

**MIF 2007 - Issuers & Investors Forum
Malaysia as an attractive ICM investment destination
Keynote Address**

by

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Introduction

1. Let me start by summing up the value proposition for Malaysia as an attractive Islamic Capital market (ICM) investment destination. Malaysia's Islamic capital market continues to show exciting and vibrant growth as can be seen from the ever-increasing size and diversity of products offered. This is attributable to numerous factors – including well-executed policies, a facilitative regulatory environment, increasing numbers and sophistication of intermediaries that continue to push the frontiers in terms of product innovation as well as the existence of a complete, matured and well established Islamic financial system. As an investment destination, we offer diversity of investment opportunities with considerable market depth and breadth in a facilitative and internationally benchmarked regulatory environment.

2. Indeed Malaysia can now rightfully claim to have one of the most innovative and comprehensive Islamic capital markets in the world. Many 'world-firsts' Islamic products have been issued out of Malaysia such as the world's first sovereign global sukuk, world's first listed REITs and world's first rated Islamic residential mortgage-backed securities. We have a diversified range of products and services with significant size and scale. In the equity market, 86% of all securities listed on Bursa are classified as Shariah compliant. This amounts to about RM685 billion or 65% of the total market capitalization of Bursa. On the demand side, we have also seen remarkable growth in the Islamic unit trust industry. We now have 102 Islamic unit trust funds with total NAV amounting to RM9.6 billion, representing 7.2% of the total NAV of our unit trust industry. This represents 38% of net asset value of the global Islamic unit trust industry.

3. Similarly, our sukuk market has experienced unprecedented growth. In 2006, over 55% of all bonds approved by the SC were sukuk – with a total value of RM42 billion. In the first half of 2007, the SC approved a total of 19 sukuk valued at RM10 billion. Furthermore according to latest report as at end-June 2007, the global sukuk is valued at US\$57 billion with Malaysia originating over US\$32 billion or 56% of the world's sukuk issues.

Facilitative regulatory environment with strong investor protection

4. It is by now a well-known fact that in order to facilitate product innovation and development in the Islamic capital market, Malaysia established a Shariah Advisory Council at the Securities Commission soon after SC's own establishment in 1993. This was the single most important catalyst for the development of Islamic capital market products and services in Malaysia. Not only is the SAC able to respond to inquiries and proposals from the industry, often times, the SAC is also able to make pronouncements to encourage innovation from industry. The guidelines issued by the SC such as those on Islamic unit trusts, Islamic REITs and Islamic Securities, always attract considerable interest from across the globe. This speaks volumes of the pioneering work of the SAC. The Resolutions of the SAC have been published twice, in 2002 and in 2006 for the second edition. This has been translated in the local language in several jurisdictions.

5. While great care is taken to ensure that Shariah-compliant products are true-to-label, Malaysia ensures there is no compromise in terms of ensuring consistently high standards of investor protection and market integrity. All provisions of the law such as those relating to disclosure, market integrity and investor protection, apply equally to Islamic products as they do to conventional products. Where additional or different requirements are necessary, the SC has introduced appropriate additional guidelines. These can be seen in the form of Guidelines for Islamic Securities, Guidelines for Islamic REITs, Guidelines for Islamic Unit Trust Funds, as well as Guidelines for Structured Products.

6. Furthermore, to ensure that product originators and fund managers are able to tap their own Shariah expertise, we introduced a system for the registration of Shariah Advisers for unit trusts funds and for Islamic securities. To ensure that the market can tap from the best available Shariah expertise, our Guidelines allow the registration of local as well as foreign advisers. To date we have registered 47 Shariah advisers for unit trust funds and 6 Shariah advisers for Islamic Securities. We currently have 2 foreign scholars registered as Shariah advisers. We expect to see this number growing significantly in the near future.

7. To encourage the structuring of new and innovative products, tax incentives have been introduced for the use of globally accepted Shariah structures. In relation to this, the government has provided tax incentive on expenses incurred on sukuk issuance under the Shariah principles of Musyarakah, Mudharabah, Istisna and Ijarah. The issuance of Islamic securities based on these Shariah principles is expected to draw greater interest from foreign investors particularly from the Middle-East since these principles are more well-known in the international market.

8. Rules that limit or inhibit the market from flourishing have been removed or are being reviewed. For instance, measures allowing non-residents, in particular, multinational companies and multilateral agencies to issue ringgit denominated bonds in Malaysia have led the International Finance Corporation and the World Bank to issue their first ever sukuk in Malaysia. More recently non-ringgit sukuk is allowed to be issued in Malaysia by multilateral development banks, multilateral financial institutions, sovereigns and quasi-sovereigns, as well as by local or foreign multinational corporations. The increasing global interest in Malaysia's liberalised and facilitative environment indicate that Malaysia has the potential to compete for international issuance of sukuk.

9. In parallel with this, we have also taken initiatives to increase the connectivity of Malaysia's ICM to a global Islamic capital market network with the signing of a mutual recognition agreement between the SC and the Dubai Financial Services Authority (DFSA), the first between two Islamic markets, for the cross-border distribution and marketing of Islamic funds between the two Islamic centres. Under the agreement, Islamic funds approved by the SC may be marketed and distributed in the Dubai International Financial Centre (DIFC), with minimal regulatory intervention. At the same time, Islamic funds registered with the DFSA will have access to Malaysian investors. Malaysian capital market intermediaries will benefit from the gateway to distribute their Islamic funds to a fast growing market while Malaysian investors will have access to a range of Islamic funds from the DIFC. Both regulators will work closely in the areas of supervision and enforcement of securities laws to ensure adequate investor protection.

10. To complement the reciprocal liberalisation initiatives, the SC introduced new guidelines to facilitate the offering, marketing and distribution of foreign funds directly into Malaysia which took effect on 1 July 2007. Under these guidelines, funds from or listed in recognised jurisdictions i.e. foreign jurisdictions recognised by the SC can now be offered directly into Malaysia. In addition, the guidelines to distribute funds in Malaysia include provisions on the eligibility, duties and responsibilities of local fund distributors in marketing and distributing the foreign funds to Malaysian investors.

11. Clearly, our Islamic capital market is not only built on a strong and well established Shariah foundation, our products and services are also offered within Malaysia's robust regulatory framework for the capital market - a regulatory framework which is modern and facilitative and is internationally benchmarked. As you may be aware, Malaysia has over the years, successfully put in place all the necessary building blocks of an efficient and well-regulated market place – we have securities laws comparable to the world's best that are continuously being fine-tune and calibrated to ensure efficiency and relevance. We have in place a comprehensive corporate governance framework, an international accounting framework based on IASB, and our securities and settlements systems and regulations conform to International Organisations of Securities Commission (IOSCO) principles. In fact, Malaysia scored top marks for disclosure and transparency of accounting standards in the 2006 World Bank report on the country's observance of standards and codes in corporate governance. Additionally, based on World Bank Doing Business Report 2006, Malaysia ranked sixth in the world in terms of investor protection and third in terms of regulating liability of directors.

12. We have a wide range of enforcement powers that are the envy of many, and we have over the years used such powers to complement our powers of prosecution. As an active member of IOSCO, we have an extensive and strong network with fellow regulators globally. In addition, the SC has recently been accepted as a signatory to the IOSCO multilateral memorandum of understanding (MMOU) on information sharing and enforcement of securities laws. This acknowledgement marks a major milestone in strengthening supervision and enforcement efforts in the capital market and is a recognition of the SC as a credible regulator with strong enforcement capability.

High-quality intermediation services

13. Malaysia also has a broad range of intermediaries to meet the needs of investors and issuers in the Islamic capital market. We have investment banks, local and foreign Islamic banks, brokers and fund managers. The role played by these intermediaries has expanded dramatically in recent years. Intermediaries now engage in a broad range of complex financial transactions and operate in various market segments – banking, insurance and capital markets. They now underwrite complex financial transactions, provide specialized over-the-counter hedging and risk management products, and advise on sophisticated transaction structures.

14. In fact Malaysian intermediaries are also now blazing the ICM trail in other markets by offering their skills and expertise to the global financial community. Numerous awards and recognition have been given to our local intermediaries for their innovativeness in structuring sukuk. On the same note, other institutions, like our credit rating agencies, have the track record and expertise to seize the opportunities by offering their expertise to the global market. This will enhance the role of local players in the international arena.

15. A few Malaysian intermediaries have already taken steps towards strengthening their position by forging strategic alliances with foreign counterparts and venturing into regional markets while at the same time acquiring the necessary skills and expertise in terms of new products and overseas investments. Similarly, a number of Islamic financial institutions from the various GCC countries are already operating in Malaysia. Their presence has significantly changed the landscape of Islamic capital market intermediation in Malaysia. Efforts are currently being intensified to attract more foreign intermediaries to set up in Malaysia.

Continuous Product Innovation

16. The growth of the Islamic capital market can also be attributed to the wide range of Islamic products available in Malaysia. We have witnessed Islamic institutions developing

into originators of a wide range of Islamic products and services. This is a marked development from the early days when the financial institutions merely adapted conventional structures as templates for 'off-the-shelf' Islamic products.

17. The Malaysian sukuk market is a fine example, progressing from the first issue of Islamic bonds in 1990. The product range has now expanded into broad array of innovative instruments using contracts beyond sale and purchase transactions. In recent years, several new contracts based on Musyarakah, Mudharabah and Ijarah were introduced. This change was partly influenced by the desire to distribute the sukuk outside the region and to cater to the different needs of global investors, particularly those from the Middle East.

18. One key factor driving product innovation is that users of Islamic finance are now becoming a lot more sophisticated in their financial requirements. They are becoming more aware of the benefits of diversifying the risk on their balance sheet. The investor base of the Islamic finance world has also become slightly more adventurous too - investors are investing in hedge funds and more complex capital markets products.

19. The Shariah Advisory Council of the SC has therefore been proactive in promoting and facilitating product innovation in the Islamic capital market. For example, the SAC approved the single stock futures (SSF), crude palm oil futures and crude palm kernel oil futures as Shariah-compliant instruments. This widens the universe of Islamic investment possibilities for Shariah-compliant investment and risk management.

20. The recent launch of the tradable indices such as FTSE-Bursa Malaysia Emas Shariah Index and the FTSE-Bursa Malaysia Hijrah Shariah Index will create further opportunities for investors seeking Shariah compliant investments to benchmark their investments, and for asset managers to create new products serving the investment community – examples being exchange traded funds (ETFs) and structured products such as index-linked notes.

21. As a result of the contribution of all stakeholders, there is now a sufficiently wide array of Shariah compliant products in the capital market to fulfil the needs of investors looking for faith-based investing. Hence, investors buying Shariah products in Malaysia can be assured of "end to end" Shariah compliance – something which not many other centres can offer.

Conclusion

22. In the same vein as I started, I wish to conclude by reiterating that Malaysia's ICM offers a strong and attractive value proposition to global investors in terms of the comprehensive infrastructure and the quality, competitiveness and innovativeness of product solutions. The SC views Malaysia's ICM as a high value-added segment that is now firmly well established. We now set our sights on the next phase which is to propel Malaysia's ICM to the global arena through forging stronger alliances and linkages with other Islamic centres. This requires even greater commitment from the private and public sectors working in partnership – to invest in intellectual capacity and capabilities for product origination and distribution. I hope this forum provides opportunities for participants from various countries to explore possibilities for collaboration.

23. On this note, I wish you all a fruitful forum. Thank you