

**CAPITAL MARKET FOR SMES; NAVIGATING CHALLENGES WITH THE
ISLAMIC TURATH PARADIGM ON ADL WAL IHSAN**

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ABSTRACT

Small and Medium Enterprises (SMEs) can access funding beyond traditional banks, like the capital market. While it was believed that accessing funds or being listed on the capital market was not feasible for small companies, this avenue is now open to a broader range of enterprises, offering SMEs opportunities to obtain capital. Various global capital markets offer this market, with Bursa Malaysia introducing the Leading Entrepreneur Accelerator Platform (LEAP) market specifically designed for SMEs. However, this market poses notable challenges. This study seeks to identify these challenges initially. Recommendations are then offered to overcome these challenges by leveraging the Islamic Turath (classical Islamic text) as empowered in manhaj al-Azhari. To achieve this, this study qualitatively utilizes a descriptive method involving extensive document investigation and content analysis to first recognize the obstacles encountered in the LEAP market. These obstacles include inactive and illiquid markets, concerns regarding appeal resulting in delisting, and competition from other platforms. Subsequently, the study incorporates these challenges into a comprehensive discourse articulated with recommendations for improvements in the LEAP market, benefitting from the classical Islamic economic text on Adl wal Ihsan. The Islamic Turath offers valuable insights for addressing contemporary challenges.

Keywords: *Capital Market, SME Financing, Turath Islam, Islamic Economic, Adl wal Ihsan*

INTRODUCTION

Small and medium-sized enterprises (SMEs) significantly drive economic development and contribute to a country's Gross Domestic Product (Hervás-Oliver et al., 2021). As SMEs expand, they will need more human capital and machinery, necessitating acquiring financial resources (Masood & Sonntag, 2020). SMEs may need an infusion of capital to sustain their growth and become more robust (Huang et al., 2020). At each stage of the business life cycle, businesses will choose appropriate financing solutions as they progress.

Financial Institutions (FI) such as commercial banks and government agencies have historically been the primary funding sources for SMEs. However, obtaining loans from FIs can be difficult, leading to application rejection due to various factors, such as not meeting the requirements (Kent Baker et al., 2020; Sanga & Aziakpono, 2023). This may result in SME failure due to a lack of capital access. Successful loan disbursement from FIs also leads to credit obligations, requiring revenue allocation towards loan commitments. In certain instances, SMEs might need to pledge collateral for these loans (Rostamkalaei et al., 2020).

The capital market serves as a source of funds, typically through the listing, but only large companies meeting specific conditions can access this market. Therefore, the capital market is a lesser known for SMEs (Werner et al., 2020). SMEs often obtain loans from FI, typically requiring the applicant to repay the loan (Bats & Houben, 2020). On the other hand, in the capital market, applicants receive capital from investors without credit obligations through an initial public offering or pitch process; however, SMEs end up sharing their company with investors upon successfully acquiring funds.

Businesses aspire to transition from small-scale operations to major corporate entities, many seeking access to the capital market as listed companies (Bhattacharya, 2017). In addition to obtaining capital, being part of the capital market can boost a company's visibility and support its growth (Sanga & Aziakpono, 2023). However, SMEs in Malaysia may encounter challenges meeting the robust criteria for listing on the exchange board. As a solution, Malaysia has introduced an alternative platform tailored for SMEs: the Leading Entrepreneur Accelerator Platform (LEAP) to assist small and medium-sized enterprises in listing and trading shares. This platform aims to provide capital access and increase visibility among investors for these businesses. The LEAP market is designed for SMEs that may not meet the stringent requirements of the main board or ACE Market of Bursa Malaysia, providing a more accessible avenue for smaller companies to go public. It offers simplified listing requirements and aims to attract retail and institutional investors interested in supporting SME growth. The LEAP market is designed to help SMEs find alternative funding in the public market, regardless of their profit track record (Bursa Malaysia, n.d.). There are underwriters comprised of investment banks and firms approved, known as advisors, to help companies on the LEAP market.

It has been reported that the LEAP market is not active and seems unsuccessful (Cheryl, 2020; Jia Teng, 2022a, 2022b, 2023). This situation raises concerns about the effectiveness of this market segment. This study aims to investigate the unique market by identifying its challenges and proposing solutions by analyzing the profound Islamic values presented in classical Islamic literature. This approach also intends to honor and acknowledge the contributions of historical

Islamic scholars, ensuring that their works remain relevant in contemporary society. To achieve these objectives, this study employs the basic qualitative method via document research to obtain the relevant data. Subsequently, the collected data was subject to traditional content analysis. Furthermore, the discussion will be divided into four sections. The first section will introduce the research topic. The second section will include a literature review discussing the third-board market and Islamic Turath (the works or textual series of the Arabic and Islamic tradition by Muslim intellectuals over the years in the long history), specifically on *Adl wal Ihsan*. The third section will analyze the challenges and present suggestions for improvement derived from Islamic values, focusing on values driven by the economic principles of *Adl wal Ihsan*. Lastly, the fourth section will provide a summary and recommendations for future research.

OBJECTIVE

This study explores the distinctive market by recognizing its challenges and suggesting remedies by examining the deep-rooted Islamic values outlined in traditional Islamic texts (Turath). This method also aims to respect and recognize the accomplishments of past Islamic scholars, ensuring that their teachings remain significant in modern society. More specifically, this study is conducted to fulfill the following objectives: i. First, to identify the LEAP market challenges ii. Second, to address solutions in tackling the challenges based on the Islamic turath values of *Adl wal Ihsan*.

METHODOLOGY

The discussion of the research method includes three main components: the research design, data collection method, and data analysis approach. A qualitative study is appropriate to address the research question and achieve the objectives (Creswell, 2009). This suggests that an exploratory research design would be suitable for this study as it aims to identify challenges faced by the LEAP market and propose solutions based on Islamic principles of *Adl wal Ihsan* derived from Islamic heritage (Turath). The difficulties experienced by the LEAP market are first examined by reviewing secondary data from published articles and reported interviews with CEOs and other prominent figures in the field, sourced from reputable resources such as The Edge Market. The scattered collected insights will be manually coded and organized into themes representing the challenges encountered by the LEAP market and presented in appendix 1. This paves the way for a descriptive methodology using content analysis to link Islamic values with proposed solutions for these challenges. The Islamic values are derived from the classical Islamic texts, the Turath, that contain valuable knowledge relevant to addressing contemporary challenges, particularly focusing on Islamic economic concepts such as *Adl wal Ihsan*. This Turath is discussed and outlined in the review part initially and deductively to be linked with the proposed potential solution to the challenges. Therefore, challenges will be themed and discussed initially, and a discussion of potential solutions for each challenge theme will be outlined, integrating the Turath-based of *Adl wal Ehsan*. Subsequently, these findings were consolidated into an inclusive conclusion.

RESEARCH SIGNIFICANT

The capital market specialized for SMEs to raise capital is not limited to Malaysia but exists globally. These markets are facing issues that demand tailored solutions. Therefore, it is crucial to

thoroughly identify the problems academically and create innovative and customized approaches that effectively tackle the market's challenges. Additionally, collaboration and knowledge-sharing between industry and academia are vital for advancing research in this area, mutually benefiting each other (Mohamad Shafi & Tan, 2023).

Shaykh Usamah As-Sayyid Mahmoud identified eight key characteristics of the al-Azhari approach (*manhaj* al-Azhar), one of which involves benefiting from the tradition of the Ummah (Turath), remaining connected to it, and drawing upon it for development (Sheikh Usama al-sayyid Mahmud al-Azhari, 2010). These features contribute to shaping moderate Islam (Saat & Zait, 2019). Synthesizing Islamic traditional knowledge with contemporary developments and needs is beneficial and not outdated. The significance of past knowledge is relevant to today's critical issues and can provide insight into the heritage of ancient Muslim communities. *Manhaj* al-Azhari underscores the importance of consistently drawing from the legacy of past Islamic scholars, including their books, to gain understanding and insights into this tradition's position and greatness. The teaching method at Al-Azhar involves using classical texts and has been in practice for many years; for example, in informal classes, students are expected to actively participate by studying traditional books authored by classical jurists and reading them thoroughly with their teachers (Saat & Zait, 2019).

LITERATURE REVIEW

The Capital Market for SMEs

The SMEs sector is crucial for economic growth. The accessibility of capital through financial intermediaries is necessary for this process (Sanga & Aziakpono, 2023). The incapacity to progress the financial provider effectively could contract economic expansion and ultimately diminish economic prosperity. Financial providers are essential economic catalysts when they can effectively deliver financial assistance to the needy. The financial providers are widely known as commercial banks and government agencies for most SMEs (Bats & Houben, 2020). There is a high concentration of SMEs, creating substantial capital demand (Sanga & Aziakpono, 2023). A platform connecting suppliers and those needing capital would efficiently address this demand. Businesses typically employ specific funding tactics that require careful financial decision-making as they progress through the business life cycle (Bats & Houben, 2020). SMEs may encounter challenges at the stage requiring capital, where they struggle to obtain the required funds (Ullah, 2020).

As a financial provider, FI is an essential ally to any business (Kent Baker et al., 2020). Many SMEs may not be well-informed about financing options and the various types of FIs available (Ullah, 2020). Obtaining debt is hindered by business characteristics such as profitability, age, size, and expansion objectives (Huang et al., 2020) (Ullah, 2020). SMEs do not effectively exploit all funding sources available (Hervás-Oliver et al., 2021). Most of the borrowers in this market are modest, less established, or comprise complex financings. Thus, it may be assisted only by lenders deliberately to run extensive credit analyses (Ullah, 2020). SMEs are favourably to assess informal debts from other corporations or businesses, but this does not necessarily mean the bank has not interested or entertained the SMEs to apply for loans. Plus, modest, self-rationing borrowers are favourably to solicit grant finance (Ogane, 2023). SMEs facing financial distress

may have options to issue bonds or loans from banks to execute projects; thus, SMEs with a lower likelihood of financial distress prefer bonds over bank loans(Sanga & Aziakpono, 2023) (Ogane, 2023) (Ullah, 2020). On the other hand, non-bank private debt is also a game player for the financing needs of SMEs with low credit quality(Huang et al., 2020).

SMEs often face challenges in accessing loans due to the extensive paperwork involved, as well as factors such as being in the early stages of development, issues with financial management, and a lack of established credit history, insufficient collateral, an unproven track record, and insufficiently developed business planning(Nitani & Legendre, 2021). SMEs that undergo rejections of their financing applications commended non-viable business plans, insufficient cash flow to meet repayments, and poor documentation as the main reasons for application rejection(Kandasamy et al., 2018).

Most SMEs seek capital resources and rely on FI, personal funds, family members, government schemes, and internal financing (Ogane, 2023; Sanga & Aziakpono, 2023). Notably, SMEs face more difficulty accessing funds and finding funding sources than large firms. The demand and supply of funds to the SME sector are more complex than apply to large firms(Uddin et al., 2022) . Mature companies have a brighter potential to use external funds because they are stable, older and have sensible credit histories(Chodorow-Reich et al., 2022). Junior firms may present varying investment prospects compared to more established companies. The company's ability to attract investment and secure capital infusion could also be influenced by factors such as its size, including the book value of its assets. However, these dynamics are contingent on the specific industry in which the firm operates(Bats & Houben, 2020).

Capital markets serve as an alternative to traditional banking systems, enabling countries to establish their own platforms for financial liquidity(Hervás-Oliver et al., 2021). Not many countries' capital markets provide platforms for SMEs to raise funds. Existing studies show that established companies with proven track records can be listed in the market but not at the SME level. Thus the platform to empower SMEs through the capital market is considered fresh and more to learn and develop. SMEs should prepare for a corporate expansion by increasing the paid-up capital, potentially by bringing in new shareholders (Kent Baker et al., 2020; Werner et al., 2020). These may benefit SMEs to expend. Firms with large market shares tend to have good decisions simultaneously on production locations, export markets, input sources, products to export, and inputs to import(Bernard et al., 2018). More boards and capital from various expertise could lead to a successful expansion of the SMEs. The company offers shares to raise capital from investors through listing on the capital market.

Meanwhile, investors anticipate share value appreciation in order to make a profit. This allows the company to utilize the raised capital for expansion and growth effectively(Bhattacharya, 2017). As a result, there is potential for increased demand and supply in the trading market for these shares(Im & Chong, 2022). Therefore, the trading market would create exciting share demand and supply. However, there exists a firm where the stock is not marketable, and the fluctuation in price remains stagnant. Poor asset marketability is commonly associated with decreased asset values and more restrictive funding limitations(Wei Cui & Sören, 2016). Capital markets support transparency through information sharing, leading to increased liquidity with associated risks. The balance between lower risk and higher liquidity determines whether a

company finances its projects through banks or capital markets(Dang et al., 2017). SMEs' awareness of equity financing as an optional source with different financing concepts is less known and approachable due to the owners' desire to maintain control(Chang et al., 2022), their knowledge of the industry and their risk aversion(Livieratos et al., 2022), competition and funding opportunities(Srimulyani et al., 2023) (Mohd et al., 2016). Going public generally leads to disturbing managerial control and share ownership, potentially intensifying managerial incentives. Rising capital through the capital market involves investors who would not want to lose on their investments(Solodoha et al., 2023). Therefore, investors may look out for potentially growing companies and their investment growth for profits. SMEs wishing to tap capital markets must offer good fundamentals to prospective investors; otherwise, they incur the risk of weak demand in their securities offerings(Lien et al., 2022; Wesemann & Antretter, 2023). A company that issues common stock to raise funds endeavours valuable investment opportunities where the management is presumed to be familiar more with the company's value than potential investors, and investors interpret the company's actions rationally(Lien et al., 2022). Growing green and sustainable businesses are high-potential investments for the investor. Missing capital markets distort drag too low marginal willingness to pay for environmental quality(Greenstone & Jack, 2015). Empowering environmental quality and sustainability companies through the capital market is essential in benefiting all participants in the market. In sustainable and environmentally quality businesses, SMEs seem to be excellent prospects for growing and attracting investors.

Raising funds through the capital market, known as the Initial Public Offering (IPO), is also followed by lower credit costs and increased control turnover(Boucher & Kooli, 2022). SMEs may have a higher potential to acquire funds than older companies in the capital market. In their maturity phase, older and established companies should have formidable leverage ratios, as equity investors are less interested in companies with lower growth opportunities, profitability and risky. Contrary to traditional facilities, banks may prioritise maturity to lend the money, while market-based financing investors may seek a growing company to invest in(Bats & Houben, 2020; Im & Chong, 2022).

However, since SMEs are considerably junior and riskier, some platforms have strict rules to protect investors and sustain the market(Werner et al., 2020). Therefore, some markets may only allow institutional investors and a few high-net-worth individuals to be involved. Most IPOs on these subordinate equity markets, with minimal admission requirements and regulations, are offered dedicatedly to institutional investors and are likely equivalent to private placements. In Europe, other than the UK, the third market or SME market is also open to a particular type of investor to protect investor affairs(Goncalves & Lehmann, 2019).

Developed countries have portrayed this marketplace's success and failure, such as some parts of Europe are still developing their market for SMEs(Goncalves & Lehmann, 2019). South Korea is progressing with some modifications along with its establishment(Kim & Woo, 2017).

Islamic Turath on *Adl wal Ihsan*

During the classical Islamic period, prominent scholars such as Ibn Khaldun, al-Ghazali, and Ibn Taymiyyah extensively analyzed economic issues in their traditional texts (Setia & Amru, 2020). Their writings provided profound insights into ethical behavior in commerce and financial

dealings, addressing challenges and emphasizing the significance of social unity for economic success (Setia, 2011). These timeless texts continue to be valuable sources of knowledge, illustrating that economics has consistently been scrutinized within Islamic intellectual tradition. Islamic economic thought, deeply rooted in classical Islamic texts and the rich intellectual heritage (*turath*), mainly provides profound insights into the concepts of Justice (*Adl*) and Excellence or Benevolence (*Ihsan*) (Setia, 2011). *Ihyā' al-'Ulūm al-Dīn* is well-known text for its discussion of *tasawuf* and *akhlak*, but it also delves into the economic aspects of Islam (Syamsuri & Ridwan, 2019). In everyday economic transactions, unfairness often occurs, causing harm to one or many parties involved. Al-Ghazali highlights this regarding Islamic economics, where it is revealed that certain practices in economic dealings should bring about Allah's blessing (*redha*) but instead result in His displeasure due to the absence of justice and prevalence of unfairness within them (Syamsuri & Ridwan, 2019). Al-Ghazali in *Kitab Adab al-Kasb wa al-Ma'ash* in *Ihyā' al-'Ulūm al-Dīn* noted that if a businessperson or entrepreneur fails to acquire and apply an understanding of true economics, they may unknowingly tend towards dishonest practices such as cheating, conspiring, and bribery (Setia & Amru, 2020). Al-Ghazali elaborates on the connection between *Adl wal Ihsan* and business, emphasizing the significance of upholding fairness (*Adl*) while embodying benevolence (*Ihsan*). A method to attain this state of excellence in business dealings is through engaging in mutually beneficial collaboration with others to fulfill society's needs (*fard-al-kifayah*) (Setia & Amru, 2020).

Adl is a fundamental principle in Islamic morality, rooted in the Quran and the Hadith. Al-Ghazali accentuates the significance of fairness in economic transactions. Al-Ghazali's works emphasize the moral aspects of economic endeavors, advocating for equitable trade, business, and wealth allocation practices. The Quran commands the practice of justice because it is closely linked to piety.

Translation: " O believers! Stand firm for Allah and bear true testimony. Do not let the hatred of a people lead you to injustice. Be just! That is closer to righteousness. And be mindful of Allah. Surely Allah is All-Aware of what you do." (al-Maidah [5]: 8)

Ihsan is closely linked to surpassing mere justice and embracing exemplary behavior. Classical texts, including Hadith literature, underscore *Ihsan* as a superior ethical standard. In "*Muqaddimah*," Ibn Khaldun delves into *Ihsan* within economic activities, emphasizing individuals' ethical duty to pursue excellence in their dealings (Mujahidin, 2018). *Ihsan* literally means excellence or doing things or making things better or beautiful (Qadir et al., 2020).

Translation: "...It is that you should serve Allah as though you could see Him, for though you cannot see Him yet (know that) He sees you" (Sahih Muslim, n.d.)

Adl and *Ihsan* are frequently linked in Islamic teachings, highlighting the necessity for both justice and excellence in economic interactions. Setia, "The Meaning Of 'Economy': Qasd, Iqtisad, Tadbir Al-Manzil." Traditional scholars such as Ibn Taymiyyah stress the interdependent connection between these two concepts (Ibn Taymiyyah, 1982). In his writings, including "Public Duties in Islam," Ibn Taymiyyah highlights the importance of integrating *Adl* and *Ihsan* in

economic transactions to establish a fair and ethical society(Mohammed, 2013) . Similarly, Ibn Qudamah's legal works prioritize *Adl* and *Ihsan* in market dealings to ensure equitable and ethical behavior during economic exchanges(Ahmad, 2003). Classic texts like "*Kitab al-Buyu*" by Ibn Qudamah delve into detailed discussions on market transactions, underscoring the significance of applying justice and excellence when buying/selling goods(Ahmad, 2003).

The fair allocation of resources is a common topic in traditional Islamic literature. Scholars such as Ibn al-Qayyim emphasize the significance of fairness and excellence in economic systems. In "*I'lam al-Muwaqqi'in*," Ibn al-Qayyim examines the concepts of *Adl* and *Ihsan* in distributing wealth, advocating for an ethical and equitable economic framework(Islahi, 2010).

Classical texts, such as "*Al-Majmu*" by Nawawi, elaborate on the ethical guidelines for commercial activities(Imam An Nawawi, 2009). These texts emphasize the importance of justice and excellence in business dealings, providing guidance to merchants on engaging in transactions with integrity and excellence.

The writings of al-Ghazali, illuminate moral considerations within economic activities and underscores the significance of fairness in transactions, advocating for justness in commerce and wealth distribution. His focus on the ethical aspects of economic involvement encompasses all individuals, not just the wealthy, demonstrating a commitment to justice. Al-Ghazali's teachings promote an inclusive and fair economic system where opportunities are distributed impartially. Additionally, al-Ghazali's writings discuss the concept of *ihsan* across various domains of life(Setia & Amru, 2020). The pursuit of excellence, as per al-Ghazali, entails not only adherence to ethical standards but also surpassing basic requirements. In economy, something shall reflect *Ihsan* by striving for excellence in serving and recognizing everybody's potential to contribute to prosperity positively. Rooted in Islamic ethics, al-Ghazali's teachings thus establish a foundational framework that upholds principles of justice and excellence in modern financial pursuits.

In the economic sphere, al-Ghazali underscores the importance of equity and moral behavior, in line with the emphasis on fairness in regulatory practices(Setia & Amru, 2020). His teachings promote a balanced approach that considers the unique circumstances of different individuals or entities. Additionally, the notion of *Ihsan* as mentioned in the statement, resonates with al-Ghazali's focus on personal and societal development through mentorship programs and initiatives to enhance capabilities. Al-Ghazali advocates for continuous self-improvement and striving for excellence, indicating that *Ihsan* entails surpassing basic requirements(Setia & Amru, 2020). Al-Ghazali encourages actions that positively impact society while elevating individuals and institutions to higher moral and ethical levels.

FINDINGS AND DISCUSSION

Challenges faced by the LEAP market

Non-active and less liquid Market

The scrutiny of the LEAP Market in Malaysia reveals substantial obstacles, primarily related to a lack of activity and market liquidity. The market's expansion has been below expectations, with only 50 SMEs listed since its inception in 2017. This sluggish growth over more than five years has constrained investment prospects and resulted in low market participation. The limited number of listed companies complicates the attraction of investors, contributing to an inactive market atmosphere. Additionally, the restricted involvement of participants amplifies challenges in establishing a vibrant and liquid market. The requirement for experienced investors who meet rigorous financial criteria reduces the potential pool of participants. This constraint, coupled with a small number of eligible investors, leads to decreased numbers of buyers and sellers which obstructs the creation of an active and fluid marketplace. These factors collectively hinder the market's potential for expansion while underlining its inactive and illiquid traits.

The market is encountering obstacle as some firms find it difficult to secure funding when they go public, underscoring the market's inactive and illiquid nature. While listing offers a means for these companies to raise capital, the inability of certain firms to do so limits their operational effectiveness. This financial constraint imposes costs and challenges on these businesses and deters other small and medium enterprises from considering the LEAP Market, thus perpetuating its inactive and illiquid characteristics. Examining market dynamics further reveals another aspect of the inactive and illiquid market. Several listed companies face a lack of trading activities, resulting in non-tradable and illiquid shares. In a healthy market, high transaction volumes are expected to ensure investor liquidity. The reduced occurrence of trades in certain companies highlights compromised liquidity levels that deviate from the standard perception of shares as easily exchangeable assets. Consequently, difficulty in quickly selling positions serves as an additional deterrent for potential investors.

Delisting and less attractive market

The LEAP Market has no minimum requirement for a listing profit test, allowing smaller companies with limited profit records to access the market. Additionally, it provides flexibility by not imposing a market capitalization test and an infrastructure project corporation test, making it more accessible for companies operating in various sectors. While specific levels of shareholder distribution may be necessary, it is essential to consider that a lower shareholder spread, such as (10%), might be less favorable to investors due to its limitations on their authority and impact on the company. The criteria for listing on the LEAP market strive to offer an equitable approach that facilitates entry for smaller businesses. Although this benefits SMEs, it raises concerns from potential investors' perspectives. A reduced shareholder spread (10%) could advantage issuers but discourage investment, leading to questions about investor influence in decision-making processes and overall governance structure. This may make the market less appealing to investors seeking greater involvement in the companies they invest in. Plus, investors in the LEAP market face stringent restrictions on shareholding, including maintaining their entire shareholding for the initial twelve months. While these restrictions aim to ensure serious investor commitment, they may be perceived as less attractive because they reduce the liquidity of the investment.

Once listed in the LEAP market, small and medium-sized enterprises must fulfill specific requirements and adhere to ongoing responsibilities. SMEs must provide financial statements to inform stakeholders about the company's financial well-being and performance. They must also

follow corporate governance standards, including maintaining transparency in operations, appointing independent directors, and implementing effective internal control mechanisms. Additionally, SMEs must disclose any significant information or events that could impact the company's financial situation and future prospects to ensure investors have timely access for making informed decisions. Non-compliance with these standards may result in a company being removed from the market or delisted, raising worries among both issuers and investors. Adhering to this listing regulation set by regulatory bodies can be especially difficult for SMEs new to corporate industry norms.

The occurrence of delistings in the LEAP market, where companies voluntarily withdraw, signifies underlying issues that render the platform less attractive. Delistings may stem from the inability to secure sufficient funds or a strategic decision to migrate to more robust platforms. Regardless of the reason, each delisting serves as a negative reference point, influencing the perceptions of potential issuers and investors alike. This trend of companies leaving the LEAP market implies that it may not be the most conducive environment for sustained growth. Investors and issuers will likely view such trends skeptically, adding to the challenges of fostering a positive market perception.

SMEs often struggle with limited visibility in the financial market. This lack of recognition can hinder their ability to secure investment and meet ongoing listing standards, making the market less appealing overall. The main goal of being listed on the capital market is to raise funds as an alternative to traditional banking services. However, if accessing funding after listing takes a long time, it creates a negative impression of the market's attractiveness. The efficiency of capital flow is closely linked to the appeal of a market, and a prolonged fundraising process raises concerns about its effectiveness. Some companies find it challenging to attract investors and face difficulties in securing funds within an acceptable timeframe. This indicates that the market struggles to capture and maintain investor attention, further diminishing its allure.

Existence of a substitutable platform

The LEAP market in Malaysia is encountering a significant obstacle with the rise of alternative funding channels. The growing popularity of crowdfunding, peer-to-peer lending, and various financial technology solutions presents tough competition for the SME capital market. These alternatives attract SMEs due to streamlined processes, reduced expenses, and broader accessibility, further enhanced by globalization, enabling them to seek funding on international platforms. This worldwide access intensifies competition for the LEAP market as these alternatives are available globally through internet and technology beyond formal capital markets.

Some companies choose to transition from the LEAP Market to digital platforms like Venture Capital and Crowdfunding, presenting them as more appealing options. This shift towards digital platforms has resulted in delisting from the LEAP market, indicating that it is perceived as less attractive compared to other platforms. Digital options designed for SMEs such as Venture Capital and Crowdfunding platforms serve as viable substitutes for the distinctive offerings of the LEAP market. SMEs may prefer these digital platforms over considering an IPO through the LEAP market since they offer a more tech-savvy environment and greater visibility.

The creation of the LEAP Market in 2017 has raised concerns about its ongoing relevance compared to modern digital platforms. The less stringent regulations on digital platforms compared to the LEAP Market could impact its sustainability, leading to a reassessment of the platform's regulations and objectives. Digital platforms have proven to be interchangeable, with companies opting for perceived benefits of digital alternatives such as Venture Capital and Crowdfunding over the LEAP market. While digital platforms carry a higher risk of failure, the regulations in place for the LEAP market aim to safeguard both investors and issuers. However, outdated rules and goals may impact the market's functionality, necessitating adjustments to maintain each platform's distinctiveness and viability.

It also emphasizes that there is potential redundancy of the LEAP market compared to other platforms, like open internet-based markets, which operate with more freedom and minimal regulation. Despite efforts by market authorities aiming at adaptation, it appears that current establishment rules do not align with emerging trends making modifications imperative for continuous operation. There are 27 underwriters or advisors providing support services for small businesses seeking capital on this market, only a limited number have successfully listed on this platform, suggesting inefficiency or inadequacy among these advisors aiding SMEs detachment from securing desired funding levels implying an urgent need attempt should be made regarding achieving clarity incredibly unique value proposition contrasting against substitute benefiting enterprises remaining ineffective during their pursuit through leveraging alternative Platforms.

RECOMMENDATION FOR IMPROVEMENT THROUGH THE TURATH OF ADL WAL IHSAN

Boosting an active and liquid Market

Expanding the accessibility of market participation for sophisticated investors exemplifies the principle of justice (*Adl*), ensuring equitable distribution of investment opportunities and allowing a broader range of investors, including high-net-worth individuals, to engage in market activity. Including small investment accounts in the LEAP market demonstrates the concept of *Ihsan* by promoting excellence in catering to retail investors. This approach acknowledges the potential for smaller investors to contribute to market liquidity positively.

The LEAP Market was created to aid SMEs in raising capital through the financial market platform, but it is limited to sophisticated investors. Understandably, the regulations set by the financial market's authorities is to protect both issuer's interests. However, restricting access solely to sophisticated investors is restrictive and outdated. Therefore, it should be revised or redefined to allow institutional and retail investors to participate like other prominent platforms such as the Main Market. Retail investors should be encouraged to participate in the LEAP Market, which allows them to become part of a company for at least two years. This helps the company grow through fund injection and promotes knowledge transfer and equity development. It supports the idea that sophisticated investors should remain with the company for up to two years once the financial account is ready, demonstrating successful growth through equity funding. Subsequently, it should enables retail investors with at least ten thousand Ringgit investments to engage in trading activities within the market so that it is accessible to a wider range of investors and promotes market liquidity. Financial experts suggest that modern-day investors are well-informed and

capable of effectively comprehending and managing their investments. Therefore, the LEAP Market is expected to improve its liquidity level significantly due to increased trading activities resulting from a diverse range of participants involved in buying/selling transactions. In South Korea, there is KONEX, an organized stock exchange for SMEs; despite facing challenges such as market inactivity and low liquidity measures have been taken including reducing deposit requirements for individual investors. As a consequence of this transformation, there has been a significant increase in market liquidity along with a growing investor base (Kim & Woo, 2017).

Tackling Delisting Issue and Attractive Market

An *Adl* regulatory practices must find a balance between upholding rigorous standards and creating opportunities for small and medium-sized enterprises. Regulators may need to adopt a more adaptable approach to listing criteria, considering the unique obstacles SMEs encounter. This could involve implementing graduated requirements based on the size and characteristics of each SME. *Ihsan* in governance can be achieved by introducing mentorship programs and initiatives aimed at building capacity for SMEs. By working closely with industry authorities, regulators can assist SMEs in meeting and surpassing listing stipulations, consequently improving overall market standards. Establish marketing and visibility initiatives that go beyond basic requirements.

The listing decision is affected by the strictness of disclosure rules for the public relative to private firms. Tigh rules have been a reason for the company to be delisted from the market while failing to raise capital as required. The financing conditions have improved, but the perceived gap between equity financing needs and availability has not narrowed. The United Kingdom is Europe's most developed equity market; other European countries are less attractive to private equity investors, and there have been no improvements in crucial policy areas. In a developed country, it is discussed that corporate governance exercises, such as the rights of minority shareholders, remain a barrier and underline a disinclination to dilute the control of established owners. Therefore, there has been a suggestion in the context of further European capital markets union legislation to consider greater risk tolerance and harmonised capital requirements (Goncalves & Lehmann, 2019).

Encouraging more investors to participate in the transactions is the fastest way to boost the market. At the same time, the long-term strategy should focus more on improving the information asymmetry by helping information-generating and transferring activities (Kim & Woo, 2017). Even though the platform is open to retail investors, it seems less attractive when the market is less known to the public. SMEs shall not rely totally on advisors to assist in the LEAP Market, therefore, it is suggested that issuers or SMEs could promote themselves as a listed entity governed by Bursa Malaysia and then enhance their public profile, which brings along market confidence. These are quicker and more lenient ways to get listed and raise funds by issuing shares.

Unique Market

Implementing educational programs for SMEs focusing on the benefits and risks associated with various financing channels promotes the *Adl* by providing equal access to knowledge and empowers SMEs to make well-informed decisions. Additionally, organizing innovation workshops in collaboration with industry experts encourages the adoption of cutting-edge financial

solutions within the LEAP market, thus enhancing its appeal to SMEs. This demonstrates commitment towards the practice of *Ihsan*.

Engaging in partnerships with digital platforms is advisable to generate synergies rather than perceiving them as rivals. Look into forming alliances that can advantage both traditional and digital systems. Collaborating and forming synergies with digital platforms demonstrates a cooperative approach, highlighting mutual gains over competition. Embracing collaboration promotes fairness in the relationship between traditional and digital platforms, striving for shared excellence within the financial ecosystem. Next, the capital market can form partnerships that bring advantages to both traditional and digital ecosystems, highlighting the importance of striving for excellence through cooperative endeavors. This pursuit of excellence through collaboration aligns with the concept of '*Ihsan*,' which encourages the market to enhance its operations to achieve high standards for overall improvement. The main goal of collaboration is to progress the entire financial ecosystem, demonstrating a commitment towards enhancing well-being within this broader community. Prioritizing advancement across all sectors better reflects fairness, particularly benefiting SMEs' rights.

In order to address the challenges presented by the rise of alternative funding sources and globalization, regulatory practices must embody the principles of *Adl wal Ihsan* to guarantee equitable competition and investor safety. Fair regulatory practices involve adapting to evolving contexts through ongoing communication and periodic assessments, promoting impartiality and meeting diverse needs. Ensuring equal access necessitates a level playing field established by accommodating regulations. *Ihsan* is demonstrated through supporting the SMEs, enabling well-informed choices regarding appropriate funding channels.

CONCLUSION

The concepts of *Adl* and *Ihsan* in Islamic economic thought are deeply rooted in classical texts (turath), providing a robust ethical framework for economic activities. Scholars such as al-Ghazali, Ibn Khaldun, Ibn Taymiyyah, Ibn Qudamah, Ibn al-Qayyim, and an-Nawawi have extensively explored and defined these concepts, underscoring their relevance in fostering a just and benevolent economic system. The integration of *Adl wal Ihsan* principles holds great promise for addressing contemporary challenges in the economic landscape. The "*Adl wal Ihsan*" concepts play a crucial role in economic dealings, promoting fairness and generosity. *Adl* highlights the importance of just and transparent dealings, discouraging any form of exploitation. On the other hand, *Ihsan* encourages actions that go beyond mere justice, advocating for going above and beyond for the benefit of all and emphasizing social responsibility. These principles offer direction for ethical and sustainable procedures and fair treatment for all. Furthermore, this idea substantially impacts economic strategies by emphasizing equitable wealth distribution and backing social welfare. Incorporating *Adl wal Ihsan* into financial endeavors promotes responsibility and positively influences societal welfare.

The primary difficulty of the LEAP market is its inactive and illiquid nature due to the limited participation of issuers and investors. By embracing the concept of *Adl wal Ihsan*, this study proposes expanding the definition of sophisticated investors to encompass individuals with lower net worth as an eligibility criterion for market entry and inviting small investment accounts

into the LEAP market to attract a broader range of potential investors. Controlled access should be established for trading activities with a lower minimum investment to stimulate retail investor participation. This will encourage more investors to participate in transactions, which can quickly boost the market even though it may not significantly improve market liquidity. Therefore, expanding the definition of sophisticated investors could result in heightened investor interest and enhanced liquidity in the market.

The second obstacle encountered by the LEAP market involves delisting and unappealing markets. Companies are taking longer to secure funds, some have been unsuccessful in doing so, and others have opted to withdraw from the market. Additionally, certain companies have not recorded any trades since being listed. These factors present a less enticing market for both potential issuers and investors. This trend on the LEAP market could potentially dissuade many SME prospects from utilizing this platform. Therefore, this study suggests that the capital market and advisors shall act as catalysts by actively sharing the progress and distributing information to both the issuer and investor. Thus accelerating capital raising rates upon listing and gaining prospects and participants' confidence through immense commercial efforts. This is aligned with the *Adl wal Ihsan*.

The third challenge the LEAP market encounters is the presence of alternative platforms. There are contemporary digital platforms like venture capital and crowdfunding within the same capital market. However, the distinctiveness of the LEAP market does not appear to be adequately emphasized, resulting in a lackluster market performance. Moreover, an increasing number of unregulated and free platforms are emerging, potentially leaving the LEAP market trailing behind. Establishing the LEAP market aimed to mitigate risks and safeguard investor and issuer interests. Nevertheless, some rules and objectives seem outdated and require adjustment to align with current demographics of SMEs while ensuring future viability. This study recommends identifying unique features for SMEs' empowerment on each platform to help minimize substitutability risk and enhance their sustainability within the marketplace. Therefore, integrating recommendations by empowering *Adl wal ihsan's* Islamic values could sustain the market in the future.

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CONFLICTS OF INTEREST

The manuscript has not been published elsewhere and is not under consideration by other journals. All authors have approved the review, agree with its submission and declare no conflict of interest on the manuscript.

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Appendix 1

Manually coded and themed data from raw documents and archive research in findings the challenges faced by the LEAP market. Scattered data containing the interviews of CEOs, SMEs, Regulator, Capital Market by The Edge (a prestige business news).

Cheryl, P. (2020). *A silver lining for LEAP Market players?* Retrieved 2022, from <https://www.theedgemarkets.com/article/silver-lining-leap-market-players>

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| Statement | Themes |
|--|--|
| 1. Over the past five years, the LEAP Market has attracted 48 companies (Jia Teng, 2022). | <ul style="list-style-type: none"> • Non-active and less liquid Market |
| 2. Some firms listed on LEAP have not even had a single trade year to date, as stated by Tradeview Capital Sdn Bhd's CEO Ng Zhu Hann (Jia Teng, 2022). | <ul style="list-style-type: none"> • Non-active and less liquid market • Delisting and less attractive market. |
| 3. In terms of market activity, only 10% of a LEAP-listed company is tradable. In other words, only a handful of investors can participate in the LEAP Market, and these are mainly accredited investors (Jia Teng, 2022). | <ul style="list-style-type: none"> • Non-active and less liquid Market |
| 4. 84.4% of the companies listed on the LEAP Market have seen an increase in market capitalisation since their IPOs (Cheryl, 2020). | <ul style="list-style-type: none"> • Non-active and less liquid market • Delisting and less attractive market. |
| 5. LEAP Market lacks liquidity and vibrancy. This is because Bursa Malaysia's third market is accessible only to sophisticated investors (Jia Teng, 2022). | <ul style="list-style-type: none"> • Non-active and less liquid Market |
| 6. Trading volume on the LEAP Market has been low as it is only open to sophisticated investors (Cheryl, 2020). | <ul style="list-style-type: none"> • Non-active and less liquid Market |

| | |
|--|--|
| 7. Participation is limited to sophisticated investors regarded as more experienced than retail investors in general (Jia Teng, 2022). | <ul style="list-style-type: none">• Non-active and less liquid Market |
| 8. Typically, these companies either have not made profits or have just made nominal profits and do not have a proven track record. Since such companies are still in the early stages of development and commercialisation, it is only natural that we limit access to such investments to sophisticated investors who typically have a higher risk tolerance (Jia Teng, 2022). | <ul style="list-style-type: none">• Non-active and less liquid Market |
| 9. As mentioned by Managing director Datuk Chong Toh Wee of Cosmos Technology International Bhd; the company decided to delist from LEAP market to facilitate a proposed listing on the ACE Market, as the company believe it is a bigger fundraising platform to support their expansion plan. (Jia Teng, 2022). | <ul style="list-style-type: none">• Delisting and less attractive market |
| 10. Public shareholder spread is 10 per cent compared to both the Main and ACE market, which is 25 per cent public shareholder spread. | <ul style="list-style-type: none">• Delisting and less attractive market |
| 11. Bursa Securities points out that the ECF and P2P platforms offer funding for small and medium enterprises (SMEs) and start-ups without an immediate secondary market for investors to exit, similar to the LEAP Market (Jia Teng, 2022). | <ul style="list-style-type: none">• Substitutable platform |
| 12. There is a need to re-examine whether the premises under which the LEAP Market rules were formulated five years ago are still valid and relevant today. Minority Shareholders Watch Group (MSWG) CEO Devanesan Evanson (Jia Teng, 2022). | <ul style="list-style-type: none">• Substitutable platform• Improvement |
| 13. Malaysia has seen quite a several failures from businesses that sought to raise funds via P2P and ECF. Both are inherently riskier than the LEAP Market, although the investment quantum involved is much smaller. Tradeview Capital Sdn Bhd CEO Ng Zhu Hann (Jia Teng, 2022). | <ul style="list-style-type: none">• Substitutable platform |
| 14. The typical company seeking crowdfunding carries higher risks as compared to a LEAP Market company. It is much lower if you compare the disclosure and | <ul style="list-style-type: none">• Substitutable platform |

| | |
|--|---|
| information for a crowdfunding company versus a LEAP Market candidate. Thinkat Advisory Sdn Bhd managing director Karl Fredericks (Jia Teng, 2022). | |
| 15. The growth in the venture capital (VC) and private equity (PE) space in recent times has been encouraging for SME founders, be it for exit or growth. However, the LEAP Market provides visibility to the entire business landscape, including banks, financiers and dealmakers that would ordinarily be out of sight. Tradeview Capital Sdn Bhd CEO Ng Zhu Hann. The Edge Malaysia Weekly, June 2022 (Jia Teng, 2022). | <ul style="list-style-type: none">• Delisting and less attractive market• Substitutable platform |
| 16. There are 27 active and registered underwriters/advisors for LEAP Market (Bursa Malaysia, 2022). | <ul style="list-style-type: none">• Substitutable platform |
| 17. 7 successful underwriters/advisors successfully underwrite the SMEs to be listed in LEAP Market (Bursa Malaysia, 2022). | <ul style="list-style-type: none">• Substitutable platform |
| 18. LEAP Market's limitation to sophisticated investors should be removed. It should be accessible to institutional and individual investors. Mentioned by Cosmos Technology International Bhd's Managing director Datuk Chong Toh Wee. (Jia Teng, 2022). | <ul style="list-style-type: none">• Improvement |
| 19. Ideas would include broadening the definition of approved investors to allow a bigger pool of investors to participate instead of just limiting it to sophisticated investors. Tradeview Capital Sdn Bhd's CEO Ng Zhu Hann (Jia Teng, 2022). | <ul style="list-style-type: none">• Improvement |
| 20. It is understandable, then why regulators have restricted access to sophisticated and accredited investors. But that was five years ago, and much liberalisation has happened since then. We have licensed investing in cryptocurrency, as an example. As such, there is a need to re-evaluate whether the premises then are valid now. Minority Shareholders Watch Group (MSWG) CEO Devanesan Evanson (Jia Teng, 2022). | <ul style="list-style-type: none">• Improvement• Substitutable platform |
| 21. After all, the compliance and requirements for LEAP companies are already extremely high. So why make the hurdle for investment so high for normal investors? Retail investors nowadays are also getting more | <ul style="list-style-type: none">• Improvement |

sophisticated, Astramina Advisory Sdn Bhd founder and managing director (Jia Teng, 2022).

22. To level the playing field, we believe that retail investors should be allowed to invest in the LEAP market with appropriate safeguards or limits. Thinkat Advisory Sdn Bhd managing director Karl Fredericks (Jia Teng, 2022).

- Improvement

23. Only by empowering them can our stock market be competitive. Instead of relying on foreign funds or local institutions' impetus for the stock market, retail investors are untapped catalysts. Tradeview Capital Sdn Bhd CEO Ng Zhu Hann (Jia Teng, 2022).

- Improvement

24. For listing purposes, the fundraising can continue to be exclusively allocated to sophisticated investors for now. However, after the listing exercise, and especially once the financial accounts of these companies are out, normal retailers should be allowed to participate. For a start, perhaps they can invest with, say, an RM20,000 or up to RM50,000 cap. This gives them a feel of the LEAP Market while at the same time providing some risk management. Astramina Advisory Sdn Bhd founder and managing director (Jia Teng, 2022).

- Improvement

25. Owners of LEAP companies could promote themselves to their clients and the public as being a listed entity governed by Bursa, enhancing the public profile, which brings along market confidence. All in all, it is a quicker and more lenient way to get listed and raise funds by issuing shares without taking on debt to finance. Tradeview Capital Sdn Bhd CEO Ng Zhu Hann (Jia Teng, 2022).

- Improvement

26. So far, only two companies — Cosmos Technology International Bhd and TT Vision Holdings Bhd — have gone from the LEAP Market to the ACE Market (Jia Teng, 2023)

- Non active
- Less attractive

27. Despite the LEAP Market being seen as a stepping stone for SMEs, industry players had complained over the years about the lack of a transfer framework that could facilitate the migration of companies to the ACE Market. In fact, given the limitation that the shares can only be traded by sophisticated investors, the LEAP Market frequently experiences low trading volumes and,

- Non active
 - Less attractive
-

consequently, has limited ability to establish robust price
discovery (Jia Teng, 2023)
