



ANALYSING THE REGULATORY FRAMEWORK OF i-REITS IN MALAYSIA, SINGAPORE, AND INDONESIA

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ABSTRACT

REIT, according to the Security Commission (Malaysia), is an investment that aims to invest in real estate for at least 50%. This investment can be made through two channels: direct ownership or a single-purpose company whose principal asset is real assets. Malaysia can be viewed as a model of a comprehensive framework. Indonesia has an excellent regulatory structure nearly as extensive as Malaysia's. However, there is still a lack of interest in i-REITs there, which could be attributed to a lack of knowledge about i-REITs. Sabana REIT, one of Singapore's most popular "Shariah Compliant " REITs, has recently opted to abandon its Shariah compliance. Furthermore, the country currently has a formal legislative framework for Islamic REITs, and its governance primarily relies on the Shariah Committee of each i-REIT, which may be more difficult to achieve given that its prime model (Sabana REIT) is no longer Shariah compliant. Therefore, this study aims to further analyse if there is a difference in the development of regulations for i-REITs in Malaysia, Singapore, and Indonesia, along with the challenges that come from expanding investments throughout the ASEAN countries.

Keywords: i-REITs, Malaysia, Singapore, Indonesia, Regulatory Framework, Doctrinal Research

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INTRODUCTION

Research Background

Islamic REIT ("I-REIT") is a counterpart of conventional REIT. REIT is a collective investment. The mechanism is when a trust is established to acquire shares in other companies. It is a type of investment in the real estate sector by acquiring real estate investment assets or investing in property companies' debt securities. I-REIT must invest in Islamic real estate assets or Islamic debt securities of the property companies. However, it is permissible to invest in non-Islamic assets or debt securities, but with certain limitations (Islamic Finance News, 2013). A REIT, according to the Security Commission (Malaysia), is an investment that aims to invest in real estate for at least 50%. This investment can be made through two channels: direct ownership or a single-purpose company whose principal asset is real assets. (Dusuki, 2022).

Investors can buy and sell the REIT just like shares on the stock exchange. Thus, it is a more liquid investing mechanism for investors (Sukor et al., 2020). Their tradability feature in the stock market and small capital outlay requirements make them more liquid (Bursa Malaysia, 2022). I-REITs is an Islamic version of REIT investment. Bursa Malaysia laid down two conditions for Islamic REIT. Firstly, I-REITs must generate their income from permissible business only. Secondly, I-REIT management companies must follow a 20% benchmark stipulated by the Security Commission if there are mixed activities in the business (Securities Commission, 2022).

The general structure for I-REITs begins with the investors that invest in I-REITs and become the unitholders. Afterwards, the I-REITs company will acquire real estate. Next, the manager will manage as well as administer Islamic REIT. In the meantime, the trustee acts as the fund's guardian. The Shariah committee is responsible for providing advice on Shariah issues. Finally, the maintenance and management of real estate should be done by the property manager. The real estate shall be rented to the tenant after the Shariah screening process is done.

There are three important components in REIT management: the management company, the trustee, and the unit holders. They are bound by the trust deed. This deed is a document that lays down the goal of the REIT, the entitlements, and obligations of the management of the management company and the trustee.

The management company which the Securities Commission has approved will be the one that manages this REIT investment. They will establish the strategic direction of the REIT investment. It shall be noted that the management company shall not be mistaken for a property manager. The property manager is the one that provides management services for the REIT property. They shall receive property management fees as their remuneration. They will be responsible for managing and controlling the REIT asset, preparing a budget for the REIT property, maintaining the REIT property's financial record, and providing advice on the decision of the REIT property's transaction (Dusuki, 2022).

On the other hand, the trustee will guard the fund's assets. They also are responsible to look after the interests of the unit holders. They will ensure that the REIT management company adheres to the REIT objectives according to the trust deed and all related regulations stipulated. A trust company that has been defined according to the Trust Companies Act 1989 is eligible to be a trustee for Malaysian REIT. The trustee shall receive the trustee's fees in exchange for its trusteeship (Dusuki, 2022).

I-REITs hold significant importance for the economy. This is because I-REIT, as a part of the Islamic finance industry, can stimulate economic growth. They do this by attracting investments in real estate. Hence, the investment activity will benefit industries like tenancy,





construction and many more. I-REIT also fosters economic stability by democratising wealth creation and offering investing diversification.

Moreover, the overall capital market will be developed as I-REIT investment could contribute to job creation and infrastructure development. It is worth noting that the global Islamic finance industry's assets are around USD 2.2 trillion as of 2023 (Standard Chartered, 2023). In short, it is crucial to research this area as I-REITs are a vital component in the financial ecosystem. They can boost the economy and attract foreign investments, especially Muslim investors, with their Shariah compliance feature (Muhammad, 2015).

Problem Statement

There are some differences in the development of regulations for I-REITS in Malaysia, Singapore, and Indonesia. I-REITs in countries with less developed regulations are expected to face some difficulties executing them. Among the difficulties faced are compliance, legal uncertainties, and operational complexities. These difficulties could erode the investor's confidence to invest in this I-REIT market, limiting cross-border investment and resulting in a more fragmented market. There also could be potential disputes and inefficiencies in the management and reporting of I-REIT. Hence, it is prudent to imitate the best practices to fully unlock I-REIT potential in the nation and accelerate economic growth. This harmonising and imitating of the best practices is yet to be discussed in existing research papers.

The I-REIT industry could potentially face more growth and sustainability with its development when a comparison of industry practices is made between these three nations. The comparative analysis could boost the investors' trust and attract additional capital inflows when best practices are established. This comparative strategy may help each I-REIT industry to be more developed and create more job opportunities while expanding the market. In essence, informational exchange across these countries could help accelerate the growth of the I-REIT industry and lead to a favourable influence over economics.

It must also be noted that these three countries are neighbouring countries. Hence, their landscape has many similarities, which could lead to easier implementation in harmonising the best practices, such as how each country has established itself as an Islamic finance hub. Additionally, these three countries have a deep-rooted history of Islamic roots, which could make penetration easier on I-REIT practices.

Research Objectives

- a. To Identify the differences and development of I-REITs Regulations in Malaysia, Singapore, and Indonesia
- b. To identify the challenges faced in relation to I-REITs for these countries.
- c. To provide recommendations on how to overcome the challenges.

Research Question

- a. Whether the regulations framework on I-REITs in Malaysia, Singapore and Indonesia are comprehensive and sufficient.

Research Methodology





The research method adopted for this article is Doctrinal Legal Research, where the article will look into existing laws, articles, commentaries, textbooks, and such.

LITERATURE REVIEW

This paper will discuss specific aspects regarding I-REITS practiced in the three countries. Among the items discussed are the regulations, structure, Islamic contracts involved, shariah committees' mechanism, assets involved, stands on non-halal activities (activities and financial), takaful, profits and cleansing method.

The Regulatory Framework of I-REITS in Malaysia

Malaysia was the first country in Asia to establish REIT in September 1989 under the structure of Arab Malaysia First Property. Malaysia executed the REIT using the structure of "Listed Property Trust". This structure allows professionals to manage the real estate portfolio of funds that individual investors provide. Later, Malaysia rebranded the "Listed Property Trust" structure to REITs in 2005 by providing guidelines (Sukor et al., 2020).

Malaysia failed to attract significant attention from investors globally due to the Malaysia REIT market offering a small asset size and low exchange value. Additionally, the tax system in Malaysia is not very transparent regarding the income receivable. On top of that, Malaysia also imposed a very strict regulatory framework regarding the process of REIT approval.

The Securities Commission has listed all Malaysia REITs in unit trust. They released guidelines pertaining to I-REITs in November 2005, namely Guideline for Islamic REIT. In June 2006, this guideline paved the way for initiating Al-Aqar Healthcare REIT. This I-REIT is the first healthcare REIT in Asia that has invested in six hospitals. This guideline later was revised on 15/3/2018. Malaysia is the first country globally to issue such guidelines that became the global standard for I-REITs (Hasan & Sulaiman, 2016). By the end of 2019, Malaysia had already offered three other Islamic REITs: Axis REIT, Al-Salam REIT and the KLCC REIT.

Although the Security Commission established a Shariah advisory council responsible for Shariah finance issues, it is incumbent on REIT management companies to establish their own Shariah advisory committee. This committee shall advise on shariah-compliant matters in the management company's operational matters. The structure of I-REITs will be very similar to conventional ones except for Shariah guidelines and principles used in the contract and the shariah-compliant management of it.

The Shariah committee or Shariah advisor is the person in charge of making a Shariah-compliant assessment on I-REITs property. They are responsible for overseeing the business in the real property of the Islamic REIT. They should supervise the investment, deposit and financing decision, acquisition and disposal of real estate, rental income, and exercises. As stated above, all funds involved in I-REITs must be managed and administered according to Shariah and regulations made by the Securities Commission (Dusuki, 2022).

There is a possibility that non-permissible rental activities could occur during I-REIT investment. To cater to this issue, the Securities Commission has enumerated rental activities that fall into non-permissible categories. It must be noted that the Shariah committee has discretion based on their *ijtihad* to make decisions on other activities considered non-permissible rental income for Islamic REIT. They shall consider the usage of space, hours of service and other methods that the shariah advisor considers appropriate.

There is also a possibility that the rental comes from mixed activities, meaning that the rental comes from a business that operates permissible and non-permissible activities. In this





event, the Shariah advisor must perform a compliance assessment with additional consideration. The benchmark is that the non-permissible rental must be lower than 20% of the total turnover for that current business financial year. If the non-permissible business exceeds the 20% benchmark, the Shariah advisor is obliged to advise not to invest in that real estate to the fund manager. This is done to preserve the perception of I-REITs because I-REITs are known to be a Shariah-compliant investment.

It must be noted that fund managers also cannot invest in real estate if all the tenants run non-permissible activities despite it being below the 20% benchmark. New tenants are not subjected to the 20% benchmark. However, a fund manager cannot accept a new tenant if it is apparent that the new tenant is operating non-permissible activities. Finally, the management company must make sure that every investment, deposit, and financing instrument is Shariah compliant.

To protect real estate from risks and losses, the Securities Commission imposed that the management company of I-REITs must subscribe to a takaful scheme. However, the management company is allowed to subscribe to conventional insurance if there is no suitable insurance coverage that the takaful scheme provides.

The Regulatory Framework of I-REITS in Singapore

Listed and unlisted real estate funds in Singapore are deemed unit trusts. The unit trust of I-REITs in Singapore is based on trust over the real estate or asset related to real estate that the trustee supervises, and the unitholder has a beneficial interest in that unit. Simply put, it is a collective investment scheme (Chun, 2022).

Singapore adopts a global regulatory standard development to govern the Islamic finance market. MAS (Monetary Authority of Singapore) ensures the neutrality of its rules in areas where Islamic financing is similar to conventional economics. They treat conventional and Islamic securities markets in the same manner. MAS has also participated in an international Islamic financial organisation to build capabilities and contribute to development and standard-setting initiatives for the industry. Its involvement in Islamic finance was especially evident when they were among the council members of the Islamic Financial Services Board and AAOIFI (Ibrahim et al., 2009). MAS had incorporated the Guidelines for Property Funds into the Code of Collective Investment Scheme, which became the main regulation for S-REIT since 2002. This code should be read together with other relevant provisions.

MAS will not determine 'shariah acceptability' or dictate on shariah compliance issues. MAS also will not provide any Shariah rulings pertaining to Islamic REIT. I-REIT companies are responsible for providing the Shariah governance footing as their risk management process. The power to make decisions on Shariah-compliant matters is bestowed upon the Shariah board of I-REIT companies (Mohamad et al., 2012). Sabana Shariah Compliant Industrial REIT became the pioneer I-REIT listed on the Singapore Exchange (SGX) in 2010 and was the world's largest I-REIT at that time despite Malaysia being the first one in Asia to introduce Islamic REIT. However, on October 21, 2021, Sabana REIT removed the Shariah principle's requirement for its real property investment, making it no longer an Islamic REIT (Sabana, 2022).

There are two unique features that Singapore Islamic REITS have. Firstly, the I-REIT's primary business must be managing groups of income property. Secondly, the I-REITs must distribute most of their profit as dividends. I-REITs are traded on the stock exchange and provide investors' return through capital appreciation from price increases and dividends like any listed company shares.





The Singapore I-REITs structure starts with the operator, who has overall responsibility for the fund. An oversight panel appointed by the operator will oversee the fund's operation. The structure of the I-REITs fund must only be of a Public Property Fund. Only an investment company or investment trust shall also be their legal vehicle. It is incumbent upon the operator to embed the Shariah principles. They also are obliged to appoint a Shariah supervisory board. This board will provide Shariah oversight on the Islamic REIT. The internal shariah compliant policy of the operator shall prevail over the shariah board decision. The income generated from the real property investment shall be distributed to the unitholders not less than 80% of the annual income that has been audited (Mohamed et al., 2009).

There are no standardised guidelines that list the Shariah acceptability requirements for I-REITs in Singapore. This is because the Shariah acceptability benchmark is upon the Shariah board or committee of the I-REITs company. This paper will discuss the guidelines based on the Sabana I-REIT because it is the largest Singapore I-REIT to date.

Firstly, the gross revenue for continuous rental that consists of non-permissible business activities should be less than 5% per annum. There is no indication of a percentage benchmark if the I-REITs company wants to acquire assets with a new tenant. However, the REIT company must obtain prior approval from the Shariah committee if there are mixed activities involved. The management company also must contract with Islamic financing, investment, and deposit facilities. However, the management company may do conventional financing with prior approval from Shariah advisers if it is not viable but subject to three ratios as laid down in the table below.

Sabana I-REITs also have a mechanism to do the cleansing, which is the net amount of non-permissible income. This cleansing income is calculated when the net income has been deducted from the applicable expenses, but the amount is before the distribution of net income.

The Regulatory Framework of I-REITS in Indonesia

DIRE (Dana Investasi Real Estat), also known as REIT, is one type of investment vehicle offered in Indonesia and is in the form of a Kontrak Investasi Kolektif ("KIK"), also known as a collective investment contract, which is a contract between an investment manager and a custodian bank that will bind the unit holder. The fund manager will be given the authority to manage the investment portfolio collectively, while the custodian bank will be given the authority to carry out collective safekeeping (Infovesta, 2022).

REIT will become a vessel that functions to accommodate funds from the public and investors. The funds collected by the REIT will be invested in property assets, such as buying buildings, houses, shophouses, and apartments, either directly or indirectly. REIT can only invest in real estate assets as its performance is highly dependent on the property sector.

Previously, certain REIT regulations were issued by the Capital Market Supervisory Agency, i.e., BAPEPAM, whose purpose is to provide guidance and day-to-day supervision of the capital market industry. BAPEPAM falls under the purview of the Ministry of Finance of Indonesia, which is tasked with fostering, regulating, and supervising the day-to-day activities of the capital market as well as implementing policies and setting standards.

BAPEPAM-LK is a merger of the Capital Market Supervisory Agency and the Directorate General of Financial Institutions. Currently, BAPEPAM-LK has been replaced by the Financial Services Authority ("OJK"). OJK was formed to assist in organising and ensuring fairness, transparency, and accountability in the financial sector, to achieve growth in a sustainable and stable environment and to protect the interests of the consumers.

During Joko Widodo's early presidency, new regulations were released by the Indonesian government and OJK to support the development of I-REITs and REITs in Indonesia, that is:





1. **Peraturan Pemerintah (Government Regulation) No. 40**, issued in 2016, states that capital gain tax on REITs is only at 0.5%.
2. **Peraturan Pemerintah (Government Regulation) No. 19/POJK.04/2016** provides guidelines for investment managers and custodian banks on how to manage the REIT funds. It is highlighted in Article 20 of this regulation that the Custodian Bank will pay the management fees.
3. **Peraturan OJK (FSA Regulation) No. 64/POJK.04/2017** regulates important aspects of REITs. Among others, it includes the duties of the custodian bank, investment manager and the rights of the unit holders.
4. **Peraturan OJK No. 30/POJK.04/2016** regulates I-REITs. One of the glaring aspects of the regulation provides that i-REITs should follow the regulations on conventional REITs. However, an I-REIT is only allowed to invest in income-generating real estate properties. This differs from its conventional counterpart, which allows for investment in under-construction real estate properties provided it can produce income for, at minimum, six months after investment is made. An investment manager handling the I-REITs should have a Shariah Supervisory Board ("SSB"), where a statement of conformity must be published by the SSB or the Shariah Expert Team to ensure Shariah compliance of products or services provided by the company. If a real estate property uses more than 10% of its area for non-halal activities and generates more than 10% non-halal income, an i-REIT is not allowed to invest in that property.

The Shariah principles applied in the Islamic capital market are based on the fatwa issued by the Indonesian Ulema Council. The OJK Regulation concerning implementation must not contradict the fatwa. Although there is no dedicated fatwa on I-REITs in Indonesia, I-REITs are part of a trust fund; thus, they are subjected to the ***Fatwa Dewan Syariah Nasional (National Sharia Council Fatwa) No. 20/DSN-MUI/IV/2001*** on Trust Fund (Indrawan & Wahyuningsih, 2019).

DISCUSSION AND RECOMMENDATIONS

Comparison and Contrast

Item	MALAYSIA	SINGAPORE (*As Per Sabana REITs)	INDONESIA
Regulations	Guidelines on Listed Real Estate Investment Trusts	Regulators did not issue any guidelines on Islamic REITs. The Shariah board of each management company will determine the Shariah governance of Islamic REITs.	Peraturan Pemerintah (Government Regulation) No. 40
			Peraturan Pemerintah (Government Regulation) No. 19/POJK.04/2016
			Peraturan OJK (FSA Regulation) No. 64/POJK.04/2017





			Peraturan OJK No. 30/POJK.04/2016
			Fatwa Dewan Syariah Nasional (National Sharia Council Fatwa) No.20/DSN-MUI/IV/2001
Structure	1. An investor (unitholder) approaches an investment company to make an investment in Islamic REIT property.		1. The tenant will pay rental to the SPC (Special Purpose Company), where tax will be deducted.
	2. A trustee will act as the guardian of the assets and preserve the unitholder rights.		2. The money will be passed from the SPC to the KIK DIRE (Collective Investment Contract). KIK - The investment manager and custodian bank are the representatives who act for the interests of the unitholders in the KIK. The investment manager has the power to manage the investment portfolio, and the custodian bank has the collective custody.
	3. The Islamic REIT Manager will manage the investments according to the objectives as stipulated in the trust deed.		3. Dividends are distributed to the unit holders.
Islamic Contracts Involved	Wakalah: Trustees act in a fiduciary role on behalf of the unit holders to fulfil the trust's terms and obligations.	Not mentioned, however, Sabana REIT's Convertible Sukuk applies Murabahah, Ijarah and Wakalah to acquire an asset which will be part of the trust that generates income for the Sukuk holders.	Mudharabah: Shariah Mutual Funds contract between investors and investor managers. Investors are the property owners (sahib al-mal/rabb al-mal), and investment managers are the representatives of sahib al-mal/rabb al-mal. The





			investment manager will manage the property for the unitholder and will get profit as a return.
	Al-Ujr: The service fees for the management company.		Wakalah: The contract between the unit holder and the investment manager. The unit holders appoint an investment manager to conduct investments for them.
	Ijarah 'Ain: The rental of real estate assets. The tenant is the lessee, and the management company is the lessor. (Example: Boustead REIT)		
Shariah Committee	Management companies must appoint a Shariah adviser. Shariah advisers shall provide advice on all Shariah matters and must conduct Shariah-compliant assessments. They must make sure that the investment is Shariah-compliant based on applicable Shariah rules and SAC rulings. Management companies must appoint a Shariah adviser that is independent from the company. A Shariah adviser may be an individual, corporation, licensed Islamic bank, a licensed bank or licensed investment bank approved to carry	The Shariah Adviser (Five Pillars Pte. Ltd.) is a channel between the Shariah Committee and the compliance officer. They will provide advice on the execution of the Shariah guidelines. They act on behalf of the independent Shariah Committee. They will collect data from the Islamic REIT manager and relay them to the independent Shariah Committee. The Shariah Committee is an external committee. They consist of Shariah scholars selected by the Islamic REIT manager according to the advice from the Shariah Adviser. The Shariah Committee forms the advisory panel of the	The Investment manager must have a Shariah Supervisory Board. The Shariah Supervisory Board is responsible for providing advice and supervision on Shariah-compliant matters. The Shariah Expert Team is in charge of providing Shariah conformity in the products or services provided by the company.



	on Islamic banking business. Where individuals are appointed as Shariah advisers, they must comprise at least three individuals to form a Shariah committee.	Shariah Adviser (Five Pillars Pte. Ltd.)	
Assets Involved	Residential, Commercial, Storage facilities or warehouses and Carparks	High-tech Industrial, Chemical Warehouse and Logistics, Warehouse, and Logistics, and General Industrial.	Real estate assets, Assets related to real estate, and/or Cash and cash equivalents (which do not conflict with Shariah Principles)
Shariah Non-compliant Activities	Conventional banking, Conventional insurance, Gambling, Liquor and liquor-related activities, Pork and pork-related activities, Non-halal food and beverages, Tobacco and tobacco-related activities, Stockbroking or share trading in Shariah non-compliant securities, Shariah non-compliant entertainment, and Other activities deemed non-compliant according to Shariah.	Conventional financial and insurance services, gaming, non- halal production, tobacco-related products, non-permitted entertainment activities, and stockbroking in non-compliant securities	Gambling and gaming activities that are classified as gambling or prohibited trade, Businesses of conventional financial institutions (ribawi), including banking and conventional insurance, Manufacturing, producing, or trading of non-halal food or drinks and Businesses that produce or provide services that are harmful or morally bad.



Activities on Property	Not permitted to acquire any property that operated 100% non-compliant with the Shariah law. In case the new tenant operates a 100% non-permissible business, the Shariah committee shall advise Islamic REIT managers not to accept the new tenants. Fund managers cannot invest in real estate in the event where all the tenants run non-permissible activities despite it being below the 20% benchmark. The rent must come from permissible business only. In the event of mixed business, the 20% benchmark must be used. By the end of the tenth financial year, the percentage of the Shariah non-compliant rental should be lessened to 5% from the 20% benchmark.	Prior approval from the Shariah Committee must be obtained in case of mixed business. The Gross Revenue must be less than 5.0% per annum for non-permissible business.	The area of the real estate used for non-permissible business and non-permissible income from that non-permissible business must be less than 10%.
Financing Activities	These activities must be Shariah-compliant: Financing, Deposits, Investments in the Islamic REIT	Must be shariah-compliant. If not available or viable, it can adopt conventional subject to permission from Shariah Advisers. The Shariah Advisers will consider three ratios:	Must be shariah-compliant.





		1. Total interest-based debt to trailing 12-month average NAV ratio must be less than 33.0%. 2. Sum of cash and interest-bearing securities must be less than 33.0%. 3. In addition to the above, all accounts receivable must be less than 33.0%. The manager must bring the investment back within the threshold if the threshold is breached. The period is within two reporting quarters or six months, whichever is sooner.	
Takaful	Must be covered by takaful. However, the management company is allowed to subscribe to conventional insurance in the event that there is no suitable insurance coverage that the takaful scheme provides.		Not mentioned.
Profits/ Dividends	Requirement for tax transparency status: The unitholders must receive 90% or more of Islamic REIT's total income as dividends.	90% of rental income is mandated to be distributed as dividends.	The unitholders must receive at least 90% of its annual return.
Cleansing	By the end of the tenth financial year, the percentage of the Shariah non-compliant rental should be lessened to 5% from the 20% benchmark.	Must cleanse the net amount of non-permissible income (after deduction of applicable expenses) before distribution of net income.	The investment manager cannot include the non-halal income in Net Asset Value (NAV). The investment manager will need to do a cleansing.





	The excess amount of the non-compliant rental must be channelled to baitul mal, or charitable bodies as advised by the Shariah adviser in the event of failure.		
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Challenges in governing I-REITS in Malaysia, Singapore, and Indonesia

The first challenge is the hardship in governing Islamic REITS in Singapore due to the absence of written regulations. This is because Singapore adopts a laissez-faire approach to governing i-REITS. Due to this, the country has to rely on external regulations such as the SAC Resolutions of Bank Negara Malaysia, SAC Resolutions of Securities Commission Malaysia, Shariah standards (e.g., Murabaha, Ijarah, Kafalah, etc.) issued by Bank Negara Malaysia, IFSB Standards and AAOIFI Shariah standards (Hasan and Duriat, 2017). Due to the reliance on various external regulations may result in a lack of consistency of standardisation when governing Islamic REITS, as different bodies may have different views.

Indonesia has good regulations in place for Islamic REITS, yet there are no I-REITS listed in Indonesia. Indonesians have a low literacy rate regarding the capital market. OJK made a National Survey on Financial Literacy and Inclusion in 2016, which shows that the Indonesian financial literacy rate on the capital market is just 1.30%. Recently, in the 2019 national survey conducted by OJK, there has been a slight improvement at 1.55%. To combat this, OJK aims to improve capital market financial literacy as part of their 2021 National Strategy for Financial Inclusion (Strategi Nasional Inklusi Keuangan or SNKI) (Suleiman et al., 2022).

Malaysia has a very comprehensive framework in place for I-REITS. However, a foreseeable weakness can be seen in regard to the definition of Shariah non-compliant activities in I-REITS, specifically on the "activities deemed non-compliant according to Shariah" as listed in Schedule E of the Securities Commissions' *Guidelines on Listed Real Estate Investment Trusts* (Securities Commission, 2022). The category itself is too broad and opens the floodgates to various interpretations, as there has not been any further clarification provided by the guideline. To further complicate the matter, the official Bursa Malaysia website has listed "hotels and resorts" as a Shariah non-compliant activity in I-REITS, whereas the guidelines mentioned above had not listed it as a Shariah non-compliant activity (Bursa Malaysia, n.d.). There should be standardisation and clarity between and within these government entities in regard to this to prevent any possible confusion and non-compliance among the market players.

Recommendations

Some recommendations or possible solutions can help reduce the challenges faced that this paper proposed. This paper proposed that Singapore should issue written regulations or guidelines on Islamic REITS as the regulations/guidelines could pave the way for Singapore to be an Islamic Capital Market hub and allow for better standardisation and governance. Singapore may look to its neighbours' governing regulations for inspiration when drafting its





own regulations, as Malaysia and Indonesia's frameworks are comprehensive. Regarding Indonesia, this paper proposed that OJK conduct educational programs, activities, or any initiatives to educate the public on Islamic REITs and REITs when implementing their SNKI. Lastly, for Malaysia, this paper proposes for government entities such as the Securities Commission and Bursa Malaysia to ensure the information provided to the public on I-REITs is in line with each other and for the Securities Commission to provide further clarification on "activities deemed non-compliant according to Shariah" as a Shariah non-compliant activity, which can be done by way of a revision to the current guidelines.

CONCLUSION

Malaysia can be seen as an exemplary model of a comprehensive framework when it comes to Islamic REITs. Indonesia also has a great regulatory framework, almost as comprehensive as Malaysia's. However, there is still a lack of appetite for Islamic REITs there, which could be due to the lack of awareness of Islamic REITs. Singapore used to have one of the most popular "Shariah Compliant" REITs, i.e., Sabana REIT; however, it has recently decided to stray away from its Shariah compliance. Furthermore, the country still lacks a written regulatory framework for Islamic REITs, and its governance is mainly dependent on the Shariah Committee of each I-REITs company, which may be harder to do so now as its prime example (Sabana REIT) is no longer Shariah compliant. Thus, it can be seen that further development is needed, especially in Singapore, as they have very comprehensive laws on REITs but none on Islamic REITs.

This paper illustrates the differences in the regulatory framework that govern the I-REIT industry in Malaysia, Singapore, and Indonesia through comparative analysis. It highlights the unique features of the practices in these three countries while at the same time shedding some light on the challenges that arose in the industry. Regardless, this paper also provides recommendations that address the challenges faced by the nations. This paper hopes that the recommendations could assist the industry to be more conducive and efficient. It anticipated that the recommendations could assist the policymakers, investors, and stakeholders optimise their I-REIT sector.

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