



BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA



Frequently Asked
Question (FAQ)

**GOVERNMENT
INVESTMENT
ISSUE (GII)**

Frequently Asked Question (FAQ) GOVERNMENT INVESTMENT ISSUE (“GII”)

Instrument Overview

What is GII?

GII stands for Government Investment Issue and is another form of marketable government debt securities issued by the Government of Malaysia to raise funds from the domestic capital market to finance the Government’s development expenditure. GII is Islamic securities issued in compliance with *Shariah* requirements and is an alternative debt instrument for the Government. Other forms of instruments are the Malaysian Government Securities (MGS), Malaysian Islamic Treasury Bills (MITB) and Malaysian Treasury Bills (MTB).

What is the governing law for GII?

GII is issued under the Government Funding Act 1983 to enable the Government of Malaysia to raise funding in accordance with the *Shariah* principles. The terms and conditions of the GII are governed by, and construed in accordance with, the laws of Malaysia.

Issuance structure of GII

GII is a trust certificate currently issued under the Islamic contract of *Bai Al-Inah*, part of the sell and buy back concept in Islamic finance (refer to structure in Appendix I). Reference can be made by following these websites:

Shariah Advisory Council (SAC) of Bank Negara Malaysia

<http://www.bnm.gov.my/index.php?ch=7&pg=715&ac=802>

Shariah Resolution in Islamic Finance, Second Edition

http://www.bnm.gov.my/microsites/financial/pdf/resolutions/shariah_resolutions_2nd_edition_EN.pdf

The Government of Malaysia reserves the right to opt for other *Shariah* compliant structures depending on the strategic outcome and factors that are in line with the development of a vibrant Islamic financial market.

What is the mode of issue for GII?

GII is auctioned by Bank Negara Malaysia in its role as issuance agent to the Government, through a variable-rate multiple-price auction format (also known as English auction) via Fully Automated System for Issuance/Tendering. The auction process of GII is similar to the conventional government securities, the Malaysian Government Securities (MGS).

All bids at primary issuance must be submitted through the Principal Dealers’ (PDs) network whom are appointed by Bank Negara Malaysia.

Players/Investors of GII

Who are the investors of GII?

Both Islamic and conventional players can subscribe and trade GII. Among the primary investors of Government securities are the Employees Provident Fund (EPF), financial institutions including PDs, insurance companies including Takaful operators (Islamic insurers), asset management companies and corporations.

Trading and liquidity of GII

What are the issuance size and tenure for GII?

GII issuance programme is pre-announced in the auction calendar with issuance size ranging from RM2 billion to RM5 billion and with original maturities of 3-, 5-, 7-, 10- and 15-year.

As at 15 May 2012, issuance of GII accounts for 44.7% of Government borrowing programme with a total outstanding size amounting to RM121.5 billion or 29.1% of total government debt. The size is expected to grow larger as the Government is committed to issue GII regularly.

What contract is used for GII secondary trading?

Secondary trading of GII is undertaken by Islamic contract known as *Bay' Al-Dayn* (debt trading). *Bay' Al-Dayn* or sale of debt can be defined as the sale of payable right or receivable debt either to the debtor or to any third party. This type of sale is usually for immediate payment or for deferred payment.

On 21 August 1996, the Malaysian Securities Commission *Shariah* Advisory Council passed a resolution unanimously agreed to accept the principle of *Bay' Al-Dayn* as one of the concepts for developing Islamic capital market instruments. This was based on the views of some of the Islamic jurists who allowed this concept subject to certain conditions for instance there is a transparent regulatory system in the capital market to safeguard the *maslahah* (public interest) of the market participants.

Is GII actively traded in the secondary market?

GII is actively traded in the secondary market with annual turnover reaching RM240 billion in 2011. Average daily turnover of GII has increased from RM120 million (2008) to RM1.05 billion (year-to-date, 15 May 2012). The most actively traded GII are the benchmark issues of the 3-, 5-, 7- and 10-year maturity.

Principal Dealers (Islamic and conventional) also play a key-role in market making and promoting liquidity of the paper.

What is the standard trading lot for GII?

RM10 million, similar to MGS.

What is a GII Reopening?

The GII reopening, similar to an MGS reopening, aims to build the outstanding value of GII stock to a desired level, hence promoting greater liquidity in a particular stock and the market as a whole.

To satisfy *Shariah* requirement, GII reopening involves transacting new underlying assets sale and buyback contract, and this new contract will be distinguished from the existing contract by assigning a different stock code whereas for MGS reopening, it is simply a reopening of the existing stock. The new re-opened GII stock shares the same financial parameters of the existing stocks, and hence becomes fungible issues and *pari passu*.

Settlement

How does the settlement of GII take place?

The settlement of the primary and secondary market transactions of GII, which are similar to other government and unlisted corporate debt securities, take place via the Scripless Securities Depository System (SSDS), which is part of the Real Time Electronic Transfer of Funds and Securities (RENTAS) system. The RENTAS system, which has straight-through-processing capability would process, transfer and settle interbank funds and scripless transactions simultaneously in real-time. The RENTAS system is a delivery versus payment (DvP) Model 1 system, i.e. securities and funds settle gross throughout the day.

The standard settlement day for primary issue is T+1 while the settlement for secondary market trading is T+2.

Tax Treatment

Is the income derived from the GII investment subject to any tax?

There is no capital gains tax in Malaysia and there is no stamp duty relating to the issuance and transfer of government debt securities or private debt securities approved by the Securities Commission (SC).

Resident individuals, unit trust companies and listed closed-end fund companies are exempted from income tax for interest income/profit earned from ringgit-denominated government debt securities and private debt securities in Malaysia. Non-resident investors are also exempted from withholding tax on interest income/profit earned from ringgit-denominated debt securities issued by Government of Malaysia as well as private debt securities approved by the SC.

Regulatory Treatment

What is the regulatory treatment accorded to the GII?

GII is accorded the same regulatory treatment as MGS as follows:

- (i) 0% risk weight under the Risk-Weighted Capital Adequacy Framework and the Capital Adequacy Framework for Islamic Banks;
- (ii) Class-1 liquefiable assets status under the Liquidity Framework, subject to a yield slippage of 2%;
- (iii) Eligible collateral for Standing Facility;
- (iv) Excluded from *Single Customer Credit Limit*;
- (v) 0% risk charge under the Risk-Based Capital Framework for Insurers;
- (vi) Holdings of GII in the trading book can be deducted from the eligible liabilities base for the purpose of computing the SRR. For PDs, entire holdings of GII can be deducted from the eligible liabilities base for SRR computation.

Similarities and differences between GII and MGS

What are the similarities and key differences between GII and MGS?

GII is similar to MGS in terms of effective cash flows, issuance mode, and legal status in being a direct obligation of the Government and its nature of transaction as financial products (trading on the normal yield-price relationship).

GII and MGS differ in its structure in terms of complying with *Shariah* requirements in its issuance. Due to its structure, coupon for GII is referred to as 'profit rate'.

Does GII represent the same certificate of indebtedness or liability of the Government as the MGS?

Yes. The GII is similar to MGS in terms of their legal status in being a direct obligation of the Government.

How does profit payment in GII differ from coupon payment of MGS?

The profit payment for GII is to represent the sale of *Shariah*-compliant assets which is made up by half yearly profit payable to the investors similar to MGS coupon payment. However, the profit amount payable is fixed and therefore in secondary trading, the calculation for dirty price is based on actual/actual with no adjustment made on odd coupon period. Thus, no adjustment is made on the profit amount (see table below).

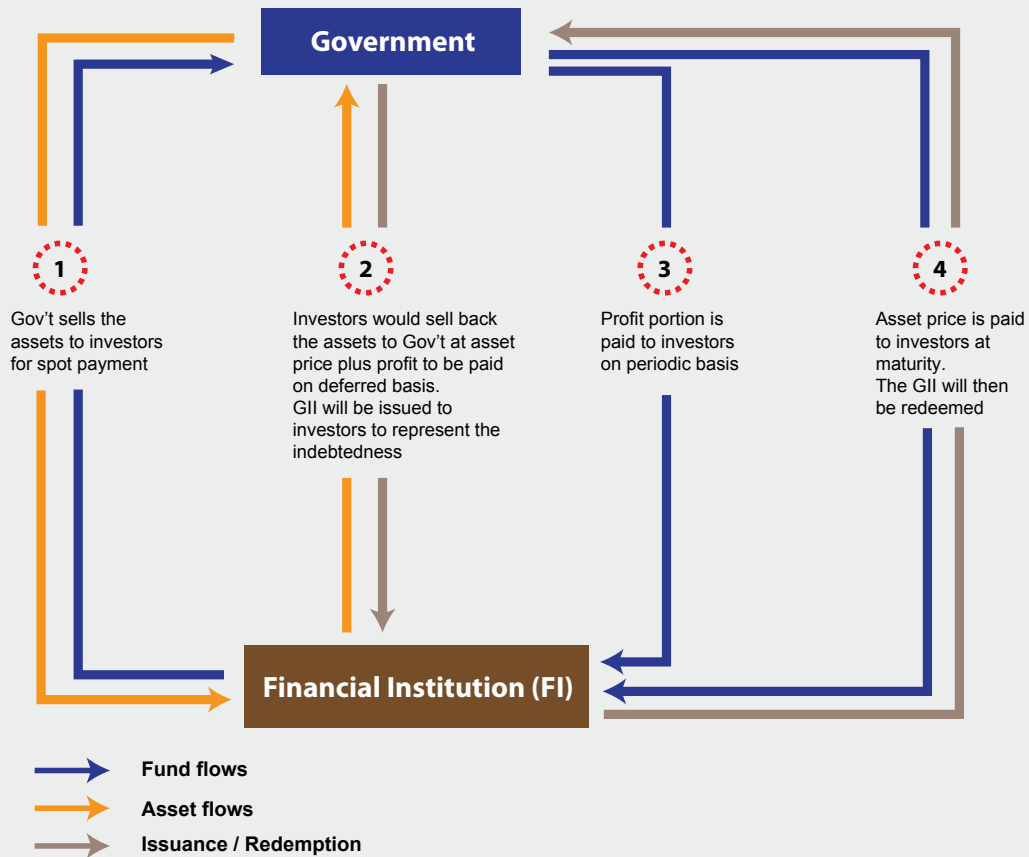
Comparison table between GII and MGS

Features	GII	MGS
Issuer	Government of Malaysia	Government of Malaysia
Tenure	3 - 15 years	3 - 20 years
Issue size	RM2 - RM5 billion	RM2 - RM5 billion
Return payment (interest/profit)	Profit payment is semi-annual. Profit rate is market-determined based on the weighted average successful yield of the issue. Day count basis is Actual/Actual.	Interest payment is semi-annual. Coupon rate is market-determined based on the weighted average successful yield of the issue. Day count basis is Actual/Actual.
Odd coupon	Coupon payable is fixed regardless of odd coupon period. Hence, a long coupon period will have no adjustment for the extra days of day count in the calculation for the semi-annual coupon payment.	For odd coupon periods, coupon payment will be adjusted accordingly. For example, a long coupon period will be compensated by a higher number for the day count.
Method of sale in the primary market	Competitive multiple-price auction. Bids are submitted by Principal Dealers (Islamic and conventional) on a yield basis for new issues and price basis on reopened issues.	Competitive multiple-price auction. Bids are submitted by Principal Dealers (conventional) on a yield basis for new issues and price basis on reopened issues.
Redemption	Sukuk are redeemed at par upon maturity.	Bonds are redeemed at par upon maturity.

Appendix I

Government Investment Issue Structure

(Based on *Bai Al-Inah* concept)



1 To raise the required financing, Government will first sell its *Shariah*-compliant assets, e.g. equities, to investors for spot cash payment.

2 Upon completion of sale, investors will subsequently sell the assets back to Government at profit paid on deferred, and GII will be issued to evidence the indebtedness.

3 Profit from sale will be paid periodically such as semi-annual basis, representing the coupon on GII.

4 On maturity (i.e. deferred payment), Government will pay the asset cost, representing the principal amount, plus profit and GII will be redeemed.