

**Launch Of FTSE-Bursa Malaysia Hijrah Shariah Index  
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Kuala Lumpur**

**Keynote Address by  
Mr Ranjit Ajit Singh  
Senior Executive Director, Securities Commission**

YABhg Tun Mohamed Dzaiddin Hj Abdullah, Chairman, Bursa Malaysia Berhad  
Ms Fran Thompson, Director of FTSE  
Ladies and gentlemen,  
Good morning

I would like to thank Bursa Malaysia for inviting the Securities Commission to make a few remarks at this occasion marking the launch of the FTSE-Bursa Malaysia Hijrah Shari'ah Index. The launch of the country's first Shari'ah tradeable index is indeed another significant milestone in key initiatives to enhance the attractiveness of Malaysia's Islamic capital market to domestic and global investors and I would like congratulate Bursa Malaysia and FTSE for adding this product to the Malaysian capital market landscape.

This launch is particularly commendable given that it is within a short space of time that another product is being added to the Islamic index range following on from the successful launch of the FTSE-Bursa Malaysia Emas Shari'ah benchmark Index in January this year.

**Bursa Malaysia and FTSE collaboration – an important aspect of enhancing global brand recognition**

The collaboration between Bursa Malaysia and global index providers such as FTSE are an important step in efforts to enhance the overall recognition and branding of the Malaysian capital market internationally.

This index now follows on from the other indices that Bursa and FTSE have launched in the conventional and Islamic market space here. This adds the well established FTSE brand to the increasingly recognized role that Bursa Malaysia has internationally, and within the region. Equally important is the introduction of best practices in index construction that this collaboration brings to the market. The FTSE methodology involves adjustments based on free float levels and liquidity filters that are now well accepted by investors globally.

In addition, the FTSE Bursa Malaysia Hijrah Shari'ah Index, by being subject to a rigorous screening process with Shari'ah screening by the Shari'ah Advisory Council of SC as well as Yassar Research, [a global Shari'ah consultancy that offer financial institutional clients with Shari'ah compliance services] will contribute to increasing product reach to more markets.

**Islamic products as driver of growth and component of value proposition**

From the context of Islamic Finance, this initiative has further significance because the Islamic capital market is important to Malaysia as it is now a significant segment of the overall market that is able to act as a driver of growth as well as feature as a leading component of the international value proposition of Malaysia's capital market.

The Malaysian capital market today stands at around RM 1.6 trillion with an equity market that has a market capitalization of RM 1.1 trillion and a bond market that is among the largest in the region on a GDP adjusted basis with outstanding value close to RM 500 billion. Within this the Islamic component features strongly.

In the equity market, 85% of listed stocks on Bursa are classified as Shariah compliant. It is therefore critical to focus efforts on unlocking value from the RM600 billion of Shari'ah stocks or 64% of the total market capitalization of Bursa, through building an additional layer of specialized products - such as the FTSE-Bursa Malaysia Hijrah Shari'ah Index – that provides an additional channel of investing in these assets.

The launch of this new index will create further opportunities for investors seeking Shari'ah compliant investments to benchmark their investments, and for asset managers to create new products serving the investment community. It is hoped that the FTSE tradeable indices will create opportunities for capital market intermediaries to work with Bursa to package a broad range of attractive products to enhance the choice of investments in the Malaysian capital market – examples being exchange traded funds (ETFs) and structured products. I am pleased to note that Bursa will be having a conference on ETFs with industry players that should lead to a better understanding of ETFs and new ETFs including based on the FTSE-Bursa Malaysia Islamic Hijrah index.

The SC believes that rapid and continued product innovation in the Malaysian capital market is critical to widening the range of attractive asset classes. This will allow an opportunity to capitalize on the pent-up demand for Islamic products among local and global investors. This we believe will also contribute to greater liquidity and enhance the overall vibrancy of the Malaysian capital market.

### **Continued innovation to strengthen international positioning of Malaysia's ICM**

The success of the Malaysian Islamic capital market has been largely due to the pioneering spirit and successful partnership between the government, regulators and industry players. We are always encouraged and inspired by the intensive collective efforts to explore new financing and investment opportunities and by how the Malaysian Islamic capital market community have been able to operate at the boundaries in terms of product innovation.

In this regard, Malaysia has earned its reputation as one of the leading global centers for Islamic finance and product innovation – with a wide range of sophisticated Shari'ah-compliant products underpinned by a comprehensive regulatory infrastructure. The FTSE Bursa Malaysia Hijrah Shari'ah Index will certainly help to augment Malaysia's reputation for being forward-looking and innovative in ICM.

### **Developing opportunities for cross-border offerings**

It is critical that to accommodate trends leading to increasing internationalization of Islamic Capital Market and leverage on the leadership role that Malaysia has had in Islamic Finance, further efforts are put in to ensure that Malaysia is at the forefront of developing Islamic products that will appeal and are offered to a broader range of international markets.

Indeed, the development of products with broader international appeal complements the SC's overall strategy to expand its linkages with other major Islamic capital markets. One such initiative that was recently launched is the mutual recognition agreement between the Securities Commission and the Dubai Financial Services Authority (DFSA). This arrangement - the first cross-border agreement between two Islamic markets – allows a gateway to be established for Malaysian capital market players to offer shariah compliant Islamic products into the Middle East market and vice-versa.

Through this agreement, Malaysian Islamic funds that have been approved by the SC will be able to be marketed and distributed in the Dubai IFC with minimal regulatory intervention. At the same time, Islamic Funds that have been registered or notified with the DFSA will be allowed to be distributed in Malaysia. This mutual recognition agreement

is expected to lead to lower regulatory costs for market participants and allow access to an enlarged investor base. Importantly, through a shariah disclosure statement Malaysian Islamic funds will now be able to be offered to a significant investor pool thus alleviating the concern of shariah differences as a barrier to entry into the Middle Eastern markets.

The SC is pleased to see the interest that this has already generated in the market. Last week, a group of investment managers accompanied a senior SC delegation to Dubai for a country showcase to highlight investment opportunities and prospects in Malaysia as well as to examine further opportunities arising from the mutual recognition agreement between SC and DFSA.

The FTSE-Bursa Malaysia Hijrah Shari'ah Islamic index will we hope lead to further Islamic funds that can be marketed and distributed through this mutual recognition arrangement. At the moment there are 102 Shari'ah based funds representing around 7 per cent of the total unit trust industry. We hope that this will continue to grow on the back of these initiatives as well as others that are being worked on in the pipeline.

## **Conclusion**

Ladies and gentlemen,

In conclusion, let me just say that the potential growth in the Shari'ah-compliant global market is enormous and there is a need for greater effort to be put-in to unlock the potential investment opportunities in the cross-border business.

In this regard, I would like to once again congratulate Bursa and FTSE on their successful partnership in product innovation and shaping a family of Shari'ah-based indices based on international standards. The FTSE-Bursa Malaysia Hijrah Shari'ah Index will certainly provide global Islamic investors with an attractive benchmark for the Malaysian stockmarket and offer capital market intermediaries opportunities for creating additional investment products.

Thank you.