

# NEWSLETTER

Shariah Newsletter of GA Skylight Berhad

## 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.

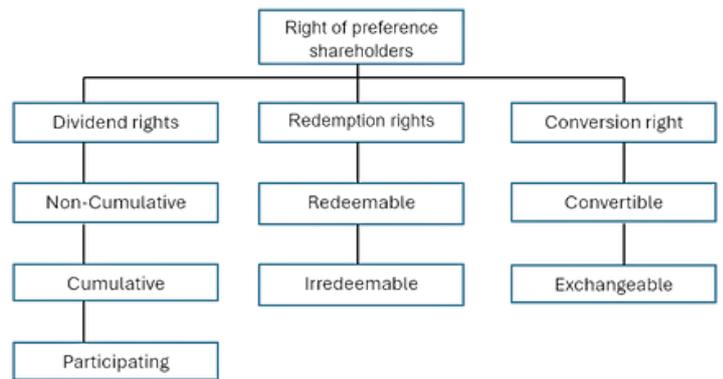


Figure 1

### 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:

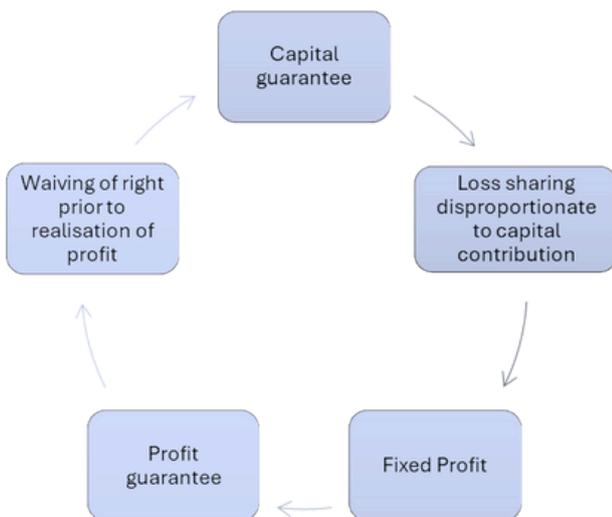


Figure 2

## 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:  $100,000 \times RM10 = RM1,000,000$ ).

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.