

Keynote Presentation
By
Zainal Izlan Zainal Abidin
Managing Director, Development & Islamic Markets
Securities Commission Malaysia
at the KLIFF 2017
Kuala Lumpur
4 October 2017

Ladies and gentlemen

1. It gives me great pleasure to be here this morning. Please allow me to congratulate the organizers for their unwavering commitment which has brought KLIFF, a hallmark event in the Islamic finance calendar, to its 14th edition this year.
2. I would also like to thank the organisers for allowing me to share my views with all of you today. It is highly encouraging to see such a large turnout at this Forum over these two days. Your presence – speakers and delegates alike – indeed reflects not only the relevance of and the growing interest in Islamic finance, but also the willingness of key market players and industry experts from all corners of the globe to discuss and collaborate to make a difference within the Islamic finance industry.
3. This ‘difference’ is without a doubt observable as over the past two decades, Islamic finance has registered double digit annualised growth globally, and in this time we have witnessed numerous innovations that eventually translated to landmark events. I am pleased to mention that some of these landmark events are very much evident within the sphere of Islamic Capital Markets (“ICM”) and that the outlook for ICM continues to be bright.
4. Before I delve deeper into the prospects for the Islamic capital market, please allow me to share some recent statistics on the market both globally and domestically. In 2016, the global sukuk market registered a 13.2% growth in total issuance with a size of USD74.8 billion. Reflecting the greater diversity of the market, Malaysia accounted for 46.4% of the total, followed by Indonesia and the UAE with 9.9% and 9.0% respectively. Global sukuk issuances as of 1H 2017 stood at USD59.1 billion, a surge of 45.6% from the corresponding period last year¹.
5. Total sukuk outstanding increased by 8.7% globally to USD349.1 billion as at end 2016. Malaysia with a size of USD183.8 billion had a 52.6% share, followed by Saudi Arabia at 16.3% and the UAE at 8.9%. The size of the global sukuk market saw a double digit

¹ MIFC publication statistics, September 2017

growth of 11.7% year on year with global sukuk outstanding reaching USD376.6 billion as of 1H 2017².

6. To highlight a couple of the sovereign issuances - in February this year, the Hong Kong Government undertook its third sukuk issuance with a size of USD1 billion and a tenure of 10 years, making it the first AAA-rated sovereign sukuk for such a tenure. This is a significant milestone as it helps develop an extended yield curve that may facilitate other potential issuances in Hong Kong and globally. More recently the UK government announced that they will issue another sukuk when the current sukuk matures in 2019.
7. While recent growth of the global Islamic funds industry has been more muted relative to that of the sukuk market, the industry is poised for growth on the back of greater demand for Shariah-compliant investments. This is reinforced by an increasing diverse range of Islamic fund assets available in the market such as Islamic REITs and ETFs. As at end 1Q 2017, the total global Islamic AUM amounted to USD70.8 billion and the number of Islamic funds stood at 1,535³. Malaysia accounted for 28.5% of the total Islamic funds, followed by Saudi Arabia and Luxembourg with 15.3% and 13.9% respectively. Comparatively speaking, this has been a significant improvement considering that in 2008, there were only 802 funds with AUM of USD47 billion.
8. Meanwhile the size of the Malaysian capital market now stands at RM3.1 trillion, comprising RM1.8 trillion in market capitalization of equities and RM1.3 trillion of sukuk and bonds outstanding. Furthermore in 1H 2017, a total of RM63.3 billion was raised in the Malaysian capital market, out of which RM54.8 billion was raised through the corporate sukuk and bond market and RM8.5 billion through the primary and secondary equity markets.
9. The Malaysian fund management industry meanwhile, continued its upward trajectory with assets under management (AUM) growing 4.3% from RM667.9 billion in 2015 to RM696.3 billion in 2016, and further to RM758 billion currently. Islamic fund management AUM grew 13% to RM149.6 billion in 2016, primarily driven by expansion of unit trust funds and accounting for about 21% of total industry AUM.

Ladies and gentlemen,

10. The outlook for the Islamic finance industry and in particular the Islamic Capital Market remains positive in view of developments at both international and domestic levels. Some of these developments relate to greater innovation and collaboration which serve to broaden and deepen the market, while at the same time the number of participants - as issuers, investors or intermediaries - is also growing.

² MIFC publication statistics, September 2017

³ Thomson Reuters, MIFC data

11. Part of the growth potential of the Islamic capital market stems from its close alignment with sustainable or socially responsible finance. In this regard, opportunities for the Islamic capital market to capitalize on the similarities in the underlying principles between Islamic and sustainable investing are significant. Furthermore there is already international recognition of such similarities as Islamic funds are considered part of the sustainable investment universe by the Global Sustainable Investment Alliance. Its Global Sustainable Investment Review 2016 report shows that Malaysia is the largest sustainable investment market in Asia ex Japan with a 30% share, on account of its Islamic funds. Malaysia is therefore well positioned to benefit from this fast growing market segment that has US\$23 trillion in assets under management globally.
12. The development of the Sustainable and Responsible Investment (or SRI) ecosystem for the Malaysian capital market is a key priority for the Securities Commission, leveraging on the country's leadership in the Islamic capital market. The SC has put in place a 5i strategy to develop the ecosystem. The 5 i's are Investors, Issuers, Instruments, Internal culture & governance, and Information architecture.
13. One of the early initiatives is the introduction of the SRI Sukuk framework in 2014 which is widely acknowledged as a pioneering regulatory development that formally integrates the principles of Shariah with those of SRI. As some of you would know, the inaugural SRI Sukuk issuance was the RM100 million Sukuk Ihsan by Khazanah in 2015, which is part of a RM1 billion programme to fund the development of trust schools. More recently in August, the second tranche of RM100 million was issued which included a retail portion of RM5 million.
14. Another significant milestone in product innovation under the sustainability agenda is the launch of the world's first green sukuk in Malaysia in July under the SRI Sukuk framework, thus strengthening Malaysia's value proposition as a centre for sustainable finance and investment. Tadau Energy issued a RM250 million sukuk for the purpose of undertaking a solar project, with the ultimate goal of conserving the environment by providing an environmentally friendly, clean and sustainable power supply. The SC, Bank Negara Malaysia and the World Bank Group are working together to develop the green sukuk market in Malaysia. Green financing has gained significant traction over the last few years with global green bond issuances totaling US\$82 billion in 2016 and targeted to reach US\$130 billion this year (according to Climate Bonds Initiative's latest data).
15. The new Malaysian Code on Corporate Governance issued in April this year further enhances the ecosystem for SRI in Malaysia, representing the fourth "I" in the SC's 5i strategy for SRI development - Internal culture & governance. Greater internalization of corporate governance culture as envisaged under the Code supports the sustainability agenda through more responsible and proactive practices. The Comprehend, Apply and Report (or CARE) approach that entails a shift from 'comply or explain' to 'apply or explain an alternative' aims to encourage companies to put more thought and

consideration when adopting and reporting on their corporate governance practices, elevating it beyond a mere box-ticking exercise.

16. In further developing the SRI ecosystem and to complement the SRI sukuk framework, the SC is currently formulating the SRI funds framework which is targeted to be issued before the end of the year. This initiative will also enhance Malaysia's fund management industry by broadening the range of investment fund products available in the market. Malaysia already has a well-developed Islamic fund management industry including an Islamic fund management licensing framework that has attracted leading global firms to set up their Islamic operations in the country alongside Malaysian-owned firms.
17. The SC's work on the SRI funds framework brings me to another area of significant potential – Islamic wealth management. The Islamic Wealth Management segment has been identified as a key growth driver for the Islamic markets in view of global trends and projections that include higher growth among Muslim population and higher economic growth forecast for OIC member countries relative to the global average that collectively will contribute to more affluent Muslim population.
18. Arising from these factors, there is strong potential for greater and sustained demand for Islamic wealth management services globally. This provides substantial opportunities for Malaysia to reinforce its leadership in Islamic fund management, contributing firmly to the SC's Islamic Fund and Wealth Management Blueprint's primary objective of positioning Malaysia as the international centre for Islamic fund and wealth management.
19. This objective will be pursued primarily through strategies that focus on strengthening Malaysia's positioning as a global hub for Islamic funds; establishing Malaysia as a regional centre for Shariah-compliant SRI; and developing Malaysia as an international provider of Islamic wealth management services. The Blueprint, launched in January this year, is being operationalised through work programmes on a phased approach over a five-year period.
20. It is also worth noting that the Blueprint is aligned with Malaysia's Economic Transformation Programme as it will address three Entry Point Projects (EPP) under the National Key Economic Area for Financial Services namely EPP 7 - Spurring the Growth of the Nascent Wealth Management Industry; EPP 8 - Accelerating and Sustaining a Significant Asset Management Industry; and EPP 10 - Becoming the Indisputable Global Hub for Islamic Finance.

Ladies and gentlemen,

21. The role of Islamic finance in promoting social development has a long history. One of the mechanisms that contribute to such social outcome is the waqf structure. The SC had commenced efforts to facilitate the development of waqf assets through the Islamic

capital market several years ago, and initiatives since then include holding a dedicated industry roundtable under the SC-Oxford Centre for Islamic Studies collaboration, the publication of a handbook and the inclusion of waqf asset development as an eligible project under the SRI Sukuk framework.

22. A very recent development in this area was the offering of Waqf shares structured under a social enterprise model through an initial public offering which is another world's first. Proceeds from subscription of the Larkin Sentral Property Bhd shares, which have been endorsed as Shariah-compliant by the Shariah Advisory Council of the SC, are being utilised to finance the upgrading of Larkin Sentral Terminal. Under the scheme, share subscribers will endow the shares together with all their rights and entitlements to a trustee, and dividends from the waqf shares are intended to help small traders from the low-income and single-mother groups to pay lower rental rates for shoplots at the Terminal.
23. Another factor that can help drive further growth of the global Islamic capital market, and the sukuk market in particular, is the need for large funding for infrastructure development. For instance, McKinsey has estimated that such requirements range between USD57 trillion and USD67 trillion for the period 2013-2030, or an average of between 3.2 and 3.7 trillion US Dollars per annum. A World Bank policy paper estimates that the infrastructure investment requirements for the emerging markets and developing countries over 2014-2020 would be USD836 billion annually. The suitability of sukuk structures in financing most infrastructure projects combined with their appeal to a wider investor universe provides a strong case for sukuk to be a preferred instrument for such asset-intensive fund raising.
24. To explore opportunities and challenges in this particular area, the SC and the World Bank Group jointly organised a conference on Islamic finance and public private partnership (PPP) for infrastructure development in May 2017. The conference was the first collaboration between SC and World Bank Group as part of a multi-year engagement on various aspects of Islamic finance.
25. More recently, another avenue for growth in the Malaysian capital market is through facilitating greater participation especially among individual or retail investors via the digital platforms. In Malaysia, the SC's regulatory framework for equity crowdfunding and P2P financing is facilitating small businesses and start-ups to raise the necessary funding through the capital market including the Islamic capital market. These platforms have proven to be an effective channel in attracting the younger investors.
26. Standard setters also play an important role in promoting greater development of cross border capital market activities. The Islamic Financial Services Board or IFSB earlier in the year introduced the Guiding Principles on Disclosure Requirements for Islamic Capital Market Products, namely for sukuk and Islamic collective investment schemes, which has been developed by an IFSB working group chaired by SC Malaysia. One of

the key objectives of the Guiding Principles is to enable greater cross border offering of sukuk and Islamic CIS through harmonized disclosure requirements.

27. An assessment of the global outlook for the Islamic capital market will not be complete without discussing talent development and capacity building. In view of the expected continuing growth of the Islamic capital market, the need for developing suitably skilled human resources and talent to support the sustainable growth of the industry is essential. Based on industry estimates, the requirement for this talent pool numbers up to one million professionals by 2020 in various job functions and roles to meet the human capital needs of Islamic financial institutions⁴.
28. Strategic collaborative efforts can play a tremendous role in bridging this gap. It is indeed encouraging to note that initiatives to enhance Islamic finance talent development have also received a significant boost through the growing cross-border and international linkages between relevant institutions. For the SC, we have entered into an MoU for collaboration with the UAE's Securities and Commodities Authority (SCA) which includes setting out the foundation for further co-operation between the SC and SCA. This entails allowing for collaborative initiatives in human capital development, with key emphasis on the development of capital market and financial services industry professionals in both Malaysia and the UAE.
29. In conclusion, the prospects for the Islamic capital market remain highly favorable as several new growth drivers are expected to provide the impetus for the next stage of development. At the same time, the likely participation of even more countries and companies in the market augurs well for the broadening of cross border activities and transactions which will spur stronger linkages and more sustainable growth of capital markets.
30. While there are and will continue to be challenges as the Islamic capital market develops further, there are also significant opportunities for the various stakeholders to take advantage of. Furthermore, the benefits that can be harnessed from these opportunities can be amplified through greater collaboration and coordination among all of us as stakeholders. In addition, knowledge sharing will translate into cultivating wider stakeholder awareness so often vital to generate greater traction in an industry that is still relatively young.
31. On that note, I thank you for your attention.

⁴ The Malaysian Reserve