

Keynote Address by

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**The Malaysian Islamic Capital Market -
Roadmap and Strategies Going Forward**

Session Chair, Panel members, distinguished guests, ladies and gentlemen,

1. No single sector within Malaysia's capital market, has, within a short span of time, received as much attention, commitment, resources and facilitation from the government and the regulators, as the Islamic capital market. And these, I am pleased to add, have been received with unanimous and resounding reciprocity from the market.
2. It is therefore not surprising that the Islamic capital market in Malaysia has emerged as a significant area of growth. Today, it has the full complement of products, infrastructure, institutions, intermediaries and investors, thus contributing to the development and deepening of the entire capital market. Islamic capital market products and services are now an integral component of the Malaysian capital market, offering viable and competitive financing and investment tools as alternatives to conventional products and services.
3. The growth of the sukuk market, for instance, has been particularly impressive. Last year, over 55% of all bonds approved by the SC were sukuk – with total value of RM42 billion. In fact, it has been independently recognized that Malaysia originates over two-thirds of the world's sukuk issues. Increasingly, these involve innovative structures using internationally accepted principles such as Musyarakah, Mudharabah and Ijarah.
4. In the equity market, 86% of all securities listed on Bursa are classified as Shariah compliant. This amounts to about RM591 billion or 64% of the total market capitalization of Bursa. Last year also saw the listing of an Islamic REITS on Bursa – a world first. On the demand side, we have also seen remarkable growth in the Islamic unit trust industry. We now have 100 Islamic unit trust funds with total NAV amounting to RM9.2 billion, representing 7.6% of the total NAV of our unit trust industry.
5. In our developmental efforts, we take great care in ensuring that the products and services offered cater to the needs and risk reward profile of all investors and issuers. This strategy of mainstreaming the Islamic capital market has worked very well because an Islamic capital market thrives best within an overall strong, deep and efficient capital market.
6. Indeed the Malaysian capital market has experienced considerable growth over the years. The capital market is now 2.4 times nominal GDP.
7. Adding the equity and bond markets together, the size of the Malaysian capital market as at end of 2006 was RM1.3 trillion, expanding by 17% or by RM190.1 billion, year-on-year.
8. The Malaysian Islamic capital market has over the past few years propelled into its next phase of development. The focus of our efforts whether as policy makers, regulators or

intermediaries, has moved beyond meeting Domestic Demands, to leveraging on the strengths that we have developed in the early years and seizing the opportunities offered in the global market place. Simply put, this phase is about Going Global.

9. The strategy of taking our Islamic capital market global is not something we thought of yesterday.

10. In fact the Capital Market Masterplan, which was launched in 2001, provides a strategic blueprint for developing an internationally competitive Islamic capital market for Malaysia that is well-positioned to meet the increasing challenges of international competition and financial globalization.

11. The Masterplan identified as one of 6 strategic objectives, the establishment of Malaysia as an international Islamic capital market. We have now entered the third and final phase in the implementation of the Masterplan and I am proud to say that a significant number of recommendations on the Islamic capital market have been completed.

12. The introduction of the Islamic Securities Guidelines, which effectively addressed legal and regulatory impediments to the development of the sukuk market, the Guidelines on Islamic REITS, the promotion of the use of Musyarakah, Mudharabah and Ijarah structures have all been vigorously pursued, consistent with the recommendations of the CMP. The fact that the market has responded positively to these efforts by quickly bringing new products to the market, whether in the form of Global sukuk and other innovative sukuk structures and Islamic REITs, is testimony to the fact that the recommendations of the CMP, though ambitious, are achievable.

13. Going forward, it is our intention in the final phase of the Masterplan, to remove remaining inefficiencies and rigidities to enhance the efficiency of the capital market intermediation process.

14. The vision of taking the Islamic capital market global is reaffirmed by the Government in the 9th Malaysia Plan through recommendations to make Malaysia a global hub for Islamic capital market products and services. The 9th Malaysia Plan has therefore extended the Islamic capital market agenda beyond the CMP. Of course the Malaysia International Islamic Financial Centre (MIFC) agenda which was launched last year, represents the confluence of the vision and strategies and all policy and regulatory initiatives with respect to taking the entire Islamic financial services forward.

15. There is vast potential in the global Islamic capital market, with deposits in Islamic banks estimated to be in excess of USD560 billion, and growing at between 10 to 20% annually. There are presently more than 350 Islamic equity funds with assets exceeding US\$300 billion operating in major financial centres around the world. The availability of such a large amount of Islamic funds internationally is a clear indication of the potential of the Islamic capital market.

16. But Going Global is not just about setting our sights on the tremendous opportunities that are available in the market place. To effectively tap the global market we - government, regulators and most critically, our intermediaries - must be ready, able and willing, to do things differently. Policies, strategies and business models that had worked well in the initial phase of meeting Domestic Demand would need to be assayed and then refined, reconfigured or replaced as appropriate. In this current phase of development doing more of the same cannot take us very far up the curve.

17. There is therefore a lot that we need to do differently.

18. First, we have to move from policy-driven to market driven initiatives. Hitherto, the Government and the regulators have been at the forefront of efforts to develop the Islamic capital market – articulating the vision, putting in place the necessary building blocks, removing the impediments and providing the incentives. In fact the Government as well as the GLCs, have as issuers, also been pushing the frontiers of innovation in the sukuk market. These efforts have been critical to the success of our ICM and doubtless will continue to be pursued.

19. However in taking the Islamic capital market to its next phase, the role of the private sector becomes more critical. We expect higher levels of investment 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. The government and regulator will continue to play their role as catalyst and facilitator. Product innovation, ensuring global compatibility and acceptance, branding and promotion must, however, be pursued by the private sector.

20. Second, Going Global means abiding by the norms and rules of the global market place. It must be recognised that while the global market offers infinite opportunities, it also demands that our products, services and practices are benchmarked internationally. To be a significant player in the increasingly crowded global marketplace, we must be on par with the best in class. The presence of foreign intermediaries in Malaysia, the pursuit of international alliances, the opening of offices abroad and the structuring and offering of products for the international market by local intermediaries will ensure that Malaysian intermediaries can extend their reach and influence to regional and international markets.

21. Strategic alliances with leading global players as well as direct participation in key foreign markets must be pursued.

22. Yet another aspect of Going Global is the ability of our intermediaries and institutions to not only swiftly respond to changing market demands but also to anticipate and lead the change. By way of example, the origination and distribution of Islamic financial products is a key area of focus of the MIFC. Products and services under the MIFC can be in any currency and can be offered to both residents and non-residents. These flexibilities, coupled with Malaysia's acknowledged leadership in the global sukuk market must be swiftly capitalised by industry to extend their reach to foreign issuers and investors.

23. These efforts if more aggressively pursued will no doubt entrench Malaysia's leadership in the global Islamic financial market and broaden the opportunities for both intermediaries and investors.

24. We are capitalising on our strengths experiences and track record to propel our Islamic Capital market to its next phase of development. The opportunities are tremendous and there is potential reward for all.

Thank you