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PROCEEDING

2nd AICIF

2nd ASEAN INTERNATIONAL CONFERENCE ON ISLAMIC FINANCE

"Islamic Finance and Its Role in Economic Development and the Creation of Just and Stable Financial System in Light of Maqosid Syariah"



State Islamic University Sunan Kalijaga
Royal Ambarukmo Hotel

Yogyakarta, 12 - 14 November 2014





2nd ASEAN INTERNATIONAL CONFERENCE ON ISLAMIC FINANCE

*Islamic Finance and Its Role in Economic Development and
the Creation of Just and Stable Financial System in Light of Maqosid Syariah*

2nd ASEAN INTERNATIONAL CONFERENCE ON ISLAMIC FINANCE

Jointly organized by:

Faculty of Islamic Economics and Business-UIN Sunan Kalijaga

Institute of Islamic Banking & Finance-IIU Malaysia

Faculty of Economics-UNISSULA



PREFACE

State Islamic University, as the oldest State Islamic University in Indonesia, has strong commitment in developing Islamic Economics in the world, especially in ASEAN Countries. 2nd ASEAN International Conference on Islamic Finance is the annual conference which has been jointly organized by State Islamic University Sunan Kalijaga Yogyakarta, International Islamic University Malaysia and University Islam Sultan Agung Semarang supported by Islamic Research and Training Institute (IRTI-IDB). The idea of having this international conference sparked from the discussion between IIBF and two universities from Indonesia i.e. UNISSULA and UIN Jogjakarta. They have agreed to strengthen their cooperation and the body of knowledge of Islamic banking and finance by jointly organizing an annual international conference which will be held in Malaysia and Indonesia subsequently. The purpose of this conference has been to generate and disseminate ideas to encourage the best practices as a way for enhancing the growth of Islamic economics around for betterment to all mankind.

The topic of the international conference was “*Islamic Finance and Its Role in Economic Development and the Creation of Just and Stable Monetary System in light of Maqosid Syariah*”. The background of this topics are to address some significant issues, including a) addressing the issue of Islamic finance in the era of ASEAN Economics community that will be started 2015. b) its implication for Islamic economics development of ASEAN members countries. c) the role of Islamic finance on the creation of Islamic monetary system, both in theoretical and practical basis, supported by the integration of ASEAN Community, to enhance the role of Islamic finance. 4) the challenge of Muslim countries for robustness the development of Ummah in ASEAN Community, that mostly are muslim.

Therefore, addressing some above issues, the conference is designed to serve as forum and platform for the academicians, practitioners and researchers to share their knowledge, experience and to learn lessons in managing the Islamic finance especially in the market integration. The conference is answering the need of some ASEAN Countries which much focuses on development of Islamic finance in dealing with the issues of ASEAN Economics community, namely 1) ideas in the creation of just and stable Monetary policy that comply with shariah rule and guidelines. 2) the solution for encouraging the development of Islamic banking and finance in the ASEAN Economics community. 3) Current issues of Islamic banking and finance in managing Hajj fund which is understood as crucial issues for Muslim Countries particularly ASEAN Countries such as Indonesia. The conference also highlighted some issues related to shariah compliant financial Instruments that are very important in providing safeguards against the ribawi system in ASEAN Members countries.

To answer all above issues, some panelists, namely Dr. Dadang Muljawan from Bank Indonesia, Mr. Adiwarmanto Azwar Karim (nominated by IRTI-IDB) will present some issue regarding the role of OIC countries for ASEAN Economics Community. In addition, Prof. Dr. Amin Abdullah will discuss some issue regarding Islamic Economics from philosophic perspective, and Prof. Tjiptohadi Sawarjuwono from University Airlangga will discuss accounting issues in Islam. In the plenary session, there are Chief Executive Officers (CEO) from 6 Islamic Banks, namely Bank Mandiri Syariah, Bank Muamalat Indonesia, Bank BNI Syariah, Bank BRI Syariah, Bank Mega Syariah and Bank Permata Syariah who will highlight their experience in managing Islamic banking. Followed by the discussion on issue of Hajj Fund Management and the role of Islamic Finance: Best Practised in Malaysia and Indonesia. Director General, Hajj and Umroh, Ministry of Religious Affairs, Prof. Dr. H. Abdul Djamil and Dean of Institute of Islamic Banking and Finance, IIUM, Prof. Dr. Syed Musa Al-Habsyi will deliver speech on this issues.

In addition, in this conference there are 70 articles that will be presented in many area of Islamic economics. This proceeding consists the abstracts of that articles, which is hopefully can be a general guideline for the participant of the conference to understand all issue discussed during the event. Therefore, the conference's participant will generate useful discussion on some pertinent issues and will encourage the finding of new ideas to develop Islamic finance.

Yogyakarta, 05 November 2014

Dr. Misnen Ardiansyah, SE, M.Si.Ak.CA.
Chairman

AGENDA
2ND ASEAN INTERNATIONAL CONFERENCE ON ISLAMIC FINANCE
 Royal Ambarukmo Hotel & Convention Hall UIN Sunan Kalijaga
 12th-14th November 2014

Day 1: Wednesday, 12 November 2014	
Venue: Convention Hall UIN Sunan Kalijaga Yogyakarta	
OPENING CEREMONY AND INTERNATIONAL SEMINAR	
12.30-12.45	Registration
12.45-13.00	Welcoming Remarks by the Rector of the UIN Sunan Kalijaga: Prof. Dr. Musa Asy'arie
13.00-13.15	Official Launching by Ministry of Religious Affair : Prof. Dr. Nur Syam, M.Si
13.15-13.30	MOU Signing: UIN Sunan Kaliga and BSM, BMI, BRI Syariah, BNI Syariah, Bank Mega Syariah, Bank Permata Syariah
13.30-14.00	KEYNOTE SPEECH: Deputy Commissioner of OJK: Dr. Mulya E. Siregar
14.00-14.45	Special Address : Dr. Muhammad Syafii Antonio
14.45-15.15	Break and Ashar Prayer
INTERNATIONAL SEMINAR	
15.15-17.30	Moderator: Assoc. Prof. Dr. Muhammad Abduh
	1. Adiwarmanto Azwar Karim (IRTI-Islamic Development Bank) <i>"Islamic Finance development in OIC Countries and Its Role for the ASEAN Economics Community"</i>
	2. Prof. Dr. H. Amin Abdullah (UIN Sunan Kalijaga) <i>"Islamic Economics in the paradigm of Intergration and Interconnection: Developing New Economics Mainstream for the Betterment of the Ummah."</i>
	3. Prof. Dr. Tjiptohadi Sawarjuwono (UNAIR) <i>"Islamic Accounting in the Era of ASEAN Economics Community: Opportunity and Challenge"</i>
	4. Dr. Dadang Muljawan (Bank Indonesia) <i>"Islamic Finance and Monetary Policy: the Case of Indonesia"</i>
17.30	End of Session
GALA DINNER AND ISLAMIC ART PERFORMANCE: Theme: "Sunan Kalijaga and Islamic Propagation in Java Island"	
20.00-22.00	Islamic Music Performance: Sunan Kalijaga - <i>Gambus Al-Jamiah</i> - <i>Ilir-ilir Sunan Kalijaga and Islamic Propagation</i>

Day 2: Thursday, 13 November 2014	
Venue : Royal Ambarukmo Hotel	
Plenary Session: CEO Talk: <i>Panel Discussion on Indonesia Shariah Banking</i>	
08:00-10.10	Registration
	Moderator : Dr. Anggito Abimanyu
	1. <i>CEO Bank Syariah Mandiri</i>
	2. <i>CEO Bank BRI Syariah</i>
	3. <i>CEO Bank BNI Syariah</i>
	4. <i>CEO Bank Muammalat Indonesia</i>
	5. <i>CEO Bank Mega Syariah</i>
6. <i>CEO Bank Permata Syariah</i>	
10.10-10.15	Coffee Break
Plenary Session: <i>Hajj Fund Management : Malaysia and Indonesia Experience</i>	
10.15-11.30	Moderator : M. Kurnia Rahman Abadi
	1. Prof. Dr. Syed Musa Al-Habsyi (<i>Tabung Haji Malaysia</i>)
	2. Prof. Dr. H. Abdul Jamil (<i>Director General of Hajj, Religious Ministry of RI</i>)
11.30-12.30	Lunch and Dhuhr Prayer
2ND ASEAN INTERANATIONAL CONFERENCE ON ISLAMIC FINANCE	
12:30-14.00	SESSION ONE: (Parallel Session in 5 different Venue)
14.00-15.30	SESSION TWO: (Parallel Session in 5 different Venue)
15.30-16.00	Coffe Break and Ashr Prayer
16.00-17.30	SESSION THREE: (Parallel Session in 5 different Venue)
Day 3: Friday, 14 November 2014	
Venue : Royal Ambarukmo Hotel	
08.00-09.30	SESSION FOUR: (Parallel Session in 5 different Venue)
09.30-10.00	Coffee Break
CLOSING CEREMONY	
10.00-10.30	Speech : FEBI-UIN, IiIBF-IIUM, FE-UNISULA
10.30-10.45	Closing Remarks : Prof. Dr. H. Anis Malik Thoha (Rector of Universitas Islam Semarang)
10.45-11.00	Award Announcement: Dr. Misnen Ardiansyah
11.00	End of Session

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Sukuk Phenomenon in Jakarta Islamic Index

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Abstract

Sukuk is a long-term securities issued sharia. Sukuk issuers to holders in the form of profit sharing / margin / fee, as well as repay the bonds at maturity. Sukuk is not a fixed-interest debt, but rather a comorbid funds based on the principle of sharing. Sukuk issued by a company or issuer as a manager or mudharib and purchased by investors or shahibmaal. Funds collected are channeled to develop long effort or development of a new unit that is completely different from the old business. Special form of allocation of funds in Shariah known as mudarabamuqayyadah. Above its shares, investors are entitled to a certain benefit ratio is calculated pro rata and paid periodically. This is a huntersukuk investors who are only wanting investment instruments based Islamic products. Besides loyalists, floating sukuk market was hunting. This is because deposits highest offer 10% return, 12% of sukuk can offer. The phenomenon is also a flood of interest in sukuk as one of the positive impact of the global crisis. This study took the objects listed companies in the Jakarta Islamic Index (JII) are only issued sukuk in 2011 through 2013, samples were taken by purposive sampling method which further data processed using quality test data and simple linear regression. The results showed that the sukuk significant positive effect on investor reaction either simultaneously or partially. That is, the sukuk is a positive impact on investors and companies are issuing sukuk. Sukuk issued more than conventional bonds. Because, conventional instruments currently stuck issue derivative transactions that make investors realize that there are other instruments that can be used with a base of sharia and the level of return that investors want a large but still in the category of sharia. In addition to the sukuk investors need not worry, the article, selling agents both banks and securities will be back to buy this product. So this is guaranteed by the government.

Keywords: *Sukuk, floating market, investor reaction, returns, and the Jakarta Islamic Index*

1. Introduction

Indonesia as the largest muslim country in the world is a huge market for the development of Islamic finance industry. Sharia investment in the capital market, which is part of the Islamic finance industry, has an important role to increase the market share of Islamic finance industry in Indonesia. Although relatively new development compared to the Sharia Islamic banking and insurance but along with significant growth in the Indonesian capital market industry, it is expected that Sharia investment in the Indonesian capital market will experience rapid growth.

During this time, Sharia investment in the Indonesian capital market is identical to the Jakarta Islamic Index (JII) which consists of only 30 stocks listed Sharia in Indonesia Stock Exchange (ISE). Though Islamic Securities contained in the Indonesian capital market is not just Sharia into 30 constituent stocks JII alone but is composed of various types of Securities other than shares ieSukukShariah and Shariah mutual funds.

In general, the concept of Islamic capital market with conventional capital market is not much different although the concept of Islamic capital markets mentioned that the bonds issued must come from companies engaged in sectors that meet the criteria of sharia and free from usury element, as well as stock transactions carried out by avoiding practices speculation (Sunariyah, 2009).

Since the initial publication in 2002, the issuance of sukuk always experience growth from year to year. Especially when the global sukuk issuance (SBSN) in 2008 At the beginning of sukuk issuance in 2002, the total number of issuers and the amount of value of sukuk issuance only 1 with a total value of 175 billion. In 2011, total corporate sukuk issuers totaled 48 with a value of 70686.4 billion dollars total emissions. Funds collected in the Islamic finance market worldwide is estimated at 230 billion dollars, with an average growth rate of 12% -15% per year (Ghonyah et al, 2010).

The growth of the Islamic financial market driven by a very high amount of potential funds held by Muslims and the potential of human resources (investors) who are interested to invest by applying the principles of sharia. The benefits derived from the issuance of sukuk such as the diversification of funding sources to finance infrastructure development for the country and for corporate expansion. In addition, the sukuk was also very instrumental in the growth of the real sector.

2. Theoretical Framework and Hypotheses Development

2.1 Islamic Bonds (Sukuk)

Islamic bonds (sukuk) as one type of bonds after issuance of Law No. 19 Year 2008 on Sharia Securities (SBSN) is increasingly recognized, not only because the government that issued the product as one of the alternative sources of revenue, but a national company or corporation was also published the same product to the financing company. Sukuk are bonds that are based on Islamic principles. Sukuk structures are usually patterned lease (ijara), the income derived from the sukuk investor for the rental yield on wages. Sukuk market appeared five years ago in Malaysia and has grown rapidly since then to Asia, the Middle East, and Europe (Ameer, 2010).

Suci (2013) defines Islamic bonds as a long-term securities issued sharia Islamic bond issuers to holders in the form of profit sharing / margin / fee, and pay back the bond fund at maturity. Islamic bonds is not a fixed-interest debt, but rather a concomitant of funds based on the principle of profit sharing. The transaction, not contract debts, but inclusion.

Government sukuk are at least two considerations, namely:

- a) To improve the management of state assets.
- b) For the development of the State budget sources of financing and the development of a variety of alternative instruments of state budget financing, especially financing instruments based on Islamic principles to mobilize widespread public funds need to be implemented immediately. As for the financial instruments to be issued shall be in accordance with the principles of Islamic principles, provide legal certainty, transparent, and accountable.

Instrument development efforts sharia financing, among others, aims to:

1. Strengthen and enhance the role of Islamic financial system in Indonesia.
2. Broadening the base state budget financing.
3. Creating a good benchmark of Islamic financial instruments in Islamic financial markets domestically and internationally.
4. Expand and diversify the investor base.
5. Develop alternative investment instruments for investors both within the country and abroad who are looking for Islamic financial instruments.
6. Encourage growth of Islamic financial market in Indonesia.

2.2 Market Reaction

Market reaction is indicated by a change in the price of the relevant securities which may be measured by abnormal returns as the value of the stock price change, or by using the cumulative abnormal return (Jogiyanto, 2008).

2.3 The Influence of Islamic Bonds Market Reaction Against

Issuance of Islamic bonds will lead to leverage the company, the increase in leverage will bring benefits to the company in the form of tax shield in which companies can reduce part of the earnings to the tax paid so that the company can increase the value of the company and provide profits for shareholders, but the use of debt will lower the value of shares due to the influence of bankruptcy costs and interest expense arising from the use of debt. The reaction of investors to the issuance of Islamic bonds will affect negatively (Achsien, 2003).

Spies and John (1999) states that the supply of bonds will affect the company's capital structure and allow shareholders transferring risk to bondholders, therefore the bond offering will be a positive response from investors to boost the stock price. Conversely bond repurchase will increase the company's financial leverage, which will be responded negatively by shareholders and investors, so that the stock price will decrease around the announcement of the withdrawal of the bonds outstanding. Dennis, et al (2004) show that stocks can not outperform the market. Haruman and Hasbi (2005) found that Islamic stock market is performing better than the performance.

Sumardi (2007) stated that the issuance of the bonds does not affect the cumulative abnormal stock return with the direction of the negative relationship between the value of Islamic bonds and the rating of the cumulative abnormal stock return of the company, because the company's stock price has decreased the CAR of other companies dominate. Ghoniyah et al, (2010) suggested that the growth of the Islamic financial market is very high which is driven by the magnitude of the potential funds held by Muslims and the potential of human resources (investors) who are interested to invest by applying the principles of sharia. The hypothesis is:

H1 = Islamic Bonds company negatively affect the market reaction.

3. Reseach Methods

3.1 Data Collection Method

Methods This study uses data collection techniques documentation. Engineering documentation is data collection techniques by watching or recording data from source data obtained (Ghozali, 2013)

3.2 Popolation and Sample

The population in this study are all companies listed on the Jakarta Islamic Index (JII) 2011-2013 ie 188 companies. Sampling technique to perform purposive sampling criteria:

1. Only companies that issue Islamic bonds and Islamic stock
2. The company is included in the JII and IDX (2011-2013)

Based on the above criteria, then the sample is 12 companies.

3.3 Operational Definition and Variable Measurement

Table 1

No.	Research Variable	Operational Definition	Measurement
1.	Market Reaction	changes inthe priceofsecuritiesis measured byabnormal returnsasthe value ofthe price change.	$CAR = \sum_{a=t}^t AR$
2.	Islamic Bond	Long-term securities issuedshariaIslamic bondissuersto holdersthatrequirethe issuertopaythe incometo the holders ofIslamic bonds.	Konversion Value Rating

3.4 Methods of Data Analysis

Data analysis methodusedisa simplelineararregressionwith theregression modelasfollows:

$$Y = a + \beta 1X1 + e$$

Description:

- Y = Market reaction (*cumulative abnormal return*)
- α = Konstanta
- X1 = Islamic Bond
- β1 = Regression Koeficient
- e = *error*

4. Results and Discussion

The test resultsareasfollows:

$$CAR = -0.159 - 0.022BOND + e(\text{error})$$

The modelequationcan be explainedasfollows:

1. Constantsof-0.159meansthatif it is notinfluencedby theindependent variable, then thevalue ofthe averageCARis equal to-0.159.
2. BONDvariablecoefficientobtained at-0.022. This valueindicates that theincrease inbondratingsloweredthe CAR.

First Testing hypotheses about the influence of Islamic Bonds variables on the performance of the market indicates t value of -0.294 with a significance of 0.007 (p> 0.05), thus the hypothesis is accepted. This means that sharia bonds has a negative and significant effect on the market reaction.

The results of the research consistent with research results Achsien (2003) and Afaf (2008) which states that the issuance of Islamic bonds (sukuk) will lead to a positive market reaction. In contrast to the results of research Spiess and John (1999), that the supply of bonds will affect the company's capital structure and allow shareholders

transferring risk to bondholders, therefore the bond offering will be a positive response from investors to boost the stock price. Sumardi (2007) stated that the issuance of the bonds does not affect the cumulative abnormal stock return with the direction of the negative relationship between the value of Islamic bonds and the rating of the cumulative abnormal stock return of the company, because the company's stock price has decreased the CAR of other companies dominate. Ghoniyah et al, (2010) suggested that the growth of the Islamic financial market is very high which is driven by the magnitude of the potential funds held by Muslims and the potential of human resources (investors) who are interested to invest by applying the principles of sharia.

5. Conclusion

The results showed that the Islamic bonds (sukuk) have a negative effect on the market reaction. This is indicated by the rate of growth of sukuk until 2013 was still low despite the number of sukuk issued from year to year progress up the number of sukuk issuance reached its lowest level.

The highest number of publishing in 2013 with 54 sukuk issuance with a value of Rp. 9,790.4 billion, with progress up but when viewed from the difference between the rate of increase in the growth of sukuk until 2013 has growth up and down.

Sukuk growth from year to year, which is still a low impact on the three terms in the capital market regulation, socialization, and investment. The first is the impact of regulation related to an increase in sukuk issuance rules, investor who invest in Shariah-compliant capital market instruments need to be protected from the regulator. The second impact is particularly socialization efforts in increasing public understanding of the Shari'ah financial investment in the capital market. The third is the impact on investment. The presence of increased issuance of sukuk rules by adding two and istishna Musharaka contract that also adds to the products of investment options in the capital markets.

This adds to the issuers of financial instruments which are free to choose according to the type of investment that is desired. Increased growth needs to be synergy efforts of Bapepam, the capital market participants, investors, FSA and the parties are related to each other on an ongoing basis to continue progress in developing Islamic capital markets. Comparative studies need to be done also to the neighboring countries that the growth of capital market has been developed, namely the Malaysia sharia. Additional research and product characteristics of investors need to be followed. Socialization is more intensified in the company that is likely to develop sukuk.

Limitations

This study is limited in that the sample data collection 12 companies as instruments of Islamic asset that is still less than conventional asset instruments and other variables that affect the market reaction over addition to Islamic bonds and Islamic stock is still there.

6. Suggestion

Advice can be given in this study add to the sample data and the company adds another variable that is affecting the market reaction such as Collective Investment Contract Asset Backed Securities (KIK EBA) or other securities in accordance with the principles of Sharia

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