Special Address
by
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Malaysian International Islamic Financial Centre (MIFC)
Dialogue with CEOs of the Financial Industry

Wednesday, 1 November 2006
Renaissance Hotel, Kuala Lumpur

YBhg Tan Sri Zeti Akhtar Aziz, Governor, Bank Negara Malaysia.

Ladies and gentlemen.

The government together with the regulators have articulated the vision and have put in place facilitative regulatory and tax frameworks to ensure the realisation of the MIFC agenda. The Governor has provided an overview of the MIFC goals and strategies. I would like to touch briefly on the capital market segment and the potential opportunities for growth in this segment.

1. With strong stewardship by the intermediaries, most of whom are present here, issuers and investors have recognised the opportunities that the Islamic capital market can offer as quality options for financial products and services to be offered to the international market. Recently we saw the launch by Malaysian companies of new sukuks which are benchmarked against international best practices (such as the Khazanah exchangeable sukuk, Mukah Mudharabah sukuk and PLUS Musharakah sukuk). This is clear testimony of the ability of our intermediaries in structuring products and offering services acceptable to the world's financial market. The fact that sukuks originating from Malaysia accounts for over 70% of the total sukuks issued in the global sukuk market (est US$41 bil) also speaks volumes not only of the capabilities of our intermediaries but also of the opportunities available to them.

Opportunities in the Islamic Capital market

2. As you are aware, among the activities promoted under the MIFC are the origination, distribution and trading of ICM and treasury instruments as well as Islamic fund and wealth management. Products and services under the MIFC can be in any currency and can be offered to both residents and non-residents.

3. These flexibilities offered under the MIFC can be used by industry to extend their reach to other financial centres through cross border linkages and strategic alliances which are crucial in building a thriving MIFC.

Islamic Fund Management

4. One aspect of the Islamic capital market that offers vast opportunities for intermediaries is fund management. Figures quoted on the size of global Islamic funds vary from one source to another. However, there is general consensus that the amount is huge; it is growing very fast and looking for viable investment products and destinations. It is also true that these huge amounts are being targeted and wooed by many financial centres around the globe.

5. The SC with the support of the Government has introduced several measures to catalyse the development of the fund management industry.

Global and regional fund managers can set up operations in Malaysia, and are given the flexibility to source funds from within and outside the country. This is intended to enhance the diversity of the fund management business and to facilitate the entry of foreign fund management expertise including foreign Islamic fund management companies.

As announced in Budget 2007, local and foreign fund managers managing foreign funds in accordance with Shariah principles will be granted income tax exemption on the management fees earned. It is hoped that with this tax incentive, fund managers in Malaysia will intensify efforts to attract more foreign funds to be managed out of Malaysia.

6. Islamic REITs is another asset class which has gained acceptance among global Islamic investors. Guidelines for Islamic REITs have been introduced to facilitate the development of this sector, and tax incentives for REITs have been announced. The REITs Guidelines have also been liberalised to allow the acquisition of foreign assets to enable REITs managers to diversify their asset allocation and enhance investment yield. These measures are intended to put Malaysia in the forefront, especially in the Islamic REITs markets.

Origination, distribution and trading of Islamic financial products

7. The origination and distribution of Islamic financial products is another key area of focus of the MIFC. Malaysia's acknowledged leadership position in the global sukuk market can certainly be harnessed by industry to grow the business of origination, not just for Malaysians but also for foreign issuers.

8. In this context, it is encouraging to note that several foreign sukuk issues have been advised and arranged by Malaysian financial institutions. These efforts if more aggressively pursued will no doubt entrench Malaysia's leadership in the global Islamic financial market and broaden the business horizon for Malaysian intermediaries.

9. The Governor has announced that non-Ringgit sukuk will be allowed to be issued in Malaysia. In this regard, the SC is working on a facilitative framework for the issuance of foreign currency denominated sukuks by multilateral development banks, multilateral financial institutions, sovereigns and quasi sovereigns as well as local or foreign multinational corporations. A non-Ringgit sukuk issued by any of these entities, which is rated at least single A will be deemed to be approved under a new Practice Note soon to be released pursuant to the Islamic Securities Guidelines. The sukuks approved under this framework may be offered offshore, and to sophisticated investors onshore. Additionally, the new liberalised framework will allow the use of international documentation, based on the laws of England or the United States. Credit ratings by international credit rating agencies will also be acceptable. These flexibilities will introduce international standards and practices as benchmarks in the sukuk issuance process, while saving costs for international issuers.

10. The recent incentive in the form of tax exemption on income received by Malaysian financial institutions from their overseas branches and subsidiaries should provide the impetus for Malaysian intermediaries to market their expertise in the structuring of Islamic products by having a presence in appropriate foreign markets. Similarly the extension of tax incentives for expenses incurred in issuing Islamic securities based on musharakah, mudharabah, ijarah and istisna' should be impetus for the increased issuance of sukuks based on these internationally accepted structures.

11. As most of you are aware, the SC is working on a new Capital Market Services Act which will consolidate the present securities and futures laws into a single Act. The proposed legislation will give due recognition to the important role that Islamic banks play in the development of the Islamic capital market. Hence to allow more intermediaries to participate in the origination of ICM products, the proposed legislation will recognise, as registered entities, Islamic banks licenced by Bank Negara Malaysia. This will enable them to broaden the scope of their activities and to carry out additional Islamic capital market activities such as fund management, IPO submission and private placement, without further need for licencing by the SC.

12. While origination is important, it must be supported by appropriate and effective distribution and trading infrastructures. In this regard, tax incentives announced in Budget 2007 which allow deduction on expenses incurred in setting up Islamic stockbroking businesses should provide further impetus to stockbroking companies to distribute ICM products.

Exploring other Islamic financing and investment opportunities

13. Finally, we must continuously explore new Shariah compliant financing and investment avenues. The success of the Malaysian Islamic capital market has been largely due to the pioneering spirit of the industry, the intensive efforts to explore new financing and investment opportunities and to keep pushing the boundaries in terms of product innovation. Doubtless these must continue with even greater vigour and urgency under the MIFC.

14. Venture capital is an area that can benefit from enhanced focus given the consistence of its structure with the concept of Musharakah, making it an appropriate Islamic financing and investment option.

15. To promote the venture capital industry, the Government has set up the Malaysian Venture Capital Development Council which provides strategic direction and coordinate the implementation of policies to develop the industry. The Government has announced the allocation of RM1.6 billion under the 9MP to the venture capital industry. To accelerate the development of this industry, the Government has also allowed a venture capital company investing at least 50% of its fund in the form of seed capital, tax exemption for ten years.

16. Despite these efforts, the Islamic venture capital industry is still very small. Market intermediaries should therefore take advantage of the incentives provided to grow this industry segment and to attract more global Islamic funds into Malaysia.

Conclusion

17. MIFC is a national agenda and various building blocks are already in place including facilitative legal, regulatory and tax frameworks. But these alone cannot create an international financial centre. Other conditions must be satisfied. Malaysian intermediaries must be willing to venture abroad and we must welcome foreign intermediaries to our shores. At the end of the day, it has to be recognised that liberalisation of the intermediation services is crucial, indeed inevitable, if Malaysia is to quickly seize the opportunities offered in the area of Islamic financial services and to maintain its pole position.

18. Another crucial building block for the success of the MIFC is the willingness of intermediaries to invest in human capital. The importance of ensuring the availability of appropriate talent cannot be over-emphasised. The Government through the MIFC EXCO is determined to ensure that any difficulties faced by intermediaries in acquiring talent is minimised, if not eliminated. It must be recognised that in order to tap the global market you need global talent; hence the need to invest in such talent. As some of you have demonstrated, with appropriate investment in human capital, local intermediaries can effectively compete internationally.

19. I look forward to your feedback on how together we can work towards the realisation of the MIFC agenda.

Thank you.

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