

**KEYNOTE ADDRESS BY DATO' YUSLI MOHAMED YUSOFF
CHIEF EXECUTIVE OFFICER OF BURSA MALAYSIA
GLOBAL ISLAMIC FINANCE FORUM 2010 – EQUITIES & FINANCIAL MARKETS DAY
THURSDAY, 28 OCTOBER 2010
MANDARIN ORIENTAL HOTEL, KUALA LUMPUR**

Assalamualaikum and a very good morning,

Your Excellencies,

Tan Sri-Tan Sri, Dato'- Dato',

Distinguished guests,

Ladies and gentlemen,

Abu Bakr al-Siddiq, the first Muslim caliph, once said that without knowledge, action is useless while knowledge without action is futile. It is based on this irrefutable wisdom that I would like to commend Bank Negara and the Malaysia International Islamic Financial Centre or MIFC for creating a platform where knowledge and understanding of Islamic finance can be pooled together and shared.

Moreover, as most of you here can attest, the realm of the global equities and financial markets is always in a constant state of flux. Trends, market developments and even strategic objectives can change in an instant. What is today the choice platform to raise funds or invest may not be so tomorrow. With these ever-moving goal posts on top of constantly shifting playing fields, it is crucial for Islamic finance practitioners to brace for change if we are to play a larger role in the world's equity and financial marketsphere.

On this note and on behalf of Bursa Malaysia, I would like to thank the host, Bank Negara Malaysia, for giving me the honour to deliver a keynote address in conjunction with the Forum's Equities and Financial Markets Day. It is indeed encouraging to see an entire day dedicated to equities and financial markets in the context of Islamic finance. As importantly, it is also wonderful to see key decision-makers representing interest from the world over, under one roof.

In this spirit of knowledge-sharing, it is my aim today to share with you Malaysia's positive experience in leading the way with developments in the Islamic capital market. I would also like to convey my optimism in our market's prospects and potential in the global marketplace.

Having said this, this optimism is tempered by the need to ensure that we collectively grow the capital market, and the industry, in a sustainable manner. Growth must be driven by quality, liquidity, innovation and an adherence to the foundation of Islamic principles. I believe the speakers today will deliberate on these aspects as well as solutions to the challenges that impact the Islamic finance industry.

Ladies and Gentlemen,

It would seem to many that the emergence, or should I say, resurgence, of Islamic finance stems from the fallout of the global financial crisis. Islamic finance was thrust into the spotlight as a more efficient, safer and equitable alternative to conventional financial instruments. While it is true that most Islamic financial platforms were more resilient during the crisis, it is because of their structure that prevented their exposure to toxic assets that crippled even the largest institutions. However, we also saw the Islamic finance sector was not totally shielded by the crisis. This goes to show that the sector does not operate in isolation of the global financial system.

It is also a misperception that Islamic finance is where it is today as a result of the crisis. Islamic finance, especially in the equities and financial markets, has been growing steadily over the last few decades. Closer to home, the depth and breadth of Islamic finance and capital market environment has resulted in Malaysia's competitiveness as a global hub for Islamic investments. Malaysia offers a comprehensive range of products, institutions and intermediaries. Both Islamic as well as conventional players are active here. Moreover, we have a critical mass of expertise that have a strong record of successfully commercialising product innovations and running a regional and even global base of operations.

Malaysia's leading edge in Islamic finance and capital market stems from carefully planned and managed development by industry participants. From policymakers and regulators to market participants and issuers – all of us work together to ensure that the Islamic financial system and

infrastructure meet international standards of acceptance, and that Malaysia continues to be attractive to issuers and investors. The industry has also seen a need to meet the growing demand for a viable and competitive alternative to the conventional systems. To further develop the Malaysian Islamic capital market and to leverage on the increasing global demand for Islamic products, all of us must move beyond merely catering to the investment needs of Muslim

investors to offering products that are acceptable and attractive to global market investors. Therefore, our initiatives must not only be focused on ensuring Shari'ah-compliance but also in ensuring international compatibility and acceptability. On Bursa Malaysia's end, the establishment of Shar'iah indices as well as the internationally-acclaimed Bursa Suq Al-Sila' commodity trading platform is testimony to the international recognition of the tremendous potential represented by the Islamic capital market.

Currently, global investors are seen opting for Islamic investment choices due to increased demand and realisation for an alternative investment philosophy. The global acceptance to the Islamic finance products has evolved to fulfill the demands of businesses which are looking to invest in ethical-based investments. Established organisations around the globe have now entered the Shari'ah investment space as they realise the value in offering these products to investors who are looking for an equivalent to ethical investments.

I am heartened to note that Malaysia is in an ideal position to reap the benefits of this positive trend. In this regard, I am pleased to acknowledge that over the past three decades, Malaysia has significantly contributed to the development of Islamic finance and it has become a role model for many countries. Today, Islamic finance in Malaysia is far from being esoteric or only available to a select few. The country has proven itself as an Islamic finance power house, able to claim many "world's firsts" products for the industry. Suffice to say that, our Islamic finance industry is in a unique position to provide strategic access for Islamic investments through its offering of products and services to international investors. I personally believe that Islamic finance globally will grow to a stage very soon where it becomes part and parcel of the financial system, just like how it is in Malaysia.

Ladies and gentlemen,

It is based on this very premise that Bursa Malaysia, as the operator of the country's only Exchange, has been committed to developing our Islamic capital market. This is in tandem with the MIFC's initiative to propel our country's Islamic market to the world stage.

On this score, the Malaysian Islamic market has progressed in terms of size, efficiency and range of instruments. We now offer a wide range of Shari'ah compliant products including securities, debts, exchange traded funds (ETFs) and real estate investment trusts (REITs), amongst others. The creation of new products to facilitate diversification of investment portfolios by investors and fund managers is an important feature of our Islamic capital market. For instance, efforts are in place to issue more ETFs in foreign currencies and Islamic REITs of which the latter is deemed as defensive investments for its high-yielding and steady long term criteria. This development can lead to further opportunities to increase the choice of regional Islamic structured products and new Islamic asset classes within Asia.

The strength of our Malaysian Islamic capital market also lies in its size of our Shari'ah compliant listed companies. As of May 2010, 88% of the companies listed on the exchange are Shari'ah-compliant and this account for 64% of our market capitalisation. This also includes the foreign companies that are listed on our Exchange.

Just as notable, Malaysia is today the world's largest *sukuk* issuance centre. To date, the value of *sukuk* listed on Bursa Malaysia's stands at USD23 billion with 17 *sukuk* listed by 15 issuers. Amongst these, three are foreign issuers, namely General Electric, Nomura and Islamic Development Bank. Our success in the *sukuk* listing arena can be attributed to the robust yet facilitative *sukuk* listing framework introduced in 2008. To a certain extent, the investment climate that has shifted towards greater transparency and governance has helped. Having the most active secondary market is also a convincing factor for issuers.

In addition to regulations and infrastructure, products and services that meet market needs are also key factors in the continued success of the Malaysian Islamic market. With many innovative firsts, Malaysia must continue to be on the leading edge of innovation. Take for instance our Bursa Suq al-Sila' commodity trading platform which facilitates liquidity management for Islamic banks while enabling cross border trades This particular initiative brought together two areas of

strength that Malaysia has, namely Islamic finance and commodities. While we maintain our pole position in Islamic finance, we must also not lose sight of the need to have efficient and effective delivery channels to reach the issuers and investors in the global marketplace. On this score, I would like to urge all relevant stakeholders to work together in cohesion to ensure that the Malaysian Islamic finance industry remains a global benchmark for excellence.

Ladies and gentlemen,

Moving forward, it is important that we do not rest on our laurels but instead capitalise on our achievements. Bursa Malaysia must continue to shed its domestic-centric approach and tap opportunities and prospects globally. Being known as the world's largest *sukuk* issuance centre is a start. But we have more that needs to be done.

We are mindful that our competitors in the region are also trying to enhance their very own Islamic finance capacity and capabilities. Other regions are already investing significantly in terms of regulations and infrastructure to bolster their respective Islamic markets. While we welcome the competition, which I personally believe will bode well for the growth of the Islamic financial sector at large, Malaysia must strive to retain our competitive advantages.

Towards this end, the Malaysian government as well as the relevant industry stakeholders have and will continue to pull together to ensure that we maintain our edge, be it in terms of quality, innovation or the right regulatory framework.

On this score, in his recent Budget 2011 address, the Honourable Prime Minister of Malaysia announced that Bursa Malaysia will be offering both *sukuk* along with conventional bonds to meet retail investors' demand for fixed income instruments. By making *sukuk* accessible to the retail investment community, this will further help boost retail participation in the capital market. We are also pleased that the Government will give tax deductions for the issuance of Islamic securities based on *Murabahah* and *Tawarruq* contracts using commodities traded on our Bursa Suq Al-Sila' trading platform as it will further increase participation by issuers and financiers. This commodity trading platform is already receiving international acclaim from users, local and foreign Islamic banks, and incentives such as this will help us to drive the MIFC agenda to

position Malaysia as a key destination for Islamic finance and investments. Clearly, these moves signal the country's commitment to further develop and strengthen our Islamic market, whilst demonstrating the diverse investment opportunities that our market can offer.

The main trends in Islamic finance growth in Malaysia has been adequately fulfilled, but we must forge ahead to adapt and innovate to bring greater awareness and acceptability of Shari'ah investment opportunities for the better growth of this market.

Ladies and gentlemen,

Before I conclude, I would like to thank the organisers once again for inviting me to deliver this keynote address. To all the delegates of the Global Islamic Finance Forum, I hope you will find this Forum insightful. More importantly, I trust that this platform will allow you to compare notes, engage in friendly discourse and finally be empowered with a greater understanding of the global Islamic finance industry. I trust the knowledge you will gather here during these few days will enable you to determine clear, actionable measures which can ultimately take this industry to greater heights of success.

Terima kasih.