

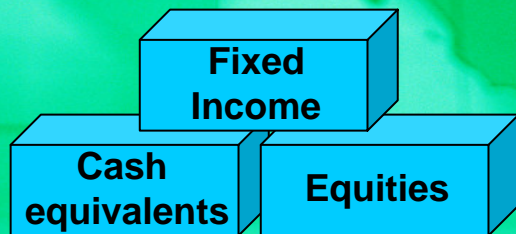
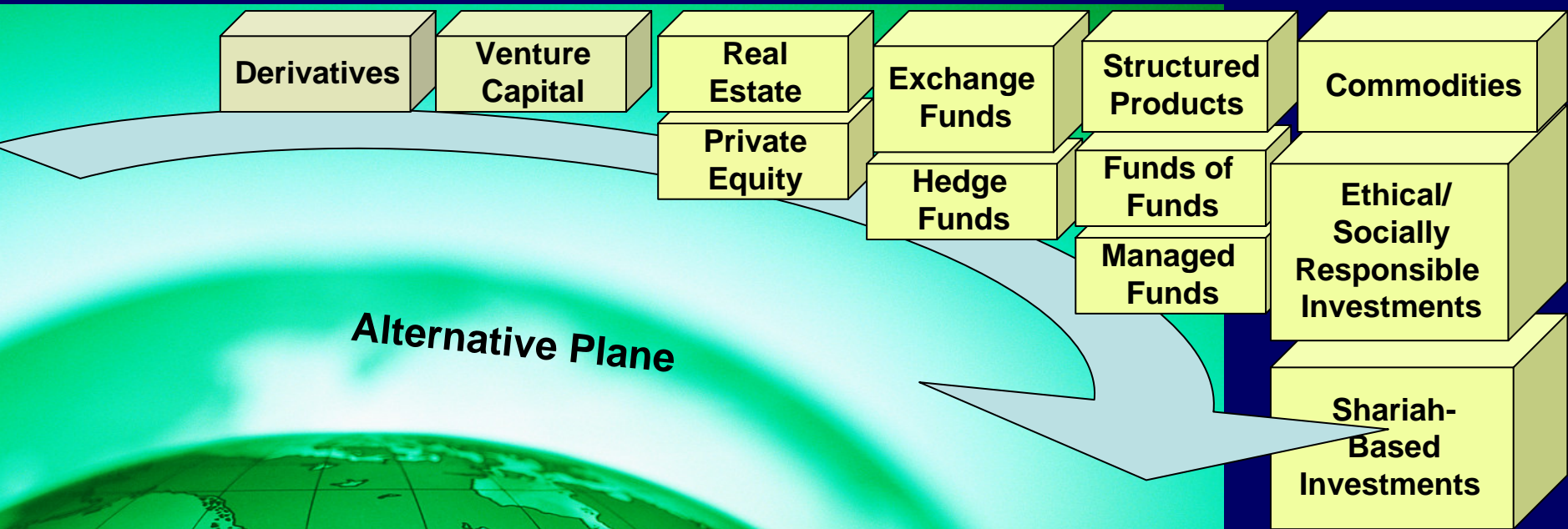


An Overview of the Islamic Capital Market in Malaysia

2008 Islamic Finance News Forum Roadshow, Hong Kong
30 April 2008

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Managing Director
Securities Commission, Malaysia

The Alternative route ... beyond traditional investments



Islamic Domain

The rise & rise...of Ethical Funds/Socially Responsible Investments

- **63.7%** of world's SRI Funds in EUROPE
- **€1.6 trillion** = Europe's SRI @ 2007
- **US\$2.3 trillion** = US' SRI @ 2007
(Forecast 2011 = US\$3 trillion)



- SRI assets increased by 27% to a total of \$65.5 billion (2002-04)
- Jantzi Social Index gained 2.36% (2000-03)

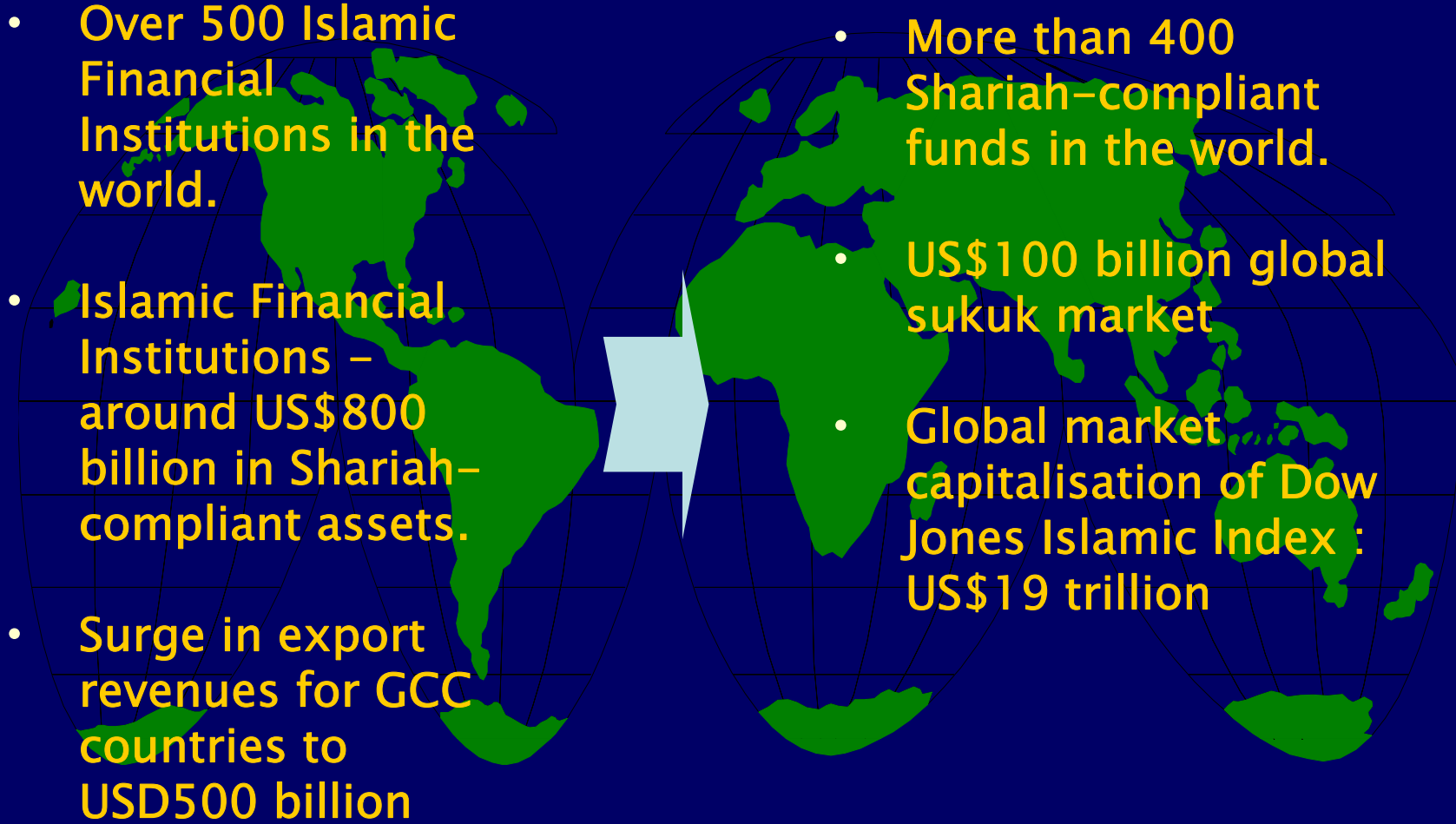


- SRI in US grew by 2.5 times to \$2.29 Trillion (1995-2005)
- Investment assets that employed one or more forms of social screening increased by 7% (2001-03)
- Morningstar reports that AUM of SRIs grew 321% to \$40 billion (2000-05)

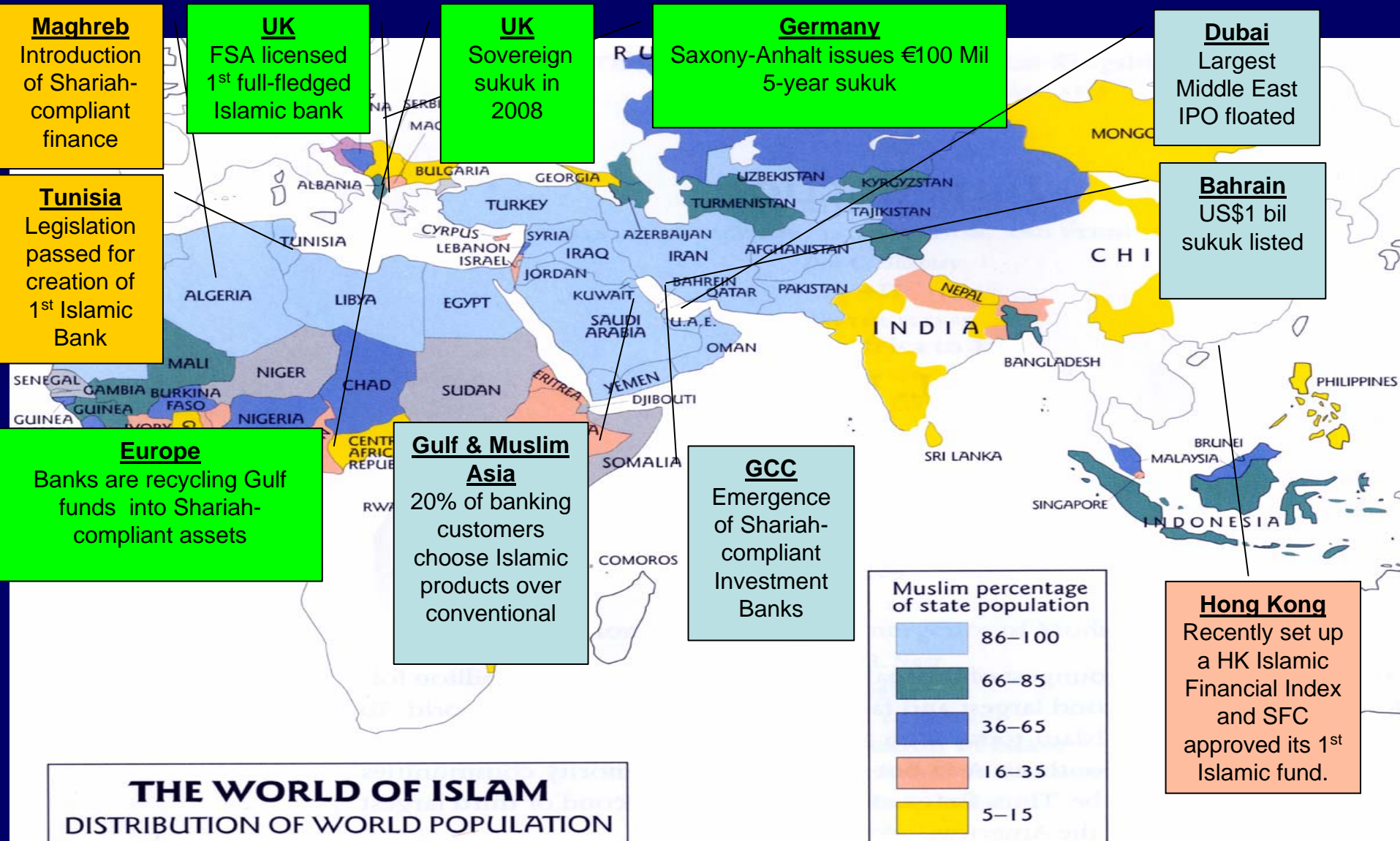


- AUM for Ethical funds hit £8 bil in 2008 (1997; £1.5 bil)

Shariah-based investments – significant growth within the global market...

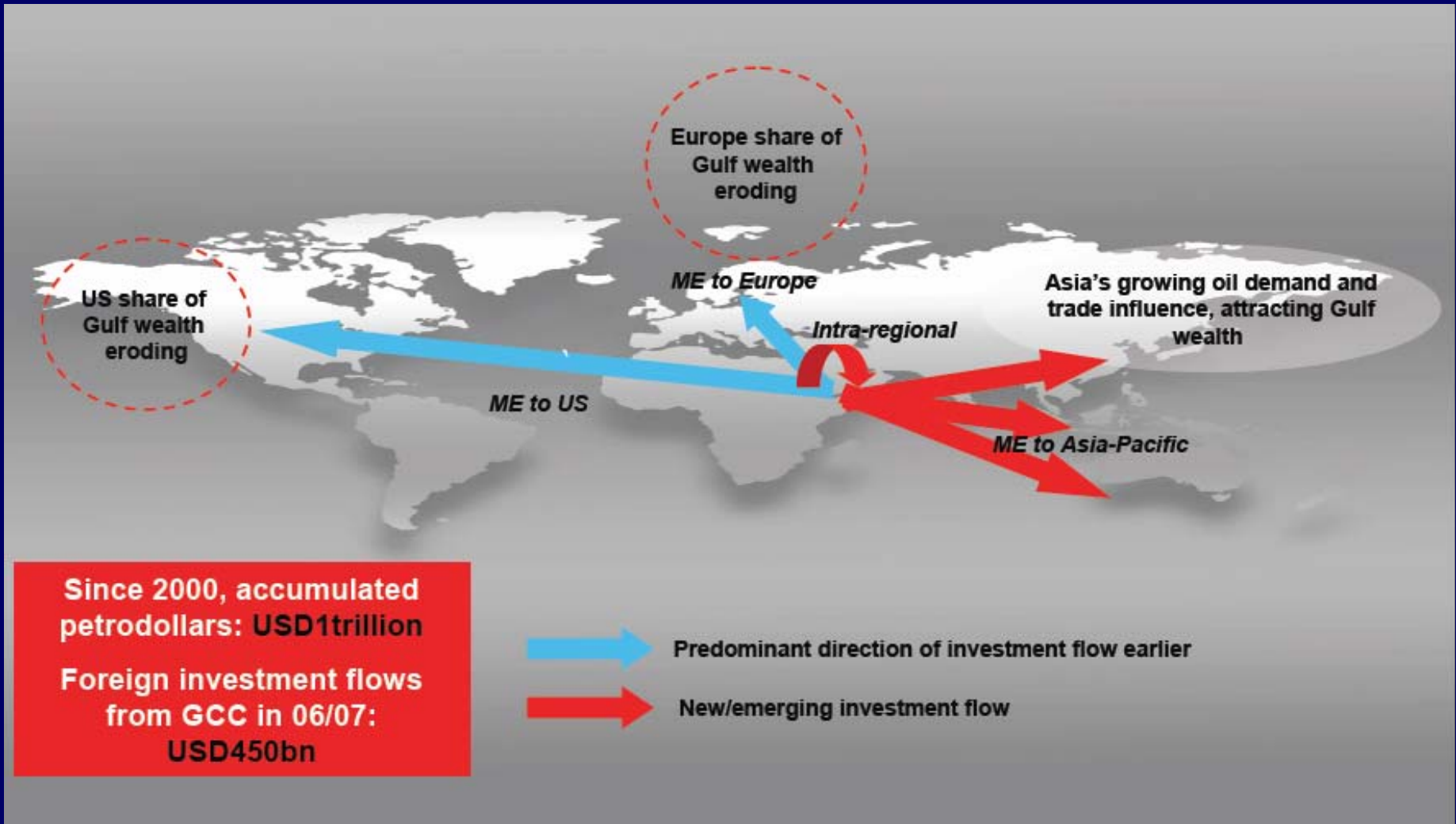
- 
- Over 500 Islamic Financial Institutions in the world.
 - Islamic Financial Institutions – around US\$800 billion in Shariah-compliant assets.
 - Surge in export revenues for GCC countries to USD500 billion
 - More than 400 Shariah-compliant funds in the world.
 - US\$100 billion global sukuk market
 - Global market capitalisation of Dow Jones Islamic Index : US\$19 trillion

Developments around the world...



With total worldwide Shariah-compliant assets closely approaching US\$ 1 trillion and targetted to grow significantly ... the outlook is promising....

Asia-Pacific emerging as major investment destination for Middle Eastern wealth...



Asia's positioning as source & channel of intermediation for Islamic funds...

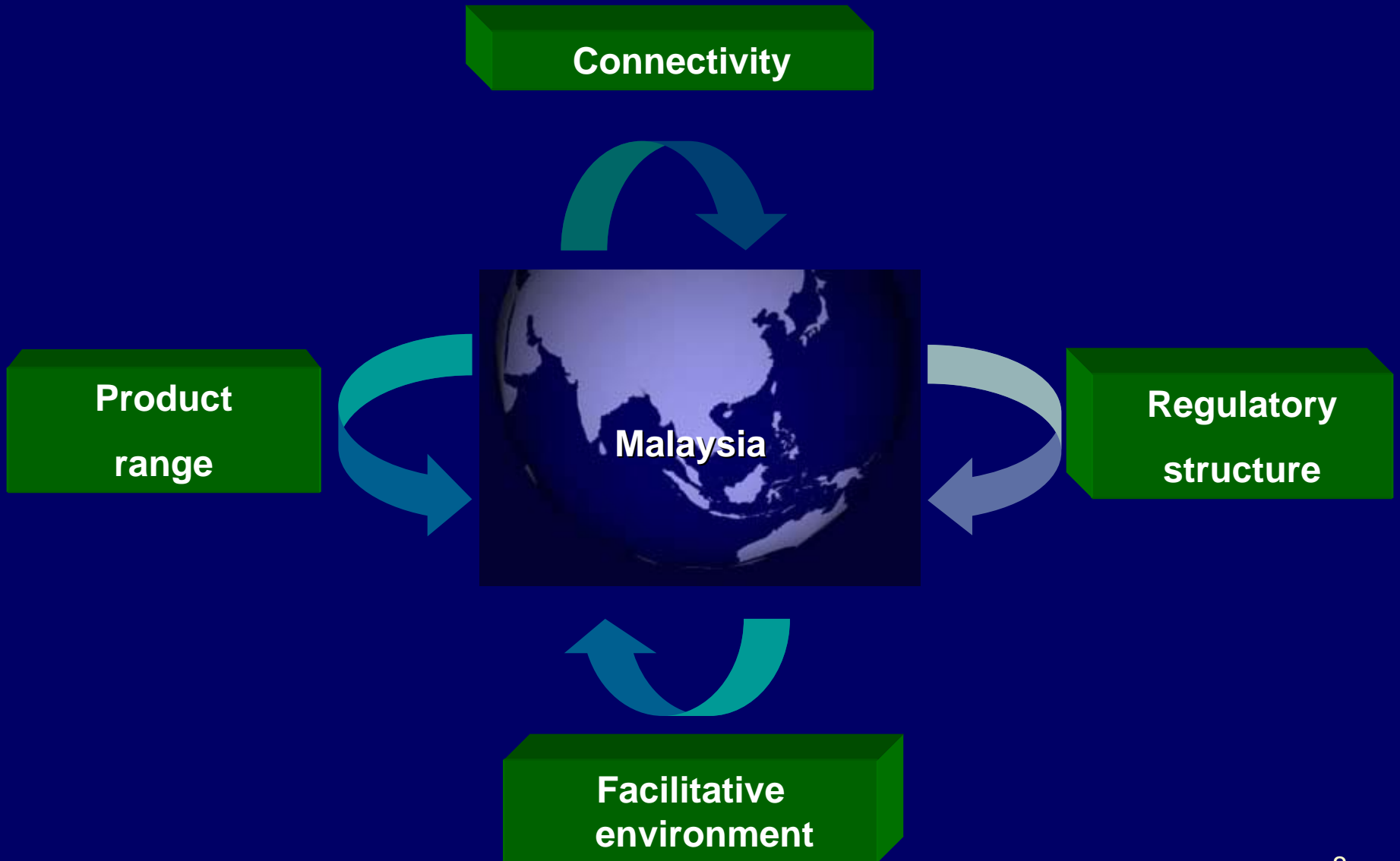
Source & use of funds

- Favorable economic expansion with substantial investment opportunities
- Growing middle class will form new investor base
- Gaining global acceptance as a premium investment destination
- High-savings, growing supply of funds for both Islamic & conventional investment

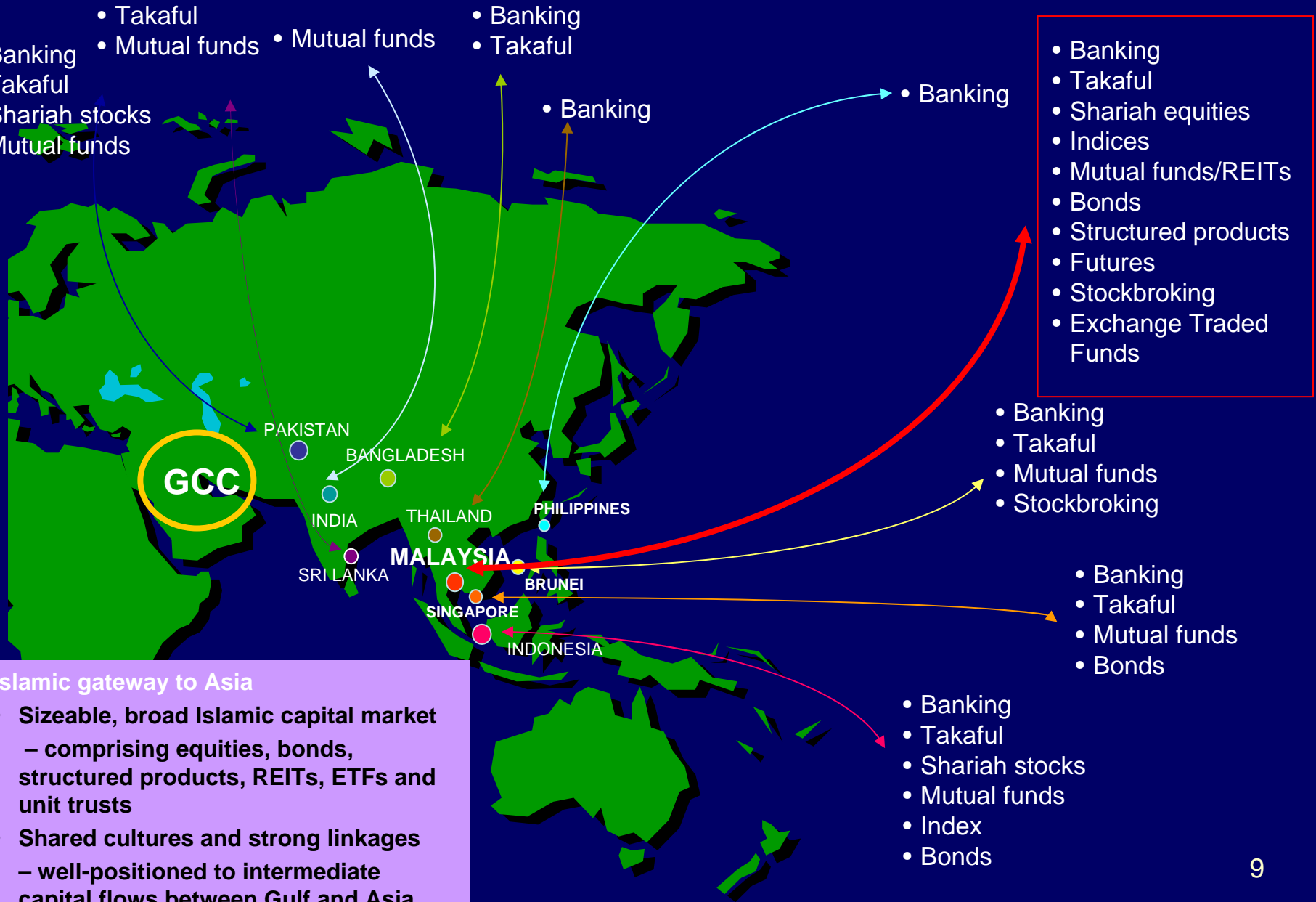
Intermediation channel for Islamic funds

- Diversified & developed financial system, both Islamic & conventional
- Liberalization of financial markets and capital flows in Asia
- Increasing GCC interest in the Asian region driven by geopolitical factors & lucrative investment opportunities
- Strong signaling by Government to promote Islamic Finance

The Malaysian Experience...



Wide Islamic product range & strategic connectivity...



Islamic gateway to Asia

- **Sizeable, broad Islamic capital market** – comprising equities, bonds, structured products, REITs, ETFs and unit trusts
- **Shared cultures and strong linkages** – well-positioned to intermediate capital flows between Gulf and Asia

Sharing Malaysian experience – Critical success factors

- Well articulated government driven policies
- Appropriate Shariah compliance framework
- Efficient and facilitative legal, regulatory and tax framework
- Leveraging on comprehensive infrastructure and institutional set up
- Comprehensive range of Islamic financial products and services

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

- Dato' Zarinah Anwar, SC Chairman (Invest Malaysia 2007)




Robust Islamic Regulatory Infrastructure





Efficient legal, regulatory & compliance framework

- Islamic Fund Management Guidelines
- Islamic Securities Guidelines
- Islamic REITs Guidelines

Shariah Advisory Council within the Securities Commission 

Proactive initiatives to accelerate Islamic finance industry growth

- Capital Market Masterplan (CMP) 
- Malaysia International Islamic Financial Center (MIFC) 

Initiatives to enhance Islamic fund management skill set

- Securities Industry Development Corporation (SIDC)
- International Center for Education in Islamic Finance (INCEIF)

Framework for mutual recognition arrangements

Market-based regulatory approach

- Disclosure rather merit assessment

A two-tier approach in regulating Islamic products

Tier 1

General Regulatory Requirements

applicable to both conventional and Islamic products

Bonds - Trust deed, mandatory rating, eligible persons, etc

Unit Trust - Investment committees, trustees, management company, etc.

REITs - At least 75% investment in real

Tier 2

Shariah - specific requirements

applicable to Islamic products

Sukuk - Additional disclosure for *Musyarakah* *Mudharabah* structures via info memo, Shariah adviser, utilisation of proceeds

Islamic Unit Trust - Shariah adviser to certify that fund complies with Shariah requirement

Islamic REITs - Tenants' activities and rental

Universal principles of securities regulation apply to Islamic capital market products and services

- Islamic capital market products and services must
 - leverage on existing infrastructure
 - not compromise the universal goals of securities regulation
- IOSCO's Objectives and Principles of Securities Regulation applies

- 
- The image shows the IOSCO logo, which consists of a stylized globe with latitude and longitude lines, and the acronym 'IOSCO' in a bold, sans-serif font below it. The logo is overlaid on a white rectangular box that contains the following text:
- ❖ Protection of investors
 - ❖ Ensuring markets are fair, efficient & transparent
 - ❖ Reduction of systemic risk

- IOSCO Task Force on Islamic capital market - key issues and findings:
 - Conventional regulatory framework applicable to Islamic capital market products and services
 - Islamic capital market products and services may be introduced and developed within any existing well-structured securities market
- IFSB efforts in setting international prudential standards

Malaysia offers a comprehensive range of Islamic financial products and services within a facilitative environment

Islamic Equities

- 853 Syariah stocks (86%)
- 64% of market capitalisation

Sukuk



- Size of outstanding sukuk : RM136 bil (US\$42 bil)
- 56% of total outstanding bonds in Malaysia
- More than 70% of total global sukuk

Islamic Unit Trust

- 134 Shariah-based unit trust funds (of 521 unit trust funds)
- NAV RM16.9 bil (US\$5.2 bil) -(10% of total industry)

➤ Wide range of products

- Syariah compliant stocks
- Islamic unit trusts
- Islamic REITs
- Sukuk
- Shariah compliant futures contracts
- Islamic structured products
- Syariah compliant derivatives

➤ Intermediaries offering specialised services

- Islamic fund management
- Islamic stockbroking
- Corporate Finance/Advisory

Islamic Exchange Traded Fund

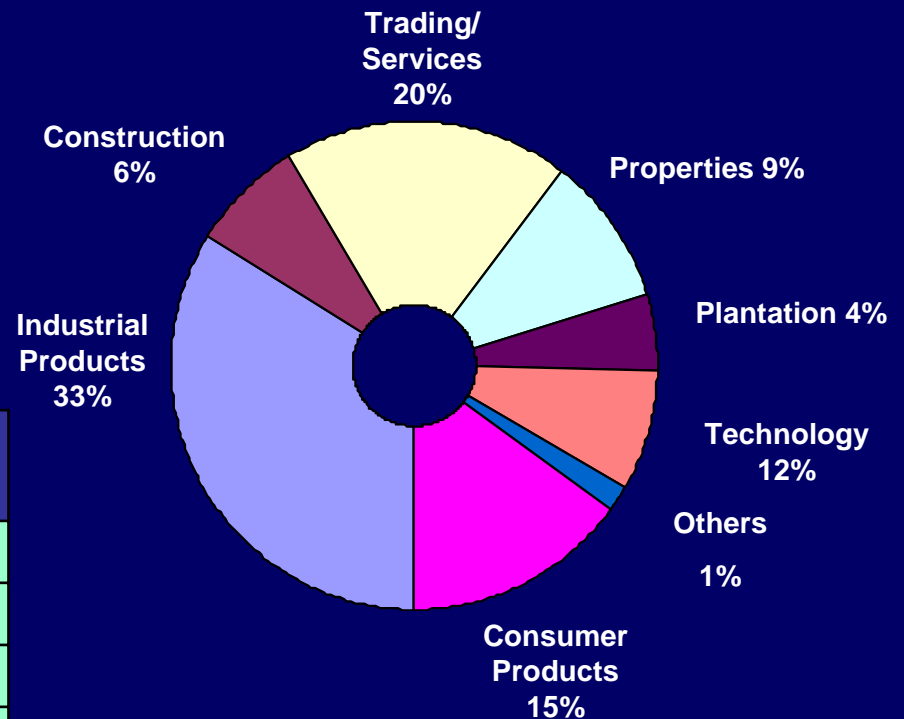
**RM12 bil Binariang GSM
Sukuk issuance**

The Islamic equity market has grown steadily ...

Shariah-compliant Securities

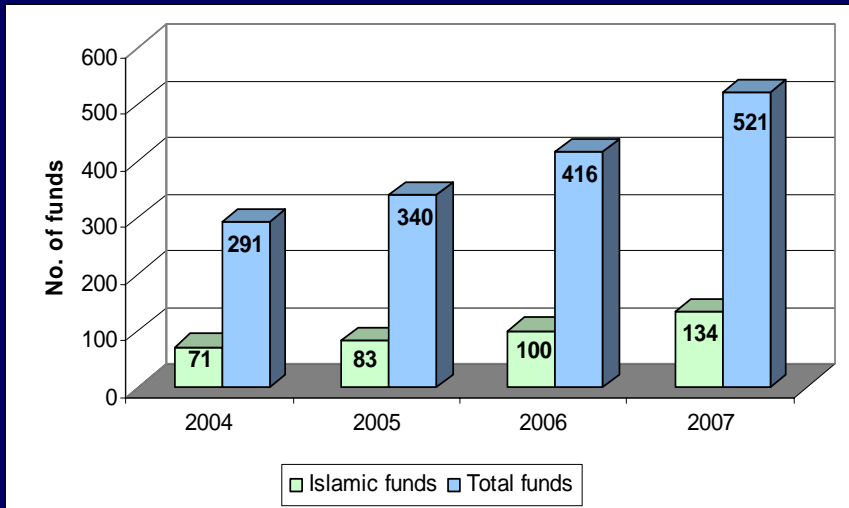
- 86% of Bursa stocks are Shariah-compliant
- Shariah-compliant market cap of RM705.1 bil (USD224 bil) or 63.7% of total market cap
- FTSE-Bursa Malaysia Shariah indices based on internationally compliant criteria

Year	M-cap of Islamic Equities (USD)	% of M-cap Islamic equities
2000	78.5	54.7
2001	90.6	59.2
2002	92.2	57.6
2003	124.2	57.7
2004	145.2	59.9
2005	139.6	63.3
2006	170.1	64.6
2007	223.8	63.7

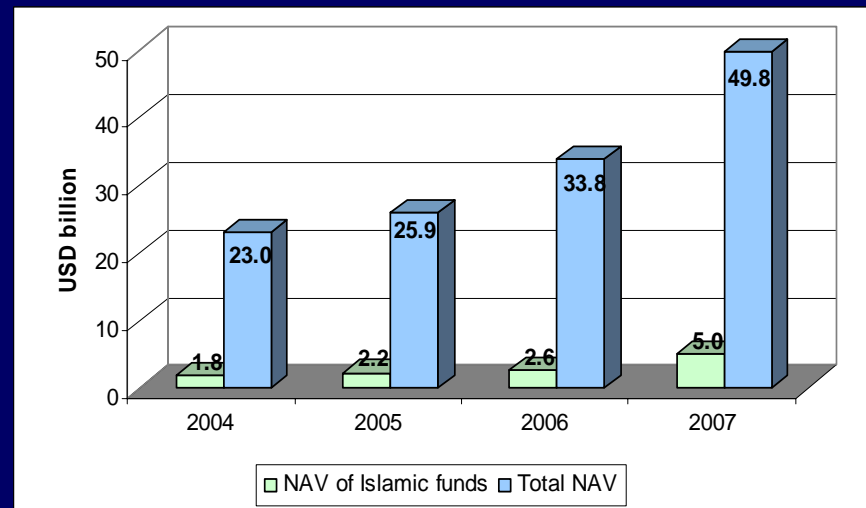


.. and provided impetus for growth of Islamic funds.

No. of Islamic Funds vs. Total Industry



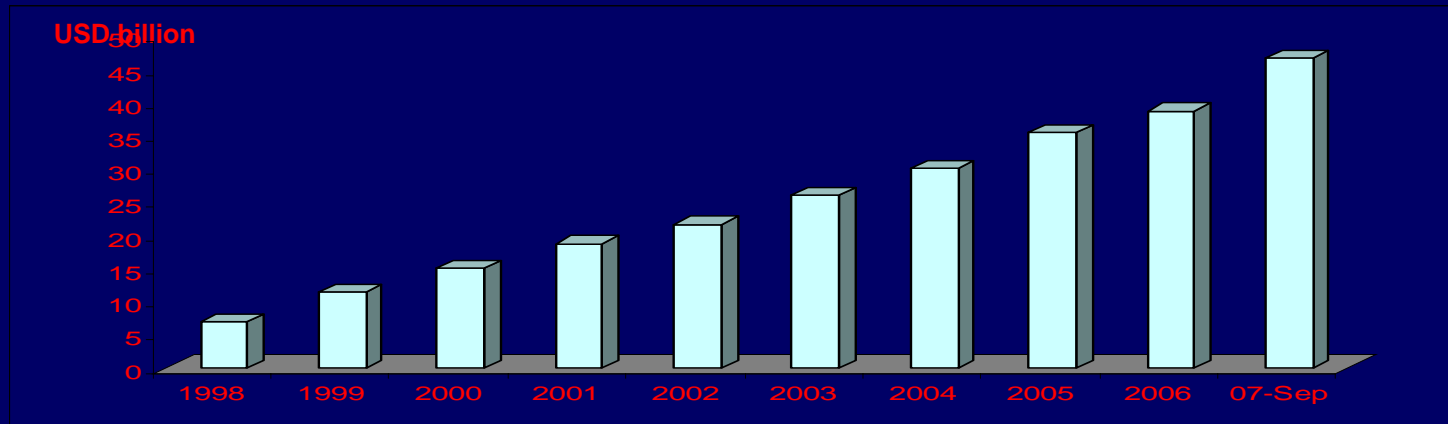
Size of Islamic Funds vs. Total Industry



- Malaysia has the largest number of shariah-compliant funds in East Asia
- 134 funds (out of 521) in Malaysia are classified as shariah-compliant fund with an asset size of USD5.0 billion at end 2007
- Various incentives are given to Islamic unit trust management companies / fund managers (e.g. 100% foreign ownership, tax exemptions on income for company and foreign professional employees)
- Guidelines for Islamic REIT issued in 2005
 - Currently 2 Shariah-compliant REIT listed –
 - A hospital REIT; and
 - A plantation REIT (oil palm)

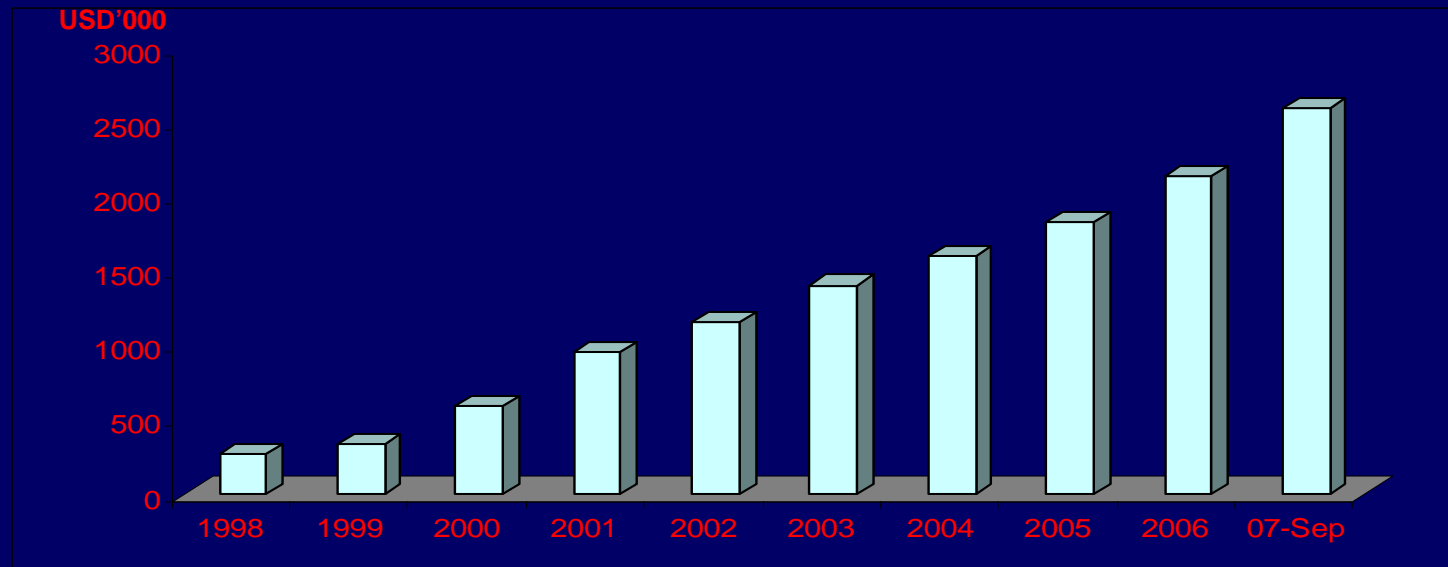
Together with the growing Islamic banking and takaful assets, ..

Islamic Banking Assets



12.3% of banking market share

Takaful Assets



6% of insurance market share

.. has created strong demand for Sukuk for investment and capital purposes

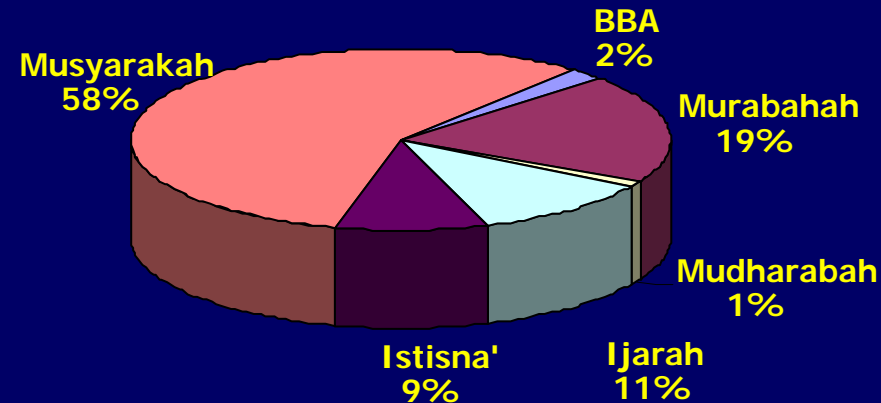
- **Sukuk gaining prominence as the preferred structure**

- 66% of corporate bonds issued in 2007
- 76% of corporate bonds approved in 2007
- 54% of total outstanding corporate bonds are Shariah-compliant

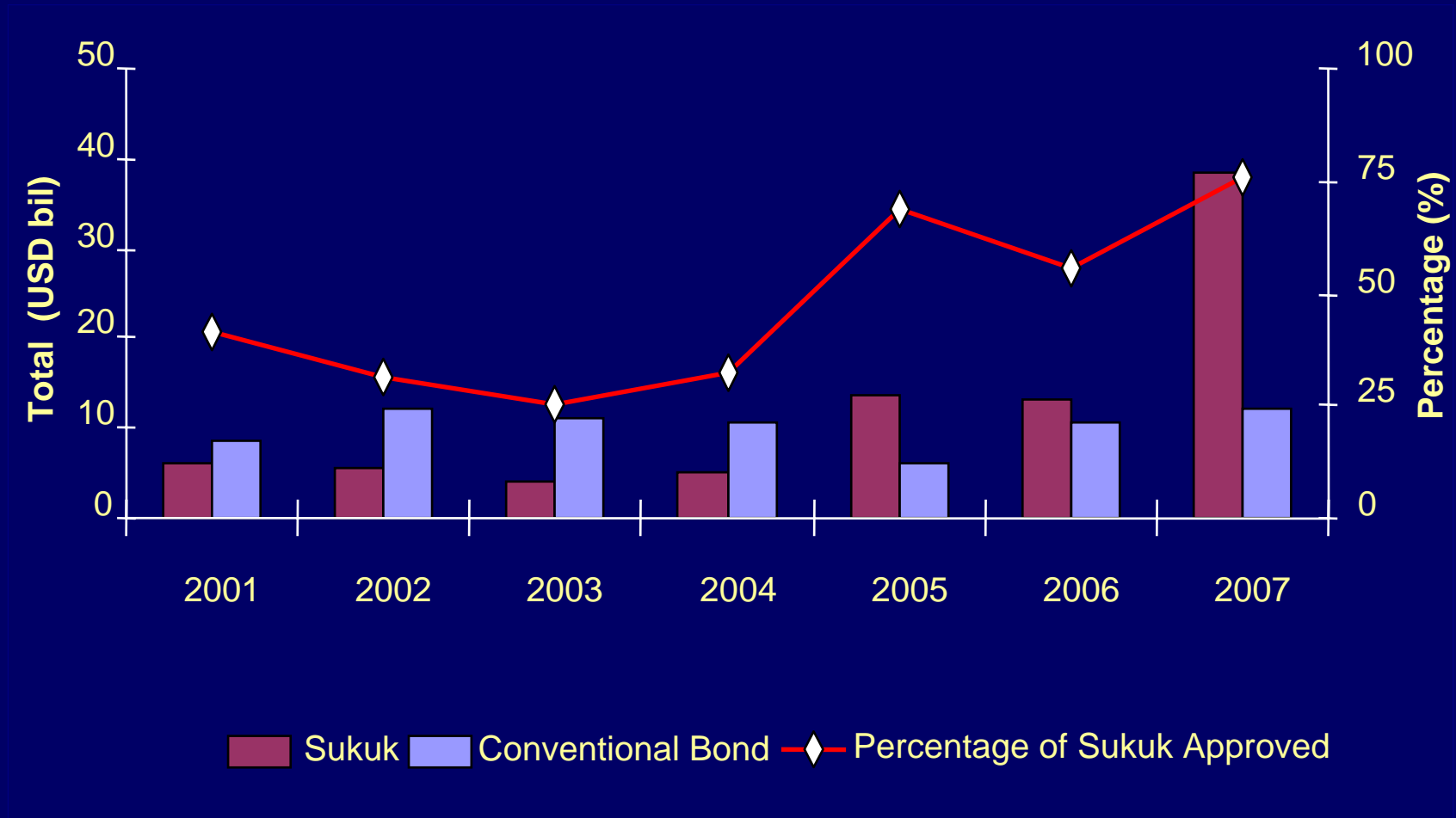
- **Facilitative approval process**

- SC as one-stop approving agency for sukuk issuance (include bonds)
- Pre-submission consultation is encouraged
- Transparent and facilitative requirements

Sukuk Approved in 2007 by Shariah principles



Sukuk has become the preferred financing tool in Malaysia



To spur further growth of sukuk, a facilitative tax framework is in place.

Sukuk issuers

- **Tax neutrality – e.g. stamp duty exemption for issuance of sukuk approved by the Securities Commission**
- **Tax deduction on issuance cost for sukuk**
- **Company that established SPV is given a tax deduction on the issuance cost of the sukuk incurred by the SPV**

Sukuk investors

- **No tax for non resident investors on income from both RM and non RM sukuk**
- **Income tax exemption for resident investors on income derived from non RM sukuk**
- **Income tax exemption for individuals and unit trust funds on income derived from RM sukuk**

Positioning Malaysia as a global Islamic fund management hub...

The Government's strong commitment to creating a global fund management hub, particularly in the Islamic fund management space, is reflected in targeted incentives to...



Enhance Industry
Landscape

Accelerate
Islamic Fund
Management Growth

Further enhancing incentives, while accelerating Islamic fund management growth

Greater access to Institutional funds

Competitive operating environment

- ❖ Approximately US\$ 2 billion in *start-up funding* will be channeled by EPF to Islamic fund management companies (2007)
- ❖ MIFC funding to spur Islamic fund management activity
 - Funds to be provided by key institutional bodies
- ❖ 10-year stamp duty exemption & tax incentives on wide range of Islamic investment instruments (2006)
- ❖ Income tax exemption on all Islamic fund management activity fees until 2016 (2007)
- ❖ Income tax exemption for non-resident Islamic finance experts (2007)
- ❖ Tax deduction on expenses incurred in setting up Islamic stockbroking businesses (2007)
- ❖ One-stop center at the Securities Commission (SC) for all fund management queries (2007)

Further enhancing incentives, while accelerating Islamic fund management growth (cont)...

Liberal Shareholding Structure

- ❖ Foreign ownership of fund management companies & REIT management companies is allowed up to 70% (2007)

-Fund managers under this category are permitted to manage both institutional & retail funds

- ❖ Islamic fund management companies are allowed to have 100% foreign ownership (2007)

-Fund managers under this category are permitted to manage both institutional & retail funds

Facilitative cross-border Investment policy

- ❖ With effect 1 October 2007, Islamic funds are permitted to invest 100% of assets abroad (2007)

- ❖ The SC and the Dubai Services Authority (DFSA) signed a mutual recognition agreement (Mar 2007)

Sustaining position as leading centre

**Liberalisation of
Islamic Fund
Management**

**Global Sukuk
Centre**

**Recognition of SC's
role in developing
ICM**

**Capital Market
Intermediation**

**" Best Regulator
for Islamic Funds"**

**Facilitative and
Progressive
Regulatory and
Tax regime**

**Islamic Banking
and Takaful**

**Innovative &
Comprehensive
Products and
Services**



Thank you

APPENDICES

Islamic Milestones - Malaysia's pioneering efforts in ICM

Clear objectives and well articulated policies facilitated growth

- Establishment of Shariah Advisory Council (SAC) – 1996
- Official list of Shariah-compliant securities – 1997
- Development of ICM – a strategic objective under the CMP – 2001
- The SC led IOSCO Task Force on Islamic Capital Market – 2002
- Facilitative Guidelines/tax frameworks/ incentives – ongoing

...and brought positive responses from the market

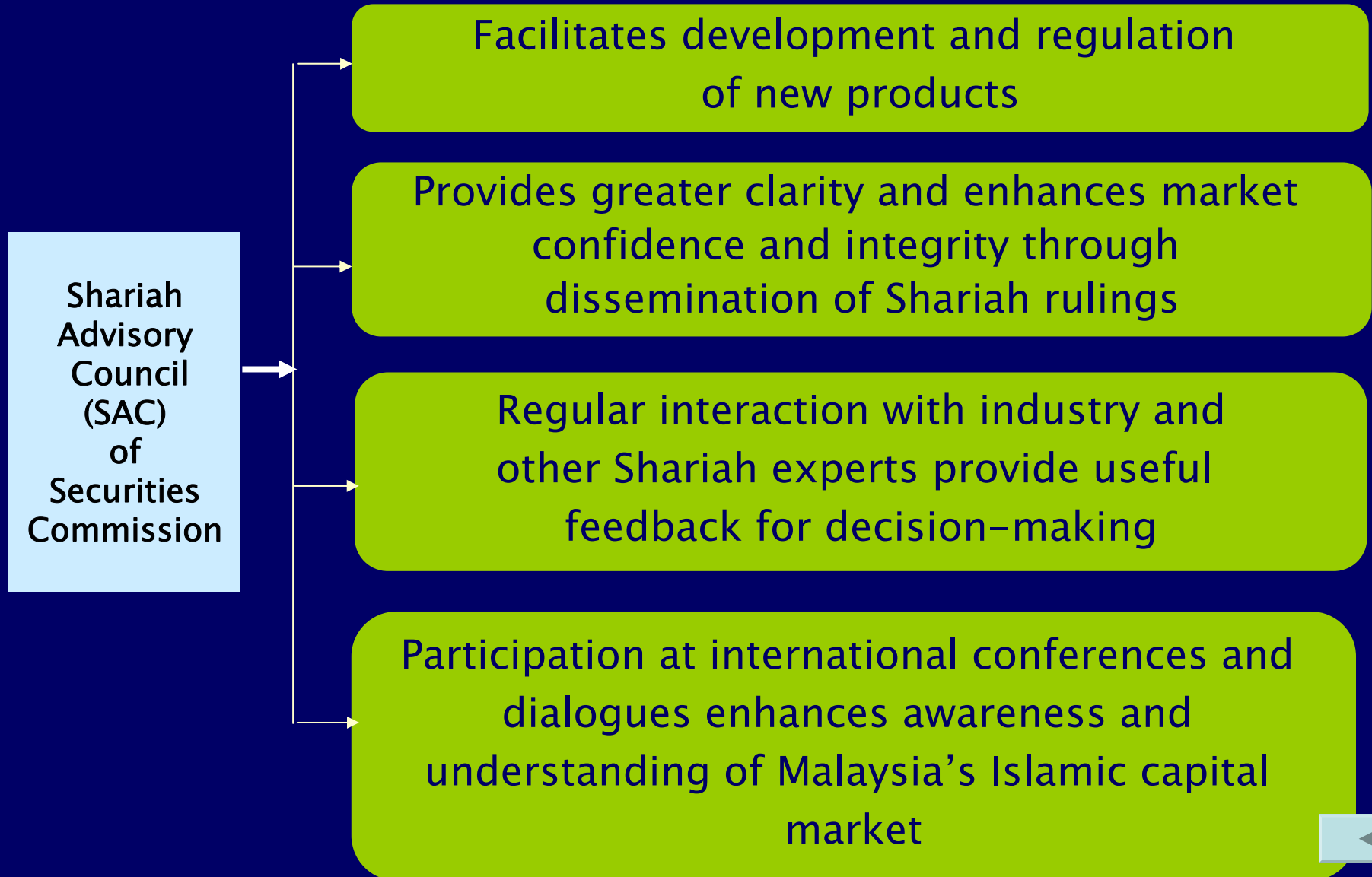
- 1993 – 2002 : 1st Islamic unit trust fund & index fund launched and 2 Shariah indices introduced
- International Finance Corporation (IFC) and World Bank (IBRD) issued Ringgit-denominated sukuk – 2004/05
- 1st Islamic REITs guidelines in the world – 2005
- 1st Islamic REIT – 2006
- 1st Islamic ETF – 2008

Malaysia leads in sukuk innovation

- **Shell MDS (1990)** – *1st tradable sukuk*
- **Kumpulan Guthrie Berhad (2001)** – *1st tradable and rated global sukuk*
- **Government of Malaysia (2002)** – *1st sovereign sukuk*
- **Cagamas MBS Bhd's RM2.05b Musyarakah RMBS (2005)** – *1st rated Islamic residential mortgage-backed securities*
- **Khazanah's Islamic Exchangeable bonds (2006)** – *1st exchangeable sukuk*



A sound Shariah framework is fundamental for ICM development

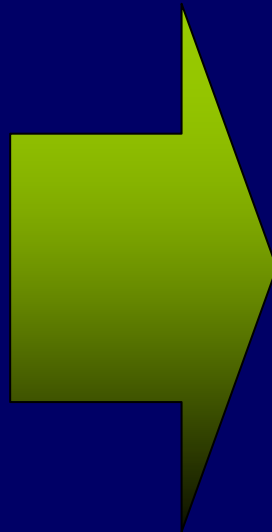


Malaysian International Islamic Financial Centre (MIFC)

– Further entrench Malaysia’s lead as international Islamic capital market

MIFC Key Initiatives

- Origination, distribution, trading of Islamic capital market and treasury instruments
- Islamic funds and wealth management services
- International currency Islamic financial services (including deposit and financing)
- Takaful and retakaful



The Capital Market Masterplan (CMP)

Launched in 2001, the CMP provides a blueprint for long-term strategic development of the Malaysian capital market with 152 recommendations covering 11 areas :



- Equity market
- Bond market
- Derivatives market
- Stockbroking industry
- Market institutions
- Investment management
- Regulatory framework
- Corporate governance
- **Islamic capital market**
- Technology & e-commerce
- Training & education



To develop Malaysia as an international Islamic financial centre



Leader in Islamic product origination & innovation

Origination

Leading origination jurisdiction

- In global sukuk market of US\$100 billion, approximately 70% of global sukuks originate from Malaysia

Innovation

Broad innovative, product range to meet growing demand of investment community such as:

- Sovereign 5 year global sukuk of US\$600 million (2002)
- Islamic residential mortgage backed securities (2005)
- Listed Islamic real estate investment trusts (2006)
- Islamic ringgit bond issuance (2005)
- Exchangeable sukuk (2006)
- **Binariang GSM Sukuk issuance of RM12 bil (2007)**



Further incentives announced in Budget 2008



- Islamic fund management companies allowed to be wholly owned by foreigners
 - Fund managers under this category are permitted to manage both institutional & retail funds
- US\$2 billion will be channelled by Employees Provident Fund to new Islamic fund management companies
- Islamic fund management companies will be allowed to invest all their assets abroad
- Tax exemption for fund management companies on all fees related Islamic fund management activities until 2016
- 3 new stockbroking licenses will be issued to leading stockbroking companies that can source and intermediate business and order flows from the Middle East
- Income tax exemption to non-resident Islamic finance experts