



Keynote Address
by
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**“Broadening Investment Opportunities through
the Islamic Capital Market”**

Distinguished speakers, ladies and gentlemen

1. It gives me great pleasure to be here this morning. Please first allow me to congratulate RedMoney and its Forum sponsors and partners for their continued commitment and success in bringing us from different stakeholder groups together, yesterday and today, for extensive discussions on furthering the development of the Islamic finance industry.
2. I would also like to thank the organisers for allowing me to share my views with all of you today. I believe it is extremely important that we continue to engage actively and constructively on various aspects of the Islamic finance industry as it is still a relatively small segment of the global financial system and thus require the collective involvement of industry participants from all corners of the globe to discuss and collaborate on significant areas that could define the Islamic finance industry in years to come.
3. As today has been designated as the Investors Day for the Forum, I will focus my remarks on developments and opportunities from the investor perspective. Certainly there have been a number of recent and on-going initiatives that have helped to position the Islamic finance in general and the Islamic capital market in particular, more prominently in the global landscape.
4. Before we go into the main subject matter, please allow me to share some statistics on the Islamic capital market (ICM) today. In Malaysia, the significance of the Islamic capital market is very much apparent, as it represents 60.6 percent of Malaysia’s overall capital market, with a size of RM1.9 trillion as at end-2018¹. The Islamic fund management

¹ Source: SC Annual Report 2018

industry in Malaysia has also been progressing commendably. In 2008, there were 5 Islamic fund management companies and 30 fund management companies operating Islamic windows. The numbers have since grown to 22 full-fledged Islamic fund management companies and 31 fund management companies operating Islamic windows, collectively with an estimated RM159 billion in Assets Under Management as at end-2018. Meanwhile, total value of sukuk outstanding in Malaysia stood at RM844 billion accounting for 60% of total bonds and sukuk in the market.

5. Globally, Malaysia currently has the largest market share of Islamic Assets Under Management by domicile at 37 percent followed by Saudi Arabia at 29 percent². For sukuk, Malaysia continues to be a global leader with 50 percent of the US\$427 billion total sukuk outstanding globally as at end 2018. Malaysia also accounted for 45.3 percent of the US\$112.4 billion global sukuk issuance in 2018.

Ladies and gentlemen

6. Two significant trends that have emerged across the global financial landscape in recent years have also materially influenced the directional development of the Islamic capital market and Islamic investments, namely sustainability and financial technology, or as some may coin it, digital finance. While each of them is individually enhancing the Islamic capital market ecosystem in its own right, the combination of and inter-play between these two trends may well contribute towards a new age of Islamic finance in which investors are facilitated by digital technology towards more inclusive investment solutions that also help to achieve positive social and environmental impact.
7. Sustainability, or more specifically sustainable investment, is broadening the reach of the Islamic capital market in view of significant commonalities in the principles and values underlying both sustainable and Islamic investing. They both advocate positive values such as ethics, social responsibility, shared prosperity, financial inclusion and sustainable growth. Under the Maqasid or objectives of Shariah, the protection of *maal* or property is one of the pillars and the protection and/or preservation of the environment falls under this objective, which is very much in line with the green agenda.
8. In discussing the close alignment between the principles of Islamic and sustainable investments, it would also be relevant to acknowledge the concept of “tayyib”. The word “at-tayyib” is used in the Qur'an and Sunnah to describe something that is good or wholesome, and there are several verses in the Qur'an that refer to consumption of food that is both halal and *tayyib*, thus suggesting that Islam encourages not only eliminating the ‘haram’ but also seeking ‘wholesomeness’, be it in food or finance.
9. At the practical level, there is already international recognition of the alignment between Islamic and sustainable investing as Islamic funds are considered part of the sustainable investment universe by the Global Sustainable Investment Alliance (or GSIA). There are therefore vast opportunities for the Islamic capital market to capitalize on the similarities. For instance, the Global Sustainable Investment Review 2018 report by the GSIA shows

² MIFC estimates as at end-2018

that there are US\$30.7 trillion of global assets being professionally managed under Sustainable Investment strategies – reflecting a compound annualised growth rate (or CAGR) of 15.8 percent over 2 years. With this in mind, Malaysia is well-positioned to drive the development and growth of the Sustainable and Responsible Investment or SRI segment particularly in this region, by leveraging on its leadership in the Islamic capital market which is supported by a comprehensive ecosystem that can readily offer investors a vast array of SRI solutions.

10. In view of the above, the enhancement of the SRI ecosystem in Malaysia continues to be a key priority for the Securities Commission. It is in fact one of the three main areas of developmental focus highlighted by the SC during the release of our 2018 Annual Report last month. As many of you would be aware, initiatives by the SC in this area over recent years include the issuance of the SRI Sukuk framework and the SRI Funds Guidelines, as well as the launch of the Islamic Fund and Wealth Management Blueprint which identifies the development of Malaysia as a regional centre for Shariah-compliant SRI as one of its three strategic thrusts.
11. In addition, the issuance of the Malaysian Code on Corporate Governance has further enhanced the ecosystem for SRI in Malaysia, representing the fourth "I" in the SC's 5i strategy for SRI development - Internal culture & governance; the other four being Issuer, Investor, Instrument and Information architecture. Greater internalization of corporate governance culture as envisaged under the Code supports the sustainability agenda through more responsible and proactive practices. From the business investment perspective, the Code emphasizes that the board should ensure that the company supports long-term value creation and includes strategies on economic, environmental, and social considerations underpinning sustainability.
12. Looking ahead, another key initiative within the integrated SRI and ICM space is the development of a positive Shariah screening methodology that will incorporate environmental, social and governance criteria alongside existing Shariah criteria. The SC is also embarking on efforts to facilitate the development of waqf assets through Islamic capital market instruments and services to help grow the Islamic social finance segment.
13. Industry players have also contributed to further innovation within the sustainable and Islamic finance and investment market in Malaysia. Among others, 2018 witnessed several world's firsts including the issuance of a Sustainable Development Goal Sukuk to support the UN SDG initiative and the launch of an ESG Sukuk Fund. These and other innovative developments serve to strengthen the Islamic capital market's value proposition in attracting broader participation including from SRI investors.
14. Globally, asset owners such as pension funds and sovereign wealth funds are the significant drivers of SRI. To demonstrate their commitment, numerous institutions have signed on to the Principles for Responsible Investments (PRI). By adopting the principles, the PRI signatories contribute to developing a more sustainable global financial system. Currently there are over 2,000 signatories from 67 countries, with US\$80 trillion of assets

under management as at 2018. As at January 2019, five institutions in Malaysia have become signatories to the PRI.

15. Looking ahead, one of the significant key drivers for the future growth of sustainability is the paradigm shift in investment preference by the emergence of a new generation, the millennials. The millennial generation generally appear to have greater awareness on SRI and generally are also more active users of technology. This global trend has already started to shape a new investment landscape. Being able to leverage on this key trend will inevitably enhance the value proposition and competitive advantage for the Islamic capital market in respect of SRI among the millennials.
16. For the Islamic capital market, the influence and impact of technology and digital finance is multi-fold. It enhances efficiency, enables deeper data analytics and promotes transparency, among others. At the same time, the prevalence of technology can enable a country like Malaysia to compete effectively with the more established financial markets as it is capable of creating and offering substantive, value-adding Shariah-compliant product and service differentiation that capitalises on technological capabilities.
17. More specifically, digital platforms and business models such as equity crowdfunding, peer-to-peer financing and digital investment management would be making significant future impact on the industry. These digital investment services facilitate connectivity by allowing issuers, investors and intermediaries to access existing and new markets in a more efficient and cost-effective manner, thus spurring further growth of the industry. Leveraging on digital technology will also enhance efficiency in managing Shariah and SRI-compliant portfolios for the investors as it enables Shariah and SRI-related processes to be integrated into various management systems.
18. Indeed, the role of technology in the Islamic investment ecosystem is increasingly expanding. One such initiative on Shariah-compliant investing is the Bursa Malaysia-i, which is a fully integrated Islamic securities exchange platform with a comprehensive range of exchange-related facilities that include listing, trading, clearing, settlement, and depositary services. With this platform, investors are able to choose to invest in Shariah-compliant securities listed on the Main and ACE Markets of Bursa Malaysia Securities Berhad, and also access the platform by interfacing with Islamic Participating Organizations (Islamic POs). This in turn provides investors with a comprehensive ‘end-to-end’ Shariah investing experience, complete with trade and post-trade services conducted by Bursa Malaysia.

Ladies and gentlemen,

19. In continuing the SC’s aim to enhance the SRI ecosystem, initiatives were undertaken in Malaysia to support sustainable growth and meet investor interest for green investments regionally, which formed part of the ASEAN Capital Markets Forum (ACMF)’s broader efforts in developing green finance within the ASEAN region.

20. As part of the ACMF initiative, the ASEAN Green Bond Standards (AGBS) was developed by a working group led by the SC and the Securities and Exchange Commission Philippines and was subsequently launched in November 2017. The AGBS is aligned to the Green Bond Principles (GBP) and seeks to enhance transparency, consistency and uniformity to help reduce issuance and investment costs.
21. The AGBS was then complemented by the ASEAN Social Bond Standards and ASEAN Sustainability Bond Standards, launched in October 2018. Collectively, these standards serve to create a sustainable asset class in ASEAN, particularly in meeting the region's infrastructure and social development financing needs.
22. Adding to this regional initiative is the SC's ongoing participation within the global International Organization of Securities Commissions (IOSCO) Sustainable Finance Network where SC is a member. This is a uniformed initiative among securities market regulators and exchanges established at the end of last year, with the key focus relating to sustainable finance and the role of securities markets in capital-raising and sustainability issues.
23. The global importance of the sustainability agenda as reflected by the on-going initiatives undertaken by key stakeholders such as the regulators, stock exchanges, policy makers and other relevant stakeholders bodes well for the Islamic finance industry given the growing awareness for SRI and its close alignment to Islamic finance principles.

Ladies and gentlemen,

24. Before I end, I would like to share a few of the global cases borne out of the synergised approaches involving Islamic finance with sustainability and digital technology. The International Federation of Red Cross and Red Crescent Societies (IFRC) has developed an online blockchain application offering individuals and organizations the ability to track their contributions in highly complex humanitarian settings, providing transparency and laying a platform for increased trust between humanitarian organizations and the Islamic social financing world³. This digital innovation has received universal acclaim and recognition and is the IFRC's first foray into Islamic finance, advancing their cause to develop Islamic social finance strategies and fundraising tools in support of IFRC's humanitarian aid programs.
25. Islamic social finance supported by mobilisation of digital technology has also brought about the effective distribution of zakat contributions from the Malaysian state of Perlis⁴ towards drought and famine relief in Kenya. The project became successful and profitable as the cash value of the crop grown exceeded the value of the seeds purchased, which in turn allowed subsistence farmers to acquire a certain amount of disposable income that can be channelled towards other social impact areas focusing on food, healthcare, and

³ IFNFintech: *IFRC wins Fintech Islamic Finance Challenge*

⁴ Zakat Council of the Malaysian State of Perlis (Majlis Agama Islam dan Adat Istiadat Melayu Perlis, or MAIPS)

education. This digital finance model was aided by the use of a money transfer system based on mobile phones, first established in Kenya and Tanzania⁵.

26. In the green sukuk market, we are seeing continuous development in terms of project undertakings, where previously proceeds from the first few green sukuk programmes were utilised to construct solar photovoltaic (PV) plants, with the ultimate goal of conserving the environment by providing an environmentally friendly, clean and sustainable power supply. For the latest ASEAN Green SRI Sukuk issued by Pasukhas Green Assets Sdn Bhd early this year, the proceeds will be utilised towards constructing a hydropower plant while also exploring other renewable energy assets in Malaysia.
27. In conclusion, the dynamic progress of sustainability initiatives coupled with the Islamic capital market's broadening reach, and supported by digital technology are facilitating more seamless access to investors keen on making social and green impact. In recent times, we have witnessed continuous SRI and digital innovations, and it is imperative that Islamic capital market ride on this global trend to make a difference and contribute to the overall sustainability agenda.
28. This agenda is gaining further prominence underpinned by growing demand for sustainability from both the increasingly affluent and technological savvy Islamic and conventional investors. With the collective knowledge and high capacity for innovation gathered in this event, I am positive that we are able to chart the next phase of growth for the Islamic finance industry and in the end provide further access and sustainable solutions for investors thereby broadening the investor base for SRI in the Islamic capital market.

I wish everyone a productive day ahead. Thank you.

⁵ IFRC, *The Transformative Power of International Zakat*, May 2018