



21st Islamic Financial Stability Forum (IFSF) 2023

**"THE ISLAMIC FINANCIAL SERVICES INDUSTRY: NAVIGATING CHALLENGING
GLOBAL FINANCIAL CONDITIONS"**

Special Address

By

**Dr. Awang Adek Hussin,
Chairman, Securities Commission Malaysia**

***"Malaysia's Islamic Capital Market Journey:
Challenges, Opportunities and Way Forward"***

Key Highlights:

Dato' Seri Dr. Awang Adek Hussin, Chairman of the Securities Commission Malaysia (SC), begin his special address in Riyadh, Saudi Arabia by congratulating the Islamic Financial Services Board's (IFSB) on its 20th Anniversary and recognising their role in catalysing greater innovation, standardisation, and resilience within the realm of Islamic finance.

In his address, he highlighted Islamic finance's resilience to regional and global shocks, which is attributed to Shariah principles, financing, equity participation, and mutual risk-sharing. He also emphasised the ICM's role in building a more robust and resilient Malaysian financial system, as well as the SC's efforts to support Malaysia's aspirations to develop a dual financial system.

Here are highlights from his speech:

1. The SC's collaboration with IFSB on its Technical Committee and other initiatives has contributed towards developments of 23 standards, 4 technical notes and 6 guidance notes issued by IFSB to guide regulatory and supervisory authorities in Islamic finance worldwide.
2. Islamic finance assets were around USD200 billion at the start of the century. Despite multiple regional and global financial crises, Islamic Finance assets reached an estimated USD3.06 trillion in 2021.
3. Between 2008 to 2012, volume of global sukuk issuances recorded resounding growth, at a compounded annual growth rate (CAGR) of 41.4%. Meanwhile The global Islamic Financial Services Industry expanded by 10.7% in 2020 and 11.3% in 2021.

4. As of 31 December, the ICM in Malaysia, accounted for 64.5% of the entire capital market, with a total size of USD500 billion.
5. Within the ICM, 46% of the total (USD232 billion) represents market capitalisation of Shariah-compliant securities and 54% is sukuk outstanding (USD268 billion).
6. The setting up of the Shariah Advisory Council was a major developmental milestone towards harmonising a full-fledged ICM in Malaysia.
7. The future of ICM in Malaysia is about prioritising inclusivity and alignment with ESG requirements. The Sustainable Responsible Investment (SRI) Framework through SRI sukuk and SRI-linked sukuk, are steps in that direction.
8. The SC plans to issue a guidance on principle-based Maqasid al-Shariah compliance by the end of the year to meet the need of investors looking for more compliance.

Full Speech

Your Excellencies IFSB Council Members,

Dr. Bello Lawal Danbatta, Secretary General of the Islamic Financial Services Board (IFSB),

Distinguished guests,

Ladies and gentlemen.

Assalamualaikum warrahmatullahi wabarakatuh.

1. First and foremost, I would like to thank the Islamic Financial Services Board (IFSB), for inviting me to speak at the 21st Islamic Financial Stability Forum in conjunction with the IFSB's 20th Anniversary.
2. My gratitude to Saudi Central Bank (SAMA) for the warm welcome and excellent organisation of this important occasion.
3. On behalf of Securities Commission Malaysia (SC), I would like to extend our heartfelt congratulations to the IFSB on reaching a commendable milestone. Given that IFSB has been a catalyst for greater innovation, standardisation, and resilience within the realm of Islamic finance, this commemoration is fitting as it represents for the IFSB two decades of commendable work and excellent achievements.
4. The SC too has been fortunate to have collaborated closely with IFSB as a full member since 2006. We have actively participated in various IFSB initiatives including serving on its Technical Committee. It is also a privilege for the SC team to have been able to contribute towards the development of 23 standards, 4 technical notes, and 6 guidance

notes, issued by the IFSB to guide regulatory and supervisory authorities in the development of Islamic finance globally.

5. Anniversary milestones such as this reminds us to look back, celebrate and plan forward. In line with that, I am pleased to share that this year also marks the 30th anniversary of the Securities Commission Malaysia (SC). So, my presentation today is based on our own reflections of our Islamic capital market journey in the past decades, its opportunities, challenges, and some indications of the way forward.

Ladies and gentlemen,

ISLAMIC FINANCE REMAINS RESILIENT IN FACE OF GLOBAL CRISES

6. At the start of this century, Islamic finance assets were estimated to be around USD200 billion¹. Despite multiple regional and global financial crises, this figure has grown by leaps and bounds, with Islamic Finance assets worth an estimated USD3.06 trillion in 2021².
7. The strength of Islamic finance as an industry to weather regional and global shocks can be attributed to its strong foundations rendered by adherence to Shariah principles which promote financing and equity participation to sustain real economy, as well as mutual risk-sharing. During the 2008 Global Financial Crisis, the Islamic banking sector was still able to achieve an annual expansion rate of 16% from 2008 to 2012³. By 2013, its collective value was about USD1.4 trillion⁴.
8. Similarly, between 2008 to 2012, volume of global Sukuk issuances recorded resounding growth, at a compounded annual growth rate (CAGR) of 41.4%⁵.
9. The strong growth and resilience of Islamic finance continued even after the global economy was brought to a virtual standstill by the Covid-19 pandemic. The global IFSI

¹ Deutsche Bank, 2011, "Global Islamic Banking Report", November, London, UK.

² IFSB Islamic Financial Services Industry Stability Report 2022.

³ World Islamic Banking Competitiveness Report in 2014 by EY, page 14.

⁴ IFSB Islamic Financial Services Industry Stability Report 2022, page 15.

⁵ 2008 – 2012 CAGR calculated based on figures from IIFM Sukuk Report 2019, page 21.

expanded by 10.7% in 2020⁶ and 11.3% in 2021⁷. That brings us to an industry that was valued over USD3 trillion in 2021⁸.

Ladies and gentlemen,

THE MALAYSIAN ISLAMIC CAPITAL MARKET JOURNEY

10. In Malaysia, the total size of the Islamic capital market (ICM) amounted to USD500 billion⁹. This represents 64.5% of the entire capital market in the country. Within the Islamic capital market, 46% of the total (USD232 billion) represents market capitalisation of Shariah-compliant securities and 54% comes in the form of sukuk outstanding (USD268 billion).
11. For the past 25 years, the size of the Islamic capital market has been larger than the conventional component. In 1997, the ICM component was USD45 billion, and the conventional counterpart amounted to USD35 billion. By 2022, the ICM amount was USD500 billion and the conventional was USD130 billion. The widening gap in favour of the ICM is reflected in the compounded annual growth rate of 9.8% for ICM and 7.1% for the conventional during the last 25 years.
12. This strong positioning of the ICM in Malaysia is quite remarkable given that Malaysia inherited a colonial economy and financial ecosystem from the British when the country became independent in 1957. The move to introduce Islamic finance, though stated earlier, gained wider traction in the 1990s, spearheaded by Bank Negara Malaysia in the area of Islamic banking and Takaful, and the SC in Islamic capital market.
13. Interestingly, in ICM the 'take off' seems to occur at the end of the global financial crisis 2007 – 2008. In Malaysia, this 'take off' was spearheaded by the rapid expansion of sukuk issuances. The Malaysia Ringgit Sukuk Market is indeed the largest sukuk market in the world¹⁰. It is a proven high quality investment asset class where the default rate and credit losses have been very low, through multiple economic cycles including the

⁶ IFSB Islamic Financial Services Industry Stability Report 2021, page 3.

⁷ IFSB Islamic Financial Services Industry Stability Report 2022, page 3.

⁸ IFSB Islamic Financial Services Industry Stability Report 2022, page 3.

⁹ Total ICM size (i.e. listed shariah stocks plus outstanding sukuk) as at 31 Dec 2022.

¹⁰ Malaysia continues to spearhead the international sukuk market, commanding 40.3% market share of global sukuk outstanding in 2022. Source: <https://www.mifc.com/documents/6319173/6346752/GLOBAL-SUKUK-2022-v2+%282%29.pdf/cbb0fb68-2407-81d4-a6dd-69ced45d3f05?t=1685515176229>

Asian financial crisis (1997-1998), the global financial crisis (2007-2008), and the European sovereign and banking crisis 2012.

14. This consequently resulted in a much more robust and resilient Malaysian financial system as the nation's financing and credit risks are not concentrated entirely in the banking system, but diversified to both banking and Ringgit bond and sukuk markets. The split is quite balanced with USD466 billion¹¹ in total loans extended by the banking system and USD424 billion¹² raised through Ringgit bonds and sukuk. At the same time, it has eliminated the reliance on foreign currency funding by domestic players which proved to be catastrophic during the Asian financial crisis, largely responsible for the collapse of many companies and sharp economic downturns in the affected countries.
15. The Malaysian Ringgit bond and sukuk markets have been highly successful so much so that institutional demand continues to exceed supply or issuances. Among the major reasons are the presence of large pension and retirement funds as well as insurance and takaful companies with huge demand for long-term securities for their long-term investments. Secondly, it is due to robust regulatory framework put in place by the SC in terms of trust deed and information memorandum requirements, which protect the interest of investors, and almost always get upheld by the Malaysian courts in times of disputes. This has created investors' confidence and avoided defaults.
16. Another important factor was the establishment of Bonds and Sukuk Information Exchange by the SC to democratise and level the playing field for retail and non-institutional investors to also have access to the bond and sukuk markets. The Exchange serves as a public utility to provide a centralised information platform where any information regarding any Ringgit bond and sukuk can be obtained free of charge, without hefty subscription fees as normally charged by other providers. Users can also use the search and price discovery engine for the Ringgit bonds and sukuk, which will ensure price transparency to guide their investment decisions.

Ladies and gentlemen,

¹¹ Total Outstanding Loans & Financing to businesses (SMEs & non-SMEs) and households as **at 31 Dec 2022**. (Bank Negara Malaysia Quarterly Bulletin Q4 2022, page 41)

¹² Total Outstanding Bond and Sukuk (Government & Corporate) as **at 31 Dec 2022**. (SC ICM Statistics)

17. I have touched on some of the developments in the Islamic capital market in Malaysia, and reasons behind these developments. Let me mention a few more important milestones on Malaysia's journey to develop the Islamic capital market.
18. The most important milestone is of course the establishment of the Securities Commission Malaysia (SC) in 1993 to focus exclusively on the development of the capital market with extensive regulatory powers to ensure fair and orderly markets, to protect investors and punish offenders. At that time, the stock market was overly bullish and highly speculative, driven not only by irrational exuberance but also in many cases market manipulations and illegal trading activities. The SC in the early days had to take many unpopular measures to rein in speculative activities, brought offenders to book, and bring down the market to more sustainable levels.
19. But the more important roles of the SC which is directly relevant to our discussion today is its mandate to develop the capital market. With that mandate, the SC set out to support Malaysia's aspirations then to develop a dual financial system, comprising Islamic as well as conventional. To do that, the SC established the Shariah Advisory Council (SAC) in 1996 as the nation's highest reference authority on ICM, at the same time providing the much-needed guidance to investors on capital market products and services that comply with Shariah principles.
20. Indeed, the setting up of SAC was a major milestone which provided a key building block for a harmonized, full-fledged ICM in Malaysia. To date, the SAC has produced more than 120 resolutions on practical and contemporary Shariah issues in ICM. These has helped immensely in broadening and deepening the ICM in Malaysia.
21. To meet rising demand for shariah-compliant investments, screening methodologies for equities were developed, and the first official Shariah-compliant list was issued in 1997. Back then, we had just 371 companies on the first official list of Shariah-approved securities. The SAC adopts a two-tier qualitative and quantitative approach, which applies the business activity and the financial ratio benchmarks, in determining the Shariah status of the listed securities. Today, this list includes 804 shariah-compliant securities out of the total 982 listed companies, with market capitalisation of USD232

billion, as at June this year¹³. This represents 65.1% of the total Malaysia's market capitalisation of listed securities¹⁴.

22. Another important developmental role of the SC was to issue Capital Market Masterplans with the first one issued in 2001. Following the Asian financial crisis 1997-1998, it became clear the capital market needed to be more developed in order to diversify credit risks away from the traditional banking system, as explained earlier in my speech. So far, three Masterplans have been put into implementation to develop the capital market in general as well as further promote the Islamic capital market.
23. The first capital market Masterplan (2001-2010) focused on building stronger foundations in the capital market following the weaknesses experienced during the Asian financial crisis. Market consolidation took place particularly among the stockbroking companies to merge and become bigger. The numerous exchanges that existed were consolidated under a single exchange known as Bursa Malaysia. The stock exchange was also demutualised to avoid conflict of interest and be more efficient. In addition, liberalisation in terms of foreign ownership in stockbroking and fund management industries were undertaken as well as removing branching restrictions to allow greater access to wider population. The first Masterplan also focussed on positioning Malaysia as a global ICM centre.
24. The second Capital Market Masterplan (2011 – 2020) strengthened the fundamentals and building blocks from the first Masterplan to expand ICM by facilitating foreign participation in the sukuk market as well as the Islamic fund management industry. Through the Malaysian International Islamic Financial Centre initiative (MIFC) spearheaded by Bank Negara Malaysia, foreign participation in the domestic Islamic capital market was encouraged through various measures, among them was flexible foreign exchange administration which allows freer flows of capital in and out of Malaysia. The second Masterplan therefore focused on internationalisation agenda to expand and scale ICM to global markets. It further emphasized on expanding the Islamic wealth management industry to include products like Islamic REITs, Exchange Traded Funds, Waqf funds and unit trust funds.

¹³ Data as at 30 June 2023, SC ICM Statistics

¹⁴ Data as at 30 June 2023, SC ICM Statistics

25. Over the years, there were sukuk issued by foreign issuers tapping into our ringgit market, which included foreign currency denominated ICM instruments such as the International Development Bank's USD 3.5 billion trust certificate issuance programme in 2010¹⁵. Other further product innovation included the world's first green sukuk worth USD59million by Tadau Energy to finance a rural solar project in 2017¹⁶.
26. We needed to constantly be agile and diversified. The release of the Islamic Fund and Wealth Management Blueprint in 2017 and the Sustainable and Responsible Investment or SRI Roadmap in 2019, strengthened Malaysia's position to be a hub for Islamic funds and facilitated provision of Shariah-compliant SRI solutions, respectively.
27. Unlike the first two Masterplans which spanned a period of 10 years each, the Third Masterplan covers the period of 5 years, 2021 – 2025. It sets the direction for the way forward with emphasis on the importance of leveraging on technology and digitalisation to advance the capital market. At the same time, it focuses on building stakeholder economy where ICM and SRI segments were identified as significant enablers for this purpose.
28. The stakeholder economy also requires focus on digital modalities and fintech as key enablers in the expansion of Islamic capital market. These enablers are expected to broaden the pool of investors especially among young investors and smaller businesses to fundraise. In 2022, peer-to-peer financing and equity crowd funding platforms in Malaysia raised about USD997 million in funds. The beneficiaries were more than 7,000 small businesses¹⁷.
29. Indeed, the way forward for ICM in Malaysia is to be more inclusive and better aligned with ESG requirements. The Sustainable Responsible Investment (SRI) framework through SRI Sukuk and SRI-Linked Sukuk, is very much efforts in that direction. SRI-Linked Sukuk enabled financing for companies in transition along their sustainability journey, for example from brown to green. Another dimension is the implementation of social finance through Waqf-Featured Fund Framework which allows investors to give dividends from unit trusts and wholesale funds to charity. It might even be possible to

¹⁵ <https://www.sc.com.my/resources/speeches/international-shariah-investment-convention-2010>

¹⁶ [JFN - Tadau Energy to issue Sukuk \(islamicfinancenews.com\)](https://www.islamicfinancenews.com/jfn-tadau-energy-to-issue-sukuk)

¹⁷ In total, ECF and P2P financing have facilitated 7,218 MSMEs to raise more than RM4.4 billion (USD997 million, BNM Exchange Rate 31 Dec 2022). Source: SC Annual Report 2022, page 58

also consider introducing an Islamic Social Exchange in the near future to strengthen ESG programmes, especially to support the poor and the needy.

30. While the world is now embarking on the new sustainability journey, our ICM initiatives have always been deeply rooted in ethical, socially responsible, and sustainable practices, as required by Shariah. Perhaps it is now time to move to Shariah plus where everything should be aligned as close as possible to the intent and objective of Shariah or Maqasid al-Shariah. We in Malaysia are planning to issue a guidance on principle-based Maqasid al-Shariah compliance before end of this year to meet the need of investors looking for an even higher order of compliance. Some products may be Shariah-compliant but if these are not good for health reasons and can even undermine life in the long run, then these products may not be in line with the principles of Maqasid al-Shariah.
31. On that note, I like to once again express our appreciation and gratitude to the organisers for giving the SC Malaysia the opportunity to hear our views and share our journey.
32. Thank you, and I wish you all a productive forum and a safe trip home.

Assalamualaikum warrahmatullahi wabarakatuh.