Heng Swee Keat: Singapore's commitment to the development of Islamic finance

Opening remarks by Mr Heng Swee Keat, Managing Director of the Monetary Authority of Singapore, at the Singapore Sukuk Signing Ceremony, Singapore, 19 January 2009.

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Your Excellency Abdulla Hasan Saif, Chairman, The Islamic Bank of Asia,

Mr Viswanathan Shankar, Group Management Committee Member, Standard Chartered Bank,

Mr Lucien Wong, Managing Partner of Allen and Gledhill,

Ladies and Gentlemen,

It is my pleasure to welcome you this afternoon to the MAS and to our overseas guests, a warm welcome to Singapore.

Singapore is committed to the development of Islamic finance. The financial industry has encouraged us to develop Shariah compliant financial services, by building on our existing strengths in banking, trade finance, capital markets and asset management.

MAS is an integrated regulator – we oversee all forms of financial services. In performing this role, we adopt a basic principle that financial products and activities with similar underlying risks are given similar regulatory treatment. However, there are distinctive features of Islamic finance that put it at a disadvantage, if we were to just apply the conventional regulatory framework.

We are committed to a level playing field, by ensuring that Islamic financial activities with the same underlying economic essence are accorded the same regulatory treatment as those in conventional finance. In this regard, we have already implemented several measures, including removing the double-imposition of stamp duty for Shariah-compliant financing structures, and refining our rules to allow banks to offer Murabaha financing and deposits.

As a further step, I am happy to announce that with effect from today, Singapore-based banks may enter into Murabaha interbank placements and offer Ijara Wa Igtina financing. These changes will enable the financial institutions offering Islamic finance a wider range of instruments in their management of liquidity and in their matching of assets and liabilities.

These changes have been made after detailed consultation with the industry. MAS will continue to work closely with the industry to ensure that our regulatory and tax framework, and other necessary infrastructure and conditions are in place to foster good risk management and the further growth of Islamic Finance in Singapore.

I announced at the World Islamic Banking Conference in Bahrain two months ago that we were in the final stages of setting up a facility to issue sukuk.

Today's signing ceremony marks a further milestone in our developmental efforts. With the help of our financial and legal advisers, the work on the legal structure has been completed. The sukuk, which is based on the Al-Ijarah structure, has been carefully studied by the eminent Shariah scholars advising the Islamic Bank of Asia and Standard Chartered Bank for its full compliance with Shariah principles.

This sukuk is the Sharia-compliant equivalent of Singapore Government Securities (SGS), and is of the highest credit standing. The sukuk will be given equal regulatory treatment as SGS, such as qualifying as an asset in the computation of capital and liquidity requirements, and as eligible collateral for tapping MAS' liquidity facility. The sukuk will be issued on a reverse-enquiry basis, based on the demand of financial institutions operating here.

MAS is committed to the facility, issuing to meet the needs of financial institutions that are carrying out or plan to carry out Shariah-compliant activities in Singapore, as this will strengthen their ability to meet their capital and liquidity requirements.

This sukuk issuance facility underscores our strong commitment to the development of Islamic finance in Singapore. We invite eligible financial institutions to approach MAS to register their interest.

I would like to place on record our appreciation to the Islamic Bank of Asia and Standard Chartered Bank, as well as Allen & Gledhill, which have been instrumental in creating this first sukuk to be issued by a Singapore statutory board.

Thank you all for joining us this afternoon.