Could regulator materialize potential demand for Islamic securities? Evidence from Indonesia

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Abstract

One main advantage of Islamic securities is their wider demands because Islamic securities are able to meet both demands for Islamic and conventional securities. This argument is valid if and only if the demands for Islamic securities do exist AND investors believe that Islamic securities do comply with *sharia*. One important regulator role in developing Islamic capital market is to ensure *sharia* compliance of Islamic securities and to convince investors regarding this compliance. Bapepam-LK carries out this role by publishing semiannually the list of Islamic securities (DES). Utilizing the first issuance of DES on September 2007, we employ differences in differences (DID) regression to see the immediate, medium, and long term market response to this announcement. We also estimate cumulative abnormal returns by employing the standard market model for the robustness test. We find that market reacts to *sharia* compliance declaration by regulator in the long-run, hence potential demands are realized and the Islamic securities will enjoy greater market power. We also provide evidence that Islamic investors are not too strict in screening Islamic securities and are willing to accept different opinions regarding *sharia* compliance. This finding could explain why Islamic finance is still growing rapidly even though there are critiques in the genuineness of *sharia* compliance of the current Islamic financial products/services.

Keywords: *regulator, Islamic securities, sharia compliance, demand, investor confidence*
JEL Classification: *G02, G14,G18*

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Introduction

In the last decades, we witness rapid increase in market share of Islamic finance. Kassim (2010) find that total market of Islamic securities grows about 15-20 percent annually and the market share of Islamic finance will increase further due to the rapid growth of Islamic banking and finance industry. She also estimates that Islamic equity funds will reach 1 trillion USD by the end of 2010, while the conventional equity markets remain stagnant because the prolonged affects of the U.S. and Europe financial crisis. The Islamic finance is also growing faster in the majority Muslim countries. Beck, Kunt, and Merrouche (2010) find that the market share of Islamic banks in majority Muslim countries reached about 16 percent in 2005, increasing rapidly from only about 6 percent in 1994, while the market share of Islamic banks in global market had reached 2 percent.

Data shows that the number of institutions trying to access funds through issuing Islamic securities/funds is increasing. The International Organization for Securities Commission (IOSCO) reports that there were 100 Islamic equity funds worldwide with assets estimated around 3.3 billion USD in 2003 and their assets grew about 25 percent in the past seven years. Cakir and Raei (2007) find that *sukuk* (Islamic bonds) issuance was also increasing rapidly and globally, it grew around 45 percent in 2006. Godlewski, Ariss, and Weill (2010) point out that s*ukuk* Issuance in Indonesia, Malaysia, and the Gulf Cooperation Council (GCG) countries grew quickly from only 7.2 billion USD in 2004 to 39 billion USD in 2007; with global *sukuk* outstanding was around 90 billion USD.

Increasing interest from financial institutions and companies in utilizing Islamic securities is because of the advantages offered by the Islamic securities. One main advantage of the Islamic securities compared to the conventional securities is their wider demands because Islamic securities are able to meet both demands for Islamic and conventional securities.

There are two necessary conditions should be fulfilled to exercise the demand for Islamic securities. Otherwise, Islamic securities will fail to offer their main advantage which is to provide larger market demands. The first condition is that the demands for Islamic securities do exist. If the demands for Islamic securities are only a Fata Morgana, ultimately there will be no relative benefit to issue Islamic securities. The second condition is that investors do believe that Islamic securities do comply with *sharia*, otherwise Islamic investors will not buy this kind of Islamic securities. Hence, demands for Islamic securities will only become potential demands and we can never observe them in the market.

There are some qualitative studies criticizing *sharia* compliance of Islamic securities. Beck, Kunt, and Merrouche (2010) point out anecdotal evidence that almost all of conventional securities could be reengineered to comply with *sharia*, therefore there are almost no different between Islamic securities and conventional securities. Nagaoka (2007) argue that *murabahah* contracts, which are very close to interest-based practices, dominate Islamic finance since the establishment Islamic banks in the 1970s, even though long before that, there were consensus among Islamic scholars that Islamic finance should be base on profit-sharing contracts and many Islamic scholars currently

only allow *murabahah* as a tool to escape from *riba* when profit-sharing contracts are not feasible.

Besides to develop Islamic capital market's infrastructure, other important regulator role in developing Islamic capital market is to ensure *sharia* compliance of Islamic securities and to convince investors regarding this compliance, hence Islamic investors will still be willing to buy the Islamic securities regardless all surrounded controversies. If regulators could carry out this role effectively, any potential demand for Islamic securities could be materialized.

Some quantitative studies try to investigate whether Islamic investors are convinced on the *sharia* compliance of Islamic securities and whether they are willing to buy current Islamic securities or to utilize services offered by Islamic financial institutions. If Islamic investors are willing to buy Islamic securities or utilize Islamic services, we can observe that Islamic securities/institutions will have greater market power compare to the conventional securities/institutions.

Weill (2010) compares market power of Islamic banks and conventional banks in the 17 countries over the period 2000-2007 to investigate whether Islamic banks have greater power because they have unique "religious" clients. He finds no significant different on market power between Islamic and conventional banks. Surprisingly when controlling other variables, he finds that market power of Islamic banks was weaker than conventional banks due to the differences in norms and incentives applied across the bank's type. Godlewski, Ariss, and Weill (2010) study how stock markets respond to the issuances of *sukuk* and conventional bonds. Using a sample of Malaysian listed company which issued both *sukuk* and conventional bonds over the period 2002-2009, they find that stock market reacted neutrally to the conventional bond issuance, but reacted negatively to the *sukuk* issuance. They argue that market perceived that only less healthy companies prefer *sukuk* than conventional bonds due to the classic adverse selection problem. They also argue that *sukuk* enjoyed greater market demand compared to conventional bonds; especially *sukuk* could meet excess liquidity in the Malaysian Islamic banks.

To enrich quantitative studies regarding market power of Islamic securities, in this paper, we want provide a discussion whether Islamic securities enjoy larger demands than conventional securities. We also investigate whether regulator could effectively take a role in materializing demands for Islamic securities and whether regulator declaration is more convincing than *sharia* compliance declaration by another institution.

Utilizing the first Issuance of the list of Islamic securities (DES) by the Indonesian capital market and financial institution supervisory agency (Bapepam-LK), we categorize securities into three groups: Islamic securities, new Islamic securities, and non Islamic securities, then we run different in different (DID) regression and also estimate cumulative abnormal returns by employing the standard market model for robustness test. We find that market react to *sharia* compliance announcement by regulator in the long run (3 months), hence Islamic securities will enjoy greater market power. We also find that market do not perceive differently regulator declaration and another institution declaration. Investors still consider securities as Islamic securities

even though there were conflicting opinions regarding *sharia* compliance between regulator and another institution.

Islamic securities in Indonesia

Development of Islamic capital market in Indonesia began with the issuance of Islamic mutual fund by PT Danareksa Investment Management (DIM) on July 3rd, 1997. Then on July 3rd, 2000, the Indonesia stock exchange (IDX, formerly known as Jakarta stock exchange) in collaboration with DIM launched the first JII which consisted of 30 Islamic stocks. There were four criteria for stocks to be included in JII:

1. The Company does not conduct any business activities that conflict with *sharia*;
2. The liability to asset ratio in the annual or semi-annual financial report is not more than 90 percent;
3. From the list of companies which comply with the first two criteria, the 60 largest companies according to market capitalization are chosen;
4. Finally, from the list of 60 companies above, the 30 largest companies according to average daily trading values are included in JII.

Meanwhile, the *sukuk* development was started by the issuance of *mudharabah sukuk* by PT Indosat on September 2002. However, the milestone of *sukuk* development was the stipulation of the law number 19 regarding government Islamic bond on May 7th, 2008, which followed by the first issuance of government *sukuk* on August 26th, 2008.

One important regulator role in developing Islamic capital market is to ensure *sharia* compliance of Islamic securities and to convince investors regarding this compliance. Bapepam-LK carries out this role by publishing semiannually the list of Islamic securities (DES). DES was firstly issued on September 12th, 2007 which was composed based on the annual financial statements 2006, and followed by the issuance of second DES on November 30th, 2007 which was composed based on semiannual financial statements 2007. DES consists of *sukuk,* stocks, mutual funds, asset backed securities, and other Islamic securities.

According to Bapepam-LK rules Number IX.K.1 regarding criteria and issuance of DES, there are criteria that should be fulfilled by companies for their stocks to be included on the DES, as follow:

1. The Company does not conduct any business activities conflicting with *sharia* as stipulated on Bapepam-LK rules Number IX.A.13 regarding the issuance of Islamic securities such as:
    a. Gambling and games considered as gambling;
    b. Trading that is prohibited according to *sharia*, such as trading that is not followed by delivery/transfer of products or services, and trading with a fake offer;
    c. Interest based (*ribawi*) financial services;
    d. Buying and selling of risks that involve speculation (*gharar*) and gambling (*maisir*);

e. Producing, distributing, and trading products or services that are forbidden because of its contents (*haram li-dzatihi*) or stated forbidden (*haram li-ghairi*) by Islamic scholars council (MUI), or that can degrade morals and are harmful;
f. Transactions that contain elements of bribery (*risywah*).

2. The Company has the following financial ratios:
   a. The ratio of interest-based liabilities to total equity is not more than 82 percent;
   b. The ratio non-s*haria* income to total revenue is not more than 10 percent.

Data and Methodology

We only consider stocks in this paper since the price data of the other securities is not freely available. We also consider only the first and the second issuance of DES because in that period, becoming Islamic or conventional stock is independent from any company actions.[3] In the following periods, companies could adjust their financial ratios to comply with Bapepam-LK regulation to be included in the DES (*endogeniety* problem) and IDX also immediately adjust the stocks listed in the JII following the issuance of DES (no different opinion on the *sharia* compliance exist for considerably long period).

We collect data of stock prices and trading volume from the Yahoo Finance. We exclude 15 stocks which their type is changed (Included in first DES, but not included in second DES, and vice versa). Our population consists of 116 new Islamic securities, 182 non Islamic securities, and 30 stocks (Islamic securities) included in the Jakarta Islamic securities (JII). The new Islamic securities are defined as stocks which are included in DES, but not in JII. The non Islamic securities are defined as stocks which are not included both in DES and JII.

As sample, we randomly take from the population 30 new Islamic securities, 40 non Islamic securities, and 29 Islamic securities (data of 1 company included in JII is not available in the Yahoo Finance). We categorize further 29 Islamic securities into two groups: stock included both in DES and JII, and stock included in JII, but not in DES.

To measure immediate, medium and long-term market response to the issuance of DES, we employ simple differences in differences (DID) regression using the following Ordinary Least Square (OLS) specification:

$$R_{it} = \beta_0 + \beta_1 Syariah + \beta_2 T + \beta_3 Syariah * T + \delta_0 X_{it} + \delta_1 X_{it} * T + \varepsilon_{it} \qquad (1)$$

[3] The first and the second DES were issued on September 12th and November 30th, 2007 respectively. These DES were issued base on Bapepam-LK rule Number IX.K.1 which was issued on August 31th, 2007. The first and the second DES was composed base on already published financial statements, annual report 2006 and semiannual report 2007. Therefore, company could do nothing to be included in the DES. Hence, strictly exogenous assumption on least squared regression could be fulfilled.

where R_{it} denotes cumulative return of stock *i* at time *t.* R is calculated in three different periods: immediate, medium, and long-term period which represents 1 day, 1 month, and 3 months respectively before or after the DES issuance date. In the first series of regressions, *sharia* denotes a dummy variable which take value of 1 if stocks belong to new Islamic securities group, and take value of 0 if stocks belong to non Islamic securities group. In the second series of regressions, *sharia* takes value of 1 if stocks belong to group of stocks which include in JII, but not in DES, and *sharia* takes value of 0 if stocks belong to group of stocks which included both in JII and DES. T is also a dummy variable which take value of 1 if observations come from period after the DES issuance date, otherwise it take value of 0. X represents two control variables, trading volume and standard deviation of daily returns. This specification allows the stocks response depends on a set of control variables, for examples the response may correlated with the stock risks or trading volume.

In the first series of regressions, we want to investigate whether new Islamic securities (stocks included in DES) gain more market power relative to non Islamic securities. In other words, we regard new Islamic securities as treated group and non Islamic securities as control group. In the second series of regression, we want to investigate the market response to different opinion regarding *sharia* compliance. We treat group of stocks which included in JII, but not included in DES as treated group, and group of stocks which included both in JII and DES as control group. We do not utilize non Islamic securities as control group to avoid selection bias, since JII only includes stocks which have the biggest market capitalization and the highest liquidity.

We are mainly interested in β_3 which capture the net effects of DES issuance, controlling for time-invariant characteristics among groups and differences in the stocks response across time. Formally, β_3 could be written as:

$$\beta_3 = [\mathrm{E}(\mathrm{R}|\mathrm{T}=1) - \mathrm{E}(\mathrm{R}|\mathrm{T}=0)]_{\mathrm{treated}} - [\mathrm{E}(\mathrm{R}|\mathrm{T}=1) - \mathrm{E}(\mathrm{R}|\mathrm{T}=0]]_{\mathrm{control}} \qquad (2)$$

Since number of observation in the second series of regressions is not large, we also estimate cumulative abnormal returns using the standard market model to check the robustness of our results. Let R_{it}denote stock return of company i on day t and R_{mt} denote market return on day *t*, we estimate α and β for each stock using daily stock returns from January to June 2007 (the last observations are about 2.5 months before the issuance of DES) using the regression: [4]

$$R_{it} = \alpha_i + \beta_i R_{mt} + \epsilon_{it} \qquad (3)$$

Then, the cumulative abnormal returns (CAR) for each stock are estimates as follow:

$$\mathrm{CAR}_i = [\prod_h^H (1 + R_{it})] - 1 - \beta_i\{[\prod_h^H (1 + R_{mt})] - 1\} \qquad (4)$$

where *h* is beginning of event window, H is the end of event window, and h=0 is the date when 1st DES was issued.

[4] Specification of Equations 3 and 4 follows Dellavigna and Polet (2009).

Result

Table 1 provides summary statistic of variables utilized in our analysis. Comparing data before and after the issuance of the first DES, all variables after the issuance were higher meaning that Indonesian stock exchange was in the upward trend. New Islamic securities group consistently underperformed non Islamic securities group before the issuance of DES, however 1 month after the issuance of DES, new Islamic securities began to over perform non Islamic securities group. Meanwhile, JII group were the best performer. Overtime, they also grew quicker than others. It is not surprising because only the best performer (the biggest market capitalization and the most liquid stock) to be included in the JII. Therefore, JII could not directly be compared with other groups because of this selection bias.

Table 2 provides regression results for the DID analysis. In this regression, we consider new Islamic securities as a treated group and non Islamic securities as a control group. We are mainly interested in β_3 which capture the net effects of DES issuance controlling for time-invariant characteristics among groups and differences in the stocks response across time. Column 1 and 2 provide immediate market response to the issuance of DES. Immediate response is 1 day market response after the issuance of the first DES. Coefficients β_3 are positive even after controlling for trading volume, but statistically not significant different from 0. Column 3 and 4 provide the medium-term market response which is defined as 1 month market response to the issuance of DES. Like in immediate response, Coefficients β_3 are also positive even after controlling for trading volume and stock risks, but statistically not significant different from 0. Column 5 and 6 provide long-term market response to the DES issuance which is defined as 3 months market response. Coefficients β_3 are 0.25 without controlling stock risks and trading volume and 0.24 with controlling for both stock risks and trading volume. These coefficients are significant at 5 percent significance level. This result implies that by included in DES, previously non-Islamic securities could gain more market power. Quantitatively, their stock prices, which also represent a whole company market value, will increase by 24-25 percent.

The above results are statistically only significant in the long term due to the variation on the speed response from different market players. We argue that individual investors could adjust their stock allocation more freely, while institutional investors should pass several procedures to adjust their investment policy or to raise additional funds to respond the new *sharia* investment opportunities. Therefore, in the short and medium run, we could only observe responses from individual Islamic investors. As investment values of the individual investors are not large compared to the institutional investors, we could only see small increase in stock price of the new Islamic securities by about 1.4 percent in the sort-run and 3.5 percent in the medium-run.

Table 3 provides regression results to investigate the market response to different opinions regarding the *sharia* compliance. We treat group of stocks which included in JII, but not included in DES as a treated group, and group of stocks which included both in JII and DES as a control group. We expect that coefficients β_3 are negative meaning that company will lose some market powers when its stock are not included in DES (considered as non Islamic securities by regulator), even though its stocks are still

included in JII (still considered as Islamic securities by another institution). Columns 1-2, 3-4, and 5-6 provide regressions for market response in sort, medium, and long-term respectively. Coefficients β_3 in all regressions are not statistically different from 0. It means that market does not response to the issuance of DES which implies that market does not perceive differently these two groups. We argue that investors still consider JII's stocks which not included in DES as Islamic securities.

Since our sample in the second series of regressions is not large (there are only 29 stocks in JII available for our analysis), we estimate CAR to check robustness of our results. Table 4 provides short-run CAR which is estimated as a product of daily abnormal returns over the respective event window. We estimate one day [0,0], three days [-1,+1], and five days [+2,+2] event windows. We also incorporate four days event windows, [-1,+2] and [-2,+1]. These specifications allow for the possibilities that abnormal returns are realized before the DES issuance date as common practice in developing markets (Godlewski, Ariss, and Weill, 2010). We find that CARs in all event windows are not statistically significant different from zero for both groups meaning that there were no statistically significant market response in the sort-run, even though some JII's stocks were not included in the DES.

Table 5 provides estimated CAR in the longer period. We estimate CAR over six periods: 1 day, 5 days, 10 days, 1 month, 2 months, and 3 months after the first DES issuance date. Columns 5 and 6 shows that CAR over six different periods are not statistically different from zero meaning that there were no statistically significant market response in the long-run. It also means that market did not differentiate between group of stocks which included in JII, but not included in DES, and group of stocks which included both in JII and DES. This result is consistent with results of DID analysis and the sort-run CAR

Our results provide evidence that Islamic investors are not too strict in screening Islamic securities and are willing to accept different opinions regarding product's *sharia* compliance. It could also imply that market seems not to presume regulator declaration stronger than *sharia* declaration by another institution. This result means that not only regulator but also other stake holders (SROs, research institution, private companies, etc) could carry out the role in materializing potential demand for Islamic securities by making declaration that Islamic securities do comply with Islamic principles.

Conclusion

Utilizing the first issuance of DES on September 2007, we categorize securities into three groups: Islamic securities, new Islamic securities, and non Islamic securities, then we employ DID regression to see immediate, medium, and long term market response on this announcement. We also estimate cumulative abnormal returns by employing the standard market model for the robustness test.

We find that market reacts to *sharia* compliance declaration by regulator in the long run, hence potential demands are realized and Islamic securities will enjoy greater market power by about 24-25 percent. We also argue that only individual investors could react

in the short and medium run because institutional investors still need time to adjust their investment policy or to raise funds to grab the new *sharia* investment opportunities. As investment values of the individual investors are not too large compared to the institutional investors, we could only observe small and insignificant increase in stock price of the new Islamic securities by about 1.4 percent in the sort-run and 3.5 percent in the medium-run.

We also find that investors are less strict than our expectation. We argue that Islamic investors still consider securities as Islamic securities even though there were conflicting opinions regarding their *sharia* compliance. This finding could explain why Islamic finance is still growing rapidly even though many scholars criticize that current Islamic financial products/services do not really comply with *sharia*. This finding also implies that investors do not perceive differently *sharia* compliance declaration by regulator with *sharia* compliance declaration by another institution, meaning that market do not presume regulator declarations are stronger or more valid. Therefore, other stakeholders could also carry out regulator's role in realizing potential demand for Islamic securities by declaring that securities do comply with *sharia.*

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Table 1
Summary of the Data

Variables	No. Obs	Before Announcement		After Announcement	
		Mean	Standard Deviation	Mean	Standard Deviation
New Islamic securities					
1 day returns	30	-3.0%	11.8%	0.5%	3.7%
1 month returns	30	-8.6%	16.9%	3.5%	18.5%
3 months returns	30	-15.5%	25.9%	1.7%	32.3%
1 month risks	30	6.6%	5.5%	5.0%	5.0%
3 months risks	30	6.4%	4.6%	5.3%	3.5%
1 daytrading volume	30	30.3	105.0	28.6	129.0
1 month's average trading volume	30	21.2	53.7	29.3	78.4
3 month's average trading volume	30	23.2	56.4	21.5	54.1
Non Islamic securities					
1 day returns	40	0.5%	10.8%	2.7%	10.5%
1 month returns	40	-6.6%	28.7%	2.3%	20.3%
3 months returns	40	-6.7%	51.4%	-14.3%	33.7%
1 month risks	40	9.1%	6.7%	6.5%	6.5%
3 months risks	40	8.4%	6.0%	7.5%	6.2%
1 daytrading volume	40	9.2	24.6	21.8	97.2
1 month's average trading volume	40	10.3	42.0	13.6	57.4
3 month's average trading volume	40	9.9	37.7	11.6	48.5
Stocks in Jakarta Islamic Index					
1 day returns	29	0.2%	1.6%	1.4%	2.8%
1 month returns	29	-2.3%	7.2%	20.0%	11.7%
3 months returns	29	-0.8%	17.6%	48.8%	77.0%
1 month risks	29	4.0%	1.5%	2.2%	0.7%
3 months risks	29	3.2%	1.0%	3.5%	3.8%
1 daytrading volume	29	19.6	35.3	13.7	22.8
1 month's average trading volume	29	34.9	48.5	35.8	42.8
3 month's average trading volume	29	38.3	49.2	36.8	44.6

Note: trading volume is in a million.

Table 2
The Effects of *Sharia* Compliance Declaration on Previously Non Islamic Securities

	Immediate response		Medium-term response		Long-term response	
	1	**2**	**3**	**4**	**5**	**6**
β_0	1.005*** (0.017)	1.003*** (0.017)	0.934*** (0.046)	1.067*** (0.041)	0.933*** (0.081)	1.247*** (0.095)
β_1	-0.035 (0.028)	-0.038 (0.028)	-0.020 (0.055)	-0.065 (0.047)	-0.088 (0.094)	-0.178** (0.083)
β_2	0.022 (0.024)	0.023 (0.024)	0.090 (0.056)	0.051 (0.053)	-0.076 (0.097)	-0.167 (0.115)
β_3	0.012 (0.033)	0.016 (0.033)	0.032 (0.072)	0.039 (0.060)	0.249** (0.123)	0.240** (0.103)
δ_{0v}		1.74E-10** (6.78E-11)		6.17E-10* (3.44E-10)		1.02E-09* (6.08E-10)
δ_{1v}		-1.13E-10 (7.88E-11)		2.28E-10 (4.41E-10)		1.41E-09 (1.10E-09)
δ_{0r}				-1.530*** (0.521)		-3.862*** (0.518)
δ_{1r}				-0.100 (0.607)		0.505 (0.708)
Number of observation	140	140	140	140	140	140
R-square	0.04	0.05	0.05	0.29	0.03	0.37

*Ordinary least square (OLS) regression with robust standard error; * significant at 10%, ** significant at 5%, *** significant at 1% significance level; Standard errors are in ().*

Table 3
The Effects of Non *Sharia* Declaration on Current Islamic Securities

	Immediate response		Medium-term response		Long-term response	
	1	**2**	**3**	**4**	**5**	**6**
β_0	1.001*** (0.004)	0.999*** (0.005)	0.974*** (0.014)	1.066*** (0.021)	0.977*** (0.029)	1.300*** (0.102)
β_1	0.003 (0.006)	0.002 (0.005)	0.008 (0.029)	-0.006 (0.026)	0.036 (0.074)	0.020 (0.065)
β_2	0.012 (0.008)	0.013 (0.009)	0.226*** (0.031)	-0.097 (0.059)	0.575*** (0.241)	-0.552*** (0.134)
β_3	0.002 (0.012)	0.002 (0.012)	-0.009 (0.054)	0.004 (0.043)	-0.190 (0.266)	0.004 (0.119)
δ_{0v}		1.10E-10 (8.44E-11)		5.91E-10 (4.32E-10)		9.24E-10 (1.02E-09)
δ_{1v}		-4.86E-11 (2.88E-10)		2.08E-10 (6.46E-10)		3.66E-10 (1.44E-09)
δ_{0r}				-2.647*** (0.913)		-10.859*** (3.454)
δ_{1r}				11.775*** (2.425)		30.120*** (3.495)
Number of observation	58	58	58	58	58	58
R-square	0.02	0.09	0.58	0.74	0.18	0.88

*Ordinary least square (OLS) regression with robust standard errors; * significant at 10%, ** significant at 5%, *** significant at 1%significance level; Standard errors are in ().*

Table 4
Sort-run Cumulative Abnormal Returns (CAR)

Event Window	Type of Securities	CAR	Std.	T-value	P-value
[0,0]	Islamic stocks in Jakarta Islamic Index (JII), and included in the List of Islamic Securities (DES)	-1.23%	2.13%	-0.578	0.572
	Islamic stocks in Jakarta Islamic Index (JII), but not included in the List of Islamic Securities (DES)	-0.02%	2.10%	-0.008	0.994
[-1,1]	Islamic stocks in Jakarta Islamic Index (JII), and included in the List of Islamic Securities (DES)	-0.85%	2.99%	-0.283	0.781
	Islamic stocks in Jakarta Islamic Index (JII), but not included in the List of Islamic Securities (DES)	1.70%	3.62%	0.469	0.649
[-2,2]	Islamic stocks in Jakarta Islamic Index (JII), and included in the List of Islamic Securities (DES)	-0.97%	2.63%	-0.370	0.717
	Islamic stocks in Jakarta Islamic Index (JII), but not included in the List of Islamic Securities (DES)	2.90%	4.22%	0.686	0.508
[-1,2]	Islamic stocks in Jakarta Islamic Index (JII), and included in the List of Islamic Securities (DES)	-0.76%	2.94%	-0.260	0.799
	Islamic stocks in Jakarta Islamic Index (JII), but not included in the List of Islamic Securities (DES)	2.24%	4.51%	0.496	0.631
[-2,1]	Islamic stocks in Jakarta Islamic Index (JII), and included in the List of Islamic Securities (DES)	-1.05%	2.74%	-0.384	0.706
	Islamic stocks in Jakarta Islamic Index (JII), but not included in the List of Islamic Securities (DES)	2.37%	3.51%	0.675	0.515

*Event of 0 means the day when the 1st DES was issued (September 12, 2007); * significant at 10%, ** significant at 5%, *** significant at 1% significance level.*

Table 5
Long-run Cumulative Abnormal Returns (CAR)

Time after DES issued	Type of Securities	CAR	Std.	T-value	P-value
1 day	Islamic stocks in Jakarta Islamic Index (JII), and included in the List of Islamic Securities (DES)	0.51%	2.62%	0.193	0.849
	Islamic stocks in Jakarta Islamic Index (JII), but not included in the List of Islamic Securities (DES)	1.50%	3.30%	0.453	0.660
5 day	Islamic stocks in Jakarta Islamic Index (JII), and included in the List of Islamic Securities (DES)	0.54%	3.00%	0.181	0.859
	Islamic stocks in Jakarta Islamic Index (JII), but not included in the List of Islamic Securities (DES)	1.45%	4.90%	0.295	0.774
10 day	Islamic stocks in Jakarta Islamic Index (JII), and included in the List of Islamic Securities (DES)	0.11%	4.08%	0.027	0.979
	Islamic stocks in Jakarta Islamic Index (JII), but not included in the List of Islamic Securities (DES)	3.37%	6.84%	0.492	0.633
1 month	Islamic stocks in Jakarta Islamic Index (JII), and included in the List of Islamic Securities (DES)	0.15%	7.99%	0.018	0.986
	Islamic stocks in Jakarta Islamic Index (JII), but not included in the List of Islamic Securities (DES)	2.02%	12.01%	0.168	0.870
2 months	Islamic stocks in Jakarta Islamic Index (JII), and included in the List of Islamic Securities (DES)	8.03%	32.32%	0.248	0.807
	Islamic stocks in Jakarta Islamic Index (JII), but not included in the List of Islamic Securities (DES)	8.53%	24.31%	0.351	0.733
3 months	Islamic stocks in Jakarta Islamic Index (JII), and included in the List of Islamic Securities (DES)	29.37%	98.66%	0.298	0.770
	Islamic stocks in Jakarta Islamic Index (JII), but not included in the List of Islamic Securities (DES)	13.38%	29.53%	0.453	0.660

** significant at 10%, ** significant at 5%, *** significant at 1% significance level.*