

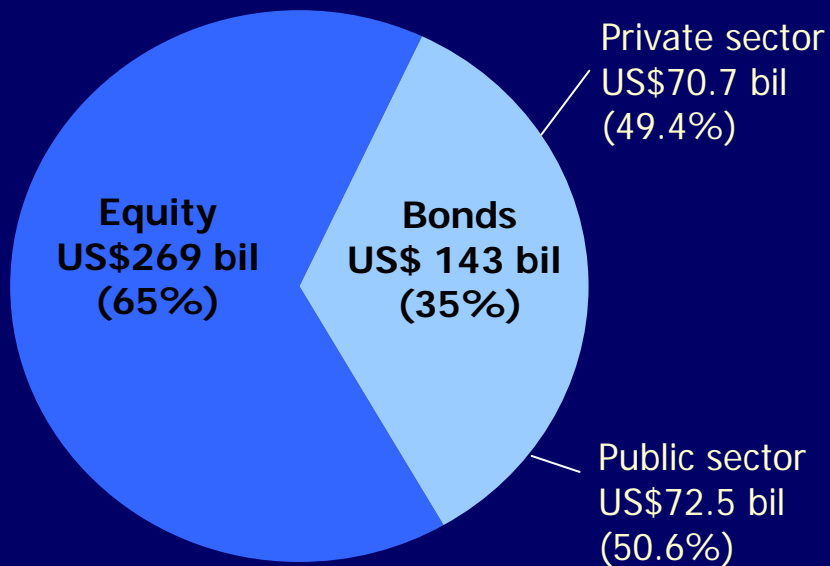
Islamic Capital Market – Malaysia Opportunities for Issuers & Investors

Kris Azman Abdullah
Executive Director
Securities Commission, Malaysia

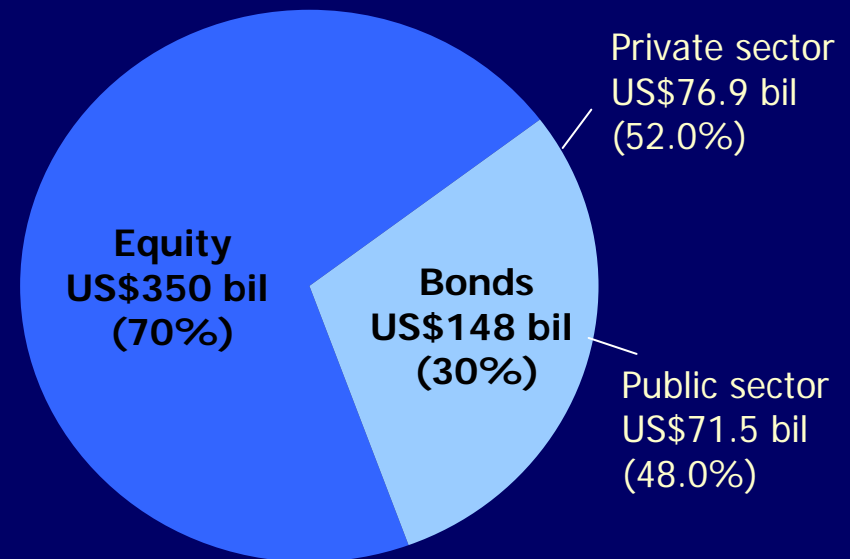
Islamic Finance News Forum Roadshow 2008, Jakarta
7 May 2008

The Malaysian capital market continues to chart further growth in 2007

2006: RM1.3 trillion
(US\$411.4 billion)



2007: RM1.6 trillion
(US\$498 billion)



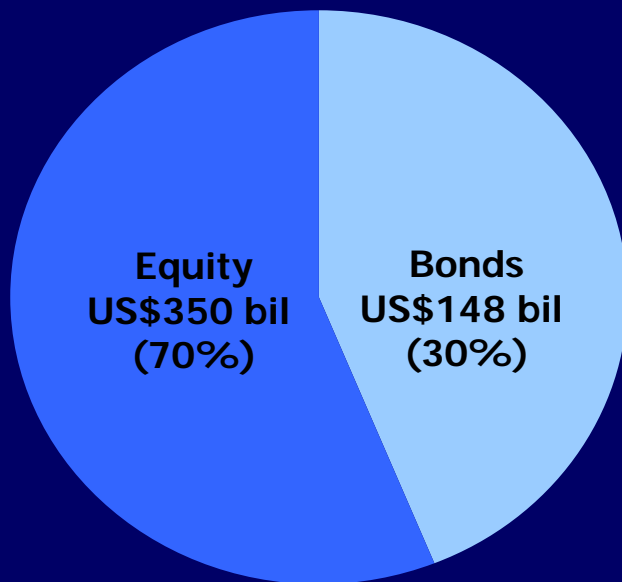
**2007: Malaysian capital market grew by
21% - US\$ 86.6 bil (RM274.0 bil)**

**Banking sector assets 2006:
RM1.09 trillion (US\$344.9 billion)**

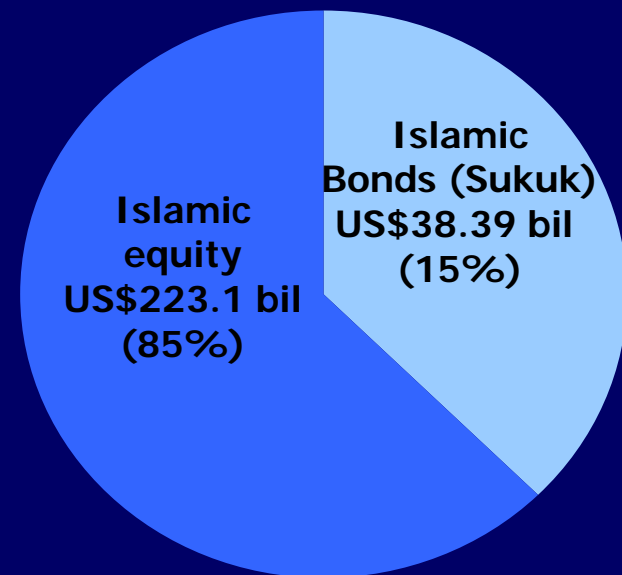
**Banking sector assets 2007:
RM1.2 trillion (US\$379.7 billion)**

And within the capital market, ICM has grown tremendously

Total capital market: US\$498 bil



**Islamic capital market value: US\$261 bil
(52.4% of total capital market)**



**Banking sector assets 2007:
RM1.2 trillion (US\$379.7 billion)**

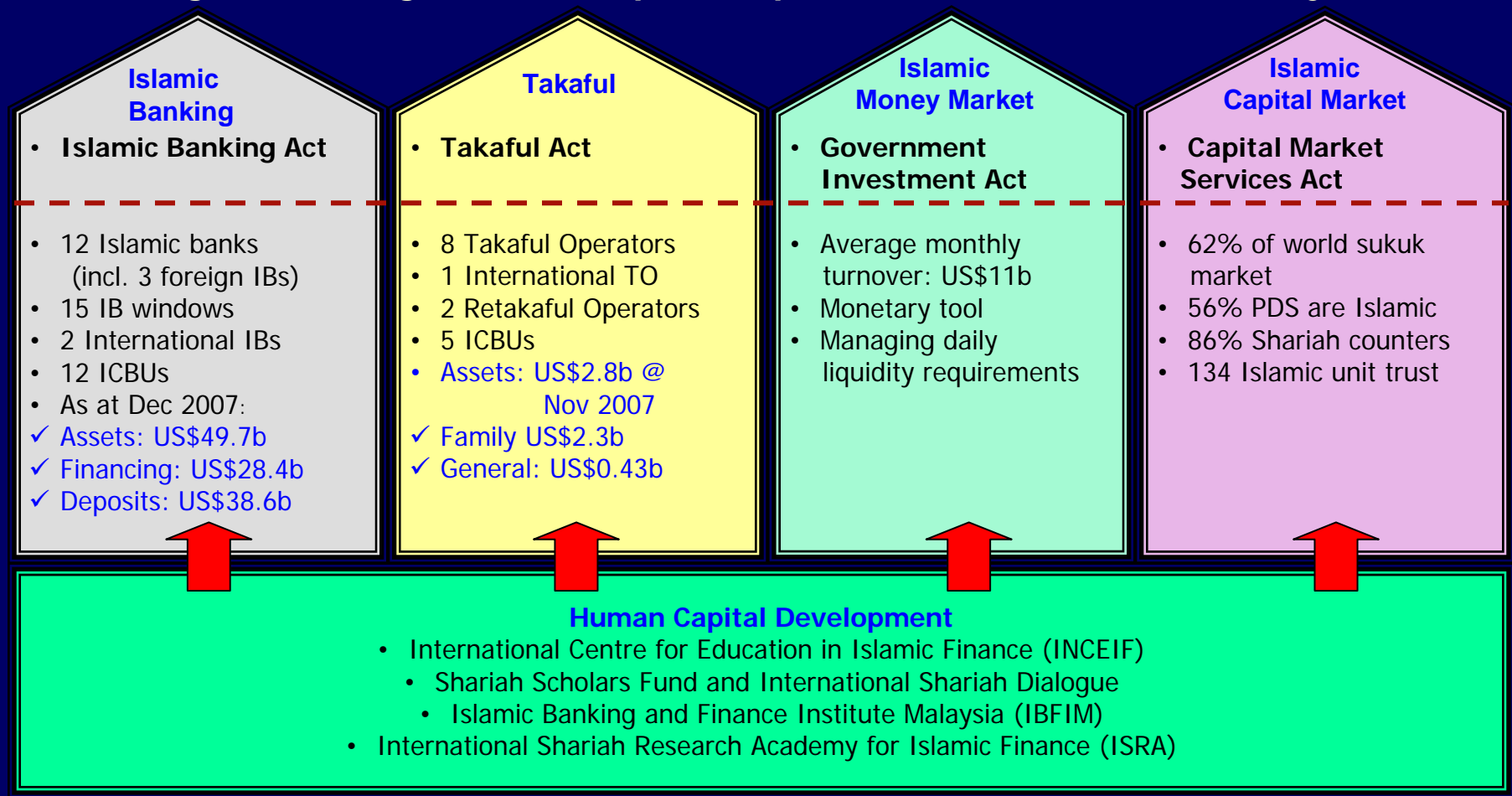
**Islamic banking assets:
RM157.2bn (US\$49.7 bil)
(12.8% of banking sector)**

US\$1 = RM3.16

*All data as at end 2007

Growth of the ICM has been predicated by a sound legal infrastructure in the Islamic financial system...

Malaysia's unique Islamic financial landscape creates a leading edge, going from strength to strength to develop a comprehensive Islamic financial system



Strong commitment and continuous support by the Government ensure the growth in these areas...

... and supportive policy framework

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

Malaysia as the International Islamic Financial Center (MIFC)

- Objective: To create a vibrant, innovative & competitive international Islamic financial services industry in Malaysia
- Supported by high-calibre human capital, a world-class financial infrastructure and practices that meet the international standards
- Comprises a diversified range of FIs operating from anywhere in Malaysia which offer Islamic financial products & services in any currency to non-residents, in the following niche activities:
 - origination, distribution & trading of Islamic capital market and treasury instruments
 - Islamic fund & wealth mgmt services
 - international currency Islamic financial services (including deposits and financing) and
 - takaful & retakaful
- Under MIFC initiative, efforts will be intensified towards positioning Malaysia as a center of excellence for Islamic banking and finance education, training, consultancy and research.

A sound Shariah framework is fundamental for development

Main thrust of Islamic capital market is compliance with Shariah principles (Islamic jurisprudence)

➤ 2 national level SACs established:

i. SC's SAC – for the Islamic Capital Market

ii. BNM's SAC – for the Islamic Banking & Takaful

- Comprises prominent Shariah scholars, jurists & market practitioners
- Advises on all Islamic financial market matters
- Provides investment guidance
- Acts as a reference point for industry
- Promotes product harmonisation and standardisation

➤ SAC works closely with industry to facilitate new products/concepts

➤ Publication of Resolutions of the SC's SAC

For Islamic Capital Markets, a two-tier approach in regulating Islamic products is applied

Tier I

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 property

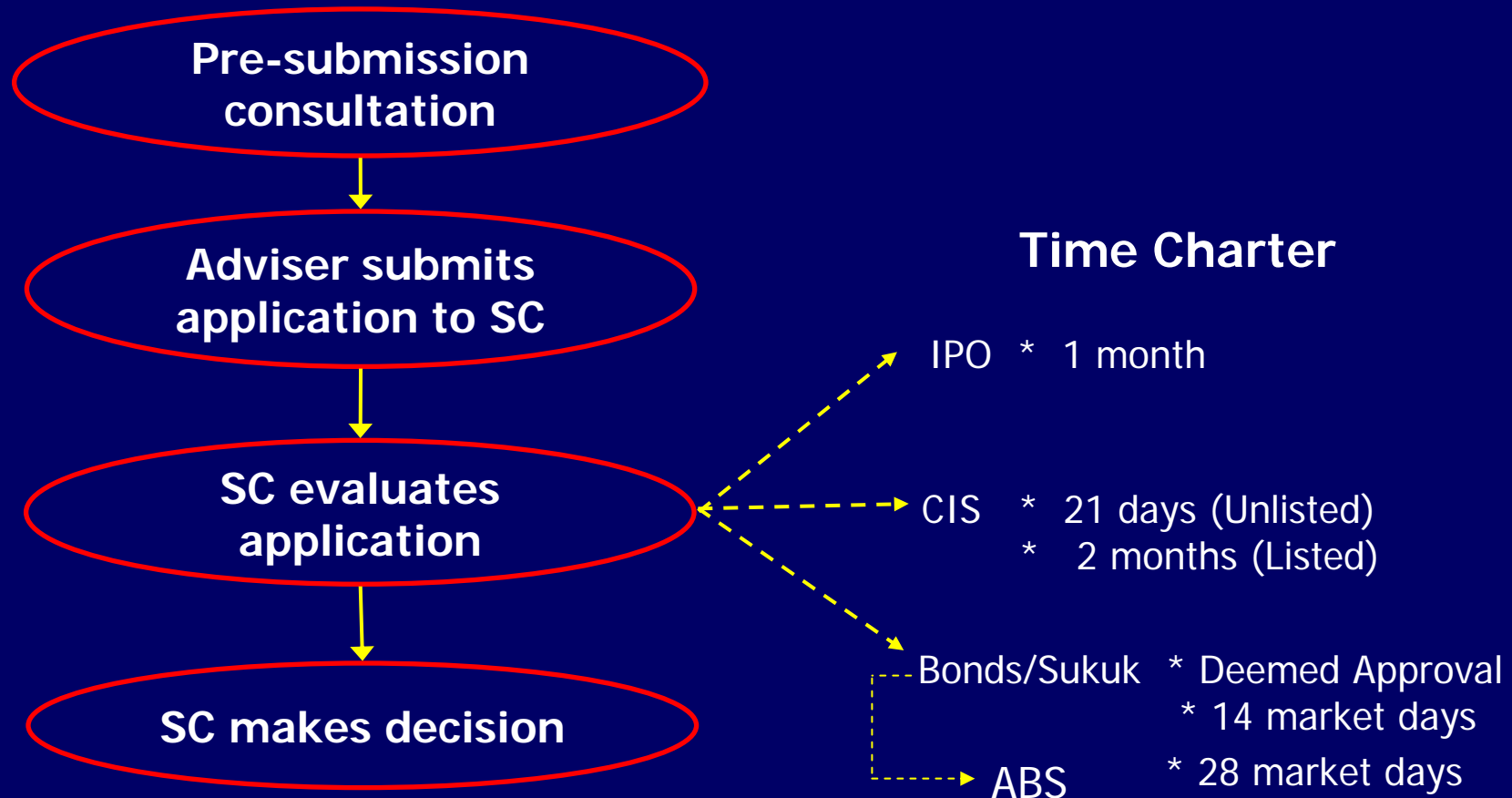
Tier 2

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 income must comply with Shariah requirement

A facilitative approval framework by Securities Commission



Moving forward:

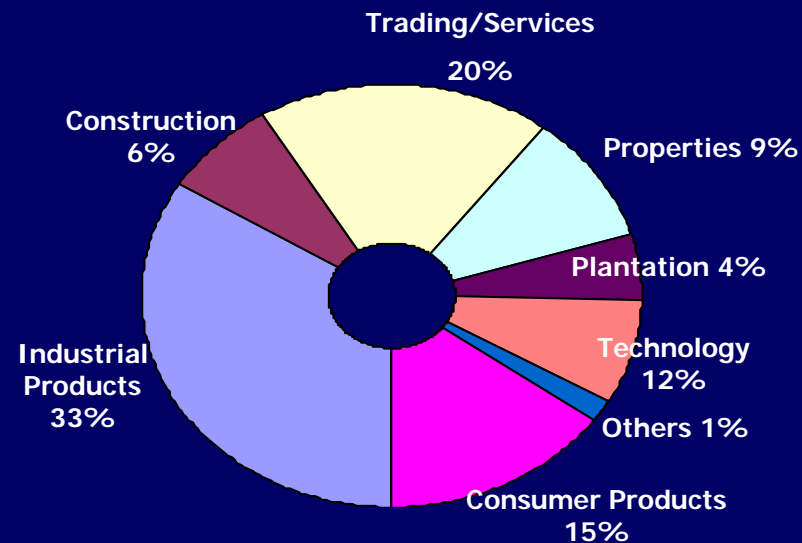
Extended Deemed Approval



Over the years, the Islamic equity market has grown steadily

Shariah-compliant Stocks

Year	M-cap of Islamic Equities (US\$)	% 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



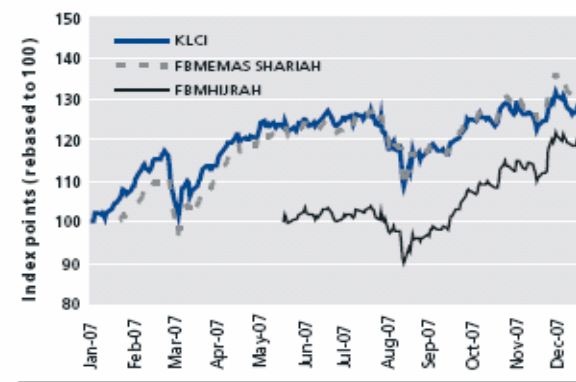
Shariah-compliant stocks on Bursa Malaysia

No. of Shariah-compliant securities – end 2007*	853 securities		
% to total listed securities	86%		
Latest Market capitalisation – Dec 2007	(billion)		
Shariah-compliant	RM705.05 (US\$223.12)		
Total Market	RM1,106.15 (US\$350.05)		
% Shariah-compliant stocks to total market	63.74%		
Equity market indices	30 Nov 07	31 Dec 07	% change
KL Composite Index (KLCI)	1,396.98	1,445.03	3.4%
FBM EMAS Shariah	10,038.5	10,533.10	4.9%
FBM Hijrah Shariah®	10,974.37	11,660.06	6.3%

* The SAC of SC releases the updated Shariah-compliant securities list twice a year in May and November.

• Launched on 21 May 2007

KLCI and Shariah Index Performance



US\$1 = RM3.16

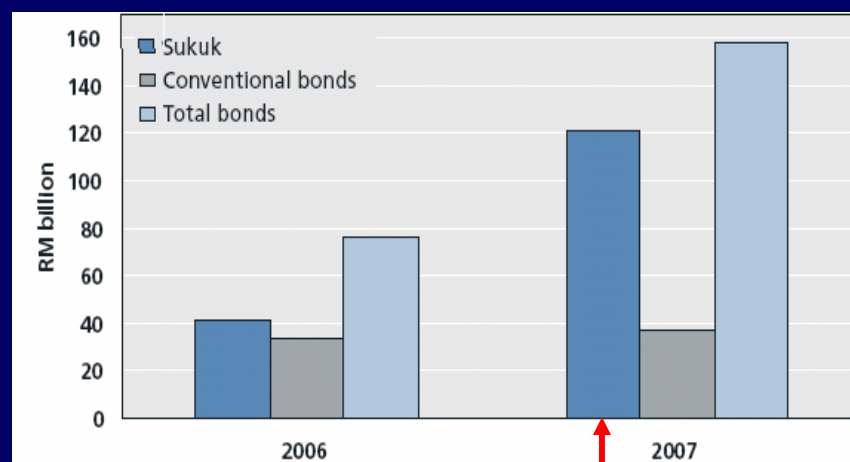
The Sukuk market is also gaining importance as a viable source of funding

Sukuk		
Outstanding Sukuk	2006	2007
Size of outstanding sukuk (exclusive of Government Sukuk)	US\$33.3 bln	US\$43.0 bln
% of outstanding sukuk to total outstanding bonds	47.75%	56.0%
Sukuk approved by the SC	2006 *	2007 *
Number of sukuk	64	59
Size of sukuk	US\$13.30 bln	US\$38.39 bln
Size of total bonds approved	US\$24.00 bln	US\$50.25 bln
% of size of sukuk to total bonds approved	55.41%	76.4%
Sukuk approved by the SC	Q1 2007	Q1 2008
Number of sukuk	16	15
Size of sukuk	US\$1.30 bln	US\$3.75 bln
Size of total bonds approved	US\$5.24 bln	US\$12.13 bln
% of size of sukuk to total bonds approved	24.80%	30.92%

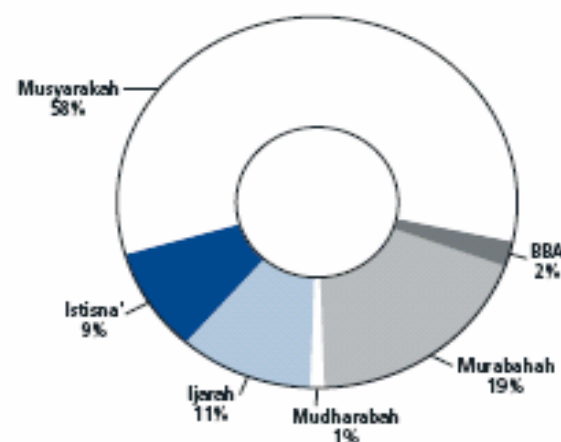
(US\$1 = RM3.16)

* The sukuk figure includes combination issuances (conventional bonds and sukuk)

^ Excluding one combination issuance as specific amount per Shariah principle is not determined (for the pie chart)

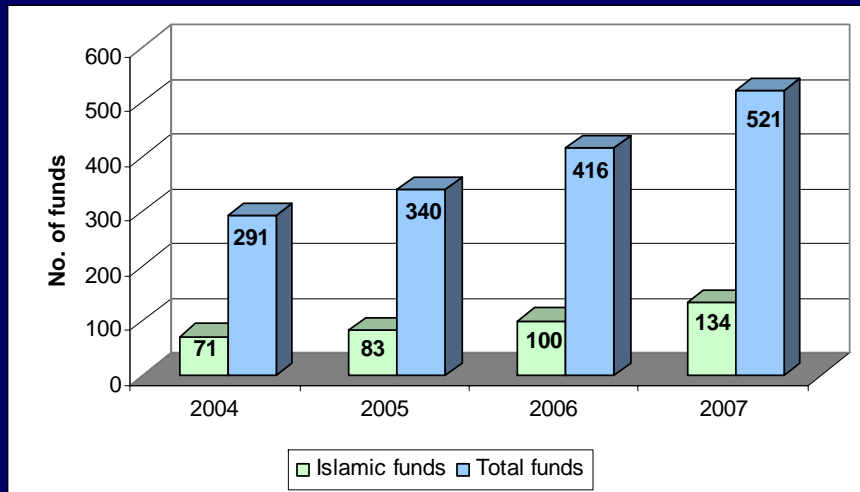


Sukuk approved based on various Shariah principles ^

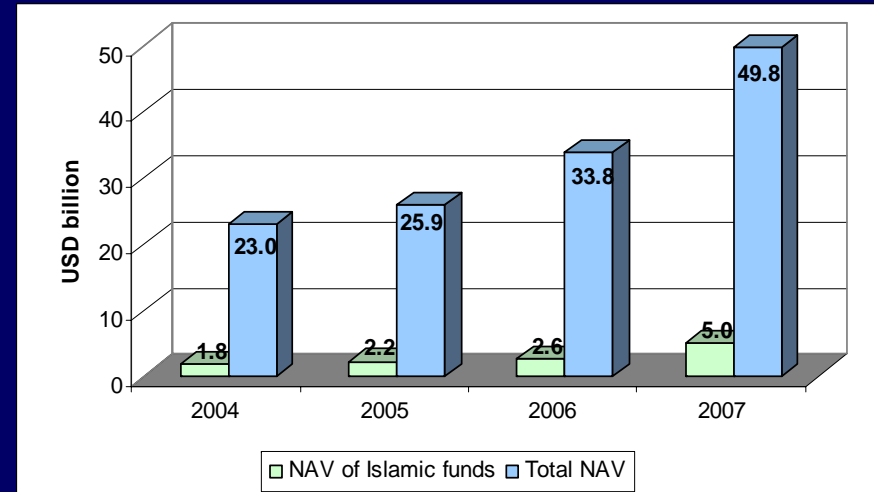


There has been encouraging growth in Islamic mutual funds ...

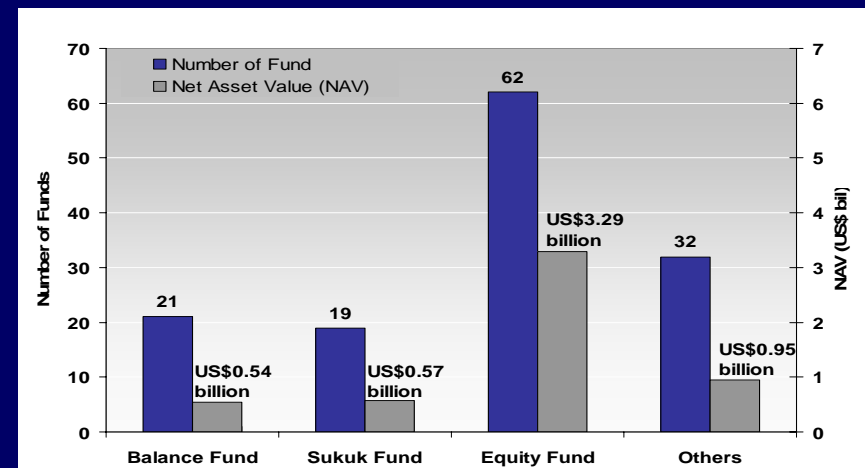
No. of Islamic Funds vs. Total Industry



Size of Islamic Funds vs. Total Industry

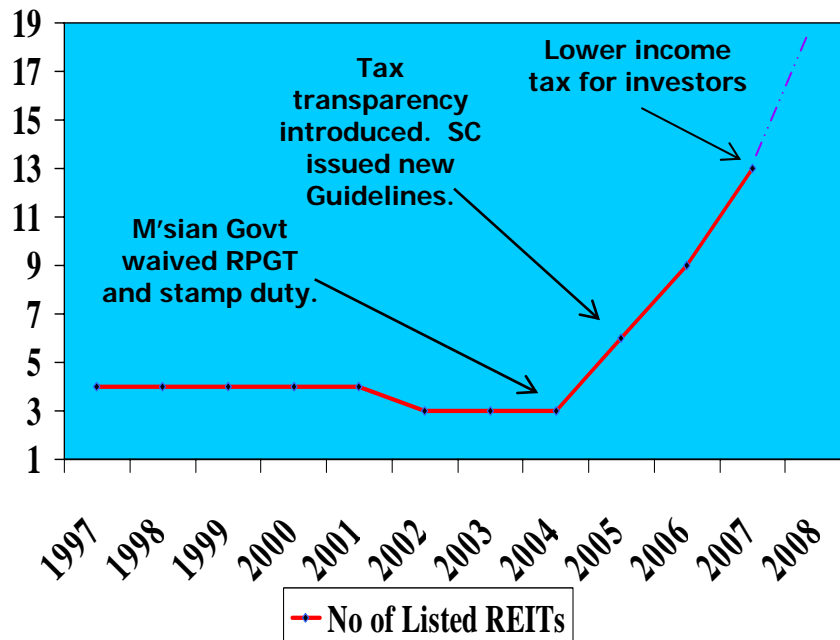


Shariah-based unit trust funds by category in 2007



- 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 US\$5.0 billion at end 2007

... as well as other components of Islamic fund management



- ✓ **Malaysia – 1st to issue Guidelines for Islamic REIT (2005)**
- ✓ **Malaysia – 1st to have a Shariah-compliant REIT listed on the stock exchange.**
- ✓ **Currently, 2 listed Shariah-compliant REIT –**
 - **a hospital REIT; and**
 - **a plantation REIT (oil palm)**

ETFs:

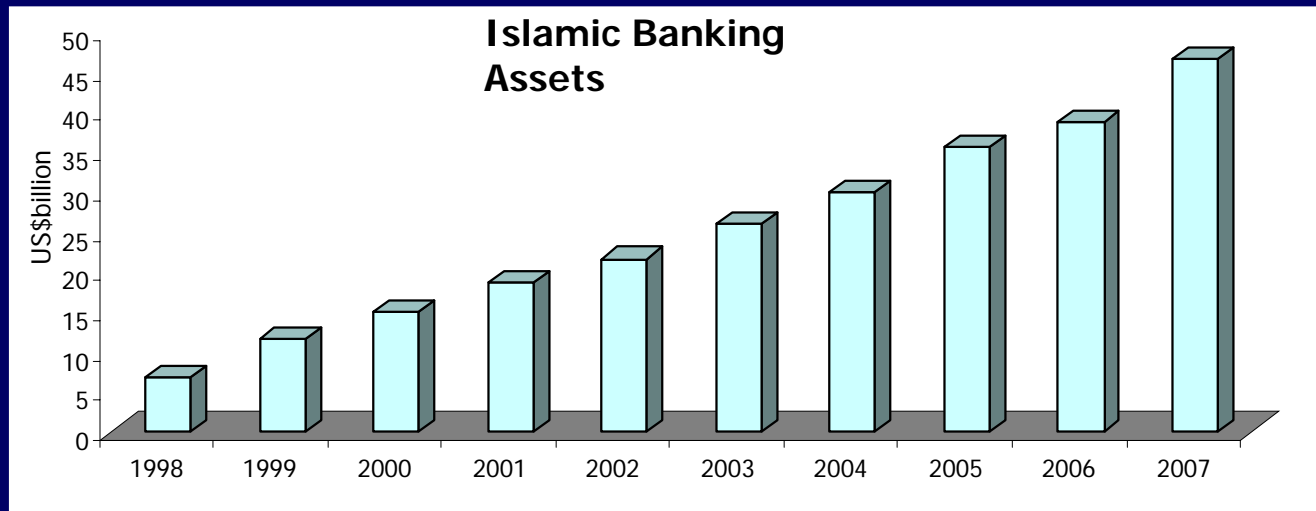
- ✓ **1st Islamic ETF in Asia (Jan 2008)**
- ✓ **RM840 million (US\$262.5 m) MyETF Dow Jones Islamic Market Malaysia Titans 25**
- ✓ **May have a second tranche launched in US\$ later this year**

Islamic Fund Management:

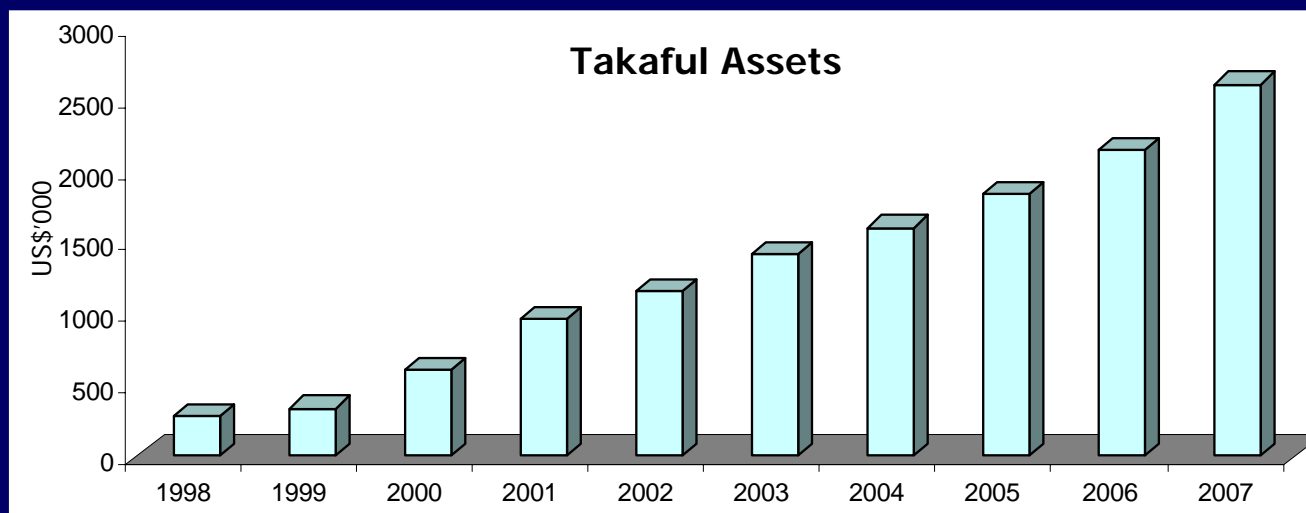
- ✓ **US\$2.2 bln seed fund for new & foreign Islamic fund management companies**
- ✓ **Allowed to invest all assets abroad**
- ✓ **Income tax exemption on fees received in Islamic fund management activities, until 2016**
- ✓ **Tax exemption to non-resident consultants with the required expertise in Islamic finance.**

The growth of Islamic banking & takaful

Will spur development of Islamic capital market

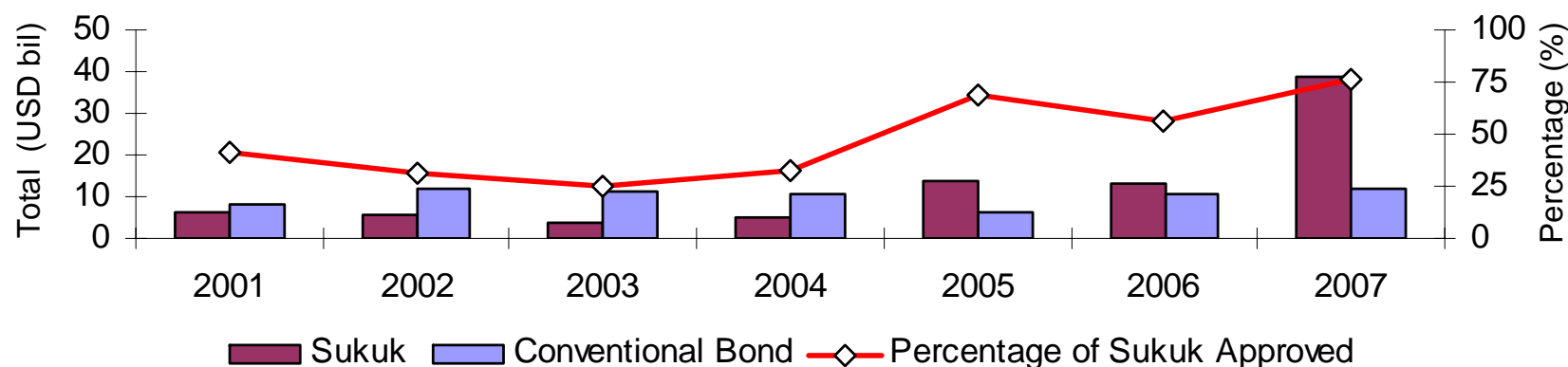


12.8% of
banking market
share



6.9% of
insurance
market share

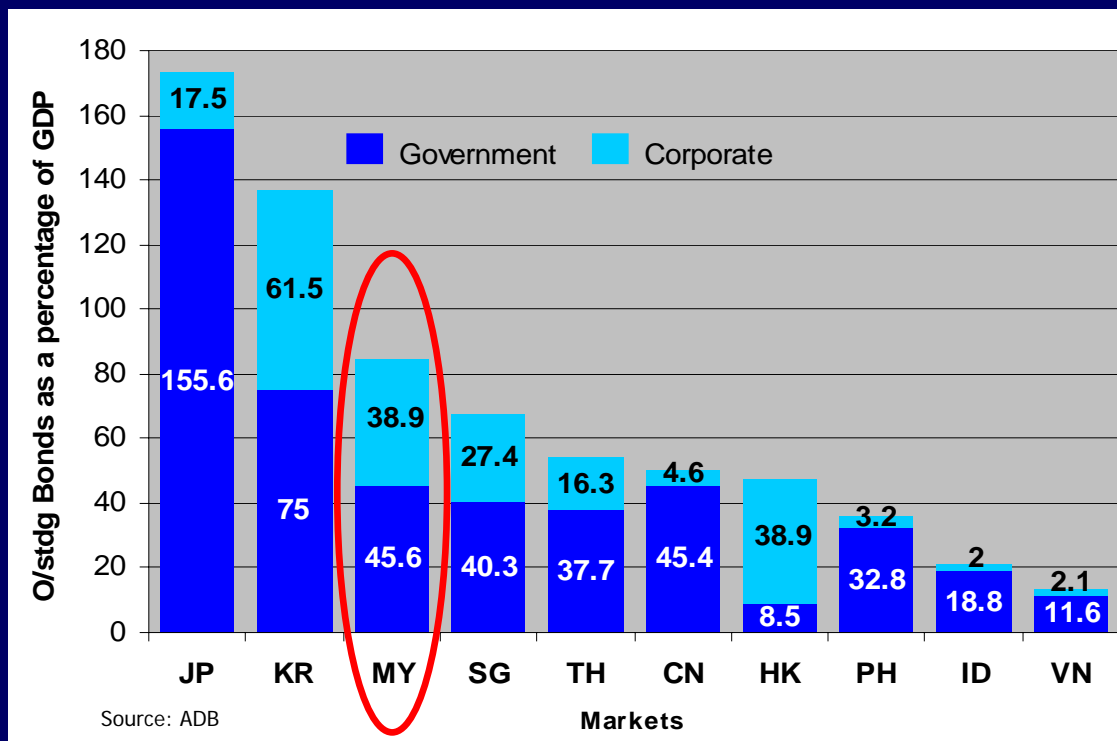
Clearly, sukuk has become the preferred financing tool in Malaysia



Year	Sukuk (US\$bil)	Conventional Bond (US\$bil)	% of Sukuk Approved by SC
2001	5.9	8.4	41%
2002	5.5	12.1	31%
2003	3.8	11.2	25%
2004	4.8	10.4	32%
2005	13.7	6.2	69%
2006	13.3	10.7	56%
2007	38.4	11.9	76%

... leveraging on an existing established domestic bond market

Size of local currency bond market in % GDP

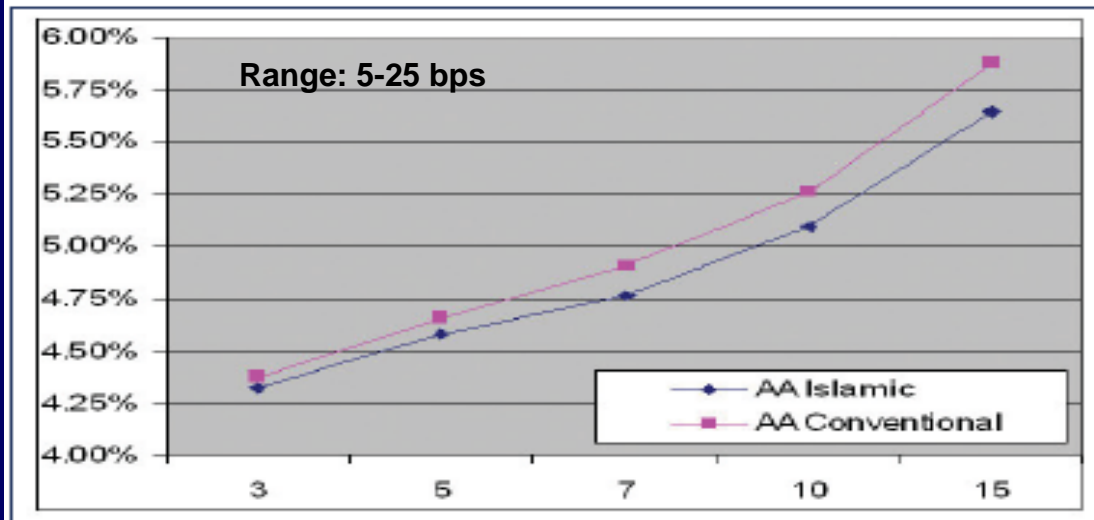
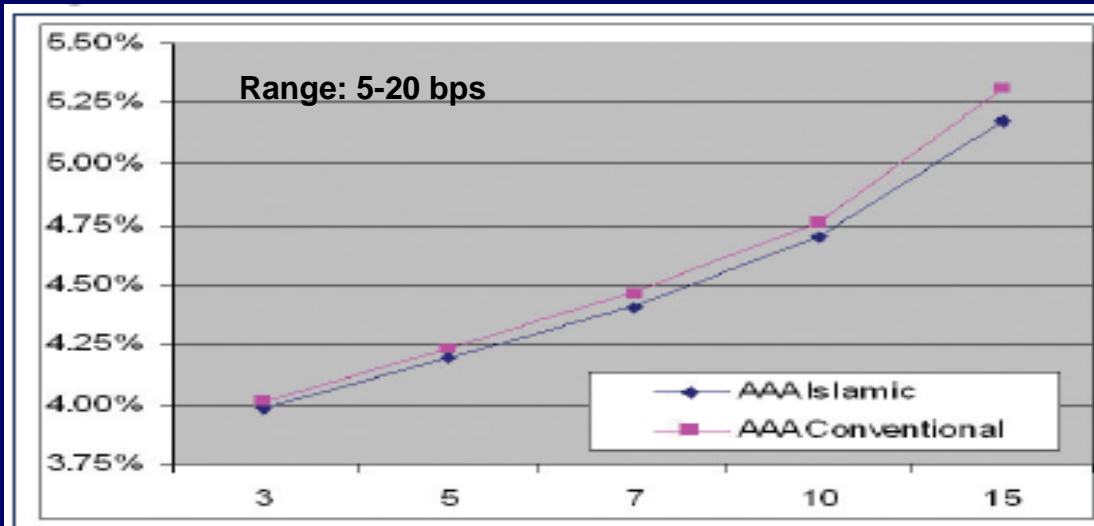


Malaysia has the competitive edge:

- ✓ Local currency bond market is largest in ASEAN region
- ✓ 62% of sukuk in global market are from Malaysia (total end 2007: US\$97.3 bln)
- ✓ Competitive source of funding
- ✓ New asset class

Sukuk provide better deals for issuers at primary level ...

Yield to issuers



Attractive and competitive pricing due to high demand from:

- ✓ Now, growing interest by conventional investors for new asset class
- ✓ Increasing number of Islamic financial institutions requiring Islamic asset

Incentives designed to benefit Sukuk issuers & investors ...

Issuers

- Free on usage of proceeds
- Free to hedge positions
- International credit rating allowed
- Tax deduction on issuance cost
- Tax neutrality given to all Islamic instruments and transactions
- Company that established SPV is given a tax deduction on the issuance cost of the sukuk incurred by the SPV

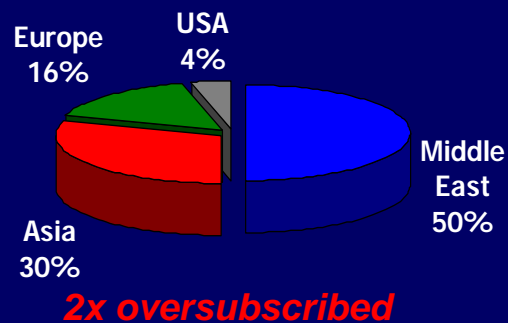
Investors

- No restrictions on repatriation of capital, profits and income
- May enter into FX contracts with licensed onshore banks for hedging
- Free to convert foreign currency into ringgit and vice versa
- No tax for non resident investors on income from both RM and non RM sukuk

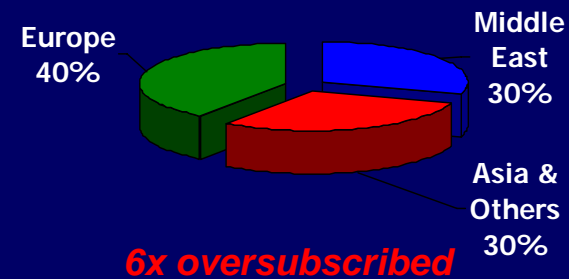
Breakthrough innovations in sukuk issuance from Malaysia ...

...overwhelming global demand by Islamic and conventional investors for non-Ringgit sukuk

**USD600 m Malaysia Sovereign Sukuk
(2002 - 2007)**

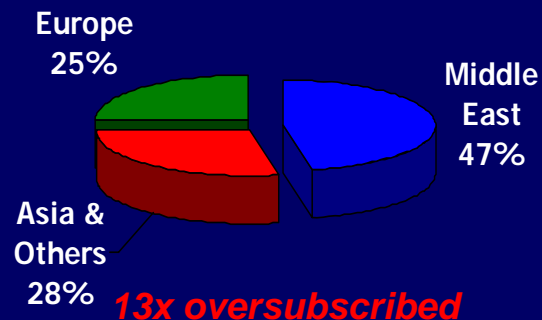


**USD750 m Khazanah Exchangeable
Sukuk 2006 ***



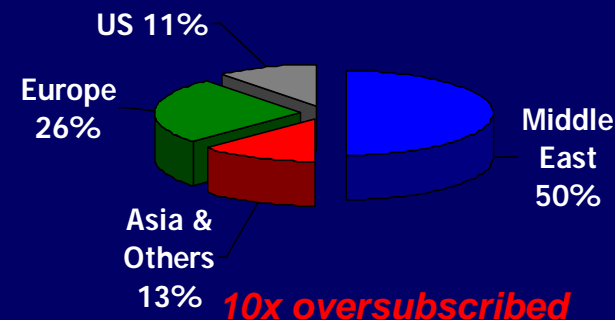
* Exchangeable into shares of Telekom Malaysia

**USD850 m Khazanah Exchangeable
Sukuk 2007 ***



* Exchangeable into shares of PLUS Expressway Bhd.

**USD550 m Khazanah Exchangeable
Sukuk 2008 ***



* Exchangeable into shares of Parkson Retail Group, HK

Moody's Report: More than 80% sukuk investors are conventional institutions

Top bookrunners and issuance by country

Malaysian Players in the Global Sukuk Market

Top Manager 2006

No	Manager	US\$mil
1.	CIMB Islamic Bank	7,592.30
2.	Dubai Islamic Bank	3,564.00
3.	Barclays Capital	3,510.00
4.	HSBC Amanah	2,890.37
5.	AmInvestment	1,976.08
6.	Central Bank of Bahrain	798.00
7.	Aseambankers Malaysia	784.13
8.	RHB Islamic Bank	613.15
9.	Deutsche Bank AG	460.00
10.	RHB Investment	374.66

Top Manager 2007

No.	Manager	US\$mil
1.	CIMB Islamic Bank	7,490.32
2.	HSBC Amanah	3,582.57
3.	Barclays Capital Group	2,478.50
4.	ABN-Amro Bank Berhad	2,292.20
5.	Deutsche Bank AG	1,980.20
6.	Citigroup Inc.	1,762.33
7.	JP Morgan Chase & Co	1,283.33
8.	Dubai Islamic Bank	1,097.34
9.	Standard Chartered PLC	1,083.10
10.	Riyad Bank	1,050.00

With comprehensive development of the Islamic capital market ...

...Malaysia has built reputation as a centre of innovation ...

Centre of innovation

- First sovereign 5 year global sukuk of US\$600 million in 2002 (Govt. of Malaysia)
- First rated Islamic residential mortgage backed securities in 2005 (Cagamas Berhad)
- First listed Islamic Real Estate Investment Trusts (2006)
- First Islamic ringgit bond issuance by World Bank of RM760 million (2005)
- First Islamic structured product (2007)

Recent Landmark launches

- Largest sukuk funding programme of RM60 billion by Cagamas
- Largest corporate sukuk of RM15.4 billion by Binariang
- Largest exchangeable sukuk of USD850 million by Khazanah
- RM3 billion Islamic stapled income securities by Telekom and Hijrah Pertama
- First Asian Islamic ETF launched by i-Valuecap Management recently

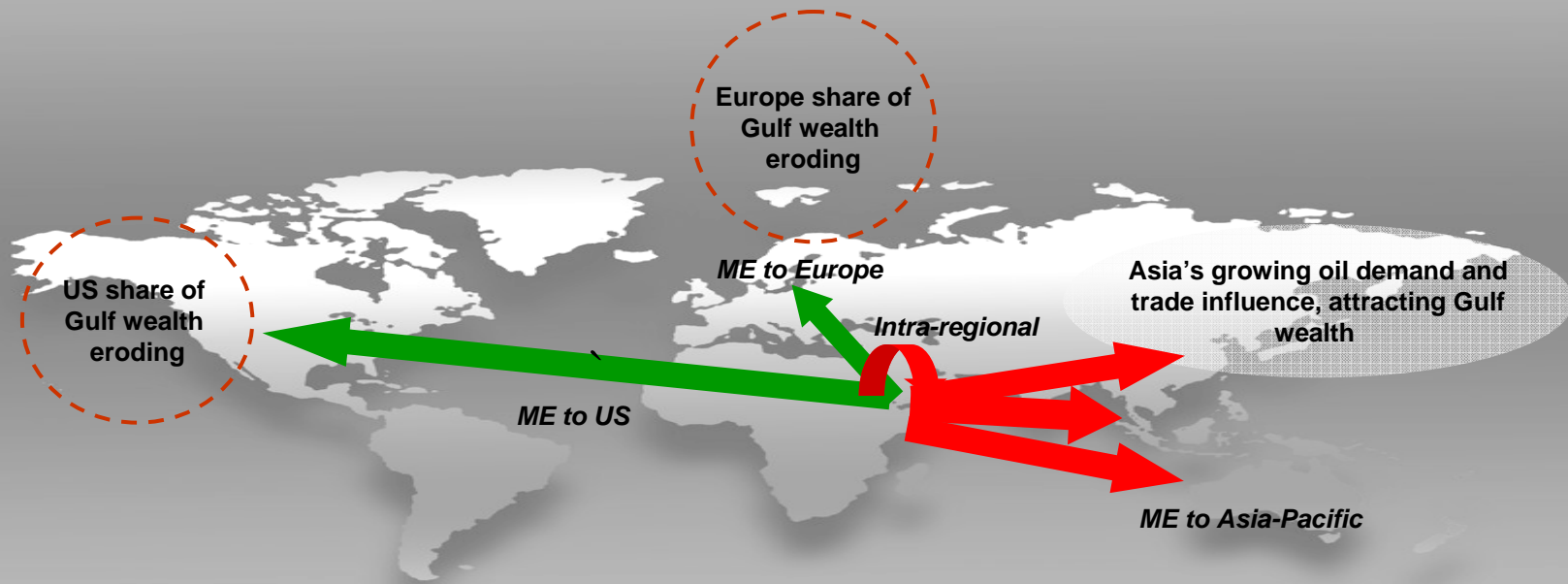
... thus positioning itself as the gateway for Islamic finance

- ❑ Well positioned interlinking Asia and Middle East
- ❑ Supported by well-developed & conducive legal, regulatory & Shariah framework
- ❑ Diversified & advanced Islamic financial markets
- ❑ Continuous innovation to create globally accepted Islamic financial instruments
- ❑ New asset class as an attractive alternative to conventional bonds

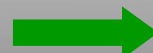



Asia-Pacific surpass Europe as the 2nd largest region for investment from GCC

...increasing GCC interest in the Asian region driven by geopolitical factors and lucrative investment opportunities



Since 2000, accumulated
petrodollars: US\$1trillion
Foreign investment flows from
GCC in 06/07: US\$450billion

 Predominant direction of investment flow earlier
 New/emerging investment flow

Thank You

Securities Commission
3 Persiaran Bukit Kiara
50490 Kuala Lumpur
Malaysia
www.sc.com.my

Phased liberalisation to widen market access

Securities Commission announced further liberalisation on bond/sukuk issuance framework in Malaysia in March 2008

- (i) Ringgit bond/sukuk issues that are rated AAA based on domestic currency rating or a minimum BBB rating based on foreign currency rating will be deemed approved;
- (ii) Foreign currency bond/sukuk issues that are rated a minimum BBB based on foreign currency rating will be deemed approved;
- (iii) Bond/Sukuk issues that are rated AAA based on domestic currency rating or a minimum BBB rating based on foreign currency rating will be exempted from trust deed and trustee requirements under CMSA; and
- (iv) Allowing the use of international documentation for bond/sukuk issues that are rated AAA based on domestic currency rating or a minimum BBB rating based on foreign currency rating

