# DYNAMIC LINKAGES AMONG BMSI, EMAS INDEX AND T-BILLS

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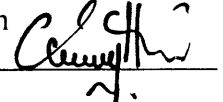### DYNAMIC LINKAGES AMONG   BMSI, EMAS INDEX AND T-BILLS

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# ABSTRACT (BAHASA MALAYSIA)

Indeks Syariah Bursa Malaysia merangkumi semua kaunter Syariah yang tersenarai di Papan Utama Bursa Malaysia. Kaunter syariah yang diluluskan ini, terlebih dahulu perlu manjalani proses penapisan oleh Badan Penasihat Syariah Suruhanjaya Sekuriti bagi memastikan semua syarikat adalah memenuhi kehendak Undang-undang Syariah. Kajian ini mengkaji kesan aktiviti penapisan tersebut dengan menilai prestasi Indek Syariah Bursa Malaysia berbanding indeks konvensional iaitu Indeks EMAS dan Bil Perbendaharaan Tiga Bulan Malaysia.

Di dalam kajian ini, analisa kointegrasi yang biasanya digunakan bagi mengkaji kepelbagaian pelaburan di antara pasaran-pasara saham, diaplikasikan di dalam menilai samada sekatan pemilihan memberi kesan kepada prestasi Indeks Syariah dan faedah kepelbagaian pelaburan di antara Indeks Syariah dan Indeks EMAS kepada pelabur. Ujian kointegrasi Johansen dan model pembetulan kesilapan vektor diaplikasikan untuk menilai perhubungan dinamik di antara Indeks Syariah, Indeks EMAS dan Bil Perbendaharaan.

Kajian ini mendapati di dalam jangkamasa panjang, semua pembolehubah berkait secara signifikan. Walaubagaimanapun, dalam jangkamasa pendek hanya Indeks EMAS dan Indeks Syariah mempunyai hubungan yang signifikan. Hasil kajian menunjukkan bahawa kewujudan kointegrasi telah menghalang kemungkinan kepelbagaian portfolio. Kajian ini sebaliknya telah mendapati kriteria penapisan yang dikenakan oleh Badan Penasihat Syariah tidak memberi kesan yang bertentangan terhadap prestasi BMSI berbanding pasaran ekuiti secara keseluruhannya.

# ABSTRACT

The Bursa Malaysia Syariah Index (BMSI) tracks all Syariah approved counter listed on the Bursa Malaysia Main Board. The Syariah approved counters have to undergo a screening process by The Syariah Advisory Council (SAC) of Securities Commission to ensure that all companies comply to the Syariah Laws. This study examines the effect of the screening activities by investigating the performance of BMSI as compared to its conventional counterpart, the EMAS Index, and Malaysian three months Treasury Bills (T-bills) as a proxy for the risk free rate.

In this study, cointegration analysis which is commonly used for studying investment diversification between stock markets, have been applied in examining whether the selection restriction affected the performance of BMSI and the investment diversification benefits between BMSI, and EMAS index to investors. Johansen cointegration test and vector error correction model (VECM) test are applied to check on the dynamic relationship between the BMSI, EMAS index and Malaysian three months T-Bills.

This study finds that in the long run all variables are significantly linked. However, in the short run, only EMAS index and BMSI have significant relationship. The results indicate that the existence of cointegration has hindered out the possibility of portfolio diversification. On the other hand, filtering criteria imposed by SAC have not adversely affect the performance of BMSI as compared to broad equity market.

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# LIST OF ABBREVIATIONS

ADF   :       Augmented Dickey-Fuller

AIC   :       Akaike Information Creterion

BMSI  :       Bursa Malaysia Syariah Index

DJIM  :        Dow Jones Islamic Market Index

ICM   :       Islamic Capital Market

OIC   :       Organization of the Islamic Countries

SAC   :       Syariah Advisory Council

PP    :       Phillips-Peron

T-Bills:      Treasury Bills

VAR   :       Vector Autoregressive

VECM:         Vector Error Correction Model

# CHAPTER 1

## INTRODUCTION

The purpose of this study is to investigate how the selection restrictions imposed by The *Syariah* Advisory Council (SAC) of Securities Commission to Bursa Malaysia Syariah Index (BMSI) affect the performance of the index as compared to a conventional index. SAC was established in 1996 and the screening process done by the SAC is to ensure that Malaysian Islamic capital market (ICM) products comply with *Syariah* law (Islamic law). However, Islamic countries have been influenced by the conventional financial system due to colonialism. As a result to long establishment of conventional financial system, it was only in the 1960s Islamic countries have started to re-examined their financial system to comply with the *Syariah* principle.

The chronology of Malaysian ICM started in the 1960s when an equity investment by Pilgrim Fund Corporation was launched followed by the first Islamic bond by Shell-MDS in 1990. Bursa Malaysia introduced the Syariah approved securities in 1997, and the Bursa Malaysia *Syariah* Index was launched on 17<sup>th</sup> April 1999. The BMSI components consist of all the *Syariah* approved counter in the Bursa Malaysia Main Board. The BMSI is an investment benchmark for Islamic investor and the establishment of BMSI would enable Islamic fund managers to actively participate in the Malaysia

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