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Sukuk Return Purification Methods: A Review

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Abstract: *Shariah* compliant capital market instruments has emerge and keep develop and innovate in order to fulfill current investor demands. Nowadays, the investors does not only concern about the rate of return that they will receive at the end of the year, but also they are concern about the cleanness and purity of the return that they get especially for Islamic investors. The evolvement of *Shariah* compliant investment instrument in the market will attract more investor either from local or international to invest in our country. This paper presents the definition of *sukuk*, briefly explain about types of *sukuk* and the related *shariah* issue. Next, the paper will review the process of *sukuk* proceed distribution and the purification of *sukuk* return. Lastly, the paper will review the impact if *sukuk* return purification process are not implemented and concluded with further suggestion.

Key words: *sukuk; sukuk return purification, Islamic capital market, Securities Commission*

INTRODUCTION

Sukuk or known as Islamic bond is a fixed income instrument that are *Shariah* compliant. There are two types of *sukuk*, which are asset backed *sukuk* and asset based *sukuk*. Table 1 reviews the meaning of *sukuk* from various sources.

Table 1: Definitions of *Sukuk*

Sources	Definitions
Accounting and Auditing Organization for Islamic Financial Institution (AAOIFI)	Certificates of equal value representing undivided shares in ownership of tangible assets, usufruct and services, assets of particular projects or special investment activity.
Islamic Financial Services Board (IFSB)	Certificates that represent the holder's proportionate ownership in an undivided part of an underlying asset where the holder assumes all rights and obligations to such asset.
Securities Commission (SC)	Document or certificate which represents the value of an asset.

Based on the above definitions, AAOIFI and IFSB do not recognize financial assets as assets that would qualify to form the underlying assets of a tradable *sukuk*, while the SC does allow such assets [1]. But, recently, SC have revised the definitions and the definition of *sukuk* is means certificates of equal value evidencing undivided ownership or investment in the assets using *Shariah* principles and concepts endorsed by the *Shariah* Advisory Council (SAC) [2]. However, there still have argument and issues pertaining the *Shariah* requirement. Majority about 85% of the *sukuk* in the business sector that used *Musyarakah* and *Mudarabah* structure are not meet the *Shariah* requirement [3]. Nowadays, the demand for Islamic debt market instrument are increases, not only in Islam religion country but also at non-Islam country as well. One of the key aspects of regulating Islamic debt market is related to guidelines on regulations of *Shariah* compliant. According to the book of Islamic Finance for Dummies [4], the following are the differences between *sukuk* and conventional bonds:

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Table 2: Differences between *Sukuk* and Conventional Bonds

	Sukuk	Conventional Bonds
Asset ownership	*Sukuk* give the investor partial ownership in the asset on which the *sukuk* are based.	Bonds don't give the investor a share of ownership in the asset, project, business, or joint venture they support. They're a debt obligation from the issuer to the bond holder.
Investment criteria	The asset on which *sukuk* are based must be *sharia*-compliant.	Generally, bonds can be used to finance any asset, project, business, or joint venture that complies with local legislation.
Issue unit	Each *sukuk* represents a share of the underlying asset.	Each bond represents a share of debt.
Issue price	The face value of *sukuk* is based on the market value of the underlying asset.	The face value of a bond price is based on the issuer's creditworthiness (including its rating).
Investment rewards and risks	*Sukuk* holders receive a share of profits from the underlying asset (and accept a share of any loss incurred).	Bond holders receive regularly scheduled (and often fixed rate) interest payments for the life of the bond, and their principal is guaranteed to be returned at the bond's maturity date.
Effects of costs	*Sukuk* holders are affected by costs related to the underlying asset. Higher costs may translate to lower investor profits and vice versa.	Bond holders generally aren't affected by costs related to the asset, project, business, or joint venture they support. The performance of the underlying asset doesn't affect investor rewards.

Source: Faleel Jamaldeen. (2012). Islamic Finance for Dummies.

Malaysia has been widely recognised as the world leader in Islamic capital market (ICM) with a market size of RM1.7 trillion, which has more than doubled over the last decade. According to RAM Ratings Services Bhd, Malaysia's *sukuk* issuance as of end-September 2018 totaled RM123.9 billion, surpassing its earlier projection of RM100 billion–RM120 billion for the year. The rating agency also said a total of RM24.9 billion *sukuk* was issued in the third quarter of 2018. The growth was led by an increased issuance by the government (+17.0 per cent or RM46.5 billion) despite a 41.8 per cent decline for the corporate sector. As a whole, Malaysian *sukuk* market expanded 11.1 per cent year-on-year to RM827.8 billion as at end-September 2018 (end-September 2017: RM745.2 billion). Besides that, the proportion of outstanding *sukuk* relative to the overall domestic bond market remained robust at 59.8 per cent [5].

The world's capital markets are governed primarily by the conventional finance system. It becomes worse as most existing laws in different countries do not favor Islamic finance. Malaysia is a hub for Islamic finance industry as Malaysia are aggressively in Islamic finance product development. Several sovereign *sukuk* followed Malaysia, The State of Qatar, The Republic of Pakistan and The Emirate of Dubai, which garnered international attention for *sukuk* and set the stage for unprecedented international growth [6].When discuss about *sukuk,* it must be related to Islamic securitization. Securitization is a process of pooling/ repackaging the nonmarketable and illiquid assets into tradable certificates of investment. Friendly speaking, it's like an unattracted women, we put some make up and lipstick on it, it will become beautiful and admired by many man. *Sukuk* makes underlying assets tradable by giving undivided ownership to many *Sukuk* holders. However, there are most countries do not have Islamic securitization law, and due to the different nature of the Islamic and conventional securitization concepts, conflicts and obstacles in the application of Islamic securitization exist in many countries. In Malaysia, any issues or conflicts regarding Islamic capital market will be resolved by Securities Commission of Malaysia. The *Shariah* Advisory Council (SAC) of the Securities Commission Malaysia (SC) continuously plays its crucial role in providing guidance as a reference centre for *Shariah* matters in ICM-related issues. In line with the positive growth of ICM in Malaysia, the SAC has discussed and resolved several issues pertaining to investors, agent, broker and also issuers of Islamic capital market instrument.

ASSET BASED VS ASSET BACKED

Sukuk can be categorized into types which are asset based and asset backed. The emergence of *Sukuk* has been one of the most significant developments in Islamic capital markets in recent years. *Sukuk* are financial products whose terms and structures comply with *shariah*, with the intention of creating returns similar to those of conventional fixed-income instruments like bonds. *Sukuk* are asset-based securities, not debt instruments and represent ownership in a tangible asset giving the legal right of using and enjoying the fruits or profits of an asset, service, project, business, or joint venture.

Unlike a conventional bond (secured or unsecured), which represents the debt obligation of the issuer, a *sukuk* technically represents an interest in an underlying funding arrangement structured according to *shariah*, entitling the holder to a proportionate share of the returns generated by such arrangement and, at a defined future date, the return of the capital. According to Abdul Karim Abdullah [7] the comparisons between asset based and asset backed *sukuk* are as follows:

Table 3: Differences between Asset based and Asset backed *Sukuk*

Categories	**Asset based**	**Asset backed**
Default risk	High default risk	No default risk
Structure	Debt structure Replicate bonds	Did not have a debt structure Structured to share profits and losses
Guarantee	Income and capital guarantees	Pay profits to investors when the underlying assets earn profits
Promised payment	Due to the financial crisis and the economic downturn that triggered it, originators did not earn sufficient revenues to make the promised payments.	Originators of asset-backed *sukuk* did not promise investors profits whose quantum and due dates were determined in advance

There are a lot of issues pertaining the structure of asset based *sukuk*. Although it is an Islamic bond, but it still replicate the conventional bonds. Because of market and investor demand, sometimes we forgot to make sure that we are fully comply with what we suppose to comply with. According to Securities Commission Malaysia (SCM), the classification of *sukuk* into asset based and asset backed is made based on the *sukuk*'s technical and commercial features. In asset based *sukuk*, the underlying asset used to structure the issuance remains on the balance sheet of the originator after the issuance of the *sukuk*. Its means that, the originator only passes beneficial ownership of the asset to *sukuk* holders, not the legal ownership. In other words, from the legal perspective there is no true sale in asset based structure since *sukuk* holders do not have any concern in the underlying asset. Because of that, the *sukuk* holders cannot sell the asset to a third party. It also means the *sukuk* holders only have the recourse to the originator/obligor. On the other hand, asset backed *sukuk* can be defined as an Islamic security issued pursuant to a securitization transaction [8].

A lot of issues especially on *Shariah* issues on asset based *sukuk*. Until now, there a lot research and paper raising up the issues. Ahmed Abdirahman Herzi [9] summarizes the differences between asset based and asset backed *sukuk* as follows:

Table 4: Differences between Asset based and Asset backed *Sukuk*

	Categories	**Asset Based**	**Asset Backed**
1	Source of payment	The source of payment comes from originator/ obligor's cash flows.	The source of payment comes from the revenue generated by underlying asset.
2	Presentation/disclosure of the asset	The asset stays on the balance sheet of originator/ obligor	The asset is separated from the originator's book.
3	Type of *Sukuk* holders' ownership	Beneficial ownership with no right to dispose the asset.	Legal ownership with right to dispose asset.

4	Recourse	Purchase undertaking at par from obligor is the ultimate recourse. The recourse is only to obligor and not the asset.	*Sukuk* holders only have recourse to asset thus asset plays genuine role in defaults.

Source: Ahmed Abdirahman Herzi (2016)

Sukuk Mudarabah

Sukuk mudarabah is a *sukuk* that used *mudarabah* contract. The investor or capital provider known as *rabb al-mal* acting as a sleeping partner, while the other partner known as *mudharib* will used his effort, time and expertise to manage and get profit for the venture. Capital contributed by a *rabb al-mal* (capital provider) must be in the form of cash, in kind or a combination of both. The profit from *mudharabah* venture must be distributed between the *rabb al-mal* and the *mudharib* according to the pre-agreed profit sharing ratio. However, any loss must be borne in entirety, solely by the *rabb al-mal*, unless the loss is due to the negligence or mismanagement of the *mudharib* in managing the *mudharabah* venture [2].

Among the favourite issues in s*ukuk* structuring is the issue of ownership of the *sukuk* holders in a particular asset or a business venture. Some *Shariah* scholars and practitioners debated whether the ownership status of the s*ukuk* holder is in accordance to *Shariah* requirement or not [10]. There are two basic types of ownership: complete ownership (*al milk al tam*) and incomplete ownership (*al milk al naqish*). Complete ownership is same with legal ownership which the *sukuk* holder have full ownership towards the asset and its usufruct. While for incomplete ownership it same like beneficial ownership, means the *sukuk* holder have many restrictions especially in terms of disposing the asset during the *sukuk* tenure and upon the occurrence of event of default.

There are a lot of issues and conflicts regarding the ownership. One of the resolution is issue by the OIC Fiqh Academy. The OIC Fiqh Academy has resolved that both legal and beneficial ownership are recognized from *Shariah* perspective. In this concern, the *Shariah* Advisory Council of Bank Negara Malaysia has taken the same opinion with the Academy [11]. These resolutions, however, come with a clear condition, i.e., the beneficial ownership must result in all rights and liabilities attached to the purchased asset be attained by the buyers.

Sukuk Musharakah

Sukuk musharakah is a *sukuk* that used *musharakah* contract. *Musharakah* is defined as a partnership arrangement between two parties or more to finance a business venture or project in which all parties will contribute capital either in the form of cash or in kind for the purpose of financing the business venture. Any profits derived from the venture will be distributed based on a pre-agreed profit sharing ratio but a loss will be shared on the basis of equity participation [12]. *Sukuk musharakah* is a certificate of ownership over a project or activity under the principles of *musharakah* partnership whereby both the issuer and investors will contribute to the capital of the project [8].

According to Muhammad Al-Bashir [13], the issues or conflicts pertaining to *sukuk musharakah* is about the ownership of the asset. The main issue of disagreement has been the permissibility for one of the *musharakah* partners to give an undertaking to purchase the shares or units of the second partner of the *musharakah*, at the maturity of the *sukuk*, at face value and predetermined price. A number of *Shariah* scholars uphold the permissibility of such an undertaking and as a result validate all *sukuk musharakah* issuance in the market. It should be noted that such a purchase undertaking is allowed, according to the proponents of this opinion, under *Sharikat al-milk* and not under *Sharikat al-ʻAqd*. This issue is not supported by the statement from AAOIFI, that it is not allowed to make an agreement to buy back the *sukuk* with face value (nominal value) as mentioned before, but the *Shariah* Advisory Council of Securities Commission allowed to re-purchase the assets from *Sukuk* holders or from one who holds them, for its nominal value [14]. According to Khairun [15], this *sukuk* are comply with *Shariah* because the buy back of the *sukuk* is implemented by using nominal value and it is not considered as a guarantee of the capital as the purchase undertaking is from the originator not the issuer.

Sukuk Ijarah

Sukuk ijarah is a *sukuk* that used *ijarah* (leasing) contract. According to A. Lahsasna and LS Lin [16], *Ijarah* is a contract of exchange where one party enjoys the benefit arising from employment by another party in return for a consideration for the services rendered and from the use of an asset. Scholars of the four schools of Islamic jurisprudence have cited various definitions of the contract of *Ijarah*. In brief, these definitions agree on the fact that the contract of *Ijarah* is a contract on using the benefits or services in return for compensation. Literally, *Ijarah* means to give something on rent. According to Nursilah Ahmad and Syazwani Abd Rahim [17], sukuk *ijarah* is a *manfaah* (benefit) type of contract, where a lessor (owner) leases out an asset or equipment to its client at an agree rental fee and pre-determined lease period upon the *ʻaqad* (contract). The ownership of the leased equipment remains in the hands of the lessor.

The issues or conflicts pertaining to *sukuk ijarah* can be concluded into two issues. First issue is about the issues of guarantee. This issue arises when the originator either the sovereign or corporate, benefiting from the *sukuk* proceeds establishes a Special Purpose Vehicle (SPV) that issues the *sukuk* while the originator stands by to provide a guarantee against any shortfall. This is supported by the argument of scholars that guaranteeing the principal in *sukuk mudarabah* or *sukuk musharakah* or even *sukuk ijarah* will definitely open the door of *riba*. It happened when guarantee the amount invested in the Trust Certificates will be redeemed in full on the date of maturity (100%) or even earlier as the principal amount invested in the certificate is guaranteed by the originator. It also supported when the certificates holders are entitled to receive periodic distribution amount calculated on the basis of fixed return per annum in respect of the Trust Certificates [13].

The second issues on *sukuk ijarah* is about the sale and lease back structure. It is supported by Muhammad Al-Bashir [13], that the concept of sale and lease back is also considered as a form of *bay' al-inah,* which is prohibited by the clear hadith of the Prophet. It happened when the sale and lease back is combined with a purchase undertaking at pre-agreed price from the original seller. This is because the main feature of *bay' al-inah* is that the merchandise returns back to the seller and the same happens in the sale and lease back mechanism. However, the concept of sale and lease back has been approved by the *Shariah* Board of the Accounting and Auditing Organization of Islamic Financial Institutions.

Sukuk Salam

Sukuk salam is a *sukuk* that used *salam* contract. *Salam* is a contract in which advance payment is made for goods to be delivered at a future date [18]. According to Shaikh, Salman and Saeed, Shan [19], in *sukuk salam*, the issuer of the certificates is a seller of the goods of *salam* while the *sukuk* holders are the buyers of the goods. However, in a *salam* contract, the goods do not exist at the time of sale and hence it is regarded as an exceptional sale. The holders of *salam* certificates are the owners of the *salam* goods and are entitled to the sale price of the *salam* goods sold. *Sukuk salam* is used as a forward commodity contract, the price of the commodity or asset is fully paid to the seller by the buyer at spot but delivery will be made at specific future time date. The commodity should be standardized, quality and quantity is well determinable and it is easily available in the market. The future delivery date and place should be clearly mentioned in the contract [20].

The issues or conflicts pertaining to *sukuk salam* can be concluded into two issues. First is about element of *gharar* and the second issue is about the counterparty risk. The *gharar* exist when there is uncertainty about the payment that have been made by the buyer as it will benefit the seller if the price seal during the contract are higher during the delivery. On the other hand, buyer will benefit when they already paid the commodity at discount because the price of commodity are higher during delivery time. However, this type of *sukuk* are acceptable. This was supported by Ibn Taimiyah [21], the distinguished Muslim scholar, ruled that such exchanges are permissible as long as when the certificates were sold to the seller it was not for a price higher than that agreed originally, as this might be seen as exploitation. Sales to third parties could be at any price as long as the ready buyers are willing to pay. To encounter this issue, parallel *salam* was very useful. Parallel *salam* is allowed with a third party only. In an arrangement of parallel *salam*, the bank enters two different contracts. In one of them, the bank is the buyer and in the second one the bank is the seller. Each one of these contracts must be independent of the other. They cannot be tied up in a manner that the rights and obligations of one contact are dependent on the rights and obligations of the parallel contract [22]. The second issues is about the counterparty risk. Counterparty risk occurs when the party refuses or breaks the promise. This is often the case when the seller does not meet the time of shipment, quantity and quality specifications. The seller fails to comply with the terms and specifications of the goods and time of delivery as agreed by both parties in the contract.

Sukuk Istisna

Sukuk istisna is a *sukuk* that used *istisna* contract. *Istisna* sometimes called partnership manufacturing that used to finance the construction of an asset or to finance a manufacturing project. The *istisna* contract occur when a manufacturer agrees to produce an asset for the buyer at a future date. So, it means, both parties agree in advance on the product specifications [4]. *Sukuk istisna* is a project financing, whereby funds are advanced to pay for the supplies and labour costs by an Islamic bank. Once the project is completed, the advances are repaid from the revenue derived from the project. *Istisna* was seen as an appropriate way of financing manufacturing as goods have to be produced and costs incurred before they are sold [23].

The issues or conflicts pertaining to *sukuk istisna* can be concluded into two issues. The first issues is about the ownership of the manufacture or construction of the asset. To encounter this issues, parallel *istisna* will be used. According to R. Wilson [23], parallel *istisna* contract is generally used whereby the financier enters a contract with a subcontractor who actually builds the facility being financed. The public authority or private company commissioning the project will provides details of the specifications and timing of the schemes. The financier then sets these out in the tender documents. Bids are subsequently invited from contractors who will specify how they intend to sell completed parts of the project over time and the amount of each payment instalment expected. These instalments will include an element of profit over the construction costs. In order to enable investors to receive a return during the period where assets are being constructed under an *istisna* arrangement, some *Shariah* scholars have permitted the use of a forward lease arrangement alongside such *istisna*' arrangement [24].

The second issues for this type of *sukuk* is about the sale of debt certificates. According to S Nisar [25], the sale of these debt certificates to a third party at any price other than their face value are *Shariah* prohibited. Clearly such certificates cannot be traded in the secondary market. So, it's become the disadvantages for the *sukuk* holder to hold the *sukuk* until the maturity. The statement was supported by M. B. Badri and S. A. Mikail [26], that *sukuk istisna* is similar to other sale based *sukuk*, which are treated as debt instruments. It will make the *sukuk* having restriction on the tradability, which is not allowed except in Malaysia. The Middle East jurisdiction ruled that *istisna*' *sukuk* cannot be traded on secondary market unless at par value, otherwise it will trigger the issue of *bay' dayn* (sale of debt).

SUKUK PROCEEDS UTILISATION

Sukuk market in Malaysia are well developed and keep improving and expanding from time to time. This is because there are a huge demand from local and international investors of *sukuk* in Malaysia. Furthermore, Malaysia's *sukuk* market are keep monitored and supervised by SAC of SC. The SAC of the SC Malaysia continuously plays its crucial role in providing guidance as a reference centre for *Shariah* matters in ICM-related issues. Table 5 below are summaries of utilization of the *sukuk* proceeds that are considers as *Shariah* compliant purposes.

Table 5: Utilisation of *Sukuk* Proceeds

Purposes	Description
Refinancing of Conventional Borrowings	The *sukuk* proceeds may be utilised to refinance (wholly or partly) conventional borrowings.
General Business	The *sukuk* proceeds may be utilised for general business of the issuer including for general corporate purposes, working capital requirements and capital expenditures. The principal activities of the issuer are *Shariah* compliant based on the following business activity benchmarks (Benchmarks): (a) 5% in respect of businesses/activities as specified in Appendix 1; or (b) 20% in respect of businesses/activities as specified in Appendix 2.
Construction of Building Consisting of *Shariah* Compliant and *Shariah* Non-Compliant Activities (Building with Mixed Activities)	The *sukuk* proceeds may be utilised for construction of the Building with Mixed Activities provided that the used of floor area to be less than 49% for the *Shariah* non-compliant activities. If the construction involves Building with Mixed Activities as well as building with fully *Shariah* compliant activities, the denominator for computing the 49% benchmark shall be based on the total floor area of the Building with Mixed Activities only.
Refurbishment, Expansion, Repair and/or Maintenance of the Building with Mixed Activities	If the revenue received from the *Shariah* non-compliant activities in the Building with Mixed Activities could be determined, the said revenue computed against the total revenue from the Building with Mixed Activities must be less than the following Benchmarks: (a) 5% in respect of businesses/activities as specified in Appendix 1; or (b) 20% in respect of businesses/activities as specified in Appendix 2; or If the said revenue could not be determined, the issuer must ensure and confirm that there must be less than 20% of the total floor area of the Building with Mixed Activities are used for *Shariah* non-compliant activities. * The refurbishment, expansion, repair and/or maintenance of the Building with Mixed Activities must be done on a general basis and not on any specific area.
Operation and Management of the Building with Mixed	The proceed utilised for the operation and management of the Building with Mixed Activities by the issuer provided

Activities	that the revenue received from the *Shariah* non-compliant activities in the said Building with Mixed Activities, computed against the total revenue from the Building with Mixed Activities must be less than the following Benchmarks: (a) 5% in respect of businesses/activities as specified in Appendix 1; or (b) 20% in respect of businesses/activities as specified in Appendix 2.
Acquisition of the Building with Mixed Activities	The revenue received from the *Shariah* non-compliant activities in the said Building with Mixed Activities to be acquired by the issuer, computed against the total revenue from the Building with Mixed Activities must be less than the following Benchmarks: (a) 5% in respect of businesses/activities as specified in Appendix 1; or (b) 20% in respect of businesses/activities as specified in Appendix 2.

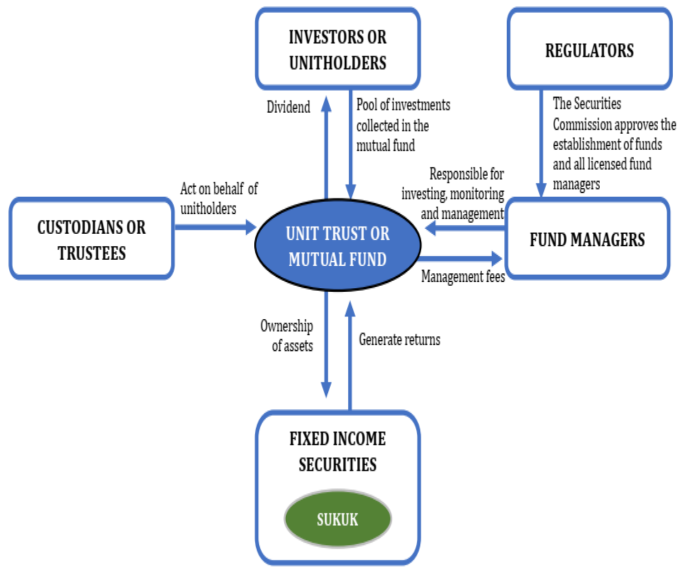
Source: Securities Commission, 2017 [27]

Appendix 1 refer to:
(i) Conventional banking;
(ii) Conventional insurance;
(iii) Gambling;
(iv) Liquor and liquor-related activities;
(v) Pork and pork-related activities;
(vi) Non-halal food and beverages;
(vii) Shariah non-compliant entertainment;
(viii) Tobacco and tobacco-related activities; and
(ix) Other activities deemed non-compliant according to *Shariah* as determined by the SAC of SC.

Appendix 2 refer to:
(i) Share trading;
(ii) Stockbroking business;
(iii) Rental received from *Shariah* non-compliant activities; and
(iv) Other activities deemed non-compliant according to Shariah as determined by the SAC of SC.

The following Figure 1 are the basic structure of *sukuk* fund that explain about how the *sukuk* proceed will be pool and invest and how *sukuk* holder generate incomes or return.

Figure 1: Basic structure of an Islamic fixed-income (*sukuk*) fund



Source: M. Muhammad and R. Ramli (2018) [28]

RETURN ON SUKUK PURIFICATION METHODS

Generally, there are two means of purification of property in Islam, they are; zakat and charity. According to Investopedia, zakat is an Islamic finance term referring to the obligation that an individual has to donate a certain proportion of wealth each year to charitable causes. Zakat is a mandatory process for Muslims and is regarded as a form of worship. Giving away money to the poor is said to purify yearly earnings that are over and above what is required to provide the essential needs of a person or family.

M. Rodzi et. al [29] defined zakat as ‘purification’ or ‘growth’. Zakat enables the wealthy or rich people to purify their hearts from greed by giving a part of their wealth to the needy. The needy who receive the zakat are then able to fulfil their needs, and, thus, the economic wealth bestowed by Allah S.W.T is spread to all the people and real economic growth is achieved [29]. Zakat have positive impact especially to the zakat recipient as they can get benefit and also improve their lifestyle if they used the zakat given wisely.

Zakat (Almsgiving) is one of the most important instruments in the Islamic economic system, and it plays a significant role in eliminating inequalities in society. Muslims who possess surplus wealth are obligated to pay zakat, and this fund will be distributed to prescribed eight beneficiaries known as zakat recipient (*asnaf*) group with the priority given to the poor and needy [30]. Zakat given also reduce the greedily of the payer and reduce the envy and jealous feeling of the zakat recipient.

AAIOFI indicates that the responsibility of the purification falls upon the institution, in case it is trading for itself or managing the operations. According to DeLorenzo et. Al [31], the matter of dividend purification for Islamic mutual funds is best left to the investors themselves, since it depends on the circumstances of each investor. When the flexibility are given to the investors, it could be some of them will negligent or just take this for granted and does not think it is an importance matter. So, it is important for unit trust managers or SAC of SC to produce a guideline or regulation pertaining this matter in order to make sure that those that eligible to pay zakat are not miss it.

There are a lot of opinion about dividend or income purification methods. According to AAOIFI standards, in order for investors to calculate the impure income that should be purified per share, the total impure income should be divided by the total number of shares of the corporation [32]. However the standard does not tell how the calculation will be done in detail. This is regardless of whether the company declared a profit or suffered a loss and whether the profit is distributed or not. However, some scholars require that the impermissible income portion is purified only from the dividends or return distributed [31]. However, some scholars require purifying interest income only [33], whereas others such as Dow Jones and S&P do not require interest rate income purification [34]. Clearly, the way of purifying the impure income portion is controversial and subjective. Different index provider having their own method. It's happened due to different inconsistencies in *Shariah* screening criteria among Islamic investment institutions, especially in terms of the tolerance level. This is because there is no universal consensus on a predetermined fixed set of *Shariah* screening criteria and hence, each Islamic investment institution has its own *Shariah* board or a *Shariah* consultant firm in order to set *Shariah* guidelines for its operations [35].

The second method for dividend purification is *Sadaqah*. *Sadaqah* or charity is the other means of purification of property is Islam. While the zakat is made compulsory to the Muslim who possesses the *nisab*, the *sadaqah* on the other hand is optional to them [36]. *Sadaqah* is an optional not an obligation. So, it's mean the investor having bigger flexibility and choice either to purify their dividend income or not. Nobody can argue and tell it a sin, but it depends on the *Barakah* of the income. If the investors know that the income is come from prohibit or *haram* sources, so in order to get *barakah* in their daily life, they should give *sadaqah*.

Sadaqah can be given during any period of happiness or sadness or as a sign of gratitude to Allah. *Sadaqah* comes in many forms, whether in monetary or non-monetary. Inviting people to do kindness, giving a smile, giving *sadaqah* or food to street beggars is also a charity. As long as, it give benefits to others and it is done with sincerity, it is considered a *sadaqah*. However, for the process of return purification, it would be unpractical if there is no rate or percentage of return should be given as charity. It is important to have a guideline for investors to clean up the return earned.

In Malaysia, the return purification process is fully handed over to the investors. They are responsible for knowing the status of their investment instrument and taking their own initiative to purify it. The method of purification is also up to the investor himself. Compared to countries like Singapore, the fund manager is responsible for the dividend purification process. According to Saw, S.H. & Karyn W. [37], in Singapore, the fund manager is responsible for taking out the tainted portion of the returns and giving it away to charity before an Islamic unit trust fund, as well as other Islamic equity funds, are made available to the public.

SUGGESTION AND RECOMMENDATION

Since there is no guideline or standardization in purify return on *sukuk* or dividend income as well. In my opinion, it is better if SAC of SC establish a fund that specifically for the purpose of income purification, especially for investment income. It is better and good if every investment institutions, establish a fund that the purpose is for hard people that having medical problem or critical illness such as cancer, tumor, kidney disease and etc. As long as there are having difficulty to get treatment because of financial difficulty, I think they can get financial assistance from this fund. At least the return on *sukuk* can be purify by giving away a portion of the income to the fund and finally will benefit the hard people especially when they really need the fund especially to pay for expensive operation fees and medical treatment fees.

CONCLUSION

Dividend purification is important things especially in Islamic unit trust funds investment activities. As we know unit trust fund is a diversification portfolio investment. So, the fund cannot run from invested in non-compliant *Shariah*'s elements, especially when invested in mixed business activity. Besides that, it also shown that the return purification process also have different methods for different country. When comparing between Malaysia and Singapore practices, in Malaysia, the purification process is voluntarily done by the investor themselves. However, there is no specification on how much or the calculation of the purification process will be done. Hopefully, there will be research conducted to evaluate the percentage of zakat taken out from the dividend or return for the purification process. In case the investor choose to give *sadaqah* as method to purify their income, SAC of SC should provide a clear guideline to the investors on how the process will be done.

On the other hand, in Singapore, the purification process will be done by the fund manager. Therefore, the amounts are taken out before the returns are distributed to the investors. It will make the investors clearer and know that the returns that they receives are clean and pure from *haram* element.

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