

## **Zeti Akhtar Aziz: Enhancing global interlinkages in the international Islamic financial system**

Opening speech by Dr Zeti Akhtar Aziz, Governor of the Central Bank of Malaysia, at the launch of Commodity Murabahah House, Kuala Lumpur, 17 August 2009.

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It is my great pleasure to be here, this afternoon, on this occasion of the launch of the Commodity Murabahah House. The establishment of the Commodity Murabahah House is, indeed timely, as the international financial crisis is gradually stabilising and the global economy is entering into a period of recovery. This decade has seen Islamic finance enter into a new phase of development, as its international dimension gains significance. Of significance, is that the international financial crisis has not discouraged this trend. The Islamic financial system has continued, during this period, to become increasingly integrated with the international financial system. However, as this inter-connectivity intensifies, the exposure to risks arising from financial and economic developments from other jurisdictions will increase. Essentially, international Islamic financial transactions will require the development of the supporting financial infrastructure, in particular, the systems and structures for the management of liquidity.

Malaysia has taken several initiatives to strengthening the international dimension of our Islamic financial system during this decade, to increase our inter-linkages with other parts of the world. In 2002, the Malaysian Government became the first to issue a global sukuk. In the same year Malaysia was in the pioneer group that established the Islamic Financial Services Board that sets international prudential standards for Islamic finance. In 2004, we issued three new licences to foreign Islamic financial institutions. In 2005, Islamic windows of the conventional banks were encouraged to be transformed into Islamic subsidiaries that allowed foreign equity participation of up to 49%. The foreign exchange administration rules were also liberalised to allow foreign corporations and agencies to issue ringgit sukuk in Malaysia. In 2006, foreign tie-ups were encouraged – in the four new licences for takaful business that were issued.

Following these developments, the MIFC was launched in 2006 to develop Malaysia as an international hub for Islamic finance. Under this initiative, new international Islamic banking and takaful players could be established in Malaysia to conduct business in foreign currency. In 2007, foreign entities were permitted to issue non-ringgit sukuk from the Malaysian market. Foreign entities could also operate Islamic fund management activities here. Early this year, the announcement was made that up to two mega Islamic banking licences with up to 100% foreign ownership would be issued to conduct international business. These initiatives cumulatively have internationalised our Islamic financial system in terms of the presence of foreign players and in terms of participation in our financial system.

The Commodity Murabahah House, or the CMH, that is being established today will be an important platform that will further enhance global interlinkages in the international Islamic financial system. The CMH is designed to be a multi-currency and multi-commodity exchange-traded platform to facilitate the trading and settlement of commodity which acts as the underlying transaction for liquidity management between Islamic financial centres. It is made convenient for worldwide usage as it is an internet based platform – the first of its kind in the world with crude palm oil (CPO) as its underlying base commodity. Although Malaysia already has a well functioning and efficient Islamic inter-bank market, the CMH provides a further viable alternative using the commodity *murabahah* concept.

While the CMH will provide another alternative to the already robust liquidity management infrastructure in Malaysia, it will also enable liquidity management in the global financial system. The CMH has a vast potential to facilitate liquidity flows from one financial centre to

the other. The increased efficiency in the liquidity management across countries will also contribute towards sustaining overall stability of the Islamic financial services industry at the international level. In addition to enhancing liquidity management, the CMH will provide an environment for increased innovation in the Islamic financial industry whereby the financial institutions will be able to provide a wider range of new financial instruments including deposit, financing, investments and hedging.

To evolve Malaysia into an international Islamic financial hub, Malaysia has under the MIFC initiative, put in place a facilitative framework for both ringgit and foreign currency denominated sukuk issuance. The recent issuance of the US dollar 1.5 billion 5-year Petronas Emas Global Sukuk on 12th August marks a new beginning for the foreign currency sukuk market in Malaysia. The issue, amidst the challenging global financial markets, was highly successful, attracting significant interest from a wide investor base with Asia accounting for 60 percent of the issue.

The combined size of the Petronas global sukuk and conventional bond issuances amounting to 4.5 billion US dollars is the largest global issuance in Asia (excluding Japan) for the year. The brief time-to-market for the issuance of the US dollar Petronas sukuk and bond took approximately one month, from structuring the instrument and date of submission to the authorities, to book building and the issuance date – reflecting the efficiency of the Malaysian market.

Prior to this, Malaysia has also seen wide ranging ringgit-denominated issuances by non-resident issuers. Multi-nationals, foreign corporations and Multilateral agencies such as the International Finance Corporation, International Bank for Reconstruction and Development, and the Islamic Development Bank have successfully issued sukuk in Malaysia. All these issuances garnered overwhelming response from resident and non-resident investors as reflected by the oversubscription of these sukuk issuances. The liquidity and tradability of these ringgit issuances have been supported by the diverse range of players in the domestic Islamic financial system and the increasing demand from foreign investors.

The establishment of CMH marks a further milestone in the development of the Islamic financial system under the MIFC initiative, sustaining the continued evolution and the development of Islamic finance. I wish to acknowledge the endorsement of the Ministry of Plantation Industries and Commodities and the support by the Malaysian Palm Oil Board, Malaysian Palm Oil Association and Malaysian Palm Oil Council as well as the CPO industry players towards this initiative.

On this occasion, I wish to take the opportunity to congratulate the team at Bursa Malaysia, Bank Negara Malaysia, the Securities Commission and the market players for their perseverance in concluding this project that was started two years ago and in making it a reality today.