

## **Mohd Razif bin Abd Kadir: Islamic financial services industry – developments in Malaysia**

Speech by Mr Mohd Razif bin Abd Kadir, Deputy Governor of the Central Bank of Malaysia, at the Signing Ceremony of Memorandum of Participation for Commodity Murabahah House, Kuala Lumpur, 28 July 2009.

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It is my great pleasure to be here today at the Signing Ceremony of Memorandum of Participation for Commodity Murabahah House (CMH). This event, jointly hosted by Bank Negara Malaysia and Bursa Malaysia, marks another milestone in the development of the Islamic financial services industry. This pioneering effort, mooted about two years ago, is a collaborative initiative of Bank Negara Malaysia, Securities Commission of Malaysia (SC), Bursa Malaysia and the market players under the MIFC initiative. CMH, which is scheduled to be launched in mid-August, is a purposefully designed exchanged-traded platform to facilitate commodity murabahah transactions. It is the first internet based platform in the world with crude palm oil (CPO) as its underlying base commodity. I am also pleased to note here that CMH has received the endorsement of the Ministry of Plantation Industries and Commodities and is supported by the Malaysian Palm Oil Board (MPOB), Malaysian Palm Oil Association (MPOA) and Malaysian Palm Oil Council (MPOC) as well as the CPO industry players.

CMH will provide another dimension to the already robust liquidity management infrastructure of the Islamic banking industry in Malaysia; thus providing market players with greater tools to manage their assets and liabilities. CMH is expected to unlock a vast potential of opportunities for the Islamic financial industry. It can provide a wider range of new instruments not only for liquidity management and risk management purposes but players can derive additional linkages by utilising CMH to facilitate issuance of sukuk and in the creation of financing and deposit products.

Besides having the potential of providing wider product selections, CMH could create a more transparent and streamlined commodity transaction practices based on the concept of murabahah or tawarruq. Leveraging on the experience of Bursa Malaysia in the area of exchange traded products, CMH is able to eliminate uncertainty in the transactions and could mitigate risks such as legal risk, market risk and counter-party risk.

We are most grateful to the CPO suppliers for participating in this initiative. For CMH to be successful, it requires the cooperation of the players in the CPO market. With greater involvement of players in the commodity industries, CMH would be able to unlock the potential of your business operation by enabling the stocks to be exploited for this exchanged traded mechanism. The success of the CMH depends on the continuous support of the CPO suppliers. The CMH could also explore the possibility of sourcing CPO supplies from abroad.

This innovative effort which has been endorsed by the Shariah Advisory Council of Bank Negara Malaysia and the Securities Commission has the potential to appeal to a wider market audience in and outside of Malaysia. The CMH, which will showcase the sophistication of Malaysia's Islamic financial industry, has tremendous global potentials. As the CMH is designed to be a multi-currency platform, it could enhance liquidity and risk management capacity of the international Islamic banking community. Furthermore, it could be harnessed into a cost effective global platform to develop universally acceptable Islamic financial products for the financial and capital market. Overtime, in making CMH into a truly global exchange, the scope of the exchange-traded product offerings could be expanded to include other commodities and the level of participation should be expanded to include players from outside the financial services industry as well.

The MIFC initiative which was launched in 2006 has the objective to internationalise Malaysia's Islamic financial industry and integrate it with the global Islamic financial system. Thus, for the MIFC, CMH provides an important link to elevate further the capacity of Malaysia to serve as a global hub for Islamic finance. It will support the development of a strong network with other financial centres and increase the inter-linkages. The CMH could play a significant role under this initiative by facilitating the capital and liquidity flows from one financial centre to the other. It is envisaged that CMH could be a component to alleviate the problems arising from a lack of cross-border inter-bank transactions currently faced in the global Islamic financial landscape. Eventually, by enabling the flows of funds amongst the global Islamic financial institutions, this would increase the inter-dependency and networking amongst themselves.

Now I wish to update on the progress of the MIFC. Malaysia is still the largest sukuk market commanding over 60% of the global sukuk market. For the year ended 2008, new sukuk issuance in Malaysia was the highest globally at over 36 percent. Currently there are 9 Islamic fund management companies that have been approved by SC to set up business. Within the MIFC community, there are also 14 Islamic banks with international currency business units (ICBU) and three international Islamic banks (IIB). To further entrench the Islamic financial market, the government has recently announced a number of liberalisation policies to enhance global linkages and accelerate the realisation of the MIFC agenda. The announcement includes the offering of two mega Islamic banks licences, where they will predominantly be wholesale Islamic banks undertaking to a large extent international Islamic financial business. Furthermore, two family Takaful licences are being offered. For the existing Islamic banks, the government is giving flexibility to increase the foreign equity participation to 70% of shareholding. Furthermore, 5 foreign legal firms will also be allowed to set-up operation in Malaysia.

Today, with signing of the memorandum of participation marks the beginning of a new chapter in Islamic finance. I would encourage each stakeholder, particularly Bursa, to exploit the vast potentials of this new entity and take this opportunity to enhance research and product development capacities. Going forward the long term viability of BCH will depend on its ability to create a wide range of innovative product offerings that are endorsed by globally renowned Shariah scholars and on the continuous strong support from the key stakeholders.

On that note, allow me to congratulate the parties involved in today's signing of Memorandum of Participation – the Commodity Murabahah House, participating Islamic banks and the CPO suppliers – for showing and giving your commitment to making the CMH a reality. Also I wish to take this opportunity to extend my deepest appreciation to the team at Bursa Malaysia, Bank Negara and SC who had conceptualised the idea and all other stakeholders who have worked hard to make this noble initiative come true, insyaAllah.