

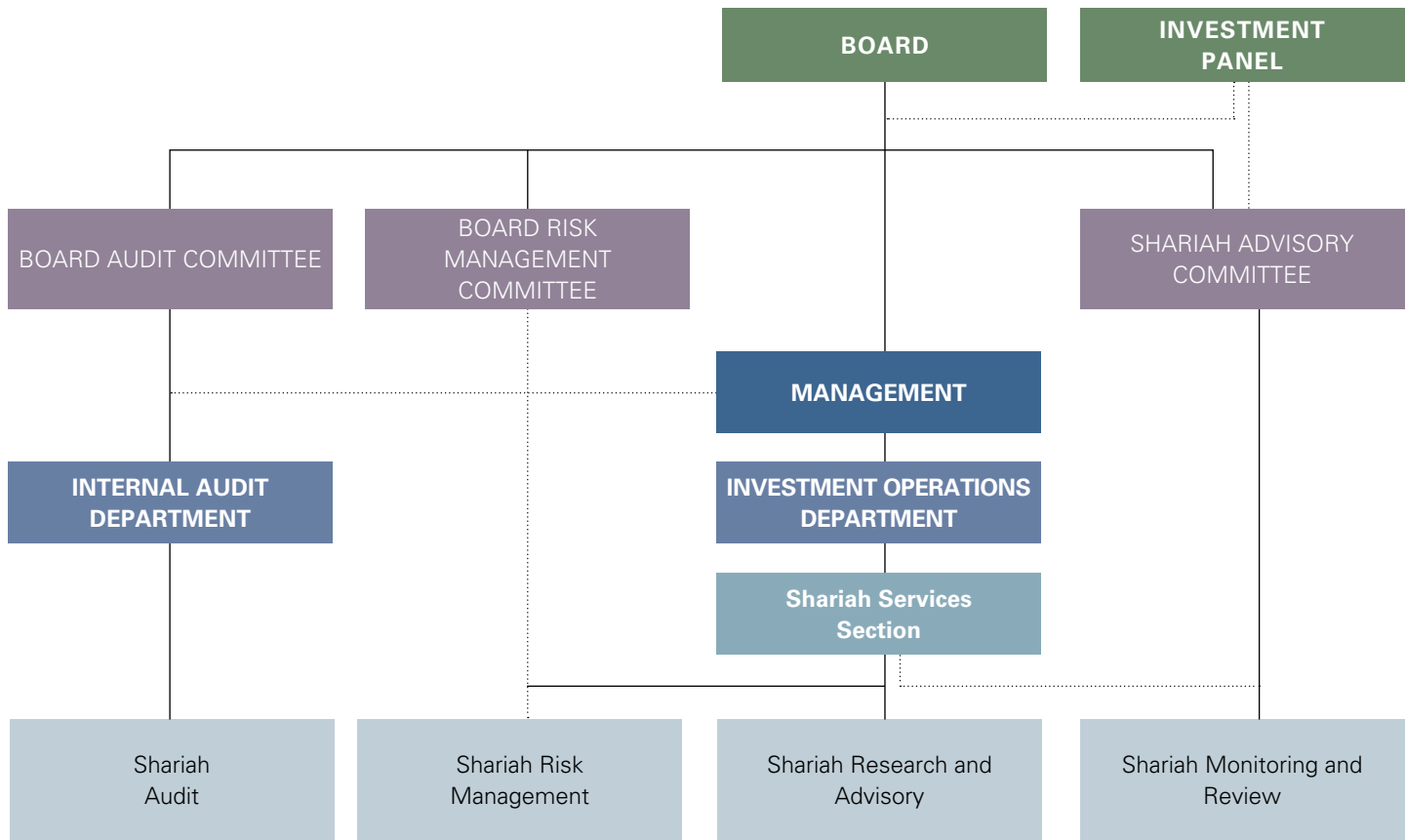
# STATEMENT ON SHARIAH GOVERNANCE FOR SIMPANAN SHARIAH

Simpanan Shariah is a savings option for members that is managed and invested by the EPF in accordance with Shariah principles.

A Shariah governance framework has been established to govern the Shariah compliance aspects of Simpanan Shariah to ensure that the fund is managed in accordance with Shariah principles as required under Section 43A of the EPF Act 1991.

## SHARIAH GOVERNANCE STRUCTURE

The Shariah governance structure under the framework is as described below:



COMPONENT	FUNCTIONS IN RESPECT OF EPF SIMPANAN SHARIAH
Board	<ul style="list-style-type: none"> <li>Establishes the Shariah Advisory Committee (SAC) as the authority for the ascertainment of Shariah matters, for the purpose of advising the Board and Investment Panel in ensuring that the management of Simpanan Shariah complies with Shariah principles.</li> <li>Refers to the SAC on any matters relating to Shariah that requires the ascertainment of Shariah principles. The advice given by the SAC shall be binding on the Board.</li> <li>Establishes a Shariah compliance framework as described below.</li> </ul>
Investment Panel	<ul style="list-style-type: none"> <li>Refers to the SAC on any investment matter relating to Shariah that requires the ascertainment of Shariah principles. The advice given by the SAC shall be binding on the Investment Panel.</li> </ul>

## STATEMENT ON SHARIAH GOVERNANCE FOR SIMPANAN SHARIAH

COMPONENT	FUNCTIONS IN RESPECT OF EPF SIMPANAN SHARIAH
Shariah Advisory Committee	<ul style="list-style-type: none"> <li>• Ascertains the application of Shariah principles on any matters relating to Simpanan Shariah.</li> <li>• Advises the Board and Investment Panel on any Shariah-related matters and the application of Shariah principles related to Simpanan Shariah.</li> <li>• Verifies and approves any Shariah Compliance Report in relation to the management of Simpanan Shariah for the EPF Annual Report.</li> </ul>
Management	<ul style="list-style-type: none"> <li>• Ensures that the operations and investments of Simpanan Shariah adhere strictly to Shariah principles by referring to the SAC for advice on all Shariah related matters and implementing all SAC rulings.</li> </ul>
Shariah Compliance Framework	<p>There are four functions established by the Board under the framework:</p> <ul style="list-style-type: none"> <li>• <b>Shariah Research and Advisory</b> is responsible for conducting Shariah research and providing Shariah advice.</li> <li>• <b>Shariah Monitoring and Review</b> is responsible for monitoring and review for the purpose of continuous assessment on the degree of Shariah compliance.</li> <li>• <b>Shariah Risk Management</b> is responsible for the management of Shariah non-compliance risk for the purpose of mitigating any possible Shariah non-compliance based on the EPF Operational Risk Management Framework.</li> <li>• <b>Shariah Audit</b> is responsible for Shariah auditing for the purpose of independent assessment of the adequacy and effectiveness of internal controls, risk management systems, governance processes and objective assurance on the compliance of Shariah policies and guidelines endorsed by the SAC.</li> </ul>

### APPOINTMENT OF SAC MEMBERS

The Board appoints not less than three persons as SAC members who are qualified in Shariah, or who have knowledge or experience in Shariah and in banking, finance, law, or other related disciplines.

The Board also stipulates that the SAC members must have a minimum of five years' experience in Islamic finance, and that two-thirds of its members must have at least a degree in Shariah, which includes Islamic Commercial Law (*Fiqh Muamalat*) or Principles of Islamic Jurisprudence (*Usul Fiqh*). Each appointment is for a two-year term and the appointee(s) may be reappointed.

### SAC MEETING ATTENDANCE

A total of 13 SAC meetings, including one special meeting, were held in 2019. Details of SAC members' attendance are as follows:

SAC Members	MEETING ATTENDANCE
Prof. Dr. Mohamad Akram Laldin (Chairman)	13/13
Assoc. Prof. Dr. Aznan Hasan (Deputy Chairman)	13/13
Dr. Zaharuddin Abdul Rahman	13/13
Prof. Dr. Engku Rabiah Adawiah Engku Ali	13/13
Dr. Kamaruzaman Noordin	13/13

The EPF Management has appointed the EPF Legal Department as the SAC Secretariat.

## STATEMENT ON SHARIAH GOVERNANCE FOR SIMPANAN SHARIAH

### SAC HONORARIUM AND ALLOWANCES

The SAC members are paid a monthly honorarium and allowance for each meeting attended in 2019 as follows:

- (a) Honorarium (per month): RM5,000.00
- (b) Meeting Attendance: RM1,500.00

### ACCESS TO INFORMATION AND DOCUMENTS

To assist the SAC in discharging its functions, the EPF Management provides the SAC access to all necessary information and documents, and the SAC shall safeguard the confidentiality of such information and documents.

### SAC EFFECTIVENESS EVALUATION

The EPF carries out SAC Effectiveness Evaluation to assess the performance of the SAC. The review is carried out once in every two years by an independent professional body.

### SAC ENGAGEMENT WITH THE BOARD AND INVESTMENT PANEL

The SAC is involved in various discussions with the Board and Investment Panel on matters related to Simpanan Shariah.

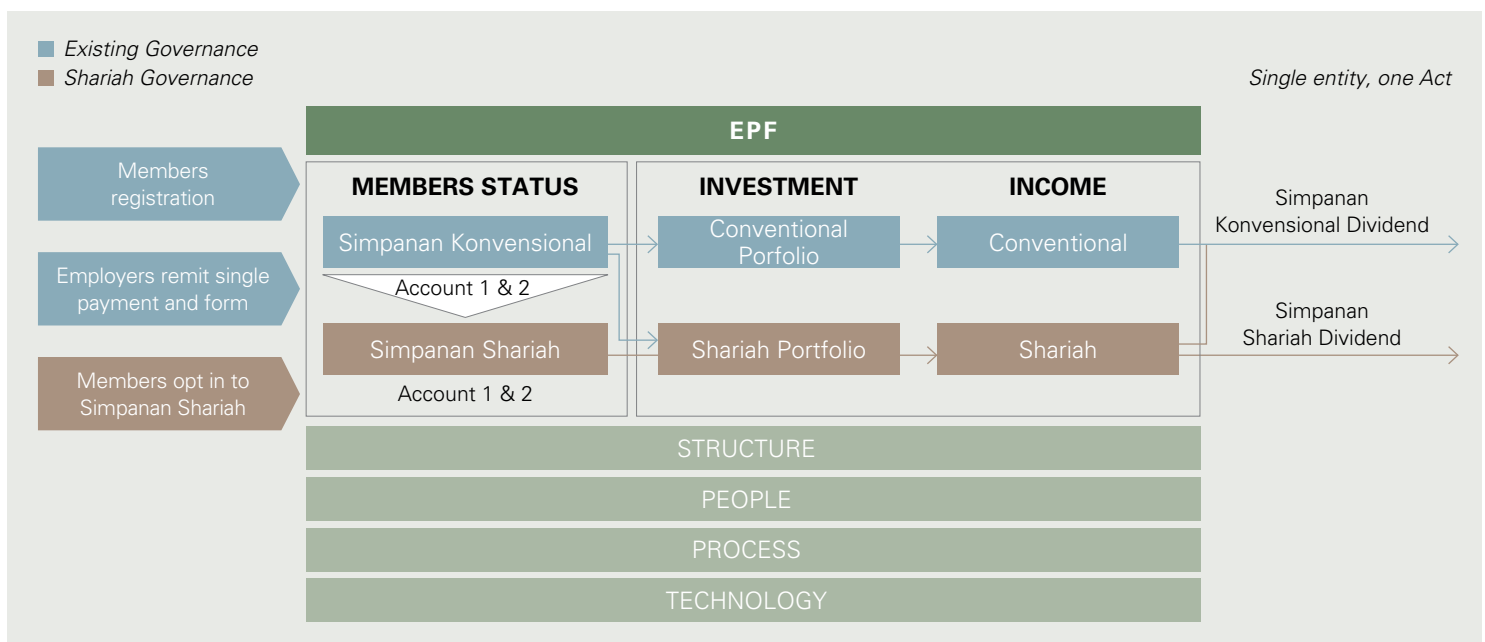
### SAC REPORT

For each financial year, a Shariah Compliance Report in relation to the management of the Simpanan Shariah and approved by the SAC, is presented in the EPF Annual Report.

### SHARIAH POLICIES FOR SIMPANAN SHARIAH

The Shariah governance framework is supported by detailed policies and procedures to ensure that every Shariah-compliant transaction complies with Shariah requirements. The SAC has formulated Shariah policies for Simpanan Shariah with respect to its operations, investment, finance, and treatment of Shariah non-compliant income, which among others are as follows:

#### 1. Operating Model of Simpanan Shariah



## STATEMENT ON SHARIAH GOVERNANCE FOR SIMPANAN SHARIAH

Simpanan Shariah adopts a portfolio-based management model as follows:

- (a) Simpanan Shariah and Simpanan Konvensional co-exist under one fund and managed by the Board.
- (b) EPF members opting for Simpanan Shariah are bound by the *Wakalah* contract, where members agree to appoint the Board as representative and trustee to manage and invest all credit (savings) in members' account in accordance with Shariah principles.
- (c) In addition to the EPF's corporate governance, Simpanan Shariah is also subject to the Shariah governance framework and Shariah policies relating to the operations and investment, as determined by the SAC from time to time.
- (d) The EPF's investment assets are segregated into two portfolios, namely the Shariah portfolio and conventional portfolio. Simpanan Shariah will only invest in the Shariah portfolio.
- (e) Simpanan Shariah leverages on the existing structures, resources, with some enhancement to the legal framework of EPF, operational processes, and IT systems to meet the Shariah requirements as prescribed by the SAC.

### 2. Shariah-compliant Investment

In addition to ethical investment practices, which prohibits from investing in sectors that manufacture and promote alcohol, gambling, adult entertainment, tobacco and military weapons, among others, all EPF's investment assets will undergo Shariah screening process based on Shariah criteria and guidelines set by the SAC. These serve to eliminate Shariah non-compliant elements such as *riba* (interest/usury), *gharar* (uncertainty in contract), *maysir* (gambling), and other prohibited elements such as non-halal goods and services.

Shariah policies on compliance and monitoring aspects of EPF's Shariah investments have also been set out by the SAC, and the policies will be updated from time to time.

As at 31 December 2019, 37.1% or RM342.96 billion of the EPF's investment assets are Shariah-compliant. As Simpanan Shariah members' savings balance is smaller than the total

EPF's Shariah-compliant investment assets in the Shariah portfolio, both Simpanan Shariah and Simpanan Konvensional will jointly invest in the Shariah portfolio. The Shariah income derived from the Shariah portfolio is allocated to Simpanan Shariah in proportion to its share in the said portfolio.

### 3. Reclassification Of Shariah-compliant Investment

The EPF's investments in both listed and private equities, real estates, and infrastructure are subject to periodic Shariah screening to review the Shariah compliance status of such investments.

For listed equities, Shariah classification will be reviewed periodically based on Shariah screening conducted by the Shariah Advisory Council of the Securities Commission Malaysia (SAC SC) for the domestic market and the relevant Shariah index providers subscribed by the EPF for global markets.

Shariah screening for investments in private equities, real estates, and infrastructure, will be conducted internally on an annual basis based on Shariah screening criteria and guidelines set by the SAC.

If any of the above investments fail the Shariah screening, the investment will be reclassified as Shariah non-compliant and will be transferred to the conventional portfolio.

Similarly, if any of the above investments in the conventional portfolio passed the Shariah screening, the investment will be reclassified as Shariah-compliant investment and will be transferred to the Shariah portfolio.

For Shariah mandates managed by external fund managers, any Shariah-compliant instruments being reclassified as Shariah non-compliant will be disposed of in accordance to the guidelines set by the SAC SC.

### 4. Treatment Of Shariah Non-compliant Income

In 2019, the Shariah non-compliant income was mainly derived from the late payment charges imposed on employers for late contributions; and the excess gain due to reclassification of Shariah-compliant equities into Shariah non-compliant equities.

## STATEMENT ON SHARIAH GOVERNANCE FOR SIMPANAN SHARIAH

The late payment charges and/or dividends are imposed on employers and other parties for late payment of contributions and/or any financial obligation due and payable to the EPF, to safeguard the interest of members.

With regards to the Simpanan Shariah, the SAC allows the charges to be imposed as deterrent and penalty to defaulters either in the form of *ta'widh* (compensation) or *gharamah* (penalty at the rate above the *ta'widh* rate). The *ta'widh* amount as endorsed by the SAC, may be recognised as Shariah-compliant income, while any excess amount will be recorded as Shariah non-compliant income.

Any transactions suspected to be Shariah non-compliant will be reported to the SAC to determine the Shariah status of the transactions, including any income therefrom.

The SAC had resolved that the Shariah non-compliant income can only be utilised for allowable expenses through charitable activities, such as payment of statutory charges (death benefit, incapacitation benefit and invocation cost), and any excess Shariah non-compliant income (if any) may be utilised for operating expenditure and indirect investment expenditure.

For the financial year ended 31 December 2019, total Shariah non-compliant income was RM41.92 million and had been utilised for members' welfare through payment of statutory charges.

## 5. Dividend

The dividend policy for Simpanan Shariah is presented to the SAC for deliberation and Shariah endorsement.

The annual dividend of the Simpanan Shariah is based on the actual performance of the EPF's Shariah-compliant investments in the Shariah portfolio, i.e. realised Shariah-compliant investment income and non-investment income, after netting off expenses, allocated to Simpanan Shariah in proportion to its share in the Shariah portfolio.

Simpanan Shariah dividend declared by the Board for the financial year ended 31 December 2019 was 5.00%.

## 6. Dividend Purification

Muslim members who have opted for Simpanan Shariah, are exempted from the requirement to purify EPF dividends received prior to the offering of Simpanan Shariah, i.e. EPF dividends for financial year 2016 and earlier. Furthermore, any Simpanan Konvensional dividend credited to a member's account after switching to Simpanan Shariah (as the Simpanan Shariah account had not yet been in force) are also exempted from purification, as the member has no right to determine the effective date of the Simpanan Shariah account.

The Special *Muzakarah* of the *Fatwa* Committee of the National Council for Islamic Religious Affairs Malaysia, held on 18 August 2015, had also resolved that EPF is not obliged to purify dividends on EPF savings for all members who opted for Simpanan Shariah.

However, for Muslim members who recently chose to convert their account to Simpanan Shariah, they are advised to purify Simpanan Konvensional dividends as per resolution of the 87th *Muzakarah* of the *Fatwa* Committee of the National Council of Islamic Religious Affairs Malaysia, held on 23-25 June 2009:

*"In Islam, property acquired by means that are not Shariah-compliant, such as usury, ambiguous transaction, gambling, fraud, robbery, plunder, corruption, etc is illegal and cannot be used for personal gain and benefit and must be cleansed through the following methods:*

- (a) channeled to Baitulmal for the general public interest of Muslims such as for funding the construction or maintenance of bridges, roads, toilets, etc; or*
- (b) given to the poor."*

The purification rate for Simpanan Konvensional dividend 2019 is 71% of the total dividends credited to member's account.

# SHARIAH ADVISORY COMMITTEE REPORT

**In the name of Allah, the most Beneficent, the most Merciful.**

**All praise be to Allah and peace be upon the Prophet Muhammad, his family, his companions, and those who followed them.**

We, members of the Shariah Advisory Committee of EPF (SAC), have reviewed the operations and investment of the EPF in relation to Simpanan Shariah for the year ended 31 December 2019, to form an opinion as to whether the scheme has complied with Shariah principles and rulings made by us on all Shariah-related matters. We hereby submit our report for the financial year ended 31 December 2019:

- (a) We have advised the Board and Investment Panel on all Shariah-related matters presented to us by the EPF Management through the Shariah decision made by the SAC, in relation to the operations and investment of Simpanan Shariah, to ensure compliance with Shariah principles as well as the relevant local and global Shariah resolutions and standards as recognised by us.
- (b) The EPF Management is responsible for ensuring that Simpanan Shariah is managed in accordance with Shariah principles by referring to the SAC for advice on any Shariah-related matters and implementing all Shariah rulings and policies set forth by the SAC.
- (c) In advising the EPF on Shariah-related matters, we have obtained all information and explanation from the EPF Management which we consider necessary to form any Shariah rulings. The EPF Management has also arranged for the SAC to visit selected EPF's Shariah-compliant assets.
- (d) We are also supported by the Shariah research and advisory as well as Shariah monitoring and review functions in the day-to-day oversight of Shariah compliance of Simpanan Shariah. In addition, the internal audit evaluates the internal control system and compliance with policies and procedures advised by the SAC, on a regular basis.
- (e) For the financial year ended 31 December 2019, there were 13 SAC meetings held to discuss the following:
  - (i) Shariah screening and issues relating to proposals on Shariah-compliant investment and the existing investment of the EPF, including relevant documents;
  - (ii) Shariah issues relating to the operations of Simpanan Shariah, including the implementation of online Simpanan Shariah via i-Akaun mobile application;
  - (iii) Research on Shariah matters carried out by the Shariah Services Section;
  - (iv) Updates on the Shariah governance framework and Shariah compliance policies and guidelines relating to the investment and operations of Simpanan Shariah, including financial reporting and dividend policy; and
  - (v) Reports on the reclassification of Shariah-compliant investments and Shariah non-compliant income.
- (f) We have also received and deliberated on the Shariah review reports that were presented by the Shariah Services Section on a quarterly basis as per the Shariah monitoring and review plan for 2019, approved by us. This was done for the purpose of continuous assessment on the degree of Shariah compliance of Simpanan Shariah with regards to annual Shariah screening of EPF holdings in alternative investment and initial public offering (IPO) and treatment of non-compliant income.

## SHARIAH ADVISORY COMMITTEE REPORT

- (g) The Internal Audit Department has performed reviews on the operation and investment activities in relation to Simpanan Shariah. Result of the reviews were communicated to the EPF Management and reported to the Board Audit Committee. The Internal Audit Department is continuously monitoring the findings to ascertain action is being taken to resolve the audit observations. The SAC was informed about the audit observations and status of actions taken.
- (h) We acknowledge that appropriate efforts have been taken to rectify the gaps identified, and management actions are taken to prevent similar gaps from recurring.
- (i) In our opinion:
- (i) The contracts, transactions and dealings entered into by the Board in relation to Simpanan Shariah throughout the financial year ended 31 December 2019 that we have reviewed, are in compliance with Shariah principles;
  - (ii) The allocation of profits and losses relating to Simpanan Shariah as disclosed in Note 34.3 to the Financial Statements conforms to the basis that had been endorsed by us in accordance with the Shariah principles; and
  - (iii) All income earned by Simpanan Shariah from sources or means prohibited by the Shariah principles amounting to RM41.93 million as disclosed under Note 34.4 to the Financial Statements have been used for charitable activities such as payment of death benefit, incapacitation benefit, and invocation cost.


We, members of the SAC, hereby confirm that Simpanan Shariah for the financial year ended 31 December 2019 has been managed in conformity with Shariah principles.

On behalf of the SAC,



NAME : **PROF. DR MOHAMAD AKRAM BIN LALDIN**  
TITLE : CHAIRMAN OF THE SAC  
DATE : 1st June 2020

On behalf of the SAC,



NAME : **ASSOC. PROF. DR. AZNAN BIN HASAN**  
TITLE: : DEPUTY CHAIRMAN OF THE SAC  
DATE : 1st June 2020