

Welcome Remarks
by
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Chairman, Securities Commission
at the
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Islamic Finance, Venture Capital and the Growth of New Industries

السلام عليكم ورحمة الله وبركاته

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Professor Dr. Murat Cizaka, of Bahcesehir University , Turkey

Honored Guests, Distinguished Scholars and Panelists

Ladies and Gentleman,

1. It is an honor and pleasure for me to welcome you to the SC and to INCEIF's Second Intellectual Discourse Series.

2. The topic of today's discussion, "*Islamic Finance, Venture Capital and the Growth of New Industries*" is indeed both timely and apt as it sees the convergence of two major areas encouraged by the Malaysian government.

3. The first, is Malaysia 's commitment to developing Islamic finance, as is embodied in positioning Malaysia as an International Islamic Financial Centre (MIFC). Under the MIFC initiative, Malaysia aims to be the centre for Islamic banking, takaful and capital market products and services, as well as a centre for Islamic finance education, training, consultancy and research.

4. The second, is the government's commitment to developing the Malaysian venture capital industry to fund strategic areas and sectors, such as ICT and bio-technology. The measure of the government's commitment to this area as a driver for growth of new sectors is evident in the RM1.6 billion allocation to venture capital under the 9th Malaysian Plan, a hefty two-fold increase from the previous plan, and the various tax incentives that have been introduced to encourage funding at seed, start-up and early stages. Another significant measure was the introduction of joint investment programs to encourage participation from the private sector. Other supporting infrastructure includes the government's support of techno-preneurs through incubation programmes and training centres, as well as a fully functioning exit mechanism in the form of MESDAQ, a high growth board on the Stock Exchange. Most significantly, was the government's establishment of the Malaysian Venture Capital Development Council (MVCDC), comprising leading policy-makers and VC practitioners, to centrally coordinate the development and promotion of the VC industry.

5. The SC is indeed proud to be a part of both initiatives. The Malaysian Islamic Capital Market has been recognised as pioneers in Islamic product innovation - our leadership in

the global sukuk and Islamic bond market, the fact that 86 per cent of the securities listed on Bursa Malaysia are Shariah-compliant as well as the world's first Islamic REITS framework, are just a few of our notable achievements. On the VC front, the SC chairs the MVCDC which is looking at developing strategies and initiatives to drive the Malaysian VC industry forward.

6. Coincidentally, one of the strategies being considered by MVCDC in internationalizing our VC industry, is through leveraging on Malaysia 's strength in Islamic finance and capital market, in order to create a competitive advantage through the development of an Islamic VC industry.

7. Why Islamic VC? Increasingly large amounts of VC funds are moving towards Asia . According to *The Economist* , over the next five years private equity and VC funds plan to increase their commitments to emerging markets. Asia (excluding Japan , Australia and New Zealand) is expected to be the prime beneficiary since it attracts 70 per cent of private equity and VC investments in emerging markets.

8. The question therefore, is how can Malaysia distinguish itself in the emerging market VC pool? Our belief is that Islamic VC provides that distinguishing factor.

Islamic finance and venture capital concepts are complementary

9. According to most scholars, Islamic finance should emphasize partnership and risk-sharing while shunning the use of interest-bearing instruments such as loans. Venture capital offers Islamic investors the opportunity to increase returns, while diversifying their portfolios. Furthermore venture capital is fundamentally consistent with core Islamic economic principles of active partnerships and risk taking. Key features such as the relationship between general partners, distribution of profits and dealing with defaulting limited partners are all areas that can be structured in accordance with Shariah principles in order to appeal to both Islamic and conventional investors.

10. Ultimately, the development of Islamic venture capital will serve as a valuable asset class for the Islamic finance industry. Currently most Islamic funds are tied to short-term instruments such as Murabahah transactions, or are invested in the public markets and real estate. The introduction of long term investments like Islamic bonds and venture capital will provide greater opportunities for portfolio diversification and matching of investor needs.

Malaysia 's strong Islamic financial infrastructure and human capital

11. Malaysia 's strengths lie in our established Islamic finance regulatory framework which is capable of accommodating a variety of Islamic structures as well as offering favorable tax treatment. In addition, our Shariah scholars are among the world's leading experts in Islamic law on financial transactions.

Ladies and gentlemen

12. Given Malaysia 's position as a leader in Islamic finance, I believe we can indeed play a significant role in developing the Islamic venture capital industry, a vital element in the Islamic value chain of corporate finance that will serve to increase the breadth and variety of Malaysia 's Islamic capital market offerings.

13. I certainly look forward to the discussions today to further enhance our understanding of this convergence of Islamic finance with venture capital. I am certain it will lead to insights on how best to craft an Islamic VC offering that will be an attractive asset class to both Muslim and non-Muslim investors alike and to see us gaining leadership in Islamic VC, as we have seen in other Islamic asset classes.

With that, I wish all of you a successful and productive discourse.

Thank you.

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