

## Capital Market Masterplan 3: Strengthening Malaysia's Islamic Capital Market for Sustainable Growth

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### ABSTRACT

The Capital Market Masterplan 3 (CMP3), introduced by the Securities Commission Malaysia in 2021, provides a strategic five-year framework to advance Malaysia's Islamic Capital Market (ICM). It aligns Shariah-compliant finance with global sustainability objectives, digital innovation and financial inclusion. This paper examines CMP3's six strategic pillars catalyzing competitive growth; empowering investors; shaping the stakeholder economy; embedding shared accountability; prioritizing efficiency outcomes; and embracing technology and assesses their grounding in Maqasid al-Shariah and ESG principles. Drawing on qualitative policy analysis and market statistics, this study shows how CMP3 enhances market resilience, broadens access for MSMEs and mid-tier firms, and positions Malaysia as a global Islamic finance hub. This study concludes with recommendations to strengthen regulatory support, harmonize Shariah governance and accelerate digital transformation to realize CMP3's vision fully.

**Keyword:** Capital, financial, CMP3, finance, hub

### INTRODUCTION

Malaysia's Capital Market Masterplan has evolved through three distinct phases: CMP1 (2001–2010), CMP2 (2011–2020) and CMP3 (2021–2025). CMP1 established foundational legal and institutional frameworks in the aftermath of the Asian financial crisis. CMP2 deepened market liberalization and international integration, leveraging Malaysia's early leadership in Islamic finance (Hassan & Lewis, 2007; Zainal Abidin & Rasid, 2017). CMP3 builds on these successes by prioritizing sustainability, inclusivity and technology to support future economic growth and position the Islamic capital market (ICM) as a core pillar of national development (Securities Commission Malaysia, 2021).

Since its launch, CMP3 has focused on six development and regulatory priorities catalyzing competitive growth; empowering investors; shaping the stakeholder economy; embedding shared accountability; prioritizing efficiency outcomes; and embracing technology. These priorities reinforce Sustainable and Responsible Investment (SRI) and ICM frameworks, with the ICM now representing approximately 63–64 percent of Malaysia's total capital market by 2024 (New Straits Times, 2025).

## LITERATURE REVIEW

Malaysia's state-driven regulatory infrastructure and rapid innovation in Shariah-compliant products such as *sukuk*, Islamic ETFs and *waqf*-based funds that propelled Islamic finance assets to exceed 60 percent of total market capitalization by 2020 (Securities Commission Malaysia, 2021). CMP3's emphasis on sustainability and digital transformation draws on the objectives of *Maqasid al-Shariah*, aligning Islamic finance with environmental responsibility and socio-economic justice (Dusuki & Bouheraoua, 2011).

The plan also integrates Regulatory Technology (RegTech) and Supervisory Technology (SupTech) to enhance compliance automation and risk management, reflecting global best practices (Arner, Barberis, & Buckley, 2017). Theoretical frameworks of stakeholder capitalism and Islamic moral economy argue for financial systems that promote real economic value through risk-sharing and wealth redistribution, goals echoed in CMP3's vision (Chapra, 2000; Siddiqi, 2006). While CMP1 and CMP2 outcomes have been well documented, critical assessments of CMP3's long-term market impact, investor behaviour and financial inclusion remain limited. This study fills that gap by evaluating CMP3's effectiveness in fostering an inclusive, resilient and sustainable ICM, see Table 1.

**Table 1:** Comparative Evolution for CMP1, CMP2 and CMP3

Masterplan	Period	Focus Areas	Market Size Change
CMP1	2001–2010	Establish foundational legal, institutional and market frameworks; enhance governance and infrastructure	RM 0.5 trillion → RM 2 trillion
CMP2	2011–2020	Deepen market liberalization; expand product innovation; integrate Malaysia into global Islamic finance markets	RM 2 trillion → RM 3.4 trillion
CMP3	2021–2025	Prioritize sustainability, inclusivity and digital transformation; adopt RegTech/SupTech; extend MSME/mid-tier access	Target RM 4 trillion+

Source: Various sources such as Securities Commission of Malaysia, The Edge Malaysia and New Straits Times

CMP3 ensures relevance by expanding Shariah-compliant financing for MSMEs and mid-tier companies, which drive GDP and employment. It promotes efficiency through RegTech and SupTech adoption, improving compliance automation, cost transparency and Shariah governance oversight (Securities Commission Malaysia, 2021). CMP3 encourages ESG-compliant Islamic products such as green *sukuk* and social impact funds to merge ethical finance with global sustainability goals.

Challenges include varying digital capabilities among smaller Islamic institutions, risks of greenwashing in sustainable finance and a lack of harmonized Shariah standards limiting global scalability. Opportunities arise in Islamic fintech, cross-

border *sukuk* issuance and integrating *waqf* and *zakat* into capital market structures, reinforcing Malaysia's leadership in inclusive and responsible finance.

This progression reflects Malaysia's shift from capacity building and cautious liberalization toward a technology-driven, sustainable and inclusive capital market ecosystem (Securities Commission Malaysia, 2021).

### Current Progress of CMP3

According to the Securities Commission Malaysia Annual Report (2024), the ICM grew by 8.5 percent year-on-year to RM 2.6 trillion, representing 63 percent of the national capital market (RM 4.12 trillion). *Sukuk* outstanding increased by 7.1 percent; Shariah-compliant equities comprised 79 percent of listed securities, with capitalization up 3.6 percent; Islamic fund Assets Under Management (AUM) rose 8.8 percent to RM 246.1 billion across 62 fund managers; and collective investment schemes reached 422, including 30 SRI-classified funds. Alternative financing for Micro, Small, and Medium Enterprises (MSMEs) expanded through RM 2.51 billion in peer-to-peer financing, RM 97.6 million in equity crowdfunding and RM 1.5 billion in private equity. Digital investment management AUM surged to RM 1.9 billion and digital asset exchange volumes grew 2.6 times, reflecting rising retail interest (New Straits Times, 2025).

### Recommendations

To enhance CMP3 implementation, such recommendations can be considered:

1. Harmonize *Shariah* governance standards regionally and internationally to facilitate cross-border scalability. By establishing a unified Shariah framework by aligning Malaysia's guidelines with those of standard-setting bodies such as AAOIFI and IFSB. A common set of principles and certification processes reduces legal-interpretation risks, lowers compliance costs for issuers, and enables seamless cross-listing of *sukuk*, Islamic funds, and other *Shariah*-compliant instruments across multiple jurisdictions.
2. Strengthen ESG integration with clear verification frameworks to mitigate greenwashing through developing a transparent ESG taxonomy and mandatory disclosure requirements for Islamic finance products. Introduce independent third-party verification by leveraging international standards such as the Task Force on Climate-related Financial Disclosures (TCFD) and the UN Principles for Responsible Investment (PRI), to certify green *sukuk*, SRI funds, and Islamic social impact instruments, thereby safeguarding investor trust.
3. Accelerate RegTech and SupTech adoption to improve supervisory efficiency and investor confidence. This is to encouragement given toward financial institutions to deploy RegTech solutions such as AI-driven transaction-monitoring, automated anti-money laundering/know your customer (AML/KYC), and blockchain-based contract management to streamline compliance. Simultaneously, upgrade regulatory bodies with SupTech capabilities for real-time data analytics and risk-scenario simulations, thereby enhancing market surveillance and reducing operational bottlenecks.

4. Deepen investor education on *Shariah*-compliant and digital finance products. Rolling-out a multilingual investor-awareness campaign that includes interactive e-learning courses, webinars, and sandbox simulations. Likewise, partnering with universities, professional bodies, and fintech platforms to certify courses on product features, risk disclosure, *sukuk* valuation, and cybersecurity in digital asset trading, empowering retail and institutional investors alike.

## CONCLUSION

Capital Market Masterplan 3 represents a strategic turning point in Malaysia's Islamic capital market development. By integrating sustainability, inclusivity and digital innovation within a *Shariah*-compliant framework, CMP3 aims to position Malaysia as a global Islamic finance hub. Continued regulatory support, stakeholder engagement and harmonized standards will be essential to sustain growth, enhance market resilience and contribute to economic, social and environmental objectives aligned with the UN Sustainable Development Goals (SDGs).

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