in 2014 is due to the marginal increase of the number of schemes in memorial park and equipment sectors. Both sectors only registered 1 new scheme, respectively. Meanwhile, the other sectors did not register any growth. In addition, there is no increment in terms of number of interest schemes offered in 2008 as the number of schemes in all 7 sectors remain constant from 2007 to 2008.

Among the 7 sectors of interest schemes, the memorial park sector has the potential to continue to excel as the number of registered schemes exhibited a constant increase from 2013 to 2016 with the increment of 12.5% to 60%. Besides that, the golf and/or recreation club sector and share farming sector demonstrated slow but steady growth throughout 2006-2017. On the other hand, since the equipment sector started offering 1 interest scheme in 2011, there has been a slight increase to 3 interest schemes since 2014. As such, there is still potential for growth in this sector. However, the marina sector shows no changes from 2006 to 2017. Meanwhile, the property sector demonstrates a different trend with a drastic increased in 2012 but remained constant with 10 registered scheme from 2013 to 2017.

Based on these statistics, interest schemes still have growth potential in Malaysia. Hence, it is crucial to implement various contemporary growth strategies to bring interest schemes to greater heights.

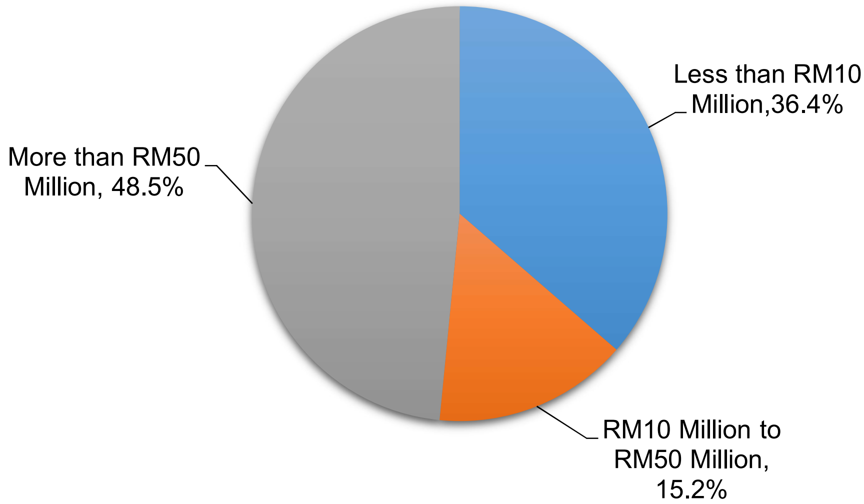
Figure 6.1: Categories of Interest Schemes Membership or Product that are Previously Offered or Currently Still Offering



Source: *SSM*

Figure 6.1 indicates categories of interest schemes membership or product that are previously offered or currently still offering. According to Figure 6.1, 60.6% of the respondents are mainly offering or offered recreational interest schemes. The recreational interest schemes consists of Marina Club, Recreation Club *per se*, or Golf and Recreation Club. This is followed by respondents involved in the investment interest schemes, such as Memorial Park, Sharefarming, Property or Equipment Sharing (30.3%). On the other hand, there are only 6.1% and 3% of the respondents offered or are currently still offering Time Share and Memorial Park *per se,* respectively. In accordance with the Survey's outcome, recreational interest schemes is particular well received by the interest schemes owner, operator or manager.

Figure 6.2: The Fund size of interest scheme



Source*: SSM*

Figure 6.2 exhibits the fund size of interest schemes. Based on the Survey, 48.5% of the respondents' fund size is more than RM50 million. Meanwhile, 36.4% respondents' fund size are less than RM10 million. On the other hand, 15.2% respondents' fund size are in between RM10 million and RM50 million. From the observation, it can be concluded that the interest schemes market could be expanded as the investors are willing to invest in light of 63.7% of the respondents have fund size above RM10 million. Hence, to ensures the successfulness of the interest schemes, SSM would implement a series of growth strategies as describe in the following section.

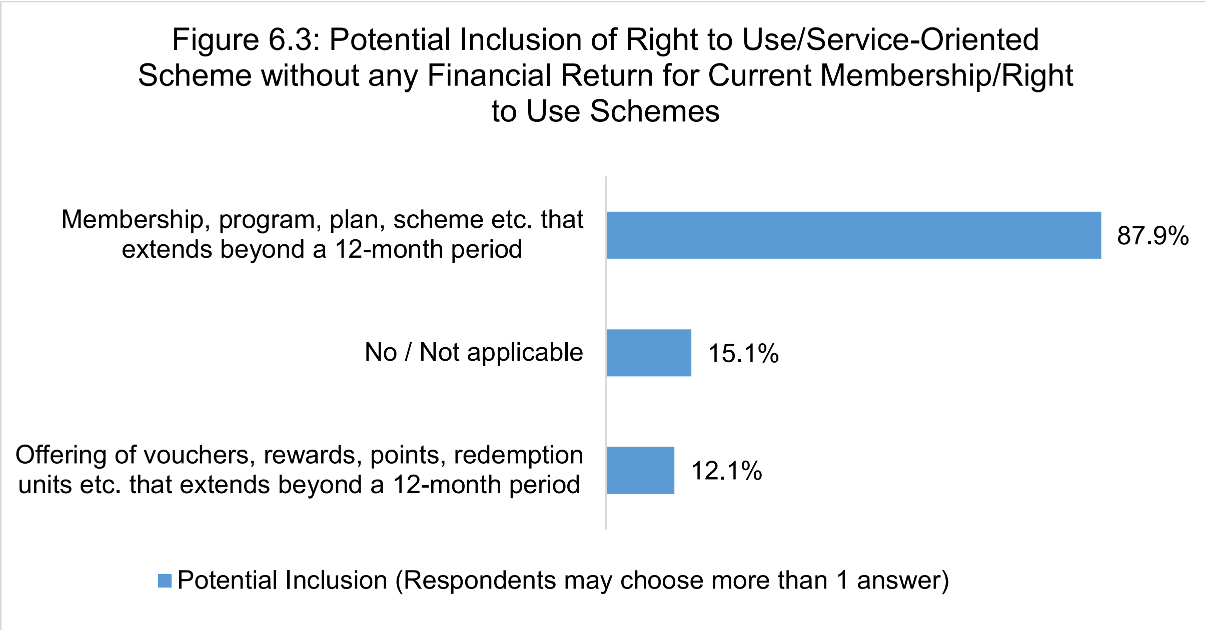
6.2 Growth Strategy 1 - Broaden and Innovate Interest Schemes

6.2.1 Steps to Broaden and Innovate Interest Schemes

The first growth strategy is to broaden and innovate interest schemes. This can be done through identifying the existing and potential business sectors or clusters and include them into the existing classification, exploring existing industries or schemes, exploring industries which offer membership or collection of monies, introduce interest schemes to the government and government related agencies via government linked companies (GLCs) and lastly to innovate interest schemes via hybrid schemes.

6.2.1.1 Identify Existing and Potential Business Sectors or Clusters to be Included into the Existing Classification

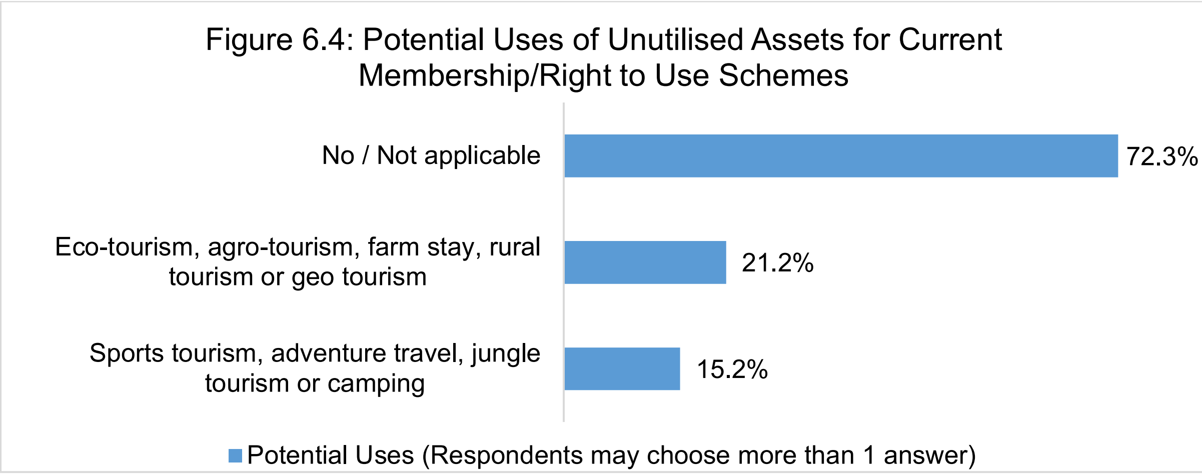
In order to boost interest schemes in Malaysia, SSM will continue to identify the existing and potential business sectors or clusters and include them into the existing classification. Currently, golf and/or recreational clubs, timesharing, marina, memorial parks, share farming, equipment and property have already been regulated. However, as observed in Table 6.1, from 2006-2017, there has been a modest growth of 30.6% in the number of interest schemes offered. This indicates that there is still potential for growth.



Source: *SSM*

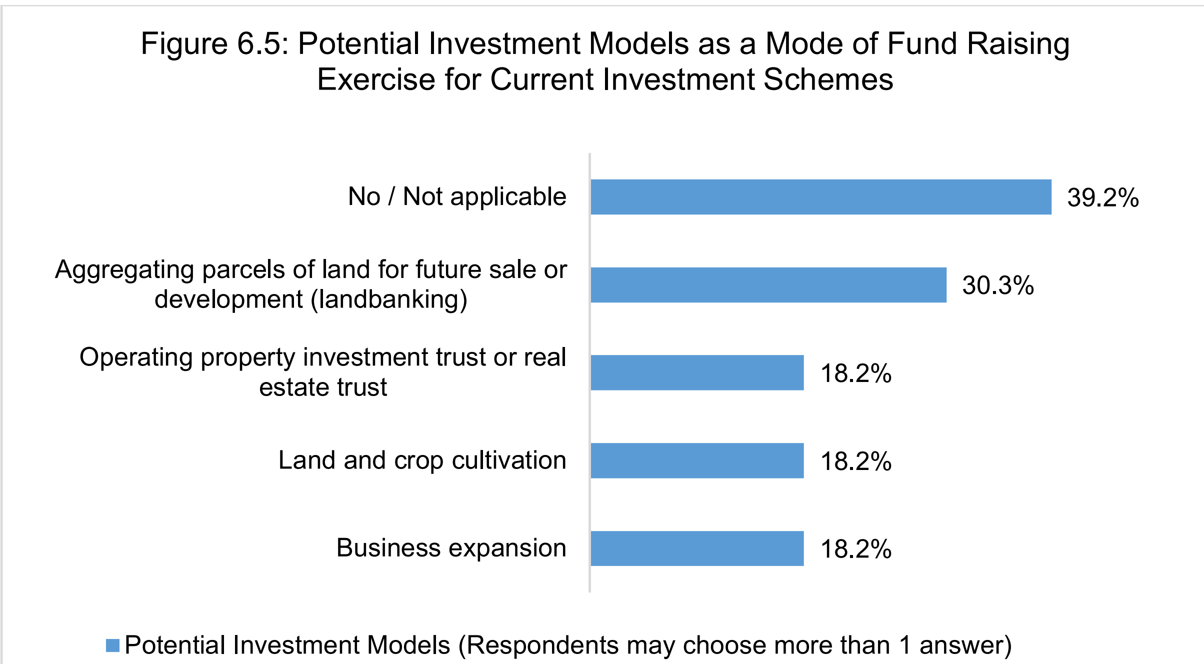
Figure 6.3 shows the potential inclusion of right to use/service-oriented scheme without any financial return for current membership/right to use schemes. According to Figure 6.3, 87.9% of respondents with a business model of membership/right to use scheme stated that their existing business model can potentially include any membership, program, plan, scheme etc. that extends beyond a 12-month period. Also, 12.1% of respondents stated that they can potentially include offerings of vouchers, rewards, points, redemption units etc. that extends beyond a 12-month period. Hence, these findings highlight the potential of management companies to further involve themselves in interest schemes.

Fundamentally, the development of interest schemes depends on the availability of unutilised assets and the willingness of management companies to offer new schemes.



Source: *SSM*

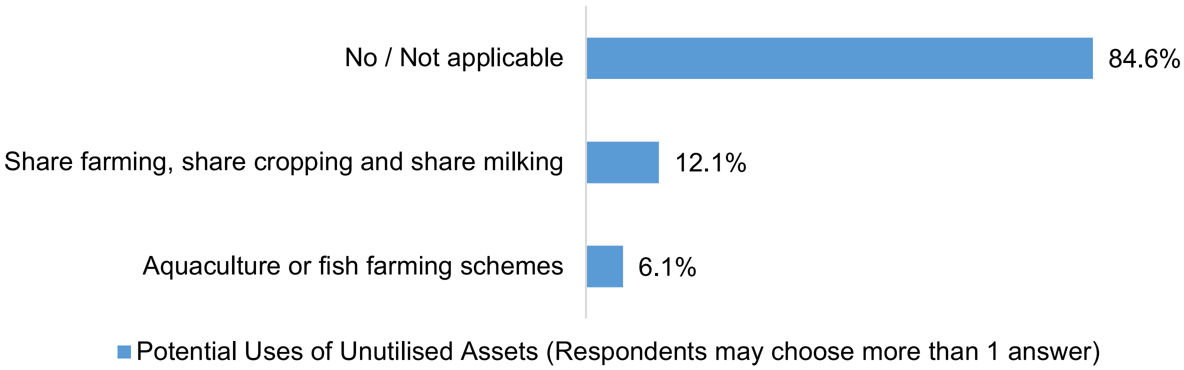
Figure 6.4 indicates the potential use of unutilised assets for current membership/right to use schemes. Based on Figure 6.4, respondents stated that their unutilised assets can potentially be used for eco-tourism, agro-tourism, farm stay, rural tourism or geo tourism (21.2%) and sports tourism and adventure travel, jungle tourism or camping (15.2%). These findings highlight the presence of unutilised assets among current management companies and their willingness to utilise these assets for various purposes.



Source: *SSM*

In terms of respondents with a business model which includes an investment scheme, in Figure 6.5, it is seen that 30.3% of respondents from the Survey would consider raising funds for purposes of aggregating parcels of land for future sale of development whereas 18.2% of respondents stated that they would raise funds for business expansion, land and crop cultivation and operating property investment trust or real estate trust, respectively.

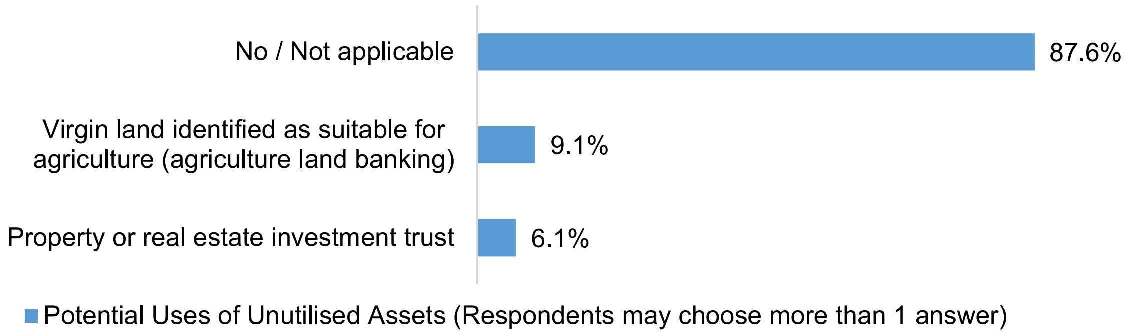
Figure 6.6: Potential Uses of Unutilised Assets in Agriculture Related Schemes for Current Investment Schemes



Source: *SSM*

Figure 6.6 indicates the potential uses of unutilised assets in agriculture related schemes for current investment schemes. From Figure 6.6, the Survey showed that 12.1% of respondents with an investment scheme business model, will potentially use their unutilised assets in agriculture related schemes specifically for share-farming, share-cropping and share-milking. Also, it is observed that 6.1% of these respondents will potentially use their unutilised assets for aquaculture or fish farming schemes.

Figure 6.7: Potential Uses of Unutilised Assets in Land and Real Estate Related Schemes for Current Investment Schemes



Source: *SSM*

Figure 6.7 demonstrates the potential uses of unutilised assets in land and real estate schemes for current investment schemes. Based on Figure 6.7, it is seen that 9.1% of respondents from the Survey who own unutilised assets can potentially use it in real estate related schemes specifically virgin land that are identified as suitable for agriculture. On the other hand, 6.1% of respondents stated that their unutilised assets can be used for property or real estate investment trust. However, it is seen that for majority of the respondents, this is inapplicable to them.

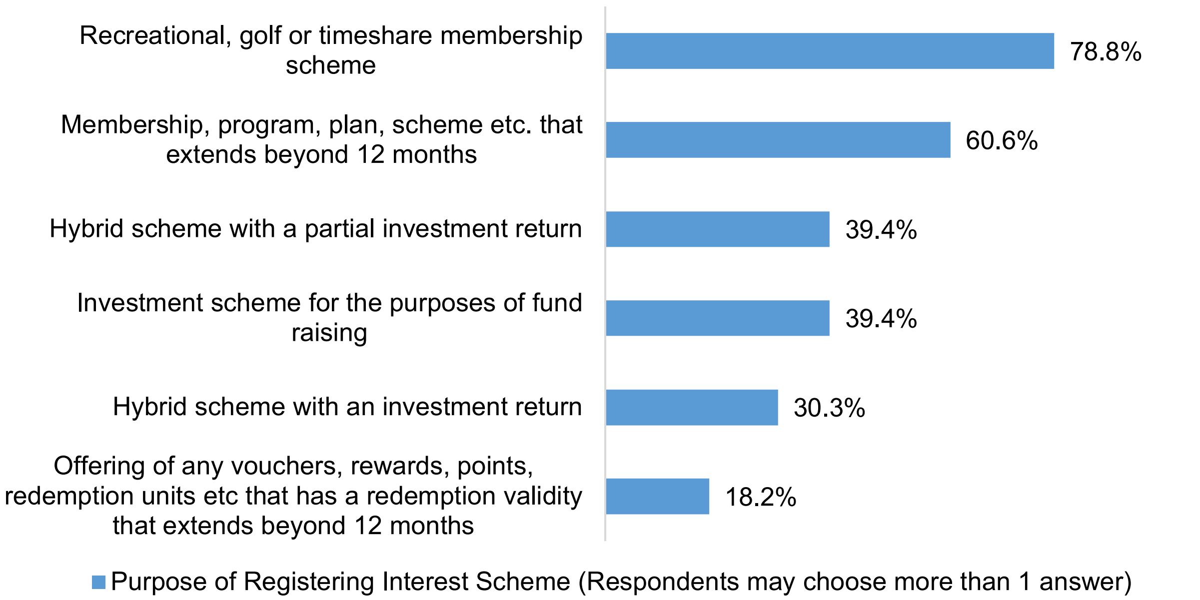
From these findings, it is evident that past or existing interest schemes owners have extra capacity to potentially offer more schemes apart from their existing schemes as they have unutilised assets. Moreover, the respondent's interest in offering eco and sports tourism indicates that this is perhaps a potential business sector which can be included in the existing classification of interest schemes.

6.2.1.2 Explore Existing Industries or Schemes

SSM will explore existing industries or schemes which offer memberships but are yet to be regulated. These industries include fitness centres, yoga centres, health screening packages and medical tourism. The business model for these industries can be incorporated into interest schemes as they offer "interests" to its members.

Hence, by integrating these industries under the Interest Schemes Act 2016, the rights of both management companies and interest holders will be protected as it is now regulated. Disputes among management companies and interest holders can be solved amicably as the new Act contains detailed provisions for both parties.

Figure 6.8: Purpose of Operators Registering an Interest Scheme with SSM



Source: *SSM*

Figure 6.8 indicates the purpose of operators registering an interest scheme with SSM. Based on Figure 6.8, 78.8% of respondents stated that their intention of registering an interest scheme is to commence a recreational, golf or timeshare membership scheme whereas 60.6% of respondents stated that their purpose of registering an interest scheme is to initiate any sort of membership, programme, plan, scheme etc. that exceeds beyond a period of 12 months. It is also recorded that 39.4% of respondents stated that their motivation of registering an interest scheme with SSM is to offer a hybrid scheme with a partial investment return and an investment scheme for the purpose of fund raising, respectively. 30.3% of respondents stated that their purpose of registering an interest scheme with SSM is to offer a hybrid scheme with investment return and 18.2% stated that it is to offer any voucher, rewards, points, redemption units etc. which has a redemption validity that extends beyond 12 months.

Based on the Survey there seems to be quite a high awareness on the purpose of registering an interest scheme with SSM. However, to further accelerate the growth of interest schemes in Malaysia, SSM will also explore existing industries or schemes which offer memberships but are yet to be regulated.

6.2.1.3 Explore Other Industries which Offer Membership or Collection of Monies

SSM can also explore other industries which offer membership or collection of monies in advance. These include sectors which offer purchase of points for redemption, purchase of vouchers or membership programmes for food and beverage (F&B) and entertainment outlets, any scheme in respect of pooled funds for non-charitable purposes, private retirement homes and nursing or palliative care programmes. Nonetheless, including and regulating such industries under the new Act will benefit both management companies and interest holders as now their rights are preserved. Therefore, both parties can conduct transactions at ease, and this can essentially boost the growth of interest schemes and management companies.

6.2.1.4 Interest Schemes for Government or Government Related Agencies

Interest schemes should not be restricted to the private operators. Government or government related agencies should also be encouraged to utilise interest schemes as a form of pooled funds for fund-raising purposes via government linked companies (GLCs). This is because interest schemes can serve as a good alternative when the need of fund-raising arises. So far, there is *no* state-run interest schemes in Malaysia, although there is much extra capacity to utilise.

Hence, to explore the full potential of the interest schemes market in the public sector, collaborations with various ministries particularly Ministry of Economic Affairs, SME Corp, Ministry of Agriculture and Ministry of Tourism can be undertaken. Through these collaborations, various programs can be offered, among others:

(1) Aged Care Leisure and Lifestyle Programme

The public sector has a lot of unutilised property (land or building) which can be utilised as aged care leisure and lifestyle centres. In other countries, this is popularly known as a retirement village which provides services such as catering and 24 hour on call assistance to the elderly. As Malaysia is slowly progressing into an ageing population, the government must play an active role to develop such facilities.

Interest schemes can be utilised to raise funds in order to develop the centre. Private corporations are welcomed to invest as part of their corporate social responsibility (CSR) program. Once the retirement village is set up, the public sector can form an entity to manage the both the scheme and the centre. Thereafter, interest schemes can be utilised to offer aged care leisure and lifestyle programmes to the public such as a 3-year, 5-year, or 10-year programme. The purpose of offering this right-to-use program is to ensure that the aged care lifestyle and leisure charges can be offered at a subsidised or cheaper rate. This programme is believed to be the first of its kind in the world.

(2) State-run Share Farming Programme

The public sector has a lot of uncultivated agriculture land. Thus, the interest schemes platform can be utilised to raise funds from the public to cultivate the unutilised land into agriculture land such as durian farms, palm oil estates and rubber plantations. The funds raised can be channelled to provide employment opportunities to local smallholder farmers and this will have a positive spill over impact on job creation in the agricultural sector as a whole. In addition, the monetary returns will be diverted back to investors via the interest schemes when the land produces yield. The public can directly invest in a state-owned agriculture land/programme with the availability of such scheme.

(3) State-run Livestock and Poultry Farming Programme

The interest schemes platform can be utilised to raise funds from the public to convert unutilised land into a livestock and poultry farming programme such as poultry, goat and cow farming. The funds raised can be channelled to provide employment to local smallholder farmers and directly contribute a positive spill over impact on job creation in the agricultural sector as a whole. Also, when the farm produces yield, the monetary returns will be diverted back to investors via the interest schemes.

(4) State-run Health Care Programme

Health care is one of the most important aspect of the state's obligations to citizens. In Malaysia, citizens can either engage in a private healthcare or public healthcare. Essentially, the private healthcare is profit-driven, expensive and beyond the reach of a sizeable segment of the public at large. On the other hand, public healthcare is heavily subsidised by the government, which enables citizens to enjoy comprehensive medical services, at a low cost.

Furthermore, public hospitals can utilise interest schemes to raise additional funds by offering pre-packaged health care programmes such as 3-year, 5-year, 10-year or 15-year program covering various identified illnesses. The pre-packaged programmes can be sold at a cheaper price as it is bought at today's prices and the services will be rendered in the future.

(5) State-run Nursing / Palliative Care Programme and Health Screening Packages

Apart from a healthcare programme, the public sector can consider offering state-run nursing or palliative care programmes and health screening packages which is consistent with the needs of our ageing society. As private healthcare is usually expensive and unaffordable for the majority of citizens, programs such as this has a high demand potential. In addition, the price of these pre-packaged programmes can be sold at a cheaper price, as the services will only be rendered at a future date. Packages such as a 3-year, 5-year, 10-year, 15-year program can be offered. Also, public hospitals can benefit from these programmes by utilising interest schemes to raise additional funds.

(6) State-run Tourism and Medical Tourism Programme

Besides the agricultural and health sector, interest schemes have the potential to be utilised in the tourism sector. , The market players can raise funds and expand their business through interest schemes. The Ministry of Tourism can utilise interest schemes to offer certain programmes such as pre-packaged state-run tourism programme.

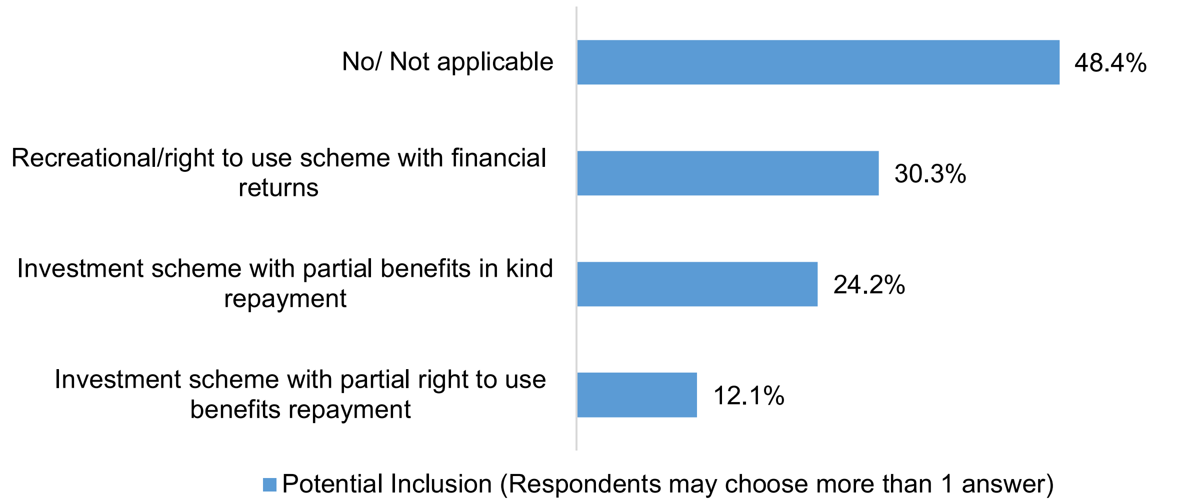
6.2.1.5 Innovate Interest Schemes via Hybrid Schemes

One of the new features of the Interest Schemes Act 2016 is the formal introduction of hybrid schemes. The new Act has been improved by explicitly stating that companies can choose to offer hybrid scheme (Section 4 (1) (d)). Therefore, companies do not solely need to classify their scheme as an investment scheme, recreational membership scheme or a time-sharing scheme but may have a combination of such schemes.

Hybrid scheme is a boon for management companies as they would be able to better market their schemes. The existence of an investment component in any of the traditional recreational membership or time-sharing schemes, would make it more marketable as interest holders can now get a dual benefit from the scheme – monetary and non-monetary benefit such as time sharing or membership benefits. The management companies can boost their marketing campaigns and the sales of their units with such schemes.

For potential investors, interest schemes will be a viable and attractive form of investment for them. This investment opportunity will be different compared to other traditional investments as it is coupled with time sharing opportunities or recreational membership. The returns of their investment will be unlike most other investments which is merely monetary gain. Also, the new Act incorporates many new provisions which uphold the rights and benefits of investors. This assurance can further increase their probability of investment.

Figure 6.9: Potential Inclusion of Hybird Schemes for Current Operators

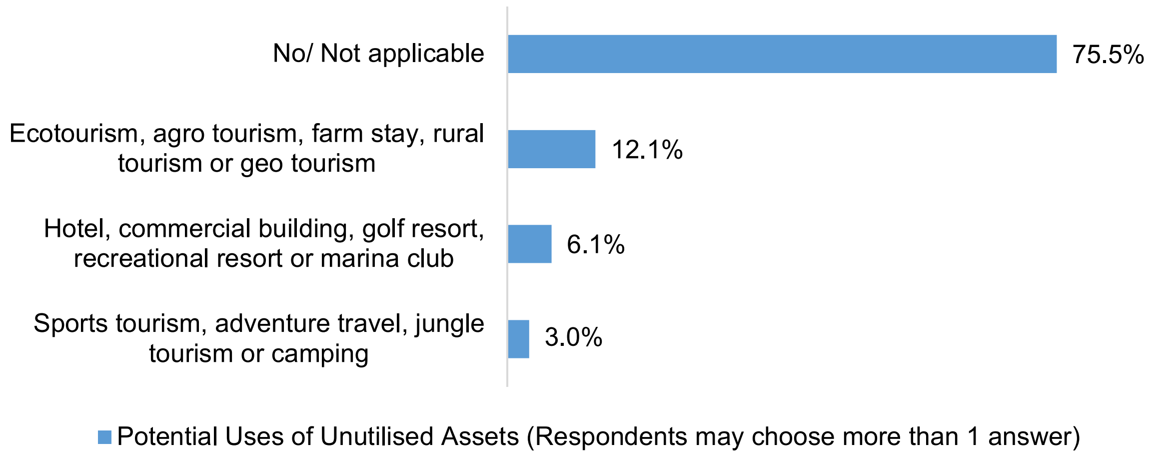


Source: *SSM*

Figure 6.9 exhibits the potential inclusion of hybrid schemes for current operators. According to Figure 6.9, based on the findings of the Survey, 30.3% of respondents stated that their current business model can potentially include a hybrid combination of any recreational, vacation, right to use or service-oriented tourism-based membership scheme with an investment scheme. 24.2% of respondents also stated that their current business model can potentially include a hybrid investment scheme with partial benefits in kind repayment and 12.1% of respondents that their business model can potentially include a hybrid investment scheme with partial right to use benefits repayment. These encouraging statistics indicates that there is a high potential for the development hybrid schemes in Malaysia.

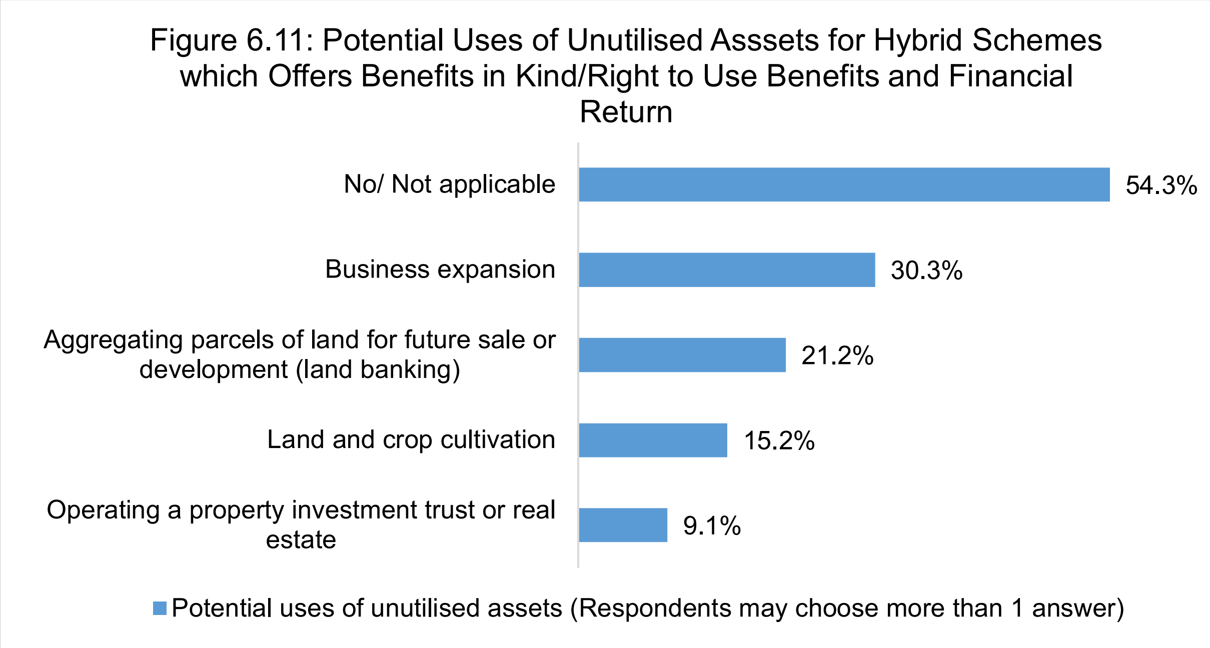
Nonetheless, the development of hybrid schemes depends on the availability of unutilised assets and interest of management companies to offer such schemes.

Figure 6.10: Potential Uses of Unutilised Assets for Hybrid Schemes which Offers Recreational Benefit and Financial Return



Source: *SSM*

Figure 6.10 shows the potential uses of unutilised assets for hybrid schemes which offers recreational benefit and financial return. From Figure 6.10, it is observed that 12.1% of respondents unutilised assets which can potentially be used for eco-tourism, agro tourism, farm stay, rural tourism or geo tourism via a hybrid scheme which offers recreational benefit and financial return. On the other hand, 6.1% of respondents stated that their unutilised assets can be potentially used to offer a hybrid scheme involving hotels, commercial buildings, golf resorts, recreational resorts or marina clubs. Lastly, only 3% of respondents stated that their unutilised assets can be potentially used to offer a hybrid scheme for sports tourism, adventure travel, jungle tourism or camping. Hence, SSM will look into these sectors to further develop hybrid schemes which offers recreational benefit and financial return.



Source: *SSM*

Figure 6.11 indicates the potential uses of unutilised assets for hybrid schemes which offer benefits in kind/right to use benefits and financial returns. According to Figure 6.11, the Survey showed that 30.3% of respondents would consider a fund-raising exercise for the purpose of business expansion via hybrid schemes. 21.2% of respondents also stated that they would raise funds for the purpose of aggregating parcels of land for future sale or development by adopting the same method. On the other hand, 15.2% of respondents stated that their unutilised assets can be potentially used for land and crop cultivation while 9.1% of respondents stated that their unutilised assets can be potentially used for operating a property investment trust or real estate using this type of hybrid schemes. These reassuring statistics show that there is potential to develop hybrid schemes in Malaysia especially for schemes with the objective to raise funds for business expansion and landbanking.

6.2.2 Realising a Broader and Innovative Interest Schemes.

SSM will establish 2 new taskforces with immediate effect of this blueprint (2020) in order to achieve a broader and innovative interest schemes. The first task force is the Emerging

Market Taskforce and the second taskforce is the Innovative Interest Schemes Taskforce. The timelines for each taskforce are presented in Figure 6.12.

6.2.2.1 Emerging Market Taskforce

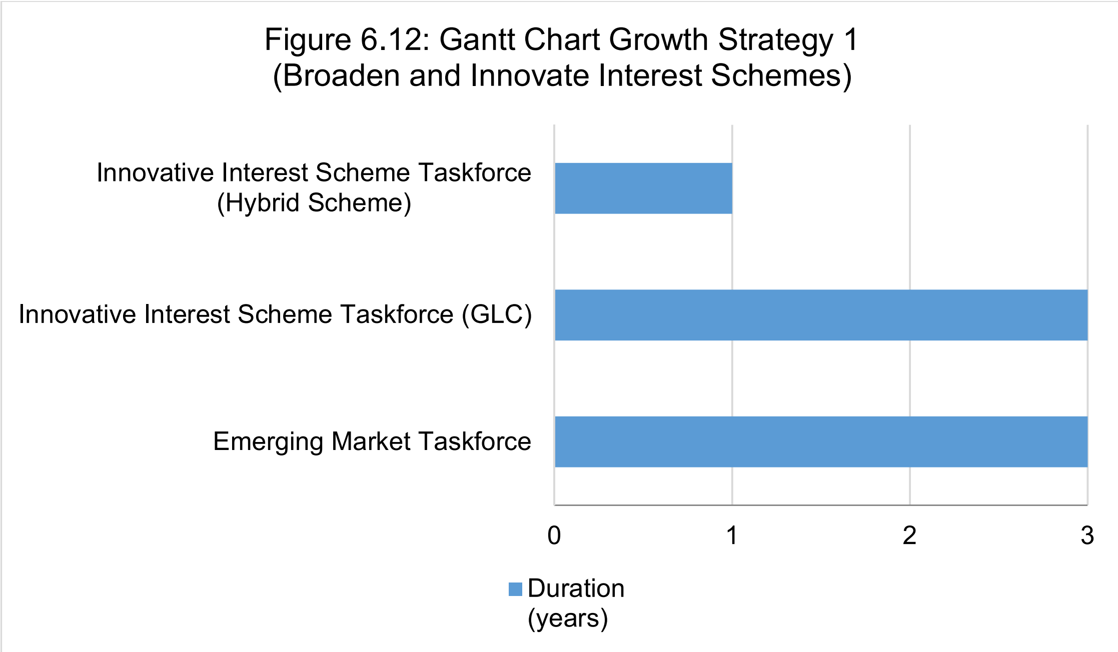
Essentially, this taskforce oversees the broadening of the interest schemes scope. Their responsibilities include identifying and incorporating existing as well as potential business sectors or clusters into existing interest schemes classifications; identify and include existing industries or schemes which offer memberships that have not been regulated and; identify and include industries which offer membership or collection of monies in advance. In the first and second year of the blueprint (2020 and 2021), the taskforce will do extensive research to identify the various operators from various industries. Next, from the third to fifth year of the blueprint (2022-2024), the taskforce will then move to include and regulate these operators. Members of the taskforce will be very familiar with the processes of registering an interest scheme as well as the various classifications of schemes as they would assist the identified companies to register their scheme.

6.2.2.2 Innovative Interest Schemes Taskforce

The taskforce will oversee the innovation of interest schemes and is divided into 2 subcommittees: one specifically for GLCs and another for hybrid schemes.

During the first two years of the blueprint (2020-2021), the subcommittee for GLCs will engage with related parties to ascertain their funding needs and models. In the third year of the blueprint (2022), the taskforce will assist the identified agencies in setting up an interest scheme to meet their financing needs. Also, the taskforce will be permanent, to continually meet the needs of GLCs.

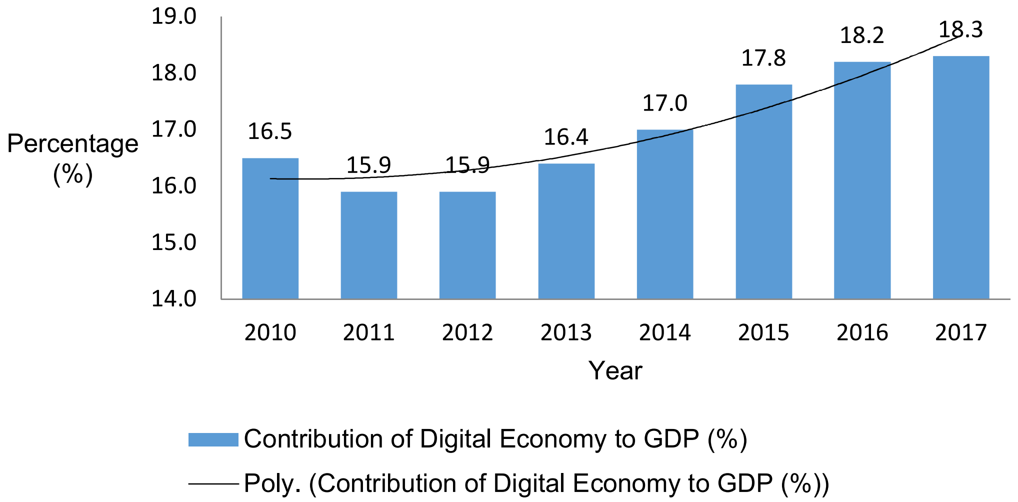
The subcommittee for hybrid schemes will be set up to educate and facilitate companies to offer such types of schemes. As this is not a traditional scheme, companies may need additional assistance in setting up this scheme. The taskforce will be established and operate within 1 year of the blueprint (2020). Moreover, the taskforce will be responsible to educate the public and companies regarding this type of scheme. Also, the taskforce will also be in continual existence to aid companies and various stakeholders.



6.3 Growth Strategy 2 - Digital Information Structure

In the digitised world, the conveniences that brought by internet lead to the dramatic change of the way business is conducted since the last decade. There are increasing number of companies transitioning their daily operations into digital platform due to operational efficiency, reduction of administrative costs as well as rising demand of digitalisation in business approach such as the growing of the e-Marketplaces. According to Malaysia Digital Economic Corporation (MDEC), there were about 59,000 online businesses registered with the SSM. Besides that, Department of Statistics Malaysia (DOSM) also indicated that there is a growing trend in digital economy in Malaysia especially in this recent few years. Furthermore, digital economy contributed approximately 18.3 % of the country's GDP in 2017 as compared to 16.5 % in 2010 (see Figure 6.13). The Malaysian digital economy expanded with an average growth rate of 9 % over the 7 years period. Hence, it indicates that the digital economy is increasingly important to the current generation and it acts as a potential catalyst to bring wealth to the nation as well as to boost our current economy in order to achieve the status of advanced economy.

Figure 6.13: Contribution of Digital Economy to Malaysian Gross Domestic Product (GDP)



Sources: *Department of Statistics Malaysia*

In the midterm review of 2011-2020 Financial Sector Blueprint, BNM observed that the development of a vibrant alternative financing and financial technology (hereafter called FinTech) ecosystem is essential to support future innovation and expand funding sources, particularly for SMEs. Hence, it was one of the key priorities leading up to 2020which comprises of the expansion of market-based funding solutions in order to diversify sources of financing and at the same time, decrease the dependency on bank-based financing. Therefore, there will be greater attention given to financing frontier industries as well as early stage of businesses by improving the framework for alternative financing solutions.

It is believed that the combination of both FinTech and with an appropriate management will enhance the retail investor participation and stimulate more innovative, market-based financing options. The digitisation of the financial services value chain will also simplify the existing or potential investors or businessmen access to financial services. Hence, this will help to rectify the challenges of funding that normally experienced by the

Malaysian business communities, more specifically, the micro business, as well as SMEs in the long-run.

At present, interest schemes are still lacking of its online presence or more accurately, it is suffering from a low level of digital visibility. This is due to the official website of SSM does not give due prominence to interest schemes. The interest schemes remained as a general element of SSM's wide array of business registrations and products, and it is not prominently displayed in SSM's main page. Therefore, there is a need to elevate interest schemes to a higher level as compared to the other services and products. Also, due recognition as well as prominence must be accorded to interest schemes within SSM and its webpage.

Besides that, with the current digital landscape of business, it is believed that the development of a digital platform for interest schemes is necessary. This is to facilitate the fund-raising activities and to bridge the financing gap in the market. Furthermore, it will also assist in expanding the opportunities available for the business communities, especially SMEs, in the digital age. Hence, interest schemes will offer endless possibilities for companies in structuring their interest units innovatively to help raise funding for their business growth. If done right, the business and investors will be able to expand their market and maximise their benefit.

In the second year of the blueprint (2021), SSM will undertake a pilot testing for the 4-in-1 interest schemes digital platform in order to collect feedback from the market for further improvements on the digital platform. Meanwhile, in the third year of the blueprint (2022), SSM will organise an official launch of the complete and user friendly 4-in-1 interest schemes digital platform in the market. This digital platform will be a stand-alone website along with mobile phone application for IOS as well as Android operating system. The 4-in-1 digital platform for interest schemes is to serve not only the operators but also the investors of interest schemes. In addition, it also comprises of education platform, information platform, trading platform and surveillance platform.

Figure 6.14: 4-in-1 Interest Schemes Digital Platform

Source: *SSM*

Firstly, the interest schemes digital platform functions as a trading platform that brings conveniences to operators and investors in order to raise funds in primary market as well as to trade the interest units in secondary market. The interest schemes operators are now able to reach a huge number of potential investors in a short period of time and communicate instantly with the potential investors in the primary market. Moreover, existing interest unit holders who wish to dispose of their units can sell them easily in the secondary market through the interest schemes digital platform. Thus, it is assumed that the interest schemes digital platform will be able to enhance the liquidity of current interest schemes in the Malaysian market.

Secondly, this interest schemes digital platform is also an information avenue that allows the public to access freely for the latest information on interest schemes issued in Malaysia. For example, it can provide a daily or weekly summary report on interest schemes in terms of price report, news and announcements from existing operators and investors, to ensure all the information are not obsolete as well as to ascertain that only correct and relevant information of interest schemes are disseminated to the market. Thus, this will increase the transparency in both the primary and secondary markets of the interest schemes.

Thirdly, interest schemes digital platform serves as an education platform to raise the awareness of public on interest schemes as well as to educate the existing interest schemes operators and investors. For instance, there will be an online education portal so that SSM can provide simple guidelines or explanations on interest schemes, or even with videos or webinars. This is deemed essential to promote interest schemes to the market as well as simultaneously educate the operators and investors to raise fund and invest interest unit ethically.

Last but not least, the interest schemes digital platform functions as a surveillance platform for interest schemes in the market. It can provide a whistle-blowing feature so that SSM is able to receive alerts and reports from the public as well as stakeholders regarding unauthorised schemes in the market. Also, the availability of this feature enables SSM to further investigate and act immediately on those suspected cases. Hence, it can protect the image of interest schemes and regain the public confidence on interest schemes.

The interest schemes digital platform will be under the purview of SSM. Therefore, SSM will form a special taskforce to ensure the smooth operation of the interest schemes digital platform. This special taskforce will be formed by a group of professionals from different professions, for instance, legal, information technology (IT), big data analytics, and etc.

There will be a few tasks allocated to this special taskforce before and during the pilot testing, as well as after the launch of interest schemes digital platform (see Figure 6.15):

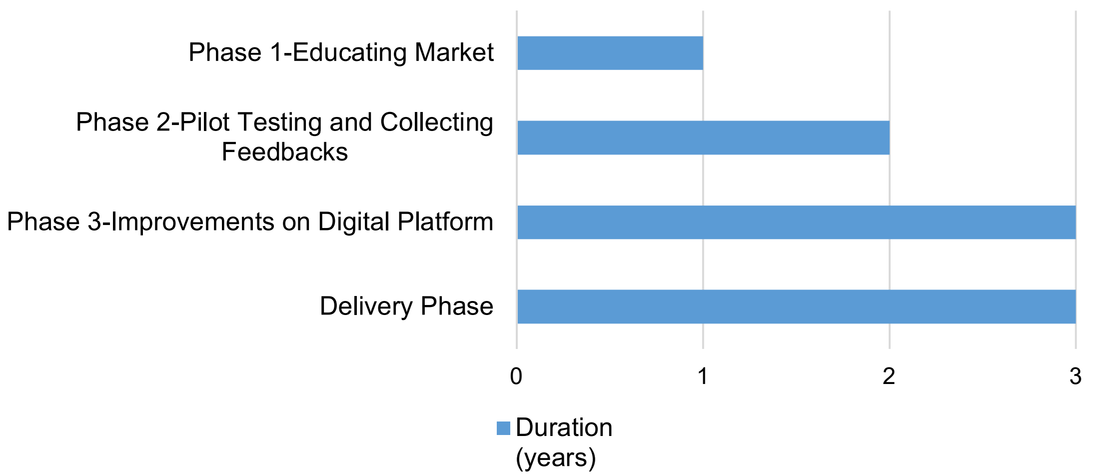
(1) Before the pilot testing, this special taskforce will have to inform and educate all the existing players or stakeholders of interest schemes in the market in regarding the functions and advantages of the interest schemes digital platform.

(2) The special taskforce will also have to select a few main players and stakeholders in the market for the pilot testing purpose. During the pilot testing, the special taskforce will have to collect all the feedbacks or suggestions from the users. Next,

when the viability of the suggestions is confirmed, the special taskforce will implement and incorporate them into the interest schemes digital platform for further improvement. Besides that, the special taskforce will have to develop clear and user friendly guidelines on how to use the interest schemes digital platform. Also, provide workshops and disseminate all the relevant information to potential or existing players or stakeholders of interest schemes in the market.

(3) The responsibilities of the special taskforce do not end right after the official launch of interest schemes digital platform. It will remain in force for a year after the official launch. In addition, the special taskforce will have to continue to provide workshops and educate the players and stakeholders of interest schemes in the market. Besides that, and more importantly, to collect feedbacks from the users in the market. In the meantime, special taskforce will answer all the queries regarding to the interest schemes digital platform during the workshops, or through any other medium of communication for instance, e-mail, face-to-face communication, direct calling, live chat in the digital platform and etc.

Figure 6.15: Gantt Chart Growth Strategy 2 (Digital Information Structure)



6.4 Growth Strategy 3 - Awareness and Education Programme

The interest schemes education programme is particularly essential as it would improve public and business awareness on the subject matter and affect the development of interest schemes market. Such education programme will bring in two-fold effect. Firstly, to increase the number of interest schemes offered in the market. Secondly, creates a well-equip public with the relevant information on interest schemes market. In addition, by boosting the growth of interest schemes industry, it will potentially lead to the reduction in numbers of illegal and the unregistered interest schemes in the market. The awareness on scheme related education programme is a vital factor for the interest schemes growth.

6.4.1 Interest Schemes Awareness Programmes for Public (Investors/Potential Investors)

The interest schemes awareness programme to the public serves for two purposes. First, the scheme programme creates awareness to the public regarding the need for the players to register a scheme, thus, not deceived by the illegal/unregistered investment schemes that are being offered in the market. Second, the interest schemes awareness programme will educate investors on the availability of alternative investment vehicles in the market and to seize the investment opportunities in a timely manner.

Furthermore, the participants from the lab session suggested that in order to increase the public awareness, it can be done by promoting interest schemes through road shows, annual conference and talks which is an appropriate medium of communication as the message will be conveyed to the public effectively. Besides that, the dissemination of information with regard to interest schemes can be executed through digital platforms for public convenience. For instance, the web portal, digital portal and social media network. Thus, the interest schemes awareness programme can be delivered to the investors/potential investors via digital platform that is accessible both from a webpage and a mobile applications system so that investors/potential investors may gain information with regard to interest schemes on the go.

SSM acknowledges the importance of ongoing education and awareness programmes for the public to change their perception, behaviour, and action towards interest schemes through marketing campaign and social media network. Also, certain marketing campaigns such as using an acronym will quickly gain the public’s attention because it is catchy and easier to remember. The acronym could also be used in the campaign for advertising and marketing the interest schemes in the first year of the blueprint (2020). Moreover, exhibitions and roadshows will also be conducted at public venues in the first year of the blueprint (2020). These exhibitions and roadshows could be conducted in different languages (Malay, English, Chinese and Tamil) to educate the public on interest schemes and to look out for the legally registered interest schemes. The educational materials in local languages containing information on interest schemes could also be distributed to members of the public during these events.

Next, specific topics on interest schemes for public educational programmes like talks and workshops could be organised for the investors/potential investors in the first year of the blueprint (2020). For instance, experienced industrial players from business entrepreneurs and corporate companies invited by the SSM to talk about their involvement and to share their views related to the interest schemes in their business model. Besides that, poster and/or bunting competition could also be organised by SSM. The best poster and/or bunting will be selected and displayed at the public and open areas to send out message to promote interest schemes awareness. Furthermore, from the perspective of marketing strategy, poster and/or bunting are known for being cost effective as it can be recycled several times at different events and venues and yet it is able to reach broader audiences in the market.

Lastly, a well-designed 4-in-1 digital platform is a practical way to diffuse education awareness programme to the investors. As matter of fact, with the integration of digital technology into our everyday life, interest schemes will inevitably be outmoded without an up-to-date application to connect to their target audiences. Furthermore, the digital platform can be accessible through mobile application with push notification function to enable the users to be informed and posted with the latest news in a timely manner and cost-effective ways. Moreover, SSM can also design the digital platform accessible through mobile application that allow the users to personalise the interest schemes information based on their preferences or interests. The development of a well-designed mobile application will ensure ongoing engagement and feedback of the interest schemes programme to remain relevant and effective in the digitalise world. These effective communications of the digital platform could be built in the first year of the blueprint (2020) and implement in the second year of the blueprint (2021) to provide effective, reliable, and consistent messages to the investors.

6.4.2 Training and Development Programme for Businesses

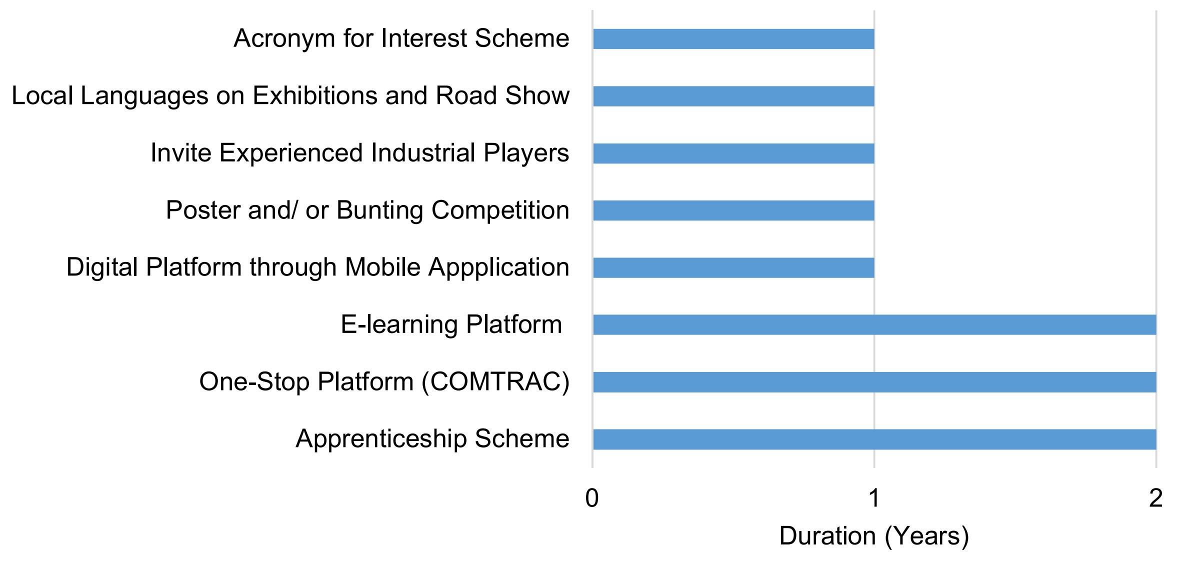
For the interest schemes platforms to be successfully implemented, training should be presented as a prime opportunity for the interested parties. Also, variety activites shall be conducted in variety for the participants in order to to have a broad and substantial exposure of the interest schemes, allowance of mistake (trial and error) during practicing mode, hands-on during the interest schemes model simulation (hybrid interest schemes) that suitable for client, and interest schemes model forecasting to expand the utilisation of the interest schemes in the business model (see Figure 6.16).

Firstly, e-Learning platform could be provided by SSM as an alternative of classroom replacement training to businesses. The development of e-learning is the complement to the conventional training in achieving the objective of reaching out to unlimited number of learners. Furthermore, e-learning is also the most cost-effective application for the industrial players as businesses no longer required to send their personnel to learn about interest schemes out of office thus reducing transaction costs. SSM in the first year of the blueprint (2020), will develop an e-Learning platform embedded into the 4-in-1 digital platform with two divisions identified as self-paced e-learner and facilitated/instructor-led courses. First, the self-paced e-learning is where the self-paced learners are alone and free to learn at their own pace based on their individual needs and interests. The second type is the instructor-led and facilitated e-learning that provide different levels of support by tutors and instructors as well as collaboration among learners. This e-Learning platform of the interest schemes could be planned, organised and coordinated in the first year of the blueprint (2020) and implemented in the second year of the blueprint (2021) for the industrial players to be well versed with the interest schemes prospect.

Secondly, the 4-in-1 digital platform will provide information and workshop in a training calendar to the interested parties, and programme by topic to be made available upon request for the staff and organisation development. At present, SSM also provides training and development programme for business entrepreneurs and corporate players through the platform of Companies Commission of Malaysia Training Academy (COMTRAC). The education feature of the digital platform will adopt some of the current practice of COMTRAC such as providing workshop or talk by certified trainers and selected speakers. Also, further advance with the one-stop platform from a website to an digital platform accssible through mobile application in the second year of the blueprint (2021) to keep the interested parties well informed and updated on the availability of the workshop or training conducted by SSM.

Thirdly, the training and development programme for the organisation could also be further expanded to an Apprenticeship *scheme.* Here, the apprentices will be selected through interview sessions conducted by SSM. The apprenticeship *scheme* can be implemented in the second year of the blueprint (2021). It aims to increase the exposure of the interest schemes industry to the industrial player. These selected players under the apprenticeship *scheme* may choose to register with SSM to further contribute to the development of the interest schemes industry in future.

Figure 6.16: Gantt Chart Growth Strategy 3 (Communicating Interest Schemes Training and Development)



6.5 Growth Strategy 4 - Engaging with Intermediaries

It is important for SSM to have collaboration with stakeholders from both private and government sectors to promote the utilisation of interest schemes in the digitalisation business environment.

6.5.1 Government Agencies

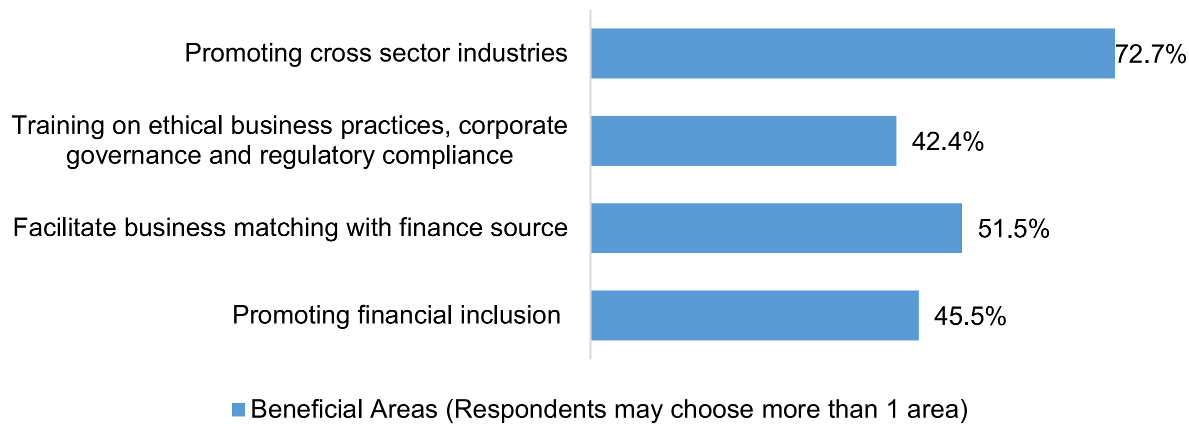
For SSM to help the industry in gaining a competitive edge in foreign and local markets, SSM can collaborate with other government agencies such as Ministry of Economic Affairs (MEA) and Malaysia External Trade Development Corporation (MATRADE) in the second year of the blueprint (2021). Essentially, the join forces from MEA and MATRADE with SSM to promote interest schemes among the public and businesses will accelerate the industry's growth. For instance, SSM could discuss with MEA and MATRADE for relevant information to be disseminated through MEA and MATRADE to help companies to gain a competitive edge in local and foreign markets. For MATRADE, in giving out trade advisory and support services, information with regard to interest schemes may be included.

SSM and SME Corporation Malaysia can also work together to promote and increase the public awareness on interest schemes in the second year of the blueprint (2021). Furthermore, the role of the Ministry of Energy, Science, Technology, Environment & Climate Change (MESTECC) is also equally important. SSM may invite speaker from MESTECC to give a talk or share their experience on the utilisation of technology commercialisation on the interest schemes application in the marketplace during third year of the blueprint (2022).

The importance value creation of intellectual property in today's business is undeniable. Therefore, SSM may choose to collaborate with Intellectual Property Corporation of Malaysia (MyIPO) to explore possibility of allowing joint ownership of an intellectual property such as patent by the management companies for the benefits of the interest holders in the second year of the blueprint (2021). Besides that, SSM could also discuss with Malaysian Communications and Multimedia Commission (MCMC) to alert SSM with regards to illegal or suspicious schemes on potential breach of the interest schemes laws and regulation while carrying out their function in supervising and monitoring communication and multimedia activities during the second year of this blueprint (2021). SSM may also invite Malaysia Digital Economy Corporation (MDEC) to brainstorm the possibility to utilise the digital future of interest schemes to help the domestic industry players and leverage on international partners during the third year of the blueprint (2022).

Furthermore, SSM could engage with health government agencies such as Minister of Tourism, Arts and Culture (MOTAC), Ministry of Health (MOH), and Malaysia Healthcare Travel Council (MHTC) to strengthen the services offered in medical tourism and most importantly to drive medical tourism to the highest standards of professionalism both domestically and internationally. Firstly, SSM can develop human capital, who are knowledgeable on interest schemes for public consultancy purposes in medical tourism during the second year of the blueprint (2021). In the third year of the blueprint (2022), skilled human capital developed from the training session will promote interest schemes in various packages that tailored with the individual needs from basic health screening packages to full body check-up package or health and wellness screening. All these health packages will be offered both domestically and internationally. In the fourth year of the blueprint (2023), taken that synergy with health industry players had been created, potential new schemes could be introduced and promoted to the public and investors. Also, SSM could promote the new interest schemes like nursing and palliative care programme with MOTAC, MOH, and MHTC health agencies for the elderly, the families facing problems associated with life-threatening illness, and for whom need special care.

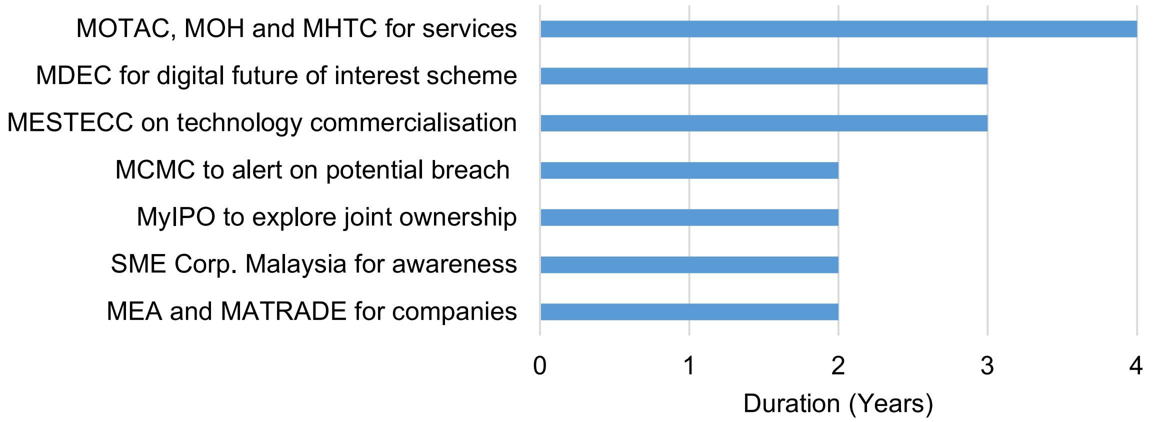
Figure 6.17: Beneficial Areas in the Interest Schemes Industry for SSM to Collaborate with other Governmental Agencies



Source: *SSM*

Figure 6.17 shows the beneficial areas in the interest schemes industry for SSM to collaborate with other government agencies. According to Figure 6.17, 72.7% of the respondents suggested that promoting cross-sector industries would be most helpful area for SSM to collaborate with other government agencies. Next, around 51.5% of the respondents recommended facilitation of business matching with a financial source for SSM to work on with other governmental agencies. On the other hand, area like promoting financial inclusion such as facilitating information gathering of available source of financing for business chosen by 45.5% of the respondents, while the training on ethical business practices, corporate governance and regulatory compliance received 42.4% support from the respondents.

Figure 6.18: Gantt Chart Growth Strategies 4 (SSM to Engage with Government Agencies)



6.5.2 Association and Federation

At present, medical tourism and health screening that offer membership more than 12 months have not been regulated by SSM. Henceforth, SSM may collaborate with Association of Private Hospitals of Malaysia (APHM) in the second year of the blueprint (2021) to instill awareness regarding the availability of interest schemes as an alternative funding mechanism and invite APHM members to join in the interest schemes investment.

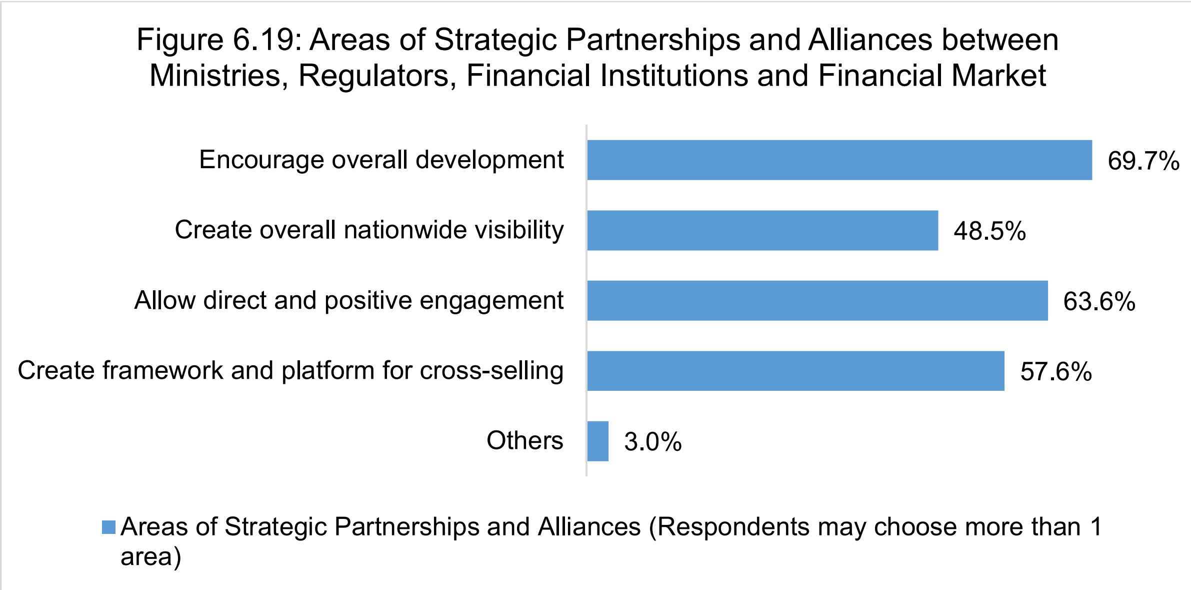
Besides that, most hospitals provide a number of services such as Aesthetic & Laser, Health behavioral, Bone & Joint, Breast Cancer, Cancer & Radiosurgery, Heart & Vascular, Dental services, Diabetes Care, Dietetics & Nutrition services, Digestive Health, Eye, Fertility, Hand & Microsurgery, Neuroscience, Rehabilitation, Speech & Hearing, Wellness, and Women & Children Services. Therefore, with such wide range of services, it will certainly be beneficial to the industry player should certain programme is developed using interest schemes to boost the growth of their services.

Furthermore, SSM could also partner with International Chamber of Commerce Malaysia (ICC Malaysia) which has joined the global network of ICC, the world's business organisation in the second and third year of the blueprint (2021 and 2022), to promote the interest schemes to the members of ICC Malaysia and its network from more than 140 countries. Once certain level of understanding is established, SSM can work together with ICC to further develop certain codes/policies concerning international interest schemes.

In addition, the role of the National Chamber of Commerce and Industry of Malaysia (NCCIM) is equally important. SSM may collaborate with NCCIM to have a representative from the industry within the region and internationally to promote interest schemes among the members of the private sector in the second year of the blueprint (2021). In the third year of the blueprint (2022), SSM could get assistance from NCCIM to collect views of members and any other person or organisation on interest schemes. Next, in the fourth year of this blueprint (2023), SSM could obtain support of NCCIM to publish and circulate statistics and any additional information relating to interest schemes to its members.

The promotion of interest schemes could be extended to the manufacturing industry from the Federation of Malaysian Manufacturers (FMM). SSM could work with FMM to utilise interest schemes investment in their business model among its members in second year of the blueprint (2021) and third year of the blueprint year (2022). In addition, in the fourth year of the blueprint (2023), a diversified investment of interest schemes, suggestion in planning ahead activities, monitoring and implementation of manufacturers related interest schemes programmes could be provided for the interested members in FMM by SSM.

Similarly, SSM could collaborate with the Federation of Livestock Farmers' Association of Malaysia (FLFAM) in the second year of the blueprint (2021). Essentially, SSM could collaborate with FLFAM to promote interest schemes as an alternative funding and potential business growth for the poultry farming and livestock farming community especially through adopting new technology in sustaining and safeguarding their livestock from the outbreak of various diseases. During the third year of this blueprint (2022), a discussion and forum could also be organised to ensure interest schemes promotion for the industry player able to lessen the collective community problems.

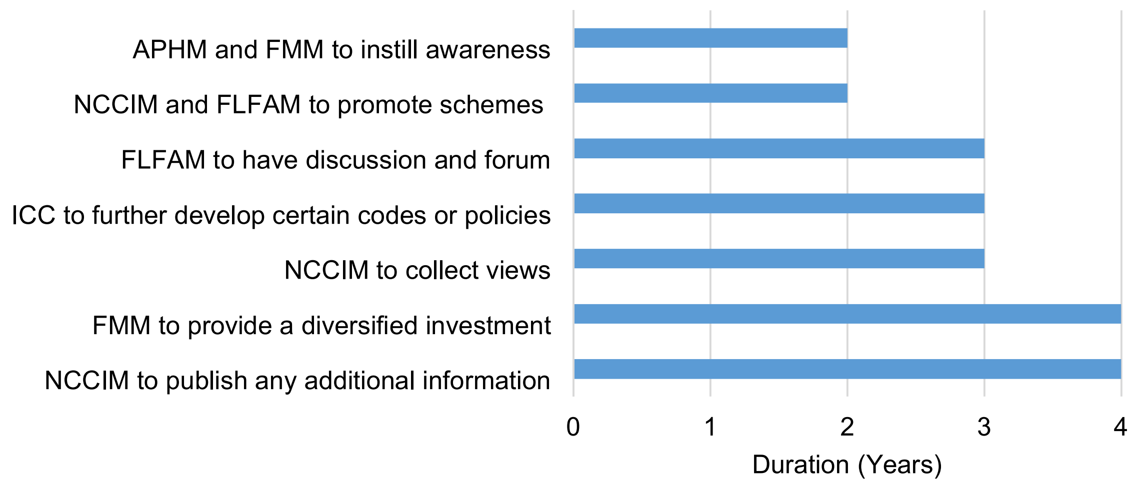


Source: *SSM*

Figure 6.19 indicates the areas of strategic partnerships and alliances between ministries, regulators, financial institutions and financial market. Based on Figure 6.19, the area like the encouragement of overall development, competition and innovation of the interest schemes market and products are chosen by a total of 69.7% of the respondents. Next, the area that allows direct and positive engagement between ministries, regulators, financial institutions and financial market players was also well received by 63.6% of the respondents.

On the other hand, about 57.6% of the respondents felt that the support of strategic partnership and alliances in the area that create a framework and platform for cross-selling, cross-media marketing, cross-promotion, marketing co-operation, co-promotion and co-branding would be very helpful to the industry. However, 3% of the respondents stated that it is the strategic alliance and partnership is not applicable to the industry. That is to say, the rest of the respondents were in support of the strategic partnership and alliances between ministries, regulators, financial institutions and financial market players to be beneficial to interest schemes industry.

Figure 6.20: Gantt Chart Growth Strategy 4 (SSM to Engage with Association and Federation)



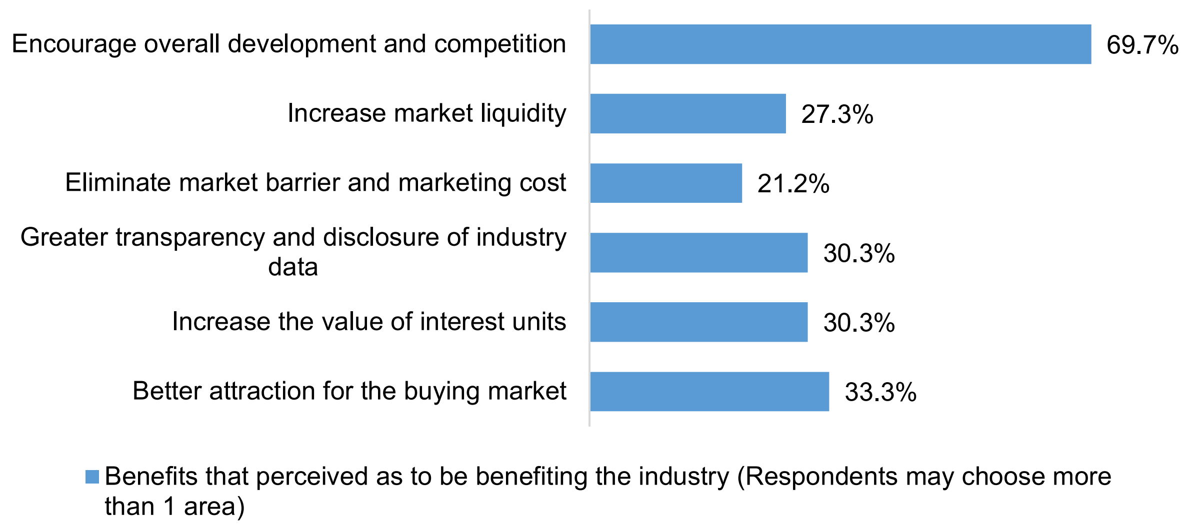
6.5.3 Intermediaries Agencies

Apart from government agencies, SSM may also collaborate with the intermediary's agencies in Malaysia to promote better governance. As the interest schemes develop its momentum in Malaysia, an intermediary agency providing rating services such as Malaysian Rating Corporation Berhad (MARC), can play a pivotal role. They can conduct a thorough review and analysis on the interest schemes offered. This is aimed to be achieved in the fifth year of the blueprint (2024). It is believed the interest schemes industry trend and economic issues from rating agencies that known for its independent research will generate interest to the investing public.

Besides that. SSM could also through the professional associations such as Federation of Financial Planners Malaysia (FPAM), Malaysian Financial Planning Council (MYFP), and Association of Financial Advisers (AFA) promote interest schemes to the financial planners/advisers, who will in turn recommend interest schemes as an alternative investment vehicle to their clients. This initiative to collaborate may kick start in the second year of the blueprint (2021). Subsequently, in the third year of the blueprint (2022), SSM could work with MYPF, FPAM and AFA as a platform to collect feedback from their respective members with regards to any practical issues concerning interest schemes that are faced by the financial planners/advisers and/or their clients.

In addition, SSM will consider identifying qualified intermediaries (act as go-betweens) firms, in terms of compiling and verifying documents for filing to minimise the risk of a scheme being misused and ensure pre-compliance of the requirements before submission so as a faster registration procedure can be established in the fifth year of the blueprint (2024).

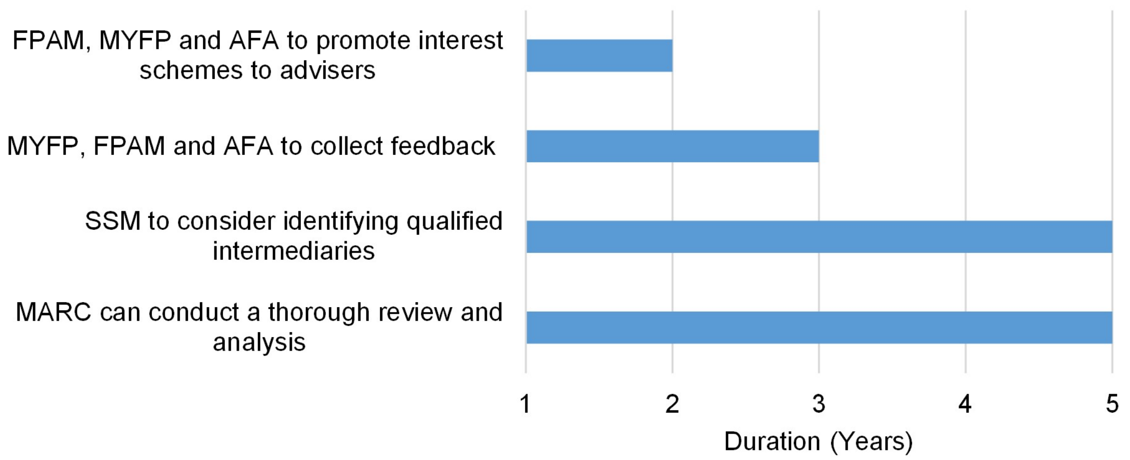
Figure 6.21: Benefits of Creating a Regime of Regulated Market Intermediaries or Outsource to Third Party Service Providers



Source: *SSM*

Figure 6.21 exhibits the benefits of creating a regime of regulated market intermediaries or outsource to third party service providers. As presented in Figure 6.21, it is observed that 69.7% of the respondents believed that one of the key benefits in creating a regime of regulated market intermediaries or outsource to third party service providers is that it will encourage overall development, competition and innovation of the interest schemes market and products. Next, 33.3% of the respondents opinioned that it will serve as a better attraction for the buying market. This is followed by 30.3%of the respondents respectively believed that this will result to increase of the value of interest units as a different/ new assets class as well as greater transparency and disclosure of industry data to enable the public and the market intermediaries to have informed decisions. Meanwhile, 27.3% of the respondents expressed that with the intermediaries, it will be beneficial to the industry as it will increase in market liquidity while 21.2% of the respondents considered that the benefits to the industry will be through eliminating market barrier and reducing marketing cost.

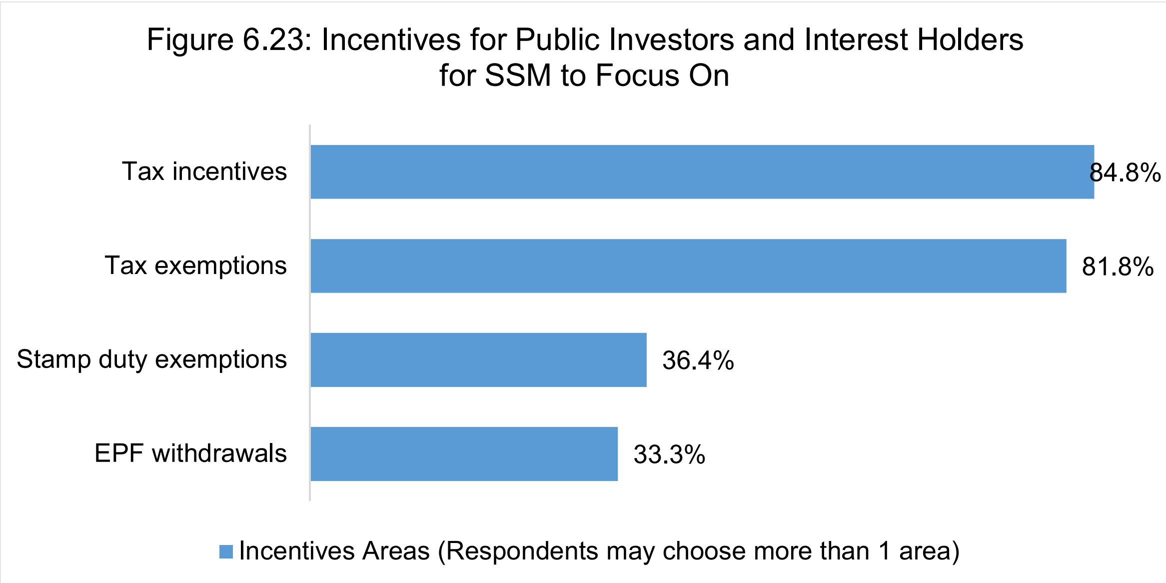
Figure 6.22: Gantt Chart Growth Strategy 4 (SSM to Engage with Intermediaries)



6.6 Growth Strategy 5 - Monetary and Non-monetary Incentives

The evolvement of interest schemes as the market-based financing option helps to bridge the financing gap and increase opportunities for innovation in the early-stage of the business. In order to boost the development of interest schemes, SSM will be engaging with relevant ministries and government agencies, wherever relevant to study the possibility of rolling out incentive programmes to promote interest schemes industry. Hence, SSM hope that such incentive programmes will attract more players from the industries to offer interest schemes for investment, encourage investment advisers such as financial planners to promote interest schemes to their clients as an alternative asset classes and at the same time entice investment from the potential investors.

In the lab session, investors expressed their desire for the tax incentive, tax allowance and industrial building allowance from the regulators. Besides, the investors also anticipate for the regulators to revise and update the tax regime to be more investment friendly. Last but not least, they also express their desire to discuss with the relevant authorities to facilitate a system of tax relief for investors as an incentive to invest in interest schemes.



Source: *SSM*

Figure 6.23 exhibits the incentives for public investors and interest holders that relevant for SSM to focus on. The tax incentives is the first area that SSM could look into as it received significant support from 84.8% of the respondent where they believed it would be the primary interest for the public investors and interest holders. Furthermore, the second area that SSM could dwell into is the tax exemptions as chosen by 81.8% of the respondents, while the other areas like stamp duty exemptions and EPF withdrawals received 36.4% and 33.3%, votes respectively. As such, the observations show that there are a very high chance that monetary and non-monetary incentives will be successful in promoting interest schemes as is indicated in the Survey.

To achieve this, SSM will categorise the incentives into monetary incentives and non-monetary incentives. During the second year in the blueprint (2021), a special taskforce on incentive will be established who is responsible to engage with the relevant ministries and government agencies such as Inland Revenue Board of Malaysia (IRBM) and Royal Malaysian Customs Department (RMCD) for planning and discussion purposes. Also, the special taskforce on incentives will oversee the implementation of the monetary incentive programmes in the fourth year of the blueprint (2023). On the other hand, non-monetary incentives programme will be implemented progressively commencing from the third year of the blueprint (2022).

6.6.1 Monetary Incentives – Tax Incentives

Tax incentives including tax exemptions are equally crucial not only for the industrial players but also the (potential) investors. SSM will discuss with IRBM and RMCD to make available certain tax incentives that will benefit them.

1. Tax Incentives for Industrial Players

IRBM will be invited to look into the possibility of granting lower tax bracket or different tax structure with lower rate compared to the normal corporate tax rate on income of the interest schemes.

Besides that, IRBM may propose flexible or accelerate tiered tax structure according to years of yields for investors that invest in farming or agricultural programme so that the monetary returns will be diverted back to investors. Additionally, SSM should encourage investment tax allowance for implementation of the agricultural programme that supports food product development.

At the same time, RMCD may support the growth of interest schemes by:

1. granting customs duty exemption on all types of imported raw materials and/or machineries which is used directly or indirectly by the management companies for the production of goods by an interest scheme;

2. granting certain customs duty exemption for exporting of various types of goods for being the end products of an interest scheme to overseas; and
3. criteria for exporting agriculture or farming products should be more accommodative in facilitating the short shelf life of the agricultural products.

By providing such incentives, it is estimated that the income of an interest scheme will be increased thus potential interest holders will be receiving a higher rate of return on investment.

On the other hand, for interest schemes with land, SSM will discuss with the land authorities and local authorities to waive or reduce the quit rent and assessment payable to the land authorities and local authorities respectively. This will eventually reduce the operation cost of the interest schemes. Thus, result to increase in the margin of the net profit of an interest schemes.

Furthermore, SSM may also seek land authorities and local government authorities for waiver of the development charges for Aged Care Leisure and Lifestyle centres development project in order to reduce the project cost and enable the interest holders to have affordable aged care lifestyle when they retired. SSM may also explore and discuss with the property developer and land authorities to convert unutilised or unsold properties for the Aged Care Leisure and Lifestyle programme to reduce property overhang.

Moreover, SSM will engage with IRBM and Malaysian Employers Federation (MEF) to study the possibility of encouraging employers to reward employees by investing certain amount of units of interest schemes on behalf of the employees while enjoying some tax relief on the part of the employers' income tax on the amount contributed in interest schemes for the benefits of the employees.

2. Tax Incentives for Investors

   Discussion will be carried out with IRBM to explore the possibility of granting tax exemptions on the income/distribution received by the interest holders of an investment scheme or hybrid scheme. This will attract the interest of the potential investors to invest in interest schemes.

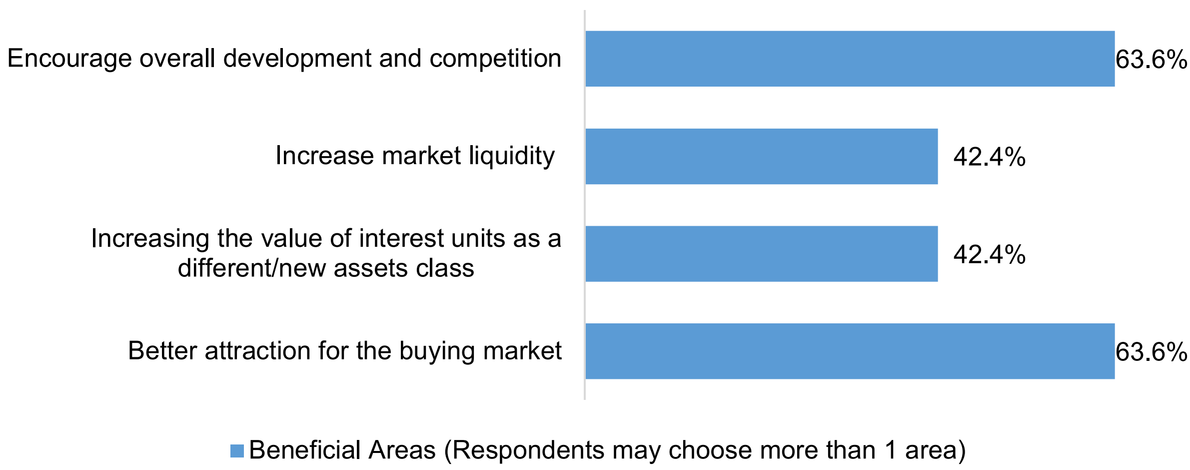
3. Stamp Duty Exemptions

   IRBM will be invited to consider granting lower stamp duty fee as compared to the home buyers for investors who invest in Aged Care Leisure and Lifestyle programme so that their acquiring cost will be lower.

4. EPF Withdrawals

   SSM may also collaborate with the Employees Provident Fund (EPF) to allow the EPF contributor to utilise certain percentage of their savings in EPF for investment in the interest schemes industry such as Aged Care Leisure and Lifestyle programme.

Figure 6.24: Exploring Broad Range Incentives for Public Investors and Interest Holders that would Beneficial to the Industry



Source: *SSM*

Figure 6.24 indicates the exploration of broad range incentives for public investors and interest holders that would beneficial to the industry. According to Figure 6.24, 63.6% of the respondents in the Survey stated that better attraction for the buying market would be beneficial for the industry. Also, the encouragement of the overall development, competition and innovation of the interest schemes market and products also perceived to be equally beneficial from the 63.6% of the respondents. The other areas such as increase market liquidity as well as increasing the value of interest units as a different or new assets class also received equal interest from the respondents, which is 42.4%, respectively.

6.6.2 Non-Monetary Incentive

Although the monetary incentives are attractive, some non-monetary incentives will aid in promoting the growth of the interest schemes industry. Among the non-monetary incentives programme that will be carried out by SSM progressively through collaboration with the Federation of Interest Schemes Operators Malaysia Berhad (Fisom) includes:

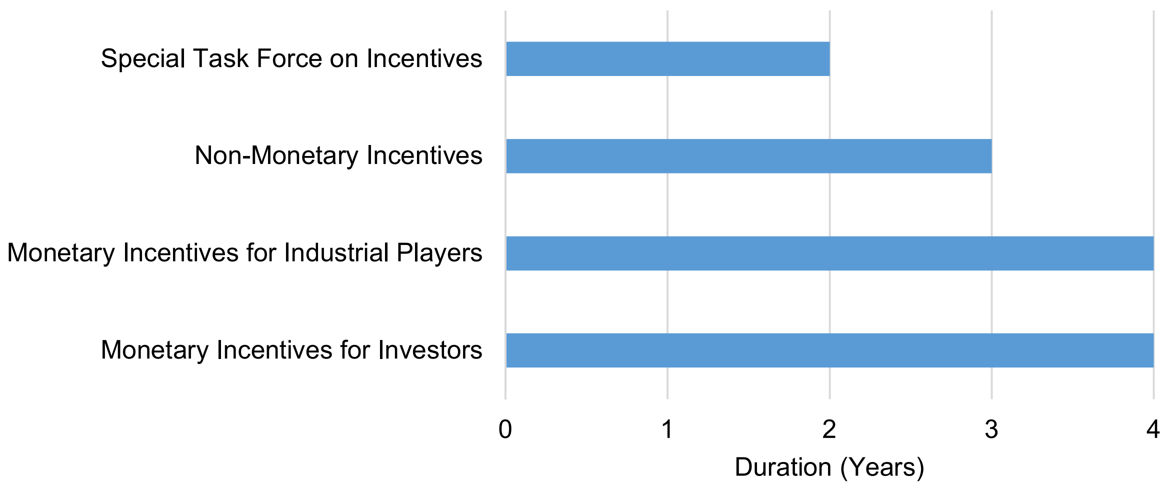
(a) Recognising the outstanding interest schemes players by establishing the Hall of Fame of Interest Schemes Players whereby the new players are able to learn from the success stories of the successful schemes players from various industries. Nomination of the outstanding schemes players to be listed on the Hall of Fame will be made by Fisom on annual basis under strict selection criteria and the final list shall be endorsed by SSM.

(b) Encouraging interest schemes players to submit the interest schemes offered for ratings by the recognised rating agencies through a waive of listing fees on the 4-in-1 digital platform for a limited period upon initial satisfactorily rated and provides a special listing feature on highly rated interest schemes.

(c) Rewarding players who uphold accountability and responsible management in promoting and managing interest schemes by grouping interest schemes players into two different categories in the 4-in-1 digital platform.

By offering both the monetary incentives and non-monetary incentives to both the players and investors, SSM is confident that the interest schemes industry will flourish.

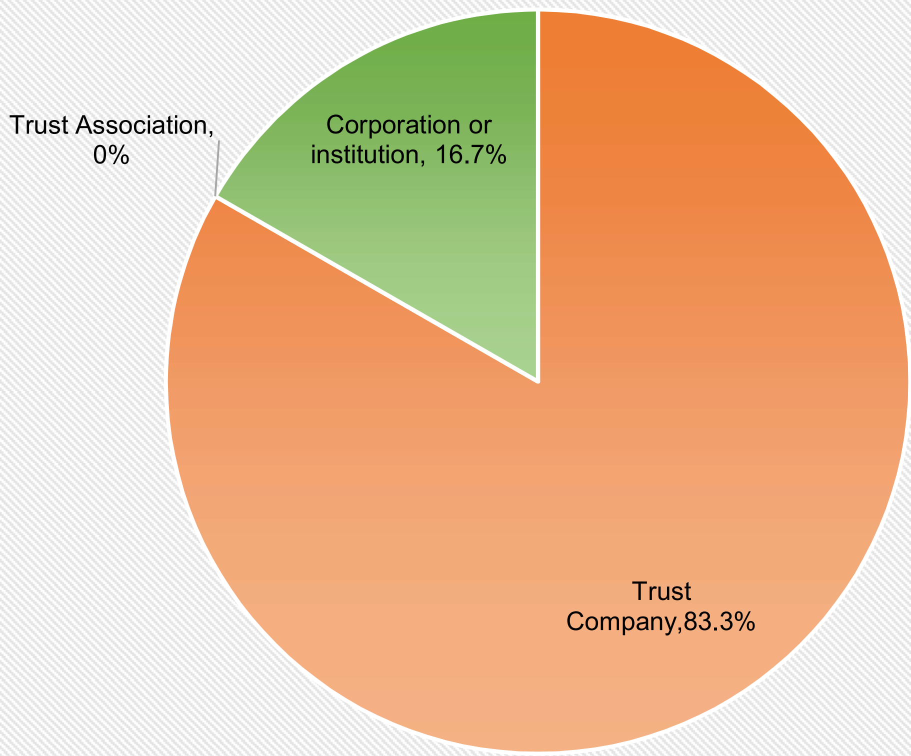
Figure 6.25: Gantt Chart Growth Strategy 5 (Monetary and Non-Monetary Incentives)



6.7 Growth Strategy 6 – Enhancing Interest Holders' Protection

In addition, it is important for the regulator to ensure interest holders' interests are protected as one of the growths strategies to promote interest schemes. The legislative acknowledges the importance of interest holders' protection by giving more authority to the regulator, imposing more duties and obligations on the part of the management company and the trustee, and enhancing interest holders' protection under the new Interest Schemes Act 2016. Based on the market survey conducted by SSM in early 2019, the views of the stakeholders consist of trust companies and institutions has been obtained ("the Stakeholder's Survey"). From the 6 respondents, 5 are from trust companies whereas 1 from institution that represents the rights of investors, interest holders, consumers or purchasers.

Figure 6.26: Category of Respondents for Stakeholder's Survey



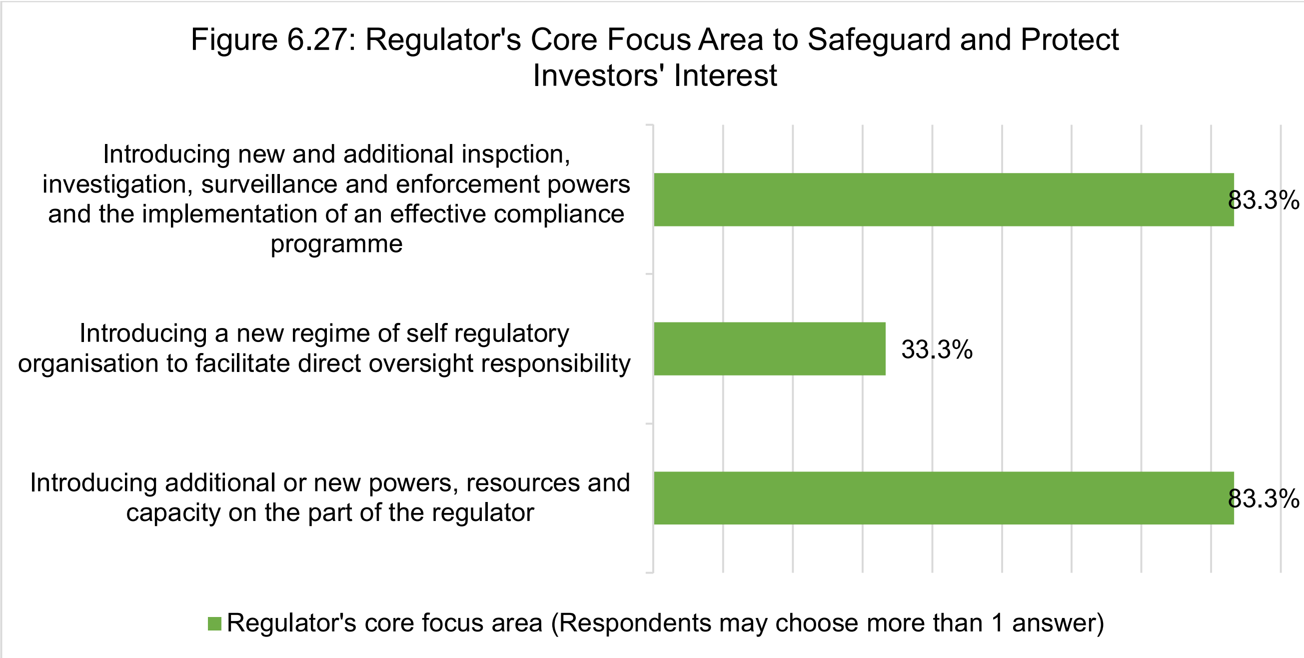
Fundamentally, to cater for the needs of the changing market landscape, the effort on interest holders' protection should not be left in the hand of the legislature solely but should be shouldered by the stakeholders in interest schemes industry including the regulator (SSM), the management company and the trustee jointly. The growth strategy to enhance interest holders' protection is further divided into three broad perspectives, i.e. (1) regulatory enforcement; (2) governance and compliance; and (3) avenue of redress.

6.7.1 Improving Regulatory Enforcement

SSM as the regulator of the interest schemes is responsible of enforcing the Interest Schemes Act 2016. In order to ensure that the law is enforced and the interest of the interest holders are well protected; the following strategies will be adopted to improve regulatory enforcement:

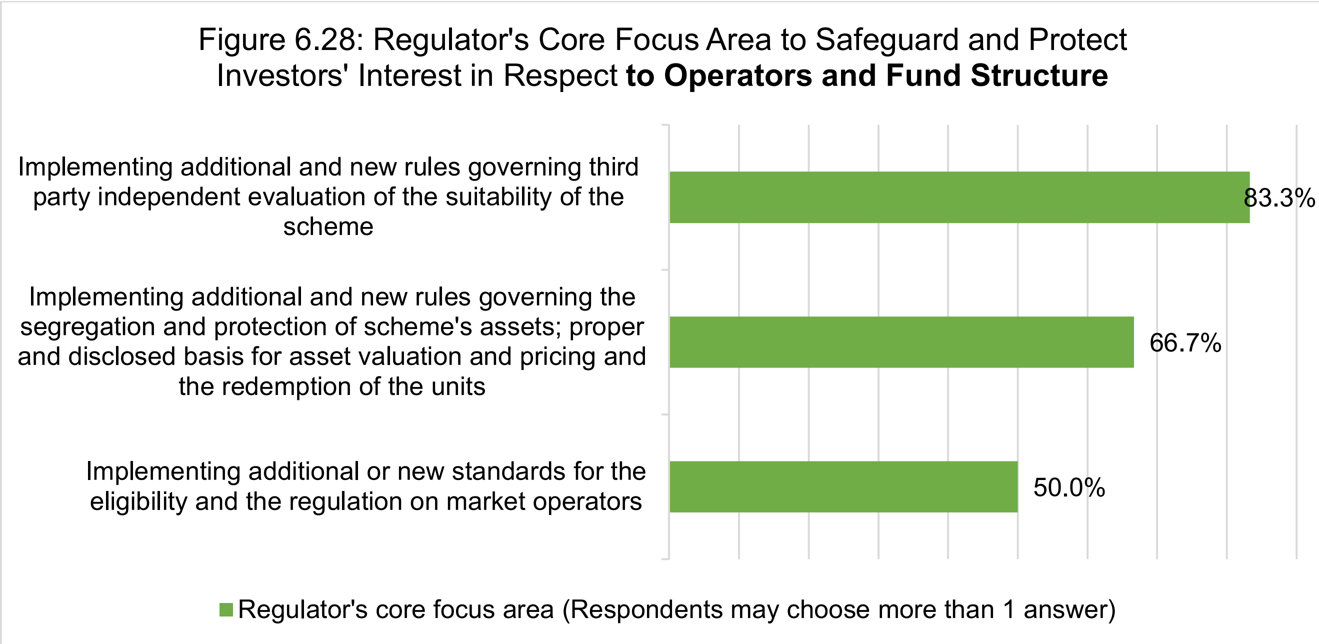
6.7.1.1 Developing effective enforcement

The first step towards regulatory effectiveness is to take swift enforcement action as the main task of the regulator. Based on the Stakeholder's Survey, 83.3% of the respondents agreed that strengthening the current regulatory framework by exploring and introducing additional or new powers, resources and capacity on the part of the regulator in exercising its functions and powers shall be the core focus area to safeguard and protect interest holders' interest (see Figure 6.27 below). Thus, SSM as the regulator will play its role to ensure public gain confidence in the interest schemes industry. As such, SSM will take vigorous actions in monitoring and enforcing the new Interest Schemes Act 2016.



Source: *SSM*

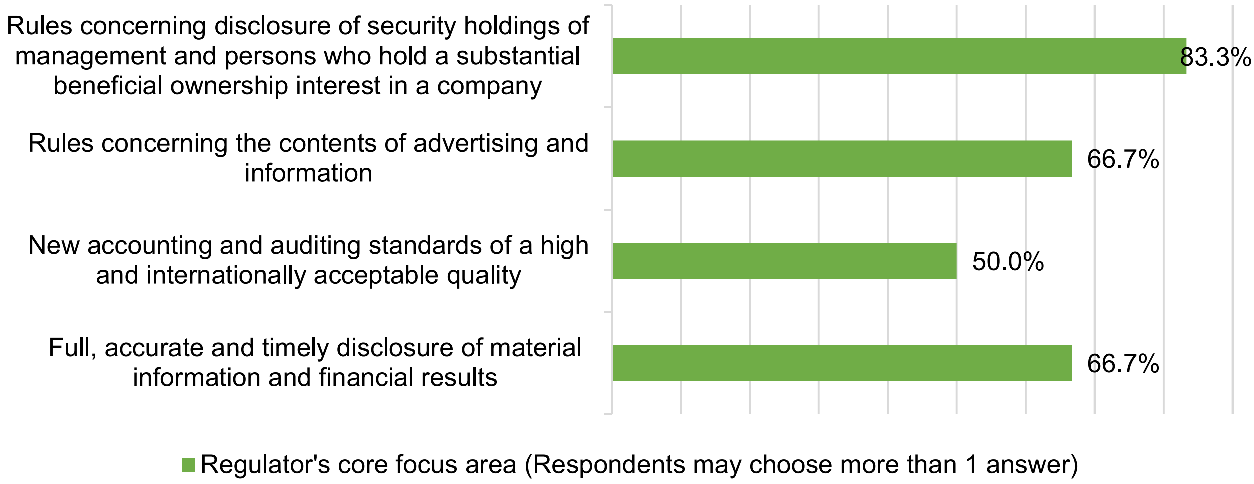
The enforcement will be done by streamlining regulatory requirements and reviewing disclosure requirements. This is supported by the respondents' views in the Stakeholder's Survey, whereby 50% of the respondents acknowledge that new standards for the eligibility and regulation on market operators shall be introduced, and 67.7% of the respondents agreed that new rules governing the segregation and protection of scheme's assets; proper and disclose basis for asset valuation and pricing and the redemption of units should be implemented, (see Figure 6.28 below) and 67.7% respondents agreed that new rules concerning the contents of advertising and information should be implemented.(see Figure 6.29 below).



Source: *SSM*

Furthermore, the findings from the Stakeholder's Survey showed that 67.7% of the respondents agreed that full, accurate and timely disclosure of material information and financial result is essential for investors' decisions (see Figure 6.29 below). Thus, a strong legal framework should be created to safeguard investors' rights and to ensure confidence on the industry performance. This can be achieved through issuing relevant guidelines to strengthen post-issuance obligations and provide greater clarity on the obligations of the management companies, auditors, trustees and intermediaries. This can be accomplished in the first year of the blue print (2020).

Figure 6.29: Regulator's Core Focus Area to Safeguard and Protect Investors' Interest in Respect **to Disclosures of Information**



Source: *SSM*

Hence, while implementing the requirements, SSM will take into consideration the needs to protect interest holders and avoid over burdening industry players to ensure economic efficiency in the industry. Thus, the legal framework will be comprehensive, yet not restrictive.

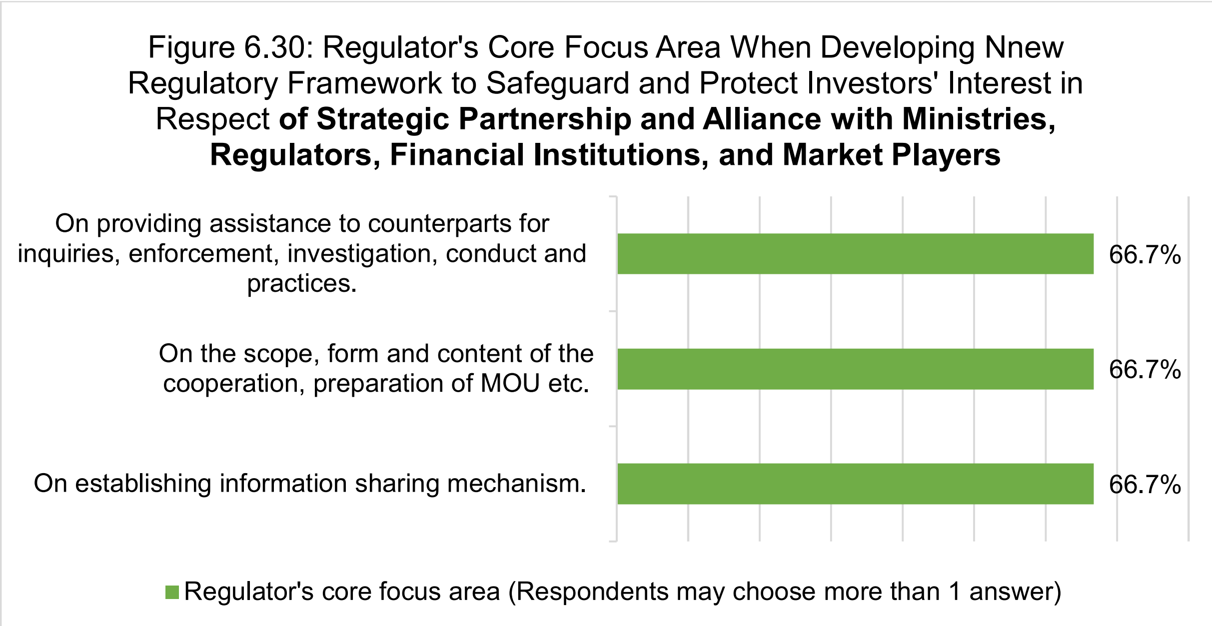
6.7.1.2 Recognising Differences in Businesses and Industries

SSM recognises that interest schemes involved players from different industries and each industry has its specific needs. In order to meet these various needs, regulatory coverage will be expanded and improved in terms of capacity and tools to ensure effective regulatory oversight over interest holders and industry players.

This will be attained by issuing different guidelines for different industries to address the different needs. Additional requirements will be imposed on high risk and complex products to safeguard the interest of the interest holders whereas a special legal framework will be established to allow smaller players to register their interest schemes with a lower requirement.

In addition, SSM will ensure that policy drafters and enforcement officers dealing with interest schemes have sufficient industry knowledge. This is crucial to ascertain that the policies in place are reasonable for relevant industries and enforcement is appropriate.

In order to promote compliance, SSM will regularly engage with industry players by providing support, guidance and information. In order to achieve this, more communication platforms will be made available to the public and industry players concerning interest schemes commencing from second year of the blueprint (2021). This step is taken in line with the market's perception whereby 66.7% of the respondents agreed that regulator shall establish an information sharing mechanism to facilitate the distributions of both public and non-public information with counterparts, exchange of general information about matters of regulatory concern, and to provide assistance to counterparties for enquiries, enforcement, investigation, conducts and practices see Figure 6.30 below).



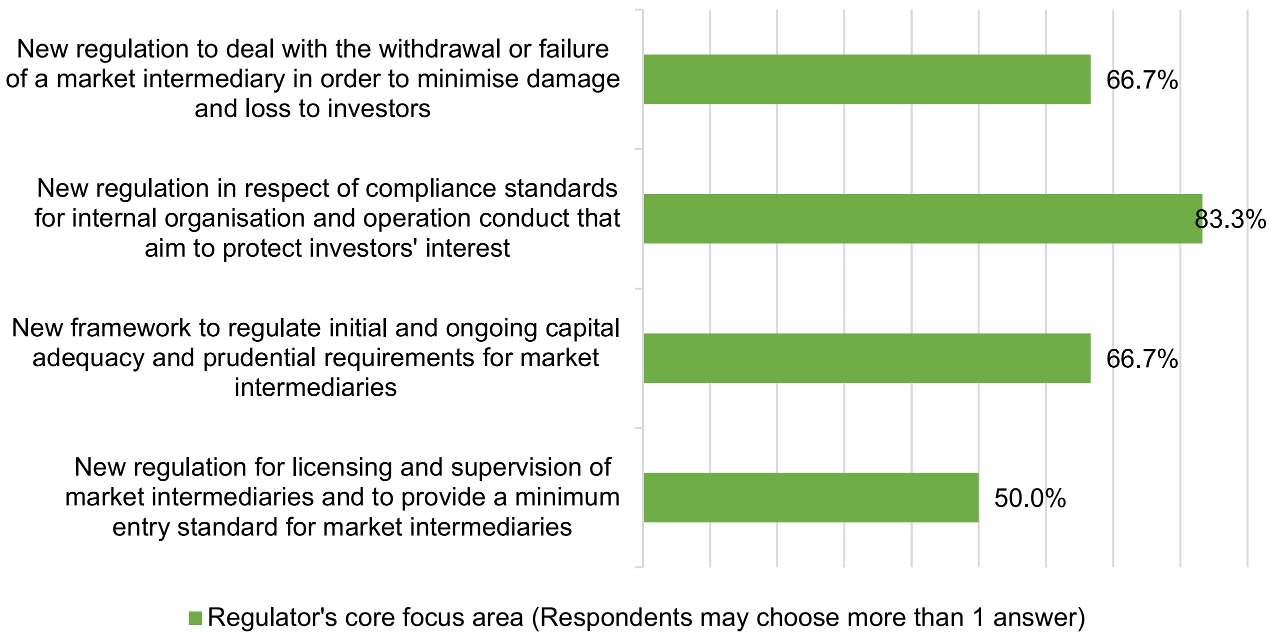
Source: *SSM*

6.7.1.3 Initiating Roles of Intermediaries and Intermediation Standards

The introduction of the new roles of intermediaries in an interest scheme is vital to ensure that such intermediaries involved are operating according to a high standard. Based on the Stakeholder's Survey, 83.3% of respondents agreed that the regulator shall focus on strengthening the current regulatory framework by implementing additional and new rules governing third party independent evaluation of the suitability of an interest scheme for investors (see Figure 6.28 above). Thus, by end of the third year of the blueprint (2022), new guidelines will be issued to ensure the intermediaries are capable to manage their business conduct and are qualified to take up the roles as intermediaries.

The guidelines will encompass registration as well as licensing procedures and requirements. Also, the guideline will emphasis on governing interaction between the intermediaries and the management company, and the duties and obligations of the intermediaries towards SSM. This will ensure accountability and the smooth running of relevant processes. According to the Stakeholder's Survey, 83.3% of the respondents agreed that a new framework and regulation in respect of compliance standards for internal organisation and operational conduct of the intermediaries should be the focus area. Besides that, 67.7% of the respondents supported the new framework to regulate initial and ongoing capital adequacy and prudential requirements for market intermediaries as well as new framework to deal with the withdrawal or failure of a market intermediaries as the focus area. On the other hand, 50% of the respondents agreed that new framework and regulation for the licensing and supervision of market intermediaries and providing minimum entry standard for the market intermediaries is crucial. Hence, these factors will be taken into account in preparing the guidelines for the market intermediaries (see Figure 6.31 below).

Figure 6.31: Regulator's Core Focus Area to Safeguard and Protect Investors' Interest in Respect **of Creation of a Regime of Regulated Market Intermediaries or the Outsourcing of Third Party Service Providers**



Source: *SSM*

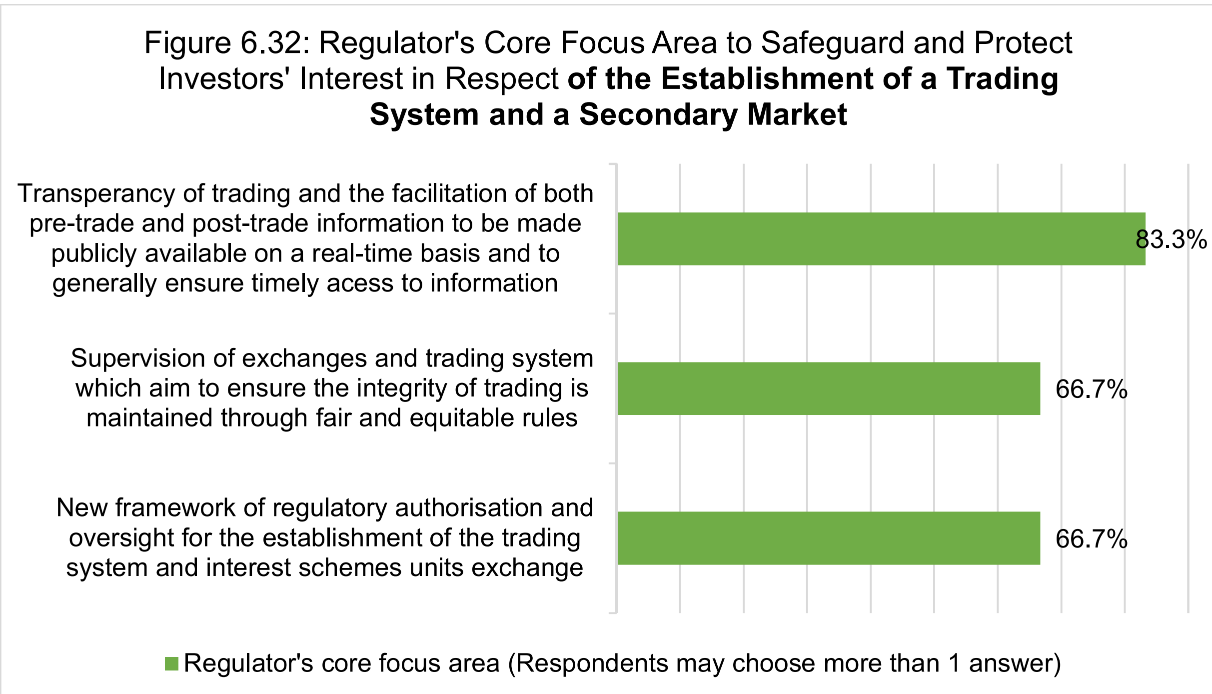
6.7.1.4 Strengthening Resources and Tools for Enforcement

Fundamentally, SSM will strengthen the resources and tools in governing interest schemes in order to cater for the changing environment in the interest schemes industry. According to the Stakeholder's Survey, 83.3% of the respondents agreed that strengthening the current regulatory framework by introducing new and additional inspection, investigation, surveillance and enforcement powers as well as the implementation of an effective compliance programme is important to safeguard and protect interest holders' interest (see Figure 6.27 above).

Therefore, among the steps which can be taken include establishing a special enforcement unit focusing on interest schemes industry and engaging experts from different industries to share their insight with officers in SSM. The team will be formed by the third year of the blueprint (2022).

Upon the formation of the special enforcement unit, by the fourth year of the blueprint (2023), SSM will launch the Voluntary Registration Programme. This programme will grant a grace period to enable any schemes providers which has fallen within the purview of the Interest Schemes Act 2016 but has yet to register the schemes, to submit their applications to register their unregistered schemes. Subsequently, a Voluntary Dissolution Programme will also be set up to enable unregistered schemes operators whose application have been rejected to dissolve their unregistered schemes within a certain grace period, in good faith, without further prosecution by SSM. This initiative is undertaken to curb unregistered or illegal schemes from mushrooming. After the grace period of both the programmes, stern action and prosecution will be taken against all unregistered or illegal schemes operating in Malaysia.

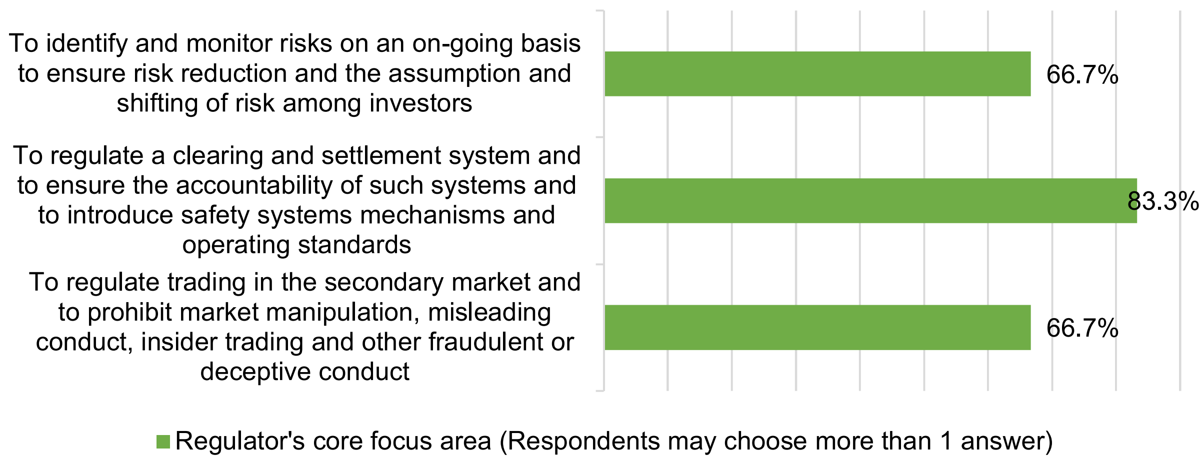
In addition, new guidelines will be introduced to regulate the 4-in-1 digital platform in relation to the trading system which will take into account all areas that are deemed important to the market. Based on the Stakeholder's Survey, the top consideration (agreed by 83.3% of the respondents) is to have a framework to regulate transparency of trading and the facilitation of both pre-trade and post trade information to be made publicly available on a real time basis as well as to generally ensure timely access to information. Furthermore, presence of a framework to regulate authorisation and oversight for the establishment of the trading system and interest schemes units' exchange is also assumed to be equally important where it received vote from 67.7% of the respondents. Meantime, a framework to supervise exchanges and trading systems which aims to ensure the integrity of trading is maintained through fair and equitable rules, also received 67.7% of the respondents' support. (see Figure 6.32).



Source: *SSM*

Figure 6.33 indicates the regulator's core focus area of enforcement in respect of the establishment of a trading system and a secondary market. Based on Figure 6.33, 83.3% of the respondents opined that framework to regulate clearing and settlement system and to ensure the accountability of such systems and to introduce safety system mechanisms and operating standards should be the regulator's core focus area. On the other hand, 67.7% of the respondents agreed that framework to regulate trading in the secondary market and to prohibit market manipulation, misleading conduct, insider trading and other fraudulent or deceptive conduct should also be the regulator's core focus area. Furthermore, framework to identify and monitor risks on an on-going basis to ensure risk reduction and the assumption and shifting of risks among investors, is also supported by 67.7% of the respondents. (see Figure 6.33 below).

Figure 6.33: Regulator's Core Focus Area of Enforcement in Respect of the Establishment of a Trading System and Secondary Market



Source: *SSM*

Moreover, a whistle-blowing platform will be made available for the public to report any unregistered or illegal schemes. This will be embedded into the 4-in-1 digital platform latest by the fifth year of the blueprint (2024) and will serve as a surveillance platform for interest schemes market. By enabling this e-reporting system in the 4-in-1 digital platform, it will solve one of the greatest challenges currently faced by enforcement unit, which is the lack of information in relation to law infringement. Thus, with this e-reporting platform, SSM can achieve effective law enforcement by encouraging public to volunteer information and evidence of possible violations of the interest schemes law.

6.7.2 Promoting Governance and Compliance

Law enforcement is always incomplete without the cooperation from the industry. In order to promote interest holders' protection, efforts shall also come from various stakeholders, particularly, the management companies.

Following the trend towards deregulation in international business, relaxing the law to enable industry self-governance to achieve efficiency and promote economic growth of the interest schemes industry will be one of the long run directions of SSM. The Stakeholder's Survey showed that 33.3% of the respondents agreed that it is important for the regulator to strengthen the current regulatory framework by exploring and introducing a new regime of self-regulatory organisation in order to facilitate direct oversight of responsibility (see Figure 6.27 above). Nonetheless, before shifting to de-regulation regime, incorporating industry self-governance into the interest schemes industry is a must. However, this can only be initiated when the industry has attained maturity for self-governance.

Thus, it is SSM's direction for the next 5 years to initiate and promote proper governance for the interest schemes industry. Firstly, SSM will roll out Malaysian Code on Management Companies Self-Governance in the fifth year of the blueprint (2024). Among the principles and recommendations include reviewing the composition of board, providing clear guidelines and policies in operation and decision-making concerning interest schemes offered, ensuring compliance of law and regulations, identifying disclosure procedures, and promoting proper risk management.

6.7.2.1 Composition of the Board

One of the principles of good governance is accountability. This is supported by the view of the respondents in the Stakeholder's Survey where 83.3% of the respondents agreed that it is important for the regulator to explore and implement additional and new rules concerning disclosure of security holdings of management and persons who hold a substantial beneficial ownership interest in a company (see Figure 6.29 above). Thus, it is important for the management companies to ensure that the Board of Directors consists of independent board of directors. This is to ensure the interest of the interest holders are taken care off as they will have both knowledge and understanding of the laws and regulations of interest schemes coupled with ability to make sound business decisions.

6.7.2.2 Operation and Decision Making

The management companies shall ensure that both the operation and decision making of interest schemes takes into account the interest of the interest holders as a whole.

There should be documented policies and procedures on disclosure needs when situation resulting to conflict of interest or related parties' transaction where such decision will affect the scheme, its activities and/or its assets.

6.7.2.3 Compliance and Disclosure

The management companies should appoint qualified staff to ensure compliance of the legal requirements including pre-issuance and post-issuance of interest schemes.

High standard of documentation shall be established internally, within the management companies. Furthermore, management companies shall ensure proper procedures are in place to allow effective communication to the interest holders on any information relating to the schemes.

6.7.2.4 Risk Management

In order to minimise risk exposure to the interest holders, the management companies will be required to establish appropriate mechanism to identify and address the risks that are relevant to interest schemes such as market risk, operating risk and systematic risk.

The management companies shall assess the viability of a scheme through stress test to counter situation such as the rates of subscriptions or assets growth is below the expected rate or excessive redemption or repurchase request were made before the maturity of the scheme.

6.7.3 Avenues of Redress

It is important to ascertain that an effective avenue exists where interest holders may seek for recourses and restitution in order to ensure the growth of interest schemes industry.

For the next 5 years, SSM will be working towards establishing new mechanism for redress such as complaints management, dispute resolution mechanism and interest holders' compensation fund.

6.7.3.1 Complaints Management

A special unit dealing with interest holders' complaint and public enquiries will be set up in SSM by the fourth year of the blueprint (2023) to assist SSM in reaching out to the public and managing public complaints with regard to any interest schemes and/or the management companies' conducts. This unit will then review the complaints received and refer the case to the enforcement unit whenever an investigation is warranted.

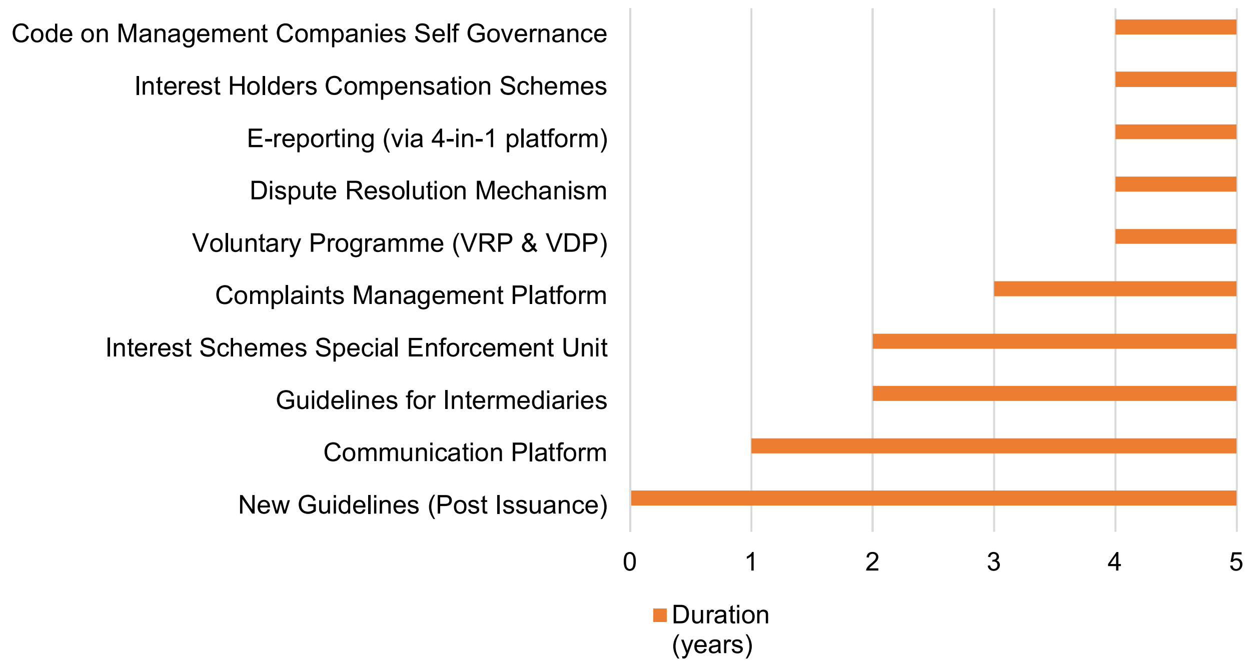
6.7.3.2 Dispute Resolution Mechanism

An independent corporate body will be established and in charge to settle any monetary dispute between interest holders and the management companies concerning a registered interest scheme, undertaken by the fifth year of the blueprint (2024). Hence, interest holders will be able to resolve their dispute with the management companies at a more efficient manner in term of time and cost.

6.7.3.3 Interest Holders Compensation Schemes

A registered interest scheme compensation fund bureau will be established where each registered interest scheme is to contribute certain amount to the fund in the fifth year of the blueprint (2024). The fund will be utilised to compensate the interest holders in the event where there is no other avenue to recover their losses.

Figure 6.34: Gantt Chart Growth Strategy 6
(Enhancing Interest Holders' Protection)



6.8 Recommendations and Initiatives to Introduce and Develop the Shariah Compliant Interest Schemes

6.8.1 Establishment of a Shariah Advisory Committee

SSM would have to establish a Shariah Advisory Committee to assist the Commission. Section 43(2) of the Interest Schemes Act 2016 provides that: "The Commission shall have the power to establish a Shariah Advisory Committee to advise the Commission and the Registrar on the appropriate Shariah framework to be adopted and approved for the purposes of this Act."

However, it is recommended that the role and function of the said Shariah Advisory Committee should not be restricted to only an advisory capacity but should be extended to:

(*a*) The supervisory powers to ascertain the application and boundaries of Shariah principles on matters relating to the Shariah Compliant Interest Schemes, specifically on matters relating to its business transactions and activities;
(*b*) The power to mandate and issue Shariah rulings on any matters relating to Shariah Compliant Interest Schemes, specifically on matters relating to its business transactions and activities;
(*c*) The advisory powers to offer and provide advice to industry players, owners, management companies and interest holders on any matters relating to Shariah Compliant Interest Schemes, specifically on matters relating to its business transactions and activities; and
(*d*) To be the main source of reference by the management companies, courts and arbitrators on the ascertainment of Shariah principles pertaining to the Shariah Compliant Interest Schemes, specifically on matters relating to its business transactions and activities.

A formal procedure in respect of appointment, tenure and scope of the Shariah Advisory Committee and terms of referral to the Shariah Advisory Committee needs to be introduced.

A secretariat would need to be established to assist the management and operational matters of the Shariah Advisory Committee. The role of the secretariat would include coordination of meetings, compiling of proposal papers, disseminating Shariah decisions to relevant stakeholders and engaging with the relevant parties who wish to seek further deliberations of issues from the Shariah Advisory Committee.

6.8.2 Appointment of a Shariah Advisor

In the development of a comprehensive Shariah legal and regulatory framework, it is pertinent to require the management company to appoint at least one Shariah advisor to ensure compliance of the Shariah Compliant Interest Schemes. The role of the Shariah advisor is to advise the management company on Shariah principles and compliance.

The Shariah advisor would need to be registered with SSM. Hence. SSM would have to ensure that there is a sufficient pool of registered Shariah advisors. A Registered Shariah Advisor Guidelines would be drafted to lay down the qualifications, criteria, scope of duties and responsibilities of the registered Shariah advisors.

It is recommended that an individual Shariah advisor would need the following minimum requirement –

(*a*) Graduate with a degree in Shariah, particularly in *fiqh muamalat* or Islamic jurisprudence from an institution recognised by the Malaysian government;
(*b*) Have at least two (2) years of relevant experience and/or exposure in Islamic finance; or have at least one (1) year of relevant experience and/or exposure in Islamic finance; and have attended at least five (5) relevant Islamic finance courses/workshops; and
(*c*) Must be a fit and proper person and not been convicted of an offence involving fraud or dishonesty or violence or the conviction of which involved a finding that he acted fraudulently or dishonestly; not been convicted of an offence under the securities law; not contravene any provision made by or under any written law appearing to SSM to be enacted for protecting members of the public against financial loss due to dishonesty, incompetence or malpractice by persons concerned in the provision of financial services or the management of companies or due to the conduct of undischarged bankrupts.

It is also recommended that the Shariah advisor shall have the following minimum functions and duties –

(*a*) To advise on all aspects of the Shariah compliant for investment and non-investment products;

(*b*) To provide Shariah expertise and guidance on all matters, particularly in documentation, structuring and investment;

(*c*) To advise the Board of Directors / Senior Management of the management company on Shariah matters in its business operation;

(*d*) To endorse Shariah Compliance Manuals;

(*e*) To endorse and validate relevant documentations on Shariah Compliant Interest Schemes;

(*f*) To assist related parties on Shariah matters upon request;

(*g*) To advise on matters to be referred to the Shariah Advisory Committee; and

(*h*) To provide written Shariah opinion.

The Shariah sdvisor is also expected to issue a Shariah pronouncement. The Shariah pronouncement is to include –

(*a*) The basis and rationale of the pronouncement, structure and mechanism;

(*b*) The applicable Shariah rulings, principles and concepts used; and

(*c*) The relevant Shariah matters relating to the documentation of products particularly on the trust deed and prospectus or contractual agreement and product disclosure statement.

6.8.3 Developing a Comprehensive Shariah Audit Framework

In the development of a comprehensive Shariah legal and regulatory framework, it is pertinent to require the management company to be subjected to a mandatory Shariah audit. This is to ensure the Shariah compliance in its business and operational activities. The Shariah audit framework is intended to provide independent assessment and objective assurance designed to improve the Shariah compliance by the Shariah Compliance Interest Schemes' management company.

The Shariah audit is to be performed by internal auditors who has the necessary Shariah knowledge, experience and has acquired adequate Shariah-related training. Shariah audit may also be conducted as part of thematic audit on specialised area. Shariah audit on critical areas shall be conducted at least once a year depending on the risk profile of the management company.

The deliverables of the Shariah audit function must be determined by the Board Audit Committee after consultation with the Shariah advisor in accordance with any auditing standards. The scope of the Shariah audit include the audit of financial statements of the Shariah Compliant Interest Schemes' management company; compliance audit on organisational structure, personnel and manpower, process and information technology application systems; and review of adequacy of the Shariah governance process.

6.8.4 Developing a Comprehensive Shariah Review Framework

In the development of a comprehensive Shariah legal and regulatory framework, it is pertinent to require the management company to be subjected to a mandatory Shariah review. This is to ensure the Shariah compliance in its business and operational activities. The Shariah review framework is intended to provide regular assessment on Shariah compliance in the business, activities and operations of the Shariah Compliant Interest Schemes' management company.

Such Shariah review must be carried out by qualified Shariah officers who hold at least a bachelor degree in Shariah and which includes study in *Usul Fiqh* (the origin of Islamic law) and *Fiqh Muamalat* (Islamic transaction/commercial law).

The Shariah review's functions involves the examination and evaluation of the level of Shariah compliance, remedial rectification for non-compliance and mechanism to avoid recurrences in the Shariah Compliant Interest Schemes' management company. The scope of such Shariah review covers the Shariah Compliant Interest Schemes' management company's business operations, which includes product development process (from product structuring to product offering).

6.8.5 Developing a Comprehensive Shariah Risk Management Framework

In the development of a comprehensive Shariah legal and regulatory framework, it is pertinent to require the management company to be subjected to a mandatory Shariah risk management. Shariah risk management is intended to systematically identify, measure, monitor and control Shariah non-compliance risks by mitigating any possible non-compliance events.

The Shariah risk management control function must form part of the institution's integrated risk management framework. This will be performed by risk officers with suitable qualification and experience. This involves the process of identifying, measuring, controlling and monitoring Shariah non-compliance risks in the operations and activities of the Shariah Compliant Interest Schemes' management company; formulating and recommending appropriate Shariah non-compliance risk management policies and guidelines; and developing and implementing processes of Shariah non-compliance risk awareness in the Shariah Compliant Interest Schemes' management company.

6.8.6 Developing Shariah business models

In the development of a comprehensive Shariah legal and regulatory framework, it is pertinent to identify appropriate business models for the Shariah Compliant Interest Schemes:

(*a*) For the Shariah compliant investment scheme, the business model can be in the form of *Musharakah* Investment Model, *Mudarabah* Investment Scheme, *Wakalah* Investment Scheme or Hybrid (*Wakalah-Mudarabah)* Investment Scheme;

(*b*) For the Shariah compliant recreational membership scheme, the business model can be in the form of *Bay'* Recreational Membership Scheme, *Ijarah* Recreational Membership Scheme or Hybrid Recreational Scheme; and (*c*) For the Shariah compliant time-sharing scheme, the business model can be in the form of *Bay'* Time-sharing Scheme, *Ijarah* Time-Sharing Scheme or Hybrid Time-sharing Scheme.

Summary on Growth Strategies

	Year 1 (2020)	Year 2 (2021)	Year 3 (2022)	Year 4 (2023)	Year 5 (2024)
Growth Strategy 1	**Emerging Market Taskforce** - conduct research to identify operators which are yet to be regulated **Innovative Interest Schemes Taskforce** (a) Subcommittee for GLCs - research on funding needs and models of related parties (b) Subcommittee for Hybrid schemes – provide education and assistance on setting up a hybrid scheme	**Emerging Market Taskforce** - conduct research to identify operators which are yet to be regulated **Innovative Interest Schemes Taskforce** (a) Subcommittee for GLCs – research on funding needs and models of related parties	**Emerging Market Taskforce** – regulate identified operators **Innovative Interest Schemes Taskforce** (a) Subcommittee for GLCs - assist the identified agencies in setting up an interest scheme		
Growth Strategy 2	Inform and educate all the existing players or stakeholders of interest schemes in the market regarding the 4-in-1 interest schemes digital platform	Pilot testing of 4-in-1 interest schemes digital platform and collect feedbacks or suggestions from the users. Improvement on digital platform is needed if necessary. Meanwhile, provide workshops and disseminate all relevant information in the market.	Official launch of a complete and user friendly 4-in-1 interest schemes digital platform. Continue to collect feedbacks, provide workshops and educate the market.		
Growth Strategy 3	**Interest Schemes Awareness Programmes for Public (Investors/Potential Investors)** -marketing campaigns such as using acronym for	**Training and Development Programme for Businesses** -e-Learning platform embedded into the 4-in-1 digital platform -one-stop platform, COMTRAC			

	Year 1 (2020)	Year 2 (2021)	Year 3 (2022)	Year 4 (2023)	Year 5 (2024)
	advertising and marketing purposes -exhibitions, road shows, and educational materials in local languages -invite experienced industrial players to talk about their involvement and to share their views related to the interest schemes in their business model -bunting and/or poster competition -digital platform through mobile application	to provides workshop or talk upon request -apprenticeship *scheme to* increase the exposure of the interest schemes industry to the industrial player			
Growth Strategy 4		**Government Agencies** -MEA and MATRADE to help companies to gain competitive edge -SME Corporation Malaysia to promote public awareness -MyIPO to explore possibility of allowing joint ownership of an intellectual property -MCMC to alert SSM with regards to illegal or suspicious schemes on potential breach of laws and regulation **Association and Federation** -APHM and ICC to instill awareness -NCCIM and FLFAM to promote schemes among their members **Intermediaries Agencies** MYFP, FPAM and AFA to promote interest schemes to	**Government Agencies** -MESTECC to give talk/share their experience on utilisation of technology commecialisation on interest schemes -MDEC to brainstorm the possibility to utilise the digital future of interest schemes **Association and Federation** -NCCIM to collect views of members and any other person or organisation on interest schemes -ICC to further develop certain codes/ policies concerning international interest schemes -FLFAM to organise a discussion and forum for their industry player to lessen the collective community problems	**Government Agencies** MOTAC, MOH and MHTC to introduce potential new schemes and to strengthen the services offered in medical tourism **Association and Federation** -NCCIM to publish and circulate statistics and any additional information relating to interest schemes to its members -FMM could provide a diversified investment, suggestion in planning ahead activities, monitoring and implementation of manufacturers related interest schemes programmes	**Intermediaries Agencies** SSM will consider identifying qualified intermediaries for filing to minimise the risk of a scheme being misused **Intermediaries Agencies** Credit rating agencies such as MARC can conduct a through review and analysis on the interest schemes offered.

	Year 1 (2020)	Year 2 (2021)	Year 3 (2022)	Year 4 (2023)	Year 5 (2024)
		the financial planners/advisers	**Intermediaries Agencies** MYFP, FPAM and AFA as a platform to collect feedback from their respective members with regards to any practical issues concerning the interest schemes		
Growth Strategy 5		**Establish Special Task Force on Incentive** -who is responsible to engage with the relevant ministries and government agencies such as IRBM and RMCD for planning and discussion purposes	**Non-Monetary Incentives** -establishing the Hall of Fame of Interest Schemes Players -nomination of the outstanding schemes players to be listed on the Hall of Fame will be made by Fisom on annual basis under strict selection criteria and the final list shall be endorsed by SSM. -encouraging interest schemes players to submit the interest schemes offered for ratings by the recognized rating agencies through waiver of listing fees on the 4-in-1 digital platform for a limited period upon initial satisfactorily rated and provide a special listing feature on highly rated interest schemes - rewarding players who uphold accountability and responsible management in promoting and managing interest schemes by grouping interest schemes players into two different categories in the 4-in-1 digital platform.	**Monetary Incentives** - IRBM will be invited to look into the possibility of granting lower tax bracket or different tax structure with lower rate compared to the normal corporate tax rate on income of the interest schemes -IRBM may propose flexible or accelerate tiered tax structure according to years of yields for investors that invest in farming or agricultural programme - RMCD may support the growth of interest schemes by granting customs duty exemption on all types of imported raw materials and/or machineries which is used directly or indirectly by the management companies for the production of goods by an interest scheme; granting certain customs duty exemption for exporting of various types of goods for being the end products of an interest scheme to overseas; and criteria for exporting agriculture or farming products should be	

Year 1 (2020)	Year 2 (2021)	Year 3 (2022)	Year 4 (2023)	Year 5 (2024)
			more accommodative in facilitating the short shelf life of the agricultural products -discuss with the land authorities and local authorities to waive or reduce the quit rent and assessment payable to the land authorities and local authorities -may seek land authorities and local authorities for waiver of the development charges - engage with IRBM and MEF to study the possibility of encouraging employers to reward employees by investing certain amount of units of interest schemes on behalf of the employees while enjoying some tax relief - Discussion will be carried out with IRBM to explore the possibility of granting tax exemptions on the income/distribution received by the interest holders of an investment scheme or hybrid scheme - IRBM will be invited to consider granting lower stamp duty fee as compared to the home buyers for investors who invest in Aged Care Leisure and Lifestyle programme - EPF contributor can contribute to utilise a	

	Year 1 (2020)	Year 2 (2021)	Year 3 (2022)	Year 4 (2023)	Year 5 (2024)
				certain percentage of their savings in EPF for investment	
Growth Strategy 6	**Issue New Guidelines Strengthening Post Issuance Obligation** - take into consideration of the needs in protecting interest holders while avoiding over burdening industry players to ensure economy efficiency in the industry. (Strong but flexible legal framework) - strengthen post-issuance obligations and provide greater clarity on the obligations of the management companies, auditors, trustees and intermediaries - issuing different guidelines for different industries to address the different needs by issuing different guidelines for different industries to address the different needs - a special legal framework to allow smaller players to register their interest schemes at a lower requirements	**Establish Communication Platform with public and industry players** - SSM will engage with the industries players by providing support, guidance and information to the relevant industry players particularly to players from industries which is new to interest schemes	**Issue Guidelines for Intermediaries** - The guidelines will provide for registration and licensing procedures and requirements in addition to governing the interaction between the intermediaries and the management company and the duties and obligations of the intermediaries towards SSM to ensure accountability and smooth process **Establish Interest Schemes Special Enforcement Unit** - establishing a sub-team of enforcement unit focusing on interest schemes industry and engaging experts from different industries to share industries' insight with officers in SSM	**Complaints Management Platform** - to assist SSM in reaching out to the public and managing public complaints with regard to any interest schemes and/or the management companies' conducts. This unit will then review the complaints received and refer the case to the enforcement unit whenever an investigation is warranted	**Enable E-reporting** - whistle-blowing platform will be made available for public to report on unregistered or illegal schemes by embedding this system in the 4-in-1 online platform **Dispute Resolution Mechanism** - An independent corporate body will be established which will in charge to settle any monetary dispute between interest holders and the management companies concerning a registered interest scheme **Voluntary Registration Programme (VRP) & Voluntary Dissolution Programme (VDP)** (curbing the unregistered or illegal schemes from mushrooming) - VRP allows schemes providers which has fallen within the purview of the Interest Schemes Act 2016 but has yet to register to submit application to register the unregistered schemes. VDP enable those unregistered schemes

	Year 1 (2020)	Year 2 (2021)	Year 3 (2022)	Year 4 (2023)	Year 5 (2024)
					operators whose application have been rejected to dissolve the unregistered schemes within a certain grace period in good faith without further prosecution by SSM **Roll out Code on Management Companies Self Governance (CMCCG)** - Among the principles and recommendations include reviewing of composition of board, providing clear guidelines and policies in operation and decision-making concerning interest schemes offered, ensuring compliance of law and regulations, identifying disclosure procedures, and promoting proper risk management **Interest Holders' Compensation Schemes** - registered interest schemes are to contribute certain amount to the fund. The fund will be utilised to compensate the interest holders in the event there is no other avenue to recover their losses

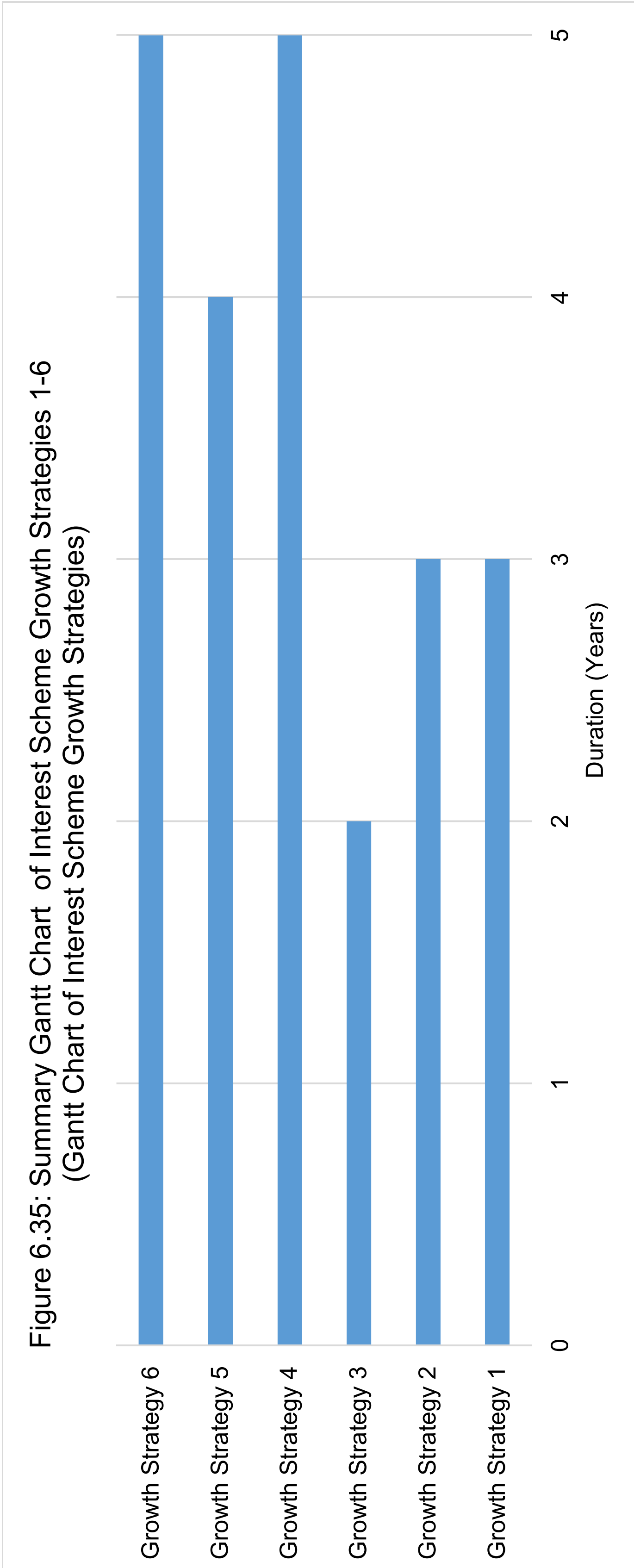


Figure 6.35: Summary Gantt Chart of Interest Scheme Growth Strategies 1-6 (Gantt Chart of Interest Scheme Growth Strategies)

Table 6.1: Coaction Plans of Growth Strategies

Action Plans of Growth Strategies		Action Plans		Timeline of implementation
		SSM only	**Collaboration of SSM with others**	
Growth Strategy 1	*Emerging Market Taskforce*	✓		**1-5 years**
	Innovative Interest Schemes Taskforce (GLC)	✓		
	Innovative Interest Schemes Taskforce (Hybrid Scheme)	✓		
Growth Strategy 2	*Educating Market*	✓		**1-3 years**
	Pilot Testing & Collecting Feedbacks	✓		
	Improvements on Digital Platform & Provide Guidelines of Interest Schemes Digital Platform	✓		
Growth Strategy 3	*Communicating Interest Schemes*	✓		**1-2 years**
	Training & Development	✓		
Growth Strategy 4	*Engaging with Government Agencies*		✓	**2-4 years**
	Engaging with Association & Federation		✓	**1-4 years**

	Engaging with Intermediaries		✓	**2-5 years**
Growth Strategy 5	*Establish Special Taskforce on Incentive*		✓	**2-4 years**
	Non-Monetary Incentives		✓	
	Monetary Incentives		✓	
Growth Strategy 6	*Improving Regulatory Enforcement*	✓		**1-5 years**
	Promoting Governance & Compliance	✓		
	Avenue of Redress	✓		

Table 6.2: Methods to Implement Action Plans of Growth Strategies

Action Plans of Growth Strategies		Methods to Implement Action Plans	
		Online Method	**Conventional Method**
Growth Strategy 1	*Emerging Market Taskforce*		✓
	Innovative Interest Schemes Taskforce (GLC)		✓
	Innovative Interest Schemes Taskforce (Hybrid Scheme)	✓	✓
Growth Strategy 2	*4 in 1 Online Platform* *1) Educating Market* *2)Pilot Testing & Collecting Feedbacks* *3) Improvements on Digital Platform & Provide Guidelines of Interest Schemes Digital Platform*	✓	✓
Growth Strategy 3	*Communicating Interest Schemes*	✓	✓
	Training & Development	✓	✓
Growth Strategy 4	*Engaging with Government Agencies*		✓
	Engaging with Association & Federation		✓

	Engaging with Intermediaries		✓
Growth Strategy 5	*Establish Special Taskforce on Incentive*		✓
	Non-Monetary Incentives		✓
	Monetary Incentives		✓
Growth Strategy 6	*Improving Regulatory Enforcement*	✓	✓
	Promoting Governance & Compliance	✓	✓
	Avenue of Redress	✓	✓

Table 6.3: Laws & Regulations Required to Implement Action Plans of Growth Strategies

Action Plans of Growth Strategies		**Laws & Regulations Required**		
		Sufficient with Existing ISA 2016	**Amendment to ISA**	**New Guidelines**
Growth Strategy 1	*Emerging Market Taskforce*	✓		✓
	Innovative Interest Schemes Taskforce (GLC)			✓
	Innovative Interest Schemes Taskforce (Hybrid Scheme)	✓		
Growth Strategy 2	*4 in 1 Online Platform* *1) Educating Market* *2)Pilot testing & Collecting Feedbacks* *3) Improvements on Digital Platform & Provide Guidelines of Interest Schemes digital Platform*		✓	✓
Growth Strategy 3	*Communicating Interest Schemes*	✓		
	Training & Development	✓		
Growth Strategy 4	*Engaging with Government Agencies*			✓

	Engaging with Association & Federation			✓
	Engaging with Intermediaries		✓	✓
Growth Strategy 5	*Establish Special Taskforce on Incentive*			✓
	Non-Monetary Incentives			✓
	Monetary Incentives			✓
Growth Strategy 6	*Improving Regulatory Enforcement*			✓
	Promoting Governance & Compliance			✓
	Avenue of Redress		✓	✓

CHAPTER 7
REBRANDING INTEREST SCHEMES: FROM NATIONAL TO INTERNATIONAL

7.1 Introduction

It is undeniable that interest schemes has many potential benefits which can be realised by companies, investors and various stakeholders. However, since its inception, interest schemes has only seen a moderate growth in Malaysia. As there is still capacity for growth, this chapter aims to recommend rebranding strategies to catapult the growth of interest schemes in Malaysia and subsequently expanding to international market.

7.2 Industry Game Changer

Based on the growth strategies stated in Chapter 6, it is important to identify a game changer for interest schemes. The growth strategies highlighted in Chapter 6 above include broadening and innovating interest schemes, introducing a digital information structure, having awareness and education programmes for interest schemes, engaging with intermediaries, introducing monetary and non-monetary incentives and enhancing interest holders' protection.

7.2.1 Potential Interest Schemes Market in the Public Sector

Currently, interest schemes are only confined to the private sector. One of the game changers to further develop interest schemes in Malaysia is to include the public sector as well. These collaborations can be specifically established with the Ministry of Economic Affairs, SME Corp, Ministry of Agriculture and Ministry of Tourism. The possible programmes that can be developed are such as Aged Care Leisure and Lifestyle Programmes (or commonly known as retirement villages), and various state- run programmes such as share farming, livestock and poultry farming, health care, nursing/palliative care, health screening packages, tourism and medical tourism programmes. By including the public sector into offering interest schemes, the number of market players could increase and at the same time providing more investment opportunities to investors, thus, paving the way for the success of this programme.

7.2.2 4-in-1 Interest Schemes Digital Platform

Today's economy is facing an unprecedented growth of digitalisation. Considering this, a fully functional 4 in 1 digital platform (accessible both via website and mobile application) will be developed and utilised in the next 5 years. This multifaceted platform will include, among others, a webpage dedicated solely to interest schemes and an online trading platform as well as information, education and investor alert platform. This measure translates to SSM's personal commitment to elevate the status of interest schemes and to increase its visibility to the public.

This user-friendly digital platform will be useful for potential and current management companies, investors, stakeholders and the public in general to obtain information about the interest schemes industry. This interactive and educational page will contain information such as the various rules and regulations which govern interest schemes, up-to-date information about interest schemes, an investor education portal and an investor alert portal which will complement the traditional tools of regulation and supervision.

SSM can receive various queries and information from the public and stakeholders about companies and/or schemes which are not registered or possibly violating the laws through the investor alert portal. Hence, the alerts and warnings will be issued by SSM to the public to preserve the interest of investors. One of the core objectives of regulation is the protection of investors. Investors should be protected from misleading, manipulative or fraudulent practices by unscrupulous companies and/or schemes. This measure will greatly increase the confidence of the public towards interest schemes as full disclosure of information material to investors' decisions is the most important means for ensuring investor protection.

The 4-in-1 interest schemes digital platform will also further boost interest schemes. This online trading platform will be used for both primary and secondary market trading. This platform will be user-friendly and will include a step-by-step guide for users to utilise it. Management companies and (potential) investors will benefit from this portal. Management companies will be able to reduce their marketing costs when conducting the initial sale of their units. They will be able to advertise their scheme on this portal and include all related information for the benefit of the potential investor. Also, management companies will be able to communicate with potential investors via this portal to answer their queries. Potential investors will be assured that the schemes which are listed on this platform are fully regulated by SSM. Therefore, they would be able to communicate with management companies to answer their queries and they would be able to compare the various schemes and prices on this platform to aid their investing decision.

This portal will also boost the secondary market for interest schemes. Although investors currently have the option to sell off their units, they are sometimes unable to find a willing buyer. By providing an exchange trading platform, investors will be able to reach a larger group of potential buyers as this portal will be accessible worldwide, thus promoting liquidity of units in interest schemes to its owners.

7.2.3 Public Awareness

In order to bring interest schemes to greater heights, creating public awareness is equally important. Stakeholders must be aware of the existence and the benefits of interest schemes.

One way to create awareness is through constant engagement with media. SSM will actively invest in advertising and educating the public about interest schemes on mainstream media. SSM will raise interest schemes' profile through working with the financial news media; holding media briefings during conferences and releasing media statements; and disclosures on various issues regarding interest schemes.

Apart from that, SSMs target stakeholders will no longer be confined to issuers, operators and management companies. It will also include existing and new potential investors, professionals such as accountants, auditors, lawyers, company secretaries, marketing agencies, credit ratings agencies and financial planners. By including more stakeholders, interest schemes would have a stronger base in the economy and would gain credibility in the market.

7.2.4 Engagement with Relevant Parties

Interaction and engagement with stakeholders are essential for the development of interest schemes. SSM will continue to engage with management companies to better understand their needs and challenges. Through this, it is hoped that SSM would be able to develop early and forward-looking responses to these issues. Hence, with constant engagement, SSM will also be equipped with essential information to monitor the growth and potential growth of interest schemes.

Emphasis is also given to investors. SSM will open channels of communication with investors to better understand their needs and challenges. Investors will be able to communicate with SSM via the online portal. This feedback or queries can then be channelled to the relevant parties for solutions or improvements. As always, communication will be very beneficial to the development of interest schemes.

Apart from management companies and investors, SSM will now broaden their scope of stakeholders to also include professional stakeholders such as accountants, auditors, lawyers and company secretaries. Active engagements with these professionals will go beyond traditional conferences or joint lectures. Representatives from these professional stakeholders are welcomed into SSM's joint committees to facilitate meaningful dialogues and exchanges. Additionally, SSM will specifically engage Malaysian Accounting Standard Board (MASB) and

Auditing Assurance Standards Board (AASB) of Malaysian Institute of Accountants (MIA) to develop Malaysian Financial Reporting Standards on Interest Schemes. SSM will co-oporate with MASB & AASB in their development of high-quality standards and to explore drivers of audit quality. This is due to the need to explore issues relating to auditor independence and non-audit services as well as the potential impact of these services on auditor's independence. Further, as the industry grows, there is a need to address issues of asset valuation.

7.2.5 Identification of Emerging Markets

As there may be companies which are interested to offer schemes which are not included in the classifications of interest schemes, SSM will set up an Emerging Markets Committee to identify and promote developments of emerging interest schemes products and markets. This committee will help in building up interest schemes in Malaysia such that it is comparable to other successful systems, for example the Managed Investment Scheme in Australia.

This committee will play a key role in helping management companies to innovate their schemes, identify the existing and potential business sectors or clusters and include it into the existing classification. Specific guidelines will be issued since no schemes of such nature have been registered before. This proactive approach will enable further engagement with new and potential investors to consider the various categories of interest schemes. Therefore, with more players in the market, the position of interest schemes would be further developed to greater heights as potentially more investors will be attracted to invest in interest schemes.

7.3 Recognising Units in Interest Schemes as Assets Classes

The rebranding efforts of the interest schemes industry will eventually lead to the interest schemes units being recognised as one of the asset classes in Malaysia. Currently, fund managers, institutional investors and investment advisers such as financial planners do not put any weights on accumulatingunits of interest into the portfolios under their management. This is mainly due to the previous characteristics of the units in interest schemes which do not match their criteria of portfolio choice.

Implementing the growth strategies discussed in Chapter 6 above for the next 5 years, will see a change in the characteristics of the units in interest schemes (under investment scheme) which will then be suitable to be added into the asset classes of a fund managed by the fund managers, institutional investors and investment advisers such as financial planners for diversification.

The factors influencing the portfolio choice of fund managers, institutional investors and investment advisers such as financial planners are mainly based on risk and return where they are aiming to maximise the return while minimising the risks subject to the objective and prospectus/product disclosure sheet and investment panel/committee's direction.

1. Risk

   The risk appetite of the fund's investors is assessed through risk profiling exercised before a fund is recommended to the investors. In the case of institutional investors, it is usually based on the investment objective of the institution. By strengthening interest holders' protection under the new initiative, investing in units of interest that match the investor's risk profiling is possible. Further, with the introduction of rating agency in the interest schemes industry, the risk of a single interest scheme will become measurable by a standard methodology, thus increasing investors' confidence.

   In order to mitigate the risk levels of a managed fund and individual investors, diversification of the funds across different portfolio is required. On top of the common asset classes such as equities, unit trust, money market, bonds and sukuk, units in interest can be capped at certain reasonable percentage of the total asset value in a portfolio.

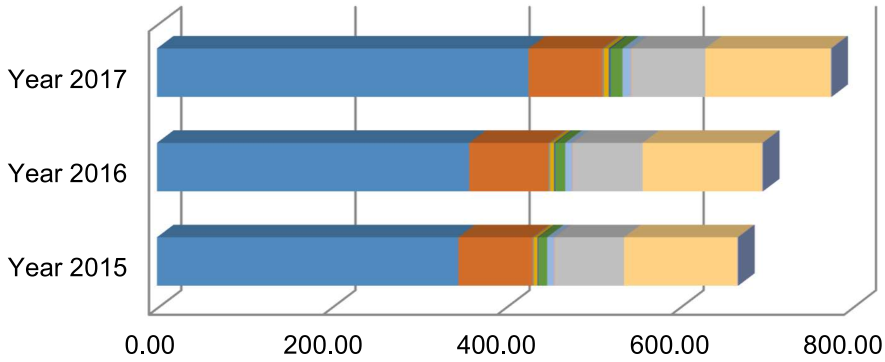
In addition to that, risk is always associated with liquidity. Liquidity risk in units of interest will reduce with the introduction of the liquidity feature of units in interest schemes through the 4-in-1 digital platform wherein transferability in secondary market become easier and faster in a digitalised environment.

2. Return

Return is one of the most important key factors determining the investment decision by investors (whether retail investors, institutional investors or fund managers as well as investment advisers such as financial planners). Thus, reporting the return yield through a standardised methodology in the 4-in-1 digital platform will serve as a guide to investors and boost potential investors' confidence.

By promoting units of interest as one of the recognised asset classes, this will enable the interest schemes industry to tap into the potential investors particularly from fund managers, institutional investors and investment advisers such as financial planners. A review on the statistic of the sources of funds showed that there is a huge potential for interest schemes to tap into the various sources of funds as it has seen a consistent growth of the total of sources of funds for the past three years between years 2015 to 2017. (see Figure 7.1 and Table 7.1 below)

Figure 7.1: Overall Sources of Funds for Fund Management (both local and foreign) between 2015-2017



	Year 2015	Year 2016	Year 2017
Unit Trust Funds	346.41	358.81	426.98
Wholesale Funds	84.99	91.16	84.67
Exchange-traded Funds	1.72	1.88	1.99
Private Pension Funds	4.15	4.43	5.39
Private Retirement Scheme	1.17	1.52	2.23
Other Types of Funds	9.78	11.22	13.66
Individual Private Mandate	8.31	8.36	9.67
Individual -EPF MIS	1.08	0.99	1.05
Corporate Bodies	79.06	79.53	84.30
Statutory Bodies & Govt Agencies (Incl EPF)	130.27	137.43	145.29
Charitable Organisations	0.87	0.94	1.00

Source: *Securities Commission (SC) Malaysia*

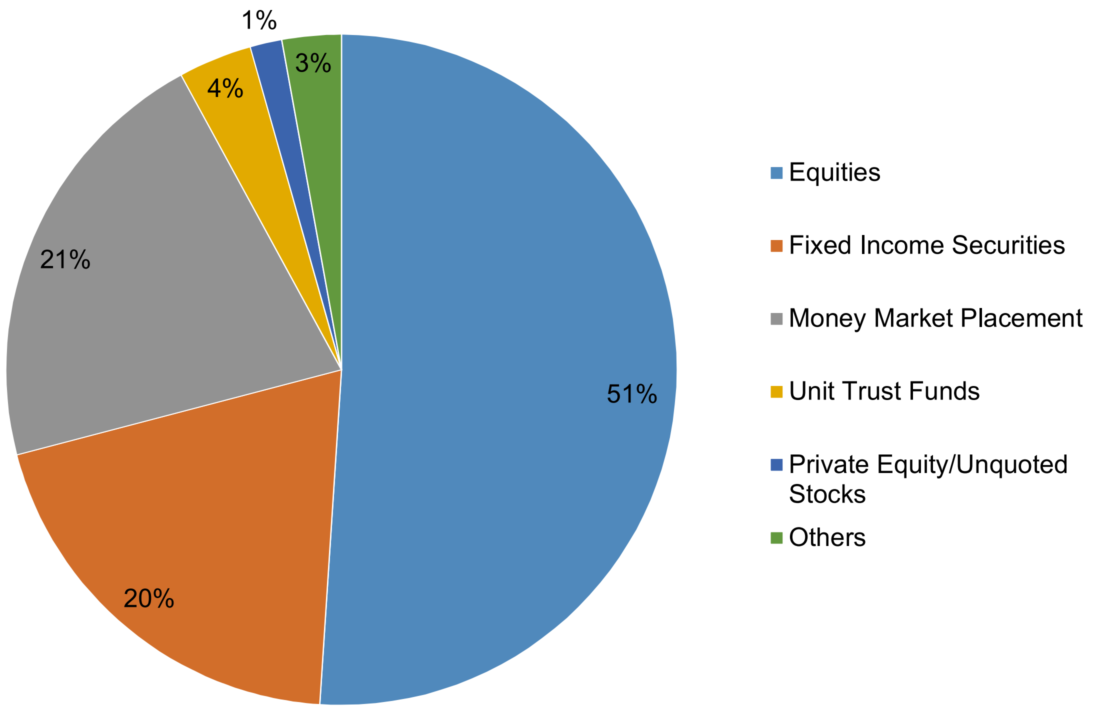
Table 7.2: Overall Source of Fund for Fund Management in Year 2017 (breakdown between local and foreign)

Source: *Securities Commission Malaysia*

	Local (RM Bil)	Foreign (RM Bil)	TOTAL (RM Bil)
Unit Trust Fund	425.96	1.03	**426.98**
Wholesale Fund	83.76	0.91	**84.67**
Exchange Traded Funds	1.99	0.00	**1.99**
Private Pension Funds	1.13	4.26	**5.39**
Private Retirement Scheme	2.22	0.02	**2.23**
Other Type of Funds	9.39	4.27	**13.66**
Individual Private Mandates	9.12	0.55	**9.67**
Individual EPF Member Investment Scheme	1.05	0.00	**1.05**
Corporate Bodies	71.64	12.66	**84.30**
Statutory Bodies & Government Agencies (Including EPF)	142.90	2.39	**145.29**
Charitable Organisations	0.59	0.41	**1.00**
TOTAL	749.73	26.50	**776.23**

Among the total value of RM 776.23 billion from the overall source of fund in year 2017 above, the fund is distributed into various asset classes with 51% or RM396.12 billion allocated in equities followed by 20% or RM154.37 billion in fixed income securities. Money market placement stood in par with fixed income securities with 21% or RM165.81 billion is allocated into money market placement. Unit trust funds and private equities/unquoted stocks shared a lower percentage, at 4% or RM27.32 billion and 1% or RM11.10 billion respectively, with the remainders of funds at 3% or RM30.00 billion allocated to others asset classes(see Figure 7.2 below).

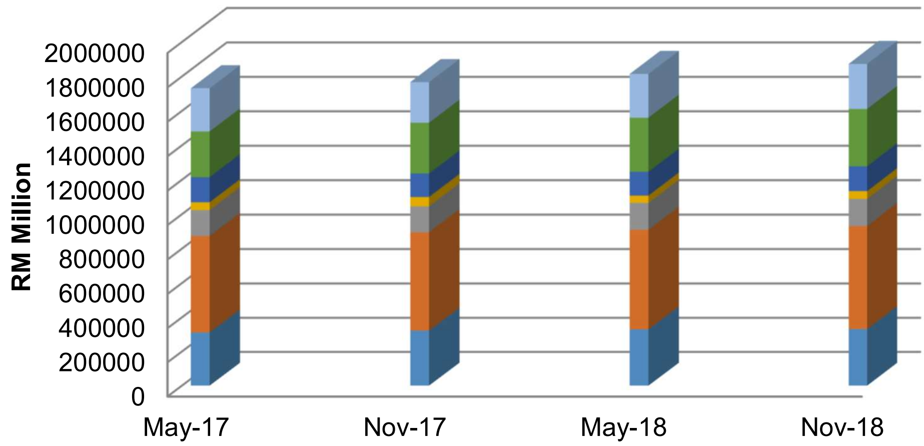
Figure 7.2: Asset Allocation for Overall Fund Management in Year 2017



Source: *Securities Commission (SC) Malaysia*

In addition, based on BNM report, the current amount of total deposits in Malaysia banking system standing as at November 2018 is RM1,873,077.40 million. Thus, certain percentage of amount kept in the deposits accounts may contribute to the growth of the interest schemes industry while providing higher return to the interest holders. Figure 7.3 below showed the total deposits by types. It is observed that there is a constant growth of the total amount deposited in the financial institutions in Malaysia over the past two years between May 2017 to November 2018 which see an increase of 8.2% over the period from RM1,731,377.0 million in May 2017 to RM1873,077.40 million in November 2018.

Figure 7.3: Total Deposits by Types between May 2017 to November 2018



	May-17	Nov-17	May-18	Nov-18
Other Deposits Accepted	250613.8	235872.1	253715.8	261391.3
Tawarruq Fixed Deposits	265579.3	295296.3	314529.2	333403.3
Foreign Currency Deposits	145712.8	136207.3	138189.9	144381.3
Negotiable Instument of Deposits Issued	45587.6	53879	42689.5	45047.5
Savings Deposits	150063.5	150986.5	155907.6	157074.7
Fixed Deposit	561868.5	572462	579913.3	600259.2
Demand Deposit	311951.5	322585.3	329692.2	331520.1

Source: *Bank Negara Malaysia*

7.4 Bringing Malaysian Home-grown Interest Schemes to International Market

7.4.1 Expanding the Coverage of Interest Schemes by Learning from the Experiences of Australia

Australia has Managed Investment Schemes which somewhat resembles Malaysia's Interest Schemes. The Managed Investment Scheme includes many categories such as agricultural schemes, film schemes, timeshare schemes and mortgage schemes. As observed, these are also the categories which are already included in the Malaysian Interest Schemes. Malaysia can emulate and localise some of these schemes such as introducing schemes for cattle to boost the agricultural industry or schemes for films and music to boost the local entertainment industry. To achieve this SSM will approach Australia Securities and Investment Commission (ASIC) to send over delegates to Australia for a study tour.

7.4.2 Tapping into International Collaboration

In addition to the above-mentioned facts, SSM also intends to collaborate with foreign countries to venture into international market. Thus, learning from Australia is a right move as ASIC has actively engaged with other countries for instance through participating in Asia Region Funds Passport, signed Declaration on Mutual Recognition Agreement with Hong Kong, and signed the Trans-Tasman Mutual Recognition Agreement with New Zealand.

The efforts in tapping into international market shall begin with SSM establishing a Taskforce to Internationalise Interest Schemes where the members shall consist of the study tour delegates. The first task of this taskforce is to develop Guidelines for Foreign Interest Schemes whereby information on registration, licensing and product disclosure requirements including some relief to the foreign scheme will be outlined as a reciprocal to countries offering relief to Malaysian Home-grown Interest Schemes being offered in countries other than Malaysia. Subsequently, the taskforce will engage with the authorities from selected countries other than Malaysia to further negotiate on the collaboration to establish dual or multiple listing with member countries whereby Malaysian Home-grown Interest Schemes may be listed on the collaborating countries as authorised scheme and open for the investors from the collaborating countries to invest in Malaysian Home-grown Interest Schemes and vice versa.

At the initial stage, SSM will tap into ASEAN Economic Community (AEC) to extent interest schemes to member countries. This measure is similar to that of Asia Region Funds Passport, however SSM will initially focus on the ASEAN region.

For countries that is not ready to participate in multilateral collaborations, SSM will work hand in hand with each country to reduce the cross-countries barriers in terms of laws and regulations by entering into bilateral mutual recognition agreements, which is in line with one of the AEC objectives. Hence, Malaysian interest schemes players will be able to market the interest schemes to international markets since foreign investors residing in those collaborating member countries are able to invest in Malaysian Home-grown interest schemes which will then be recognised by their respective countries' authorities. This move will contribute to the sustainable growth of interest schemes as we can enlarge our pool of investors and funds through providing both domestic and foreign investors with a more diverse range of investment opportunities.

7.5 Conclusion

Fundamentally, thorough and careful planning as well as strategising is required to internationalise Malaysia's Home-grown Interest Schemes. Although interest schemes is not new in Malaysia, the concept of interest schemes under the new Interest Schemes Act 2016, however, promises greater potentials. The interest scheme industry in Malaysia is now seen to be on a total new direction and perspective. Thus, during the implementation of this 5-year Blueprint, the focus will be on strengthening the fundamentals of the interest schemes industry in domestic markets through the various growth strategies. Taking things one step at a time, the vision of bringing our interest schemes industry onto the international market will be implemented via the next strategic development plan which is envisioned after full implementation of the current blueprint in order to grow interest schemes to much greater heights.

RECOMMENDATIONS

Overview

This Blueprint is intended to outline the strategic thrusts for the development of the interest schemes industry. It is also intended to plot the path to meeting these objectives by detailing the challenges, solutions, initiatives, action plans, timelines, implementation projections and schedules as well as control and monitoring mechanisms to provide for targeted and structured approach to achieve the end-states successfully.

This Blueprint seeks to accomplish the following purposes:

- Identify the growth potential permitted by the current framework for conventional and *Shariah* compliant interest schemes;
- Identify key fundamentals and investing trends in respect of alternative investing and wealth creation channels;
- Identify the existing gaps which are hindering growth and determine solutions or measures to address or close the gaps;
- Identify significant and related economic drivers and growth trends of these drivers;
- Identify existing or potential business sectors or clusters which can lead to sustainable and scalable growth in the interest schemes industry and to determine the growth strategies;
- Identify strategies on cross sector collaborations, enhancement of internal synergy, leveraging on common goals, mutually beneficial opportunities and revenue sharing formula;
- Identify game-changing and smart positioning strategies to rebrand and promote the interest schemes industry;
- Identify quick wins, set and prioritize the implementation course based on their successful implementation prospect; and
- Identify related and significant stakeholders from both the private and Governmental sectors.

Strategic planning on rebranding and promotion of interest schemes as an alternative method of funding for businesses beyond the traditional growth

***Recommendation 1** –*
Expanding the nature and approach towards the definition and understanding of interest schemes

1. Definition of "interest schemes" under the previous Companies Act 1965

- "Interest" was defined under section 84(1) of the Companies Act 1965 as: A right to participate or interest in any: (*a*) profit, assets or realization of a business; (*b*) common enterprise with expectation of profits, rent or interest; (*c*) time-sharing scheme; and (*d*) investment contract.

2. Problems with the definition of "interest schemes" under the previous Companies Act 1965

- The definition was divided to four categories: (*a*) profit, assets or realization of a business; (*b*) common enterprise with expectation of profits, rent or interest; (*c*) time-sharing scheme; and (*d*) investment contract.
- This definition is too restrictive. It is compartmentalize. It is neither inclusive nor encompassing.
- The definition is also confusing. It is subject to different interpretations. Only "time-sharing scheme" and "investment contract" has been defined.
- Time-sharing scheme has been defined by section 84(1) as a scheme, undertaking or enterprise where the participants can occupy property for two or more periods. The timeshare scheme must operate for a period of not less than three (3) years.
- Investment contract has been defined by section 84(1) as a contract, scheme or arrangement which involves the investment of money which allows the investor to acquire an interest in a property. It also includes a contract scheme or arrangement which entitles the investor a right to use or enjoy any sport, recreational, holiday or other related facilities. The duration of the scheme or licence shall not be less than twelve (12) month.
- However, the term "profit, assets or realization of a business" and "common enterprise with expectation of profits, rent or interest" has not been defined.
- In the early years, there was not much problems. Section 84(1) was utilized to regulate memberships offered by the golf, recreational and timeshare clubs. These type of schemes were clearly covered by the definitions of "time-share scheme" and "investment contract".
- In 2007, the Country Heights Growers Scheme was launched. Instead of the conventional *right-to-use* scheme, this was the first investment scheme approved, pooling financial contributions from the public and in return of which the subscribers earn profits.
- Later, approvals were granted for further plantation and aquaculture-related investment vehicles, such as share-farming schemes or grower's plot schemes, breeding of livestock such as swiftlets and catfish for commercial purposes, as well as land banking schemes.
- The definition of "profit, assets or realization of a business" and "common enterprise with expectation of profits, rent or interest" were utilized to regulate these types of investment schemes.

- However, in 2005, NV Multi Corp Berhad challenged the Companies Commission of Malaysia in the High Court. It argued that the definition of interest schemes does *not* include the purchase of burial plots, urns and columbarium by memorial parks.
- There was a valid confusion as to whether the purchase of burial plots, urns and columbarium by memorial parks would come under the definition of “profit, assets or realization of a business” and “common enterprise with expectation of profits, rent or interest”.

3. Definition of “interest schemes” under the current Interest Schemes Act 2016

- “Interest” is now defined under section 2(1) of the *Interest Schemes Act 2016* as: A right to participate or interest in any: (*a*) investment scheme; (*b*) time-sharing scheme; (*c*) recreational membership scheme.

4. Improvement of the definition of “interest schemes” from the Companies Act 1965 to the Interest Schemes Act 2016

- From the four (4) categories definition in the Companies Act 1965, the categories in the Interest Schemes Act 2016 has been shortened to three (3): (*a*) investment scheme; (*b*) time-sharing scheme; (*c*) recreational membership scheme.
- Although the categories has been shortened, the there is a marked improvement in the definition and explanation.
- The previous Companies Act 1965 does not define the term “scheme”. There is a further definition of “scheme” under the current law. Section 2(1) of the Interest Schemes Act 2016 defines a ‘scheme’ as, in relation to an interest, includes any contract, arrangement, undertaking, enterprise, programmes or plans of actions relating to an investment scheme, a time-sharing scheme or a recreational membership scheme.
- Conversely, section 4(1) of the Interest Schemes Act 2016 states that a scheme shall be either – (*a*) investment scheme; (*b*) recreational membership scheme; (*c*) time-sharing scheme; or (*d*) combination of such schemes.
- Previously, the term “profit, assets or realization of a business” and “common enterprise with expectation of profits, rent or interest” has *not* been defined. Section 4(2) of the Interest Schemes Act 2016 now defines an “investment scheme” as a scheme where the interest holder does not have day-to-day control over the operation of the scheme and where – (*a*) the interest holder contributes money or money’s worth to acquire a right or interest to profits, assets or realisation of any financial or business undertaking of the scheme; or (*b*) the contribution by the interest holder is pooled or used in common enterprise to produce financial benefits.
- “Recreational membership scheme” has now been defined by section 4(3) of the Interest Schemes Act 2016. It follows the definition of “investment contract” in section 84(1) Companies Act 1965.
- “Time-sharing scheme” has now been defined by section 4(4) of the Interest Schemes Act 2016. It also follows the definition of “time-sharing scheme” in section 84(1) Companies Act 1965.

5. Potential problems with the definition of “interest schemes” under the current Interest Schemes Act 2016

- Similarly, this definition is divided into categories. Although the definition is now wider, this compartmentalize definition is restrictive in nature.
- Some schemes may not come within the definition of “recreational membership scheme”. An example would be health screening packages. Operators may argue

that it does *not* involve any interest in a property or any right to use or enjoy any sport, recreational, holiday or other related facilities.

- Some schemes may not come within the definition of "investment scheme". An example would be a scheme where the pooled investment is not attached to any profits or monetary returns.
- Memorial park schemes also does not fall squarely into the "investment scheme" definition. Memorial park schemes was only included in the *Consultative Document on Guidelines for Interest Schemes.*

6. The essence of an "interest scheme"

- In its essence, interest schemes *only* involves two (2) elements: (*a*) membership schemes (collection of monies in advance); (*b*) pooled investments or common enterprise (to produce financial benefits).

Collection of monies in advance

- A membership scheme, in its essence, involves some sort of collection of monies (membership fees) in advance (membership term / duration).
- A recreational club need not register a scheme if it offers a membership *less* than 12 months. But it needs to comply with the law if it is *more* than 12 months.
- Similarly, a timeshare scheme need not register a scheme if it offers a membership *less* than 3 years. But it needs to comply with the law if it is *more* than 3 years.
- Why is this so? A small neighbourhood gym usually collect fees one (1) month in advance. The customer can utilize the gym for that particular month. However, the current lifestyle gyms offer memberships up to 1 year, 2 years or even 5 years. The "advanced fees" collected is substantial (up to millions of Ringgit). These "memberships" need to be regulated (in essence the service has not been rendered). There is a danger of the operator ceasing operations and running away with the funds.
- The same argument can be applied to any business that offers any sort of collection of monies in advance. The categories need not be restricted to recreational membership scheme and time-sharing scheme.
- This potentially includes companies or schemes that offer "redeeming points system". These "points" are purchased in *advance.* Any sort of offering of these nature should be regulated under interest schemes.
- Currently the private healthcare industry can be a potential huge interest scheme player. The private healthcare industry have been offering membership based health scans programme > 12 months but are currently largely unregulated.
- Fitness centres also provide memberships and programmes based structures > 12 months but is largely unregulated.
- Other types of healthcare regime framework such as the private retirement home and nursing or palliative care programme can also be included within the definition.
- There are also other industries that can use interest schemes to offer membership based structure as it will ensure return of customers. Hotel vouchers work on this platform. Restaurant and entertainment outlets can offer vouchers or membership programs to ensure return of customers.
- In fact any sort or "programmes / memberships" structure can be used where "members/customers" can return to redeem vouchers or points for a certain definitive period should be encouraged and be regulated under the interest schemes framework.

Pooled investments or common enterprise (to produce financial benefits)

- The 2nd category (fund raising exercise/shared wealth/shared investment/shared resources) applies to most investment based schemes (without the right to use).
- This 2nd category does not involve any collection of monies in advance but it incorporates a form of fund raising. It covers three (3) crucial elements – (*a*) People contribute money or money's worth as consideration to acquire rights to benefits produced by the scheme; (*b*) Any of the contributions are to be pooled, or used in a common enterprise, to produce *financial* benefits; (*c*) members do not have day-to-day control over the operation of the scheme.
- Currently the agriculture, land banking and animal/fish/poultry farming structure falls into this structure. However, potentially, all types and kinds of share farming involving all sorts of farms can be utilised.
- Share farming industry can be expanded to include its counterparts, sharecropping and share milking (including agriculture and livestock share farming).

7. Conclusion

- The definition of "interest schemes" should be re-defined to include two (2) broad categories.
- The first category will be any scheme that incorporates any collection of monies in advance of one (1) year or of a certain threshold amount (even if it does not exceed one (1) year).
- The second category will be any scheme that incorporates a form of fund raising. It covers three (3) crucial elements – (*a*) People contribute money or money's worth as consideration to acquire rights to benefits produced by the scheme; (*b*) Any of the contributions are to be pooled, or used in a common enterprise, to produce financial benefits; (*c*) members do not have day-to-day control over the operation of the scheme.

8. Recommendation

- The nature and approach towards the understanding of the traditional definition of interest schemes would have to be re-looked.
- This new approach is *not* changing the definition of interest schemes but merely taking a new perspective towards its nature and essence.
- There is no requirement to amend the law.
- The new approach definition can be inserted in the guidelines or other documents.

Identify existing or potential business models which can lead to growth strategy

Recommendation 2 –
Introducing various business models to the industry

1. In the new approach definition, interest schemes involves two (2) elements: (*a*) collection of monies in advance; (*b*) pooled investments or common enterprise. It can also be a *combination* of such schemes [Section 4(1) Interest Schemes Act 2016] [hybrid combination schemes].

2. This new methodology definition potentially covers a wide array of business models that extends beyond the traditional recreational, golf or timeshare membership scheme. This new approach definition can cover the following models:
   - Any sort of membership, program, plan, scheme etc. (right-to-use or service oriented scheme *without* any financial return) that extends beyond a 12-month period
   - Any sort of offering of any vouchers, rewards, points, redemption units etc. (right-to-use or service-oriented scheme *without* any financial return) that has a redemption validity period that extends beyond a 12-month period
   - An investment scheme (with financial return) as a mode of fund raising exercise
   - A hybrid scheme that incorporates any membership, program, plan, scheme, vouchers, rewards, points, redemption units etc. that extends beyond a 12-month period **with an investment return**
   - A hybrid investment model of fund raising exercise for purposes of providing business capital to commence an interest scheme where the form of investment repayment need not entirely be monies **but partially in the form of benefits in kind**

3. Broadly, the business model can be categorized as follows:
   - Membership/right to use schemes [*without* any financial return]
   - Membership/right to use schemes [*with* financial return]
   - Membership/right to use schemes [*hybrid* combination schemes]
   - Investment schemes [*with* financial return]
   - Investment schemes [*without* any financial return]
   - Investment schemes [*hybrid* combination schemes]

Business Model 1: Membership / Right to Use Schemes

4. A business structure that potentially include *any* of the following recreational, vacation, right-to-use or service-oriented model:
   - A business model that can include *any* membership, program, plan, scheme etc. (right-to-use or service oriented scheme *without* any financial return) that extends beyond a 12-month period
   - A business model that can include *any* offering of any vouchers, rewards, points, redemption units etc. (right-to-use or service-oriented scheme *without* any financial return) that has a redemption validity period that extends beyond a 12-month period

5. A business structure that owns *unutilized* immovable property, land, building, farm, resort etc. that can potentially be utilized into *any* of the following recreational, vacation, right-to-use or service-oriented tourism-based membership scheme:

- Ecotourism, agro tourism, farm stay, rural tourism or geo tourism
- Medical or wellness tourism
- Sports tourism, adventure travel, jungle tourism or camping

6. A business structure that owns a fleet of *unutilized* movable land, air or sea vehicle that can potentially be utilized into a timeshare, fractional ownership or co-chartering based recreational membership scheme:
   - Ship, vessel, luxury yachts, houseboat or cruise ship
   - Plane charter or private jet
   - Exotic cars

Business Model 2: Investment Schemes

7. A business structure that incorporates the following investment models as a mode of fund raising exercise:
   - Fund raising for purposes of business expansion by way of pooled funds from the public with the promise of a financial return to the investors for a certain period of time (but without the investors retaining direct share ownership in the company)
   - Fund raising for purposes of land and crop cultivation by way of pooled funds from the public with the promise of a financial return to the investors for a certain period of time (but without the investors retaining direct share ownership in the company)
   - Fund raising for purposes of livestock, fish or poultry farming by way of pooled funds from the public with the promise of a financial return to the investors for a certain period of time (but without the investors retaining direct share ownership in the company)
   - Fund raising for purposes of aggregating parcels of land for future sale or development (land banking) by way of pooled funds from the public with the promise of a financial return to the investors for a certain period of time (but without the investors retaining direct share ownership in the company)
   - Fund raising for purposes of operating a property investment trust or real estate trust by way of pooled funds from the public with the promise of a financial return to the investors for a certain period of time (but without the investors retaining direct share ownership in the company)

8. A business structure that owns *unutilized* immovable property, land, farm, resort etc. that can potentially be utilized into *any* of the following agriculture related schemes by way of pooled funds from the public with the promise of a financial return to the investors for a certain period of time (but without the investors retaining direct share ownership in the company):
   - Share farming, share cropping and share milking
   - Breeding of animals and livestock production
   - Aquaculture or fish farming schemes

9. A business structure that owns *unutilized* immovable property, land, building, real estate etc. that can potentially be utilized into *any* of the following land and real estate related schemes by way of pooled funds from the public with the promise of a financial return to the investors for a certain period of time (but without the investors retaining direct share ownership in the company):
   - Aggregating parcels of land for future sale or development (investment land banking)
   - Virgin land identified as suitable for agriculture (agriculture land banking)
   - Property or real estate investment trust

- Private retirement home, nursing or palliative care homes

Business Model 3: Hybrid Schemes

10. A business structure that potentially includes *any* of the following hybrid combination of right-to-use or service-oriented scheme (without financial return) and investment scheme (with financial return):
    - A business model that can include *any* recreational, vacation, right-to-use or service-oriented tourism-based membership scheme *with* the promise of a financial return to the investors for a certain period of time (but without the investors retaining direct share ownership in the company)
    - An investment model of fund raising exercise for purposes of providing monetary funds to commence an interest scheme where the form of investment repayment need not entirely be monies but partially in the form of benefits in kind
    - An investment model of fund raising exercise for purposes of a feeder funding scheme to finance the construction of a building or resort where the form of investment repayment need not entirely be monies but partially in the form of right-to-use benefits

11. A business structure that owns *unutilized* immovable property, land, building, farm, resort etc. that can potentially be utilized into *any* of the following recreational, vacation, right-to-use or service-oriented tourism-based membership scheme with a promise of a financial return to the investors for a certain period of time:
    - Hotel, commercial building, golf resort, recreational resort or marina club
    - Ecotourism, agro tourism, farm stay, rural tourism or geo tourism
    - Medical or wellness tourism
    - Sports tourism, adventure travel, jungle tourism or camping

12. A business structure that incorporates the following investment models as a mode of fund raising exercise where the form of investment repayment need not entirely be monies but partially in the form of benefits in kind or in the form of right-to-use benefits:
    - Fund raising for purposes of business expansion by way of pooled funds from the public
    - Fund raising for purposes of land and crop cultivation by way of pooled funds from the public
    - Fund raising for purposes of livestock, fish or poultry farming by way of pooled funds from the public
    - Fund raising for purposes of aggregating parcels of land for future sale or development (land banking) by way of pooled funds from the public
    - Fund raising for purposes of operating a property investment trust or real estate trust by way of pooled funds from the public

Business Model 4: Shariah Schemes

13. A business model or products that includes or incorporates any sort of Shariah compliant or Halal certification, approval, accreditation, recognition or license or a business model or products that can potentially utilize Shariah compliant interest schemes as a form of fund raising exercise, membership/right to use scheme or hybrid scheme.

14. A *Shariah* compliant interest scheme incorporating a right-to-use/service-oriented scheme (without financial return) *or* investment scheme (with financial return) *or* a hybrid combination scheme for the following purposes:
    - Promoting socially responsible, sustainable and value-based business based on *Shariah* principles
    - Giving access to a wider market share locally and internationally in terms of obtaining alternative financing and selling market products and services

15. A business structure that owns *unutilized* immovable property, land, building, farm, resort etc. that can potentially be utilized into *any* of the following recreational, vacation, right-to-use or service-oriented tourism-based membership scheme that incorporates Islamic and *Shariah* principles:

- Hotel, commercial building, golf resort, recreational resort or marina club
- Ecotourism, agro tourism, farm stay, rural tourism or geo tourism
- Medical or wellness tourism
- Property or real estate investment trust
- Private retirement home, nursing or palliative care homes

Identify existing or potential business sectors or clusters which can lead to growth strategy

Recommendation 3 –
Identifying various business sectors suitable for the interest schemes platform

Business Cluster 1: Recreational, vacation, right-to-use or service-oriented tourism-based membership scheme

1. A business structure that owns unutilized immovable property, land, building, farm, resort etc. that can be utilized into a recreational, vacation, right-to-use or service-oriented tourism-based membership scheme:
   - Ecotourism, agro tourism, farm stay, rural tourism or geo tourism
   - Medical or wellness tourism
   - Sports tourism, adventure travel, jungle tourism or camping

2. A hybrid structure that owns unutilized immovable property, land, building, farm, resort etc. that can be utilized into a recreational, vacation, right-to-use or service-oriented tourism-based membership scheme with a promise of a financial return:
   - Hotel, commercial building, golf resort, recreational resort or marina club
   - Ecotourism, agro tourism, farm stay, rural tourism or geo tourism
   - Medical or wellness tourism
   - Sports tourism, adventure travel, jungle tourism or camping

3. A *Shariah* structure that owns unutilized immovable property, land, building, farm, resort etc. that can be utilized into a recreational, vacation, right-to-use or service-oriented tourism-based membership scheme that incorporates Islamic and *Shariah* principles:
   - Hotel, commercial building, golf resort, recreational resort or marina club
   - Ecotourism, agro tourism, farm stay, rural tourism or geo tourism
   - Medical or wellness tourism

Business Cluster 2: Timeshare, fractional ownership or co-chartering based on recreational membership scheme for movable land, air or sea vehicle

4. A business structure that owns a fleet of unutilized movable land, air or sea vehicle that can be utilized into a timeshare, fractional ownership or co-chartering based recreational membership scheme:
   - Ship, vessel, luxury yachts, houseboat or cruise ship
   - Plane charter or private jet
   - Exotic cars

Business Cluster 3: Land and crop cultivation, livestock, fish or poultry farming

5. An investment structure that owns unutilized immovable property, land, farm, resort etc. that can be utilized into an agriculture related schemes:
   - Share farming, share cropping and share milking
   - Breeding of animals and livestock production

- Aquaculture or fish farming schemes

6. A hybrid structure of fund raising where the investment repayment need not be monies but partially in the form of benefits in kind or right-to-use:
- Fund raising for land and crop cultivation
- Fund raising for livestock, fish or poultry farming

Business Cluster 4: Aggregation of parcels of land for future sale or development

7 An investment structure that owns unutilized immovable property, land, building, real estate etc. that can be utilized into a land and real estate related schemes:
    - Aggregating parcels of land for future sale or development (investment land banking)
    - Virgin land identified as suitable for agriculture (agriculture land banking)

8. A hybrid structure of fund raising where investment repayment need not be monies but partially in the form of benefits in kind or in the form of right-to-use:
- Aggregating parcels of land for future sale or development (land banking)

Business Cluster 5: Property investment trust or real estate trust

9. An investment structure that owns unutilized immovable property, land, building, real estate etc. that can be utilized into a *property investment trust* or *real estate trust* scheme with the promise of a financial return

10. A hybrid structure of *property investment trust* or *real estate trust* where the repayment need not be monies but partially in the form of benefits in kind or right-to-use

Business Cluster 6: Private retirement home, nursing or palliative care homes

11. An investment structure that owns unutilized immovable property, land, building, real estate etc. that can be utilized into private retirement homes, nursing or palliative care homes.

12. A membership scheme structure that owns unutilized immovable property, land, building, farm, resort etc. that can be utilized into private retirement homes, nursing or palliative care homes.

Business Cluster 7: Feeder funding hybrid schemes to finance construction of hotel, commercial building, golf resort, recreational resort or marina club

13. A hybrid investment model of fund raising exercise for purposes of a feeder funding scheme to finance the construction of a building or resort where the form of investment repayment need not entirely be monies but partially in the form of right-to-use benefits.

Business Cluster 8: Education sector

14. An investment model of fund raising exercise where the form of investment repayment need not be monies but partially in the form of benefits in kind (e.g. utilization of research and development capabilities and expertise).

Recommendation 4 –
Identifying potential interest schemes market in the public sector: Public-private financing partnership model

- Interest schemes should not be restricted to the private operators. Government or government related agencies should be encouraged to utilize interest schemes as a form of pooled fund for fund-raising purposes. So far, there is no state run interest scheme in Malaysia.

Public-Private Financing Partnership Model 1: Aged Care Leisure & Lifestyle Program

- The public sector has a lot of unutilized property (land or building). The public sector can turn this unutilized properties into an aged care lifestyle and leisure centre (retirement village).
- Interest schemes' platform can be utilised to raise funds to develop the centre. Private corporations are invited to invest as part of their CSR program. Once the retirement village is set up, the public sector can form a SPV to manage the scheme and the centre.
- Thereafter, interest schemes can be utilise to offer aged care leisure and lifestyle program to the public (3-year, 5-year, 10-year program etc.).
- The purpose of offering this right-to-use program is to ensure that the aged care lifestyle and leisure charges can be offered at a subsidized or cheaper rate.

Public-Private Financing Partnership Model 2: National Share Farming Program

- The public sector has a lot of uncultivated agriculture land. The interest schemes' platform can be utilised to raise funds from the public to cultivate the unutilised land into agriculture land (e.g. durian farm, palm oil, rubber plantation etc.).
- Funds raised can be channelled by providing employment to local smallholder farmers.
- Once the land produce yields, the monetary returns will be diverted back to investors.
- This is a scheme where the public can directly in a state-owned agriculture land / programme.

Public-Private Financing Partnership Model 3: National Livestock & Poultry Farming Program

- The public sector has a lot of uncultivated land. The interest schemes' platform can be utilised to raise funds from the public to use the unutilised land into a livestock and poultry farming programme (e.g. poultry, goat, cow etc.).
- Funds raised can be channelled by providing employment to local smallholder farmers.
- Once the farm produce yields, the monetary returns will be diverted back to investors.

Public-Private Financing Partnership Model 4: National Health Care Program

- Health care is one of the most important aspect of the state's obligations to citizens.
- Private healthcare is profit-driven, expensive and beyond the reach of a sizeable segment of the public at large.
- Public hospitals, on the other hand, are heavily subsidised. Public hospitals can utilise interest schemes to raise additional funds by offering pre-packaged health care programmes (e.g. 3-year, 5-year, 10-year, 15-year program covering various identified illnesses).
- The pre-packaged programmes can be sold at a cheaper price as it is bought at today's prices and the services has not yet been rendered.

Public-Private Financing Partnership Model 5: National Nursing / Palliative Care Program & Health Screening Packages

- Health care is one of the most important aspect of the state's obligations to citizens.
- Private healthcare is profit-driven, expensive and beyond the reach of a sizeable segment of the public at large.
- Public hospitals, on the other hand, are heavily subsidised. Public hospitals can utilise interest schemes to raise additional funds by offering pre-packaged nursing / palliative care programmes and health screening packages (e.g. 3-year, 5-year, 10-year, 15-year program).
- The pre-packaged programmes can be sold at a cheaper price as it is bought at today's prices and the services has not yet been rendered.

Public-Private Financing Partnership Model 6: National Tourism & Medical Tourism Program

- A national tourism & medical tourism program that utilise interest schemes and offer pre-packaged state-run tourism programs.

Identify solutions to address existing gaps and problems relating to interest schemes growth

1. A business model or products (with or without any *Shariah* compliant or *Halal* certification, approval, accreditation, recognition or license) can utilize *Shariah* compliant interest schemes as a form of fund raising exercise, membership / right to use scheme or hybrid scheme.

2. A *Shariah* compliant interest scheme (right-to-use scheme *or* investment scheme *or* hybrid combination scheme) can achieve the following objectives:
   - It promotes socially responsible, sustainable and value-based business based on *Shariah* principles
   - It gives access to a wider market share locally and internationally in terms of obtaining alternative financing and selling market products and services

3. The Interest Schemes Act 2016 has officially recognized a "Shariah compliant scheme". It also specifically empowers the Companies Commission of Malaysia to approve a Shariah compliant scheme.

4. In line with this new development, the Companies Commission of Malaysia would have to establish a Shariah Advisory Committee to assist the Commission.

Recommendation 5 –
Establishment of a *Shariah* Advisory Committee

- The Companies Commission of Malaysia would have to establish a Shariah Advisory Committee to assist the Commission pursuant to section 43(2) of the Interest Schemes Act 2016.
- The role and function of the Shariah Advisory Committee should not be restricted to only an advisory capacity but should be extended to –
  (*a*) Supervisory powers (to ascertain the application and boundaries of Shariah principles);
  (*b*) Power to mandate and issue Shariah rulings;
  (*c*) Advisory powers; and
  (*d*) Main source of reference.
- A formal procedure in respect of appointment, tenure, scope and terms of referral of the Shariah Advisory Committee needs to be introduced.
- A secretariat to be established to assist the management and operational matters of the Shariah Advisory Committee.

Recommendation 6 –
Introduction of a Two (2) Plus-Tier Shariah governance structure

- The Shariah Advisory Council of Bank Negara Malaysia was first established in 1997. Subsequently under section 51 of the Central Bank Act 2009, its powers have been greatly reinforced by making it the final authority when it comes to the ascertainment of Islamic law involving Islamic financial businesses.
- There are national arguments that there should be a single Shariah final authority for the whole of Malaysia to prevent different regulators deliberating on overlapping issues.

- The Two (2) Plus-Tier Model refers to an industry level Shariah Committee (or Shariah Advisor), a National level Shariah Advisory Committee at SSM and a flexible and less formal structure of Shariah reference to the Shariah Advisory Council at Bank Negara Malaysia to refer any unresolved or highly technical issues for final determination and to obtain technical assistance. The less formal structure with the Shariah Advisory Council of Bank Negara can be structured through a Memorandum of Understanding between SSM and Bank Negara.
- The Two (2) Plus-Tier Model places the Shariah Advisory Council of Bank Negara Malaysia as the final authority on any unresolved Shariah technical issues. This would be more conducive towards harmonization of Islamic financial and Islamic commercial standards and practices.
- SSM's Shariah Advisory Committee will handle the more routine functions such as screening, certification, developing appropriate standards and determining less complex unresolved issues.
- The Two (2) Plus-Tier Model can also ensure greater harmonization as there will not be a competing Shariah Advisory Council. It also ensures good standing and recognition by associating with Bank Negara Malaysia and access to technical assistance from Bank Negara Malaysia.

***Recommendation 7* –**
Appointment of *Shariah* Advisor

- Each management company is to appoint at least one Shariah Advisor
- The role of the Shariah Advisor is to advise the management company on Shariah principles and compliance
- The Shariah Advisor would need to be registered with the Companies Commission of Malaysia
- A Registered Shariah Advisor Guidelines would need to be drafted to lay down the qualifications, criteria, scope of duties and responsibilities of the registered Shariah Advisors

***Recommendation 8* –**
Developing a comprehensive *Shariah* **audit** framework

- Each management company is to be subjected to a mandatory Shariah audit to ensure its Shariah compliance
- The Shariah audit framework is intended to provide independent assessment and objective assurance
- The Shariah audit is to be performed by external auditors who has the necessary Shariah knowledge, experience and has acquired adequate Shariah-related training
- Shariah audit on critical areas shall be conducted at least once a year depending on the risk profile of the management company
- The deliverables of the Shariah audit function must be determined by the board audit committee after consultation with the Shariah Advisor in accordance with any auditing standards

***Recommendation 9* –**
Developing a comprehensive *Shariah* **review** framework

- Each management company is to be subjected to a mandatory Shariah review to ensure its Shariah compliance

- The Shariah review framework is intended to provide regular assessment on Shariah compliance in the business, activities and operations of the management company
- Such Shariah review must be carried out by qualified Shariah officers

Recommendation 10 –
Developing a comprehensive *Shariah* **risk management** framework

- Each management company is to be subjected to a mandatory Shariah risk management
- The Shariah risk management is intended to systematically identify, measure, monitor and control Shariah non-compliance risks
- This will be performed by risk officers with suitable qualification and experience

Recommendation 11 –
Introducing various *Shariah* business models to the industry

Shariah Contract Model 1: Sale-Based Contracts (Bay‘, Bay‘ al-musawamah, Bay‘ al-murabahah, Bay‘ bithaman ajil, Bay‘ salam & Istisna‘)

Bay‘
- *Bay‘* is an exchange of property (for property) in a specified manner
- *Bay‘* Shariah Compliant Interest Schemes can be utilised to purchase rights in exchange for room usage on time-sharing principles
- *Bay‘* Shariah Compliant Interest Schemes can be utilised to acquire assets (such as building or land) that will be used for leasing to the third parties for profit
- For land, it can be cleared and levelled, after which the title of such land will be converted in its usage and condition (e.g. from agricultural to residential or commercial). Such land will then be disposed to third parties for profits

Bay‘ al-musawamah
- *Bay‘ al-musawamah* is a sale by mutual consent, completed and concluded through negotiations between the seller and buyer with no reference to be made to the original price
- The legality and application of *bay‘ al-musawamah* in a Shariah Compliant Interest Scheme is similar to that of *bay‘*

Bay‘ al-murabahah
- *Bay‘ al-murabahah* is a sale of a commodity
- The sale will be at the price at which the seller has purchased, with the addition of a stated profit (made known to the seller and buyer)
- *Bay‘ al-murabahah* can be utilised on the basis of time-sharing principles (the management company must reveal the actual cost of the purchased assets and the actual profit generated from the sale transaction)
- *Bay‘ al-murabahah* can also be utilised to acquire assets (such as building or land) for leasing to the third parties for profit or land to be converted and sold

Bay‘ bithaman ajil
- *Bay‘ bithaman ajil* is the sale and purchase transactions for the financing of an asset on a deferred and instalment basis with a pre-agreed payment period
- *Bay‘ bithaman ajil* can be utilised on time-sharing principles but the subscription payment is to be paid on deferred payment or instalment basis for specified period of time

- *Bay‘ bithaman ajil* can also be utilised to acquire assets (such as building or land) that will be used for leasing to the third parties for profit (the subscription payment may be paid on deferred payment or instalment basis for specified period of time)

Bay‘ salam

- *Bay‘ salam* refers to a sale of goods where the price is paid immediately but the goods will be delivered at a future specified date, provided that the goods have been measured and weighed
- *Bay‘ salam* can be utilised to purchase goods/commodities that will be delivered at certain future date of delivery

Istisna‘

- *Istisna‘* is the giving of an order to a labourer or artisan to make a definite article with an agreement to pay a definite price for that article when it is ready
- *Istisna‘* can be utilised to construct a building that will later be sold or leased to a third party for profit. The subscription payment may be paid upon conclusion of the *istisna‘* contract *or* in stages according to the completion of work *or* deferred payment upon completion of building for specified period of time as per agreement

Shariah Contract Model 2: Lease-Based Contracts (Al-ijarah & Al-ijarah muntahia bi al-tamlik)

Al-ijarah

- *Al-ijarah* is "the transfer of usufruct or *manfa‘ah* (the use of an object or the service of a person) for a consideration (in the case of hire of things, rent or *ujrah*; in the case of hire of persons, wages or *ajr*"
- *Al-ijarah* can be utilised on time-sharing principles and for leasing of the assets (such as building or land) that will be used for sub-letting to the third parties for profits

Al-ijarah muntahia bi al-tamlik

- *Al-ijarah muntahia bi al-tamlik* is the leasing that ends with transfer of ownership
- *Al-ijarah muntahia bi al-tamlik* can allow subscribers to utilise rooms or parts of the building on the basis of *ijarah* for designated period of time
- After the expiry of the lease period, the asset will be transferred to the holders either through gift or sale

Shariah Contract Model 3: Equity-Based Contracts (Musharakah, Musharakah mutanaqisah & Mudarabah)

Musharakah

- *Musharakah* refers to a partnership between two or more parties, whereby all parties will share the profit or bear the loss from the partnership
- *Musharakah* can be used as a fund raising to invest in *Shari‘ah* compliant investment / business
- To comply with *musharakah* principles, the management company must contribute some amount of it capital to the scheme
- The interest holders and the management company are considered as partners to the scheme

Musharakah mutanaqisah

- *Musharakah mutanaqisah* refers to a form of partnership contract whereby the co-partner allows his partner / customer to buy partnership assets in one payment or in instalment based on terms agreed by both parties
- To comply with the *musharakah mutanaqisah* principles, the management company must contribute some amount of capital to the scheme. The interest holders and the management company will be considered as partners
- The management company will purchase the interests / shares belonging to the interest holders in stages until the ownership of the scheme belongs to the management company (or vice versa).

Mudarabah

- *Mudarabah* is a contract between a capital provider (*rabbul mal*) and an entrepreneur (*mudarib*)
- The *rabbul mal* provides the capital to be managed by the *mudarib*. Profits generated from the capital is shared between the *rabbul mal* and the *mudarib* according to a mutually agreed profit sharing ratio
- Financial losses are borne by the *rabbul mal*, provided such losses are not due to the *mudarib*'s misconduct (*ta'addi*), negligence (*taqsir*) or breach of specified terms (*mukhalafah al-shurut*)

Shariah Contract Model 4: Agency-Based Contracts (Wakalah & Wakalah bi istithmar)

Wakalah

- *Wakalah* is the authorisation of person (*al-wakil*) by another (*al-muwakkil*) to dispose of something (*al-muwakkal fih*) during his lifetime
- The management company can use the *Wakalah* Interest Scheme to raise funds to purchase and sell assets for profits
- The management company acts as the agent. Any profits derived from such activities belong to the interest holders

Wakalah bi istithmar

- *Wakalah bi al-istithmar* refers to as an "investment agency" contract where the investor (the principal) appoints investment manager as an agent to undertake investment activities on behalf of the principal for a fee
- The management company can use the *Wakalah bi istithmar* Interest Scheme to invest in the Shariah compliant business activities
- The interest holders pay the agency fee to the management company. Any profits derived from the business belong to the interest holders

Shariah Contract Model 5: Agricultural-Based Contracts (Muzara'ah, Musaqah & Mugharasah)

Muzara'ah

- *Muzara'ah* is a share-cropping / agricultural partnership
- The owner of a piece of land allows a farmer to grow a crop on it in return for a specified fraction of the total yield
- The management company can use the *Muzara'ah* Interest Scheme for fund raising to grow crops
- The interest holder will be entitled to the respective shares in the crops

Musaqah

- *Musaqah* is an irrigation partnership by which the owner of an orchard turns over a specified number of fruit-bearing trees to another who will tend them in exchange for a specified portion of the total yield of the trees
- A management company can use the *Musaqah* Interest Schemes to raise funds in the irrigation of fruit-bearing trees on the basis of *musaqah*
- The interest holders become entitled to the shares in the crop
- The management company is the cultivator who undertakes irrigation of the fruit-bearing trees

Mugharasah

- *Mugharasah* is a partnership where one party (land owner) presents a barren piece of land to another (planter) in order for the planter to cultivate the land in return for a common defined share of the trees, fruits and land
- The management company can use the *Mugharasah* Interest Schemes to raise funds to purchase land that will be used for plantation of fruit-bearing trees by the cultivator on the basis of *mugharasah*
- The interest holders are the landlords who will be entitled to shares in the trees

Strategize potential business growth & market needs

Recommendation 12 –
Online marketplace and trading platform for the facilitation of primary and secondary markets

1. As a strategy for potential business growth and market needs, the Blueprint has identified the setting up of online marketplace and trading platform to regulate: (*a*) Initial and primary offering of interest schemes units or memberships; and (*b*) Secondary sales between interest holders of the interest schemes units or memberships.

2. The online marketplace and trading platform will:
   - Increase market liquidity
   - Eliminate market barrier and reducing marketing cost (the savings to reduce pricing)
   - Greater transparency and disclosure of industry data to enable the public and the market intermediaries to form better opinion and informed decisions
   - Increasing the value of interest units as a different / new assets class
   - Better attraction for the buying market

3. There are 3 operational structure models to choose from in the implementation of the online trading platform:
   - *Internal operational structure*: The regulator themselves design and develop its own software engineering research areas and software systems. The advantage would be that the regulator would be able to own and control its own online trading platform. The disadvantage would be that the cost would be too high. The regulator may also not have the necessary experience and expertise.
   - *Outsourcing*: The regulator outsources to third party operators to design, develop and operate the online trading platform. The advantage would be would be cost savings and efficiency. The disadvantage would be the loss of control over the outsourced function.
   - *Collaboration with Bursa*: The regulator can collaborate with Bursa Malaysia Securities Berhad (BMSB), the regulator of Bursa Securities, the stock exchange in Malaysia. Currently, the Bursa Securities is made up of 3 separate markets:
     (*a*) Main Market, which is the principal market (consisting of established companies with strong track records)
     (*b*) Access, Certainty and Efficiency (ACE) Market, which is an alternative market open to companies of all sectors and sizes (consisting of emerging companies with growth potential)
     (*c*) Leading Entrepreneur Accelerator Platform (LEAP) Market, which aims to provide small and medium enterprises (SMEs) with an alternative fund raising platform in the capital market

     The products offered includes: (*a*) Shares; (*b*) Warrants; (*c*) Exchange traded funds (ETFs); (*d*) Real Estate Investment Trusts (REITs); (*e*) Exchange Traded Bonds and Sukuk. Apart from Bursa Securities, BMSB also operates the B*ursa Derivatives (*an exchange for trading in derivatives and offers both futures and options contracts), *Bursa Suq Al-Sifa' (*a commodity trading platform for Islamic liquidity management and financing) and *Labuan International Financial Exchange Inc* (LFX) (an offshore financial exchange based in Labuan).

4. It is recommended that the collaboration with BMSB is the most viable option at this current juncture. It is less expensive. It also ensures harmonization as there will not be competing regulators within the exchange regulatory structure. There will also be good standing and recognition by associating with BMSB and access to technical assistance from BMSB.

5. The collaboration with BMSB would also ensure all the regulatory principles can be adhered to as BMSB has in place all the rules for orderly and fair market in accordance with section 8(2) of the Capital Markets and Services Act 2007.

6. The establishment of the online marketplace and trading platform should be subject to a series of regulatory principles:
   - The online marketplace and trading platform should be subject to regulatory authorization and oversight
   - Integrity of trading is to be maintained through fair and equitable rules
   - Regulation should promote transparency of trading
   - Regulation should be designed to detect and deter manipulation and other unfair trading practices
   - Systems for clearing and settlement of securities transactions should be subject to regulatory oversight and designed to ensure that they are fair, effective and efficient

Regulatory Principle 1: Regulatory authorization and oversight

7. The establishment of the online marketplace and trading platform requires proper approval and direct regulation. The relevant matters to consider are:
   - Regulation should assess the competence of the operator of the trading facility
   - The operator should be accountable to the regulator
   - The regulator should approve the rules governing the trading
   - The regulator should ensure that access to the system or exchange is fair and objective

Regulatory Principle 2: Transparency of trading

8. Transparency is the degree to which information about trading is made publicly available on a real-time basis. The specific principles to be adopted are:
   - Regulation to ensure timely access to information
   - Regulation to reduce the risk of manipulative or other unfair trading practices
   - Where a market permits some derogation from the objective of real-time transparency, the conditions need to be clearly defined

Regulatory Principle 3: Prohibition of market manipulation & other unfair trading practices

9. The regulation of trading in the secondary market should prohibit market manipulation, misleading conduct, insider trading and other fraudulent or deceptive conduct which may distort price discovery systems, distort prices and unfairly disadvantage interest holders. The specific principles to be adopted are:
   - Regulation to ensure direct surveillance, inspection and reporting
   - Arrangements for continuous monitoring of trading

- Regulation to be complemented by vigorous enforcement of the rules

Regulatory Principle 4: Clearing & settlement systems

10. Clearing and settlement systems are systems providing the process of presenting and exchanging date or documents in order to calculate the obligations of the participants in the system, to allow for the settlement and transferring of the interest schemes units/memberships. There should be direct supervision of clearing and settlement systems. The specific principles to be adopted are:
    - Regulation to ensure rules and standards for clearing and settlement systems
    - Verification of trades in clearing and settlement system
    - Risk issues in clearing and settlement systems

Identify strategies on cross sector collaborations, enhancement on internal synergy, leveraging on common goals, mutually beneficial opportunities and revenue sharing formula

Recommendation 13 –
Outsourcing of financial services to market intermediaries

1. Market intermediaries are important in any business or industry. A management company can transfer its interest schemes product units to a wider public target through these intermediaries. Distribution plays an important function of any business. The marketing intermediaries form the chain of suppliers that help in effective delivery of the investment products from the management company to the interest holders.

2. As a strategy on cross sector collaborations, enhancement on internal synergy, leveraging on common goals, mutually beneficial opportunities and revenue sharing formula, the Blueprint has identified the creation of a regime of regulated market intermediaries or outsource to third party service providers in respect of the offering of interest scheme units and products to encourage development, competition and innovation of the interest schemes market.

3. The outsourcing of financial services to market intermediaries will:
    - Encourage overall development, competition and innovation of the interest schemes market and products
    - Increase market liquidity
    - Eliminate market barrier and reducing marketing cost (the savings to reduce pricing)
    - Greater transparency and disclosure of industry data to enable the public and the market intermediaries to form better opinion and informed decisions
    - Increasing the value of interest units as a different / new assets class
    - Better attraction for the buying market

4. As these market intermediaries have direct first-hand contact with the customers, these intermediaries would have to play an important role in the prevention of money laundering and terrorism financing. Guidelines and rules would have to be drawn up in accordance with the *Anti-Money Laundering, Anti-Terrorism Financing & Proceeds of Unlawful Activities Act 2001.* A customer due diligence, risk assessment, risk management, profiling processes and mitigation mechanism would have to be implemented and put in place against the intermediaries.

5. The market intermediaries would also have to be subjected to a licensing framework. The license tenure of these market intermediaries should ideally be for a fixed term, subject to renewal. The market intermediaries that have been identified include investment banks, financial institutions (including non-banking government-owned financial related organizations), fund managers and dealers, investment advisers, financial planners, financial advisers and insurance / *takaful* brokers.

6. The creation of a regime of regulated market intermediaries should be subject to a series of regulatory principles:

- Regulation should provide for minimum entry standards for market intermediaries
- There should be initial and ongoing capital and other prudential requirements for market intermediaries
- Market intermediaries must comply with standards for internal organization and operational conduct

Regulatory Principle 1: Licensing and supervision

7. The licensing and supervision of market intermediaries should set minimum standards for market participants. It should reduce the risk to interest holders for loss caused by negligent or illegal behaviour or inadequate capital. The specific principles to be adopted are:
    - Regulation should set conditions of entry to make clear the basis of participation
    - There should be an initial capital requirement as a condition of entry into the market
    - Periodic updating of relevant information and a requirement for reporting material change in circumstances affecting the conditions of licensing
    - Public have access to relevant information concerning the market intermediaries

Regulatory Principle 2: Capital adequacy

8. Capital adequacy standards foster confidence in the financial market. The specific principles to be adopted are:
    - Market intermediaries should maintain adequate financial resources to meet its business commitments and to withstand the risks to which its business is subject
    - A capital adequacy test should address the risks faced by market intermediaries judged by reference to the nature and amount of business undertaken

Regulatory Principle 3: Conduct of business rules & other prudential requirements

9. Market intermediaries must conduct themselves in a way to protect the interests of the public and preserve the integrity of the market. The regulator must ensure the maintenance and appropriate standards of conduct and adherence to proper procedures. The specific principles to be adopted are:
    - Market intermediaries should observe high standards of integrity and fair dealing and should act with due care and diligence in the best interests of the public and the integrity of the market
    - Market intermediaries should make adequate disclosure to the interest holders, in a comprehensive and timely way of information needed to make a balanced and informed investment decision
    - Market intermediaries should observe high standards of market conduct and it should also comply with any relevant law, code or standard

Recommendation 14 –
Inter-ministries and agencies strategic partnerships and alliances

1. As a strategy on cross sector collaborations, enhancement on internal synergy, leveraging on common goals, mutually beneficial opportunities and revenue sharing formula, the Blueprint has identified the initiating of strategic partnerships and strategic alliances between ministries, regulators, agencies, financial institutions and financial market players to create a regulatory regime fostering common goals and mutually beneficial

opportunities; introducing a framework that is modelled to encourage development, competition and innovation of the interest schemes market.

2. The identified ministries, agencies and organizations are:
   - Federal Ministries
   - Federal Government Agencies
   - State Government Agencies
   - State Investment Centers
   - Technology Related Organizations
   - Infrastructure Related Agencies
   - Financial Organizations
   - R&D Organizations
   - International / Regional Organizations

3. The strategic partnerships and strategic alliances between ministries, regulators, financial institutions and financial market players will:
   - Encourage overall development, competition and innovation of the interest schemes market and products
   - Creating overall nationwide visibility and awareness raising of interest schemes profile and market
   - Allowing direct and positive engagement between ministries, regulators, financial institutions and financial market players
   - Creating a framework and platform for cross-selling, cross-media marketing, cross-promotion, marketing co-operation, co-promotion and co-branding

4. The inter ministries strategic partnerships and alliances will also be beneficial to the interest schemes industry in the following areas:
   - Promoting financial inclusion such as facilitating information gathering of available source of financing for SMEs
   - Facilitate business matching with financing source
   - Training on ethical business practices, corporate governance and regulatory compliance for SMEs
   - Promoting cross sector industries such as agriculture, franchise, tourism, hotel industry, cultural heritage, sports, R&D, welfare, Innovation, technology, ICT, halal industries by using the interest schemes platform as one the enablers of growth

5. The inter ministries strategic partnerships and alliances should be subject to the following principles:
   - It must add value creation to the industry
   - It must have objectives beyond revenue generating targets

Value creation to the industry

6. The strategic partnerships and alliances must play a key role in developing the interest schemes industry and add overall value creation to the industry in the following areas:
   - Ensuring growth strategy, creating new markets and opportunities
   - Improve the overall industry setting
   - Change the competitive market setting for industry players and investors

Core objectives beyond revenue generating targets

7. The strategic partnerships and alliances must identify core objectives beyond revenue generating targets. The focus criteria are:
    - The strategic relationship must produce high impact potential
    - The strategic relationship must unlock hidden potentials of the interest schemes industry and the industry stakeholders
    - Reduce financial risk and share costs of research and development

Identify game-changing & smart positioning strategies and quick wins to rebrand and promote the interest schemes industry

Recommendation 15 –
Investment management & investment incentives

1. As a strategy to identify game-changing and smart positioning strategies and quick wins to rebrand and promote the interest schemes industry, the Blueprint has identified the exploration of several broad-ranging incentives to enhance the overall landscape of investment management industry such as tax incentives, tax exempt regime, stamp duty exemptions and EPF withdrawals.

2. The investment and tax incentives will:
   - Encourage overall development, competition and innovation of the interest schemes market and products
   - Increase market liquidity
   - Increasing the value of interest units as a different / new assets class
   - Create better attraction for the buying market

3. The recommended areas of exploration are:
   - Tax incentives
   - Capital allowances
   - Income exempt from tax

4. There is a strong argument for the allowance of investment management and investment incentives especially for the public-private financing partnership models. The public-private financing partnership model collaborative structure projects are primarily created for public and social initiative and development benefits. The public-private financing partnership models is proposed to be implemented with the relevant Federal Ministries:

Public-Private Financing Partnership Model 1: Aged Care Leisure & Lifestyle Program	Ministry of Women, Family and Community Development
Public-Private Financing Partnership Model 2: National Share Farming Program	Ministry of Agriculture & Agro-Based Industry Ministry of Entrepreneur Development Ministry of Rural Development
Public-Private Financing Partnership Model 3: National Livestock & Poultry Farming Program	Ministry of Agriculture & Agro-Based Industry Ministry of Entrepreneur Development Ministry of Rural Development
Public-Private Financing Partnership Model 4: National Health Care Program	Ministry of Health
Public-Private Financing Partnership Model 5:	Ministry of Health

National Nursing / Palliative Care Program & Health Screening Packages	
Public-Private Financing Partnership Model 6: National Tourism & Medical Tourism Program	Ministry of Tourism, Arts & Culture Malaysia

Tax incentives for Management Companies

5. There is currently a wide range of tax incentives ranging from tax exemptions, allowances and enhanced tax deductions. Tax incentives can be given in the form of investment tax allowance granted based on the capital expenditure incurred on industrial buildings, plant and machinery used for the purposes of certain promoted activities which could be linked to the interest schemes industry:
   - Agriculture
   - Property Trust Fund
   - Halal incentives for Halal industry players
   - Healthcare and wellness
   - Hotel and tourism

   It is recommended that these types of tax incentives be explored with the relevant regulatory authorities.

Capital allowances for Management Companies

6. There is currently a wide range of capital allowances for purposes of industrial building allowance. Some of these industrial buildings, which can be linked to the interest schemes industry, can be in the form of:
   - Hotel
   - Private hospital, nursing home and old folks' care center
   - Agriculture allowance

   It is recommended that these types of capital allowances be explored with the relevant regulatory authorities.

Income exempt from tax for Interest Holders

7. There is currently a wide range of income that has been exempted from tax. Some of these include:
   - Dividends
   - Grants
   - Subsidies
   - Interest or bonus received from deposits in licensed institution

   It is recommended that these types of capital allowances be explored with the relevant regulatory authorities.

Recommendation 16 –
Awareness raising of interest schemes profile

1. There is a broad need to raise awareness of interest schemes' profile. At this juncture, there is a general lack of awareness by investors / interest holders and the general public. The general public is probably aware of golf, recreational and timeshare club memberships. However, they may not even be aware that that such club memberships are regulated by SSM. The same argument would apply to investment based schemes. The only awareness and knowledge that the investors and the general public would know of such investment schemes are in the negative context. There is a need to raise awareness of interest schemes profile. There is a need to educate the public on the regulatory role of SSM and to alert potential investors and the public at large of risks of engaging with unregistered schemes.

2 Apart from investors and the public at large, there is also a need to raise awareness with the stakeholders of the industry. Stakeholders of the industry would need to be identified; and should not be restricted to issuers / operators / management companies. The coverage of stakeholders should include accountants, auditors, lawyers, company secretaries and marketing agents. There should be a policy of inclusiveness in the definition of stakeholders. Profile awareness and visibility can be achieved through strategic engagements with such stakeholders.

3 Apart from stakeholders of the industry, there is an additional need to engage with, in particular, existing and new market players that may potentially utilize interest schemes within their existing or future business model. There is a need to put in place a platform to create more "visibility" for interest schemes amongst these existing and new market players.

Recommendation 17 –
Interest schemes online presence and webpage visibility

1. Awareness raising profile comes from "online presence" and "visibility". At present, SSM's official website does not give due prominence to interest schemes. Interest schemes remain as a general part of SSM's wide array of business registrations and products. Interest schemes is not prominently displayed in SSM's main page. There is a need to elevate interest schemes to a higher level status as compared to the other services and products. Due recognition and prominence must be accorded to interest schemes within SSM and within SSM's webpage.

2. The interest schemes webpage (as opposed to SSM's main page) is severely lacking. More engagement and educational features can be adopted and inserted into the webpage to create visibility traffic. For example, there should be upgraded features such as investor education portal, e-Library and investor alert portal.

3. If possible, consideration can be given as to whether SSM's interest schemes should have its own personal webpage, differentiating that of SSM's general website. This act will help translate SSM's personal commitment to "elevate" the status of interest schemes.

Recommendation 18 **–**
Online pre-approval process checklist and qualification

1. The interest schemes web portal should include an online pre-approval process checklist and qualification for potential operators to conduct an easy and hassle free online pre-approval process checklist and qualification test. Potential operators can have a cost-free chance to “test the waters” to see whether their company is able to qualify to the interest schemes checklist requirements.

2. SSM has already embarked on the development of the new digital core registry platform for its online infrastructure. The online pre-approval process checklist and qualification can, alternatively, be incorporated into the regulator’s core registry solutions to streamline its online registry infrastructure.

Recommendation 19 **–**
Relaxation of fundraising registration and requirements rules

1. Smaller SMEs may have difficulty in complying with the interest schemes registration and requirement rules. The current capital requirements such as the paid-up capital and profit test can be challenging for these smaller scale SMEs. Apart from the paid-up capital requirement and profit test capital requirements, other factors such as costs may pose as a hindrance. These costs may come in the form of registration fees, submission fees, approval fees and legal costs.

2. There should be relaxation of fundraising registration and requirement rules in respect of capital requirements such as paid-up capital requirement and profit test requirement if interest schemes were to attract the smaller scale SMEs.

3. The relaxation of these capital requirements rules would also make sense for registration of a public-private financing partnership models or a non-profit or charitable model of interest schemes.

4. Apart from the relaxation of the paid-up capital requirement and the profit test requirement for these small-scale SMEs, public-private financing partnership models or non-profit or charitable models, there should be a relaxation of registration / submission fees and approval fees.

5. SSM has no control over the legal costs as these are externally imposed by solicitors. However, legal costs can be potentially lowered by allowing these small-scale SMEs, public-private financing partnership models to utilize easy-to-use templates for the Contractual Agreements and Prospectuses.

Recommendation 20 **–**
Investor alert portal

1. In line with the corresponding arguments for interest schemes' online presence and online visibility, the interest schemes portal should include an investors' alert portal. Investor education is key to investor protection and is complimentary to the traditional tools of regulation, supervision and enforcement. SSM is able to announce and receive alerts and warning to and from the public and stakeholders about firms which are not authorized to provide investment service.

Recommendation 21 **–**
Media release

1. Awareness raising profile does not exclusively come from "online presence" and "visibility". Regulators have always found that constant engagement with media will always reaps coverage benefits that goes beyond monetary value. Private corporations pay a hefty sums to be featured in main stream media as a means of advertising and publicity exercise.

2. SSM, as a recognized regulatory authority, has an unsurpassed edge in this respect. SSM should take full advantage of this regulatory standing. There must be increased efforts to raise interest schemes' profile through working with the financial news media, holding media briefings during conferences and releasing media statement, which will prove to be effective. It is recommended that SSM should embark on an aggressive practice framework on media releases for informed announcement and disclosures.

Recommendation 22 **–**
Engagement exercises

Issuers, operators and management companies

1. At present, there is a low level of engagement with issuers, operators and management companies and their representing trade associations. There is an urgent need for SSM's commitment to engage with management companies in order to better understand their needs and the challenges they face. SSM would need to take the lead in this respect. The engagement with the issuers, operators and management companies will result in developing early and forward-looking responses to the challenges that interest schemes market may face in rapidly evolving environment.

2. Active engagements with issuers, operators and management companies should go beyond traditional conferences and joint lectures. Representatives of the industry should be welcomed into SSM's joint committees to facilitate meaningful dialogues and exchanges.

Accountants, auditors, lawyers and company secretaries

3. At present, there is a low level of engagement with the professional stakeholders: accountants, auditors, lawyers and company secretaries. There is an urgent need for SSM's commitment to engage with the professional stakeholders in order to better understand their needs and the challenges they face. SSM would need to take the lead in this respect. The engagement with the professional stakeholders will result in developing

early and forward-looking responses to the challenges that interest schemes market may face in rapidly evolving environment.

4. Active engagements with accountants, auditors, lawyers and company secretaries should go beyond traditional conferences and joint lectures. Representatives of the professional stakeholders should be welcomed into SSM's joint committees to facilitate meaningful dialogues and exchanges.

5. Additionally, there is a need for SSM to specifically engage with accountants and auditors to help clarify and improve international standards on accounting for interest schemes. SSM is required to continue to provide comments to accountants and auditors to encourage their development of high quality standards and to explore drivers of audit quality. There is also a need to explore issues relating to auditor independence and non-audit services and the potential impact of these services on auditor's independence. And as the industry grows, there is a need to address issues of asset valuation. Eventually, SSM would have to consider on additional guidelines and disclosures relating to the measurement of fair value.

Investors / interest holders

6. At present, there is a low level of engagement with investors / interest holders. There is an urgent need for SSM's commitment to engage with investors / interest holders in order to better understand their needs and the challenges they face. SSM would need to take the lead in this respect. The engagement with investors / interest holders will result in developing early and forward-looking responses to the challenges that interest schemes market may face in rapidly evolving environment.

7. The core objectives of regulation is always the protection of investors. Investors should be protected from misleading, manipulative or fraudulent practices. Full disclosure of information material to investors' decisions is the most important means for ensuring investor protection.

8. Investor education is one of the most important components of investor protection. SSM should increase its investor education efforts. It is recommended that SSM introduce an online investor education portal with online investor education activities and workshop. The portal can also make available investor education resources and e-Library.

New market players / identification of emerging markets

9. At present, there is a no engagement exercise with new market players. There is an urgent need for SSM's commitment to engage with new and potential market players in order to better understand their needs and the challenges they face. SSM would need to take the lead in this respect. The engagement with new and potential market players will result in developing early and forward-looking responses to the challenges that interest schemes market may face in rapidly evolving environment.

10. At present classification of categories of interest schemes are announced when an issuer successfully registers a scheme with the SSM. If there are no innovative schemes being registered, the categories remain unchanged in the framework, guidelines and webpage. SSM should take the lead in identifying the existing and potential business sectors or

clusters and include it into the existing classification although no schemes of such nature have yet to be registered. This proactive approach will enable a sort of engagement with new and potential market players to consider the various categories of interest schemes.

11. It is recommended that SSM consider the setting up of an Emerging Markets Committee to identify and promote developments of emerging interest schemes products and markets.

Youth / young investors / students

12. Younger investors are entering the market in larger numbers. Bursa Malaysia revealed in 2017 that there was a 36% jump in the number of Central Depository System (CDS) account ages 25 years and below. Bursa Malaysia said that the increase was a direct result of its targeted efforts to attract young investors through various literacy programmes held at universities.

13. At present, there is no engagement exercise with young investors. There is a need for SSM to engage with the youth. One way is to set up a SSM Investor Club to establish a platform for students to increase their investment awareness and knowledge through personal development programs in the area of leadership, entrepreneurship and finance.

14. Youth engagement can also be conducted by way of setting up of investment clubs at universities and institutions of higher learning. For example, in 2019, the students of the UCSI University Bursa Young Investors Club collaborated with Bursa Malaysia to organize the UCSI University Bursa University Day.

Recommendation 23 –
Education on investor protection

1. Investor education is the key strategy for enhancing investor protection, promoting investor confidence and fostering investor engagement in financial planning and decision making. It is complimentary to the traditional tools of regulation, supervision and enforcement.

2. At present, there is very little done on interest schemes education within investors and stakeholders of the interest schemes industry. There is also no education dialogue catered for new, potential and emerging interest schemes player.

3. In line with Recommendation 19 (Investors / interest holders), it is recommended that SSM introduce an online investor education portal with online investor education activities and workshop. The portal can also make available investor education resources and e-Library.

***Recommendation 24* –**
Monetizing data and product development

1. Data is valuable because it tells companies about their audience's interests, allowing them to improve their customers' experience. Vice-versa, data on the scheme and the company can also be valuable to the investing public.

2. The value of information about a scheme or company is key to an investor's decision to invest. These data / information have dual purpose: it helps investors and generate economic benefits to SSM.

3. At present, investors can get information from the Prospectus, Trust Deed and Accounting Report.

4. These documents are made available by the Management Company to the investors. If the investors require further information (such as company's composition, status or reputation), such information are available through SSM's MyDATA / IDAMAN platform.

5. However, certain additional information such as analysis on macro / micro economy, past trends, industrial analysis report, market sentiments and sector performances are currently not available.

6. SSM can develop its own interest schemes' data analytics report as a commercial product.

***Recommendation 25* –**
Reclassification and upgrade of Interest Schemes Section; Manpower development and training

1. The recommendations proposed in this Blueprint is extensive. In order to fully implement all the Blueprint's recommendations, there may be a need to conduct a manpower planning exercise to meet the increasing demands of the potential growth of the interest schemes industry.

2. There may be a need to increase the manpower size of the Interest Schemes Section and to reclassify and upgrade the section to a full division of SSM. There would be a need to upskill the executives, which includes manpower development and training.

3. There may also be a need to appoint experts with the appropriate expertise to assist the Interest Schemes Division to implement the recommendations and to meet the demands of the potential development.

Summary of Recommendations		
Strategic planning on rebranding and promotion of interest schemes as an alternative method of funding for businesses beyond the traditional growth	Identify existing or potential business models which can lead to growth strategy	Identify existing or potential business sectors or clusters which can lead to growth strategy
Recommendation 1 – Expanding the nature and approach towards the definition and understanding of interest schemes *Collection of monies in advance* *Pooled investments or common enterprise (to produce financial benefits)*	**Recommendation 2** – Introducing various business models to the industry ***Business Model 1***: *Membership / Right to Use Schemes* ***Business Model 2***: *Investment Schemes* ***Business Model 3***: *Hybrid Schemes* ***Business Model 4***: *Shariah Schemes*	**Recommendation 3** – Identifying various business sectors suitable for the interest schemes platform ***Business Cluster 1***: *Recreational, vacation, right-to-use or service-oriented tourism-based membership scheme* ***Business Cluster 2***: *Timeshare, fractional ownership or co-chartering based on recreational membership scheme for movable land, air or sea vehicle* ***Business Cluster 3***: *Land and crop cultivation, livestock, fish or poultry farming* ***Business Cluster 4***: *Aggregation of parcels of land for future sale or development* ***Business Cluster 5***: *Property investment trust or real estate trust* ***Business Cluster 6***: *Private retirement home, nursing or palliative care homes* ***Business Cluster 7***: *Feeder funding hybrid schemes to finance construction of hotel, commercial building, golf resort, recreational resort or marina club* ***Business Cluster 8***: *Education sector* **Recommendation 4** – Identifying potential interest schemes market in the public sector: Public-private financing partnership model ***Public-Private Financing Partnership Model 1***: *Aged Care Leisure & Lifestyle Program* ***Public-Private Financing Partnership Model 2***: *National Share Farming Program* ***Public-Private Financing Partnership Model 3***: *National Livestock & Poultry Farming Program* ***Public-Private Financing Partnership Model 4***: *National Health Care Program* ***Public-Private Financing Partnership Model 5***: *National Nursing / Palliative Care Program & Health Screening Packages* ***Public-Private Financing Partnership Model 6***: *National Tourism & Medical Tourism Program*

Summary of Recommendations			
Identify solutions to address existing gaps and problems relating to interest schemes growth	Strategize potential business growth & market needs	Identify strategies on cross sector collaborations, enhancement on internal synergy, leveraging on common goals, mutually beneficial opportunities and revenue sharing formula	Identify game-changing & smart positioning strategies and quick wins to rebrand and promote the interest schemes industry
Recommendation 5 – Establishment of a Shariah Advisory Committee **Recommendation 6** – Introduction of a Two (2) Plus-Tier Shariah governance structure **Recommendation 7** – Appointment of Shariah Advisor **Recommendation 8** – Developing a comprehensive Shariah audit framework **Recommendation 9** – Developing a comprehensive Shariah review framework **Recommendation 10** – Developing a comprehensive Shariah risk management framework **Recommendation 11** – Developing the Shariah contracts and business models ***Shariah Contract Model 1**: Sale-Based Contracts (Bay‘, Bay‘ al-musawamah, Bay‘ al-murabahah, Bay‘ bithaman ajil, Bay‘ salam & Istisna‘)* ***Shariah Contract Model 2**: Lease-Based Contracts (Al-ijarah & Al-ijarah muntahia bi al-tamlik)* ***Shariah Contract Model 3**: Equity-Based Contracts (Musharakah, Musharakah mutanaqisah & Mudarabah)* ***Shariah Contract Model 4**: Agency-Based Contracts (Wakalah & Wakalah bi istithmar)* ***Shariah Contract Model 5**: Agricultural-Based Contracts (Muzara'ah, Musaqah & Mugharasah)*	**Recommendation 12** – Online marketplace and trading platform for the facilitation of primary and secondary markets ***Regulatory Principle 1**: Regulatory authorization and oversight* ***Regulatory Principle 2**: Transparency of trading* ***Regulatory Principle 3**: Prohibition of market manipulation & other unfair trading practices* ***Regulatory Principle 4**: Clearing & settlement systems*	**Recommendation 13** – Outsourcing of financial services to market intermediaries ***Regulatory Principle 1**: Licensing and supervision* ***Regulatory Principle 2**: Capital adequacy* ***Regulatory Principle 3**: Conduct of business rules & other prudential requirements* **Recommendation 14** – Inter-ministries strategic partnerships and alliances *Value creation to the industry* *Core objectives beyond revenue generating targets*	**Recommendation 15** – Investment management & investment incentives *Tax incentives for Management Companies* *Capital allowances for Management Companies* *Income exempt from tax for Interest Holders* *Youth / young investors / students* **Recommendation 16** – Awareness raising of interest schemes profile **Recommendation 17** – Interest schemes online presence and webpage visibility **Recommendation 18** – Online pre-approval process checklist and qualification **Recommendation 19** – Relaxation of fundraising registration and requirement rules **Recommendation 20** – Investor alert portal **Recommendation 21** – Media release **Recommendation 22** – Engagement exercises *Issuers, operators and management companies* *Accountants, auditors, lawyers and company secretaries* *Investors / interest holders* *New market players / identification of emerging markets* **Recommendation 23** – Education on investor protection

			Recommendation 24 – Monetizing data and product development **Recommendation 25** – Reclassification and upgrade of Interest Schemes Section; Manpower development and training

IMPLEMENTATION

Overview

This Blueprint contains a total of 24 recommendations which will be implemented over a five-year period. The implementation table follows the summaries of the recommendations and outlines the means by which the recommendations will be carried out and the timeline thereto.

A number of recommendations will need to be examined and further studied through the formation of committees and working groups. These committees and working groups are expected to be driven by both the regulator and industry experts. No legislative changes has been identified, but if so required, will be worked on accordingly.

The progress of the implementation will be monitored by the Companies Commission of Malaysia, and where necessary and appropriate, adjustments can be made to ensure that the objectives of the Blueprint can be achieved. This may include fine-tuning of the recommendations and even the addition of new recommendations.

It is recommended that a full post implementation review will be carried out at the end of the five-year period.

Recommendation 1 –
Expanding the nature and approach towards the definition and understanding of interest schemes

The definition of "interest schemes" be re-defined to two (2) broad categories. The first category will be any scheme that incorporates any collection of monies in advance of one (1) year or of a certain threshold amount (even if it does not exceed one (1) year). The second category will be any scheme that incorporates a form of fund raising. It covers three (3) crucial elements – (*a*) People contribute money or money's worth as consideration to acquire rights to benefits produced by the scheme; (*b*) Any of the contributions are to be pooled, or used in a common enterprise, to produce financial benefits; (*c*) members do not have day-to-day control over the operation of the scheme.

Implementation	***Timeline***
The nature and approach towards the understanding of the traditional definition of interest schemes would have to be re-looked. This new approach is *not* changing the definition of interest schemes but merely taking a new perspective towards its nature and essence. There is no requirement to amend the law. The new approach definition can be introduced in various forms and formats: - documents, webpage, guidelines, promotional materials, seminars and workshops.	Immediate: Year 1 (2020)

Recommendation 2 –
Introducing various business models to the industry

Business Model 1: Membership / Right to Use Schemes
Business Model 2: Investment Schemes
Business Model 3: Hybrid Schemes
Business Model 4: *Shariah* Schemes

Implementation	***Timeline***
There is no requirement to amend the law. The new business models can be introduced in various forms and formats: - documents, webpage, guidelines, promotional materials, seminars and workshops.	Immediate: Year 1 (2020)

Recommendation 3 –
Identifying various business sectors suitable for the interest schemes platform

Business Cluster 1: Recreational, vacation, right-to-use or service-oriented tourism-based membership scheme

Business Cluster 2: Timeshare, fractional ownership or co-chartering based on recreational membership scheme for movable land, air or sea vehicle

Business Cluster 3: Land and crop cultivation, livestock, fish or poultry farming

Business Cluster 4: Aggregation of parcels of land for future sale or development
Business Cluster 5: Property investment trust or real estate trust
Business Cluster 6: Private retirement home, nursing or palliative care homes
Business Cluster 7: Feeder funding hybrid schemes to finance construction of hotel, commercial building, golf resort, recreational resort or marina club
Business Cluster 8: Education sector

Implementation	***Timeline***
There is no requirement to amend the law. The new business models can be introduced in various forms and formats: - documents, webpage, guidelines, promotional materials, seminars and workshops.	Immediate: Year 1 (2020)

<table>
<tr><td colspan="2">Recommendation 4 –
Identifying potential interest schemes market in the public sector: Public-private financing partnership model
Public-Private Financing Partnership Model 1: Aged Care Leisure & Lifestyle Program
Public-Private Financing Partnership Model 2: National Share Farming Program
Public-Private Financing Partnership Model 3: National Livestock & Poultry Farming Program
Public-Private Financing Partnership Model 4: National Health Care Program
Public-Private Financing Partnership Model 5: National Nursing / Palliative Care Program & Health Screening Packages
Public-Private Financing Partnership Model 6: National Tourism & Medical Tourism Program</td></tr>
<tr><td>Implementation
There is no requirement to amend the law. The new business models can be introduced in various forms and formats: - documents, webpage, guidelines, promotional materials, seminars and workshops.</td><td>Timeline
Immediate: Year 1 (2020)</td></tr>
</table>

<table>
<tr><td colspan="2">Recommendation 5 –
Establishment of a Shariah Advisory Committee
A Shariah Advisory Committee would have to be established to assist the Commission pursuant to section 43(2) of the Interest Schemes Act 2016. A formal procedure in respect of the appointment, tenure, scope and terms of referral of the Shariah Advisory Committee needs to be implemented.</td></tr>
<tr><td>Implementation 1
A committee or working group comprising of regulator and industry experts be formed to draw up the formal procedure in respect of the appointment, tenure, scope and terms of referral of the Shariah Advisory Committee.

Implementation 2
A secretariat be established to assist the management and operational matters of the Shariah Advisory Committee.</td><td>Timeline 1
Immediate: Year 1 (2020)

Timeline 2
Year 2 (2021)</td></tr>
</table>

<table>
<tr><td colspan="2">Recommendation 6 –
Introduction of a 2-tier Shariah governance structure
A 2-tier model which places the Shariah Advisory Council of Bank Negara Malaysia as the final authority on ascertainment of Islamic law</td></tr>
<tr><td>Implementation
A committee or working group comprising of regulator and industry experts be formed to draw up the formal working framework of collaborating with Bank Negara Malaysia.</td><td>Timeline
Immediate: Year 1 (2020)</td></tr>
</table>

Recommendation 7 –
Appointment of Shariah Advisor
Each management company registering a Shariah compliant interest scheme would be required to appoint at least one (1) Shariah Advisor.

Implementation	***Timeline***
A committee or working group comprising of regulator and industry experts be formed to draw up the formal framework in respect of the registration, qualifications, criteria, scope of duties and responsibilities of the Shariah Advisors.	Immediate: Year 1 (2020)

Recommendation 8 –
Developing a comprehensive Shariah audit framework
Each management company registering a Shariah compliant interest scheme would be subjected to a mandatory Shariah audit to ensure its Shariah compliance. The Shariah audit is to be performed by external auditors who has the necessary Shariah knowledge, experience and has acquired adequate Shariah related training.

Implementation	***Timeline***
A committee or working group comprising of regulator and industry experts be formed to draw up a regulatory structure for developing the Shariah audit framework.	Immediate: Year 1 (2020)

Recommendation 9 –
Developing a comprehensive Shariah review framework
Each management company registering a Shariah compliant interest scheme would be subjected to a mandatory Shariah review to ensure its Shariah compliance. The Shariah review is to be carried out by qualified Shariah officers.

Implementation	***Timeline***
A committee or working group comprising of regulator and industry experts be formed to draw up a regulatory structure for developing the Shariah review framework.	Immediate: Year 1 (2020)

Recommendation 10 –
Developing a comprehensive Shariah risk management framework
Each management company registering a Shariah compliant interest scheme would be subjected to a mandatory Shariah risk management to ensure its Shariah compliance. The Shariah risk management is to be carried out by qualified Shariah risk officers.

Implementation	***Timeline***
A committee or working group comprising of regulator and industry experts be formed to draw up a regulatory structure for developing the Shariah risk management framework.	Immediate: Year 1 (2020)

***Recommendation 11** –* Introducing various Shariah business models to the industry Shariah Contract Model 1: Sale-Based Contracts (Bay', Bay' al-musawamah, Bay' al-murabahah, Bay' bithaman ajil, Bay' salam & Istisna') Shariah Contract Model 2: Lease-Based Contracts (Al-ijarah & Al-ijarah muntahia bi al-tamlik) Shariah Contract Model 3: Equity-Based Contracts (Musharakah, Musharakah mutanaqisah & Mudarabah) Shariah Contract Model 4: Agency-Based Contracts (Wakalah & Wakalah bi istithmar) Shariah Contract Model 5: Agricultural-Based Contracts (Muzara'ah, Musaqah & Mugharasah)	
Implementation There is no requirement to amend the law. The new business models can be introduced in various forms and formats: - documents, webpage, guidelines, promotional materials, seminars and workshops.	***Timeline*** Immediate: Year 1 (2020)

***Recommendation 12** –* Online marketplace and trading platform for the facilitation of primary and secondary markets The setting up of online marketplace and trading platform to regulate: (*a*) Initial and primary offering of interest schemes units or memberships; and (*b*) Secondary sales between interest holders of the interest schemes units or memberships. However, the regulatory framework would have to be in place. Four (4) regulatory principles have been identified: - Regulatory Principle 1: Regulatory authorization and oversight Regulatory Principle 2: Transparency of trading Regulatory Principle 3: Prohibition of market manipulation & other unfair trading practices Regulatory Principle 4: Clearing & settlement systems	
Implementation 1 A committee or working group comprising of regulator and industry experts be formed to draw up a regulatory structure which incorporates the four (4) regulatory principles in order to facilitate the implementation of the online marketplace and trading platform. ***Implementation 2*** A committee or working group comprising of regulator and industry experts be formed to draw up the formal working framework of collaborating with Bursa Malaysia	***Timeline 1*** Immediate: Year 1 (2020) ***Timeline 2*** Year 2 (2021)

***Recommendation 13** –* Outsourcing of financial services to market intermediaries The creation of a regime of regulated market intermediaries or outsource to third party service providers in respect of the offering of interest scheme units and products. However, the regulatory framework would have to be in place. Three (3) regulatory principles have been identified: - Regulatory Principle 1: Licensing and supervision Regulatory Principle 2: Capital adequacy Regulatory Principle 3: Conduct of business rules & other prudential requirements	
Implementation 1 A committee or working group comprising of regulator and industry experts be formed to draw up a regulatory structure which incorporates the three (3) regulatory	***Timeline 1*** Immediate: Year 1 (2020)

principles in order to facilitate the implementation of a regime of market intermediaries. ***Implementation 2*** The identification, appointment and registration of market intermediaries. ***Implementation 3*** Trial run and full integrated implementation of offering of interest scheme units and products through regulated market intermediaries.	***Timeline 2*** Year 2 (2021) ***Timeline 3*** Year 3 (2022)

Recommendation 14 – Inter-ministries strategic partnerships and alliances The initiation of strategic partnerships and strategic alliances between ministries, regulators, agencies, financial institutions and financial market players to create a regulatory regime fostering common goals and mutually beneficial opportunities. However, the regulatory framework would have to be in place. Two (2) principles have been recommended: - Principle 1: Value creation to the industry Principle 2: Core objectives beyond revenue generating targets	
Implementation 1 A committee or working group comprising of regulator and industry experts be formed to draw up a regulatory structure which incorporates the two (2) principles in order to facilitate the implementation of the strategic partnerships and strategic alliances between ministries, regulators, agencies, financial institutions and financial market players. ***Implementation 2*** The identification and the initiation of the collaborative process and the signing of the memorandum of understanding. ***Implementation 3*** Trial run and full integrated implementation of the strategic partnerships and strategic alliances.	***Timeline 1*** Immediate: Year 1 (2020) ***Timeline 2*** Year 2 (2021) ***Timeline 3*** Year 3 (2022)

Recommendation 15 – Investment management and investment incentives The exploration of several broad ranging incentives to enhance the overall landscape of investment management industry such as tax incentives, capital allowances and incomes exempt from tax.	
Implementation 1 A committee or working group comprising of regulator and industry experts be formed to draw up a regulatory structure in order to facilitate the introduction and implementation of the tax incentives. ***Implementation 2*** The identification and the initiation of the collaborative process with the relevant regulatory authorities.	***Timeline 1*** Immediate: Year 1 (2020) ***Timeline 2*** Year 2 (2021)

Implementation 3 Trial run and full integrated implementation of the tax incentives framework.	***Timeline 3*** Year 3 (2022)

<table>
<tr><td colspan="2">Recommendation 16 –
Awareness raising of interest schemes profile
Recommendation 17 –
Interest schemes online presence and webpage visibility
To raise awareness of interest schemes profile from “online presence” and “visibility”. To launch an interest schemes personal webpage.</td></tr>
<tr><td>Implementation 1
Design and development of software systems.

Implementation 2
Trial run and full integrated implementation of the webpage.</td><td>Timeline 1
Immediate: Year 1 (2020)

Timeline 2
Year 2 (2021)</td></tr>
</table>

<table>
<tr><td colspan="2">Recommendation 18 –
Online pre-approval process checklist and qualification
The interest schemes web portal to include an online pre-approval process checklist and qualification for potential operators to conduct an easy and hassle free online pre-approval process checklist and qualification test.</td></tr>
<tr><td>Implementation 1
Design and development of software systems.

Implementation 2
Trial run and full integrated implementation of the online pre-approval process checklist and qualification test.</td><td>Timeline 1
Immediate: Year 1 (2020)

Timeline 2
Year 2 (2021)</td></tr>
</table>

<table>
<tr><td colspan="2">Recommendation 19 –
Relaxation of fundraising registration and requirement rules
Relaxation of rules in respect of capital requirement such as paid-up capital requirement and profit test requirement.</td></tr>
<tr><td>Implementation
A committee or working group comprising of regulator and industry experts be formed to draw up an amendment to the existing registration and requirement rules.</td><td>Timeline
Immediate: Year 1 (2020)</td></tr>
</table>

<table>
<tr><td>Recommendation 20 –
Investor alert portal
The interest schemes web portal to include an investors’ alert portal in order to announce and receive alerts and warnings to and from the public and stakeholders.</td></tr>
</table>

Implementation 1 Design and development of software systems. ***Implementation 2*** Trial run and full integrated implementation of the investors' alert portal.	***Timeline 1*** Immediate: Year 1 (2020) ***Timeline 2*** Year 2 (2021)

***Recommendation 21** –* Media release Increased efforts working with the financial news media, holding media briefings and releasing media statements. Embark on an aggressive practice framework on media releases for informed announcement and disclosures.	
Implementation A committee or working group comprising of regulator and industry experts be formed to draw up a working structure and implementation process in order to facilitate the introduction of effective media release.	***Timeline*** Immediate: Year 1 (2020)

***Recommendation 22** –* Engagement exercises Active engagement with issuers, operators, management companies, accountants, auditors, lawyers, company secretaries, investors, interest holders and new market players.	
Implementation A committee or working group comprising of regulator and industry experts be formed to draw up a working structure and implementation process in order to facilitate the engagement exercises.	***Timeline*** Immediate: Year 1 (2020)

***Recommendation 23** –* Education on investor protection Investor education, programs, workshops, online investor education portal, education activities and e-Library.	
Implementation A committee or working group comprising of regulator and industry experts be formed to draw up a working structure and implementation process in order to facilitate the education on investor protection.	***Timeline*** Immediate: Year 1 (2020)

***Recommendation 24** –* Monetizing data and product development Developing its own interest schemes' data analytics report on macro / micro economy, past trends, industrial analysis report, market sentiments and sector performances.

Implementation	***Timeline***
A committee or working group comprising of regulator and industry experts be formed to draw up a working structure and implementation process in order to facilitate the data analytics report / product development.	Immediate: Year 1 (2020)

Recommendation 25 – Reclassification and upgrade of Interest Schemes Section; Manpower development and training The need to increase the manpower size of the Interest Schemes Section and to reclassify and upgrade the section to a full division of SSM.	
Implementation A committee or working group comprising of regulator be formed to draw up a working structure and implementation process in order to facilitate the reclassification, upgrade, manpower development and training process.	***Timeline*** Immediate: Year 1 (2020)

Reference

1. Interest Schemes Act 2016 (Act 778).
2. Companies Act 1965 (repealed).
3. Capital Market and Services Act 2007
4. FAQ on Interest Schemes Act 2016.
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Mr ROSLI AHMAD, Deputy Chief Executive Officer (Registry & Business Services)
Mr KHUZAIRI YAHAYA, Deputy Chief Executive Officer (Regulatory & Enforcement)
Mr AMIR HAJI AHMAD, Director Registration Services Division
Mr MUHAMAD FARIS OTHMAN, Director Training Academy & Knowledge Management Division
Mr MOHD RAZIN MUHAMMAD, Registration Services Division
Mr MOHD AZLAN ABDUL MAJID, Registration Services Division
Mr NORSHARUL NIZAM NORLAN, Registration Services Division
Mr MUHAMAD MUSTAQIM SHAMSUDIN, Registration Services Division
Mr N VIJAYASEGARAN NADESON, Registration Services Division
Mr MUHAMAD NAZRIN ZAINAL NAZRI, Registration Services Division
Madam ROSLIZAWATI NUR WAHIDA ABD AHMAD, Registration Services Division
Madam SITI MARYAM SAAD, Registration Services Division
Madam NURUL HIDAYAH SUHAIMI, Registration Services Division
Madam SITI NAQIAH AZMIL, Registration Services Division
Mr YAP WENG SEONG, Regulatory Development & Services Division
Mr MOHAMED SUFYAN MOHD MOKHTAR, Regulatory Development & Services Division
Mr ZARINAH OTHMAN, Corporate Compliance Division
Mr MOHD ZAM ZAM ZAINUDDIN, Information & Communication Technology Division
Mr WAN ZARAZILLAH WAN ABU BAKAR, Business Development & New Business Service Division
Mr AHMAD ZAKARIA MD ALI, Corporate Communication & Strategy Division
Mr AZAHARI AB RAHMAN, Internal Audit Section

Lead consultants
Dr SEOW HOCK PENG
Mr MICHAEL WONG HONG CHENG
Mr LEE SEONG HUI

Consultants
Mr MD HARRIS MD TAIB
Mr WONG CHAN YUEN
Mr DESMOND CHOI WAI ONN

Researchers
Associate Professor Dr AHMAD AZAM OTHMAN
Miss LAI CHOOI LING
Dr CHIN MUI YIN
Miss JUSTINA JOSEPH JEYARAJ
Dr LIM CHIA YIEN
Mr KON YEE QIN

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Annexure

VOL.	MINISTRY / AGENCY
1	KEMENTERIAN HAL EHWAL EKONOMI (MEA)
2	KEMENTERIAN KEWANGAN
3	KEMENTERIAN PELANCONGAN, SENI DAN BUDAYA MALAYSIA (MOTAC)
4	KEMENTERIAN PEMBANGUNAN USAHAWAN (MED)
5	KEMENTERIAN PELANCONGAN, SENI DAN BUDAYA MALAYSIA (MOTAC)
6	KEMENTERIAN PEMBANGUNAN USAHAWAN (MED)
7	KEMENTERIAN PEMBANGUNAN WANITA, KELUARGA DAN MASYARAKAT (KPWKM)
8	KEMENTERIAN PERTANIAN DAN INDUSTRI ASAS TANI (MOA)
9	KEMENTERIAN TENAGA, SAINS, TEKNOLOGI, ALAM SEKITAR @ PERUBAHAN IKLIM (MESTECC)
10	MALAYSIA EXTERNAL TRADE DEVELOPMENT CORPORATION (MATRADE)
11	KEMENTERIAN PEMBANGUNAN WANITA, KELUARGA DAN MASYARAKAT (KPWKM)

Annexure

VOL.	ORGANIZATION / COMPANY/ ASSOCIATION
1	AGED CARE GROUP SDN BHD
2	ASIA INTERNATIONAL TRUST BERHAD
3	ASSOCIATION OF TRUST COMPANIES MALAYSIA (ATCM)
4	AVILLION ADMIRAL COVE
5	AZMI & ASSOCIATES
6	C.K. CHEONG & SEOW
7	DEWAN PERNIAGAAN TAMAN PERINGATAN SWASTA
8	EAST WEST ONE GROUP SDN BHD
9	FIMM
10	FISOM
11	GABUNGAN DEWAN PERNIAGAAN DAN PERINDUSTRIAN INDIA MALAYSIA (MAICCI)
12	GAN & ZUL ADVOCATES & SOLICITORS
13	GLENMARIE GOLF AND COUNTRY CLUB
14	HAN & PARTNERS
15	HM WONG & ASSOCIATES
16	HSBC TRUSTEE
17	IBFIM
18	ICONIC VACATION CLUB BERHAD
19	ICT ZONE VENTURES BHD
20	INTERLEK MURNI (M) BERHAD
21	IOI GROUP
22	ISRA CONSULTANCY SDN BHD
23	LEISURE HOLIDAYS BERHAD
24	MAICSA
25	MALAYSIAN ASSOC OF GOLF & RECREATIONAL CLUB OWNERS BHD
26	MALAYSIAN ASSOCIATION OF HOTELS
27	MASLEENA, YEE & PARTNERS
28	MESSRS. KOH DIPENDRA JEREMIAH LAW
29	MINES EXCELLENCE GOLF RESORT BERHAD
30	MTRUSTEE BERHAD
31	MY PREMIER TRUSTEE
32	NIRVANA GROUP
33	PACIFIC TRUSTEES BERHAD
34	PAUL CHEAH ASSOCIATES
35	PB TRUSTEE SERVICES BERHAD
36	PIJ AGARWOOD SDN BHD
37	PRESTAVEST BERHAD
38	PRICEWATERHOUSECOOPERS RISK SERVICES SDN BHD
39	RHB TRUSTEES BERHAD
40	SEMENYIH MEMORIAL HILLS BERHAD

Annexure

VOL.	ORGANIZATION / COMPANY/ ASSOCIATION
41	SGI VACATION CLUB
42	SMART SYNERGY CONSULTANS
43	SME BANK
44	TAY & HELEN WONG
45	TMF TRUSTEE BERHAD
46	TPC KUALA LUMPUR
47	TUSITA MEMORIAL PARK (M) BHD
48	UBB AMANAH BERHAD
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50	UNIVERSAL TRUSTEE (MALAYSIA) BERHAD
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