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**ISLAMIC CAPITAL MARKET SUMMIT (ICMS) 2021
"CONNECTING ISLAMIC CAPITAL MARKET TO SHAPE A SUSTAINABLE FUTURE"
7 DECEMBER 2021 | KUALA LUMPUR (VIRTUAL)**

Bismillahirrahmanirrahim

Her Excellency Dr Sri Mulyani Indrawati, Minister of Finance, Indonesia

Yang Berbahagia Tan Sri Dr Mohd Daud Bakar, Founder and Executive Chairman of Amanie Group

Assalamualaikum Warahmatullahi Wabarakatuh and a very good morning all

INTRODUCTION

1. Firstly, I would like to thank the Centre for Research and Training (CERT) for inviting me to speak at Islamic Capital Market Summit (ICMS) 2021. It is indeed a privilege for me to be here this morning in the company of eminent market experts, and practitioners to discuss new developments that will accelerate the progress of the Islamic capital market, globally.
2. Over the last 20 months, the world has suffered profoundly across multiple dimensions and while we grapple to contain the virus and its impact on public health, livelihoods, society and markets, we are also facing very real concerns about the future of our economies.
3. Even prior to the pandemic, it was predicted that no Southeast Asian country would meet any of the SDGs by 2030. Then, the pandemic hit us and the global economy

plunged into its deepest recession since the Second World War. Malaysia's economy saw its worst performance since the 1998 Asian Financial Crisis¹.

4. However, *Alhamdulillah*, despite the devastating effects of the pandemic, Malaysia's capital market has proven to be resilient. In 2020, the country's capital market registered an overall growth of 7 percent compared with 3 percent in 2019. This is largely due to the ICM segment, which increased by 11 percent, compared to 8 percent the previous year².
5. Malaysia continues to lead the sukuk market, accounting for approximately 45% of total global sukuk outstanding^[3]. As for Islamic funds, Malaysia remains one of the top three jurisdictions, accounting for over 29% of total global assets under management or AUM.
6. This is exciting for many different reasons. The stronger performance of the Islamic Capital Market is a reason for optimism. This is especially so when globally, we are now on an economic recovery path despite the continuous uncertainties.
7. It is also relevant as there are a confluence of longer term megatrends that are expected to reshape our global landscape. This includes intensifying efforts to address our climate change challenge and overall sustainability. As climate risk becomes increasingly intertwined with investment risk and returns, the new wave of climate action is expected to reshape the fundamentals of finance. The recent COP26 in Glasgow was seen as a watershed moment for a sustainable future.
8. Financial regulators around the world, including Malaysia, have also launched various initiatives to facilitate development policies to catalyse growth in this space. It centres on standards of disclosures as well as guidelines for investment products and taxonomies.
9. Another notable megatrend that will have a significant impact to economic recovery, is the accelerated adoption of technological innovations. The advent of technology is transforming how issuers undertake fundraising activities, redefining intermediation, shaping new investor behaviour and revamping clearing and settlement infrastructures – making the ecosystem more dynamic than ever before.
10. To this end, the increased use of technology is promoting more innovation and efficiency by providing investors with easier and better access to financial products and services.
11. I will address this digital trend later in my remarks.

¹ <https://www.straitstimes.com/business/economy/malysias-economy-shrinks-faster-than-expected-in-q4-on-tighter-covid-19-curbs>

² <https://www.ddcap.com/icm-continues-its-resilience-and-dominance-in-rm3-4-trillion-malaysian-capital-market-despite-impact-of-covid-19-in-2020-surpassing-rm2-3-trillion-with-66-market-share/>

^[3] <https://themalaysianreserve.com/2021/08/09/malaysia-leads-sukuk-market-in-2020/>

Ladies and Gentlemen,

SHAPING STAKEHOLDER ECONOMY THROUGH ICM VIA SUSTAINABLE AGENDA

12. Long-term value creation is key to shaping a sustainable future, which in essence is the foundation of a stakeholder economy.
13. This concept entails businesses assuming greater responsibilities beyond short-term profits, to account for the needs of stakeholders – from shareholders and employees, to the environment, society, and community. The sustainability agenda calls for corporates to take into account the wider impact of their actions and business practices.
14. As I said earlier, this inclusive stakeholder economy of exemplary corporate citizenship, is in line with the principles of the Islamic economic system. The emphasis is on the rights of stakeholders in risk sharing, property rights, and sanctity of contracts. This includes the accumulation and redistribution of wealth to achieve a balanced and sustainable socio-economic development.
15. I am confident that through the SC's strategic framework, the ICM will be able to expand even further. Increasingly, it has become an avenue to facilitate the intermediation of capital to sustainable and responsible businesses, to meet the needs of a broader set of stakeholders.
16. Recognising the importance of sustainable and responsible investments (SRI) and its contribution to advancements in ESG practices the SC encouraged the growth of SRI sukuk and SRI funds. Measures included establishing dedicated regulatory frameworks such as the SRI Sukuk Framework, and providing strategic direction and guidance via our Islamic Fund and Wealth Management Blueprint.
17. These regulatory efforts have helped position Malaysia as a regional centre for Shariah-compliant SRI, laid the foundations for SRI offerings in Malaysia and facilitated greater sustainability advocacy.
18. Given their similarities, the ICM has been a strong advocate for sustainable finance. This is reflected by the *maqasid* al Shariah, which underlines the essence of sustainable economic development and encompasses key aspects of life and community. This includes inclusivity and facilitating investments for social causes.
19. By understanding the concept, and objectives of *maqasid* al Shariah, we can appreciate its emphasis on a righteous life and its alignment with sustainability. It seeks to promote economic well-being, social justice, optimising natural resource consumption, and alleviating and reducing income disparities.
20. Innovations in segments such as SRI sukuk and *Waqf* have demonstrated how the ICM facilitates capital formation for commercial purposes, while also contributing to positive environmental and societal outcomes.

21. These outcomes facilitated the first SRI social sukuk issuance to fund trust schools in 2015 and the world's first green sukuk in 2017 to address global funding gaps in green financing. This was followed by an increase in the volume of SRI sukuk issuances for projects such as solar power plants, green buildings, hydropower, and affordable housing. On 21st January this year, the SC announced an expansion of the SRI Sukuk and Bond Grant Scheme to assist issuers in defraying up to 90% of the external review costs. As of end-November, it has benefitted 12 issuers with a total issuance of 1.3 billion US Dollars.
22. For the *Waqf* segment, in 2017, the offering of *Waqf* shares structured under a social enterprise model was the first of its kind globally. Dividends from the *Waqf* shares were used to subsidise shop lots' rental rates for single mothers and lower income groups. Such innovative ICM instruments and initiatives are consistent with the social aim of reducing inequality. The *Waqf*-Featured Fund Framework launched in 2020 will help broaden the range of innovative ICM products and provide the investing community with access to Islamic funds that allocate all or part of the funds' returns towards socially impactful activities.
23. Even with all these in place, there is still tremendous potential for the ICM, to expand its reach to the broader stakeholder economy through sustainable initiatives. Along with growing interest to invest responsibly, efforts will be made to enhance investor access to Shariah-compliant companies with good ESG practices.
24. This will encourage companies to consider all of their relevant stakeholders including impact to the society and environment in their business decision, which will further elevate the socially responsible and ethical values of Shariah-compliant companies.
25. In this regard, guidance is essential to incorporate Shariah requirements and ESG standards for investors seeking such investments, as well as companies aspiring to adopt ESG practices. This guidance will leverage on the SC's Shariah screening and internationally-recognised screening methodologies.
26. In order to have greater impact on Malaysia's socio-economic development, the SC will look into expanding the use of the ICM framework as a reference point, and its products and services as funding sources for further development of the Islamic social finance sector.
27. In line with the *maqasid* al Shariah, the key objective of the Islamic wealth management and distribution system is to alleviate hardship among the underprivileged.
28. Moving forward, there may be opportunities to integrate impact assessments with Islamic social finance instruments. This will enable investors to measure whether the capital invested has achieved its desired outcome.
29. Impact investing is another model that Islamic markets can potentially expand on as it is a natural fit with Islam's views on the nobility of doing permissible business and returning profits back to society. While ESG seeks to identify non-financial risks that

may impact the valuation of a company, impact investing on the other hand seeks to make a measurable, positive environmental or social impacts.

30. This entails knowledge sharing, research capabilities, and coordination with impact stakeholders through a facilitative regulatory and developmental environment for social finance innovation. Structured platforms for collaboration are another avenue to enable the impact investment ecosystem to progress.
31. The SC's extensive network of both domestic and regional stakeholders can be leveraged to achieve this. We can then harness our collaborative efforts to develop thought-leadership capabilities in sustainable finance, cater to regional capacity building needs, champion innovation and research, and guide the broader economy on a path of long term value creation.

Ladies and Gentlemen,

ACCELERATING DIGITAL & TECHNOLOGY ADOPTION IN ICM

32. A further step change which is now apparent is the novel application of a number of technologies, such as blockchain, the 'Internet of things' (IoT) and (AI) or artificial intelligence. Fintech applications are known to provide significant value propositions such as alternative fundraising options, and affordability of financial services. Perhaps an unintended consequence of the pandemic is the accelerated application of fintech unlocking hitherto unrealised potential for financial inclusion by providing access to the underserved segments, such as SMEs.
33. At the height of the pandemic last year, funds raised through equity crowdfunding (ECF) and peer-to-peer (P2P) financing platforms in Malaysia increased by 457 percent³. Since April 2020, a total of more than 1.3 billion Ringgit (USD313 million) has been raised. ECF and P2P financing have aided close to 4,000 MSMEs⁴ since their inception. Collectively, the ECF and P2P platforms have raised 1.95 billion Ringgit (USD460 million) of which, more than 80 million Ringgit (USD18 million) was raised through Shariah-compliant manner.
34. The SC recently introduced the Shariah Screening Assessment Toolkit for Unlisted MSMEs. As MSMEs are an engine of growth of the Malaysian economy, the Toolkit aims to support their growth and development by providing access to fundraising on alternative platforms. We are also confident that its introduction will spur more Shariah-compliant offerings through the ECF and P2P platforms. It can in fact, lay the foundation for fintech solutions that will lead to the creation of a comprehensive end-to-end Shariah-compliant ecosystem for MSMEs.
35. Fintech will also be leveraged as an enabler for innovative solutions, particularly with a focus on the halal economy. These digital solutions will facilitate connectivity by

³ SC Annual Report 2020

⁴ "Welcome Remarks by Datuk Syed Zaid Albar", SC x SC Fintech Conference 2021.

allowing issuers, investors and intermediaries access to existing and new markets in a more efficient and cost-effective manner, thereby accelerating the growth of the industry.

36. As part of our efforts to promote economic recovery and financial inclusion, the SC has taken steps to empower investors through a variety of strategies, one of which is to widen investment options through accessible and high quality investment advice. This is addressed through the use of robo-advisers or digital investment managers or DIM in short. Since the introduction of the DIM framework in 2017, and the issuance of the first Islamic DIM licence in 2019 - DIM entrants have contributed significantly to the growth of AUM. There are currently eight licensed DIMs, one of which offers dedicated Islamic fund management services. Collectively, they manage an estimated 16 billion Ringgit of funds. This year, the eight licensed DIM holders have opened 90 percent⁵ more DIM accounts compared to last year.
37. These developments demonstrate that there is a strong value proposition in positioning an Islamic capital market-empowered-with-technology as a catalyst for long-term sustainability and economic recovery.
38. In July 2020, the Shariah Advisory Council of the SC issued a resolution that recognised digital assets as assets (*mal*) from a Shariah perspective. This signified a landmark milestone in ICM where trading digital assets on regulated digital asset exchanges is permissible. Moving forward, this ruling is expected to facilitate greater product innovation in digital assets that will attract broader participation in this asset class.
39. To further develop a supportive Islamic Fintech innovation ecosystem for Malaysia's ICM, the SC and the UN Capital Development Fund launched FIKRA in May this year. FIKRA is the world's first regulator-led Islamic Fintech Accelerator Programme that seeks to identify and scale promising Islamic fintech solutions. This initiative is intended to promote new ICM offerings, increase ICM accessibility, and enhance social finance integration.

Ladies and Gentlemen,

CLOSING REMARKS

40. The ICM has many tools at its disposal to shape a sustainable future, both through technological advancements and sustainable initiatives.
41. On a final note, in keeping with the CMP3's goal of promoting a competitive and inclusive ecosystem, and the SC's long standing effort to recognise the contributions made to the Islamic finance industry – allow me to share some recent development on the Royal Award for Islamic Finance (RAIF). The Royal Award was first established in 2010 as a joint initiative of the SC and Bank Negara Malaysia and it recognises

⁵ Welcome Remarks by Datuk Syed Zaid Albar", SC x SC Fintech Conference 2021

outstanding and inspiring individuals who have contributed significantly to the advancement of the Islamic financial services industry.

42. The global nominations for the RAIF Award has opened this December to March 2022 and two new categories will be introduced to further promote the development of Islamic finance globally, which are the Emerging Leader and the Impact Challenge categories
43. The new categories will recognise young international talent who have made outstanding contributions to the advancement of innovative ideas and innovative solutions in Islamic Finance, with emphasis on impacted communities globally.
44. With that, I hope that the upcoming discussions will spur more innovative solutions for the ICM to thrive, increasing its relevance and connectivity in the world today.

Thank you.