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Presented by	YBhg Dato Dr. Nik Ramlah Nik Mahmood, Managing Director, Securities Commission Malaysia
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Introduction

It is my pleasure to be here to deliver the keynote address at this Islamic Venture Capital & Private Equity Conference 2008 where pertinent issues relating to the development of Islamic finance and the Islamic capital market are discussed and debated. The organisers, Malaysia Venture Capital Association (MVCA) and Islamic Banking Finance (IBFIM) deserve to be congratulated for the foresight and efforts in organising this Conference.

Venture capital brings profound impact to the economy. It bridges the financing gap where direct bank lending or financing through the debt or equity market is difficult to obtain. The unique nature of the venture capital model, which is based on active management leads to improved corporate governance and an overall alignment of stakeholder interests with that of the management. This then creates significant value above and beyond the use of financial engineering. New companies and industries spawned by venture capitalists for example Apple Computer Inc., Federal Express, Google, IBM have irreversibly changed the way we live and work today.

The initial years

The first venture capital company in Malaysia was established in 1984, when the Singapore-based South East Asian Venture Investment (SEAVI) set up Malaysian Ventures with a fund size of approximately RM13.8m. The second venture capital fund (Southern Bank Venture Capital Corporation) was only set up in 1989 a good five years later. After the slow initial years, we are now seeing a reasonably healthy growth in the

industry. As at the end of 2007, we have a total of 98 venture capital companies and venture capital management companies registered with the SC with a total committed funds under management of RM3.3b.

Government's commitment to the industry

The Government's commitment to the venture capital industry can be seen on various fronts and at different stages. In addition to grants available under various Ministries, the Government has also allocated RM1.6 billion for venture capital under the Ninth Malaysia Plan, a hefty two-fold increase from the previous plan.

We also saw the establishment of the Malaysian Venture Capital Development Council (MVCDC) in January 2005 chaired by Chairman of the Securities Commission. The MVCDC is tasked to facilitate the development of the venture capital industry by co-ordinating Government initiatives and incentives toward charting the industry's strategic direction. It also acts as a platform for policymakers and industry players to discuss matters relating to the development of the industry and to channel views and strategies to the government.

In its on-going efforts to create a conducive and attractive environment for the venture capital industry to flourish, the Government has also introduced various tax incentives in addition to liberalizing equity ownership for venture capital corporations and venture capital management corporations. The Government has also established its own venture capital companies such as Malaysia Venture Capital Management (MAVCAP), Malaysian Technology Development Corporation (MTDC) and Kumpulan Modal Perdana (KMP) to name a few to further develop certain strategic sectors of the economy.

Leveraging our strengths in ICM

No other hotbeds in the Asian region can claim have a robust and comprehensive Islamic financial system like Malaysia. Under the Malaysia International Islamic Financial Centre (MIFC) initiative, we aim to be the centre for Islamic finance and capital market as well as a centre for Islamic finance education, training, consultancy and research.

It has been widely acknowledged that Malaysia has made significant strides in the area of Islamic capital market and today we have the full complement of products, infrastructure, intermediaries and investors which have contributed to the development and deepening of the entire capital market. With the rapid expansion and innovation of Islamic capital market products such as sukuk, Islamic unit trust funds, Islamic REITs,

Islamic ETF and Shariah-compliant listed securities, it is now timely for us to encourage and facilitate the growth of Islamic venture capital as another available asset class in Malaysia's broad range of Islamic products. The development of Islamic venture capital will offer the opportunity for Islamic investors to diversify their portfolios. Also, the fact that venture capital does not have perfect correlation with other asset classes such as listed securities allows more opportunity for investors to enhance their portfolio returns.

This brings us to the question of what do we mean by an Islamic venture capital? An Islamic venture capital is similar to a traditional venture capital except that it is structured and managed in accordance with Shariah principles. Venture capital exemplifies the Islamic finance model because at the core of it, investments are made in businesses that offer Shariah compliant products and services and because the investment model is based on long-term active partnership and risk sharing consistent with the Shariah principles of *mudharabah*, *musyarakah* and *wakalah*.

Both Islamic finance and venture capital are areas high in the agenda of the Malaysian government and Islamic venture capital is an area where Malaysia can easily distinguish itself from other venture capital markets in the emerging economies. Internationalisation of the venture capital industry can be undertaken by leveraging on our strengths in Islamic finance and capital market.

Guidelines & Best Practices on Islamic Venture Capital

It has been widely acknowledged that issuance of Shariah-specific rules and guidelines is a significant enabler for the growth of Islamic capital market in Malaysia as it leads to compliance with Shariah principles. Guidelines also provide market participants with clarity and certainty as to what is acceptable and what is not. With standardization, the cost of structuring products and services will be more competitive.

In this regard, I am pleased to announce that the SC will today issue the ***“Guidelines and Best Practices on Islamic Venture Capital”*** which is intended to assist venture capital corporations and venture capital management corporations in carrying out Islamic venture capital businesses or activities. The two fundamental requirements for the establishment of an Islamic Venture Capital are –

- First, the appointment of a Shariah adviser who provides continuous guidance in ensuring that amongst others, the proposed investment contract and instrument structures are Shariah compliant;
- Second, the core activities of the investee company must be Shariah-compliant.

Having set out the core requirements to establish an Islamic venture capital, the SC has also set out Best Practices for the Islamic VCCs or VCMCs. Though these are merely voluntary in nature, it reflects the level of expectations from the SC. I believe that adopting these best practices will not only enhance the standards and profile of Islamic venture capital but will also create greater premium.

As always the SC has worked closely with the industry in coming out with the guidelines. I am therefore confident that the Guidelines and Best Practices on Islamic venture capital, will set a benchmark for the industry in better understanding Islamic venture capital business as well as set an example for other Islamic venture capital in other jurisdictions to follow.

Attracting global funds

Much has been said about how flushed with liquidity the Gulf Cooperation Council (GCC) countries have been over the past several years. The petro-dollar driven liquidity and the relatively under developed capital market in these countries has resulted in a search for investments regionally and overseas. We have seen GCC-based PE firms investing in names like Travelodge, the Doncaster Group and Aston Martin

A report by the Gulf Venture Capital Association (GVCA) indicated that USD7.1b had been raised in private equity funds in 2006, up from USD4.3b in 2005. Total private equity fund sizes have reached USD14b, which is a significant increase over the USD78m in 2001. Early indications show that this growth rate is continuing with funds over USD9b being raised in the first half of 2007.

There are emerging numbers of Islamic VC/PE funds in the Middle East today looking for Shariah compliant investments. There is a need for an efficient intermediation of new found wealth and affluence which will offer tremendous opportunities for markets offering Shariah compliant investments. Given this backdrop, how do we attract these funds? We need to offer a conducive environment, offer attractive deal flows and have Shariah compliance process or procedures in place

Conducive environment and attractive deal flows

It is heartening to know that Malaysia already has a reputation as a favorite destination for foreign investments given our pull factors such as strong economic growth and international trade, IT savvy workforce that is fluent in English, good laws, comparatively low cost of living, infrastructure and banking facilities. Middle Eastern

investors are reported to be making significant investments in companies ranging from construction to airlines to telecommunication as well as into the Iskandar Development Region. This proves that good deals and a conducive business environment will never fail to attract foreign investments.

Shariah compliance procedures

Another important requirement in attracting global funds including GCC funds is by adhering to norms and rules of the global markets. In structuring a transaction for a conventional venture capital, various financial instruments are being used which include, different classes of preferred stock, debt, warrants or hybrid instruments. These instruments allow venture capitalists to allocate risk, establish ownership rights, control management and provide them with incentives. Interpretive issues may arise in relation to the features of some of these instruments. Appointing a Shariah adviser from the point of establishment would be extremely helpful in addressing these matters. The Shariah adviser reinforces Shariah compliance throughout the whole process or value chain - from deal structuring, investing right up to exit and by doing so enhances confidence and attracts greater potential Islamic investors. Of course the existence of a single Shariah Advisory Council for the Islamic capital market at Securities Commission goes a long way in ensuring robust Shariah governance frameworks.

Creating talent for the Industry - product knowledge & management skills

A key indeed a critical success, factor in our efforts to accelerate the growth in Islamic venture capital industry would be human capital. A primary challenge for Malaysia is building a new generation of venture capitalist with the right combination of talent and qualifications and a good understanding of Shariah principles. Talent is needed to take Islamic venture capital to the next level and we hope that the Shariah advisers would work closely with financial experts to create indigenous Shariah products. As had been said before, we should try to innovate rather than imitate and I am confident of our capabilities especially with the increasing presence of international scholars our own growing pool of Shariah scholars, lawyers, accountants and corporate finance experts.

Developing talent and skill for the Islamic capital market is an initiative being actively pursued under the MIFC where Malaysia aims to be a centre for Islamic finance education, training, consultancy and research. In this regard, we saw the establishment of INCEIF, International Centre for Education in Islamic Finance in 2006 tasked to develop Islamic finance professionals and experts to fulfill the human capital needs of a rapidly expanding industry.

Complementing this, the SC has also embarked on an Islamic Capital Market Development Plan with initiatives targeted towards further promoting and developing the Islamic Capital Market. We recently organized the inaugural international Islamic Capital Market Forum themed “Product Innovation – Islamic ETF and Commodity Murabahah” and received very encouraging responses and feedbacks. Other initiatives under the ICM Development Plan include collaborative efforts with World Fatwa Management Research Institute of Universiti Sains Islam Malaysia to issue world-first compilation on Islamic capital market and partnership with Universiti Malaya for a Visiting Scholar Programme. The SC has also established an International Advisory Committee (IAC) comprising prominent Shariah scholars and practitioners to provide strategic guidance and international perspectives for ICM development projects.

Conclusion

Our comprehensive regulatory framework and our excellent track record for product innovations are our strengths in the area of Islamic capital market. Given our competitive edge, I am confident that we can play a significant role in developing the Islamic venture capital industry which is a vital element in the value chain of corporate finance that will serve to increase the breadth and variety of Malaysia’s capital market offering. Leveraging on the achievements and strides of Malaysia’s Islamic capital market, Islamic venture capital is set to grow further.

I can see that the topics covered at this conference are very comprehensive and with the distinguished panel of speakers lined up, I am confident that it will lead to insights as to the key ingredients that can further boost Islamic venture capital into an essential component of Islamic finance, not only in this region but also globally.

It is interesting for me to recently find out that historically, the concept of profit sharing formed the basic feature of trade and shipping. Back in 1485, Queen Isabella of Spain supported Christopher Columbus’ voyage from Europe to India and in return, getting a share in the profits. Similarly, our local history, based on the text of *Undang-undang Laut Melaka* portrays the concept of profit sharing between Malay merchants and captains of ships during the Malay sultanate of Malacca. Based on history, let us also set our sails and start our voyage to the new world of Islamic venture capital.

I wish you a productive and fruitful conference.

Thank You.