THE RISALAH

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EMBRACING THE FUTURE

Assalamu'alaikum and welcome to the first issue of The Risalah for 2017!

Praise be to Allah swt, we are now in the second year of operations and the CIIF Management is fully charged for a year of exciting events and activities. We have set the foundations necessary to mobilise our strategic plans towards achieving our objectives, and along the way we will constantly strengthen the structures to ensure the momentum continues. As we strive to achieve key milestones, we must keep in mind the need to embrace the future including all its challenges and disruptive innovations.

We started the year with a celebration. The CIIF commemorated its 1st anniversary with the launch of its Code of Ethics and Standards of Professional Conduct, which were issued in December 2016, at the CIIF Dinner and Charity Night. Whilst celebrating the achievement of a new key milestone in our brief history, we recognised the suffering of others by supporting #1moment4them, a charitable body that provides resources and funds for Syrian children in a Syrian school established by Malaysians. The objective of this charitable body to provide education is in line with the first word mentioned in our tagline: *"Knowledge"* and the CIIF, together with participating members and corporate sponsors, were proud to contribute to this noble cause.

Throughout 2017, we will be committed to delivering professional education and industry engagement initiatives for our members. To kick-off these activities, in March 2017, we held the CIIF Training Series I: *A Primer on Etiquette and Efficiency at Work*, which aimed to equip the participants with knowledge of basic etiquette and professionalism in the workplace. The training was well-attended, comprising mainly university students, as well as a few industry professionals who were keen on refreshing their knowledge.

Following the first training series, we also held the inaugural CIIF Industry Discourse I: *IFSA 2013 – Its Significance from Regulatory and Industry Players' Perspectives*, which received very positive feedbacks from participants for the insights given by the speakers. The swift registration for this was highly encouraging, with the sign-ups mainly from our members, with interested non-members also in attendance.

After a highly informative and engaging session, the questions and answers session at the end highlighted the following key takeaways:

- The future landscape is changing and is making its impact in the financial world. The advancement of technology and digitalisation, and increasing involvements of the "Millennials" in financial activities will shape new ways of financial intermediation and how people conduct financial transactions in the future. The question is: Are we well prepared to embrace these impending changes?;
- Specifically for Islamic finance, improved communications platforms and technologies will reduce the gaps between the vision set by the regulator and practitioners' understanding of the future landscape, especially with regards to the investment account and its risk-sharing characteristics. This will boost the readiness of the industry to harness the investment account's untapped potential, with its potential impact yet to be fully explored;
- Islamic finance has a natural alignment with the international agenda for global sustainable development. With the increasing trust deficit towards financial institutions, finance with ethics is perhaps the best solution. Comprehension of Shariah should be part of the core building blocks for developing competent practitioners as it provides the principles and guidelines on sustainable and responsible finance and economy; and
- Internalisation of Shariah principles is fundamental for practitioners to bring out the "soul" of Islamic finance. The right mind-set is needed in delivering products and services that will achieve sustainability and financial inclusion.

Having identified the key takeaways from the discourse, the CIIF plans to link its future events and activities in line with the issues raised. Sustainability, Islamic finance and technology, ethics, and dynamic leadership are some of the themes lined up for this year. Do keep a look out for communications on our future events by following us on Facebook, Twitter and Instagram. We will continue our best to serve you, the CIIF members, as you are the change agents for the future of Islamic finance.

As the cover of this edition's Risalah portrays, we are now peering into the future. The past presented to us important lessons and fundamental principles – and the future is upon us to be fully embraced.

#SETTINGTHERIGHTMINDSET

Best wishes to us all.

Dr. Azura Othman
CEO of CIIF
The Chartered Institute of
Islamic Finance Professionals

JANUARY

- CIIF 1st Anniversary Dinner & Charity Night

FEBRUARY

- CIIF University Engagement & Roadshow: INCEIF
- Talent Development Seminar, MII

MARCH

- CIIF University Engagement & Roadshows: Universiti Utara Malaysia, Sintok and Universiti Sains Malaysia, Penang
- CIIF Training Series I: "A Primer on Etiquette & Efficiency at Work"
- CIIF Industry Discourse I: "IFSA 2013 - Its Significance from Regulatory and Industry Players' Perspectives"

MAY

- CIIF University Engagement & Roadshows: Universiti Malaysia Kelantan, Kelantan, Universiti Sultan Zainal Abidin, Terengganu, and Kolej Yayasan Pahang
- CIIF Industry Discourse II: "Leadership and Ethics - Time for Action"

JUNE

- CIIF 1st Annual General Meeting (AGM)
- *CIIF Ramadhan Tazkirah**

JULY

- *The Launch of New Programmes**
- *CIIF University Engagement & Roadshows**
- FSI Aidilfitri 2017

AUGUST

- CIIF Nexus Forum I: "Sustainability, Technology and Islamic Finance"

SEPTEMBER

- CIIF University Engagement & Roadshows: Universiti Teknologi MARA, Shah Alam, and Universiti Sains Islam Malaysia, Nilai

**All events are subject to change with prior notice.*

Do you/your organisation have any Islamic Finance industry/human capital development related events to feature in The Risalah? If yes, please write to **event@ciif-global.org**

The CIIF Executive Development Programme (EDP) is a fast-track structured training programme geared towards providing an accelerated pathway for members with less than two (2) years of working experience towards achieving the Chartered Professional in Islamic Finance (CPIF). The CIIF's pioneering EDP candidates from Standard Chartered Saadiq Malaysia are here to share their experience.

Fadhilah Rasyidah Mohamed
Bachelor Degree of Muamalat Management, University of Malaya, Malaysia

"Experiencing 10 months on-the-job training was a great chance for a fresh graduate like me to relate what I have studied at university to the real working world in Islamic finance industry. My personal view is that, by knowing the theory without practicing it, is not practical nowadays. The CIIF's Executive Development Programme (EDP) has continuously upgraded my knowledge and skills, which I can apply to my work on a daily basis. I think CIIF's EDP is the best platform for a fresh graduate to have a great exposure in Islamic finance industry. My advice to the students is spend your time to attend or joining forum, talk or symposium. Meeting a lot of industry players and practitioners as well as Shariah scholars will continuously contribute to your current knowledge and the new arising issues in this industry."

Wan Ahmad Syafiq Wan Ikram
Bachelor Degree of Islamic Jurisprudence, Al Al-Bayt University, Jordan, and currently pursuing MSc in Islamic Finance, INCEIF, Malaysia

"Executive Development Programme is truly a great initiative from the CIIF in assisting the young, inexperienced personnel to have a hands-on experience in Islamic finance industry. My experience from the past 10 months in Standard Chartered Saadiq Berhad have been very much valuable. Even though my current role is mostly in Shariah department, but the exposure and knowledge I attained comes from various departments in the bank, such as Risk Management, Product Development and others. Furthermore, as an EDP candidate, I was very fortunate to have a regular Continuous Professional Development training provided to us. Truly I had a lot of fun during our last CPD session with Haji Abdul Rahman (Grand Councillor of the CIIF) and Dr. Nurliza Mydin (Ordinary Member of the CIIF). Both of them have a vast experience in Islamic Finance industry that we can benefit from through sharing their insights."

CIIF 1st Anniversary Dinner & Charity Night 2017

13 January 2017, Pullman Kuala Lumpur City Centre Hotel & Residences

The CIIF celebrated its 1st Anniversary and launched its new Code of Ethics and Standards of Professional Conduct – this was a key milestone in our brief history. In support of good causes focused on knowledge empowerment, part of the proceeds from the dinner tickets sales went to #1moment4them, a charitable body that supports Syrian refugees, particularly to provide necessary resources for the children of refugees studying in schools established by Malaysians in Jordan. We would like to express our heart felt appreciation to all members, corporate sponsors, and donors for making the event a resounding success!

Thank you to our Corporate Partners & Lucky Draw Sponsors

First CPD Session for EDP Candidates

8 February 2017, INCEIF

Tuan Hj. Abdul Rahman Mohd Yusoff, Grand Councillor of the CIIF and Head of Shariah Deparment OCBC Al-Amin, and Dr. Nurliza Mydin, CIIF Member, delivered the first CIIF Continuing Professional Development (CPD) session to its pioneering Executive Development Programme (EDP) candidates at Standard Chartered Saadiq Malaysia.

CIIF Engagement Session at INCEIF

8 February 2017, INCEIF

Dr. Azura Othman, CEO of the CIIF, and Tuan Hj. Abdul Rahman Mohd Yusoff, Grand Councillor of the CIIF, delivered a session entitled **"Road to greater professionalism amongst Islamic Finance practitioners"**.

Talent Development Seminar by the Malaysian Insurance Institute (MII)

15 February 2017, Sasana Kijang Bank Negara Malaysia

The CIIF's Associate Director, Mr. Abdul-Samad Saadi, CPIF, participated as a moderator at MII's Talent Development Seminar, for a session on **"Future role of HR in tomorrow's workplace"**.

CIIF Engagement Session at UUM

7 March 2017, Faculty of Islamic Finance, Universiti Utara Malaysia, Sintok, Kedah

Tuan Hj. Abdul Rahman Mohamed Yusoff, Grand Councillor of the CIIF, Ms. Norashikin Mohd Noh, Associate Director of the CIIF, and Mr. Mohd Aidzeef Ahmad, Manager of the CIIF, visited Universiti Utara Malaysia for an engagement session with students from Faculty of Islamic Finance. We were very happy with the interaction, hospitality and the keen interest shown towards the CIIF.





CIIF Engagement Session at USM

8 March 2017, School of Management, Universiti Sains Malaysia, Penang

The CIIF would like to thank the School of Management, Universiti Sains Malaysia, Penang for giving us a chance to engage with the faculty and students. The CIIF was represented by Tuan Hj. Abdul Rahman Mohamed Yusof, Grand Councillor of the CIIF, Ms. Norashikin Mohd Noh, Associate Director of the CIIF and Mr. Mohd Aidzeef Ahmad, the Manager of the CIIF. It was a great honour for the CIIF to be here!



CIIF Training Series I: A Primer On Etiquette And Efficiency At Work

14 March 2017, Sasana Kijang, Bank Negara Malaysia

The CIIF's first training session for 2017, "A Primer on Etiquette and Efficiency at Work", was held on 14th March 2017, at Sasana Kijang, Bank Negara Malaysia. The half day training was attended by CIIF members, industry practitioners as well as students from couple of universities. The efficiency at work programme was compiled and developed by Madam Rozinah Yusof and Mr. Ahmed Zaharani Omar, who have over thirty (30) years of experience in office management.

Despite the limited time, the speakers imparted a lot of valuable insights on key office business knowledge and skills for day-to-day conduct at the workplace, which covered telephone etiquette, letter writing skills, professional e-mail etiquette, social media ethics, time management, and basic social skills for office networking and professional presence. The most interesting part of the training was where Madam Rozinah demonstrated fine dining etiquette with a real dining table set-up. Even CIIF Management team had just learnt the differences between a tea pot and coffee pot, and between tea cups and coffee cups! Big thanks to Madam Rozinah Yusof and Mr. Ahmed Zaharani Omar for sharing their experiences and insights! We are now ready to hit the fine dining restaurants!

CIIF Industry Discourse I: IFSA 2013 – Its Significance from Regulatory and Industry Players' Perspectives

31 March 2017, Sasana Kijang, Bank Negara Malaysia

The CIIF had the honour of having Mr. Kamarul Ariffin Mohd Jamil, Deputy President of the CIIF and also the Managing Director/Chief Executive Officer of AFFINBANK Malaysia Bhd, and Ms. Azleena Idris, previously the Deputy Director of Bank Negara Malaysia, to share their views on the Islamic Financial Services Act (IFSA) 2013.

During the compact session, the insights and information from the speakers were just amazing and unforgettable. Here are some key points from the discourse for those who have missed:

01 Future landscape is evolving

- Economic power is shifting from the West to the East, and from developed markets to emerging markets;
- Risk-sharing may be the key to reversing the current trust deficit towards traditional banking institutions;
- Finance with ethics as core value is showing promising markets and returns.

02 Collaboration is the key to succeeding in the new world

- Digitalisation facilitates disintermediation and provides greater means for the unbanked to access capital, and also drives greater product innovation and diversification;
- Increasing involvements of the millennials in the financial activities through new forms of financial intermediation, e.g: p2p lending;
- Improved communications will decrease the gaps between regulators and industry players;
- Alignment with international agenda for global sustainable development is increasingly important, e.g: UN Global Compact.

03 Need clearer direction towards achieving socioeconomic goals of Islamic finance

- Comprehension of Shariah should be native to practitioners;
- Shariah provides principles and guidelines on sustainable and responsible finance and economy;
- Greater clarity in Shariah understanding would enhance products sophistication;
- New generation of talents with greater understanding of Shariah will drive diversification and innovation in Islamic finance.







This article was first featured in the ISRA Space, Issue 06, December 2016

Introduction

The concept of *bay'* as risk-sharing investment as opposed to *riba* (usury), an interest-based system has been validated by a group of leading Shariah scholars and Muslim economists at the Kuala Lumpur Declaration of 2012. This validation supports a similar contention that *bay'* is a system of exchange based on risk-sharing and that it is the salient characteristic of Islamic financial transactions. The Second Strategic Roundtable Discussion for the Kuala Lumpur Declaration 2012 recommended that governments should endeavour to move away from interest-based systems and towards enhancing risk-sharing systems by levelling the playing field between equity and debt.

One of the reasons for the above is because there is a mismatch in applying multilayered and opaque trading contracts for investment arrangements. Such mismatch has in fact contributed to the divergence between the Shariah and Common Law and caused tremendous problems and systemic legal risks to Islamic finance.

To fix the mismatch of using trading contracts for investment arrangements, we need to have a contract that can be the tool to develop *bay'* as a system of exchange based on risk-sharing.

That is why we have developed the risk-sharing Shariah Investment Agreement as a tool to resolve the mismatch of applying trading contracts in investment arrangements.

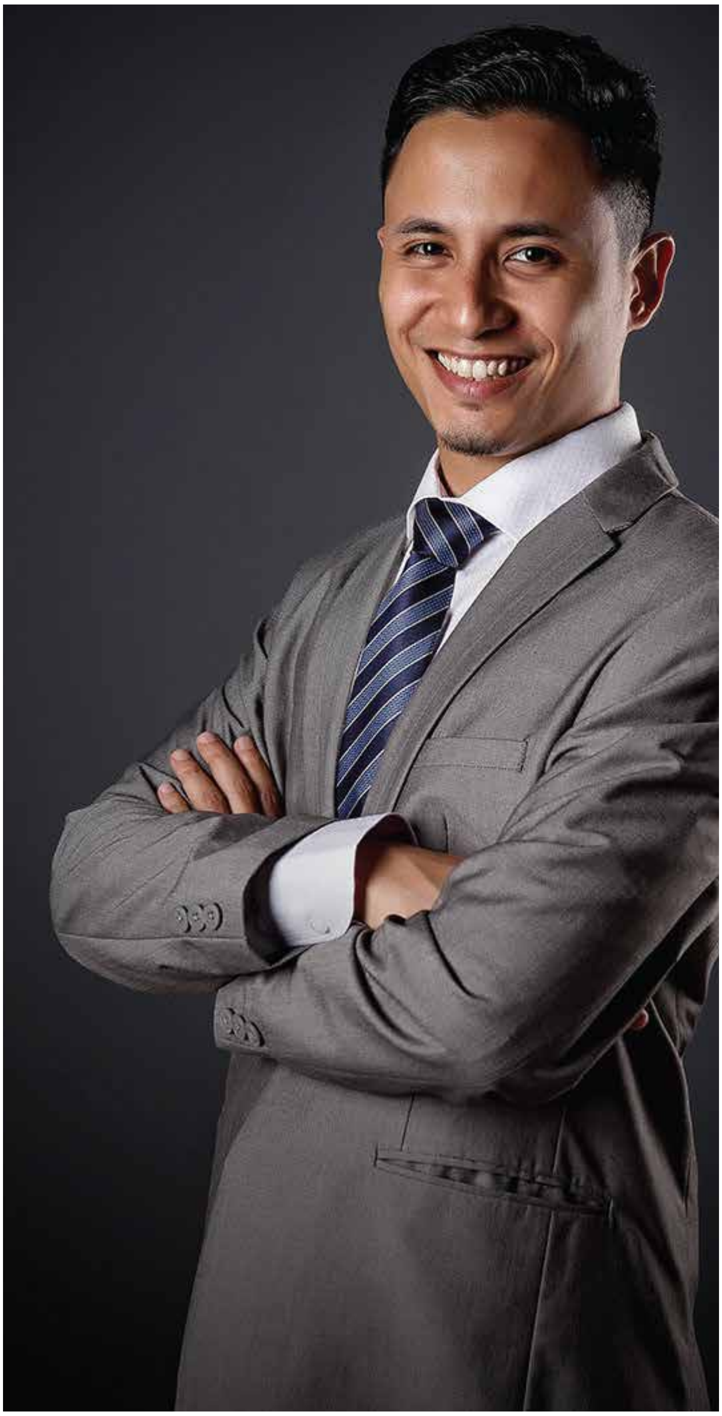
The Shariah Investment Agreement is a contract that is suitable for most, if not all investments in intangible assets and is intended to pave a clear route to harmonious convergence between the Shariah and Common Law. It is based on investment principles (not trading principles). Most importantly, it is Shariah compliant and can be applied in Common Law jurisdictions as well.

The following is an example of how we can apply the Shariah Investment Agreement.

Application of The Shariah Investment Agreement

Instead of attaching the actual Shariah Investment Agreement, we have instead chosen to explain theapplication of the Shariah Investment Agreement in an income-sharing arrangement to develop human capital or in short, Student Scholarship Investment. (*Feel free to contact the author if you are interested to know more about the technical details of the actual contract*).

The Student Scholarship Investment is an investment arrangement whereby investors provide funding to a pool of carefully selected investees to study selected subjects. The pool of investees study their respective subjects, graduate and eventually secure suitable employment. In exchange for the investment arrangement, investors would receive a percentage of the investee's income for a period of time. The percentage and period of time of payment are negotiable between investors and the investees.



Dr Syed Adam Alhabshi, Partner,
Chambers of Shamsul Qamar (CSQLaw)

"To fix the mismatch of using trading contracts for investment arrangements, we need to have a contract that can be the tool to develop bay' as a system of exchange based on risk-sharing."

Case Study

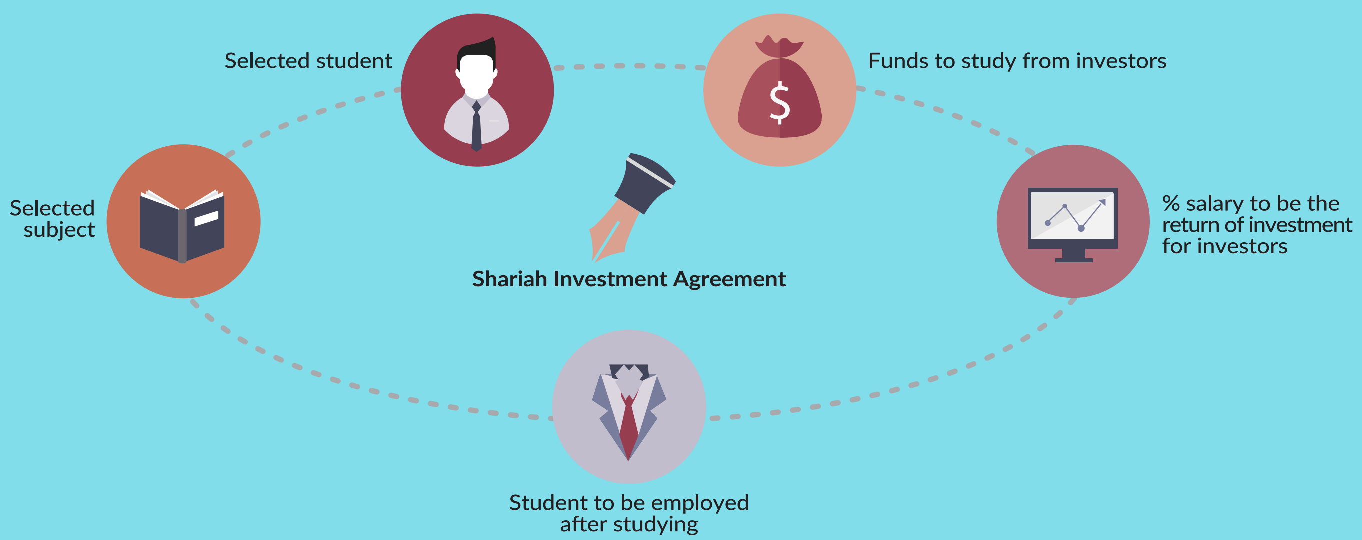
Investment to Develop Human Capital With an Income Sharing Arrangement

A contract between investors and the student

The student would receive funding from investors to study a particular subject

In exchange, investors would receive a percentage of the student's income (when he starts working) for a period of time

Both of percentage and period of time of the payment are *negotiable* between investors and the student as this would allow the student the flexibility to adjust his ability to pay the investors within the investment appetite of the investor.



As investors in the Student Scholarship Investment, they have their "skin in the game" in the investment. If the investees fail to complete their education or do not secure a good job, the investors would not be able to make a return on their investment. Therefore, you would observe the investors paying close attention to:

- Selecting suitable candidates to avoid a potential loss of their human capital investment.
- Understanding the potential of the best subjects to ensure that the investees would stand better employment prospect and get good salary. In fact, investors can shape the education market by pricing higher percentage of the investee's income to discourage a particular subject and to lower the percentage of the investee's income as an incentive to study that subject.
- Assisting the students in negotiating better employment terms with their employers.
- Monitoring the students' career development.

On the other hand, as investees, they would get the following advantages:

- Flexibility in the repayment tenure as well as the terms of payment.
- To have the counsel of experienced investors who are interested in their career development.
- The incentive for them to be entrepreneurs as the return would be greater than to earn a fixed salary. In this case, the investors can arrange with the owner of a company for the investee to have a stake in the company and earn dividends.

All of the above could be achieved if the Student Scholarship Investment is structured using the Shariah Investment Agreement. Now consider how beneficial it would be if the above arrangement is applied to government and corporate scholarship or crowdfunding platform. It can also be adopted by the National Higher Education Fund Corporation (PTPTN) or the Ministry of Youth and Sports as a framework for its vocational training courses. This would create better job opportunities with greater return.

Conclusion

The Shariah Investment Agreement may prove to be a promising tool that can thrust Islamic finance to greater heights as it is straight forward, clear and suitable for any investment structures. In fact, it can be used as a replacement for multiple and opaque trading contracts. Parties involved in a particular investment would then have a clear understanding of their contract, roles and responsibilities.

Investors will have their "skin in the game" in the investment. Moreover, there would be more effort to establish trust between the investors and investees to ensure a more efficient collaborative and successful investment. Investees would get the opportunity of funding through a risk-sharing investment scheme rather than a debt-based scheme.

The Shariah Investment Agreement would motivate further research to enhance an understanding of the economic and finance elements of undertaking investment in intangible assets. All stakeholders must change their mindset from the typical banking perspective towards a more risk-sharing investment mind frame.

Potentially, the significant contribution of the Shariah Investment Agreement is that it is in line with the Kuala Lumpur Declaration of 2012, which is to increase the emphasis on equity instead of debt based financing.

With proper implementation of the Shariah Investment Agreement, it would pave the way for Islamic finance to develop further and become a stronger force in the finance industry and encourage the industry to be less riba dependent, if not *riba*-free.

This article was originally published in IFHub, Issue 2, October 2016, published by INCEIF

In Malaysia, Sukuk issues accounted for 7% of total bonds raised in 1999, but experienced a substantial growth in the following year, representing 25% of all bonds in 2000 and 76% by 2005 (Ashhari et al., 2009). This ratio has been maintained even after the financial crisis, constituting 71% of total bond issues in 2013. In the GCC, Sukuk had by 2014 represented 34.6% of total bonds outstanding in the region (Markaz, 2015). Furthermore, corporate issuances make up the majority of Sukuk outstanding in the GCC (80% of total Sukuk). Its rapid growth and market share in selected countries provides strong motivation for the understanding of Sukuk issuance and its wealth effects.

Malaysian and Saudi firms in particular, have used Sukuk instruments as an additional financing option. Often referred to as 'Islamic bonds' or 'Islamic Private debt securities', Sukuk have been avant-garde, especially for companies that are raising capital with Shariah-compliant objectives. Packaged as bonds that comply with Islamic law, Sukuk have quickly evolved to offer a variety of classes (debt-based, equity-based, agency-based or hybrid). In theory, the issuance of Sukuk should have a lower risk than bonds due to their risk-sharing attributes and that the proceeds are used for real economic activities. However, in practice, it seems to be perceived as another version of a corporate bond, except for its Shari'ah compliance. The empirical issue of interest is "Do markets react similarly to Sukuk announcements as they react to corporate bond announcements?" Is there a similar wealth effect?

Wealth effects and Underlying Structure – Bonds and Sukuk

The documented studies on Sukuk and its wealth effects seem to get caught in the quagmire of underlying structures. As in the case of bonds, Sukuk can fall either in the category of being debt or equity-based and the results of grouping all instruments in either one category (either debt or equity) can invalidate the findings. Research on corporate bonds has similarly classified them based on the underlying premise of either equity-based (like convertible bonds) or straight debts (like conventional bonds) to ascertain the wealth effect on different structures of bonds. However, previous studies on Sukuk wealth effects by and large, discount these traits.

In the case of straight bond announcements, findings primarily indicate no significant reaction (Eckbo, 1986; Ashhari et al., 2009; Ibrahim & Minai, 2009; Godlewski et al., 2011). Corporate debt issuances are expected to signal higher firm quality, hence positive reaction is expected (Ross, 1977). However, the increased agency costs would suggest negative reaction (Jensen & Meckling, 1976). Alam et al. (2013) explains that the set-off between the two reactions is the probable explanation for no net reaction. Debt-based Sukuk (consisting of Murabaha, Ijara, Istisna or Salam contracts) have similar characteristics to straight bonds in terms of cash flow structures. Hence, wealth effects are expected to be similar.

Abdul Rahim (2012) used meta-analysis to assess thirty-five previous studies on convertible bond announcements between 1968 and 2007 in the United States. The findings indicate that - except for a few positive reactions - market reaction is significantly negative. Burlacu (2000) in a study on the French market and Ammann et al. (2004) in a study on Swiss and German markets document negative abnormal returns near announcement times for convertible bonds as well. However, Hanifa et al. (2014) found no significant reaction from convertible bonds for Malaysia. Their findings can be attributed to the fact that they test for post announcement effects only, and also overlook the effects of the crisis period (their sample was from 2001 to 2013). Therefore, it is expected that equity-based Sukuk that have similar attributes as convertible bonds, woul cause a negative market reaction at issuance.

Dr. Ziyaad Mohamed
Shariah Advisor, Trainer & Consultant

Market reaction on sukuk announcement is evolving as issuance grows significantly in size and frequency, differing in underlying structures and reflecting attributes of debt, equity, agency and a combination of debt and equity. Without careful consideration of these different structures, the results from sukuk announcement effects are expected to be inconclusive. For example, for a similar data sample, Ibrahim (2009) found a positive reaction whereas Godlewsky (2011), Modirzadehbami & Mansourfar (2011), Ahmad (2011) and Rahim & Ahmad (2014) found a negative reaction to sukuk announcements. Therefore, market reaction requires further investigation in the light of the following issues:

i. The period of the sample selection is limited to either a period of minimalobservations (2001 to 2006) or a period during or around the financial crisis (2007 to 2010). Previous studies that consider the crisis, differs on the actual impact period, resulting in inconsistent findings: Ahmad & Rusgianto (2013) use 2009 and 2010 whilst Alam et al. (2013) and Abd Rahim & Ahmad (2014) use 2008 to 2009.

ii. The majority of the data is limited to Malaysian sukuk issuance ignoring corporates in other countries (UAE, Saudi Arabia, Bahrain, and Indonesia) that are major issuers of Sukuk as well (Zawya, 2015). From the informational efficiency perspective, if markets differ in their efficiency, announcement effects should be region specific. Although more recent studies have considered multi-country impact, the effects are grouped together without considering differing market efficiency (Alam et al. 2013; Elian & Young-Taft, 2014; Godlewsky et al. 2014). Furthermore, they also do not adequately consider the other paucities raised here.

iii. Underlying structures have not been analyzed in the same way as different bond classes. In fact, previous studies have underlying misconceptions about Sukuk, classifying them as debt instruments when Sukuk can be classed in a variety of ways. Different underlying structures are expected to provide dissimilar announcement effects, as some structures are more inclined towards functioning as a debt instrument (hence similar to straight bonds) whereas other structures are representative of hybrid instruments (similar to convertible bonds). More recent studies have taken these structures into account albeit in a limited capacity (Ahmad & Rahim, 2013; Godlewsky et al. 2014, Hanifa et al. 2014).

Findings and Conclusions

There has yet been a study of how share prices react when Sukuk are issued to raise capital by firms in all three countries. Evidence documented on wealth effects of Sukuk issuance are majority for Malaysian firms only and inconclusive. For example, some found positive reaction (Ashhari et al., 2009; Godlewski et al., 2014; and Nagano, 2010); others found negative reaction (Modirzadehbami and Mansourfar, 2011, Hanifa et al., 2014) whilst others even documented no reaction (Elian and Young-Taft, 2014; Alam et al., 2013). Some of the possible reasons for the mixed findings could be due to difference in the sample selection, the period of study and the effect of underlying structure.

This study provides comprehensive findings on the wealth effects of Sukuk issuance announcement for the three major issuing countries taking into consideration all the factors of sample selection, different period of study (crisis and non-crisis period), the underlying structure (whether debt-based or equity based), size and tenor of the issue. The wealth effect is measured through an observed share price reaction to different corporate Sukuk issuance announcements. Specifically, the wealth effect of raising capital through Sukuk issuance by private corporations is analyzed.

The Bai-Perron (2003) multiple break-point analysis was applied, in order to empirically identify the pre, during and post crisis period. It was found that Malaysia and Indonesia had similar break-points (2007 to 2010) whereas Saudi Arabia had delayed but more sustained contagion effects (2009 to 2013).

The event study approach was applied to ascertain market reaction to the announcements around a window of 50 days surrounding the announcement (-40, 10). The cumulative average abnormal returns were estimated after adjustment for non-synchronous trading using the Scholes and Williams (1977) technique. For significance testing for cumulative average abnormal returns (CAAR) the Kolari-Pynnonen (2010) test was used. Both symmetric and asymmetric event days were tested for significance using parametric (Patell, 1979; Boehmer et al., 1991 and non-parametric (Corrado & Zivney, 1992; Cowan, 1992) approaches.

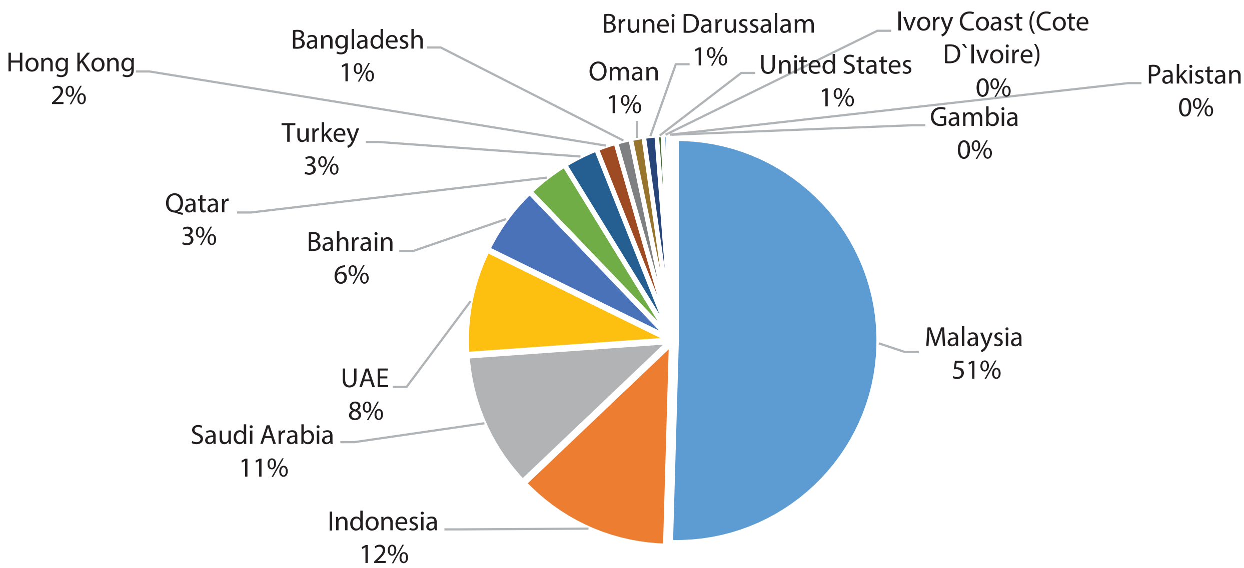
The findings indicate that sample traits seems to affect market reaction significantly. The Malaysian market reacts positively to debt-based issuances before and after the crisis. The market reaction to equity-based issuances are significantly negative after the crisis.

The issuance size and tenor also impacted on the market reaction, which was positive for smaller size and short-tenor issues. The market seems to prefer issuances smaller than US$500 million. The market also reacts significantly and negatively for tenors longer than 10 years.

The Indonesian market reacts differently, with significant positive reaction to debt-based issuances during the crisis period. This is contrary to the established theory that markets react negatively and move towards liquidity during contagion (Fenn, 2000). This behavior may be attributed to a positive net set-off from liquidity premium demand as a result of a number of factors all acting collectively. For example, Sukuk issuances during crisis offer higher-than-average yields from issuers with strong to superior ratings, reducing the perceived credit risk exposure that usually accompanies higher yield issuances. Furthermore, the size of the issuances average US$22 million, much smaller than their Malaysian and Saudi counterparts. The tenor as well, is not longer than 5 years, thereby reducing the perceived risk. The demand for Sukuk in Indonesia is also high according to a recent report by Thomson-Reuters (2015). Hence, overall, the market reacts positively to debt-based issuances even during the crisis period.

The Saudi market is characterized by predominantly equity-based issuances and hybrid securities. The findings indicate negative market reaction in the post-crisis period, specifically around announcement day. These results are similar to market reaction on convertible bond announcements, hence it is implied that the market might have perceived equity-based issuances in the Saudi market similar to convertible bond issuances in other markets.

The findings support the idea that corporate systems contribute to the positive abnormal returns and reducing negative returns, consistent with Moerland's (1985) 'network-oriented system' theory that agency costs are reduced in all three markets due to lower information asymmetry. The findings provide deeper insight into explaining the different market reaction to Sukuk issuance announcements documented in previous studies.



Issuances 01 Jan - 31 Dec 2015

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