



Shariah Compliant Mi'yar for Startup



Startup

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1.0 INTRODUCTION

Malaysia is renowned as a global Islamic financial hub and champion for Islamic Finance and the Halal industry. To further strengthen this status, Malaysia Digital Economy Corporation (MDEC) has initiated to establish a Compliant Mi'yar (Guide) to Islamic Digital Economy (IDE).

IDE refers to any commercial or social activities undertaken within the digital space that is Shariah compliant and Shariah neutral. Activities that fall within the realm of IDE include but is not limited to any activities related to customary Islamic practices as well as practices that are branded Shariah or Halal certified.

The purpose of this document is to set out a comprehensive Shariah Compliant Mi'yar for startups throughout different phases of their lifecycle as well as provide more details on the Shariah screening methodology.

Compliant Mi'yar to IDE

In formulating IDE, the three areas of focus are:

- Training - providing sufficient training and reading material with the view of enhancing the professionalism of the capital provider and startup entrepreneurs as well as the marketing or product experts.
- Processes of applications - providing relevant mi'yar with regards to the processes or applications involved on setting up the business and product approval.
- Oversight functions - providing audit functions and endorsement by a relevant and reputable authority.

The Compliant Mi'yar to IDE itself refers to regulations and guide that govern and oversee the compliant status of business activities in the digital space. This will include the operational end to end process within the company - from product and services, financial management to capital structure.

2.0 STARTUP PHASES

The objective of the Mi'yar is to provide a comprehensive Shariah Compliant guide for startups throughout the different phases of the startup lifecycle which cover the seed-capital financing and early financing stage. The definition of different phases as per Securities Commission Malaysia's (SC) Guidelines on the Registration of Venture Capital and Private Equity Corporations and Management Corporations are as follows:

- 1) Seed-capital financing stage means financing or funding provided to a venture corporation for research, assessment and development of an initial concept or prototype.
- 2) Early-stage financing means financing, or funding provided to a venture corporation as:
 - a. capital expenditure or working capital to initiate commercialisation of technology, product and/or services;
 - b. additional capital expenditure or working capital to increase production capacity, marketing or product development. Also known as the expansion or growth stage; or
 - c. interim funding for a venture corporation expected to be listed on the official list of a stock exchange. Also known as the bridge or mezzanine or pre-IPO stage.

3.0 SHARIAH COMPLIANT MI'YAR FOR STARTUPS

3.1 Introduction to Shariah Compliant Startup

The Compliant Mi'yar to IDE also encapsulates at the point of which the business is deemed as Shariah compliant. There are two scenarios:

- The business is Shariah compliant at the beginning.
- The business is non Shariah compliant during initial stage but has converted to Shariah compliant status at some point during the startup lifecycle.

In either scenario, the Startup needs to comply to the most updated Shariah requirement as per SC's Shariah Screening Methodology. The link to the screening methodology are as per link below:

<https://www.sc.com.my/data-statistics/islamic-capital-market/list-of-shariah-compliant-securities-by-scs-shariah-advisory-council/>

3.2 Startup that obtains Shariah compliant status from the beginning

Process involved:

As the Startup has already made a conscious decision to be Shariah Compliant during the establishment stage itself, the process involved is relatively straightforward. Process of approval and applications are as follows:

- For a startup to be labelled as Shariah compliant, the company must adhere to utilise the Shariah compliant instrument to raise its capital as suggested in Shariah VC Mi'yar.
- For the products and services component, the company must adhere to the JAKIM Halal Certification Guideline and Standard on Digital Content.

The above is based on the self-assessment of the startup company.

Oversight function

To ensure there is proper oversight and no conflict of interest, the oversight of these companies will be undertaken by an independent third party who are from the list of SC's Registered Shariah Advisors which can be found at the following weblink.

<https://www.sc.com.my/list-of-registered-shariah-advisers/>

The audit process will be conducted annually based on a Shariah Audit process.

Figure 1 below illustrates the step by step process for new a Startup to obtain Shariah compliant status:

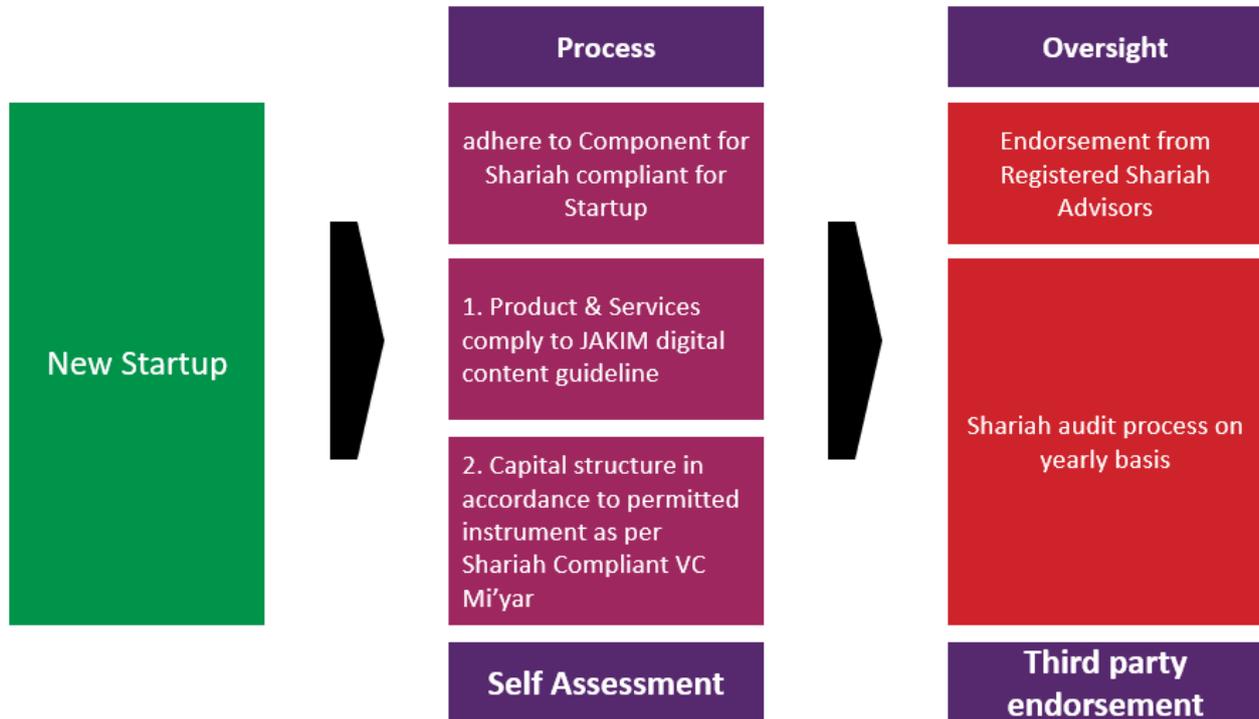


Figure 1 Step by Step for new Startup to obtain Shariah Compliant status

3.3 Conversion of non Shariah Compliant startup to Shariah Compliant startup

For companies that are interested in converting their status from a non Shariah Compliant company to a Shariah Compliant company, the process is set out as below:

- 1) The startup is required to undertake the following remedial action:
 - Appoint Shariah advisor(s); either individuals or Shariah advisory company registered with the SC;
 - Prepare a conversion plan which explains the approach and action to be taken in phasing out the non-Shariah compliant elements. The conversion plan should include, but is not limited to, proposed timelines, the investment strategy, cost and fees involved;
 - Endorsement and approval on the Conversion plan from the appointed Shariah Advisor(s);
 - Shariah Advisor(s) to monitor the implementation of the Conversion Plan by the Startup until it achieves the Shariah compliant status.

- 2) Upon obtaining the Shariah compliant status, the process involved, and the oversight functions should follow the guide set for Startups that obtains Shariah compliant status from the beginning as outline in section 3.2 above.

Figure 2 below illustrates the step by step process for non Shariah Compliant Startup to obtain Shariah compliant status:

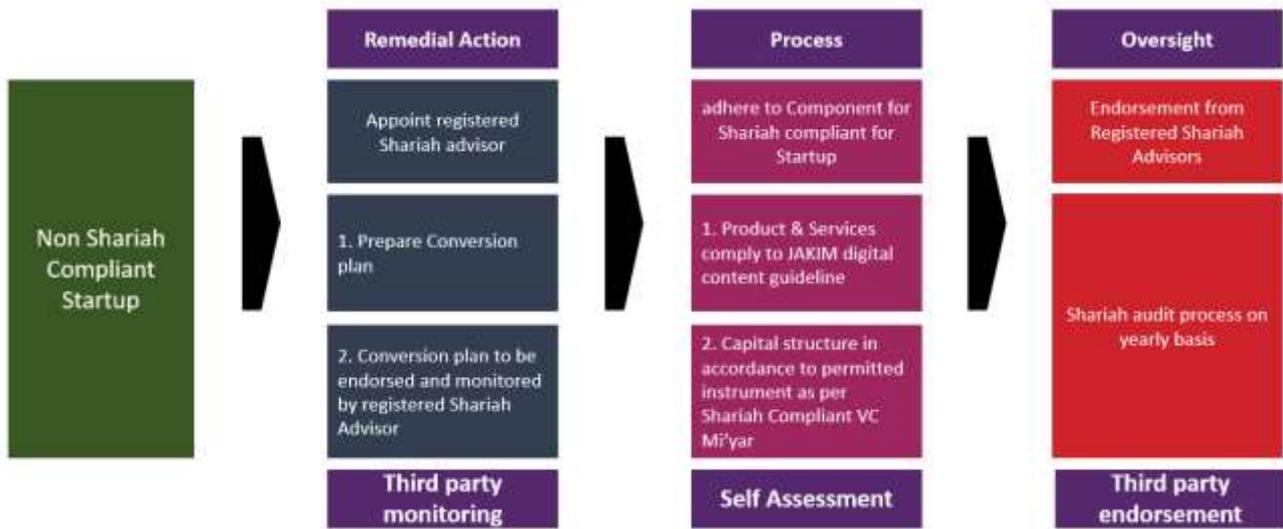


Figure 2 Step by Step for non Shariah compliant Startup to obtain Shariah Compliant status