

## **Opening Address**

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Chairman, Securities Commission**

### **Malaysian Islamic Finance - Issuers & Investors Forum 2006**

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Yang Berhormat Dato' Dr Awang Adek Husin, Deputy Minister of Finance II,

Ladies and gentlemen.

1. The Malaysian Islamic Finance Issuers and Investors Forum 2006 is significant in two respects. The first is its theme focusing on Malaysia's aspiration to evolve its role as an international Islamic Financial Centre. The second is that this forum is the outcome of the high levels of energy, enthusiasm and commitment of the many participants in Malaysia's Islamic financial services in working together towards achieving this shared vision.
2. From the perspective of the SC, the mission of creating a vibrant and thriving Islamic capital market is closely intertwined with its origins. In 1993, it was clear to the policymakers that there was a need to build on the successes achieved in the banking sector through formalisation of Shariah-compliance practices in the capital market. Indeed Bank Negara's pioneering work in developing Islamic banking and takaful has provided a well documented role model for the SC and for many other regulators to follow.
3. At that point in 1993, the Malaysian capital market was narrow and equity-centric. Thus, the task of building a modern capital market regulatory framework went hand-in-hand with the pioneering of many regulatory concepts to develop a high-quality Islamic capital market.
4. Premised on the objective of ensuring a high level of investor confidence in the quality, consistency and reliability of the Shariah-compliance process, Malaysia became the first country in the world to establish a Shariah Advisory Council (SAC) within the ambit of a regulatory organisation. The SAC formalised an approach for accreditation of Shariah-compliant equities and has been proactive in advancing product innovation – the most recent being the recognition of single stock futures (SSF) as a Shariah-compliant instrument.
5. Indeed, facilitative and supportive policies of the government and regulators are critical to the success of Islamic finance. The Malaysian government has not only provided the necessary support in terms of ensuring tax neutrality for Shariah-compliant products but, in numerous instances, the government has taken a lead role as an issuer as was the case with the Malaysian first global sovereign Sukuk in 2002.
6. The SC has continued with our efforts to develop a facilitative and internationally compatible regulatory framework for the Islamic Capital Market. Recent efforts include the introduction of the Islamic Securities Guidelines to effectively address legal and regulatory impediments to the development of the Sukuk market, pioneering efforts in terms of Guidelines for Islamic REITs, and the promotion of the use of Musyarakah, Mudharabah and Ijarah structures.

7. As a result of the contribution of all participants, Malaysia now has a reasonably comprehensive Islamic Capital Market with a broad product range comprising Global Sukuks, Islamic REITs, Islamic Residential Mortgage-backed Securities and a variety of other Islamic bonds and financial products – including Islamic bonds issued by supra-nationals – to complement Shariah-compliant equity products.
8. More critically, many of these product segments have been popular with both investors and issuers and continue to grow at a rapid pace. The Islamic collective investment scheme industry, in particular, has shown much promise and is likely to be the next major growth area. Though the NAV of Shariah-based unit trusts of RM8.6 billion currently only represents 8.1% of the total unit trust industry NAV, its growth has been phenomenal at a compound annual growth rate of 59% from 1992 to 2005. In response to potential demand, the unit trust industry has stepped up its Islamic product launch efforts. Almost one quarter of unit trust funds today are Shariah-based funds. More recently, the SC approved three Shariah-based funds for investment in foreign markets. The first Islamic REIT was launched last week with great success, raising gross proceeds of close to RM180 million from retail and institutional investors.
9. We think that the approach of strong government and regulatory leadership has generally worked well in establishing a sound regulatory and facilitative tax framework. These efforts offset the substantial costs associated with start-up situations and helped fast-track the viability and vitality of Malaysia's Islamic capital market during the formative years.
10. The continued commitment of the Malaysian government and regulators in building the Islamic finance sector is reflected in national development plans such as the Capital Market Masterplan (CMP), the Financial Sector Masterplan (FSMP) and the Ninth Malaysian Plan.
11. As Malaysia's Islamic financial sector reaches this level of maturity and sophistication, two points become evident. First, the role of the private sector becomes more critical in leading the growth of the market. Increasingly, the role of regulator shifts from being a developer to that of a facilitator. The private sector must drive the increasing commercialisation of Islamic finance through higher level of investments into product origination and distribution capabilities and into building intellectual capacity to accelerate growth momentum and to maximise capture of opportunities. Indeed, the widespread availability of high-quality intermediation services is critical to the next phase of growth for Islamic finance.
12. Second, there is a need to increase the international elements of the Islamic finance sector. At this stage of its development, Malaysia's Islamic finance sector provides tremendous opportunities for tie ups with other thriving Islamic centres elsewhere in the world, particularly in the Middle East. Increasing co-operation and linkages between the various Islamic centres is critical to building a thriving global Islamic financial market given the highly integrated nature of Islamic financial services. The SC will therefore work towards increasing the level of international participation and collaboration in Malaysia's Islamic Capital Market. In this regard, I am pleased to reconfirm the announcement made by Mr David Knott CEO of the Dubai Financial Services Authority (DFSA) during his luncheon address yesterday that later this morning the Securities Commission will be entering into a Memorandum of Understanding (MoU) with the DFSA. We are pleased to enter into such an MoU with the regulator of a key financial centre in the Middle East. We are confident that this will pave the way for both jurisdictions to not only ensure effective cross border regulation to maintain well supervised markets that remain attractive to investors and issuers, but also explore ways to remove regulatory barriers to ensure that

cross border transactions can be implemented with a high degree of efficiency and minimum regulatory cost.

13. On the same note, this conference with its focus on enhancing Malaysia as an international Islamic financial centre is indeed timely in providing a platform for local and international participants to explore the various challenges and opportunities in relation to increasing the availability and quality of Islamic intermediation services and in expanding the level of co-operation and linkages between the various Islamic centres.

14. On that note, I wish you a productive and fruitful forum.

Thank you.

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