

NEWSLETTER

Shariah Newsletter of GA Skylight Berhad

5th Mar 2024

The thirteenth edition
Compliance and
Shariah Newsletter

IRPS IN GA SKYLIGHT

Written by Fatin Filzah

Assalamualaikum everyone. Have a nice month! This month we will discuss IRPs whose full terms are Islamic Redeemable Preference Shares. As we know our company are using IRPS for our references. There is a lot of information about IRPS that we can learn that is related to our company.

Based on Bursa Malaysia (n.d.) preference shares as shares which carry the right to dividend (normally fixed) which ranks for payment before that of ordinary shareholders. Preference shares may be preferred also as regards the distribution of assets upon the dissolution of a company.

A preference share can be classified as an equity or as a liability instrument, even as a compound instrument-comprising both equity and liability components. No one classification fits all.

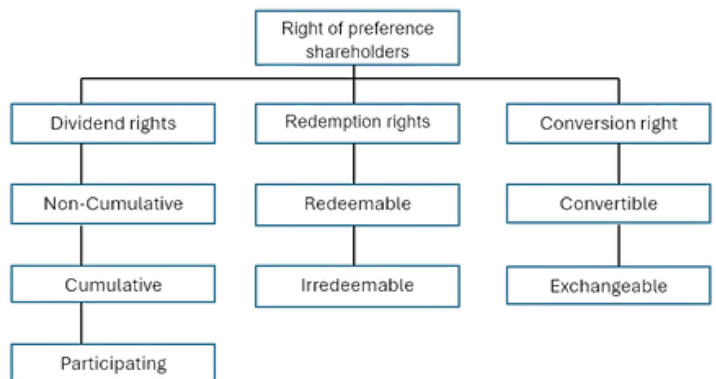


Figure 1

Cumulative Right

Preference shares are presumed to have cumulative dividend rights unless expressly stated as non-cumulative.

The non-cumulative dividend feature allows the entity to cancel dividend payments for the year(s) the predicaments exist.

The cumulative dividend feature allows the preference shareholders to receive dividends irrespective of the performance of the issuing entity.

With the cumulative dividend feature, the preference shareholders have the right to receive unpaid dividends before the ordinary shareholders receive any dividend.

Redemption Right

The redemption feature allows a preference shareholder to surrender its shareholdings to the issuing entity on or after a predetermined time, in which case the issuing entity is obliged to pay back the original issue price or another pre-agreed amount to the shareholder.

The irredeemable preference shareholders can sell their shares in the secondary market to a willing party at a mutually agreed price. But, they do not have any contractual right to redeem their shares by surrendering it to the issuing entity.

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Conversion Right

The conversion can be based on a fixed number of ordinary shares for a fixed number of preference shares (for example, one preference share will be converted into two ordinary shares) or can be based on a variable number of ordinary shares for a fixed number of preference shares

Definition

Based on the rulings of mushārahah, pre-agreeing a dividend rate, granting one party priority over another in profit distribution and guaranteed capital repayment are not allowed.

The shares can be redeemed at the option of the holder or the issuer or mandatorily redeemed on maturity. The redemption amount ideally is equal to the amount invested by the preference shareholders (i.e. the issue price) plus accrued but unpaid dividend (if any).

Five (5) Shariah issues in preference shares are as follows:

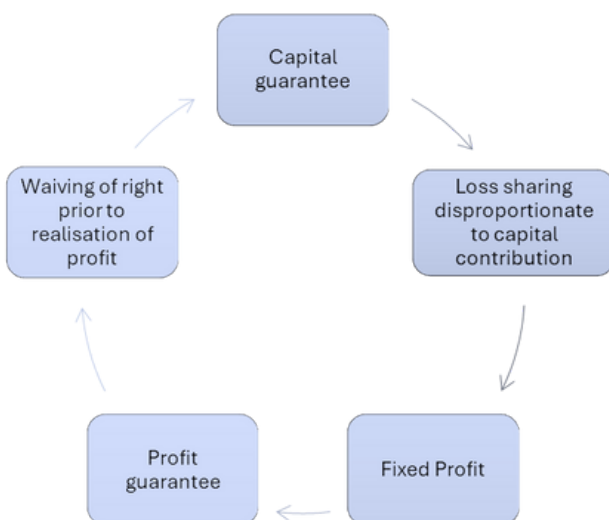


Figure 2

i) Redeemable Preference Shares

From Shariah's perspective, if the redemption amount is equal to the issue price, it is considered as guaranteeing the capital. This is because, in principle, the issuer has a contractual obligation to pay the capital in full to the preference shareholders upon redemption if the redemption right is held by the preference shareholders or it is a mandatory redemption.

This kind of arrangement can be considered as a contractual or constructive promise from the issuer to pay back the capital to the preference shareholders once the redemption right is exercised as it is agreed upon by subscribing to the preference shares.

ii) Convertible Preference Shares

From the Shariah perspective, the element of capital guarantee exists if the conversion is fixed to variable. This is because even though the preference shareholders will not get their capital back in form of cash, they will get equal worth of ordinary shares.

They can sell those shares in the market if they wish so and retrieve their capital from the market. For example, an entity has issued 100,000 convertible preference shares for RM10 each (i.e. total issue price: $100,000 \times \text{RM}10 = \text{RM}1,000,000$).

To address the issue of the capital guarantee which exist in redeemable and convertible preference shares, we proposes that the redemption price must be based on market price or the agreed price upon redemption and the conversion must be based on fixed number of ordinary shares for fixed number of preference shares.

Regarding the issue of fixed profit, the study finds that it is permissible to give a fixed return to any partners with a condition that it does not violate the principle of profit sharing.

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RISK FACTORS IN INVESTMENT

Written by Fatin Filzah

Assalamualaikum everyone and Hi! How's your August? Hope everyone doing well. Last month we shared about differences between conventional bank and Islamic bank. Hope all of you have a good understanding about the topic we discussed. So, this month, we will talk about Risk Factors in Investment. Risk factors in investment refer to elements that can potentially lead to losses or reduced returns.

As private capital firms and our portfolio companies continue to perform well, we strive to continue to deliver investor returns and competitive value. In this heightened atmosphere, unique responsibilities and wide-ranging liability challenges fester, from cyber threats to increased compliance. That's why it's essential for us to identify and closely monitor the many strategic, operational, and external risks that can potentially impact our investments. Here, we outline six main factors that are part of our risk management framework.

RISK FACTORS

1. CONSUMER PRIVACY PROTECTION

We must ensure compliance with legal regulations to protect investors' information by:

- Disclosing the collection and use of personal information
- Allowing investors to opt-out of information sharing
- Informing consumers about their right to request data deletion

2. COMPLIANCE RISK

The Securities Commission is prioritizing growth in 2021, focusing on climate and ESG risks, business continuity, disaster recovery, and fiduciary responsibilities. Increased government oversight on capital investments may elevate compliance risks. Therefore, we must:

- Scrutinize potential partners, acquisitions, and investors more closely
- Ensure our portfolio companies comply with regulatory requirements in all operations.

3. FRAUD AND MISCONDUCT RISKS

Fraud and misconduct risks are increasing. PwC reports 47% of U.S. companies experienced fraud in the past 24 months, costing \$42 billion, with common types being customer fraud, cybercrime, and asset misappropriation. Private capital firms are especially vulnerable due to:

- Complex transactions
- Lean operations
- Intense investment competition
- Third-party intermediaries
- Lack of transparency
- Rising investor activism

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RISK FACTORS

4. CRISIS MANAGEMENT

Crises can strike any company at any time, whether from cybercrime, fraud, natural disasters, safety issues, or supply chain disruptions. For private capital firms, quick recovery and restoring confidence is crucial.

To manage risks and consequences, we:

- Develop and regularly update a comprehensive response plan
- Test and simulate scenarios to refine the plan
- Apply the plan at the portfolio company level
- Analyze potential impacts and explore additional protections or insurance products

5. THIRD PARTY OVERSIGHT

Crises can strike any company at any time, whether from cybercrime, fraud, natural disasters, safety issues, or supply chain disruptions. For private capital firms, quick recovery and restoring confidence is crucial.

To manage risks and consequences, we:

- Develop and regularly update a comprehensive response plan
- Test and simulate scenarios to refine the plan
- Apply the plan at the portfolio company level
- Analyze potential impacts and explore additional protections or insurance products

6. CYBER AND TECHNOLOGIES RISK

Our diverse portfolio exposes us to numerous cyber risks, often overshadowed by financial growth. Inconsistent security across GASB creates vulnerabilities. We must establish consistent security controls across GASB and our portfolio companies.

Expansion increases risks related to:

- Employees
- Third parties
- External partners
- Cloud software
- Identity and access
- Email security
- Intellectual property
- Investor information

- In conclusion, understanding and managing risk factors in investment is crucial for safeguarding returns and ensuring the stability of a portfolio. By being aware of market, credit, liquidity, operational, and other risks, investors can make informed decisions, diversify appropriately, and implement strategies to mitigate potential losses. Balancing risk and return is key to successful investing, and a proactive approach to risk management can help navigate uncertainties and achieve long-term financial goals.