

Zeti Akhtar Aziz: 10th year anniversary of the establishment of the Islamic Financial Services Board

Speech by Dr Zeti Akhtar Aziz, Governor of the Central Bank of Malaysia, at the Islamic Financial Services Board (IFSB) 10th Anniversary Dinner, Kuala Lumpur, 16 May 2013.

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It is my great pleasure to welcome Your Excellencies and distinguished guests to this IFSB 10th Anniversary Dinner, organised in conjunction with the 10th IFSB Summit. Tonight is a landmark celebration of the 10th year anniversary of the establishment of the Islamic Financial Services Board (IFSB), as we commemorate a decade of milestones and achievements of the IFSB and pay tribute to its members and industry stakeholders that have provided undivided support to the Board.

Bank Negara Malaysia is indeed honoured to have the opportunity to host this 10th IFSB Summit, which is exactly ten years since we hosted the IFSB inauguration in November 2002. We are also very pleased to welcome back the Founding Members and many of the industry leaders that witnessed the inauguration of the IFSB. We are very honoured to have your presence at this Anniversary Dinner.

It was in the year 2000 that the discussion began on the merits of establishing **a dedicated organisation** to develop a separate and distinct regulatory framework for the global Islamic finance industry. The aspirations of ten Central Banks and the Islamic Development Bank – was to lay the foundation for the development of a sound and stable Islamic financial system that will pave the way for its successful integration as a viable and credible component of the global financial system. A decade later, the IFSB has built a solid international reputation as a credible standard-setting body for Islamic finance, with the IFSB charting its achievements in increasing regulatory cooperation, encouraging uniformity of regulatory frameworks and enhancing the monitoring of financial risks in the Islamic financial system.

The current global landscape of the Islamic financial system, with enhanced stability and resilience that has contributed to the vibrant growth and internationalisation of Islamic finance is a realisation of the aspiration and vision of the IFSB Founding Members. The efforts are largely attributable to the unwavering commitment and dedication of the members of the IFSB that have relentlessly pursued the goals. The increasing support for the IFSB, signified by its continuous growth of membership over the decade would ensure a progressive continuity in the work of the Founding Members. There are now 187 members from 43 jurisdictions. Malaysia is honoured to host the IFSB here in Kuala Lumpur, and is committed to provide full support in the journey to achieve a sound and resilient Islamic financial services industry. Strong international cooperation and collective support from member Central Banks and regulatory authorities of the IFSB and global institutions, as well as the strong connectivity with other international standard setting bodies and relevant organisations would ensure continuous close engagements that would allow the attainment of balanced views.

The IFSB has had a key role in shaping the global Islamic financial industry, with a decade of achievements that have provided a solid foundation for the progressive growth of Islamic finance that is underpinned with stability. Significant contributions have been made by the IFSB in realising the recommendations in the eight building blocks identified in the Islamic Finance and Global Financial Stability Report 2010, particularly in the areas of prudential standards and liquidity management. It is encouraging that the cross-sectoral prudential standards issued by the IFSB since 2005 have now been implemented in nine countries and more are expected to follow as we progress forward. These standards have taken into account the distinct characteristics and specificities of Islamic finance. The effective implementation of these standards contribute to promoting the soundness and stability of Islamic financial institutions. There has also been strong support by the IFSB for its members

to effectively implement the standards through technical assistance that aims to enhance jurisdictional preparedness in adopting the standards. The initiative of the IFSB to establish the International Islamic Liquidity Management Corporation (IILM) in 2010 is also a major breakthrough in strengthening the liquidity arrangements for the international Islamic financial system, particularly in facilitating more efficient cross-border liquidity management by Islamic financial institutions.

The Islamic Financial Stability Forum (IFSF), set up by the IFSB in 2010, is another milestone in strengthening collaborative efforts amongst IFSB members by providing a platform for constructive dialogues for regulators to deliberate on issues relating to financial stability. Seven meetings have been organised since the first IFSF held in Khartoum, Sudan in 2010. A wide range of common issues pertaining to risks to financial stability of the Islamic financial system have been deliberated, all of which have the potential to further solidify global efforts in the areas that will contribute towards safeguarding financial stability.

A joint initiative between IFSB and the Islamic Research and Training Institute (IRTI) to develop the Ten-Year Framework and Strategies for the development of the Islamic financial services industry that was released in 2007 has also provided guidance to national authorities in their initiatives to develop Islamic finance within their jurisdictions. A review of the framework was conducted in the recent IFSB-IRTI Roundtable Discussion in Doha and in the Pre-Summit Event of the 10th IFSB Summit two days ago. It is hoped that the assessments would provide further synchronisation to the implementation of the strategies. The IFSB has also paved the way for greater awareness on issues relating to regulation and supervision of Islamic finance through its active organisation of international conferences such as the IFSB Summits, seminars, workshops, meetings and dialogues that have been staged in many countries in different parts of the world.

The milestones and achievements of the IFSB in the modern history of Islamic finance is a culmination of various collective wisdoms that have charted the path of the IFSB. In a decade, the IFSB has had the opportunity to be under the stewardship of all nine Founding Members that have successfully held the Chairmanship of the Board. As a Founding Member, it is indeed an honour to witness the crystallisation of ideas that had been envisioned to build a robust and sound Islamic financial system.

The journey of the IFSB in these ten years was however not without its challenges. As we continue our journey ahead, the forces of globalisation, financial liberalisation, technological advancements, intensified competition, financial innovation and internationalisation of Islamic finance would create new risks that are more complex and with more profound systemic implications. It has therefore become more demanding and challenging for prudential regulation and supervisory oversight to manage these risks. In cognisant of this increasingly challenging environment, the role of the IFSB remains instrumental and a more robust and forward looking IFSB would indeed contribute towards a more effective policy response. More strategic partnerships would also expand the IFSB's capabilities in research, training and provision of technical assistance, all of which are critical to the development of the industry. Continued and stronger support for the IFSB, including active feedback from members on its Consultative Papers and participation in IFSB related events, as well as greater collaboration and cooperation between the members would further support the work of the IFSB. Consistent implementation of the prudential standards issued by the IFSB also enhances regulatory harmonisation and promotes full adoption of the standards. Of importance is the need for the IFSB to ensure that regulatory standards remain not only adaptive and effective in the changing regulatory environment, but also in riding the evolutionary waves of financial innovation that is prevalent in Islamic finance.

Our quest and shared aspirations for financial stability requires concerted efforts on all fronts to foster a resilient and sound global Islamic financial system. The IFSB is an important part of these endeavours and its work remains relevant as we face a time of increasing uncertainties. The strategies identified in the IFSB's Strategic Performance Plan for the year

2013 to 2015 provides the focus for the IFSB to achieve the key result areas charted in the roadmap. I am confident that the IFSB would effectively manage its journey ahead amidst the increasing challenges, with the collective support from its members.

Indeed, we look forward to the constructive outcome of the deliberations during this 10th IFSB Summit. We also hope that you will also have the opportunity to experience Malaysia during your time here. On that note, I thank you for your attention.