

The Investors Conference 2005

- in conjunction with the 30th Annual Meeting
Islamic Development Bank
22nd June 2005

A Strong and Vibrant Financial Sector for Sustainable Growth – the role of Capital Markets

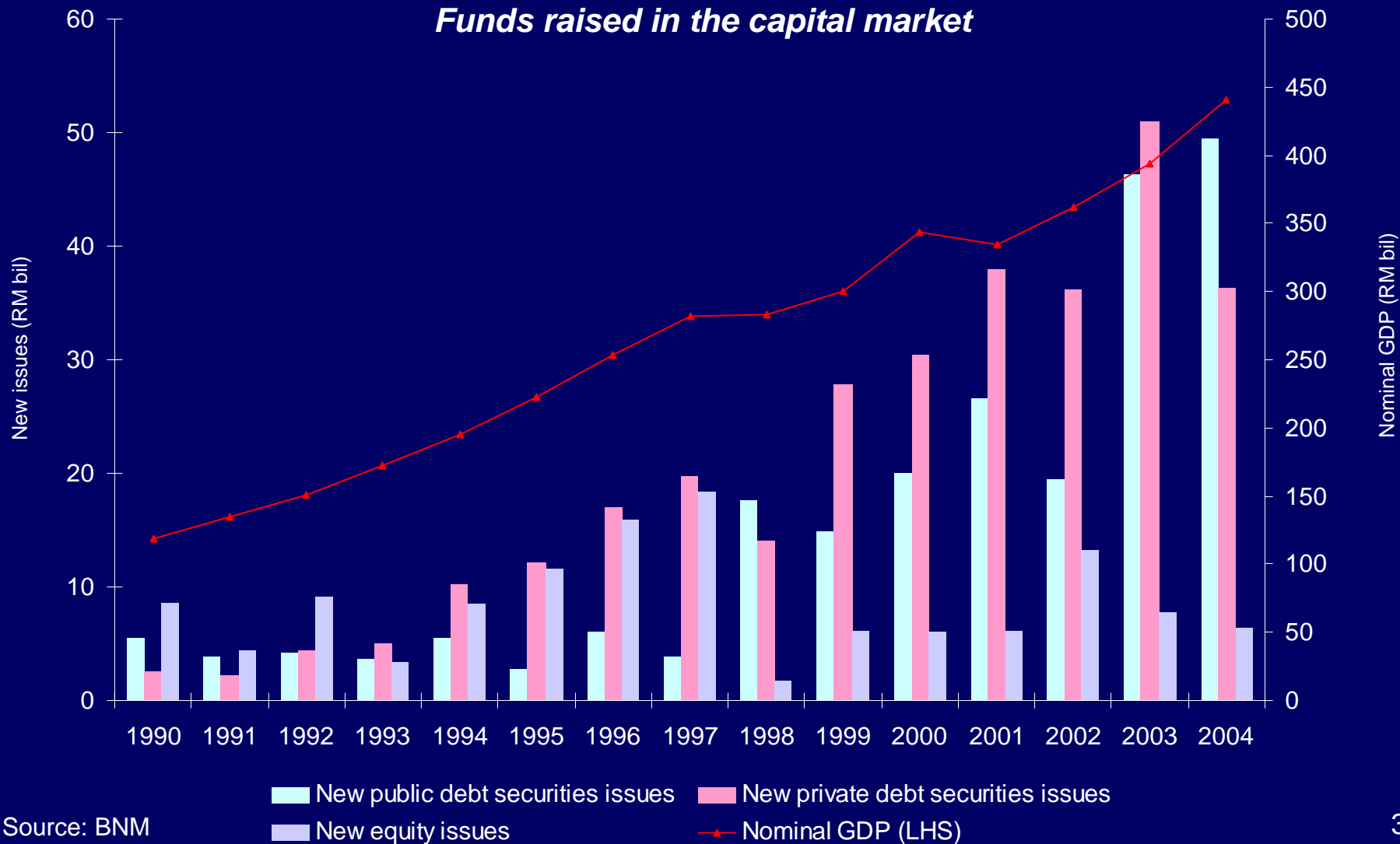
Dato' Zarinah Anwar
Deputy Chief Executive
Securities Commission
Malaysia



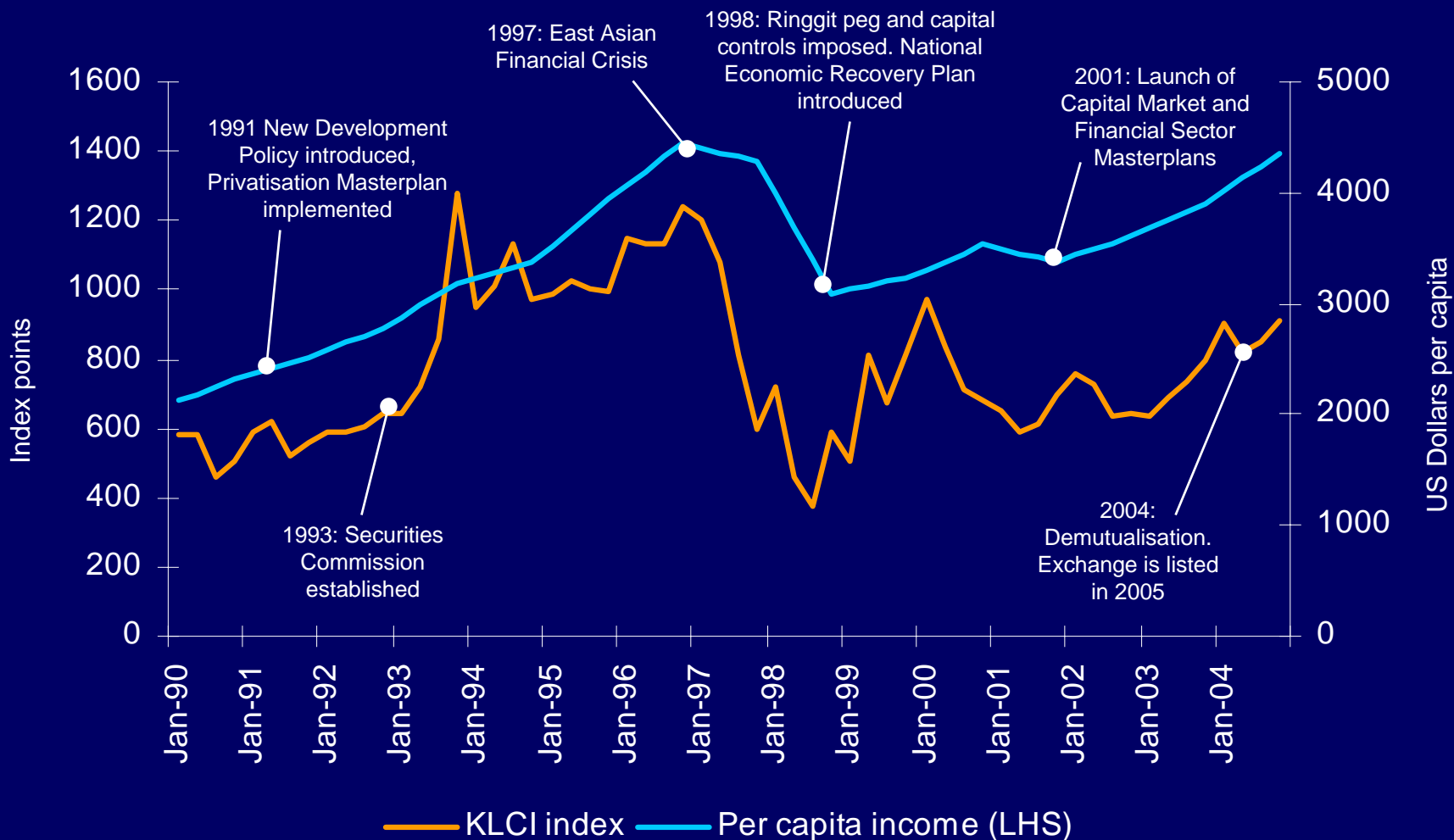
- 1. Role of the capital market in economic growth**
- 2. Strategies for the development of Malaysia's capital market**
- 3. Islamic capital market – Development and challenges**

The capital market as a key driver of private sector growth

Funds raised in the capital market



And the equity market performance is largely co-related with long-term income trends



Source: Thomson Financial Datastream, BNM, SC

Relative size of the capital market to the banking sector

Size of the equity market, bond market and banking sector (1990-2004)



The capital market plays a key role in financing diverse needs

- **K-economy**
 - Equity funding through venture capital & MESDAQ Market
- **Small-Medium Enterprises**
 - Equity funding through Second Board & MESDAQ Market
- **Privatisation & Infrastructure Projects**
 - Bonds through issue of Private Debt Securities
 - Equity financing through Bursa Malaysia
- **Islamic Capital Market (ICM)**
 - Availability of Syariah-compliant debt & equity securities, warrants & call warrants
 - Availability of Islamic investment products such as unit trusts, Islamic Indices and Crude Palm Oil futures

The Islamic capital market component is a significant part of Malaysia's capital market

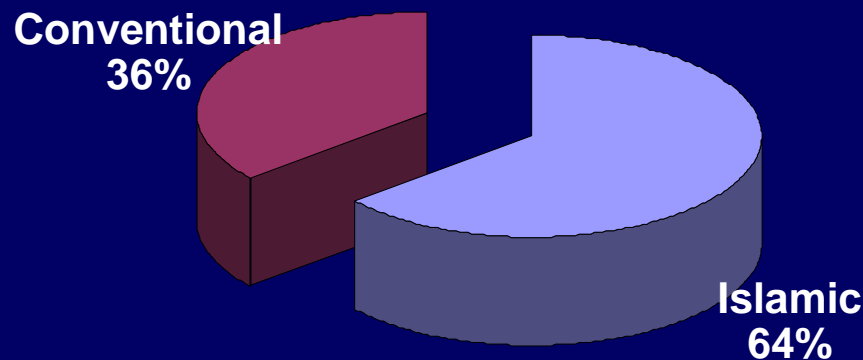
Equity market

- 826 companies out of the 984 companies (84%) on Bursa are Syariah compliant – representing 64% of total market capitalisation (2004)

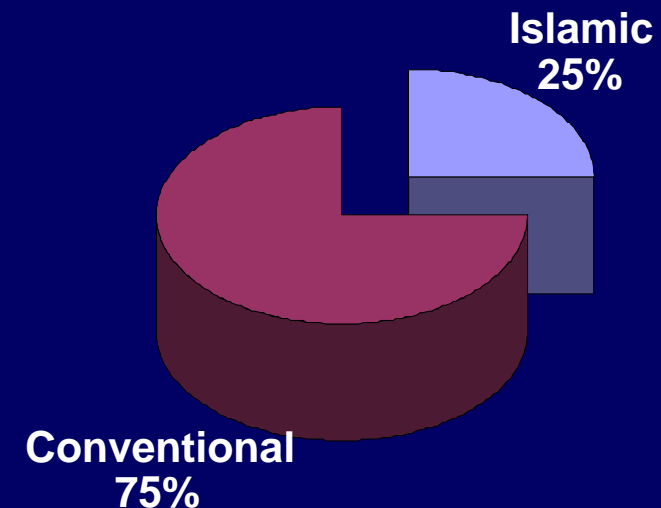
Private debt securities

- Islamic bonds valued at RM 9.1bn raised during 2004, accounting for 25% of gross issuance of PDS

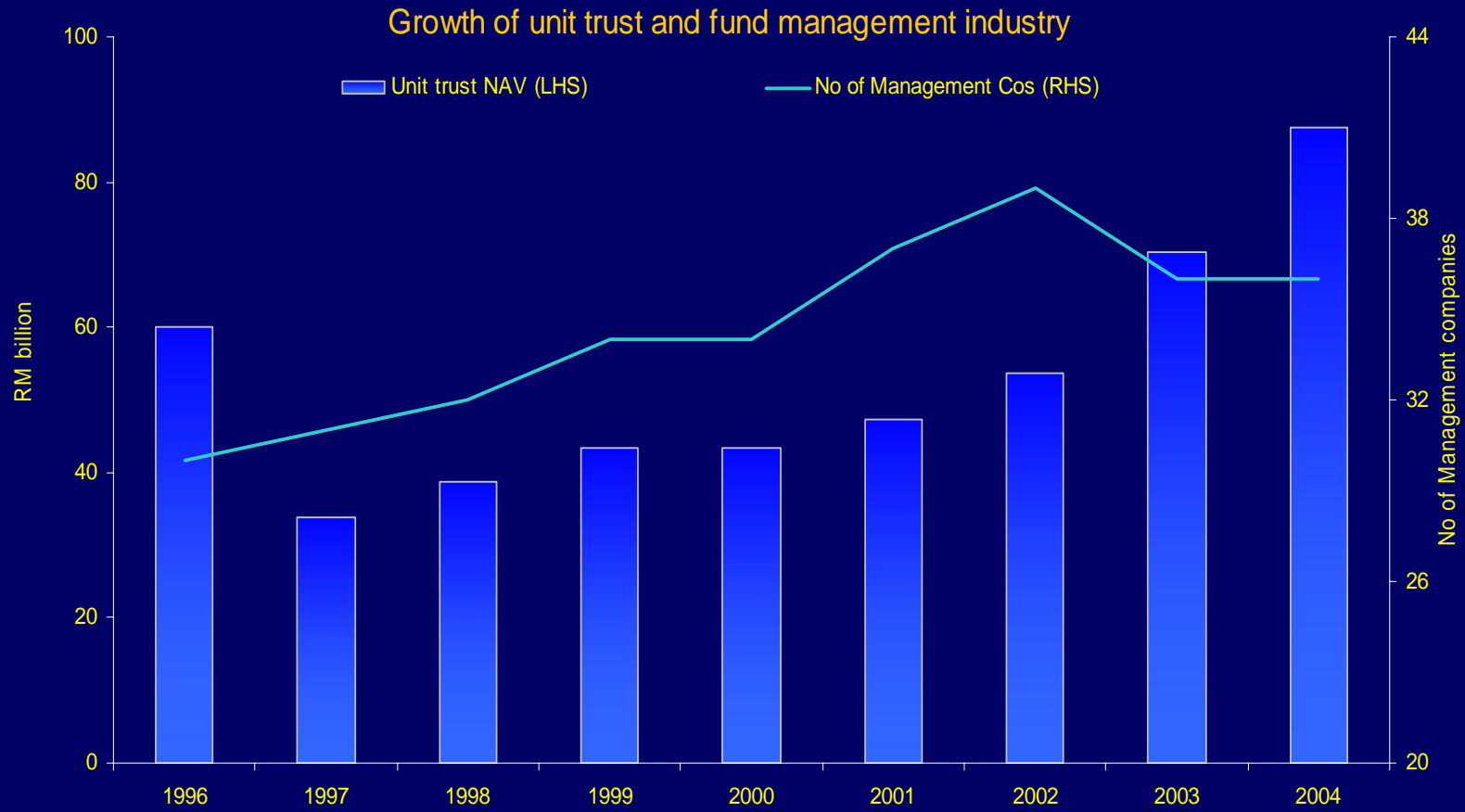
Market capitalisation-2004



New PDS issued-2004



The capital market also plays an important role in mobilising savings through the investment management industry



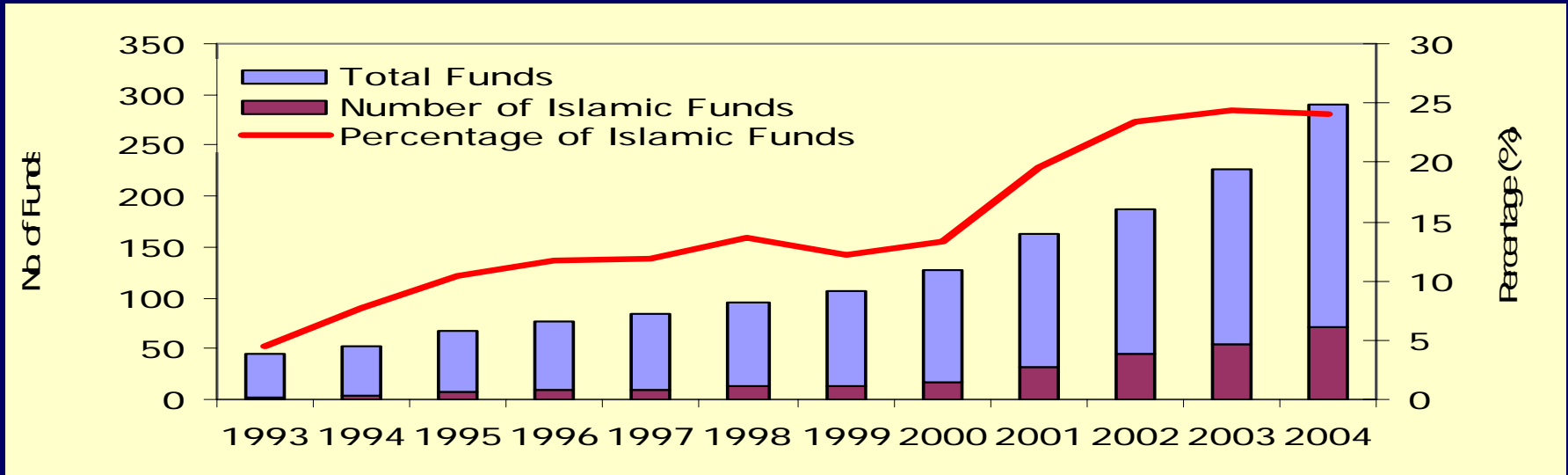
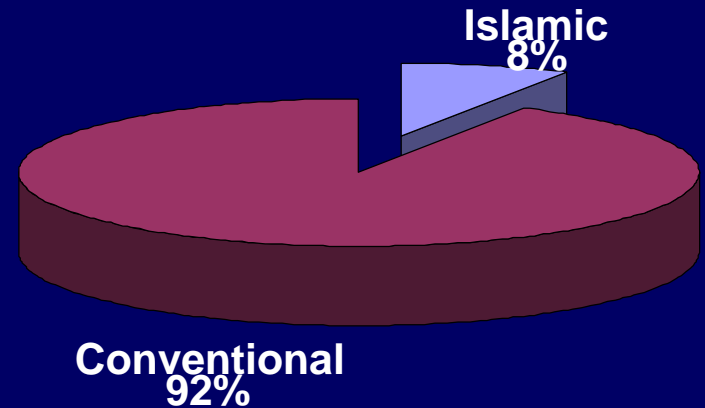
Source: Securities Commission

The Islamic unit trust industry is a relatively young segment with bright growth prospects

Unit trust industry

- Net asset value of Islamic unit trust was RM 6.8 billion as at 2004, representing 8% of total industry NAV
- Strong growth in number of funds - 71 funds in 2004

Unit trust NAV-2004



1. Role of the capital market in economic growth
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The Capital Market Masterplan (CMP) provides a strategic roadmap for the development of the capital market

Vision

- *To be internationally competitive,*
- *To provide an efficient conduit for the mobilisation and allocation of funds, and*
- *And supported by a facilitative and strong regulatory framework*

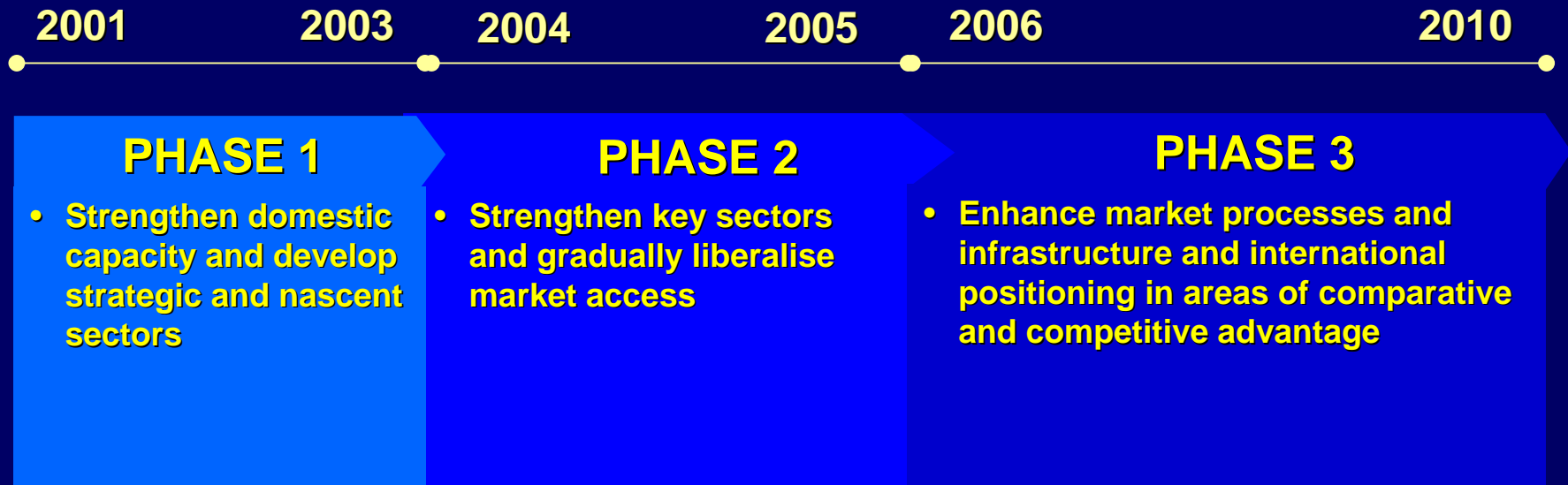


With 152 recommendations covering 11 areas:

- Equity market
- Bond market
- Derivatives market
- Stockbroking industry
- Market institutions
- Investment management
- Regulatory framework
- Corporate governance
- Islamic capital market
- Technology & e-commerce
- Training & education



Phased approach to implementation





Key thrusts: Broaden sources of financing

Developed the corporate bond market

- Introduced shelf registration scheme to expedite issuance
- 3,5 and 10-year MGS futures contracts to enhance liquidity and price discovery process in secondary markets
- Facilitative framework for issuance of asset-backed securities

Financed high growth companies through venture capital

- Enhanced participation of local institutional investors
- Introduced a facilitative tax framework

Accelerated the development of the Islamic capital market

- Widened the product range
- Introduced a facilitative regulatory and tax framework
- Established strategic alliances with other Islamic capital markets

Enhanced efficiency of fund raising

- Reduced processing time for corporate proposals
- Shift to disclosure based regime



Key thrusts: Creating a conducive environment for investors

Developed a vibrant investment management industry

- Greater international portfolio diversification allowed
- Tax incentives to encourage collective investment schemes
- Facilitated the development of financial planning
- Developed the trust and custodial services

Enhanced investor protection

- Strengthened corporate governance framework
- Enhanced disclosure & transparency
- Enhanced surveillance and enforcement
- Extensive education programs for directors

Lowered execution cost for investors

- SCANS, SCORE and SC levy reduced
- Stamp duty capped

Key thrusts: Developing strong and competitive intermediaries

Restructured market institutions

- Consolidation and demutualisation of the exchange
- Enhanced trading, clearing and settlement infrastructure

Fostered constructive competition

- Deregulation of fixed fee structures
- Widened scope and range of services
- Deregulated branching restrictions

Liberalisation of foreign participation

- CLSA, CSFB, JP Morgan, Macquarie & UBS given approval in principle to establish operations in Malaysia.
- SC to issue up to five new licenses to enable leading global fund managers to establish operations in Malaysia.
- Allowed 100% ownership of futures brokers and venture capital companies.

Key thrusts: Strengthening Malaysia's capital market position

Enhancing quality of public listed companies

- Focus on good governance, sound management, building shareholder value

Enhancing quality of capital market intermediation services

- Benchmarking; building brand and expanding their franchise
- Professionals and advisors must further enhance their reputation for integrity and reliability.

Enhancing quality of market framework

- Review market structure to ensure appropriate access to capital
- Emphasis on enhancing market liquidity.

Enhancing surveillance and enforcement

- Strengthen the gate-keeping function, shift to risk-based surveillance and expand the range of actions
- Build cross-border surveillance and enforcement capabilities. 16

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The CMP identified the Islamic Capital Market (ICM) as a key component of Malaysia's capital market

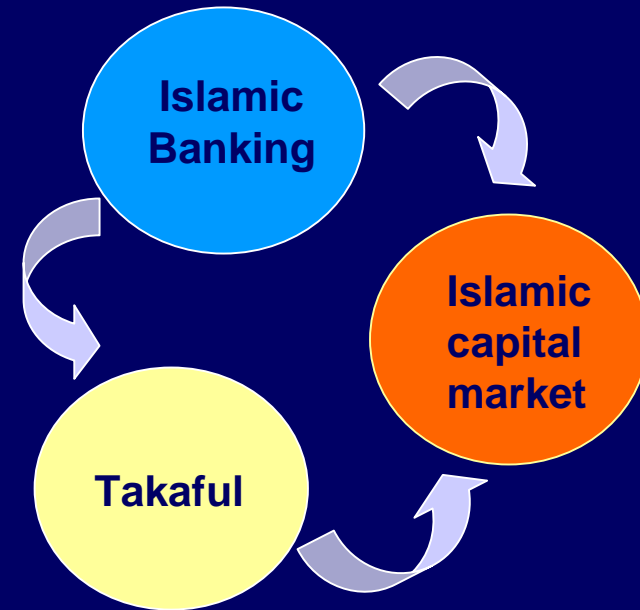


To establish Malaysia as an international Islamic capital market centre

- Facilitating expansion of products and services in Islamic capital market
- More effective mobilisation of Islamic funds
- Strengthening tax, accounting and regulatory framework for ICM
- Enhancing international value recognition of ICM

Key components of the Islamic financial services sector create a comprehensive enabling environment ...

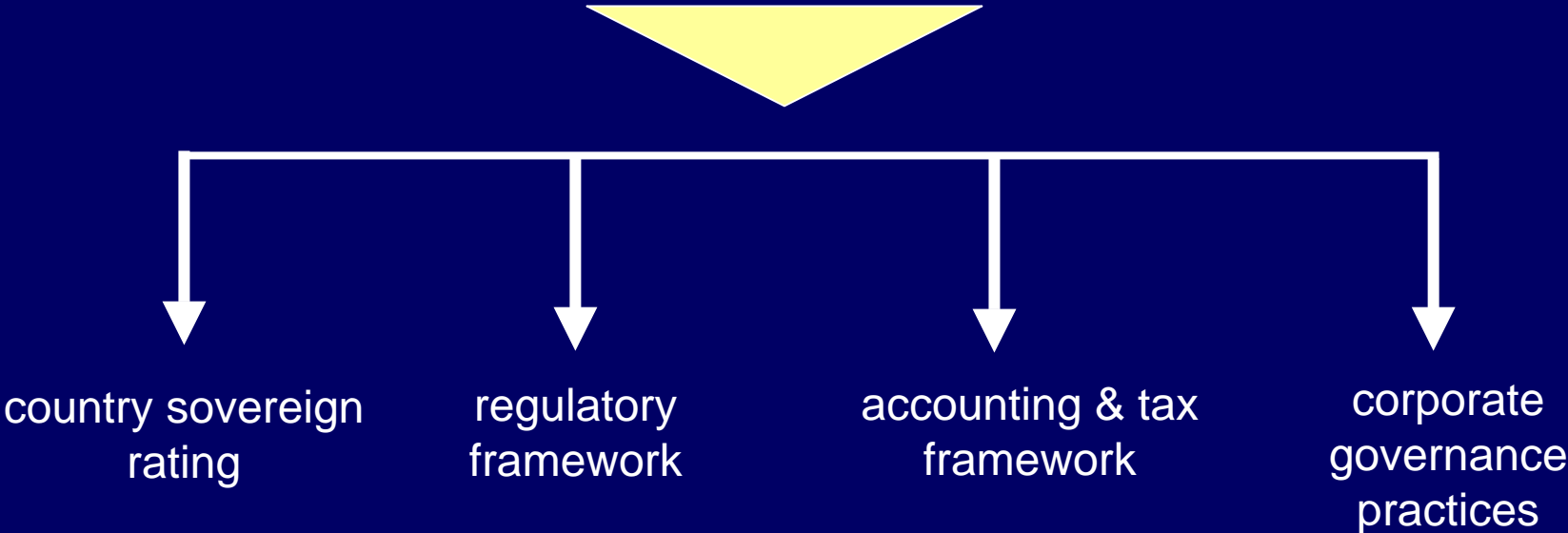
- To effectively play its role as an efficient conduit
- Contribute to the overall stability of Islamic financial services sector:
 - Islamic banking to mobilise deposits and provide financing
 - Takaful to provide mutual protection/ institutional investor role
 - Islamic capital market to provide long term fund raising and investment





The development of a vibrant ICM is reliant on sound fundamentals of the overall capital market

- Sound economic and market fundamentals are important for instilling greater confidence among investors
- Funds invest in markets that comply with principles of securities regulation



It requires planning and a sound regulatory infrastructure

- Capital Market Masterplan
- Facilitative regulatory framework
- Shariah Advisory Council

have enabled and facilitated the development of



Islamic Capital Market

- Shariah stocks - 84% of total listed shares (April 2005)
- Mutual funds - 71 funds with NAV of USD 1.8 bil & market share of 7.7% (2004)
- Bonds – 25% of total PDS issued (2004)



Tools & Products

Availability of Shariah-compliant instruments,
investment and indices



Intermediaries

Availability of Islamic banking and stockbroking,
Takaful and asset management services



Education

General awareness & understanding of
Islamic finance concepts

Strong support from the government

Budget 2003

- Tax deduction for expenses incurred on issuance of Islamic private debt securities that adopt mudharabah, musyarakah and ijarah principles for 5 years commencing 2003

Budget 2004

- Deductions given on expenses incurred in the issuance of Islamic securities based on the principle of Istisna for 5 years where property under construction can also be used to back such bonds

Budget 2005

- Tax exemption on interest income derived by non-resident companies from ringgit-denominated Islamic securities and debentures
- Tax neutrality between Islamic and conventional products by exempting additional tax or duty provided the products are approved by the Syariah Advisory Council

Developing internationally-compatible Islamic accounting standards

Most jurisdictions apply IAS/GAAPs for their financial institutions

In addition, for Islamic financial institutions,
the following is applied

IAS

- Most jurisdictions apply IAS for Islamic financial institutions

National Islamic accounting
standards / IAS

- Malaysia applies national Islamic accounting standards for Islamic financial institutions
- IAS are used for areas not covered by national Islamic accounting standards

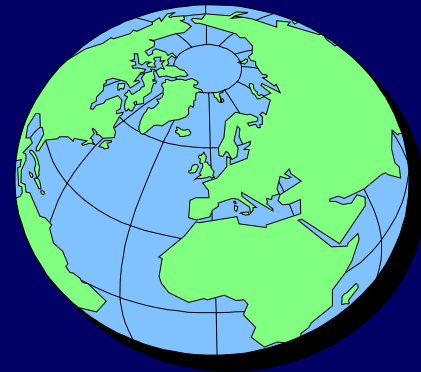
AAOIFI stds. / IAS

- 4 jurisdictions (i.e. Jordan, Sudan, Bahrain and Qatar) apply AAOIFI accounting standards
- These jurisdictions apply IAS for areas not covered by AAOIFI accounting standards

- IOSCO appointed an ICM Task Force to assess the state of development & regulation of Islamic capital markets globally
- Memberships:
 - Malaysia, Bahrain, Indonesia, Jordan, Nigeria & Turkey
 - Australia, Italy, South Africa, Thailand, UK & US
- Key issues and findings of ICM Task Force report :
 - Shariah convergence
 - Shariah compliance and regulation
 - Product innovation & market competitiveness
 - Accounting & tax framework
 - Skills development
 - International cooperation
 - Information database

Malaysia has broad experience in promoting international cooperation and cross-border investments in ICM

- **Participation in international efforts such as IFSB and IOSCO ICM Task Force**
- **Facilitates cross border issues**
 - Issuance of Malaysian global Islamic bonds
 - Promotion / offering of foreign Islamic bonds in Malaysia
 - Fund raising exercise by multilateral banks and MNCs
- **Participation in overseas Islamic private equity investment**
- **Knowledge sharing and mutual assistance programmes**



Thank you

